Economic Impact of Convention and Conference Centers

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What If They Don't Come?
The Best Facility Isn't Enough
Meeting Facilities Lose Money
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The primary mission for members of the National Council for Urban Economic Development (CUED) is economic development for their communities. In many communities throughout North America today, development or expansion of a meeting facility is being considered as a means of creating positive economic impacts to achieve the economic development goal.

As communities consider the role of convention or conference centers in their economic development plans, five basic points should be kept in mind:

1. Public investing for economic impacts is like any other leveraged investment. There is the possibility of negative leverage as well. Economic impacts can be less than zero.
2. It takes more than a meeting facility to get conventions and conferences to come to your city.
3. Contrary to a popular misconception, convention and conference centers are designed to lose money.
4. How you operate a facility on a daily basis has a great deal to do with how much economic impact you can achieve.
5. Some communities should stop feeling guilty about their secret agendas. It is okay to want a civic facility.

1. What If They Don't Come?

What if you build it, and they do not come? For one thing, the community is stuck with debt service that continues for 15 to 25 years. You may very well achieve negative economic impacts.

Starting with an assumption that a conference or convention center would be good for their community, many communities have made the mistake of hiring an architect before they know what type of facility they really need. Market research needs to be done before you start designing. You must know what your future facility users will want, and design to meet customer needs.

Expanding Existing Facilities

It is useful to break the decision-making down into two types of facilities. The first type are existing facilities requiring expansion. In North America, these are primarily convention centers because everyone who has a reasonable convention destination already has at least some kind of facility in place. Construction of these large centers boomed in the 1970s, but in the 1980s convention and trade show groups kept growing as well. The associations sponsoring large meeting-intensive events discovered that a trade show component could be a money-maker for the association, and could underwrite the meeting functions of their events. Therefore, needs
for expanded exhibit space have grown even faster than the number of meeting groups. At the same time, trade show/exhibit groups began to find that educational purposes also needed to be served for their industries, and what had been pure exhibit events added meeting components to their events.

With expansions, it is necessary to be clear on what your community is trying to accomplish.

* Trying to keep your existing customers from outgrowing you?
* Trying to open up new markets?

Either way, it is necessary to talk to actual users, and plan the facility expansions for their needs. To keep existing customers as they grow, you must know if their trade show/exhibit function is what is outgrowing your existing facilities, or if they have other needs. Such other needs could be

for a larger number of additional break-out rooms, or for larger break-out rooms to hold larger meeting groups. Flexible ballrooms have also become much demanded by groups, and a few are looking for specialized facilities such as fixed-seat theaters of specific sizes.

A key concept for expansion facilities is flexibility. For one thing, flexibility means that individual spaces should have the capability of being reconfigured to make smaller spaces and even to serve as swing space which can be an exhibit hall for one group, and meeting room space for the next.

Another aspect of flexibility is to create facilities which can accommodate multiple user groups simultaneously. For example, you need more than one "front door" to the facility. Every group wants to be made to feel that they are the only meeting in town.

Simultaneous use of the facility can also create greater economic impact. With a single large convention/trade show event, a boom of four or five days of activity is followed by four or five days of move in/move out, during which there are no guests in hotels, a lack of patrons in restaurants, underutilized transportation facilities, etc. In a facility that can accommodate more than one group at a time, schedules tend to naturally become interleaved so that one group is in the middle of their meeting while is another is moving in or out. This more even flow of delegates through your community creates a more sustained and even economic impact, which is more conducive to the establishment of visitor-serving businesses in the vicinity of the meeting facilities.

New Facilities

The second class of facilities are those which are being developed from the ground up, where no meeting venue existed in the past. New facilities today tend to be smaller and typically are more properly thought of as conference centers (Again, the locations for convention centers already tend to have such a facility). With expansion of an existing facility the community knew what kind of destination they had, they were only fine-tuning a going concern. New development is harder, because the community has to guess whether they even have the potential for a destination draw.

To investigate the potential attraction power of your community, you need to understand the motivation of potential users for coming to your location:

* Is it a retreat, to get away from where they normally are?
* Is it to get together in a convenient place, centrally located?
* Is there any unique draw to your community?
* What are their alternatives (i.e., who are your competitors)?
* Why would they come to you instead of them (the competition)?

Another question which must be answered concretely before you start counting on economic impact of your new meeting facility is: how long are the delegates going to stay? In virtually every community, there is a demand for people to get together for seminars, product demonstrations, sales pitches, training sessions, parties and weddings. These users will pay to rent meeting facilities for a few hours, but they do not contribute much to overnight visitation. It is the overnight visitor that creates most of the economic impact from convention and
conference centers. It is the money which is imported from outside the immediate region which has the power to stimulate true expansion of your local economy. One-day meetings tend not to draw people from great distances, and even when they do, those people have little opportunity to spend significant amounts of money in your community.

2. The Best Facility Isn't Enough

Even the very best meeting facility isn't enough to make meeting groups come to you. A number of other elements must be present in your community as well. Of great importance are hotels:

* They must be of sufficient quality, not merely motels.
* There must be a sufficient quantity, not only the number of rooms in total, but a sufficient number which can be blocked months and years in advance for use by a single group (traditionally at a discounted rate).
* They must be in close proximity to the meeting facilities and to transportation and airport access.

Overnight hotel business is predominantly driven by air travelers in most locations. The day-use market for short meetings, on the other hand, is often composed of drive-in traffic. A major meeting location requires

convenient air access, with greater lift available for larger facilities.

Other attractions besides the meeting facilities are also necessary to create interest in your community as a destination. For more sophisticated meeting groups, the city itself is generally the attraction. Cities such as San Francisco and New Orleans have become known as great places for consenting adults, with urbane cultures. Other groups may be attracted by commercial attractions. Disney theme parks have been great for the convention draw in Anaheim and Orlando. As meeting groups get more resort-oriented, attractions such as golf and other recreational facilities become more important.

Cost is obviously a major issue for every meeting planner, but it is not so simple that the lowest-cost destination becomes the most attractive. Each association analyzes the trade-off between cost and revenue potential. As stated before, associations have discovered they have the greatest revenue potential for themselves from the trade show component to their major meetings. The demand to rent space in the exhibit hall is in turn driven by the expected attendance of delegates (customers) at the meeting. Those cities known to be attractive as fun destinations to individual delegates will in turn create more revenue for the association in spite of somewhat higher costs. For example, San Francisco is a very high-cost destination in North America, but many groups get their biggest draw ever each time they meet in that city. Exhibitors in the respective industries know that as well, and are willing to spend big to be present in these transitory marketplaces.

A more dramatic illustration of why the meeting facility itself is not sufficient to draw the business is provided by the results of Metropoll. Metropoll is a syndicated survey of several thousand meeting planners in North America that ERA has been conducting since the start of the 1980s. In the figure below, meeting executives have been asked to rate the importance of different criteria when selecting the site for their next convention. For each meeting planner, there will be an initial screening of a potential destination to see if the bare minimum convention facilities are available in the right proportions to house their event. Once that basic threshold is established, the evaluation hinges on factors in the order of importance as presented in the figure.

Costs of food and lodging are first, with 78% of meeting planners rating

this as a very important consideration in site selection. Travel connections and costs are close behind in importance.

The inventory of hotel rooms is also very important, and is based on the number of rooms that can be blocked for convention business, not just on the gross number of hotel rooms in the area. Meeting planners are also looking for a large block in as few individual hotel properties as possible, with at least one hotel being sufficiently large to serve as the headquarters for their event. With around 50% of respondents reporting this factor as very important, attributes of the city are then considered. ERA has observed a trend of increasing concern over security and crime rates in site selection, but general friendliness and attractiveness of the destination is also important. Way down at 32% is the first time that the attractiveness of the convention center itself is considered.

The conclusion is clear that the facility alone will not create sufficient attraction for your community. You must have the whole package of tourism infrastructure to pursue this economic development strategy.

3. Meeting Facilities Lose Money

It is hard to be absolute, because there are real-world exceptions to virtually every rule; however, even in the rare cases where revenues cover operating costs in meeting facilities, they never cover debt service. For example, in San Francisco the Moscone Center brings in about $10 million per year in revenue. Operating expenses, on the other hand, are currently running at about $13 million per year. Thus, there is a "planned deficit" of about $3 million annually. On top of that, this year's debt service will be about $20 million, creating a structured deal that is designed to lose $23 million per year for the City of San Francisco.

The profits from a convention or conference complex come from renting hotel sleeping rooms. What may not be observable in an integrated private conference center is that there is an internal subsidy occurring between the meeting facilities and the overnight accommodations. In a large-scale public convention center in a community of hotels and other tourism-supported businesses, a more complicated means of subsidization must be created. This is typically accomplished by a tax on the hotel sleeping rooms, variously referred to as the "bed tax", the

"transient occupancy tax (or TOT)" or simply the "hotel tax".

In their planning phases, many communities make statements such as, "We will include a convention center in our new project so it can subsidize our performing arts center (or new municipal auditorium, or other new civic facility)." Using a meeting facility to subsidize other public facilities is obviously a flawed concept.

The figure on the following page provides an illustration of the dynamics of this need for subsidizing in an expansion project as an example. The significant goal of the community is the economic impact, which is depicted by the large bar on the right side of the figure. This impact can be $200 million per year or more. A local government concerned about the well-being of its people is willing to suffer some seeming cost to get this dramatic economic benefit for its citizens. Looking at the bottom line for the public convention center, its financial performance is clearly a loser. Starting from zero, operating expenses and debt service drive the facility into a hole so deep that operating revenues cannot bring it back into the black.

On the other hand, no matter how good the intentions, the local government must remain whole in order to survive over the long run. Some other forms of public revenues must be used to make up the loss from the convention facility. As can be seen in the figure, the hotel tax on the rooms the incremental delegates pay is not enough. Even adding all the other taxes the delegates generate, such as sales tax or payroll taxes, don't add up to enough to meet the break-even line. In the case of the expansion being analyzed here, which was true of San Francisco about ten years ago, and is true of the new expansion being proposed today, the hotel tax city-wide must be raised a point or two to create a fiscal situation for the local government that is positive for the long run.

It is important to note that an enlightened hotel community is willing to go along with this tax increase because they receive much of the incremental business in the economic impact column on the right of the figure. Furthermore, this incremental hotel business tends to be the additional money flowing in after fixed costs have been covered, and is what contributes disproportionately to the bottom-line profits for hotel properties.

4. Operating Policies Affect Impact

From the figure before, one might look at the third bar and ask "why not operate the facility in such a way as to maximize facility revenues?" The way to do this is by booking consumer shows and events which cater to the local market. Promoters of these shows pay great rent, often in the form of a percentage of the gate. The problem with this strategy is that there is little or no expansion in the local economy created.

Community economic impact is maximized when delegates and exhibitors are attracted from out of town, bringing their money with them to spend as they stay for several days in your city. This new money flowing in then creates multiplier effects as the initial spending is circulated through businesses which serve as suppliers to the directly-affected hotels and convention service companies, and from there as it filters from the hands of employees into the grocery stores, service stations and other businesses that support the general population in your community.

Most major cities have realized this trade-off today, but the industry has been evolving over the last couple of decades. On behalf of ERA, I spent the 1980s shuttling between Los Angeles and San Francisco, advising both communities on their tourism industries and meeting facilities. San Francisco had bought into this systemic view of the convention industry early on, and geared their marketing and booking policies to attract out-of-town user groups. In contrast, Los Angeles pursued policies to maximize facility revenues in service to the City Council. As a result, Los Angeles covered operating costs and, in some years, even contributed slightly to debt service, but did not enjoy nearly as large a boost to its city economy as did San Francisco as a result of convention business. Los Angeles is still struggling today, in spite of its $500 million investment in a facility expansion, to change its
image and boost its economic impact.

One other point on operations is that each location has its own unique seasonality in hotel occupancy. The point of attracting meeting groups is to fill hotel rooms in the slower periods, but not to displace the higher-paying, free and independent tourists and commercial travelers. Booking priorities, pricing and marketing should reflect these seasonal imperatives.

5. Civic Centers are OK

As a counterpoint to the bulk of this presentation, it should be noted that economic impact is not the only reason communities build public assembly facilities. In spite of the goals of CUED, economic development is not the only goal communities have. Legitimate public purposes can be served by having civic auditoriums and community meeting halls, and because there is that demand for day-use meetings in every community, even heavily-subsidized civic facilities have the potential to make some revenue by renting space for meetings.

The point, however, is to be honest in the community's objectives. It is a mistake to try to justify development of a civic center for your own residents' use by claiming it will have great economic impacts. Civic centers are public precisely because they serve social purposes, yet are not sufficiently profitable to be provided by the private sector.

If you are in this situation, you should stop feeling guilty about wanting facilities to expand your own quality of life. Community-serving facilities may not generate great economic benefits, but they are good for you anyway.

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