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# BGR MEDIA RELEASE

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## BGR Urges Convention Center to Pause Hotel Deal to Assess Pandemic's Impact, Reduce Public Costs

A new report from the Bureau of Governmental Research (BGR) calls on the New Orleans Ernest N. Morial Convention Center to pause its 1,200-room convention headquarters hotel project to assess the coronavirus pandemic's impacts on tourism and conventions, and to reduce the public's nearly $800 million cost over 40 years.

The report reflects several months of BGR's work before the pandemic to gather information about the tentative deal that the Convention Center reached with the private hotel development team in October 2019. BGR is issuing the report now in response to Convention Center officials' indication at their March 31 board meeting that they will press forward with the hotel project, despite the extraordinary new circumstances and absent information about the pandemic's longer-term impacts on tourism and conventions.

BGR's report, *Conventional Wisdom: Pausing the Convention Hotel Deal to Assess the Pandemic's Impact and Reduce Public Costs*, recommends that Convention Center officials refrain from entering into any agreements concerning the hotel project while the pandemic is ongoing. It further recommends that they commission a new or updated feasibility study once the pandemic subsides, taking into account anticipated longer-term impacts from the pandemic on convention activity. They should pursue the hotel project further only if the study demonstrates a strong likelihood of success.

As part of the reassessment, BGR urges the Convention Center to carefully consider ways to reduce the proposed public contributions to the hotel project, which appear to be far higher than necessary. The tentative deal calls for $738 million in net public contributions to the project over 40 years, making it one of the largest public-private partnerships in memory in New Orleans. The center would spend another $56 million to build a parking garage and other infrastructure for the project, raising the total public cost to $794 million.

*Conventional Wisdom* analyzes the tentative deal terms to identify ways in which they may not be in the public's interests. The analysis is based on the development team's pre-pandemic estimates of how the hotel would perform after opening in 2024. Key findings include:

- The proposed private financing model would cost about $1.5 billion more than if the Convention Center financed the hotel itself. This does not necessarily mean that public financing is the better option, but it demonstrates the need to reassess the interest rates and debt structure in the proposed financing model to reduce the far-higher borrowing costs.

- The new hotel would draw a sizable portion of its guests from other hotels, where their taxes would not have been rebated. As a result, just 56% of the hotel's rebated taxes would be new revenue from the additional demand it created.

- The proposed financing model would leave untouched the Convention Center's existing tax revenues and more than $200 million in reserves.

- The Convention Center could reduce the public contributions by more than $500 million by replacing the 40 years of tax rebates with an equivalent upfront payment. Most of the seven convention hotel projects that the Convention Center has identified as comparable have taken a similar approach.

- The Convention Center could also lower public costs by negotiating more favorable terms for the hotel bonds. For example, BGR estimates that a one percentage point reduction in the tier of bonds with the highest interest rate could lead to repayment six years earlier, saving the public roughly $160 million in tax rebates.

In discussing cost-cutting measures, BGR emphasizes that its purpose is to illustrate excesses in the financing terms and show how the Convention Center and its board could more responsibly protect the public's resources. These measures do not, on their own, ensure that the public contributions are necessary, align with strategic priorities for the community or meet other best practices for public involvement in economic development projects.

Finally, BGR urges the Convention Center to improve its transparency and accountability for the hotel project. This includes providing the public with more accessible documents, including the new or updated feasibility study and any draft agreements prior to approval. If this is to be a true public-private partnership, the public needs, at a minimum, the time and opportunity to review the terms and provide feedback.

The Convention Center and its board should ensure the efficient and effective use of public dollars if they move forward with the hotel project. This duty takes on added significance in the broader context of the community's challenges in dealing with the economic repercussions of the pandemic, as well as billions of dollars of preexisting needs for improved drainage, streets and public services.

"Moving forward with the hotel project now, and with financing terms that signal excess, fails to provide the careful stewardship of public dollars required by today's extraordinary circumstances," said BGR President and CEO Amy L. Glovinsky. "The Convention Center and its board should stop and take time to reassess the project's feasibility, as well as its place as a strategic priority among the community's many pressing needs."

To read the report, please visit our website here.

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*BGR is a private, nonprofit, independent research organization. Since its founding in 1932, it has been dedicated to informed public policy-making and the effective use of public resources in the Greater New Orleans area. For more information, call (504) 525-4152 or visit BGR's website, www.bgr.org.*