Publicly Owned Convention Hotels: A looming fiscal crisis for US municipalities

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The growing role that tourism and entertainment strategies played in urban renewal in the postindustrial era is well documented by Zimbalist (2016), Lieberman and Esgate (2002). Pearce (2001), Law (1993), and others. Tourism is an import that grows local economies by bringing money into the community from outside of the region. Morgan & Clondliffee (2006) denote many benefits of large convention hotels. Among them are increased taxes and fees, increased employment, improved quality-of-life for residents, increased property values in the immediate vicinity, and the creation of a critical amenity for marketing a publicly owned convention center (Hazinski, 2004). Given these benefits, it is not surprising that communities throughout the US have pursued meeting and convention trade by encouraging the development of convention hotels.

Large full-service convention hotels are expensive to build and difficult to finance. Nelson and DeRoos (2017) found that most of them built in the United States require substantial tax breaks, grants, and other public subsidies. Their research identified 30 communities where subsidies were not enough to attract desired hotel development, so government agencies took on the role of developing and owning these hotels using public dollars. The financial performance of most of these assets was on life support even before the Covid pandemic shutdown meetings and conventions leaving the industry severely crippled.

It is widely recognized that large convention hotels are among the lodging assets hit hardest by the global Covid-19 pandemic. Furthermore, they are likely to be the last industry segment to recover with many of them facing the prospect of default (King, 2021). What is not as widely understood is the extent to which state and municipal taxpayers are committed to these distressed assets.

This study documents the alarming size of public investments in lodging assets throughout the United States. It goes on to look at case studies derived from the 30 hotels in the United States developed entirely with public money. These publicly owned assets are of particular concern because they expose taxpayers to ongoing operating risk in an industry that was challenging before Covid-19 and now faces a daunting road to recovery. It argues that, while the public sector can benefit from hotel development, these projects are risky ventures that should be carefully scrutinized before committing taxpayer dollars to them. It further delineates the added, some might say reckless, exposure that communities have with hotels that are not just given subsidies, but owned outright by public agencies.

In at least two cases, Phoenix and Trenton, ongoing operating losses for city owned hotels resulted in the communities selling the assets at tens of millions less than was still owed on them and this was before the Covid-19 pandemic shutdown the meetings and convention industry in 2020 leaving it severely crippled (Boehm, 2018). The list of municipalities whose investments in convention hotels are in jeopardy is long and diverse. It raises many questions about public ownership of hotels.

This paper examines public investments in convention hotels in light of the devastating impacts of Covid-19 on the meeting and convention industry. It goes on to look at the scope and types of assets owned by U.S. municipalities, why communities get into the convention hotel business, and suggests policies for better decision-making in light of the looming financial crises many of these assets face. The paper delves into case studies of municipally owned hotels and synthesizes them to provide lessons learned. In addition to Phoenix and Trenton, the cases examined include hotels in Omaha, Baltimore, Cleveland, Columbus, Schaumburg, and more. Background information includes 1) why so many communities got into the business of hotel ownership and 2) mechanisms governments use to incentivize, and in some cases entirely fund, hotel development.

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