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Jobs and millions at stake in convention center fight

At question is Sacramento's potential as a tourism draw

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Early next year, local lawmakers are expected to approve an expansion of the Sacramento Convention Center.

The decision will follow months of acrimony among rival factions that each believe they possess a superior plan to improve Sacramento as a tourist destination. Thousands of jobs and hundreds of millions of dollars in public investment hang in the balance.

Underlying the debate are clashing views on the amount of financial risk the city should bear in order to boost its leisure and hospitality sector — the region's third-fastest growing private industry after construction and health care. Bars, restaurants and hotels employ 97,000 people in the four-county region, about 10 percent of the capital region's workforce, according to state data. And the local industry has added about 8,600 jobs over the past three years.

The conversation about expanding the convention center heated up this year as the Sacramento City Council prepared to approve \$170 million in renovations and expansions under a plan city staff had spent five years developing.

A call to halt that process came in early September from two influential business groups, the Greater Sacramento Economic Council and Region Business.

A call for privatization

Later that month, Mayor-elect Darrell Steinberg stepped in and called for more study and possibly a different plan. An alternative could involve a much greater expansion than has been proposed, said Steinberg, and a possible privatizing of convention center management.

The Sacramento City Council has since held off on making major financial decisions about the convention center. Steinberg has said he wants a plan to come together by early spring.

"We need to look at the experience of other cities," Steinberg said. "We always ought to be about competition, about comparing and contrasting and making choices to maximize the success of public



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assets.”

The two sides in the convention center debate are represented by Visit Sacramento, a nonprofit that markets Sacramento as a tourist destination and handles convention and conference bookings for the center, and the Greater Sacramento Economic Council, which recruits new businesses to the region.

The proposed renovation plan would increase hotel room nights by 21,600 per year, according to an analysis by Convention Sports & Leisure, a consultant hired by Visit Sacramento.

But according to an analysis of this report by the Greater Sacramento Economic Council, the expansion plan would only result in the creation 59 new, permanent hotel and 54 restaurant jobs. It would bring in just \$260,000 in new annual hotel tax revenue, resulting in an annual net loss to the city of \$9.5 million after covering debt payments, according to GSEC’s analysis.

In the course of the dispute, Greater Sacramento CEO Barry Broome said in September that Visit Sacramento is bringing the outmoded thinking of “old Sacramento” to the table, while Broome claimed to represent “new Sacramento.” In an October interview, he called Steve Hammond, CEO of Visit Sacramento, a “terrific guy” but said Hammond “needs to retire.”

Visit Sacramento backs the \$170 million plan proposed by the city. Local hoteliers are satisfied with current convention center business and the established relationship between the city and Visit Sacramento, Hammond said. He said that hoteliers want a bigger convention center but not an overhaul of the current construction plan.

Bookings exceed industry standard

Visit Sacramento and the city “work well together and frankly the results validate the relationship we have,” Hammond said. “We’re performing very, very well.”

Data from Visit Sacramento shows that the convention center has been booked an average of 76 percent of days per year going back to 2007, exceeding an industry standard of 75 percent.

Visit Sacramento wants to move forward with a renovation plan that would expand the convention center by 108,000 square feet from its current 384,000 square feet. The plan also would leave open the possibility of greater expansions in the future, commensurate with incremental growth in Sacramento’s tourism industry.

The hoteliers also want to move quickly, fearful that a delay in construction would lead to higher construction costs and interest rates and a potential loss of current business. Those concerns could grow under President-elect Donald Trump. Some economists are forecasting higher interest rates sooner under the new president.

Greater Sacramento, however, argues that the city has based its renovation plan on insufficient data.

Any major construction on the convention center should be undertaken as part of a comprehensive business plan that is based on evaluating multiple factors to gauge Sacramento’s potential as a tourist destination, Broome has argued.

Embracing new models

He also has said that a private convention center operator — hungry for business — is likely to craft a superior business plan to the city's.

"If we are going to improve our economic future, we have to embrace new models," Broome said.

While most convention centers across the nation aren't profitable, they are supposed to pay for themselves in economic growth and by bringing an influx in hotel taxes to help pay for city services after covering the center's operations and marketing.

Sacramento's downtown hotel market includes 16 hotels with about 4,400 rooms, according to an October report by CBRE Hotels. Those hotels have seen revenue growth of 38 percent over the past five years and generated revenue of \$90.4 million in the fiscal year ended June 30. During that same period, the convention center saw 297 total days of programming, which is an 81 percent booking rate.

It's unclear whether the Sacramento Convention Center operates at a profit or loss because its budget is folded into a fund that also includes the Community Center Theater and Memorial Auditorium. That fund has operated in the black since fiscal 2012, and brought in \$2.2 million last fiscal year.

City staff did not respond to the Business Journal's request for data specific to convention center finances.

Looking toward Los Angeles

Greater Sacramento has held up Los Angeles as a model for turning around a convention center. After private convention center operator AEG assumed management of the Los Angeles Convention Center in late 2013, it turned an annual \$3.5 million deficit into a record-breaking profit this year of \$8.1 million.

Although Los Angeles is a very different city from Sacramento, it entered a similar public conversation about its convention center when Mayor Eric Garcetti entered office in 2013. Garcetti hired consultants to look into different operating models for the center. The mayor and other lawmakers ultimately decided to hire AEG to operate the center and folded the Convention and Visitor's Bureau into a city department.

Beyond simply turning annual losses into profit, city officials credit AEG with making the Los Angeles Convention Center cleaner, improving its maintenance and completing capital improvements. Customer satisfaction surveys have been positive.

"By every metric, we feel the convention center is operating better than it was before," said Robert "Bud" Ovrom, executive director of the city's Convention and Tourism Development Department.

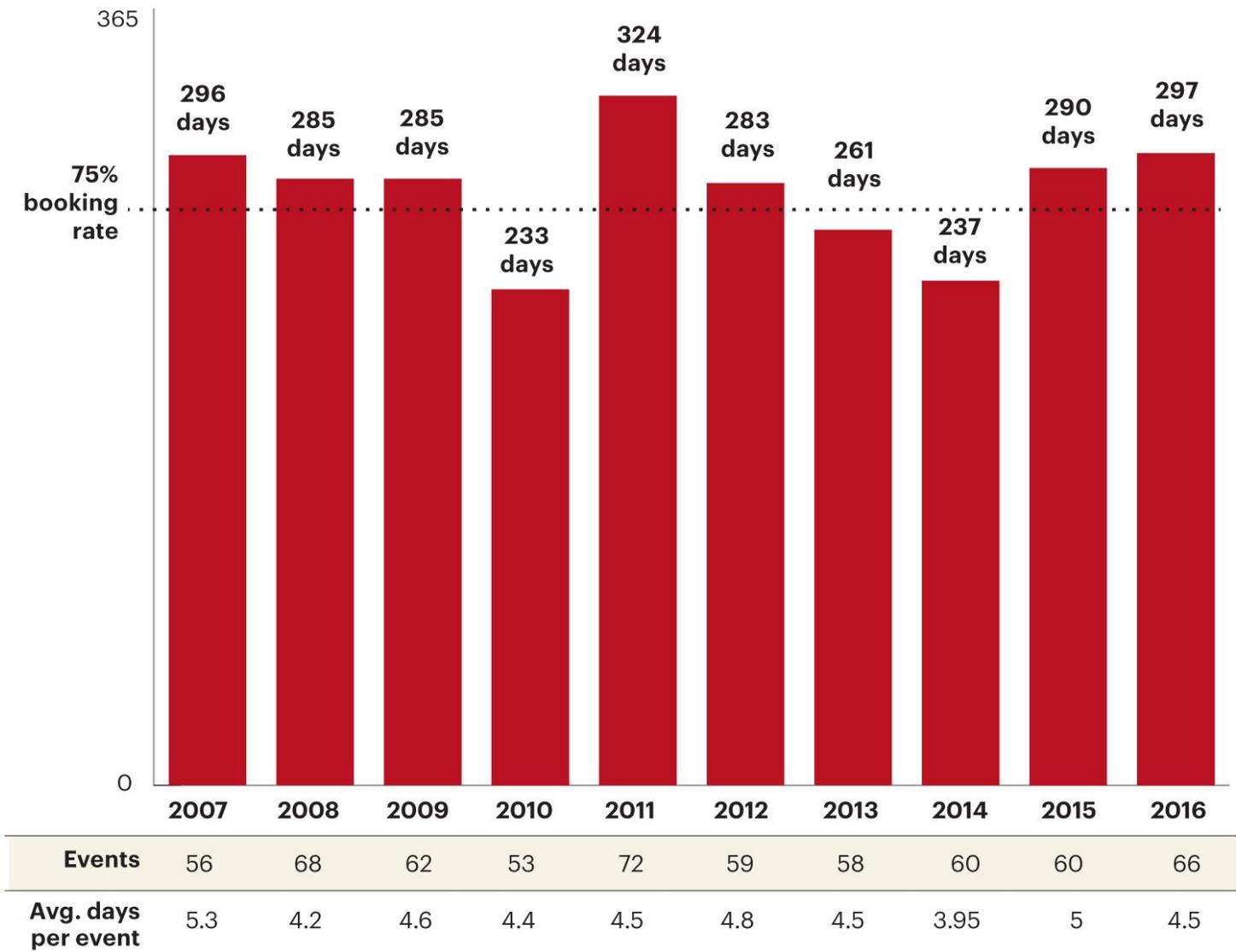
One downside, however, is that while AEG employs unionized workers, the employees earn less wages and benefits than they did while working for the city, Ovrom said.

"I guess you would say that's on the backs of employees," he said.

PINSTRIPES-bar charts

ANNUAL BUSINESS AT THE CONVENTION CENTER

Since 2007, the Sacramento Convention Center has averaged nearly 280 days of programming per year, just over an average a 76% booking rate. According to convention center operator AEG, the industry strives to have a venue booked 75 percent of the time, with the remaining days spent on maintenance.



SOURCE: VISIT SACRAMENTO

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