

T.S.A.

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Despite glut, convention halls build on

The New York Times

NEW YORK - American cities are spending hundreds of millions of dollars to build convention halls at a feverish pace, even as the convention industry is contracting and attendance is falling, according to a new report by the Brookings Institution.

The report comes as New York City and more than three dozen other cities in the country are seeking to expand their exhibit space or build new convention centers to capture new business, jobs and revenue. Last year, the New York state Legislature approved a \$1.4 billion plan to add 575,000 square feet of meeting and exhibit space to the Jacob K. Javits Convention Center.

The Brookings report raises questions about the wisdom of joining the convention hall space race.

“You've got cities around the country building new or expanded convention space at a very rapid rate in a market that is already glutted and oversupplied,” said Heywood Sanders, author of the Brookings report, “Space Available: The Realities of Convention Centers as Economic Development Strategy.”

“In an environment where every major center around the country is sharply discounting rental rates or giving space away and throwing in incentives, the likelihood of any succeeding is remarkably dim,” Sanders said.

According to the Brookings report, the amount of exhibit space in the United States has jumped 51 percent since 1990, to 60.9 million square feet from 40.4 million. And today about 40 cities are planning to add a total of up to 7 million square feet.

Yet the report indicates that attendance at the nation's 200 largest trade shows has been falling since it peaked in 1996 at 5.1 million. Computer and technology shows, as well as mainstays like the National Hardware Show, have suffered declines. Even with a recent upturn, the report said attendance hit only 4.1 million in 2003.

Declining attendance is affecting small cities as well as major convention destinations like Chicago, New York, Atlanta and Orlando, Sanders said.

“Almost every convention center in the country operates at a loss, not even counting construction costs or debt,” the report states.



"While the supply of exhibit space in the United States has expanded steadily, the demand for convention and tradeshow exhibit space has actually plummeted."



Space Available: The Realities of Convention Centers as Economic Development Strategy

Heywood Sanders

Executive Summary

To cities the lure of the convention business has long been the prospect of visitors emptying their wallets on meals, lodging, and entertainment, helping to rejuvenate ailing downtowns.

However, an examination of the convention business and city and state spending on host venues finds that:

- The overall convention marketplace is declining in a manner that suggests that a recovery or turnaround is unlikely to yield much increased business for any given community, contrary to repeated industry projections. Moreover this decline began prior to the disruptions of 9-11 and is exacerbated by advances in communications technology. Currently, overall attendance at the 200 largest tradeshow events languishes at 1993 levels.
- Nonetheless, localities, sometimes with state assistance, have continued a type of arms race with competing cities to host these events, investing massive amounts of capital in new convention center construction and expansion of existing facilities. Over the past decade alone, public capital spending on convention centers has doubled to \$2.4 billion annually, increasing convention space by over 50 percent since 1990. Nationwide, 44 new or expanded convention centers are now in planning or construction.
- Faced with increased competition, many cities spend more money on additional convention amenities, like publicly-financed hotels to serve as convention "headquarters." Another competitive response has been to offer deep discounts to tradeshow groups. Despite dedicated taxes to pay off the public bonds issued to build convention centers, many—including Washington, D.C and St. Louis—operate at a loss.

This analysis should give local leaders pause as they consider calls for ever more public investment into the convention business, while weighing simultaneously where else scarce public funds could be spent to boost the urban economy.

I. Introduction

Conventions are big business, attracting free-spending visitors booking downtown hotel rooms, eating at restaurants, and thronging theaters and night spots.

At any rate, that's the theory.

So in the last decade, state and local governments have made massive commitments to tourism and conventions as part of their central economic development strategies.

From Atlanta to Austin, Charlotte to Chicago, cities, states, and public authorities have invested billions in an arms race with competing cities to lure conventions and their attendees to new or expanded convention centers. Many of these same places have also invested in publicly-owned hotels, new and expanded airports, and downtown-oriented rail transit systems, all designed to support their hunt for conventions and trade shows.

However, while the supply of exhibit space in the United States has expanded steadily, the demand for convention and tradeshow exhibit space, and the attendees these events and space bring to a city, has actually plummeted.

Many cities have seen their convention attendance fall by 40 percent, 50 percent, and more since the peak years of the late 1990s. The sharp drop has occurred across a range of communities, including a number of the historically most successful convention locales in the nation.

Nonetheless, new public capital spending for convention centers has doubled over the past decade, growing from \$1.2 billion in 1993 to an average of \$2.4 billion annually from 2001 through 2003. That massive spending has fueled an expansion of center exhibit space from 40.4 million square feet in 1990 to about 60.9 million in 2003, a 51 percent increase over the 13 years. And some 40 cities—including New York, Chicago, Denver, Hartford, Tampa, New Orleans, Detroit, Albany, Raleigh, Phoenix, and Colorado Springs—are planning or building as much as an additional four to five million square feet of space in the hopes of boosting jobs and tax revenue.¹

Take Raleigh, North Carolina for example. Analyzing its convention prospects in July 2002, consultant KPMG predicted that an enlarged convention center would more than double the city's convention attendance from an annual average of 90,000 to some 190,000 by 2010, yielding more than \$30 million in new annual spending for the city and county and 900 new jobs.² For public officials like Raleigh Mayor Charles Meeker, the vision of this impact and its potential for creating a revitalized downtown presented a compelling case for public action.³

The rhetoric was much the same in Phoenix, where a city staff report on a proposal to spend \$300 million for an expansion of the city's Civic Plaza convention center argued that, "Convention business makes economic sense for Phoenix because it brings people here from other states and nations, who spend money throughout our community and then go home. Each conventioner generates almost \$1,500 in direct spending in Arizona—staying in our hotels, eating in our restaurants, buying goods in our shops, playing golf in our resorts and going to tourist attractions throughout the state."⁴

The promise was that a bigger center would yield \$256 million in annual new convention spending and create 7,700 new jobs while doubling city convention-linked tax revenues.

As these examples show, the decision to build or expand a convention center is predicated on the assumption that "if you build it, they will come." And more recent consultant feasibility studies of new and expanded centers have indeed forecast continued growth in demand for center space. A PriceWaterhouseCoopers analysis in January 2004 of an expansion of New York City's Jacob K. Javits Convention Center predicted industry growth and more than enough demand to go around. Predicting that a larger convention facility in Manhattan could increase attendance by 38 percent and yield \$391 million in new visitor spending for the city, the PriceWaterhouseCoopers analysis contends that an expanded Javits "would result in expansion of existing customers to events, result in the creation of

new shows, and attract conventions and tradeshow that are currently held in competing facilities.”

For Colorado Springs, CO, a March 2004 feasibility study argued that, “Economic cycles notwithstanding, the overall long-term trend of [convention] growth suggests that the supply of events will recover along with an overall economic recovery.” And a May 2004 updated analysis for Albany, NY concluded “For the meetings industry, things have generally returned to pre-9-11 condition.” Albany’s consultant could thus predict a new center in that city would house over 300 events annually, with attendance of 270,000 generating nearly 100,000 new hotel room nights annually. Other such rosy predications have been made for cities as diverse as Branson, MO; Cleveland, OH; Schaumburg, IL; and Osceola, FL.

Unfortunately, the pervasive market information provided to these localities and their decision-makers is fundamentally flawed and inaccurate.

Simply put, the overall convention marketplace has shifted dramatically, in a manner that suggests that a recovery or turnaround is unlikely to yield much increased business for any given community. Less business, in turn, means less revenue to cover facilities’ expenses, and less money injected into local economies.

This paper examines national and local trends in convention center events and attendance over the past decade, and how they stack up against projections—as such, it provides some insight into whether or not these projects are likely to produce the financial benefits local boosters of center construction and expansion projects anticipate. The paper then looks behind these trends to offer a look at what factors may be driving them. Finally, it attempts to describe the true costs localities incur as result of increasingly questionable convention centers investments, and provides some suggestions as to how the local decision-making process regarding them might be better informed and executed.

Such an analysis does not pretend to provide a full exposition of the costs and benefits associated with convention center investments: It does not examine the public subsidies that go into these projects, nor evaluate the revenue such spending generates.

What it does do, however, is shed some light on the realities of this changing and unpredictable business, and in doing so, provide a cautionary tale for cities hoping to reap its increasingly elusive rewards.

Methodology: Overcoming Errant National Data

National data on a great many sectors of the economy—retail sales, new home starts, public and private construction, air travel, auto sales, manufacturing orders—is readily available in a consistent and relevant form. Not so for the convention and tradeshow industry.

Despite the commitment of billions of dollars by a variety of state and local governments, the available national data on convention demand is at best scant, murky, and of limited reliability. The national market data regularly employed by consultants comes from a small number of industry sources, and often reflects estimates rather than performance, guesses rather than substance.

Meetings and Conventions magazine, for example, surveys its subscribers on a biennial basis. But those data on meeting numbers, attendance, and spending reflect all the limitations of an unknown subscriber base and an uncertain response rate. Another industry publication, *Tradeshow Week*, regularly disseminates a number of indices of convention and tradeshow activity. Its annual *Data Book*, covering more than 4,500 conventions, tradeshow, and public events, has regularly been employed to index demand. But its numbers are simply forecasts by event organizers of exhibit space use and possible attendance for events months in the future. They are never updated, revised, or turned into “actuals.” And even these projections are provided for only a fraction of the 4,800 events listed. The totals are created by multiplying the averages of those reporting by the number of events.

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The arguably more substantial of the *Tradeshow Week* measures come from its annual compilation of the 200 largest conventions and tradeshows, in terms of exhibit space. The "200" listing yields actual post-event figures for exhibit space use and attendance for what are by definition the largest and most successful events—a changing cast from year to year. It does not index the larger industry in any sense, and the "200" is obviously most relevant to those cities like Las Vegas (with 38 events in 2003), Chicago (with 27 events), Orlando (17), Atlanta (16), and New Orleans (8) which have the exhibit space to accommodate the largest conventions, often in multiple centers. Furthermore, its reported figures on annual change are created in a manner (described below) that has a serious upward bias. Still, the total annual volume of space use and attendance for the "200" (not the calculated change figures) does provide at least a plausible starting point for examining trends in market demand, and thus I utilize it here to offer some insight into national trends.

Given the dearth of reliable, national numbers, the majority of this analysis instead relies on data from major individual centers themselves. That data primarily measure convention and tradeshow activity, and thus exclude the kinds of local public or consumer shows—the auto show, home show, or garden show—that draw largely from the city or metropolitan area. Where a center does not provide figures limited to convention and tradeshow attendance, the paper uses available "total attendance" numbers. In some cases, the analysis is supplemented by information from centers or local convention and visitors bureaus on the hotel use generated by a center (in terms hotel room nights used by convention and tradeshow attendees). While these hotel use figures may miss some people who book rooms on their own, they provide the best index of center use by out-of-town visitors, the critical element of economic benefit and impact for a community.⁸

In light of these data limitations, this should be considered a preliminary review of current trends in the convention center industry, the primary purpose of which is to provide a frank reality check on the overly optimistic forecasts localities utilize to justify new public investments in convention facilities. It is hoped that this analysis will spark further discussion and study on this important and timely issue.

II. Trends: Portrait of a Faltering Industry

What supposedly justifies the public commitment to a convention center in the face of the cost of debt service and operating loss is its potential yield in convention and tradeshow attendees, a yield that is a function of larger economic and market forces, the competitive position of an individual city, and efforts of every other community seeking a piece of the convention "boon." In other words, the real test for Washington, or Chicago, Orlando, or even Schaumburg, is how many people come and what they leave behind for the local economy.

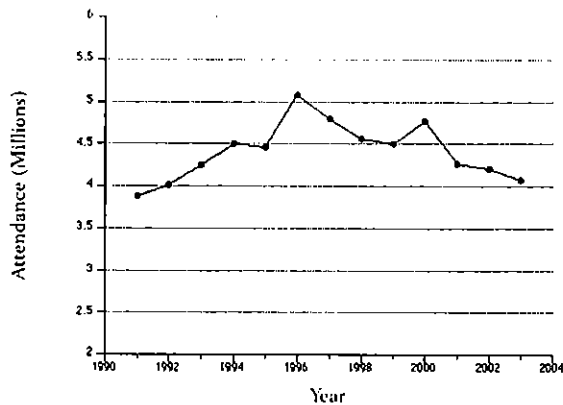
A look, then, at the national and, even more importantly, local trends in convention and trade show events and attendance provides valuable insight into whether or not new investments in the convention center industry are worth their weight in debt and larger public costs.

National Trends from the *Tradeshow Week* 200

To get a broad overview of the national trends affecting the industry during the 1990s and early 2000s, the study begins with an analysis of the nation's largest conventions and tradeshows—the *Tradeshow Week* 200.

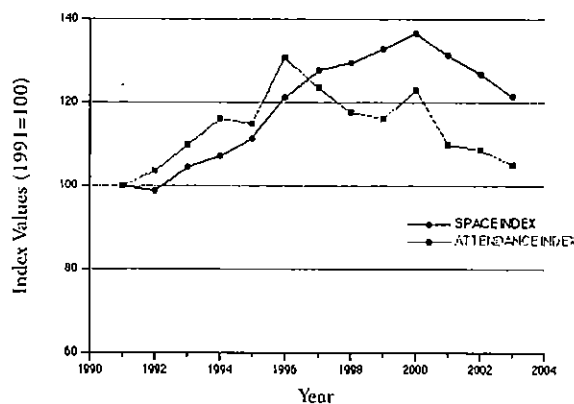
In 1992, *Tradeshow Week* 200 events spanned about 50.4 million square feet of exhibit space with total attendance of 3.9 million people. Over the next seven years, exhibit space use increased 33 percent to reach 67.8 million square feet of space by 1999. But the pattern of total attendance during this period was far from regular, steady growth (Figure 1).

Figure 1. Attendance at Tradeshow Week 200 events began to decline in the mid-1990s and is now at the level of 1993



Source: Tradeshow Week "200" Directory

Figure 2. Exhibit space use and attendance at Tradeshow Week 200 events began to diverge in the mid-1990s



Source: Tradeshow Week "200" Directory

"The economic downturn of 2001 and the events of September 11 came upon an industry already in the process of change."

After hitting a peak of 5.1 million in total attendance in 1996, it then dropped down to 4.5 million in 1999, before rising to 4.8 million in 2000 (Figure 2). Something had begun to change in the convention and tradeshow industry such that—well before September 11—the largest and most successful events in the business were not yielding more attendees.

Several of the largest of the 200 events—like the annual National Hardware Show—exemplify these broad trends. The Hardware Show reportedly covered 821,785 square feet of exhibit space in 1991 and attracted 52,934 attendees. By 1997 it had grown to 1.3 million square feet, an increase of 58.2 percent, and attendance hit 73,000—a 38 percent

boost. These numbers helped fuel the image of an industry on the rise. By 1998, however, attendance had begun to slip, to 65,759, and by 2000, there was evidence of even greater decline. Exhibit space that year for the Hardware Show fell to 1.26 million square feet with attendance of only 62,025, followed by yet another drop to 1.0 million square feet of exhibit space and 52,310 attendees for 2001. Large computing and technology shows—discussed later in the paper—similarly played a crucial role in boosting the apparent performance of the industry during the 1990s, only to falter by the end of the decade.

As it was, the economic downturn of 2001 (with a particularly serious impact on the technology sector) and the events of September 11 came upon an industry already in the process of change, with far less predictable and certain growth. The *Tradeshow Week 200* summary for 2001 reported the “steepest declines in directory’s history”—a drop in exhibit space of 1.3 percent and an attendance drop of 4.5 percent, with a number of events that were cancelled not even included.⁹ And the impacts did not stop with 2001. The 2002 edition of the *Tradeshow Week 200* reported a further decline in space use (6.0 percent) and attendance (4.4 percent).¹⁰ It would not be until its 2003 edition that the “200” summary could report some positive news, that the industry could “see the light”—exhibit space use down just 0.7 percent from 2002, but attendance up 3.4 percent.¹¹

This modest dip in exhibit space use coupled with the attendance increase for 2003 is seen by some as portending an industry turnaround and continued growth. For example, a February 2004 consultant study for Schaumburg, Illinois notes that, “Preliminary data for 2003 suggests resumed growth” and that, “Longer term trends in the industry, however, have indicated substantial growth in demand for exhibit space,” providing a justification for the village’s investment in a \$215 million convention center and a publicly-owned 500 room hotel.¹²

This “imminent turnaround” view of convention and tradeshow activity is no doubt heartening to those in the industry and to local officials. It is, unfortunately, wrong—an artifact of *Tradeshow Week’s* peculiar methodology and the narrowness of focusing on only 200 very large events. *Tradeshow Week* calculates annual percentage change figures by asking event organizers what their exhibit space and attendance were in the previous year and a year earlier. If (as is commonly the case), organizers report a revised figure for two years ago, that usually smaller older figure becomes the base for calculating change. And they only include events noted in a previous year, shrinking the base for comparison and often including in the growth calculation data for biennial shows from two years previously.¹³

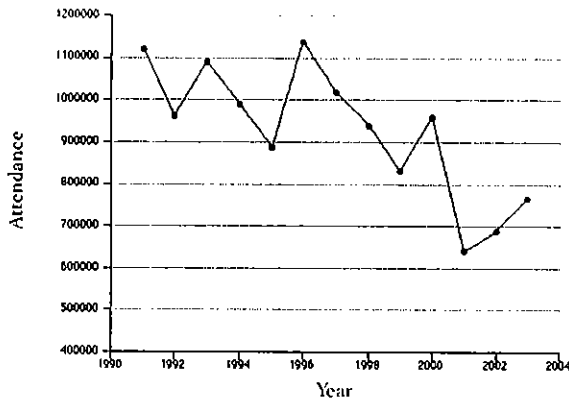
A look at the “real” numbers for 2003, then, tells a different story than the one told by *Tradeshow Week*. In 2002, the “200” events together spanned 64.65 million square feet of exhibit space while the 2003 total amounted to 61.9 million—a drop of 4.2 percent, not the reported 0.7 percent. Further, the 2003 attendance total was only 4.1 million, down from 4.2 million a year earlier. This represents a 3.2 percent decrease in attendees, a pretty far cry from the 3.4 percent increase claimed.

The data from the *Tradeshow Week 200* illustrate how, by the end of the 1990s, convention and tradeshow growth began to shift into decline. These data present only a limited, and understated, picture of the real magnitude of convention and tradeshow change, however. For local officials and citizens deciding about the prospects for a new or expanded convention facility, the real question is how this national change has affected the performance of actual, local convention centers—and their future prospects.

Local Convention Center Trends

To better understand the trends affecting local convention centers, this analysis categorizes them into four major types: major national centers, emergent national powers, prime visitor destinations, and regional centers. Each one is discussed in turn, below.

Figure 3. Major event attendance at Chicago's McCormick Place has dropped sharply



Source: *Tradeshov Week "200" Directory and Chicago Convention and Tourism Board*

The Major National Centers: Chicago, New York, Atlanta, and New Orleans

A small group of cities—Chicago, New York, Atlanta, and New Orleans—have long dominated the supply of convention center space and the demand from the largest convention and tradeshow events.

Chicago's McCormick Place is prime example of a successful center feeling the squeeze of recent trends. Propelled by a series of expansions, McCormick has led the space race since the 1960s and today boasts 2.2 million square feet of exhibit space. It has also hosted the greatest fraction of the *Tradeshov Week* 200 events. In 1991, McCormick held 28 of the "200," second only to New York. Two years later, that total reached 30 events with attendance (including exhibitors) of 1.1 million, putting Chicago first in events ahead of Las Vegas (26) and New York (25). At its peak in 1996, the center managed 24 of the "200" with attendance of 1.14 million.

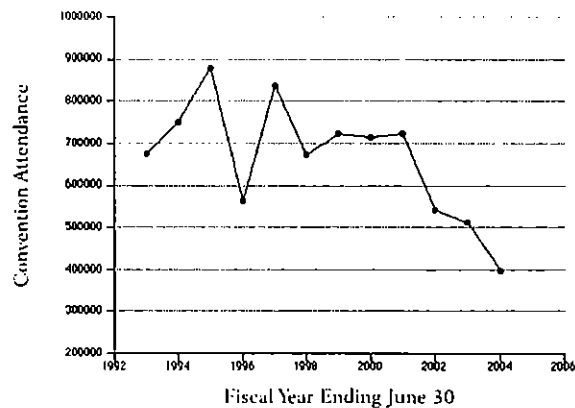
By 1999, however, the tide began to shift. McCormick's convention and tradeshow event count for that year fell to 22 with attendance of 831,163. Although attendance grew to 960,149 in 2000, by 2002, the event count was only 19, with attendance of just 688,354 (Figure 3). Things began to look up in a bit in 2003, with an event count of 25 and attendance of 767,207. Still, despite the growth in "200" events, average attendance *per event* in 2003 was at the lowest level since 1993. The picture is less rosy if you look at McCormick's *total attendance* in 2003, which includes public shows along with conventions and tradeshows. The 2003 total attendance figure of 2,512,168 is substantially below the levels for 2002 (2.7 million), 2001 (3.0 million), and 2000 (3.3 million), amounting to a drop of 25 percent over the three year period. Indeed, it is the lowest total since the attendance reports began in 1994.

New York City's Jacob K. Javits Convention Center is decidedly smaller than McCormick Place with only 800,000 square feet of exhibit space, but in 1991 it led the nation in the count of "200" events with 29. The ensuing years saw a marked shift in New York's pre-eminence, however, with its "200" total falling to just 18 by 1997, 15 for 2000, and 14 in 2003, as the city was obliged to compete with other destinations. Overall, the Javits Center housed about 60 conventions and tradeshows annually through the 1990s. But since the Javits managed its peak convention attendance from these events, 1.4 million in 1997, the

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“Despite their historic dominance, Chicago, New York, Atlanta, and New Orleans have all seen significant loss in recent convention activity.”

Figure 4. Atlanta’s Georgia World Congress Center saw attendance drop even with an expansion to 1.4 million square feet of exhibit space in June 2002



Source: Georgia World Congress Center Authority

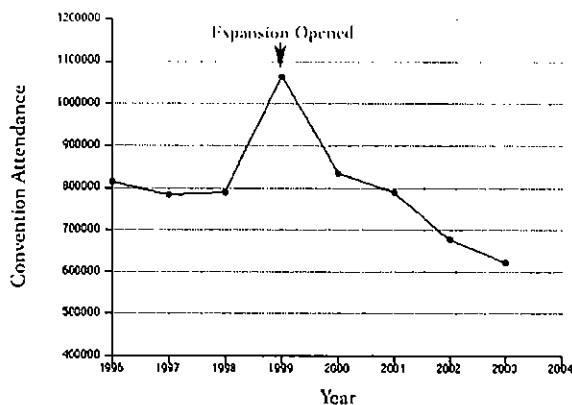
pattern has been similar to that of Chicago. Despite boosting its convention and tradeshow event count from 62 in 2000 and 61 in 2001 to 70 in 2003, attendance slipped first to 1.25 million in 2000, then to 977,600 in 2001, 931,850 in 2002, and finally 955,150 for 2003.¹⁴ Overall, the Javits’ convention and tradeshow attendance has dropped 32 percent from the 1997 total.

Atlanta’s Georgia World Congress Center (GWCC) has also been among the nation’s dominant centers, with a total of 18 “200” events in 1991. Fueled by substantial state fiscal support, GWCC expanded in 1992 to 950,000 square feet, and again in June 2002 to a total of 1.4 million square feet of exhibit space. The convention and tradeshow attendance at the GWCC boomed through the 1990s with the exception of the year when it was largely used in support of the Olympic Games, reaching a total of 837,752 attendees in fiscal 1997 (ending June 30, 1997). By fiscal 1999, as Figure 4 shows, that total had slipped to 723,284, and by fiscal 2002 fell further to 569,887. The expansion of the center—opened in June 2002 (prior to the 2003 fiscal year)—was justified in large part by a consultant study that forecast increased attendance, to 1.45 million by 2006. Instead, convention and tradeshow attendance came to just 512,194 in fiscal 2003, lower than the year before. Preliminary attendance figures for fiscal year 2004 show total convention and tradeshow attendance dropping even further, to 396,517—less than half the fiscal 1997 sum.¹⁵

A prime visitor destination city, New Orleans’ Morial Convention Center is the fourth major U.S. convention facility. For 1998, just prior to the opening of a major expansion, the Morial managed total convention attendance (including exhibitors and guests) of 789,271. With a boost to 1.1 million square feet of exhibit space in January 1999, the center hit a record total attendance of 1.06 million (Figure 5). A year later, however, the center’s attendance slipped to 834,947, dropping each year after to just 622,250 for 2003—a loss of 41.5 percent from 1999.

In sum, despite their historically dominant competitive position and place as major commercial centers, Chicago, New York, Atlanta, and New Orleans have all seen significant recent loss in convention activity, even as they expanded their convention centers. In part, their losses reflect the emergence of two new convention locales, which have succeeded in

Figure 5. Convention attendance at New Orleans' Morial Convention Center has fallen steadily since 1999



Source: Morial Convention Center Authority

both massively expanding their own exhibit space and luring events and attendees from the traditional destinations.

Emergent National Powers: Las Vegas and Orlando

Las Vegas and Orlando emerged during the 1990s as significance players in the convention and trade show market.

Las Vegas' growth as a prime convention center destination is largely a result of both its appeal to visitors and the Las Vegas Convention and Visitors Authority's ability to garner about \$160 million in tax revenues every year from the more than 125,000 hotel rooms in the area—revenues available for marketing, promotion, and sales of the area. The Las Vegas Convention Center has grown from its original 90,000 square feet in 1959 to 1.3 million square feet in 1998, and, most recently, to 1.985 million square feet in January 2002. Total convention attendance grew apace in the 1990s, from 819,259 in 1992 to nearly 1.2 million in 1998 and 1.3 million in 1999, well in excess of national trends.

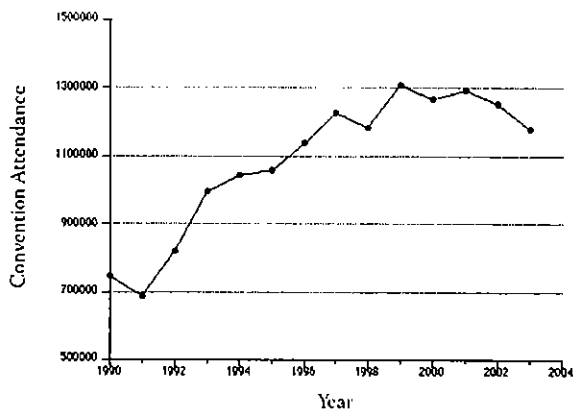
But as Figure 6 indicates, the convention center began to face a more difficult competitive situation starting in 2001. Despite the major expansion in 2002, attendance dropped that year, and then fell again in 2003 to less than 1.2 million. Measured in terms of average attendance per convention event, the Las Vegas center has seen a dramatic fall-off in the last two years—from an average of 26,154 in 1999 to just 16,369 in 2003. The vastly bigger public center is succeeding in gaining some new business, but its "production" of attendees is far more modest on average. The Las Vegas Center's most recent performance may in part reflect the impact of a new privately-owned convention center in the city. The Mandalay Bay Convention Center opened in 2003 with 1 million square feet of exhibit space, and has already lured events from other venues, including the SIA SnowSports tradeshow from the Las Vegas center and Promotional Products Expo from Dallas.

Orlando's Orange County Convention Center, like the Las Vegas Convention Center, has benefited from the combined fiscal benefit of tens of thousands of local hotel rooms—which generate a substantial revenue stream for center expansion and marketing—and the unique leisure and visitor amenities of its location. The Orange County Center has been regularly expanded since its 1983 opening with 150,000 square feet of space, to 1.1 million

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"Las Vegas and Orlando too have been hard hit by the recent change in the industry, with major new expansions yielding almost nothing in terms of increased business."

Figure 6. Las Vegas Convention attendance slid even after it doubled exhibit hall space in 2002



Source: Las Vegas Convention and Visitors Authority

in 1996 and most recently 2 million square feet in October 2003.

Orlando's annual convention and tradeshow event count grew from 66 in 1990 to 116 in 2000, with parallel attendance growth from 376,973 to 921,247. The center then saw a dramatic attendance drop in 2001, with a modest recovery in 2002 to a level still well below that of 1998, 1999, and 2000. The center managed another increase of 5.9 percent to 859,188 for 2003, some 60,000 of whom attended events in the newly opened North/South Hall.

Perhaps the most telling point about Orlando's performance is the projected level of attendance (based on bookings) for 2004 and 2005, with double the exhibit hall space of previous years. The Orange County center is forecast to house just 113 conventions and tradeshows in 2004 with estimated attendance about 1.1 million. And as of mid-June 2004, definite bookings for 2005 come to only 77 conventions and tradeshows with estimated attendance of 955,000. So with double the space built at a cost of \$748 million, Orlando will probably see only slightly more convention business than it managed in 2000.

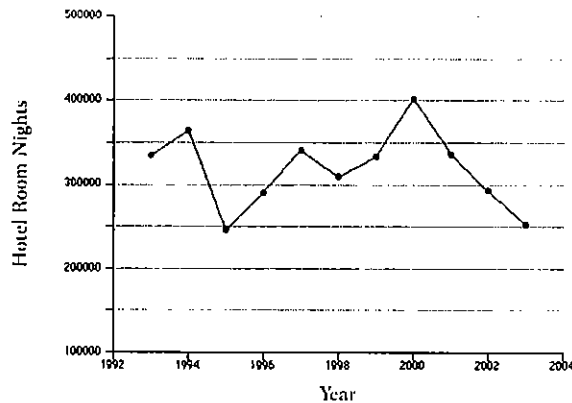
Both Las Vegas and Orlando have strong records of convention performance, both attracting substantial attendance and luring events from cities like Chicago, Atlanta, Los Angeles, and New Orleans. Nonetheless, they too have been hard hit by the recent change in the industry, with major new expansions yielding almost nothing in terms of increased business.

Prime Visitor Destinations: Boston and San Francisco

Some cities have long managed a successful role as visitor destinations as a result of their history, amenities, and distinctiveness. Both Boston and San Francisco are such locales, where a convention center can build on a large base of hotel rooms, restaurants, shopping, arts, and cultural facilities.

Boston's relatively small existing convention center, the Hynes, provides 193,000 square feet of exhibit space in a prime Back Bay location surrounded by some 5,000 hotel rooms. Writing in 2001, consultant David Petersen described the center as having "achieved maximum occupancy in the first year after expansion" [1988] and thus a "phenomenal success."¹⁶

Figure 7. Hotel room night generation by Boston Hynes Convention Center has fallen steadily since 2000



Source: Massachusetts Convention Center Authority

A close look at annual hotel room use figures provided by The Massachusetts Convention Center Authority shows, however, that even with its accolades and Boston location, the Hynes has not been immune to the larger changes in the convention and tradeshow industry. During the 1990s, hotel room nights averaged about 328,000, with a peak of 401,367 in 2000. As Figure 7 shows, the 2001 total dropped to 337,200 and fell to 253,698 for 2003. The center's occupancy rate, which had varied between 65 and 70 percent during the 1990s, fell to 52 percent in 2002 and 2003. Booking estimates for 2004 indicate about 258,000 hotel room nights—a continuation of the 2003 activity level. And estimates based on bookings for the next few years show no evidence of a turnaround, with about 260,000 room nights for fiscal year 2005 and 220,000 for fiscal 2006.

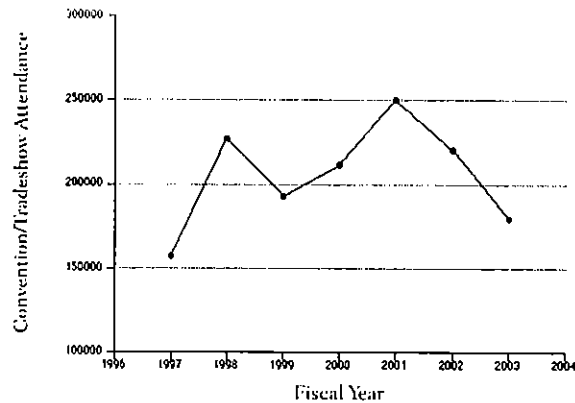
Even as the Hynes has been losing business, the Massachusetts Convention Center Authority has been busy building a new Boston Convention and Exhibition Center with some 512,000 square feet of exhibit space, which opened in July 2004. The 1997 market and feasibility study for the new BCEC projected a total of 38 events with 302,800 attendees yielding 398,135 room nights for the center's first year of operation, rising to 57 conventions and tradeshows with 470,600 attendees (and 675,000 room nights) by the fifth year. Current bookings show only six events (including four conventions) with about 65,000 attendees for the partial first year. But even that figure is wildly inaccurate, as it includes an estimated 50,000 attendees for the July 2004 East Coast Macworld Expo. The actual attendance for Macworld came to just over 8,000. For 2005, the authority has about 67,000 room nights on its books. Current estimates are that the BCEC will reach about 200,000 room nights in fiscal year 2008, less than a third of the feasibility study estimate. And a large fraction of the center's future business represents events like the Boston Seafood Show, New England Grows, and the Boston Gift Show—events that have long been held in other Boston venues.

Like Boston, San Francisco has long been a strong visitor destination and a prime convention locale, particularly for medical and professional groups, and for technology-related events such as Apple's annual Macworld during the 1990s. The Moscone Convention Center offered 442,000 square feet of exhibit space through most of the 1990s, with the 2003 opening of Moscone West adding another 96,660 square feet of space. The Moscone Cen-

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"As the expansion of major venues, national economic cycles, and the changing meetings industry have come together in the last few years, regional convention locales have faced a highly competitive environment for national and regional events."

Figure 8. Attendance at the expanded Baltimore Convention Center has both fallen and failed to reach the projected 330,000 annual attendance



Source: Baltimore Convention Center

ter has benefited from a prime location near the hotels and shopping of Union Square and the adjacent attractions of the San Francisco Museum of Modern Art and Sony's Metreon entertainment complex.

The convention attendance at Moscone came to 728,771 at 56 events for fiscal year 1997–98, followed by 790,548 the following year. A sharp drop in fiscal 2000 was followed by a return to previous level—737,694 at 52 events in fiscal 2001 (prior to September 11). Convention attendance and events then dropped for 2002, and again for fiscal 2003. The fiscal 2003 attendance of 600,975 was 24 percent less than the peak in fiscal 1999, and about equal to Moscone's attendance in fiscal 1993. The convention event count came to 39—a 36 percent drop from fiscal 1999.

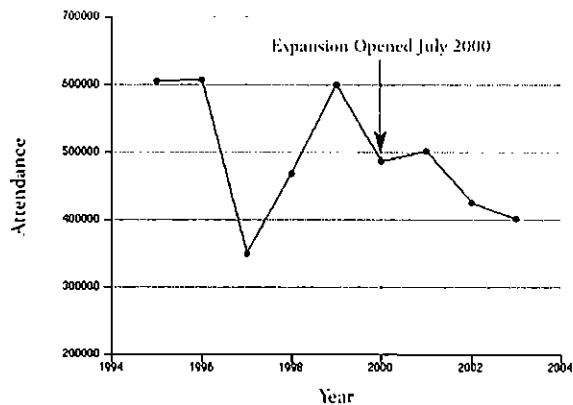
While both the Hynes and Moscone Centers enjoyed strong attendance during the 1990s, both have seen sharp drops in the last several years. If business doesn't rebound, the success of Boston's new convention facility—and the Moscone expansion—seems dubious at best.

Regional Centers

The great majority of large and medium-size American cities enjoy neither the vast convention spaces of Chicago, Las Vegas, or Orlando, nor the substantial visitor and amenity base of Boston or San Francisco. For San Jose or Baltimore, Tampa or Houston, the search for convention business holds the promise of promoting downtown development (or redevelopment), new hotels, and economic growth. These cities must build their convention efforts on a combination of state and regional events for which they hold some natural advantage and the relatively fixed pool of rotating national convention events. As the expansion of major venues, national economic cycles, and the changing meetings industry have come together in the last few years, these cities have faced a highly competitive environment for national and regional events, with uncertain yields in visitors and their spending.

Baltimore, for example, has long appeared to be a singularly successful case of visitor-oriented downtown revival. It also received substantial financial support from the state for the expansion of the Baltimore Convention Center to its current 300,000 square feet of exhibit space. Still, Baltimore's recent convention attendance record is less-than-stellar, as

Figure 9. Indianapolis' Indiana Convention Center has also seen a decline in convention and tradeshow attendance since 2000



Source: Indiana Convention Center

shown in Figure 8. The convention center has seen an attendance drop of 28.2 percent since fiscal year 2001 (ending June 30), to a level equivalent to pre-expansion fiscal year 1993.

Indianapolis presents another case of a city that has successfully managed large-scale public and private investment in its downtown core, much of it aimed at attracting visitors and tourists. One recent estimate for downtown investment from 1974 to 2000 came to \$4.4 billion.¹⁷ Along with regular expansions of the Indiana Convention Center and contiguous RCA Dome, the city has provided subsidies that have resulted in a growth of the downtown hotel room stock from 2,064 rooms in 1986 to 5,130 in 2003. But neither major public spending nor the ample supply of adjacent hotel rooms has been sufficient to insulate Indianapolis from the larger forces affecting the convention and tradeshow industry, however. As Figure 9 indicates, attendance has plummeted from 608,467 in 1996 and 600,643 in 1999 to just 402,525 for 2003—a fall of 33 percent from 1999.

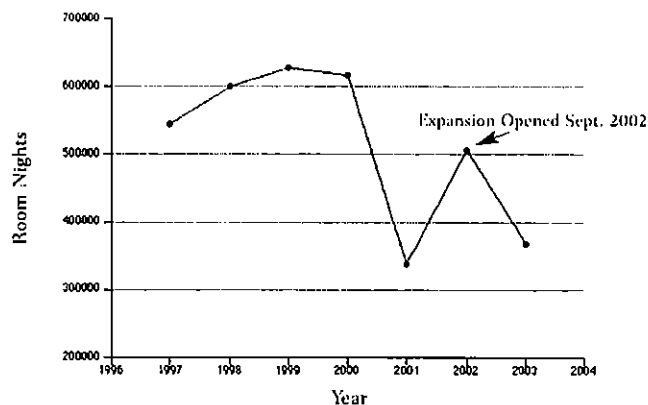
Washington, D.C. replaced its 380,000 square foot center with a new \$834 million, 725,000 square foot facility at the end of March 2003. For 2003, the new center housed 324,000 convention attendees who used 315,307 hotel room nights. Those 2003 totals (albeit for a slightly shorter period) can be compared to the performance of the far smaller, previous center. From 1990 through 1997, the old Washington Convention Center hosted an average of 337,301 attendees and 337,640 room nights. More recently, the center saw convention attendance of 281,900 for fiscal year 1999 and 345,800 for fiscal 2000, with a total of 352,243 hotel room nights in fiscal 2000. Authority officials anticipate about 400,000 room nights generated by the new center in 2004. After building an entirely new convention center with almost double the exhibit space, the Washington Convention Center Authority has seen effectively no increase in attendance or hotel use.

Serious attendance problems stretch to centers in the West and South as well. The Dallas Convention Center, for example, counts attendees at tradeshow and at conferences, with the latter category including a mix of national, regional, and local events. For fiscal year 1999, the tradeshow and conference attendance totaled 594,011, perhaps affected by a large turnout for the National Association of Home Builders convention. The next year's

B

"Even those cities that have invested in major center expansions have seen flat business, despite earlier market and feasibility studies that predicted more space would bring substantial increases in events and attendance."

Figure 10. Hotel room nights generated by the Dallas Convention Center have fallen dramatically



Source: HVS International, "Proposed Headquarters Hotel—Dallas, TX"

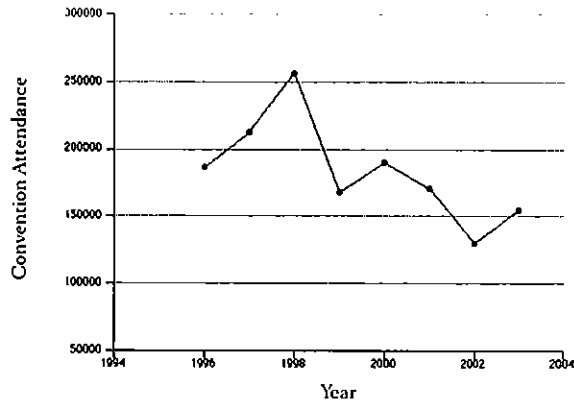
attendance was just 424,881, followed by 384,348 in fiscal 2001. But for fiscal year 2003, tradeshow and conference attendance fell to 282,534—a drop of 52 percent from the 1999 total. A related index of the Dallas center's performance, its count of conventions and convention-related room nights, presents a parallel pattern. For calendar year 1999, the center housed 47 conventions that generated 627,787 room nights.¹⁸ Those figures fell to 36 conventions and 368,882 room nights, or a room night loss of 41.2 percent. The estimated room night total for 2004 (including one event listed as tentative) is 280,784 (Figure 10).

The city of Denver is currently in the process of doubling the size of its Colorado Convention Center, and adding a 1,100 room city-owned Hyatt hotel. That major public investment comes even as the city has seen a substantial decline in the business at the existing 300,000 square foot center. In 1998, its peak year, the center managed 51 conventions and tradeshow events with 256,309 attendees. Attendance dropped to 130,285 in 2002 (for 36 events), and then rebounded slightly to 155,171 (at 33 events) for 2003, or a 39 percent attendance decline from 1998 (Figure 11).

Charlotte has also seen a dramatic activity shift in recent years, measured in terms of reported convention and tradeshow attendance at the 280,000 square foot Charlotte Convention Center, which opened in 1995. In fiscal year 1999, 49 conventions and tradeshow events accommodated 528,615 attendees. The attendance dropped to 305,316 in fiscal 2001 at 39 events. The fiscal 2002 attendance total (affected by September 11 and the state of the national economy) fell further to 187,084 from 32 convention and tradeshow events. Fiscal 2003 showed improvement, probably aided by discounts on center rent, to 39 conventions and tradeshow events that counted 301,381 attendees. But the latest data for fiscal 2004 shows 34 conventions and tradeshow events with a total of 233,845 attendees.

And the list goes on. Cincinnati's Sabin Convention Center saw its convention attendance drop by 47 percent from fiscal year 1997 to fiscal 2003. The convention attendance at Houston's George R. Brown Center fell 69 percent from fiscal 1999 to fiscal 2003. The comparable drop for the Atlantic City Convention Center amounted to 25 percent. Hotel room night activity from the Los Angeles Convention Center plummeted 65 percent from 2000 to 2003. The Pennsylvania Convention Center in downtown Philadelphia went from 573,857 hotel room nights generated in 2002 to 270,080 for 2004—a 53 percent drop. For

Figure 11. Denver's Colorado Convention Center has seen its convention and tradeshow attendance fall



Source: Colorado Convention Center

San Jose's McEnery Center, the attendance fall off amounted to 52 percent from 2000 to 2003. And for Civic Plaza in Phoenix, the convention attendance drop from 1997 to 2003 totaled 92,984 attendees, or 48 percent.

These trends—coupled with similar stories in Sacramento, Tampa, Minneapolis, Portland, Austin, and others—demonstrate that the dramatic, if not catastrophic, fall in convention activity and attendance has been both substantial and pervasive.

In sum, major destinations like Chicago and New York, Atlanta and New Orleans have seen serious declines in events and attendance in recent years. Those declines have also had a clear impact on centers in Las Vegas and Orlando which have historically gained market share, events, and attendance. Finally, a host of other communities of varying size and regional location have also seen notable changes, in the form of substantial loss of events and attendance. Even those cities that have invested in major center expansions have seen flat business, despite earlier market and feasibility studies that predicted more space would bring substantial increases in events and attendance.

There is little evidence that this situation will turn around in the short term. Future booking data for Austin, St. Louis, Orlando's Orange County Convention Center, the new Boston Convention and Exhibition Center, and the Dallas Convention Center suggest that a turnaround is not likely to be in the immediate offing. Indeed, the director of the Dallas Convention and Visitors Bureau told a group of local hotel officials in July 2004 that the city's convention bookings "suck."¹⁹ And New Orleans' Morial Convention Center, which saw a 38 percent drop in attendance to 622,500 in 2003, is forecast to retain an attendance level of between 600,000 and 670,000 a year from 2004 through 2007 based on bookings through early 2004.

The bottom line: With events and attendance sagging in even the hottest destination spots, few centers are even able to cover basic operating costs—and local economic impacts have fallen far short of expectations.

Table 1. Major tradeshow event performance declined considerably from 1999 to 2003

| Event | Space 1999 | Space 2003 | Percent Change | Attendance 1999 | Attendance 2003 | Percent Change |
|---|---------------|---------------|-------------------|--------------------|--------------------|-------------------|
| CONEXPO* | 1,732,002 | 1,845,808 | 6.57% | 101,261 | 80,054 | -20.94% |
| Super Show | 1,388,053 | 797,390 | -42.55% | 65,495 | 62,622 | -4.39% |
| Hardware Show | 1,300,000 | 459,000 | -64.69% | 67,643 | 27,569 | -59.24% |
| ICUEE (International Construction & Utility Equipment Expo) | 1,116,835 | 1,113,881 | -0.26% | 8,201 | 7,413 | -9.61% |
| COMDEX | 1,155,000 | 150,000 | -87.01% | 200,000 | 39,229 | -80.39% |

* CONEXPO is held every three years. The most recent data is for 2002.

Source: *Tradeshow Week "200" Directory for 2000, 2003, 2004*

III. Behind the Trends: Where Did the Convention Business Go?

In October 2000, Michael Hughes, the director of research services for the industry publication *Tradeshow Week*, did a presentation for the International Association of Assembly Managers entitled, "How Long Can the Boom Continue?" As part of his presentation, Hughes noted the continuing expansion of convention centers, and forecast a "soft landing" for centers "especially in the second- and third-tier markets," concluding that "[m]ust-attend events will stay strong if not grow more important to their industries."²⁰ Hughes pointed in particular to the five largest expositions (in terms of exhibit space) in 1999, a group that included the construction equipment show CONEXPO, the National Hardware Show, and the COMDEX computer show. Each of these five was a "must-attend" for its industry. But as shown in Table 1, Hughes' predictions were clearly overly optimistic: From 1999 to 2003, four of the five events dropped in terms in exhibit space, with the percentage change averaging 37.6 percent. And all five events lost attendance, with three losing more than 20 percent since 1999.

Whatever the sense a few years ago of the scale, import, or sectoral dominance of these and other tradeshows, it should now be clearly evident that "the boom" has not continued, and that the convention and tradeshow business has witnessed a sea change. Yet despite these trends, new and expanded centers are being constructed in communities all over the country. And so the problem, quite simply, boils down to this: Demand for convention center space is not keeping pace with its growing supply, severely limiting the ability of individual centers to accrue hoped-for economic benefits, and ultimately calling into question the value of these large public investments. A look at the convention center business, and how it has changed, can provide some insight into how and why this imbalance has arisen.

Declining Demand and Structural Change

The declines in events and attendance experienced by convention centers in recent years do not simply reflect a move from one city to a less attractive one, or a dramatic restructuring of a particular event. Rather, they are the product of industry consolidation, particularly in the hardware and home improvement industry, reductions in business travel in the face of increasing cost and difficulty, and alternative means of conveying and gathering information.

The Travel Industry Association's annual estimate of business and convention travel, for example, has declined from 164.3 million person-trips in 1999 to 142.4 million in 2002 and 138.2 million trips in 2003. That amounts to a 15.9 percent drop, one that began

before 2001.²¹ At the same time, the improved quality of telecommunications and the rise of Internet use have provided businesses with means of selling and promoting products and providing information without the cost, difficulties, and time consumption of inter-city travel.

A look at tradeshow—the gift fairs, crafts fairs, home furnishing shows, apparel and clothing shows that support particular industries—helps illustrate these trends.

As new industrial sectors and new products rise, for-profit event organizers will seek to capitalize on the opportunity for new shows and new locations—all to the benefit, of course, of those cities able to land them. For much of the 1990s, for example, the high technology boom supported an enormous growth in tradeshow events dedicated to computing and information technology. *Tradeshow Week's* annual *Data Book* counted 325 events in the computer and computer technology category in 1995. By 2000, that category had grown to 477 events, ranking first across industry categories, surpassing medical and health care (471), home furnishings (369), and education (292 events).

But as the information technology sector has been buffeted by economic change, so too have the tradeshow events that serve it. The 2002 event total for computing came to 371. By 2004, the computing area had fallen sharply to 303 total events. This pattern holds true even among the very largest information technology events—those in the *Tradeshow Week* 200. In 1999, events in the broadly defined “computers and electronics” category made up 21 of the “200,” including two of the top six in terms of exhibit space. Yet by 2003, only eight of those 21 remained among the “200” with the others having either dropped off the list because they decreased in size or, like a number of Internet shows, ceased to exist. Those eight shows which persisted on the “200” listing had 478,393 attendees in 1999. By 2003, their total attendance had fallen to 257,026—a decline of 46.3 percent

These drops affected even formerly premier events. For example, the Las Vegas-based COMDEX show had triumphed during the 1990s, growing from 1.13 million square feet and 127,279 attendees in 1991 to 1.38 million square feet and 211,886 attendees in 1997. It was sold by its originator, Sheldon Adelson, to the Japanese Softbank firm in April 1995 for over \$800 million. Yet by 2001 it had slipped to 805,706 square feet and attendance of 124,613, and for 2003 it spanned a mere 150,000 square feet and attracted just 39,229 attendees. Finally, the 2004 COMDEX was cancelled, though plans are afoot to revive it in fall 2005.

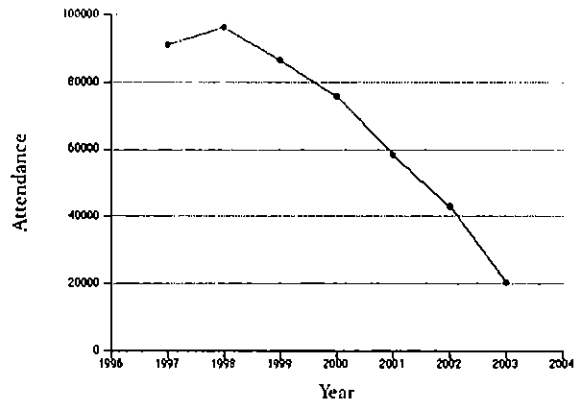
Similarly, New York City's PC Expo (later TechXNY), held annually at the Jacob K. Javits Convention Center, dropped from 96,269 exhibitors and attendees in 1998, to 75,972 in 2000, to a mere 20,509 in 2003, despite the fact that the bulk of attendees were “locals”—fully 90 percent of the 2002 attendees came from Connecticut, New Jersey, or New York. The attendance drop clearly began before 2001, and it was not likely a result of the threat of terrorism or the difficulties involved in airline travel (Figure 12).

The result of this broad decay of computing tradeshow—what had been a staple of the convention business in 1990s—is that cities are now both competing for a smaller pool of events, and that those events are yielding a far smaller total of attendees and economic impact.

To make matters worse, the dramatic attendance drops have not been limited to the computer industry. While a few sectors did see increases in tradeshow activity—*Tradeshow Week* reported a total of 538 medical and health care events in 2004, for example, up from 471 events in 2000—a number of other large, industry-dominant tradeshow have sustained notable attendance losses. As shown in Table 1, the “Super Show” put on by the sporting goods industry saw a substantial drop in exhibit space and a modest attendance fall off from 1999 to 2003. The attendance drop for the construction industry's CONEXPO was more dramatic, at 21 percent. And the National Hardware Show lost 59 percent of its attendees over the same period, turning into two competing events in Las Vegas and Chicago for 2004. Chicago's McCormick Place also suffered from the attendance declines

“In addition to computing conventions, a number of other large, industry-dominant tradeshow have sustained notable attendance losses.”

Figure 12. Declining attendance at TechXNY/PC Expo at New York's Javits Center



Source: Exhibit Surveys, "Annual Attendee Audit, TechXNY"

of the National Restaurant Show (57,995 in 1999 to 49,279 in 2003), the Supermarket Industry Convention (34,000 in 1999 to 9,730 in 2003), and the Society of Manufacturing Engineers' FABTECH show (30,658 in 1999 down to 17,934 for 2003).

Given these industry trends, even centers with a relatively stable stream of annual events are finding fewer attendees than in the recent past. At the Las Vegas Convention Center, for example, the average per convention attendance fell to 16,369 in 2003, rather less than the highest average figure of 26,154 in 1999, and the lowest since 1991. In New Orleans, average event attendance hit 6,044 in 2003, down from 9,578 in 1999. And for New York's Javits Convention Center, average attendance at conventions and tradeshow dropped from 20,216 in 1999 to just 13,645 for 2003.

Increasing Supply: More Space, New Choices, Greater Glut

Despite diminishing demand, the last few years have seen a remarkable boom in the volume of exhibit space in U. S. convention centers.

Expansions and entirely new centers added 9.6 million square feet of space between 1990 and 1995, another 3 million to 2000, and 8.8 million more over the last three years (Table 2). New centers will be opening in the latter part of 2004 in Tacoma and Columbia, South Carolina, joined by expanded centers in Denver, Grand Rapids, Cincinnati, and Des Moines. The next two years will see new centers open in Hartford, San Juan, and Virginia Beach. And major expansions are underway at Chicago's McCormick Place, New Orleans' Morial Center, and Phoenix' Civic Plaza, while a proposal for a new stadium/convention center expansion being is considered in New York. A host of other cities—from Albany to Tampa, Cleveland to Boise—have completed feasibility studies that apparently justify new convention center development or expansion. Even in communities like Pittsburgh and Portland where convention center expansion proposals have been defeated by the voters, more space has still been built. Additionally, there is no evidence that the convention center building boom is over or even seriously slowing. And so the competition for events—large and small—becomes ever fiercer (Table 3).

So how do these cities justify the building frenzy? The traditional argument for expanding an existing center or building a larger new one is that more space will enable a center

Table 2. Despite declining trends in conventions and tradeshow, dozens of cities have built or expanded convention centers since 2000

| Cities with New Centers | Cities with Expanded Centers |
|-------------------------|------------------------------|
| Boston, MA | Anaheim, CA |
| College Park, GA | Atlanta, GA |
| Council Bluffs, IA | Austin, TX |
| Galveston, TX | Charleston, WV |
| Grand Forks, ND | Chattanooga, TN |
| High Point, NC | Columbus, GA |
| Houston, TX | Columbus, OH |
| Knoxville, TN | Dallas, TX |
| Omaha, NE | Denver, CO |
| Overland Park, KS | Duluth, GA |
| Pittsburgh, PA | El Paso, TX |
| Sarasota, FL | Fort Lauderdale, FL |
| Savannah, GA | Fort Smith, AR |
| Springfield, MO | Fort Worth, TX |
| Tunica, MS | Fresno, CA |
| Washington, DC | Greensboro, NC |
| West Allis, WI | Hickory, NC |
| West Palm Beach, FL | Hot Springs, AK |
| Wilmington, OH | Houston, TX |
| | Indianapolis, IN |
| | Lafayette, LA |
| | Las Vegas, NV |
| | Louisville, KY |
| | Memphis, TN |
| | Minneapolis, MN |
| | Orlando, FL |
| | Portland, OR |
| | Reno, NV |
| | Richmond, VA |
| | Rosemont, IL |
| | Salt Lake City, UT |
| | San Antonio, TX |
| | San Diego, CA |
| | Seattle, WA |

Source: *Tradeshow Week Major Exhibit Hall Directory (2000, 2001, 2002, 2003, 2004) and author's research*

"The reality of the industry is that there are relatively few large events in terms of exhibit space."

or city to accommodate—and hence attract—larger events, or a larger fraction of the total pool of conventions and tradeshow. Thus consultant Charles H. Johnson could reassure a citizens' committee in Fort Worth that, "with the expanded convention center, you can now accommodate from 85 to 88 percent of the meetings industry from the exhibit space standpoint."²² Similarly, a March 2001 analysis of Nashville's need for a larger center could argue, "At 300,000 square feet of first-class exhibit space, a facility in Nashville could accommodate nearly 90 percent of the potential market, while 400,000 square feet could accommodate approximately 95 percent."²³ Larger events, of course, mean more people spending more money in the local economy.

Table 3. Dozens more cities are currently planning or constructing new centers or expansions

| Cities with New Centers Planned/Underway | Cities with Expansions Planned/Underway |
|--|---|
| Albany, NY | Baton Rouge, LA |
| Branson, MO | Bellevue, WA |
| Cleveland, OH | Chicago, IL |
| Colorado Springs, CO | Cincinnati, OH |
| Columbia, SC | Daytona Beach, FL |
| Erie, PA | Des Moines, IA |
| Hampton, VA | Edison, NJ |
| Hartford, CT | Fort Wayne, IN |
| Jackson, MS | Grand Rapids, MI |
| Lancaster, PA | Hickory, NC |
| Las Cruces, NM | Indianapolis, IN |
| Lynwood, WA | Kansas City, MO |
| Raleigh, NC | Nashville, TN |
| Rockford, IL | New York, NY |
| San Juan, PR | Palm Springs, CA |
| Santa Fe, NM | Peoria, IL |
| Schaumburg, IL | Philadelphia, PA |
| Springfield, MA | Phoenix, AZ |
| St. Charles, MO | Salt Lake City, UT |
| Tacoma, WA | San Jose, CA |
| Vail, CO | Spokane, WA |
| Virginia Beach, VA | Tampa, FL |

Source: *Tradeshow Week Major Exhibit Hall Directory* (2000, 2001, 2002, 2003, 2004) and author's research

But as centers seek to expand, the reality of the industry is that there are relatively few large events in terms of exhibit space. While the largest of *Tradeshow Week's* 200 events for 2003 used 1.25 million square feet, the *median-sized* event used just 235,000 square feet. The biggest convention centers in the nation—in Chicago, Atlanta, and Orlando—are not expanding in order to serve the relative handful of very large events. They are expanding in order to accommodate simultaneous small and medium-sized events, the kinds of events that now use far smaller centers. A 1997 analysis by Ernst & Young of Orlando's expansion market noted that, "Similar to other convention centers in this class, the Las Vegas Convention Center hosts only a few events that require the entire facility. They are primarily expanding to enable the center to attract more medium-sized events that will provide for smoother hotel utilization—events can be staggered so that while one group is meeting, another can be moving in or out."²⁴ The Ernst & Young study then went on to mention that, "Chicago, too, sees the opportunity to host the large number of events in the medium-sized range and are providing the high-quality space they require."²⁵

The Conventions, Sports and Leisure consulting firm's assessment of New Orleans' market position noted that, "the Morial Center's present marketing strategy focused on targeting multiple events that can be held concurrently at the center rather than single shows utilizing all or a majority of the facility."²⁶ And the same firm's assessment of an expansion of Denver's Colorado Convention Center argued, "[a]dditionally, many other cities that compete with Denver are expanding their convention centers. This frequently is for the same reason that Denver is looking to expand, namely the ability to host simultane-

ous activities.”²⁷ Each of these communities is seeking to expand their overall business by going “downmarket” in search of smaller events.

Thus while small centers get bigger in order to accommodate bigger events, bigger centers are getting bigger in order to accommodate small and medium-sized events simultaneously. The result of that convergence is that meeting planners are finding a vast increase in the venues open to them, from “big” destinations like Las Vegas and Chicago that might once have turned away a smaller event, to mid-size communities like Austin, Columbus, or Portland, to “new” locales—like Branson, MO or Lancaster, PA—that are seeking to seriously gain convention business. Even groups that have historically used major centers have chosen, for one reason or another, to hold their convention in a smaller venue. For example, the American Urological Association, which has regularly met in large centers such as Chicago’s McCormick Place and Orlando’s Orange County Center, will hold its 2005 convention in San Antonio’s 440,000 square foot Henry B. Gonzalez Convention Center.

In short, a larger center may open up the possibility of greater convention business. Or, it may simply expand the array of choices open to meeting planners and organizers, allowing them to try out new sites or take advantage of special deals. Thus the American Psychological Association is holding its 2004 annual convention in the quite modestly-sized Hawaii Convention Center before moving to Washington for 2005 and New Orleans the following year, in part because the Honolulu facility was trying to fill the dates. The end result is a kind of “churning” where meeting planners try out new venues and locations, responding to incentives and opportunities and the possibilities offered by a far larger number of centers with potential space. And if a new city or venue fails to support the level of attendance sought, there are always other alternatives.

“Convention centers themselves are expensive, money-losing propositions.”

IV: The Costs of Chasing Conventions

The studies that justify both the new center space and the publicly-owned hotels paint a picture of tens of thousands of new out-of-town visitors and millions of dollars in economic impact. Despite that rhetoric, these projects carry real risks and larger potential costs, particularly in an uncertain and highly competitive environment.

Costs and More Costs

The first of these costs is, in fact, *more costs*. The fact is, investment in a new convention center often doesn’t end with the facility itself. Faced with convention centers that are routinely failing to deliver on the promises of their proponents and the forecasts of their feasibility study consultants, many cities wind up, as they say, “throwing good money after bad.” Indeed, weak performance—an underutilized center, falling attendance, an absence of promised private investment nearby—is often the justification for further public investment. A new center is thus often followed by a subsidized or fully publicly-owned hotel, then by a new sports facility such as an arena or stadium (occasionally combined with the convention center), ultimately by an entertainment or retail venue, and perhaps a new cultural center or destination museum.

In endorsing a city plan for providing deep public subsidies for a new 1,000 room hotel, the *Dallas Morning News* recently editorialized:

Dallas has a great convention center. Dallas has great hotels. It just doesn’t have a great hotel attached to its convention center...

*A hotel is a good investment in Dallas’ future. We’ve already spent the money to build one of the nation’s largest, most advanced exhibit spaces. We’d be foolish to let it sit idle much of the time for lack of an attached hotel.*²⁸

Public failure—and even what the *Morning News* terms a “buyer’s market”—does not bring a political cost or a strategic rethinking and redirection. It just brings more.

For many cities, in fact, the public cost of the convention bet is growing and largely open-ended. The 800 room Hyatt hotel adjacent to Chicago’s McCormick Place, for example, was built and is owned by the Metropolitan Pier and Exposition Authority at a cost of \$127 million. And new hotels in Houston, Omaha, Myrtle Beach, Austin, and soon Denver are also fully publicly owned. In Denver, with a doubling of the Colorado Convention Center underway, the city has taken on some \$367 million in debt to build an 1,100 room hotel next door, with the expectation that such a combination is bound to succeed in boosting the local convention business. And add Portland, San Antonio, Baltimore, Phoenix, and Washington, D.C. to the list of cities in the process of promoting new public or publicly-subsidized hotels as the “answer” to their convention problems.

Opportunity Cost

With the commitment of such huge sums to convention centers and related facilities comes a serious second cost—the *opportunity cost* of not investing this money in other public goods, even those aimed at downtown revitalization and economic development.

The taxes on restaurant meals, car rentals, and general sales taxes that pay for convention centers are legitimate public revenue sources, which could be used for a broad array of local public purposes. The investment of \$400 or \$600 million in downtown revitalization—including housing, retail, and infrastructure—could provide a substantial development stimulus and inducement to private investment, for example. And in any given city, investments in transportation, industry cluster development, schools, neighborhood development, or any number of other priorities may be likely to yield far more bang for the buck. These projects have greater direct appeal to local residents, and thus offer greater likelihood of success.

In short, at a time when city finances are obviously stressed, the price of a failed convention and visitor strategy can be measured in terms of all the other investments, services, and fiscal choices that will be never realized as a result.

Fiscal Cost

At the end of the day, though, the most dramatic cost of convention center investment is *fiscal*.

State and local investment in these large scale developments have long been justified in terms of the broad local economic impact they generate, the presumed result of thousands of visitors, staying over in local hotels multiple nights with their spending summing to millions each year. In truth, however, convention centers themselves are expensive, money-losing propositions.

To begin with, each new or expanded center typically comes with a capital cost measured in the hundreds of millions. For example, the latest expansion of the nation’s largest center, Chicago’s McCormick Place, will add some 600,000 square feet of exhibit space at a cost of \$850 million. The cost of the new Washington Convention Center and its 725,000 square feet of exhibit space came to \$650 million. Boston’s new Boston Convention and Exhibition Center had a price tag of \$621.5 million for its 516,000 square feet of exhibit space and related space—plus \$71 million for a convention center in Springfield, and \$19 million for a new convention center in Worcester that came with the deal approved by the state legislature. Even Richmond’s more modest 120,000 square foot center expansion carried a \$129 million price tag.

For these cases, and dozens of others, the debt incurred in building or expanding the center is not repaid through the centers’ operation, or from taxes on convention center attendees or exhibitors. Rather, the public revenues supporting convention center bonds typically include taxes on *all* area hotel rooms—in the city, the county, or even a multi-

county region—as well as other broad-based taxes and surcharges. For the new Boston center, an increased hotel room tax has been joined by a 5.75 percent tax on hotel rooms built after July 1997, a \$10 per transaction tax on auto rentals, a five percent sightseeing surcharge, an additional five percent sales tax charged in certain area hotels, and revenues from the sale of new Boston taxi permits—all designed to yield more than the \$64 million required for annual debt service on the center. Similarly, the revenues supporting the \$36 million annual debt repayment for the new Washington Convention Center include a 2.5 percent tax on all hotel room sales in the District of Columbia, a one percent tax on restaurant meals and auto rentals, a surcharge on the city's corporation franchise tax, and an added surtax on the unincorporated business tax. These new taxes certainly don't fall just on convention center attendees, or even just on visitors.

By shifting the debt for center construction to a far broader revenue base, cities and other governments can earn a measure of protection from the vagaries of the convention, or even hotel, business. But the changing convention market does have a direct impact on the operating cost of a center. Convention centers commonly pay their direct operating expenses—personnel and maintenance, utilities, insurance, and other costs—by charging center users rent for their space, and through additional charges on food and beverage service, telecommunications, and a host of other items. Still, almost every convention center in the country operates at a loss, not even counting construction costs or debt. Convention center consultant David Petersen noted in 2001 that “In North America, only two or three convention centers in major markets consistently generate enough operating income to pay operating expenses.”²⁹

An October 2003 consultant study for the Oregon Convention Center, for example, described an annual operating loss at Seattle's Washington State Convention and Trade Center of “approximately \$5.3 million,” and an operating loss at San Jose's McEnery Convention Center of \$5 million in fiscal year 2002.³⁰ And the numbers for the new Washington Convention Center are even worse. A 1998 financial forecast estimated that the center would bring in about \$20 million in operating revenues in 2004, against some \$25.6 million in operating expense, leaving a loss of \$5.6 million. A recent auditor's estimate for fiscal year 2004-05 puts the likely operating loss at \$16.2 million.³¹ Added to that is another \$36.2 million in annual debt service, and \$7.8 million in marketing costs for a total annual cost of some \$60.2 million.

For these and other centers that cannot generate enough revenue to cover their operating costs, additional funds are needed to cover their losses. That may require more money from a city government, a reduction in funds for marketing, or an entirely new tax source.

To make matters worse, these centers must continue to scramble for events amid stiff competition. Increasingly, as a result, many facilities have been offering discounts on center rental rates and other special incentives, further compounding their inability to cover costs.

Examples of this trend abound. The city of Dallas recently began advertising its “Destination Hero” package, offering half-price center rent, a \$5.00 per room night rebate for local hotel use, and discounts on shuttle service, exhibit setup, and even airfare for events booked through the end of 2007.³² The Hawaii Convention Center is offering free rent on events booked through 2010.³³ Charlotte recently “won” the 2005 Mennonite USA convention against competition from Columbus, Indianapolis, and Nashville by offering the convention center for free, plus some extra incentives.³⁴ The Seattle Convention and Visitors Bureau's 2004 marketing plan notes that the Oregon Convention Center has been offering the center “on a complimentary basis,” while Denver is offering free rent on its expanded center scheduled to open in December 2004. And then there is Los Angeles “which offers extremely attractive pricing.”³⁵

The financial impact of these discounts and free rent offers goes right to the operating revenues (and losses) of a convention center. A center owner still has to pay for utilities, maintenance, and labor even when the center is free, thus boosting its annual operating

“Compared to St. Louis’ overall capital investment, the total amount invested in convention facilities is remarkable.”

loss. The *Washington Post* recently reported that part of the Washington Convention Center's operating loss was the result of more than \$2.7 million in center rent discounts.³⁶ Of course, center boosters argue that the increased visitor spending and economic impact from new events more than make up for those losses. But the promise of increased hotel taxes and economic impact is often just that—a promise. As the annual count of attendees declines, all of the impact of their presumed spending falls in step.

That small number of centers that are able to generate enough revenue to cover—or at least come close to covering—their operating costs typically do so by booking a greater number of local events.

There's a major tradeoff to this approach however: Local events don't bring in out-of-town visitors spending their out-of-town money at local restaurants, retail shops, and tourist destinations—spending that ultimately boosts a cities' general revenues.

V. Case Study: A Look at St. Louis

The fiscal impact of convention center investment is exemplified by St. Louis, a city which has long sought to boost its economy and sustain downtown with a visitor and convention strategy.

The city's Cervantes Convention Center opened in 1977 with 240,000 square feet of exhibit space and the promise it would "make St. Louis a top contender as a site for conventions."³⁷ The city went on to invest both local and federal dollars in a new downtown shopping mall, a festival marketplace and hotel at Union Station, and a restored riverfront warehouse district, with the aim of positioning St. Louis as a major tourist destination.

By the mid-1980s, local convention officials and business leaders were promoting an expansion of the center with the argument that it would boost the local meetings business and aid downtown. In a referendum vote in 1987, the city's voters approved an increased hotel tax and a new restaurant tax to pay the \$150 million cost of the expansion. The investment in the convention center expansion was a major undertaking for the city, as its general obligation debt had dwindled to just \$30 million in the wake of a failed bond issue package in 1974. St. Louis was putting its public dollars on a very expensive bet on a convention center, rather than on basic services or public infrastructure. It was committing its general revenues to pay off the center expansion bonds.

Just a few years later, the city would increase its bet on conventions yet again, attaching a planned new domed stadium—intended to lure an NFL team—to the convention center, with the argument that it too would add more exhibit space. This time, the city partnered with the state and St. Louis County incurring only \$60 million of the \$240 million cost of what is now the Edward Jones Dome. And once again, it committed city general fund monies to pay the \$6 million annual cost of the stadium debt. In order to justify the commitment of city dollars, consulting firm Coopers & Lybrand conducted a study that projected the convention center's business would triple, generating some \$12 million a year in new city tax revenues.³⁸

The first piece of the convention center expansion opened in 1993, followed by the dome in 1995. Together, they were supposed to have launched St. Louis into a new level of convention activity. But where Coopers & Lybrand had estimated more than 814,000 added annual "attendee days" for the center (assuming each of the 200,000 new attendees would stay more than four days, thus using an equivalent number of hotel room night(s)), the actual results were far short. In 1999—four years after the addition of the dome—only 173,000 attendees accounting for 203,000 hotel room nights participated in center conventions and tradeshow.

The overall product of St. Louis' bet on-conventions can be seen in the annual volume of downtown hotel demand from 1991 (pre-expansion and dome) through the 1990s. In

1991, the downtown hotels accounted for 1.16 million occupied room nights. After the convention center expansion and the domed stadium, 1996 hotel demand amounted to 1.2 million, a gain of about 38,000 annual room nights. But for 1997, demand dropped to 1.18 million and then 1.15 million the following year.³⁹ In terms of filling more hotel rooms, the city's investment in more and newer convention center space and a dome had done absolutely nothing to either fill existing downtown hotel rooms or to prompt the private development of more hotels. As a bet, it had proved decidedly unrewarding.

Faced with the lackluster performance of a facility dubbed "America's Center," downtown business leaders and city officials pressed for even more public investment, in the form of a deeply subsidized headquarters hotel adjacent to the center. Over a period of years during the 1990s, the city sought to induce a private developer to build a major new hotel. But those efforts effectively failed. Finally, in 1999, St. Louis officials embraced a scheme by Historic Restorations, Inc. to combine the renovation of an old hotel with an entirely new building, supported with a variety of city and state financial vehicles. City leaders were convinced that a big hotel would catapult the city into the front rank of convention destinations. The Convention and Visitors Commission argued that the hotel could boost the city's overall convention business from 30 events a year to 50 or more, from 414,000 annual room nights to about 800,000. And again, the scale of the public bet was massive.⁴⁰

The new 1,081 room St. Louis Renaissance Hotel would cost about \$265 million, and be paid for with a \$98 million federal empowerment zone bond, more than \$80 million in city aid including a bond issue secured by federal Community Development Block Grant funds, another \$21 million in state tax credits, and some \$20 million in federal historic preservation tax credits. The private investors, Kimberly Clark and Historic Restorations, put in about 10 percent of the cost.

Compared to the city's overall capital investment, the total amount being invested in convention facilities was really quite remarkable. After the defeat of a major package of bond projects in 1974, the city had effectively stopped putting general obligation bond projects before the voters. As a result, the city's general debt fell to about zero in 1998. A \$65 million bond issue for new fire stations was approved in November 1998, putting the city general obligation debt at \$47.5 million in 2002, with another \$407 million in capital leases, all of which did not require voter approval and was almost entirely devoted to buildings downtown including the convention center. In essence, for two decades the city had reshaped its capital investment, directing most of its own investment resources to the convention center and stadium, a new arena, and a jail and courts building. In doing so, it also created a continuing drain on the city's general fund resources.

The convention center and stadium complex were supposed to be revenue generators, with their debt repaid through the city's general fund by increased taxes on hotel rooms and restaurants. The annual debt service on the first phase of the expansion, funded by a 1993 bond issue, came to \$11.9 million in 2001, plus another \$2 million for "asset preservation." The city was also committed to \$6 million a year to pay for the dome. But the actual revenue from these visitor-based taxes has been far less than the projected \$12 million.

For fiscal 2001, the restaurant tax yielded the city about \$3.9 million, with the hotel tax generating another \$5.2 million. Set against the total \$20 million annual debt payment for the convention center and stadium, these investments constitute a continuing fiscal burden. And compared to the city's annual property tax revenues of \$42 million, it is a substantial ongoing commitment into an indefinite future, taking public dollars that could have been spent on basic services. Compare this debt, for example, to spending on other major activities. It amounts to 15 percent of the current spending for police services (\$134 million), exceeds the \$18.6 million general funding spending for parks and recreation, and is about 42 percent of the current annual city spending for the fire department. In 2003,

*"In city after city
the new private
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vention centers
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not occurred."*

St. Louis refinanced its debt on the center, temporarily deferring its repayment but boosting the size of the subsequent annual bill.

The new Renaissance hotel was fully open in February 2003, finally giving the city the complex of convention center, stadium, and headquarters hotel that had long been viewed as vital to its competitive position in the convention industry. There was, however, in the economic environment of 2003, not a great deal of evidence of the kind of convention success for which city leaders had long hoped. The Convention and Visitors Commission's estimates of convention attendance at the center came to about 155,700, little changed from the 154,800 of a year earlier, or the 156,000 of 2000. And for 2004, booking estimates stood at only 115,300. Where Convention and Visitors Commission president Bob Bedell had promised 50 or more annual major conventions, the 2003 total came to 25, with about 23 estimated for 2004.⁴¹

And, the hotel itself continues to be a drain on city resources. With no boost in convention business, the Renaissance was hard pressed to maintain a reasonable occupancy level and daily rate in 2003, particularly when downtown hotel occupancy averaged just 55 percent. That year, the Renaissance averaged under 50 percent occupancy at a rate of just \$110. That was far less than the projected 63 percent occupancy and \$131 a night room rate estimated by the 2000 feasibility study that justified the hotel. Performance was weak enough to attract the attention of Moody's Investor Services, which had rated the \$98 million in empowerment bonds for the hotel in 2000.

Faced with the hotel's notably weak market performance, Moody's placed the hotel bonds on its "watchlist" in October 2003, finally downgrading their rating near the end of December to a speculative level. Moody's assessment was less than heartening, noting that the hotel was failing to meet its operating costs let alone the \$7.1 million annual repayment of the bonds.⁴² The hotel's operating deficit (before debt service) came to \$1.7 million for the year. And things appear little better for 2004. For the first half of the year, the hotel's occupancy rate came to 49 percent, at a \$110 average room rate, yielding a projected operating loss for the year of \$2.3 million *before debt service*. And Moody's downgraded the bonds again in August 2004.

St. Louis used the vast bulk of its \$130 million in federal empowerment bonds authorization, fully 75 percent, in pursuit of its convention hotel dream. It also took on the obligation to repay another \$50 million backed by its HUD community development block grant funds. The commitment to the hotel, rather than some other form of job creation or economic development, thus represents a substantial opportunity cost. Now, with the hotel failing to meet its operating costs or debt service, the city of St. Louis will be forced to use \$500,000 in federal aid to meet the debt service cost this year.

But the bill for the convention center and headquarters hotel in a highly competitive market does not stop there. The Moody's assessment of the hotel's financial prospects argued that its future success "will depend in part on continued redevelopment of downtown," with the city seeking to "fast track certain downtown redevelopment efforts."⁴³ The likelihood is that St. Louis and the state of Missouri will continue to pour public capital investment and tax subsidies into the downtown area and convention competition, despite the limited returns. The city is thus regularly subsidizing the convention center at the expense of other public services or other revitalization strategies.

VI: Implications for Public Policy: Making Smarter Investments

Today, a broad cross section of American cities from Richmond, VA to Peoria, IL; Jackson, MS to Tacoma, WA have or are investing millions of public dollars in the quest for convention center success.

They are pursuing an economic development strategy that has already failed in dozens of cities, and holds little prospect of succeeding in most. With the possible exception of a handful of major cities that have long dominated the national and regional economies and a very small number of prime visitor destinations like Orlando and Las Vegas, the grand promises of convention center investment are unlikely to be realized, the strategy doomed to failure.

This being the case, it important to try to understand why state and local leaders are making such bad decisions, and how the systems that drive those decisions can be improved to yield better outcomes for cities and their residents.

Working from Real Market Information

As described earlier, national and local information on convention center trends and performance is sorely lacking.

For most sectors of the national economy—home sales, housing starts, auto sales, retail sales, new public and private construction, employment—there is an abundance of readily available, widely reported, and consistently verifiable data on performance and trends. That is simply not the case for the convention and tradeshow industry at the national level. Where we can see the performance of hotels and airlines, the level of activity in the nation's convention centers remains inadequately measured and poorly described, often by trade publications with their own indices or consulting firms with proprietary data that is impossible to verify.

The contemporary market environment has thus been described by a June 2004 "viability assessment" for Cleveland as one in which "the exhibit space required to accommodate future event needs will increase..."⁴⁴ And while noting "an oversupply of convention facilities," it could argue that a new center would help assure "a vibrant, thriving central city at [the region's] core."⁴⁵ In similar fashion, a May 2004 updated analysis for a proposed new convention center in Albany, New York was able to present a graph showing regular annual growth in convention and tradeshow attendance of two percent a year from 2003 through 2008 (following a modest downturn), coupled with the conclusion that "For the meetings industry, things have generally returned to pre-9-11 condition... Travel to meetings and large tradeshow has resumed and will continue."⁴⁶ The penultimate conclusion for Albany was that "the research still indicates strong support for the [convention center] project as recommended... a significant demand generator in the local economy."⁴⁷

The information dearth that surrounds convention centers is no less problematic in terms of individual cities. The public entities which own and manage convention facilities—city or county governments, public authorities, and state government agencies—report the basics of convention center performance in a wide variety of ways that tend to obscure rather than enlighten. The city of Austin, Texas for example, has an elaborate performance measurement system for city departments, allowing them to measure such things as the cost of curb ramp installation and the cost per employee of prescription drugs. But while the Convention Center Department reports on such things as the customer satisfaction rating of event set-up, it provides no readily available information on the convention attendance at the center. One city report includes the information that the center achieved a 77 percent occupancy ratio for fiscal year 2003.⁴⁸ But while that figure can tell an observer that the center was rented, it provides no distinction between conventions and public shows or between local or national events, nor any index of how many attendees the newly-expanded center managed to attract. The measures needed to really assess the center's performance: annual convention and tradeshow attendance,

annual hotel room night generation, number of out-of-town attendees are just not there.

In a similar fashion, the state of Washington, widely recognized for its use of performance measurement, priority-setting, and budgeting for outcomes, neatly reports the number of attendees at the state-owned Convention and Trade Center in downtown Seattle, together with ratings of customer satisfaction.⁴⁰ But that total attendance figure includes national convention attendees together with estimated 10,000 attendance at "Seattle's Cookin'!!" and the 80,000 attendees for the Flower and Garden Show. What the state doesn't report is the annual total of convention and tradeshow attendees, particularly from out-of-state. By obscuring the most relevant center performance, its ability to lure visitors and generate economic activity, these measures provide a false sense of the center's return on investment and performance and obscure the impact of larger national market forces.

Reliable national market data that can describe convention center supply and demand would not necessarily improve the decision-making process at the local and state levels. But it would provide some basis for independent assessment of local performance and success, and of the prospects of a new or expanded center, beyond the analyses and conclusions of paid consultants. And once built, a serious assessment of what the state or local economy is actually receiving from its investment in a convention facility requires real measures of relevant performance, reported in an accessible fashion that supports comparison with forecasts and promises, and that links the cost of funding and operating a center with its return and results.

Making the Process Transparent and Valid

Real information and performance measures are just the first needed element in creating an environment capable of assessing the public worth of convention center investment. What is also vital is a set of policy review and analysis institutions that truly evaluate the promises of a new or expanded convention center—the likelihood of new spending, job creation, and private investment generation—as well as the risks of failure.

As we've seen above, local decisions to invest in a new or expanded convention center or hotel typically rely on consultant's market or feasibility studies that portray a growing, expanding industry and which ensure that the given locality is quite capable of successfully competing for convention events and out-of-town attendees—and in the process reaping large financial benefits. Where, as in the last two years, there is clear evidence of a changed market environment, these studies have quite often shifted to a different source of data, promised an imminent market turnaround, or simply ignored the question of competition altogether.

One solution to this issue would be to subject these consultant feasibility and market studies to a process of independent, outside audit and review that assesses the assumptions which undergird the promises, and the methodology which shapes the performance forecasts and predictions. Where a consulting firm has a history of overestimating likely attendance or economic impact, that history and background should play a role in assessing the potential for success and the likelihood of failure.

Take the case of Richmond, VA. Three successive consultant studies, in 1990, 1995, and October 1999, made the case for tripling the size of the Richmond Convention Center, financing it through a metropolitan area wide hotel tax. The argument was that the benefits of the increased attendance at the larger center, in the form of a greatly increased volume of convention attendees and their hotel use, would flow to hotels in suburban counties as well as the city. In a 1995 study, the consultant projected that two to three years after opening, an expanded center would attract 208,000 annual attendees who would use a total of 416,000 hotel room nights.⁴¹ A subsequent projection by the consultant in late 1999 was that the expanded center (with a \$165 million price tag) would bring 140,000 *new* hotel room nights of business to the metro area.⁴² But in its second year of operation, the Greater Richmond Convention Center generated a *total volume* of 44,762

convention-related room nights—less than a third of projected new nights.

In *Megaprojects and Risk: An Anatomy of Ambition*—a 2003 book documenting the pattern of over-estimated performance and underestimated costs in major public projects—Brent Flyvbjerg and his colleagues make the case for a system of peer review for public project proposals, bringing outside expertise to bear on estimates of costs and benefits to help “decide whether the information produced by project promoters and their consultants is state-of-the-art and balanced.”²² There is little institutional precedent for systematic outside review of such things as convention center projects in the U.S. But the existing system of evaluating the financial prospects of capital projects and debt issues by bond rating agencies (Moody’s, Standard and Poor’s, and Fitch) provides a model for more systematic review of larger performance forecasts and potential results.

The current model of bond ratings is intended to assess risk for bond purchasers, and to monitor financial performance over time as it affects the risk and sale potential of a public bond issue. Increasingly, the official statement for a new bond issue includes substantial detail about a project and its fiscal backing, often including a formal feasibility study. And requirements for “continuing disclosure” provide a means of tracking at least some elements of (largely financial) performance. But because convention centers are commonly financed by debt backed by very broad and diverse revenue streams, a center can magnificently fail as an economic and visitor generator, while the repayment of its bonds is fully assured.

A broader system of project review by the independent rating houses could build on their reputation for integrity and oversight, offering the review of promotional claims and forecasts called for by Flyvbjerg as part of the rating process.

Involving the Public

The widespread use of revenue-backed bonds to finance convention centers and related projects has long provided a means of avoiding state constitutional requirements (in the vast majority of states) for voter approval of general obligation debt fully backed by the local government. And even where the voters have said “no” to center bond issues or new taxes—as they have done in Pittsburgh, Columbus, Portland, and San Jose—investments in convention facilities have a way of happening despite the electoral outcome—as in Pittsburgh, Columbus, Portland and San Jose. Yet there is no magic to the revenue backing of convention center bonds. Unlike other revenue debt issued for water or wastewater projects, airports or ports, they are not repaid by charges or fees on *convention center users*. Instead, everyone who stays in an area hotel room, eats a meal in an area restaurant, or rents a car helps pay the principal and interest on center debt.

A far greater level of public involvement and review is needed during the local center development process. Such review has been almost entirely absent. As convention center financing and development has shifted from city governments to public authorities and even state government, the visibility and understandability of the projects and their costs has become murky and distant to the general public. The workings of such entities as Chicago’s Metropolitan Pier and Exposition Authority, the Rhode Island Convention Center Authority in Providence, Pittsburgh’s Sports and Exhibition Authority, the county convention facilities authorities in Columbus (Franklin county) and Cincinnati (Hamilton county), Ohio, Atlanta’s Georgia World Congress Center Authority, Milwaukee’s Wisconsin Center District, and the San Diego Convention Center Corporation have been effectively insulated from the vagaries of city politics and much public input.

Although it would be useful to subject the investment and taxation decisions of these agencies and their counterparts to more substantial public input and review—by requiring affirmative votes by the relevant general purpose local government or by making their spending on major construction projects subject to referendum vote—there appears to be little interest at the state government level in restraining them. A fuller panoply of public

participation mechanisms including hearings, surveys, and formal advisory committees with real public membership would provide at least a partial means of removing the insulation from local democracy that these institutions now enjoy.

Changing Federal Oversight and Regulation

Convention center projects, like most publicly-owned capital investments, benefit from the advantages of tax-exempt municipal debt. The exemption of interest payments from federal income taxation serves to both reduce the cost of borrowing money and to provide an implicit federal subsidy (from all taxpayers) for these projects. The logic of income tax exemption for local projects that are effectively “private purpose” has already been seriously questioned. But today, the argument that the expenditure of hundreds of millions of dollars for hundreds of thousands of square feet of new convention center space in an already glutted market serves the purpose of local economic development appears rather strained.

The argument for tax-exempt bonds and federal empowerment zone bonds for hotel projects would appear even more questionable. That local officials are willing to try almost any investment in their quest for more convention visitors is quite clear. But there is no real reason why federal subsidies intended to boost job creation for inner city neighborhoods, and the “public purpose” rationale for municipal bond issues, should extend at all to hotels. Hotels have historically been purely private investment, and the new publicly-owned and bond-financed hotels in Austin, Houston, Omaha, Sacramento, Myrtle Beach, and Denver compete directly with their privately-financed counterparts, often with the result of dragging down occupancy and room rates for the entire market.

Just as the late Sen. Daniel Moynihan proposed Congressional legislation limiting the use of tax-exempt bonds for stadium and sports facility projects, a similar effort to limit federal support for the “space race” in convention centers makes sense. Those communities that wish to invest in a modestly sized facility for local civic purposes can and should be allowed to do so with tax-exempt bonds. But centers with more than 100,000 square feet of exhibit space do not serve a largely local purpose, and there is no compelling reason for the nation’s taxpayers to support them.

Making Other Policy Choices

Today, as all cities are obliged to compete with dozens of others, the prospects of real economic development and opportunity based on the convention strategy appear nil. Any serious approach to dealing with urban needs and problems in cities like Baltimore and Washington, New Orleans, Atlanta, Milwaukee, St. Louis, Detroit, or even Minneapolis and San Antonio must seek an alternative path based on different kinds of investments.

Baltimore, another city that has been celebrated for its urban turnaround, has made a raft of public investments in its downtown and Inner Harbor—including two sports stadiums, the National Aquarium, and an expanded convention center—bringing a flow of visitors estimated at more than 11 million in 2002. Yet, for all that presumed visitor activity, the Census Bureau’s County Business Patterns found just 3,454 employees in the city’s hotel sector in 2001, or about 1.1 percent of total private employment. The city’s poverty rate stood at 22.9 percent in the 2000 Census, effectively unchanged from the figure in 1980, as the city’s population fell from more than 905,000 in 1970 to just 651,154 in 2000.

New Orleans boasts an impressive reputation as a visitor destination and a convention center with more than one million square feet of exhibit space. The Morial center is currently in the process of another expansion with a price tag of more than \$450 million. The city’s 2001 hotel employment came to 14,035, or about 6.5 percent of total private employment. New Orleans’ poverty rate was 27.9 percent, little changed from decades earlier, as the city’s population fell from 593,471 in 1970 to 484,674 in 2000.

For these cities, and a host of other older central cities that have invested hundreds of

millions in convention and visitor infrastructure, the return on that investment in terms of job creation and urban turnaround has been modest at best.

Edward Glaeser's "Reinventing Boston" offers a longer term historical perspective that supports an alternative policy approach.⁵³ Noting that Boston has succeeded in adapting itself to a series of economic changes since the early nineteenth century, including the recent shift from manufacturing to a center of the "information economy," Glaeser attributes the city's adaptability to its human capital: "Most skilled cities have done well over the past two decades, and Boston in 1980 had a strong skill base relative to its Rust Belt peers like Syracuse and Detroit."⁵⁴ He goes on to emphasize Boston's ability to re-orient the local economy as other cities challenged its dominance, and its character as "a place that people wanted to live."⁵⁵

The Boston case and a large volume of related research suggest that the future of a city rests on its investment in education and human capital, as well as basic city services, rather than in the sole development of a tourist wonderland.

Seattle's "families and education" property tax levy provides an example of the commitment of public resources to human capital and development as a central local development strategy. Originally approved by Seattle's voters in November 1990, and re-authorized in 1997 and again in 2004, this tax currently generates some \$16.7 million annually to fund such city services as preschool and early childhood education, family support, student health programs, and support for high-risk youth. Compared to the debt service on a convention center, it is about half the annual payment for the new Washington, D.C. Convention Center, and a fraction of the combined operating loss and debt service of most centers.

The Seattle levy is not necessarily a panacea or the optimal strategy for all cities. But it does illustrate two important points. First, the city's voters have been willing to support a tax increase at the polls when its resources serve a direct community purpose. Second, Seattle has been willing to innovate and attempt a new policy direction with substantial involvement of the public it serves. Innovative policy approaches that seek to build flexible local economies and workforces capable of adapting to social and economic change offer potentially far greater rewards than building ever larger convention centers in the hope—largely misplaced—that someone will eventually come.

VII. Conclusion

The boom in convention center development over the last decade has been a triumph of public sector entrepreneurship and fiscal innovation, marrying the creation of new public authorities, an increased fiscal role for state government, and a host of new tax and revenue sources to the development of enormous new facilities. That success in spending has in turn spurred even more public investment, by cities large and small, in companion facilities including new publicly-owned and financed hotels.

But if taxing, spending, and building have been successful, the performance and results of that investment have been decidedly less so. Existing convention centers have seen their business evaporate, while new centers and expansions are delivering remarkably little in terms of attendance and activity.

What is even more striking, in city after city, is that the new private investment and development that these centers were supposed to spur—and the associated thousands of new visitors—has simply not occurred. Rather, city and convention bureau officials now argue that cities need more space, and more convenience, to lure those promised conventions. And so underperforming convention centers now must be redeemed by public investment and ownership of big new hotels. When those hotels fail to deliver the prom-

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ises, then the excuse is that more attractions, or more retail shops, or even more convention center space will be needed to achieve the goal of thousands of new visitors.

There is no doubt that local meeting and event space provides an important public amenity for communities of all sizes. And few would disagree that even large-scale convention centers can be an asset for certain highly competitive cities, and certainly for the industries and visitors they host.

Nationwide, however, it is abundantly clear that a new or ever-bigger convention center cannot in and of itself revitalize or redeem a downtown core. It is also distressingly apparent that convention centers and massive public commitments to visitors and tourism can do little to address the large problems of poverty, decay, population loss, and housing abandonment that plague our older core cities. By understanding these limitations, local leaders will be better positioned to make more informed policy choices and develop more holistic economic development strategies.

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