POLICY BRIEF

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Convention Center: Arrogant Mismanagement

The new David L. Lawrence Convention Center, a centerpiece of the Regional Destination Financing Plan (Plan B) and purported economic engine, has turned out to be a cavernous black hole into which large ransoms have disappeared. Consider that the center, originally projected to cost $267 million, is already $100 million over that mark and total outlays could reach $400 million when all is said and done. The agency that owns the center, the Sports and Exhibition Authority (SEA), is prepared to take out a $20 million loan to pay part of this year's operating deficit and complete more of the facility's bells and whistles while they are at it. That's very interesting since the operating deficit is only $2 million but is cited as the primary reason for borrowing the money.

The SEA has stated that it needs to borrow money because the General Assembly "failed" to pass legislation that would authorize Allegheny County Council to levy a new, countywide tax on car rentals. Thinking that the tax was a sure thing, the SEA approved a budget that counted on nearly $2 million in revenue from the tax. Apparently, the mayor and City Council do not have the market cornered on passing budgets that include non-existent revenues.

The SEA vice-chairman cited "failed leadership" as the reason why the tax is not in place. If it is failed leadership that he is trying to pin on someone, that person certainly won't be found in Harrisburg. After all, the state provided $149 million in capital funds for construction of the center, and approved an increase in the County's hotel/motel tax from 5 to 7 percent to cover expansion and operating costs. Unquestionably, the culpability for the center's financial problems lies squarely with the SEA.

First, the project was held up for nearly two years until funding for the two new stadiums was in place. Building the new center could have been underway by 1997 or early 1998 following the legislature's approval of the hotel tax increase and the appropriation of capital funds.

Second, they boosted the cost of the center well above the originally projected amount. That, along with more expensive-than-projected stadiums that swallowed up the Regional Asset District funds intended for the center, forced an increase in the amount of bonds backed by the hotel tax from an original $99 million to $193 million. As a result, annual debt service jumped significantly. When the projected cost was $267 million, debt service was to be $6.5 million a year. Now, it stands closer to $10 million and will rise sharply in future years. As a result of their actions, much less hotel tax revenue will be available for operations and marketing the center.

Third, SEA planners did not incorporate construction of a new hotel with the center. Since we have heard time and again how important new hotel rooms are to maximizing the center's economic benefits, it is unclear why the center and a hotel were not developed as a package. Perhaps it was a bout of overconfidence in what the center could achieve in terms of spin-off development. To be sure, proponents, including the mayor, gushed over the possible impact the center would have on hotel construction. The mayor was quoted in October of 1997 as saying that "there are a lot of people interested in building hotels" and that the improved center would attract not one, but "two new hotels". Never was any mention made that taxpayers would have to subsidize any hotel construction, or that any new tax would have to be created. Talk about poor planning.

With the significant opportunity costs in constructing the center--the removal of taxable land and structures, the possibility of using the site for other economic activity, etc.--it is doubtful that the center and the visitors it attracts will ever generate the level of tax revenues needed to justify the ever-expanding taxpayer investment.

Certainly, the state allocation for the center and the increase in the hotel tax should have been sufficient to make the center stand on its own two feet. In fact, officials of the SEA (at the time called the Public Auditorium Authority), affirmed in an official statement to the RAD board that, in regards to convention center costs:

"The Commonwealth of Pennsylvania will pay approximately 50% of the cost of expanding the David L. Lawrence Convention Center up to $149,300,000. These costs will be paid to the authority as construction progresses. When combined with the Commonwealth funds, the proceeds of the hotel tax bonds are expected to be sufficient to complete the Convention Center project".

Obviously, that statement was as erroneous as too many others that have been made regarding Plan B projects.

The convention center epitomizes the thought processes of the leaders of Pittsburgh's economic development strategy: use taxpayer dollars--preferably County or state--to build "gee whiz" structures by making outlandish promises about the economic benefits that will flow from the projects. Then, when things don't go well and promises are not kept, shift the blame to others for not doing enough or not being supportive in an effort to divert attention away from their own failures.

That tactic takes chutzpah, but in truth, it is simply disgraceful. Taxpayers deserve--and should demand--more accountability from those who have mismanaged this project so badly. Don't look for that to happen anytime soon. But do expect other attempts to pull wool over the public's eyes.

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