INBRIEF

CONVENTIONAL WISDOM

Pausing the Convention Hotel Deal to Assess the Pandemic's Impact and Reduce Public Costs

April 2020

WHY THIS REPORT MATTERS

In a matter of weeks, the coronavirus pandemic has dealt a significant economic blow to New Orleans, hitting the tourism and convention industries particularly hard. In early April, the New Orleans Ernest N. Morial Convention Center began serving as a medical monitoring facility for coronavirus patients who no longer need acute hospital care. Despite the extraordinary new circumstances, Convention Center officials are pressing forward to finalize a deal to build a 1,200-room hotel attached to the center. The proposed terms include nearly $800 million in public contributions over 40 years, making it one of the largest public-private partnerships in memory in New Orleans.

The report highlights the risks of moving forward with the project absent an informed analysis of the pandemic's longer-term impacts on tourism and conventions. It also includes BGR's pre-pandemic analysis that raises questions about the size and necessity of the proposed public contributions. The report makes recommendations in keeping with BGR's mission of promoting the effective use of public resources.

KEY FINDINGS

- A tentative deal calls for the private development team to receive $767 million in rebated hotel and sales taxes over 40 years and an upfront payment of $7 million. The Convention Center would also spend about $56 million on infrastructure to facilitate the project, including a parking garage. The center would receive $36 million in cumulative lease payments, resulting in a net public cost of $794 million.

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

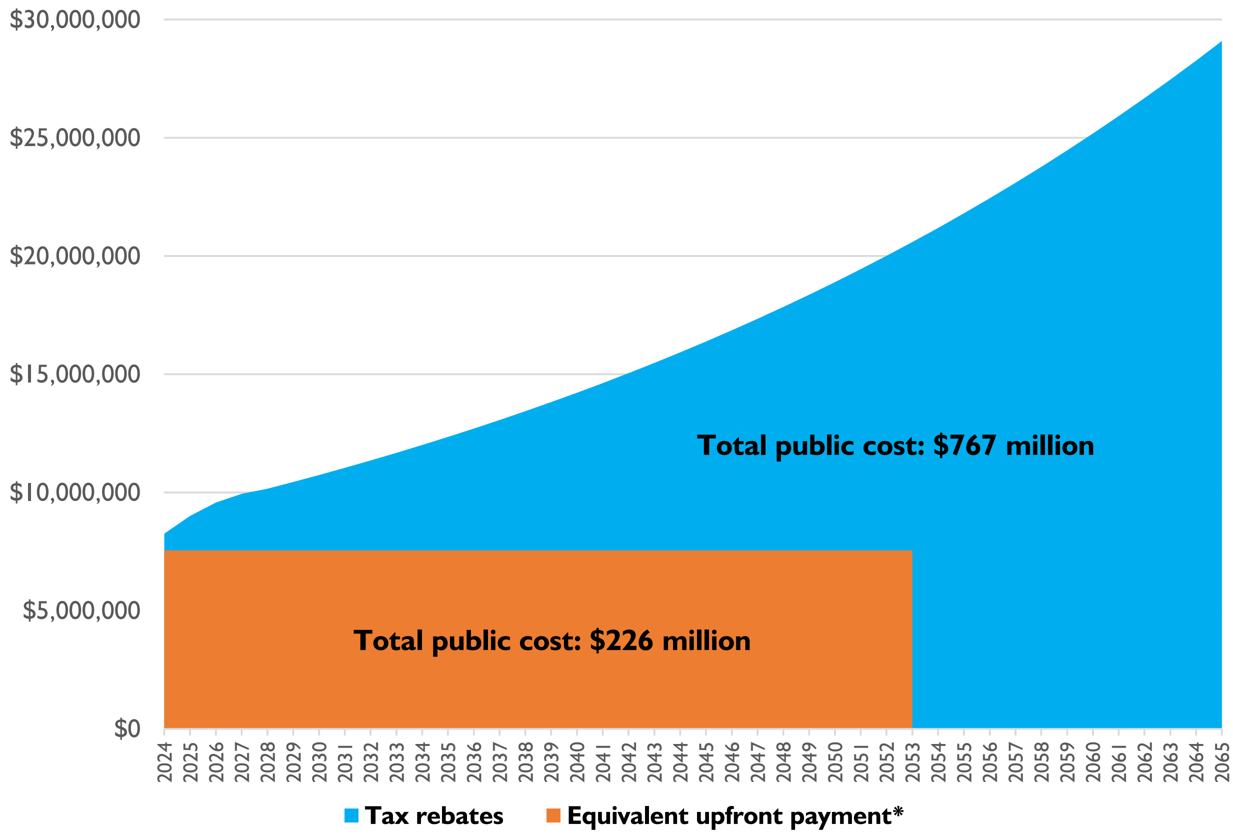
- The Convention Center could lower the public costs by negotiating more favorable terms for the hotel bonds. For example, BGR estimates that a one percentage point reduction in the tier of bonds with the highest interest rate of 10.5% could lead to repayment six years earlier, saving the public roughly $160 million in tax rebates.

- As shown in the chart, 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 from bonds backed by the center's existing taxes. Most of the seven convention hotel projects that the Convention Center has identified as comparable have taken a similar approach.

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

- The new hotel would draw a sizable portion of its guests from existing 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.

PUBLIC COST COMPARISON: 40 YEARS OF TAX REBATES VS. AN EQUIVALENT UPFRONT PAYMENT



*Upfront payment costs reflect the debt service payments on $107.3 million in bonds to provide the development team with a lump-sum payment in that amount. The $107.3 million lump-sum payment would have the same present value as the $767 million in tax rebates, according to the Convention Center's hotel consultant.

SUMMARY OF RECOMMENDATIONS

The report recommends that the Convention Center and its board 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 hotel 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.

If the project eventually proceeds, Convention Center officials must reduce excessive public costs by implementing measures that would provide the greatest reduction in public contributions. This includes consideration of replacing tax rebates with an upfront payment and negotiating more favorable bond terms.

Finally, the report 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.