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Convention Center Hotel: Another Loss Leader?

Plans for funding construction of the ever-elusive convention center hotel keep popping up. Over the past couple of years numerous funding plans have been cobbled together only to evaporate under public scrutiny. Everything from using revenues from slot machines, a new tax on car rentals, and even having the Sports and Exhibition Authority (SEA) build the hotel have been advocated; thus far, none of these plans have worked.

One would think that the earlier failures would give pause to those attempting to shepherd the project along. Not so. Now comes legislation that would dedicate hotel taxes generated by a new convention center hotel to help fund its construction costs. Readers will note that this plan is akin to a tax increment finance plan whereby taxes go not to the coffers of taxing bodies, but to help pay off debt issued to get the project off of the ground.

Currently, the 7 percent hotel/motel tax revenue is allocated to four statutory purposes. Proceeds go to pay debt service on the convention center, to the Pittsburgh Convention and Visitors' Bureau to market tourism and put "heads in beds", to Allegheny County for administration costs, and to Monroeville for the Expo Mart. Anything that is left over goes to the SEA to pay for the Center's operations. Because the cost of the Center escalated over original projections, more of the hotel/motel tax money is set aside to pay debt, and thus has left the Center with operating deficits.

The proposed legislation would scrap the formula for distributing any hotel/motel tax from the new hotel to those recipients. Instead, the revenues from the new hotel would help with debt service on the convention center, if necessary, and then devote all of the remaining revenue to the SEA to pay for any capital, maintenance, or operating costs associated with a convention center hotel.

Rather than focus on ways to get public funding for a new hotel, it is time to question the premise of whether a new subsidized hotel is a good idea.

First, new hotel rooms in the vicinity of the Center have come on line in the past few years. One report puts the number of new rooms at 800 in the past three years alone. While none are specifically a “headquarters” hotel, the growth in rooms shows that developers are reacting to demand factors; whether they are a result of the convention center is debatable.

Additionally, they ought to listen to the opinions of others in the downtown hotel business. Many of them are questioning the impact an adjacent hotel will have on their ability to compete, and rightly so. A new hotel within steps of the Center will grab a large share of the convention business. With an infusion of state money (anywhere from $10 to $20 million) and the ability to funnel taxes back into the development costs, this hotel will have an unfair advantage over others in town. There is evidence to back up those fears.

A Washington Post article from April of last year documented cases where cities--including Philadelphia and Sacramento--have bent over backwards and extended favorable financial deals to hotel developers only to see other hotels suffer from subsidized competition or convention business decline despite the presence of the headquarters hotel.

Lastly, they ought to listen to the developer. Forest City is going to put up $70 million of the anticipated $100 million price tag. And their contribution was probably achieved with some hesitation. Consider that nearly a year ago at this time, the Mayor and Chief Executive came to an accord on the size and design of the hotel. Only then did Forest City up its share by $12 million to the current $70 million level. Such reluctance should be viewed as representing serious misgivings about the viability and attractiveness of the project.

If the convention center were the economic engine it was purported to be, it would have already spun off a large privately financed hotel in close proximity to the Center. According to some of the new Center's most vocal proponents, there would be at least two new convention center oriented hotels. Never was any mention made that state or local tax dollars would be required for the construction of hotels.

Nor, does it seem, that convention center proponents were aware of the fact that the over-supply of convention space in the nation--both from new venues and from expansions--would have an effect on the willingness of developers to invest money into hotel development in so called "second tier" convention markets like Pittsburgh.

Instead, the efforts to get a subsidized convention center hotel project are symptomatic of the problems with the convention center. The Center's final price tag will cost taxpayers far more than originally projected, there are problems paying for its operations, and it has promised more than it may ever deliver.

Jake Haulk, Ph.D. President **Eric Montarti, Policy Analyst**

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www.alleghenyinstitute.org

Allegheny Institute for Public Policy
305 Mt. Lebanon Blvd.* Suite 208* Pittsburgh PA 15234
Phone (412) 440-0079 * Fax (412) 440-0085
E-mail: aipp@alleghenyinstitute.org