



IN BRIEF

PUBLIC CONTRIBUTIONS TO CONVENTION CENTER HOTEL DEMAND SCRUTINY

July 19, 2018

Overview

The New Orleans Ernest N. Morial Convention Center (Convention Center) is negotiating with a private development team to design, build and operate a 1,200-room hotel attached to the center. The developers have requested a \$41 million cash contribution from the Convention Center as well as a free land lease and up to 40 years of tax rebates and exemptions. BGR estimates that, if approved, the value of the public contributions would exceed \$300 million in today's dollars.

The proposed deal would involve, by far, the largest public contribution to an economic development project involving a private entity in recent memory in New Orleans. Therefore, a careful analysis is essential to determine whether the public contributions are appropriate and to ensure the public receives sufficient benefits. This report lays the groundwork for this analysis based on BGR's research of best practices for public involvement in economic development projects. In calling for the Convention Center to conduct a thorough evaluation of the appropriate level of any public contributions to the hotel project, BGR is not taking a position on the project itself.

Background

- On May 23, the Convention Center board entered into negotiations with the lone respondent to its Request for Proposals to design, build and operate a headquarters hotel for conventions.
- Convention Center officials said they need the hotel to boost convention attendance and keep pace with competing convention centers, many of which have added similar headquarters hotels.
- The proposal is for a \$557.5 million, 1,200-room Omni hotel attached by a pedestrian bridge to the center's upriver end.
- Financing would come from \$516.5 million in private debt and a \$41 million cash payment by the Convention Center.
- The proposal also calls for 40 years of hotel and sales tax rebates, a 100% property tax exemption, and a free land lease.
- BGR estimates the requested public contributions have a cumulative value of \$738.8 million over 40 years, or \$329.5 million in today's dollars at a 5% discount rate.
- The proposal indicates the Convention Center could receive any residual revenue on an annual basis, though it provides no details. After 40 years, ownership of the hotel would revert to the Convention Center.
- Negotiations are on a fast track. The Convention Center plans to present a tentative deal for its board to approve on August 22, possibly just a matter of days after the terms become public.

Framework for Evaluating the Proposed Public Contributions

BGR has taken the position that a public entity should consider participating in an economic development project only if it can demonstrate that its contribution is **strategic, necessary, efficient, effective** and **fair**. The following explains each of these criteria and how the Convention Center should apply them in evaluating the hotel proposal.

- Projects receiving public contributions should advance priorities in a **strategic** plan for economic development. The hotel project is part of a strategy to better utilize the Convention Center and remain competitive. But because any tax rebates and exemptions would impact other tax-recipient bodies, the Convention Center should demonstrate the project is a top priority for the community as a whole.
- Independent market studies and a financial analysis should demonstrate that public resources are **necessary** to complete the project. An appraisal of the hotel site characterizes it as a prime development location, especially for a hotel. The Convention Center should clearly explain why the private market cannot build the hotel without the public's assistance.
- The public's contribution should be financially **efficient**, providing only the minimum amount for the project to proceed. The proposal makes no attempt to quantify or justify the requested public contributions. The Convention Center, which identified the proposal's financial components as a relative weakness, should provide clear justifications for the size of any public contributions.
- Public funding for an economic development project should be **effective**, producing a significant positive benefit-to-cost ratio for the public. With few details about the public benefits in the developers' proposal, the Convention Center should demonstrate that the public would get sufficient benefits in return for any contributions.
- Any public support for the hotel project should maintain a **fair** competitive environment for other hotels. The proposed hotel would be among the largest in the city and could draw significant business from existing hotels. The Convention Center should carefully evaluate the proposal's potential impacts on competing hotels.

Finally, transparency in decision making is essential. Convention Center officials have not committed to making a tentative deal public until just a matter of days before a final vote. The Convention Center should make public any tentative deal well in advance of a vote to give citizens and public officials of agencies impacted by the expenditures sufficient time to evaluate it.

Read the full report at www.bgr.org.