regional brief

North Carolina Convention Centers

Important Lessons for Asheville and Wilmington

DR. MICHAEL SANERA AND TRAVIS FISHER

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200 W. Morgan, #200
Raleigh, NC 27601
phone: 919-828-3876
fax: 919-821-5117
www.johnlocke.org

Executive Summary

Similar to the nuclear arms race during the Cold War, cities across the nation are constructing an overwhelming amount of public convention and meeting space to compete for a virtually fixed number of convention attendees. There appear to be no winners in this great "space race."

The convention/civic center "space race" should be familiar to North Carolinians—Charlotte opened a $150 million convention center in 1995 and Raleigh is currently building a $212 million center, both sequels to centers built in the 1970s. But despite dismal national trends in the convention industry as detailed in a Brookings Institution report by University of Texas at San Antonio professor Heywood Sanders, Wilmington and Asheville are considering new projects that will drag them into an ever deepening, taxpayer funded quagmire.

A careful review of experiences in Raleigh and Charlotte should warn other North Carolina cities, particularly Wilmington and Asheville, that convention and civic center projects are a bad idea because

1. National convention attendance from Tradeshow Week 200 events has fallen back to mid-1990s levels and many new centers are not producing new attendees;
2. Flawed feasibility studies make new centers seem more attractive than they really are by counting costs as benefits and incorrectly using economic multipliers;
3. New centers are often paid for by taxes on prepared food and beverages, hotel rooms, and rental cars—"tourist" taxes which are also paid by local residents and businesses;
4. Civic/convention centers are an inequitable wealth transfer from entire counties to downtown areas of cities.

North Carolinians are too smart to keep buying snake oil from highly paid outside consultants who say convention and civic centers pay for themselves and are an important economic development tool. After all, Jacksonville learned from other cities' mistakes and decided to pull out of the great "space race" before it was too late. Hopefully other cities will reconsider building new civic/convention centers before irresponsibly spending taxpayers' money.

Wilmington and Asheville are considering convention center projects that will drag them into an ever-deepening, taxpayer-funded quagmire.

Introduction

This report is designed to inform citizens, task force members, and city and county officials in North Carolina about the problems of building and operating public convention/civic centers. It offers a critique of publicly owned convention and civic centers in North Carolina including detailed critical analysis of convention center projects in Charlotte and Raleigh. Jacksonville provides a model for what responsible local governments should do when considering building public meeting space.

National Trends: Myth and Reality

Nationally, spending on convention center construction has doubled since the early 1990s to $2.4 billion annually, increasing total convention center space 50 percent since 1990. Currently, 44 U.S. cities are expanding or constructing convention centers. Cities are building, but will conventions and visitors come? Unfortunately for taxpayers, the answer is a resounding no. Overall attendance for the 200 largest tradeshows is at 1993 levels and falling.[1] This trend started before September 11, 2001, and continues despite the national economic recovery.

Atlanta's 2002 expansion was justified in part by a consultant who promised 1.45 million annual attendees by 2006. But attendance has actually fallen since the expansion, to 512,194 in 2003 and further to 396,517 in 2004.[2] New York, Chicago, Washington, D.C., Boston, Denver, Atlantic City, San Jose, Tampa, Houston, Dallas, and Phoenix all show similar declines in recent years. Only a handful of cities such as Orlando, Las Vegas, and Baltimore have increased attendance from the 200 largest tradeshow events since the mid-late1990s. But according to Heywood Sanders, a University of Texas at San Antonio professor and leading convention center expert, even these prime destination cities have seen their growth level off:

> 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.[3]

It is crucial for North Carolina's city and county officials to see past the convention center myth: Outside consultants and city staff produce studies that make convention centers hard to refuse. Build a new convention center or expand your old one and convention business will beat a path to your door, they say. Better yet, use a tax on hotel rooms, rental cars, or prepared food and beverages and the visitors, not local taxpayers, will pay for the facilities. Many city councils find this "free lunch" irresistible and no one should be expected to pass up what they think is a "something for nothing" opportunity—but despite a hopeful first glance, convention centers are never a "something for nothing" proposition.

Hidden Taxes

Taxes on hotel rooms, rental cars, and prepared food and beverages hurt residents and local businesses. Bill Connors, Executive Director of the National Business Travel Association, had this to say:

> Travel has become the go-to funding source for elected officials looking to create new revenue streams for local projects. However, there is little understanding that the explosion of travel taxes has hurt local economies around the country by creating a hidden tax on local businesses...[4]

The illusion that only visitors bear the burden of these taxes does not hold up to scrutiny. In fact, local residents pay significant proportions of these so-called "visitor taxes." Just because visitors tend to stay in hotels, rent cars, and eat at restaurants does not mean that all, or even most, of the people who do those things are visitors. Local residents eat in restaurants and have drinks in local bars; both residents and local businesses rent cars; local businesses rent hotel rooms for out of town clients, and so on. In this sense, there is no such thing as a pure "tourist tax," which means that anything called a tourist tax is just a well-hidden tax on local residents and businesses.

Does it make sense to attempt to tax tourists? Local government officials try to tax tourists because tourists don't vote. But higher taxes also cut into tourists' budget for a trip, leaving less to be spent at local businesses. It is puzzling why tourism is so openly encouraged on the one hand, and such a common target for tax revenue on the other. A rule of thumb in economics is that if you tax something, there will be less of it (all else equal). So having higher "tourist taxes," means fewer tourists, not to mention unhappy local businesses and residents.

Flawed Feasibility Studies

Cities interested in building or expanding public convention space hire consultants to conduct studies and advise officials on how to finance the expansions and to predict their economic impact. According to Heywood Sanders, consultants often overestimate both the future performance and the economic impact of convention centers in their feasibility studies. In the conclusion to his report for the Brookings Institution titled "Space Available: The Realities of Convention Centers as Economic Development Strategy," he writes:

> 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.[5]

Put bluntly, consultants' economic impact estimates are inflated. Even if they accurately estimate the number of events and attendees, there is no reason to believe the biased (albeit sophisticated) analysis commonly used by consultants on government projects. For example, they consistently list construction spending as a positive economic impact. As Edwin Mills, Professor Emeritus of Real Estate and Finance at Northwestern University writes:

> Governments count the locally paid wages and salaries on the construction project as a benefit, whereas a private developer would count them as a cost. Putting labor costs on the benefits side of a cost/benefit analysis makes the project appear to be a better investment than it actually is.[6]

To make matters worse, consultants then use multipliers to further augment these so-called benefits. In general, the multiplier is designed to account for the ripple effect created by repeatedly re-spending new income. For example, if people tend to re-spend half of new income locally, consultants would count $2 of benefits for each $1 spent locally, either by tourists or by government.[*]

This reasoning is faulty. So-called tourist taxes used to build and operate convention centers are paid by tourists and locals who could have spent that money on direct purchases from local businesses had it not been taxed away. Using a multiplier, one could show that any government construction project provides net benefits, and that all a city has to do is spend its way to prosperity through endless public construction. But since public projects divert resources away from productive uses in the private sector, local officials should be skeptical of anything that seems like a free lunch. Unfortunately this "tax and spend" fallacy is not as self-evident when it is applied to convention and civic centers.

Consultants typically overlook the huge opportunity cost within the public sector: building a convention center means that the city has to either put off some other project or raise taxes. In Raleigh, for example, while the city is spending $212 million on its convention center, its roads and parks are in dire straights. Asheville is considering expanding its civic center when it already has a budget deficit and it is falling behind with their water system and police and fire protection. Convention centers should be a lower priority than essential services like water and police and fire protection if all of these are to be provided by the government.

Costs, Benefits, and Equity

Some city officials say it is natural that civic or convention centers lose money because they provide benefits that the private sector cannot, such as culture, local pride, and community. But the private sector is

* The math of the multiplier takes the form $1/(1-x)$ in which x is the percent of new income that gets cycled back into the local economy. In the text example, $1/(1-1/2) = 2$. If only one-third of new income were spent locally, the multiplier would be 1.5, $1/(1-1/3) = 3/2$.

providing these benefits even in the face of competition from taxpayer subsidized facilities. The Koury Convention Center in Greensboro is an outstanding example of a facility that provides convention services. And while city officials in Asheville argue over the fate of its old downtown civic center, the Carolina Theater is building a privately funded and operated concert venue on the outskirts of town. If the public sector stopped forcing taxpayers and tourists to fund convention and civic center projects, many more examples of convention, civic and concert venues would be funded entirely by the private sector.

Visitor spending is usually cited as the main economic motivation for building convention centers, and for good reason: it is the *only* economic benefit to operating a public convention center. If a convention center attracts people from out of town to spend money downtown, it is clearly a benefit to downtown shops, restaurants and hotels (if visitors stay overnight). But while the benefits of a convention center are concentrated downtown and are easily visible, the costs are spread over the entire city or county and are less noticeable. Acknowledging that the vast majority of visitors and citizens who pay for convention centers do not benefit from them should nullify all the cost-benefit analyses. For example, the Raleigh Convention Center is being built with funds from *countywide taxes* on hotels and prepared food whereas the majority of businesses that will benefit from any increased business are located downtown, near the Convention Center. Funding downtown projects with city or countywide taxes is nothing more than a wealth transfer from all over the city or county to downtown businesses. Even if convention centers were a break-even government enterprise (and they aren't), they still face the equity problem of taxing everyone to benefit a few downtown businesses. In the case of Wake County, residents and visitors not attending conventions pay for a center in downtown Raleigh that they will likely never benefit from, whether they like it or not.

New convention and civic centers are a lasting drain on local taxpayers. Consultants generally forecast *operating deficits* for convention centers, meaning convention centers lose money each year beyond the enormous up front construction costs. In fact, the new Raleigh Convention Center is projected to lose about $1.8 million each year before depreciation and debt service. Of course, when the consultant's overly optimistic visitor projections are confronted by reality and business is slower than expected, operating deficits funded by the local taxpayers will likely be even larger than projected.

The new Raleigh Convention Center is projected to lose about $1.8 million each year before depreciation and debt service

Convention center consulting seems difficult and unapproachable because consultants try to answer the wrong question. Local government officials ask consultants, "What size convention center should we build with all this tax revenue?" The question is never whether or not to tax and build in the first place. A fairer examination of the net impact of a new convention center would compare two scenarios: the first, in which taxes on hotel rooms and prepared food and beverages are never collected and the new convention center is never built, and the second, in which the taxes on hotel rooms and prepared food and beverages are collected and used to build the new convention center. Is the local economy (the taxed region) better in the first or second scenario? Do the citizens think the possibility of increased business around the convention center is worth paying higher taxes on hotel rooms, rental cars and at restaurants and bars and funding operating deficits far into the future? Is that even fair, given that the benefits are concentrated downtown? City and county officials should look for answers to these questions, but they never do. Asking the taxpayers to answer this question through a bond referendum may be the best course of action, but city officials don't always like the result. For example, knowing a 1992 referendum to fund a new convention center failed, Raleigh and Wake County leaders went straight to planning a new center in 2002 without a referendum. In fact, they are using taxes they began collecting in 1992 (the year the referendum failed) to build the new Convention Center. The referendum's failure is good evidence that convention centers benefit few individuals at the expense of many.

Charlotte Convention Center: "We Built It, They Didn't Come"

Charlotte's convention center saga is a textbook example of how good intentions and glowing consultant reports lead to an endless drain on taxpayers. The original Charlotte Civic Center opened in 1973. In order for Charlotte to become a world-class city, city leaders commissioned a study by KPMG, an international accounting and consulting firm, to advise them on the feasibility of a new convention center. Based on KPMG's glowing 1991 report, the city began construction on a new $148 million, 850,000 square foot facility located at Stonewall and College streets. KPMG, the same firm that consulted for the Raleigh Convention Center, predicted that the new facility would attract a yearly business of 56 events and 751,000 attendees from *conventions and trade shows** alone.[7] *The report also predicted 16 million in new tax revenue from the center and 322 million of direct and indirect spending.*

The new Charlotte Convention Center opened in 1995. In the beginning, the predictions seemed to come true. The first few conventions filled hotels and restaurants, and event bookings increased over the number at the old convention center. The center's occupancy rate of 50 percent was above the national average. The downtown Adam's Mark hotel considered building 200 more rooms and the Omni Charlotte hotel planned to add 400 new rooms.[8]

Optimistic projections of increased jobs, tax revenues and overall economic impact of the new convention center filled the newspapers. But optimism was short lived. In 1998, a *Charlotte Business Journal* article came out titled "We built it, they didn't come, so now what?"[9] About the Charlotte Convention Center and the economic development projections that justified it the article said, "We are left with a promise broken." By 1999, business had decreased significantly from 1995 levels. As Figure 1 indicates, the projection of 56 major conventions each year with 751,000 attendees never materialized.[10] The 600 new hotel rooms from the private sector were never built. Even considering the decline after the September 11 terrorist attack, the figures for years 2004 and 2005 fell while the national economy boomed. The Charlotte Convention Center has no choice but to put together "incentive packages," basically deep discounts, in order to keep what little convention business it has.

The Charlotte Convention Center's disappointing performance was evident in the early 2000s when operating deficits were in the range of $1 million per year. To solve this problem, the city agreed to fund a convention center headquarters hotel. The city contributed $16 million to the $143 million hotel. In 2003, the 700-room Westin opened with a total of 45,000 square feet of meeting space, including a 17,000 square foot ballroom that was larger, newer and nicer than the 8 year-old convention center ballroom.[11] Thus the city paid $16 million to build a facility that attracted business away

* Consultants focus on conventions and trade shows because they bring in a large number of out-of-town visitors. Meetings, consumer shows, catering events and other small or local events attract mainly in-town visitors, so they have a much smaller economic impact and are not emphasized by consultants.

from the city-owned and -operated convention center ballroom that was already operating at a loss.

But the saga does not end here. The Convention Center operating deficit was $1.8 million in fiscal 2004 and then it soared to $2.9 million in fiscal 2005. The city has run a yearly deficit since opening in 1995 when it was $1.0 million.[12] Again the city's solution was to spend more rather than cut its losses. This time, in response to losing business to the Westin's ballroom, the city leaders considered spending $37.5 million on a new 55,000 square foot ballroom. But competition with the city-funded Westin was not the only problem. The city decided to run the new trolley and light rail lines right through the middle of the convention center, which effectively split the Center in two, making the use of the ballroom difficult. As of February 2006, the city has spent $15 million to reconfigure part of the building for the trolleys.[13] When the light rail trains begin running in 2007, the west part of the building will be difficult to use because food service workers will have to navigate the light rail line by ferrying food up, over and back down the other side. In February 2006, the city council approved another $10.7 million to install elevators to ease the trip for service workers.[14]

Charlotte paid $16 million to build a facility that attracted business away from the city-owned and -operated convention center ballroom that was already operating at a loss.

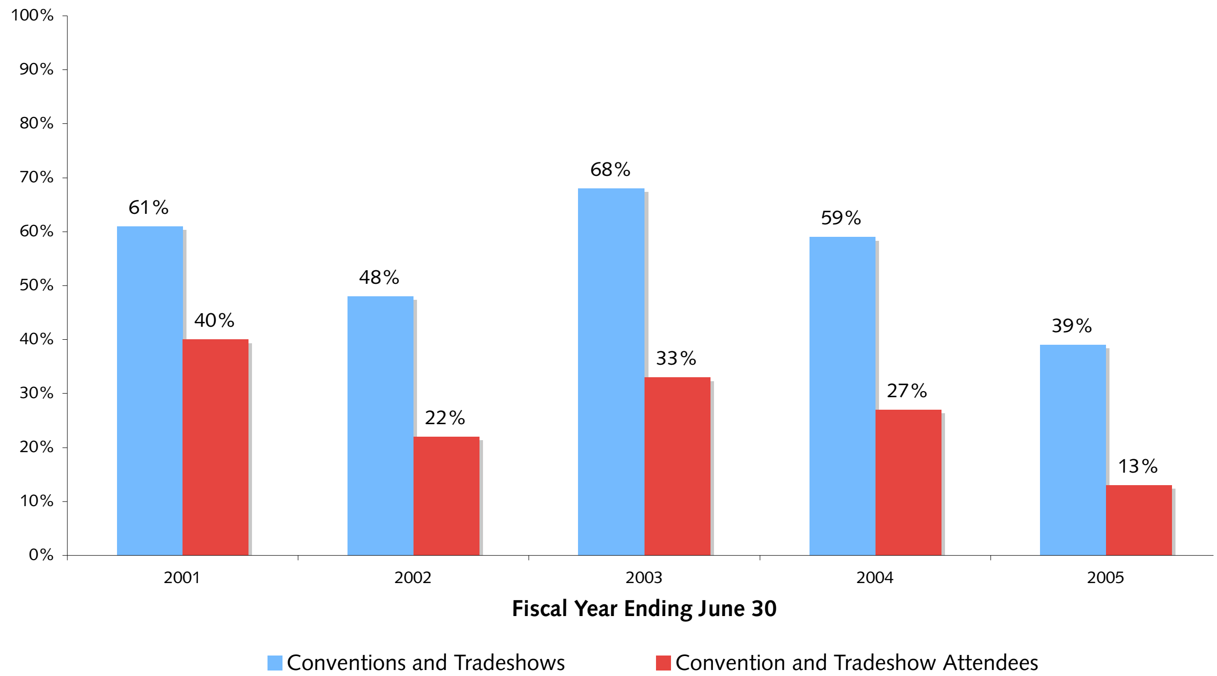
This was a temporary solution. A new modern ballroom was still needed to solve the long-term problem. In May 2005 the city proposed a new $37.5 million ballroom.[15] Enter the NASCAR Hall of Fame competition. City officials delayed a decision on a new ballroom until the NASCAR decision was made. If Charlotte won the competition, the new ballroom could be built as part of this project. Unlike most competitions, however, when Charlotte "won" this prize it meant that taxpayers would have to pay out $137.5 million and increase the hotel tax, paid in part by local taxpayers and businesses, from 6 to 8 percent.[16] The other shoe has still not dropped. As of March 2006, with convention business on the decline, the City Council approved $1 million in "incentives" for the convention center, thus boosting the total budget for incentives to $1.5 million.[17] In other words, the City will use taxpayer funds to pay conventions to come to Charlotte.

But the convention center was still not out of the woods. In May 2006 the *Charlotte Business Journal* reported a "Looming Crisis for Center Bookings." The article states that convention-related hotel bookings for 2009 are 81 percent behind projections and 84 percent behind for 2010.[18] (The convention business normally operates with these long lead times.) It appears that it is not enough for the convention center to run an operating deficit of $2.9 million and for the convention center to hand out $1.5 million in incentives to attract convention business. Now convention center officials want private hotel operators to drastically reduce their hotel rates to bail out the failed convention center.[29] And if that does not work, the convention center and taxpayers will just have to wait until the NASCAR Hall of Fame is completed in 2009 and then convention center officials promise business will boom.

What to Expect from Charlotte

Given this long history of failure and "scapegoating" to escape responsibility, it is not cynical to suggest the following scenario. In 2010 when the NASCAR Hall of Fame fails to attract substantial convention business, the city council hires a consultant to advise them on its options. The consultant report once again fails to mention declining national trends in the convention

Figure 1
Charlotte Convention Center Performance vs. Forecast



Sources: Forecast - KPMG Report
Performance - Steve Bagwell. Charlotte Convention Center

business or the increased space built nationally. Instead, the consultant notes that centers must "reinvent" themselves every 10 years to stay "fresh and competitive."[20] Therefore, following Raleigh's lead, the report recommends that City Council vote to demolish the existing center and build a new and even larger center. To fund this, the taxes on hotel rooms and prepared food and beverages must be raised, which is not a problem because they are paid by tourists who cannot vote. Thus, the North Carolina General Assembly approves the tax hikes without a second thought and the citizens of Charlotte and all of Mecklenburg County are left with the bill.

Raleigh Convention Center: Off to a Bad Starto

The Raleigh Civic and Conference Center opened in 1977 with 97,000 square feet of rentable space (combined exhibit, meeting, and ballroom space). In 1991, the NC General Assembly approved a new countywide 6% hotel occupancy tax (up from 3%) to begin in 1992 and a new 1% prepared food and beverage tax to begin in 1993.[21] The increased taxes were part of the "Interlocal Agreement" between the City of Raleigh and Wake County, designed to fund economic development projects such as expansions on the Civic Center and new sports and performing arts facilities. In 1992, the first year of the new hotel occupancy tax, a bond referendum to construct the new convention center failed 58 percent to 42 percent.[22] But through the new taxes, Wake County residents were already paying for the new center that they did not want. In 1997, the old Civic Center was renovated with $14 million in new taxes, adding 34% more space for a total of 130,000 square feet of rentable space.[23]

In January 2002, City and County leaders commissioned a $60,000 report by KPMG to examine the existing facility and predict the economic impact of a new convention center. Based largely on surveys of past clients as well as potential future clients of the Center, KPMG concluded that the City of Raleigh was well positioned for convention business, but that the existing facility was inadequate despite the renovations just five years earlier. The center's small size, poor appearance, and lack of a headquarters hotel were cited as the main reasons why Raleigh was losing convention business.[24] KPMG failed to mention that convention center demand was declining nationally and that many cities were adding more convention space. Ignoring these national trends, KPMG predicted that a new, larger facility would bring in new convention center business and would have an economic impact in Wake County of between $70.7 million and $112.4 million annually for the first five years of operation, and generate between 1,200 and 1,900 new jobs. The economic impact estimate follows from an estimated 210 events that would generate 338,000 attendee days in the first year, building up to 244 events that would create 491,500 attendee days in subsequent years.[25] But for reasons discussed earlier, these economic impact estimates are flawed and should not be taken as fact, although many politicians and city officials have reported them as such.[26]

Armed with biased projections from consultants, the City of Raleigh and Wake County re-entered the great convention "space race" in July 2003 as city and county leaders voted to build the new convention center. At that time, the total construction cost was estimated to be $180 million.[27] The City/County Interlocal agreement was amended in January 2004 to allow revenue from the hotel/motel and prepared food and beverage tax to be used to fund the new Raleigh Convention Center and provide a $20 million subsidy to the headquarters hotel.[28] Also in January 2004, the Center for Local Innovation, a project of the John Locke Foundation, released the results of a poll that showed overwhelming support for a public vote (referendum) among Wake County voters, even among supporters (84%).[29] Overall, 86% favored a referendum. CLI Director Chad Adams said, "The message from Wake County voters in this poll is clear: they believe this project should be submitted to a public vote."[30] In September 2004, while still in the planning stage, City Manager Russell Allen said the budget was up to $192 million.[31] Ground was finally broken on April 6, 2005, without a referendum.

Fifteen days later, as part of a yearly educational trip to other cities within the US, Raleigh and Wake County officials went to Boston to learn about their huge new Boston Convention and Exhibition Center. The trip turned sour when they met with Jim Rooney, executive director of the Massachusetts Convention Center Authority. "I don't know what they were smoking," Rooney said, referring to the consultants who predicted, while Boston officials were in the planning stage, that a new center in Boston would bring a large economic impact. The new center is severely underperforming on events and attendance, and the downtown development that was supposed to follow it has not come. "My sense is [consultants] go around the country and say that convention centers are good economic development policy] to a lot of people," said Rooney. The city was expecting to book more than 60 major shows each year, but in 2005 there were only 11.[32] Having already broken ground, Raleigh and Wake County officials tried to focus on the differences between their proposed center and the shiny, new, failing center in Boston. They were only fifteen days into construction, but they failed to take the advice and pull out to minimize their losses.

Boston expected to book more than 60 major shows each year. In 2005, there were 11.

By February 2006, costs had jumped another $23 million to a new total of $215 million. Officials blamed rising materials costs from an especially harsh hurricane season for the 12% cost increase,[33] although the Bureau of Labor Statistics's producer price index for construction materials and components had only increased by 5.2% since ground was broken.[34] But City and County officials think Raleigh needs a top-quality convention center, whether it costs $180 million or $215 million.

What to Expect from Raleigh

Given the new Raleigh Convention Center's short but telling history, Wake County citizens may have to pay even more than $215 million by the time construction is completed. When it opens, the new Raleigh Convention Center will have 212,000 square feet of rentable space (about 510,000 gross square feet) and all the third millennium amenities a convention planner could ever want. It comes with 150,000 square feet of exhibit space, 30,000 square feet of meeting space, and a 32,000 square-foot ballroom. The four-star Marriott headquarters hotel will also have 15,000 square feet of meeting space.

How long will the Convention Center remain on the cutting edge? The original Raleigh Civic and Conference Center was demolished on February 19, 2006, just 29 years after it opened. Similarly, the original Charlotte Civic Center was demolished in 2005, just 32 years after it opened, ten years after it had been replaced. The City of Raleigh and Wake County began collecting taxes earmarked for the construction of a new convention center in 1992, just 15 years after the original Civic and Conference Center opened. The old center was supposed to revolutionize their downtowns, just as the new center is designed to do, but what will it have accomplished by the time it is demolished and replaced?

> ***Raleigh could see about half as many events and attendee days from conventions and tradeshows as estimated.***

The cycle of build, demolish, and rebuild happens because city and county elected officials are not concerned about bad long-term consequences, only short-term politically motivated monuments that provide ribbon cutting photo opportunities. In the long-term they are either out of office or able to divert the blame to others including bad advice from bureaucrats. Given these circumstances, it is extremely difficult for voters to hold them accountable.

As discussed earlier, consultants' estimates of performance should be considered extremely generous, if not wild pipe dreams. If Raleigh performs as poorly relative to projections as cities like St. Louis, Boston, or Charlotte, it could see about half as many events and attendee days from conventions and tradeshows as estimated. In that case, Raleigh would be lucky to have 105 events with 169,000 attendee days per year starting out, growing to 122 events with 245,750 attendee days in later years. Poor performance would clearly and substantially reduce the economic impact of the Convention Center (although construction costs will still be counted incorrectly in the benefits ledger), and would be more evidence that building the Raleigh Convention Center was an unwise investment. In the best case, taxpayers would continue to cover the $1.8 million annual operating deficit, which is likely to grow. In the worst case, the deficit would be much larger and the citizens of Raleigh would even have to subsidize incentive packages (as Charlotte and other cities have done) to draw even a minimal number of conventions.

Jacksonville's Triumph over the Myth

In November 2002, Jacksonville City Council members voted unanimously to take the initial steps necessary for Jacksonville to develop a civic center. They authorized a "development team" of consulting firms, developers, and a lawyer to outline what was necessary to make the complex a reality. The plan was to build a facility through a public-private partnership that was supposed to cost the city around $15 million for the building and $385,000 in annual operation and management fees for the first 15 years. It was projected to bring the area $16 million worth of economic impact, but this economic impact estimate is based on the same faulty economic analysis discussed above. The private sector was going to contribute a privately funded military museum as well as $14 million for the hotel/conference center. The total cost of the Civic Center Complex, including the military museum, was estimated at $46 million.[35]

Although the vote to study the feasibility of a convention center was unanimous, some council members still had reservations about the facility. Councilwoman Nancy Cleveland was reported to say, "I consider this the tip of the iceberg" and "I think the expenses will grow."[36] Despite some skepticism, the project moved forward. It did not make any waves until 2005, when the Jacksonville *Daily News* reported that City Council members were upset about the developer making brochures and advertising the project's finish date before the City Council agreed to it.[37]

Professor Heywood Sanders spoke in June 2005 at a Center for Local Innovation workshop in New Bern. With Jacksonville Mayor Jan Slagle, Councilwoman Nancy Cleveland and Onslow County Board of Commissioners Chairman Lionel Midgett in the audience, he highlighted both the recent downward trend in the convention/exhibit industry and the exaggerated economic forecasts by consultants. "I can't find one [convention center] that I can say worked the way it was supposed to," he said at the meeting in reference to centers in Houston, Atlanta, and Charlotte.[38]

On the other hand, Councilman Horace Mann favored the idea. His motion in July 2005 to have city staff produce a funding plan for the complex passed by a 4-2 margin, with Mayor Pro Tem Jerry Bittner and Councilwoman Nancy Cleveland voting against. "We need to move," Mann said at a meeting in July 2005. "If we build it, they will come."[39] In August 2005, Jacksonville City Council members voted 4-1 to proceed with the project, with City Councilwoman Nancy Cleveland casting the only vote against.[40]

By early September, City Council members had lost faith in the developers because they were unable to schedule meetings with them and they also knew hurricane Katrina (which landed in late August) was going to increase construction costs and make the financial burden too great to support. On September 7, 2005, Mayor Pro Tem Jerry Bittner made a motion to cease negotiations with Summit Hospitality, the Civic Center developer, and that motion passed 5-1. Councilman Horace Mann was the lone dissenter this time. About his decision to put off the project, Mayor Bittner was quoted as saying, "We cannot afford it." Councilman George Mainor, who told the press, "I will not vote our citizens into a debt," clearly supported the motion to pull out of the Civic Center project.[41]

Jacksonville Councilman George Mainor: "I will not vote our citizens into a debt."

Although this seems like a victory over the common convention center myth, there is a fly in the ointment. Mayor Pro Tem Bittner was quoted that same day as saying, "A conference center would benefit the hotel/motel industry, and thus an occupancy tax to help support the cost and operation of a conference center would be much more palatable."[42] No doubt Jacksonville's city council members will consider building a civic/conference center in the future, but hopefully they can learn from other city officials' mistakes and not leave their citizens with the burden of a publicly owned center. By then the convention center disasters in Raleigh and Charlotte will be self-evident and Jacksonville will look at their civic center in a more realistic light.

How to Avoid the "Space Race"

Asheville's Civic Center

The Asheville Civic Center is out of date, losing money, and has been studied four times by different consultants to determine the best way to deal with it. The City has had the current Task Force working on solutions since last fall, not to mention the previous Task Force, which essentially punted after reviewing reports conducted by the consultants they hired.

The current Asheville Civic Center Task Force recently recommended three courses of action to City Council:

1. Convert the Arena to a performing arts center and build a new arena
2. Renovate the Arena and build a new performing arts center
3. Simply renovate the current facilities[43]

The Asheville Civic Center's drain on the City has already been documented in a December 2005 John Locke Foundation report.[44] This report suggested that Asheville City government sell the current facilities to the highest bidder ending the nearly $1 million annual operating deficit and contributing substantially to the budget the sale price. By selling the civic center, the City would be able to focus on higher priority problems such as an underpaid police force, a multimillion-dollar budget deficit, and a much needed $100 million overhaul of the water system.[45] Even if they had to donate it to a non-profit organization, the city would eliminate the nearly $1 million yearly operating deficit. Task force members did not take the suggestion seriously; Max Alexander said, "I don't see a buyer lurking around for the Civic Center, therefore I didn't see it as a very serious suggestion."[46] But there is no reason to expect to see buyers lurking around the Civic Center if the city has not put up a "for sale" sign.

An additional argument used in Asheville is that a civic center that draws on local and state conventions is different from a convention center that attempts to draw national conventions. In fact, civic centers tend to receive less criticism than convention centers for losing money or failing cost-benefit analyses, despite flawed methodology that is biased in their favor. In their "White Paper on the Infrastructure Needs of the Asheville Civic Center," the Asheville Civic Center Task Force wrote in support of civic centers in general, "If they aren't profitable entities why do so many communities build and fund them? Why do state legislatures help pay for them? Why does the federal government invest in them? They serve a valuable role in our communities."[47]

The stated reason for building a publicly owned civic center is always lofty: to promote a sense of community, to support the arts, to enhance culture, and so on. But these admirable goals can be accomplished (if the community truly values them) without using transfers from the City's general fund to subsidize the civic center's operating deficit. The Asheville Civic Center could be owned and operated by a non-profit charity and funded by donations from citizens who value community, art, and culture and by direct user fees, *i.e.*, ticket sales.

Using tax revenue to cover the Asheville Civic Center's operating deficit is wrong for the reasons discussed earlier. Citizens who never use the Center and have no interest in it are forced to pay for its operation. As it is, the Asheville Civic Center inequitably transfers wealth from those who have no interest in it to those who do. The only fair thing to do is to make funding the Civic Center a voluntary action, that is, to stop using tax dollars to subsidize it. To accomplish this, either sell it to the private sector or give it to a nonprofit organization.

Wilmington's Convention Center

The Wilmington Convention Center project has been stopped short of the building phase by a lawsuit. Local hotel owners and operators filed a lawsuit against the City and County in New Hanover County Superior Court in October 2005 that states in its introduction:

> This action is brought … to challenge the constitutionality and statutory legality of a scheme or plan whereby the defendants propose to spend approximately $50 million of public tax monies to construct a convention center for the City of Wilmington and convey or lease it, debt-free and rent-free, to a private entity. …The defendants also propose to deploy public monies to subsidize the construction and operation of a hotel by the same private entity.[48]

The plaintiffs are Glenn Wells (citizen); Innkeeper Properties, Inc; Summit Hospitality Group, Ltd.; and First Carolina Management, Inc. They contend that building the multimillion-dollar convention center with public monies and giving control of it to a private hotel owner constitutes an illegal subsidy to private enterprise.

As of late May 2006, the parties appeared to have reached an agreement. If the state legislature changes the formula allocating the room-occupancy taxes to provide more money for construction of the center, the lawsuit will be dropped and construction will begin.[49]

In the meantime, decision makers in Wilmington and New Hanover County should reconsider the project. Losing the sunk cost of planning and consulting services is a small price to pay to avoid sapping taxpayers for years to come in the event the new center is built.

Conclusion

While the goals of convention and civic centers are lofty and appeal to a sense of pride in the community, city councils must approach these projects realistically. They owe it to the taxpayers to fully investigate the pros and cons of these projects. Consultants' reports must be reviewed with skepticism and alternative approaches must be considered. In fact, the myth that convention centers are a worthwhile economic development strategy must be completely discarded. The private sector is fully capable of offering civic and convention center amenities, as exemplified by the Koury center in Greensboro.

The myth that convention centers are a worthwhile economic development strategy must be completely discarded.

City decision-makers should know by now that civic and convention centers do not work as well as planned. More centers are being built every year while attendance at Tradeshow Week 200 events has stalled at 1993 levels. There are flaws at each stage of the public convention center process: consultants cook the books when predicting convention center performance and impact; convention centers are lousy for economic development; tourists do not pay for them; they are an inequitable wealth transfer from a whole county or region to a narrow downtown area; they are a lasting drain on taxpayers and on city resources; and they are a detriment to essential, priority government services.

Dr. Michael Sanera is Research Director and Local Government Analyst at the John Locke Foundation.

Travis Fisher served as a research intern at the John Locke Foundation from January 2005 to May 2006.

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