The Downtown Lancaster Hotel and Convention Center Project
What's the Risk?
March 17, 2006

Contents

If the hotel and convention center project doesn't succeed, will city and county residents have to share any of the costs?

Yes, City and County residents share some risk for the project because of back-up guarantees the City and County have made. However, the chances of local citizens seeing tax increases because of this project are very, very slim. The project would have to fail completely *and* the entire Lancaster County tourism industry would have to drop to levels not experienced in decades *and* the private sector most likely would have lost $10 million and control of the hotel business before there would be any material impact on local citizens.

When people hear this information they frequently say, "That's too simple to be true. I thought it was more complicated than that." It's not. *Here are the **facts**:*

Is it worth the risk to City and County residents?

You decide. Make these assumptions: the tourism industry in Lancaster County collapses on the day the project's doors open. Not a single patron uses the convention center or the Lancaster Marriott at Penn Square. There are *no* meetings, *no* weddings, *no* reunions, *no* conventions, *no* overnight stays, *no* jobs, *no* new businesses. What's the bottom line?

In the *worst-case* scenario, City residents would be responsible for about $24.44 per year per person. County residents outside the City would pay about $2.46 each year per person. By contrast, the project is projected to generate $42 million per year for the local economy, after an initial $150 million infusion during construction.

What's the potential reward for taking these risks?

In exchange for these reasonable risks, the project will return the Watt & Shand property to productive use, create 500-600 construction jobs and 200 - 300 permanent jobs at the hotel and convention center *alone.* It will generate guaranteed and performance-based fees in lieu of taxes from the hotel. It will serve as the catalyst for countless other businesses and jobs that will increase tax revenue for Lancaster City, Lancaster County and the School District of Lancaster. It will generate $150 million during construction and $42 million per year during operation for the local economy. It will increase Lancaster County tourism by approximately 147,500 visitors every year.

How did you calculate the risk?

First, recall how the project is funded. There are four sources: hotel tax revenues collected from visitors; state grants; private equity from Penn Square Partners; and the Penn Square Partners' lease obligations. ***Neither Lancaster City nor Lancaster County has money directly invested in this project.*** The City and County *are* providing back-up guarantees on bonds that will help to build the project. Here's a summary:

- The **City** has guaranteed a $12 million bond to be issued by the Redevelopment Authority, which is to be paid back by the *State* using the increased sales taxes generated by the project. The Lancaster Marriott at Penn Square and the Lancaster County Convention Center *both* would have to collapse in order for the City guarantee to be used. *Worst-case potential annual cost to City residents: $1.1 million per year for 20 years, including principal and interest.*[i] *Based on a population of 55,182*[ii] *people, that's about $19.93 per person per year.*

- The **City** also has a limited guarantee that totals an estimated *average* of $113,000 per year for 20 years.[iii] It would be called upon *only if* the courts determine that the Redevelopment Authority must pay real estate taxes on the Watt & Shand property *and* RACL has insufficient funds from three sources to pay these taxes:

    - Lease payments from Penn Square Partners that are equal to the principal and interest of the Redevelopment Authority's bond[iv];
    - A voluntary, guaranteed additional payment of $200,000 per year that Penn Square Partners will make to the Redevelopment Authority (essentially a Payment in Lieu of Taxes or PILOT payment); and
    - Performance-based payments: Penn Square Partners will share with the Redevelopment Authority 30% of its profits above a 12% rate of return.

Worst-case potential annual cost to City residents: about $2.05 per year.

- The **County** has guaranteed *one-half* of $40 million in a bond issued by the Lancaster County Convention Center Authority that will be used for construction. It will be repaid from hotel-tax revenues, which are more than sufficient to repay the debt — unless the entire County tourism industry were to *decrease* 29% by 2010 (the first full year of the project's operations), thus reducing hotel room-tax revenue by more than $1 million per year[v]. *Worst-case potential annual cost to County residents: $1.2 million per year for 34 years, including principal and interest.*[vi] *For 487,332*[vii] *County residents, that's about $2.46 per year or $9.84 for a family of four,*[viii] *less than the $10 average cost of a pizza.*[ix]

SUMMARY

Type of Guarantee	Worst-Case Cost to a County Resident Per Year	Worst-Case Cost to a City Resident Per Year
City's guarantee of $12 million bond: $1.1 million per year ÷ 55,182 city residents = $19.93/year	0	$19.93
City's partial guarantee of $24 million bond: $113,000 per year ÷ 55,182 city residents = $2.05 per year	0	$ 2.05
County's guarantee of one-half of $40 million bond: $1.2 million per year ÷ 487,332 County residents = $2.46/year	$ 2.46	$ 2.46
Total	**$ 2.46**	**$24.44**

SOURCES

[i] Thomas K. Beckett, financial advisor for the Lancaster County Convention Center Authority

[ii] July 2004 population of Lancaster City PA http://www.city-data.com/city/Lancaster-Pennsylvania.html

[iii] Estimated by Mark C. Fitzgerald, President and Chief Operating Officer, High Associates, Ltd. Assumes estimated tax-assessed values of the hotel property, County and School District tax millage rates and resulting annual taxes, all of which increase during the 20-year life of the bond. City taxes were not included in the calculation, based on the assumption that the City would not assess and then collect a tax on itself. From this total, Penn Square Partners' annual additional payments of $200,000 and projected profit-sharing payments are subtracted. The resulting difference *averages* $113,000 per year over the life of the bond.

[iv] Penn Square Partners is obligated to pay lease payments for 20 years. The Redevelopment Authority, in turn, will use those payments to pay back the Redevelopment Authority's $24 million construction bond, called a Hotel Lease Revenue Bond.

[v] Thomas K. Beckett, financial advisor for the Lancaster County Convention Center Authority

[vi] Thomas K. Beckett, financial advisor for the Lancaster County Convention Center Authority

[vii] 2004 population of Lancaster County PA http://quickfacts.census.gov/qfd/states/42/42071.html

[viii] Thomas K. Beckett, financial advisor for the Lancaster County Convention Center Authority

[ix] http://www.pizzamarketplace.com/research_13286_46.htm