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# Tourism Infrastructure in Lane County

A Report to the
Lane County Board of Commissioners

**February 1, 2005**

**Lane County Regional Tourism Infrastructure Strategy Task Force**

# Brief Background

- Convention and conference center discussions underway for many years with formal studies dating back to 1995
- Efforts began in Springfield three years ago to increase civic and conference space
- Competing destinations began investing in new facilities and expansions, including Portland, Tacoma, Spokane, Salem, Newport, Corvallis, Yakima, Everett, Kennewick
- Discussions are also underway in Medford, Roseburg, Bend, Boise, Olympia, Astoria
- Tourism Summit called by BCC in January of 2004
- Closure of The Clarion confirmed
- Tourism Task Force established by BCC in April 2004

## Task Force Consensus

- Lane County has a serious, growing gap both in available lodging and convention and meeting space.
- There is a growing sense of urgency that we are losing competitive ground, and important tourism dollars, to other destinations.
- Independent analysis has confirmed that we are far behind and falling farther, with less meeting space and fewer hotel rooms than other markets our size

## Task Force Consensus

- Lagging tourism infrastructure is not a new problem for us, but growing in urgency
- Why hasn't it been solved? Because the problem belongs to everybody, yet nobody
- Jurisdictional boundaries have been an impediment to site selection, civic vision and political will

# Project Recommendations

- Continue the effort to develop a **regional destination attraction** that celebrates our northwest heritage and geographic features including the rivers and waterways in our metro area and throughout Lane County.
- Continue working together with area partners to secure the **I-5 interchange** that would link Eugene, Springfield, the U of O and Glenwood.
- Support the development of **visitor information centers in Florence and at the I-5 rest stops** as key portals to Lane County to attract additional stopover visits.
- Continue working on ways to develop and foster new events as well as improve the marketing and operation of existing events.

# ECO Northwest General Findings

- Tourism infrastructure review is only part (an important one) of a full analysis of the effectiveness of investments to increase the economic development impacts of tourism, as measured by increases in room-nights and room-tax revenue.
- The Eugene and Springfield metro area, and Florence, each have fewer lodging rooms and less meeting space than their competitive set.
- Lane County's relatively low visitor spending per resident suggests a shortage of infrastructure and/or operational capacity.

# ECO Northwest: Existing & Planned Space

**Table 3. Existing and planned meeting space per 1,000 residents for Eugene-Springfield and selected competing destinations**

| | Population | Total existing and planned meeting space (square feet) | Total existing and planned meeting space per 1,000 residents |
|---|---|---|---|
| **Eugene-Springfield** | 190,757 | **171,694** | **900** |
| Boise, ID | 185,787 | 389,274 | 2,095 |
| Salem, OR | 136,924 | 376,660 | 2,751 |
| Spokane City, WA | 195,629 | 356,000 | 1,820 |
| Tri Cities - Pasco, and Richland, WA | 125,467 | 192,413 | 1,534 |
| Tacoma, WA | 193,556 | 357,000 | 1,844 |

Source: Compiled by ECONorthwest with hotel room and meeting space data provided by CVALCO and population data from the 2000 U.S. Census.

# ECO Northwest: Existing & Planned Space

**Table 4. Existing and planned meeting space per 1,000 residents for Florence and selected competing destinations**

| | Population | Total existing and planned meeting space (square feet) | Total existing and planned meeting space per 1,000 residents |
|---|---|---|---|
| **Florence** | 7,263 | 8,928 | 1,229 |
| Lincoln City/ Newport, OR | 16,969 | 59,000 | 3,477 |
| Seaside, OR | 5,900 | 31,916 | 5,409 |

Source: Compiled by ECONorthwest with hotel room and meeting space data provided by CVALCO and population data from the 2000 U.S. Census.

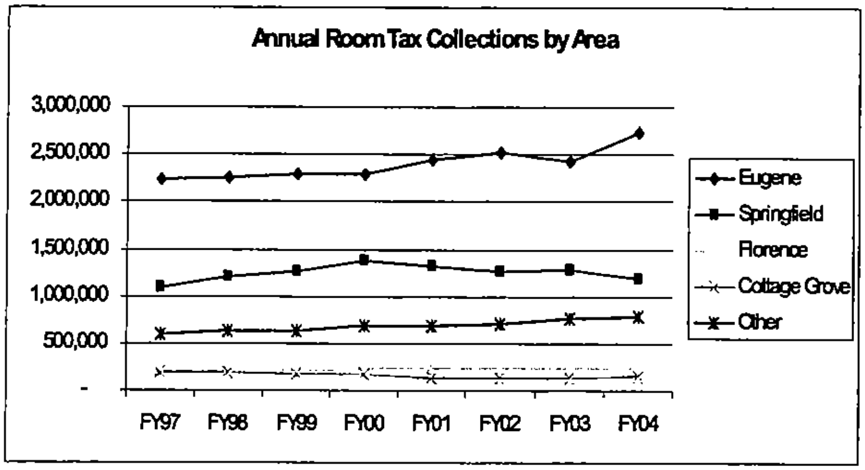
## ECO Northwest: Opportunities

- Meeting Space - always generates new demand, but demand analysis needed
- Attractions & other public facilities - activities are what attract visitors
- Lodging - Including adjacent to Florence Event Center, and Veneta / Fern Ridge area
- Events
- Marketing

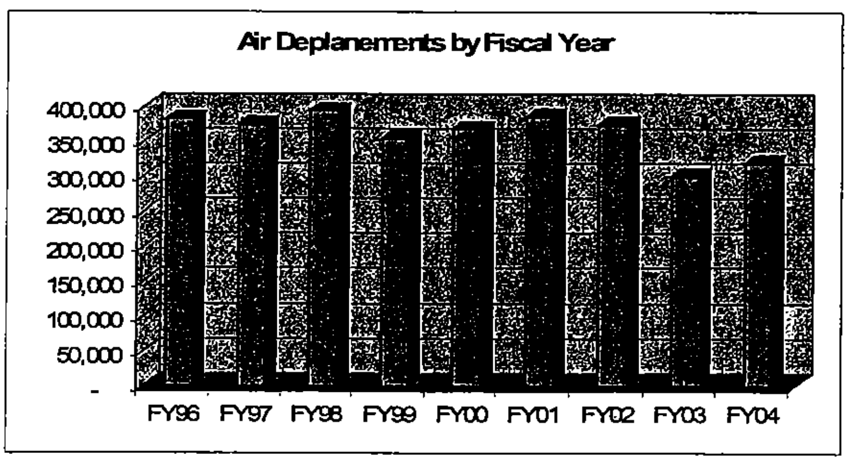
## Lost Business Summary

- Examples of several groups lost due to them **outgrowing our facilities**
- Examples of groups who have not booked because **they want larger facilities** than we offer
- Events lost due to **our facilities being full**
- Events **not bid on or lost due to price**

# Current Local Indicators




# Current Local Indicators




**Skywest drops SLC June '98 - AmericaWest begins Phoenix Sept 99**
**Horizon adds LAX Sept 00 - Delta adds SLC May 04**

# Characteristics of Convention Industry Development

- Future trends include multi-use 20-hour-a-day environments with economically viable restaurants, retail, entertainment and other such developments
- Careful scrutiny of local/micro economic issues is important
- Headquarters hotels are required by 80-90 percent of event planners

# Room Tax In Lane County

The County has the authority to levy room tax, and each city has the authority to levy room tax as well. In FY04, the combined County and city room taxes yielded $5.1 million countywide. The City of Eugene collects the tax for all cities and the County and distributes it back to each jurisdiction. Each point of room tax generates approximately $561,582 countywide:

| | Local Tax Rate | City | County | Each Point of Tax Generates |
|---|---|---|---|---|
| Eugene | 9.5 | $1,298,847 | $1,443,165 | $288,633 |
| Springfield | 9.5 | $ 562,437 | $ 624,930 | $124,986 |
| Cottage Grove | 9 | $ 66,708 | $ 83,383 | $ 16,677 |
| Florence | 7* | $ 101,657 | $ 135,542 | $ 33,886 |
| Other | 8* | | $ 779,200 | $ 97,400 |
| | | | | $561,582 |

**Florence includes only those accommodations within the City limits. Other includes all coastal accommodations outside of the Florence City Limits*

## Economic Impact of Convention and Conference Centers

- Market research is critical. Design to meet customer needs
- Flexibility is a key concept in expansions and new design
- The quality of available hotels is very important
- The quantity of hotel rooms that can be blocked months and years in advance is very important
- Proximity of hotel rooms to the meeting facilities is very important
- Greater air lift is required for larger meeting facilities
- Other attractions are necessary

## Economic Impact of Convention and Conference Centers

- Meeting facilities lose money
- The profits come from renting sleeping/hotel rooms and other visitor spending
- Other revenue, such as TRT, must make up the operating deficit of the loss leader
- Operating policies impact net operations. Booking priorities, pricing, and marketing need to reflect seasonal imperatives
- Civic Centers are OK: Economic impact is not the only reason communities build facilities

## Gardiner & Clancy, LLC, December 1996

- Any financing assumed to be initiated in FY01 due to then-in-effect fairgrounds bonds
- TRT revenue bond or TRT full faith and credit bonds suggested
- Bonds could be issued by County or City
- Total bond proceeds estimated to generate $7.4 million toward project

## Inter-Agency Financing Report, August 1997

- Recommended dedication (to center construction) of all TRT funds not already currently dedicated to programs or projects
- Increase TRT one percentage point ($500,000 per year)
- Use Urban Renewal Tax Increment Financing ($250-$500,000 per year)
- Consider a combination of fees, surcharges, and taxes to generate remainder
- Negotiate remaining operating deficit with headquarter hotel developer

## Hunter Interests, Inc
## April 2003

- High quality, flexible, mixed-use project recommended
- Incorporate arts and entertainment
- Relate to the outdoors, particularly river environment
- Reflect the culture, history, and traditions of area
- Convenient and efficient transportation and parking
- High performance building recommended
- Headquarter hotel and restaurant required
- Demand assessment positive for proposed facility

## OCC Benchmarking Analysis
## September 2003

- C.H. Johnson Consulting, Inc
- OCC is owned by Metro and managed by MERC
- 255,000 sq ft of contiguous meeting space, a new 35,000 sq ft grand ballroom, original 35,000 sq ft ballroom, 52,000 sq ft of additional meeting space, 1,100 parking spaces
- Largest Class A space in the Northwest
- Broad competitive set of western US cities and facilities vying for regional events and rotating national shows
- Lack of headquarter hotel and separation from downtown by river are key liabilities

## Summary

- Prudent investment requires market demand analysis to answer questions on size, configuration, location, and more
- Inter-jurisdictional issues have been an impediment to using tourism infrastructure to accomplish community goals
- We are behind, and getting further behind

## Task Force Recommendations

➊ Adopt the goal that: ***"Lane County, the City of Eugene, and the City of Springfield will work together to retain our collective position as the largest regional hub of tourism and convention activity in Oregon outside the Portland metro area."***

➋ Lane County BCC work with its city partners to **form an interim working group to establish a permanent inter-jurisdictional entity** (190, district, or similar authority) with authority to build and operate tourism-related infrastructure.

"*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.

new shows, and attract conventions and tradeshows that are currently held in competing facilities."[5]

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."[6] And a May 2004 updated analysis for Albany, NY concluded "For the meetings industry, things have generally returned to pre-9-11 condition."[7] 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.

***"Simply put, the overall convention marketplace has shifted dramatically."***

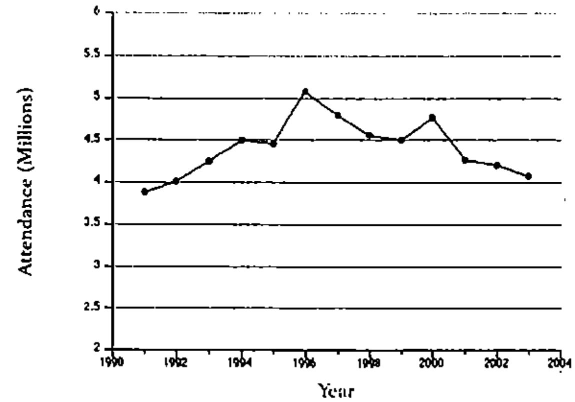
## Methodology: Overcoming Errant National Data

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.

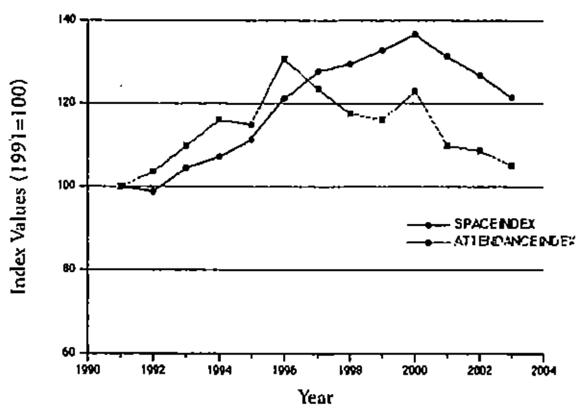
*Meetings and Conventions* magazine, for example, surveys its subscribers on a biennial basis. But those data on meeting numbers, attendance, and spending reflect all the limitations of an unknown subscriber base and an uncertain response rate. Another industry publication, *Tradeshow Week*, regularly disseminates a number of indices of convention and tradeshow activity. Its annual *Data Book*, covering more than 4,500 conventions, tradeshows, 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.

**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**



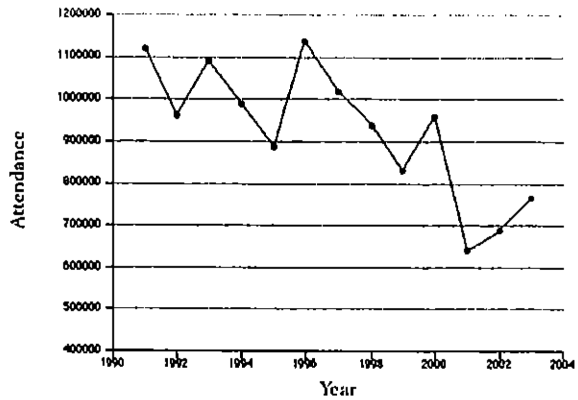

*Source: Tradeshow Week "200" Directory*

*"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

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




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

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

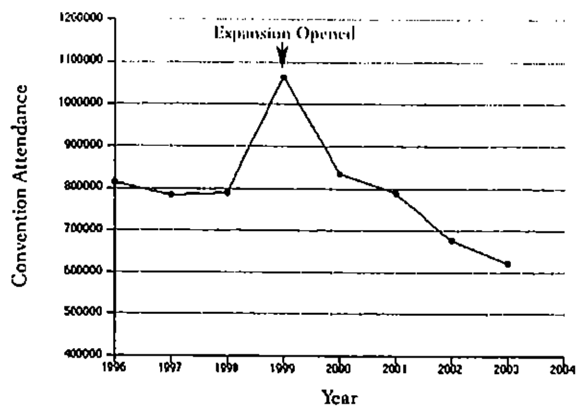
A small group of cities—Chicago, New York, Atlanta, and New Orleans—have long dominated the supply of convention center space and the demand from the largest convention and tradeshow events.

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 *Tradeshow 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 preeminence, 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

**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

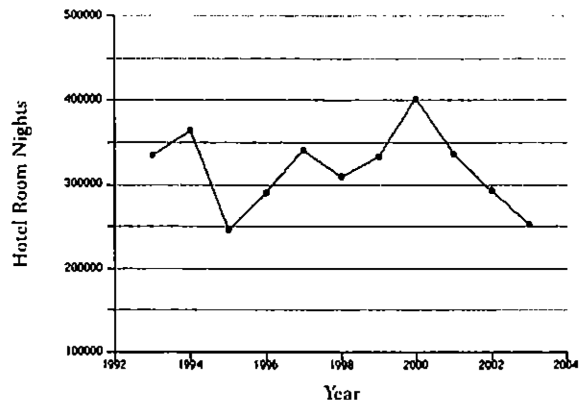
Las Vegas and Orlando emerged during the 1990s as significance players in the convention and trade show market.

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

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



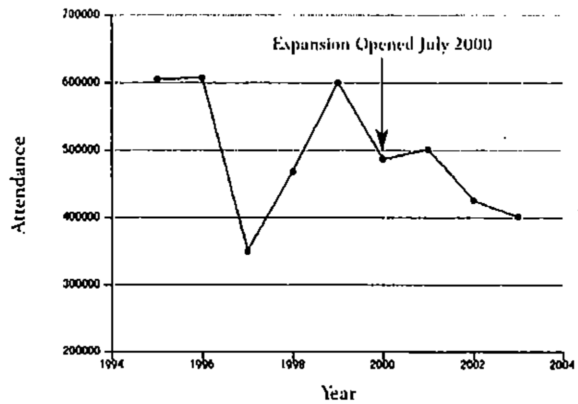

*Source: Massachusetts Convention Center Authority*

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-

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




*Source: Indiana Convention Center*

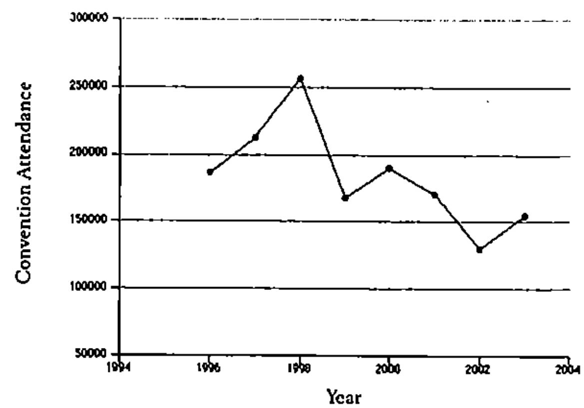
shown in Figure 8. The convention center has seen an attendance drop of 28.2 percent since fiscal year 2001 (ending June 30), to a level equivalent to pre-expansion fiscal year 1993.

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 tradeshows 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

**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 though 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.

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 tradeshows—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 tradeshows—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 tradeshows 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 tradeshows have sustained notable attendance losses."***

**Table 2. Despite declining trends in conventions and tradeshows, 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 tradeshows. 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.

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]

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 center's 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."***

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 investment and development that these convention centers were supposed to spur has simply not occurred."***

B

## 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 tradeshows 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, 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."[52] 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 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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