

Financing Frederick's hotel and conference center

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While it's still early stages for the hotel and conference center planned for downtown, we have to confess our jaws dropped slightly at the estimated price tag the city will have to pay to move the project forward: \$10 million to \$12 million.

While the hotel may be able to support itself, if city officials want the conference center as well, they'll have to find a way to underwrite the cost of building a new parking garage, meeting space construction, and acquiring land for the project.

As yet, the model for how to finance those millions has not been established. The city is presently working its way through several possible sites for the hotel. We were surprised by the Board of Aldermen's reluctance to even talk about the cost at a work session last week. It wasn't until a reporter asked that we got the \$10 million to \$15 million amount, which officials at the meeting kept vaguely referring to as the "financial gap."

What's clear from a report delivered to the mayor and aldermen by John Gibb, managing director of Jones Lang LaSalle, a real estate consultant firm, is that mid-Atlantic hotel operators won't be interested in the Frederick market without a public-private partnership of some kind.

"The general feeling is that due to lower room rates in Frederick as opposed to say Washington, public support could be necessary for the project to happen," Gibb told the mayor and board last week.

Sequestration has impacted the local demand for hotel rooms, however; with the decline in business and government travel, leading to a drop in the area's hotel revenue by 3.4 percent in the first half of this year.

Several unspecific financial scenarios were hypothesized at the workshop meeting to be able to go ahead with the conference center portion of the project.

Gibb said the money could be raised through bonds issued by the state's Stadium Authority, through grants, through the Maryland Economic Development Corp. (which would require support from the Maryland General Assembly), or possibly a tax increment financing arrangement.

"We will leave no stone unturned in looking at how we can develop the best financial solution for this hotel," Gibb assured the board. Jones Lang LaSalle is being paid \$157,140 for their consultation work out of \$500,000 the city has set aside to cover costs for the land and initial planning.

Any of these arrangements could work. What we don't want to see is any general fund money paid directly to the project, as is being considered in Baltimore to bail out the city-owned Hilton Hotel.

We certainly don't see any benefit to a city-owned hotel (something aldermen are clearly aware of), or part-ownership of a conference center and meeting space. Even the idea of taking on bond debt to finance a portion of the project leaves us with reservations. The Baltimore Hilton would be viable if it wasn't for debt payments.

"We don't want to get in a situation like Baltimore," Alderwoman Carol Krimm said at the meeting.

We couldn't agree more.

Whichever method, or mix of methods, the city chooses to finance the conference center portion of the project, we'll want to see the most conservative data available, including disaster scenarios thrown in, for example, for what happens if the market collapses.

Ultimately, if the city invests any money in this project, it comes from taxpayers, whether or not city officials want to 'fess up to that or not. We expect full transparency here, especially since it's an election year and because the viability of a project this large will almost certainly become embroiled in the debate.