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OFFICE OF THE
CITY MANAGER

CITY OF SACRAMENTO
CALIFORNIA

CITY HALL
ROOM 101
915 I STREET
SACRAMENTO, CA
95814-2684

August 14, 1990

Budget and Finance and
Transportation and Community Development Committees

916-449-5704
FAX 916-449-8618

Honorable Members in Session:

SUBJECT

**Phase II Market, Financial and Economic Study of the Community/
Convention Center Expansion Project**

SUMMARY

The attached report requests that the City Council accept and file the Phase II Market, Financial and Economic Study of the Community Convention Center Expansion Project completed by Coopers and Lybrand.

This report is scheduled to be considered by the City Council on the same date in order to avoid a duplication of travel expenses by the consultants.

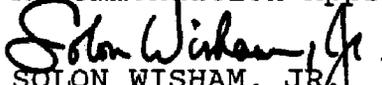
RECOMMENDATION

It is recommended that the Budget and Finance and Transportation and Community Development Committees review and recommend acceptance of the attached report.

Respectfully submitted,


KEITH T. KRAMER
Senior Management Analyst

Recommendation Approved:


SOLON WISHAM, JR.
Assistant City Manager

Contact Person:

Keith T. Kramer
Senior Management Analyst
449-5845

August 14, 1990
District 1



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Convention Center Expansion Project**

SUMMARY

This report requests that the City Council accept and file the Phase II Market, Financial and Economic Study of the Community/Convention Center Expansion Project completed by Coopers and Lybrand.

The Phase II study identifies a strong demand for a convention center in Sacramento in the range of 130,000 to 150,000 square feet of exhibition hall space. The report further identifies significant long-term economic benefits to the City and the community from the expanded Community Convention Center.

BACKGROUND

Phase I Study

In July 1987, the City entered into an agreement with Coopers and Lybrand to perform a Phase I Marketing Analysis of the Sacramento Community/Convention Center Expansion Project. A final draft report was completed in December 1987. The objectives of the Phase I Study were to evaluate the market feasibility of an expanded Community/Convention Center and to provide recommendations as to the design characteristics and retail development necessary to support such a facility.

At the time of Coopers and Lybrand's Phase I Study, the City was in the process of evaluating the site alternatives and the architectural program had not yet been developed. Therefore, the Study took a relatively generic approach in studying the feasibility of expansion. The Phase I Study concluded that there is sufficient market demand for local, state and regional conventions to support a convention facility expanded to

approximately 150,000 square feet of exhibit hall, adding a 20,000 square foot ballroom, and an additional 20,000 square feet of meeting rooms.

Phase II Study

Since the Phase I Study was completed, the City has selected the specific expansion site, the East Alternative. The project's architects have completed the architectural program and have begun the conceptual design process. On April 17, 1990, the City Council authorized an agreement with Coopers and Lybrand to complete a second, site and program specific market study. The scope of this study focused on three areas of analysis: market analysis, financial impact and economic impact.

The Study has been completed and is being transmitted to the Council through this report. The substantive findings are presented in this report; a copy of the Executive Summary is attached to this report. Full copies of the Study were distributed independently to the Council. A public information meeting was held on August 13, for the purpose of presenting the findings from the Phase II Study and to allow interested members of the public to address questions directly to representatives of Coopers and Lybrand.

ANALYSIS

The findings and recommendations from the Phase II Study are generally consistent with those from the Phase I Study. The notable change in the Phase II Study concerns the recommendation of 30,000 square feet of ballroom space instead of 20,000 square feet, as recommended in Phase I. The substantive findings and recommendations are listed here:

- The existing Sacramento Community/Convention Center is lagging behind its competition in terms of quality and amounts of exhibition and meeting space.

This has resulted in a steady decline in usage over the past five years as conventions have outgrown the space available here and/or have sought new facilities with modern amenities.

- Current and future demand warrants an expansion of the Sacramento Community/Convention Center to a range of 130,000 to 150,000 square feet of exhibition hall space. In addition, there should be ballroom space of about 30,000 square feet, 30,000 square feet of first class meeting space, and a minimum of 10 to 14 loading docks.

The project's architects (Vitiello with LMN) are indicating a design which includes about 140,000 square feet of exhibition hall space, 34,000 additional square feet of

meeting rooms, about 25,000 square feet of ballroom, and 13 loading docks.

- The economic impact in 1998, the first year of mature operations (the new facility will open in mid-1994), is estimated to result in a total output of about \$88.6 million and create about 1,930 direct and indirect jobs in a wide range of industries throughout the community.

These are all new dollars being brought into Sacramento as a result of activities at the Sacramento Community/Convention Center. This does not include dollars spent by the City and does not include inflation. By contrast, the total output and jobs estimated for 1998, if the Center does not expand, are \$33 million and 717 jobs.

- Hotel room nights attributable to conventions are projected to increase to 226,000 in 1998, compared with 48,000 in 1990.
- Transient Occupancy Tax revenues are projected to increase to \$10.2 million for the Community Center Fund and \$1.5 million for the General Fund by 1998 (excluding inflation).
- Construction of the Sacramento Community/Convention Center Expansion will result in the creation of about 2,355 short-term annual jobs and a total output of about \$149 million.

The methodology used by Coopers and Lybrand includes the assumption of conservative growth rates for the new Center. They have estimated growth in attendance of between 1 and 3 percent each year.

Convention Center Retail Analysis

Coopers and Lybrand analyzed the potential of locating retail space within the design of the convention center. Their research revealed that retail space is not a common component of a typical convention center. In fact, very few convention centers include retail space within the facility proper. Those centers that have included retail space have generally been disappointed with the results.

The principal advantage of locating retail space in convention facilities is for the convenience of the convention attendees. The disadvantages include higher management and operating expenses, reluctance on the part of the general public to go into a convention complex to shop, and that convention attendees alone cannot support major retail developments.

Therefore, Coopers and Lybrand does not recommend that the Sacramento Community/Convention Center include major retail space within its expanded facility. They find that "the advantages of

having retail space within the facility do not outweigh the risks involved, and surrounding retail establishments can provide for the needs of convention attendees."

Although convention center attendees alone cannot support major retail development, they are "a significant component of support for retail establishments in close proximity to the Convention Center and possibly a catalyst for new retail development." In this respect, "a convention facility serves as a magnet for the downtown business development."

Hotel Analysis

Coopers and Lybrand surveyed the available hotel rooms in the Sacramento area. They distinguished hotels by class and location and identified the number of committable rooms available for convention attendees. They also surveyed event planners and organizers to determine what their preferences are in terms of location, price and quality.

Based on the average number of hotel rooms required per event, Coopers and Lybrand conclude that "a sufficient number of committable quality hotel rooms are not available when individual market segments are analyzed." To fully capture the potential market demand of conventions a primary convention hotel will need to be developed. There are several hotel projects currently projected for downtown Sacramento. According to Coopers and Lybrand: "based upon the experience of other cities in comparable situations, additional hotels will be developed if the demand exists."

It is estimated that the overall average occupancy rate of hotels is about 62 percent. With the expansion of the Community/Convention Center, and assuming capturing its full market potential, the overall average occupancy rate is projected to increase to 67 percent by 1998. The expanded Community/Convention Center will generate 126,000 hotel room nights in 1994, and 226,000 in 1998, compared with 48,000 in 1990 with the current facility.

Parking

In their survey of event planners and organizers, Coopers and Lybrand found that the adequacy of parking facilities will be a significant factor in successfully marketing the facility, especially to public shows. National conventions do not have significant parking requirements as most of the attendees would reach Sacramento by air transportation. The report recommends that approximately 1,200 to 1,500 total parking spaces be available within a 4-6 block area for the Sacramento Community/Convention Center's use to provide for simultaneous utilization of tradeshows and conventions.

This does not suggest that there is a shortage of 1,200 to 1,500 parking spaces, rather that this number should be committable to the Community Convention Center. A specific recommendation on parking will be presented in September.

MBE\WBE

None.

FINANCIAL

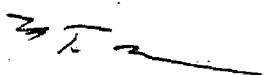
The study indicates that the expanded Sacramento Community Convention Center will generate an additional \$1,394,000 in Transient Occupancy Tax (T.O. Tax) to the Community Center Fund and \$443,000 in sales tax and \$210,000 in T.O. Tax to the City's General Fund in 1998 (not adjusted for inflation).

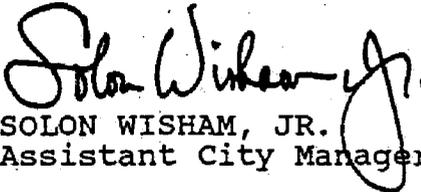
The analysis of operating revenues, expenses and debt service is generally consistent with staff's projections. As with most other facilities surveyed by Coopers and Lybrand, the City's T.O. Tax will continue to fund a portion of the operation of the facility.

RECOMMENDATION

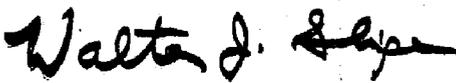
This item is for City Council information only. It is recommended that the City Council accept and file the Phase II Market, Financial and Economic Study on the Sacramento Community Convention Center Expansion Project.

Respectfully submitted,


KEITH T. KRAMER
Senior Management Analyst


SOLON WISHAM, JR.
Assistant City Manager

Recommendation Approved:


WALTER J. SLIPE
City Manager

Contact Person:

Keith T. Kramer, 449-5845
Solon Wisham, Jr., 449-5704

August 14, 1990
District 1

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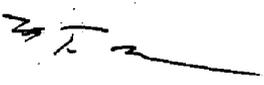
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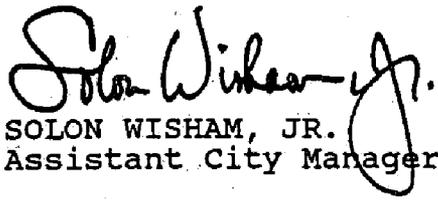
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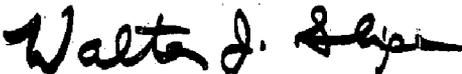
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August 14, 1990
District 1



PHASE II

*MARKET, FINANCIAL AND ECONOMIC ANALYSIS OF THE
SACRAMENTO COMMUNITY CONVENTION CENTER EXPANSION*

EXECUTIVE SUMMARY

JULY 19, 1990

**Coopers
& Lybrand**

Coopers
& Lybrand

certified public accountants

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Suite 3000
Dallas, Texas 75201

in principal areas of the world

management consulting
services division

telephone (214) 754-5000
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July 30, 1990

The Honorable Mayor
and City Council
City of Sacramento
915 I Street
Sacramento, CA 95814

Dear Gentlemen:

We have completed the Sacramento Community Convention Center Market, Financial and Economic Analysis Study. The attached report summarizes our research, analysis and conclusions and is intended to assist the City of Sacramento in evaluating its current and future public assembly facility market demand.

The report presents our recommendations as to the exhibition, meeting and ballroom space needs of the Sacramento area, as well as the financial and economic impacts of both expanding the existing facility and maintaining the existing facility.

As in all studies of this type, the estimated results are based on competent and efficient management of the Sacramento Community Convention Center and assumes that no significant changes in the convention, trade show and meeting event markets will occur beyond those set forth in this report.

We sincerely appreciate the assistance and cooperation you and your representatives have provided in the completion of this engagement and would be pleased to be of further assistance in the interpretation and application of our findings and opinions.

Very truly yours,

Coopers & Lybrand

COOPERS & LYBRAND

Enclosures

PHASE II

MARKET, FINANCIAL AND ECONOMIC ANALYSIS OF THE
SACRAMENTO COMMUNITY CONVENTION CENTER EXPANSION

EXECUTIVE SUMMARY

This summary outlines the key findings of our market, financial and economic analysis of the Sacramento Community Convention Center. The primary purpose of the study was to determine the market demand for the Sacramento Community Convention Center and to quantify the financial and economic variables associated with expanding the Sacramento Community Convention Center. This summary is divided into two components. The first section is a brief outline of our key findings and recommendations, while the second section provides these conclusions in a more detailed manner. The research in Phase II is consistent with the research performed in Phase I of the study. The major change in the Phase II report concerns the recommendation of 30,000 square feet of ballroom space instead of 20,000 square feet as recommended in Phase I. Our full report should be read in its entirety to obtain the background, methodology and assumptions underlining the conclusions.

I. Basic Findings and Recommendations:

- . The existing Sacramento Community Convention Center is lagging behind its competition in terms of quality and amounts of exhibition and meeting space.
- . Current and future demand warrants an expansion of the Sacramento Community Convention Center to a range of 130,000 to 150,000 square feet of exhibition hall space.
- . The expanded facility should include a minimum of 130,000 gross square feet of exhibition space.
- . The Sacramento Community Convention Center should contain ballroom space of approximately 30,000 square feet, strategically designed to optimize its use as ballroom space, exhibit space or meeting space and approximately 30,000 square feet of first class meeting space.

- . The economic impact in 1998, the first year of mature operations, is estimated to result in direct spending by Convention Center users of approximately \$43.1 million creating total output of approximately \$88.6 million and creating approximately 1,930 direct and indirect jobs in a wide range of industries throughout the community.
- . In addition to the quantifiable benefits, the non-quantifiable benefit of exposing convention/tradeshow attendees and their families to the City attributes will create more consistent views of the State and City and will have a positive impact on the area tourism industry.
- . Total transient room tax revenues are expected to increase from \$9.0 million in 1994, to over \$23.2 million by 2013 in 1990 dollars. Hotel room nights attributable to conventions and tradeshow are estimated to increase to 126,000 in 1994, from the current room night demand of approximately 48,000.
- . It is estimated that the construction period of expanding the Sacramento Community Convention Center will result in the creation of approximately 2,355 annual jobs and a total output of approximately \$149 million.
- . The expanded Sacramento Community Convention Center should primarily target conventions and tradeshow up to 50,000 gross square feet of exhibition space and public shows. Conventions and tradeshow that utilize over 50,000 square feet of exhibition space should represent the facility secondary market.
- . The overall average occupancy rate for all hotels in the City and County is estimated to be approximately 64 percent in 1994, 67 percent in 1998 and 67 percent by 2003.

II. Detailed Conclusions:

Review of Historical Operations

A review of the Sacramento Community Convention Center historical event lists for the past five years indicates that event day utilization has decreased while the beneficial occupancy has shown a slight increase. Based on our findings and discussions with management, a lack of sufficient exhibition space at the Sacramento Community Convention Center has contributed to a decrease in the number of events and resulted in its inability to realize its full market potential. The increase in beneficial occupancy indicates that the average size of the events in terms of exhibition space usage is growing and reflects the fact that the mix of conventions to tradeshow has trended toward more tradeshow which typically use more exhibit space than conventions.

In an increasingly competitive public assembly event environment, with larger and more sophisticated trade associations and organizations, the Sacramento Community Convention Center has not upgraded its existing physical facilities since 1974. The marketplace has begun to extract a price for this strategy in terms of lost business. The existing Sacramento Community Convention Center has fallen behind its competitors in the size and quality of facility that can be offered to the potential users. The list of cancelled events has grown each year as improvements and expansions to competing facilities continue to come on-line, thereby eroding the competitive position of the existing Sacramento Community Convention Center.

Analysis of Competitive and Comparable Facilities

The changes to the public assembly industry that have taken place in recent years is having a significant impact on the types and quality of facility demanded by event organizers. Both physical and operational aspects of convention facilities throughout the country have improved in order to keep pace with these changes. However, although efforts have been made to keep up with emerging trends, none of the facilities reviewed provided amenities or services beyond those currently offered in the facility market place. To be competitive in this market, the expanded Sacramento Community Convention Center will need to include the design components detailed in the Facility Recommendation section of this report.

At many facilities reviewed, public show utilization is important to maintaining facility utilization percentages. These public shows are an integral part of any convention center's operational success, but without equal success in attracting national, regional, and state conventions and trade shows, the viability of a facility is jeopardized.

Attracting out-of-town delegates increases the economic impact of the event on the community and state. The convention and trade show business brings new money into the City, County and State without requiring social services such as schools and roads. Recognizing this, many of the facilities analyzed in our survey have or will soon be upgrading and expanding. In order to attract a larger number of non-public exhibition and nonexhibition space users, facility improvements will have to take place at the Sacramento Community Convention Center.

Market Potential for Public Assembly Facilities in Sacramento

The primary market for the Sacramento Community Convention Center will be National/Regional and State events that utilize up to 75,000 net square feet of exhibition space.

Market penetration estimates for 1994 indicate approximately 280 usage days by events requiring up to 75,000 net square feet of exhibition space. The usage days generated by events requiring up to 75,000 net square feet of exhibition space are expected to increase to approximately 450 by 2003.

Current public show utilization of the Sacramento Community Convention Center provides a significant and stable source of total event day utilization.

Market penetration estimates for 1994 indicate approximately 90 usage days by public shows and in 2003 approximately 118 usage days will be utilized by public shows.

Facility Recommendation

Based on our analysis of market potential, we have identified the major facility requirements necessary to accommodate the estimated level of event demand.

The Sacramento Community Convention Center should be expanded to include a range of 130,000 to 150,000 square feet of exhibition hall space and approximately 30,000 square feet of top quality, flexible meeting space. In providing these facility requirements, both improvement of existing space and additions of new space will be necessary.

The proposed expansion to the Sacramento Community Convention Center should contain ballroom space of approximately 30,000 square feet, strategically designed to optimize its use as a ballroom, exhibit space or meeting space.

Support space, such as lobbies, food services areas and storage areas should be planned to efficiently meet the needs of current and potential users.

The Sacramento Community Convention Center should maintain the existing auditorium/theater which seats over 2,400 and will adequately accommodate the plenary session needs of a majority of the facility's potential events, when available. If not available, the ballroom and existing exhibit hall could be used to accommodate these plenary functions.

The adequacy of parking facilities will be a significant factor in the success of an expansion of the Convention Center. We recommend that approximately 1,200 to 1,500 total parking spaces be available for Convention Center use to provide for simultaneous utilization and public shows. The designated parking area should not be more than 4-6 blocks away from the Convention Center.

Hotel Analysis

Adequacy of Hotels

Based on the average number of hotel rooms required per event in each market segment and the number of committable hotel rooms in the primary and secondary convention/tradeshow hotel categories it is apparent that sufficient number of committable quality hotel rooms are not available when individual market segments are analyzed.

Event organizers and planners consider the availability of convention/trade show type hotels important, and with the current availability of these hotels in Sacramento, the Convention Center will be limited in its ability to attract its full market potential. To fully capture the potential market demand of conventions and trade shows a primary convention/trade show hotel(s) will need to be developed.

Transient Room Tax Analysis

A primary source of funding operating deficits at numerous facilities throughout the United State comes from portions of a transient room tax. Estimates of the level of transient room tax revenue were developed on the basis of legislation, regulations and annual tax revenue appropriations on a city-wide level currently in effect. We assume there will be a separate one time increase in the occupancy percentage in 1994 to account for the completion of facility expansions. The following chart outlines these estimates.

	<u>1990</u>	<u>1994</u>	<u>1998</u>	<u>2013</u>
Transient room tax revenues:				
10.0%	\$6,240,000	\$7,826,000	\$10,180,000	\$20,180,000
1.5%		<u>1,174,000</u>	<u>1,527,000</u>	<u>3,027,000</u>
Total	<u>\$6,240,000</u>	<u>\$9,000,000</u>	<u>\$11,707,000</u>	<u>\$23,207,000</u>

Retail Analysis

Our survey of potential user groups indicated the importance of on-site or nearby retail as being moderate. The main advantage of having retail space within convention facilities is convenience for attendees. The main disadvantages are that attendees cannot support major retail developments, management and operating expenses can be high, and the general public is reluctant to go into a convention complex shop.

We do not recommend that the Sacramento Community Convention Center include major retail space within its expanded facility. Surrounding retail establishments can provide for the needs of convention attendees without the risks of being located within the facility. Although Convention Center attendees can not alone support major retail development, they are a significant component of support and possibly a catalyst for new retail development in the downtown area.

Major retail located in close proximity to the Convention Center, such as along K Street would be suggested. Retail establishments on K Street would benefit from a diverse customer base including convention attendees, visitors or the downtown area and local residents.

Retail establishments having the potential to be successful include stores selling convenience items, upscale specialty items and collectibles, a copy center, a bank, a post office substation, a men's and/or women's light clothing and accessories store, a carry-out beverage store and restaurants.

Marketing Plan

In order to fully attract and accommodate the potential event market, there are a number of short and long-term marketing initiatives which should be considered. In general, short-term marketing is most effectively handled by a partnership of convention facility marketing staff with members of the Convention and Visitors Bureau. Short-term marketing should include the solicitation of local conventions and various off peak activities to fill gaps in the current year's calendar of operations, as well as attending to the requirements of events as they use the facility.

The key to the success of marketing a facility in the short-term revolves around an in depth knowledge of both the physical and operational aspects of the facility. Often times a member or members of the convention center staff will therefore take responsibility for implementing these short-term, marketing efforts.

The long-term promotion of a facility involves a far more wide ranging effort with regional and national emphasis. This aspect of promotion incorporates not just the convention facility, but the entire city as a meeting, entertainment, business and vacation destination. This type of

marketing requires the resources and expertise of a convention and visitors bureau staff, especially with a facility expansion opening up new event markets throughout the country.

Financial Analysis

An analysis of potential operating results was developed on the basis of preliminary design, cost and configuration information for the proposed expanded facility.

	<u>1994</u>	<u>1998</u>	<u>2013</u>
Operating receipts	\$2,365,000	\$3,215,000	\$ 4,049,000
Operating disbursements	<u>3,896,000</u>	<u>4,435,000</u>	<u>4,976,000</u>
Excess of operating disbursements over operating receipts	(\$1,530,000)	(\$1,220,000)	(\$ 926,522)
Other receipts and disbursements	<u>2,784,000</u>	<u>775,000</u>	<u>10,775,</u>
Excess of receipts over disbursements	<u>\$1,254,000</u>	<u>(\$ 445,000)</u>	<u>\$ 9,848,317</u>

This analysis is based on the results of our market study. Operating results similar to those outlined above are common at facilities throughout the country.

Economic Impact Analysis

The primary reason to support the construction and operation of a convention center focuses on the levels of economic impact generated within a community and throughout a state. Based on our analysis of Sacramento Community Convention Center event day utilization levels, we have estimated the annual economic impacts for Sacramento and throughout the State of California generated by Sacramento Community Convention Center operations. The estimates assume completion of Sacramento Community Convention Center renovation in

1994 and an expanded total of 140,000 gross square feet of exhibition space by 1994. The economic impact estimates for 1998, the first year of mature operations are outlined in the following chart:

	<u>Operating Results- 1998 (Expressed in 1990 dollars)</u>
Direct spending	\$43,100,000
Total output	\$88,600,000
Employment (number of new jobs)	1,930
Wages and salaries	\$27,500,000
City sales tax revenue	\$ 443,000
Total transient room tax revenue: (1)	
Convention Center Fund	\$ 1,394,000
General Fund	\$ 210,000

(1) Represents the transient occupancy tax revenue related specifically to convention and tradeshow activity.

The above estimates are based on our estimates of event day utilization and attendance levels, as well as estimated attendee spending patterns. The following chart provides a breakdown of these spending patterns by industry:

<u>Industry</u>	<u>Percentage of Total Spending</u>
Hotel	32.3%
Restaurant	31.3
Entertainment	7.1
Retail	1.2
Local transit	6.1
Other	<u>12.1</u>
Total	<u>90.1%</u> (1)

(1) This breakdown does not total 100 percent due to the fact that the majority of retail production and transportation take place outside the local area. The percentage of total spending attributable to the retail industry has therefore been adjusted down.