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Hotels Want a Tax Hike on Customers to Fund More Tourism

Summary: Legislation to increase the Allegheny County hotel tax from its current 7 percent rate has been introduced in the General Assembly. The legislation describes distribution of the revenue and the creation of a Sports Commission. Arguments for another tax increase on hotel stays are unpersuasive. In any case, there are provisions in the bill that need clarification before proceeding.

Increasing the hotel tax in Allegheny County has been touted as a painless undertaking. In fact, the most recent proposed increase is not even being called a tax—rather a “tourism promotion fee”—and though backers are asking the General Assembly to authorize a 2 percent fee, they say they won’t even take that much, only 1.25 percent. The General Assembly, in this time of vehement opposition against tax increases for the state budget, is not being asked to levy or raise a tax (or fee). They are just giving permission to a county of the second class (Allegheny County) to impose a new levy. Besides, they just authorized other classes of counties to increase their hotel taxes in a similar manner in the past few years.

And while much of the news coverage has focused on the fact that the increased tax revenue will be directed toward the creation of a Sports Commission that will try to attract sporting events, including a Super Bowl, money will also be designated for other recipients. In addition to the Sports Commission, Visit Monroeville, the Pittsburgh Film Office, Visit Pittsburgh, Allegheny County and the Sports and Exhibition Authority (SEA) would get a share of the new tax dollars.

Backers say the tax will not noticeably affect the bill for a hotel stay (an additional \$1.45 per day on average, more at pricier hotels) and it will fall primarily on out-of-towners. And, importantly, the hoteliers are in favor of it. Proponents’ arguments for boosting the tax rate are basically a rehash of the same arguments made for creating the Regional Asset District (RAD) tax, for the new stadiums and convention center, and when gaming money was set aside for tourism and at one point to subsidize a convention center hotel. In short, produce more and better things to do and places to visit for out of town folks who will need hotel rooms while visiting.

With \$34.4 million in existing hotel tax revenues last year according to audited figures (just over \$4.9 million per point from the current 7 percent tax) a 1.25 percent add on levy would have raised around \$6.1 million. The money is to be held in a Tourism Promotion Fund in the County Treasury.

How will the proposed legislation allocate the new tax money? First, the Sports Commission is to create its own reserve fund to hold 10 percent (\$610,000) of the revenue. The proposal states

that the reserve fund cannot hold more than \$3 million, to be adjusted upward by the inflation rate (perhaps coincidentally, a July 2015 article on the hotel tax noted that a bid fee for a NCAA tournament was \$3 million).

After that reserve fund is opened and, assuming the first year's collection is \$6.1 million, the County Treasurer would be authorized to distribute the remainder (\$5.5 million) as follows: to Visit Monroeville for tourism activities (2%, or \$109,800), the Film Office for attracting film and television productions (10%, or \$549,000), the SEA (18%, or \$988,200), to Visit Pittsburgh to establish the Sports Commission (22%, or \$1,207,800) to Visit Pittsburgh for other uses (25%, or \$1,372,500), to the County Treasurer for collecting and distributing the tax (5%, or \$274,500) and to the Sports Commission for carrying out specific functions (18%, or \$988,200).

It is worth pointing out that the legislation does not spell out what happens if the Commission reserve fund should reach \$3 million (with allowable inflation adjustment) from the 10 percent annual allocation. Note that other recipients are to put any of their unused money into a separate reserve account in the County treasury. Nor does the proposed legislation indicate whether the money allocated to Visit Pittsburgh to establish the Sports Commission is a one-time allocation or is recurring. These provisions need to be clarified. Surely, it will not require more than \$1.2 million to establish the Sports Commission.

The functions of the proposed Sports Commission deserve attention since it would be a new entity. The law specifies the composition of its 21 members as a mixture of local and state political appointees, hotel and tourism officials, and designees representing professional and collegiate sports. The Commission is to carry out three duties (not including what would be done with the reserve account, which is not specified in the proposed legislation):

1. Construction, upgrades, and maintenance of amateur sports-related tournament locations in parks throughout a county of the second class to a standard which would attract regional, state, and national sporting tournaments
2. Swimming pool upgrades for competitive tournament-level events in parks owned by a county of the second class
3. Enhancing the marketability of sports-related events in parks owned by a county of the second class to a standard which would attract hosting of regional, state, and national sporting tournaments.

Note that the RAD sales tax since 1995 has directed \$464 million toward Allegheny County parks and City of Pittsburgh regional parks as contractual assets. The County's capital budget allocation for its parks topped \$5 million per year in the past three, it has allocated some of the overage of the existing hotel tax to the parks, all of which would seem to address Commission duties two and three, and the City and the many municipalities have used the funds to undertake upgrades and projects at their parks. Bear in mind too there are available locations at public schools, YMCA facilities, colleges, etc.

Then we must look at the intended purposes of the money directed to tourism agencies and the Sports and Exhibition Authority (SEA). Visit Pittsburgh received \$9.8 million from the existing hotel tax in 2016 for tourism promotion (up 55 percent in the last ten years) and Visit Monroeville received \$547,000 in 2016 from a portion of the hotel tax generated in Monroeville. The funds allocated from the additional levy for Visit Pittsburgh would be used for "securing future meetings and conventions for a convention center or exhibition hall in a city of the second class that provides for the use of multiple hotels" as well as transportation and operating costs

associated with said meetings. Visit Monroeville will get additional funding for “marketing and advertising the area” for convention, leisure travel, and business travel. Again, this speaks to the massive efforts to build the center as a destination attraction to go along with the other cultural and recreational amenities that have been funded by state and local dollars and how those were to be a draw for tourists.

Furthermore, the share of the money directed to the SEA is the most bewildering. The law does not mention any SEA facility except for the David Lawrence Convention Center (the definition of “convention center or exhibition hall” is narrow) and the money is to be directed toward “capital cosmetic improvements to enhance the convention and sports experience for clients”. Marquees, signage, electronic information boards, and upgraded technology are part of it. So too are “stadium style seating, multiuse sports courts, and related assets to include NCAA-quality, tournament-ready equipment for various sports, including, but not limited to, basketball, volleyball, soccer, lacrosse, and other sports assets and equipment that would attract additional events”. Does this mean the convention center will become another multi-sport venue? If it is what impact will that have on its existing facilities and what does it imply for center’s intended use as a facility to host conventions, trade shows, etc.?

As our July 2015 op-ed noted, the overwhelming majority of jobs in the tourism industry are low wage jobs compared to finance, manufacturing, professional services, transportation, etc. One wonder why the City and region would focus so intensely on growing a sector that has already received so much public money for the purpose of attracting visitors to the City and County.

Wouldn’t it be refreshing if the hotel association would ask its members to establish a fund in which each member would commit an annual contribution to create a Sports Commission? If the tax is only 1.25 percent, why not just boost room rates one percent and use that for the Sports Commission. If, as the tax proponents claim, the increased tax is not going to be noticed by customers, why would they notice a tiny room rate increase? Why ask for another tax? More work for the County and Legislature and more strings and government oversight. A new tax should not be the first option in this scheme to get more sports events.

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