



Economics Research Associates

Final Draft Executive Summary

**Iowa Events Center Expansion
Assessment**

Prepared for:

**Polk County Board of Supervisors
Greater Des Moines Convention &
Visitors Bureau**

Submitted by:

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I. General & Limiting Conditions

Every reasonable effort has been made to ensure that the data contained in this report are accurate as of the date of this study; however, factors exist that are outside the control of Economics Research Associates and that may affect the estimates and/or projections noted herein. This study is based on estimates, assumptions and other information developed by Economics Research Associates from its independent research effort, general knowledge of the industry, and information provided by and consultations with the client and the client's representatives. No responsibility is assumed for inaccuracies in reporting by the client, the client's agent and representatives, or any other data source used in preparing or presenting this study.

This report is based on information that was current as of April 2008 and Economics Research Associates has not undertaken any update of its research effort since such date.

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This study is qualified in its entirety by, and should be considered in light of, these limitations, conditions and considerations.



II. Introduction

Economics Research Associates (ERA) was engaged by the Polk County Board of Supervisors and the Greater Des Moines Convention and Visitors Bureau (GDCVB) to answer several key questions related to a potential expansion of the Iowa Events Center (IEC). Key questions include:

- Assuming that the Plex is taken out of service, is there a justified market for expanding space at the IEC?
- How does taking the Plex out of service impact downtown hotels and other stakeholders?
- Assuming that the Plex is taken out of service but not demolished, what are the top non-competitive uses for the structure?
- What will the incremental economic impact of this proposed expansion be?
- Assuming the construction of a hotel, how much financial incentive, if any, should the public sector be prepared to make, before and after an expansion of the IEC?

The analysis is built in part around three previous ERA studies completed for Polk County and the GDCVB dating back to 1998. These studies include:

- Public Assembly Facilities Study Master Plan, July 1998
- Updated Scenario Assessment and Economic Impact, December 1999
- Updated Operating Expense Implications, Revised Public Assembly Facility Options, March 2000

In the July 1998 report, the following master plan recommendations for new public assembly space in Des Moines were made:

- Exhibit space: 200,000 sq. ft.
- Ballroom: 20,000 sq. ft.
- Breakout space: 40,000 sq. ft.
- A 16,000-seat arena for sports and concerts
- An attached hotel with 300 to 400 rooms
- Up to 4,000 parking spaces controlled by the venue

III. Market Justification for Closing the Plex and IEC Expansion

The assessment highlights several specific reasons why an expansion of the IEC is necessary.

Reasons to be covered relate to the following:

- Consistency with original 1998 master plan recommendations
- Increased competition within Iowa for state convention business
- Growth of Des Moines as an internationally relevant center for insurance and financial services
- Current IEC performance, and opportunities to further grow revenue / reduce operating expenses.

When completed in 2006, the IEC included the following elements:

- HyVee Hall: 100,000 sq. ft. feet of exhibit space and 14,400 sq. ft. of breakout meeting space
- Vets: A lower-floor exhibit hall and the arena floor, covering about 96,000 sq. ft.
- Wells Fargo Arena: seating for up to 16,980 attendees, plus the arena floor (31,700 sq. ft.)

The essential differences between the recommended program and the as-built program are:

- Exhibit space: HyVee Hall and Vets provide 200,000 sq. ft. on two floors. However, while there is about 150,000 sq. ft. of contiguous space between HyVee and Vets, only 96,120 sq. ft. contiguous and column free.
- Banquet space: The 65,000 sq. ft. recommendation for meeting and ballroom space was partially met with eight meeting rooms at HyVee Hall. The implication is that convention groups were expected to use existing banquet and breakout space at the Plex, and walk to HyVee Hall for exhibit functions.

As a general statement, the 1998 master plan emphasized convention rather than arena elements. However, the as-built program placed greater emphasis on the arena side. The choice is significant, in that Wells Fargo has proven to be a profitable venue, allowing Global and Polk County to tolerate operating deficits at the other IEC venues. Given that many cities larger than Des Moines are investing considerable resources to sustain their public assembly programs, the ability of IEC assembly facilities to be self-sustaining on an operating basis is particularly significant.

Statewide Competition

Since ERA's study was completed in 1999, statewide competition has dramatically increased:

- **Dubuque:** The new Grand River Center offers a 12,000 sq. ft. ballroom, a 30,000 sq. ft. exhibit hall, and 12,000 sq. ft. of breakout space, within an 86,000 sq. ft. building.
- **Coralville:** A 280-room Marriott attached to a 60,000-sq. ft. meeting facility with a 15,000 sq. ft. ballroom, a 30,000 sq. ft. exhibit space, 10 breakout rooms, and a smaller junior ballroom.
- **Council Bluffs:** The Mid-America Center includes a convention center with 64,000 sq. ft. of space, with a 24,000-sq. ft. exhibit hall, an 18,500-sq. ft. ballroom, and 5 breakout rooms.
- **Iowa State Fairgrounds:** The Varied Industries Building was renovated, covering 110,000 sq. ft.
- **Ottumwa:** The Bridge View Center opened in December 2006 with 30,000 sq. ft. of exhibit space, 5,000 sq. ft. of meeting space, and a 650-seat theater.
- **Prairie Meadows:** Opened a new banquet space in 2007 covering 14,300 sq. ft.

Since 2000, statewide meeting and exhibit space increased by a total of 485,000 sq. ft. including HyVee Hall, but excluding the 428,700-gross sq. ft. Wells Fargo Arena. In all cases, new space was developed in part with public incentives, including support from Vision Iowa in most cases. Three of the new buildings are direct competitors with the Plex. Increased competition has altered state convention rotations, such that Des Moines no longer sees some long-standing events annually. While ERA analysis in 1998 and 2000 highlighted the initial implications of increased competition at the state level, the actual magnitude of new competitive meeting space is a disturbing surprise, and reinforces the need for the IEC to compete at a regional level.

Across the Midwest, while the following competitive venues have also been expanded, many of these projects were first mentioned in 1998 – 2000.

- St. Paul – 64,341 sq. ft. of exhibit space and a 27,111-sq. ft. grand ballroom
- Omaha – 194,000 sq. ft. of exhibit space and a 30,996-sq. ft. grand ballroom
- Green Bay – An 8,000 sq. ft. ballroom and a 17,350-sq. ft. exhibit hall.
- Minneapolis – This recently opened venue includes a 27,000-sq. ft. ballroom
- Indianapolis – A 662,000-sq. ft. expansion is underway – 2010 completion
- Madison – A 14,000-sq. ft. ballroom, 14,000 sq. ft. of meeting space, & 40,000-sq. ft. exhibit hall.

Although the competitive market has shifted, Des Moines role as a regional economic center has also expanded in a regionally significant way, comparing favorably with larger Midwestern cities including Kansas City, Indianapolis, Minneapolis, and Madison. Comparisons include:

- **White Collar Employment Growth** – Metropolitan Des Moines experienced the second highest rate of annual growth in office-using white collar employment from 1997 to 2007, adding jobs at a rate of 2.3% per year. Only Madison achieved a faster growth rate (3% annually).
- **Wages** – Metropolitan Des Moines saw per capita income growth rates of 4.2% per year since 1997, ranking second behind Madison, and ahead of the other larger jurisdictions. Madison competes favorably with Des Moines.
- **Insurance & Financial Services** – Not enough is made of the growing role of Des Moines as a key national center for financial services and insurance. Local firms such as Principal Financial are increasingly international in their scope and reach, with higher expectations for local amenities and quality of life.

These findings reinforce the notion that Des Moines can compete at a higher level for convention business across the Midwest region, competing with larger cities such as Minneapolis, Kansas City, or Indianapolis for specific larger events.

IEC Utilization

Since opening, IEC business has grown to a FY 06/07 level of 552 events and 1,079,682 attendees, of which 417 events and 491,092 attendees can be attributed to Vets, HyVee Hall, and the Plex. For comparative purposes, Vets and the Plex generated a total of 1,007,192 attendees in FY 96/97, of which attendance of 621,926 can be attributed to convention and meeting business, pointing to a decrease in non-sports attendance of about 131,000 visits over the past 10 years.

Although attendance and event totals on the convention side have decreased, overall financial performance has continued to improve, from a loss position of \$1.7 million in FY 04/05 to a modest operating profit of about \$84,000 through FY 06/07, excluding non-operating items. Operating performance has been driven by Wells Fargo Arena, as well as increasing utilization of Vets for sports tournaments and youth rallies. Revenue growth has been dramatic, increasing from about \$4.2 million in FY 96/97 to an FY 06/07 level of \$14.7 million. For FY 06/07 IEC utilization has been impacted in several ways:

- As HyVee Hall only recently opened, ERA would expect this venue to require 2-3 years to ramp up to a full schedule. As such, this venue should only be starting to hit stride.
- Plex utilization has been impacted by policy decisions dating back 10 years. At least twice in the past four years the idea of closing the Plex surfaced. These rumors have impacted the marketability of this venue, and the IEC by association. Also, in 1997, Plex performance was impacted when the venue was converted from city to county ownership.

- Vets is now being repositioned to compete for sports tournaments and youth group rallies, which is reflected in the venue's increased utilization for FY 06/07.
- In building the IEC, Polk County also lost about 400 parking spaces, leaving the IEC with a reduced total of about 1,300 spaces.

Plex Utilization

Compared to other IEC venues, the Plex has been highly utilized over the past fiscal year, with 358 event days representing 59% of total IEC event days, and 78% of convention event days. These events occupied a total of about 7.8 million rented Plex sq. ft. in FY 06/07. Assuming a core 270-day convention season and a building covering 59,581 sq. ft., the 7.8-million-sq. ft. utilization factor represents about 50% of the building's total available rentable space over the core season. For most convention centers a utilization factor of 10% to 20% is common; the combined factor for Vets and HyVee Hall is about 10%. Other utilization factors include:

- The number of Plex events has decreased since FY 96/97 from about 400 to an FY 06/07 level of 180. Attendance has decreased from 272,450 to 138,683 over the same period.
- Although Plex attendance has decreased, revenue has more than doubled, from about \$1.1 million in FY 96/97 to \$2.79 million in FY 06/07.
- Out of 60 events that rented ballroom space at the Plex, 41 events have maximized the existing 12,363-square foot "ballroom" space (Assembly Room 204). 50% of these events are conventions or trade shows, almost all of which have maximized their use of the building.
- The analysis highlights the financial importance of modern ballroom and breakout space to the IEC. Comparing total revenue to total rented space (per event information from Global), overall Plex revenue generation (at \$0.98 / sq. ft.) is higher than HyVee Hall (\$0.63 per sq. ft.). For banquets only, while the Plex generates about \$1.60 / sq. ft. in revenue, HyVee banquets generate about \$2.86 / sq. ft. in revenue, pointing to an ability to grow revenue in new venues.
- The Plex is also constrained to a large extent by the limited 300-room hotel block available in the downtown core.

The key challenge with the Plex is that it is no longer the most competitive venue in Iowa for state conventions, sharing the state level market with four other venues with comparable / superior amenities. This point is reinforced by the notion that since FY 96/97, the Plex's share of the state convention market has dropped dramatically, from about 45 state conventions to a current FY 06/07 level of about 25 state level conventions.



Implications

The analysis points to a clear need to develop modern ballroom and breakout space attached to the IEC. At minimum, replacement of the Plex would require a 60,000 sq. ft. program (in addition to the 14,400 sq. ft already at Hy Vee Hall), with a modern, fully-divisible ballroom in the 25,000 sq. ft. range and additional breakout space. Consideration should also be given to a renovation of the lower floor of Vets, to reduce the impact of column spacing, and to update the existing meeting rooms. Within the context of Des Moines competition across the state and the Midwest, a ballroom in the 25,000-sq. ft. range is reasonable.

IV. Impact on Downtown Stakeholders

Closure of the Plex and development of new space at the IEC will have implications for downtown stakeholders, including hoteliers and Global. Considerations include:

- Currently, the Plex is driving demand for a majority of the approximately 24,000 convention-related room nights tied to IEC venues. Given that the Plex is effectively at capacity, downtown hoteliers cannot grow this segment of business significantly.
- While the IEC has generated a modest increase in room business for downtown hotels since 2006, the rate of increase was not sufficient to encourage the private sector to develop additional downtown room capacity. The lack of growth relates to the reality that IEC expansion was not sufficient to significantly alter the traditional core markets of social, military, fraternal, and religious (SMERF) meetings state conventions. These more price conscious groups generate room night demand at rates between 0.3 - 1.2 room nights per delegate. By comparison, national associations generate over 2 room nights per delegate.
- There are also times where downtown hotels are at capacity, due to other local events, such as Drake Relays or high school tournaments, where the lack of room capacity prevents conventions from being booked.

Interviews conducted with downtown hoteliers highlighted these challenges, as well as an indication that an expansion of ballroom and banquet space would be supportive of room night business. While there was modest concern about competition for banquets, the interviewees were outspoken in their reluctance to see an attached convention hotel built, particularly if the new hotel supports additional meeting space.

While hotelier concern is clearly relevant, it should be noted that the downtown hotel market has been a strong performer between 2003 and 2006:

- Growth in average daily rates from \$93 to \$102 through 2006
- Growth in revenue per occupied room from \$56 to \$70 – reflective of 7.5% annualized growth
- Growth in occupancies to a year end 2006 level of about 69%, against a metro area rate of 59.3%, and a national rate of 63%.
- Growth in hotel motel taxes at a 5% annualized rate during this period. For perspective, overall tax growth from FY 91/92 to FY 06/07 has been about 2.9% per year.

Understanding the impact of additional downtown hotel capacity begins with competitive set hotel benchmarks noted in the November 2007 C.H. Johnson IEC Headquarters Hotel Market Analysis.



This study identified a competitive set market occupancy of 68.5% and a competitive supply of about 422,600 room nights. Using these factors only as a starting point, the possible addition of a 400-room hotel (146,000 room nights) at 50% occupancy would reduce the overall competitive set occupancy rate to 63%. This being said, occupancy levels will likely soften from 2006 highs as the economy slows down.

Recent experience suggests that the addition of a headquarters hotel has potential to expand the hotel market for Des Moines, with factors in the 15% to 20% being highlighted in other recently opened projects. As one example, the City of Sacramento opened a new 500-room Sheraton in 2001, and generated a 20% increase in room nights, (an increase that was well below consultant forecasts).

ERA believes that Global would gain from an expansion, allowing them to generate operating efficiencies from a condensed operating footprint. As well, they should be able to generate revenue premiums from new space at the IEC, above rates that can be charged at the Plex. Lastly, there would also be considerable angst from all parties if the Plex was closed before replacement ballroom and breakout space could be opened at the IEC.

V. Plex Reuse Ideas

The Plex has been in operation for more than 20 years, no longer carries any county debt, and is facing near-term capital reinvestment requirements estimated separately by the county and Global Spectrum to be in the \$9 million to \$10 million range for improvements to physical plant systems and furniture, fixtures, and equipment (FF&E). These upgrades will not alter the structure of the building or improve its functionality. As well, the dramatic expansion of convention and meeting space across the state of Iowa since 2000 has significantly altered the competitive market for state events, and has placed the Plex at a competitive disadvantage.

From an adaptive reuse perspective, unique aspects of the Plex's design, including clear span floors, high ceilings, and floors with significant load bearing capacity need to be considered. Although the building's open floorplan could suggest a general office use, building efficiency (higher utility costs) would be a key challenge. Within this context, and with an open mind, plausible adaptive reuse options for the Plex could include:

- Indoor waterpark
- A public market hall for farm produce as well as prepared meals, spices, meat, poultry, etc.
- Health club with upper floor basketball / volleyball court space.
- Temporary use as a county court building
- Premium (heated) parking for downtown office tenants or IEC events
- College satellite campus, extension center, medical facility, or other educational / institutional use
- Home improvement center
- Film studio space
- Temporary exhibit space for short term art exhibits (Treasures of the Tsar)
- Museum
- Kidzania – a child oriented indoor entertainment and education center. The concept was developed in Mexico, and is now being introduced in the US. The required footprint for this concept is not dissimilar to the size of the Plex.
- A call center
- A concert venue with between 3,000 and 7,000 seats in size, using risers (WaMu Theater is the benchmark, located next to the Seattle Seahawk Football Stadium).
- Multi-modal bus rapid transit hub
- Office space for several architecture / engineering firms
- Destination bookstore

- Multi-screen cinema complex
- Entertainment complex (Dave & Busters)

Other cities have / are considering interesting reuse options for dissimilar buildings:

- City officials in Buffalo are looking at a casino as a reuse option for an older exposition center.
- City officials in Portland are looking at reuse ideas for a convention space as an urban home center or a sustainable technology center, run by a large format retailer such as Home Depot.
- In Washington DC, redevelopment plans for the old convention center site include 280,000 sq. ft. of retail, 450,000 sq. ft. of office, 690 residential units, and 1,700 parking spaces.
- The City of San Francisco ended up converting their older convention center into storage space for library books, and as a facility for storing voter machines. It had been talked about as a computer museum.

The building occupies a strategic 85,000-sq. ft. site in the downtown core. From ERA's perspective, the existing improvements cannot be considered the long-term highest and best use of this site. Redevelopment with higher density office or mixed use development would return this site to the local tax base. From this perspective, when viewed strictly as a vacant building, the Plex would be competing with more than 65 other vacant commercial and industrial buildings across the state of Iowa sized between 40,000 and 60,000 sq. ft.

VI. Event and Economic Impact Implications

To provide insight as to the market opportunity for Des Moines if new IEC ballroom and breakout space is built, ERA explored two alternative ways of looking at the regional and national convention market. One approach relies on the MINT database, which is maintained by the international Association of Convention Centers (IACVB), and the other approach relies on collected RFP’s and lost business reports for events that have either indicated a specific interest in visiting Des Moines, or have been actively scouting Midwestern sites.

Option 1: MINT Approach

The MINT database covers larger conventions and trade shows with 50 or more room nights over the past 5 to 10 years, and is searchable based on event size, room nights, and other requirements. ERA used the database to identify potential regional and national conventions and trade shows that have visited cities in the Midwestern states of IA, IN, KS, MN, MO, ND, NE, OH, SD, and WI, which would be competitive for the IEC under three iterative scenarios, shown in the table below. The sample excludes all events from Illinois, to reduce the impact of McCormick Place.

- Baseline: Events that can fit into the Plex as it exists today
- Expanded IEC: Events that can fit into the IEC with an expanded ballroom / breakout element
- Expanded IEC / Attached Hotel: Events that can fit into an expanded IEC with an attached hotel.

Assumption Benchmarks

Assumption	Baseline Plex	Expanded IEC	Expanded IEC W/ Attached Hotel
Total Attendance:	800 to 5,000	800 to 8,000	800 to 8,000
Gross Event Sq. ft.:	10,000 to 60,000	10,000 to 200,000	10,000 to 200,000
Peak Rooms Blocked:	350 to 1,000	350 to 2,500	350 to 2,500
Peak Rooms – HQ hotel:	300	300	400
Simultaneous Meeting Rooms:	26	34	34
Largest Meal Attendance:	1,000	1,667	1,667

The following table summarizes the results of this analysis, highlighting the growth in Midwestern meetings that would be competitive based only on event size, along with the number of meetings in the sample that have actually visited Des Moines in the past, and a corresponding market penetration rate. The table shows how the potential market more than doubles in size from 37

conventions to 85 conventions with the provision of additional ballroom and breakout space at the IEC. The potential market grows from 85 meetings to 170 meetings with the provision of an attached 400-room hotel. The approach also excluded several events that would simply too large to go to Des Moines under any circumstances. The table highlights cumulative totals, so annual event capture will obviously be lower.

Expansion Scenario Market Scale Implications, Total Events

Scenario	Baseline	Expanded IEC	Expanded IEC / Attached Hotel
Conventions that have Visited Midwestern Cities	37	85	170
Conventions that have Visited Des Moines	1	6	9
IEC Actual Market Penetration	3%	7%	5%

The above table also shows that Des Moines has achieved a modest competitive level in these markets within the confines of existing venues, with a 3% share of the baseline market, and higher shares in the Expanded IEC market scenario (7%) and attached hotel scenarios (5%). The analysis speaks to the opportunity to expand penetration of these markets with new and competitive facilities. It also highlights a preponderance of weight placed on the presence of a HQ hotel by meeting planners.

Option 2: Lost Business Approach

The following table summarizes a 10-year trend for lost convention business in Des Moines, with the majority of lost business concentrated in five specific years between 2006 and 2010. The table highlights different reasons why convention groups chose not to visit Des Moines, ranging from a lack of convention hotel, limited space, cost factors, the scale of Des Moines as a destination, other factors beyond local control, and the realities of event rotation and timing factors. The lost business approach is based on groups who actively considered one destination over another for various reasons. Of the reasons noted for the total of 365 events representing over 1.3 million room nights, about 40% of events would appear to be beyond the city’s reach due to cost and destination quality factors (elements which cannot be easily changed). By the same token, 54% of the market appears competitive for Des Moines, which includes events lost due to space limitations, event rotations, and timing. Significantly, the analysis indicates that the presence of a convention hotel boosts the potential market by an additional 6%, which is less than suggested above.



Lost Business Analysis, 12 Year Trend, Des Moines CVB Data

Reason	Events	Room Nights	Average Attendance	Share of Events	Share of Room Nights
Lost due to lack of a HQ Hotel	21	55,087	3,319	5.8%	4.2%
Lost due to IEC Capacity	37	307,725	8,317	10.1%	23.2%
Cost of Going to Des Moines	18	34,822	2,461	4.9%	2.6%
Des Moines as a Destination	48	137,797	3,004	13.2%	10.4%
Other Factors Beyond Local Control	82	264,914	3,004	22.5%	20.0%
Event Rotations / Timing	159	525,424	6,123	43.6%	39.6%
Totals	365	1,325,769		100.0%	100%

Implications

The two alternative approaches highlight different ways of understanding the potential market for new regional and national convention business in Des Moines. On one side, the Lost Business approach highlights a minimum of 20 events per year that would be competitive for Des Moines if the IEC is expanded. The Meeting Planner database highlights a similar opportunity, in the 15 to 20 event per year range, generated by expansion of IEC facilities. The analysis is likely under-representing the impact of a headquarters hotel, because the Des Moines CVB is not pursuing groups that have significant HQ hotel requirements. As such, this share of the market would grow if such a hotel were built.

Moving into the economic impact assessment, ERA will focus on a likely opportunity for growth of 8 new regional and national conventions, post expansion, which represents the mid-point for between 6 and 10 new events, achieved within five years of project completion. While this estimate is conservative, ERA notes that an expanded IEC will likely begin with considerable existing business in place, assuming that the Plex is closed and a new venue opens at the same time. As well, there are other constraints, such as hotel room supplies during key months (February or May), that will limit convention market penetration.

Economic Impact Estimate

The 1998 Master Plan evaluated the impact of Des Moines gaining a net increase of 15 regional and national conventions tied to the full implementation of the master plan concept. In December of 1999, ERA evaluated the economic impact implications of five refined IEC expansion scenarios (Scenarios A, B, C, D, and E). Of the five scenarios, only Scenario E began to approximate the original master plan recommendations. Scenario E included 100,000 sq. ft. of new contiguous exhibit space and 40,000 sq. ft. of ballroom and meeting space, plus the arena. Due to funding limitations, the county was able to build 100,000 sq. ft. of exhibit space, 14,400 sq. ft. of meeting

space and the new arena, leaving the ballroom and additional breakout space on the drawing board. At the time, ERA concluded that Scenario D would not make an appreciable difference in the competitive position of Des Moines for regional and national conventions, with the lack of banquet and breakout space being the key challenge.

Current consideration of a 60,000-sq. ft. ballroom / breakout space expansion would push the IEC slightly beyond Scenario E, which ERA associated with an ability to generate growth of 15 new regional and national conventions within 10 years of project completion in the 1999 report. ERA noted in the 1999 study that this growth would be offset to a certain extent by fewer state level meetings, which would need to be “sacrificed” to go after larger regional and national events, as Scenario E would not be as flexible as the full master plan. However, the reality that has unfolded since 2000 is significant, in that IEC state convention business has decreased dramatically, from 50 events in 1999, down to a current level in the 25-event range. While state business will vary due to rotation patterns, the inability of the IEC to sustain growth in regional and national markets beyond the 5 to 8 event level per year is the more significant concern.

To understand economic and fiscal impacts associated with the proposed expansion, ERA developed the following assumptions:

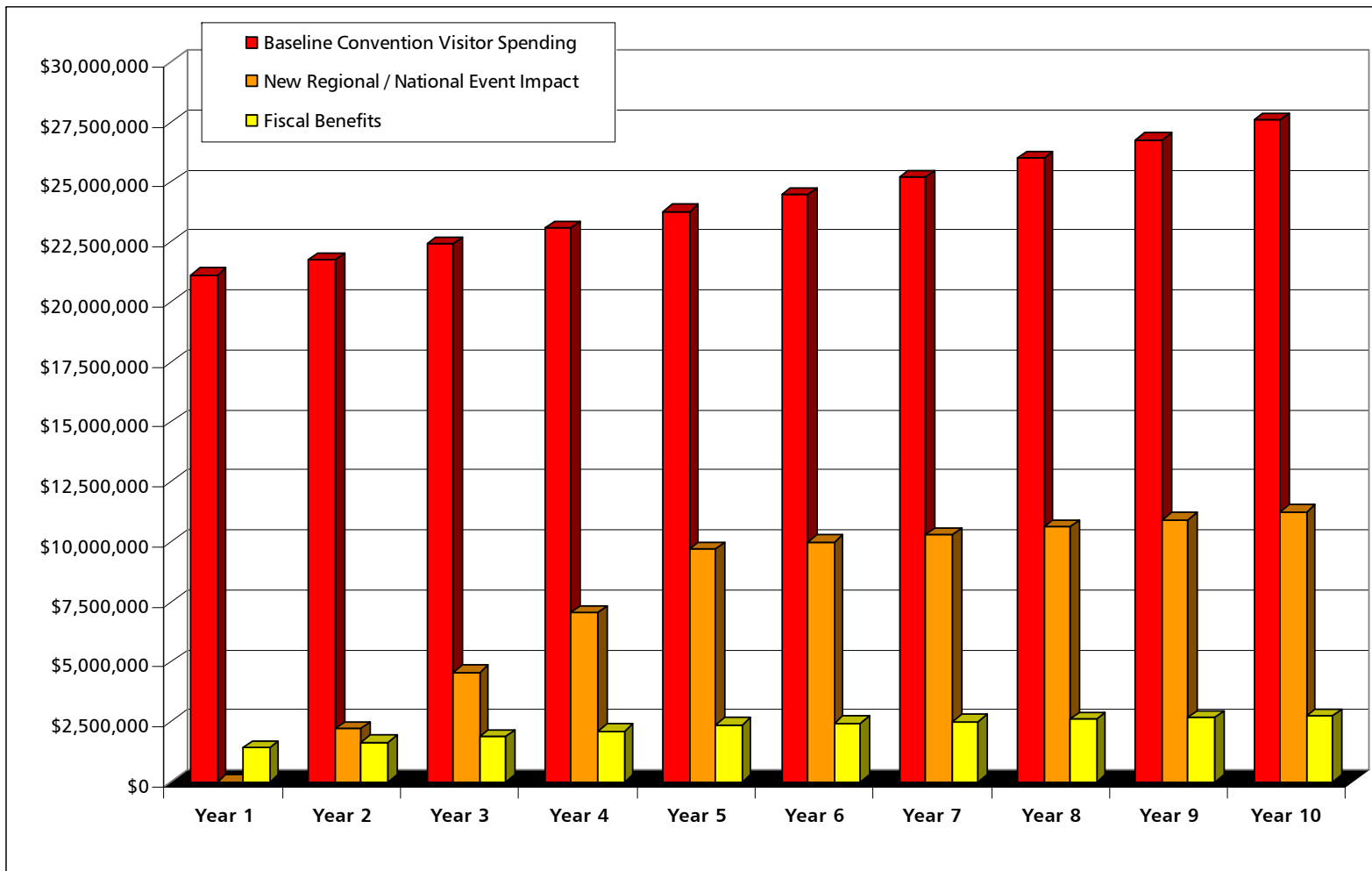
- A baseline existing market of 25 state conventions and 10 regional conventions, which is held constant over the forecast period – no growth from in-state business is assumed.
- A post IEC expansion market that builds to 8 additional regional and national conventions, ramping up over a 3-5 year period. The 8 event assumption reflects the midpoint between 6 and 10 regional and national conventions per year, with variation driven by event rotations. Growth beyond this factor would be possible, but would correlate with the development of an attached hotel and more aggressive use of incentives by the GDCVB and Global.
- Existing state conventions average 1,200 people per event, with a hotel room impact of 0.3 room nights per attendee, an event duration of 3.4 days, and average spending per day of \$208.
- Existing regional and national conventions average 1,250 people per event, with a hotel room impact of 1.2 room nights per attendee, an event duration of 3.4 days, and average spending per day of \$260.
- Potential new regional and national conventions are estimated to average 1,500 people per event, with a hotel room impact of 1.75 room nights per attendee, an event duration of 3.5 days, and average spending per day of \$260.
- Visitor spending factors inflate at 3% per year.

- State sales taxes of 5%, county schools sales tax of 1%, and City of Des Moines hotel tax of 7% are assumed.
- No allowance is made for additional benefits attributed to an attached convention center hotel.
- The approach specifically assumes that new ballroom space is opened before the Plex is closed.

The analysis yields the following core findings to reflect the opportunity to grow event business by year five of operation in the expanded IEC:

- Growth in total conventions from 35 to 43 by year 10, and growth in attendance from a current level of about 42,000 visitors to about 54,000 visitors, again by year 10.
- Growth in total hotel room nights from about 24,000 to about 45,000 by year 10.
- Growth in convention related visitor spending from a current level of about \$21.1 million to about \$38.8 million by year 10 of operation, which includes the visitor spending impact of expected new regional and national conventions.
- Growth in state sales taxes from a current estimate of about \$1 million to \$1.9 million by year 10.
- Growth in school sales tax from about \$210,000 to about \$390,000 by year 10.
- Growth in City of Des Moines hotel taxes from a current estimate of \$170,000 to \$430,000 by year 10.
- Cumulative net fiscal benefits to city, school district and state jurisdictions (growth above baseline) could amount to \$21 million over 10 years.
- Within the confines of current tax structure, Polk County will not see an appreciable direct fiscal benefit from this project.

The following chart reflects the scale of direct impact implications. The impact factors are driven by one core assumption, which is that the IEC is able to attract a modest increase in new regional and national conventions at a higher room night per attendee multiple, which will drive additional room night business for the downtown hotel market.



VII. Convention Hotel Incentive Implications

The value and impact of headquarters hotels attached to convention centers have remained hotly debated topics for the last several years. Even so, several factors are clear:

- Cities that are serious about convention business have felt compelled to build convention hotels, and assume significant financial risk in financing and owning them.
- A total of 13 convention hotels that have been built since 2001 have benefited from public financial support, with Wichita supporting the lowest level of public investment (33% out of a \$33-million-dollar hotel). Recent projects in Omaha and Overland Park were developed with 100% public investment.
- In all cases, a key driver for construction of these hotels is the apparent need stated by meeting planners for significant hotel room capacity adjacent to the convention center. As most first tier markets have built convention hotels, second- and third-tier markets feel compelled to build these hotels to maximize the value of investments in convention facilities. Cities such as Tulsa are actively planning to develop new city owned hotels.
- While a majority of projects have not performed to original expectations, many of these projects had the misfortune of opening after 9/11, when visitation and travel dropped significantly. Also, given that many new convention centers take 3-5 years to build business, hotel occupancies can only be expected to grow in step. It should also be noted that past studies have tended to overstate room night impacts as well.
- Project financial gaps remain the key development hurdle, particularly for urban sites where hotel room rates remain below levels required to justify costs of new vertical construction, which range between \$150,000 and \$200,000 per room, excluding land acquisition.
- The level of public financial support for these projects has been extensive, ranging from 33% of project costs to 100% of project costs, provided through either public private partnerships or by public authorities using tax-exempt bonding capacity. The clear implication is that these hotels are increasingly publicly-owned, with private management on a contract / fee basis.
- Subsidy approaches cover a broad range, including property tax abatements, donated land, contributed infrastructure, abated sales tax, and contributed hotel occupancy and parking taxes.
- The use of tax exempt financing is a primary incentive, tied in with public sector commitments to cover gaps between income generation and debt service requirements with direct cash payments.

VIII. Project Implications

- Public officials in Des Moines have a long established track record of pragmatic, bottom line oriented decision-making regarding public assembly venues. This approach has led the region to develop venues that were flexible and generally profitable. In this vein, it is significant that Wells Fargo Arena has surpassed Vets in revenue generation and profitability.
- For Global, closure of the Plex and relocation of existing business to the IEC will result in operating savings, as well as modest potentials for revenue growth linked with the apparent ability to charge more for modern and more functional meeting space.
- For the County, the opportunity cost of not reinvesting \$8 to \$10 million in the Plex is significant.
- The proposed ballroom / breakout space expansion has realistic potential to grow the potential market of regional and national conventions and trade shows served by the IEC. Given the extent of erosion in the state-level convention market, there are compelling arguments for the expansion to occur.
- Regarding the need for an attached hotel, it is apparent that all of Des Moines competitor cities have developed similar properties, all targeted to higher end convention and corporate markets. For Des Moines, with downtown hotel occupancies at a position of strength relative to regional and national benchmarks, and the apparent ability of a new attached hotel to deliver a modest 15% to 20% boost to room night demand, arguments can be raised to pursue development of an attached hotel property.
- Again regarding the hotel, a number of Midwestern cities have had trouble with the performance of their attached hotels. The lack of performance stems in part from aggressive forecasts of rate and occupancy performance, which have been driven in part by cost premiums for urban sites, as well as needs generated by mid- to high end hotel flags (Hyatt, Sheraton, etc.).
- Given that the County is not a meaningful beneficiary of hotel and sales taxes, its position as the owner and operator of the IEC is interesting. In many cities, a share of local hotel tax proceeds are used to directly support convention operations, as well as offset debt service on convention hotels.

Other Policy Considerations

- Consider additional renovations to Vets, to improve conditions on the lower floor exhibit hall. As the arena floor was engineered to support events that will now be hosted by Wells Fargo Arena, an argument can be made to renovate the lower exhibit hall, and reducing the number of columns that impact the lower floor exhibit space.

- Looking beyond current ballroom and meeting space expansion proposals for the IEC, it will be critical to preserve capacity for future exhibit space expansion, which may need to occur within the next 25 years. This point is made to emphasize the reality that the Plex, which was arguably ahead of its time when built in 1983, became obsolete within 25 years due to a lack of adjacent space for additional expansion.
- To the extent that banquet and meeting elements are built by the County and not developed as part of a hotel project, the cost of the hotel should be lower compared to factors noted earlier in this report. ERA noted construction cost factors in the \$150,000 to \$200,000 per room range for a full service hotel with meeting space. While the county has reported a similar range for a possible hotel, if the ballroom space is being built separately the cost of the hotel should theoretically be lower, unless land acquisition is a problem. If construction costs are lower, the project would have more flexibility in terms of occupancy, rate, and flag considerations.
- Economic development implications focus on developing assembly space that is more supportive of Des Moines continually evolving role as a major hub for insurance and financial services. Development of facilities that can support growth in insurance industry events should be a key policy goal. For many of these groups, hotel room capacity is the clear challenge.