

Center of attention

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Was at the convention center consultant presser this morning, and came away with a different take than [what we're reporting here](#).

The big takeaway from the presentation is this: Not only is the hotel tax going to have to rise – and soon – but to achieve a long-term, “global, forever” solution, additional, new sources of revenue are going to have to be conjured up in the near future.

“Sources of revenue” as in, taxes. Perhaps a countywide sales tax. Perhaps a food and beverage tax. Perhaps a levy/assessment on downtown businesses.

There were some other creative ideas floated at the meeting. Lancaster Mayor Rick Gray talked about how Allentown apparently got approval from the state to retain all the state tax revenue generated within a certain section of the downtown, in order to build an arena and do some other improvements. Need to learn more about that – that would be a way to generate revenue without levying additional taxes.

And State Rep. Mike Sturla talked about a county sales tax (which, like a food and drink tax, would need to be authorized by the legislature) as a temporary measure – i.e., something to be levied for, say, 5 years, and then abolished.

The problem with a tax, of course, is that once imposed it's often difficult to repeal it.

Peter Chiccarine, a partner in the Fulton Steamboat Inn and Eden Resort & Suites, made a compelling case that the burden at this point needs to be shared – and in fact, he suggested, one of these other taxes should somehow be levied first, rather than ratcheting up the hotel tax.

But as John Kaatz of Minneapolis-based consultant Conventions Sports & Leisure noted, the hotel tax already exists; all the commissioners have to do is vote to boost it and bingo, instant source of revenue.

That revenue is needed in two to four months because in March 2013, the authority faces a fiscal cliff – the scheduled restructuring of its \$64 million debt. Negotiations will need to begin soon; if additional revenue sources aren't soon in place, the authority could see its interest rate soar. Kaatz made the point that the authority couldn't finance the project under current interest rates – it's currently paying under 6 percent, "below the market rate for this type of project risk." If it tried to issue 30-year bonds now it would be paying 8-9 percent.

So do the math: What's 9 percent interest on \$64 million in debt? Right – a whole bunch more than the authority could possibly afford to pay.

Boosting the hotel tax would "improve the credit quality," meaning the project would be deemed less of a risk because there's more money coming in. Sitting there listening, an analogy occurred to me: Boosting the hotel tax would stop the bleeding.

But in order to "cure" the "patient," more taxes from other sources will be required.

This is obviously not what countians, even those who supported the project, signed on for. That this happened so soon after opening is a function of the recession, but maybe more than that. Even at the meeting, there was disagreement over how much the room tax revenue might bring in down the line. Kaatz said that "at no time in the future will we get back to the projections used to fund the building." In other words, those "irrationally exuberant" projections from way back when? Toss them out.

Yet later, one of the heavy hitters in attendance (didn't see who it was because he was sitting directly behind me; thought it was authority board chair Kevin Fry but it wasn't) said – hey, the recession is easing, and Lancaster County has traditionally been a strong destination, it's not unreasonable that we could see room revenues increase at a 2.5 percent pace.

It's not unreasonable. But to base future projections on "not unreasonable" is a pretty terrible idea.

Now, imagine the political battles to come on this one. Hiking the hotel tax will be the first fight, but as noted, the consultants are saying that has to happen, pronto. Commissioner Scott Martin has suggested he won't vote for a hotel tax hike. I suspect commissioners Stuckey and Lehman will. This

report – and the report yet to be issued by the tourism bureau’s task force – will provide them with some political cover.

But beyond that, imagine the debate over a 1 percent local sales tax; imagine the outcry destined to accompany any suggestion that local restaurants should have to charge a 1 percent food and drink tax. It ain’t gonna be pretty, and that’s an understatement.

A few other things I learned at the meeting:

*There are about 120 hotels in the county, and only about 40 of them are “flagged,” as in corporate chains. The other 80 are smaller, locally owned – and thought to be dragging down the average daily rate.

*It was more or less admitted that the convention center isn’t generating too many room nights for hotels outside the city, and won’t. J. Mark Tobin, another of the CS&L consultants, noted that the people who book hotel rooms for conventions are looking for certain things, often “flagged” properties, along with “walkability” – i.e., you can at least walk from the hotel to the convention site. That obviously ain’t happening if your property is out on Route 30. The way Tobin explained it, planners have a checklist and if your property is missing the first few amenities on that checklist – forget it.

That said, the consultants said the convention center is obviously introducing new visitors to Lancaster, who might come back again at a later date. And it was also suggested that another luxury hotel in town, within a “walkable” distance, could do very well, benefitting from overflow.

*The convention center is already technically in default.

*The convention center, the consultants asserted, did indeed have an impact from an economic development standpoint; they counted 60 businesses that either located in “the perimeter” or expanded, and while “that’s not in direct correlation” to the convention center, it was at least part of the business owners’ calculations.

There was, in other words, some good news. But it’s dwarfed by the fiscal challenges ahead.