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September 13, 2018

Mr. Michael J. Sawaya
President and General Manager
New Orleans Ernest N. Morial Convention Center
900 Convention Center Boulevard
New Orleans, LA 70130

Re: Convention Center Consultant's Analysis of Hotel Proposal

Dear Mr. Sawaya,

Thank you for recently sharing with the public a summary of your consultant's analysis of the proposed 1,200-room hotel attached to the Convention Center.[1] An open public dialogue is essential when contemplating a project of this magnitude. To that end, BGR would like to share with you and the public some observations about the consultant's projections concerning the value of the development team's requested public contributions and the hotel's economic and fiscal impacts.

We again emphasize that BGR is not taking a position on the proposed hotel itself. Instead, we are seeking to reconcile the consultant's findings with the analysis in our July 19 report.[2] Our objective is to help ensure the public has the best information possible to evaluate the development team's requested public contributions and any tentative deal that may emerge from the negotiations.

We detail our concerns about the consultant's presentation in a series of attached questions. The following provides an overview:

- The consultant's presentation appears to substantially underestimate the value of the proposed public contributions. For instance, it reduces the value of future rebated taxes at a far higher discount rate than what economists and government finance experts indicate is appropriate. This accounts for about $100 million of the gap between the consultant's $173 million estimate for the public contributions in today's dollars and BGR's $330 million estimate.

[1] HVS Convention Sports and Entertainment Consulting, *Proposed Headquarters Hotel Feasibility and Impact Analysis: Ernest N. Morial Convention Center, New Orleans, Louisiana*, presented at the August 22, 2018, meeting of the Ernest N. Morial New Orleans Exhibition Hall Authority Board of Commissioners.
[2] Bureau of Governmental Research, *Public Contributions to Convention Center Hotel Demand Scrutiny*, July 19, 2018.

- The consultant further undervalues the public's contributions by excluding a free land lease worth $28.9 million in today's dollars. The consultant said it did so because many – but not necessarily all – of the comparison hotel projects cited in its analysis also had free leases. However, this does not negate the free lease as a public contribution because the Convention Center could seek to sell the land at its appraised value.

- The consultant's estimate of the hotel's value in 40 years – when ownership could revert to the Convention Center – is four times higher than the development team's own estimate. This is important because the consultant's higher estimate significantly reduces the net value it ascribes to the public contributions.

- The consultant's presentation attempts to justify the size of the requested public contributions based on a questionable comparison to other hotel projects. Most of the comparison hotels are half the size of the proposed 1,200-room New Orleans hotel. The comparison excludes at least three comparably sized convention center hotels that were recently completed or are under development and received no public contributions. Also, the consultant used different rates to discount future contributions for the various projects to present value. This works against an apples-to-apples comparison.

- The consultant did not go beyond this comparative analysis and evaluate the proposed deal on its own terms. BGR finds that this is a critical step, especially given that the Convention Center received no other proposals to compare to the one on the table. The analysis should include detailed financial plans that demonstrate the requested public support is the minimum needed for the project to succeed. It also should show that the public stands to receive a fair return on its investment, just as a private investor would expect.

- The presentation does not provide sufficient data and analysis to support its conclusions about the hotel's economic and fiscal impacts. For instance, it projects that after three years of operation, the hotel would draw 50,000 new visitors to New Orleans each year to utilize the hotel's own meeting space as opposed to the adjacent Convention Center. Yet it provides no support for this critical figure, which forms part of the basis for the consultant's economic impact projections.

- The consultant's projection of the hotel's fiscal benefits for local tax recipient entities does not appear to take into account the substantial tax rebates and 100% property tax exemption that the development team has requested.

- The consultant's presentation identifies 32 hotels with a total of more than 13,000 rooms as primary or secondary local competitors to the proposed Convention Center hotel. Best practices for public participation in economic development projects call for analyzing whether any public contributions will convey an unfair competitive advantage. The consultant's projections suggest that, starting in its fourth year of operation, the proposed hotel would draw about 134,000 room nights from other hotels. However, the consultant does not assess the potential impact on those hotels.

To help address these concerns, we would appreciate your responses to the enclosed questions. Also, to provide a more complete context for assessing the consultant's projections and findings, we request copies of any larger and more detailed report that the consultant prepared, including supporting materials, such as spreadsheets.

We appreciate the continued dialogue in furtherance of the public evaluation of the hotel proposal. Please do not hesitate to contact us for any discussion that may facilitate your response.

Sincerely,

Amy L. Glovinsky
President & CEO

Enclosure: BGR Questions Concerning the Convention Center Consultant's Findings

cc: Ernest N. Morial New Orleans Exhibition Hall Authority Board of Commissioners

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## BGR Questions Concerning the Convention Center Consultant's Findings

**1. Is the 8.8% discount rate that the consultant used to calculate the present value of the proposed public contributions an appropriate rate?**

As you know, the discount rate is used to estimate the value in today's dollars of future cash flows that accrue over a period of years. This is a key factor in comparing the value of different investments over time. The discount rate is typically set at the rate of return that the investor would expect to receive. The future cash flows are then reduced by this annual rate to estimate their present value. The higher the discount rate, the lower the present value of the cash flows.

To calculate the present value of the proposed public contributions to the hotel project over 40 years, the consultant used a discount rate of 8.8%, while BGR used a 5% discount rate in its report. This accounts for a large portion of the gap between the consultant's $173 million present value estimate and BGR's $330 million estimate. We estimate that the consultant's higher discount rate accounts for about $100 million of the $157 million difference between the two sets of projections.[1] Thus, the lesser value of public contributions ascribed by the consultant is primarily the result of a variable in the present value formula, and not any actual reduction in the amounts or types of contributions requested in the development team's proposal. In other words, the discount calculations do not change BGR's estimate, derived largely from the developers' own revenue estimates, that the proposal requests gross public contributions totaling about $739 million over 40 years.

The consultant indicated the 8.8% discount rate is based on the rate of return that the private bondholders stand to receive on their investment in the hotel project. However, because the proposed contributions involve public funds, BGR finds it is necessary to assess the present value of those contributions from the public's perspective. This requires a realistic appreciation of investment alternatives available for public funds.

Private investors typically are in a position to take greater risks with their investments than public entities. Therefore, they expect a higher rate of return. By contrast, many public entities, including the Convention Center, cannot make risky investments.[2] State law limits them to low-risk investments, such as federal bonds, to safeguard the principal for future use in providing essential public services and infrastructure. Because of their lower risk tolerance, public entities generally receive a lower rate of return than a private investor.

[1] If BGR had used an 8.8% discount rate, its estimate of the present value of the proposed public contributions would have dropped from $330 million to $227 million.

[2] State law restricts the Convention Center's investments to "direct U.S. Treasury obligations; short-term repurchase agreements; time certificates of deposit at financial institutions, state banks and national banks; and bonds, debentures, notes, or other indebtedness issued or guaranteed by U.S. government instrumentalities which are federally sponsored or federal agencies that are backed by the full faith and credit of the United States." Ernest N. Morial New Orleans Exhibition Hall Authority, Financial Statement for the Year Ending December 31, 2017, p. 24.

BGR based its estimates on a 5% discount rate after consulting government finance experts and economists, who indicated it is a reasonable rate of return for public entities given their limited investment options. We note that the City of New Orleans used a 5% discount rate to evaluate multiple proposals from private developers to redevelop the former World Trade Center. Moreover, even a 5% discount rate errs on the high side of rates of return public entities can expect. For example, the Convention Center received an overall return of about 2.5% on approximately $87 million in investments in 2017, according to its annual financial statement.[3]

Does the Convention Center believe an 8.8% discount rate is appropriate? If so, please explain why. Please also provide and explain the underlying estimate of gross unadjusted public contributions that the consultant used in its discount calculations. The table below compares BGR's present value estimates to those of the Convention Center consultant.

**Comparison of BGR's and the Convention Center Consultant's Estimates for Proposed Public Contributions to the Convention Center Hotel Project, Adjusted to Present Value**

| **Proposed Public Contribution** | **BGR's Estimate** (5% discount rate) | **Convention Center Consultant's Estimate** (8.8% discount rate) | **Notes** |
|---|---|---|---|
| **Upfront contribution from the Convention Center** Cash investment | $41 million | $36 million | It is unclear why the consultant reduced the present value of the $41 million upfront payment by $5 million. BGR did not discount the payment because the project would receive the full value at the outset. |
| **Hotel tax rebate** 10% of gross room revenue for 40 years | $165.9 million | $76 million | The difference is due largely to the consultant's substantially higher discount rate, which BGR finds is not appropriate for public contributions. |
| **Sales tax rebate** 4% of food and beverage revenue for 40 years | $50 million | $13 million | Same concern as with the hotel tax rebate. |
| **Free land lease** 50-year lease with four optional 10-year extensions | $28.9 million | $0 | Because the free lease has the same effect as a sale, BGR counted the land's $28.9 million appraised value as a public contribution. It is unclear why the consultant excluded the value of the free lease. |
| **Property tax exemption** Full exemption for 40 years | $43.7 million | $48 million | |
| **Total** | **$329.5 million** | **$173 million** | |

Sources: Bureau of Governmental Research, *Public Contributions to Convention Center Hotel Demand Scrutiny,* July 19, 2018, and HVS Convention Sports and Entertainment Consulting, *Proposed Headquarters Hotel Feasibility and Impact Analysis: Ernest N. Morial Convention Center, New Orleans, Louisiana*, presented at the August 22, 2018, meeting of the Ernest N. Morial New Orleans Exhibition Hall Authority Board of Commissioners.

[3] BGR calculation. The Convention Center had $2.2 million in interest income on $86.7 million in investments for a return of about 2.5%.

**2. Why does the consultant start discounting the value of the proposed public contributions before the contributions begin?**

The development team's proposal requests a $41 million upfront payment from the Convention Center to cover certain expenses related to the hotel project. BGR included the full $41 million payment in its estimate of the present value of the public contributions. It did so because the hotel project would receive the full value of this contribution at the outset.

By contrast, the consultant discounts the $41 million payment to a present value of $36 million at an 8.8% discount rate. The $5 million reduction implies the consultant chose a start date for the discount calculation that precedes the upfront payment by about 18 months. For this valuation of the payment to be appropriate, the Convention Center would have to be able to invest $36 million at an 8.8% rate of return for 18 months in order to cover the $41 million payment. We question whether this is realistic.

In general, a present value calculation discounts all future cash flows to the year in which the initial, undiscounted investment in a project occurs. Starting the calculation 18 months before the initial contribution would significantly reduce the values of all public contributions, not just the upfront payment.

If the consultant took this approach with all of the proposed public contributions, it would reduce their present value by about 12% across the board, or $24 million.[4]

Please explain the start date the consultant used for its present value calculation and why it does not coincide with the date of the upfront payment.

**3. Why does the consultant exclude the $28.9 million value of the proposed free land lease from its estimate of the public contributions?**

The development team's proposal requests a free land lease of up to 90 years for the 8-acre hotel site. Because such a long-term lease has the same effect as a sale, BGR included the land's $28.9 million appraised value as a public contribution to the hotel project.

By contrast, the consultant does not count the free lease as a public contribution. In presenting the report to the Convention Center board, the consultant said the analysis excluded the free lease because many – but not necessarily all – of the comparison hotel projects cited in its analysis also had free leases. However, this does not negate the free lease as a public contribution because the Convention Center could seek to sell the land at its appraised value.

[4] The consultant's $5 million present value reduction for the $41 million upfront payment represents a 12% decrease. If all discount calculations started 18 months before the upfront payment, the present value of all public contributions would be reduced by the same 12% rate as the upfront payment.

Please provide available information on the terms of land leases or sales for the comparison hotels.

We note that the exclusion of the land value combined with the consultant's different discount rate assumptions accounts for nearly all of the $157 million gap between the consultant's present value estimates and BGR's. The consultant's higher discount rate accounts for about $100 million of the difference. The early start date for the discounting calculations accounts for another $24 million. And excluding the value of the land lease accounts for $28.9 million. Together, these add up to $152.9 million.[5]

Without these three differences, the consultant's estimate would be close to BGR's $330 million estimate for the present value of the public contributions.

**4. How did the consultant arrive at its estimate that the hotel would be worth about $1 billion in 40 years?**

The development team's proposal calls for ownership of the hotel to revert to the Convention Center upon repayment of bonds financing its construction, likely after 40 years. The consultant estimates the structure will be worth about $1 billion, which amounts to a present value of $36 million at an 8.8% discount rate. The consultant then subtracts this figure from the $173 million in public contributions to arrive at a net figure of $137 million.

However, the consultant's estimate of the hotel's value is four times higher than the development team's own estimate of $250 million. Had the consultant used that basis, the structure's present value would have been only $9 million at an 8.8% discount rate.

We further note that the development team's financial plan does not include funding for any major renovations during the 40-year period before ownership could revert to the Convention Center. This would limit the hotel's value at the time of transfer.

**5. How did the consultant select the hotel projects for its comparison?**

The consultant compares the level of public support for the proposed hotel to eight other convention center hotel projects across the country. The consultant's $173 million estimate of the proposed public contributions amounts to 27% of the hotel's projected development cost. It further states that this is lower than the average 37% figure for the other hotels.

[5] The small remainder for the gap between the two sets of estimates is likely due to slightly different projections for taxable room revenues and food and beverage sales. BGR would need additional information on the consultant's projections to provide a more precise reconciliation.

BGR finds that normative comparisons have limited value in this context. This is because national norms do not necessarily point to best practices. Also, it is important to evaluate the proposal on its own terms to determine whether it represents a fair deal for the public.

With the above caveat, we have a number of specific concerns about the comparison. First, the analysis does not say how the consultant selected the comparison hotels. Five of the eight hotels are half the size of the proposed 1,200-room New Orleans hotel, and these smaller hotels tend to have the largest public contributions, according to data from the consultant's presentation. Meanwhile, the two comparison hotels with at least 1,000 rooms had an average public contribution of 15.5%. This is well below the consultant's 27% figure for the New Orleans project. Moreover, this gap would increase to the extent that the consultant's analysis underestimates the proposed public contributions for the New Orleans hotel for the reasons previously discussed. BGR's $330 million estimate for the public contributions amounts to 51% of the hotel's projected cost. This would be the second highest figure among the eight comparison hotels, and more than triple the average for the similarly-sized hotels.

We further note that the comparison does not include several comparably sized hotels that received little or no public contributions in recent years. These include:

- The $550 million, 1,054-room Boston Omni, which is under development, is receiving no public contributions. Selected from six development proposals, Omni agreed to make lease payments with an estimated present value of $100 million for a 90-year lease of the publicly-owned hotel site.[6]

- The $370 million, 1,048-room Fairmont Austin in Texas opened in March 2018 and received no public contributions. The developers paid for a pedestrian bridge connecting the hotel to the convention center.[7] The New Orleans proposal calls for the Convention Center to pay for the bridge as part of the $41 million upfront payment.

- The $300 million, 1,012-room JW Marriott Austin opened in 2015. In an agreement with the City of Austin, the developers were to receive about $3.8 million in construction fee waivers. But the city rescinded most of the waivers after a contract dispute.[8]

Finally, a representative for the consultant told BGR that the discount rate it used varied for the different hotel projects in its comparison. This is problematic because a consistent rate is essential in order to make apples-to-apples comparisons. This is an even greater concern given the indications that the consultant used a high discount rate for the New Orleans project.

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[6] Information provided by the Massachusetts Port Authority.
[7] Information provided by Austin Convention Center officials.
[8] Grattan, Robert, "J.W. Marriott construction will go on despite Austin pulling $3.8M in fee waivers," *Austin Business Journal*, June 15, 2013. Information also provided by Austin Convention Center officials.

Please provide the underlying data for the comparison hotels, including the types and amounts of the public contributions and the discount rates the consultant used for its present value estimates. Please also explain the exclusion of convention hotel projects, such as the three cited above, that received no public contributions.

Even if there were no concerns about the comparison, such a normative analysis is not sufficient to justify the proposed public contributions. As we discussed in our recent report on the hotel project, best practices for economic development projects indicate that a public entity should demonstrate that any public contributions (1) target projects that advance a strategic economic development priority, (2) are necessary to achieve the desired outcome for the site, (3) provide the minimum level of support for the project to succeed, (4) will generate a significantly positive ratio of benefits to costs for the public, and (5) do not give the recipient an unfair competitive advantage. The consultant's analysis and the proposal itself do not satisfy these criteria.

**6. What analysis does the Convention Center have to show that the proposed size of the public contributions is appropriate?**

Analysis of the third best practice listed above – that any public contributions should provide the minimum level of support for the project to succeed – is particularly lacking. The proposed deal would involve, by far, the largest public contribution to an economic development project in New Orleans in recent memory. The $739 million in requested public contributions over 40 years dwarfs the $38.1 million in local public contributions to the Jazzland Theme Park, which are the largest such contributions to an economic development project of which BGR is aware.[9]

Neither the consultant's presentation nor the development team's proposal shows how the requested tax rebates fit into the financial plan for the hotel. The Convention Center should clearly explain what expenses the proposed public contributions would cover and demonstrate that they are as low as possible for the project to succeed. The financial plan also requires additional transparency and disclosure of the underlying terms, including the amount and structure of payments to the members of the development team and any residual revenues the Convention Center may receive. Private investors typically receive financial disclosures that contain detailed explanations of these issues. The public should have the same amount and quality of information as a private investor.

The importance of a thorough assessment of the size of the requested public contributions is amplified by the fact that the Convention Center received just one proposal for the hotel project. As a result, it has no competing offers to use in evaluating the one that is on the table.

[9] BGR estimates these inflation-adjusted contributions included $28.7 million in debt service payments on a federal loan and $9.4 million in forgone property taxes.

Finally, it is difficult to reconcile the magnitude of the requested public contributions with the consultant's projections that the hotel would be on par with the other major hotels in the city in terms of occupancy and room rates after just three years. With such a strong performance projection, why does the project need such a large public contribution spanning 40 years?

**7. What is the basis for the consultant's estimates of increased demand for hotel rooms attributable to the proposed hotel?**

Studies estimating the demand that an economic development project will create often provide a range of potential outcomes to acknowledge the inherent uncertainty in making such complex projections. However, the consultant presents single, absolute figures that may suggest an undue level of precision. The results of economic impact studies can vary greatly depending on their methodology, underlying assumptions and data. A prime example of this involves the disparate findings of two recent studies on the economic impact of tourism in New Orleans. One estimated that 17.7 million people visited the city last year, while the other arrived at a total of just 11 million visitors. That is a difference of more than 60% on perhaps the most fundamental data point for gauging the economic impact of tourism.

The Convention Center consultant estimates that the new hotel will increase market demand for hotel rooms by 172,225 room nights per year.[10] This includes 122,225 room nights for people attending conventions and 50,000 room nights for those utilizing the hotel's own meeting spaces. These are critical estimates for projecting the hotel's economic impact and, ultimately, the public's fiscal benefits in exchange for its contributions. However, the report provides little information on how the consultant made the projections for increased convention attendance and none for usage of the hotel's meeting space. The public should be able to assess the credibility of the data that the consultant used to make these projections.

We note that the consultant's projections for the hotel's performance appear to be significantly more optimistic than a previous feasibility study by another Convention Center consultant in 2015. That report emphasized that the proposed hotel's location at the Convention Center's upriver end would be a considerable walking distance from existing hospitality and entertainment venues. It concluded that a planned retail, entertainment and residential development adjacent to the hotel "will be critical to creating an environment conducive to accommodating new market share."[11] By contrast, the current consultant indicated its projections for the hotel's rapid success do not factor in any impact from the planned supporting development. We cannot reconcile the two reports.

[10] The consultant's presentation on page 12 refers to this as "induced demand." As previously defined by the consultant in analyses of other convention hotels, induced demand means "the additional room nights that are expected to be attracted to the market following the introduction of a new demand generator" such as a new hotel with "a distinct chain affiliation or unique facilities." See HVS, *Market Study with Financial Projections: Proposed Headquarters Hotel, San Antonio, Texas*, prepared for the City of San Antonio, April 1, 2005, p. 8-4. See also HVS, *Market & Financial Analysis: Proposed Hilton Headquarters Hotel, Baltimore, Maryland*, prepared for Baltimore Development Corp., December 16, 2005, p. 4-27.

[11] Conventions, Sports & Leisure, *Market, Program, Financial & Economic Impacts of Potential Future New Orleans Convention Facility Development*, October 16, 2015, p. 5.

**8. Do the consultant's projections of increases in local hotel, sales and property taxes from the proposed hotel take into account the requested tax rebates and property tax exemption?**

The consultant estimates that the proposed hotel's impact on the New Orleans economy, once it reaches full capacity in the fourth year of operation (i.e., 70% occupancy), will generate $24.4 million in annual hotel, sales and property taxes as well as food and beverage taxes. However, it is unclear whether this estimate takes into account the requested tax rebates and property tax exemption for the project.

For example, the consultant projects that the proposed hotel will increase citywide property tax receipts by $5.9 million, the equivalent of a 1% increase. However, the development team's proposal asserts that the hotel itself would be 100% exempt from property taxes. Please explain how the consultant arrived at this estimate.

The consultant also projects that receipts from hotel taxes and food and beverage taxes in New Orleans will increase by a total $9.3 million annually as a result of the project. Hotel taxes would account for the vast majority of this revenue. The projection is based on the consultant's estimate that the project would generate new market-wide demand for 172,225 room nights, leading to increased tax receipts. However, the proposed hotel tax rebate would capture 10 percentage points of the 16.2% hotel tax rate for guests at the Convention Center hotel.[12] Such a large rebate would substantially reduce net hotel tax receipts from the new visitor activity.

To estimate the impact of the proposed hotel tax rebate on net tax receipts in New Orleans, BGR analyzed six different scenarios based on where the 172,225 new room nights would occur. We assume that not all of the new demand would necessarily occur at the Convention Center hotel. For example, the hotel could be the deciding factor in landing a new convention that generates room nights for both itself and other hotels.[13] However, the consultant did not present a breakdown of where the projected room nights will occur. Our scenarios for the number of new room nights that could occur at the Convention Center hotel range from 50,000 to the full 172,225. The remainder of the new room nights would occur at other hotels that would not be subject to the tax rebate.

Another key variable in the scenarios is the number of guests the Convention Center hotel would draw from other hotels. This is important because these guests would have paid the full 16.2% tax if they had stayed at another hotel that is not subject to the rebate. The consultant estimates the hotel's operations will stabilize at 306,600 occupied room nights per year. Because that is more than the 172,225 projected new room nights the hotel will generate market-wide, it must draw a portion of its guests from other hotels. BGR's scenarios account for these guests by subtracting

[12] BGR's calculation of the 16.2% effective hotel tax rate includes ad valorem taxes totaling 13.45%, a 1.75% hotel assessment that is the functional equivalent of a tax for the hotel guest, and two per-diem taxes that generate revenue equivalent to a 1% ad valorem tax.
[13] See footnote 10 for discussion of this induced demand.

the number of new room nights at the Convention Center hotel from its projected capacity of 306,600 room nights.

Finally, to determine each scenario's impact on hotel tax receipts, it is necessary to calculate net tax rates for the different types of room nights, taking into account the proposed 10% rebate.

- For new room nights at the Convention Center hotel, the net hotel tax rate would be 6.2%. (The 16.2% citywide tax minus the 10% rebate.)
- For new room nights at other hotels not subject to the rebate, the net tax rate would be the full 16.2% citywide tax.
- For Convention Center hotel guests drawn from other hotels, the net tax rate would be negative 10%. (6.2% in non-rebated taxes minus the 16.2% they would have paid at another hotel.)

The table below shows the calculations for each scenario. Scenario 3, for example, assumes that 125,000 of the projected 172,225 new room nights will occur at the Convention Center hotel, generating about $1.7 million in net new taxes. The remaining 47,225 new room nights would occur at other hotels. This would also generate about $1.7 million in net new taxes, bringing the total taxes for new room nights to $3.4 million.

However, in order for the Convention Center hotel to reach 306,600 occupied room nights per year, it would have to draw 181,600 guests from other hotels. The 10% hotel tax rebate would reduce net tax revenue from these guests by $4.1 million compared to what they would have paid at another hotel. This $4.1 million loss would more than offset the $3.4 million gain for the new room nights, resulting in a total net loss of about $620,000.

**Net Change in Hotel Tax Revenue in Different Scenarios for the Convention Center Hotel's Projected Increase in Demand**

*(Based on the Convention Center consultant's projections of 172,225 new room nights citywide, 306,600 annual room nights at the Convention Center hotel and an average $224.70 room charge.)*

| **Scenario** | **New room nights at Convention Center hotel** (Assumed portion of the projected 172,225 new room nights that occur at the new hotel) | **Net Tax Revenue** (6.2%, or $13.93 each) | **New room nights at other hotels** (172,225 minus the new room nights at the Convention Center hotel) | **Net Tax Revenue** (16.2%, or $36.40 each) | **Convention Center hotel room nights drawn from other hotels** (306,600 annual occupied room nights minus new room nights at the Convention Center hotel) | **Net Tax Revenue** (-10%, or -$22.47 each) | **Total Net Tax Revenue After Rebate** (Sum of the three revenue columns) |
|---|---|---|---|---|---|---|---|
| 1 | 172,225 | $2,399,094 | 0 | $0 | 134,375 | -$3,019,406 | **-$620,312** |
| 2 | 150,000 | $2,089,500 | 22,225 | $808,990 | 156,600 | -$3,518,802 | **-$620,312** |
| 3 | 125,000 | $1,741,250 | 47,225 | $1,718,990 | 181,600 | -$4,080,552 | **-$620,312** |
| 4 | 100,000 | $1,393,000 | 72,225 | $2,628,990 | 206,600 | -$4,642,302 | **-$620,312** |
| 5 | 75,000 | $1,044,750 | 97,225 | $3,538,990 | 231,600 | -$5,204,052 | **-$620,312** |
| 6 | 50,000 | $696,500 | 122,225 | $4,448,990 | 256,600 | -$5,765,802 | **-$620,312** |

BGR calculations using estimates in HVS Convention Sports and Entertainment Consulting, *Proposed Headquarters Hotel Feasibility and Impact Analysis: Ernest N. Morial Convention Center, New Orleans, Louisiana,* as presented at August 22, 2018, meeting of the Ernest N. Morial New Orleans Exhibition Hall Authority Board of Commissioners.

In fact, all of the scenarios arrive at the same net loss. This is because any change in the number of new guests who stay at the Convention Center hotel results in a corresponding and offsetting change in the number of guests it must draw from other hotels to remain at its projected capacity. For example, decreasing the number of new room nights at the Convention Center hotel by one would increase the number of new room nights at other hotels by one. This would result in a gain of $22.47 per night in tax receipts (i.e., $36.40 in room tax at another hotel minus $13.93 at the Convention Center hotel). However, this gain would be offset by a $22.47 loss because the Convention Center hotel would have to draw one more guest from another hotel to achieve its targeted capacity.

**9. What impact would the proposed hotel have on existing hotels that the consultant identifies as competitors?**

The consultant identifies five hotels with a total of 5,589 rooms as “primary competitors” to the proposed Convention Center hotel and 27 hotels with a total of 7,500 rooms as “secondary competitors.” The consultant uses data from these competing hotels to project how well the proposed hotel will perform. But what about the new hotel’s impact on existing hotels?

BGR’s research on best practices for public involvement in economic development projects indicates it is important to assess whether public contributions will convey an unfair competitive advantage. The table above shows that the consultant’s projections for new guests and occupied room nights for the proposed hotel means it would draw a net of 134,375 guests from other hotels each year. How these projected losses will impact those hotels is an important consideration.

Additionally, as BGR explained in its report, even if the competitive balance is restored at some point, both the size and duration of the requested public contributions could cause the Convention Center hotel’s advantage to re-emerge. For example, BGR estimates that, in the $40^{th}$ year, the hotel would receive nearly $22 million from the requested tax rebates alone. A 40-year public involvement in a real estate development project is unusual, and it is difficult to know what competitive advantage it might create in future market conditions.

# # #