

Dilemma of a convention hotel: 'Special Interests' v. 'Civic Pride'

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Across America -- from Fort Worth to Seattle to Boston to Tampa back to Dallas -- city leaders continually seek new sources of revenue. And if their city does not have headquarter hotels adjacent to their convention centers, leaders are likely at this very moment looking to these hotels as a catalyst to increase convention business, or better yet, to revitalize a decaying downtown.

The theory is, that if you add hotels next to convention centers, then more events will consider coming to that city, which means revenue for the city.

Unfortunately, a 500- to 1,000-room headquarter hotel is expensive. And in a current "soft" hospitality economy, the private sector is not readily willing to pay construction costs, 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 (HOT), also known as bed taxes. And not surprisingly, most hoteliers are objecting to taxpayer-financed hotels.

To understand the issue, one must understand the nature of the lucrative convention business. It generates substantial tax revenue for the community, increases employment for those in the hospitality industry and serves as a springboard for future business. However, competition for this business is fierce. Planners regularly analyze room rates and actual HOT costs per room in any given market.

For example, jurisdictions typically add on state, city *and* county occupancy taxes to the hotel room rate. In real dollars, the taxes per day can become significant. In one jurisdiction, the room rate was \$225 per night, but the various taxes increased the rate a total of 17 percent to \$262.94 per night. On inspection, that breaks down to a state occupancy tax of \$13.50 (six percent of the room rate); a city occupancy tax of \$20.25 (nine percent); and a county occupancy tax of \$3.94 (two percent.) This is exactly what sophisticated convention planners look at when determining where their business will go.

As you can imagine, local hoteliers, car rental agencies and the like often argue that increased HOT taxes will in reality drive convention business away, thereby hurting their businesses, whether or not an event is actually in town. Simply put, these special interest groups claim that public dollars should not compete with private enterprise by funding the construction of a headquarter hotel.

On the other hand, the local municipality's agenda is one of economic survival. If a jurisdiction uses HOTs to fund a hotel, new business will come to the community, thereby creating the "convention multiplier syndrome" i.e., for each event dollar spent, a greater amount is spent in that community. And that would benefit all parties.

But putting special interest groups and the "us versus them" arguments aside for the moment, civic and business leaders should be asking themselves what's best for the community over the long haul. Will the short-term pain of building a headquarter hotel and the potential for reduced average daily rates, reduced occupancy rates and reduced REVPAR (revenue per available room) justify the long-term gain in convention business? At the end of the day, will everyone win?

Even if special interest groups and politicians can't agree on the issue of public funding for convention hotels, maybe private enterprise and local government can think "outside the box" to resolve this dilemma.

For instance, a city and private enterprise can partner to create a "quasi" joint venture whereby each puts a certain amount of cash, debt, HOTs, etc., into the deal. As partners, each would share in the rewards and risks of the venture. Another option would be for a city to donate the land, while the developer takes

out the financing to build the hotel. Some have suggested creating holding companies to own the convention hotel. The shares of stock would be sold to local hoteliers, so they could participate in the risk and rewards of the headquarter hotel and not merely sit on the sidelines complaining.

Undoubtedly, a city seeking a convention hotel has perceived a threat, whether it be from an eroding tax base or the need to revitalize a decaying downtown. If there are existing downtown hotels, then they are subject to the same threats. Maybe both sides should re-think their premises.

In the case of the cities, is there a real *need* for a new hotel or is it simply civic pride driving the issue?

If the answer is “Yes, there is a need,” then by all means the city should pursue the venture. But when it does, in addition to HOTs, the city should consider creative solutions in working with local developers by thinking outside the box to minimize additional taxes on the local hotel industry.

If the truth is that the hotel’s only real value will be measured in civic pride, the city should be responsible enough to shelve the debate and move on to more significant issues affecting the community.

On the local hoteliers’ side, will they really be hurt by the development of this convention hotel or is there an “outside chance” that maybe the hotel just might bring more visitors to the community, thereby also benefiting their hotels? However, if the hoteliers will, in all likelihood, be hurt by the development of the hotel, they have every right to oppose it or, better yet, propose a creative solution and become part of the project.

If existing hotels are likely to benefit in the long run with the development of a convention hotel, the hoteliers should embrace this as a golden opportunity for themselves and the community.

However, sometimes neither side can see through the forest. But if they could, they may see light on the other side, in the form of a creative solution to benefit all.

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