Does Madison Need a Second Convention Hotel?

David Ahrens, 15th District Alder

Judge Doyle Square Committee
October 28, 2013
The Monona Terrace Business Model

City Subsidy: $6 million/yr

Tax Revenue: $146 K property value + $370 K Room Tax

Downtown Hotels & Restaurants: $20-25 million "direct spending"

Monona Terrace: Earns $4-6 million from operating revenue

Intangibles
Operating Revenue/Expenditures

<table>
<thead>
<tr>
<th>Year</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013 YTD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Series1</td>
<td>0.59</td>
<td>0.57</td>
<td>0.60</td>
<td>0.59</td>
<td>0.60</td>
<td>0.61</td>
<td>0.56</td>
<td>0.58</td>
<td>0.58</td>
<td>0.61</td>
<td>0.61</td>
</tr>
</tbody>
</table>
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.
2012 Budget

Monona Terrace Revenues

Total City and MT Expenditures

$0  $4,000,000  $8,000,000  $12,000,000

$4,286,404

$10,816,000
• Regardless of high or low revenue, MT earns only a small fraction of each dollar expended. This is due to high fixed costs.

• If MT greatly expanded its business the costs to the city to subsidize its expenses would likely require direct General Fund expenditures.
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
$32$. 

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?
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) =
• 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/avg. daily rate = $3,240,000 hotel revenue (Baker-Tilly annual report: 1/31/2013)
  • $3,240,000 * 0.095 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)
• **Summary:** Although it is highly visible downtown, MT constitutes .2% of economic activity. It returns 5% of the revenue provided by the city not multiples.

• Benefits of Monona Terrace are primarily intangible such as “people-ing” downtown. Secondary, are benefits to downtown H & R industry.
% of Madison employees in hospitality industry

% of all wages earned by Madison hospitality employees.

Hospitality Industry Wages
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.**
The Madison Hotel Market

- **Downtown**: 11 hotels (1845 rooms) within 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

- PLUS: 4000 rooms in City outside downtown.
- At least 450-500 additional rooms in the next year 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
• Convention centers must have a hotel that is either attached to or within one block of the convention center.
Where do conferees stay?

- 85% in Madison/ 15% in non-Madison hotels.
- Of those who stayed in Madison:
  - 33%: Best Western Inn on the Park
  - 29%: Hilton
  - 21%: Concourse
- 75% of conferees chose not to stay in the nearest “conference” hotel but a less expensive alternative.
<table>
<thead>
<tr>
<th>Facility</th>
<th>Monona Terrace</th>
<th>Milw</th>
<th>Schaumburg, Il</th>
<th>Des Moines</th>
<th>Kansas City</th>
<th>Providence</th>
<th>Grand Rapids</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exhibition &amp; Meeting Space</td>
<td>49000</td>
<td>2280</td>
<td>105000</td>
<td>177000</td>
<td>74000</td>
<td>136500</td>
<td>194000</td>
</tr>
<tr>
<td>Room 1 Mile</td>
<td>1600</td>
<td>2806</td>
<td>474</td>
<td>1694</td>
<td>2187</td>
<td>2071</td>
<td>1411</td>
</tr>
<tr>
<td>Avg. Distance (miles)</td>
<td>.4</td>
<td>-</td>
<td>-</td>
<td>.5</td>
<td>.6</td>
<td>.3</td>
<td>.3</td>
</tr>
</tbody>
</table>

Source: Johnson Consulting
The Mass Transit Alternative
### Avg. Number Room Nights Per Monona Terrace Event

<table>
<thead>
<tr>
<th>Month</th>
<th>Avg. Nights</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan</td>
<td>37</td>
</tr>
<tr>
<td>Feb</td>
<td>25</td>
</tr>
<tr>
<td>March</td>
<td>38</td>
</tr>
<tr>
<td>Apr</td>
<td>48</td>
</tr>
<tr>
<td>May</td>
<td>60</td>
</tr>
<tr>
<td>June</td>
<td>88</td>
</tr>
<tr>
<td>July</td>
<td>69</td>
</tr>
<tr>
<td>Aug</td>
<td>197</td>
</tr>
<tr>
<td>Sept</td>
<td>137</td>
</tr>
<tr>
<td>Oct</td>
<td>62</td>
</tr>
<tr>
<td>Nov</td>
<td>23</td>
</tr>
<tr>
<td>Dec</td>
<td>8</td>
</tr>
</tbody>
</table>

**When do conferees stay in Madison?**
• Is the Monona Terrace comparatively under-used?
• If so, what are the reasons for the pattern of use?
<table>
<thead>
<tr>
<th>City</th>
<th>Exhibit &amp; Meeting Space</th>
<th>Percentage Larger</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monona Terrace</td>
<td>48,000</td>
<td></td>
</tr>
<tr>
<td>Des Moines</td>
<td>177,000</td>
<td>268%</td>
</tr>
<tr>
<td>Grand Rapids</td>
<td>194,000</td>
<td>304%</td>
</tr>
<tr>
<td>Kansas City</td>
<td>388,800</td>
<td>708%</td>
</tr>
<tr>
<td>Milwaukee</td>
<td>188,695</td>
<td>291%</td>
</tr>
<tr>
<td>Minneapolis</td>
<td>480,000</td>
<td>1000%</td>
</tr>
<tr>
<td>Providence</td>
<td>136,000</td>
<td>183%</td>
</tr>
</tbody>
</table>

MT is Smaller Than Competitors
“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).”

Average Convention Attendance

Source: State of Downtown: 2013, DMI
<table>
<thead>
<tr>
<th>Location</th>
<th>Rms/Exhibit Space (1000 Sq Ft)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monona Terrace</td>
<td>39.47</td>
</tr>
<tr>
<td>Des Moines</td>
<td>10.43</td>
</tr>
<tr>
<td>Grand Rapids</td>
<td>5.65</td>
</tr>
<tr>
<td>Kansas City</td>
<td>9.00</td>
</tr>
<tr>
<td>Milwaukee</td>
<td>13.25</td>
</tr>
<tr>
<td>Minneapolis</td>
<td>12.14</td>
</tr>
<tr>
<td>Providence</td>
<td>21.59</td>
</tr>
</tbody>
</table>

Source: Johnson Consulting
Is the problem a lack of guest rooms or meeting rooms?

“"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.”

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

- “I don’t think for a minute that adding a block of rooms will move the needle an inch in terms of the success of Monona Terrace.”

- Robt. Dunn, Principal for JDS Development. 10/14/13
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” in our area are due to weather, airport connections, leadership preferences, etc.

This includes all venues including the Alliant Center, Concourse Hotel, etc.

(Source: Greater Madison Convention and Visitors Bureau)
<table>
<thead>
<tr>
<th>Year</th>
<th># of Events Lost</th>
<th># of Attendance</th>
<th># of Room Nights</th>
<th>Est. Economic Impact ($Millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>1</td>
<td>1,700</td>
<td>5,540</td>
<td>$2.1</td>
</tr>
<tr>
<td>2010</td>
<td>6</td>
<td>4,225</td>
<td>8,615</td>
<td>3.9</td>
</tr>
<tr>
<td>2011</td>
<td>9</td>
<td>13,525</td>
<td>11,999</td>
<td>8.1</td>
</tr>
<tr>
<td>2012</td>
<td>7</td>
<td>5,350</td>
<td>8,918</td>
<td>5.0</td>
</tr>
<tr>
<td>2013</td>
<td>3</td>
<td>2,550</td>
<td>5,170</td>
<td>2.0</td>
</tr>
<tr>
<td>2014</td>
<td>5</td>
<td>4,900</td>
<td>11,046</td>
<td>4.3</td>
</tr>
<tr>
<td>2015</td>
<td>3</td>
<td>2,000</td>
<td>4,147</td>
<td>1.6</td>
</tr>
<tr>
<td>2016</td>
<td>4</td>
<td>3,310</td>
<td>7,920</td>
<td>2.7</td>
</tr>
</tbody>
</table>

| Total | 38               | 37,660         | 63,355           | $29.7                           |

Source: Greater Madison CVB
Effect of “lost” conventions on occupancy rate.
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)
160% Increase & Exclusive Use of Convention Hotel

- MT-Related Room Nights in 2012: 24,000
- Additional Room Nights for 70% Occupancy: 65,600
- 70% Occupancy in 350-room hotel: 89,600
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 comparable venues.

There is evidence that WEATHER and air transportation connections are major reasons for not using Madison.
• All additional room tax revenue would be used to subsidize MT deficit.

• An increase in operating subsidy from the General Fund because the City provides a subsidy of $.50 for each dollar in revenue earned by MT.
Avg. Daily Rate: Downtown

- Avg. Daily Rate
- Inflation adjusted

- 2006
- 2007
- 2008
- 2009
- 2010
- 2011
Avg. Downtown and National Occupancy Rates
### Supply of Downtown Room Nights

- **2009**: 323,025
- **2010**: 354,550
- **2011**: 377,775
- **2012**: 338,718
- **2013**: 439,413
- **2014**: 518,663
- **2015**: 556,823
- **2016**: 685,303

Source: Johnson Consulting Report

- **2012**: Edgewater Closed
- **2013**: Edgewater closed & Hampton In opens in 11/13
- **2014**: Edgewater reopens and John Nolen Project in 11/14
- **2015**: John Nolen Project full year
- **2016**: JDS hotel
Effects on Private-sector Hotels

- Unknown effects on existing downtown hotels.
- Currently: 850 rooms within 3 blocks
- Next 2 years: 600 additional rooms from private market
- With (350 room) MT Hotel: 1850 rooms.

**Result**: More than doubling capacity in an industry with a marginal occupancy rate.
• Overture Center (City subsidized): 24-800 seats
• Central Library (City owned): 600 seats
• Wisconsin Institute for Discovery (state subsidized): 1200 seats
• UW Memorial Union: 600
• Madison Hilton (TIF’ed): up to 100
• Edgewater: Re-opening 2014: Unknown
• **RFPs: Propose 25,000 Sq ft of meeting space**
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
<table>
<thead>
<tr>
<th>Available Rooms in 4 Hotels (inc. Edgewater)</th>
<th>Occupancy Rate</th>
<th>Avg. Rooms Occupancy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current</td>
<td>1000</td>
<td>70%</td>
</tr>
<tr>
<td>With Monona Terrace Hotel</td>
<td>1400</td>
<td>50%</td>
</tr>
</tbody>
</table>

Effect on hotels with no growth in demand.
<table>
<thead>
<tr>
<th>Hotel</th>
<th>2013 Assessment</th>
<th>City Property Tax</th>
<th>Rooms</th>
<th>20% Decline</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inn on the Park</td>
<td>$3,934,000</td>
<td>$36,624</td>
<td>213</td>
<td>$7,325</td>
</tr>
<tr>
<td>Concourse</td>
<td>$16,766,900</td>
<td>$156,067</td>
<td>358</td>
<td>$31,213</td>
</tr>
<tr>
<td>Edgewater (est.)</td>
<td>$20,000,000</td>
<td>$190,000</td>
<td>195</td>
<td>$38,000</td>
</tr>
<tr>
<td>Hilton</td>
<td>$18,774,000</td>
<td>$174,757</td>
<td>240</td>
<td>$34,951</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$59,474,900</strong></td>
<td><strong>$557,448</strong></td>
<td><strong>1006</strong></td>
<td><strong>$111,490</strong></td>
</tr>
</tbody>
</table>
• If the city cripples their business, will we subsidize the entire downtown hotel industry? What is the likely unemployment from loss of business?

• If presumably all conferees want hotel rooms connected to their meeting space, wouldn’t a **new hotel** with 25,000 sf meeting space take more business from the 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?
Three Tests for Gov’t Intervention

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.
“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
Lighter, Quicker, Cheaper?
Conclusions

1. No evidence base to support the claim that a new hotel: a. is needed and b. that if constructed, would increase use of MT.
2. Substantial evidence that construction of a new 300-400 room hotel would economically injure existing businesses.
3. This could result in a substantial use of TIF, long-term loss of tax base and revenues and a loss of employment for the most disadvantaged populations.
4. MT can be improved and made more successful without a new hotel.