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**In the Meeting & Event Planning Section**

**HOTs - friend or foe to convention center hotels?**

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All across America -- from Fort Worth to Seattle to Boston to Tampa back to Dallas -- city leaders are continually looking for new sources of revenue.

And most set their sights on meeting and convention money.

For those cities looking to take the next step forward, their leaders are at this very moment likely looking at how to secure headquarter hotels adjacent to their convention centers.

These hotels are seen as a catalyst to increasing convention business, or better yet, to revitalizing a decaying downtown.

The theory is that if you add a hotel next to a convention center, more events will be attracted to that city.

This ultimately means revenue for the city through the "convention multiplier syndrome," where for each event dollar spent evolves into a greater amount is ultimately circulated in that community.

However, a 500- to 1,000-room headquarter hotel is expensive. And in the current "soft" hospitality economy the private sector is not readily willing to pay construction costs. This is leaving plans for many of these hotels unrealized.

Yet despite that reluctance, local communities are still pushing for these hotels, proposing to pay for them by way of increased hotel occupancy taxes (HOTs), also known as bed taxes.

Not surprisingly, most hoteliers object to taxpayer-financed hotels.

To understand the issue, one must understand the nature of the lucrative convention business.

Competition for this business is fierce as it generates substantial tax revenue for the community, increases hospitality industry employment and serves as a springboard for future business.

In making their booking decisions, meeting and convention planners regularly analyze room rates and HOT costs in any given market. This matrix of cost benefits is provided to their clients to analyze before deciding which venue will be selected for the convention.

Any advantage that can be found will be exploited by the convention planner. For example, hotel room rates are typically subjected to state, county and city occupancy taxes. In real dollars, the total taxes per day can become significant.

In one typical Texas jurisdiction, the room rate was \$225 per night. The various taxes totaled 17 %, resulting in a final rate of \$262.94 per night, slightly above average by today's standards. On inspection, that breaks down to a state occupancy tax of \$13.50 (6

% of the room rate;) a county occupancy tax of \$3.94 (2 %;) and a city occupancy tax of \$20.25 (9 %.)

Sophisticated convention planners will compile an analysis of this added costs and use that in making recommendations to their clients. Think it doesn't happen? Even the most popular destinations can be shunned by the convention industry if the jurisdictions' HOT taxes are too high.

In 1966, New York City had a combined HOT tax of 21.5 % and, according to the International Convention Visitors Bureau, lost close to \$600 million that year in convention business. Ultimately, the HOT tax was reduced and New York has since recaptured most, if not all, of its lost convention business.

Although it may seemingly fly in the face of conventional wisdom, communities looking to use these proceeds to bolster their coffers may actually need to take a long look at drastically *reducing* their bed tax rates as a draw for new convention business.

Arguably, a reduction in HOT taxes can serve to "spur" the development of a convention hotel by the private sector and thereby reduce the debt burden to the local jurisdiction and the traveler. There is no simple solution to the complex issue of public vs. private funding of convention center hotels. But one thing is certain - corporations watch the "bottom line" very closely.

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