

Memorandum

To: Onondaga County Industrial Development Agency

From: Sarah Argersinger

Date: 6 May 2016

Subject: Economic Development Thru Tax Credits (Destiny USA Hotel)

In many struggling American cities, the term “economic development” is a buzzword, a party platform, and a way of life. It encompasses peoples’ hopes and dreams for a stronger economy or more jobs. Syracuse, New York has attempted to put itself on the map and spur economic development with the building of the Destiny USA mall.

History of Destiny USA

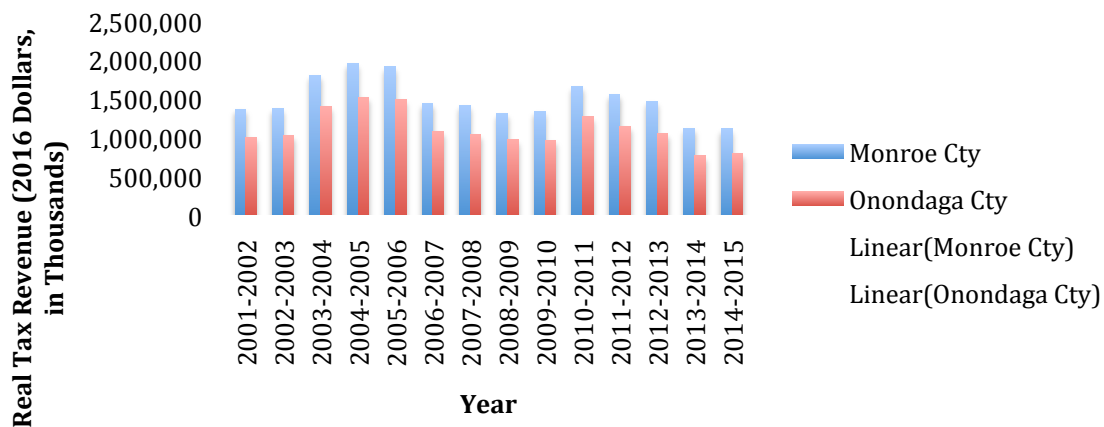
Pyramid Companies first began an agreement with the City of Syracuse in 1990 regarding the redevelopment of previously industrial land. The city agreed to tax-increment financing in order to encourage the development and improvement of nearly 800 acres of land in the Lakefront and Franklin Square area (“Evaluation,” 2). Under this agreement, any new taxes that would be generated by the Destiny USA project would be used by the City of Syracuse to provide public improvements in the area near the redevelopment. This was done in order to encourage the redevelopment and repurposing of the industrial land while protecting Pyramid Companies from the risk of neighborhood deterioration due to poor infrastructure.

Tax Breaks and Economic Development

According to the original deal with the Syracuse Industrial Development Agency (SIDA), Destiny USA is entitled to receive 30-years worth of property tax exemptions, \$56.1 million in tax credits for the Brownfield Cleanup Program, and \$70 million in tax reimbursements from the Empire Zone (Moriarty 1). In return for all of the tax breaks, Pyramid Companies arranged to give payments in lieu of taxes (PILOTS) to the City of Syracuse. These payments, under the tax-increment financing agreement, have been used for infrastructure improvements in the area, including the rebuilding of the Hiawatha Bridge over Onondaga Creek. These improvements have had a positive impact on the community overall and are evidence of at least one benefit of the Destiny USA project. An additional predicted benefit of the project was an increase in sales tax revenue. The property tax exemptions were given under the assumption that the creation of Destiny USA would have a positive impact on sales tax revenue in the city and county. Decision makers believed that the sales tax revenue would be enough to make up for any money lost from the property tax exemption. The chart below shows sales tax collections for segments of the retail trade industry in Onondaga County and Monroe County from 2001 to 2015

(DTF).¹ Monroe County is used as a comparison against which to examine the trend in sales tax revenue in Onondaga County during the time of the Destiny USA expansion. The expansion of Destiny USA from 2011-2013 shows no significant increases in the share of sales tax revenue for the county, and the trend does not differ from that in Monroe County. Based on the data available on sales tax revenue by industry from the NYS Department of Taxation and Finance, Destiny USA has not appeared to have the great sales tax benefit predicted by decision makers.²

Sales Tax Revenue



Destiny USA Hotel

Recently, there has been a lot of discussion in the media about giving property tax exemptions to Destiny USA for the building of a new hotel across the street from the mall. In 2014, the mall requested a 20-year property tax exemption for the proposed hotel. This tax exemption would have amounted to around \$20 million dollars (Moriarty 2). The original plan was to build a \$75 million, 255-room hotel. Two years later, Destiny has reapplied to the Onondaga County Industrial Development Agency (OCIDA) for a 12-year tax exemption worth \$6.84 million (Moriarty 2). The proposed tax exemptions would essentially subsidize the hotel for a period of 12 years because of the community benefit gained from the economic development. Destiny’s attorney Robert Smith has claimed that the hotel project will support 225 construction jobs and create 74 permanent jobs (Moriarty 2).

Mayor Stephanie Miner has publicly criticized the OCIDA’s consideration of the tax exemptions, stating that Destiny USA has already received 30-years worth of exemptions. Her concern is certainly valid, especially considering the fact that COR

¹ Sales tax revenues for both Monroe and Onondaga Counties are reported in thousands of dollars and are adjusted for inflation. The sales tax revenue totals for each year are a sum of tax revenues from sales of electronics and appliances, clothing, general merchandise, and miscellaneous retail. I have chosen not to report the aggregate totals for retail trade sales tax revenue because it is not available for the years 2013-2015.

² See Appendices A & B for a breakdown of the sales tax revenue by industry.

Development recently received 15-years worth of tax breaks worth \$44 million in return for their work on the Syracuse Inner Harbor development (Moriarty 2). Part of COR's development plan was to build a hotel on the inner harbor, which is located about 2 blocks away from Destiny USA. This calls into question whether there is actually any need for a Destiny USA hotel from an economic development perspective.

Evaluating the Hotel PILOT Agreement

In order for a PILOT agreement between Destiny USA and the OCIDA to make sense, the Destiny USA hotel would need to be evaluated based on the following questions:

1. Will the jobs created by the hotel be a significant boon to the economy?
2. Is demand for lodging high enough in Syracuse that it would merit the increased supply?

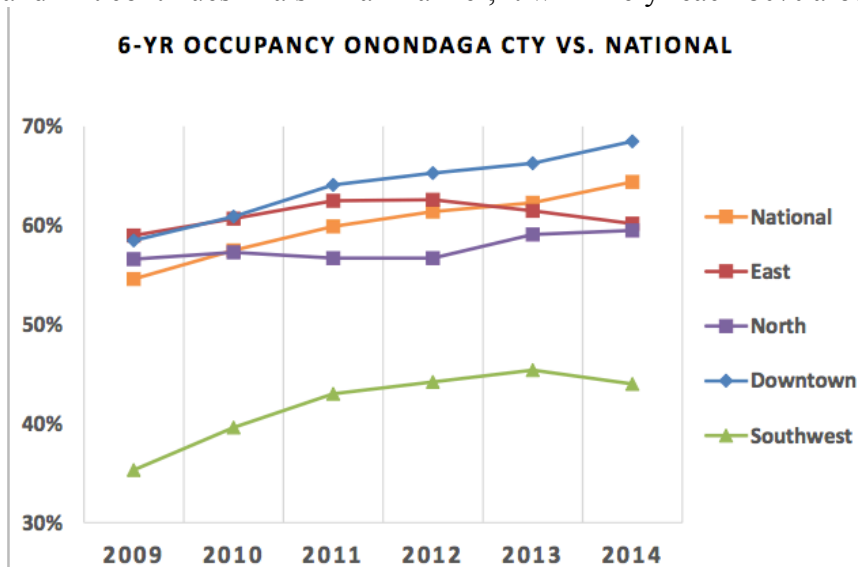
One of the other major issues surrounding the Destiny USA economic development discussion is whether or not the jobs created by the construction of the hotel would be local or would be sourced elsewhere. Both the Urban Jobs Task Force and Mayor Miner criticized COR Development's tax breaks for the Inner Harbor project because the company was not required to commit to hiring city residents. If workers are brought in from elsewhere, an economic development project does little to improve the employment status of people living in the affected area. Destiny USA has responded to this concern by committing that at least 50% of its permanent hotel employees will be city residents; additionally, the developer has agreed to pay \$200,000 to the OCIDA for workforce and economic development initiatives if it fails to meet the threshold (Moriarty 2). Destiny has also pledged that at least 15% of the contractors hired for construction of the hotel will be minority- and women-owned businesses, and if the developer should fail to meet the benchmark, they will pay OCIDA \$75,000 (Moriarty 2). These may have desirable benefits for the community, but the consequences of failing to meet the benchmarks are not sufficient enough punishment to make up for the benefits Destiny would gain from property tax exemptions.

While Destiny USA may have little reason to financially uphold its hiring benchmarks—\$275,000 is a small price to pay when you stand to benefit by \$6.84 million over all—there may be other reasons for OCIDA to consider when deciding whether or not to accept the PILOT agreement. The current Onondaga County lodging market supply and demand plays a large role in determining the need and desire for an additional hotel. The table below, from a report to Visit Syracuse by Young Strategies Inc., shows the number of hotel and motel rooms in Onondaga County, broken down into four areas (Young Strategies, 3). These 76 hotels and motels were actively collecting the local occupancy tax as of June 2015. Since June, there have been two major hotel projects under construction in Syracuse: COR's hotel at the Inner Harbor and the Hotel Syracuse restoration now known as the Marriott Downtown. The development of the former will add 134 rooms to the total, and the latter will add 266, bringing the total Onondaga County room inventory to 6,983,

or 1,511 rooms in the Downtown area alone.

AREA	EAST	NORTH	DOWNTOWN	SOUTHWEST	TOTAL
OVERALL INVENTORY	39.4%	32.0%	16.9%	11.7%	100.0%
Total # of rooms	2,591	2,106	1,111	775	6,583
Total # of properties	24	25	9	18	76

The chart below shows the 6-year trend in occupancy rate for the four areas of Onondaga County compared to the national average (Young Strategies, 7). The Downtown area has experienced a similar, but slightly higher, trend in growth compared to the national average. While this is a positive sign, occupancy was still below 70% as of 2014, and if it continues in a similar manner, it will likely reach 80% around 2019.



Source: STR 6-YR Trend Reports - Onondaga County, NY

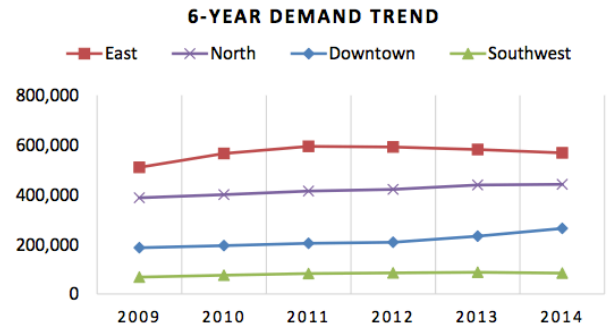
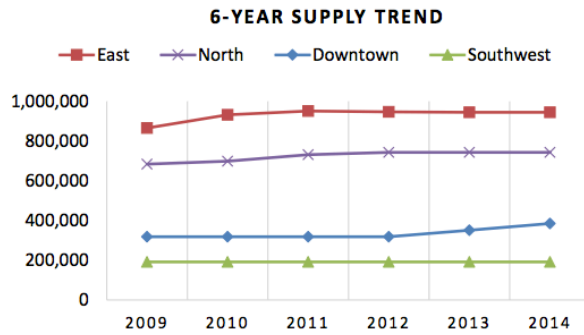
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The 6-year demand trend in the county has stayed relatively constant. The tables and graphs below show both supply and demand trends for Onondaga County (Young Strategies, 12). While there is a slight upward movement in both supply and demand trends for the Downtown area, supply is still outpacing demand enough in Syracuse where there

is not an immediately pressing need for new hotels, especially new, subsidized hotels.

Supply	East	North	Downtown	Southwest
2009	866,096	684,539	319,010	191,990
2010	932,151	698,975	319,010	191,990
2011	951,721	732,310	318,765	191,990
2012	946,929	743,140	318,645	191,990
2013	945,103	743,140	351,765	191,990
2014	944,985	743,140	385,415	191,990

Demand	East	North	Downtown	Southwest
2009	510,581	387,291	186,609	67,841
2010	565,780	400,397	194,436	75,965
2011	594,739	415,036	204,206	82,572
2012	592,473	421,244	208,044	84,945
2013	581,697	439,098	233,120	87,148
2014	568,909	442,012	264,081	84,399



Source: STR 6-YR Trend Reports – Onondaga County, NY

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In fact, hoteliers in Onondaga County participated in a survey conducted by Young Strategies Inc. and expressed the major shifts and changes in trends of overnight room sales.³ Two comments in particular address the concept that there is currently a flooded supply of hotel rooms in the market. One hotelier said, “Too much supply with no new demand generators entering the market” (Young Strategies, 5). Another commented, “Because of so many new builds in the area unless the whole area is full, us being older have less rooms” (Young Strategies, 5). Young Strategies Inc. even recommended to the Onondaga County hotel industry that they: “Promote additional attractions such as museums, sports teams, nearby ski resorts, events and golf in the area. Give people a reason to stay other than Destiny and Turning Stone” (Young Strategies, 6). These remarks indicate that perhaps Destiny USA is not as strong of a draw for tourism as everyone expected, and it certainly won’t drive demand in an oversaturated hotel supply market.

Conclusion

It would not be a wise investment for OCIDA to agree to the terms of the Destiny USA hotel PILOT agreement. They face little incentives to live up to the promise of local jobs, and there is already sufficient lodging supply in the Downtown area to more than accommodate the current market demand. Additionally, the sales tax revenue from the mall has not been sufficient enough to make up for the tax exemptions Destiny has already received through PILOT agreements. From an economic development perspective, the Onondaga County Industrial Development Agency should not approve property-tax exemptions for the construction of a hotel because the costs to government are greater than the perceived benefits gained.

³ See Appendix C for a table on survey response rates and Appendix D for a list of verbatim responses to major shifts in room night sales.

Appendix A: Onondaga County Retail Sales Tax Revenue (NYS DTF)

*tax revenue reported in 1000s of dollars

**real tax revenue is inflation adjusted in 2016 dollars

	Retail Trade Total		Electronics & Appliances Clothing		General	Miscellaneous Retail	Total
	Nominal Tax	Real Tax	Real Tax	Real Tax	e	Real Tax	Real Tax
	Revenue	Revenue	Revenue	Revenue	Revenue	Revenue	Revenue
2001-2002	2,935,245	3,949,016	176,510	100,232	528,336	198,520	1,003,598
2002-2003	3,038,165	4,021,591	174,198	101,417	555,197	192,541	1,023,353
2003-2004	3,514,529	4,548,488	94,975	302,026	814,602	181,854	1,393,457
2004-2005	3,703,238	4,668,393	100,614	390,030	838,841	186,595	1,516,080
2005-2006	3,657,631	4,459,800	110,826	373,428	824,511	184,775	1,493,540
2006-2007	2,991,837	3,533,989	93,414	153,027	632,412	192,567	1,071,420
2007-2008	3,034,439	3,485,049	82,380	127,293	627,256	193,483	1,030,412
2008-2009	2,955,095	3,268,430	61,247	112,168	616,848	181,592	971,855
2009-2010	2,901,963	3,221,124	123,149	116,108	544,081	178,043	961,381
2010-2011	3,347,274	3,655,451	137,669	229,830	586,341	309,895	1,263,735
2011-2012	3,344,709	3,540,881	126,123	190,081	530,330	292,158	1,138,692
2012-2013	3,299,996	3,422,714	117,639	157,680	497,824	281,934	1,055,077
2013-2014			110,404	43,970	474,842	131,856	761,072
2014-2015			108,034	48,656	487,838	146,656	791,184

Appendix B: Monroe County Retail Sales Tax Revenue (NYS DTF)

*tax revenue reported in 1000s of dollars

**real tax revenue is inflation adjusted in 2016 dollars

	Inflation	Retail Trade Total		Electronics & Appliances		Clothing		General Merchandise		Miscellaneous Retail		Total
		Nominal Tax Revenue	Real Tax Revenue	Nominal Tax Revenue	Real Tax Revenue	Nominal Tax Revenue	Real Tax Revenue	Nominal Tax Revenue	Real Tax Revenue	Nominal Tax Revenue	Real Tax Revenue	Real Tax Revenue
2001-2002	34.50%	4,138,167	5,567,401	213,731	287,549	106,075	142,711	504,426	678,644	186,127	250,411	1,359,315
2002-2003	32.40%	4,226,470	5,594,540	210,326	278,407	103,162	136,555	546,313	723,150	174,484	230,963	1,369,075
2003-2004	29.40%	4,773,893	6,178,352	161,993	209,651	252,125	326,299	803,796	1,040,269	173,816	224,952	1,801,171
2004-2005	26.10%	5,028,384	6,338,905	168,857	212,865	330,150	416,195	861,100	1,085,524	190,331	239,936	1,954,520
2005-2006	21.90%	4,949,864	6,035,438	166,991	203,614	346,957	423,049	854,982	1,042,491	196,744	239,893	1,909,047
2006-2007	18.10%	4,238,548	5,006,617	171,646	202,750	152,686	180,354	689,694	814,674	204,451	241,500	1,439,278
2007-2008	14.80%	4,304,640	4,943,873	180,957	207,829	130,464	149,838	697,849	801,479	220,455	253,192	1,412,338
2008-2009	10.60%	4,180,371	4,623,624	132,570	146,627	119,935	132,652	714,141	789,863	220,302	243,661	1,312,803
2009-2010	11.00%	4,172,969	4,631,916	205,159	227,723	119,421	132,555	654,982	727,018	221,614	245,987	1,333,283
2010-2011	9.20%	4,631,908	5,058,359	184,228	201,190	226,436	247,284	728,213	795,258	379,280	414,200	1,657,932
2011-2012	5.90%	4,699,916	4,975,573	204,710	216,717	210,052	222,372	667,438	706,584	383,770	406,279	1,551,952
2012-2013	3.70%	4,667,249	4,840,812	186,336	193,265	173,750	193,265	651,536	675,765	386,765	401,148	1,463,443
2013-2014	2.20%			168,715	172,463	60,323	61,663	686,341	701,588	177,730	181,678	1,117,392
2014-2015	0.60%			174,594	175,624	60,674	61,032	671,029	674,986	196,181	197,338	1,108,980

Appendix C: Lodging Market Analysis Survey Participation

AREA	EAST	NORTH	DOWNTOWN	SOUTHWEST	TOTAL
OVERALL INVENTORY	39.4%	32.0%	16.9%	11.7%	100.0%
Total # of rooms	2,591	2,106	1,111	775	6,583
Total # of properties	24	25	9	18	76
% of hotels response - YSI survey	62.3%	63.2%	95.6%	7.9%	61.8%
# of rooms response – YSI survey	1,613	1,330	1,062	61	4,066
# of participating properties	13	12	8	1	34

Source: Young Strategies Inc. “Visit Syracuse, Onondaga County, New York Travel Market Research.” Study Conducted Jan. 2015-May 2015. Final Report Submitted Nov. 2015.

Appendix D: Lodging Market Survey Verbatim Responses

PLEASE LIST ANY MAJOR SHIFTS OR CHANGING TRENDS IN ROOM NIGHT SALES YOU HAVE NOTICED OVER THE LAST YEAR:

Hoteliers were asked to provide any insight into major shifts or changing trends in room night sales in Onondaga County over the last year. Seventeen properties responded; verbatim comments are below:

- Decrease in Canadian transient travel due to weak CA\$-Increase in the number of agencies/groups that require both commission and rebate.
- Individuals want everything included. People are less and less willing to pay for additional amenities that once were standard charges such as breakfast, internet, movies, parking, etc.
- Canadian travel down due to exchange rate.
- It stays pretty even.
- Occupancy is down when all industry analysis predicted flat.
- Nothing major since last year, a slight trending towards more transient traveling through area.
- Too much supply with no new demand generators entering the market.
- Significant concerns with weekend leisure demand and concerns will escalate with added inventory.
- Similar trends in market segments for the past few years.
- More visitors from Canada; More Canadian travelers than in the past. (2)
- Decrease in Association sales, the additional room night rebates are impacting hotel revenues, moving us backward YOY.
- Big shift to 3rd party vendors (Orbitz, Hotels.com, Expedia, etc.) vs. hotel direct efforts to push business to hotel directly.
- Increased shift from direct bookings to 3rd party internet sales (2).
- Noticed lower occupancy rates; but higher rates.
- Because of so many new builds in the area unless the whole area is full, us being older have less rooms.

Source: Young Strategies Inc. "Visit Syracuse, Onondaga County, New York Travel Market Research." Study Conducted Jan. 2015-May 2015. Final Report Submitted Nov. 2015.

Sources

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