The following information was provided to the Board of County Commissioners at the request of Commissioner Nelson.

The **RECKLESSNESS**

of continuing

Redevelopment Area #2 ("RDA#2")

&

the **INFEASIBILITY** of an

EVENT CENTER

in the "Casino Corridor" at Lake Tahoe

June 20, 2019

Prepared for Dave Nelson
By The Taxpayer Strikeforce

Attorney General Bill Barr's answer when questioned about whether or not he felt foreign interference and government abuse of power were equally troubling:

"In my mind, they are, sure. I mean, republics have fallen because of Praetorian Guard mentality where government officials get very arrogant, they identify the national interest with their own political preferences and they feel that anyone who has a different opinion, you know, is somehow an enemy of the state. And you know, there is that tendency that they know better and that, you know, they're there to protect as guardians of the people. That can easily translate into essentially supervening the will of the majority and getting your own way as a government official."

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Introduction

To take an action that they thought would help salvage the declining Casino Corridor economy, in 2016, Douglas County's Board of County Commissioners (Steve Thaler, Barry Penzel, Greg Lynn, Doug Johnson, and Nancy McDermid) made a decision to create Redevelopment Area #2 (RDA#2) at Lake Tahoe. It was essential for them to establish Redevelopment then because under Nevada law all increases in property taxes received from any properties inside the redevelopment area after the date a redevelopment area is set in place must be spent on projects within the redevelopment area. In RDA#2 that means a projected 116 Million Dollars (mainly from the newly refurbished Edgewood Tahoe Lodge and the Tahoe Beach Club properties) cannot be spent on any other county needs and must be spent at the lake in RDA#2.

However, in examining the basis upon which RDA#2 was established, one can determine that most of the facts, assumptions, and decision criteria used to justify the continued funding of RDA#2 are not valid. On the contrary, this report presents more than 20 pages of facts, observations, and analysis (plus Addendums) to show that three basic anti-RDA#2 premises are true:

1. Redevelopment Area #2 constitutes a slush fund for the casinos and a few elite landowners and developers within RDA#2's boundaries.

2. The Event Center project is NOT a financially sound investment NOR a catalyst for increased business profits in the south Casino Corridor.

3. Redevelopment Area #2 (RDA#2) will mandate that one hundred sixteen million taxpayers' dollars and more be spent on frivolous and wasteful public projects instead of urgent needs at a time when Douglas County's revenues are falling dangerously short.

With its presentation of facts, data, and analysis, this report exposes how unreliable, unsubstantiated, insufficient, and/or overly-optimistic the arguments and data are that have been put forth to sway the public, including the Commissioners, that Redevelopment and/or an Event Center will bring financial rewards to either the Casino Corridor or Douglas County in its entirety. No other conclusion can be reached other than that the creation of Redevelopment Area #2 was not prudent and does not best serve the interests of Douglas County taxpayers.

Part 1:

RDA#2 is a Pot of Taxpayers' Gold for the Agency to Spend on its Wishlist

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RDA#2 is a pot of taxpayers' gold for the Agency to Spend on its Wishlist

After the end of WWII, "Redevelopment" was born from the "high-minded" intention of encouraging the **private sector** to participate in the upgrading of slum areas—already built areas that had fallen into disrepair and decay. But, as Doug Kaplan states in his April, 2018 *Sacramento Bee* article ("California, Don't Bring Back Redevelopment"), "It didn't take long for politicians to realize that redevelopment could be used for much more than eradicating blight, and with that realization the monster was loose. By the time the program was halted in early 2012, more than 400 cities and counties, including many of the state's most affluent suburbs, were using redevelopment to seize and clear land for new shopping malls, hotels, big-box stores, sports stadiums, luxury golf courses, municipal buildings and more. These were not projects in blighted neighborhoods but developments on prime commercial sites." Here in Douglas County, in neighboring Nevada, we can add an Event Center (previously called a Convention Center), Bike Trails, Community Center Refurbishment, and Kahle Drive revamp to such a list. Nevada, like California, has corrupted "Redevelopment" into a way to subsidize special interests and pick winners and losers.

The most recent projections are that the increase in property taxes that will flow into RDA#2 over its 30-year life will be close to $116M (see **Addendum A**). To clarify, for the 30 years that RDA#2 exists, nearly $116M (which translates to $2,000 taken from each resident of Douglas County at its present population) of revenue that otherwise would flow into the county general fund and a myriad of other funds such as the sheriff, fire protection, and schools, would flow into RDA#2 (see **Addendum B** for tabulation of losses). Once there, the Redevelopment Agency (made up of whoever the five Douglas County Commissioners happen to be at the time) will have full authority to spend those dollars on whatever "worthy" projects happen to catch their eyes or the eyes of the special interests to whom they may cater. Not by chance, RDA#2 was created just in time to skim all of the property tax increases resulting from the Edgewood Tahoe Lodge's 5-star refurbishment and the opening of pre-sales on the Beach Club multi-million dollar condo development into RDA#2. Absent those two rich tax sources, RDA#2 would have a very small piggybank indeed.

As noted, projections of future expenditures under the RDA#2 umbrella (found in the Bender & Associates Redevelopment & Economic Analysis dated January 21, 2016, and upon which the Board of Commissioners acted to establish RDA#2) include an Event Center ($50M [now $80M]), bike trails ($21M), improving .7 miles of Kahle Drive ($7.9M), refurbishment of the Kahle Community Center, and a project at Kahle Park ($11.5M), plus a few other small projects (see **Addendum C**).

So why did those future expenditures get put on the list for RDA#2, and how well do they qualify as eliminating blight in the RDA (the basic requirement for legitimately establishing a Redevelopment Area at all)?

a. What's the history behind the Redevelopment List?

<u>Event Center (aka Multi-use and Convention Center)—$50 Million [now $80M]</u>
For decades a convention center has been part of the South Shore Lake Tahoe business community's "vision." In the early 2000s, that vision almost came to fruition in a South Lake Tahoe redevelopment scheme that was stopped first in 2008 by the developer who ran out of money and then when the $55M in public funding went away because by the 2011 California Supreme Court ruling against all Redevelopment in the state.

Particularly applicable to this report is the fact that in 2008, that convention center could have been rescued, so to speak, by the City of South Lake Tahoe, but its city council, according to Ryan Slabaugh and Adam Jensen's article in the *Tahoe Daily Tribune* ("Hole in the ground" near Stateline getting deeper, October 7, 2009) "rejected a bond proposal that could have helped raise the money to get the development back on track <u>out of fear the bonds may never be paid back</u>." But, the article continues, "[t]hat would have left a huge debt on the city's bankbook."

So, despite what must have been a great deal of pressure from the business community and those directly benefitting from the development effort (attorneys, accountants, potential venue managers, the casinos next door, etc.), the City of South Lake Tahoe did not succumb to committing its taxpayers to the convention center <u>because the venture was too risky</u>.

In a response to questions at a Board of Commissioners meeting held on January 24, 2019, Attorney Lew Feldman said that the redevelopment area and therefore the county would be responsible for $20-$25 million and <u>that was why the area was formed</u>. Thus, one might surmise that RDA#2 came to be in order to provide public funding for the Event Center (that isn't nearly the whole story, but that discussion comes later in Section 1.c).

At any rate, the Event Center is slated to be built next to the Montbleu on land owned by the same folks who own The Edgewood Lodge. Much has been speculated by Event Center fans about how "great" and "helpful" the Event Center will be for the "Casino Corridor" and, moreover, Douglas County. <u>That notion is debunked in Part 2 of this report</u>.

To sum up: The Event Center, (purportedly—see Part 1.c) the centerpiece of RDA#2, was "sold" as a necessary project that could only be done via "Redevelopment." But it is not being built as addressing true blight, but rather qualifies as one of those kinds of crony capitalism projects for which Redevelopment has been skewed to apply in order to build something that otherwise makes no economic sense.

Street and Bicycle Improvements—$29.75 Million

The "shakiness" of the "Projects and Programs" list (**Addendum C**) becomes more apparent when this part of the list is closely examined. Much on the list doesn't even belong there (because it lies outside RDA#2), and nothing on the list rises to the level of what should be classified as a high Douglas County priority. See Part 3 herein for a more in-depth analysis on this issue.

Street:

$7.9M is the amount projected to, basically, rebuild Khale (sic) Drive East of Highway 50 and "beautify" it. $7.9M. This portion of the entire road is less than a mile in length. It is not in RDA#2. It is NOT EVEN A COUNTY ROAD. One could think of the Khale Drive project as a "Poster Child" of crony capitalism. In "The Kahle Drive Vision" created by Design Workshop and published in October of 2016, one can find the rationale of at least part of the Stateline community as to why this kind of money should be poured into Kahle Drive. Taking a cue from "The South Shore Vision Plan" of September, 2011, "The Kahle Drive Vision" labels Kahle Drive as the "first gateway" on Highway 50 to the South Shore. As such, the "Vision" for this little street calls for major work.

Kahle Drive leads into The Beach Club million-dollar condo development. As such, one would think the "work" of improving Kahle Drive should fall to the developer of The Beach Club. The "gateway" assertion has some credence, and making the corner of Kahle and Highway 50 more presentable could be seen as something the Stateline community would invest in not RDA#2.

Bicycle Improvements:

Four bike trail projects are included in RDA#2 (See **Addendum C**) although a pittance of miles of the bike trails (Laura Drive to Lake Parkway) are in RDA#2. As far back as 2006, the Douglas County Master Plan has had several policy guidelines calling for a comprehensive bicycle and pedestrian plan to meet both recreational and commuter needs. Likewise, the Douglas County Transportation Plan of 2007 (which is summarized in the Master Plan) contains a Bicycle/Pedestrian Element that directs the County to "ensure development and maintenance of multi-purpose (hiking, equestrian, bikeway and off-road bicycle) trail systems throughout Douglas County." In addition, in the Nevada Stateline-to-Stateline Bikeway Project concept document prepared for the Tahoe Regional Planning Agency in 2009, Douglas County is listed as well as Washoe County, Carson City, Incline Village General Improvement District, Tahoe Transportation District (TDD), Nevada Division of State Parks (State Parks), Nevada Division of State Lands, Tahoe Regional Planning Agency (TRPA), and U. S. Forest Service as co-sponsors of the Stateline-to-Stateline Bikeway Proposal.

None of the documents mentioned in the previous paragraph had any section on how the bike trails or bikeways were to be funded, although the Douglas County Transportation Plan description does include this: "The plan also intends to develop funding mechanisms to implement improvements to bicycle/pedestrian/trail infrastructure." As it turns out, one "funding mechanism" for a number of the projects covered in TDD's Plan is RDA#2. As shown on Addendum C, the total amount shown as necessary to accomplish the bike trail tasks listed is

$21.9M, but $13.4M for the entire section (including Kahle Drive projects) is attributed to the RDA#2 Tax Increment. No explanation is offered as to why this amount ends up in the RDA#2 bucket out of the $25,750,000 total for the Street and Bicycle Improvements section.

NOTE: under NRS restrictions, that $13.4M would be covering the 1.2 miles of a bike trail that is IN RDA#2. (A puzzling fact to consider: the trail has already been put in place at a cost of $300,000).

To sum up: Kahle Drive improvements should have no place in RDA#2. The Vision for Kahle Drive is certainly impressive, but County taxpayers should not be footing this bill. In essence, the improvement of the street (which is NOT a part of RDA#2) benefits The Beach Club. The TRPA and TDD as well as the Douglas County Master Plan have for some time all had these bike trail projects on their wishlists. No "funding mechanism" for any substantial sum had been able to be located. RDA#2 showed up as a possibility on the horizon, so the opportunity was seized to attach four bike trail projects to RDA#2. Again, see Part 3 of this report as to why bike trails might be great for tourism and as recreational possibilities, but not great when measured against other County needs.

Community Facilities (other than the Event Center)—11.5 Million

This part of the Bender & Associates Redevelopment and Economic Analysis of January 21, 2016 is particularly bewildering. The Khale (sic) Community Center is NOT in RDA #2 nor is Khale (sic) Park. NRS restricts a Redevelopment Agency from spending its funds on projects outside the designated Redevelopment Area.

To sum up: These projects have no business on this list.

b. Who Benefits Most? (A sampling)

The Stateline casinos—they get whatever benefits may be associated with whatever economic growth the Event Center and all the beautification of Stateline projects bring without taking any economic risk or spending any of their own dollars.

Companies hired to prepare reports, studies, analyses, etc.

TRPA & TDD—These agencies are relieved of the task of figuring out how to get items on their "wishlists" pushed ahead of other far more needed County projects. They also don't need to drum up funding for whichever of their wishlist projects RDA#2 takes on.

TDVA & LTVA—both of these state agencies will have their lists of responsibilities expanded, and so they will expand budgets and their power bases, and gain job insurance.

South Tahoe Alliance of Resorts (STAR)—This alliance of an impressive number of "influencers" and business interests in Douglas County (primarily at Lake Tahoe) gets its "dream" of a reinvented Stateline casino corridor underway all the while shifting a substantial share of the financial responsibility and the risk onto the taxpayers of Douglas County.

c. Sorting out RDA#2

In the political world, getting support for a policy (such as Redevelopment or RDA#2 in particular) often requires a "campaign" of sorts. The campaign in this instance has been up and running for more than 20 years. Different players have come along and different approaches have been tried, but the goal—re-inventing Stateline or the "South Shore"—has remained the same.

Successful campaigns ride along on propaganda. Slogans, images, and platforms are all part of that. Those who have been on the "Redevelopment" team have used, "We owe it to the casino corridor because it pays so much of Douglas County's property taxes" (exposed as a falsehood in Section 2.b herein) and "Money flows downhill" (a nonsensical rationale).

That last slogan doesn't jive with Douglas County's own projection that just around one million dollars will make its way "downhill" for the County's use each year of the 30 years the RDA is set to be in place. $116M out. $30M in (a little over #1M each year – see **Addendum D**). The RDA#2 team promises increased economic growth in the Valley (and, of course, at the Lake) due to the surge in tourism that will follow once RDA#2 has completed its list of projects. But that, and $4.75 will buy a grande Starbucks coffee. The Taxpayer Strikeforce has formed the opinion from its examination of available documentation that there is no unbiased analysis that backs up any claim that the Event Center, or any of the other cosmetic alterations in Stateline, will significantly increase Stateline's or Douglas County's economic health (see Part 2 herein).

In fact, a far more likely prognosis for Stateline, even with RDA#2, is that it will decline in tourism and jobs, viz:

1. Native American Tribes (some in league with the same gaming companies who own the Stateline casinos) are cutting off the incentive for gamblers to travel to Lake Tahoe. Of the 66 casinos in California, 42 of them are in the North. Since they have to be situated on tribal land, some are not easy to get to; nevertheless, one will find a casino within a short driving distance from almost all areas of Northern California. The four casinos near Sacramento include some of the largest in the state, and all are within 50 miles of the city's core.
2. A further obstacle to luring gamblers to Stateline is the ready availability of ways to gamble without ever leaving home. Federal law has become more lenient, and some states allow gambling in most forms now, with the likelihood looming that most states will in the not distant future.
3. The kind of complete re-do needed on the part of the casinos to re-invent themselves as destination resort properties is highly unlikely. Since 1990, the area has been plagued

by a lack of re-investment and there are only rare indications that that situation is going to change.

4. "The South Shore Vision" (September, 2011) names current code and regulatory hurdles as serious impediments to redevelopment and notes the persistent lack of new capital investment that comes as a result. Codes and regulatory hurdles, 8 years later, are still there.
5. Job losses have been linked to the economic downturn of 2007, but the true picture is not about that except to a small degree. It's the "upturn" in technology that has been transforming the gaming and other resort-related industries into technology central and causing pink slips galore. A McKinney and Company Report estimates that by 2030 eight hundred million jobs will get robot replacements. An example of how tech is being embraced in gaming comes with MGM's 2020 Plan that calls for reducing its workforce by 2,100 people (VegasSlotsonline, March 2019). Waitstaff, cashier, slot machine tech, and bartender positions are particularly vulnerable, but machines to deal cards are also being perfected.
6. Environmental issues (water quality, traffic congestion, air quality) are increasing and can't be ignored (although they have been thus far). "Over-tourism" at the Lake and especially in the South Shore that includes Stateline has been suggested as a reality (see **Addendum E**). Traffic gridlock during the busiest months is real. A majority of Lake residents are unhappy with the frequency of gridlock. They do not want to encounter gridlock in shoulder seasons or any other time.

Peeling back the rhetoric: RDA#2 HAD to be put in place in order for those who were looking to benefit (See Section 1.b herein) to be able to benefit at all. The Taxpayer Strikeforce has come to the conclusion that regardless of the fact that there was little evidence that anything associated with it would actually bring benefits to either the Stateline community or the County as a whole, and regardless of the fact that a "real" assessment of the financial soundness of the Event Center project didn't exist, and regardless of the fact that the process had to be rushed through without providing the public with enough time or information to react, and regardless of the fact that a diversion of funds of this magnitude from the County's general fund and the other funds should be done only after ascertaining the will of the taxpayers and residents, the source of the "pot of gold" was coming into existence (Edgewood Lodge's refurbishment was finishing up and The Beach Club was on the verge of pre-selling units), so a "rainbow" of colorful representations was treated as satisfying everything associated with due diligence, and the five Commissioners immediately cemented RDA#2 in place with their votes.

For reasons known only to them, those five Commissioners either did not see through this smoke screen, or they did, and still wanted to go along with it. No one can look back at the four months before February, 2016 when RDA#2 came into existence and claim there was transparency on the part of the County or respect shown for the taxpayers and residents.

d. Is what RDA#2 has represented as its intention true?

At first, it seems \$50M for the building of the Event Center was pulled out of the air. That worked fine in a chart (of ridiculous projects for redevelopment to be doing) because \$25M of the (also speculated) \$45M and change in tax increment (later revised to \$116M) could be assigned to that and that would mean "selling" the idea of a snazzy Event Center would also be "selling" the idea of RDA#2. The team, probably recognizing it had to make people believe the money was going to be well spent, threw in the rest of the projects in the hope of appealing to different segments of the Douglas County population.

The Nevada Legislature has raised the room tax high enough (resulting in \$91M of available revenue stream) that the TDVA can now build the Event Center all on its own. Which means, if you remove the Event Center from the list of supposed projects and programs rightfully tied to RDA#2, a whopping \$95M of "unassigned" funds would be projected to come into RDA#2.

Even without taking away the Event Center obligation, though, when you push aside the distractions served up as "projects and programs" that couldn't actually be paid for through RDA#2 because they aren't actually located within RDA#2, there would be \$70M. It's no wonder the RDA#2 "Team" is putting so much effort into winning its RDA#2 campaign. It's within the realm of possibility, particularly in light of the "South Shore Vision" document, that the "Team" anticipates funding a slew of "beautification" projects from the coffers of RDA#2, rather than having to find funding sources in the Private Sector or through appeals made to the public. One might speculate that the Team's relief no doubt translates to outright ebullience on the part of the Casinos.

One has to ask why no one seems to be noticing the discrepancy and why questions aren't being raised about this "slush fund."

Giving \$70M-\$95M (and in light of recent legislation that will increase property taxes dramatically, probably millions more) to a Redevelopment Agency under these half-baked circumstances (insufficient, wrong, or misleading information obtained by commissioners; lack of public awareness and possible deliberate obfuscation; and the crony capitalism core of RDA#2) does not hold up as good policy.

Stateline should get in line, "Vision" in hand, and have to compete with all the other projects that the County has responsibility for (See Part 3 herein).

Part 2:

A Stateline Event Center is a Losing Bet

Part 2:
A STATELINE EVENT CENTER IS A LOSING BET

In 2016, when Douglas County Commissioners (Barry Penzel, Doug Johnson, Nancy McDermid, Greg Lynn, and Steve Thaler) hastily created Redevelopment Area #2 (RDA#2), the most costly project listed for RDA#2 was a $50M Event Center (see **Addendum C**). It is prudent for those who have the authority to spend public monies to demand ample and convincing evidence that the policies they are putting in place are going to pay off and benefit the taxpayers and County.

Yet on RDA#2, many elements of evidence one would expect to have in hand before taking such a serious action were not in hand. What little evidence they had was not sufficient nor reliable. More troubling, negative evidence that was readily available was excluded from consideration. Committing tens of millions of dollars for an Event Center, in particular, should have generated much skepticism and apprehension that could be satisfied only by an unbiased, professional risk assessment that paid particular attention to potential hurdles and obstacles. No such assessment was made then, and no such assessment prepared at the behest of the County or other entities connected to RDA#2 exists even now.

The following factors throw into serious question any thought of an Event Center as likely to be profitable or vitalizing in the Douglas County Lake Tahoe Casino Corridor:

a: Over-saturation

Background

For more than twenty years, there have been efforts to get a Convention Center built in the Douglas County Lake Tahoe Casino Corridor. Twenty years ago, that may have made sense, but no more. Whether it's called a Convention Center or now an Event Center, in 2019, these types of facilities drain many millions of dollars from public treasuries for the sake of private profit. According to Heywood Sanders, who is considered the leading expert on the hows and whys behind the convention center event venue movement, in a large majority of instances, they do not deliver as promised. His book, *Convention Center Follies* (2014, Penn Press), lays out just why convention centers do not contribute to economic development. One reviewer describes *Convention Center Follies* as "a carefully researched and clearly argued book" and as an "exceptionally important contribution to the study of urban redevelopment and the politics of policy making" (Peter Lund, Fall 2016, *e polis*). Bottom line: The U. S. market is simply flooded with such centers of every size and configuration, so there aren't enough users to fill the spaces.

Since the flooding of the market goes back to as far as the early 2000's, how anyone in 2016 could reach the conclusion that an Event Center at Lake Tahoe would be an exception is a mystery. "Local business, civic, and political leaders believe that their city is a special place ... that earnestly they can perceive a desire to create jobs ... and produce economic impact. The dilemma is when every city of any size in the U. S. believes that ..., what you get is an oversupply of convention space," says Sanders, in his attempt to explain the dichotomy.

An earlier analysis by Sanders of convention centers as unreliable re-vitalizing tools ("Space Available: The Realities of Convention Centers as Economic Development Strategy") was published in 2005 by The Brookings Institution Metropolitan Policy Program (See **Addendum F**). It offers other insights into how projections of success more accurately should be called, "The best guesses we can come up with that will sell our idea so lots of us in the convention center building and managing world can make profits at public expense." A useful summary of that peer-reviewed article, highlighting how it pertains to RDA#2, can be found in **Addendum G**.

The RDA#2 Event Center

The Local Scene

There is no doubt that there is an over-abundance of "event" venues with respect to the proposed Stateline Event Center. Here's a list of what would be viewed as local competition:

Nugget Outdoor Event Center (Sparks): Brand new. 8,500 seating capacity.

Reno Event Center: Built in 2005. Slightly larger capacity. Far easier to access. Called "underperforming" in KUNR web article dated September 20, 2016 ("Reno Group Eyes Hockey as Way to Revitalize Event Center"). Sports events dominate its calendar.

Lawlor Event Center (UNR): 11,700 seating capacity. Home to the Wolf Pack.

Harvey's Outdoor Arena (Stateline): 9,300 total; 7,500 reserved seating capacity. Seasonal.

Summary: Despite proximity to Lake Tahoe, availability to casinos, year-round operation, and easy access from an airport, both the Reno Event Center and the Lawlor Event Center rely on sports events to reach occupancy goals. In the case of the Reno Event Center, it has been in financial straits for almost its entire existence. There are no viable or verifiable factors that would ensure that the Event Center in Stateline would fare any better (see more on this in Section 2.b). More likely, in view of the existing under-used competition, it would mostly compete with the existing facilities for business.

The Broader Picture

"Event Center" is such a generic label that establishing how many there are nationwide that would be considered "competition" to the proposed facility in Stateline and then using that group to make projections for the Stateline facilities is a stretch. Feasibility would need to be calculated by looking at nearby comparable venues. The County did not do so regarding the Stateline Event Center. When the numbers for the most logical Event Center (Reno Event Center) are studied, the results do not cast the proposed Event Center in a favorable light at all

(**See Addendum H**). Regarding "Convention Centers," there are currently 427 Convention Centers across the United States with 179 of those having more than 100,000 square feet as does the planned Event Center/Convention Center (120,000-139,000 square feet). The 40 largest (which includes the Reno Convention Center at 381,000 square feet) have hundreds of thousands, even millions, of square feet. As discussed previously, the number of conventions is shrinking rapidly and that means the competition among Convention Centers is fierce. The current market focus is on the facilities that can host "big" conventions, and even most of those are losing ground.

b. Infeasibility

Wishful thinking and/or good intentions are not enough when it comes to multi-million-dollar decisions. However, in 2016 the Board of County Commissioners appears to have used those almost exclusively as the basis for accepting the flat out speculative assertions that an Event Center in Stateline would be a good investment and bring a panoply of benefits with it to the Stateline community. Keep in mind that essential elements in assessing the public worth of an investment such as the Event Center are supposed to be 1) conducting a transparent process, 2) collecting valid real information, and 3) determining applicable performance measures. In addition, policy review and analysis by unbiased experts with a particular concentration on an honest evaluation of the risk of failure is necessary.

The "process" in this instance, went so fast that transparency fell to the wayside. After announcing the County was contemplating setting RDA#2 in place in October of 2015, just 4 short months later, in the dead of winter and at a snowy day meeting at Lake Tahoe, the Board approved RDA#2. There was <u>no</u> Environmental Impact Report on an Event Center. There was <u>no</u> dependable Feasibility Report, either. There was, however, plenty of encouragement from the Lake Tahoe Visitor's Authority, the Tahoe Douglas Visitor's Authority, the Tahoe Regional Planning Agency, the Lake Tahoe South Shore Tahoe Chamber, etc. (see "Parties Who Benefit from RDA#2 in Part 1.b of this report for a more complete list).

The one Feasibility Report on the Event Center the interested parties did have (but the 2016 Commissioners and the public did not, as it was kept entirely "confidential" until an e-mail was sent to the current Commissioners on May 18, 2019) was labeled "Draft." So, taking what they did have—the South Tahoe Alliance of Resorts' (STAR) Feasibility Study of 2015 (See **ADDENDUM I** for its beginning pages)—as one example of a financial projection used to prop up the Lake Tahoe Event Center's chances of success, how reliable was it? Who prepared it? At whose behest was it prepared? That is, was it objective or was it tainted by any conflicts of interest?

The answers to these questions are essential in assessing whether a feasibility study should be relied upon in any way. The first drawback to anyone relying on the STAR study is that the word "draft" is on every page. A "draft" document can say anything. NO ONE should treat anything in it as set in stone.

A prime reason for anyone seeking reliable information to step back from the STAR study is that it was prepared by a company believed to have made many serious miscalculations in other studies it prepared for other clients. One industry insider closely details why he calls Convention, Sports & Leisure (the preparer of the STAR study), "the consultant who's never been right about anything" (See *Field of Schemes*, Neil DeMause, January 15, 2016, online).

The STAR study itself, regardless of who did the work or who commissioned the work, could be said to have failed on its merits. One has to wonder if any of the Commissioners read the study. If so, how did they not recognize the dissonance between the negative data collected and the positive conclusions offered? Moreover, why didn't they question what was missing (the comparison with the Reno Event Center that would have rightly set off alarm bells)?

That was then, of course, and this is now. So where is RDA#2 with regard to an Environmental Impact Report on the proposed Event Center and an up-to-date (not "draft") feasibility study? There is no Environmental Impact Report as yet. Are the Commissioners reluctant to get one, afraid of what it may say? There is, however, a newer Event Center Fiscal and Economic Analysis: Technical Memorandum dated July 18, 2018 sent to Carol Chaplin and Lew Feldman from David Zehnder, Tom Martens, and Sean Fisher. This study was prepared by Economic & Planning Systems, Inc. (EPS), Sacramento, California. (See **Addendum J** for the first 22 pages).

One would hope this study would be more "independent" from the "if You Build it, They Will Come" industry, but indications are that it's not Regrettably, the "new" study bases many of its assertions on data supplied by CS&L (the STAR study provider). See **Addendum K** for the Taxpayer Strikeforce's brief critique of the new study.

All taxpayers and residents of Douglas County should be concerned that they are being dragged into a special interests scheme using property tax revenues that could be spent on other more critical and useful needs. Moreover, as noted almost as an afterthought in the EPS's Event Center Fiscal and Economic Analysis, Douglas County taxpayers are going to have to cough up ever more of their tax dollars in order to provide sufficient fire protection and public safety in the area of the Event Center. The schools, too, will need funds. A "new" method of distributing tax funds to schools passed in the 2019 Nevada Legislature will take an estimated $4.1M/year from the Douglas County schools.

An examination of the County's process that brought us to this juncture shows that multiple government agencies and bodies added to many private sector business entities all have been clamoring for public funding to "fix" the reversal of fortune that has befallen Stateline for at least twenty years. This is twenty years in which those same private sector business entities have done almost nothing to "fix" the situation themselves, and have not thought an "entertainment venue" was worth the risk of building it or financing it themselves.

One should not be surprised that those private sector businesses are putting pressure on Douglas County to provide them with such a great (risk-free to them) "freebie." Nor that all the "hangers-on" who cash in on schemes of this sort—the lawyers, designers, analysts, financiers, venue managers, and the like are also leading the cheering. And then there are government agencies and bodies whose very life blood depends on growing government; inventing projects to oversee and creating departments builds their budgets, power base, and job insurance.

But we should expect better from the five elected Commissioners who are supposed to represent the taxpayers and residents of the County. An Event Center project for Stateline has not been properly vetted and should be dropped by the County.

If the Stateline community truly believes an Event Center will be successful and a boon to its local economy then two possibilities exist:

1. A consortium of the casinos should undertake the project.
2. The TDVA should use its own resources (especially since the legislature just passed a bill so it could collect $5 more per night in room taxes specifically to build an Event Center). That $5 is projected to raise $91M, which should be more than ample revenue to bond for the Event Center.

Part 3:

Douglas County "Wants" Vs. NEEDS

Part 3: Douglas County wants vs. needs

As discussed previously in Parts 1 and 2, RDA#2 takes at least $116M of funding away from the Douglas County General Fund and numerous other funds as well (see **Addendum B**). Looking at the list of projected losses under RDA#2, one can't help but notice the second item listed is schools.

The $26.21M made unavailable to the schools is only a few million less than the $30.61M made unavailable for expenditures that are paid through the General Fund. Maintenance, in particular, needs more funding as Douglas County's schools are already suffering severely from a lack of funding to make important and essential repairs. Add to that the recently passed legislation that changes the methodology of distribution of those taxes that fall in the schools funding category such that Douglas County schools will also lose $4.1M of funding annually, and what is left could readily be labeled a crisis.

The legislature has provided some possible help by giving redevelopment agencies the authority to exempt schools from having their portion of the property tax flow to redevelopment, and also to give counties the authority to put a <u>sales tax increase</u> of .25 cents on the ballot in 2020, but neither one of these is a sure deal, and neither one of these will provide Douglas County's schools with the funding they desperately need to ensure the schools are in good repair and safe from issues that arise from delayed maintenance.

Considering the County's needs, road maintenance has been a hot-button topic for decades, and the situation is getting worse as time goes on. What is often described as a "Kick the can down the road," approach (or some would contend "non-approach") has left portions of the County to deal with county roads that are almost undrivable (Topaz, for example). The simple truth behind the persistent non-action might be discernable from an understanding of how daunting the "unfunded" portion of total projected Capital Improvement Projects for Douglas County is (see **Addendum L**). These numbers come from the County. The missing funding has to also come from the County, and the "County" in this case means Douglas County taxpayers.

So, pertinent questions arise: How well is the County financially? Is it building a healthy amount of reserves? Can taxpayers and residents have confidence that the County will face up to its responsibilities?

On the contrary, the General Fund – 5-Year Forecast (see **Addendum M)** shows in the "Net Change in Fund Balance" that the County is in the red for all the years covered. This "red" condition forces Douglas County to delve into reserves because it can't balance its budget without doing so. So, in other words, Douglas County does not have the financial ability to pay for the Capital Improvements it needs. Not by a long shot.

If Douglas County were to address its entire projected Road Maintenance responsibilities it would need $35M to do so between now and 2024. And there are several other undeniably high priority projects that are equally out-of-reach:

The completion of Muller Parkway ($31.5M): Anyone who spends any time driving around Douglas County has to be aware of the traffic congestion that keeps getting worse with every added housing development. We get more people, which means more cars, but we don't get more roads. Highway 395's grade D condition doesn't help, but the County isn't responsible for that road, and the state has announced it is putting off fixing it up until at least 2022. It has been suggested that Muller might be eligible for a "build bond" that would shift the financial responsibility for completing the road to a government agency outside Douglas County, but to qualify for such a bond, Muller Parkway would have to allow usage by trucks.

The provision of a Judicial Law Enforcement Center (JLEC) $31.65M: The accommodations for Douglas County's legal staff and courts is woefully inadequate. As it now exists, public safety is at risk, with victims often being required to be in close proximity to perpetrators, and disabled individuals having to deal with layouts that pose obstacles to their movement within the current configured space.

Just recently, the Douglas County Board of Commissioners began exploring the possibility of putting a .25 cent increase in Sales Tax in place to finance the JLEC reconstruction project. Raising taxes seems all too frequently to be government's answer to having a "wanting to spend more than it takes in" dilemma. Not re-evaluating its commitments and priorities.

Still even closer to most taxpayers and residents of Douglas County has to be the troubling circumstance that even though this County is seeing a definite rise in crime (again partly due to development) with more on its way thanks to the 2019 Legislature, the Board of Commissioners had to only partially fulfill Sheriff Coverley's modest request for three more deputies.

But ... who could take commissioners to task for making difficult funding decisions and not initiating projects when the money isn't there or the numbers don't add up? Or who could find fault with their pursuing avenues to add to the tax burden of the residents of Douglas County?

In this case, here and now, the answer is EVERY TAXPAYER AND RESIDENT.

RDA#2 is putting a fence around $116M in property tax funding that should be going to basic, high-priority, public-at-large needs.

RDA#2 needs to be dissolved. NOW.

Table 2
Douglas County
Stateline Project Area

PROJECTION OF INCREMENTAL TAX REVENUE
(000's Omitted)

Plan Year	Fiscal		Year	(1) Beginning Value	(2) New Development	Total Value	Incremental Value Over Base Of $86,035,685	(3) Tax Increment	(4) Less: Incremental Abatement	Net Tax Increment	Net Present Value @ 5%
1	2015	-	2016	$86,035,685	$0	$86,035,685	$0	$0	$0	$0	
2	2016	-	2017	86,035,685	27,337,188	113,372,873	27,337,188	772,832	5,095	767,736	696,359
3	2017	-	2018	116,774,059	17,502,186	134,276,246	48,240,561	1,363,197	10,250	1,352,947	1,168,726
4	2018	-	2019	138,304,534	6,943,125	145,247,659	59,211,974	1,690,338	15,461	1,674,877	1,377,925
5	2019	-	2020	149,605,089	8,820,000	158,425,089	72,389,403	2,088,026	20,729	2,067,297	1,619,781
6	2020	-	2021	163,177,841	1,312,500	164,490,341	78,454,656	2,254,717	26,051	2,228,666	1,663,065
7	2021	-	2022	169,425,051	1,312,500	170,737,551	84,701,866	2,426,408	31,425	2,394,983	1,702,069
8	2022	-	2023	175,859,678	0	175,859,678	89,823,993	2,568,330	36,851	2,531,479	1,713,404
9	2023	-	2024	181,135,468	0	181,135,468	95,099,783	2,714,509	42,326	2,672,183	1,722,513
10	2024	-	2025	186,569,532	0	186,569,532	100,533,847	2,865,074	47,847	2,817,227	1,729,533
11	2025	-	2026	192,166,618	0	192,166,618	106,130,933	3,020,156	53,413	2,966,742	1,734,593
12	2026	-	2027	197,931,617	0	197,931,617	111,895,932	3,179,890	59,021	3,120,869	1,737,817
13	2027	-	2028	203,869,565	0	203,869,565	117,833,880	3,344,416	64,668	3,279,748	1,739,320
14	2028	-	2029	209,985,652	0	209,985,652	123,949,967	3,513,878	70,351	3,443,527	1,739,215
15	2029	-	2030	216,285,222	0	216,265,222	130,249,537	3,688,424	76,067	3,612,357	1,737,605
16	2030	-	2031	222,773,779	0	222,773,779	136,738,093	3,868,206	81,813	3,786,393	1,734,590
17	2031	-	2032	229,456,992	0	229,456,992	143,421,307	4,053,382	87,585	3,965,797	1,730,264
18	2032	-	2033	236,340,702	0	236,340,702	150,305,016	4,244,113	93,378	4,150,735	1,724,716
19	2033	-	2034	243,430,923	0	243,430,923	157,395,238	4,440,566	99,190	4,341,376	1,718,030
20	2034	-	2035	250,733,850	0	250,733,850	164,698,165	4,642,912	105,015	4,537,898	1,710,286
21	2035	-	2036	258,255,866	0	258,255,866	172,220,181	4,851,329	110,848	4,740,481	1,701,559
22	2036	-	2037	266,003,542	0	266,003,542	179,967,857	5,065,999	116,686	4,949,313	1,691,922
23	2037	-	2038	273,983,648	0	273,983,648	187,947,963	5,287,108	122,521	5,164,587	1,681,441
24	2038	-	2039	282,203,158	0	282,203,158	196,167,472	5,514,851	128,349	5,386,502	1,670,161
25	2039	-	2040	290,669,252	0	290,669,252	204,633,567	5,749,426	134,163	5,815,263	1,658,203
26	2040	-	2041	299,389,330	0	299,389,330	213,353,645	5,991,038	139,958	5,851,081	1,645,562
27	2041	-	2042	308,371,010	0	308,371,010	222,335,325	6,239,899	145,725	6,094,174	1,632,314
28	2042	-	2043	317,622,140	0	317,622,140	231,586,455	8,496,225	151,459	6,344,787	1,616,510
29	2043	-	2044	327,150,604	0	327,150,804	241,115,119	6,760,242	157,151	6,603,091	1,604,197
30	2044	-	2045	336,965,328	0	336,965,328	250,929,643	7,032,178	162,793	6,869,386	1,589,421
	Cumulative Total							**115,727,687**	[illegible],396,188	**113,331,479**	**47,193,124**

(1) Beginning Value held constant in 2016-17 and then increased by 3 percent per year.
(2) See Table 2, Estimated Value from New Development
(3) Based on the application of tax rate that ranges from 2.6606% to 3.2358%.
The tax rates have been reduced for those that are not excluded in the calculation of tax increment
(4) Estimated incremental growth in abatement of taxes based on 3.2% cap.

Fraser Associates
tax inc sum

1/9/2016
Douglas Co Stateline Projections.xlsx

A

Tax Revenue Diverted to RDA-2	$(Millions)
General Fund	$30.61
Douglas County Schools	$26.21
Oliver Park GID	$22.73
TAH DGLS Fire	$20.48
State	$5.43
State Med Assist	$2.05
Preventative Road Maint	$1.95
Capital Improvement	$1.74
Emergency 911	$1.64
Social Services	$1.13
All other	$2.05
Total	$116.00

B

Table 1
Douglas County
Stateline Project Area

PROJECTS AND PROGRAMS

Economic Development	Total Estimated Cost	Estimated Amount Funded by Tax Inc.(2)
Projects & Programs to Enhance Stateline Main Street		
Public Art	1,500,000	
Wayfinding Signage	400,000	
Business Incubator (seed funding)	500,000	
Total	**2,400,000**	**1,500,000**
Street and Bicycle Improvements		
Khale Drive Reconstruction	900,000	
Khale Drive Streetscape (preliminary estimate)	7,000,000	
Round Hill Bike Path Connector to Khale Park	850,000	
Van Sickle Bi-State Park Connector to Khale Park	12,000,000	
Stateline-to-Statelinle Bikeway--Laura Drive to Lake Parkway	3,000,000	
Stateline-to-Statelinle Bikeway--Round Hill Pines to Zephyr Cove	6,000,000	
Total	**29,750,000**	**13,387,500**
Flood Control		
Lower Khale Drive Water Quality Improvements	1,100,000	
Total	**1,100,000**	**550,000**
Community Facilities		
Khale Park Bleacher Retaining Wall	35,000	
Khale Community Center Phase III	8,500,000	
Khale Community Center Attic Expansion	3,000,000	
Indoor Entertainment Venue	50,000,000	
Total	**61,535,000**	**25,844,700**
Subtotal - Project Costs	**94,785,000**	**41,282,200**
Administrative Costs (1)		**4,128,220**
GRAND TOTAL	**94,785,000**	**45,410,420**

(1) Estimated at 10 percent of project costs.
(2) Portion of project costs assumed to be funded through tax increment financing.

Attachment: Exh B -Report -- Redevelopment Area No. 2 (1358 : Submission of Redevelopment Plan and Report to BOCC)

The induced scenario room rate assumption is in-line with year-round ADRs for luxury hotel properties in South Shore. Actual room rates could be significantly higher during high profile concerts.

The revenues for both scenarios noted above include only minor impacts from increased sales taxes generated in the County because of the County's current status as a rural "Guaranteed County." The estimated increase in sales tax revenue from Event Center attendees that could be realized if the County transitioned from being a Guaranteed County to a "Point-of-Origin County" are roughly in the $200,000 to $300,000 range for these two scenarios.[5] This additional potential sales tax revenue is presented as a below-the-line additional revenue source in **Table 2.**

Table 2
Tahoe Event Center
Summary of Estimated Project Revenues by Source

Item	Estimated Annual Fiscal Impact (2017$) Baseline Estimate	Induced Estimate
Revenue Source		
Sales Taxes	$110,200	$168,800
Hotel Room and Licensing Taxes	$816,000	$1,202,500
All Other Taxes and Fees	$5,900	$5,900
Total All County Revenues	**$932,100**	**$1,377,200**
Increase in Sales Tax Under Point of Origin Tax Scenario	$208,937	$320,136
Total All Revenues Under Point of Origin Tax Scenario	**$1,141,037**	**$1,697,336**

rev source

Source: EPS.

Note: All Values Rounded to the nearest $100. This summary includes revenues only.

Note that the discussion above includes revenue estimates only. **Table 3** displays a detailed listing of revenues by fund, including the estimated public service costs required by the Project.

[5] Based on discussions with County staff, sales tax generation in the County has been increasing steadily and, if this trend increases, the County would be eligible to become a Point-of-Origin County within the next 5 to 10 years.

D

"Overtourism" in Tahoe

By Heather Gould

For years, common wisdom held that about five to six million private vehicles came into the Tahoe basin each year with some multiple thereof of people visiting the region. That was until the Tahoe Transportation District invested in some new technology that counted cell phone signals.

Data collected showed annual vehicles entering the basin numbered ten million and the number of visitors was pegged at 24 million. That's more visitors than the top three national parks combined, according to Joanna McWilliams with the League to Save Lake Tahoe, and the basin doesn't enjoy the same protections. For instance, said Julie Regan with TRPA, national parks can and do cap the number of visitors, something that has been bandied about from time to time in Tahoe, but has ultimately come to naught due to various state, federal and local laws. Venice, Italy, which also has a population of around 50,000 (down from 175,000 shortly after WWII), like the Tahoe basin sees around the same number of visitors annually. Venice recently instituted a day-use fee for tourists among other measure to stop or curb tourists running amok.

Tourism is big business, making up around 10 percent of the global GDP directly, with more indirect, spin-off spending. But with all that inflow of cash and benefits have come social and environmental impacts – and Tahoe is not immune.

Everyone is aware, most notably, of the decline in Lake clarity, but there has also been a decline in forest health, a decline in air quality, an increase in aquatic invasive species, an increase in litter, a general decline in peace and tranquility and a fraying of the social fabric over the decades as more and more people have discovered the jewel of the Sierra.

In 2017, Regan, who is pursuing a PhD in the field, took part in a World Travel and Tourism Council forum on "overtourism." A paper prepared by McKinsay & Co. for the forum delineated five effects of overtourism.

The first was "alienated local residents" or what TRPA's Tom Lotshaw described more poetically as the "general grumpiness indicator" or the "pounding the steering wheel indicator." When it takes three hours or more to get home from a job serving a crush of tourists on a Sunday afternoon because traffic is backed up along Highway 50 and Pioneer Trail and North Upper Truckee, as one woman related in Tahoe Mountain Brews

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"Overtourism"

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one night, and the traffic is still backed up when kids are getting out of school the next day, as happened at the Lake Tahoe Environmental Science Magnet School – well, that's one example of "alienated local residents." So are low, service-job wages, compared with high rents and a tight housing market. So are tourists partying in the VHR next door or a tour bus rumbling down a residential street.

This is followed by a degraded tourist experience. Being stuck in traffic isn't any fun for tourists, either. Or being packed cheek-by-jowl along the beach, or what was supposed to be a solitary hike turning into a conga line (as *Mountain News* columnist Peggy Bourland so eloquently put it). Having an extended wait to be seated for dinner. Spending more time in the lift line than on the slopes.

According to TRPAs latest recreation threshold measurements, 86 percent of visitors to the Tahoe basin actually were satisfied with their overall recreation experience. A survey of South Lake Tahoe visitors, specifically, however, revealed "a much lower satisfaction with the number of developed parks and recreation facilities, ease of walking and overall quality of parks and recreation services."

The third benchmark is overloaded infrastructure. Both TRPA and the League to Save Lake Tahoe focused on transportation in this category, with most visitors arriving in Tahoe by private car. "We have elevated transportation to a very high priority," said TRPA's Regan. The new governors of both California and Nevada have agreed to a Tahoe transportation bi-state task force to seek solutions. TRPA itself is already focusing on building more and more miles of bike trails and providing a seamless public transportation system around the Lake. If more types of bus, shuttle and ride sharing options were available to and from Lake Tahoe, said Lotshaw, along with transportation options within the basin, "ideally people wouldn't have to get in their car at all to come up to Lake Tahoe."

The League to Save Lake Tahoe has taken matters into their own hands, inviting Lime Bike and Lime Scooter into town to provide convenient, car-less ways to get around town as well as the micro-transit service, Chariot. Last year, they eliminated nearly 100,000 car trips in the basin and created 30 jobs, according to McWilliams

At the Lake Tahoe Visitor's Authority, Carol Chaplin, executive director, said the agency is spearheading a "Care to go Car-Less" campaign that offers a round-trip motor-coach service from the Reno-Tahoe airport and touts the utilization of Uber and UberSki once in town.

Getting people out of their cars will require somewhat of a shift in thinking and behavior, said Lotshaw. "If you're stuck in traffic, you are traffic," he commented.

> "We have elevated transportation to a very high priority."
>
> – Julie Regan
> Tahoe Regional Planning Agency

Regan said having infrastructure in place to handle visitors is necessary and making things nicer and more functional won't exacerbate the problem by attracting that many more visitors. It's not if you build it, they will come; "they're coming anyway and they'll make their own way," said Regan and the area will be the worse for wear if there aren't proper facilities and improvements in place to serve them.

Damage to nature due to overtourism is an impact noted in the WT&TC report and is an outcome Tahoe is quite familiar with. From the fragile Tahoe yellow cress, found nowhere else in the world, that must be fenced off, to wildlife that is too reliant on human food, to tons, literally tons, of trash that are left on Tahoe beaches every year, to the threat of wildfire, to people taking selfies with bears, Tahoe is damaged and threatened on several levels by tourists and tourism. Lake clarity fluctuates up and down, but is nowhere near its once-famed 100 feet of glassy transparency. Though the Lake's ecosystem is maintaining and even improving as measured by TRPA's environmental thresholds, it has a long way to go to reach its original ecological state and even though those in the basin may be doing their part, outside factors such as global climate change may have uncontrollable negative impacts, said Regan.

Finally, are threats to local culture and heritage. From the original natives, the Washoe, to the ski bum, locals of all stripes are increasingly rare in Tahoe. Though the population of the city of South Lake Tahoe remained relatively stable between 2010 and 2017 according to U.S. Census Bureau estimates, the number of children under 18 (and by implication, families) dropped from 5,019 to 3,641 and the median age increased from 35.6 to 38.

"Our two Measuring for Prosperity Reports (done in 2015 and 2017) showed that our economy has gone from 42 percent tourism based to 62 percent tourism-dependent. We'd like to see that reversed," said Heidi Hill Drum, executive director of the Tahoe Prosperity Center.

As far as solutions, the WT&TC broke them down into five types. First, the report talked about "smoothing" visitors – aiming for a steady stream of visitors rather than overwhelming peaks that damage the environment and community life – and economic droughts, in other words seasonal peaks and valleys. On that front, commented Carol Chaplin, "Our peak seasons are very peak and our shoulder seasons continue to be flat. . . . We do have a strategic plan that shifts our focus towards fly markets (we have reduced our Northern California marketing efforts significantly in favor of this strategy), both domestic and international, with the intent to influence shoulder season and mid-week travel (our new meetings initiative targets business groups who tend to travel off-peak and mid-week). And we might even argue that with an annual lodging occupancy of approximately 57 percent, we are not the poster child for 'overtourism' like some destinations where multiple cruise ships carrying 5,000 visitors descend at one time on a destination."

Next, the report focused on spreading out visitors, so they are not all bunched up at certain key points. "I was on a panel," said Regan, "and one of the things we talked about was pressure points. In the summer here it's Emerald Bay and Sand Harbor (where people congregate heavily) and in the winter it's Echo Summit and Pioneer Trail (where traffic backs up). That's where we have to focus our energy to find some better solutions." TRPA's Tom

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"Overtourism"
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Lotshaw mentioned the soon-to-be-released State Route 89 Corridor Management Plan, which will run from the Y in South Lake Tahoe to Tahoma. "We'll be looking for a comprehensive management plan, the parking, the congestion, the safety. How can we reduce the impacts of tourism and recreation, the litter, the beach clean ups, the sled clean-ups. How can we help people enjoy a natural treasure like Lake Tahoe without damaging it."

Using pricing to drive down demand was another suggestion to controlling the number of visitors and recouping costs to mitigate their impacts. The report warned, however, this solution must be approached carefully to avoid access to natural and cultural treasures becoming only available to the wealthy. The vast majority of land in the Tahoe basin – 90 percent – is free or low-cost public land, so how this strategy might be employed is unclear. Representatives of the largest landholder, the U.S. Forest Service, were unavailable for comment due to the federal government shut down.

Regulating or limiting the availability of accommodations is another answer to the problem of overtourism, according to the report. This is something Tahoe already does. The number of Tourist Accommodation Units – or motel rooms – is limited in the basin by TRPA. Right now, there are about 10,650 TAUs in the basin, with room for another 1,300, according to Lotshaw. TRPA recently overhauled its development rights system, which includes TAUs, but though the way TAUs are awarded was changed, the overall cap remained the same, said Regan. The TAU limit does not include VHRs, which may operate without TAU allocations. Lotshaw said TRPA's policy is to allow local jurisdictions around the Lake to take the lead on how to manage VHRs in each of their communities.

The final option is flat-out limits. As mentioned earlier, a quota on the number of people in the basin is a near-impossibility – in addition to the public classification of the vast majority of land in the basin, projects that limit access must be mitigated according to TRPA regulations -- but some smaller-type bans may be possible. Voters in the city of South Lake Tahoe recently voted to ban VHRs in residential neighborhoods and several years ago, the U.S. Forest Service banned all but Washoe Tribe members from Cave Rock, a sacred tribal site that had been overrun and modified by rock climbers.

The United Nations World Tourism Organization uses the term "carrying capacity," which it defines as "the maximum number of people that may visit a tourist destination at the same time without causing destruction of the physical, economic and sociocultural environment and an unacceptable decrease in the quality of visitor satisfaction."

TRPA does assign PAOT (Persons at One Time) designations to some, but not all, recreation sites in the basin, identifying the ideal and/or maximum number of people it should serve at one time, though TRPA itself notes the system is incomplete, outdated and "problematic." For instance, it assigns a score of 75 POAT to the Eagle Falls day use/trailhead, which routinely attracts over 50,000 visitors annually. Overall, the TRPA's Regional Plan has allocated 25,275 POAT for the entire basin with 17,982 remaining.

A May 17, 1976 issue of *The Timberline*, the Lake Tahoe Community College newspaper at the time, said the carrying capacity of the basin had been calculated at between 207,533 and 364,000 at any one time by various agencies.

Other efforts to counter the effects of overtourism are being undertaken, though the effects are not entirely clear, yet. Said Chaplin, "As for mitigation of tourism, one of the impacts is jobs and taxes for our community. We think tourism has a positive impact in this regard. As far as environment, we partner whenever possible with organizations such as TRPA (sponsor of overtourism forum in September 2018, Washington DC and Sustainable Recreation working group), Tahoe Fund (Take Care Campaign working group, as well as donation option through our Activity Ticket portal), the League to Save Lake Tahoe (pilot transit program and beach clean-up). There is a multi-destination collaborative effort that we've been asked to join, but as it is in its infant stages, I can't share meaningful information this early in its formation."

The League to Save Lake Tahoe also noted its beach clean-ups and its "community partnerships to develop guiding principles."

Hill Drum shared that the Tahoe Prosperity Center is "working on expanding broadband and cell coverage so more residents can work from home (Connected Tahoe project), adding higher wage job opportunities and location-neutral companies to our region (Workforce Tahoe project), and promoting the development of affordable and workforce housing so that the almost 300 families currently living in motel rooms have apartments to live in full-time instead (Housing Tahoe Partnership)."

Regan said Tahoe has a "leg up on other places in the world by already having a "public policy framework" in place. "We were lucky to have that interstate compact very early, coming up on 50 years to have the vision to put forward that system in Tahoe."

Since then, the California population has doubled and the Nevada population has increased six-fold. And Tahoe's relationship to tourists? It's complicated.

"While the supply of exhibit space in the United States has expanded steadily, the demand for convention and tradeshow exhibit space has actually plummeted."

Space Available: The Realities of Convention Centers as Economic Development Strategy

Heywood Sanders

Executive Summary

To cities the lure of the convention business has long been the prospect of visitors emptying their wallets on meals, lodging, and entertainment, helping to rejuvenate ailing downtowns.

However, an examination of the convention business and city and state spending on host venues finds that:

- **The overall convention marketplace is declining in a manner that suggests that a recovery or turnaround is unlikely to yield much increased business for any given community, contrary to repeated industry projections.** Moreover this decline began prior to the disruptions of 9-11 and is exacerbated by advances in communications technology. Currently, overall attendance at the 200 largest tradeshow events languishes at 1993 levels.

- **Nonetheless, localities, sometimes with state assistance, have continued a type of arms race with competing cities to host these events, investing massive amounts of capital in new convention center construction and expansion of existing facilities.** Over the past decade alone, public capital spending on convention centers has doubled to $2.4 billion annually, increasing convention space by over 50 percent since 1990. Nationwide, 44 new or expanded convention centers are now in planning or construction.

- **Faced with increased competition, many cities spend more money on additional convention amenities, like publicly-financed hotels to serve as convention "headquarters."** Another competitive response has been to offer deep discounts to tradeshow groups. Despite dedicated taxes to pay off the public bonds issued to build convention centers, many—including Washington, D.C and St. Louis—operate at a loss.

This analysis should give local leaders pause as they consider calls for ever more public investment into the convention business, while weighing simultaneously where else scarce public funds could be spent to boost the urban economy.

B

I. Introduction

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.

Nonetheless, new public capital spending for convention centers has doubled over the past decade, growing from \$1.2 billion in 1993 to an average of \$2.4 billion annually from 2001 through 2003. That massive spending has fueled an expansion of center exhibit space from 40.4 million square feet in 1990 to about 60.9 million in 2003, a 51 percent increase over the 13 years. And some 40 cities—including New York, Chicago, Denver, Hartford, Tampa, New Orleans, Detroit, Albany, Raleigh, Phoenix, and Colorado Springs—are planning or building as much as an additional four to five million square feet of space in the hopes of boosting jobs and tax revenue.[1]

Take Raleigh, North Carolina for example. Analyzing its convention prospects in July 2002, consultant KPMG predicted that an enlarged convention center would more than double the city's convention attendance from an annual average of 90,000 to some 190,000 by 2010, yielding more than \$30 million in new annual spending for the city and county and 900 new jobs.[2] For public officials like Raleigh Mayor Charles Meeker, the vision of this impact and its potential for creating a revitalized downtown presented a compelling case for public action.[3]

The rhetoric was much the same in Phoenix, where a city staff report on a proposal to spend \$300 million for an expansion of the city's Civic Plaza convention center argued that, "Convention business makes economic sense for Phoenix because it brings people here from other states and nations, who spend money throughout our community and then go home. Each conventioneer generates almost \$1,500 in direct spending in Arizona—staying in our hotels, eating in our restaurants, buying goods in our shops, playing golf in our resorts and going to tourist attractions throughout the state."[4]

The promise was that a bigger center would yield \$256 million in annual new convention spending and create 7,700 new jobs while doubling city convention-linked tax revenues.

As these examples show, the decision to build or expand a convention center is predicated on the assumption that "if you build it, they will come." And more recent consultant feasibility studies of new and expanded centers have indeed forecast continued growth in demand for center space. A PriceWaterhouseCoopers analysis in January 2004 of an expansion of New York City's Jacob K. Javits Convention Center predicted industry growth and more than enough demand to go around. Predicting that a larger convention facility in Manhattan could increase attendance by 38 percent and yield \$391 million in new visitor spending for the city, the PriceWaterhouseCoopers analysis contends that an expanded Javits "would result in expansion of existing customers to events, result in the creation of new shows, and attract conventions and tradeshows that are currently held in competing facilities."[5]

For Colorado Springs, CO, a March 2004 feasibility study argued that, "Economic cycles notwithstanding, the overall long-term trend of [convention] growth suggests that the supply of events will recover along with an overall economic recovery."[6] And a May 2004 updated analysis for Albany, NY concluded "For the meetings industry, things have generally returned to pre-9-11 condition."[7] Albany's consultant could thus predict a new center in that city would house over 300 events annually, with attendance of 270,000 generating nearly 100,000 new hotel room nights annually. Other such rosy predications have been made for cities as diverse as Branson, MO; Cleveland, OH; Schaumburg, IL; and Osceola, FL.

Unfortunately, the pervasive market information provided to these localities and their decision-makers is fundamentally flawed and inaccurate.

Simply put, the overall convention marketplace has shifted dramatically, in a manner that suggests that a recovery or turnaround is unlikely to yield much increased business for any given community. Less business, in turn, means less revenue to cover facilities' expenses, and less money injected into local economies.

This paper examines national and local trends in convention center events and attendance over the past decade, and how they stack up against projections—as such, it provides some insight into whether or not these projects are likely to produce the financial benefits local boosters of center construction and expansion projects anticipate. The paper then looks behind these trends to offer a look at what factors may be driving them. Finally, it attempts to describe the true costs localities incur as result of increasingly questionable convention centers investments, and provides some suggestions as to how the local decision-making process regarding them might be better informed and executed.

Such an analysis does not pretend to provide a full exposition of the costs and benefits associated with convention center investments: It does not examine the public subsidies that go into these projects, nor evaluate the revenue such spending generates.

What it does do, however, is shed some light on the realities of this changing and unpredictable business, and in doing so, provide a cautionary tale for cities hoping to reap its increasingly elusive rewards.

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

Methodology: Overcoming Errant National Data

National data on a great many sectors of the economy—retail sales, new home starts, public and private construction, air travel, auto sales, manufacturing orders—is readily available in a consistent and relevant form. Not so for the convention and tradeshow industry.

Despite the commitment of billions of dollars by a variety of state and local governments, the available national data on convention demand is at best scant, murky, and of limited reliability. The national market data regularly employed by consultants comes from a small number of industry sources, and often reflects estimates rather than performance, guesses rather than substance.

Meetings and Conventions magazine, for example, surveys its subscribers on a biennial basis. But those data on meeting numbers, attendance, and spending reflect all the limitations of an unknown subscriber base and an uncertain response rate. Another industry publication, *Tradeshow Week*, regularly disseminates a number of indices of convention and tradeshow activity. Its annual *Data Book*, covering more than 4,500 conventions, tradeshows, and public events, has regularly been employed to index demand. But its numbers are simply forecasts by event organizers of exhibit space use and possible attendance for events months in the future. They are never updated, revised, or turned into "actuals." And even these projections are provided for only a fraction of the 4,800 events listed. The totals are created by multiplying the averages of those reporting by the number of events.

The arguably more substantial of the *Tradeshow Week* measures come from its annual compilation of the 200 largest conventions and tradeshows, in terms of exhibit space. The "200" listing yields actual post-event figures for exhibit space use and attendance for what are by definition the largest and most successful events—a changing cast from year to year. It does not index the larger industry in any sense, and the "200" is obviously most relevant to those cities like Las Vegas (with 38 events in 2003), Chicago (with 27 events), Orlando (17), Atlanta (16), and New Orleans (8) which have the exhibit space to accommodate the largest conventions, often in multiple centers. Furthermore, its reported figures on annual change are created in a manner (described below) that has a serious upward bias. Still, the total annual volume of space use and attendance for the "200" (not the calculated change figures) does provide at least a plausible starting point for examining trends in market demand, and thus I utilize it here to offer some insight into national trends.

Given the dearth of reliable, national numbers, the majority of this analysis instead relies on data from major individual centers themselves. That data primarily measure convention and tradeshow activity, and thus exclude the kinds of local public or consumer shows—the auto show, home show, or garden show—that draw largely from the city or metropolitan area. Where a center does not provide figures limited to convention and tradeshow attendance, the paper uses available "total attendance" numbers. In some cases, the analysis is supplemented by information from centers or local convention and visitors bureaus on the hotel use generated by a center (in terms hotel room nights used by convention and tradeshow attendees). While these hotel use figures may miss some people who book rooms on their own, they provide the best index of center use by out-of-town visitors, the critical element of economic benefit and impact for a community.[8]

In light of these data limitations, this should be considered a preliminary review of current trends in the convention center industry, the primary purpose of which is to provide a frank reality check on the overly optimistic forecasts localities utilize to justify new public investments in convention facilities. It is hoped that this analysis will spark further discussion and study on this important and timely issue.

II. Trends: Portrait of a Faltering Industry

What supposedly justifies the public commitment to a convention center in the face of the cost of debt service and operating loss is its potential yield in convention and tradeshow attendees, a yield that is a function of larger economic and market forces, the competitive position of an individual city, and efforts of every other community seeking a piece of the convention "boon." In other words, the real test for Washington, or Chicago, Orlando, or even Schaumburg, is how many people come and what they leave behind for the local economy.

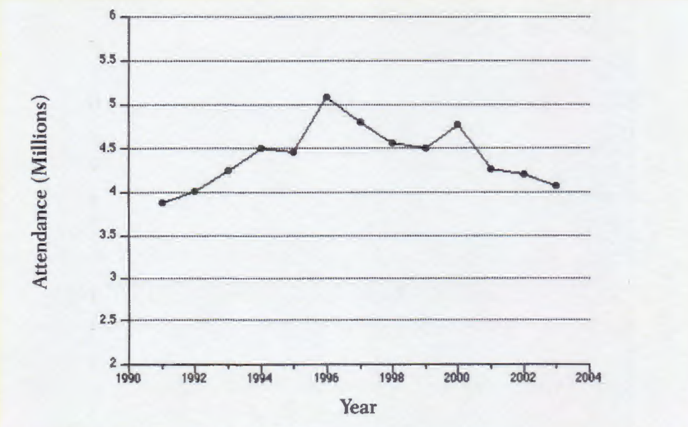
A look, then, at the national and, even more importantly, local trends in convention and trade show events and attendance provides valuable insight into whether or not new investments in the convention center industry are worth their weight in debt and larger public costs.

National Trends from the *Tradeshow Week* 200

To get a broad overview of the national trends affecting the industry during the 1990s and early 2000s, the study begins with an analysis of the nation's largest conventions and tradeshows—the *Tradeshow Week* 200.

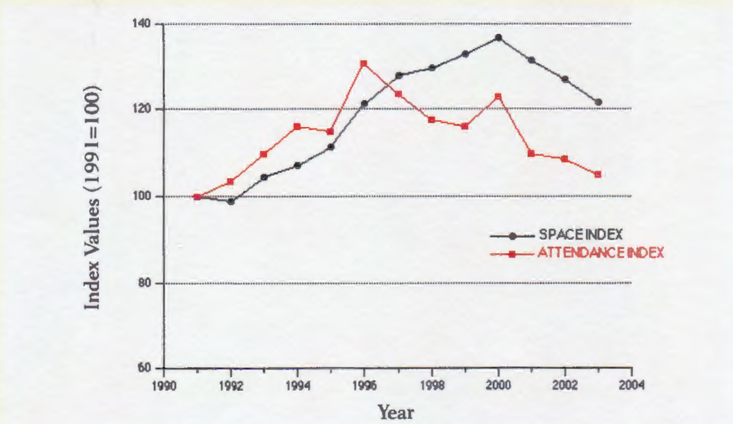
In 1992, *Tradeshow Week* 200 events spanned about 50.4 million square feet of exhibit space with total attendance of 3.9 million people. Over the next seven years, exhibit space use increased 33 percent to reach 67.8 million square feet of space by 1999. But the pattern of total attendance during this period was far from regular, steady growth (Figure 1).

Figure 1. Attendance at Tradeshow Week 200 events began to decline in the mid-1990s and is now at the level of 1993



Source: Tradeshow Week "200" Directory

Figure 2. Exhibit space use and attendance at Tradeshow Week 200 events began to diverge in the mid-1990s



Source: Tradeshow Week "200" Directory

"The economic downturn of 2001 and the events of September 11 came upon an industry already in the process of change."

After hitting a peak of 5.1 million in total attendance in 1996, it then dropped down to 4.5 million in 1999, before rising to 4.8 million in 2000 (Figure 2). Something had begun to change in the convention and tradeshow industry such that—well before September 11—the largest and most successful events in the business were not yielding more attendees.

Several of the largest of the 200 events—like the annual National Hardware Show—exemplify these broad trends. The Hardware Show reportedly covered 821,785 square feet of exhibit space in 1991 and attracted 52,934 attendees. By 1997 it had grown to 1.3 million square feet, an increase of 58.2 percent, and attendance hit 73,000—a 38 percent boost. These numbers helped fuel the image of an industry on the rise. By 1998, however, attendance had begun to slip, to 65,759, and by 2000, there was evidence of even greater decline. Exhibit space that year for the Hardware Show fell to 1.26 million square feet with attendance of only 62,025, followed by yet another drop to 1.0 million square feet of exhibit space and 52,310 attendees for 2001. Large computing and technology shows—discussed later in the paper—similarly played a crucial role in boosting the apparent performance of the industry during the 1990s, only to falter by the end of the decade.

As it was, the economic downturn of 2001 (with a particularly serious impact on the technology sector) and the events of September 11 came upon an industry already in the process of change, with far less predictable and certain growth. The *Tradeshow Week* 200 summary for 2001 reported the "steepest declines in directory's history"—a drop in exhibit space of 1.3 percent and an attendance drop of 4.5 percent, with a number of events that were cancelled not even included.[9] And the impacts did not stop with 2001. The 2002 edition of the *Tradeshow Week* 200 reported a further decline in space use (6.0 percent) and attendance (4.4 percent).[10] It would not be until its 2003 edition that the "200" summary could report some positive news, that the industry could "see the light"—exhibit space use down just 0.7 percent from 2002, but attendance up 3.4 percent.[11]

This modest dip in exhibit space use coupled with the attendance increase for 2003 is seen by some as portending an industry turnaround and continued growth. For example, a February 2004 consultant study for Schaumburg, Illinois notes that, "Preliminary data for 2003 suggests resumed growth" and that, "Longer term trends in the industry, however, have indicated substantial growth in demand for exhibit space," providing a justification for the village's investment in a $215 million convention center and a publicly-owned 500 room hotel.[12]

This "imminent turnaround" view of convention and tradeshow activity is no doubt heartening to those in the industry and to local officials. It is, unfortunately, wrong—an artifact of *Tradeshow Week's* peculiar methodology and the narrowness of focusing on only 200 very large events. *Tradeshow Week* calculates annual percentage change figures by asking event organizers what their exhibit space and attendance were in the previous year and a year earlier. If (as is commonly the case), organizers report a revised figure for two years ago, that usually smaller older figure becomes the base for calculating change. And they only include events noted in a previous year, shrinking the base for comparison and often including in the growth calculation data for biennial shows from two years previously.[13]

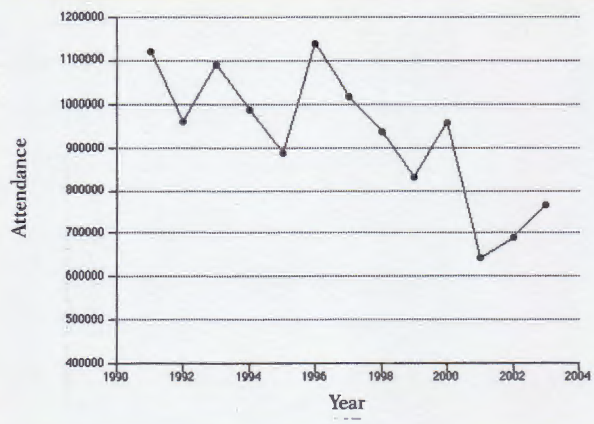
A look at the "real" numbers for 2003, then, tells a different story than the one told by *Tradeshow Week*. In 2002, the "200" events together spanned 64.65 million square feet of exhibit space while the 2003 total amounted to 61.9 million—a drop of 4.2 percent, not the reported 0.7 percent. Further, the 2003 attendance total was only 4.1 million, down from 4.2 million a year earlier. This represents a 3.2 percent decrease in attendees, a pretty far cry from the 3.4 percent increase claimed.

The data from the *Tradeshow Week* 200 illustrate how, by the end of the 1990s, convention and tradeshow growth began to shift into decline. These data present only a limited, and understated, picture of the real magnitude of convention and tradeshow change, however. For local officials and citizens deciding about the prospects for a new or expanded convention facility, the real question is how this national change has affected the performance of actual, local convention centers—and their future prospects.

Local Convention Center Trends

To better understand the trends affecting local convention centers, this analysis categorizes them into four major types: major national centers, emergent national powers, prime visitor destinations, and regional centers. Each one is discussed in turn, below.

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



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

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

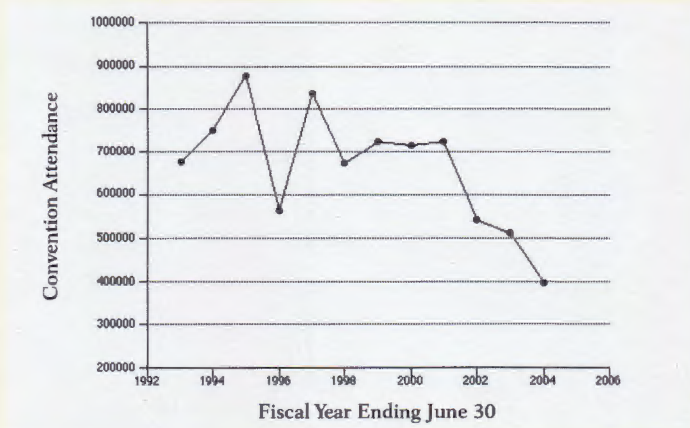
A small group of cities—Chicago, New York, Atlanta, and New Orleans—have long dominated the supply of convention center space and the demand from the largest convention and tradeshow events.

Chicago's McCormick Place is prime example of a successful center feeling the squeeze of recent trends. Propelled by a series of expansions, McCormick has led the space race since the 1960s and today boasts 2.2 million square feet of exhibit space. It has also hosted the greatest fraction of the *Tradeshow Week* 200 events. In 1991, McCormick held 28 of the "200," second only to New York. Two years later, that total reached 30 events with attendance (including exhibitors) of 1.1 million, putting Chicago first in events ahead of Las Vegas (26) and New York (25). At its peak in 1996, the center managed 24 of the "200" with attendance of 1.14 million.

By 1999, however, the tide began to shift. McCormick's convention and tradeshow event count for that year fell to 22 with attendance of 831,163. Although attendance grew to 960,149 in 2000, by 2002, the event count was only 19, with attendance of just 688,354 (Figure 3). Things began to look up in a bit in 2003, with an event count of 25 and attendance of 767,207. Still, despite the growth in "200" events, average attendance *per event* in 2003 was at the lowest level since 1993. The picture is less rosy if you look at McCormick's *total attendance* in 2003, which includes public shows along with conventions and tradeshows. The 2003 total attendance figure of 2,512,168 is substantially below the levels for 2002 (2.7 million), 2001 (3.0 million), and 2000 (3.3 million), amounting to a drop of 25 percent over the three year period. Indeed, it is the lowest total since the attendance reports began in 1994.

New York City's Jacob K. Javits Convention Center is decidedly smaller than McCormick Place with only 800,000 square feet of exhibit space, but in 1991 it led the nation in the count of "200" events with 29. The ensuing years saw a marked shift in New York's pre-eminence, however, with its "200" total falling to just 18 by 1997, 15 for 2000, and 14 in 2003, as the city was obliged to compete with other destinations. Overall, the Javits Center housed about 60 conventions and tradeshows annually through the 1990s. But since the Javits managed its peak convention attendance from these events, 1.4 million in 1997, the

Figure 4. Atlanta's Georgia World Congress Center saw attendance drop even with an expansion to 1.4 million square feet of exhibit space in June 2002



Source: Georgia World Congress Center Authority

"Despite their historic dominance, Chicago, New York, Atlanta, and New Orleans have all seen significant loss in recent convention activity."

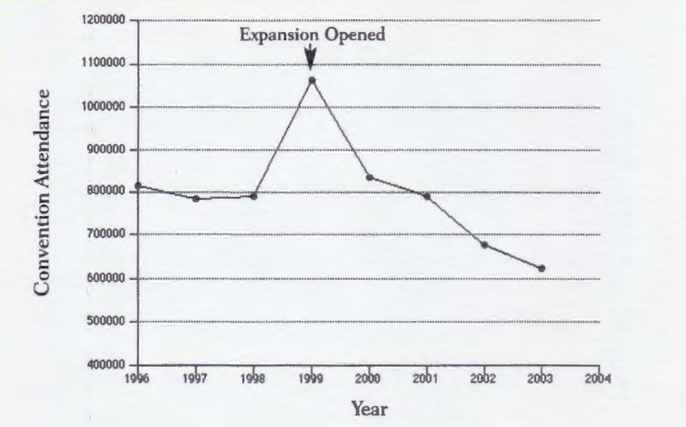
pattern has been similar to that of Chicago. Despite boosting its convention and tradeshow event count from 62 in 2000 and 61 in 2001 to 70 in 2003, attendance slipped first to 1.25 million in 2000, then to 977,600 in 2001, 931,850 in 2002, and finally 955,150 for 2003.[14] Overall, the Javits' convention and tradeshow attendance has dropped 32 percent from the 1997 total.

Atlanta's Georgia World Congress Center (GWCC) has also been among the nation's dominant centers, with a total of 18 "200" events in 1991. Fueled by substantial state fiscal support, GWCC expanded in 1992 to 950,000 square feet, and again in June 2002 to a total of 1.4 million square feet of exhibit space. The convention and tradeshow attendance at the GWCC boomed through the 1990s with the exception of the year when it was largely used in support of the Olympic Games, reaching a total of 837,752 attendees in fiscal 1997 (ending June 30, 1997). By fiscal 1999, as Figure 4 shows, that total had slipped to 723,284, and by fiscal 2002 fell further to 569,887. The expansion of the center—opened in June 2002 (prior to the 2003 fiscal year)—was justified in large part by a consultant study that forecast increased attendance, to 1.45 million by 2006. Instead, convention and tradeshow attendance came to just 512,194 in fiscal 2003, lower than the year before. Preliminary attendance figures for fiscal year 2004 show total convention and tradeshow attendance dropping even further, to 396,517—less than half the fiscal 1997 sum.[15]

A prime visitor destination city, New Orleans' Morial Convention Center is the fourth major U.S. convention facility. For 1998, just prior to the opening of a major expansion, the Morial managed total convention attendance (including exhibitors and guests) of 789,271. With a boost to 1.1 million square feet of exhibit space in January 1999, the center hit a record total attendance of 1.06 million (Figure 5). A year later, however, the center's attendance slipped to 834,947, dropping each year after to just 622,250 for 2003—a loss of 41.5 percent from 1999.

In sum, despite their historically dominant competitive position and place as major commercial centers, Chicago, New York, Atlanta, and New Orleans have all seen significant recent loss in convention activity, even as they expanded their convention centers. In part, their losses reflect the emergence of two new convention locales, which have succeeded in

Figure 5. Convention attendance at New Orleans' Morial Convention Center has fallen steadily since 1999



Source: Morial Convention Center Authority

both massively expanding their own exhibit space and luring events and attendees from the traditional destinations.

Emergent National Powers: Las Vegas and Orlando

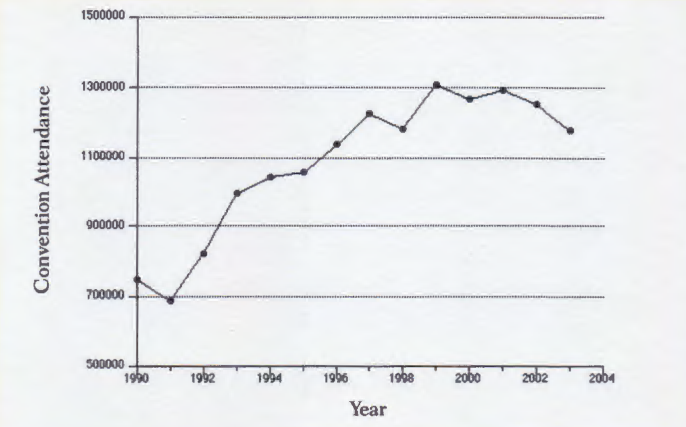
Las Vegas and Orlando emerged during the 1990s as significance players in the convention and trade show market.

Las Vegas' growth as a prime convention center destination is largely a result of both its appeal to visitors and the Las Vegas Convention and Visitors Authority's ability to garner about $160 million in tax revenues every year from the more than 125,000 hotel rooms in the area—revenues available for marketing, promotion, and sales of the area. The Las Vegas Convention Center has grown from its original 90,000 square feet in 1959 to 1.3 million square feet in 1998, and, most recently, to 1.985 million square feet in January 2002. Total convention attendance grew apace in the 1990s, from 819,259 in 1992 to nearly 1.2 million in 1998 and 1.3 million in 1999, well in excess of national trends.

But as Figure 6 indicates, the convention center began to face a more difficult competitive situation starting in 2001. Despite the major expansion in 2002, attendance dropped that year, and then fell again in 2003 to less than 1.2 million. Measured in terms of average attendance per convention event, the Las Vegas center has seen a dramatic fall-off in the last two years—from an average of 26,154 in 1999 to just 16,369 in 2003. The vastly bigger public center is succeeding in gaining some new business, but its "production" of attendees is far more modest on average. The Las Vegas Center's most recent performance may in part reflect the impact of a new privately-owned convention center in the city. The Mandalay Bay Convention Center opened in 2003 with 1 million square feet of exhibit space, and has already lured events from other venues, including the SIA SnowSports tradeshow from the Las Vegas center and Promotional Products Expo from Dallas.

Orlando's Orange County Convention Center, like the Las Vegas Convention Center, has benefited from the combined fiscal benefit of tens of thousands of local hotel rooms—which generate a substantial revenue stream for center expansion and marketing—and the unique leisure and visitor amenities of its location. The Orange County Center has been regularly expanded since its 1983 opening with 150,000 square feet of space, to 1.1 million

Figure 6. Las Vegas Convention attendance slid even after it doubled exhibit hall space in 2002



Source: Las Vegas Convention and Visitors Authority

"Las Vegas and Orlando too have been hard hit by the recent change in the industry, with major new expansions yielding almost nothing in terms of increased business."

in 1996 and most recently 2 million square feet in October 2003.

Orlando's annual convention and tradeshow event count grew from 66 in 1990 to 116 in 2000, with parallel attendance growth from 376,973 to 921,247. The center then saw a dramatic attendance drop in 2001, with a modest recovery in 2002 to a level still well below that of 1998, 1999, and 2000. The center managed another increase of 5.9 percent to 859,188 for 2003, some 60,000 of whom attended events in the newly opened North/South Hall.

Perhaps the most telling point about Orlando's performance is the projected level of attendance (based on bookings) for 2004 and 2005, with double the exhibit hall space of previous years. The Orange County center is forecast to house just 113 conventions and tradeshows in 2004 with estimated attendance about 1.1 million. And as of mid-June 2004, definite bookings for 2005 come to only 77 conventions and tradeshows with estimated attendance of 955,000. So with double the space built at a cost of $748 million, Orlando will probably see only slightly more convention business than it managed in 2000.

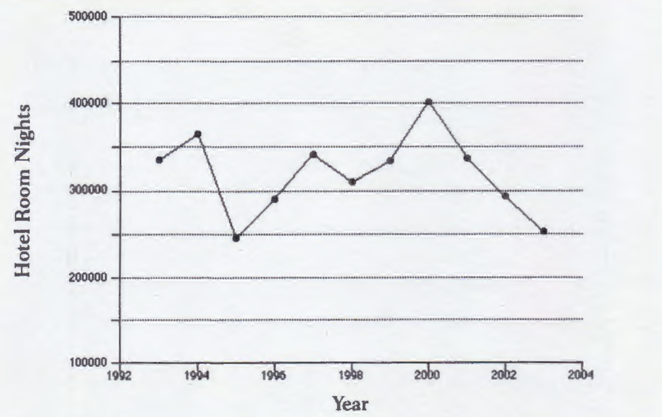
Both Las Vegas and Orlando have strong records of convention performance, both attracting substantial attendance and luring events from cities like Chicago, Atlanta, Los Angeles, and New Orleans. Nonetheless, they too have been hard hit by the recent change in the industry, with major new expansions yielding almost nothing in terms of increased business.

Prime Visitor Destinations: Boston and San Francisco

Some cities have long managed a successful role as visitor destinations as a result of their history, amenities, and distinctiveness. Both Boston and San Francisco are such locales, where a convention center can build on a large base of hotel rooms, restaurants, shopping, arts, and cultural facilities.

Boston's relatively small existing convention center, the Hynes, provides 193,000 square feet of exhibit space in a prime Back Bay location surrounded by some 5,000 hotel rooms. Writing in 2001, consultant David Petersen described the center as having "achieved maximum occupancy in the first year after expansion" [1988] and thus a "phenomenal success."[16]

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



Source: Massachusetts Convention Center Authority

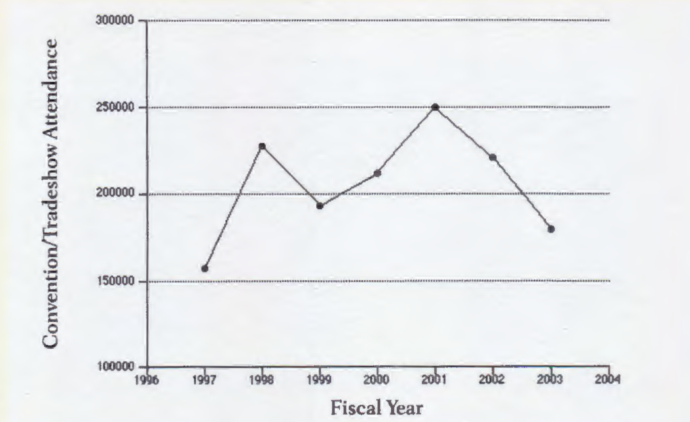
A close look at annual hotel room use figures provided by The Massachusetts Convention Center Authority shows, however, that even with its accolades and Boston location, the Hynes has not been immune to the larger changes in the convention and tradeshow industry. During the 1990s, hotel room nights averaged about 328,000, with a peak of 401,367 in 2000. As Figure 7 shows, the 2001 total dropped to 337,200 and fell to 253,698 for 2003. The center's occupancy rate, which had varied between 65 and 70 percent during the 1990s, fell to 52 percent in 2002 and 2003. Booking estimates for 2004 indicate about 258,000 hotel room nights—a continuation of the 2003 activity level. And estimates based on bookings for the next few years show no evidence of a turnaround, with about 260,000 room nights for fiscal year 2005 and 220,000 for fiscal 2006.

Even as the Hynes has been losing business, the Massachusetts Convention Center Authority has been busy building a new Boston Convention and Exhibition Center with some 512,000 square feet of exhibit space, which opened in July 2004. The 1997 market and feasibility study for the new BCEC projected a total of 38 events with 302,800 attendees yielding 398,135 room nights for the center's first year of operation, rising to 57 conventions and tradeshows with 470,600 attendees (and 675,000 room nights) by the fifth year. Current bookings show only six events (including four conventions) with about 65,000 attendees for the partial first year. But even that figure is wildly inaccurate, as it includes an estimated 50,000 attendees for the July 2004 East Coast Macworld Expo. The actual attendance for Macworld came to just over 8,000. For 2005, the authority has about 67,000 room nights on its books. Current estimates are that the BCEC will reach about 200,000 room nights in fiscal year 2008, less than a third of the feasibility study estimate. And a large fraction of the center's future business represents events like the Boston Seafood Show, New England Grows, and the Boston Gift Show—events that have long been held in other Boston venues.

Like Boston, San Francisco has long been a strong visitor destination and a prime convention locale, particularly for medical and professional groups, and for technology-related events such as Apple's annual Macworld during the 1990s. The Moscone Convention Center offered 442,000 square feet of exhibit space through most of the 1990s, with the 2003 opening of Moscone West adding another 96,660 square feet of space. The Moscone Cen-

"As the expansion of major venues, national economic cycles, and the changing meetings industry have come together in the last few years, regional convention locales have faced a highly competitive environment for national and regional events."

Figure 8. Attendance at the expanded Baltimore Convention Center has both fallen and failed to reach the projected 330,000 annual attendance



Source: Baltimore Convention Center

ter has benefited from a prime location near the hotels and shopping of Union Square and the adjacent attractions of the San Francisco Museum of Modern Art and Sony's Metreon entertainment complex.

The convention attendance at Moscone came to 728,771 at 56 events for fiscal year 1997–98, followed by 790,548 the following year. A sharp drop in fiscal 2000 was followed by a return to previous level—737,694 at 52 events in fiscal 2001 (prior to September 11). Convention attendance and events then dropped for 2002, and again for fiscal 2003. The fiscal 2003 attendance of 600,975 was 24 percent less than the peak in fiscal 1999, and about equal to Moscone's attendance in fiscal 1993. The convention event count came to 39—a 36 percent drop from fiscal 1999.

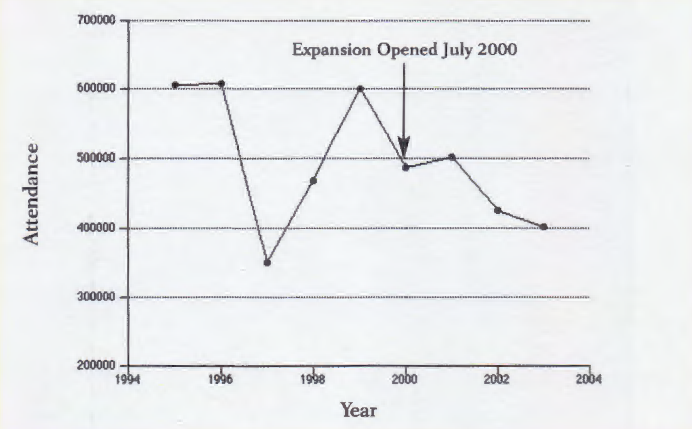
While both the Hynes and Moscone Centers enjoyed strong attendance during the 1990s, both have seen sharp drops in the last several years. If business doesn't rebound, the success of Boston's new convention facility—and the Moscone expansion—seems dubious at best.

Regional Centers

The great majority of large and medium-size American cities enjoy neither the vast convention spaces of Chicago, Las Vegas, or Orlando, nor the substantial visitor and amenity base of Boston or San Francisco. For San Jose or Baltimore, Tampa or Houston, the search for convention business holds the promise of promoting downtown development (or redevelopment), new hotels, and economic growth. These cities must build their convention efforts on a combination of state and regional events for which they hold some natural advantage and the relatively fixed pool of rotating national convention events. As the expansion of major venues, national economic cycles, and the changing meetings industry have come together in the last few years, these cities have faced a highly competitive environment for national and regional events, with uncertain yields in visitors and their spending.

Baltimore, for example, has long appeared to be a singularly successful case of visitor-oriented downtown revival. It also received substantial financial support from the state for the expansion of the Baltimore Convention Center to its current 300,000 square feet of exhibit space. Still, Baltimore's recent convention attendance record is less-than-stellar, as

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



Source: Indiana Convention Center

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

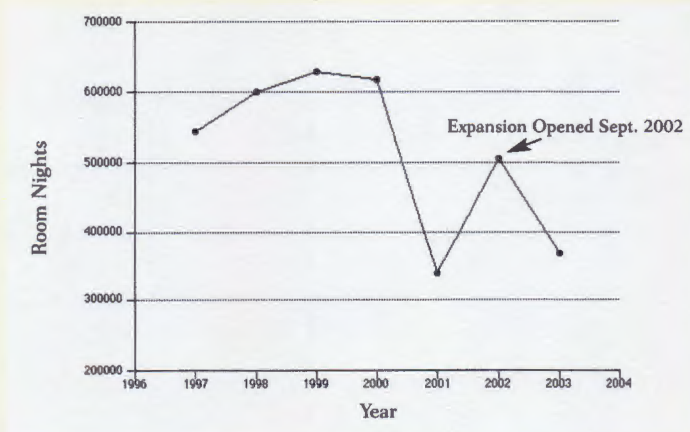
Indianapolis presents another case of a city that has successfully managed large-scale public and private investment in its downtown core, much of it aimed at attracting visitors and tourists. One recent estimate for downtown investment from 1974 to 2000 came to $4.4 billion.[17] Along with regular expansions of the Indiana Convention Center and contiguous RCA Dome, the city has provided subsidies that have resulted in a growth of the downtown hotel room stock from 2,064 rooms in 1986 to 5,130 in 2003. But neither major public spending nor the ample supply of adjacent hotel rooms has been sufficient to insulate Indianapolis from the larger forces affecting the convention and tradeshow industry, however. As Figure 9 indicates, attendance has plummeted from 608,467 in 1996 and 600,643 in 1999 to just 402,525 for 2003—a fall of 33 percent from 1999.

Washington, D.C. replaced its 380,000 square foot center with a new $834 million, 725,000 square foot facility at the end of March 2003. For 2003, the new center housed 324,000 convention attendees who used 315,307 hotel room nights. Those 2003 totals (albeit for a slightly shorter period) can be compared to the performance of the far smaller, previous center. From 1990 through 1997, the old Washington Convention Center hosted an average of 337,301 attendees and 337,640 room nights. More recently, the center saw convention attendance of 281,900 for fiscal year 1999 and 345,800 for fiscal 2000, with a total of 352,243 hotel room nights in fiscal 2000. Authority officials anticipate about 400,000 room nights generated by the new center in 2004. After building an entirely new convention center with almost double the exhibit space, the Washington Convention Center Authority has seen effectively no increase in attendance or hotel use.

Serious attendance problems stretch to centers in the West and South as well. The Dallas Convention Center, for example, counts attendees at tradeshows and at conferences, with the latter category including a mix of national, regional, and local events. For fiscal year 1999, the tradeshow and conference attendance totaled 594,011, perhaps affected by a large turnout for the National Association of Home Builders convention. The next year's

"Even those cities that have invested in major center expansions have seen flat business, despite earlier market and feasibility studies that predicted more space would bring substantial increases in events and attendance."

Figure 10. Hotel room nights generated by the Dallas Convention Center have fallen dramatically



Source: HVS International, "Proposed Headquarters Hotel—Dallas, TX"

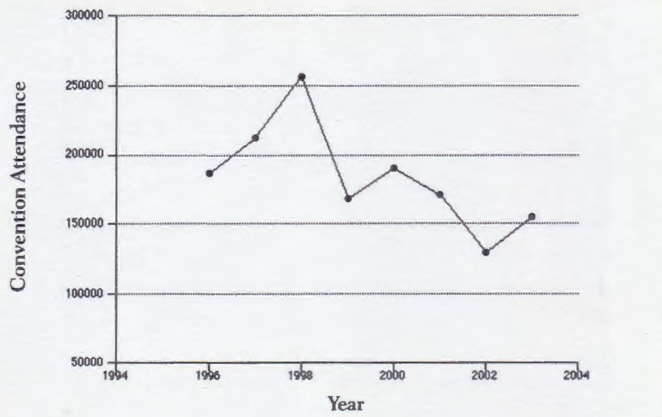
attendance was just 424,881, followed by 384,348 in fiscal 2001. But for fiscal year 2003, tradeshow and conference attendance fell to 282,534—a drop of 52 percent from the 1999 total. A related index of the Dallas center's performance, its count of conventions and convention-related room nights, presents a parallel pattern. For calendar year 1999, the center housed 47 conventions that generated 627,787 room nights.[18] Those figures fell to 36 conventions and 368,882 room nights, or a room night loss of 41.2 percent. The estimated room night total for 2004 (including one event listed as tentative) is 280,784 (Figure 10).

The city of Denver is currently in the process of doubling the size of its Colorado Convention Center, and adding a 1,100 room city-owned Hyatt hotel. That major public investment comes even as the city has seen a substantial decline in the business at the existing 300,000 square foot center. In 1998, its peak year, the center managed 51 conventions and tradeshows with 256,309 attendees. Attendance dropped to 130,285 in 2002 (for 36 events), and then rebounded slightly to 155,171 (at 33 events) for 2003, or a 39 percent attendance decline from 1998 (Figure 11).

Charlotte has also seen a dramatic activity shift in recent years, measured in terms of reported convention and tradeshow attendance at the 280,000 square foot Charlotte Convention Center, which opened in 1995. In fiscal year 1999, 49 conventions and tradeshows accommodated 528,615 attendees. The attendance dropped to 305,316 in fiscal 2001 at 39 events. The fiscal 2002 attendance total (affected by September 11 and the state of the national economy) fell further to 187,084 from 32 convention and tradeshow events. Fiscal 2003 showed improvement, probably aided by discounts on center rent, to 39 conventions and tradeshows that counted 301,381 attendees. But the latest data for fiscal 2004 shows 34 conventions and tradeshows with a total of 233,845 attendees.

And the list goes on. Cincinnati's Sabin Convention Center saw its convention attendance drop by 47 percent from fiscal year 1997 to fiscal 2003. The convention attendance at Houston's George R. Brown Center fell 69 percent from fiscal 1999 to fiscal 2003. The comparable drop for the Atlantic City Convention Center amounted to 25 percent. Hotel room night activity from the Los Angeles Convention Center plummeted 65 percent from 2000 to 2003. The Pennsylvania Convention Center in downtown Philadelphia went from 573,857 hotel room nights generated in 2002 to 270,080 for 2004—a 53 percent drop. For

Figure 11. Denver's Colorado Convention Center has seen its convention and tradeshow attendance fall



Source: Colorado Convention Center

San Jose's McEnery Center, the attendance fall off amounted to 52 percent from 2000 to 2003. And for Civic Plaza in Phoenix, the convention attendance drop from 1997 to 2003 totaled 92,984 attendees, or 48 percent.

These trends—coupled with similar stories in Sacramento, Tampa, Minneapolis, Portland, Austin, and others—demonstrate that the dramatic, if not catastrophic, fall in convention activity and attendance has been both substantial and pervasive.

In sum, major destinations like Chicago and New York, Atlanta and New Orleans have seen serious declines in events and attendance in recent years. Those declines have also had a clear impact on centers in Las Vegas and Orlando which have historically gained market share, events, and attendance. Finally, a host of other communities of varying size and regional location have also seen notable changes, in the form of substantial loss of events and attendance. Even those cities that have invested in major center expansions have seen flat business, despite earlier market and feasibility studies that predicted more space would bring substantial increases in events and attendance.

There is little evidence that this situation will turn around in the short term. Future booking data for Austin, St. Louis, Orlando's Orange County Convention Center, the new Boston Convention and Exhibition Center, and the Dallas Convention Center suggest that a turnaround is not likely to be in the immediate offing. Indeed, the director of the Dallas Convention and Visitors Bureau told a group of local hotel officials in July 2004 that the city's convention bookings "suck."[19] And New Orleans' Morial Convention Center, which saw a 38 percent drop in attendance to 622,500 in 2003, is forecast to retain an attendance level of between 600,000 and 670,000 a year from 2004 though 2007 based on bookings through early 2004.

The bottom line: With events and attendance sagging in even the hottest destination spots, few centers are even able to cover basic operating costs—and local economic impacts have fallen far short of expectations.

B

Table 1. Major tradeshow event performance declined considerably from 1999 to 2003

Event	Space 1999	Space 2003	Percent Change	Attendance 1999	Attendance 2003	Percent Change
CONEXPO*	1,732,002	1,845,808	6.57%	101,261	80,054	-20.94%
Super Show	1,388,053	797,390	-42.55%	65,495	62,622	-4.39%
Hardware Show	1,300,000	459,000	-64.69%	67,643	27,569	-59.24%
ICUEE (International Construction & Utility Equipment Expo)	1,116,835	1,113,881	-0.26%	8,201	7,413	-9.61%
COMDEX	1,155,000	150,000	-87.01%	200,000	39,229	-80.39%

** CONEXPO is held every three years. The most recent data is for 2002.*

Source: Tradeshow Week "200" Directory for 2000, 2003, 2004

III. Behind the Trends: Where Did the Convention Business Go?

In October 2000, Michael Hughes, the director of research services for the industry publication *Tradeshow Week*, did a presentation for the International Association of Assembly Managers entitled, "How Long Can the Boom Continue?" As part of his presentation, Hughes noted the continuing expansion of convention centers, and forecast a "soft landing" for centers "especially in the second- and third-tier markets," concluding that "[m]ust-attend events will stay strong if not grow more important to their industries."[20] Hughes pointed in particular to the five largest expositions (in terms of exhibit space) in 1999, a group that included the construction equipment show CONEXPO, the National Hardware Show, and the COMDEX computer show. Each of these five was a "must-attend" for its industry. But as shown in Table 1, Hughes' predictions were clearly overly optimistic: From 1999 to 2003, four of the five events dropped in terms in exhibit space, with the percentage change averaging 37.6 percent. And all five events lost attendance, with three losing more than 20 percent since 1999.

Whatever the sense a few years ago of the scale, import, or sectoral dominance of these and other tradeshows, it should now be clearly evident that "the boom" has not continued, and that the convention and tradeshow business has witnessed a sea change. Yet despite these trends, new and expanded centers are being constructed in communities all over the country. And so the problem, quite simply, boils down to this: Demand for convention center space is not keeping pace with its growing supply, severely limiting the ability of individual centers to accrue hoped-for economic benefits, and ultimately calling into question the value of these large public investments. A look at the convention center business, and how it has changed, can provide some insight into how and why this imbalance has arisen.

Declining Demand and Structural Change

The declines in events and attendance experienced by convention centers in recent years do not simply reflect a move from one city to a less attractive one, or a dramatic restructuring of a particular event. Rather, they are the product of industry consolidation, particularly in the hardware and home improvement industry, reductions in business travel in the face of increasing cost and difficulty, and alternative means of conveying and gathering information.

The Travel Industry Association's annual estimate of business and convention travel, for example, has declined from 164.3 million person-trips in 1999 to 142.4 million in 2002 and 138.2 million trips in 2003. That amounts to a 15.9 percent drop, one that began before 2001.[21] At the same time, the improved quality of telecommunications and the rise of Internet use have provided businesses with means of selling and promoting products and providing information without the cost, difficulties, and time consumption of inter-city travel.

A look at tradeshows—the gift fairs, crafts fairs, home furnishing shows, apparel and clothing shows that support particular industries—helps illustrate these trends.

As new industrial sectors and new products rise, for-profit event organizers will seek to capitalize on the opportunity for new shows and new locations—all to the benefit, of course, of those cities able to land them. For much of the 1990s, for example, the high technology boom supported an enormous growth in tradeshow events dedicated to computing and information technology. *Tradeshow Week's* annual *Data Book* counted 325 events in the computer and computer technology category in 1995. By 2000, that category had grown to 477 events, ranking first across industry categories, surpassing medical and health care (471), home furnishings (369), and education (292 events).

But as the information technology sector has been buffeted by economic change, so too have the tradeshow events that serve it. The 2002 event total for computing came to 371. By 2004, the computing area had fallen sharply to 303 total events. This pattern holds true even among the very largest information technology events—those in the *Tradeshow Week* 200. In 1999, events in the broadly defined "computers and electronics" category made up 21 of the "200," including two of the top six in terms of exhibit space. Yet by 2003, only eight of those 21 remained among the "200" with the others having either dropped off the list because they decreased in size or, like a number of Internet shows, ceased to exist. Those eight shows which persisted on the "200" listing had 478,393 attendees in 1999. By 2003, their total attendance had fallen to 257,026—a decline of 46.3 percent

These drops affected even formerly premier events. For example, the Las Vegas-based COMDEX show had triumphed during the 1990s, growing from 1.13 million square feet and 127,279 attendees in 1991 to 1.38 million square feet and 211,886 attendees in 1997. It was sold by its originator, Sheldon Adelson, to the Japanese Softbank firm in April 1995 for over $800 million. Yet by 2001 it had slipped to 805,706 square feet and attendance of 124,613, and for 2003 it spanned a mere 150,000 square feet and attracted just 39,229 attendees. Finally, the 2004 COMDEX was cancelled, though plans are afoot to revive it in fall 2005.

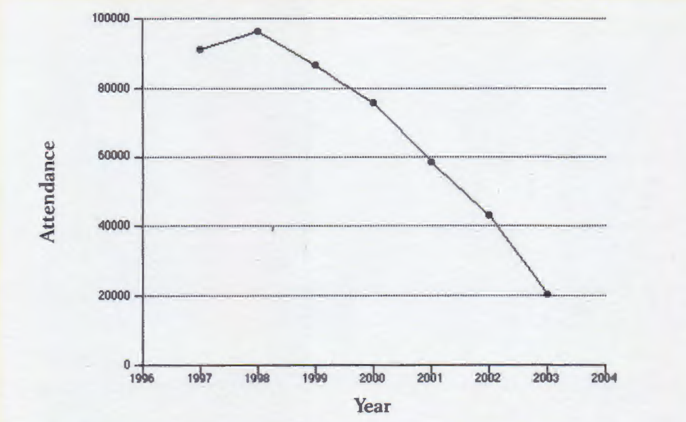
Similarly, New York City's PC Expo (later TechXNY), held annually at the Jacob K. Javits Convention Center, dropped from 96,269 exhibitors and attendees in 1998, to 75,972 in 2000, to a mere 20,509 in 2003, despite the fact that the bulk of attendees were "locals"—fully 90 percent of the 2002 attendees came from Connecticut, New Jersey, or New York. The attendance drop clearly began before 2001, and it was not likely a result of the threat of terrorism or the difficulties involved in airline travel (Figure 12).

The result of this broad decay of computing tradeshows—what had been a staple of the convention business in 1990s—is that cities are now both competing for a smaller pool of events, and that those events are yielding a far smaller total of attendees and economic impact.

To make matters worse, the dramatic attendance drops have not been limited to the computer industry. While a few sectors did see increases in tradeshow activity—*Tradeshow Week* reported a total of 538 medical and health care events in 2004, for example, up from 471 events in 2000—a number of other large, industry-dominant tradeshows have sustained notable attendance losses. As shown in Table 1, the "Super Show" put on by the sporting goods industry saw a substantial drop in exhibit space and a modest attendance fall off from 1999 to 2003. The attendance drop for the construction industry's CONEXPO was more dramatic, at 21 percent. And the National Hardware Show lost 59 percent of its attendees over the same period, turning into two competing events in Las Vegas and Chicago for 2004. Chicago's McCormick Place also suffered from the attendance declines

"In addition to computing conventions, a number of other large, industry-dominant tradeshows have sustained notable attendance losses."

Figure 12. Declining attendance at TechXNY/PC Expo at New York's Javits Center



Source: Exhibit Surveys, "Annual Attendee Audit, TechXNY"

of the National Restaurant Show (57,995 in 1999 to 49,279 in 2003), the Supermarket Industry Convention (34,000 in 1999 to 9,730 in 2003), and the Society of Manufacturing Engineers' FABTECH show (30,658 in 1999 down to 17,934 for 2003).

Given these industry trends, even centers with a relatively stable stream of annual events are finding fewer attendees than in the recent past. At the Las Vegas Convention Center, for example, the average per convention attendance fell to 16,369 in 2003, rather less than the highest average figure of 26,154 in 1999, and the lowest since 1991. In New Orleans, average event attendance hit 6,044 in 2003, down from 9,578 in 1999. And for New York's Javits Convention Center, average attendance at conventions and tradeshows dropped from 20,216 in 1999 to just 13,645 for 2003.

Increasing Supply: More Space, New Choices, Greater Glut

Despite diminishing demand, the last few years have seen a remarkable boom in the volume of exhibit space in U. S. convention centers.

Expansions and entirely new centers added 9.6 million square feet of space between 1990 and 1995, another 3 million to 2000, and 8.8 million more over the last three years (Table 2). New centers will be opening in the latter part of 2004 in Tacoma and Columbia, South Carolina, joined by expanded centers in Denver, Grand Rapids, Cincinnati, and Des Moines. The next two years will see new centers open in Hartford, San Juan, and Virginia Beach. And major expansions are underway at Chicago's McCormick Place, New Orleans' Morial Center, and Phoenix' Civic Plaza, while a proposal for a new stadium/convention center expansion being is considered in New York. A host of other cities—from Albany to Tampa, Cleveland to Boise—have completed feasibility studies that apparently justify new convention center development or expansion. Even in communities like Pittsburgh and Portland where convention center expansion proposals have been defeated by the voters, more space has still been built. Additionally, there is no evidence that the convention center building boom is over or even seriously slowing. And so the competition for events—large and small—becomes ever fiercer (Table 3).

So how do these cities justify the building frenzy? The traditional argument for expanding an existing center or building a larger new one is that more space will enable a center

Table 2. Despite declining trends in conventions and tradeshows, dozens of cities have built or expanded convention centers since 2000

Cities with New Centers	Cities with Expanded Centers
Boston, MA	Anaheim, CA
College Park, GA	Atlanta, GA
Council Bluffs, IA	Austin, TX
Galveston, TX	Charleston, WV
Grand Forks, ND	Chattanooga, TN
High Point, NC	Columbus, GA
Houston, TX	Columbus, OH
Knoxville, TN	Dallas, TX
Omaha, NE	Denver, CO
Overland Park, KS	Duluth, GA
Pittsburgh, PA	El Paso, TX
Sarasota, FL	Fort Lauderdale, FL
Savannah, GA	Fort Smith, AR
Springfield, MO	Fort Worth, TX
Tunica, MS	Fresno, CA
Washington, DC	Greensboro, NC
West Allis, WI	Hickory, NC
West Palm Beach, FL	Hot Springs, AK
Wilmington, OH	Houston, TX
	Indianapolis, IN
	Lafayette, LA
	Las Vegas, NV
	Louisville, KY
	Memphis, TN
	Minneapolis, MN
	Orlando, FL
	Portland, OR
	Reno, NV
	Richmond, VA
	Rosemont, IL
	Salt Lake City, UT
	San Antonio, TX
	San Diego, CA
	Seattle, WA

Source: Tradeshow Week Major Exhibit Hall Directory (2000, 2001, 2002, 2003, 2004) and author's research

"The reality of the industry is that there are relatively few large events in terms of exhibit space."

or city to accommodate—and hence attract—larger events, or a larger fraction of the total pool of conventions and tradeshows. Thus consultant Charles H. Johnson could reassure a citizens' committee in Fort Worth that, "with the expanded convention center, you can now accommodate from 85 to 88 percent of the meetings industry from the exhibit space standpoint."[22] Similarly, a March 2001 analysis of Nashville's need for a larger center could argue, "At 300,000 square feet of first-class exhibit space, a facility in Nashville could accommodate nearly 90 percent of the potential market, while 400,000 square feet could accommodate approximately 95 percent."[23] Larger events, of course, mean more people spending more money in the local economy.

Table 3. Dozens more cities are currently planning or constructing new centers or expansions

Cities with New Centers Planned/Underway	Cities with Expansions Planned/Underway
Albany, NY	Baton Rouge, LA
Branson, MO	Bellevue, WA
Cleveland, OH	Chicago, IL
Colorado Springs, CO	Cincinnati, OH
Columbia, SC	Daytona Beach, FL
Erie, PA	Des Moines, IA
Hampton, VA	Edison, NJ
Hartford, CT	Fort Wayne, IN
Jackson, MS	Grand Rapids, MI
Lancaster, PA	Hickory, NC
Las Cruces, NM	Indianapolis, IN
Lynwood, WA	Kansas City, MO
Raleigh, NC	Nashville, TN
Rockford, IL	New York, NY
San Juan, PR	Palm Springs, CA
Santa Fe, NM	Peoria, IL
Schaumburg, IL	Philadelphia, PA
Springfield, MA	Phoenix, AZ
St. Charles, MO	Salt Lake City, UT
Tacoma, WA	San Jose, CA
Vail, CO	Spokane, WA
Virginia Beach, VA	Tampa, FL

Source: Tradeshow Week Major Exhibit Hall Directory (2000, 2001, 2002, 2003, 2004) and author's research

But as centers seek to expand, the reality of the industry is that there are relatively few large events in terms of exhibit space. While the largest of *Tradeshow Week's* 200 events for 2003 used 1.25 million square feet, the *median-sized* event used just 235,000 square feet. The biggest convention centers in the nation—in Chicago, Atlanta, and Orlando—are not expanding in order to serve the relative handful of very large events. They are expanding in order to accommodate simultaneous small and medium-sized events, the kinds of events that now use far smaller centers. A 1997 analysis by Ernst & Young of Orlando's expansion market noted that, "Similar to other convention centers in this class, the Las Vegas Convention Center hosts only a few events that require the entire facility. They are primarily expanding to enable the center to attract more medium-sized events that will provide for smoother hotel utilization—events can be staggered so that while one group is meeting, another can be moving in or out."[24] The Ernst & Young study then went on to mention that, "Chicago, too, sees the opportunity to host the large number of events in the medium-sized range and are providing the high-quality space they require."[25]

The Conventions, Sports and Leisure consulting firm's assessment of New Orleans' market position noted that, "the Morial Center's present marketing strategy focused on targeting multiple events that can be held concurrently at the center rather than single shows utilizing all or a majority of the facility."[26] And the same firm's assessment of an expansion of Denver's Colorado Convention Center argued, "[a]dditionally, many other cities that compete with Denver are expanding their convention centers. This frequently is for the same reason that Denver is looking to expand, namely the ability to host simultaneous activities."[27] Each of these communities is seeking to expand their overall business by going "downmarket" in search of smaller events.

Thus while small centers get bigger in order to accommodate bigger events, bigger centers are getting bigger in order to accommodate small and medium-sized events simultaneously. The result of that convergence is that meeting planners are finding a vast increase in the venues open to them, from "big" destinations like Las Vegas and Chicago that might once have turned away a smaller event, to mid-size communities like Austin, Columbus, or Portland, to "new" locales—like Branson, MO or Lancaster, PA—that are seeking to seriously gain convention business. Even groups that have historically used major centers have chosen, for one reason or another, to hold their convention in a smaller venue. For example, the American Urological Association, which has regularly met in large centers such as Chicago's McCormick Place and Orlando's Orange County Center, will hold its 2005 convention in San Antonio's 440,000 square foot Henry B. Gonzalez Convention Center.

In short, a larger center may open up the possibility of greater convention business. Or, it may simply expand the array of choices open to meeting planners and organizers, allowing them to try out new sites or take advantage of special deals. Thus the American Psychological Association is holding its 2004 annual convention in the quite modestly-sized Hawaii Convention Center before moving to Washington for 2005 and New Orleans the following year, in part because the Honolulu facility was trying to fill the dates. The end result is a kind of "churning" where meeting planners try out new venues and locations, responding to incentives and opportunities and the possibilities offered by a far larger number of centers with potential space. And if a new city or venue fails to support the level of attendance sought, there are always other alternatives.

"Convention centers themselves are expensive, money-losing propositions."

IV: The Costs of Chasing Conventions

The studies that justify both the new center space and the publicly-owned hotels paint a picture of tens of thousands of new out-of-town visitors and millions of dollars in economic impact. Despite that rhetoric, these projects carry real risks and larger potential costs, particularly in an uncertain and highly competitive environment.

Costs and More Costs

The first of these costs is, in fact, *more costs*. The fact is, investment in a new convention center often doesn't end with the facility itself. Faced with convention centers that are routinely failing to deliver on the promises of their proponents and the forecasts of their feasibility study consultants, many cities wind up, as they say, "throwing good money after bad." Indeed, weak performance—an underutilized center, falling attendance, an absence of promised private investment nearby—is often the justification for further public investment. A new center is thus often followed by a subsidized or fully publicly-owned hotel, then by a new sports facility such as an arena or stadium (occasionally combined with the convention center), ultimately by an entertainment or retail venue, and perhaps a new cultural center or destination museum.

In endorsing a city plan for providing deep public subsidies for a new 1,000 room hotel, the *Dallas Morning News* recently editorialized:

> *Dallas has a great convention center. Dallas has great hotels. It just doesn't have a great hotel attached to its convention center…*
>
> *A hotel is a good investment in Dallas' future. We've already spent the money to build one of the nation's largest, most advanced exhibit spaces. We'd be foolish to let it sit idle much of the time for lack of an attached hotel.*[28]

Public failure—and even what the *Morning News* terms a "buyer's market"—does not bring a political cost or a strategic rethinking and redirection. It just brings more.

For many cities, in fact, the public cost of the convention bet is growing and largely open-ended. The 800 room Hyatt hotel adjacent to Chicago's McCormick Place, for example, was built and is owned by the Metropolitan Pier and Exposition Authority at a cost of $127 million. And new hotels in Houston, Omaha, Myrtle Beach, Austin, and soon Denver are also fully publicly owned. In Denver, with a doubling of the Colorado Convention Center underway, the city has taken on some $367 million in debt to build an 1,100 room hotel next door, with the expectation that such a combination is bound to succeed in boosting the local convention business. And add Portland, San Antonio, Baltimore, Phoenix, and Washington, D.C. to the list of cities in the process of promoting new public or publicly-subsidized hotels as the "answer" to their convention problems.

Opportunity Cost

With the commitment of such huge sums to convention centers and related facilities comes a serious second cost—the *opportunity cost* of not investing this money in other public goods, even those aimed at downtown revitalization and economic development.

The taxes on restaurant meals, car rentals, and general sales taxes that pay for convention centers are legitimate public revenue sources, which could be used for a broad array of local public purposes. The investment of $400 or $600 million in downtown revitalization—including housing, retail, and infrastructure—could provide a substantial development stimulus and inducement to private investment, for example. And in any given city, investments in transportation, industry cluster development, schools, neighborhood development, or any number of other priorities may be likely to yield far more bang for the buck. These projects have greater direct appeal to local residents, and thus offer greater likelihood of success

In short, at a time when city finances are obviously stressed, the price of a failed convention and visitor strategy can be measured in terms of all the other investments, services, and fiscal choices that will be never realized as a result.

Fiscal Cost

At the end of the day, though, the most dramatic cost of convention center investment is *fiscal*.

State and local investment in these large scale developments have long been justified in terms of the broad local economic impact they generate, the presumed result of thousands of visitors, staying over in local hotels multiple nights with their spending summing to millions each year. In truth, however, convention centers themselves are expensive, money-losing propositions.

To begin with, each new or expanded center typically comes with a capital cost measured in the hundreds of millions. For example, the latest expansion of the nation's largest center, Chicago's McCormick Place, will add some 600,000 square feet of exhibit space at a cost of $850 million. The cost of the new Washington Convention Center and its 725,000 square feet of exhibit space came to $650 million. Boston's new Boston Convention and Exhibition Center had a price tag of $621.5 million for its 516,000 square feet of exhibit space and related space—plus $71 million for a convention center in Springfield, and $19 million for a new convention center in Worcester that came with the deal approved by the state legislature. Even Richmond's more modest 120,000 square foot center expansion carried a $129 million price tag.

For these cases, and dozens of others, the debt incurred in building or expanding the center is not repaid through the centers' operation, or from taxes on convention center attendees or exhibitors. Rather, the public revenues supporting convention center bonds typically include taxes on *all* area hotel rooms—in the city, the county, or even a multicounty region—as well as other broad-based taxes and surcharges. For the new Boston center, an increased hotel room tax has been joined by a 5.75 percent tax on hotel rooms built after July 1997, a $10 per transaction tax on auto rentals, a five percent sightseeing surcharge, an additional five percent sales tax charged in certain area hotels, and revenues from the sale of new Boston taxi permits—all designed to yield more than the $64 million required for annual debt service on the center. Similarly, the revenues supporting the $36 million annual debt repayment for the new Washington Convention Center include a 2.5 percent tax on all hotel room sales in the District of Columbia, a one percent tax on restaurant meals and auto rentals, a surcharge on the city's corporation franchise tax, and an added surtax on the unincorporated business tax. These new taxes certainly don't fall just on convention center attendees, or even just on visitors.

By shifting the debt for center construction to a far broader revenue base, cities and other governments can earn a measure of protection from the vagaries of the convention, or even hotel, business. But the changing convention market does have a direct impact on the operating cost of a center. Convention center's commonly pay their direct operating expenses—personnel and maintenance, utilities, insurance, and other costs—by charging center users rent for their space, and through additional charges on food and beverage service, telecommunications, and a host of other items. Still, almost every convention center in the country operates at a loss, not even counting construction costs or debt. Convention center consultant David Petersen noted in 2001 that "In North America, only two or three convention centers in major markets consistently generate enough operating income to pay operating expenses."[29]

"Compared to St. Louis' overall capital investment, the total amount invested in convention facilities is remarkable."

An October 2003 consultant study for the Oregon Convention Center, for example, described an annual operating loss at Seattle's Washington State Convention and Trade Center of "approximately $5.3 million," and an operating loss at San Jose's McEnery Convention Center of $5 million in fiscal year 2002.[30] And the numbers for the new Washington Convention Center are even worse. A 1998 financial forecast estimated that the center would bring in about $20 million in operating revenues in 2004, against some $25.6 million in operating expense, leaving a loss of $5.6 million. A recent auditor's estimate for fiscal year 2004-05 puts the likely operating loss at $16.2 million.[31] Added to that is another $36.2 million in annual debt service, and $7.8 million in marketing costs for a total annual cost of some $60.2 million.

For these and other centers that cannot generate enough revenue to cover their operating costs, additional funds are needed to cover their losses. That may require more money from a city government, a reduction in funds for marketing, or an entirely new tax source.

To make matters worse, these centers must continue to scramble for events amid stiff competition. Increasingly, as a result, many facilities have been offering discounts on center rental rates and other special incentives, further compounding their inability to cover costs.

Examples of this trend abound. The city of Dallas recently began advertising its "Destination Hero" package, offering half-price center rent, a $5.00 per room night rebate for local hotel use, and discounts on shuttle service, exhibit setup, and even airfare for events booked through the end of 2007.[32] The Hawaii Convention Center is offering free rent on events booked through 2010.[33] Charlotte recently "won" the 2005 Mennonite USA convention against competition from Columbus, Indianapolis, and Nashville by offering the convention center for free, plus some extra incentives.[34] The Seattle Convention and Visitors Bureau's 2004 marketing plan notes that the Oregon Convention Center has been offering the center "on a complimentary basis," while Denver is offering free rent on its expanded center scheduled to open in December 2004. And then there is Los Angeles "which offers extremely attractive pricing."[35]

The financial impact of these discounts and free rent offers goes right to the operating revenues (and losses) of a convention center. A center owner still has to pay for utilities, maintenance, and labor even when the center is free, thus boosting its annual operating loss. The *Washington Post* recently reported that part of the Washington Convention Center's operating loss was the result of more than $2.7 million in center rent discounts.[36] Of course, center boosters argue that the increased visitor spending and economic impact from new events more than make up for those losses. But the promise of increased hotel taxes and economic impact is often just that—a promise. As the annual count of attendees declines, all of the impact of their presumed spending falls in step.

That small number of centers that are able to generate enough revenue to cover—or at least come close to covering—their operating costs typically do so by booking a greater number of local events.

There's a major tradeoff to this approach however: Local events don't bring in out-of-town visitors spending their out-of-town money at local restaurants, retail shops, and tourist destinations—spending that ultimately boosts a cities' general revenues.

V. Case Study: A Look at St. Louis

The fiscal impact of convention center investment is exemplified by St. Louis, a city which has long sought to boost its economy and sustain downtown with a visitor and convention strategy.

The city's Cervantes Convention Center opened in 1977 with 240,000 square feet of exhibit space and the promise it would "make St. Louis a top contender as a site for conventions."[37] The city went on to invest both local and federal dollars in a new downtown shopping mall, a festival marketplace and hotel at Union Station, and a restored riverfront warehouse district, with the aim of positioning St. Louis as a major tourist destination.

By the mid-1980s, local convention officials and business leaders were promoting an expansion of the center with the argument that it would boost the local meetings business and aid downtown. In a referendum vote in 1987, the city's voters approved an increased hotel tax and a new restaurant tax to pay the $150 million cost of the expansion. The investment in the convention center expansion was a major undertaking for the city, as its general obligation debt had dwindled to just $30 million in the wake of a failed bond issue package in 1974. St. Louis was putting its public dollars on a very expensive bet on a convention center, rather than on basic services or public infrastructure. It was committing its general revenues to pay off the center expansion bonds.

Just a few years later, the city would increase its bet on conventions yet again, attaching a planned new domed stadium—intended to lure an NFL team—to the convention center, with the argument that it too would add more exhibit space. This time, the city partnered with the state and St. Louis County incurring only $60 million of the $240 million cost of what is now the Edward Jones Dome. And once again, it committed city general fund monies to pay the $6 million annual cost of the stadium debt. In order to justify the commitment of city dollars, consulting firm Coopers & Lybrand conducted a study that projected the convention center's business would triple, generating some $12 million a year in new city tax revenues.[38]

The first piece of the convention center expansion opened in 1993, followed by the dome in 1995. Together, they were supposed to have launched St. Louis into a new level of convention activity. But where Coopers & Lybrand had estimated more than 814,000 added annual "attendee days" for the center (assuming each of the 200,000 new attendees would stay more than four days, thus using an equivalent number of hotel room nights), the actual results were far short. In 1999—four years after the addition of the dome—only 173,000 attendees accounting for 203,000 hotel room nights participated in center conventions and tradeshows.

The overall product of St. Louis' bet on conventions can be seen in the annual volume of downtown hotel demand from 1991 (pre-expansion and dome) through the 1990s. In

1991, the downtown hotels accounted for 1.16 million occupied room nights. After the convention center expansion and the domed stadium, 1996 hotel demand amounted to 1.2 million, a gain of about 38,000 annual room nights. But for 1997, demand dropped to 1.18 million and then 1.15 million the following year.[39] In terms of filling more hotel rooms, the city's investment in more and newer convention center space and a dome had done absolutely nothing to either fill existing downtown hotel rooms or to prompt the private development of more hotels. As a bet, it had proved decidedly unrewarding.

Faced with the lackluster performance of a facility dubbed "America's Center," downtown business leaders and city officials pressed for even more public investment, in the form of a deeply subsidized headquarters hotel adjacent to the center. Over a period of years during the 1990s, the city sought to induce a private developer to build a major new hotel. But those efforts effectively failed. Finally, in 1999, St. Louis officials embraced a scheme by Historic Restorations, Inc. to combine the renovation of an old hotel with an entirely new building, supported with a variety of city and state financial vehicles. City leaders were convinced that a big hotel would catapult the city into the front rank of convention destinations. The Convention and Visitors Commission argued that the hotel could boost the city's overall convention business from 30 events a year to 50 or more, from 414,000 annual room nights to about 800,000. And again, the scale of the public bet was massive.[40]

The new 1,081 room St. Louis Renaissance Hotel would cost about $265 million, and be paid for with a $98 million federal empowerment zone bond, more than $80 million in city aid including a bond issue secured by federal Community Development Block Grant funds, another $21 million in state tax credits, and some $20 million in federal historic preservation tax credits. The private investors, Kimberly Clark and Historic Restorations, put in about 10 percent of the cost.

Compared to the city's overall capital investment, the total amount being invested in convention facilities was really quite remarkable. After the defeat of a major package of bond projects in 1974, the city had effectively stopped putting general obligation bond projects before the voters. As a result, the city's general debt fell to about zero in 1998. A $65 million bond issue for new fire stations was approved in November 1998, putting the city general obligation debt at $47.5 million in 2002, with another $407 million in capital leases, all of which did not require voter approval and was almost entirely devoted to buildings downtown including the convention center. In essence, for two decades the city had reshaped its capital investment, directing most of its own investment resources to the convention center and stadium, a new arena, and a jail and courts building. In doing so, it also created a continuing drain on the city's general fund resources.

The convention center and stadium complex were supposed to be revenue generators, with their debt repaid through the city's general fund by increased taxes on hotel rooms and restaurants. The annual debt service on the first phase of the expansion, funded by a 1993 bond issue, came to $11.9 million in 2001, plus another $2 million for "asset preservation." The city was also committed to $6 million a year to pay for the dome. But the actual revenue from these visitor-based taxes has been far less than the projected $12 million.

For fiscal 2001, the restaurant tax yielded the city about $3.9 million, with the hotel tax generating another $5.2 million. Set against the total $20 million annual debt payment for the convention center and stadium, these investments constitute a continuing fiscal burden. And compared to the city's annual property tax revenues of $42 million, it is a substantial ongoing commitment into an indefinite future, taking public dollars that could have been spent on basic services. Compare this debt, for example, to spending on other major activities. It amounts to 15 percent of the current spending for police services ($134 million), exceeds the $18.6 million general funding spending for parks and recreation, and is about 42 percent of the current annual city spending for the fire department. In 2003,

"In city after city the new private investment and development that these convention centers were supposed to spur has simply not occurred."

St. Louis refinanced its debt on the center, temporarily deferring its repayment but boosting the size of the subsequent annual bill.

The new Renaissance hotel was fully open in February 2003, finally giving the city the complex of convention center, stadium, and headquarters hotel that had long been viewed as vital to its competitive position in the convention industry. There was, however, in the economic environment of 2003, not a great deal of evidence of the kind of convention success for which city leaders had long hoped. The Convention and Visitors Commission's estimates of convention attendance at the center came to about 155,700, little changed from the 154,800 of a year earlier, or the 156,000 of 2000. And for 2004, booking estimates stood at only 115,300. Where Convention and Visitors Commission president Bob Bedell had promised 50 or more annual major conventions, the 2003 total came to 25, with about 23 estimated for 2004.[41]

And, the hotel itself continues to be a drain on city resources. With no boost in convention business, the Renaissance was hard pressed to maintain a reasonable occupancy level and daily rate in 2003, particularly when downtown hotel occupancy averaged just 55 percent. That year, the Renaissance averaged under 50 percent occupancy at a rate of just $110. That was far less than the projected 63 percent occupancy and $131 a night room rate estimated by the 2000 feasibility study that justified the hotel. Performance was weak enough to attract the attention of Moody's Investor Services, which had rated the $98 million in empowerment bonds for the hotel in 2000.

Faced with the hotel's notably weak market performance, Moody's placed the hotel bonds on its "watchlist" in October 2003, finally downgrading their rating near the end of December to a speculative level. Moody's assessment was less than heartening, noting that the hotel was failing to meet its operating costs let alone the $7.1 million annual repayment of the bonds.[42] The hotel's operating deficit (before debt service) came to $1.7 million for the year. And things appear little better for 2004. For the first half of the year, the hotel's occupancy rate came to 49 percent, at a $110 average room rate, yielding a projected operating loss for the year of $2.3 million *before debt service*. And Moody's downgraded the bonds again in August 2004.

St. Louis used the vast bulk of its $130 million in federal empowerment bonds authorization, fully 75 percent, in pursuit of its convention hotel dream. It also took on the obligation to repay another $50 million backed by its HUD community development block grant funds. The commitment to the hotel, rather than some other form of job creation or economic development, thus represents a substantial opportunity cost. Now, with the hotel failing to meet its operating costs or debt service, the city of St. Louis will be forced to use $500,000 in federal aid to meet the debt service cost this year.

But the bill for the convention center and headquarters hotel in a highly competitive market does not stop there. The Moody's assessment of the hotel's financial prospects argued that its future success "will depend in part on continued redevelopment of downtown," with the city seeking to "fast track certain downtown redevelopment efforts."[43] The likelihood is that St. Louis and the state of Missouri will continue to pour public capital investment and tax subsidies into the downtown area and convention competition, despite the limited returns. The city is thus regularly subsidizing the convention center at the expense of other public services or other revitalization strategies.

VI: Implications for Public Policy: Making Smarter Investments

Today, a broad cross section of American cities from Richmond, VA to Peoria, IL; Jackson, MS to Tacoma, WA have or are investing millions of public dollars in the quest for convention center success.

They are pursuing an economic development strategy that has already failed in dozens of cities, and holds little prospect of succeeding in most. With the possible exception of a handful of major cities that have long dominated the national and regional economies and a very small number of prime visitor destinations like Orlando and Las Vegas, the grand promises of convention center investment are unlikely to be realized, the strategy doomed to failure.

This being the case, it important to try to understand why state and local leaders are making such bad decisions, and how the systems that drive those decisions can be improved to yield better outcomes for cities and their residents.

Working from Real Market Information

As described earlier, national and local information on convention center trends and performance is sorely lacking.

For most sectors of the national economy— home sales, housing starts, auto sales, retail sales, new public and private construction, employment—there is an abundance of readily available, widely reported, and consistently verifiable data on performance and trends. That is simply not the case for the convention and tradeshow industry at the national level. Where we can see the performance of hotels and airlines, the level of activity in the nation's convention centers remains inadequately measured and poorly described, often by trade publications with their own indices or consulting firms with proprietary data that is impossible to verify.

The contemporary market environment has thus been described by a June 2004 "viability assessment" for Cleveland as one in which "the exhibit space required to accommodate future event needs will increase..."[44] And while noting "an oversupply of convention facilities," it could argue that a new center would help assure "a vibrant, thriving central city at [the region's] core."[45] In similar fashion, a May 2004 updated analysis for a proposed new convention center in Albany, New York was able to present a graph showing regular annual growth in convention and tradeshow attendance of two percent a year from 2003 through 2008 (following a modest downturn), coupled with the conclusion that "For the meetings industry, things have generally returned to pre-9-11 condition... Travel to meetings and large tradeshows has resumed and will continue."[46] The penultimate conclusion for Albany was that "the research still indicates strong support for the [convention center] project as recommended... a significant demand generator in the local economy."[47]

The information dearth that surrounds convention centers is no less problematic in terms of individual cities. The public entities which own and manage convention facilities—city or county governments, public authorities, and state government agencies—report the basics of convention center performance in a wide variety of ways that tend to obscure rather than enlighten. The city of Austin, Texas for example, has an elaborate performance measurement system for city departments, allowing them to measure such things as the cost of curb ramp installation and the cost per employee of prescription drugs. But while the Convention Center Department reports on such things as the customer satisfaction rating of event set-up, it provides no readily available information on the convention attendance at the center. One city report includes the information that the center achieved a 77 percent occupancy ratio for fiscal year 2003.[48] But while that figure can tell an observer that the center was rented, it provides no distinction between conventions and public shows or between local or national events, nor any index of how many attendees the newly-expanded center managed to attract. The measures needed to really assess the center's performance: annual convention and tradeshow attendance, annual hotel room night generation, number of out-of-town attendees are just not there.

In a similar fashion, the state of Washington, widely recognized for its use of performance measurement, priority-setting, and budgeting for outcomes, neatly reports the number of attendees at the state-owned Convention and Trade Center in downtown Seattle, together with ratings of customer satisfaction.[49] But that total attendance figure includes national convention attendees together with estimated 10,000 attendance at "Seattle's Cookin'!!" and the 80,000 attendees for the Flower and Garden Show. What the state doesn't report is the annual total of convention and tradeshow attendees, particularly from out-of-state. By obscuring the most relevant center performance, its ability to lure visitors and generate economic activity, these measures provide a false sense of the center's return on investment and performance and obscure the impact of larger national market forces.

Reliable national market data that can describe convention center supply and demand would not necessarily improve the decision-making process at the local and state levels. But it would provide some basis for independent assessment of local performance and success, and of the prospects of a new or expanded center, beyond the analyses and conclusions of paid consultants. And once built, a serious assessment of what the state or local economy is actually receiving from its investment in a convention facility requires real measures of relevant performance, reported in an accessible fashion that supports comparison with forecasts and promises, and that links the cost of funding and operating a center with its return and results.

Making the Process Transparent and Valid

Real information and performance measures are just the first needed element in creating an environment capable of assessing the public worth of convention center investment. What is also vital is a set of policy review and analysis institutions that truly evaluate the promises of a new or expanded convention center—the likelihood of new spending, job creation, and private investment generation—as well as the risks of failure.

As we've seen above, local decisions to invest in a new or expanded convention center or hotel typically rely on consultant's market or feasibility studies that portray a growing, expanding industry and which ensure that the given locality is quite capable of successfully competing for convention events and out-of-town attendees—and in the process reaping large financial benefits. Where, as in the last two years, there is clear evidence of a changed market environment, these studies have quite often shifted to a different source of data, promised an imminent market turnaround, or simply ignored the question of competition altogether.

One solution to this issue would to subject these consultant feasibility and market studies to a process of independent, outside audit and review that assesses the assumptions which undergird the promises, and the methodology which shapes the performance forecasts and predictions. Where a consulting firm has a history of overestimating likely attendance or economic impact, that history and background should play a role in assessing the potential for success and the likelihood of failure.

Take the case of Richmond, VA. Three successive consultant studies, in 1990, 1995, and October 1999, made the case for tripling the size of the Richmond Convention Center, financing it through a metropolitan area wide hotel tax. The argument was that the benefits of the increased attendance at the larger center, in the form of a greatly increased volume of convention attendees and their hotel use, would flow to hotels in suburban counties as well as the city. In a 1995 study, the consultant projected that two to three years after opening, an expanded center would attract 208,000 annual attendees who would use a total of 416,000 hotel room nights.[50] A subsequent projection by the consultant in late 1999 was that the expanded center (with a $165 million price tag) would bring 140,000 *new* hotel room nights of business to the metro area.[51] But in its second year of operation, the Greater Richmond Convention Center generated a *total volume* of 44,762 convention-related room nights—less than a third of projected new nights.

In *Megaprojects and Risk: An Anatomy of Ambition*—a 2003 book documenting the pattern of over-estimated performance and underestimated costs in major public projects—Brent Flyvbjerg and his colleagues make the case for a system of peer review for public project proposals, bringing outside expertise to bear on estimates of costs and benefits to help "decide whether the information produced by project promoters and their consultants is state-of-the-art and balanced."[52] There is little institutional precedent for systematic outside review of such things as convention center projects in the U.S. But the existing system of evaluating the financial prospects of capital projects and debt issues by bond rating agencies (Moody's, Standard and Poor's, and Fitch) provides a model for more systematic review of larger performance forecasts and potential results.

The current model of bond ratings is intended to assess risk for bond purchasers, and to monitor financial performance over time as it affects the risk and sale potential of a public bond issue. Increasingly, the official statement for a new bond issue includes substantial detail about a project and its fiscal backing, often including a formal feasibility study. And requirements for "continuing disclosure" provide a means of tracking at least some elements of (largely financial) performance. But because convention centers are commonly financed by debt backed by very broad and diverse revenue streams, a center can magnificently fail as an economic and visitor generator, while the repayment of its bonds is fully assured.

A broader system of project review by the independent rating houses could build on their reputation for integrity and oversight, offering the review of promotional claims and forecasts called for by Flyvbjerg as part of the rating process.

Involving the Public

The widespread use of revenue-backed bonds to finance convention centers and related projects has long provided a means of avoiding state constitutional requirements (in the vast majority of states) for voter approval of general obligation debt fully backed by the local government. And even where the voters have said "no" to center bond issues or new taxes—as they have done in Pittsburgh, Columbus, Portland, and San Jose—investments in convention facilities have a way of happening despite the electoral outcome—as in Pittsburgh, Columbus, Portland and San Jose. Yet there is no magic to the revenue backing of convention center bonds. Unlike other revenue debt issued for water or wastewater projects, airports or ports, they are not repaid by charges or fees on *convention center users*. Instead, everyone who stays in an area hotel room, eats a meal in an area restaurant, or rents a car helps pay the principal and interest on center debt.

A far greater level of public involvement and review is needed during the local center development process. Such review has been almost entirely absent. As convention center financing and development has shifted from city governments to public authorities and even state government, the visibility and understandability of the projects and their costs has become murky and distant to the general public. The workings of such entities as Chicago's Metropolitan Pier and Exposition Authority, the Rhode Island Convention Center Authority in Providence, Pittsburgh's Sports and Exhibition Authority, the county convention facilities authorities in Columbus (Franklin county) and Cincinnati (Hamilton county), Ohio, Atlanta's Georgia World Congress Center Authority, Milwaukee's Wisconsin Center District, and the San Diego Convention Center Corporation have been effectively insulated from the vagaries of city politics and much public input.

Although it would be useful to subject the investment and taxation decisions of these agencies and their counterparts to more substantial public input and review—by requiring affirmative votes by the relevant general purpose local government or by making their spending on major construction projects subject to referendum vote— there appears to be little interest at the state government level in restraining them. A fuller panoply of public participation mechanisms including hearings, surveys, and formal advisory committees with real public membership would provide at least a partial means of removing the insulation from local democracy that these institutions now enjoy.

Changing Federal Oversight and Regulation

Convention center projects, like most publicly-owned capital investments, benefit from the advantages of tax-exempt municipal debt. The exemption of interest payments from federal income taxation serves to both reduce the cost of borrowing money and to provide an implicit federal subsidy (from all taxpayers) for these projects. The logic of income tax exemption for local projects that are effectively "private purpose" has already been seriously questioned. But today, the argument that the expenditure of hundreds of millions of dollars for hundreds of thousands of square feet of new convention center space in an already glutted market serves the purpose of local economic development appears rather strained.

The argument for tax-exempt bonds and federal empowerment zone bonds for hotel projects would appear even more questionable. That local officials are willing to try almost any investment in their quest for more convention visitors is quite clear. But there is no real reason why federal subsidies intended to boost job creation for inner city neighborhoods, and the "public purpose" rationale for municipal bond issues, should extend at all to hotels. Hotels have historically been purely private investment, and the new publicly-owned and bond-financed hotels in Austin, Houston, Omaha, Sacramento, Myrtle Beach, and Denver compete directly with their privately-financed counterparts, often with the result of dragging down occupancy and room rates for the entire market.

Just as the late Sen. Daniel Moynihan proposed Congressional legislation limiting the use of tax-exempt bonds for stadium and sports facility projects, a similar effort to limit federal support for the "space race" in convention centers makes sense. Those communities that wish to invest in a modestly sized facility for local civic purposes can and should be allowed to do so with tax-exempt bonds. But centers with more than 100,000 square feet of exhibit space do not serve a largely local purpose, and there is no compelling reason for the nation's taxpayers to support them.

Making Other Policy Choices

Today, as all cities are obliged to compete with dozens of others, the prospects of real economic development and opportunity based on the convention strategy appear nil. Any serious approach to dealing with urban needs and problems in cities like Baltimore and Washington, New Orleans, Atlanta, Milwaukee, St. Louis, Detroit, or even Minneapolis and San Antonio must seek an alternative path based on different kinds of investments.

Baltimore, another city that has been celebrated for its urban turnaround, has made a raft of public investments in its downtown and Inner Harbor—including two sports stadiums, the National Aquarium, and an expanded convention center—bringing a flow of visitors estimated at more than 11 million in 2002. Yet, for all that presumed visitor activity, the Census Bureau's County Business Patterns found just 3,454 employees in the city's hotel sector in 2001, or about 1.1 percent of total private employment. The city's poverty rate stood at 22.9 percent in the 2000 Census, effectively unchanged from the figure in 1980, as the city's population fell from more than 905,000 in 1970 to just 651,154 in 2000.

New Orleans boasts an impressive reputation as a visitor destination and a convention center with more than one million square feet of exhibit space. The Morial center is currently in the process of another expansion with a price tag of more than $450 million. The city's 2001 hotel employment came to 14,035, or about 6.5 percent of total private employment. New Orleans' poverty rate was 27.9 percent, little changed from decades earlier, as the city's population fell from 593,471 in 1970 to 484,674 in 2000.

For these cities, and a host of other older central cities that have invested hundreds of millions in convention and visitor infrastructure, the return on that investment in terms of job creation and urban turnaround has been modest at best.

Edward Glaeser's "Reinventing Boston" offers a longer term historical perspective that supports an alternative policy approach.[53] Noting that Boston has succeeded in adapting itself to a series of economic changes since the early nineteenth century, including the recent shift from manufacturing to a center of the "information economy," Glaeser attributes the city's adaptability to its human capital: "Most skilled cities have done well over the past two decades, and Boston in 1980 had a strong skill base relative to its Rust Belt peers like Syracuse and Detroit."[54] He goes on to emphasize Boston's ability to re-orient the local economy as other cities challenged its dominance, and its character as "a place that people wanted to live."[55]

The Boston case and a large volume of related research suggest that the future of a city rests on its investment in education and human capital, as well as basic city services, rather than in the sole development of a tourist wonderland.

Seattle's "families and education" property tax levy provides an example of the commitment of public resources to human capital and development as a central local development strategy. Originally approved by Seattle's voters in November 1990, and re-authorized in 1997 and again in 2004, this tax currently generates some $16.7 million annually to fund such city services as preschool and early childhood education, family support, student health programs, and support for high-risk youth. Compared to the debt service on a convention center, it is about half the annual payment for the new Washington, D.C. Convention Center, and a fraction of the combined operating loss and debt service of most centers.

The Seattle levy is not necessarily a panacea or the optimal strategy for all cities. But it does illustrate two important points. First, the city's voters have been willing to support a tax increase at the polls when its resources serve a direct community purpose. Second, Seattle has been willing to innovate and attempt a new policy direction with substantial involvement of the public it serves. Innovative policy approaches that seek to build flexible local economies and workforces capable of adapting to social and economic change offer potentially far greater rewards than building ever larger convention centers in the hope—largely misplaced—that someone will eventually come.

VII. Conclusion

The boom in convention center development over the last decade has been a triumph of public sector entrepreneurship and fiscal innovation, marrying the creation of new public authorities, an increased fiscal role for state government, and a host of new tax and revenue sources to the development of enormous new facilities. That success in spending has in turn spurred even more public investment, by cities large and small, in companion facilities including new publicly-owned and financed hotels.

But if taxing, spending, and building have been successful, the performance and results of that investment have been decidedly less so. Existing convention centers have seen their business evaporate, while new centers and expansions are delivering remarkably little in terms of attendance and activity.

What is even more striking, in city after city, is that the new private investment and development that these centers were supposed to spur—and the associated thousands of new visitors—has simply not occurred. Rather, city and convention bureau officials now argue that cities need more space, and more convenience, to lure those promised conventions. And so underperforming convention centers now must be redeemed by public investment and ownership of big new hotels. When those hotels fail to deliver the promises, then the excuse is that more attractions, or more retail shops, or even more convention center space will be needed to achieve the goal of thousands of new visitors.

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.

Nationwide, however, it is abundantly clear that a new or ever-bigger convention center cannot in and of itself revitalize or redeem a downtown core. It is also distressingly apparent that convention centers and massive public commitments to visitors and tourism can do little to address the large problems of poverty, decay, population loss, and housing abandonment that plague our older core cities. By understanding these limitations, local leaders will be better positioned to make more informed policy choices and develop more holistic economic development strategies.

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Acknowledgments

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What is Wrong with Using a Publicly Funded Event Center to Solve Douglas County's Failing Casinos?

In a 2005 article written by Heywood Sanders of the Metropolitan Policy Program of the Brookings Institution, Sanders foretold the reversal of economic results of the convention industry due to **plummeting demand and disproportionately increasing supply of convention centers financed by taxpayer money.** His article is an in-depth (36 page) examination of this reversal of fortune. Fourteen years later in 2019 …

<u>Sanders' article affirms Douglas County taxpayers' skepticism toward the pig-headed idea of using public funds to pay for a new event center.</u>

- **The best source of real information is actual information from local convention centers.**
- **The best source of real information for the proposed event center is from the Reno Event Center (REC).**
  Like Stateline, the REC is in a nearby aging gambling destination besieged competitively by the very same new California Indian casinos (Graton, 45 miles from San Francisco, exceeded gross gaming revenues from all of the Stateline casinos combined in 2018). The REC has only a slightly better climate, is the same distance away from big California markets, proposes to have almost the same number of seats (6,000 for the Stateline event center and 7,000 for the REC), and proposes to have almost the same number of built out square footage (120,000 for the Stateline event center and 118,000 for the REC). REC advantage: It is in a highly populated urban setting with many more nearby services and close to the Reno International Airport, which serves 16 destinations with non-stop flights.
- **The proposed event center would be in direct competition with the REC. Being competitively inferior to the REC, the proposed event center and the REC would likely split, rather than expand the market, with the proposed event center getting the table scraps.**
- Another point that Sanders' 2005 article points out is that "[W]ith events and attendance sagging in even the hottest destination spots, few centers are even able to cover basic operating costs—and local economic impacts have fallen far short of expectations." **The REC has posted operating losses (revenue minus direct expenses) of $200k per year. These losses do not include depreciation or bond payments for the center.** The loss of the Reno Bighorns in 2018 should cause these losses to increase significantly higher. **So instead of gaining in the area of economic health, Douglas County taxpayers will most likely have to chip in more money year after year to cover the proposed event center's operating losses.**
- **The proposed event center's forecasts for the number of annual events is 130, and the forecast for annual attendance is 156,000, which is much higher than the REC's current actual data for 2018-2019 of 33 and 146,000 respectively, after subtracting the loss of the Reno Bighorns in number of events and attendance.**
- **The main cause of the demise of the convention center industry is reduced business travel because of alternative means of conveying the gathering information.** Large gathering places have become generally unnecessary. Consumers worldwide recognize that the improved quality of telecommunications and the rise of Internet have provided businesses with means of selling and promoting products and providing information without the cost, difficulties, and time consumption of business and attendee travel.

It would be useful and desirable to bring investment and taxation decisions such as buiding a convention center with taxpayer money to the public by asking for a referendum vote of the people, but there is little interest from government officials to open these decisions to the public. Three of our county commissioners in Douglas County are still, at the late date in the convention center economic slump, too starry-eyed about the magical and transformational possibilities painted from false and misleading information presented to them by the event professionals and proposed event center special interest groups.

Statistics Comparing Reno Event Center and RDA#2 Proposed Event Center						
Reno Event Center					RDA #2	
From Reno Event Financial Statements Year Ended 6/30					From Confidential Draft Feasibility Study dated 1/20/15, estimated	From Event Center Economic and Fiscal Impact Analysis dated 7/18/18, estimated
Date	2015-2016	2016-2017	2017-2018		1/20/15	7/18/18
Net (Loss) excluding bond payments and depreciation	($111,163)	($208,100)	not available		n/a	n/a
Seating Capacity	7,000	7,000	7,000		6,000	6,000
Square Footage	118,000	118,000	118,000		120,000	120,000
Attendance	174,537	157,800	167,268		156,900	150,153
No. of Events	55	54	56		130	130
Breakdown of Types of Events:						
Convention/Trade Shows	not available	13	not available		10	10
Bighorns/Sporting	not available	22	not available		5	5
Concert/Boxing	not available	19	not available		30	30
Corporate & Assn Mtgs	not available		not available		45	45
Banquets/Reception/Others	not available		not available		40	40
Total	not available	54	not available		130	not available

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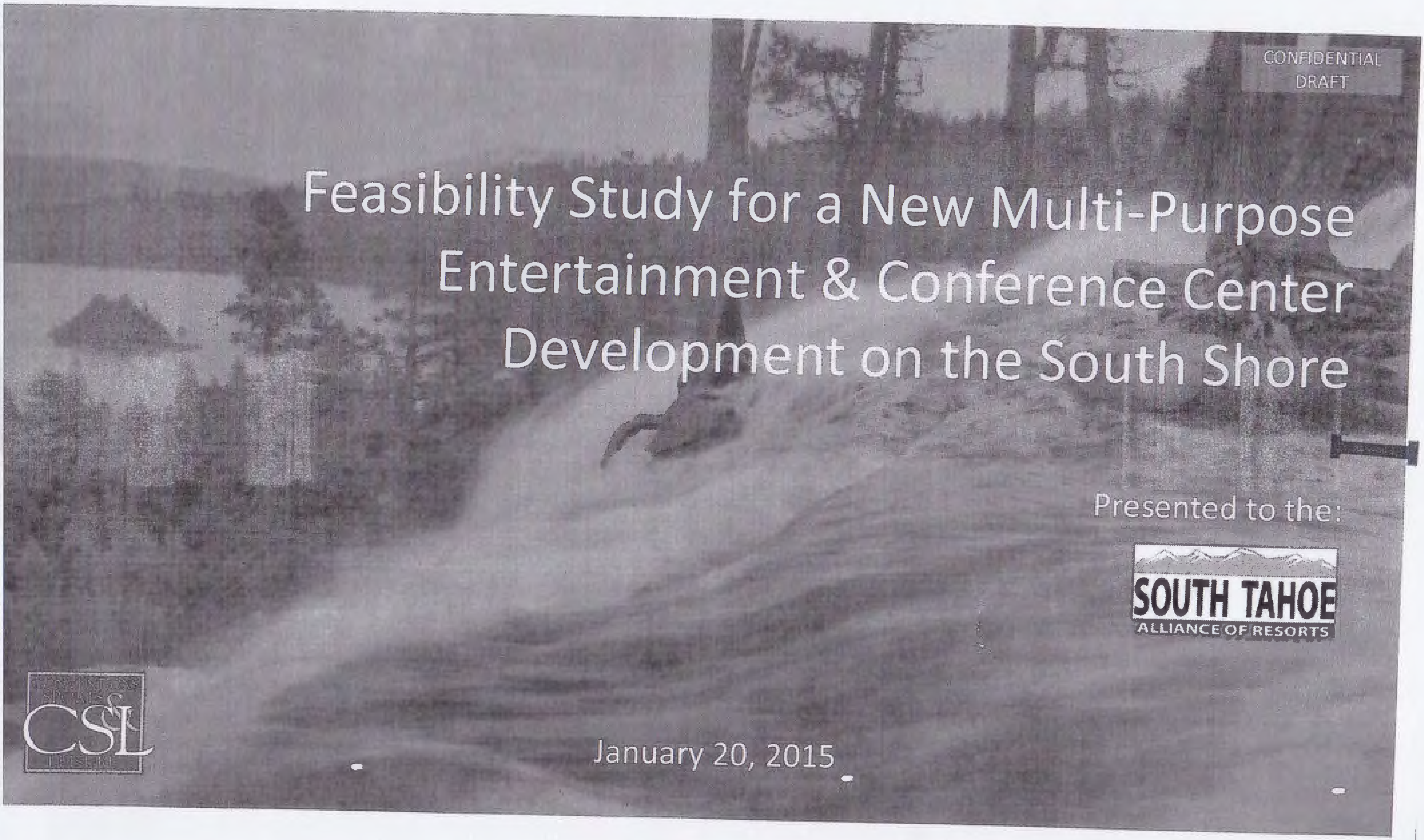
CONFIDENTIAL
DRAFT
Feasibility Study for a New Multi-Purpose
Entertainment & Conference Center
Development on the South Shore
Presented to the:
SOUTH TAHOE
ALLIANCE OF RESORTS
CSL
January 20, 2015

CONFIDENTIAL DRAFT

Presentation Outline

CSL

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Executive Summary

CSL has completed a market and economic analysis for potential development of a multi-use event center to be located on the South Shore. Our research has included extensive local market analysis and stakeholder interviews; review of competitive and comparable venues in the local, regional and national market; and surveys of over 60 planners of events representing hundreds of concerts, entertainment, sports and conference events.

Based on this research, we have developed an assessment of potential event center program elements and community-wide economic impacts. This analysis is structured to help key project stakeholders in making informed decisions as to next phases of project planning.

Within this summary, we highlight key project analysis results and findings. A full presentation of analysis results is included in the attached slide presentation. This summary is organized into the following sections:

- Local Market and Demographic Analysis
- Analysis of Competitive &Comparable Facilities
- Market Demand Analysis
- Market Demand and Program Summary
- Event Levels and Economic Impact Analysis

In evaluating the feasibility of the project, it is common to consider various metrics including the market demand for event space, the ability to host valuable community events, the ability to support valuable hospitality industry businesses, and the regional economic and tax revenue impacts (taking place in both Nevada and California). As part of this study, we consider and evaluate each of these metrics.

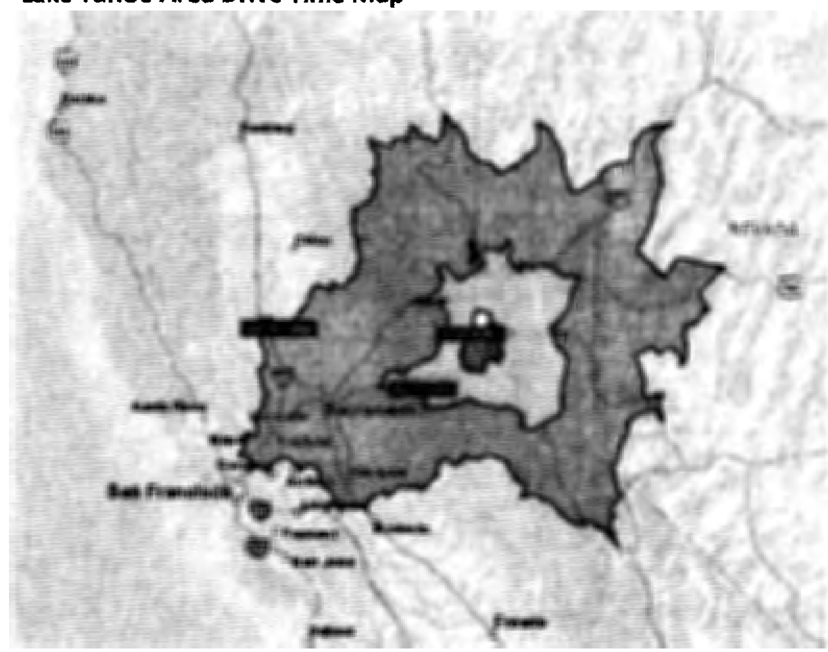
The proposed multi-use event center could be considered a hybrid between traditional flat floor conference and convention center projects, and tiered seating music, entertainment and sporting event venues. The market research, including event planner research, has therefore been necessarily broad in order to address each of these markets.

Local Market and Demographic Analysis

The South Shore of Lake Tahoe is an internationally known-destination with significant year-round recreation activities in a resort/casino environment. These features help to support market demand from a broad cross section of events including meetings, conferences, music, and entertainment.

With the proliferation of gaming within a several hundred mile radius surrounding the Lake Tahoe area, and with increasing gaming options throughout the U.S., gaming revenue within Douglas County has decreased by more than 40 percent since 2000, from a high of more than $352 million to $208 million in 2013. Local market conditions have hampered the viability of the gaming infrastructure, exemplified by the closing of the 539-room Horizon Casino Resort in 2014. Note that the potential conversion of the property to a Hard Rock Hotel and Casino may improve the overall trajectory of gaming revenue in the market.

Lake Tahoe Area Drive Time Map



There is a significant population base within a 180-minute driving distance of the market that captures Reno, Sacramento and into the Bay Area of California. The more than 4.3 million people within a three-hour drive of Stateline represents a large potential population base from which to draw entertainment event attendees. The above average median household income levels indicate a moderate to strong availability of disposable income.

The corporate base in the immediate region is low, which can impact event levels at an event facility, as well as the availability of advertising and sponsorship opportunities. However the recent announcement of the Tesla Motors battery factory and plans for corporate expansion from Apple and Amazon, along with supporting industry, will expand the area corporate base. In addition, the corporate base within the broader region (including Sacramento and the Bay area) is significant. Given its resort setting, a conference facility in the South Shore area has the potential to draw various incentive and board retreat meetings.

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Market Demand Analysis

As part of the market demand analysis, we have conducted the following research:

- 50 surveys of California and Nevada state/regional association organizations.
- 40 surveys of regional corporate event planners representing over 75 annual events.
- Interviews with ten major music and other entertainment event promoters with extensive experience in the regional and national event market.

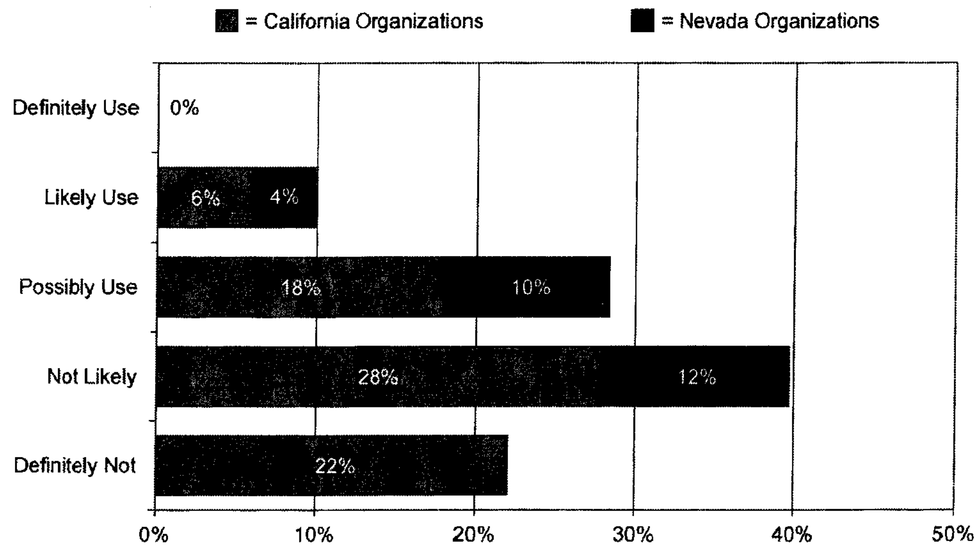
This research is supplemented with the results from the extensive local stakeholder interviews, and interviews with management of regional competitive and comparable venues. Market demand results are summarized below.

State & Regional Association Organizations

- Event planners were asked to indicate the likelihood of hosting an event at a proposed South Shore venue (definitely, likely, possibly, not likely or definitely not). The percent positive response rate (definitely, likely or possibly) among California organizations was 32 percent. However, this positive response rate drops to 13 percent if the new venue were located in Nevada. It is our view that in practice, if a headquarter hotel were located in California, the impact of the location of a center in Nevada could be mitigated.
- The positive response rate among Nevada organizations was 58 percent.
- When considering the cumulative responses for California and Nevada weighted by event population, the resulting positive response rate averages 38 percent. Given the size of the California population base, we expect slightly more event activity from California organizations as compared to Nevada organizations. This assumes headquarter hotel availability on the California side of the state line.

- Primary reasons for a lack of interest in a South Shore location included an inability among California organizations to be in Nevada, preference for urban areas, lack of area membership and accessibility concerns.
- In defining the sizing parameters for any new venue, it is important to target a sufficiently large market capture rate, creating opportunities for sufficient event activity without falling into an "overbuilding" scenario. Market capture rates between 70 and 80 percent should be considered when defining the sizing parameters for public assembly facility devilment.

Segmentation of Interest Level – California and Nevada



Source: CSL State & Regional Organization Survey, 2014.

- The average attendance among interested state and regional groups is approximately 570, with attendance levels at the 70th to 80th percentile of between 700 and 800. Additional exhibitor attendance averages 170, with approximately 200 exhibitors at the 70th to 80th percentile.
- Peak hotel room requirements average 260; however 400 to 600 nearby rooms would be needed to accommodate 70 to 80 percent of this market.
- To accommodate 70 to 80 percent of this market, 15,000 to 20,000 square feet of exhibit space is necessary, in addition to 10,000 square feet of ballroom space and 8,000 to 10,000 square feet of meeting space.
- These events are most likely to occur in spring, early summer and fall months.
- More than 30 percent of the market is not willing to consider shuttling from hotels to an event facility.

Corporate Events

- Approximately 40 percent of regional corporate event planners surveyed have hosted past events in the market, including events held at the Hyatt Regency, Montbleu, Edgewood, Lake Tahoe Resort Hotel and other such venues.
- A large share of interviewed organizations expressed an interest in the market for a future event. The share of planners indicating that they would either definitely or likely use the facility represents a fairly strong overall interest from this segment.
- Applied to the significant corporate base in the Bay Area and other surrounding markets, survey results indicate that there will be corporate event market demand for the project, largely in the form of incentive, executive, planning retreats, training and other sector components.
- The majority of interested organizations envision using the facility once per year.
- Importantly, there is a strong demand for weekdays. Sixty-five percent of planners surveyed host events which require rooms on a Thursday or Friday night, 57 percent require a Wednesday night, and 48 percent require a Tuesday night.
- Eighty-seven percent of corporate planners surveyed require the availability of a headquarter hotel. Seventy to eighty percent of corporate event demand requires a hotel room block of 400 rooms or less.
- Corporate event seasonality is generally distributed evenly throughout the year, with a drop off in the October to December period.
- Peak night hotel room needs at the 70^{th} to 80^{th} percentiles are between 200 and 400 rooms. Nearly 90 percent require a headquarter hotel.
- The provision of an attached hotel will be very important in attracting corporate business—especially in the offseason months.
- Space requirements at the 70^{th} to 80^{th} percentiles include 20,000 to 30,000 square feet of exhibit space; 4,000 to 6,000 square feet of meeting space; and 10,000 to 15,000 square feet of ballroom space.
- Approximately 35 percent of this market is lost if shuttling is required between the hotel block and the event venue.

Promoted Entertainment Events

- As presented earlier, there are no facilities able to provide an indoor seating capacity of more than 1,800 seats. It is important to note that the proposed entertainment venue would be intended to compliment existing or potential individual property sponsored entertainment (i.e., the MontBleu Theatre or very successful summer outdoor concert series at Harveys).
- Events promoted by those interviewed include concerts, sporting events, comedy shows, family shows, illusionists, movies, private events and various theater events, including Broadway shows.
- Concerts, Cirque, comedy and other acts could potentially serve as resident artists during various periods of the year, although the lack of population base in the market may make such residencies difficult to sustain for long runs.
- Approximately two-thirds of interviewed promoters expressed an interest in bringing their events to a new event facility in Lake Tahoe. This represents a strong to modest level of support for a new multi-use venue.
- There are a variety of existing facilities in the region (i.e., Reno, Sacramento, Bay area, etc.) that would compete with a new venue on the South Shore. Even with this competition, promoters generally viewed the potential demand for a new venue favorably.
- Accessibility/travel to Lake Tahoe can be very difficult and often unpredictable during winter months and was a noted concern among some promoters. Lake Tahoe is sometimes viewed as a summer destination for events.
- As a result, while many promoters expressed demand for year-round events, the uncertainty of weather conditions may have some impact on event activity outside the warmer months.
- The success of Harveys Summer Concert Series, as well as a robust inventory of smaller acts hosted in the market, indicates that there is a viable demand for concerts and other entertainment events on the South Shore.
- The new Hard Rock property will offer some level of indoor event space (perhaps allowing for as many as 3,000 attendees). The impacts of this space will need to be considered going forward.
- Attendees of entertainment events at a new venue would originate from throughout the region—as far away as the San Francisco Bay area. The destination appeal of the market could become an advantage.
- The idea of a non-casino-affiliated event venue in the market is particularly appealing to several promoters.

- Most promoters suggest that the market could support a total seating capacity of 3,000 to 5,000, with only limited consistent demand for larger capacities.
- The flexibility of the event space will be important. The ability to scale down or "right size" the venue to meet a variety of event sizing needs and to provide an intimate feel for smaller events will be critical.
- The ideal configuration would consist of a flat floor venue allowing for a floor show with a surrounding element of retractable seating for a theater-type set up. The space should also offer the potential to have significant standing/general admission space (which is preferred for certain events). This type of facility represents the most versatile space offering, allowing for a maximum of music and entertainment event configurations.

Broadway Shows/Theatrical Performances

- Reno's Pioneer Center hosts a variety of Broadway and theatrical events and would provide competition for a new venue on the South Shore seeking to attract these types of events. The population base in the Reno/Sparks area is able to attract and support a variety of successful shows at the Pioneer Center.
- Luring shows away from the Reno market would likely require a substantial investment to out-bid offers made by the Pioneer Center and other regional facilities.
- More popular and longer-running shows often reside in San Francisco for a month, which could also affect demand in the South Shore.
- To accommodate the needs of the majority of Broadway and theatrical events, several "Broadway specific" amenities are typically required
  - A first-class proscenium space would be necessary to attract and host Broadway shows.
  - An extensive state-of-the-art fly system and grid would also be required and could cost approximately $10 million.
  - If the facility is going to be very flexible and multipurpose in nature, it could be very expensive to have both a flat floor and raked floor.
- The uncertainty of the weather in winter could affect the success of this event market at a new South Shore venue. Broadway's major season is in the late fall, early spring and all of winter.

Sporting Events

- Existing sports facilities in the South Shore area are very limited, and include only two multipurpose fields and a combined softball/baseball diamond.
- Competition from Reno will be a challenge to attracting significant sporting activity to the South Shore. The Reno-Sparks Convention Center/Atlantis Resort offer a desirable package of nearly 375,000 square feet of contiguous flat floor space and 975 sleeping rooms. In total, Reno is able to offer over a package of 4,000 hotel rooms to large sports groups for around $120 per night.
- Regional volleyball and basketball competitions that take place in Reno have expressed an interest in a South Shore venue, and would like a space near the Lake for events they would consider bringing to the market.
- Some larger (800 plus participant) martial arts events and volleyball events would consider a new South Shore venue.
- Fixed or retractable seating for at least 2,000 would be necessary. Seating for up to 4,000 or 5,000 would be ideal and could be achieved by supplementing with temporary bleachers or temporary chairs.
- To be fully effective as a large scale tournament sports venue, 50,000 square feet of usable space would be necessary to attract major events. A 25,000 to 30,000 square foot floor area could accommodate 5 to 7 basketball or volleyball courts; however, the event potential would be significantly more limited.

Market Demand and Program Summary

- The market research indicates that sufficient demand exists for a multi-purpose event venue on the South Shore. Music/entertainment event promoters and corporate event planners in particular have registered interest in the project.
- The entertainment and gaming reputation of the destination, world-class outdoor/natural amenities and a desire from many planners to book non-traditional event locations help support the viability of such a venue.
- It is important to note that there are risk factors that need to be considered including the non-California location of the venue (and resulting impact on convention business), uncertain weather in winter months, a level of air access that won't likely improve significantly in the near term, and significant competition from regional event centers.

- In addition, many of the event planners interested in the destination have not held events in the South Shore market in the past, creating some uncertainty as to ultimate facility market capture. Finally, the development of a large (up to 3,000 capacity) venue as part of the Hard Rock Hotel & Casino project could significantly reduce the demand for an additional indoor entertainment venue in the South Shore market.
- The multi-use venue could also provide space for numerous local functions including meetings, senior and youth activities, festivals, banquets and other such events. In effect, the multi-use venue could serve as a community gathering space in addition to an economic impact/room night generator.
- Future planning for a new multi-purpose indoor event venue should consider the following parameters:

  - ✓ Capacity for 4,000 to 6,000 attendees for concert and other touring entertainment acts.
  - ✓ Retractable seats allowing for approximately 25,000 square feet of contiguous flat floor area.
  - ✓ Finished space for meetings and banquets of 15,000 square feet, sub divisible into smaller rooms.
  - ✓ Lobby, support and storage space roughly equivalent to total sellable space.
  - ✓ Location adjacent to existing and/or new hotel inventory, with close proximity to California hotel properties.
  - ✓ Ample parking on-site or on adjacent parcels.
  - ✓ Take advantage of natural surroundings with glass curtain walls.
  - ✓ Site area planning that allows for outdoor functions adjacent to the venue.

- The site area for the project is assumed to approximate 120,000 square feet of built space, requiring approximately 4 acres for facility and circulation needs.
- Parking needs for a new facility, assuming 30 percent of event attendees are staying in "walkable" hotels, two people per vehicle and 300 square feet per vehicle (to account for spacing, circulation, etc.), could range from 10 to 14 acres.
- Construction costs have not been estimated in detail, and a qualified cost estimator will be needed to develop final cost estimates. Based on general industry standards, the construction costs for the mixed-use entertainment venue could approximate $50 million to $55 million, inclusive of design fees and FF&E. Costs for the conference component could reach $12 million to $15 million. Total construction, design and FF&E costs could therefore approximate $62 million to $70 million.

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Event Levels and Economic Impact Analysis

Based on the market analysis summarized above, we have developed estimates of the event potential and associated economic impact for a potential new multi-use venue on the South Shore. The assumptions assume an aggressive sales and marketing approach, and a well-funded operation with the ability to fund the attraction of concert and other entertainment events. The proximity to headquarter hotel inventory, including access to large properties on the California side of the state line, will also be important. For purposes of our analysis, and given the untested nature of this concept, we have presented two potential operating scenarios to account for differences in assumptions regarding the event mix captured by the facility.

Event Levels

The following exhibit summarizes the estimated event activity for the proposed venue on an annual basis for each of the first five years of operation. Estimates are provided under scenarios that assume and exclude a new large indoor concert venue as part of the Hard Rock project.

Summary of Potential Multi-Use Venue Event Activity

	Scenario 1					Scenario 2				
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 1	Year 2	Year 3	Year 4	Year 5
Concerts & Entertainment	18	20	22	25	26	25	28	28	30	30
Conventions & Conferences	2	2	3	4	4	3	4	4	5	5
Public/Consumer Shows	2	2	3	3	4	2	3	4	5	5
Corporate & Association Meetings	28	30	35	38	40	30	35	40	45	45
Sporting Events	1	2	2	3	4	1	2	3	4	5
Banquets/Receptions/Other Events	30	30	35	35	35	30	30	35	40	40
TOTAL	**81**	**86**	**100**	**108**	**113**	**91**	**102**	**114**	**129**	**130**

As summarized, in a stabilized year of operations (assumed to occur in year five), total event activity reaches between 112 and 142 events annually. A significant level of corporate and association meetings (largely from the regional area), and smaller banquets and receptions are assumed. With no large Hard Rock concert venue, music and entertainment activity could also be significant.

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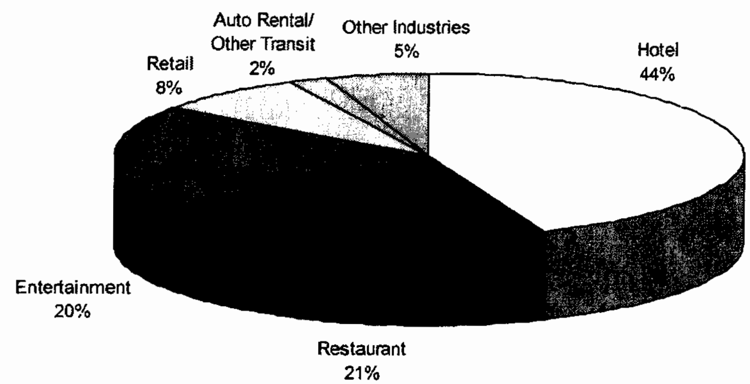
We also note that this summary of event potential does not include the potential for a resident artist program, Broadway shows or other theatrical performances. Opportunities may exist to host concerts, comedy, Cirque or other such events types over a 10 to 20 show run. Based on initial conversations with concert promoters, interest in the South Shore market for longer-running resident artist programs is limited. When considering the limited surrounding population base and the oftentimes very high talent fees required to sign these acts, it may be difficult to put together a viable financial package. This being said, other entertainment, such as illusionists, Blue Man Group, comedians, etc. could present some opportunities for shorter-term residencies or a series of shows over several days. The viability of such a program will require further, more detailed conversations with potential promoters. As will be further discussed, the ability to attract and host Broadway shows and other theatrical performances would likely require significant investment in "Broadway specific" amenities (proscenium space, fly system and grid, raked floor, etc.).

Economic Impacts

Based on the event analysis, as well as various assumptions as to per-capita, per day spending (ranging from $122 for amateur and other sporting events to $252 for conventions and conferences), length of stay, origination of attendee, occupants per room and other such assumptions, we have developed estimates of the direct visitor spending generated as a result of the operations of the proposed venue.

As noted above, visitor spending within the market on hotels, restaurants, gaming/entertainment, retail and other areas is estimated at between $22.1 and $25.7 million on an annual basis during a mature year of operations. Note that these estimates do not include the potential impacts of a resident artist or Broadway shows. While the limited population base in the market may prevent longer runs, a 10 performance residency act with an average attendance of 2,500 could

Estimated Annual Economic Impacts
(Upon Stabilization of Operations in 2014 Dollars)



Estimated Annual Direct Spending:	
Scenario 1:	$22,096,000
Scenario 2:	$25,682,200

generate an additional $6.5 million in annual direct spending. Should substantial investment be made in facility upgrades, a Broadway show with six performances could generate an additional $3.9 million in direct spending.

This direct spending will cycle through the local economy, creating a modest amount of additional spending. Given the limited base of supply-oriented industries in the South Shore area, much of the support for the direct spending originates from outside the market. The resulting total impacts are summarized in the following exhibit.

Estimated Annual Economic Impacts (Upon Stabilization of Operations in 2014 Dollars)

	Scenario 1	Scenario 2
Number of Events	113	130
Event Days	175	221
Attendee Days	135,000	156,900
Out-of-Town Attendee Days	90,600	105,000
Room Nights	51,600	59,700
Total Direct Spending	$22,096,000	$25,682,200
Total Output	$28,821,300	$33,502,500
Personal Income	$11,810,600	$13,738,900
Total Emnployment	332	386

As outlined in the table above, the estimated level of annual direct spending associated with a stabilized year of operations for a new multipurpose event facility on the South Shore could generate approximately $28.8 million to $33.5 million in total output (total direct, indirect and induced spending), earnings of approximately $11.8 million to $13.7 million, supporting between 332 and 386 full and part time jobs.

EXHIBIT (for identification only)
Presentation
Filed 7/19/18
By MK
Deputy

TECHNICAL MEMORANDUM

To: Carol Chaplin and Lewis Feldman

From: David Zehnder, Tom Martens, and Sean Fisher

Subject: Event Center Fiscal and Economic Analysis; EPS #182014

Date: July 18, 2018

The Economics of Land Use

Introduction and Overview

Economic & Planning Systems, Inc. (EPS) was retained by the Tahoe Douglas Visitors Authority (TDVA) to conduct a fiscal and economic impact analysis of the proposed South Tahoe Event Center (Project or Event Center).

As part of this analysis, EPS conducted in-person and telephone discussions with several Douglas County (County) officials, including the County Manager, Clerk-Treasurer, Assessor, Fire Marshal, and Undersheriff, as well as a sample of Stateline casino and hotel representatives.

This Technical Memorandum describes the proposed Event Center; the net fiscal impacts to the County's General Fund, Room Tax Fund, and Tahoe-Douglas Transportation District (TDTD) Fund; and the economic impacts of Event Center operations and construction. In addition, this Technical Memorandum concisely describes the assumptions and methodology used to estimate the net fiscal and economic impacts of the Project.

The data, assumptions, and detailed calculations used in this analysis are shown in **Appendices A** through **F** (**Tables A-1** through **F-19**) of this memorandum:

- **Appendix A** indicates the proposed land uses and general assumptions used in this analysis.
- **Appendix B** identifies the projected revenues that will be generated by the Event Center for the County's General Fund, Room Tax Fund, and TDTD Fund.
- **Appendix C** details the estimated expenditures for the County to provide General Fund, Room Tax Fund, and TDTD Fund services to the Event Center.

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- **Appendix D** provides supporting revenue and expenditure calculations. Specifically, this appendix provides detailed visitor spending estimates and assumptions.
- **Appendix E** details the estimated allocation of existing County General Fund, Room Tax Fund, and TDTD Fund revenues and expenditures to the Lake Area.
- **Appendix F** details the estimated annual economic impacts resulting from Event Center construction and ongoing visitor spending by spending category for each scenario.

Project Description

The South Shore's tourist economy has been a strong contributor to the County's tax base for decades. However, the area has been negatively impacted by a decline in gaming activity, unpredictability in snow sports volumes, and a built environment that does not meet current consumer expectations. Occupancy rates have improved significantly since the depths of the Great Recession, but visitation remains highly concentrated during the summer months and the variable ski season, with many of the visitors staying for no more than a few days at a time. These factors contribute to lower average occupancy levels and room rates, which directly result in lower Transit Occupancy and License Taxes. A lack of "shoulder season" activity also indirectly results in lower assessed values, a function of operating income, which produce lower amounts of Property Tax receipts.[1]

In addition to reliance on gaming and snow sports, the South Shore traditionally has relied on short-term visitors from markets within a few hours' drive, who spend less per visit than those who travel longer distances and stay longer. Tourists that travel further tend to have longer stays and spend more; they are generally looking for locations with myriad retail-dining-entertainment amenities and tend to prefer attractive walkable environments.[2]

The proposed Event Center, located adjacent to the Montbleu Casino, at the corner of Lake Parkway and US Highway 50, would not only add a strong attraction to bring visitor dollars to the market, it would provide an anchor on the Nevada side of the South Shore tourist area to capitalize on redesign of Lake Tahoe Boulevard in South Lake Tahoe as part of the US Highway 50 Realignment Project and potentially extend an integrated tourist village environment. **Map 1** illustrates the Event Center location relative to the South Shore tourist core area.

The positive economic impact of performance venues has been documented around the country. Locally, the impact on room rates and occupancy levels has been demonstrated by the Harvey's Summer Concert Series, with rates and occupancy levels higher throughout the casino core on event nights. The Event Center would provide a permanent venue that could host a wide range

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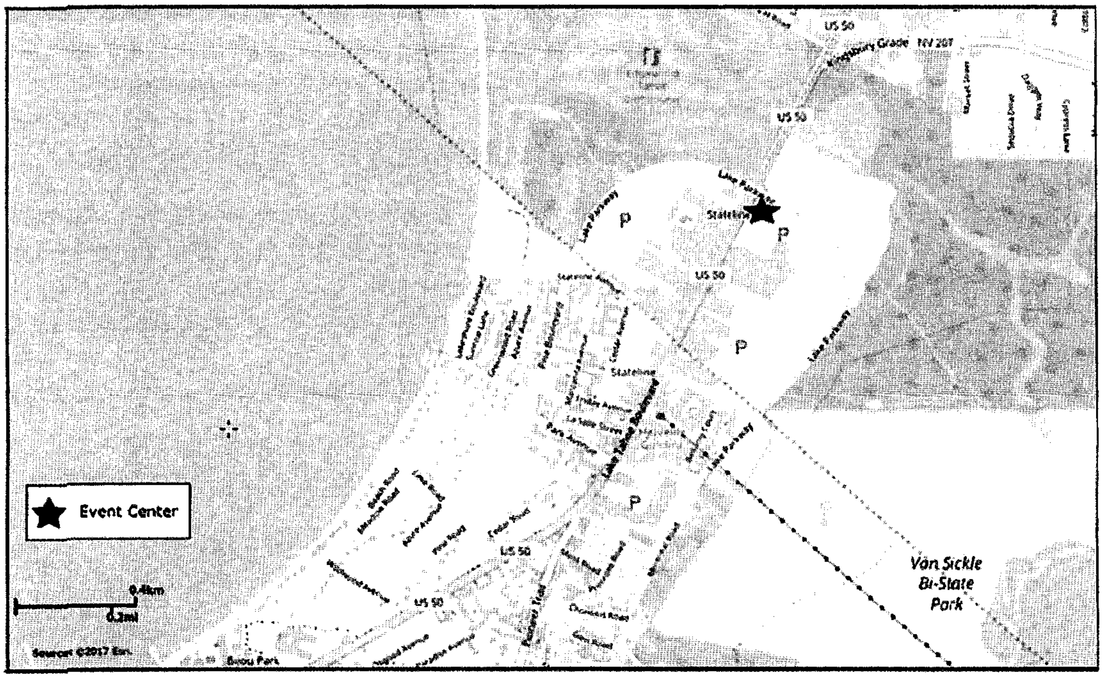
[1] Sales tax receipts are also negatively affected, but the impact is spread statewide under the current allocation system.

[2] These visitor preferences have been documented in the 2013 Economic Analysis and the 2018 Economic Analysis Update of the US Highway 50 South Shore Community Revitalization Project, both completed by EPS for the Tahoe Transportation District.

Map 1
Proposed Event Center Location



of events throughout the year and contribute to creation of a South Shore visitor destination that draws visitors from greater distances who will stay longer and spend more, resulting in greater economic activity and tax generation.

The Event Center will accommodate events hosting up to 6,000 persons and will be publicly constructed, owned, and operated for the benefit of all citizens of the County. At approximately 139,000 square feet, the proposed Event Center will serve multiple uses ranging from traditional flat floor conference and convention center events to tiered seating music, sporting, and entertainment events. The Event Center is anticipated to have several high-quality amenities, including retractable tiered seating, 15,000 square feet of divisible space for large or small meetings and banquets, and architectural design taking advantage of the natural surroundings.

The Project alone is expected to generate a strong economic impact; however, the Event Center combined with the planned US Highway 50 Realignment could generate significantly greater impact. The extent of the combined impact of this Project and US Highway 50 will depend on the synergies between the two projects. In particular, coordination of the response to the projects by stakeholders on both sides of the state line will impact the area's ability to transition into a successful walkable retail-dining-entertainment destination. The fiscal and economic impact analysis for this Project includes a "baseline" scenario and an "induced" scenario. The baseline scenario is based on an assumed minimal amount of cross-impact of the two projects. The induced scenario is based on assumed coordination between the County and the City of South Lake Tahoe and an aggressive response by the casino properties to extend the pedestrian-friendly zone from the state line to the Event Center, so it is tied into the larger visitor village.

The baseline scenario is estimated using a conservative nightly room rate assumption for the new overnight visitors of the Project of $95, similar to average South Shore shoulder season rates for mid-range properties that are included in data from Smith Travel Research, a globally recognized hospitality data firm. The induced scenario incorporates a somewhat more aggressive assumed nightly rate of $140, which corresponds to the annual average rate for reporting mid-range properties in South Shore. The conservative room rate assumption reflects the generally lower rates available in the casino hotels than those in South Lake Tahoe.

The market analysis included in the feasibility study for the Project, completed by Convention, Sports & Leisure International (CSL),[3] projects a mix of music concerts, trade shows, corporate meetings, and other events as summarized in the table below.

Summary of Potential Multi-Use Venue Event Activity

Item	Year 1	Year 2	Year 3	Year 4	Year 5
Concerts & Entertainment	25	28	28	30	30
Conventions & Conferences	3	4	4	5	5
Public/Consumer Shows	2	3	4	5	5
Corporate & Association Meetings	30	35	40	45	45
Sporting Events	1	2	3	4	5
Banquets/Receptions/Other Events	30	30	35	40	40
Total	**91**	**102**	**114**	**129**	**130**

Source: Convention, Sports & Leisure International.

Based on the CSL market analysis, summarized above, the Event Center is projected to host on average about two larger concert-type events per month. The other types of events that are projected to occur with the greatest frequency are corporate events and a variety of smaller receptions. Other large events, such as conventions, consumer shows, and sporting events are expected to occur only a few times per year each. The local casino operators and TDVA have been in discussions on future coordination on the timing of major events to ensure they do not create situations that could overwhelm local capacity and therefore negatively impact each other's events and operations.

Construction of the Project is anticipated to cost approximately $80 million, generating significant economic activity in the County.

The Project will be funded largely through the issuance of tax allocation bonds secured by the incremental property tax generated by the growth in assessed value in the casino area redevelopment zone during the repayment period.

[3] Convention, Sports & Leisure International; "Feasibility Study for a New Multi-Purpose Entertainment & Conference Center Development on the South Shore;" January 20, 2015.

Summary of Findings

Overall, the Project is expected to augment visitation by providing a venue that, unlike existing outdoor venues in the immediate area, can accommodate additional visitors during the winter, as well as the fall and spring shoulder seasons, addressing a common economic weakness that is endemic in most resort economies. It is also anticipated that the Project has great synergy with the planned realignment of US Highway 50, which will provide the Project with frontage on a new, highly activated community street that will be accommodating of walking, bicycling, and transit uses. These improvements, in synergy with the Project, are expected to improve overall visitor spending, facilitating industry trends toward more multiple-day visits among a consumer base that is increasingly national and international in nature.

These are specific findings of the Event Center economic impact analysis:

1. ***The Event Center is estimated to result in a net fiscal surplus from $700,000 to $1.2 million annually, including the County General Fund, Room Tax Fund, and the TDTD Fund.***

   Combining the County General Fund, Room Tax Fund, and the TDTD Fund, the Project is estimated to generate revenues ranging from $900,000 to $1.4 million annually. These revenues will cover the estimated annual expenditures required by the Event Center of $200,000 to result in a net fiscal surplus ranging from $700,000 to $1.2 million annually. Results of the Fiscal Impact Analysis are presented on **Table 1.**

2. ***Through coordination with TDVA or the eventual operator of the Event Center, public safety costs related to the Event Center will be more than offset by Project revenues or be managed through agreements on a per-event basis.***

   This expenditure estimate includes consideration of the need for additional sheriff department personnel triggered by construction of the Event Center. While additional staffing will focus on the Tahoe Basin during events, the increased residential and commercial development in the remainder of the County will also benefit from the additional patrol staffing. The share of the increased staffing costs attributable to the Event Center is estimated based on the existing call-for-service dynamics in the County and the anticipated growth in visitation resulting from the Event Center.

   The Tahoe Douglas Fire Protection District has indicated that coordination with TDVA or the eventual operator of the Event Center could enable adoption of per diem charges to offset additional fire services costs associated with individual planned events during the initial years of Event Center operation. Eventually, the Event Center is projected to host 25 to 30 annual music concerts, ramping up over a period of several years. These are anticipated to generate similar fire service demands as the Harvey's Summer Concerts. Most of the other events anticipated at the Event Center, particularly corporate-focused events, are projected to generate significantly less fire service demand.

   While the Fire Protection District's traditional property tax-funded revenue stream will not directly increase due to the Event Center, some of the additional projected revenue to the County resulting from the Event Center could potentially be allocated to fund future additional services.

Table 1
Tahoe Event Center
Summary of Estimated Project Fiscal Impact

Item	Estimated Annual Fiscal Impact Baseline Estimate	 Induced Estimate
County Funds		
County General Fund		
Annual Revenues	$4,900	$4,900
Annual Expenditures	$217,300	$217,300
Annual Surplus/(Deficit)	**($212,400)**	**($212,400)**
Room Tax Fund		
Annual Revenues	$810,600	$1,200,500
Annual Expenditures	$4,300	$4,300
Annual Surplus/(Deficit)	**$806,300**	**$1,196,200**
Tahoe-Douglas Transportation District Fund		
Annual Revenues	$116,600	$171,800
Annual Expenditures	$500	$500
Annual Surplus/(Deficit)	**$116,100**	**$171,300**
Total All County Funds		
Annual Revenues	$932,100	$1,377,200
Annual Expenditures	$222,100	$222,100
Annual Surplus/(Deficit)	**$710,000**	**$1,155,100**
Cumulative Surplus/(Deficit) over 30 years at 2.5% growth	**$31,171,000**	**$50,712,000**

sum

Source: EPS.

Note: All Values Rounded to the nearest $100.

3. ***The Event Center is projected to generate fiscal revenues for the County ranging from $900,000 to $1.4 million annually under the current sales tax distribution method.***

   Most of this revenue is from hotel room and licensing taxes. The baseline scenario is based on a variety of sources, primarily consisting of data from the Lake Tahoe Visitors Authority (LTVA) and Smith Travel Research (STR). The average daily rate (ADR) for the baseline scenario is conservatively assumed at $95. This figure is in-line with the year-round ADRs for midrange-to-upscale hotel properties in South Shore. The induced scenario is based on an assumed combined effect of the Event Center and planned US Highway 50 realignment project along with a positive response from jurisdictions and property owners on both sides of the state line.[4] The ADR assumed in this scenario is $140, with a proportional increase in other spending on food and beverages and retail goods, relative to the baseline scenario.

[4] Details pertaining to the unique circumstances resulting in the induced scenario are described in the Project description section above.

The induced scenario room rate assumption is in-line with year-round ADRs for luxury hotel properties in South Shore. Actual room rates could be significantly higher during high profile concerts.

The revenues for both scenarios noted above include only minor impacts from increased sales taxes generated in the County because of the County's current status as a rural "Guaranteed County." The estimated increase in sales tax revenue from Event Center attendees that could be realized if the County transitioned from being a Guaranteed County to a "Point-of-Origin County" are roughly in the $200,000 to $300,000 range for these two scenarios.[5] This additional potential sales tax revenue is presented as a below-the-line additional revenue source in **Table 2**.

Table 2
Tahoe Event Center
Summary of Estimated Project Revenues by Source

Item	Estimated Annual Fiscal Impact (2017$) Baseline Estimate	Induced Estimate
Revenue Source		
Sales Taxes	$110,200	$168,800
Hotel Room and Licensing Taxes	$816,000	$1,202,500
All Other Taxes and Fees	$5,900	$5,900
Total All County Revenues	**$932,100**	**$1,377,200**
Increase in Sales Tax Under Point of Origin Tax Scenario	$208,937	$320,136
Total All Revenues Under Point of Origin Tax Scenario	**$1,141,037**	**$1,697,336**

rev source

Source: EPS.

Note: All Values Rounded to the nearest $100. This summary includes revenues only.

Note that the discussion above includes revenue estimates only. **Table 3** displays a detailed listing of revenues by fund, including the estimated public service costs required by the Project.

[5] Based on discussions with County staff, sales tax generation in the County has been increasing steadily and, if this trend increases, the County would be eligible to become a Point-of-Origin County within the next 5 to 10 years.

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Table 3
Tahoe Event Center
Detailed Summary of Estimated Project Annual Revenues and Expenditures

Item	Estimated Annual Fiscal Impact (2017$)	
	Baseline Estimate	Induced Estimate
County General Fund		
Revenues		
Property Taxes and Penalties	-	-
State Consolidated Tax	-	-
Sales Tax	-	-
Licenses and Permits	$1,700	$1,700
Gaming	$500	$500
Charges for Services	$2,100	$2,100
Fines and Forfeitures	$600	$600
Total Revenues	**$4,900**	**$4,900**
Expenditures		
General Government	$11,800	$11,800
Judicial and Public Safety		
Sheriff Department	$199,900	$199,900
Other Judicial and Public Services	$4,400	$4,400
Total Judicial and Public Services	**$204,300**	**$204,300**
Public Works	$800	$800
Health and Sanitation	$400	$400
Total Expenditures	**$217,300**	**$217,300**
County General Fund Annual Surplus/(Deficit)	**($212,400)**	**($212,400)**
Room Tax Fund		
Revenues		
Room Tax / TOT	$466,300	$687,100
Transient Lodging License Tax	$233,100	$343,600
Sales Tax (P.A.L.S.)	$110,200	$168,800
Licenses and Permits	$200	$200
Charges for Services	$800	$800
Total Revenues	**$810,600**	**$1,200,500**
Expenditures		
Community Services		
Recreation	$1,400	$1,400
Total Community Services	**$1,400**	**$1,400**
County Manager (Finance)	$2,900	$2,900
Total Expenditures	**$4,300**	**$4,300**
Room Tax Fund Annual Surplus/(Deficit)	**$806,300**	**$1,196,200**
Tahoe-Douglas Transportation District Fund		
Revenues		
Room Tax / TOT	$116,600	$171,800
Total Revenues	**$116,600**	**$171,800**
Expenditures		
Public Works (Transportation)	$500	$500
Total Expenditures	**$500**	**$500**
Tahoe-Douglas Transportation District Fund Annual Surplus/(Deficit)	**$116,100**	**$171,300**
Total All County Funds		
Annual Revenues	$932,100	$1,377,200
Annual Expenditures	$222,100	$222,100
Annual Surplus/(Deficit)	$710,000	$1,155,100

det sum

Source: EPS.

Note: All Values Rounded to the nearest $100.

4. ***The Event Center will support between 350 and 550 ongoing jobs in the County during operations.***

   The ongoing direct employment will be supported largely through spending in the local economy by events attendees. This spending includes overnight hotel stays, meals in restaurants, retail spending, gaming and other entertainment and recreation expenditures, and transportation spending. The spending by attendees in these local businesses generates indirect impacts as these businesses make purchases of goods and services from other local businesses. In addition, the employees in these businesses generate additional impacts as they then spend their wages in local businesses.

5. ***The Event Center will support more than 800 construction-related jobs in the County.***

   The 815 construction phase jobs include 581 direct construction-related jobs, as well as an additional 234 jobs supported by business-to-business spending and the direct employees' spending. Construction phase employment is stated in person-year jobs: 800 construction-year jobs could be 800 jobs over a 1-year period, or 400 jobs over a 2-year period, depending on the length of the construction period. The economic impacts are summarized in **Table 4**.

6. ***As context for this analysis, EPS finds the Lake Area generates a positive fiscal impact on the County, even without the Event Center.***

   Of the 4 largest revenue sources to the County (Property Tax, Consolidated Tax, Room Tax, and Gaming Revenues), the Lake Area directly generates 40 percent of the County's revenue from those sources. The Lake Area's contribution is displayed on **Table 5**. Further analysis indicates that each year the Lake Area contributes $7 million more in revenues to key operating funds beyond the cost of providing services.[6]

7. ***Effective management and operational strategies potentially will result in fiscal balances exceeding those estimated in this analysis.***

   While tax increment will be dedicated to the Project for the period of debt repayment, the benefits of the Project will be realized in perpetuity as long as the Event Center is maintained as a state-of-the-art facility with proper capital reserves for replacement.

[6] Estimated annual surplus to the County is estimated based on a high-level analysis of the three County Funds most impacted by Project development, the County General Fund, Room Tax Fund, and the TDTD Fund. This analysis establishes baseline conditions within the County prior to any Project development. Where other more specific factors are not available, this analysis is based on per persons served multipliers. For details pertaining to this analysis and the assumptions therein, refer to **Tables E-1** through **E-4** in **Appendix E**.

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Table 4
Tahoe Event Center
Summary of Economic Impacts (2017$)

Impact Category	One-time Economic Impacts [1]	Estimated Ongoing Economic Impacts [1] Baseline Estimate	Estimated Ongoing Economic Impacts [1] Induced Estimate
Ongoing Annual Impacts [2]			
Industry Output		$43,761,645	$65,828,860
Employee Compensation		$12,043,478	$18,128,679
Employees [3]		357	537
One-Time Construction Impacts [4]			
Industry Output	$110,513,612		
Employee Compensation	$43,379,030		
Employees [5]	815		

eia

Source: Minnesota Implan Group, Inc.; EPS.

[1] Includes direct, indirect, and induced economic impacts.
[2] Reflects the ongoing economic impacts of all estimated visitor spending expenditures occuring in Douglas County.
[3] Includes all full and part time jobs.
[4] Reflects the one-time economic impacts generated during the construction of the Project.
[5] Represent total job years lasting over the duration of the project. For instance, a laborer employed for 2 years during construction activity would represent 2 job years.

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Table 5
Tahoe Event Center
Budgeted County Revenues Generated by the Lake

Item	Revenue Attributed to the Lake Area	Total Countywide	Percentage of County Revenues Generated in the Lake Area
Direct Revenue Generation Categories			
Property Tax Revenue [1]	**$12,051,615**	**$30,808,152**	**39.12%**
Area Assessed Value	*$1,156,603,660*	*$2,956,684,232*	
Consolidated Tax Revenue			
SCCRT Tax Revenue Allocation [2]	$2,612,169	$14,591,045	17.90%
SCCRT Tax Revenue Generation	*$1,956,791.35*	*$10,930,240*	17.90%
BCCRT Tax Revenue [2]	$628,432	$3,510,296	17.90%
Persons Served (Incl. Visitors)	*11,052*	*61,735*	
Cigarette Tax	$14,973	$154,446	9.69%
Liquor Tax [3]	$6,153.77	$63,476	9.69%
Population	*4,683*	*48,309*	
Real Property Transfer Tax [1]	$307,268	$785,485	39.12%
Area Assessed Value	*1,156,603,660*	*2,956,684,232*	
Total Direct Consolidated Tax Revenues	**$3,568,996**	**$19,104,748**	**18.68%**
Room Tax Revenues (TOT and TLLT)	**$7,034,633**	**$8,060,577**	**87.27%**
Gaming License Fee Revenues [4]	**$1,286,854**	**$1,361,600**	**94.51%**
Total Direct Revenue Generation Categories	**$23,942,099**	**$59,335,077**	**40.35%**
Total County Budget for All Funds		**$122,077,738**	
Directly Generated Revenues as Percent of Total		*48.60%*	
Lake Area Directly Generated Revenues as Percent of Total		*19.61%*	

lake share

Source: Douglas County, Nevada Gaming Commission, Tahoe Douglas Fire Protection District; EPS.

[1] Assessed Value for the Lake Area is based on the assessed value for the Tahoe Douglas Fire Protection District.
[2] SCCRT and BCCRT revenue allocations are distributed to the Lake Area based on the total persons served for the area including visitors.
[3] Following the statewide method for distribution, Cigarette and Liquor Tax is distributed to the lake area based on residential populations.
[4] Gaming tax distribution is based on the allocation of gaming revenues provided by the Nevada Gaming Commission for FY 2016-17 applied to the FY 2017-18 Gaming Revenue reported in the Douglas County Budget.

Prepared by EPS 7/18/2018

Fiscal Impact Analysis Methodology and Results

This section details the underlying methodology and assumptions used to estimate the fiscal impacts of the proposed Project on the County under two scenarios: a baseline scenario and an induced scenario. It describes assumptions concerning municipal service delivery, visitor spending estimates, and General Fund budgeting. In addition, this section details the methodology used to forecast revenues and expenditures annually resulting from the Project.

This analysis examines the Project's ability to generate adequate revenues to cover the County's cost of providing public services to the proposed Project. The services analyzed in this study comprise County General Fund services (e.g., police, judicial services, general government), Room Tax Fund services, and TDTD Fund services.

General Assumptions

The analysis is based on the County's Fiscal Year (FY) 2017–18 Adopted Budgets, tax regulations and statutes current as of June 2018, and other general assumptions discussed herein. Each revenue item is estimated based on current State of Nevada (State) legislation and current County practices. Future changes by either State legislation or County practices can affect the revenues and expenditures estimated in this analysis. All costs and revenues are shown in constant 2017 dollars. General fiscal and demographic assumptions are detailed in **Table A-1** in **Appendix A**.

EPS consulted the County's budget documents to develop forecasting methodologies for specific revenues and expenditures affected by new development in the proposed Project and the associated increase in tourism. In addition, EPS consulted with the County's Finance Department and Sheriff to clarify budget data and refine assumptions related to revenue and expenditure estimates.

The actual fiscal impacts of the Project will vary from those presented in this analysis if development plans or other assumptions (e.g., visitor spending, sales tax revenue assumptions) change from those on which this analysis is based.

Development Assumptions

Employee estimates for Event Center land uses are based on assumptions regarding average building square feet per employee, based on EPS research of employment dynamics of similar event center facilities, as shown in **Table A-2** in **Appendix A**.

Revenue-Estimating Methodology

Depending on the revenue item, EPS used either a marginal-revenue case-study approach or an average-revenue approach to estimate Project-related General Fund, Room Tax Fund, and TDTD Fund revenues.

The marginal-revenue case-study approach simulates actual revenue generation resulting from new development and associated growth in tourism. The case-study approach for estimating sales and use tax revenues, for instance, forecasts taxable spending from increased tourism resulting from Project development. Case studies used in this analysis are discussed in greater detail in the following sections.

The average-revenue approach uses the County's FY 2017-18 budgeted revenue amounts on a countywide per capita or per-persons-served basis to forecast General Fund revenues derived from estimated employees of the Project.[7] Because of the unique nature of the Project and the importance of tourism in the County, this analysis uses a per capita-with-visitors basis for several revenue and expenditure categories. It is assumed that a daily visitor would have an impact less than a resident and similar to that of an employee for certain revenue and expenditure categories. Total Persons Served with visitors includes all County residents and one-half of County employees and daily visitors.

Revenue sources that are *not* expected to increase as a result of development are excluded from this analysis. These sources of revenue are not affected by development because either they are one-time revenue sources not guaranteed to be available in the future or there is no direct relation between increased employment growth and increased revenue. In addition, property taxes are excluded from this analysis because the Project is located in a recently created Redevelopment Area. It is assumed that any growth in property tax revenues would be captured by the Redevelopment Area and not be retained by the County General Fund.

A listing of all fund revenue sources and the corresponding estimating procedure used to forecast future Project revenues is shown in **Table B-1** in **Appendix B**.

Sales Tax

Estimated sales tax revenues are calculated based on the estimated taxable sales resulting from increased visitor spending, countywide sales tax rates, and the State Consolidated Sales Tax allocation to the County.

<u>Taxable Visitor Spending Estimation</u>

Based on information provided by CSL, this analysis is based on the assumption that the Event Center will draw in approximately 157,000 attendees. Of these 157,000 attendees, it is assumed that 57 percent of visitors will be overnight visitors.[8] Local visitors are likely to spend money in the County with or without the Project and do not represent new spending in the County. EPS excludes local visitor spending from this analysis, estimating that 90 percent of day visitors and 100 percent of overnight visitors will be non-local visitors. **Table D-1** in **Appendix D** details the calculation of estimated out-of-town visitors. **Table D-2** estimates the total travel spending of visitors based on visitor type under existing conditions.

Once the total visitor spending resulting from the Project is established, EPS further allocated visitor spending across several spending categories, based on information provided by SMG Consulting and the LTVA 2016 spending percentages, adjusted to account for differences

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[7] A *per capita* basis of estimating revenues is based on the assumption only residents have a fiscal impact on County revenues. A *per-persons-served* basis of estimating revenues is used to take into account that businesses (and their employees) have a fiscal impact on many County revenues but at a lower level than residential development's impact. Because this Project does not contain any new residents, revenue categories with a per capita multiplier method do not result in new revenue generated by the Project and has been excluded from the analysis.

[8] Based on the LTVA Summer 2017 Concert Survey, prepared by SMG Consulting. While the number of attendees is based on the CSL study, it is assumed that the visitor dynamics of attendees for Event Center events will be similar to visitor dynamics for the 2017 summer concert series.

between overnight and day visitors. The estimated capture of total visitor spending in each spending category by the County is estimated to exclude visitor spending that would occur in California. Total spending in the County is further adjusted to account for the percentage of spending in each category that is considered taxable. **Table D-3A** shows the estimated taxable sales in the County from visitor spending under existing conditions.

The visitor spending assumptions used in the existing SMG study included consideration of several alternative lodging options resulting in low average daily spending for lodging, not representative of anticipated Event Center visitors. The baseline scenario adjusts the existing spending levels based on an average daily room rate of $95, representative of conservative estimates of average room rates for the local hotel market. As described in previous sections, induced scenario spending is based on an average daily room rate of $140. **Table D-4** estimates the lodging spending by scenario. **Tables D-3B** and **D-3C** use the increased lodging expenditure to calculate the total taxable sales for the County under each scenario.

<u>Sales Tax Estimation</u>

The visitor retail spending estimates are used to calculate two key sales tax revenues: Basic City County Relief Tax (BCCRT), known as the P.A.L.S. sales tax, and Supplemental City County Relief Tax (SCCRT). These revenues are calculated based on the sales tax rates of 0.5 percent and 1.75 percent for BCCRT and SCCRT, respectively. Although both BCCRT and SCCRT are components of the State Consolidated Tax revenue submitted to the State before being redistributed to the various counties across the State, the 2 taxes are handled very differently by the State. BCCRT revenues are fully retained by the county in which the revenue is generated. In the case of SCCRT, the amount retained by the County will differ based on the County's status as a Point-of-Origin or Guarantee County. A Guarantee County does not retain the SCCRT revenues generated in the county but instead receives a set rural guarantee amount of SCCRT revenues, which typically is higher than the revenues generated by the County. A Point-of-Origin County is one in which revenue generation is greater than that guaranteed to rural counties by at least 10 percent. Point-of-Origin Counties contribute approximately 2 percent of SCCRT revenues generated to supplement Guarantee Counties but retain the remainder of SCCRT revenues generated in the County.

The County is a Guarantee County. As such, this analysis estimates tax revenues retained by the County as a Guarantee County. The estimated P.A.L.S. sales tax revenue (BCCRT), as estimated by applying the BCCRT tax rate to taxable visitor spending under each scenario, is retained by the County and applied to the Room Tax Fund. **Table B-3** shows the estimation of P.A.L.S. sales tax revenue generated by the Project. In addition, **Table B-3** calculates the potential SCCRT revenues that could be retained should the County become a Point-of-Origin County and allocates the revenues to the various County funds based on the allocated consolidated tax for the County in 2017, as provided by the Nevada Department of Taxation.

Hotel Tax Revenues

EPS calculated the amount of transient occupancy tax, transient lodging license tax, and transient lodging rental tax, based on current tax rates and the estimated portion of visitor spending spent on lodging in the County for each scenario. Hotel tax revenue estimation is calculated on **Table B-4**.

Expenditure-Estimating Methodology

Expenditure estimates are based on the County's FY 2017-18 Adopted Budgets and supplemental information from County staff. All County General Fund, Room Tax Fund, and TDTD Fund expenditure items are listed on **Table C-1** in **Appendix C**.

County department expenditures that are expected to be affected by the proposed Project and existing zoning are forecasted using an average-cost or case-study approach.

Expenditures affected by residents and employees are projected using a *per-person-served* average expenditure multiplier and include the department functions listed below:

- General Government
- Judicial and Public Services
- Public Works
- Health and Sanitation
- Community Services
- County Manager
- Library

Sheriff Department Expenditures

Sheriff department expenditures are calculated using a case-study methodology based on the FY 2017-18 budgeted expenditures and the average share of sheriff calls generated by Stateline Casino Area. Based on conversations with the County Undersheriff, completion of the Project would trigger the need for 6 additional deputies to serve both the Project area and existing household growth in the County. To account for this need, EPS increased the FY 2017-18 budgeted sheriff expenditures by the annual cost of these additional deputies to arrive at an adjusted annual sheriff budget required for the County as a whole. The Stateline Casino Area generated 18.3 percent of all sheriff calls in the County. The share of sheriff calls generated by the Stateline Casino Area is applied to the adjusted sheriff budget calculated above to arrive at the total FY 2017-18 expenditures allocated to the Stateline Casino Area. Because of the unique nature of the Project, it is assumed that increases to sheriff expenditures would correlate with a growth in visitation. As such, EPS calculated a per-visitor estimate of sheriff expenditures and applied this estimate to the anticipate growth in daily visitors to arrive at the estimated sheriff department expenditures required by the Project. Sheriff department expenditures are calculated on **Table C-3**.

Fiscal Impact Results

For each scenario, **Table 1** presents a summary of the estimated net fiscal surplus or deficit for each County fund, both independently and as a total impact on the County. **Table 3** identifies General Fund, Room Tax Fund, and TDTD Fund net fiscal impact results for all revenue and expenditure categories resulting from development of the Event Center.

Combined Fiscal Impact

Combining the County General Fund, Room Tax Fund, and TDTD Fund, the Project is estimated to generate revenues ranging from $930,000 to $1,380,000 annually. These revenues will cover the estimated annual expenditures required by the Event Center of $220,000 to result in a net fiscal surplus ranging from $710,000 to $1,160,000 annually. The largest sources of revenues driving this surplus are hotel tax revenue categories. Transient occupancy tax, transient lodging license tax, and transient lodging rental tax generate approximately $816,000 in annual revenues under the baseline scenario and $1.20 million in the induced scenario, accounting for

87 percent of all estimated revenues. As described previously, sheriff expenditures account for approximately 90 percent of all County expenditures estimated in this analysis.

County General Fund

As key revenues flowing from the Project are captured in other County funds, development of the Event Center is anticipated to result in an annual net fiscal deficit to the County General Fund of approximately $212,000 under both scenarios. The estimated deficit is a result of the unique nature of the Project combined with current General Fund revenue dynamics. Based on the FY 2017-18 Adopted Budget, the County General Fund is funded largely by property tax and State consolidated tax revenues, accounting for nearly 75 percent of all General Fund revenues. Because of the publicly owned nature of the Event Center and the County's status as a Guarantee County, these two major revenue sources are not anticipated to be impacted by development of the Event Center.

In addition, the largest expenditure category generated by the Event Center, sheriff department expenditures, are funded primarily through the General Fund. General Fund expenditures account for 98 percent of all County expenditures required to provide County services to the Event Center. Should the County become a Point-of-Origin County in the future, the additional sales tax revenue generated could bring this deficit to a breakeven level under the baseline scenario and a surplus under the induced scenario.

Room Tax Fund

The Room Tax Fund is anticipated to realize an annual surplus ranging from approximately $810,000 under the baseline scenario to $1.20 million under the induced scenario. The Room Tax Fund receives the majority of revenues generated by the Event Center, ranging from $810,000 to $1.2 million, accounting for 87 percent of all analyzed revenues. These significant revenues largely are due to transient occupancy taxes and transient lodging license taxes, ranging from $699,000 to $1.03 million, combined.

Tahoe-Douglas Transportation District Fund

Largely because of transient lodging rental tax revenues ranging from $117,000 to $172,000, the TDTD Fund is anticipated to realize a net fiscal surplus ranging from $116,000 to $171,000, under the baseline and induced scenarios, respectively.

Lake Area Contribution to the County

In addition to calculating the net fiscal impact development of the Event Center will have on the County, EPS analyzed the importance of the Lake Area to overall County revenues. The County receives significant revenues that can be directly allocated to activities occurring in the Lake Area, including Property Tax, Consolidated Tax, Room Tax, and Gaming Revenues. Based on the County budget for FY 2017-18, EPS estimates that of the $59.3 million in revenue generated by these categories, $23.9 million can be directly allocated the Lake Area, 40.4 percent of all revenues in these categories. Directly generated revenue categories account for 48.6 percent of all County revenues for all funds, and the directly generated revenues in the Lake Area account for 19.6 percent. These percentages do not include any revenues for the Lake Area beyond the 4 categories noted above, while the overall County revenues include several other categories that can in part be allocated to the Lake Area. **Table 5** shows the estimated directly generated revenues attributed to the Lake Area.

Using a high-level analysis of the County General Fund, Room Tax Fund, and TDTD Fund budgets, EPS estimates that the Lake Area generates a surplus of approximately $7 million to these funds annually. Based on the methods described below for the listed revenues and a persons-served allocation for all other revenue categories, the $20 million in revenue to these funds can be allocated to the Lake Area, which is 35 percent of all fund revenues. The Lake Area is estimated to be responsible for 20 percent of fund expenditures or approximately $13 million annually. This expenditure estimation is based on a per-persons-served allocation for all expenditure categories, except sheriff expenditures, which are allocated based on the percentage of sheriff calls for service generated in the Stateline Casino Area. **Table E-1** in **Appendix E** shows the estimated allocation of County General Fund, Room Tax Fund, and TDTD Fund revenues and expenditures.

Property Tax Revenue

Of the $30.8 million in property tax revenues generated in the County, approximately $12.1 million is estimated to be generated by the Lake Area. This allocation is based on the percentage of countywide property assessed value contained in the Lake Area, defined by the total assessed value for the Tahoe-Douglas Fire Protection District.

Consolidated Tax Revenue

Of the $19.0 million in consolidated tax revenues received by the County, 18.71 percent or $3.6 million is estimated to be allocable to the Lake Area. Consolidated tax revenue distribution to the County includes funds from several sources, including BCCRT, SCCRT, cigarette tax, liquor tax, and real property transfer tax. Sales tax revenue categories, SCCRT, and BCCRT, have been allocated based on the share of 17.9 percent of total persons served, including visitors, in the Lake Area and countywide. Following the statewide method for distribution, cigarette and liquor taxes are distributed to the Lake Area based on residential populations, allocating 9.7 percent of these revenues to the Lake Area. Similar to property tax revenue described above, real property transfer tax has been allocated based on the percentage of countywide assessed value contained in the Lake Area.

Room Tax Revenues

The amount of transient occupancy tax revenues generated by the Lake Area and the County in 2017 as provided by the County was used to establish the share of room tax revenues generated by the Lake Area. This analysis estimates that 87.3 percent of the $8.1 million in countywide room tax revenues, or $7.0 million, are generated in the Lake Area.

Gaming Revenues

EPS distributed gaming tax revenues based on the allocation of gaming revenues provided by the Nevada Gaming Commission for FY 2016-17 applied to the FY 2017-18 Gaming Revenue reported in the County Budget, resulting in 94.5 percent of countywide gaming revenues, or $1.3 million, allocated to the Lake Area.

Economic Impact Analysis Methodology and Results

The following section quantifies the ongoing economic impacts resulting from activities in this region of the County. Specifically, the Economic Impact Analysis quantifies the level of output (i.e., value of goods and services), employment, and employee compensation in the local economy that are directly attributable to the growth in visitor spending resulting from the Project. This analysis also evaluates the one-time economic impacts generated by Project construction.

One-Time Economic Impacts

One-time construction impacts are estimated based on the estimated construction costs for the Project of $80,000,000 as provided by the Project Applicant. Total one-time economic impacts of construction are show on **Table F-1**.

Ongoing Economic Impacts

Ongoing economic impacts are quantified based on increased visitor expenditures in the County resulting from the Project under two scenarios: the baseline scenario and the induced scenario. Estimated visitor spending is calculated based on the estimated number and type of visitors attending events at the Event Center. Applying visitor spending assumptions provided by SMG Consulting, LTVA, and CSL, EPS arrived at the total spending in the County as described in the previous section. Total visitor spending in the County is shown in **Table D-3B** for the baseline scenario and **Table D-3C** for the induced scenario. Visitor spending is shown in 8 major spending categories:

- Lodging
- Food and Beverage
- Entertainment
- Retail Sales
- Transportation
- Gaming
- Recreation
- Other

The ongoing economic impacts for each spending category under each scenario is calculated independently and combined to estimate the total ongoing economic impacts of visitor spending for each scenario. Total ongoing economic impacts are shown on **Table F-2** and **Table F-3** for the baseline and induced estimates, respectively.

For those impacts quantified, the analysis uses an input/output (I/O) modeling framework to calculate the Project's contribution to countywide output, jobs, and employee compensation. As further described below, the I/O modeling framework is premised on the concept that industries in a particular geographic area are interdependent, and thus, the total contribution of any one establishment's activity is larger than its individual (direct) output or employment. Consequently, an establishment's economic activity has a "multiplier" effect that generates successive rounds of spending and output in other economic sectors in a particular region.

Overview of I/O Modeling

Industries in a geographic region are interdependent in the sense that they purchase outputs from and supply inputs to other industries. For example, consider the implications of restaurant expenditures. Restaurants purchase goods from producers, which in turn purchase raw materials from suppliers. Thus, an increase/decrease in restaurant activity will stimulate an increase/decrease in output and employment in the interdependent secondary industries.

This regional economic impact analysis relies on IMPLAN (Impact Analysis for Planning) software, an I/O model that draws on data collected by the Minnesota IMPLAN Group (MIG) from several state and federal sources, including the Bureau of Economic Analysis, the Bureau of Labor Statistics (BLS), and the Census Bureau. The model is widely used for estimating economic impacts across a wide array of industries and economic settings.

Regional economic impact analysis and I/O models in particular provide a means to estimate total regional effects stemming from a particular industry. Specifically, I/O models produce quantitative estimates of the magnitude of regional economic activity resulting from some initial activity (e.g., hotel or restaurant expenditures). I/O models rely on economic multipliers that mathematically represent the relation between the initial change in one sector of the economy and the effect of that change on economic output, income, or employment in other local industries. These economic data provide a quantitative estimate of the magnitude of shifts in jobs and revenues in the regional economy.

Interpretation of Model Results

Economic impacts using an I/O model are based on an initial change in output or employment in some sector. The model then translates that initial change into changes in demand for output from other interdependent sectors, corresponding changes in demand for inputs to those sectors, and so on. These effects are commonly described as direct, indirect, or induced effects and are generally defined as follows:

- The ***direct effect*** represents the change in output or employment attributable to a change in demand or increased supply. For example, the total sales generated by a new business or the total employees hired by that business would represent the direct impact on the regional economy.
- The ***indirect effect*** results from industry-to-industry transactions required to satisfy the direct effect. This effect is a measure of the change in the output of suppliers linked to the industry that is directly affected. For example, the casino resorts frequented by Project visitors purchase numerous goods from local suppliers, including food, laundry services, and equipment.
- The ***induced effect*** consists of impacts from employee spending in the local economy. Specifically, the employees of directly and indirectly affected businesses generate this effect by purchasing goods and services in the local economy.

The total impact is the sum of the direct, indirect, and induced effects. The total effect measures the impact of an activity as it "ripples" throughout the regional economy. The regional economic effects described above are reported in 3 categories:

- **Annual Output:** Annual output measures the value of goods and services produced in the County as a result of business operations. The estimated growth in visitor spending on lodging and retail is used to estimate the annual output resulting from Project activities. Estimated construction costs were used for one-time construction impacts.
- **Employment:** Employment estimates the total number of jobs, both full-time and part-time, created as a result of the Project. Employment is reported in job years. Construction

employment represents total job years over the life of the Project (1 job lasting 2 years would be reported as an employment impact of "2").

- **Employee Compensation:** Employee compensation reflects the total payroll costs of each employee of the subject business (wages, salary, benefits, and employer-paid payroll taxes). Employee compensation represents a portion of the value generated by visitor spending activities and is one component of the total output described above.

Caveats to I/O Modeling

Several important caveats are relevant to interpreting IMPLAN model estimates. First, IMPLAN relies on I/O relations derived from 2016 data (latest available from IMPLAN). Thus, EPS's analysis is based on the assumption that this characterization of the economy is a reasonable approximation of current conditions. To the extent that significant structural changes have occurred in the regional economy since 2016, EPS's results may not account for such changes. However, the magnitude and direction of any such change is unknown.

Second, the I/O methodology is based on the assumption that an industry's demand for goods and services results in a corresponding increase in supply and therefore employment. This implies that key industry suppliers can increase output rather than shift output from one set of consumers or products to another. This assumption may not hold in areas with tight labor or capital markets because companies may find it difficult to obtain these inputs or other resources necessary to expand production. In these cases, accommodating an establishment's demand for labor and other inputs may come at the expense of other establishments in the same or related sectors or may need to be satisfied by increased imports from outside the study area. This phenomenon is often referred to as "crowding out" because the sector being stimulated tends to crowd out other sectors, which can reduce the net economic gain.

One-Time Economic Impact Results

One-time economic impacts are generated by construction and as such are limited to the development period of the construction. To the extent that construction activity is short term and construction labor markets are tight, construction impacts may represent a shift of resources from other projects in the County. This Technical Memorandum therefore reports gross economic impacts, not accounting for potential shifts in resources. In addition, induced economic impacts are also included. To the extent that construction labor is used temporarily and laborers may live outside the County, these impacts may be overstated. Construction impacts are based on the estimated hard construction costs for the Project of $80 million. Note that the employment figures reported for construction impacts represent total job years lasting over the duration of the Project and could reflect the same job that extends over multiple years. For instance, a general laborer employed for 2 years during construction activity would represent 2 job years.

One-time economic impacts will be generated by construction of the Project, with a total output of $110.5 million. It is anticipated that 581 job years will be directly generated by construction, with an additional 86 indirect and 148 induced job years.

One-Time Construction Impacts

Table F-1 details the estimated one-time economic impacts associated with construction of the Project as described below:

- **Annual Output:** Construction operations are estimated to generate approximately $80.0 million in direct one-time industry output. Local spending will result $30.5 million in indirect and induced one-time impacts, for a total one-time industry output impact of $110.5 million.
- **Employee Compensation:** Of the $80.0 million in direct industry output reported above, approximately $34.1 million will be received by construction employees in the form of salary, wages, and benefits. Indirect employee compensation impacts total approximately $4.1 million, and induced employee compensation totals approximately $5.1 million, for a total annual employee compensation impact of approximately $43.4 million.
- **Annual Employment:** The 581 direct job years generate approximately 86 indirect jobs and 148 induced jobs, for a total employment impact of approximately 815 jobs.

Ongoing Economic Impact Results

Ongoing economic impacts are also measured on a gross annual impact basis, not accounting for shifts in consumer expenditures from other local alternatives. Based on a baseline level of growth of economic activity associated with the Project and the subsequent growth in visitor spending, approximately $44.1 million (measured in 2017 dollars) in total output (or economic activity) is generated in the County annually as a result of the Project.

This baseline output estimates 242 projected jobs directly associated with visitor spending, with an additional 73 indirect and 42 induced jobs, for a total of nearly 357 jobs in the County resulting from the Project, with a total of approximately $12.0 million earned in employee compensation (wages and benefits).

Under an induced spending scenario, the Project is anticipated to generate approximately $66.8 million in total output annually. This output is based on 364 new direct jobs, with an additional 110 indirect and 63 induced jobs, for a total of 537 jobs.

It should be noted that the additional employment will likely include some combination of full-time and part-time positions, including extended hours for a significant share of existing part-time jobs.

Baseline Estimate

Table F-2 details the estimated annual ongoing impacts associated with Project operation, with baseline visitor spending growth estimates as described below:

- **Annual Output:** Baseline visitor spending growth estimates are estimated to generate approximately $29.2 million in direct industry output annually. Local spending will result in approximately $9.2 million in indirect industry output impacts, and $5.3 million in induced impacts annually, for a total industry output impact of $43.8 million on an annual basis.

- **Employee Compensation:** Of the $29.2 million in direct industry output reported above, approximately $8.0 million will be received by employees in the form of salary, wages, and benefits. Indirect and induced employee compensation impacts total approximately $4.0 million for a total annual employee compensation impact of approximately $12.0 million.

- **Annual Employment:** The 242 direct employees will generate approximately 73 indirect and 42 induced jobs annually for a total employment impact of approximately 357 jobs on an annual basis.

Induced Estimate

Table F-3 details the estimated annual ongoing impacts associated with Project operation, with higher induced visitor spending growth estimates as described below:

- **Annual Output:** Induced visitor spending growth estimates are estimated to generate approximately $44.0 million in direct industry output annually. Local spending will result in approximately $13.8 million in indirect industry output impacts and $8.0 million in induced impacts annually for a total industry output impact of $65.8 million on an annual basis.

- **Employee Compensation:** Of the $44.0 million in direct industry output reported above approximately $12.1 million will be received by employees in the form of salary, wages, and benefits. Indirect and induced employee compensation impacts total approximately $6.0 million for a total annual employee compensation impact of approximately $18.1 million.

- **Annual Employment:** The 364 direct employees will generate approximately 110 indirect and 63 induced jobs annually for a total employment impact of approximately 537 jobs on an annual basis.

Critique of Feasibility Study and Event Center Fiscal and Economic Analysis: EPS182014

A valid method of measuring the economic impacts of a proposed event center would be to use the actual data from a similar event already in operation. The Reno Center ("REC") is ideal because it is nearby, has the same climate, is the same distance away from non-local markets, has almost the same number of seats (6,000 for the proposed event center and 7,000 for the REC), and has almost the same number of built out square footage (120,000 for the proposed event center and 118,000 for the REC). However, the obvious differences between the two venues favor the REC significantly over the South Shore location. The REC is an urban setting with many more nearby services and is close to the Reno International Airport, which serves 16 destinations with non-stop flights. Assuming good weather, the South Shore of Tahoe is a 90-minute drive through the mountains to the Reno airport. The proximity of the airport to the REC is significant because the visitors can easily fly in and out to/from the REC to the airport.

Therefore, any economic metric that the REC has publicized should reflect that its performance will be superior to the estimates for the proposed event center.

There are two key pieces of actual data that differ between the REC and the proposed event center. They are the number of events per year and the number of room nights per year for overnight visitors. The number of events per year for the REC for the last 10 years ending 6/30/18 range from 49 to 56.

The estimate for the proposed center is 130 events per year. This is 2 1/3 larger than the REC. The REC averages one event per week, the estimate for the proposed center averages one event every 3 days. There is no explanation of how the estimated number of 130 was calculated.

The actual number of room nights for the REC is 35,000. The estimate for the proposed event center is 60,000, 1.7 times larger than the REC. The estimate for the proposed event center was based on the results of the 2017 Summer Concert Series at the Lake. This method is not valid. Why would you use a 13-night summer concert series when there is trustworthy data available for a nearby event center?

A third piece of significant data from the REC's financial statements is revenue minus direct expenses loses $200k per year, excluding bond payments and depreciation. See the next section on the fallacies of using convention centers for economic development for further clarification.

The Feasibility Study surveyed event center customers, which called attention to other limitations of the proposed event center. The response to definitely, might likely, or possibly use the proposed event center from California and Nevada respondents was only 38%. This is very low. This market capture rate should be between 70 and 80 percent.

Secondly, more than 30 percent of the respondents are not willing to be shuttled from the hotels to the event center. They want the event center connected to the hotel. This brings up another point. The Event Center's Economic and Fiscal Impact Analysis presented two scenarios—with or without the realignment of US Highway, commonly referred to the Loop Road Project. We now know that the City of South Lake Tahoe will not be participating in the Loop Road Project. Therefore, the already overly optimistic Analysis is necessarily reduced to the Baseline scenario numbers and that is a huge setback to the success of the proposed event center.

Thirdly, corporate events drop off during October, November and December. This is one-half of the proposed event center's targeted shoulder seasons.

Finally, uncertain weather in the winter months was mentioned by the respondents as a key disadvantage from other national destinations.

In conclusion, the proposed event centers calculation of the economic data are not realistic and known surveyed disadvantages are bleak, the success of the proposed event center are in doubt.

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Total CIP Through 2024				$150,014,431.00
Funded	Grants		$16,392,019.00	
Unfunded			$133,622,412.00	
Examples				
	JLEC		$31,650,000.00	
	Muller PKWY	Total Costs	$31,500,000.00	
	Road Maintenance		$35,200,000.00	

General Fund - 5-Year Forecast

5 YEAR GENERAL FUND PROJECTION

Updated

General Fund	2017-18 Year End 9/14/18	2018-19 Adopted Budget	2/27/19 FY 2018-19 Amended	2019-20 Final	2020-21 Projected	2021-22 Projected	2022-23 Projected	2023-24 Projected
Beginning Fund Balance/Reserves:								
Beginning Fund Balance	$ 11,891,067	$ 9,184,386	$ 9,184,386	$ 11,513,548	$ 11,052,325	$ 10,645,190	$ 10,291,413	$ 9,990,143
Revenue:								
Property Tax	20,067,046	21,669,599	21,669,599	22,789,330	23,586,957	24,412,500	25,266,938	26,151,280
State Consolidated Taxes	12,067,377	12,228,031	12,228,031	12,946,773	13,335,176	13,735,231	14,147,288	14,571,707
Licenses & Permits	4,544,773	3,650,400	3,922,926	4,364,150	4,451,433	4,540,462	4,631,271	4,723,896
Gaming Licenses	938,017	965,000	965,000	938,000	947,380	956,854	966,422	976,087
Intergovernmental	1,991,947	967,042	1,332,286	895,000	903,950	912,990	922,119	931,341
Charges for Service	5,000,425	5,195,564	5,209,252	5,740,263	5,855,068	5,972,170	6,091,613	6,091,613
Fines & Forfeitures	1,127,828	1,083,623	1,083,623	1,205,700	1,223,786	1,242,142	1,260,774	1,279,686
Miscellaneous	785,996	625,400	720,484	551,942	560,221	568,624	577,154	585,811
Other Financing Sources	918,633	446,226	502,779	396,226	396,226	396,226	396,226	396,226
Total Revenue	**47,442,042**	**46,830,885**	**47,633,980**	**49,827,384**	**51,260,197**	**52,737,199**	**54,259,806**	**55,707,647**
Total Budgeted Resources	**$ 59,333,109**	**$ 56,015,271**	**$ 56,818,366**	**$ 61,340,932**	**$ 62,312,522**	**$ 63,382,389**	**$ 64,551,219**	**$ 65,697,791**
Expense:								
Operating:								
Personnel Services	30,945,949	32,063,738	32,106,948	33,949,349	35,137,576	36,367,391	37,640,250	38,957,659
Services & Supplies	10,681,145	10,191,991	10,687,001	10,897,548	11,061,011	11,226,926	11,395,330	11,566,260
Total Operating	**41,627,094**	**42,255,729**	**42,793,949**	**44,846,897**	**46,198,587**	**47,594,318**	**49,035,580**	**50,523,919**
Non-Operating:								
Transfers Out	8,257,805	4,321,222	4,458,999	4,222,272	4,222,272	4,222,272	4,222,272	4,222,272
Capital Outlay	389,176	321,500	321,500	322,500	322,500	322,500	322,500	322,500
Unanticipated Projects	(44,430)							
Contingency	-	830,881	830,881	896,938	923,972	951,886	980,712	1,010,478
Total Non-Operating	**8,602,551**	**5,473,603**	**5,611,380**	**5,441,710**	**5,468,744**	**5,496,658**	**5,525,484**	**5,555,250**
Total Expense	**50,229,645**	**47,729,332**	**48,405,329**	**50,288,607**	**51,667,331**	**53,090,976**	**54,561,075**	**56,079,169**
Net Change in Fund Balance	**(2,787,603)**	**(898,447)**	**(771,349)**	**(461,223)**	**(407,135)**	**(353,777)**	**(301,270)**	**(371,522)**
Ending Fund Balance/Reserves	**$ 9,103,464**	**$ 8,285,939**	**$ 8,413,037**	**$ 11,052,325**	**$ 10,645,190**	**$ 10,291,413**	**$ 9,990,143**	**$ 9,618,621**
Restricted/Unspendable Fund Balance	**$ 4,651,744**	**$ 4,651,744**	**$ 3,000,000**	**$ 3,794,137**	**$ 2,500,000**	**$ 2,500,000**	**$ 2,500,000**	**$ 2,500,000**
Unassigned/Available Fund Balance	**$ 4,451,720**	**$ 3,634,195**	**$ 5,413,037**	**$ 7,258,188**	**$ 8,145,190**	**$ 7,791,413**	**$ 7,490,143**	**$ 7,118,621**
Total Budgeted Requirements	**$ 59,333,109**	**$ 56,015,271**	**$ 56,818,366**	**$ 61,340,932**	**$ 62,312,522**	**$ 63,382,389**	**$ 64,551,219**	**$ 65,697,791**
Unassigned/1 month of Operating Expenses	**1.283**	**1.032**	**1.518**	**1.942**	**2.116**	**1.964**	**1.833**	**1.691**