



THE TAXPAYERS NETWORK

W67 N222 Evergreen Blvd #202
Cedarburg, Wisconsin 53012-2645
262-782-0763
Fax: (262) 752-0132

July 2003

Convention Center Operations Need Reform *Las Vegas Convention Center Authority Worst in the Nation*

By Marc C. Duff

If you build it, they will come. Or so goes the theory behind convention centers, long-touted as a cornerstone of tourism in metropolitan areas. An infusion of public financing combined with private sector support should, as a practical matter, generate a return with the creation of a venue to accommodate large meetings, luring conventioners with expense accounts to fill hotel rooms, restaurants and local retailers.

It was argued that public support (usually in the form of hotel room taxes) was necessary, because private sector interests were unwilling to invest in expensive convention center development without a commitment from the community. However, public and private sector cooperative efforts to manage convention center operations resulted in the formation of unelected quasi-public/private taxing entities that spend hundreds of millions each year building or expanding convention facilities or on tourism related activities. Policymakers are beginning to note that convention center operations result in consistent deficits, harm to private hotel and meeting facilities, building and expansions despite a lack of demand, and cost overruns. These alarming issues point to the need for thorough oversight over Convention and Visitors Bureaus (CVBs) nationwide.

According to Professor Heywood Sanders of the University of Texas, most convention centers operate with deficits and many are finding convention hotels need tax subsidies.¹ For example, the brand new Washington Convention Center will require an annual subsidy of \$50 million to pay for construction loans and to cover operating losses.² The Charlotte Convention center operates with a \$675,000 deficit. A study released last March by the Texas Citizens for a Sound Economy concluded “the primary impact of tax subsidies for convention center hotels is to hurt existing, privately financed hotels rather than to attract new conventions.” This issue undoubtedly frustrates hotel operators who send convention center entities significant room tax revenues so they can build and subsidize competitors.

Convention center construction often encounters significant cost overruns. The recently opened convention center in Washington, D.C., tabbed to cost \$650 million, had a final cost of \$834 million. Many expect the cost for the convention center project in Boston, with an expected 2004 opening, will jump from \$767 million to over \$1 billion. What is even more troubling is while major cities are spending huge sums to upgrade their convention facilities, statistics from *Tradeshaw Week* show attendance and demand

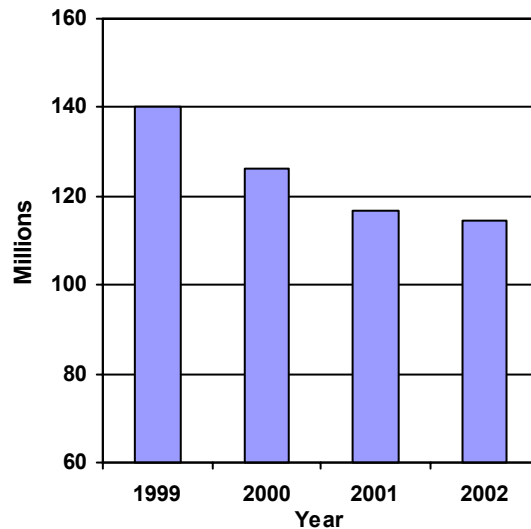
¹ Charles V. Bagli, “A Convention Center Race May Spawn Losers,” *New York Times*, April 3, 2002.

² Steven Pearlstein, “The Convention Center’s Smoke and Mirrors,” *The Washington Post*, March 26, 2003

for space has steadily declined over the past several years. Because of the convention center glut, some cities have begun giving away hotel rooms and space. This practice may only compound lost revenue for the convention centers and contributes to deficit operations.

Spending by CVBs is also coming under increased scrutiny. A review of Cincinnati's CVB prompted major restructuring while discoveries that a senior executive of the Dallas CVB spent \$645 of bureau funds to entertain at topless bars prompted new strict policies. Cleveland's bureau was criticized for expenditures on European trips, expensive golf outings and high-priced dinners.³ A comprehensive review of Hawaii's tourism authority was conducted and numerous reforms are being implemented to improve accountability and performance. Finally, demands to restructure the Pennsylvania Convention Center Authority were accomplished prior to moving forward with expansions in Philadelphia. More questionable expenditures are bound to surface if there was better monitoring of these organizations.

Graph 1: Trade Show Attendance



Source: Calculations based on data from *Tradeshow Week Online* & 4/3/02 *New York Times* article "A Convention Center Race May Spawn Losers," by Charles V. Bagli.

The convention center construction phenomenon emerged when central cities recognized tourism and entertainment development as a way to revitalize their downtowns. Although concerns about lack of oversight were raised, little has been done to stem the tide of convention center expansions in the past decade. From 1992 to 2002, convention center exhibition space in the U.S. and Canada grew to 72.4 million sq. ft., a 28% increase, and there are plans to add another 3.2 million sq. ft. by the end of the decade at a cost of over \$7 billion. Despite evidence showing a 3.1% decline in the size of exhibitions and shows, cities continue waging the convention center expansion wars as they compete for this multi-billion dollar market.⁴ This downward trend will likely perpetuate the deficits and problems facing the nation's convention facilities.

Las Vegas Convention Authority: Gambling and Losing

While there are problems at convention centers throughout the country, the entity that deserves closest scrutiny is the Las Vegas Convention and Visitors Authority (LVCVA). The proposed 2004 budget for the LVCVA is a jaw-dropping jackpot of \$180 million. For comparison purposes, the 2001 budget for the LVCVA was at \$169 million,

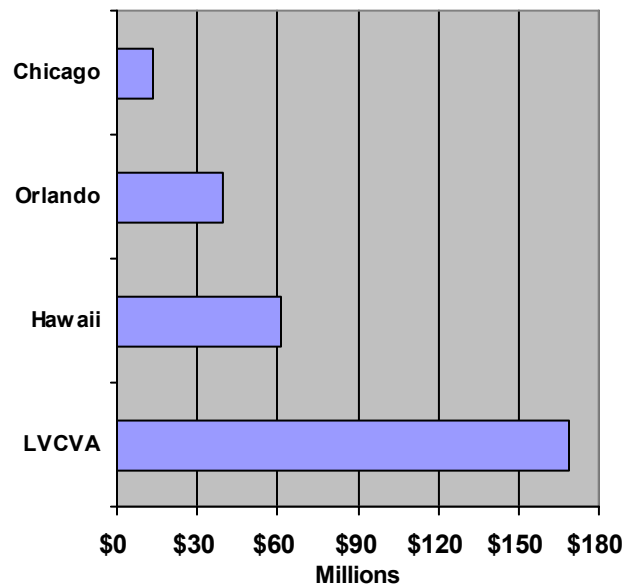
³ Sarah Hollander & Steve Luttner, "Selling Cleveland is a Costly Endeavor," *The Plain Dealer*, May 18, 2003.

⁴ David Laslo and Dennis Judd, "Convention Center Wars and the Decline of Local Democracy", *Journal of Convention & Exhibition Management*, Vol. 4, No. 3, Summer 2003

while the closest budget for a convention bureau was over \$100 million less: Hawaii with \$61.5 million. To further illustrate the enormity of this expenditure, Chicago's relatively modest \$13.7 million budget was ranked 13th in the nation.

When Las Vegas was just a group of casinos in the “dusty desert” with fairly small hotels, area leaders wanted to promote growth by pooling money to build a convention center and market the destination. As a result, the LVCVA was created by the Nevada Legislature in 1955 to accomplish that goal using room taxes to fund the effort. Nearly fifty years later, the city is filled with mega-resorts, many with average weekly occupancies above 90%, and several private sector convention centers have emerged in the marketplace. Some assert the LVCVA, with its \$180 million slush-fund, is now being used more as a political tool to benefit some casino and resort owners to the detriment of others.

Graph 2: Convention Bureau Budgets, 2001



Source: Chicago Convention and Tourism Bureau, 12th Annual Competitiveness Report.

Despite the fact that Las Vegas is one of the top meeting and vacation destinations in the world, the LVCVA provides its convention center with a hefty tax subsidy of over \$20 million. On the other hand, the privately run Sands Expo convention center in Las Vegas makes a profit and receives no tax subsidy. The Sands makes a profit by keeping costs down and charging market prices. For example, the Sands operates with about 50 employees and charges the going rate of 35 cents per square foot. The Las Vegas Convention Center has over 220 employees and only recently increased bargain basement charges from 20 cents to 25 cents per square foot.⁵ In times of deficit spending, it seems unconscionable that tax dollars are being used to subsidize an entity which in turn undercuts viable private sector alternatives.

The effectiveness of the “one-size-fits-all” Las Vegas marketing by the government (LVCVA) should also be considered. Steven Miller from the Nevada Policy Research Institute questions this practice and feels the room tax is comparable to compulsory participation in the government-run generic Las Vegas marketing effort. He points out that because the resorts send huge sums of room taxes to LVCVA, their ability to conduct niche advertising, attract specialized clientele, or invest elsewhere is unnecessarily restricted. Miller also has concerns about the excessive intermingling of the tourism and gaming industry with state and local government. This codependent relationship provides incentives for government officials to bias policies toward the tourism and gaming industry and against non-gaming businesses.

⁵ Barbara Williams, “It’s Time to Uproot the LVCVA’s Money Tree,” *NPRI Op Ed*, August 18, 2000

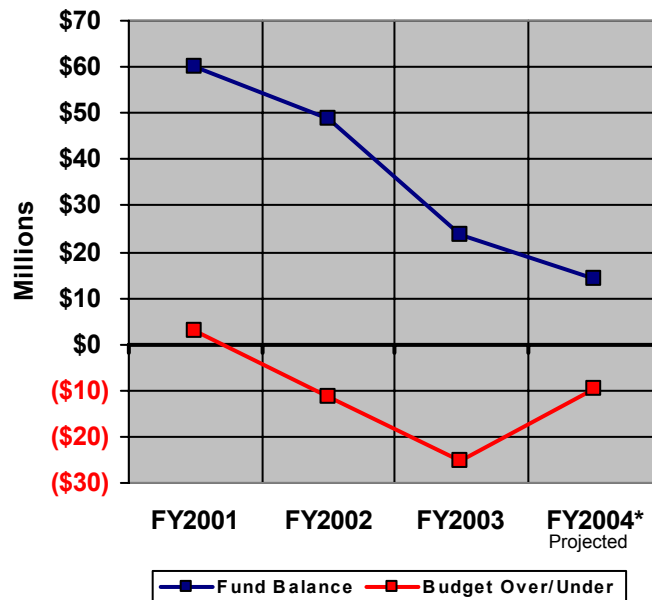
There is no better time to pursue convention bureau reforms, especially of the LVCVA. The post 9/11 era and a struggling economy have caused a drop in tourism and lower tax revenues to most state and local governments. As can be seen in Graph 3, there are troubling fiscal signs at LVCVA due to operating deficits over the past several years and a fund balance that has declined by more than 76% since the 2001 fiscal year.

Because the LVCVA was created by the state in 1955, meaningful reforms can only be accomplished if the Nevada Legislature and the governor decide to take action. The time is also right for the State of Nevada to prompt these convention bureau reforms. The slow national economy that has contributed to significant deficits for many states has also helped push the revenue shortfall for the State of Nevada to a projected \$700 million for their 2003-05 biennial budget. In order to address the fiscal crisis, Governor Kenny Guinn and the Legislature are poised to pass a tax increase that could exceed \$850 million. Rather than seek tax increases, reforms to the operations and revenue structures of Nevada's convention center authorities could allow savings to be reallocated to address the state's budget problems.

There are numerous actions could be taken to both generate savings in the LVCVA budget and institute positive reforms to make their operations more accountable and cost effective. The options to consider include:

- **Reform the LVCVA:** A thorough audit of the authority's operations or a state task force could be appointed to develop changes and reforms to the LVCVA. A similar action was taken to reform the Hawaii Tourism Authority. Some of the reforms could also include enhancing accountability, enhancing public participation in decision making and changes to prevent the authority from being used as a political tool to benefit some over others.
- **Reduce Funding:** Considering the mammoth budget of the LVCVA, they could probably manage a reduction. Someone may also want to ask a simple question. ... "What are we getting for this much money?" Most CVBs in the country are dealing with budget reductions. For example, the state recently eliminated its \$13 million annual appropriation to the Massachusetts Convention Center Authority, which was 40% of their budget.

Graph 3: LVCVA Budget Condition



Source: Las Vegas Convention and Visitors Authority proposed FY04 Operating Budget

- **Utilize Privatization:** A more extensive use of private companies to operate the convention center and its services could prompt savings. An effort to privatize the much smaller Fresno Convention Center is estimated save almost \$1 million.⁶
- **Sell the Convention Center:** It might be possible to sell the Las Vegas Convention Center and get the LVCVB completely out of the money losing venture. While many convention centers fail to make a profit, the privately owned and operated Sands Expo convention center has proven it can be done...especially in Las Vegas. The funds and savings that could be generated from this action would be enormous.
- **Lower the Room Tax:** Lowering the room tax would automatically reduce revenues to the LVCVA prompting them to adjust their expenditures. This could, however, allow the individual resorts to utilize the savings to other types of specialized marketing efforts.
- **Redirect Room Tax Revenues:** Portions of the room tax revenues could be diverted away from the LVCVA to different economic development efforts in order to diversify the state economy.

Reigning in Convention Center Problems

While this report focuses on the Las Vegas Convention and Visitors Authority primarily due to the size of its budget and significant problems, it is clear the operations of CVBs throughout the country are in need of better scrutiny and reform. The trouble began in the 1980's when civic leaders, mayors and other local government officials succeeded in creating largely unaccountable public/private entities to undertake these expensive convention center projects. A primary motive behind creating these independent bodies was to bypass the governmental and bureaucratic hurdles and avoid public scrutiny. They were allowed to operate like private corporations, but were also given the governmental powers of eminent domain, borrowing, bond issuance, and, in many cases, taxation. As a result, in more and more cases, fiscal decisions over the billions of dollars spent on constructing convention centers or tourism initiatives were no longer considered by an elected governmental body. In addition, private convention center entities effectively bypass public participation by avoiding referendums to approve many of these multi-million dollar facilities.⁷

Perhaps the simple solution to reforming what appear to be wasteful convention and tourism entities throughout the country is to turn back the clock to the pre-1980s. This can be done in two ways:

1. Abolish the independent CVB entity and place the operational and fiscal authority with the appropriate governmental body. Involving elected officials in the decision making process generally leads to more public scrutiny. It may also be effective to have the governmental body contract with a private entity manage the convention and tourism responsibilities. In addition, referendums or ballot initiatives to approve the construction or major renovation of convention center facilities would prompt the ultimate level of accountability and scrutiny.

⁶ John Ellis and Pablo Lopez, "Mayor Expects Budget Battle," *The Fresno Bee*, May 20, 2003.

⁷ David Laslo and Dennis Judd, "Convention Center Wars and the Decline of Local Democracy", *Journal of Convention & Exhibition Management*, Vol. 4, No. 3, Summer 2003

2. Many effective reforms can also be considered if an independently operated CVB is still desired. Some of these reforms include requiring regularly scheduled operational audits of the convention center entity to generate improved operations and provide better scrutiny; modifying the entity's governance structure in a way that promotes accountability and scrutiny; make sure tax revenue streams to the entity are not automatic and are subject to approval by a governmental body; and require any bonding or borrowing for major capital projects to be subject to approval by the appropriate level of government.

Finally, measures need to be taken to generate more accurate feasibility studies for convention center projects done by national accounting or economic research firms. Research shows the feasibility studies consistently overestimated the growth in tradeshows and conventions and the evidence of slowdown or decline has been ignored. The studies consistently include recommendations to continue to expand in order to compete with other convention venues, even though clear evidence shows there is an oversupply of space and facilities.⁸

Conclusion

Hundreds of millions of dollars are invested annually in convention centers, often resulting in massive tax subsidies to abate deficit operations. This problem is largely attributable to the creation of independent convention and tourism entities, many of which were structured to avoid public oversight. Government officials, community leaders and citizens groups should actively scrutinize the operation of convention and tourism entities in their areas and pursue prudent reforms. Proper oversight of convention center authorities combined with periodic evaluation of local needs will strengthen communities, and make convention center facilities the vital component of tourism that they were intended to be.

⁸ Heywood T. Sanders, "Flawed Forecasts: A Critical Look at Convention Center Feasibility Studies," *Pioneer Institute for Policy Research* – White Paper #9, November 1999.

Appendix:

**Table 1: Convention and Visitors Bureau Annual Budgets, 2002
(Millions)**

Las Vegas	\$168.7	Austin	\$6.7
Hawaii	\$61.5	Kansas City	\$6.5
Orlando	\$39.4	Portland OR	\$6.4
Reno	\$25.0	Charleston SC	\$6.1
Kissimmee	\$23.4	Milwaukee	\$6.0
Los Angeles	\$22.3	Columbus OH	\$5.9
San Antonio	\$16.8	Memphis	\$5.8
Atlanta	\$16.6	Louisville	\$5.8
San Diego	\$16.2	Albuquerque	\$5.7
San Francisco	\$15.8	Toronto	\$5.7
Miami	\$15.8	Vancouver	\$5.3
New York City	\$14.5	Charlotte	\$5.1
Chicago	\$13.7	Sacramento	\$5.0
St. Louis	\$13.2	Tucson	\$5.0
Dallas	\$13.1	Cincinnati	\$4.9
Montreal	\$13.0	Whistler	\$4.9
Houston	\$12.5	Birmingham	\$4.0
Philadelphia	\$11.4	Lexington	\$3.9
Phoenix	\$11.1	Tulsa	\$3.8
Detroit	\$10.9	Richmond	\$3.2
Pittsburgh	\$10.8	Buffalo	\$3.1
New Orleans	\$10.7	Calgary	\$2.9
Boston	\$10.0	Raleigh	\$2.8
Washington DC	\$10.0	Jacksonville	\$2.6
Atlantic City	\$9.1	Ottawa	\$2.4
Quebec City	\$8.8	Providence	\$2.4
Indianapolis	\$8.7	Wichita	\$2.3
Baltimore	\$8.4	Omaha	\$2.3
Nashville	\$8.4	Des Moines	\$2.2
Salt Lake City	\$8.3	Grand Rapids	\$2.2
Seattle	\$8.2	Springfield IL	\$1.9
Cleveland	\$8.0	Madison	\$1.8
Anaheim	\$7.9	Hartford	\$1.7
Minneapolis	\$7.7	Greenville	\$1.5
Fort Lauderdale	\$7.6	Boise	\$1.5
Tampa	\$7.6	Spokane	\$1.4
Denver	\$7.1	Winnipeg	\$1.0
Anchorage	\$7.0	Edmonton	\$0.9
San Jose	\$6.8	Pierre	\$0.2
Scottsdale	\$6.7	Billings	\$0.2
		AVERAGE	\$10.6

Source: Chicago Convention and Tourism Bureau, 12th Annual Competitiveness Report

The Taxpayers Network is a non-profit social welfare organization founded in 1992 with the mission of educating its members and the general public about American government and public policy. The Taxpayers Network conducts and publishes research with the goal of generating policy discussions in the areas of government programs and expenditures, taxation, economic prosperity, Social Security and retirement programs, education and other matters.

The Taxpayers Network
W67 N222 Evergreen Boulevard, Suite 202
Cedarburg, WI 53012-2645
Phone: 262.752.0137
Fax: 262.752.0132

For more information about The Taxpayers Network, or to access and online version of this document, please visit our website at:

www.taxpayersnetwork.org

Please contact us if you would like additional copies of this report, subject to availability. For questions about this report or other research by The Taxpayers Network, please contact:

Marc C. Duff, Senior Research & Policy Director
Phone: (262) 782-0763
email: mduff@taxpayersnetwork.org

Amy McGee Polasky, Executive Director
(262) 752-0137

About the Author:

Marc C. Duff is the Senior Research and Policy Director for The Taxpayers Network. He served in the Wisconsin State Assembly from 1989 until 2002 where he was a member of the state's budget committee and previously chaired the Committee on Environment. He received his Master of Arts in Public Policy and Administration from the LaFollette Institute of Public Affairs at the University of Wisconsin – Madison.