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BUREAU OF GOVERNMENTAL RESEARCH

225 Baronne St., Suite 610
New Orleans, LA 70112
Phone 504-525-4152
Fax 504-525-4153
www.bgr.org

BGR MEDIA RELEASE

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Contact: Janet R. Howard, *President & CEO*
(504) 525-4152, ext. 12

BGR Releases Report on Economic Development Investment

The Bureau of Governmental Research released today *On the Right Track? New Orleans Economic Development Investment in Perspective*.

The report presents an overview of economic development expenditures in New Orleans from several angles:

- It develops a composite picture of how economic development funds were spent during the five-year period from 1998 through 2002.
- It reviews public funding for significant projects and facilities that received multiple subsidies. The projects include American Can Apartments, D.H. Holmes redevelopment, Jazzland Theme Park/Six Flags New Orleans, MacFrugal's Distribution Center, St. Thomas redevelopment, the proposed World Trade Center hotel, the Hornets/Arena, and the Saints/Superdome.
- It reviews the criteria and procedures in place for allocating, monitoring, and evaluating the public's investments.

BGR found that during the five-year period governmental and quasi-governmental entities made available in New Orleans approximately \$1.1 billion in economic development resources. Unfortunately, the expenditure of such funds has proceeded without the planning, prioritization, and accountability warranted for investment on that scale.

Laxness in these areas is particularly troubling in light of a trend toward more investment in private enterprises.

BGR found that the planning process in New Orleans stops short of the critical step of establishing priorities among competing goals, leaving unanswered fundamental questions concerning the allocation of resources. In addition, expenditures tend to be considered on an ad hoc basis, without evaluation of their relative value or the “opportunity cost” of a particular investment. As a result, public investment, particularly in private ventures, runs the risk of being based on political, rather than economic, considerations.

The development and coordinated implementation of an economic development strategy is complicated by a number of factors, including fragmentation of responsibility in the economic development arena, programmatic limitations on the use of funds, and long-term commitments. Despite the impressive size of the total pool of economic development funds, there is no one “investor” in control. BGR identified 37 governmental or quasi-governmental entities administering funds from 60 different sources. The city itself had full or significant control of only 35% of such funds.

David Guidry, BGR’s Chairman, stated: “The large pool of funds available for economic development presents a tremendous opportunity and challenge for the community. The opportunity will be squandered, however, if expenditures continue without a clear set of priorities and parameters for investment in the New Orleans economy. City and state leaders need to stop and address these issues before providing more large subsidies of private activities.”

To encourage careful use of economic development funds, BGR offers a series of broad recommendations to connect expenditures to priorities, to improve accountability, and to enhance the evaluation process for major projects.

To connect expenditures and priorities, the City should:

- Develop and incorporate into its economic development plan a clear set of priorities defining the relative importance of competing needs and evaluate the current deployment of resources against priorities
- Develop a proactive, as opposed to developer-driven, approach that aggressively fosters competition in the development of targeted areas or properties
- Fund only projects that support the City's highest priorities, maximize benefits, minimize costs, and fit strategically

To create accountability, the City should:

- Prepare an annual statement that clearly describes and quantifies its economic development investments, whether in the form of expenditures or foregone tax revenues
- Analyze major projects and programs to determine whether projected benefits materialize and, to the extent possible, impose financial penalties when they do not
- Facilitate the public's ability to understand complex, multi-layered projects by providing descriptions of such projects, their financing plans, requested subsidies, and required approvals before initiating any approval process
- Facilitate the public's ability to respond to projects by creating a "one-stop shop" on the City's internet site for notices, agendas and minutes of all economic development entities

To improve the evaluation of major projects, the City should:

- Develop a set of standard policies and procedures for reviewing and evaluating major projects, including a centralized framework for reviewing the suitability and size of public investment in major developments
- Before considering a project, require financial statements, business plans, projections and other documentation of the type and quality that would be required by a reputable financial institution for a comparable project
- Develop in-house capacity to analyze transactions, alleviating the potential for political pressure on employees performing analyses by giving them civil service protection

All public bodies should:

- Refuse to give subsidies where the subsidy functions as a substitute for adequate private capital in a transaction
- View a positive cost/benefit analysis as a minimum threshold rather than a dispositive factor
- Consider projects in their entirety, requiring that all requests for public funding be placed on the table at the outset
- Reject requests for public assistance that were not a part of the developer's original proposal

BGR's report and a detailed catalogue of sources and uses of funds can be found on its website, www.bgr.org.

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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 525-4152 or visit BGR's website, www.bgr.org.

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Janet R. Howard
President & CEO

Enclosures