POLICY BRIEF

An electronic publication of
The Allegheny Institute for Public Policy

November 1, 2002 **Volume 2, Number 54**

Alternatives to a Car Rental Tax in Allegheny County

This was entirely predictable: the cost overruns from Plan B have made obtaining the funds needed to cover operating costs at the new center extremely difficult. Instead of the $267 million originally budgeted for the Convention Center, the final cost has risen toward $340 million and by some accounts is headed still higher. As a result, the authority was forced to issue $190 million in bonds financed by the hotel tax rather than the $99 million originally planned. Now the annual bond payments are $3 million or $4 million higher than they should have been, encumbering the hotel tax revenue to cover construction and leaving little to cover operations.

It is interesting that $3.5 million is the amount the Sports and Exhibition Authority says is the funding shortfall that needs to be filled. A search is on for a new revenue stream to fund the center's operations and provide a subsidy for an adjacent hotel. One proposal is to levy a car rental tax in Allegheny County. Backers of the tax say it is harmless because it will affect only visitors to the area who benefit from the new convention center. Car rental companies have objected to the tax because they say it unfairly targets an industry that already contributes its fair share to the tax coffers.

Two questions naturally arise: who will pay the tax--locals or visitors--and where will it be applied--rentals at Pittsburgh International Airport (PIT) only or at all rental locations in the County? According to national industry statistics, rental car patrons who are visitors comprise less than 50 percent of rentals and only a little more than 50 percent of rental car transactions are conducted at airports. Several local rental companies have indicated that 50 percent or more of their rentals are to local customers.

If the tax applied to all vehicle rentals at Pittsburgh International Airport only, anywhere from $2.1 million to $2.8 million could be raised based on average total sales from the most recent Fiscal Years (2000-01 and 2001-02) and a 3 or 4 percent rate. Thus, in order to raise the $3.5 million annual revenue proponents have projected, the proposed tax would have to be levied at the County's 45 off-airport locations as well as PIT. This implies that local residents will shoulder a substantial portion of the tax.

Consider too that a significant percentage of visitors who rent cars at the airport do not have downtown as their primary destination, and even fewer are going to meetings at the convention center. Indeed, many of those renting cars at the airport may have some place other than Allegheny County as their destination. In these cases the car rental tax would essentially be a tax on using the Pittsburgh airport.

Are there any good alternatives to imposing a car rental tax? The most obvious is to cut costs at the convention center. Controlling costs were the primary reasons behind the hiring of a private management company to run the center and the design of the center to help with utility costs.

An alternative revenue source would be to increase the hotel tax, which is currently 7 percent. Like the proposed car rental tax, it is viewed as a tax that primarily falls on visitors. Since 1998 (after the hotel tax was increased to 7%), revenues averaged $15.6 million per year, or $2.2 million per 1 percent of the tax. Based on those numbers, a 1.5 percentage point increase of the hotel tax would bring in the needed $3.5 million. But hotel operators, like their counterparts in the car rental industry, will undoubtedly register strong objections to an increase in the hotel tax.

The best option is to institute a direct fee (or surcharge as the case may be) at the convention center itself so that users of the center help pay for its operations. This fee could be based on either a per-square foot of exhibit/meeting space utilized or a per-attendee basis. Using a conservative estimate of annual space usage of 21 million square foot days, a usage fee of 17¢ per square foot per day would raise the needed $3.5 million. Likewise, assuming a conservative assumption of 250,000 visitor days each year, a fee of $14.50 per visitor per day would be required to generate $3.5 million. Any actual usage beyond our conservative assumptions would throw off additional revenue that could be used to reduce the demands on the hotel tax revenue, freeing up funds to support activities that put heads in beds. After all, that is the underlying rationale of the hotel tax.

Either of these proposed center surcharges is preferable to creating a new tax or raising the hotel tax further. They would ensure that those who utilize the convention center help pay for its development and operation.

Given the demonstrated proclivity of the authority in charge to spend all available funds and then come back asking for more taxpayer dollars, a new tax revenue stream would almost certainly prove to be inadequate in the years ahead. Better to try another approach that requires the convention center itself to contribute to its own upkeep.

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Tune in this Monday, November 4th for a special election edition of the Allegheny Institute Report. Join Jake Haulk and special guests attorney and political commentator Heather Heidelbaugh and Professor of Political Science at Washington and Jefferson College Joseph DiSarro, as they discuss the candidates and issues that will shape this election. The Allegheny Institute Report can be heard on the first Monday of every month exclusively on 1410 KQV beginning at 7:05 p.m.

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