

### **Allegheny County's hotel tax revenue increased in 2021**

**Summary:** Allegheny County levies a 7 percent hotel room rental tax that is used primarily for debt on the David L. Lawrence Convention Center and tourism promotion. Data from the County Controller's Office show 2021 tax revenue was \$9.7 million above 2020's collections but remain 34 percent below the pre-pandemic collections of 2019. A proposal to add a special fee on hotel stays in Allegheny County has been introduced in the General Assembly.

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In a recent presentation to the local tourism community, a consultant forecasted that hotel stays, room rates and spending will "bounce back close to 2019 pre-pandemic levels" in Allegheny County.

That has to be good news for hotel owners and employees that rely on tourists as 2020 was a very bad year for the industry. A return to 2019 levels has implications for Allegheny County's hotel tax and the entities funded from the revenue.

Operators of hotels, motels and, in recent years, AirBNB-type rentals, are required to collect a 7 percent hotel room rental tax for Allegheny County (this is in addition to the 7 percent state and county sales, use and hotel occupancy tax). The hotel room tax revenue is deposited in a special fund.

Sports & Exhibition Authority website data show that, as of December 2020 there were 208 hotels and an estimated 18,661 rooms and suites in Allegheny County. While there were new hotels constructed each year from 2015 through 2019, no new ones opened in 2020 due to the pandemic.

Hotel tax revenue is reported by the county on a one-month lag; thus, the December 2021 collections reflect November activity. Each reference to a month in this *Brief* will be to the month revenue was reported.

Total hotel tax revenue in 2021 was \$24.8 million, a \$9.7 million (64.8 percent) increase from 2020. From April forward monthly collections exceeded the same month in 2020, which is not at all surprising given the effects of the pandemic-caused travel collapse.

By September 2021, monthly collections totaled \$15.5 million, which surpassed 2020 total revenue. On a percentage basis, May revenue was 540.5 percent above the previous May. However, collections in January, February and March were lower than the same months in 2020, just prior to the COVID shutdown.

But 2021 collections are still 34 percent below the \$37.8 million collected in 2019. There were two months in 2021 (September and November) in which collections topped \$3 million. In 2019 there were eight months above that amount.

**Hotel Tax Revenue, 2020 and 2021 (\$000s)**

Month	2020	2021	\$ Difference	% Difference
January	2,921	621	-2,300	-78.7
February	2,065	905	-1,160	-56.2
March	2,069	1,045	-1,024	-49.5
April	940	1,245	305	32.4
May	257	1,646	1,389	540.5
June	400	2,017	1,617	404.3
July	591	2,182	1,591	269.2
August	1,218	2,865	1,647	135.2
September	1,158	3,013	1,855	160.2
October	1,257	2,979	1,722	137.0
November	1,362	3,531	2,169	159.3
December	806	2,737	1,931	239.6
<b>Annual</b>	<b>15,044</b>	<b>24,786</b>	<b>9,742</b>	<b>64.8</b>

While the tax rate is 7 percent, that total is, in reality, the result of two state statutes that permit the county to levy a 5 percent tax and a 2 percent tax. The distribution formula and recipients of revenue are different for the two taxes.

Statutory disbursements from the 5 percent tax include allocations to (1) the Municipality of Monroeville for tourism promotion (the municipality receives a percentage of hotel tax revenue generated within Monroeville); (2) debt service on the David L. Lawrence Convention Center; (3) Allegheny County for collecting the tax and (4) VisitPittsburgh for tourism promotion. Any remaining money is used for discretionary disbursements for operations and maintenance at the Convention Center and for tourism events or organizations.

The 2 percent tax was added by the 1997 state law that authorized the Regional Renaissance Initiative ballot question. After paying Monroeville’s distribution under the same formula used as the 5 percent tax, the remainder goes to debt service on the convention center.

Total statutory and discretionary disbursements from the hotel tax in 2021 were \$21.5 million, including debt service on the convention center (\$14.2 million) and to VisitPittsburgh (\$5.6 million). Part of the payments to those two entities were made from the fund balance, which ended 2021 at \$13.7 million, up from \$10.4 million at the end of 2020.

Given that it would be reasonable to take a “slow and steady” approach to the coming year, why would there be an effort to pursue an increase in what travelers would pay to stay in Allegheny County?

Rather than increase the hotel tax itself, a proposal in the General Assembly would permit counties of the second class to create neighborhood improvement districts under Act 130 of 2000 (counties are not currently empowered to do so under the Act). An improvement district would be able to levy a special assessment fee, which could then be passed onto travelers if hotels or motels were involved.

This idea has precedent: Philadelphia, which can create improvement districts under Act 174 of 1998, created one in 2017 (the Philadelphia Hospitality Improvement District) which allows hotels with 50 or more rooms to levy a special assessment, currently 0.75 percent. The purpose of the assessment, as described by the improvement district website, is to “fill hotel rooms by incentivizing conventions and large events to come to Philadelphia.”

At a hearing on the proposed change to Act 130 this past fall, the justification by local tourism officials was to “expand promotional activities and help local hotels” due to the pandemic. Wasn’t that why a new convention center, stadiums and other cultural attractions were built?

One beneficiary of the proposed assessment would be the Sports & Exhibition Authority, which would get a percentage of the collections to maintain the venues it owns. The authority receives a distribution from the Regional Asset District for that purpose. Why not ask the professional sports teams to do more?

A better approach is to shelve the improvement district and the fee and let the 2 percent tax added in 1997 expire as it is supposed to. That would leave a hotel tax of 5 percent. The entities that want a piece of the revenue generated can come up with a plan on how best to set a statutory formula for distribution.

In last year’s *Brief* it was asked “What do the coming months portend ...will hotel business bounce back quickly? Or will it take several months or even years for travel-related activity to get back to pre-pandemic levels?” One forecast seems optimistic. But going down the road of charging tourists more would surely dampen that.

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