

# ***POLICY BRIEF***

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## **Raising the Roof on Hotel Subsidies**

In a recent editorial the Post-Gazette chided County Executive Jim Roddey for his unwillingness to offer more than \$18 million in taxpayer assistance (state tax dollars and TIF) for the construction of a new convention center hotel. The editorial writer invokes the image of an underutilized convention center and lost economic activity if the 500 room hotel doesn't get built and soon. According to the editorial its "pay me now or pay me later" referring to the need to spend money to make money. Fortunately, Mr. Roddey is holding firm in the face of what amounts to legalized extortion.

Obviously, hotel operators recognizing Pittsburgh's need for more rooms are in a position to make demands. However, giving into unreasonable demands is not the proper way to conduct business. Acquiescing to the tune of a rumored \$50 million demand for taxpayer funding will simply compound the problems created by the jump in costs of the convention center and stadiums beyond the Regional Renaissance Initiative and Plan B estimates. Those cost increases necessitated the use of far more hotel tax revenues to construct the center than was originally planned, leaving little of that revenue to support the attractions and events that put "heads in beds." Giving in to the egregious demands for subsidy would also compound the problems created by delaying the start of the new convention center until funding for the new stadiums was in place.

Beyond the economic issues there are three objections that must be raised to heavy subsidization of hotels. First there are historical and moral grounds. When the expansion of the convention center was being promoted back in 1997, studies sponsored by the proponents were effusive about the economic impact of the new facility and how important it would be to the development of the region.

The Mayor, stumping for the Regional Renaissance Initiative, was quoted in the Post-Gazette on October 28, 1997 as saying "There are now a lot of people interested in building hotels in Pittsburgh". And later in the same article: "the expansion (of *the convention center*) we believe would attract two new hotels." Nowhere in these statements was there any discussion of the need to provide hefty subsidies for new hotels. The newspaper reader would have assumed that little or no taxpayer funds would be required to attract new hotels. Four years later we learn that hotel operators are asking for a ransom to favor us with a new hotel. Are taxpayers supposed to be happy with this? The whole episode represents an all too familiar pattern in government sponsored economic development projects where it's "pay now *and* pay later."

Second, the 500-room hotel under discussion will probably not be enough. According to a 1994 Coopers and Lybrand study, the City would need 1400 additional rooms assuming the new convention center was 250,000 square feet. If we heavily subsidize 500 rooms now, we will undoubtedly be asked to subsidize another 500 rooms in the future. The precedent will have been set.

Third, the proposed hefty hotel subsidy will put existing hotels at an immediate disadvantage. If they charge competitive rates they will earn less profit than the new taxpayer-bankrolled hotel. What's more, for smaller events at the convention center, the new hotel will have a tremendous advantage and grab a disproportionate share of attendees because of its close proximity. And it will undoubtedly fill up first for the mid-sized and larger events. In short, where is the equitable treatment for the existing hotels?

And there is always the question of where the tax dollars will come from to provide a \$50 million subsidy. The last time we checked, the City and the County were facing fairly severe budget constraints.

County Executive Roddey is right to resist the pressures to go along with the temporary expedient of capitulating to the excessive demands of the hotel operator. Giving in would not be a good precedent and would end up causing serious problems in the future.

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