

CITY ACCOUNTABILITY PROJECT CONVENTION CENTER REPORT

3/28/22

Convention Center Numbers Are Not Grounded in Reality

City of Austin Incremental Economic Impact Calculations

	Base Case	Upside	Downside
Average Annual Attendance 2015, 2016, 2017	500,000	500,000	500,000
Total Expected Annual Future Attendance	700,000	1,000,000	550,000
Incremental annual attendance over 2015 2016 2017 average	200,000	500,000	50,000
Overnight %	57%	61%	49%
Incremental Hotel Nights	113,872	305,898	24,517

From the (pre-COVID) 2019 UT Study “Frameworks in Placemaking”

- 1) The 2019 UT Study significantly overstates Convention Center attendance: Annual Convention Center Attendance has never approached 500,000 attendees**

FISCAL YEAR DATA FROM RESPONSE TO ALTER			EXCLUDING SXSW	
YEAR	CONV ATTD	ROOM NIGHTS	CONV ATTD	ROOM NIGHTS
FY15-16	315,711	224,072	165,711	167,696
FY16-17	338,232	239,189	188,232	183,542
FY17-18	403,770	246,235	203,460	192,554

The City’s own data (from a CM data request) reveals that pre-COVID annual attendance was between 300K-400K and half that when a single event (SXSW) is excluded.

This means all numbers derived from this assumption are also flawed. For instance, the “Upside” scenario, which doubles attendance, is off by 200K attendees.

Moreover, all the data and assumptions built into the 2019 report are pre-COVID and may no longer be relevant at all based on seismic shifts in the convention center industry (see #7).

- 2) Room night numbers are also frequently inflated and discount the realities of SXSW – where most attendees are locals.**

The initial consultants on the prior (1997-2002) convention center expansion, CH Johnson Consulting, Inc., projected that expansion would generate approx. **333K** room nights in Austin.

The current Convention Center generates approximately 150,500 room nights. Johnson Consulting projects that an expanded Center will generate approximately 332,600 room nights in Austin. The City can leverage this increasing demand to influence its future hotel development.

Per the CM requested data, the most room nights recorded is **246K**, or 86K+ short of the original estimates. It stands to reason that the 2019 Report is significantly overly optimistic in its room night projects (“Incremental Hotel Nights”) given that prior projections were also optimistic and in our best year, including SXSW, we have achieved only 73% of those projected room nights.

3) SXSW is an outlier event that makes it easy to misrepresent Convention Center data

			Anticipated Attendance	Actual Attendance	Room Nights
KeHE 2017 Natural Show	10/01/17	10/06/17	1,500	2,000	1,972
SpiceWorld Austin 2017	10/06/17	10/11/17	3,000	2,670	2,637
2017 AALAS National Meeting	10/13/17	10/19/17	4,800	4,136	8,174
2017 SWE Annual Conference	10/23/17	10/28/17	13,700	14,500	7,972
Texas Society of Architect’s 78th Annual Convention & Design Expo	11/06/17	11/12/17	3,500	3,074	1,144
2017 STAFDA Annual Convention and Tradeshow	11/09/17	11/15/17	4,300	4,470	4,900
2017 The Running Event	11/25/17	12/02/17	1,700	2,629	2,296
Xerocon Austin 2017	12/04/17	12/06/17	80	80	671
2018 American Meteorological Society	01/04/18	01/12/18	3,700	4,198	7,996
2018 TASA Midwinter Conference	01/26/18	01/31/18	6,500	6,700	5,043
2018 TCEA Annual Convention	02/02/18	02/10/18	15,000	10,547	10,394
AAAS Annual Meeting	02/13/18	02/19/18	6,000	6,836	5,298
NDA 2018 Annual Convention & Expo	02/19/18	02/25/18	1,200	1,055	1,457
NTCA	02/22/18	03/01/18	2,500	2,268	5,902
2018 SXSW Conference and Festivals	03/02/18	03/19/18	150,000	200,310	53,681
2018 Distributors Conference	03/21/18	03/30/18	3,800	2,975	5,451
Work Human 2018	03/31/18	04/06/18	3,000	2,850	4,674
2018 Annual Spring Clinical Meeting	04/07/18	04/14/18	2,500	2,900	4,258
2018 Annual Clinical & Scientific Meeting	04/24/18	05/01/18	6,000	6,800	8,414
IMMUNOLOGY 2018	05/02/18	05/08/18	3,000	3,652	14,462
2018 TCEQ Environmental Trade Fair & Conference	05/11/18	05/16/18	6,000	4,900	2,353
2018 NI WEEK	05/16/18	05/25/18	6,000	4,754	5,487
DreamHack Austin 2018	05/26/18	06/04/18	27,000	36,000	1,079
SPIE Astronomical Telescopes and Instrumentation 2018	06/08/18	06/15/18	2,300	2,227	2,982
2018 TASSP Summer Workshop	06/11/18	06/15/18	2,850	2,253	3,302
2018 National Charter Schools Conference	06/15/18	06/20/18	4,800	4,502	4,281
2018 NASFAA National Conference	06/22/18	06/27/18	2,000	2,135	6,064

2017/2018 Convention Center Attendee data reveals that the Convention Center hosted one extremely large event – SXSW – several mid-sized events, and the remainder of events were small conferences or events.

SXSW had 200,000 attendees (though it is unclear how many actually used the Convention Center), but only 50K of the attendees were not locals and were responsible for Room Nights. That is, despite the event’s popularity, it still means that the overall local hotel impact and HOT Tax revenue from the event is disproportionately small compared to the attendance.

The three mid-sized events also underperform (for hotel impact and HOT tax revenue) in a similar way. For Dreamhack, only one out of every 36 attendees had hotel rooms. For the SWE Annual Conference, about half of attendees were local and did not get hotel rooms.

Some smaller events have significantly more hotel rooms than attendees, but the main point here is that a single event vastly inflates the Convention Center's numbers, and outside a few mid-sized events, the remainder of the year the Convention Center hosts small events.

4) **The primary justification the Convention Center is that they are turning away events is cannot currently accommodate. But do the fundamental economics actually work?**

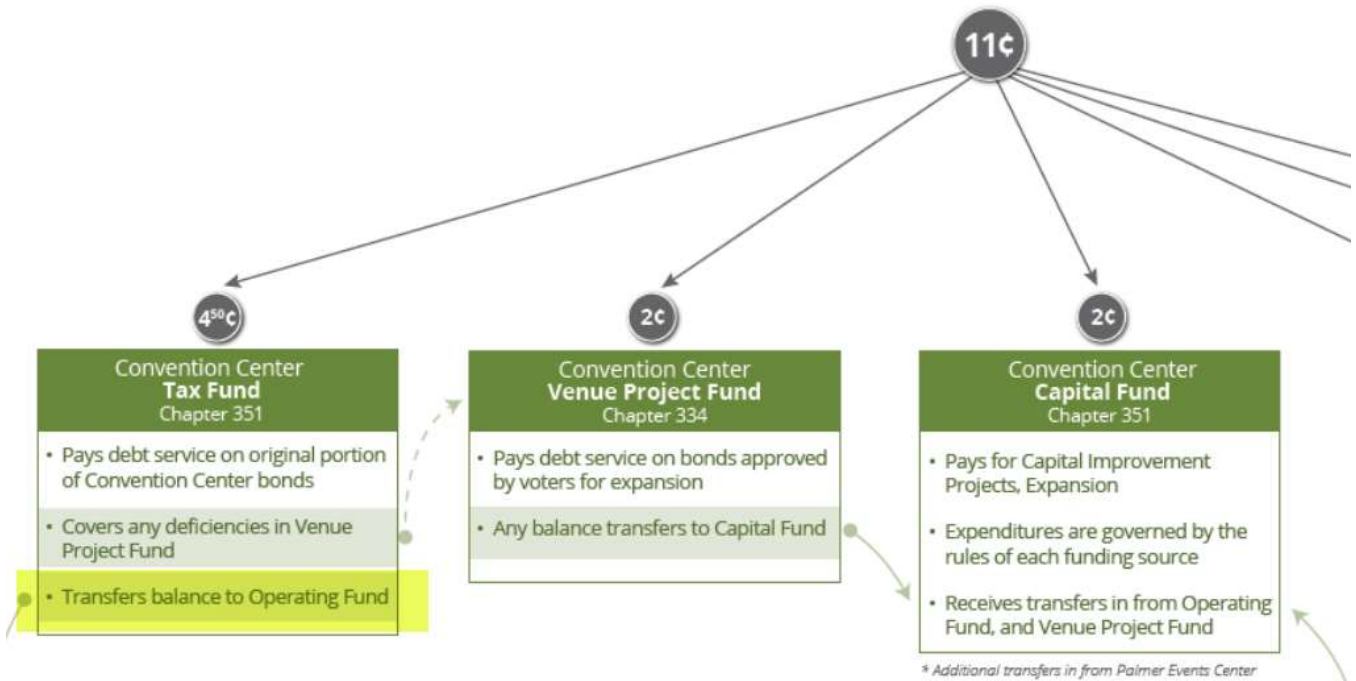
etc. Looking at new Convention Center RPFs received during the specific timeframe of FY17-FY19, 56% of all Convention Center groups turned down was due to lack of space or available dates in the building.

Without more information about these events, the assumption is that these events that were turned down would have been less profitable or successful than those that the Convention Center actually booked (ie. 2017/18 bookings in #3 above). That is, one can surmise that these un-booked events are typically smaller events that generate fewer room nights, since we assume the Convention Center is actively booking events that are more profitable or generate more room nights or other economic activity.

The challenge is that the Convention Center consistently appears to spend more than it takes in (both pre-COVID and during COVID) and requires transfers from the HOT Tax Fund (Chapter 351) to stay afloat. The question is: would spending hundreds of millions of dollars or billions of dollars to expand the Convention Center meaningfully change the operating economics to become more profitable? Or generate enough economic activity to compensate for the huge Capital investment and yearly losses and transfers?

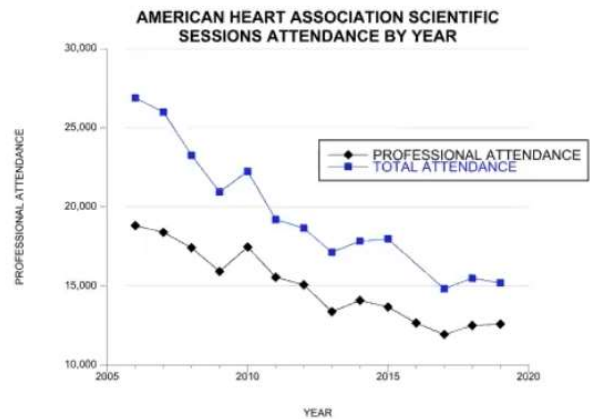
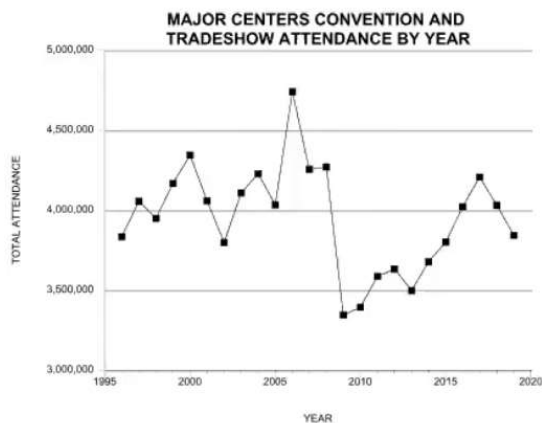
	2018-19	2019-20	2020-21	2020-21	2021-22
	Actual	Actual	Estimated	Amended	Proposed
Beginning Balance	28,384,052	34,767,641	34,071,161	30,409,200	24,421,554
Revenue					
Facility Revenue	8,020,149	4,032,680	1,590,062	6,151,388	5,596,896
Contractor Revenue	21,721,537	5,551,474	628,867	8,630,734	4,730,000
Parking Fees	4,720,773	2,362,928	821,000	3,179,513	1,885,662
Building Rental/Lease	236,397	162,336	143,963	243,636	244,584
Interest	788,378	489,655	146,480	377,576	147,945
Other Revenue	108,041	38,379	0	109,500	80,250
Scrap Sales	1,049	6,693	0	0	0
Total Revenue	35,596,323	12,644,146	3,330,372	18,692,347	12,685,337
Transfers In					
Other Funds	49,119,702	37,320,130	29,769,746	33,434,312	35,338,620
Total Transfers In	49,119,702	37,320,130	29,769,746	33,434,312	35,338,620
Total Available Funds	84,716,025	49,964,276	33,100,118	52,126,659	48,023,957
Program Requirements					
Event Operations	42,483,272	32,931,633	27,632,314	38,249,107	33,352,276
Support Services	7,534,271	7,119,670	6,363,528	7,616,810	6,782,666
Total Program Requirements	50,017,543	40,051,303	33,995,842	45,865,917	40,134,942

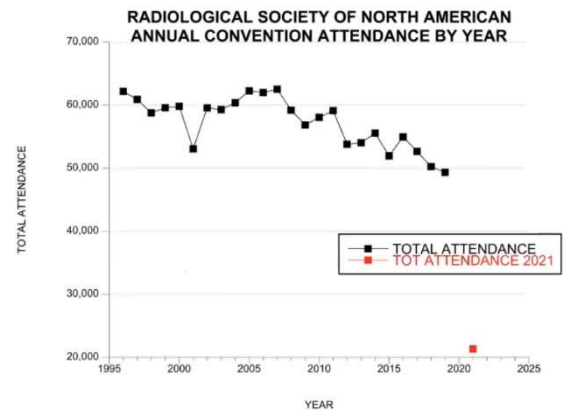
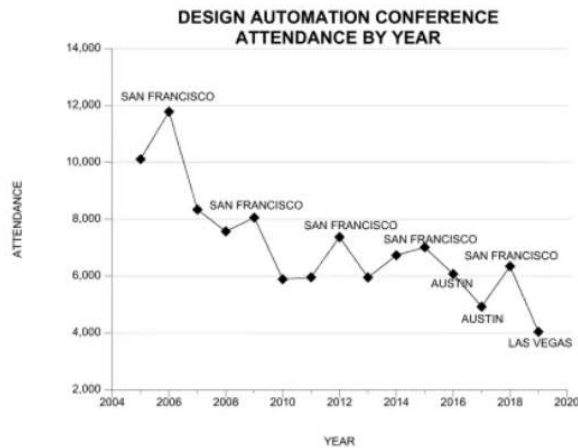
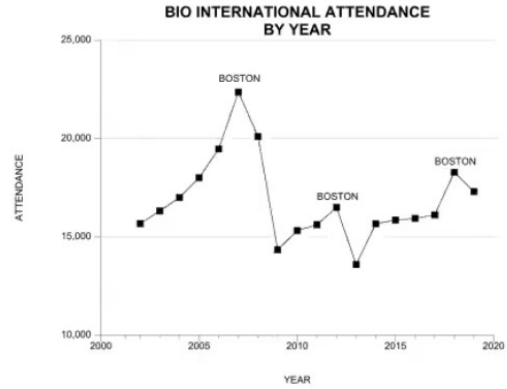
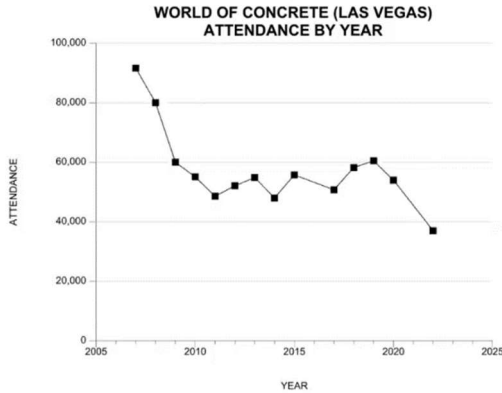
Event Operations and Total Program Reqs exceed Revenue, even Pre-COVID. To make the financials “work” the Convention Center requires tens of millions of dollars of yearly transfers from the same HOT tax that is supposed to fund the new expansion



Despite the Convention Center supposedly receiving \$.08 of the \$.11 of each HOT Tax, and this would, in theory, be funding a new Convention Center expansion, in reality it seems only \$.02 would be funding the expansion in the near to mid-term. The \$.045 is being transferred to the operating fund because the Convention Center loses millions every year, and the Venue Fund is still paying off the 1997-2002 expansion (until - supposedly - 2029). That means just \$.02 of the HOT tax would be funding a potentially billion dollar plus expansion (at least until 2029 when the \$.02 Venue Project Fund becomes available). Under these circumstances, several generations of Austinites and tourists could be paying for this proposed expansion.

5) **The Convention Center industry has yet to recover from the 2008 Great Recession – COVID has only worsened the industry economics**





- 6) As a result of too much supply and not enough demand, many convention centers significantly subsidize or discount bookings (a pre-COVID trend)



Following various credits applied at the conclusion of the event, **the estimated facility rental rate is \$60,012.00.**

The discounted rate shown previously is based on a total collected rental of \$94,712.00. The total rental is then discounted based on a room night credit (RNC) applied to the master account at the conclusion of your event. The final RNC will be calculated based on an average of the previous three years' (2017, 2018, 2019) room night pick up for the OHMB Annual Meeting. The room night credit is *currently estimated at \$4,700.00*. This credit may not exceed total facility rental.

In addition, we will apply a 10% credit onto the master account at the conclusion of your event, based on OHMB **hosted net food and beverage expenditures with the in-house caterer; this credit does not apply to in-conjunction with or concession expenditure.** For example, if \$300,000.00 is spent, \$30,000.00 will be deducted from the facility final invoice. This credit may not exceed total facility rental.

Pricing: \$94,712.00 – \$4,700.00 – \$30,000.00 = \$60,012.00



PHLCVB PROPOSAL

Based on what the Center is currently holding for the Organization for Human Brain Mapping, the PA Convention Center rack rental would be \$204,851.000 in 2017 dollars with a 2% escalator through 2020. We have had the opportunity to review your past spending including food and beverage consumption, utilities and other important variables such as room pick up and amend the rate.

Based upon all these factors, we are pleased to offer a discounted rate of \$129,851.50 in 2017 dollars with a 2% escalator through 2020 with a minimum net food and beverage spend of \$300,000.00 (excluding taxes and gratuities), pending final approval of the PCCA and client site inspection.

Through our partnership with the hotel community, we have arranged for a \$10 rebate per consumed room night to further offset the discounted rate. Based on 80% pick-up, the OHBM can generate \$42,528.00 in revenue (5,316 RN's x .80 x \$10) to further reduce the facility rental to \$87,323.50 (\$129,851.50 minus \$42,528) in 2017 dollars with a 2% escalator through 2020 assuming a net food and beverage spend of \$300,000.00.



ANNUAL REPORT
2013-14

“Freenix”

This citywide booking promotion—created in conjunction with the Phoenix Convention Center and downtown hotel partners—offered complimentary convention center rental and free WiFi (at both hotels and the convention center) for clients with citywide conventions slated from 2015 to 2019. This promotion netted



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January 05, 2017

Ms. Anne Beauclaire
Administrative & Meeting Coordinator
Organization for Human Brain Mapping
5841 Cedar Lake Road, Suite 204
Minneapolis, MN 55416

Bonjour Ms. Beauclaire,

Tourisme Montréal and its partners are delighted to present you with an offer to host the Organization for Human Brain Mapping. We are confirming in this letter the incentives that we are extending your 2020 Annual Conference OHBM.

Dates

Meeting space at the Montréal Convention Center and guestrooms in downtown hotels are currently reserved over the dates of June 23 to 30, 2020.

Therefore, the space is offered on a complimentary basis as calculated below:

Rental	Can\$192,724.00
Minus: 50% discount offered by the center (with a minimum F&B of Can\$350,000.00 and minimum AV of Can\$80,000.00)	Can\$96,362.00
Minus: fixed contribution by Tourisme Montréal	Can\$74,212.00
Minus: Can\$10 room rebate offered by the hotels	Estimated at Can\$22,150.00
Balance for you to pay	Can\$0.00

- 7) COVID has further changed the Convention Center landscape. Yet no new studies have been issued and all assumptions are based on 2019 “favorable” reports.

UT Professor Jake Wegmann, Ph.D., one of the five Collaborating Investigators on the 2019 UT Study, said the basic Convention Center assumptions have changed due to the pandemic:

In our analysis for the UT study, we took it as a given, based on direction from the city, that the existing convention center couldn't be shut down during construction. As a practical matter this meant that acquiring the parcels to the west would be the only feasible way of doing an expansion without shutting down the existing facility during construction.

Obviously all bets are off now given what's happened with the pandemic and its massive and still uncertain ongoing effects on tourism, business travel, the convention business in general, the city's finances, etc. We're living in a different world now, one where the basic assumptions informing the city's decisionmaking could very well be radically different from what we were working with when we were doing the study (mostly in 2018).

Austin Politics Newsletters (4/19/21)

In summary, here is what we do know:

- Convention center business has never recovered from the 2008 Great Recession; there continues to be more supply than demand.
- As a result, the convention center industry is incredibly competitive, with convention centers having to significantly discount bookings to attract business – including Austin’s Convention Center.
- The Austin Convention Center has never broken even and requires HoT fund transfers to maintain operations.
- The Austin Convention Center has never met its own goals or consultant projections for attendance or room nights for the last 20 years - since the last expansion.
- COVID has only exacerbated the Convention Center industry and economics.
- SXSW is a mostly local event that generates proportionally few room nights despite the number of attendees. Despite the event’s popularity, it means roughly 49 weeks out of the year are dominated by smaller conventions.

The City’s own data shows that the Austin Convention Center accounts for just 2.8% of total room nights. This raises a question of whether it merits a billion dollar- plus expansion when it accounts for a relatively small amount of both economic activity and, ultimately, HOT tax revenue that would pay for such an expansion.

Convention Center Share of Total Room Nights	2.8 %
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With the stakes being as large as they are, the City's needs being many, it is advisable to approach this challenge like any other enterprise:

- Basing assumptions on recent data that reflects economic realities
- Assembling data based on neutral, third-party assessments that don't stand to lose or benefit from a Convention Center expansion
- Fully understanding the impacts of both COVID and Austin Convention Center financials
- Quantifying the economic impacts, hotel nights, etc., based on actual performance or historical data
- Consider taking 1-2 years to study the Convention Center expansion scope and viability
- Consider a smaller, more thoughtful expansion that would modernize the Convention Center without burdening successive generations of Austinites
- Consider public private partnerships or arrangements with hotels that have abundant meeting room space to accommodate additional smaller events.