

July 17, 2009

TO: Mayor's Citizen Task Force on the Convention Center Project

FROM: Lorena Gonzelez
Mike McDowell
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SUBJECT: DRAFT Response to Mayor

Fellow members of the Convention Center Project Task Force, attached please find a DRAFT response to the Mayor that is the result of our work over the past 8 months.

We know that drafting a document by committee can become an arduous task. Therefore, we have attempted to supply a document that will serve as a framework for our final report. And while we have attempted to be thorough, we expect that you will have additions and changes that will improve and strengthen our final product.

We have attempted to organize this information in the following way. First, you will find a one-page overview that re-states the Mayor's Mission and Charge for our Task Force. As a function of re-stating the Charge, we have formulated a question for your consideration for each element of the Charge.

Next, to support the conclusions that address each Charge, we have generated a findings document, the equivalent of an executive summary of the presentations made to the Task Force, which identifies specific data relevant to each Charge. Each item in the findings document, including much of the opening narrative, can be attributed to a specific document or presentation, and will be annotated and referenced to a bibliography in the final draft.

For clarification and direction for our deliberations, our work here focuses on the expansion of the Convention Center and except for a reference in the "Financing Options" section, does not address a new hotel on or near the proposed expansion site.

Mayor's Citizen Task Force on the Convention Center Project

Mission

The mission of the Mayor's Citizen Task Force on the Convention Center Project is to evaluate and recommend to Mayor Sanders the necessary steps required to ensure San Diego's ability to protect and expand local jobs and retain and enhance its current market position in the convention and meeting industry.

Charge

To review the state of the convention and meeting industry, San Diego's success and profile among its competitive set, and evaluate the market demand for an expanded facility;

Question for the Taskforce: *Is it the view of the Taskforce that an expanded Convention Center would provide a significant positive economic impact to our City and region?*

To review and evaluate the feasibility of an expansion to the current Convention Center and related developments or enhancements and the impact on generating new jobs;

Question for the Taskforce: *Is it the view of the Taskforce that expansion of the Convention Center is feasible and that new jobs will be generated?*

To identify and evaluate various financing options for an expanded convention center that relies mainly on revenues generated by the Convention Center and/or related developments or enhancements;

Question for the Taskforce: *Is it the view of the Taskforce that various financing options have been identified and evaluated relative to Convention Center Expansion?*

To identify key issues related to public access, resource conservation and waterfront enhancement;

Question for the Taskforce: *Is it the view of the Taskforce that within the proposed design the issues of public access, resource conservation and waterfront enhancement addressed?*

To encourage public comment on the convention center project by holding meetings at locations and times accessible to the public;

Question for the Taskforce: *Is it the view of the Taskforce that our meetings have been accessible and public comment encouraged?*

To present a final set of findings and recommendations to Mayor Sander's no later than September 2009. All meetings will be conducted in accordance with the Brown Act.

Question for the Taskforce: *Is it the view of the Taskforce that we recommend to the Mayor that, based on the findings herein, he move forward to more succinctly define the scope and cost of the proposed Convention Center expansion project, while working with the primary stakeholders to identify the revenue necessary to bring it to fruition?*

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In January 2009, San Diego Mayor Jerry Sanders formed the Mayor's Citizen Task Force on the Convention Center Project to evaluate and recommend the necessary steps required to ensure San Diego's ability to retain and enhance its current market position in the convention and meeting industry. Fifteen members of the public have served 8 months, attended 11 meetings, and heard 00 professional presentations and numerous comments from the public in an effort to complete our evaluation and make our recommendations. Attached to this summary document are the documents and presentations that were given to the Taskforce over its tenure. They are provided as reference and resource to our conclusions here.

The San Diego Convention Center has proven to be a powerful economic engine for the City of San Diego and the entire local region. Since opening in 1989 it has hosted over 4,000 events that utilized more than 10 million hotel room nights. It is estimated that the economic impact of these events has been more than \$17 billion to the region. Currently, more than 12,000 local jobs are directly connected to, or indirectly supported by, events held in the current facility. In addition, the convention center has been a catalyst for substantial change within our community, helping to transform downtown into a vibrant urban setting, complete with hundreds of restaurants, shops, entertainment venues and attractions that not only serve visitors but local residents as well.

As the numbers and concepts submitted above are a significant, measurable return on investment to our community, it is important to establish that the San Diego Convention Center is not a tourist attraction. In fact, the meeting and convention business has relatively little to do with the leisure sector that makes up the bulk of tourism here and throughout most of the world. Conventions and convention centers are more closely aligned with business and economic development than tourism. The nexus between the meetings and convention market and leisure tourism is the common need for accommodations, transportation and other destination amenities. Meetings and conventions are typically a business-to-business enterprise, focused on unique markets, reached through unique messaging, and not consumer driven like tourism; a single sale of a meeting can generate thousands of visits. Following this model, the San Diego Convention Center has proven to be an efficient and effective economic engine that delivers multiple levels of economic impact throughout our community.

Yet, while the convention industry is not about tourism, it nevertheless supports tourism, in many different ways. First, meetings and conventions grow the visitor base by attracting people who are coming to town to attend their event, not necessarily having chosen our destination exclusively on its own merits. As a result, the convention attendees are typically incremental visitors consisting of people who might otherwise not come at all. And it's not just that they come, it is when they come – often at times of the year when other kinds of visitors can't or won't. This off-season and incremental business helps support and maintain the tourism infrastructure and jobs, such as hotels, attractions, and transportations services so that they are plentiful and available to support all of the other types of visitors. Additional benefits delivered by convention attendees include pre-or-post-event tourist experiences, return visit opportunities, and community prestige generated by a major national or international event.

The premise and measure of success of publicly funded municipal convention facilities is not without its critics. In an examination of the convention business and city and state spending on host venues, Heywood Sanders, PhD, a professor from the Department of Public Administration at the University of Texas at San Antonio, in a 2005 Research Brief published by the Brookings Institute finds that, “conventions are big business, attracting free-spending visitors booking downtown hotel rooms, eating at restaurants, and thronging theaters and night spots. At any rate, that’s the theory. So in the last decade, state and local governments have made massive commitments to tourism and conventions as part of their central economic development strategies. From Atlanta to Austin, Charlotte to Chicago, cities, states, and public authorities have invested billions in an arms race with competing cities to lure conventions and their attendees to new or expanded convention centers. Many of these same places have also invested in publicly-owned hotels, new and expanded airports, and downtown-oriented rail transit systems, all designed to support their hunt for conventions and trade shows.

“However, while the supply of exhibit space in the United States has expanded steadily, the demand for convention and tradeshow exhibit space, and the attendees these events and space bring to a city, has actually plummeted. Many cities have seen their convention attendance fall by 40 percent, 50 percent, and more since the peak years of the late 1990s. The sharp drop has occurred across a range of communities, including a number of the historically most successful convention locales in the nation.” Yet Dr. Sanders concludes his brief by acknowledging “there is no doubt that local meeting and event space provides an important public amenity for communities of all sizes. And few would disagree that even large-scale convention centers can be an asset for **certain highly competitive cities**, and certainly for the industries and visitors they host.” (Emphasis added)

Dr. Sanders is right, not every city, Austin or Charlotte, Bemidji or Boise, or any of the dozens of other proud municipalities, that are second, third or even fourth tier meetings markets, can successfully support a major convention venue. But he recognizes that “certain highly competitive cities,” like San Diego can be and are successful for reasons that go far beyond bricks and mortar. The San Diego Convention Center, over its 20 year history, has a demonstrated track-record of attracting valuable meetings and conventions to our destination, and then leveraging the venue, first-class service, and the West Coast “wow” factor to establish relationships that ensure their return. They have been so successful that an expansion of the Center completed in 2001 can no longer meet the current demand. According to Michael Hughes of Tradeshow Magazine, San Diego Convention Center has the brand, team, track record, experience, location, demographics, airport and hotel partners, but NOT the venue size to compete at the highest level of the convention and tradeshow industry.

The Mayor has asked what it would take to attain that highest competitive level. To that end we have attempted to succinctly address the Mayor’s charge in this document and in the supporting documents and information.

To review the state of the convention and meeting industry, San Diego's success and profile among its competitive set, and evaluate the market demand for an expanded facility.

State of the convention and meeting industry –

- Historically, the convention and exhibition industry experiences a 10 to 12 year business cycle that moves through expansion to peak, into slowdown then recovery, before expanding again. The current state of the convention and meeting industry, as with the economy in general, is in a period of slowdown, and is expected to recover with the economy. And while the current recession is having a negative impact on attendance, number of exhibitors, and association spending the long term importance of conventions and tradeshow remains unchanged to their underlying industries.
- Large conventions and tradeshow are not immune to economic downturns but they are the most resilient types of meeting events by far. In fact attendance rebounded quickly (2 Qtrs.) following the 1991 recession. After 9/11, the industry began to grow in early 2003, with strong growth until the first quarter of 2008.

San Diego's success and profile among its competitive set –

- Few major conventions and tradeshow are launched annually, therefore, the “supply of demand” is relatively static. Yet, San Diego has been able to effectively compete for the finite number of available conventions with several well documented features and benefits, that include:
 - Authentic city experience, with optimal weather
 - Great, unique convention district, hotels; good hotel supply near SDCC
 - Tourism amenities, Waterfront area, Gaslamp, etc.
 - Diverse business community; demographics
 - One of the closest convention centers to a major airport
 - Well respected and experienced SDCC staff
 - SDCC high occupancy, near full capacity, demonstrates user confidence
- Nationally, there has been a 25 year convention center building and expansion boom, which is still underway. As a result, available convention center space in the United States has grown by 95%, nearly doubling over the twenty-year period 1988 to 2008. During this growth, in addition to publicly owned facilities, hotels have invested aggressively in convention and meeting facilities (i.e., Gaylord, Las Vegas, and other leading hotel owners/managers).
- This expansion and building boom, while slowed by the current recession, continues with 5.8 million square feet of new space in the pipeline.
- San Diego Convention Center Competitive Set Expansion Planning and Build-out
 - McCormick Place in Chicago added 500,000 sq. ft. of exhibit and meeting space in 2007 (to reach a total of 2.7 million sq. ft.)
 - Phoenix Convention Center added over 400,000 sq. ft. in 2008

- Anaheim Convention Center is studying expansion/renovation
 - Las Vegas Convention Center is planning a major \$800 million renovation (on hold)
 - San Jose McEnery Convention Center is studying expansion/renovation
 - Washington State Convention Center in Seattle is studying expansion/renovation
 - Ernst N. Morial Convention Center in New Orleans is planning a renovation
 - Salt Palace Convention Center in Salt Lake City expanded in 2006 to 700,000 sq. ft.
 - Los Angeles Convention Center and Staples Center district – new hotels and LA Live project
 - Moscone Convention Center in San Francisco-a 25% expansion with 180,000 square feet of new meeting space.
- When measured by gross square feet, the San Diego Convention Center is ranked 24th nationally among all venues. And most importantly, by the same measure, is ranked 8th among its primary competitors in the West.
 - The most vocal critic of publicly funded convention centers, Dr. Heywood Sanders of the University of Texas at San Antonio, when asked by Taskforce members about SDCC’s relative performance against its competitors, characterized San Diego as a “conundrum,” because it did not fit his profile of failed or failing convention centers across the country. In 2004, when asked about the then three year old expansion of SDCC he paid San Diego a backhand compliment in an interview, “(T)here are two places that have historically done well in expanding their convention business: that’s Las Vegas and Orlando. And historically, they have managed to grow their business with great regularity. New Orleans for a long time in the 1990s seemed to be successful. Anaheim and San Diego may, but because of a lack of available information that I’ve been able to get my hands on, it’s not entirely clear. But there’s something in common certainly about the first two of them, and to some extent, about the other three, that’s worth noting.”
 - General Success Factors for Convention Centers:
 - Center able to meet market expectations
 - Strong and visible reputation for quality
 - A balanced destination package
 - Attractive destination to drive attendance
 - Business, academic, professional links
 - Center well integrated with the city
 - Responsive to evolving trends (flexibility)
 - Diversified business base
 - What’s Driving San Diego’s Success?
 - Center “delivers the destination,” West Coast wow factor
 - High service, facility standards
 - Facility evolved with market opportunity
 - Hotel growth has kept pace
 - Integration of center precinct / city
 - Highly focused marketing process
 - Diversified business base
 - Community engagement and support

- Established Centers Have an Advantage
 - They have a business history as a base for their projections
 - They understand how various destination components interact
 - They have a “captive” sample as a base for accurate survey data
 - They understand their clients evolving needs
 - Lost business reports quantify demand

Market demand for an expanded facility –

- For the past several years market demand has surpassed the current supply of space the building offers. In fact, 39.7% of prospective customers that do not book SDCC attribute that decision to “Center Unavailable,” or a lack of space. As a result SDCC is losing many highly desirable, and lucrative events to our competitor cities.
- These loses are not only existing business outgrowing the building, but fresh, new business that would like to come to San Diego, but simply can not be accommodated because the building is too small. While it is not assumed that all lost business would eventually be captured as a result of the proposed expansion, the additional space would allow SDCC to aggressively compete for new business from among a pool of customers desiring (demanding) to come to San Diego. Over the recent past, this pool of lost business translated into substantial prospective room nights:
 - 810,000 room nights lost in 2006
 - 975,000 room nights lost in 2007
 - 705,000 room nights lost in 2008
- There are over 100 major shows that need between 600,000 and 800,000+ gross square feet of exhibit space (expanded size) that average 20,000+ in attendance. Annually booking only three to five of these types of new events alone would make the expansion successful in terms of new economic impact.
- It is an industry idiosyncrasy that there are really only about 20 weeks of the year that meeting planners consider “prime” for major meetings and conventions, and as a result of the current size limitations, 40% of SDCC’s “lost business” can’t get prime dates in the Winter, Spring and Fall. Expansion will create demand through flexibility, with the opportunity to hold a range of events simultaneously, such as two large events that require 300,000 to 400,000 gross square feet each.
- Customer (meeting planner) interviews unequivocally reflect a perception that San Diego is one of the most desirable (in demand) destinations in North America for meetings business. This is borne out by the Center’s occupancy data that far exceeds the national average.
- Demand will be generated by keeping current clients that are growing, and will grow again following the recession, in San Diego – this would be particularly true of major medical shows that rotate through the country’s other leading venues.

- Summary Points of Demand as Presented by Dr. Heywood Sanders:
 - Center is operating at or above practical maximum capacity
 - Loss of potential business most frequently due to lack of available dates/space
 - San Diego’s hotel supply has continued to expand
 - Competitors are moving forward with enhancements
 - Past and potential customers have expressed interest in an expanded Center
 - Past events have and existing events are at risk of outgrowing the Center
 - There is room night loss from these events outgrowing the Center
 - Center has outperformed many of its competitors and the industry

To review and evaluate the feasibility of an expansion to the current Convention Center and related developments or enhancements and the impact on generating new jobs; and to identify key issues related to public access, resource conservation and waterfront enhancement.

- The San Diego Convention Center generates high valued visitors. There were more than 630,000 registered attendees for primary events at the SDCC during 2007. Including non-registered friends and relatives in the event attendee’s travel group, there were an estimated 743,000 SDCC visitors to San Diego. About 84% (625,500 est.) of the SDCC visitors reported hotel accommodations in San Diego and they reported an average of almost 1.4 people per room. The average length of hotel stay was 3.73 nights generating an estimated 1,688,000 total hotel room nights during 2007.
- The 630,000 primary event attendees spent an average of \$1,462 each in San Diego (vs. \$458 for all other overnight visitors). This generated total direct spending of almost \$921 million in San Diego. Lodging spending generated by SDCC primary events totaled nearly \$374 million including about \$35.5 million in transient lodging taxes.
- There is a convention and tradeshow “ecosystem” in San Diego that benefits greatly from the success of the SDCC, delivering economic benefit far beyond the convention center and hotels. That “ecosystem” represents:

○ Visits to Restaurants	92%
○ Other Entertainment	52%
○ Shopping	44%
○ Stay-over Post-event	25%
○ Pre-Event Sight-seeing	19%
○ Cultural & Education	17%
○ Sports Events	12%
○ Other Activities	10%
○ Outdoor Recreation	6%
○ Family Events	2%
- Of 381 events turned away,
 - 89% could be accommodated by an expansion of 225,000 sq. ft.
 - 82% could be accommodated by an expansion of 175,000 sq. ft.

- Architects presented a proposal for a feasible contiguous expansion on the 5th Avenue site that features:
 - 197,665 sq ft. Exhibition Hall on Level 2
 - 108,000 sq. ft. Meeting Room(s)
 - 80,000 sq. ft. Ballroom
 - 154' Overall Building Height
 - Creative suggestions for
 - Public Access – an elevated pedestrian bridge over Harbor Dr.
 - Resource Conservation – rooftop solar generated electricity
 - Waterfront Enhancement – retail promenade at the waterfront

- Assuming an expansion of 225,000 sq. ft. of Exhibit Space and a total of 1,219,400 sq. ft. of Indoor Rentable Space, the annual economic impacts are projected to be:
 - Economic Impacts:
 - \$372 Million per year in Direct Spending.
 - \$698 Million per year in Countywide Economic Impact
 - 6,885 new permanent jobs created
 - Hotel Sector and City Tax Revenues:
 - \$155.6 Million per year in gross room sales for hotels
 - \$17.1 Million per year in Direct City Tax Revenues
 - \$16.3 Million per year in Transient Occupancy Tax
 - \$ 0.8 Million per year in Sales Tax

- The goal for SDCC is to host more large shows (that don't fit currently); and host more events simultaneously; and make move-in/move-out more efficient, therefore the highest probability for success could be expected from an expansion that utilizes contiguous space.

- A non-contiguous building if it is further than directly across the street, is not an expansion by definition to meeting planners – it would result in two completely different venues; basically no major conventions and tradeshow (or consumer shows) would book both venues at the same time.

- 86% of convention and tradeshow producers say their IDEAL convention center has the primary exhibition hall in one building, on one level.

- 61 % of Convention Center GM's surveyed in 2009 responded with "all in one facilities" when asked, "(W)hat types of new convention center new build and expansion projects will be the most common going forward?"

To identify and evaluate various financing options for an expanded convention center that relies mainly on revenues generated by the Convention Center and/or related developments or enhancements;

- Fundamental assumptions to financing/funding the Convention Center expansion:
 - Do not utilize any General Fund revenue not currently utilized or obligated for Convention Center Bond debt service;

- Revenue for expansion must come from sources that have a nexus of benefit from the expanded Center;
- Revenue available for Center expansion, may not be available for other civic purposes because it may only be available due to a direct measurable benefit.
- Construction Consultant Estimates: (as of July 6, 2009)
 - Gross square footage 1,266,719 GSF
 - Building cost \$710.8 million
 - Pedestrian bridge cost \$41.9 million
 - Total Cost \$752.7 million
- Possible Revenue Sources (to meet bond obligation):
 - Adjacent, new convention center hotel
 - Residual cash flow
 - Convention Center Retail
 - Net income
 - Convention Center Hotel Business Improvement District Assessment
 - By geographic proximity to Center
 - Convention Center Entertainment District Assessment
 - All non-hotel businesses, by geographic proximity to Center
 - Convention Center Restaurant Business Improvement District Assessment
 - By geographic proximity to Center
 - Convention Center Parking District (BID)
 - By geographic proximity
 - Convention Center Taxi District
 - Drop-off/Pick-up Surcharge
 - Rental Car Surcharge
 - Convention Center Service Contractor Fee
 - Incremental Convention Center Parking Fees
 - 100% of all above 2007 baseline
 - Contribution of land and other concessions from Unified Port of San Diego
- The American Hotel & Lodging Industry Association, in its report *IMPACT of Room Tax Increases on the Lodging Industry*, concludes that, “non-travel earmarked uses of bed taxes do not benefit tourism and act only as a travel deterrent by increasing a guest’s cost without attracting more guests.” That “the negative impact of bed taxes can be mitigated if they are used for travel promotion.” And that “a number of markets designate a portion of the bed tax to support convention and visitors bureaus, travel advertising and other activities aimed at increasing travel and tourism.”

To encourage public comment on the convention center project by holding meetings at locations and times accessible to the public;

- Over the course of 8 months the Citizens Taskforce on the Convention Center Project:

- Launched and maintained a web site, www.conventioncentertaskforce.org where all materials were posted and public comments could be made to the Task Force;
- Engaged local media to help generate coverage of the Task Force efforts and encourage public participation;
- Met 11 times at the following times and locations; (Add list of locations)
- These locations represent at least one meeting in each of the 8 City Council Districts;
- Had 00 speakers from the public participate in Public Comment;
- Received 00 correspondence/written comments regarding the activities of the Taskforce.

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