Agenda: 2-23-10
Item: 9.1

CITY OF
SAN JOSE
CAPITAL OF SILICON VALLEY

# Memorandum

**TO:** Mayor and City Council

**FROM:** Councilmember Sam Liccardo

**SUBJECT:** **Convention Center Expansion and Renovation**

**DATE:** February 23, 2010

**APPROVED:** Sam Liccardo RH 2-23-10

## Recommendation

Amend Paragraph 4 of the February 18, 2010 memorandum from Mayor Reed and Councilmembers Constant, Nguyen, Herrera, and Kalra to reflect that, absent any oversight or flaw in the staff's analysis, any funding of a "gap" should be confined to the options presented in the staff's February 12, 2010 memorandum.

## Discussion

I support the direction of the February 18, 2010 memorandum from the Mayor and four Councilmembers, to push forward with a design-build approach to ensure that we can build these enhancements to our convention facilities in as economical and speedy a manner as possible. We should renovate this asset to ensure its continued economic viability and usefulness, particularly at the reduced scope contemplated in recent months.

I have concerns, however, with the open-ended language in paragraph 4 of the Recommendation, relating to the funding of the "gap" between what we can currently afford and what we'd like to build. Specifically, the memorandum recommends an analysis to fill any funding gap with "Fund 536 and other non-general fund sources." I do not know whether that direction contemplates increasing the commitment from the Redevelopment Agency, or some other source not contemplated in the Staff's February 12th memorandum. Since the Brown Act does not give me the benefit of being able to discuss the specifics of the proposal with the proponents, I wish to explain my concerns in the hope of achieving clarification on the dias.

Staff has overturned every rock to arrive at the financing strategy that we now contemplate. In recent months, we have been urged repeatedly to dig deeper into Redevelopment Funds and other sources to finance this expansion and renovation. I urge us not to do so. We'd all like to see new construction emerge from this dreadful economy, but we need to ensure that its construction funded within our means. I encourage us to remain on the path contemplated by staff.

Hopes that additional spending on the Convention Center expansion will somehow pay for itself with resurgent revenues should be doused with reality. From virtually every indication, the convention center industry in the United States is not growing, and has not expanded in the last two decades. The industry publication *Trade Show Week* produces figures in its "Databook" publication that illustrate the predicament nationally. Total attendance at the roughly 5,000 events that the publication tracks hasn't grown substantially in the last two decades. Although attendance figures fluctuate substantially with economic peaks and valleys, the sobering reality that *even before* the most recent recession, attendance at shows in 2007 (82 million) was no higher than it was in 1994 (85 million). Although the industry has rebounded significantly from its low of 40 million attendees in 2003, it has never reached the 100+ million attendees that it routinely attracted in the years between 1995 and 2000. Statistics from the "Trade Show 200" similarly show that attendance at the largest 200 trade shows peaked in 1996—some fourteen years ago—and have never reached those heights since.

Set against this backdrop of stagnant demand, the supply of convention center space has increased enormously in cities throughout the U.S. from 45 million in 1993 to almost 70 million square feet in 2009. Over 50 cities throughout the U.S. have collectively invested billions building larger convention centers, all with a familiar result: consultants' projections of promised growth in attendance and revenues fall flat—or worse. The research of economist Professor Heywood Sanders at the University of Texas—published by the Brookings Institute and other peer-reviewed journals—has uncovered a disturbing industry-wide trend of rapidly growing supply chasing the same amount of demand. Dozens of cities spend billions on expansions, only to offer steep discounts to retain convention business.

In my own review, only two cities—Las Vegas and Orlando—have demonstrated substantial gains in convention activity after investing hundreds of millions in their facilities. The "rule" behind these exceptions is more sobering: convention centers like those in Orange County, where convention space has doubled since 2000, but attendance has dropped by about 120,000 since that time.

What makes San Jose believe that it will look more like Vegas and Orlando? I have pressed for answers to these questions, but the responses—such as the fact that an expansion could enable San Jose to serve two conventions simultaneously—are identical to those used by consultants and expansion advocates in dozens of other cities. The growth projections from our consultants, Horwath, match those of consultants throughout the country who have created a cottage industry in spurring massive convention center investments.

Meanwhile, the march of technology threatens to further cut into spending on conventions and corporate travel. Up the road on North First Street, Cisco Systems has invested billions on telepresence technologies that have many businesses reducing their travel budgets to exploit newfound efficiencies.

All of this does not compel the conclusion that we should scrap the project. The current $130 million plan—greatly improved on the $300 million project that council previously contemplated—assures us of a means to renovate and repair a facility after years of underfunding of maintenance. It essentially creates a "sinking fund" that should have been created two decades ago, to assure the continued sustainability of the asset. We all hope that the facility will continue to provide economic returns to the City, its businesses, and its residents, for many years.

I urge, however, that we not dip deeper into the well. Our view should be tempered by the experience of the several dozen other cities.

There is a simple term for portions of a capital project that we'd like to have but cannot afford: "Phase Two." We should employ that term in this case, and build what we're able to build within our budget. We can leave the rest for the day when our resources catch up with our ambitions.