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FOR PUBLIC POLICY

PITTSBURGH'S NEW CONVENTION CENTER IN  
THE NATIONAL CONTEXT

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## Key Findings

- The convention and exhibition industry is undergoing a tremendous increase in the supply of available space for conventions, trade shows, and meetings. According to the latest industry figures, growth of exhibit square footage in the top 50 convention markets will add 7.6 million square feet of space over the next couple of years, an increase of 31 percent from the 2000 level.
- Pittsburgh's new convention center represents a mere 4 percent of the additional square footage created by new venues and expansions, and will only represent 1 percent of the square footage in the top 50 market when that construction is complete.
- Much of the increase in supply can be attributed to feasibility studies that convince policymakers of the need for additional space to attract convention business. Many of these feasibility studies have been overly optimistic. In a post September 11<sup>th</sup> environment, there is an even higher probability that earlier forecasts are too optimistic.
- While the supply of convention space is increasing rapidly across the nation, convention demand has not exhibited similar growth trends. For instance, during the five-year period from 1989 to 1994, the growth in attendance at conventions was 41 percent. By contrast, from 1995 to 2000, growth had slowed to a mere 9 percent, which is less than 2 percent per year.
- The new convention center under construction in Pittsburgh will result in a threefold increase in square footage of exhibit space over the previous center. The trends in the national convention market and the lack of current hotel space have raised questions about the ability of the new Pittsburgh center to attract enough business to cover the costs of operating the center.
- Currently, only 57 conventions are booked at the new center through 2008. The average annual attendance for those meetings will be around 32,000. By comparison, average annual attendance from 1992 through 1999 was 116,000. Thus, the center has a massive job ahead just to repeat attendance figures from the 1990s at the smaller convention center.
- Convention centers of similar size to Pittsburgh in Baltimore, Kansas City, and Charlotte require significant public subsidies to assist with the day-to-day costs of operating the facilities. Facilities in Reno and Greenville, SC do not.
- The primary source of public subsidy for the new convention center is the Hotel Room Rental Tax. Recent projections of the Allegheny County Controller's office show that through 2035, the operating deficit of the new convention center that is not offset by the hotel tax will exceed \$138 million.

## **Introduction**

As the largest component of the "Regional Destination Financing Plan", or "Plan B", the \$332 million construction of the new David L. Lawrence Convention Center promises economic growth by attracting convention and exhibition business to Pittsburgh. This convention business, the theory goes, will in turn lead to direct and indirect spending on consumer goods, restaurant and entertainment, and overnight stays in hotels.

Pittsburgh's strategy is not new or unique. The Center for Exhibition Industry Research reports of phenomenal growth in the number of new and expanded convention centers in numerous U.S. cities, nearly all of them taking place as the result of desires to boost local economies by bringing out-of-town, as well as nearby convention attendants and exhibition patrons to the center for events with the hope of economic spin-offs.

This report analyzes the supply and demand for convention space nationally to assess where Pittsburgh's completed convention center stands in relation to similar facilities. In doing so, we can describe the environment in which the new center will compete, examine its near-term business, assess the operating costs, and determine if the center's day-to-day operations are likely to require further taxpayer subsidies.

## **Supply of Convention Space**

Growth in convention space can essentially take on one of two forms. The first form is new venues. That can mean the construction of an entirely new facility in a city that has never had a convention center, the construction of an entirely new facility in a city that has an existing convention center that will remain, or the demolition of existing convention space in order to construct a new (often larger) center. The second is expansion, whereby an addition is made onto an existing facility, thus creating more square footage.

The total number of new convention centers/exhibition venues in the U.S. and Canada increased by 57 facilities (17 percent) from 1990 to 2000. There are also numerous expansions taking place all over the nation, from Orlando and Atlanta to San Diego and Houston. There are several reasons for expansions of convention facilities. According to *Trade Show Week* those reasons include:

- "Exhibition and meetings industry strength"
- "Exhibition organizers have more venue options"
- "Cities want to attract business tourists"
- "Urban redevelopment projects"<sup>1</sup>

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<sup>1</sup> Trade Show Week: Major Exhibit Hall Directory, 2000.

### *Growth in the Top 50 Convention Markets*

The tables below present data on the top 50 convention center/exhibit halls (ranked by total exhibit square footage) in the U.S. and Canada. The top 50 vary from the 2.2 million exhibit square footage at Chicago to the 200,000 at Calgary. Recent surveys show that 26 convention centers/exhibit halls (52 percent) have remained at their current size, 21 (42 percent) were undergoing expansions, and 3 (6 percent) were new venues.

As of 2000, there was a total of more than 24.5 million square feet of exhibit space at the top 50 convention centers. After ongoing construction of new venues and expansions are complete, there will be more than 32.1 million square feet.

Of the top 50 convention/exhibit hall markets new venues are planned in three cities: Kissimmee, Boston, and Pittsburgh. These three venues alone will create almost 2 million square feet of exhibit space.<sup>2</sup> Twenty-one recent expansions in the top 50 markets will boost exhibit space by more than 5.7 million square feet.<sup>3</sup>

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<sup>2</sup> Ibid

<sup>3</sup> Ibid

**Top 25 Convention/Exhibit Halls  
U.S. and Canada**

<i>City</i>	<i>Current Square Footage of Exhibit Space</i>	<i>Expanding? Yes (Y) or No (N)</i>	<i>If Yes, Size of Expansion</i>	<i>New Venue</i>	<i>Total Current or Future Square Footage of Exhibit Space</i>
Chicago	2,200,000	N			2,200,000
Orlando	1,100,000	Y	1,000,000		2,100,000
Las Vegas	1,030,633	Y	918,355		1,948,988
Atlanta	950,000	Y	450,000		1,400,000
Houston	1,130,000	N			1,130,000
New Orleans	1,100,000	N			1,100,000
Louisville	1,000,000	N			1,000,000
Toronto	977,080	N			977,080
Kissimmee				964,000	964,000
Cleveland	902,000	N			902,000
Houston	451,500	Y	420,000		871,500
Rosemont	700,000	Y	145,000		845,000
Anaheim	815,000	N			815,000
New York	814,400	N			814,400
San Fran.	442,000	Y	300,000		742,000
Dallas	523,726	Y	203,000		726,726
Washington	381,000	Y	344,000		725,000
Los Angeles	720,000	N			720,000
Detroit	700,000	N			700,000
Boston				600,000	600,000
Denver	292,000	Y	292,000		584,000
San Diego	249,388	Y	276,363		525,751
Miami	502,848	N			502,848
St. Louis	502,000	N			502,000
Atlantic City	500,000	N			500,000
<b>1-25 Total</b>	<b>17,983,575</b>		<b>4,348,718</b>	<b>1,564,000</b>	<b>23,896,293</b>
<b>1-25 Average</b>	<b>781,895</b>		<b>434,872</b>	<b>782,000</b>	<b>955,852</b>

The above data on the largest 25 convention centers shows that there were two new venues and ten expansions underway at the time of measurement. Prior to these changes, there was a total of 17,983,575 square feet of exhibit space. After completion, there will be an additional 5,912,718 square feet of exhibit space, or an increase of 33 percent. The average square footage at a facility in the top 25 markets will increase to 955,852 square feet from 781,895.

**Second 25 Convention/Exhibit Halls  
U.S. and Canada**

<i>City</i>	<i>Current Square Footage of Exhibit Space</i>	<i>Expanding? Yes (Y) or No (N)</i>	<i>If Yes, Size of Expansion</i>	<i>New Venue</i>	<i>Total Current or Future Square Footage of Exhibit Space</i>
Minneapolis	277,200	Y	200,000		477,200
Denver	445,696	N			445,696
Portland	332,900	Y	112,000		444,900
Philadelphia	440,000	N			440,000
San Antonio	225,817	Y	214,183		440,000
Columbus	306,000	Y	120,000		426,000
Indianapolis	301,500	Y	99,000		400,500
Edmonton	400,000	N			400,000
Reno	260,000	Y	130,000		390,000
Kansas City	388,000	N			388,000
Cleveland	375,000	N			375,000
Greenville	368,000	N			368,000
Salt Lake City	365,000	N			365,000
Pittsburgh				330,000	330,000
Baltimore	300,000	N			300,000
Charlotte	280,000	N			280,000
Austin	125,972	Y	124,623		250,595
Portland	150,000	Y	100,000		250,000
Phoenix	249,000	N			249,000
Ottawa	80,000	Y	150,000		230,000
Birmingham	220,000	N			220,000
Sacramento	209,300	N			209,300
Seattle	102,000	Y	103,000		205,000
Ft. Lauderdale	150,679	Y	50,000		200,679
Calgary	200,000	N			200,000
<b>26-50 Total</b>	<b>6,552,064</b>		<b>1,402,806</b>	<b>330,000</b>	<b>8,284,870</b>
<b>26-50 Average</b>	<b>273,003</b>		<b>127,528</b>	<b>330,000</b>	<b>331,395</b>
<b>Top 50 Total</b>	<b>24,535,639</b>		<b>5,751,524</b>	<b>1,894,000</b>	<b>32,181,163</b>
<b>Top 50 Average</b>	<b>522,035</b>		<b>273,882</b>	<b>631,633</b>	<b>643,623</b>

The convention markets from 26 to 50, which include the new Pittsburgh Convention Center, will likewise see a significant increase in the amount of available exhibit space. The total existing exhibit space prior to expansion or the commencement of the convention center construction in Pittsburgh was 6,552,064 square feet. After completion of the Pittsburgh project and the expansions on other facilities, exhibit space square footage will be 8,284,870, an increase of 26 percent.

Pittsburgh's new convention center, at 330,000 square feet of exhibit space, will result in it being ranked 39<sup>th</sup> out of 50 in the U.S.--Canada market. Removing the exhibit space in Canada greater than Pittsburgh (Toronto and Edmonton) would bump the new convention

center up two places to 37<sup>th</sup>. It ranks near the average for the 26-50 market (331,395) but is significantly smaller than the two other new venues in Boston and Kissimmee.

Overall, for the period under consideration, expansions of current facilities and the construction of new venues represents an increase of over 7.6 million square feet, or 31 percent for the top 50 U.S. and Canadian convention centers/exhibit halls.

### *Supply: Driven By Feasibility Studies?*

Since convention center construction cannot happen overnight, much of the new venue and expansion activity is done in anticipation of future convention/trade show activity. Economic consultants, planning agencies, and a variety of other groups conduct forecasts of economic impacts and additional convention business. Sadly, few of these forecasts have translated into reality. Consider the following examples:

- In 1996, the Center for Exhibition Industry Research predicted that the convention industry would capture 129 million attendees in 1999. The actual total for 1999 was 27 million less than the forecast.<sup>4</sup>
- A feasibility study for Charlotte predicted that the new convention center would generate 528,000 hotel room nights per year. After construction of the center, the actual number came in at 170,000.<sup>5</sup>
- The Final report on the Boston Convention and Exhibition Center (1988) projected \$45 million in new tax revenues, \$436 million in direct spending, and the creation of 7,000 jobs. When these promises did not materialize, blame was laid on the recession of the early 1990s.<sup>6</sup>
- A 1997 study by the Pennsylvania Economy League of the Pennsylvania Convention Center in Philadelphia projected that attendance at conventions/trade shows would likely fall from 1997 totals, but the Economy League recommended expansion "to allow it to compete effectively with new, larger convention facilities that offer multiple exhibition areas".<sup>7</sup> As of this writing, the center is in the final stages of approving a nearly 300,000 square foot expansion.
- A 400,000 square foot expansion of the Morial Convention Center in New Orleans was completed in 1999. In 2000, attendance fell to 1995 levels.<sup>8</sup>

Unfortunately, the competitive race in which centers try to leapfrog other centers leads to those centers doing exactly the same, which results in a gross excess of space. If convention centers were built by the private sector, the overbuilding would quickly dry up. Public funding keeps convention center construction going.

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<sup>4</sup> Heywood Sanders "Flawed Forecasts: Conventional Wisdom is Anything But". A publication of the Pioneer Institute. December 6, 1999.

<sup>5</sup> Ibid

<sup>6</sup> Charles Chieppo "Sad Facts Lodged in Hotel Plan". A publication of the Pioneer Institute. October 16, 2000.

<sup>7</sup> Pennsylvania Economy League, Eastern Division. "The Economic and Revenue Impact of the Pennsylvania Convention Center". May 1997.

<sup>8</sup> Ibid



## Demand For Convention Space

Indicators of demand that are associated with convention or exhibit space include the square footage used by a trade show, exhibition, convention, or meeting; the attendance at those events; and the number of events, all measured on an annual basis. The data below is presented for U.S. and Canadian markets for the time period of 1989 to 2000.<sup>9</sup>

### U.S. and Canadian Convention/Trade Show Demand Trends, 1989-2000

YEAR	EVENTS		SPACE USE		ATTENDANCE	
		Percentage Growth, 5 Year Interval (1989 to 1994 and 1995 to 2000)		Percentage Growth, 5 Year Interval (1989 to 1994 and 1995 to 2000)		Percentage Growth, 5 Year Interval (1989 to 1994 and 1995 to 2000)
1989	3289		270		60	
1990	3738		330		75	
1991	3887		331		71	
1992	4006		366		77	
1993	4172		387		73	
1994	4316	31	400	48	85	41
1995	4380		448		116	
1996	4400		448		101	
1997	4336		445		110	
1998	4295		438		110	
1999	4503		514		102	
2000	4637	6	574	28	126	9
<b>Average</b>	<b>4163</b>		<b>413</b>		<b>92</b>	

As we see from the above data, the rate of growth for number of events, space use (measured in millions of square feet), and attendance (measured in millions) slowed dramatically in the second half of the 1990s. As a result, any of the ongoing construction is being undertaken on the anticipation that there is going to be an upswing in demand in the next few years.

While 2000 was the best year in absolute terms for the number of events, space use, and attendance, the percentage growth in these measures did not increase at the same rate in the late 1990s as it had in the earlier part of the decade. Consider the drop in percentage growth for all three factors from 1989 through 1994 and 1995 through 2000: number of events went from 31 percent to 6 percent, space use from 48 percent to 28 percent, and attendance from 41 percent to 9 percent.

<sup>9</sup> Trade Show Week Data on Events, Space Use, and Attendance, 1989-2000.

### *Projections for National Demand*

Projections and trends have changed even further as a result of the terrorist attacks of September 11<sup>th</sup>. Conventions/trade shows usually entail large gatherings of people in a public venue; they rely on bringing outside business in, most often by air travel; they (purportedly) spur private, profit-seeking development connected to the convention facility and the consumers those events bring with them. As such, projections for the near term of the convention/trade show business are not rosy, and the effects may be felt for a long time.

Based on the most recent data, the forecast for convention/trade show demand is not positive. The number of events totaled 4,333, a decline of 304 events from 2000. The use of convention/trade show space was 495 million square feet, a decline of 79 million from 2000. And attendance, the most volatile factor, fell by a staggering 51 million over 2000 totals.<sup>10</sup>

At its October 27<sup>th</sup> meeting, *Trade Show Week* detailed its assessment of the convention/trade show business in light of a declining economy, fear about traveling, and ambivalence about the future. Among the chief concerns were:

- Lower attendance
- Lower hotel tax revenues
- Some new construction and expansions on hold
- Flat or negative growth
- Some hotel retrenchment<sup>11</sup>

Two factors that deserve attention are air travel and hotel business, both of which depend on convention business and are important for the success of convention business. The Travel Industry Association of America recently released its projections for airline travel in the wake of September 11<sup>th</sup>. They projected a 12 percent decrease in business travel for the fourth quarter of 2001, a decrease of 6.5 percent from the fourth quarter of 2000. They projected all air travel to decline 9.4 percent from 2000.<sup>12</sup> *Trade Show Week* raised similar concerns, noting the negative effects of "flight capacity, cutbacks in corporate travel, and individuals' safety concerns".<sup>13</sup>

The status of hotel business as a result of September 11<sup>th</sup> was largely negative in terms of revenue and occupancy. According to Merrill Lynch and Smith Travel, hotel revenue per available room fell 24 percent from August, while occupancy declined 17 percent. These

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<sup>10</sup> Trade Show Week Data for 2001.

<sup>11</sup> Trade Show Week "Space Race Continues: North American Convention Center and Exposition Outlook". A presentation at the International Convention Center Conference, October 27, 2001.

<sup>12</sup> Travel Industry Association of America "TIA Releases Forecast for Travel Volume and Spending" November 13, 2001.

<sup>13</sup> Ibid

trends continued into October, and were not expected to reach positive growth until the first quarter of 2002.<sup>14</sup>

When combined, the prospective supply of convention/trade show space and the future demand for that space (expressed in terms of events, space use, and attendance) appears to be mismatched. There is far more available supply, both presently and in the future, than there is the demand in the convention/trade show business. The percentage increases in demand trends from 1995 to 2000 were far lower than the first few years of the 1990s. Consider these totals in light of the fact that the most recent new venue construction and expansions in the top 50 markets represent a 31 percent increase in space--and that does not account for new and expanded hotels, resort facilities, or similar venues where events can be held.

**Supply and Demand for Conventions/Trade Show Industry:  
Implications For Pittsburgh**

The trends in the supply of and demand for convention space nationally raise questions about the ability of the new convention center in Pittsburgh to attract sufficient business in the way of meetings and conventions in order to cover its costs. A major drawback has been the delayed construction of a major hotel connected to or adjacent to the center.<sup>15</sup> The fact that air travel has leveled off to 20 percent less than where it was last year and the ongoing uncertainty of USAirways and Pittsburgh's status as a hub airport also raises questions about the ability of the area to attract out of town convention business.

According to the Convention and Visitors Bureau, 57 conventions have been booked in Pittsburgh through 2008. The table below outlines some of the vital statistics on those meetings over the next six years.<sup>16</sup>

**Conventions, 2002-2008**

Total Attendance	226,040	Average Attendance per Meeting	3,965
Highest Attendance at a Single Meeting	30,000	Longest Meeting	11 days
# Meetings with Overlapping Dates	9	Average Duration	5.52 days
# Meetings that Require more than 131,000 Square Feet	17	# Meetings Booked at Old Center and Moved to New Center	12

<sup>14</sup> Merrill Lynch and Smith Travel Research

<sup>15</sup> Dave Copeland "Convention Center Hotel Plan still Undeveloped". Pittsburgh Tribune Review, February 2, 2002.

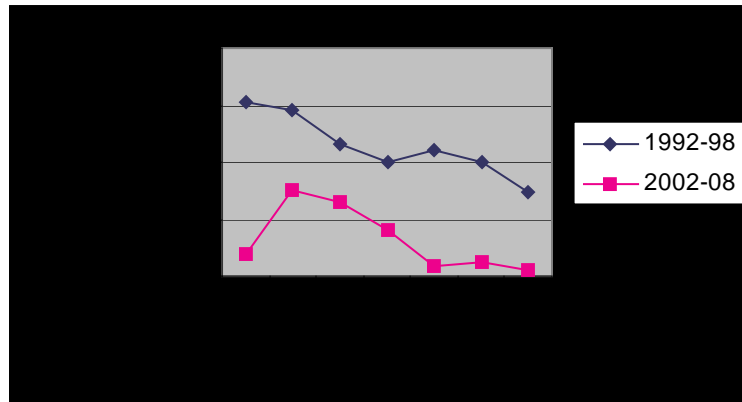
<sup>16</sup> Greater Pittsburgh Convention and Visitors Bureau

Data from a previous span (1992-1999) at the old convention center shows that there were 315 meetings with a total attendance of 927,910 or 116,000 attendees per year.

With the current booking totals, the center will average 32,291 attendees per year. In order to match the average attendance of the 1990s and to compensate for the two-year shutdown for construction, there must be an average of 160,000 attendees over the next seven years. The years 2006 through 2008 may have to be closer to 200,000 per year.

The graph on the following page outlines the annual attendance at non-public shows at the old convention center versus the attendance at shows already booked at the new center through 2008.

**Attendance at Non-Public Shows at Old and New Convention Centers: 1992-98 and 2002-08**



The "x" factors in getting bookings through 2008 back to the level of the previous decade are time and hotel space. As mentioned previously, due to the fact that most conventions are booked years in advance, it is doubtful that committed meetings in 2002 or 2003 will increase from where they are now. Much of the increase is going to have to come in the years 2006 through 2008. Consequently, if attendance levels are to increase in those years, there has to be adequate hotel space to accommodate them, which may entail an increase over the 1,500 new rooms that are needed to serve the new center.

What is most distressing is that of the 57 meetings booked, 40 could have been held at the old center because they will not require more than 131,000 square feet of space. Granted, it is still early, but with the intense competition that will be developing due to the completion of new venues and expansions, it will probably become increasingly difficult to book the necessary number of meetings and attendees. Thus, the \$330 million spent on the new convention center looks harder and harder to justify.

## **Operating Costs of the New Pittsburgh Convention Center: Who Pays?**

The central concern about the new convention center, and one that has been raised by local convention officials is whether or not the venue will attract sufficient business to cover its operating costs. These are the day-to-day costs associated with personnel, utilities, maintenance and the like. The County Hotel Room Rental Tax was the primary source of operation subsidy for the old center. Considering the fact that the new convention center will be three times as large as the previous one, and that the previous center consistently ran an operating deficit of \$3 million annually<sup>17</sup>, there is a chance that additional public subsidies may be required for the facility and that the overall level of subsidy may increase.

In order to lessen the need for a subsidy, the Sports and Exhibition Authority (SEA), which owns the building, stated it has taken two steps. First, they hired SMG of Philadelphia, a private firm, to run the day-to-day functions of the convention center. This organization will replace the in-house staff that was previously responsible for running the convention center. Second, by paying attention to amenities and making the center "world class" and thus attractive to more groups, the operating losses that existed at the old center may not be as large at the new facility.<sup>18</sup>

### *Operating Costs: A Comparison*

In order to assess Pittsburgh's convention operating costs, a comparison to other convention centers of similar size is useful. For purposes of this analysis, five convention centers with similar square footage of exhibit space were selected: the Reno-Sparks Convention Center (Reno, NV), Bartle Hall (Kansas City, MO), the Palmetto Expo Center (Greenville, SC), the Baltimore Convention Center (Baltimore, MD), and the Charlotte Convention Center (Charlotte, NC). Pittsburgh's new convention center falls near the median and average of the range in terms of exhibit space.<sup>19</sup>

Charlotte's facility was built entirely in 1995; the venues in Greenville, Kansas City, and Baltimore underwent expansions in 1992, 1994, and 1997 respectively, while Reno's expansion should be complete at the end of 2002.

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<sup>17</sup> Tom Barnes "SMG Hired to Run New Convention Center". Pittsburgh Post-Gazette. November 10, 2001.

<sup>18</sup> Ibid

<sup>19</sup> For this sample (Pittsburgh included), in terms of square footage of exhibit space the median is 349,000 and the average is 342,000.

### Comparison of Similar Convention Centers

<i>Venue</i>	<i>Owner</i>	<i>Operator</i>	<i>Square Footage of Exhibit Space</i>	<i>Square Footage of Meeting Space</i>	<i>Total Square Footage</i>	<i>Annual Operating Costs</i>	<i>Subsidy for Operation</i>	<i>Amount of Subsidy</i>
Reno-Sparks Convention Center (Reno NV)	Reno Convention and Visitors Authority	Reno Convention and Visitors Authority	390,000	79,000	700,000	\$2.2 million	None	
Bartle Hall (Kansas City, MO)	Kansas City	City Department of Conv. And Entertainment	388,000	127,000	1,000,000	\$13.5 million	Yes, State funding	\$2 million
Palmetto Expo Center (Greenville, SC)	Textile Hall	Textile Hall	368,000	88,000	600,000	\$3 million	None	
David Lawrence Convention Center (Pittsburgh, PA)	Sports and Exhibition Authority	SMG	330,000	88,535	1,500,000	\$7.4 million	Yes, County Hotel Tax	\$2.3 million
Baltimore Convention Center (Baltimore, MD)	City of Baltimore	City of Baltimore	300,000	85,000	1,225,000	\$13 million	Yes, City and State Funds	\$4 million
Charlotte Convention Center (Charlotte, NC)	City of Charlotte	Charlotte Auditorium, Coliseum, and Convention Authority	280,000	90,000	850,000	\$9.2 million	Yes, County Hotel Tax	\$1.2 million

As we see from the table above, the majority of the facilities are both publicly owned and publicly operated, either by the municipality or a municipal authority. Only the Palmetto Expo Center in Greenville, which is in the process of transferring ownership to the city, is privately owned and privately operated. Facilities with high operation costs (Kansas City, Baltimore, and Charlotte) require public subsidies to offset operation costs. Facilities with over one million square feet of total space (Baltimore, Kansas City, and Pittsburgh) require over \$2 million in annual subsidy. Reno's facility, the largest of the sample in terms of square footage of exhibit space, had the lowest operation costs of the sample.

The most recent data from the SEA projects 2002 operation costs of the new Pittsburgh convention center to be \$7.4 million, which is almost half of the costs of Baltimore and Kansas City.<sup>20</sup> Bear in mind, however, that the 2002 total reflects expenses for an

<sup>20</sup> Tim McNulty "Center Deficit Expected Initially" Pittsburgh Post-Gazette, January 15, 2002.

incomplete facility, one whose costs will most likely rise when the completed facility opens.

**2002 SEA Budget for Lawrence Convention Center<sup>21</sup>**

<i>Revenues</i>	<i>Expenditures</i>			<i>Deficit</i>	<i>Subsidy</i>	
\$974,000	\$7,400,000	(Staff)	\$3,700,000	\$6,500,000	(Hotel Tax)	\$2,300,000
		(Utilities)	\$2,200,000		(Other)	\$4,200,000
		(Other)	\$1,500,000			

*County Hotel Room Rental Tax*

According to the 2001 Operating Budget of Allegheny County, the "Hotel Room Rental Tax" is a tax on "each transaction of renting rooms or rooms to accommodate transients". A 1991 state law raised the hotel tax from the original 3 percent to 5 percent. The tax was raised to its current rate of 7 percent in 1997.<sup>22</sup>

Statutory distributions of the hotel room rental tax include payments to the borough of Monroeville, which houses the Monroeville Expo Mart, debt service on bonds floated for the construction of the new convention center, an administrative fee to Allegheny County for collection of the tax, and an allocation to the Greater Pittsburgh Convention and Visitors Bureau for tourism marketing. Distribution from the tax for operations at the convention center is a discretionary function of the tax.<sup>23</sup>

To be certain, the SEA has requested funding from the County hotel tax for operations at the new convention center. The County Controller's office provides actual and projected collections for the hotel tax, as well as the SEA request for operations at the convention center.

As we see from the data in the following table, the County hotel tax raised in excess of \$67 million for the years 1996 through 2000. Of that total, nearly one-third of the revenue was classified as discretionary. The amount of subsidy requested for the operations of the convention center represented almost three-fourths of the discretionary funds. Over that five-year period, subsidies from the hotel tax ranged from an annual low of \$1.4 million (1997) to a high of \$5.9 million (1998).

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<sup>21</sup> Tim McNulty, "Center Deficit Expected Initially". Pittsburgh Post-Gazette, January 5, 2002.

Environmental design features of the center are projected to reap savings of 30 to 50 percent in annual utility costs. Attempts to determine the number of staff covered by the \$3.7 million expenditure were unsuccessful.

<sup>22</sup> Office of the County Controller "Allegheny County Hotel/Motel Room Rental Tax Report". May 23, 2001. According to the most recent study of the Travel Industry Association of America, eleven metro areas included in the "Top 50 Travel Destinations in America" levy a hotel tax greater than Allegheny County's tax.

<sup>23</sup> Ibid

**Distributions from Hotel Tax, 1996-2000<sup>24</sup>**

	Statutory	Discretionary	Convention Center (as part of Discretionary)
Total Amount	\$ 46,294,277	\$ 22,179,889	\$ 16,029,118
As Percentage of Hotel Tax Revenues	68%	32%	72%

The spending priorities of the hotel tax have been called into question by the County Controller's office. In a 2001 report of that office's administrative division, the office projected that the operating deficit of the convention center would outstrip available funds from collections of the hotel tax. As a discretionary outlay of the hotel tax, the report noted that:

With the expansion of the Convention Center and the associated debt service subsidized by the hotel/motel room rental tax the amount available to fund the convention center operating deficit will not be sufficient. Therefore, the city and the County will be responsible for the shortfall.<sup>25</sup>

**Un-audited 2001 Hotel Tax Collections<sup>26</sup>**

<i>Month</i>	<i>Hotel Tax Collected</i>	<i>Change (+ or -) from Previous Month</i>
January	\$ 1,137,321	
February	\$ 1,019,881	\$ (117,440)
March	\$ 1,052,432	\$ 32,551
April	\$ 1,301,368	\$ 248,936
May	\$ 1,307,773	\$ 6,405
June	\$ 1,522,561	\$ 214,788
July	\$ 1,491,295	\$ (31,266)
August	\$ 1,565,426	\$ 74,131
September	\$ 1,668,120	\$ 102,694
October	\$ 1,325,027	\$ (343,093)
November	\$ 1,569,441	\$ 244,414
December	\$ 1,176,189	\$ (393,252)
	\$ 16,136,834	

Un-audited totals for hotel tax collections through 2001 show that the tax brought in roughly \$600,000 less than it did in 2000.

<sup>24</sup> Ibid

<sup>25</sup> Ibid

<sup>26</sup> Allegheny County Controller's Office: Schedule of Hotel Tax Receipts by Month, January 23, 2002



From 2001 through 2035, the Controller's office projects the total operating deficit of the new Convention center not offset by the hotel tax to exceed \$138 million, which breaks out to an average \$3.9 million per year. In other words, assuming modest growth in both the operating deficit of the convention center and modest growth in the amount of hotel tax collections, the amount of the operating deficit not covered by the hotel tax will increase annually.

**Projections of Operating Deficits and Hotel Tax Subsidies  
at the New Convention Center,  
2005-2009<sup>27</sup>**

	2005	2006	2007	2008	2009
Operating Deficit	\$ 5,690,986	\$ 5,861,716	\$ 6,037,567	\$ 6,218,694	\$ 6,405,255
Subsidy from Hotel Tax Available to Offset Deficit	\$ 2,636,849	\$ 2,656,763	\$ 2,694,336	\$ 2,683,245	\$ 2,747,592
Amount of Deficit Not Offset by Hotel Tax	\$ 3,054,137	\$ 3,204,953	\$ 3,343,231	\$ 3,535,449	\$ 3,657,663

A large portion of the hotel tax will continue to be dedicated to subsidizing the day-to-day operations of a facility that was built with tax dollars. This means that other discretionary functions supported by the hotel tax (Three Rivers Regatta, Vintage Gran Prix, Arts Festival, etc.) cannot expect to be funded.

**Conclusion**

The construction of a larger convention center in Pittsburgh follows the trend of many other major cities across the country vying for a piece of the convention and trade show business. New and expanded convention centers have become another weapon in the arsenal of the economic development arms race that is being waged between cities for tourism and recreational dollars.

Pittsburgh's new convention center will open during a time of economic uncertainty, which may continue for the foreseeable future. The new convention center will be in competition with other venues in other parts of the country to attract meetings, trade shows, and conventions to the region. It will be a formidable task given the direction of growth in this industry, which had seen a decline in its rate of growth prior to 2001.

The implications of these national trends are important to taxpayers of Allegheny County and the City of Pittsburgh, both of which are responsible for any shortfalls of the operating revenues for the new center. If an adequate level of business at the convention center fails to materialize, or operation costs of the completed facility cannot be held in

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<sup>27</sup> Ibid

check, distributions from the hotel tax will have to change dramatically or funds from general government revenues will have to be tapped.