



Lancaster County Convention Center Authority, Executive Director  
Recommended Funding Shortfall Solution

January 19, 2012

**Recommended Solution**

I believe that the best solution for funding the shortfall faced by the Lancaster County Convention Center is the adoption of an increased hotel room guest tax. I recommend an increase of the hotel room guest tax to 5.0% from 3.9%. I believe that such an increase will be best for all the stakeholders in the Convention Center.

As discussed below, I considered several alternatives to my recommendation of an increase of the hotel room guest tax to 5.0%. I believe that my recommendation is superior to the alternatives that I considered.

**Rationale for Recommended Solution**

My rationale for recommending an increase in the hotel room guest tax is based on several pertinent factors. The first factor is my belief that neither room demand nor room rate is impacted by an increased hotel room guest tax to 5.0%. The second factor is my belief that the alternatives to the increase of the hotel room guest tax are inferior solutions that cause additional funds to flow out of Lancaster County to benefit only bondholders and provide no benefit to Lancaster County.

A modest increase in the hotel room guest tax would allow for: (1) financial stability of the convention center in the current economic context and support of its ongoing and long-term ability to be an engine for economic vitality and (2) the enhancement of the funding of the CVB that affects all hotels, attractions, and businesses in Lancaster County.

**History and Performance of the Convention Center**

It is a fact that, as a significant asset in the marketing of Lancaster County as a destination, the Lancaster County Convention Center is doing very well. It employs 172 people and sells an average of 80 event days per month. Even in the face of unprecedented and unanticipated market challenges due to the prolonged economic recession, the convention center is meeting its sales revenue goals and is on track to exceed its sales goals in 2012.

Since its opening in June of 2009, the convention center has brought more than half a million people, most of that new business, to Lancaster County – drawing an average of 15,000 attendees per month and generating a broad spectrum of economic growth including an average of 1,500 overflow hotel room nights per month. “Overflow” refers to all of the Lancaster County hotel rooms needed beyond the capacity of the 299-room Lancaster Marriott at Penn Square, which adjoins the convention center. Since the convention center’s opening, 40,000 room nights of primarily new business have been tracked through the CVB’s Passkey room tracking system, and this number represents only a portion of room nights brought to the county. If it were not for the presence of the convention center, the economic conditions for Lancaster County would have been even more challenging.

The economic impact of the convention center and the increased marketing revenue received by the CVB from the hotel room guest tax has been, and will continue to be, significant. It is imperative that we continue to keep both organizations positioned for long-term sustainability.

### **Benefit of the Hotel Room Guest Tax and Excise Tax**

For more than 10 years, the community of Lancaster County has benefited from a robust destination marketing effort under the leadership of the PA Dutch CVB (CVB). That marketing effort is funded in large part by the county's 3.9% hotel room guest tax and 1.1% excise tax.

Currently the combined tax stands at 5%. Of that 5%, 100% of the 1.1% excise tax goes to the CVB for destination marketing. The remainder, the 3.9%, is shared, with 20% going to the CVB for destination marketing and 80% to the Lancaster County Convention Center Authority to meet the publicly owned convention center's bond obligations and to supplement operational costs.

Note that neither the hotel room guest tax nor the excise tax is by any means an income on gross receipts tax. Those taxes are paid by consumers who occupy hotel rooms and are not paid by hotel owners or operators.

### **Economic Challenges**

The LCCCA must maintain the required reserves to meet its bond requirement and preserve current favorable interest rates, cover operating costs of the convention center, and create reserves for the upkeep of the convention center.

The CVB must continue to receive critical funding (its 20% of the current tax revenue equates to approximately \$900,000 a year) that it uses to market the county as a destination. (Of note, the CVB recently lost \$1 Million in annual funding that it previously received from the Commonwealth of Pennsylvania, so the current funding is all the more crucial.)

### **Ramifications of Funding Shortfall**

As an economic engine, the convention center (like the majority of convention centers) was planned to have its bond requirements and operational expenses supported by the county-wide hotel room guest tax. Because of the impact of the recession, the hotel room guest tax has been insufficient to meet funding requirements.

### **Where We Are Now**

The shortfall of hotel room guest tax funding means that an immediate solution is needed to maintain crucial positions of strength for both the convention center and the CVB in order to benefit the county overall.

We are at a critical juncture, and we must arrive at a viable solution to resolve this funding shortfall and its very serious ramifications.

### **The Default Solution**

If no action is taken, I anticipate that, as a result of a cash shortfall and in accordance with county ordinance, beginning April 2012 the bond holders of the convention center will receive 100% of the 3.9% hotel room guest tax revenue (instead of the current 80%, with the other 20% going to the CVB for destination marketing).

That provision of the county ordinance was established by the County Commissioners to facilitate the bond funding required by the public sector convention center authority. Therefore, under the current terms of the bonds, an impending action of the bond holders to divert the CVB's 20% share of the current 3.9% hotel guest room tax is expected at the end of the first quarter of 2012.

This action will result in 100% of the hotel guest room tax revenue going to the bond reserves required by the bond holders. The CVB will continue to receive 100% of the 1.1% excise tax.

However, if that occurs I believe that there will *still* be insufficient funding to meet the LCCCA's bond obligations for the following two reasons:

1. The LCCCA's interest rates on its existing bond indebtedness will increase, resulting in an increase in borrowing costs of approximately \$381,000 per year.
2. Since the \$900,000 (the 20% of the current 3.9% hotel room guest tax) per year that currently goes to fund the CVB's destination marketing would be diverted away from that purpose, and since the CVB has only a finite amount of reserve (estimated to be at most three years), the capability to market Lancaster County as a tourism and meeting destination will be severely hampered resulting in a likely decline in tourism in Lancaster County.

### **My Recommended Solution**

Lancaster County could increase its hotel room guest tax from 3.9% to 5% so that the 80% of that revenue that goes to the bond reserves (as required by the LCCCA bond documents) would be enough to satisfy its obligations, and the CVB would continue to receive its 20% of the tax to achieve and further strengthen its crucial mission of marketing Lancaster County.

A hotel room guest tax increase of 1.1% (approximately one dollar per average hotel room night) would benefit (1) the convention center **and** (2) the CVB's destination marketing — the primary engine for attracting visitors to Lancaster County — **and** (3) the broad spectrum of hotels and businesses across the county affected by tourism.

The hotel room guest tax is paid by consumers, not by hotel owners. It is not an income or gross receipts tax. It is a tax paid by hotel guests. The proposed 1.1% increase would equal about one dollar on the average county hotel room rate of \$90. The new rate would still be absolutely in line with regional and metropolitan markets.

I am confident that such a small hotel room guest tax adjustment would have no impact on demand for hotel rooms in Lancaster County.

The overall result of this solution is that more money will flow into the County, in the form of the increased hotel room guest tax, and that the money will be available to fund the debt and operation needs of the Convention Center and to provide the CVB with the funds necessary for it to promote Lancaster County as a destination market. This solution would also avoid the incurrence of increased interest expense under the county ordinance mechanism currently in place.

### **Call for Action**

In fact I have looked at several different alternatives in conjunction with our lenders and bondholders before concluding that the recommended option was the most viable. Other options could be explored over time but the tax increase and "Event Attraction Plan" is needed urgently and unequivocally as a key solution to keep the convention center in a sustainable and strong position

I recognize the PDCVB has established a taskforce to review this matter as it relates to their operation, with the goal of forwarding a solution. It is my hope their efforts are expedited to avoid any delay in their funding, and that their solution be congruent with a timely sustainable solution for the LCCC.

Time is of the essence and I ask all constituents and stakeholders to work together to gather the facts and consider the solution that will be best for Lancaster County.

### **About the Lancaster County Convention Center Authority**

*The Lancaster County Convention Center is a publicly owned entity under the direction of the Lancaster County Convention Center Authority. The Lancaster County Convention Center Authority is established under the Municipal Authority Act of 1945 and the Third-Class County Convention Center Authority Act.*

*The Convention Center Authority is run by a seven-member volunteer board, which is appointed by city and county officials. The LCCCA board was charged with developing a unique and inviting convention/exhibition venue with an integrated privately owned first-class lodging facility.*

#### **LANCASTER COUNTY CONVENTION CENTER AUTHORITY MISSION**

*Provide an inviting, well managed and well maintained Lancaster County Convention Center facility for guests.*

#### **OUTCOME:**

*Lancaster County Convention Center contributes to the economic development of the City of Lancaster and Lancaster County.*

#### **STRATEGIC PRIORITIES**

- *Assure LCCCA's long-term financial sustainability*
- *Cultivate strategic working relationships*
- *Inform and educate the public regarding the LCCCA's structure and operations*
- *Inform and educate the public regarding the LCCCA's finances*
- *Advocate for retaining existing tourism attractions, lodging facilities, and events*
- *Advocate for new and more tourism attractions, lodging facilities, and events*
- *Attract Priority One and Priority Two events*
  - *Priority One: 500 room nights on peak nights*
  - *Priority Two: 350 room nights on peak nights*
- *Advocate for implementation of county wide conference, service, and event fees*
- *Advocate for necessary infrastructure to support the Convention Center*
- *Maintain the development potential of the LCCCA's historic properties*
- *Appropriately develop the LCCCA's historic properties*

## KEY PERFORMANCE INDICATORS

- *Meet annual financial budgets*
- *Meet bond financing requirements*
- *Survey response indicates greater understanding of the LCCCA's structure and operations*
- *Survey response indicates greater understanding of the LCCCA's finances*
- *Number of Priority One and Priority Two events*
- *Event satisfaction survey results*

Feedback or questions about this position statement may be directed to:

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