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General Government Division

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February 27, 1998

The Honorable Sam Brownback
Chairman, Subcommittee on Oversight of Government Management,
Restructuring and the District of Columbia
Committee on Governmental Affairs
United States Senate

Subject: Convention Centers' Economic Benefits

Dear Mr. Chairman:

This letter responds to your request for information on the economic benefits that convention centers provide to local economies and the estimated cost and funding of the proposed new convention center in Washington, D.C. You requested this work on the basis of concerns raised in some magazine articles and academic studies that the projected economic benefits to local economies from convention centers are sometimes overstated. Specifically, you asked us to address four questions: (1) what does the literature say about the economic benefits of and factors needed for successful convention centers? (2) have selected convention centers achieved some of their projected economic benefits? (3) what are the estimated costs and financing plan for the proposed convention center in Washington, D.C.? and (4) what methodology and assumptions were used and what economic impact projections were made in the economic impact study of the new D.C. convention center?

We are unable to address the fourth question at this time because the economic impact analysis for the proposed new Washington, D.C., convention center has not

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been completed, and you asked that we provide the other information to you in February 1998.[1]

The results of our work on the other objectives are summarized in this letter and discussed in greater detail in three enclosures to this letter. Enclosure I summarizes the results of our literature review on the projected economic benefits of convention centers and the factors contributing to their success. Enclosure II contains the results of our case studies in which we compared some of the projected economic benefits with the estimated actual economic benefits for convention centers in five cities: Los Angeles, CA; New Orleans, LA; Dallas, TX; Washington, D.C. (the existing center); and Baltimore, MD. Enclosure III contains information on the status of the costs for the proposed new Washington, D.C., convention center and the financing plan being considered for the center.

RESULTS IN BRIEF

According to the literature, the number and size of convention centers in the country have continued to grow over the last 10 years. Convention centers are generally not expected to make a profit on their operations or cover their construction costs. Cities and sometimes states subsidize convention centers because they expect that the centers will attract out-of-town delegates, whose spending on hotels, restaurants, and shopping will yield additional tax revenue, which will offset the debt service for the construction and operational costs of the convention centers not covered by operating revenues. Industry experts and researchers agree that well located convention centers, in cities that people want to visit, and close to hotels, restaurants, and shopping, will always be able to attract convention business. While some convention centers in smaller cities have done well, overall the literature raised concerns about the ability of convention centers in smaller cities to achieve their projected economic benefits. Smaller cities generally have less ability to attract out-of-town delegates and have only a limited number of hotel rooms and amenities, such as restaurants and shopping.

All five centers in our case studies had operating losses in the most recent year for which data were available. The five convention centers we studied were subsidized primarily through revenues generated from hotel taxes, and were located in cities that the literature generally considered able to attract delegates. The five centers were also located within walking distance to at least one hotel, restaurants, and some shopping. For three of the

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[1]Phase one of the study, which focuses on the economic impact to the region and marketing the center, was released February 11, 1998. The remainder of the study, which should focus on potential tax revenues, is expected by the Washington Convention Center Authority (WCCA) to be released before the bonds are issued for the proposed new center. WCCA is an independent agency of the District of Columbia governed by a nine-member board that reports to the mayor, and was created in 1994 to construct, maintain, and operate a new convention center and to maintain and operate the existing convention center.

five convention centers, we were able to estimate indicators of the centers' actual economic impact for the same year the economic impact projections were made. Two of these three centers (New Orleans and Baltimore) exceeded their economic projections for the year we reviewed, while the third (existing D.C. center) fell short of its projections. The economic impact projections for the other two centers in our case studies were made for 1998. For these two centers, we compared the latest available estimated actual indicators of the centers' economic impact, which were for 1997, to the projections for 1998. One center (Dallas) exceeded the 1998 projections in 1997. The other center (Los Angeles) was short of the 1998 projections, but according to center officials, bookings of major events have increased; and they expect to meet the economic projections within 3 to 5 years. The assistant general manager at the Los Angeles center said that additional hotel rooms within walking distance to the center would directly increase the number of major events at the center and thus increase economic benefits to the area.

The methodologies used in the economic impact analyses for the centers we reviewed were not always comparable. For example, all five analyses projected direct delegate spending but only two projected indirect spending. In projecting the creation of direct jobs, two studies only included jobs created at the convention center, two studies projected jobs created at the center and at hotels serving the convention center, and the fifth study did not project direct jobs created. As an example of another distinction, in projecting convention delegate spending, studies for three centers multiplied the number of expected convention delegates by average spending per delegate; one study used a similar calculation but also added expected spending by family members traveling with the delegates, and the fifth study did not specify the methodology used to project delegate spending. As another distinction, in projecting tax revenues created as a result of building the center, two studies projected the specific taxes that would be used to pay off the center's debt. The other three studies did not project the specific tax revenues that would be used for the centers' debt but instead projected general sales tax revenues that would be created by convention delegates' spending. We report the different methodologies used to make the economic impact projections, but we did not assess the validity of the different methodologies, nor did we try to equalize the methodologies.

In 1993, plans for a new convention center in Washington, D.C., were initiated by the District's Hotel and Restaurant Association, the Convention and Visitors Association, and the District of Columbia government because they said the current convention center, with 381,000 square feet of exhibit space, is not large enough to accommodate a large portion of the potential national convention market. The proposed new convention center is expected to have 730,000 square feet of exhibition space and is currently estimated to cost $737 million to develop, construct, and finance. WCCA plans to borrow the majority of the funds to finance the construction by issuing revenue bonds backed by existing dedicated tax revenues. In September 1997, we reported that WCCA's financing plan did not provide for all the money needed for funding the project.[2] WCCA has since developed a plan to obtain funding for the entire project. However, there are a number of approvals needed for WCCA to obtain funding and before construction can begin. Construction on the new center is expected to begin in September 1998 and be completed in May 2002.

SCOPE AND METHODOLOGY

To identify published sources of information on the benefits and success factors of convention centers, we searched social science databases, such as Social Scisearch and Econlit; the Library of Congress Catalog; and the news sources available through Lexis/Nexis, including newspapers from many different cites where convention centers are located. We searched for articles and studies published during the period January 1990 to June 1997. We reviewed and synthesized the information identified in magazine and newspaper articles, academic studies, and published books. Enclosure IV contains a bibliography of our major sources. We also interviewed two authors who had written multiple studies or books on convention centers to obtain further insight into how convention centers contribute to the local economy. We did not verify the information in the articles, studies, and books, or that which was provided in our interviews.

To obtain specific data on convention centers' ability to achieve some of their economic projections, we did case studies of five selected convention centers that were jointly selected by your office and us. Three of the five centers–Los Angeles, New Orleans, and Dallas–were selected because they were comparable in size to the proposed new Washington, D.C., convention center. New Orleans and Los Angeles centers were also selected because, according to academic studies, they were considered very successful and less successful, respectively. The Baltimore center was selected because of its proximity to our available staff. The fifth case study was that of the existing Washington, D.C., convention center.

For each center in our case studies, we obtained the economic impact analysis that was done for the last major construction project at the center that had been completed 3 or more years ago, and we compared the economic projections to indicators of the actual economic impact for 1 year of operations. For three of the five centers we compared the estimated indicators of actual economic impact with the same year for which the economic impact projections were made. For the other two centers, the economic impact projections were for 1998; so we compared the projections to the most recently available estimates of actual economic impact, which were for 1997. When the economic projections and estimated actual data were 10 or more years old, we also provide estimates of the current actual economic impact of the center. We did not obtain data for projects completed after 1994 because, according to the economic impact studies, it

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[2]District of Columbia: Status of the Proposed New Convention Center Project (GAO/AIMD-97-148, Sept. 25, 1997).

generally takes at least 3 years after a project is completed for a center to be considered fully operational and to fairly measure a center's economic impact.

Economic impact studies are generally done for major convention center projects to estimate or project the economic benefits to the local area from the project. These estimates are typically based on the number of and attendance at major events, conventions and trade shows, since most of the delegates at these events are expected to be from out of town; and thus, the money they spend would not have been spent in the area if there had not been a convention center. The economic projections are generally made for only 1 year of operations, typically what is considered the first fully operational year. Since the economic projections are made for 1 year of operations, our comparison of actual economic benefits and projections is for 1 year and is not projectable to other years. When the economic projections and actual impact data were 10 or more years old, we also obtained current data on events and attendance at the centers and reported estimates for indicators of the current economic impact. We obtained data on indicators of the actual economic benefits through interviews and documents from officials at city governments, convention centers, and convention and visitor bureaus for the five locations. We did not independently verify this information. The level of detail contained in the economic impact analyses and the methodologies used to project the economic impact varied among centers. Thus, data are not comparable among centers in our case studies or projectable to other cities.

For each convention center in our case studies, we also obtained the latest information available on its operating costs and revenues and annual debt service costs. Through interviews and documentation obtained from officials at the convention centers, we determined what revenue sources were used to cover the debt service costs and operating deficit. The cost information we report are cash costs and do not include any depreciation expenses. We did not verify any of the information provided to us related to the economic projections, operating costs and revenues, or debt service costs.

To provide the status of the costs and expected financing sources for the proposed new convention center in Washington, D.C., we summarized and updated our September 1997 report on this subject. We obtained updated information on predevelopment and construction cost estimates as well as the financing plan from the WCCA for the period July to December 1997.

We conducted our review between June 1997 and December 1997 in accordance with generally accepted government auditing standards.

AGENCY COMMENTS AND OUR EVALUATION

We requested comments on the relevant portions of a draft of this letter from the General Managers or equivalent of the five convention centers in our case studies. We also asked the Mayor of the District of Columbia and the Chairman of the District of Columbia Financial Responsibility and Management Assistance Authority to comment on the draft. We received oral comments from the General Manager or equivalent of the Los Angeles and Baltimore centers, the Chief Financial Officers at the Ernest N. Morial New Orleans Exhibition Hall Authority and the Washington Convention Center Authority, and the Treasury Manager for the City of Dallas. These officials generally agreed with the information and facts presented in the report and provided technical clarifications specific to their respective centers, which we incorporated as appropriate. In addition, the Assistant General Manager at the Los Angeles Convention Center (LACC) stressed the importance of hotel rooms within walking distance to convention centers and said that additional hotel rooms within walking distance to LACC would directly increase the number of major events at the center and therefore increase the economic benefits to the area.

On February 25, 1998, we received oral comments from the Chief Financial Officer of the District of Columbia Financial Responsibility and Management Assistance Authority. He basically agreed with the material presented in the report but the Authority is concerned that the $737 million reported as the estimated cost to develop, construct, and finance the proposed new convention center in Washington, D.C., would be misinterpreted as the cost of construction, which is not expected to exceed $650 million. We believe that the report clearly shows the predevelopment and construction costs/expenses to be $650 million and the additional $87 million as needed for the expected costs associated with financing the project. The Authority also wanted to emphasize that the financing plan is fluid and should be viewed as a work in progress, which, although discussed, has not been approved by any of the District principals. With the recent improvements in the market relative to interest rates, the Authority believes that some of the assumptions surrounding the financing plan will be refined to take into account the current interest rate environment and the term of the proposed bonds. The Authority noted that the President's 1999 proposed budget includes $25 million for transportation improvements related to the Washington Convention Center project. We did not include this in our discussion of the proposed financing for the new center because the budget has not been approved and WCCA has not included this source of funding in its financing plan for the project as of the date of our report. As of February 26, 1998, we had not received any comments from the Mayor of the District of Columbia or his designee.

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We are sending copies of this letter to the Chairmen and Ranking Minority Members of the Senate and House Committees on Appropriations and their subcommittees on the District of Columbia and the House Committee on Government Reform and Oversight's Subcommittee on the District of Columbia; the Ranking Minority Member of your

Subcommittee; the General Managers of the convention centers discussed in this letter; the Chairman of the District of Columbia Financial Responsibility and Management Assistance Authority; and the Mayor of the District of Columbia. We will also make copies available to others on request. The major contributors are listed in enclosure V. If you have any questions, please contact me on (202) 512-8387.

Sincerely yours,

Bernard L. Ungar

Bernard L. Ungar
Director, Government Business
Operations Issues

CONTENTS

ABBREVIATIONS

BEA	Bureau of Economic Analysis
CVB	Convention and Visitors Bureau
DCC	Dallas Convention Center
IACVB	International Association of Convention and Visitors Bureaus
LACC	Los Angeles Convention Center
NCPC	National Capital Planning Commission
WCCA	Washington Convention Center Authority

WHAT THE LITERATURE SAYS ABOUT CONVENTION CENTERS

The sources that we primarily used to identify the economic benefits of and factors needed for a successful convention center are listed in enclosure IV. The articles and studies that we reviewed and authors we interviewed had several common observations:

- There is an abundance of convention centers in the country, and their sponsors are increasing the size of the centers in an attempt to retain or attract more conventions.

- Convention centers generally cannot earn enough direct revenues to cover all of their recurring operating costs or their construction costs. However, cities, and increasingly states, sponsor convention centers with the expectation of significant direct and indirect economic benefits to the area, from spending by out-of-town convention delegates, that will increase local and state tax revenues to offset operating losses and construction costs of convention centers.

- The most important factor to a convention center's success in attracting a large number of out-of-town delegates who spend a significant amount of money is location–being located (1) in a city that people generally want to visit and (2) near hotels, restaurants, and shopping. Convention centers located in cities that are able to attract out-of-town visitors, even before construction of a convention center, are likely to be more successful than centers in cities that do not attract visitors.

Each of these items is discussed below on the basis of information we reviewed in the literature or was provided by the authors we interviewed.

NUMBER AND SIZES OF CENTERS HAVE BEEN INCREASING

The number of convention centers has grown from about 300 in 1987 to more than 500 in 1994, and many have been built in smaller cities. In addition, the convention business is very competitive, and many cities that already have convention centers have expanded and upgraded their centers in an attempt to maintain or expand their share of the convention market and attract larger conventions. One industry publication estimated that an average of 2 million square feet of additional exhibit space will be added to convention centers annually between 1996 and 1999 in the United States. There is currently one convention center in the country with over 1 million square feet of exhibit space (McCormick Place in Chicago), but by 1999, four are expected to be in operation (McCormick Place, Orange County (Florida) Convention Center, Las Vegas Convention Center, and Ernest N. Morial Convention Center in New Orleans).

SPONSORS GENERALLY DO NOT EXPECT CENTERS TO FULLY COVER THEIR COSTS

Officials in many cities have turned to tourism and specifically convention centers to help energize and attract businesses to their downtowns. According to several studies, convention business is regarded as attractive to city officials because it can attract large numbers of out-of-town delegates who contribute to the local economy. Urban development experts estimated that about 75 percent of dollars spent by convention delegates are spent within city limits, which can contribute substantially to the municipal tax base while demanding little in the way of public services.

Sponsors of convention centers generally do not expect the centers to cover all of their operating expense or any of the construction costs with operating revenues from the convention center. However, we did find reference in the literature to two convention centers that made a profit on operations (Commonwealth Convention Center in Louisville, KY, and Ohio Center in Columbus, Ohio). While the centers themselves do not generally make a profit, they are sought after and justified because they are expected to attract enough delegates from out of town to generate tax revenues sufficient to cover the center's construction costs and operating losses. Since the primary objective of many convention centers is to attract out-of-town delegates, rather than maximize center revenues, sponsors of conventions that will attract delegates from out of town are often offered rental discounts. Cities sell exhibit space for a fraction of the actual cost to attract conventions to the city, anticipating that the city will make up the difference in taxes on the money spent by convention delegates. Convention center projects are often financed by city or state governments through the issuance of revenue bonds. These bonds are usually backed by visitor-related public revenues, primarily taxes on hotel rooms, but also taxes on restaurant meals.

The International Association of Convention and Visitor Bureaus (IACVB) [3] surveys convention delegates in several cities every 3 to 4 years about their spending patterns and consolidates the information to estimate the average spending for convention delegates by type of convention. IACVB estimated that in 1996, the average delegate attending a convention spent a total of $698 per event. IACVB estimated that delegates attending international, national, or regional conventions, which tend to attract more delegates from out-of-town, stayed an average of 4.1 days and spent almost $900 per convention in 1996. IACVB estimated that delegates attending state or local conventions, which attract fewer out-of-town delegates and more local delegates, stayed an average of 2.4 days and spent about $360 per convention in 1996. Delegates attending international, national, or regional conventions were estimated to spend more than twice as much on restaurants, entertainment, and local transportation than delegates attending state or local conventions.

FACTORS THAT INFLUENCE SUCCESS

Location is the most important factor to a convention center's success in attracting a large number of out-of-town delegates who spend a significant amount of money. According to the literature, the amenities that a city has to offer and the overall desirability of a city as a

[3] The IACVB is an umbrella organization for convention and visitor bureaus (CVB). CVBs are typically responsible for promoting and booking events at their local convention centers and helping to justify convention center projects and spending.

travel destination are critical to a convention center's ability to attract out-of-town delegates. Next to the ability of the center to house their event, convention planners focus first on the availability of hotel rooms and their proximity to the center when deciding where to hold a convention. However, according to a research group, hotels that are built solely on the basis of a nearby convention center are generally subject to being severely underutilized, because only about one-third of hotel guests are convention center delegates. Since the economic benefits from convention centers are dependant on delegate spending, the proximity of restaurants and shopping to the convention center is also important. According to one of the authors we interviewed, delegates tend to spend more money if there are restaurants and shopping within walking distance of the convention center.

Industry experts and researchers agree that well located convention centers, in cities that people want to visit, and that are close to hotels, restaurants, and shopping, will be able to attract convention business. Major cities and popular tourist destinations attract events with a longer length of stay and consequently higher delegate spending. While some convention centers in smaller cities have done well, overall the literature raised concerns about the ability of convention centers in smaller cities to achieve their projected economic benefits. Smaller cities have less ability to attract out-of-town delegates and a limited supply of hotel rooms and amenities, such as restaurants and shopping.

THE EXPERIENCE OF CONVENTION CENTERS IN FIVE CITIES

We obtained data for convention center projects in five cities: Los Angeles, New Orleans, Dallas, Washington, D.C. (for the existing center), and Baltimore, to determine if the projected economic benefits were achieved. We did not independently verify the data we obtained. The economic benefits from the convention centers to the local communities that are included in our case studies did not generally come from revenues earned by the centers themselves but from spending by convention and trade show delegates on hotels, food, and shopping; and the resulting increase in tax revenues from that spending. According to a trade show association, the cities in which the centers in our case studies are located were generally ranked among the top 25 in their ability to attract conventions. The five centers were located within walking distance to at least one hotel, restaurants, and shops. All of the centers had an operating loss in the most recent year for which data were available, and generally relied on dedicated tax revenues to finance the operating loss and debt-service costs from construction. The construction or expansion of each convention center was justified based on projections of the economic impact from additional spending by delegates and the related tax revenues on that spending.

BACKGROUND

Prior to construction of a major convention center project, whether it be a new center or the expansion of an existing center, a feasibility study is typically done. This study usually includes (1) a market analysis, which estimates the level of interest convention planners will have in hosting events in the city and (2) an economic impact analysis, which projects the financial benefit to the locality from the project. The market analysis generally projects the number of conventions and attendance that the center can attract. Such projections are typically made for the first fully-operational year, which is generally between 3 and 5 years after the completion of construction. Conventions are often booked several years in advance and many rotate their locations. Therefore, convention center planners generally expect it to take 3 to 5 years to book a full level of business.

The economic impact analyses in our case studies projected financial benefits to the local economies based on expected delegate spending on hotels, restaurants, shopping, and entertainment that would not be spent in the localities if delegates had not been at the convention center. This is referred to as direct delegate spending and is typically calculated by multiplying delegate attendance at events by the estimated average delegate spending per event. Average delegate spending estimates are published by the IACVB.

According to most of the economic impact analyses we reviewed, spending by convention delegates is assumed to directly benefit the industries in which money is spent, such as hotels and restaurants, but it also generates additional economic activity–indirect benefits–in other sectors of the local economy. For example, some of the money spent by convention delegates provides income for employees in hotels and restaurants, who spend a portion of their income on housing, food, and other goods and services in the local economy. Thus, the initial spending by delegates generates additional economic activity in other sectors of economy. This effect is referred to as the multiplier effect because it results in an increase in economic activity that exceeds the initial spending by delegates. The Bureau of Economic Analysis (BEA) within the Department of Commerce publishes multiplier data for each region, specific to types of industries such as retail, restaurants, and hospitality. The multipliers published by BEA for tourism related industries such as retail, restaurants, and hospitality, tend to be about two. This means that about a total of 2 dollars in economic activity is generated for each dollar spent by convention delegates.

The economic impact analyses for the five convention centers we studied varied somewhat in the methodologies used. All five analyses projected direct delegate spending, but only two projected indirect spending. In projecting the creation of direct jobs, two studies only included jobs created at the convention center, two studies projected jobs created at the center and at hotels serving the convention center, and the fifth study did not project direct jobs created. As an example of another distinction, in projecting delegate spending, studies for three centers multiplied the number of expected convention delegates by average spending per delegate. One study used a similar calculation but also added expected spending by family members traveling with the delegates, and the fifth study did not specify the methodology used to project delegate spending. As another distinction, in projecting tax revenues created as a result of building the center, two studies projected the specific taxes that would be used to pay off the center's debt, while the other three studies did not project the specific tax revenues that would be used for the centers' debt; but instead, they projected general sales tax revenues that would be created by center delegates' spending. We report the different methodologies used to make the economic impact projections; but we did not assess the validity of the different methodologies, nor did we try to equalize the methodologies.

We estimated indicators of the actual economic impact for three of the centers, Los Angeles, Dallas, and Baltimore, on the basis of data provided by officials at city governments, convention centers, and convention and visitor bureaus for the cities. We used the same formulas used for the projections in the economic analyses or formulas provided by officials associated with the specific convention center. The other two convention centers, New Orleans and Washington, D.C., had studies that estimated their actual economic impact, and we used the results of these studies. We relied on the data as presented in these studies and by convention center and city officials; and we did not independently verify the data we received. The results of the five case studies presented in the following sections are not projectable to other convention centers and generally only represent 1 year of operations. We provide 2 years–the year of the economic projections and the most current year available–of data for the Washington, D.C., and Baltimore convention centers because their projections were at least 10 years old.

LOS ANGELES CONVENTION CENTER

Tradeshow Week, an organization that annually publishes Major Exhibit Hall Directory and ranks the top 25 cities based on the number of expositions they host, consistently reports Los Angeles as one of the top 25 cities for conventions. Officials with the convention center and Los Angeles CVB said that there is only one hotel within walking distance to the center, and the center could benefit from additional hotel rooms within walking distance. The Assistant General Manager of the center said that additional hotel rooms within walking distance would directly increase the number of major events at the center and thus increase the economic benefits to the area. The center is also within walking distance to few restaurants and limited shopping. The original Los Angeles Convention Center (LACC) opened in 1971 with 234,000 square feet of exhibit space and primarily housed consumer shows. The City of Los Angeles financed an expansion of the center, which opened in November 1993, and increased the exhibit space to 710,000 square feet. According to the Assistant General Manager of the convention center, it was expanded to attract more and larger conventions with out-of-town delegates.

LACC had a $1.3 million operating loss in fiscal year 1997. This loss was net of the collection of $3.7 million in parking fees obtained from the center's parking garage. Without the parking revenues, LACC would have reported a $5.0 million operating loss in fiscal year 1997. The Dallas Convention Center was the only other center in our case studies that had revenues from a parking garage, which were about $770,000 in fiscal year 1997.

To finance the 1993 expansion, the city of Los Angeles issued bonds backed by a transient occupancy tax, which is a tax on hotel rooms. Of the city's 14 percent hotel tax, 3.5 percent is dedicated to paying off the convention center bonds, 2 percent goes to finance the convention and visitors bureau, and 8.5 percent goes into the city's general fund. In fiscal year 1997, revenues dedicated to LACC were not sufficient to cover the operating loss and debt-service requirements, and the city had to use a reserve fund and general funds to cover the shortfall.

According to officials at LACC and the local convention and visitor's bureau, hotel tax revenues have been lower than anticipated due to several situations outside of their control that occurred in the early 1990s, which negatively affected Los Angeles' ability to attract conventions and tourists. These situations included the Rodney King riots, major earthquakes and fires, and a severe economic downturn in California. Table II.1 shows the costs and revenues relating to the LACC in fiscal year 1997.

Table II.1: Costs and Revenues Relating to the LACC in Fiscal Year 1997

Dollars in millions

Cost and revenue categories	Amount
Costs	
Operating costs [a]	$22
Debt service	42
Total costs	**$64**
Revenues	
Operating revenues[b]	$21
Hotel tax	19
Reserve fund [c]	13
Subsidy from city for rental discounts to attract conventions	5
Interest from funds on deposit	4
General fund contribution	2
Total revenues	**$64**

Note: Revenues include only those types of taxes dedicated to pay the costs of the center. We did not include additional tax revenues, such as sales taxes, that might be collected as a result of delegate spending because they are not dedicated to paying costs of the center. Operating costs do not include depreciation.

[a]Includes overhead costs, pension plans, and workman's compensation charged to the convention center by the city for the center's employees.

[b]Includes $3.7 million in parking revenues.

[c]In 1985, the city of Los Angeles established a reserve fund in which it deposited revenues dedicated to LACC in excess of what was needed to cover the costs and debt service of LACC. This fund was depleted in fiscal year 1997.

Source: City of Los Angeles.

Economic Impact Projections for LACC

In 1985, Touche Ross & Co. completed an economic impact analysis for the 1993 expansion of LACC. The study assumed a 4-year phase-in; thus, 1998 would be the first full year of operations. We compared the 1998 projections with the estimated actual data for 1997. As discussed earlier, LACC officials said the ability to attract conventions to Los Angeles was negatively affected by several situations outside the center's control. However, the center has experienced an increase in the number of major events at the convention center in the last couple of years and this upward trend is expected to continue. According to LACC officials, they expect to hold 60 major events at the center in 1998 and bookings for 1999 are high. In addition, LACC officials said that expected attendance at major events has increased, and they expect to meet the economic projections within 3 to 5 years. Table II.2 shows the economic impact projections for 1998 compared with the estimated actual results for 1997.

Table II.2: Comparison of Economic Projections Made for the 1993 Los Angeles Convention Center Expansion and Estimated Actual Economic Impact

Dollars in millions

Categories for projections	Projections for 1998	Estimated actual for 1997
Major events: Trade shows/conventions	82	51
Number of delegates	N/A[a]	N/A[a]
Direct delegate spending	$223.6[b]	$77.7 to 114.8[c]
Indirect spending	N/A[a]	N/A[a]
Direct job creation[d]	101	122
Indirect job creation	N/A[a]	N/A[a]
Taxes: Hotel tax dedicated to convention center bond[e]	$18.6	$19.1

Note: Projected figures are in 1997 dollars.

[a]The economic impact analysis did not include projections for these categories; therefore, we did not estimate the actual impact.

[b]The economic impact study did not specify the methodology used to project direct delegate spending.

[c]The economic impact study for the LACC expansion did not include the formula used to calculate direct delegate spending. To estimate a range for actual direct delegate spending, we used 80 percent of daily delegate attendance, which LACC officials believe to be the percentage of out-of-town delegates, multiplied by (1) IACVB's average daily delegate spending rate, which LACC officials believe is lower than actual delegate spending in Los Angeles and (2) the average daily delegate spending recently used in a feasibility study for Washington, D.C., which LACC officials believe more closely matches actual delegate spending in Los Angeles. The result of these multiplications provides a range of estimated direct delegate spending. In addition, LACC officials said that they believe delegates stay more nights in Los Angeles than days they attend the center, which would result in additional spending, but were unable to quantify the number of additional nights.

[d]The economic impact analysis projected jobs created at the convention center.

[e]Projection was based on 3 percent of the hotel tax being dedicated to the convention center bond, but 3.5 percent was actually dedicated.

Sources: 1985 Touche Ross & Co. feasibility study, and City of Los Angeles, LACC, Los Angeles CVB, and GAO calculations.

ERNEST N. MORIAL CONVENTION CENTER, NEW ORLEANS

In 1978, the State of Louisiana created the New Orleans Exhibition Hall Authority to plan, finance, construct, and manage a convention and exhibition center in New Orleans. New Orleans is consistently cited by Tradeshow Week as one of the top 15 cities for conventions. The Ernest N. Morial Convention Center first opened in January 1985 with 380,000 square feet of exhibit space. In 1991, the center was expanded to 700,000 square feet of exhibit space to enable the center to accommodate more and larger conventions. The Morial center is currently undergoing another expansion, which is planned to be completed in 1999 and will bring the center's exhibit space to over 1 million square feet. The Morial center is within walking distance of hotels, restaurants, and shopping.

The New Orleans Exhibition Hall Authority issued a series of bonds to finance the original construction, the 1991 expansion, and a portion of the current expansion of the Morial center. These bonds were backed by five taxes: (1) a 2-percent hotel occupancy tax; (2) a hotel occupancy tax of $0.50 to $2.00 per occupied hotel room per night, depending on the size of the hotel; (3) a 0.5-percent tax on food and beverages sold in food service establishments; (4) a 2-percent tax on service contractors that provide goods and services to conventions and trade shows; and (5) a $1.00 per person tax on sight-seeing tours in the Parish of Orleans. These taxes were also used to cover operating losses, which were $62,000 in 1996. Revenues from the taxes have been more than sufficient to cover the debt service and operating losses. Revenues in excess of expenses have been used to establish a reserve fund and a construction fund for the current expansion. Table II.3 shows the costs and revenues relating to the Morial Center for calendar year 1996.

Table II.3: Costs and Revenues Relating to the Morial Center in 1996

Dollars in millions

Cost and revenue categories	Amount
Costs	
Operating costs	$17.5
Debt service [a]	8.2
Total costs	**$25.7**
Revenues	
Operating revenues	$17.4
Hotel tax	10.3
Hotel occupancy/food and beverage tax	8.0
Interest from investments	1.0
Service contractors/sight seeing tour tax	1.0
Total revenues	**$37.7**

Note: Revenues include only those types of taxes dedicated to pay the costs of the center. We did not include additional tax revenues, such as sales taxes, that might be collected as a result of delegate spending because they are not dedicated to paying costs of the center. Operating costs do not include depreciation.

[a]Does not include costs associated with bonds that were refinanced in 1996.

Source: Ernest N. Morial New Orleans Exhibition Hall Authority 1996 Financial and Compliance Audit.

Economic Impact Projections for the Morial Center

In 1987, Coopers & Lybrand completed an economic impact analysis for the 1991 expansion of the Morial Center. The study made economic impact projections for the fifth year of operations after the expansion was completed, which was 1996, because the expansion opened in July 1991. The study did not project the revenues from the taxes dedicated to paying the bonds used to finance the expansion. The study projected the increase in sales taxes to the city and state based on the additional spending by convention delegates and their families. The Ernest N. Morial New Orleans Exhibition Hall Authority has had several studies done over the years to quantify the economic impact of the convention center. We used the latest study, which was for 1996, to estimate the actual benefits achieved by the Morial Center. Table II.4 compares the economic projections with estimated actual benefits for 1996.

Table II.4: Comparison of Economic Projections Made for the 1991 New Orleans Convention Center Expansion and Estimated Actual Economic Impact

Dollars in millions

Categories for projections	Projections for 1996	Estimated actual for 1996
Major Events: Trade shows/conventions	64	104
Number of delegates	740,000	651,371
Direct delegate/family spending[a]	$894.3	$1,177
Indirect spending	$1,102[b]	$1,891[c]
Direct job creation	N/A[d]	N/A[d]
Indirect job creation	16,577[e]	38,135[f]
Taxes:[g] State sales tax City sales tax	 $68.1 $85.1	 $76.8 $62.9

[a]Projections and actual direct spending were calculated by multiplying the estimated and actual convention delegates, respectively, by IACVB's average delegate spending, plus an estimate of the number of family members on the trip, multiplied by 36 and 41 percent of the IACVB's average spending, respectively. This was the only study that included family spending as part of direct delegate spending. The inclusion of family spending and the higher overall number of delegates, resulted in a significantly higher projection of spending for the Morial center than for the other centers we studied. This higher direct spending also resulted in higher projections for indirect spending and job creation at the Morial center than other centers.

[b]Indirect spending was projected by multiplying direct spending by a multiplier of 1.233.

[c]Actual indirect spending was estimated by multiplying estimated actual direct spending by a multiplier of 1.61.
[d]The economic impact analysis did not include projections for this category; therefore, we did not estimate the actual impact for this category.

[e]The projected indirect jobs created was based on an assumption that about 25 percent of direct and indirect spending was used to create jobs, and the average annual salary of the jobs created was $18,200. While the methodologies used to project jobs created for the Morial, Dallas, and D.C., centers differed, they all used direct or indirect spending in their calculations. New Orleans' projected indirect spending is about 6 times greater than the projections of direct or indirect spending for Dallas or D.C.; and the projection for indirect jobs created is about 5 times greater than the projections for indirect jobs in Dallas or D.C.

[f]According to the study that estimated the actual economic impact, the number of indirect jobs created was based on employment multipliers, published by the BEA, times indirect spending.

[g]While the Authority uses a combination of hotel, food and beverage, service contractor, and site-seeing taxes to pay the debt service and operating losses of the center, the economic analysis did not project the revenues from these taxes; therefore, we did not include them in this table.

Sources: 1987 Coopers & Lybrand economic impact analysis, 1985 and 1996 reports on the Morial Center's economic impact, and GAO calculations.

DALLAS CONVENTION CENTER

The Dallas Convention Center (DCC), which is owned by the city of Dallas, originally opened in 1957 and has been expanded three times. The latest expansion opened in January 1994, resulting in a total of 807,000 square feet of exhibit space. The 1994 DCC expansion was constructed to help maintain its share of the convention market. Dallas is consistently cited by Tradeshow Week as one of the top 10 cities for conventions. The center is part of the city's Civic Center/Convention Center Complex, which also includes Reunion Arena, Union Station, and a parking garage. The convention center is within walking distance to one hotel, a number of restaurants, and some shops. Dallas reported a $404,000 operating loss for the Civic Center/Convention Center complex in fiscal year 1997. The city said that operating costs and revenues specific to the convention center were not readily available. The 1994 expansion of the convention center was financed by bonds backed by a 7 percent hotel occupancy tax. About one-third of the hotel tax goes to the Dallas Visitors and Convention Bureau for operations and two-thirds goes to pay off the bonds. The center also receives 1.5 percent from the city's mixed beverage tax to meet operating and maintenance expenses. Table II.5 shows the costs and revenues in fiscal year 1997 relating to the Civic Center/Convention Center Complex.

Table II.5: Costs and Revenues Relating to Dallas Civic Center/Convention Center Complex in Fiscal Year 1997

Dollars in millions

Cost and revenue categories	Amount
Costs	
Operating costs	$23.4
Debt service	21.8
Total costs	**$45.2**
Revenues	
Operating revenues[a]	$23.0
Hotel tax	18.4
Beverage tax	4.8
Interest from investments	2.2
Total revenues	**$48.4**

Note: Revenues include only those types of taxes dedicated to pay the costs of the center. We did not include additional tax revenues, such as sales taxes, that might be collected as a result of delegate spending because they are not dedicated to paying costs of the center. Operating costs do not include depreciation.

[a]Includes $770,000 in parking garage revenues.

Source: City of Dallas.

Economic Impact Projections for DCC

In 1988, Touche Ross International completed an economic impact analysis for the 1994 DCC expansion. Touche Ross International projected the economic impact for 4 years after the center's expansion opened. Since the center opened in January 1994, these projections would be for 1998. To compare the projections with actual estimates, we used 1997 data and applied the same formulas used by Touche Ross International in its economic impact analysis to calculate actual direct and indirect delegate spending. The study projected the increase in sales taxes generated by the additional delegate spending but did not project the revenues from the taxes dedicated to paying the bonds used to finance the expansion. Table II.6 compares the economic projections to the estimated actual economic impact for 1997.

Table II. 6: Comparison of Economic Projections Made for the 1994 Dallas Convention Center Expansion and Estimated Actual Economic Impact

Dollars in millions

Categories for projections	Projections for 1998	Estimated actual for 1997
Major Events: National/state/regional	37 to 66	45
Number of delegates	412,440[a]	332,500
Direct delegate spending	$133.1[b]	$148.9[b]
Indirect spending	$186.3[c]	$ 208.4[c]
Direct job creation	2,508[d]	N/A[e]
Indirect job creation	3,511[f]	4,005[f]
Taxes:[g] Increase in sales tax	$0.8	$0.9[h]

Note: Projected figures in 1997 dollars.

[a]The economic impact analysis did not include a projection for delegates; however, based on the assumptions used in the study to calculate direct delegate spending, we calculated the projected number of delegates by dividing direct delegate spending by IACVB's average delegate spending and multiplying this by two, since the study assumed that only half of the delegates were from out of town, and used this number of delegates in the calculation for direct delegate spending.

[b]The formula used in the economic impact study for direct delegate spending was attendance at national/state/regional events times 50 percent times IACVB average delegate spending. We used this same formula to estimate the actual direct delegate spending.

[c]Indirect spending was projected at a rate of 1.4 times direct delegate spending. We estimated actual indirect spending at the same rate as projected indirect spending.

[d]The projection for direct job creation included jobs expected to be created at the center and a new hotel that was assumed to be built.

[e]Data on actual direct jobs created were not available. However, according to the Dallas CVB, direct job creation was significantly lower than projected because the projection assumed that a hotel would be built near the center, and it was not built.

[f]The projected indirect jobs were based on about $52,000 needed in indirect spending to support one job. We used the same assumption to estimate the actual indirect jobs created.

[g]While the City uses a combination of hotel and beverage taxes to pay the debt service and operating losses of the center, the economic analysis did not project the revenues from these taxes; therefore, we did not include them in this table.

[h]We used the same tax rate as was used in the economic impact study to estimate the actual increase in sales tax--0.249 percent of direct and indirect spending.

Sources: 1988 Touche Ross International economic impact analysis, City of Dallas, Dallas CVB, and GAO calculations.

THE EXISTING WASHINGTON, D.C., CONVENTION CENTER

The existing convention center in Washington, D.C., was financed and supported by the District of Columbia and opened in January 1983 with 381,000 square feet of exhibit space. Washington, D.C., is consistently cited by Tradeshow Week as one of the top 10 cities for conventions. While the convention center is within walking distance to some hotels, restaurants, and shops, convention center officials have said that additional hotel rooms within walking distance to the center would help the center. In fiscal year 1996, the center reported a $5.5 millon operating loss. The current construction debt is financed through general obligation bonds paid by the District of Columbia out of general funds. The outstanding debt on the center is currently about $67 million. Prior to 1994, the District also covered the center's operating losses out of the general fund. Since 1994, the center's operating losses have been covered by dedicated taxes.

WCCA currently receives a portion of the following taxes levied by the District: (1) 1 percent of the 10 percent sales tax on food or drink consumed on the premises and from the rental of vehicles and trailers, (2) a 2.5-percent tax on hotel gross receipts and 40 percent of the daily $1.50 tax per occupied hotel room, and (3) a 2.5-percent surtax on the 9.5-percent corporations and unincorporated business tax. Revenues from these taxes in excess of operating losses and a portion of the hotel occupancy tax that is designated for tourism are deposited into a building fund for the construction of a new convention center. Table II.7 shows the costs and revenues in fiscal year 1996 relating to the Washington, D.C., convention center.

Table II.7: Costs and Revenues Relating to the Washington, D.C., Convention Center in Fiscal Year 1996

Dollars in millions

Cost and revenue categories	Amount
Costs	
Operating costs	$13.7
Debt service	11.2
Total costs	**$24.9**
Revenues	
Operating revenues	$ 8.2
Dedicated taxes	30.3
D.C. general fund	11.2
Total revenues	**$49.7**

Note: Revenues include only those types of taxes dedicated to pay the costs of the center. We did not include additional tax revenues, such as sales taxes, that might be collected as a result of delegate spending because they are not dedicated to paying costs of the center. Operating costs do not include depreciation.

Source: WCCA.

Economic Impact Projections for the Existing Washington Convention Center

In 1977, Gladstone Associates, now GA/Partners, completed an economic impact analysis for a new convention center for the District of Columbia. The report included economic impact projections that were to be obtained after a build-up period of 1 to 3 years. Since the center was financed by general obligation bonds and not an increase in taxes, the report included tax projections specifically based on the amount of tax delegates paid on their hotel rooms. In 1986, GA/Partners compared the fiscal year 1985 economic projections they had made for the center with what they estimated to be the actual performance in fiscal year 1985. Although fiscal year 1985 was only the second full year of operations, GA/Partners concluded that the center had reached a mature level of operation. Table II.8 compares the fiscal year 1985 economic projections to the estimated actual economic impact as reported by GA/Partners. Since the projections and estimated actual impact data are over 10 years old, we have also included information on the estimated actual performance of the center in 1996, the latest year for which data were available.

Table II.8: Comparison of Economic Projections Made for the Existing Washington, D.C. Convention Center and Estimated Actual Economic Impact

Dollars in millions

Categories for projections	Projections for fiscal year 1985	Estimated actual for fiscal year 1985	Estimated actual for 1996
Major Events: Conventions	29	28	22
Out of town delegates	283,200	281,960	308,200
Direct delegate/exhibitor spending[a]	$172	$168	$276 ($197 in 1985 dollars.)
Indirect spending	N/A[b]	N/A[b]	N/A[b]
Direct job creation[c]	85 to 100	144	162
Indirect job creation	3,570 to 4,500[d]	2,134[e]	894
Taxes paid by delegates:[f]			
Hotel sales tax	$6.7[g]	$6.5[g]	$10.1[g] ($7.2 in 1985 dollars.)
Restaurant tax	$3.5[h]	$3.4[h]	$6.7[h] ($4.8 in 1985 dollars.)

[a]Direct spending was calculated by multiplying the number of out-of-town delegates and exhibitors by average spending from IACVB 1978-1979 Convention Expenditure Survey for Washington, D.C. We used out-of-town delegates provided by the D.C., CVB, times the IACVB average spending at national conventions to estimate the 1996 performance.

[b]The economic impact analysis did not include projections for this category.

[c]Direct job creation reflects those jobs created at the convention center.

[d]The economic impact study used a combination of three methodologies to project indirect jobs created: (1) 28 percent of delegates' estimated nonhotel expenditures that are assumed to be used for salaries, divided by an average annual salary of $9,500; (2) for each 100 rooms supported by delegate spending, 60 hotel employees were hired; and (3) the jobs estimated using methodologies one and two multiplied by 0.3. A 1978 report prepared by the D.C. Department of Manpower suggested an employment multiplier of 0.35 but 0.3 was used to be conservative, according to the economic impact study.

[e]The 1986 report estimated indirect jobs created based on an estimate of hotel rooms supported by delegate spending. We estimated indirect jobs created in 1996 using the formula from the 1986 report--convention center related room nights, delegates times 4.1 nights, divided by 1.5 delegates per room; times 90 percent of the rooms booked in D.C.; divided by 365 days; times 70 percent occupancy level; times 0.6 hotel employees per room.

[f]While the City also uses revenues from a business tax to cover the center's operating losses, the economic analysis did not project the revenues from this tax; therefore, we did not include them in this table.

[g]The 1996 performance based on 13 percent tax rate, 1985 projection and performance based on 10 percent tax rate.

[h]The 1996 performance based on 10 percent tax rate, 1985 projection and performance based on 8 percent tax rate.

Sources: GA/Partners's 1977 economic impact study, 1986 comparison of projections and estimated actual economic impact, Washington Convention and Visitors Association, and GAO Calculations.

BALTIMORE CONVENTION CENTER

The Baltimore Convention Center was the smallest center we studied. The original center opened in 1979 with 115,000 square feet of exhibit space. While the literature did not cite Baltimore as being in the top 25 cities for conventions, the center is located within walking distance of hotels, restaurants, shops, and local attractions. In fiscal year 1997, the center reported a $2.3 million operating loss. The City of Baltimore, in conjunction with the State of Maryland, financed the construction of the center. In the mid 1980s, a temporary expansion of exhibit space was added by building Festival Hall across the street from the original center. This expansion added 85,000 square feet of exhibit space. In order to compete for more and larger conventions, Festival Hall was torn down to make room for another expansion that opened in April 1997 and increased the total exhibit space to about 300,000 square feet. This expansion was funded by bonds issued by the Maryland Stadium Authority, the State of Maryland, and the City of Baltimore that are to be repaid from tax revenues and general funds. The economic impact of the latest expansion will not be known for 3 to 5 years. According to a Maryland official, an economic impact study was not done when Festival Hall was built in the mid-1980s; so we analyzed indicators of the economic impact of the original 1979 convention center.

The Baltimore Convention Center was originally built by a combination of funds from the City of Baltimore (approximately one-third) and the State of Maryland (approximately two-thirds). The State of Maryland issued a general obligation bond of $35 million, with annual debt service of about $3.7 million, to finance the convention center. It was envisioned that the additional state tax revenues from convention delegates would be sufficient to cover the bond payments. The City of Baltimore also agreed to pay the difference if the additional tax revenues were not sufficient to cover the debt service. The additional tax revenues were sufficient to pay off the bonds in 10 years. The cost of the current bonds for the 1997 expansion are paid from state hotel tax revenues. Of the 12.5 percent state tax on hotel rooms collected in Baltimore city, 5.0 percent is a sales tax retained by the state and 7.5 percent is given to the City of Baltimore. From the 7.5 percent hotel tax revenues, Baltimore then reimburses the State for the debt service on the convention center. Table II.9 shows the costs and revenues relating to operations at the Baltimore Convention Center for fiscal year 1997.

Table II.9: Costs and Revenues Relating to the Baltimore Convention Center in Fiscal Year 1997

Dollars in millions

Cost and revenue categories	Amount
Costs	
Operating costs	$7.6
Debt service[a]	6.4
Total costs	**$14.0**
Revenues	
Operating revenues	$5.3
City subsidy	1.4
State of Maryland subsidy	0.9
Hotel tax to City	11.1
Total revenues	**$18.7**

Note: Revenues include only those types of taxes dedicated to pay the costs of the center. We did not include additional tax revenues, such as sales taxes, that might be collected as a result of delegate spending because they are not dedicated to paying costs of the center. Operating costs do not include depreciation.

[a]Includes debt service on bonds issued by the City of Baltimore and the Maryland Stadium Authority. Debt service paid by the State of Maryland related to the convention center was not readily available because the state did not issue bonds specifically for the convention center, but used funds from a series of general obligation bonds.

Source: Baltimore Convention Center.

Economic Impact Projections for the Baltimore Convention Center

In 1975, Stanford Research Institute completed an economic impact analysis for a new convention center in Baltimore. The study contained two sets of economic projections, one for the first normal year of operations, assumed to be 3 years after opening (1982), and another for 5 years later (1987). We used the 1987 projections for our comparison. To estimate the actual direct delegate spending, we used the same formula used by Stanford Research Institute in its economic impact analysis. Table II.10 compares the economic projections with the estimated actual economic impact for 1987. Since the projections and estimated actual impact data are 10 years old, we have also included information on the estimated actual performance of the center in 1997.

Table II.10: Comparison of Economic Projections Made for the 1979 Baltimore Convention Center and Estimated Actual Economic Impact

Dollars in millions

Categories for projections	Projections for 1987	Estimated actual for fiscal year 1987	Estimated actual for fiscal year 1997
Major Events: Trade shows/conventions	25	43	65
Number of delegates	87,500	160,163	181,096
Direct delegate spending	$26.0[a]	$47.4[a]	$144.9[a] ($107 in 1987 dollars.)
Indirect spending	N/A[b]	N/A[b]	N/A[b]
Direct job creation	1024[c]	60[d]	90[d]
Indirect job creation	N/A[b]	N/A[b]	N/A[b]
Taxes:[e] Tax revenues available to pay convention center bonds	$4.1	$6.5	$11.1 ($8 in 1987 dollars.)

Note: In 1987 the Baltimore Convention Center had 200,000 square feet of exhibit space available, and in 1997, the center was completing an expansion that opened in April 1997 and increased the exhibit space to 300,000 square feet.

[a]To estimate the actual direct delegate spending, we used the same formula used to project direct delegate spending in the economic impact study. The formula assumed that 75 percent of the delegates at conventions/trade shows were international/national delegates that stayed an average of 4.2 days, and 25 percent of the delegates were state/regional delegates that stayed an average of 3 days. The estimated number of international/national delegate days was multiplied by IACVB's average daily spending by delegates at international/national events, and the estimated number of state/regional delegate days was multiplied by IACVB's average daily spending by delegates at state/regional events.

[b]The economic impact analysis did not include projections for these categories specifically for the convention center so we did not estimate the actual impact for these categories.

[c]The projection for direct jobs created included 24 jobs at the convention center and promotion council and 1,000 new jobs in new hotels directly serving the convention center.

[d]This represents only direct employment at the convention center. According to the president of the Baltimore CVB, no studies have been done on the actual economic impact of the center and an estimate of direct jobs created in new hotels as a result of the convention center is not available.

[e]Projected and actual tax revenues for 1987 were from additional state sales, hotel, entertainment, and personal income taxes collected as a result of spending by out-of-town delegates. Tax revenues for 1997 were from a dedicated hotel tax.

Sources: 1975 Stanford Research Institute economic impact study, Baltimore Convention Center, and GAO calculations.

THE PROPOSED NEW CONVENTION CENTER IN WASHINGTON, D.C.

In September 1997, we reported to the Chairman of the Subcommittee on the District of Columbia, Committee on Government Reform and Oversight, House of Representatives, on the status of the proposed new convention center project in Washington, D.C., and particularly the issues surrounding the financing of a new center.[4] We are continuing to monitor the progress of the project for the Chairman, and have summarized in the following sections the information available as of December 31, 1997, on the estimated costs and financing plan for the proposed new Washington, D.C., convention center.

Plans for a new convention center in Washington, D.C., were initiated in 1993 by the District's Hotel and Restaurant Association, the Convention and Visitors Association, and the District of Columbia Government. In 1993, a feasibility study conducted by Deloitte Touche concluded that a larger state-of-the-art convention center was needed in Washington, D.C., to accommodate a larger portion of the potential convention market. The study stated that the existing facility was too small to compete for 46 percent of the large national shows and meetings. The study indicated that a new center would provide substantial net economic benefits for both the District and the region.

On November 10, 1997, WCCA contracted with a management consulting firm to develop a new study to replace the 1993 feasibility study and economic impact analysis. This study is to quantify the economic benefits to the region, such as increased hotel occupancy, delegate spending, and increased tax revenues, from the construction of a new convention center. Phase one of the 1998 Feasibility Study–Economic Impact and Marketability–was released February 11, 1998. According to WCCA, the remainder of the study, focusing on potential future tax revenues, will be finalized before bonds are issued for the proposed new center.

The Washington Convention Center Authority Act of 1994[5] (1994 Act) authorized WCCA to construct, maintain, and operate a new convention center as well as maintain and operate the existing convention center. In August 1994, when the District created WCCA, it also earmarked portions of the business franchise taxes, sales and use taxes, and hotel occupancy tax to finance the predevelopment costs of the proposed new convention center and to operate the existing convention center.

WCCA currently plans to construct a 2.1 million square foot convention center, including 730,000 square feet of exhibit space, on a 17.1 acre site that lies at the border of commercial and residential development. WCCA expects the planned new center to be marketable for 30 to 40 years. WCCA has estimated the predevelopment and construction of the project to cost

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[4]District of Columbia: Status of the Proposed New Convention Center Project (GAO/AIMD-97-148, Sept. 25, 1997).

[5]The WCCA was created by the Washington Convention Center Authority Act of 1994, D.C. Law 10-188, Sept. 28, 1994, 41 D.C. 5333,6823, D.C. Code Ann. secs. 9-801 through 9-819.

$650 million and expects it to be financed primarily by bonds backed by dedicated tax revenues. An additional $87 million will be needed to cover the reserve fund requirements and issuance costs. WCCA is proposing to use a combination of dedicated taxes and interest on construction funds to finance the reserve fund requirements and issuance costs. However, before construction on a new center can begin, WCCA must (1) obtain final approval for the building design, (2) develop a master plan, and (3) secure final legislative approval prior to financing the project.

STATUS OF SITE AND BUILDING DESIGN APPROVAL FOR THE PROPOSED NEW CONVENTION CENTER

The project is still in its regulatory review phase, which involves WCCA obtaining certain permits, reviews, and approvals from federal and local regulatory agencies. On September 25, 1997, WCCA obtained site approval and preliminary building design approval from the National Capital Planning Commission (NCPC). The NCPC approved Mount Vernon Square as the site for the new convention center, which is about 2 blocks north of the current center. Although not adjacent to the existing hotels, restaurants, and shops, the new center would still be within walking distance of these services. However, NCPC did not grant final approval of the building design but instead made several recommendations to improve the aesthetics of the building. WCCA anticipates that final design approval will be obtained from NCPC in June 1998.

NEW CONVENTION CENTER MASTER PLAN

The WCCA proposes to build a partially below-ground facility, comprising about 2.1 million gross square feet, which includes 730,000 gross square feet of prime exhibit space. The new convention center is to have four levels with a maximum height of 130 feet. In addition, the new center is to accommodate 150,000 square feet of meeting room space, 60,000 square feet of ballroom area, and 66 loading docks. In terms of prime exhibit space, the new convention center is expected to rank sixth[6] in the United States when completed. The existing convention center is ranked 30th and has 800,000 gross square feet with 381,000 gross square feet of exhibit space on two levels.

According to WCCA, the architectural and engineering design team should complete design development in early 1998. In our September 1997 report, we stated that WCCA chose the "design build method" for the new convention center. This method combines the responsibilities for designing and constructing the project in a single entity rather than separating them. Under this method, the builder is responsible for assembling a team of engineers, architects, and contractors. In September 1997, WCCA received only two proposals under this method. WCCA stated that after reviewing the proposals, it determined that they were unacceptable. WCCA subsequently explored various procurement alternatives

[6]In our September 1997 report, we reported that the new convention center was expected to rank eighth when completed. However, based on current information provided by WCCA, the new center is expected to rank sixth upon completion.

and on October 31, 1997, solicited a new request for proposal for an "at-risk" construction management contract. Under this approach, the construction manager does not assemble his own team of engineers and architects but is responsible for assembling and managing the contractors, selected in conjunction with WCCA, and guarantees the maximum price of the project.

Under the "at-risk" method, the construction manager's duties are divided into two phases: preconstruction and construction. The preconstruction phase requires the construction manager to work with the architectural/engineering design team, the program manager, and WCCA to: (1) develop a guaranteed maximum price that is within WCCA's budgetary requirements, (2) develop a final affirmative action plan,[7] and (3) develop an acceptable construction schedule. According to WCCA, all design work will be performed by the current architectural/engineering design team, which is under contract with WCCA. Further, according to WCCA, assuming the guaranteed maximum price, construction schedule, and final affirmative action plan developed by the construction manager are acceptable;[8] and within its budgetary requirement, a contract amendment will be executed by the construction manager and WCCA to begin the construction phase. The construction manager must agree to construct the facility for no more than the agreed upon guaranteed maximum price and must assume responsibility for any cost overruns. According to WCCA officials, it is necessary that a guaranteed maximum price is established for the construction phase of the project before they seek financing from the bond market.

According to WCCA, the issuance of the new solicitation for construction management services has delayed the overall schedule for the project. WCCA stated that the schedule may be further delayed by the need to relocate utilities on the approved construction site. According to WCCA, it is currently negotiating agreements and funding needed for the utility companies to design and install new utilities and relocate the existing services, which will affect the construction timing of the new convention center. WCCA has stated that due to the long lead time and the complexity of the work to be performed, it has also submitted legislation to the City Council to allow it to categorize utility relocation as a predevelopment rather than construction activity and to use predevelopment funds for this purpose. According to WCCA, construction of the new convention center is currently scheduled to begin in September 1998 and is expected to be completed in May 2002.

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[7]The request for proposals states that after the date of the award of the contract, and the date of award of any subcontract, 51 percent of new hires working on the project, of both the construction manager and subcontractors and subconsultants at any tier, shall be residents of the District of Columbia, with preference given to residents of the neighborhood where the new convention center will be built and other low income areas of the city.

[8]WCCA expects to have a guaranteed maximum price set by April 1998.

ESTIMATED PROJECT COSTS AND FINANCING PLANS

The estimated costs for predevelopment, construction, construction related activities, and contingencies for the new convention center total $650 million. Specifically, the current estimates are $37.8 million for predevelopment costs--planning and design, $489.8 million for construction, $64.9 million for construction related activities,[9] and $57.5 million for contingencies.[10] According to WCCA, to obtain financing for the estimated $650 million in predevelopment and costs related to construction, it will also need about $75 million to satisfy various reserve requirements and about $12 million for bond issuance costs, resulting in total funding requirements of about $737 million. WCCA does not consider the outstanding debt on the current convention center, approximately $67 million, as an expense because it is supported by District of Columbia general obligation bonds. It is still uncertain what the District plans to do with the existing convention center and what the market value of the center would be if the District tried to sell the building. Table III.1 summarizes the estimated $737.0 million project costs by category.

[9]Construction-related activities include costs for historic preservation and community revitalization efforts and equipment, such as furniture and communications and kitchen equipment for the center.

[10]According to WCCA, the purpose of the contingency is to cover all cost items that are not at this time definitively priced and unforeseen costs, such as hazardous materials removal and abatement, unforeseen below grade and site conditions, and future code-related modifications that are not the responsibility of the construction manager.

Table III.1 Estimated Cost of New Convention Center by Cost Category

Dollars in millions

Cost category	Estimated cost
Predevelopment and construction costs/expenditures	
Predevelopment--planning and design[a]	$37.8
Construction	489.8
Construction related activities[b]	64.9
Contingencies	57.5
Subtotal for predevelopment and construction costs/expenditures	**$650**
Financing related costs	
Reserve fund requirement[c]	75.0
Bond issuance	12.0
Subtotal for financing related costs	**$87.0**
Total estimated project cost	**$737.0**

[a]Includes $5.4 million for land acquisition. The District currently owns 87 percent of the land at the site, and according to WCCA, the market value of the land owned by the District has not been determined and is not included in the estimated $737 million cost to build a new convention center.

[b]Includes costs for historic preservation and community revitalization efforts and equipment for the new center such as furniture and communications and kitchen equipment.

[c]Reserve funds are to be set aside in interest bearing accounts to pay, to the extent necessary, operating/maintenance/marketing expenses or capital improvements in a given year where such expenditures exceed available current year revenues. To the extent funds available in various reserve funds equal outstanding bonds, the funds are to be liquidated to redeem bonds.

Source: WCCA. We did not independently verify the information provided.

Based on revenues received to date from dedicated taxes, WCCA should have sufficient funds for the planned predevelopment activities, which are estimated to cost $37.8 million. WCCA receives a portion of the District's hotel sales tax, hotel occupancy tax, corporations and unincorporated business tax, and food and drink tax to help fund operations of the existing convention center and the predevelopment costs of the proposed new convention center. Since October 1994, taxes have been collected monthly; and as of December 31, 1997, WCCA had received about $115 million in dedicated tax revenues and earned about $5 million of interest from investments and bank account balances. According to WCCA, of the approximately $120 million in tax revenues and interest earnings received, it has invested $77.9 million in Fannie Mae and Freddie Mac discount notes and has spent $20.9 million on predevelopment activities and $15.4 million to operate the existing convention center. The remaining $5.8 million is cash in the bank.

In our September 1997 report, on the basis of the present level of taxes dedicated to the center and WCCA's plan to seek 30 year bonds, we estimated a $114 million funding shortfall if WCCA entered the bond market in October 1997 as it had contemplated. After our report was issued, WCCA, with the assistance of its financial advisors, further developed its plan to finance the construction costs and other related costs of the convention center project. WCCA has developed a plan, that if approved, will cover all the estimated costs of the planned new convention center.

WCCA has proposed a financing strategy that will lengthen the potential final maturity of the bonds and allocate 100 percent of the hotel occupancy tax to support the bonds. Currently, a portion of the hotel occupancy tax goes to the Washington Convention and Visitors Association and the Mayor's Committee to Promote Washington. According to WCCA, extending the length of the bonds and allocating all of the hotel tax to the new center will generate approximately $550 million in net bond proceeds. In addition, WCCA has proposed using a total of $121 million in dedicated tax revenues for various project costs. WCCA has authority to use dedicated tax revenues for predevelopment costs and has proposed using additional dedicated tax revenues for some construction costs and reserve fund requirements. WCCA also projects that it could generate about $66 million in interest earnings from the investment of construction fund proceeds, for total funds of $737 million. Table III.2 summarizes the financing plan that WCCA has proposed.

Table III.2: Proposed Financing Plan for the New Washington, D.C., Convention Center

Dollars in millions

Source of Funding	**Estimated funding**
40 year bonds[a]	$550
Dedicated tax revenue[a,b]	121
Interest on construction funds	66
Total	**$737**

[a]WCCA must get approval on these items from the U.S. Congress and D.C. City Council.

[b]WCCA is authorized to use dedicated tax revenues for predevelopment costs estimated at $37.8 million and has earmarked an additional $34 million for construction costs. WCCA has also proposed using dedicated tax revenues to fund the remaining $49.2 million needed for the reserve fund requirement.

Source: WCCA. We did not independently verify the information provided.

Congressional and City Council approvals are still required to (1) extend the maturity of the revenue bonds from 30 to 40 years, (2) modify the allocation of the hotel occupancy tax so that it would be used exclusively to support the bonds, and (3) allow WCCA to use dedicated tax revenues for construction costs and to meet the reserve fund requirement. According to WCCA's current schedule, it expects D.C. City Council approval of the financing plan in May 1998 and congressional approval between May and July 1998. In addition, as part of the financing, WCCA is required to obtain a credit rating for revenue bond financing from rating agencies. It then intends to enter the bond market between July and August 1998 to price and issue the revenue bonds.

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