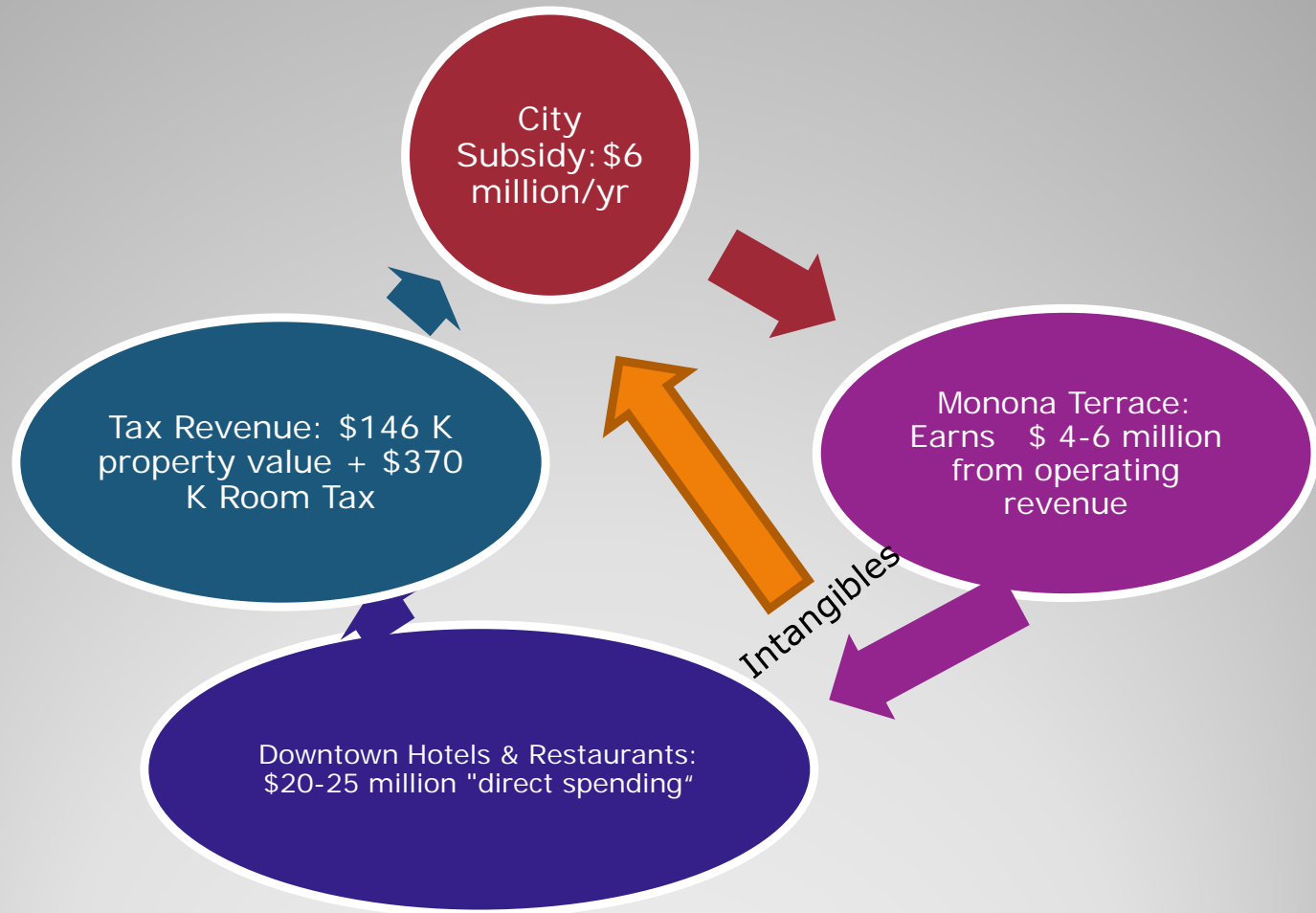



Does Madison Need a Second Convention Hotel? A Needs Analysis

David Ahrens, 15th District Alder

October 2013




The Monona Terrace Business Model


- 
- “Direct Spending”: Refers to expenditures by attendee or sponsoring organization on hotel, restaurants, exhibits, car rental. MT claims direct spending in 2012 of \$32 million.
 - “Economic Activity”: Refers to the secondary effects of direct spending. Also known as an “economic multiplier”, “job multiplier”, etc. Substantial variation in measurements and how we attribute secondary effects. Claims of economic effects vary.

Definition of Terms


- The level of hotel and restaurant revenue is not known because little reliable data has been systematically collected. Thus, there is little evidence to determine the economic benefit.
- Several methods for determining spending and economic activity were used without explanation or correcting previous reports.
- The use of a 1.6 multiplier to determine economic activity is more than twice the rate than accepted by non-industry experts.
- Attendance records appear to be inflated. Actual number of “room nights” are unknown.

Summary

- 
- “Direct Spending” and “Economic Activity” underlie the “business model” of MT and the argument for a second hotel.
 - Note: Every expenditure results in “economic activity.” Education expenditures, tax cuts result in various levels of “economic activity.”

- 
- Construction 190.06
 - Manufacturing 290.78
 - Durable Manufacturing 371.53
 - Retail Trade 88.45
 - **Eating + Drinking Establishments 107.23**
 - FIRE 240.73
 - Business Services 163.79
 - **Other Services 111.44**
 - 100= equal number of jobs established (100)
 - (Source: St. Louis Federal Reserve)


Industry Downstream Multipliers

- 
- MT reports are based on multiplying “direct spending” by 1.6 to determine the “economic activity.” Thus, \$20 million in “direct spending” becomes \$32 million in “economic activity.”

Source: Baker Tilly, 2010-13

- MT's methods for determining annual direct spending have changed many times over the last ten years.
- Each of these methods have resulted in very different outcomes.

Methods for Determining Spending

- 
- In 2008, data was based on a national average. It assumed conferees spent hundreds of dollars on retail purchases, sightseeing, recreation, etc.
 - Direct spending was determined by multiplying number of attendees by the national averages of \$864 or \$1164.
 - These data were used despite notes that the actual average daily room rate was **\$111.00** and the average stay is **three days**.

Methods in 2008

- In 2011, MT conducted its first survey of attendees to determine their spending.
- Respondents said that they spent an average of \$214/day.
- This is hundreds of dollars less than the estimates that had been used previously of \$300-400/day. Previous estimates of “daily spending” have not been corrected.


Methods for 2011

- In 2011 Ironman:
- 5,000 attendees
- 3,200 non-local x 8 nights of Ironman activities = 25,600 nights
- 25,600 nights x \$252.73 average daily rate
- Total "DIRECT SPENDING" due to Monona Terrace/Ironman = \$6,469,888
- Total "economic activity" @ 1.6: \$10,351,821

Ex: Calculation of Direct Spending

Event Description	Exhibits	Type	Start Date	Event Days	Peak Room Night (PRN)	2x PRN	Attendance	Lesser of 2x PRN or Attendance	Daily Spending Generated per Delegate	Direct Spending Impact (Lesser of 2x PRN or Attendance X Daily Spending Generated per Delegate)
TASC 2011 Annual Sales Meeting	No	Conference	3/23/2011	3	60	120	300	120	\$153	\$137,527
Serve Wisconsin Americorps Conference	No	Conference	4/5/2011	1	50	100	170	100	\$169	\$28,692
WI Medical Society 2011 Convention	No	Conference	4/7/2011	4	100	200	250	200	\$242	\$241,545
Small Business Innovation Research (SBIR) Convention	Yes	Convention	4/10/2011	4	350	700	630	630	\$291	\$732,180
25 th Annual Pharmacology & Clinical Update	Yes	Convention	4/13/2011	3	325	650	650	650	\$284	\$554,746
2011 PSW Educational Conference	Yes	Conference	4/18/2011	2	60	120	350	120	\$183	\$127,798
IceCube Collaboration	No	Convention	4/25/2011	3	151	302	200	200	\$387	\$232,346
WEAC Representative Assembly 2011	No	Convention	4/29/2011	8	700	1,400	1,130	1,130	\$230	\$2,077,014

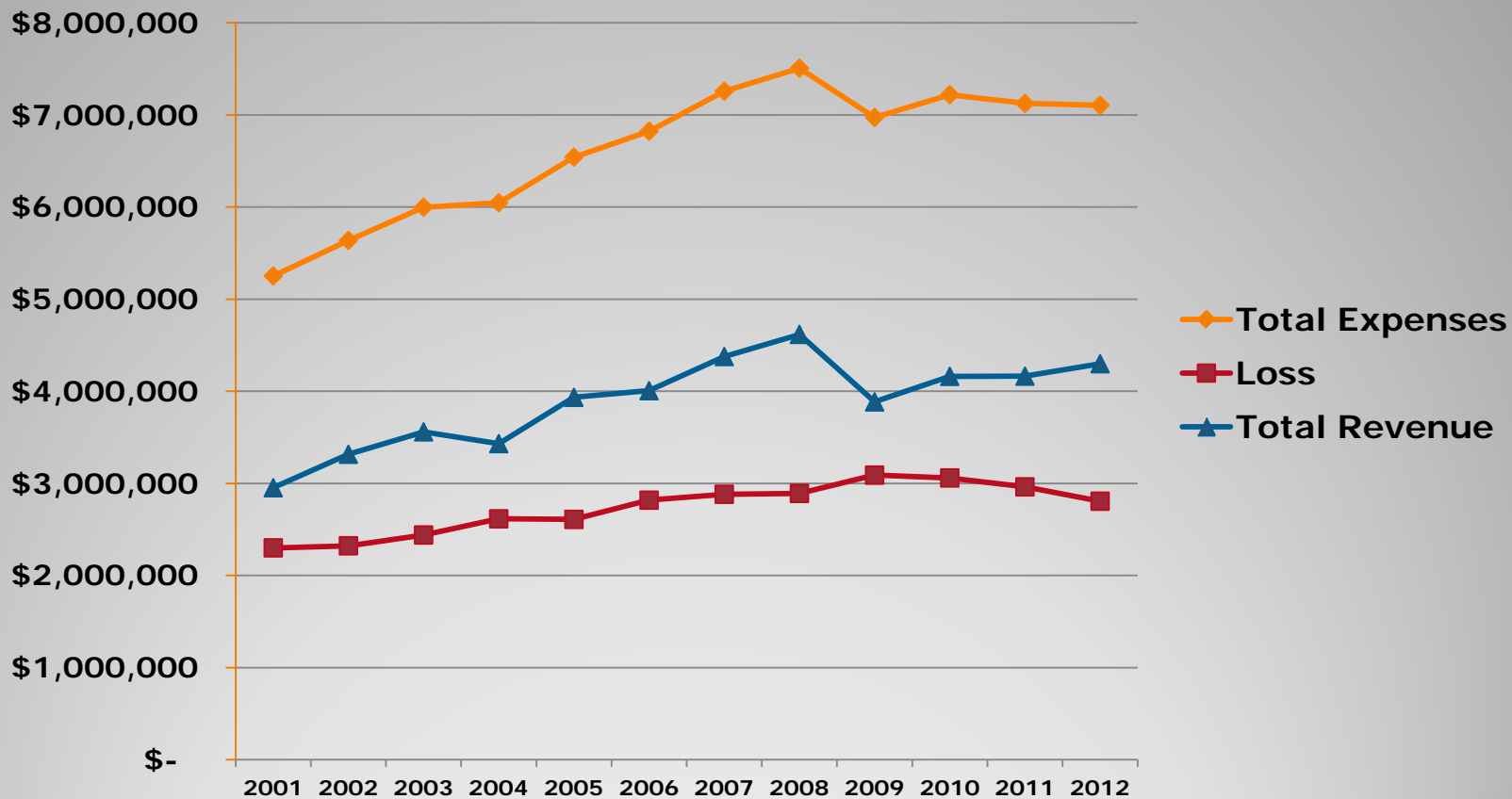
Example: Direct spending report

- 
- “Economic Activity”: Avg from 2005-2012: \$44,000,000/yr
 - 2005-2013: \$332 million in “economic impact.”

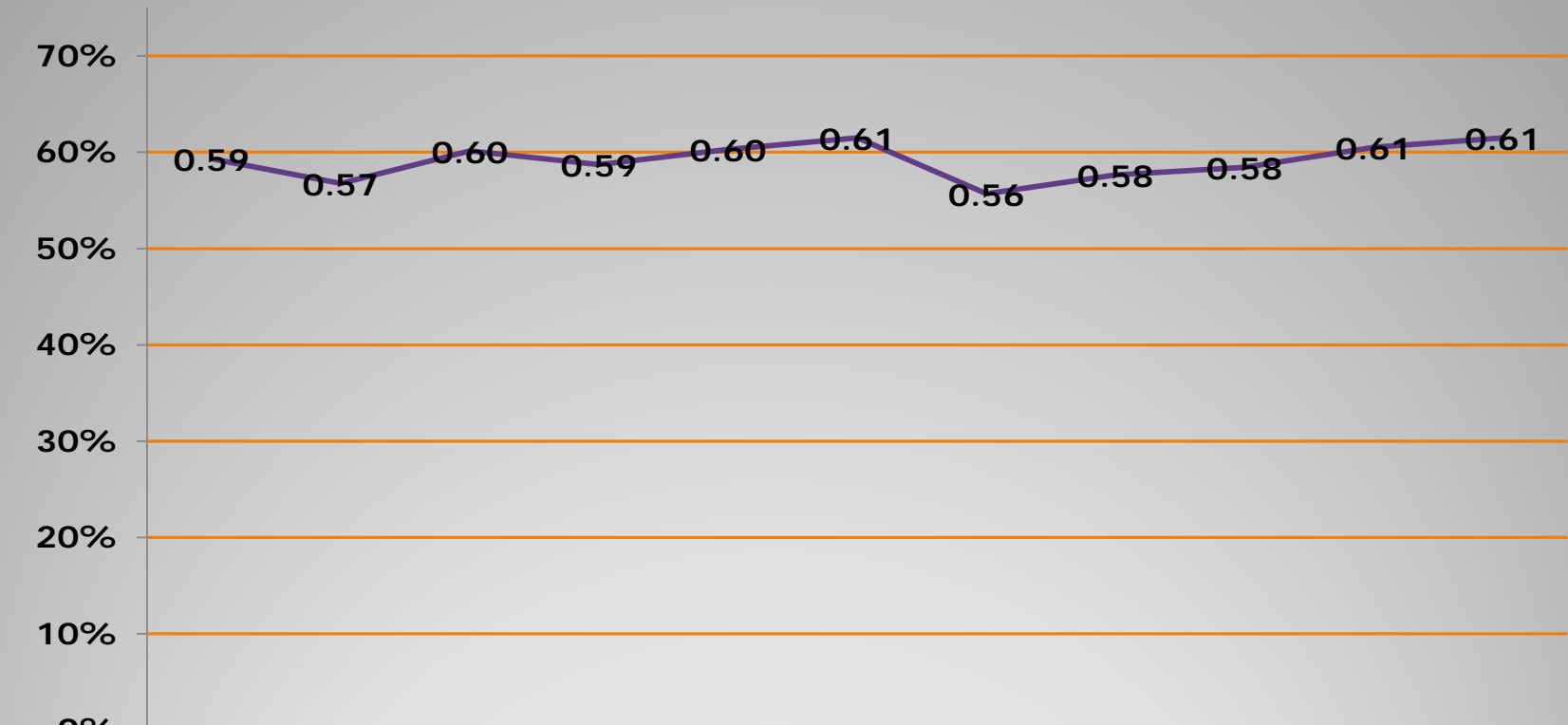
Methods for 2012

- The level of hotel and restaurant revenue is not known because little reliable data has been systematically collected. Thus, there is little evidence to determine the economic benefit.
- Several methods for determining spending and economic activity were used without explanation or correcting previous reports.
- The use of a 1.6 multiplier to determine economic activity is more than twice the rate than accepted by non-industry experts.
- Attendance records appear to be inflated. Actual number of "room nights" are unknown.

Summary



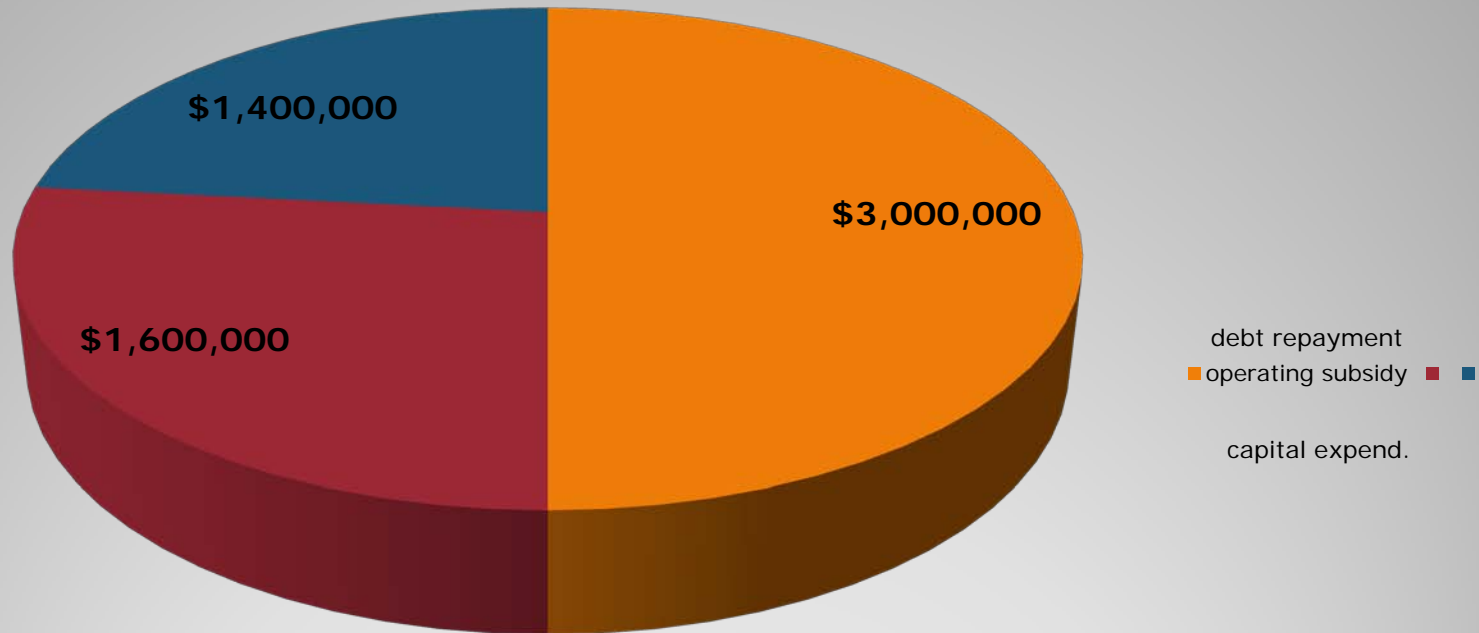
MT Financial Data:2001-12



	2003	2004	2005	2006	2007	2008	2009	2010. 0	2011	2012	2013 YTD
Series1	0.59	0.57	0.60	0.59	0.60	0.61	0.56	0.58	0.58	0.61	0.61

Operating Revenue/ Expenditures

City Expenditures for MT in 2012

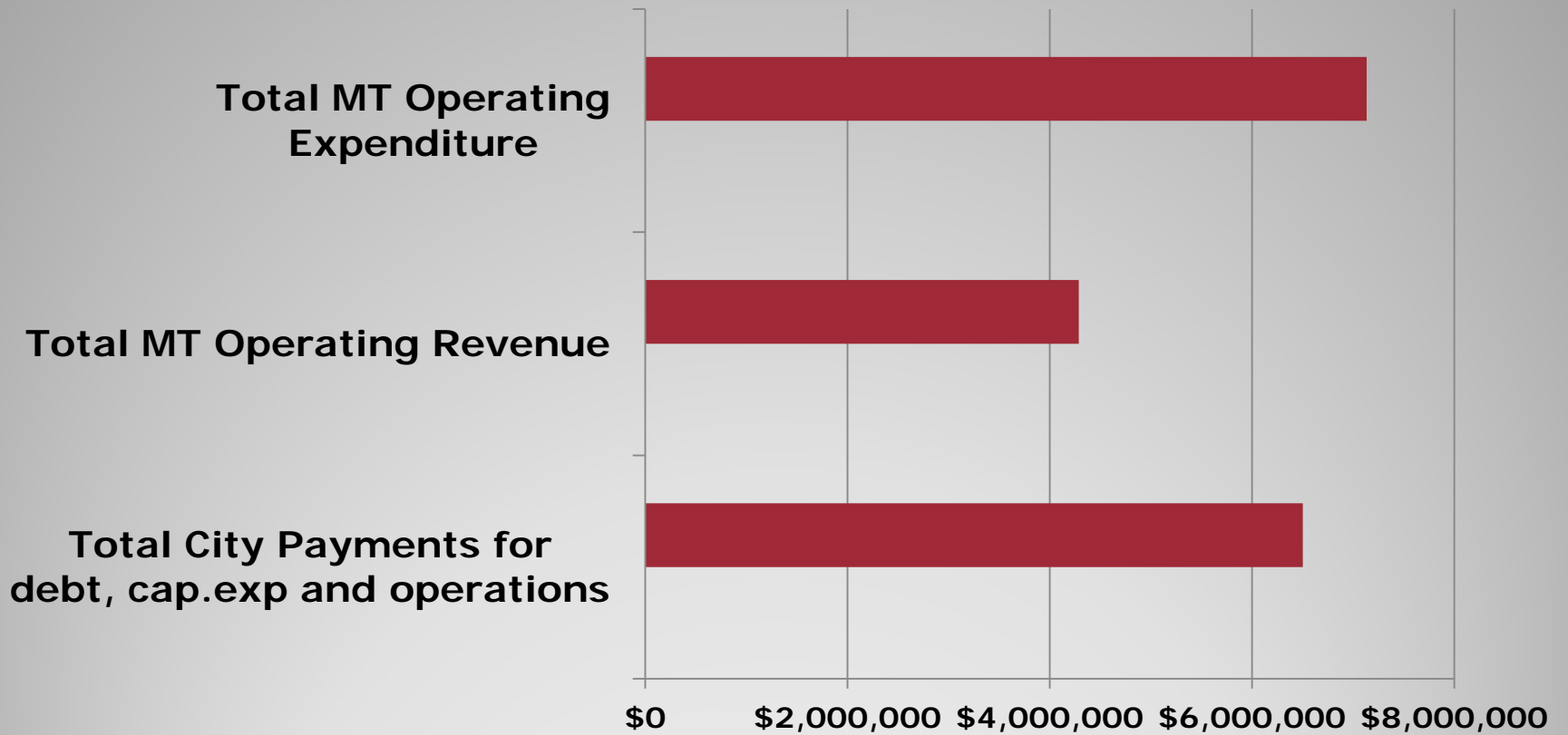


For every dollar in revenue earned by MT, \$1.50 is expended, i.e. there is a 50 cent loss.

For every dollar in revenue earned by MT, \$1.50 is contributed by the city.



Overview of 2012 Budget



City and MT Financial Overview

- Regardless of high or low revenue, MT earns only 60 cents for each dollar expended. This is due to high fixed costs.
- As such, if MT greatly expanded its business the costs to the city to subsidize its expenses could require direct General Fund expenditures.

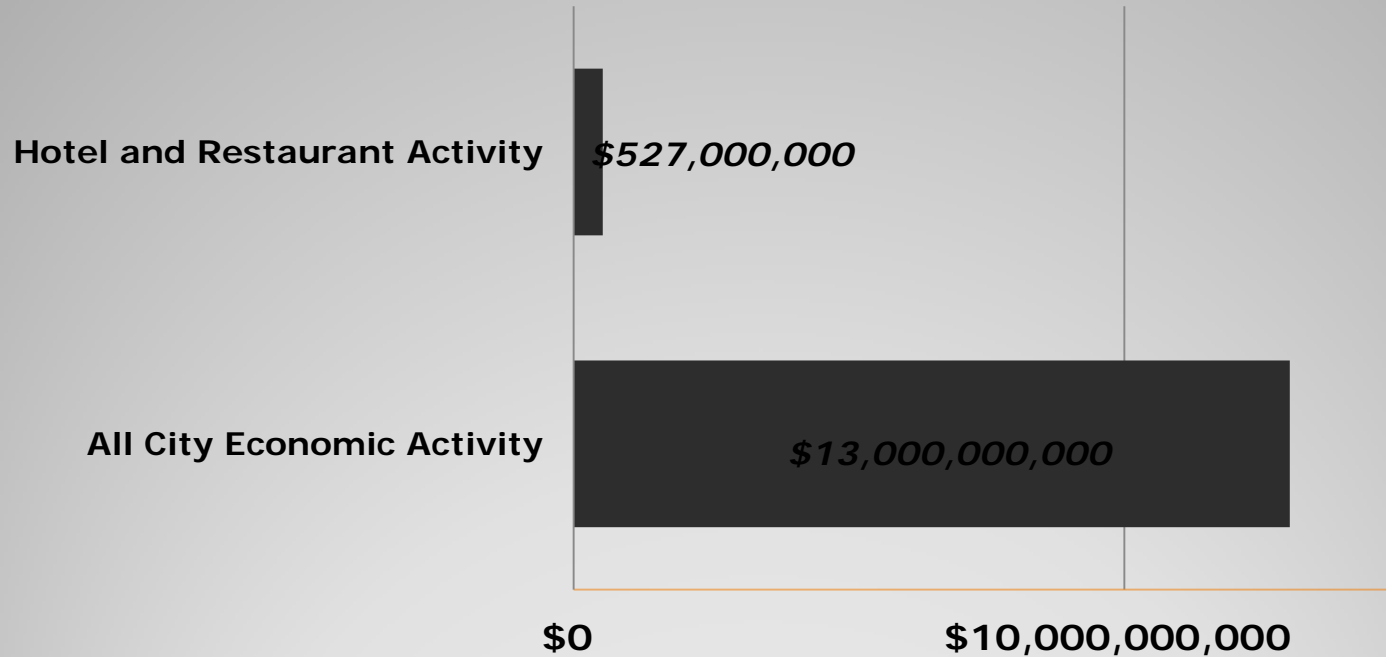
Summary

MT Model: Deficit is not significant because of the positive economic effects on the city.


- Estimate of all economic activity in the city in 2012: **\$13 billion**
- Hotel/restaurant services: **\$527 million** accounts for 4% of all economic activity
- Source: Workforce Trends and Issues, WDB, 3/13

Economic Effects on City

Economic Activity in Madison :2012



Madison's Economic Activity

- 
- - $\$32 \text{ M}^* / \$13 \text{ Billion} = 0.2\%$
 - Monona Terrace accounts for two-tenths of 1% of all city **economic activity**.
 - What is the effect of .2% of economic activity on the tax base and tax revenue?

Economic Effects

- Effect on commercial property value should be primary variable for measure.
- Commercial property value: \$7.1 billion
- \$7.1 billion (all commercial property) * 0.2% (of all economic activity) =
- \$ 15,692,308 (value of property associated with MT economic activity).

Effect on commercial property

- Tax Value of Property (Increment):
 $\$15,692,300 * .00938$ (city share of levy) = $\$146,000$
- $\$146,000 =$ Increase in property taxes due to MT economic activity

“Tax increment” related to MT



- **Room Tax:**

- $24,000 * \$135/\text{avg. daily rate} =$
 $\$3,240,000$ hotel revenue (Baker-Tilly
annual report: 1/31/2013)

- $\$3,240,000 * .095 \text{ tax} =$ **\$307,800**

Revenue from Hotel Tax

- Total City Tax Revenue: \$453,800 in 2012

- Less than \$50,000 would accrue to the
General Fund

(based on highest assumption of activity)

Revenue from Room Tax

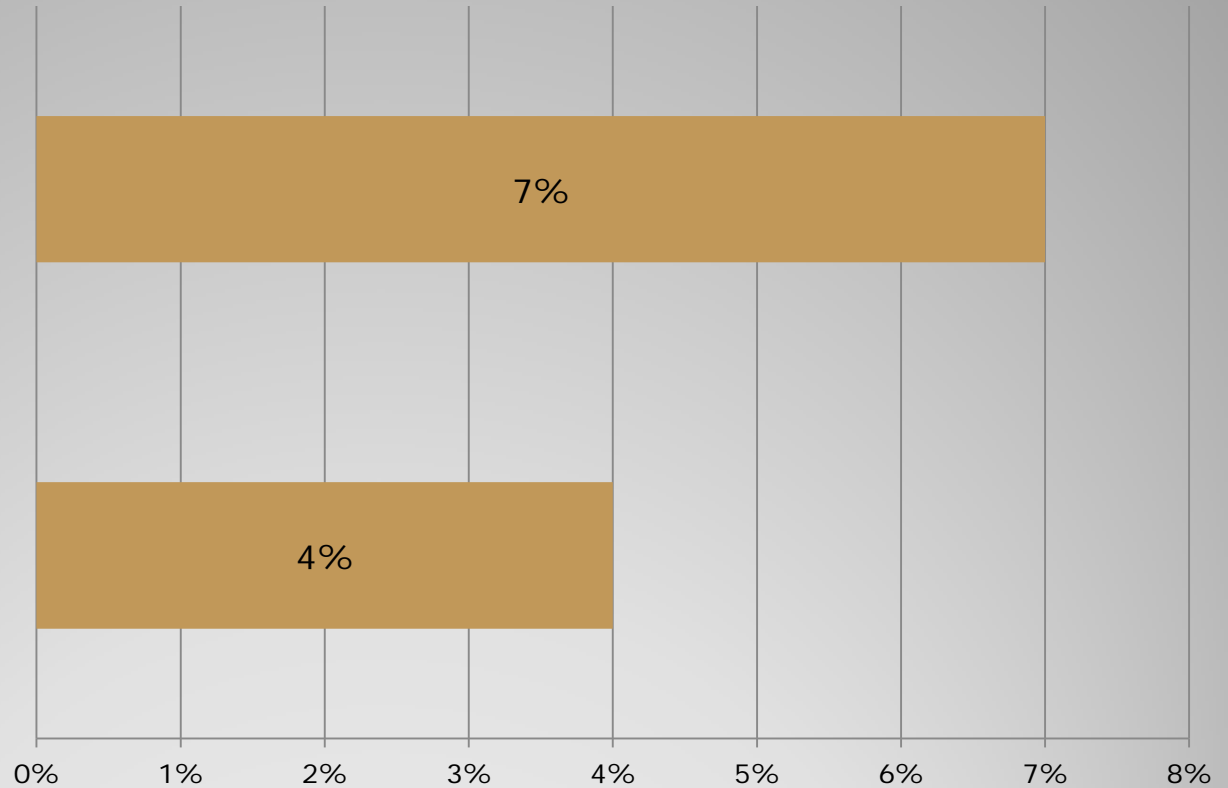
- **Summary:** Although it is highly visible downtown, the economic activity generated by MT is infinitesimal as % of economic activity. It returns 5% of the revenue provided by the city. It increases property values.
- Benefits of Monona Terrace are not economic but are intangible such as “people-ing” downtown.

Summary



% of Madison employees in hospitality industry

% of all **wages earned** by Madison hospitality employees.

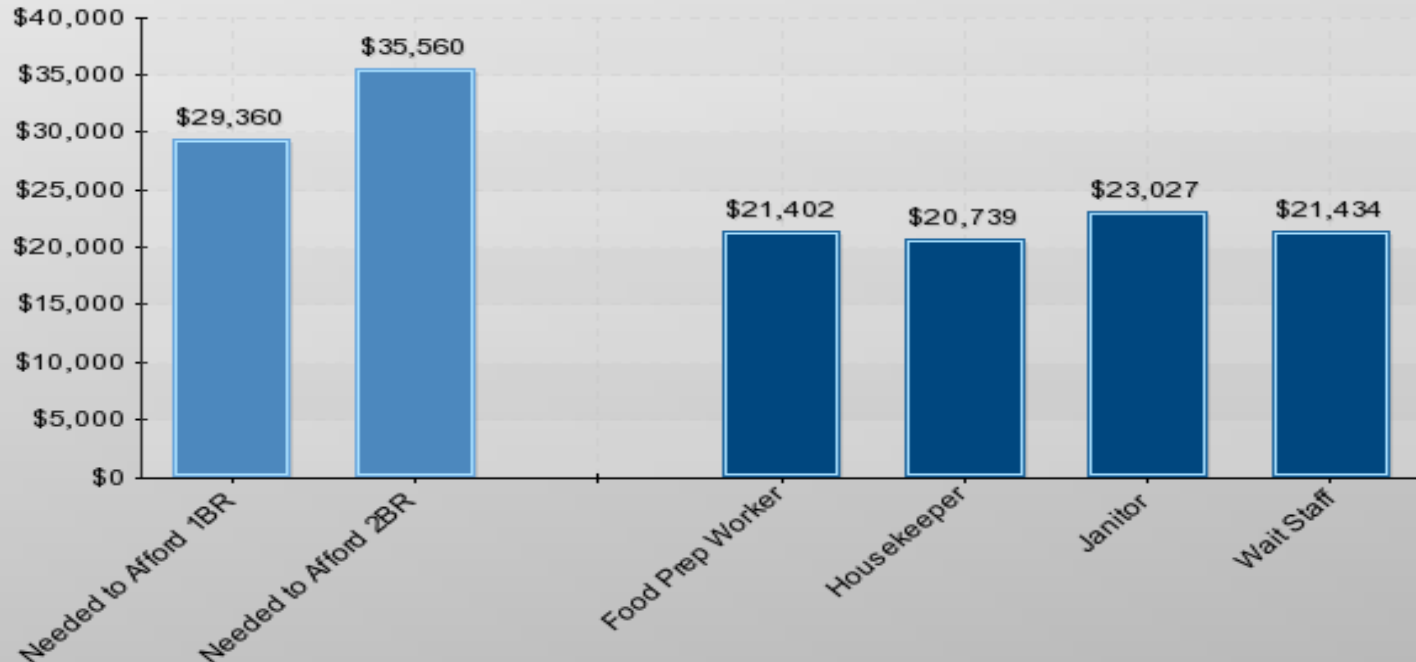


Hospitality Industry Wages

Paycheck to Paycheck: Madison, WI MSA

First Quarter 2013 Rental Market

2013 Fair Market Rent: 1BR \$734/month, 2BR \$889/month



©2000-2013 Center for Housing Policy

Hospitality Wages & Housing

- Proposed Marriott Hotel:
- Hourly Staff:
 - Banquet wait staff: 25
 - Kitchen Workers: 30
 - Housekeeping: 40
 - Guest Service: 11
 - Other: 26
 - Total: 138

Salaried: Department managers, HR, sales, reservations, etc: 38

Is this the path to Equity?

- The great majority of the jobs in hotel/convention center are part-time and below “living wage.”
- There is little/no housing available for these wage-earners.
- 500 work/yrs offered in high-paying construction jobs, **largely for out-of-city residents.**


Summary

- Madison has the highest allowable room tax: 9.5%
- .5% was added to raise funds for Monona Terrace
- Room Tax Revenue of \$11+ million (estimate) in 2013

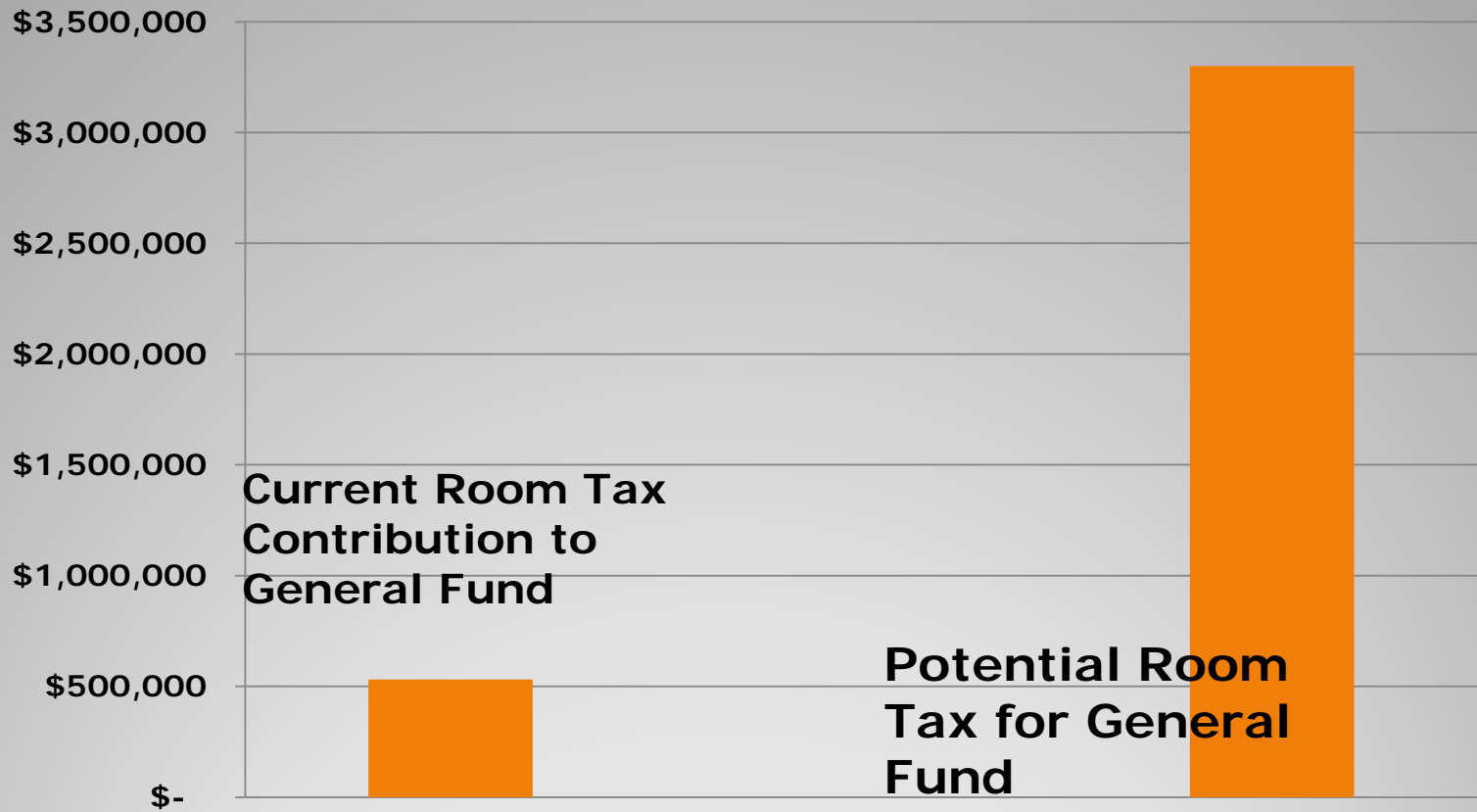
Notes on the Room Tax

- **\$6.5** million to MT
- Includes operating expenses, capital expenditures and debt service
- **\$2.2** million to Convention and Visitors Bureau.
- #1 Objective of GMCVB is promotion of Monona Terrace. Bureau. Bureau is also responsible for booking large conferences and conventions.
- **\$.5** million to General Fund
- **\$700 K**: Overture, Rhythm and Booms, Arts grants, etc.


2013 Room Tax Expenditures

- 
- Overture Center (City subsidized): 24-800 seats
 - Central Library (City subsidized): up to 600 seats
 - Wisconsin Institute for Discovery (state subsidized): up to 1200
 - UW Memorial Union: up to 600
 - Madison Hilton (TIF'ed): up to 100
 - Edgewater: Re-opening 2014: Unknown
 - Olbrich Gardens (city owned): Proposed banquet facility


New Competition in Meetings and Banquets



Room Tax to General Fund

- 
- The City could accrue an additional \$2.5 million for the General Fund from the room tax. This pays for the MT subsidies.
 - Many programs currently funded by the property tax could be funded by the room tax. And the room tax could fund many other tourist activities: arts, Overture, etc
 - Over 80% of the room tax is spent on MT. Only a small number of businesses accrue most of the benefit of the city subsidy.

Summary

- 
- 2013 SENATE BILL 301
 - September 18, 2013 - Introduced by Senators OLSEN,
 - ACT *to amend* 66.0615 (1) (a), 66.0615 5(4) and (5) of the statutes; **relating to: changes to the local room tax.**


An End to MT Subsidies?

- Downtown: 11 hotels (1845 rooms) w/ 1 mile.
- Within 3 blocks: 850 rooms
- Not including: Edgewater w/ 195
- Hotel on John Nolen Dr. w/ 110 rooms
- Hampton Inn on W. Johnson: 194
- Fluno Center: 100+ open to public
- Within 1 mile: 2000 rooms
- PLUS: 4000 rooms in City outside downtown.


The Madison Hotel Market

- At least 450 additional rooms in the next year- most within walking distance.
- Occupancy Rate: “Full occupancy” is estimated at between 70-75% of all rooms.
- Average occupancy in Madison market was below 70% in 24 in the last 30 months.
- Average occupancy; 60% 2005-11

Hotel Market

- 
- 85% in Madison/ 15% in non-Madison hotels.
 - When they stayed in Madison:
 - 33%: Best Western Inn on the Park
 - 29%: Hilton
 - 21%: Concourse
 - Most conferees choose not to stay in the nearest possible “conference” hotel but a less expensive alternative.

Where do conferees stay?

- 
- Convention centers must have a hotel that is either attached to or within one block of the convention center.

The General Wisdom

Table 5-1

Key Characteristics of Regional Facilities

Location	Madison, WI	Wisconsin Dells, WI	Milwaukee, WI	Chicago, IL**	St. Paul, MN	Des Moines, IA	Grand Rapids, MI	Average
Facility	Monona Terrace	Kalahari Resort	Frontier Airlines Center	Schaumburg	St. Paul River Centre	Iowa Events Center	DeVos Place	-
Distance From Madison (miles)	-	54	79	147	270	292	325	194.5
Demographic Characteristics								
Metropolitan Area Population (2011)	575,000	173,000*	1,560,000	9,506,000	3,317,500	581,500	776,108	2,719,351
Rank	6	7	3	1	2	5	4	-
Median Household Income (2011)	\$56,000	\$47,009*	\$52,075	\$59,321	\$62,630	\$55,263	\$48,964	\$55,712
Rank	3	7	5	2	1	4	6	-
Hotel Supply Characteristics								
# of rooms within 1 mile of Convention Center	1,035	756	2,862	474	1,377	1,694	1,411	1,373
Rank	5	6	1	7	4	2	3	-
Exhibit Space (SM SF)								
Exhibit Space	37,200	-	188,695	97,200	-	146,926	162,000	126,404
Ballroom	13,524	37,850	37,506	39,833	27,111	28,800	37,809	31,776
Meeting Room(s)	12,106	23,582	39,640	8,152	18,684	30,825	32,163	23,593
Total Function Space (SF)	62,830	61,432	265,841	145,185	45,795	206,551	231,972	145,658
Rank	5	6	1	4	7	3	2	-

*Includes the Counties of Columbia, Sauk, Adams, Juneau

Indicator: Rooms w/in 1 mile



Facility	Monona Terrace	Milwaukee	Schaumburg, IL	Des Moines	Kansas City	Providence	Grand Rapids
Exhibition & Meeting Space	49000	228000	105000	177000	74000	136500	194000
Room 1 Mile	1600	2806	474	1694	2187	2071	1411
Avg Distance	0.4			.5	.6	0.3	0.3

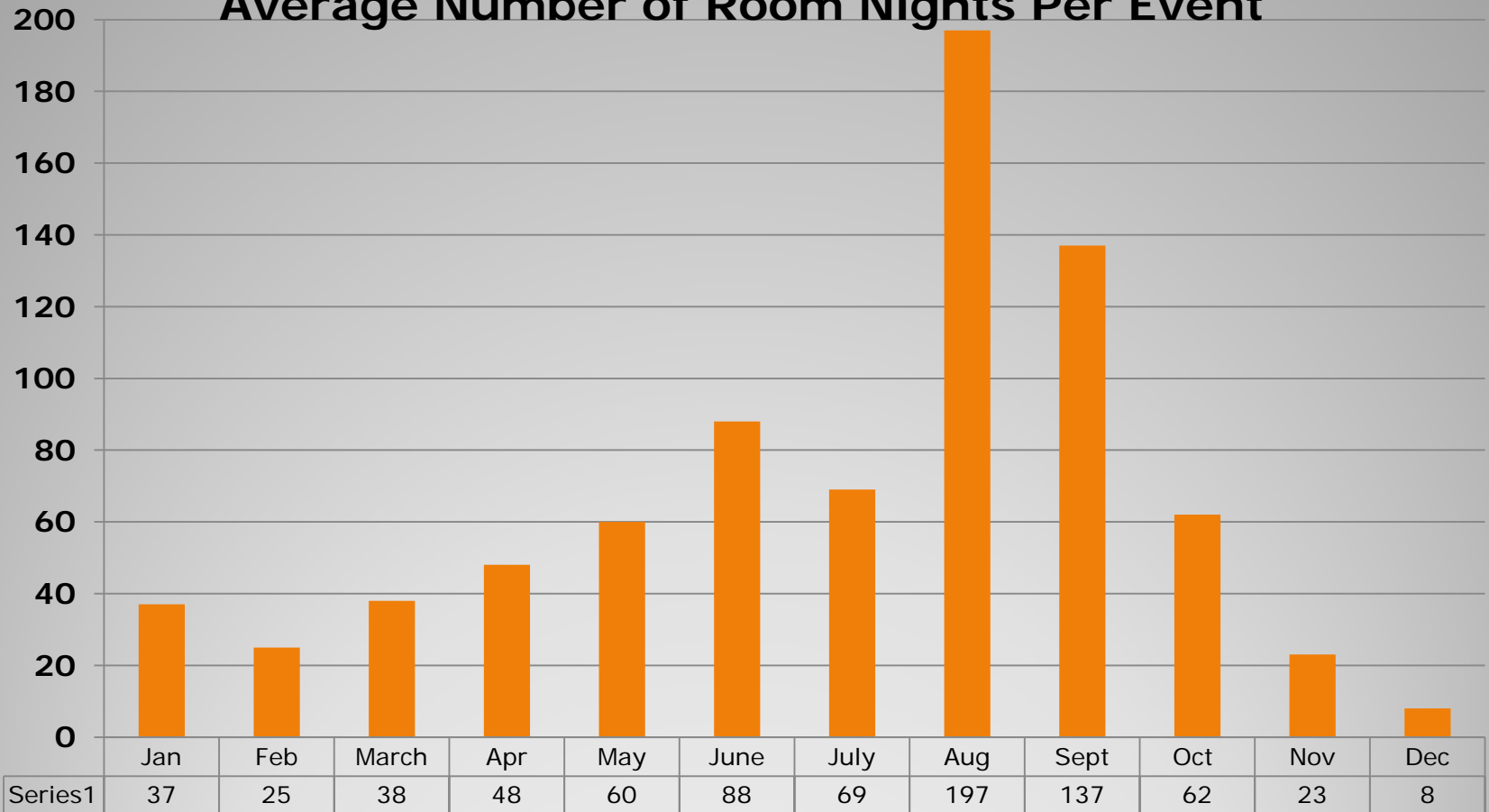
Comparative Distance



The Answer for Surplus Rooms



Average Number of Room Nights Per Event



When do conferees stay in Madison?

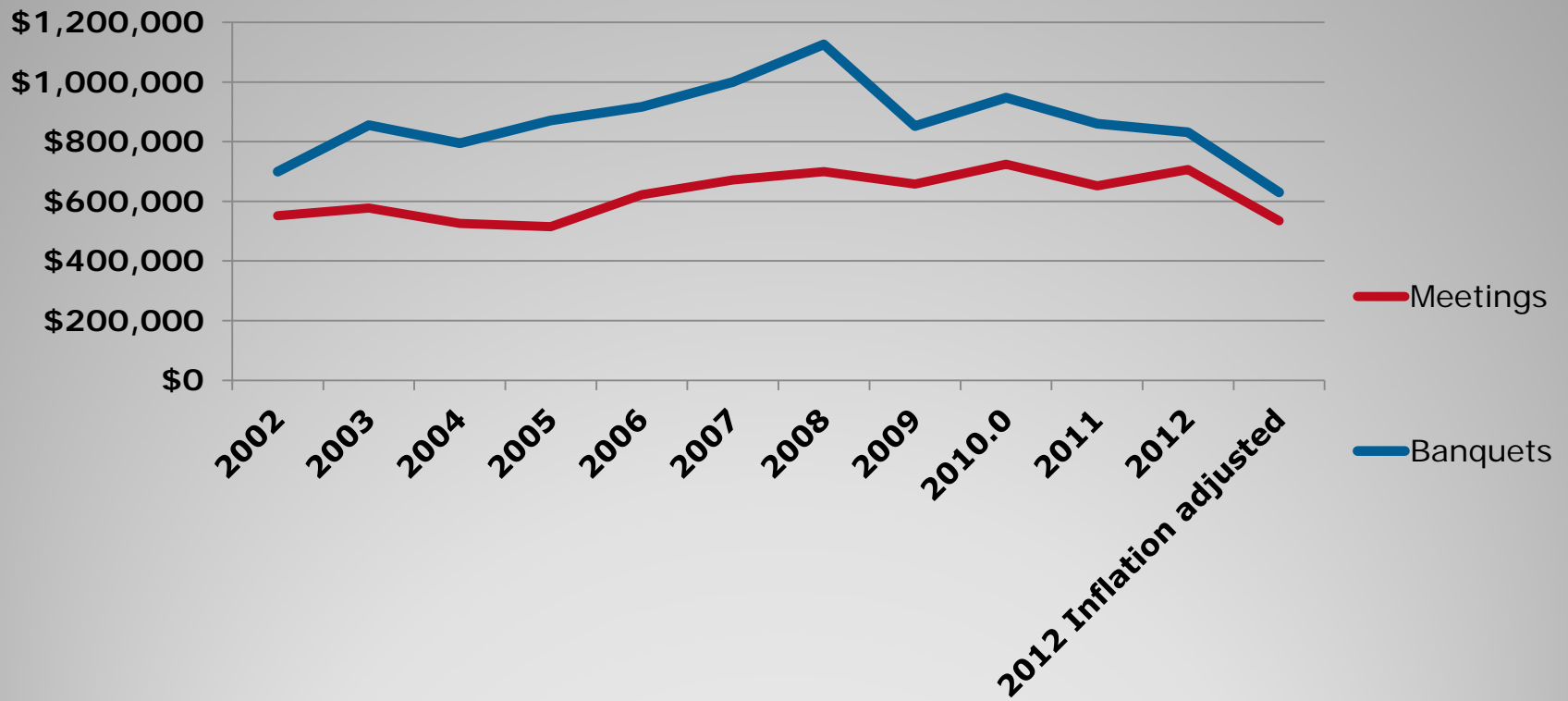


	Available Rooms in 4 Hotels (inc. Edgewater)	Occupancy Rate	Avg. Rooms Occupancy
Current	1000	70%	700
With Monona Terrace Hotel	1400	50%	700

Effect on hotels with no growth in conventions.



Meeting and Banquet Revenue 2002-12



Inflation adjustments

- The “natural” hotel building boom in Madison is continuing.
- There is evidence that the city has more than enough rooms to meet demand.
- Most hotel rooms are within adequate distance from convention facility.
- City-financed construction of a 400 room hotel before knowing the impact of 3 new hotels (opening 2014) can cause substantial economic costs to the private hotel market.

Summary

- Is the Monona Terrace comparatively under-used?
- If so, what are the reasons for the pattern of use?

Utilization, Rooms & Weather

- “Monona Terrace can accommodate 61 percent of the largest convention/meeting/exhibition events in the United States and 86 percent of international events based on the number of attendees (1,000 or fewer attendees).”
- source: Johnson Consulting, Report to Judge Doyle Square TF, Jan. 2013) p. 37

Comparable Analysis: Mid-Market, Upper Tier

Key Characteristics of Upper Tier Mid-Sized Markets						
Location	Madison, WI	Overland Park, KS	Providence, RI	Des Moines, IA	Grand Rapids, MI	Average
Facility	Monona Terrace	Overland Park Convention Center	Rhode Island Convention Center	Iowa Events Center	DeVos Place	-
Demographic Characteristics						
Metropolitan Area Population (2011)	575,000	2,047,000	1,600,000	581,500	776,108	1,115,922
Rank	6	1	2	4	3	-
Median Household Income (2011)	\$56,000	\$54,244	\$53,000	\$55,283	\$48,964	\$53,498
Rank	1	3	4	2	6	-
Hotel Supply Characteristics						
# of rooms within 1 mile of Convention Cent	1,035	2,187	2,071	1,694	1,411	1,680
Rank	6	1	2	3	4	-
Potential Room Block @ 40% Participation	414	875	828	678	564	672
Rank	6	1	2	3	4	-
Potential Room Block @ 70% Participation	725	1,531	1,450	1,186	988	1,176
Rank	6	1	2	3	4	-
Potential Room Block @ 80% Participation	828	1,750	1,657	1,355	1,129	1,344
Rank	6	1	2	3	4	-
Average Distance from CC	0.4	0.6	0.3	0.5	0.3	0.4
Rank	3	6	1	4	1	-
Exhibit Space (\$M/ \$F)						
Exhibit Space	37,200	58,494	100,000	146,926	162,000	65,231
Ballroom	13,524	24,991	20,000	28,800	37,809	19,505
Meeting Room(s)	12,106	15,015	16,540	30,825	32,163	14,554
Total Function Space (\$F)	62,830	98,600	136,640	206,661	231,872	147,279
Rank	6	4	3	2	1	-

Source: Relevant Facilities/CVB, Demographics Now, Johnson Consulting

Little Convention Space

	<u>Exhibit Space</u>	<u>Percentage Larger</u>
Monona Terrace	37,000	
Des Moines	150,000	295%
Grand Rapids	250,000	558%
Kansas City	388,800	923%
Milwaukee	188,695	397%
Minneapolis	480,000	1163%
Providence	100,000	163%

MT is Smaller Than Competitors



	<u>Rms/Exhibit Space (1000 Sq Ft)</u>
Monona Terrace	39.47
Des Moines	10.43
Grand Rapids	5.65
Kansas City	9.00
Milwaukee	13.25
Minneapolis	12.14
Providence	21.59

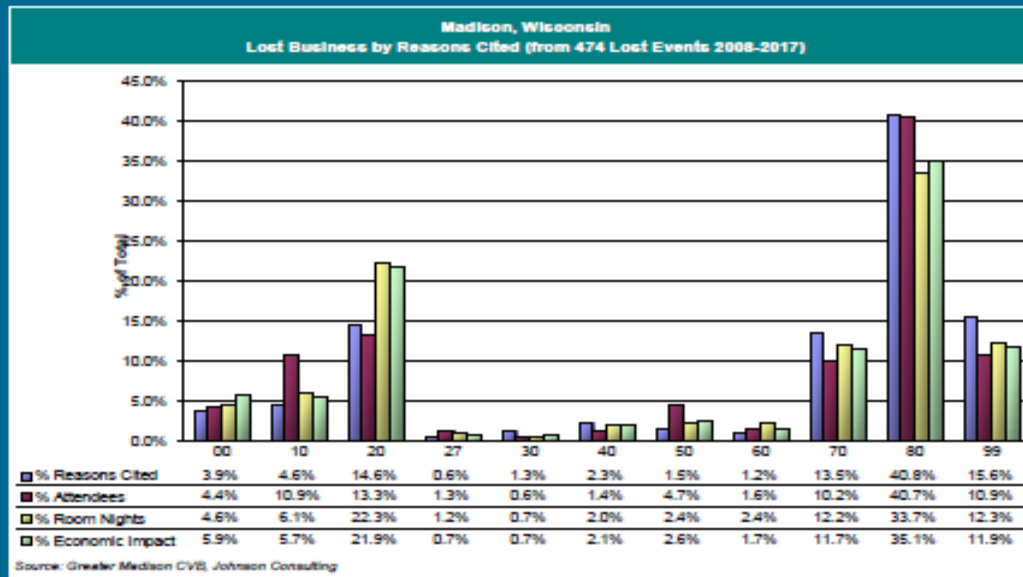
Many more rooms/space

- 
- ***“We agree “ the most significant need is for additional break-out meeting rooms” as stated in the RFQ and further analysis of the Monona Terrace Program.”***

- From Journeyman Group RFP in explanation of its addition of 7,800 sf of breakout rooms.
(page 6)

Is the problem a lack of guest rooms or a lack of meeting rooms?


Reasons Cited for Lost Event Business



- Loss Code Group 20 is hotel-related reasons
- Loss Code Group 80 includes specified other reasons such as demographics, area population, chose to remain in current facility or city, weather, considering Madison for different year, entire event canceled, client is unresponsive, lack of decision maker interest, geographic or rotation (beyond community's control to change/improve)



Data from GMCVB

- 
- Over 80% of all “lost conventions” are cited as due to weather, airport connections, leadership preferences, etc.
 - This includes all venues including the Alliant Center, Concourse Hotel, etc.
 - (Source: GMCVB)

Estimate of additional nights


Table 6-12

Madison, Wisconsin
Summary of Lost Convention/ Meeting Business Due to Hotel-Related Reasons Affecting Monona Terrace

Year	# of Events Lost	# of Attendance	# of Room Nights	Est. Economic Impact (\$Millions)
2009	1	1,700	5,540	\$2.1
2010	6	4,225	8,615	3.9
2011	9	13,525	11,999	8.1
2012	7	5,350	8,918	5.0
2013	3	2,550	5,170	2.0
2014	5	4,900	11,046	4.3
2015	3	2,000	4,147	1.6
2016	4	3,310	7,920	2.7
	38	37,560	63,355	\$29.7

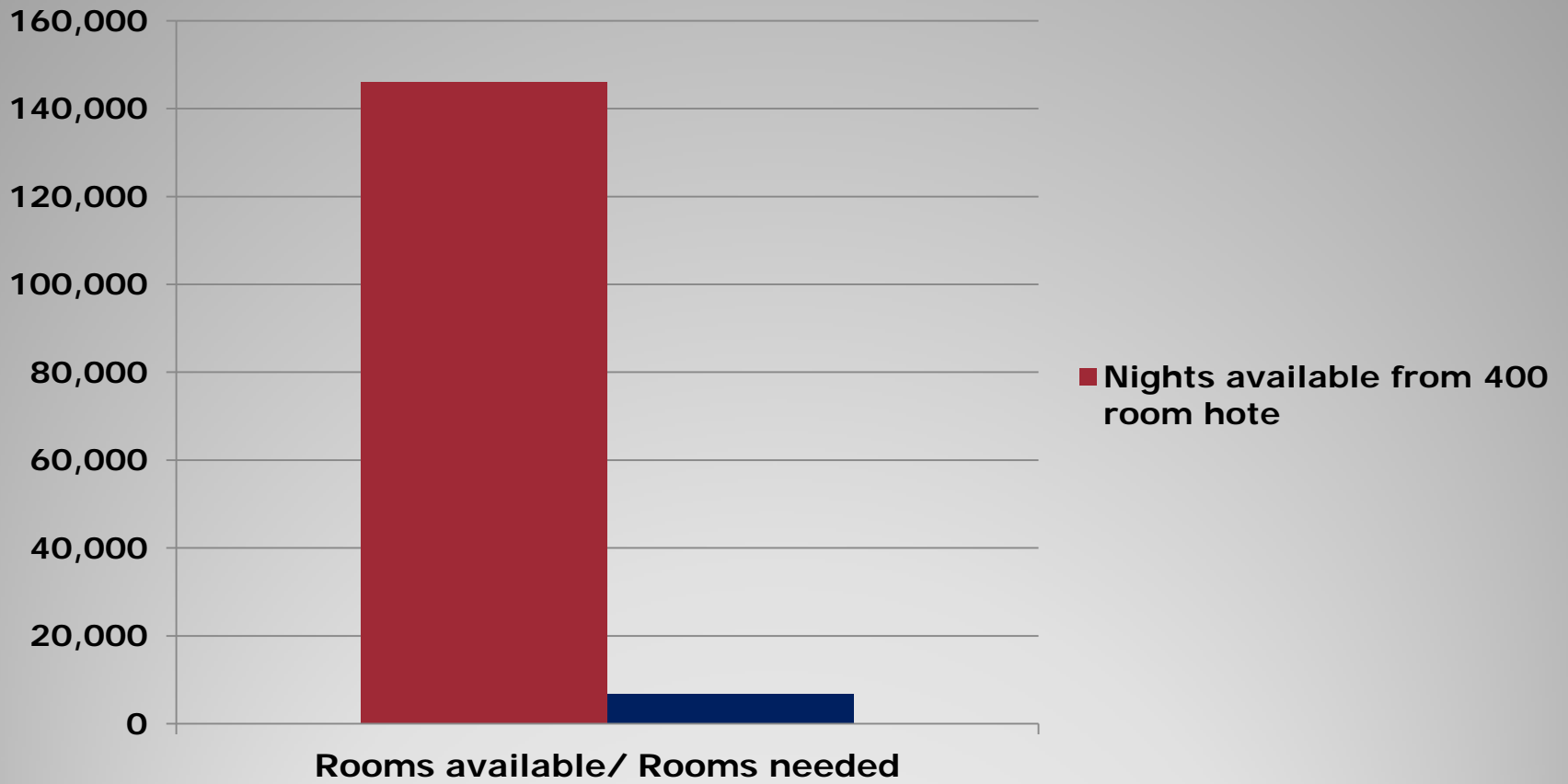
Source: Greater Madison CVB

From Johnson Consultants


- 
- - Conventions “lost” due to lack of available hotel space in 2013: **3**
 - **For a total of 5,170 room nights**
 - This includes attempting to book when another major event is already booked.

 - source: Johnson Consulting, Report to Judge Doyle Square TF, Jan. 2013) p. 37
 - Based on data collected from the Greater Madison Visitors and Convention Bureau (GMVCB)

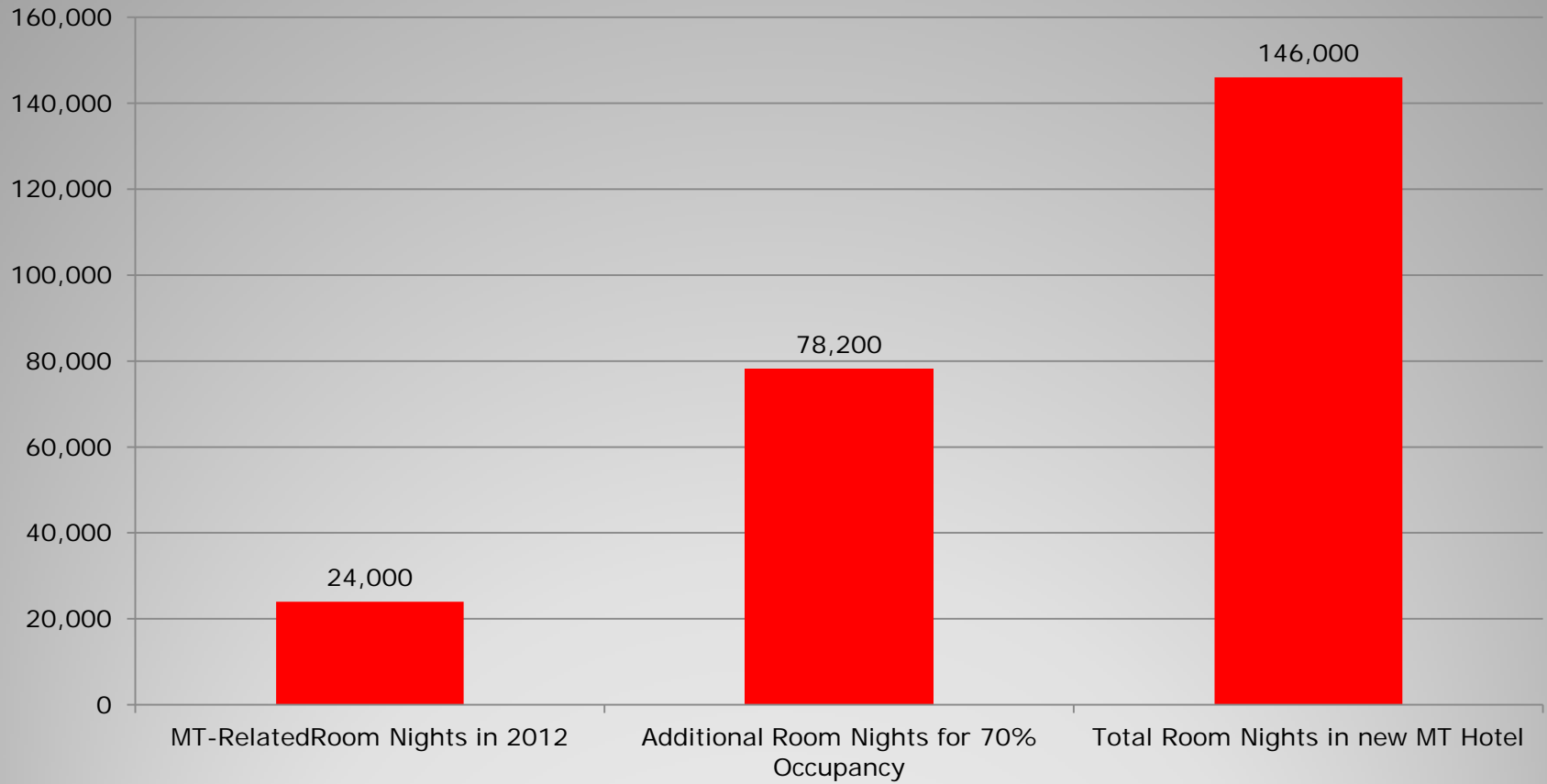
Estimating Use of Additional Rooms



Capacity vs. Demand

- 
- There is no evidence that conventions are “lost” due to a general lack of available hotel capacity. Madison has MANY times more rooms per convention space than other venues.
 - There is evidence that WEATHER and air transportation connections are major reasons for not using Madison.

SUMMARY



3x more conventions to meet minimum hotel requirements

- All additional room tax revenue would be used to subsidize MT deficit.
- Major increase in operating subsidy would have to come from the General Fund because
- City spends an additional \$.50 for each dollar in revenue earned by MT.

Adverse Effects on Budget

- What will be the effect on existing downtown hotels?
- Currently: 850 rooms within 3 blocks
- Next year: 600 additional rooms from private market
- With (400 room) MT Hotel: 1850 rooms.
- Doubling capacity in an industry with 70% occupancy rate.

Effects on Private-sector Hotels



Hotel	2013 Assessment	City Property Tax	Rooms	20% Decline
Inn on the Park	\$3,934,000	\$36,624	213	\$7,325
Concourse	\$16,766,900	\$156,067	358	\$31,213
Edgewater (est.)	\$20,000,000	\$190,000	195	\$38,000
Hilton	\$18,774,000	\$174,757	240	\$34,951
	\$59,474,900	\$557,448	1006	\$111,490

Loss of Property Tax Revenue

- If the city builds a hotel that causes a loss in business and subsequent loss of property value, what will be the property tax loss? This is in addition to the \$50 million TIF.
-
- If the city cripples their business, will we subsidize the entire downtown hotel industry? Can we project unemployment from loss of business?
- Will a new hotel with an additional 18,000 sf meeting space take more conference business from the Monona Terrace?
- Currently, the Hilton Hotel does not meet its expected TIF increment. Can it lose 20-30% of its business to another City-backed competitor?

Questions

- 1. Market Failure: e.g. there was no hotel downtown; monopoly increase in price.
- 2. Discrimination: Market does not provide health insurance for chronically ill.
- 3. Social Need: Housing for indigent.

Three Tests for Gov't Intervention

- "The convention industry treats cities not as places but rather as spaces - fungible, interchangeable and characterless. Even though convention centers are marketed with conceptions of cities (palm trees, skyscrapers, longhorns, slot machines), the convention economy is one of placelessness.
- Most of them have removed themselves from the community they're in by virtue of becoming developments that draw people to the city, not integrated them into the city culture and fabric."

<http://www.planetizen.com/node/39383>

Fred Kent on Convention Ctrs.



Lighter, Quicker, Cheaper?

- 1. No evidence base to support the claim that a new hotel: a. is needed and b. that it would increase use of MT.
- 2. Substantial evidence that construction of a new 300-400 room hotel would substantially economically injure existing businesses.
- 3. This could result in a long-term loss of tax base and revenues and a loss of employment for the most disadvantaged populations.

Conclusions