

- SUBJECT:** Funding for convention center hotel facilities in certain municipalities
- COMMITTEE:** Economic Development — committee substitute recommended
- VOTE:** 4 ayes — J. Keffer, Homer, Hughes, Rodriguez
1 nay — Wong
2 absent — Isett, Thompson
- WITNESSES:** For — Greg Dickens, Hilton Hotels Corporation; Jerri Dolan, Marriott International; Greg Elam, Dallas Convention and Visitors Bureau; E. Larry Fonts, Central Dallas Association; Becky Haskin, City of Fort Worth; Thomas Hazinski, Self; Donald Hill, City of Dallas; Dale Lockett, City of San Antonio; Mayor Laura Miller, City of Dallas; Maxine Thornton Reese, City of Dallas, Chris Rose, Marriott International; Mary Suhm

Against — Tara Ross, Dallas Taxpayers Rights Coalition; Peggy Venable, Citizens for a Sound Economy

On — Bruce Walker, Source Strategies, Inc.; Jordy Tollett
- BACKGROUND:** Tax Code, sec. 351.102(a) authorizes a municipality with a population of 1.5 million or more (currently only Houston) to use local hotel occupancy tax revenue to pay for bonds issued to fund the construction of a convention center hotel or the renovation of an historic hotel located within one mile of a convention center owned by the municipality.

Under sec. 1504.001 Government Code, a municipality of 1.5 million or more may construct, acquire, lease, or operate a hotel that is within 1,000 feet of a convention center owned by the municipality, or an historic hotel located within one mile of the convention center.
- DIGEST:** CSHB 262 would allow a municipality with a population of 550,000 or more to pledge local hotel occupancy tax revenue for bonds issued to fund the construction of a convention center hotel or the renovation of an historic hotel located within one mile of a convention center owned by the municipality.

The bill would also allow a municipality of 550,000 or more to construct, acquire, lease, or operate a hotel that was within 1,000 feet of a convention center owned by the municipality, or an historic hotel located within one mile of the convention center.

This bill would take immediate effect if finally passed by a two-thirds record vote of the membership of each house. Otherwise, it would take effect September 1, 2003.

**SUPPORTERS
SAY:**

CSHB 262 would enable the cities of Dallas, San Antonio, Fort Worth, Austin, and El Paso to benefit from a funding structure for a convention center headquarters hotel that already is proving successful for Houston. Recognizing importance of large conventions to the state and local economies, the Legislature in 1993 authorized Houston to dedicate hotel occupancy tax revenue to the construction and operation of a hotel adjacent to its downtown convention center. The hotel in Houston has not even opened, yet the city already has booked several new conventions in anticipation of its opening. CSHB 262 would lead to job and tax revenue for the entire state by allowing other cities to expand hotel facilities needed to attract the largest and most lucrative convention contracts to Texas.

Although Dallas' newly renovated convention center is state-of-the-art, the largest associations in the nation will not consider the city as a site without a headquarters hotel that is *directly adjacent* to the convention center, providing attendees with the utmost comfort and convenience. The city of Dallas has identified 32 major conventions that will not hold a convention in Dallas due to the lack of a headquarters hotel. A study commissioned by the city found that 39 of 59 event planners who did not choose Dallas as a convention site would have been more inclined to do so if a headquarters hotel had been present.

The same study projects that a headquarters hotel could attract an estimated 10 new events and 142,000 new attendees each year, resulting in up to \$300 million dollars in new direct and indirect spending, as well as 4,000 new jobs annually. Unlike a misleading study released by an interest group that focused simply on large hotels, the Dallas study specifically analyzed the economic impact of headquarters hotels, a unique type of development that has the ability to stimulate economic activity. By authorizing projects that would

attract major conventions to the state, CSHB 262 would generate economic activity that would ripple throughout a local economy, creating new tax revenue for the entire state.

The large capital expenditure required to fund construction of a headquarters hotel precludes a private interest from undertaking such a project, even though the public benefit would outweigh the costs. Given the low interest rates of tax-exempt bonds, public involvement would make such a project feasible. By generating new tax revenue, increased occupancy at other hotels, jobs, and downtown revitalization, a city would have a clear rationale for funding a headquarters hotel. The Legislative Budget Board (LBB) estimates that construction of a headquarters hotel would pay for itself, since tax revenue from new demand would more than offset the cost of bonds.

Many hotels near the Dallas Convention Center support the headquarters hotel project, since they are aware of the spill-over benefit they would see from the new facility. Although one might think that a new hotel would compete with existing facilities, a headquarters hotel is unique since it generates new demand instead of subdividing the existing market. The proposed headquarters hotel would house 1,200 rooms, only a fraction of the space needed to accommodate the tens of thousands visitors who would attend any one of the major conventions that Dallas currently is unable to attract. Those who would not stay in the headquarters hotel could stay in hotels that were near the facility, widely dispersing the economic impact of new conventions.

Dallas likely would contract with a private hotel company to manage the facility and would not be in the hotel management business itself. After the bonds to construct the hotel were paid, the city could sell the facility to a private firm and continue to benefit from the project.

The convention center market is sufficiently large and dynamic that a headquarters hotel in Dallas or another Texas city would not significantly compete with the one in Houston. Conventions often rotate locations, and a convention considering Dallas one year could end up in Houston a few years later. CSHB 262 simply would expand the opportunity for economic development to multiple communities.

A headquarters hotel for Dallas' convention center would be key to revitalization plans that could reshape the entire downtown area. A DART rail line stops near the convention center site, and the project has been integrated into a plan for downtown that includes a 6,000-acre public park and new business and residential facilities throughout the area. Immediate action is needed, however, since the window for the city to purchase one of two available sites near the convention center is closing rapidly.

CSHB 262 is a local control issue that would allow Dallas citizens and officials to evaluate the data and determine the best course of action for the city. The city council would have to approve of any project authorized under this bill, and those officials have had the time to study the information and come to a decision about the economic feasibility of the headquarters hotel project.

**OPPONENTS
SAY:**

CSHB 262 amounts to corporate welfare that would have the city of Dallas embark on a project that the private sector already has deemed too risky. This bill would authorize the use of public funds to construct a headquarters hotel that no private company is willing to finance, an especially problematic proposition in a time of state budget deficits. If market demand for a headquarters hotel existed, the private sector already would have pursued it, although it is understandable why businesses might hold out in hopes that the Legislature might allow taxpayers to take the risk for them.

Hotels do not generate demand, and it is fanciful to suggest otherwise. Conventions are drawn to cities for the quality of their attractions, and location of a hotel next to a convention center is at most a minor consideration. Dallas should work on making itself more attractive to conventioners, at which point private investment would recognize the expanded profit potential and respond with new hotel construction.

CSHB 262 would allow Dallas to spend public funds to compete against hotels that already exist. Although there might be some spill-over effect with the largest conventions, the capacity for many of the smaller events hosted at the convention center could entirely be absorbed by the new hotel. While some of the major hotels in downtown Dallas have publicly supported the project, these businesses are bidding for the headquarters management contract that would enable them to profit from public funds while remaining

isolated from any business risk. Some independent hotels in Dallas that are not pursuing the management contract remain opposed to this project since it could divert business away from them.

This bill would authorize a new and untested economic development strategy that could fall short of the optimistic projections upon which it is based. As cities across the nation construct headquarters hotels in the rush to respond to the unreasonable demands of convention planners, the economic impact of each new facility is reduced. Significant increases in demand from headquarters hotels primarily have occurred in communities that pursued this project before the market became saturated.

CSHB 262 would authorize an economically misleading and problematic undertaking that likely would redistribute expenditures and tax revenue in a new location, rather than generate new activity outright. There is no shortage of hotel space in downtown Dallas, and a headquarters hotel would add 1,200 rooms to a market in which the current hotel occupancy is just over 50 percent. As tax revenue for the new hotel would be dedicated to debt service, the state could witness a loss of revenue if LBB's projections turned out to be incorrect. A headquarters hotel could drain business from Dallas hotels that already are struggling, hurting local business and undermining downtown renovation efforts.

The economic benefit for the city of Dallas has been overstated. The jobs that would be created with a headquarters hotel largely would be low-wage hotel service jobs, as the management company transferred skilled workers from outside of the area. Further, a study commissioned by an independent watchdog organization found that a publicly funded hotel in Dallas could cost downtown hotels \$175 million over the first five years of operation. The data simply is too ambiguous to justify such an endeavor.

NOTES:

The committee substitute differs from the bill as introduced by lowering the population threshold of eligible cities from 1.18 million to 550,000.

The companion bill, SB 154 by West, was referred to Senate Finance on January 30.