TESTIMONY ON CONVENTION CENTERS AND LOCAL ECONOMIC DEVELOMENT

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Over the last two decades, American communities have sustained a remarkable level of public investment in new and expanded convention facilities. In 1986, there were 193 convention centers offering at least 25,000 square feet of exhibit space, amounting to a total of 32.5 million square feet. By 1996, that sum had reached 254. For 2006, there were 322 such convention centers, with a total of 66.8 million square feet.

There has thus been a 105 percent increase in available convention center exhibit space since 1986.

Just since 1993, state and local governments have invested a total of $23.2 billion in convention facilities, compared to a total investment of $34.7 billion in amateur and professional sports facilities or $32.2 billion in mass transit.

At the apex of the growth of convention centers are the largest facilities, which have expanded consistently over recent decades. Chicago's McCormick Place offered 1.9 million square feet of exhibit space in 1986, reached 2.2 million in 1996, and is currently completing an expansion that will bring it to 2.7 million square feet in July 2007. The Las Vegas Convention Center has more than doubled in size since 1986 to two million square feet today, with another expansion underway. Orlando's Orange County Convention Center has also expanded to a total of two million square feet.

The convention center development boom has also encompassed an array of smaller urban and suburban communities. Schaumburg, Illinois recently opened its new center, and new convention centers are under development in Erie, Pennsylvania; Raleigh, North Carolina; Jackson, Mississippi; Branson, Missouri, and Santa Fe, New

Mexico. Expansion efforts are currently underway in Philadelphia, New York City, Indianapolis, Phoenix, Las Vegas, Peoria, and Daytona.

This boom in public convention center development has been sustained by two parallel shifts in center financing and politics over recent decades. Where the convention and civic centers of the 1950s and 1960s were commonly paid for with local general obligation debt, cities and local governments have turned increasingly to revenue debt. These revenue bonds are often backed by taxes levied largely on visitors, such as hotel occupancy or use taxes, car rental taxes, or taxes on taxicabs and tour vehicles. Visitor-linked revenue sources provide broad, relatively predictable streams of revenue that are not related to the performance of a local convention center. Particularly for major resort or leisure tourism destinations, a large stock of area hotel rooms provides the basis for a substantial and growing revenue stream, and the capacity to continue to invest in center expansion and related marketing.

The shift to revenue debt also has the advantage in the vast majority of states of avoiding the need for direct voter approval of center debt. Historically, many cities have seen convention center bond proposals defeated at the polls. This outcome has been the case in recent years in San Jose, Portland, Pittsburgh, and Columbus, among other cities.

The shift to revenue debt has been paralleled by a change in the locus of fiscal responsibility. Where cities and occasionally counties commonly built and owned convention and civic centers, that responsibility is now often vested in an independent public authority or a state government. Atlanta's Georgia World Congress Center is owned by a state-created authority, for example, with its development and expansion financed by state bonds. The New Orleans convention center is owned by the

Morial/New Orleans Exhibition Hall Authority, both Boston centers are owned by the Massachusetts Convention Center Authority, and the Washington Convention Center is owned by the Washington Convention Center Authority.

The expanded role of state governments in financing and developing convention facilities has also encouraged further expansion of supply. The legislation authorizing expansion of Louisville's Kentucky International Convention Center also financed the development of an entirely new center in northern Kentucky, and the 1997 Massachusetts legislation committing $700 million for a new Boston convention and exhibition center also provided financial support for a new center in Springfield, expansion of the Centrum in Worcester, and a number of other local economic development efforts.

The expansion of convention center supply, coupled with changes in demand and convention attendance since the late 1990s, has resulted in a highly competitive market. A great many cities have seen significant decreases in their annual convention and tradeshow attendance in recent years, and have come to rely on a variety of financial incentives. St. Louis now advertises for 2007 "Groups that will use more than 800 hotel sleeping rooms on their peak night are guaranteed free rental at the convention complex…." Charlotte advertises that groups will "receive up to $5 per [hotel] room night [used] toward your convention center expenses" for events through 2009, and the Greater Columbus Convention Center offers "enticing rates for bookings for 2008."

The increased competition for convention business has two direct implications for communities that have invested in new or expanded centers. First, discounts and incentives reduce the operating revenues of a center, increasing annual operating losses and the public subsidies required for convention center operation. Second, the volume of annual convention attendees has become increasingly uncertain, as groups and organizers face a growing roster of medium to large size centers seeking to gain new business.

PROMISES AND FORECASTS

In July 1998, Dr. Andrew Brimmer of the District of Columbia's Financial Management Authority called on the Congress to approve the financing for a new Washington Convention Center with a pricetag of some $800 million. Brimmer contended "The District will benefit enormously from a new Convention Center, and we look forward to the many new jobs for City residents that will be produced by this project… This Center promises to be a major boon to economic development in the District…."

Speaking at a June 2001 Brookings Institution conference on core area of the Washington region, city council chair Linda Cropp noted that the new convention center would "continue to boost the city's employment over the next three years… it is our expectation that it will help our economy significantly."

These assessments of the impact of a new convention center were based in large part on the forecasts and reports of consultants. A 1997 study by Coopers and Lybrand told District of Columbia officials and residents that a new convention center would more than double the economic impact of the existing facility, yielding $521.8 million in direct spending by visitors to the District and supporting 9,750 jobs by 2006. Those figures were reported with seeming certitude—there were no "worst case" projections, nor any indication that the long-term convention and tradeshow market would demonstrate anything other than “sustained growth marked by occasional periods of lower growth in response to downswings in the nation’s economy.”

The new Washington Convention Center opened in 2003. In 1994, as a new structure was being debated, the Census Bureau’s annual *County Business Patterns* reported a total of 14,473 hotel jobs in the District. For the most recent year, 2004, the *County Business Patterns* report showed 14,632 hotel jobs.

Forecasts of thousands of new convention attendees boosting local economies with millions of dollars in new spending, yielding thousands of new jobs are the common currency of local convention center development proposals and related consultant market studies.

A December 2006 consultant market study for a proposed convention and events center in Bemidji, Minnesota noted:

> The ability of an event facility (particularly for convention centers or facilities with significant convention space) to generate new spending and associated economic and tax impacts in a community is often one of the primary determinants regarding a decision to investment in the development and operation of such facilities. Beyond generating new visitation and associated spending in local communities, event facilities also benefit a community in other important ways, such as providing a venue for events and activities attended by community members.

The study noted the overall history of convention and tradeshow demand:

> Over the past 25 years, statistics point to stable year-to-year growth within the convention industry. The only periods in which key demand measurements did not experience growth was in the early 1990s during the first Gulf War and related economic recession and for a recent two to three-year period following the events of 9/11 and subsequent economic downturn. The most recent industry data suggests that the nationwide convention, tradeshow and meetings industry is in the midst of a renewed expansion, with demand levels generally recovering to pre-9/11 levels.

It concluded that a new Bemidji center “is estimated to generate between $7.2 million and $13.2 million in total output (total direct, indirect and induced spending) in the area,” along with 119 to 220 full and part-time jobs.

In a similar vein, a February 2007 study of a proposed convention center in Midland, Texas noted:

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It concluded that a new Midland center “is estimated to generate approximately $18.6 million in annual total output (total direct, indirect and induced spending) in the area,” along with 237 full and part-time jobs.”

Forecasts of spending impact and job creation such as these commonly rely on quite simple models to estimate the economic products of a proposed convention center, and are thus more “craft” than “science.” They begin with estimates of future convention and tradeshow attendance that most often assume that a center will “ramp up” to a substantial annual event attendance level, and then continue to attract attendees well into the future. Yet the history of convention center development and expansion suggests that new convention center space will continue to be developed across a range of cities, increasing the competitive pressures on any individual facility.

The consultant forecasts then multiply the projected attendance figures by an estimate of average length of stay and daily spending. The most common spending and stay estimates come from the Destination Management Association International, which currently estimates the average convention delegate stay at 3.56 days with average spending of $290 per day. The largest portion of that delegate spending—47 percent—is devoted to lodging. With additional estimated spending from convention exhibitors and organizers, this calculation yields an annual total for "direct spending." The addition of a multiplier generates a larger total for indirect spending, and that figure in turn can be employed to calculate the job creation resulting from anticipated convention spending.

Each individual element of this overall calculation is subject to a great many caveats and questions. If fewer conventions and their attendees actually use a center, the spending and job creation figures could easily be cut to one-half or one-third. The assumed 3.56 average stay is also questionable, based on the available empirical evidence. A stay in excess of three days should result in three hotel "room nights" per attendee, or perhaps slightly fewer in order to account for more than one attendee per hotel room. Yet data from a number of local convention center studies and convention bureau statistics suggests a far more modest relationship between convention attendees and actual hotel demand.

In an early 2002 study of the new Boston Convention and Exhibition Center, PriceWaterhouseCoopers reported that

> The results of these three methods provided consistent results suggesting that 1.7 room nights are generated for every convention/trade show attendee. The ratio of 1.7 is

further supported by information provided by the [Greater Boston Convention and Visitors Bureau] and other CVBs and convention centers such as the Philadelphia Convention Center, San Diego Convention Center, Baltimore Convention Center, Georgia World Congress Center in Atlanta, and others. These destinations realize from 1.2 to 2.3 room nights per convention/trade show delegate with an average of 1.7. Based on this ratio, total room nights generated by BCEC conventions and trade shows are estimated to range from 612,000 to 697,000 annually.

Actual data on the performance of the Boston Convention and Exhibition Center indicates an even more modest relationship between convention attendance and hotel room night activity. For 2006, the new Boston center hosted 370,000 attendees and generated 367,000 room nights—a ratio of 0.99. The center's bookings for 2007 include about 400,000 attendees and some 355,000 room nights. Not only are the recent hotel room night totals well below the more than 600,000 anticipated by PriceWaterhouseCoopers, they represent far fewer than what would be generated by the assumed 3.5 day average stay.

Much of the same pattern of a relatively modest yield of hotel stays relative to convention and tradeshow attendance appears in other cities. For 2006, the San Diego Convention Center reported 511,881 out-of-town attendees accounted for 646,184 room nights, or a ratio of 1.26. The Washington Convention Center generated room night ratios for 2004 through 2006 of 0.83 to 1.44, for an average of 1.15.

The underlying reason for this relatively modest "return" in the form of overnight hotel stays is that many convention and tradeshow events draw area or regional residents, who simply attend for the day. One of the major annual events at the Washington Convention Center is FOSE, the former Federal Office Systems Expo. In March 2006, FOSE drew 14,664 attendees to the center. But fully 95 percent were from the South Atlantic region, including 13,709—93 percent of the total—from Maryland, Virginia, or the District of Columbia. In similar fashion, the January 2007 Macworld event in San Francisco drew 40,791 attendees, with 34,511 from California. It is likely that many of those in-state attendees lived in the Bay area including Silicon Valley, and did not stay overnight in San Francisco.

With a much smaller generation of hotel demand than an assumed 3.5 day convention stay, the spending from convention attendees is consequently far smaller than the assumed $1,036 total. The actual spending impact is further attenuated by the variety of hotel alternatives in a major metropolitan area. Washington Convention Center attendees may choose to stay at a designated “headquarters hotel” or one close to the center. But in search of less expensive accommodations, they may also choose to stay in suburban Maryland or Virginia and make use of a private vehicle or the Metro system. The spending impact and consequent job creation can thus be spread over the entire metropolitan area, rather than the immediate vicinity of the convention center or the center city.

CENTER PERFORMANCE AND ECONOMIC DEVELOPMENT

Chicago has long sought to maintain a major role as a convention destination in large measure through regular expansion and improvements to McCormick Place, the nation’s largest convention center. The center’s public authority owner, the Metropolitan Fair and Exposition Authority, began planning for a substantial expansion in the early 1980s. The authority’s analysis argued that expansion was necessary, in part because of growth in the tradeshow and convention industry’s use of space—an annual average of over six percent—and in response to the “aggressive plans for expansion” by other cities “attempting to challenge the preeminence that McCormick Place enjoys among exhibition facilities in the United States.” During 1980, McCormick Place hosted 23 of the “Tradeshow 150” –the largest convention and tradeshows each year, with total attendance of 626,750. A subsequent report on the impact of the planned expansion credited McCormick Place with 24 “150” events in 1982, with attendance of 638,974. The total convention and tradeshow business at McCormick attracted 1,000,000 attendees in 1983.

The expansion plan would add an entirely new building with 550,000 square feet of exhibit space. It was projected to bring between 500,000 and 650,000 additional attendees to Chicago with a direct spending impact of $275 million and in turn create 5,000 new jobs.

The new McCormick Place North building opened in 1986, but its impact in terms of new major conventions and tradeshows was relatively limited. From some 24 major events in 1982, the total of the now “Tradeshow 200” events was just 21 in 1994 and 24 in 1995. In 1991, the renamed Metropolitan Pier and Exposition Authority moved ahead with a $987 million expansion and renovation effort intended to “preserve and enhance McCormick Place’s preeminence.”

The new McCormick Place South expansion added 840,000 square feet of exhibit hall space to the complex, financed with new taxes on hotel rooms, restaurant meals, car rentals, and airport departures. Even as it was under construction, MPEA officials moved ahead on a $127 million tax exempt bond issue to finance a new 800 room headquarters hotel for McCormick Place, to be managed by Hyatt. The consultant study for the hotel project forecast that the new lodging would boost the annual count of "Tradeshow 200" events from 23 to 26 by 2002 and yield an additional nine new conventions or tradeshows. The publicly-financed Hyatt opened in 1998.

The combination of a major expansion and new hotel proved rather less productive than forecast. The total of "200" events came to 21 in 2000 with attendance of 960,149, followed by 20 events with 639,567 attendees in 2001. For the latest year for which data are available, 2005, the "200" event count was just 15 with 532,144 attendees. The total convention and tradeshow attendance for McCormick Place totaled 876,165 for 2005 and 1.19 million for 2006.

Over some 25 years, McCormick Place has seen public investment on the order of $1.5 billion supporting a series of major expansions and the addition of a hotel, with yet another expansion due for completion in mid-2007. Yet in the face of sustained competition from other communities and larger external forces, its count of major events has fallen, and both major event attendance and total convention attendance now hover at or below the levels of the early 1980s. It could be argued that the focus on McCormick Place and the related public investment served a defensive purpose, preventing even greater loss of convention business to Chicago. But each expansion and development effort was forecast to boost the center's business by 50 percent or more.

Philadelphia presents a similar case of overly optimistic consultant forecasts and lagging convention center performance. The new Pennsylvania Convention Center opened in July 1993, supplanting the Civic Center as the city's prime convention venue. The penultimate market and feasibility analysis for the center was completed in May 1988. That analysis stressed the capacity of the planned center to bring new convention and tradeshow events and attendees to Philadelphia. It projected that the center would be an economic boon to the city, generating a total of 4,252 new jobs and yielding 664,800 hotel room nights to the city by 2001.

The new jobs are difficult to find, but the Pennsylvania Convention Center Authority has reported on the hotel room nights associated with center events. They hit a peak of 519,793 in fiscal year 2001, boosted by the Republican National Convention. By fiscal 2004 the room night total had fallen to 363,954. For fiscal 2005 it hit 297,180. The center is thus currently generating less than half the forecast hotel demand. At the same time, the 1998 consultant study predicted that the center would incur an annual operating loss of about $2.2 million. The center's actual operating loss for fiscal 2005 came to $14.8 million,

The Commonwealth of Pennsylvania and Philadephia are now undertaking a $700 million expansion of the center that will add 260,000 square feet of exhibit space. Consultant studies project that the expansion will add more than $140 million in spending impact, by filling a total of 650,000 hotel room nights each year. That figure, post-expansion, is less than the 664,000 room nights promised in 1988 and never achieved.

Houston also demonstrates the common pattern of over-promised convention center performance and quite limited results. The 1981 feasibility study for what became the George R. Brown Convention Center forecast that it would attract over 700,000 new convention attendees to the city, yielding at least one million annual hotel room nights. By 2000, a subsequent consultant study concluded that the center had generated 141,950 hotel room nights in 1997 and 156,348 in 1998, totals far below what had been projected prior to the center's opening. In the intervening years, city and convention bureau officials had sought a private developer for a major hotel of 1,000 to 1,200 rooms to serve the center. After those private efforts failed despite a host of city subsidy arrangements, the city undertook development of the hotel directly.

A $626 million Houston bond issue in 2001 provided for both a major expansion of the George R. Brown Convention Center (adding 420,000 square feet of exhibit hall space) and the construction of a 1,200 room hotel to be managed by Hilton. The consultant market study that justified the expansion project forecast that the larger convention facility would generate 597,915 hotel room nights in 2005 and 625,908 in 2006, yielding the city $245 million in added visitor spending each year.

A September 2006 audit by the Houston City Controller examined both the performance of the Greater Houston Convention and Visitors Bureau and the convention center. It found that the expanded convention center generated just 225,706 room nights in fiscal 2004-05. Subtracting room nights from public and sports events like the Houston Marathon that were not really housed at the center gives a 2004-05 total of 206,656. The similarly-adjusted room night total for fiscal 2005-06 came to 200,647. The public investment in both a major center expansion and a new hotel are generating at best some 50,000 annual hotel room nights for the city, far too little to support the city-owned Hilton Americas hotel.

For Chicago, Philadelphia, and Houston and a host of other communities across the country, public convention center investment has proven far less productive in terms of overnight visitor business and economic impact than forecast and anticipated. In the context of overall hotel demand, the business generated by a convention center itself is generally quite modest. In New York City, for example, a 2004 consultant study estimated that the Jacob K. Javits Convention Center generated a total of 668,000 hotel room nights of demand. Total hotel demand (occupied room nights) for the city as a whole in 2003 came to 19.48 million. The Javits Center was thus directly responsible for only 3.4 percent of annual hotel room use in New York.

In the case of Philadelphia, the 297,180 room nights generated by the Pennsylvania Convention Center comprised 11 percent of the overall center city hotel demand for 2005. For the District of Columbia, the 455,000 hotel room nights produced by the new Washington Convention Center made up about 6.6 percent of total hotel demand in 2006. For these cities and a great many others, the convention center's generation of overnight visitors and hotel stays is both far less than forecast and relatively limited in comparison with the overall demand for hotel rooms from business, leisure, and other group meeting activity.

The relatively modest yield of visitor activity by these centers can also be seen in terms of the changes in local hotel employment. As noted earlier, the construction of the new Washington Convention Center appears to have done little to boost the city's hotel employment by 2004. The employment impact of Philadelphia's new convention center was also quite modest in the wake of its mid-1993 completion. From city hotel employment of 4,886 in March 1993, total hotel employment reached 7,023 in 1999 and 7,165 in 2004. Much of that growth of 2,279 jobs was the product of Mayor Ed Rendell's effort to develop "2,000 new hotel rooms by the year 2000" to serve the Republican National Convention. Almost all of that growth was supported by additional public subsidies.

If convention centers succeeded in generating the visitor volumes often described and the corollary spending impacts, they should have spurred substantial new development of adjacent hotels. For most cities, that has simply not happened. New York's Jacob Javits Center has yielded effectively no new nearby hotel development since its 1986 opening. An array of other cities struggled for years to induce new private hotel development adjacent to their new or expanded convention center, only to find private investors unwilling to finance such development. In the wake of failed private development efforts in places like Sacramento, Chicago, St. Louis, Houston, Omaha, San Antonio, and Baltimore, local officials have increasingly come to rely on public financing for new hotels.

PUBLICLY-FINANCED HOTEL DEVELOPMENT

Cities have historically sought to enhance tourism and visitor-related economic impact through indirect investment in convention and conference centers, sports facilities, arts and cultural centers, and historic sites. With federal aid under the Urban Development Action Grant program in the late 1970s and 1980s, a number of cities provided public subsidies for private hotel development, by subsidizing land costs, providing mortgage write-downs, or developing supporting infrastructure. UDAG funding supported hotel construction in a broad array of communities, including Boston, New York City, San Antonio, Baltimore, St. Louis, Buffalo, Minneapolis, St. Paul, Flint, and Long Beach.

While some of these hotels performed at reasonable levels, others failed to meet anticipated levels of occupancy and average rate, and went through a process of foreclosure, sale, and re-branding, often emerging in rather different form. Hotel market analysts generally concluded that the availability of public subsidies helped sustain a level of hotel development that resulted in an overbuilt market by the end of the 1980s. As a result, investors and developers often proved quite reluctant to support the development of expensive, full service hotels on costly downtown sites.

Industry consultants consistently recommended that the only way that a city could achieve optimal performance at a convention center was with a large, adjacent headquarters hotel. Faced with an inability to gain a major hotel through a traditional subsidy or public-private partnership approach, some communities used tax-exempt municipal bonds to build a hotel, most often through a non-profit corporate ownership arrangement. These hotels bear the name of a major national brand under a long term management agreement, but the equity investment and ownership risk is largely or entirely public.

The current spate of publicly-financed and owned hotels began with the $127 million bond issue for the 800 room Hyatt-branded hotel at Chicago's McCormick Place in 1996. Subsequent tax exempt public bond issues include a 500 room Sheraton-branded hotel in Sacramento, a $98 million federal empowerment zone bond issue for the 1,081 room St. Louis Renaissance Grand hotel, the 1,200 room Houston Hilton Americas, the 800 room Austin Hilton a 402 room Sheraton hotel in Myrtle Beach, the 450 room Omaha Hilton, and an 1,100 room Hyatt in Denver. Projects currently under construction include a 1,000 room Sheraton-branded hotel in Phoenix, a 1,000 room

Hyatt in San Antonio (funded with empowerment zone bonds), and a 750 room Hilton hotel in Baltimore.

Smaller communities have also made use of tax exempt bond for hotel development, including Bay City, Michigan; Trenton, New Jersey; Erie, Pennsylvania; Schaumburg, Illinois; Overland Park, Kansas; Lombard, Illinois; and Vancouver, Washington.

These cases of public hotel development and ownership present an intriguing case of public projects, making use of the low interest rates available with tax exempt bonds directly competing against privately-owned and operated competitors, often directly across the street. While consultant market and feasibility studies for these hotel projects indicate little public risk, with hotel operation forecast to generate sufficient net income to pay for debt service, those forecasts have almost invariably proven incorrect. In the case of the empowerment zone bond-financed St. Louis Renaissance Grand, the hotel has consistently failed to generate sufficient revenues to pay its debt service since opening in early 2003. Although the city of St. Louis has no direct financial exposure to the empowerment zone debt, it does hold additional debt including a HUD Section 108 loan.

Consultants and city tourism officials had forecast that the addition of the Renaissance Grand would boost the local group meeting business from some 414,000 hotel room nights in 1998 to 800,000 by 2005. In actuality, the city only garnered 429,763 room nights in 2005. With no real increase in convention center-related business, the Renaissance Grand has had the effect of limiting occupancy and rates in the overall downtown hotel market. Other publicly-owned hotels, including those in Myrtle Beach, Overland Park, and Omaha have required direct financial support from city revenues, having failed to generate sufficient income for debt service from their own operations.