A COST-BENEFIT MODEL FOR CONVENTION CENTERS

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Introduction

The convention industry gained a phenomenal growth in the 1960's. In the period of 1957 to 1968 the number of association conventions increased from 22,000 to over 35,000 per year, total attendance raised from 10 million to 12 million delegates, and delegate expenditures in convention cities soared from $1.2 billion to $2.2 billion a year. Considering the expenditures of exhibits and trade show visitors which are not included in the above figures, it is estimated that the Americans spend close to $6.1 billion annually for convention and exhibition purposes.

The magnitude of dollars involved in convention industry has induced the American cities to devote huge funds for construction of convention centers. Each year approximately $800 million is spent on these centers throughout the nation, and it is estimated that over $8 billion will be spent between 1966 and 1975 for building convention and exhibition centers in the United States. Over seventy-two percent of existing convention centers are owned by municipalities.

The bulk of these expenditures are made for creation of the facilities which are redundant in the economy. For an estimated 12,000,000 delegates who attend various conventions every year, there are 4,750,000 seats available at a given time. In fact, the redundancy of supply over demand and the stiff competition among convention bureaus to attract the larger conventions have caused rental fees of convention centers to be inordinately low, so that only 25 percent of convention centers make operating revenues sufficient to cover operating expenses, fewer can contribute to capital costs. Since the greater

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1 The Author is Associate Professor in the Department of Economics and Business at Western Washington State College. This paper is a summary of the research that the author had concluded for his doctoral dissertation at the University of Southern California.


5 Byrnes, loc. cit.
majority of the convention centers are financed through the general obligation bonds, the incurring losses have to absorbed by the local taxpayers. It is true that the convention center enables the city to host larger and more profitable conventions, but the revenues derived from delegate expenditures benefit only certain sectors of the business community (primarily hotels and motels, restaurants, car rentals, and nightclubs) which do not pay directly for the city losses of the convention center. The proponents of the convention center projects claim, however, that the magnitude of city tax revenues from delegate expenditures, business licenses, and property taxes (secondary benefits of these projects) are greater than the loss of the center, so the issuance of general obligation bonds would not harm the local taxpayers. Since no city as yet has been able to verify these claims by evaluating the secondary costs and benefits of convention centers in monetary terms, it is the objective of this paper to develop a cost-benefit model for measuring the desirability of convention centers from the viewpoint of their sponsors, namely, the local taxpayers.

**Financing of Convention Centers**

The method of financing a municipally-owned convention center is a determining factor in the acceptability of the project because revenue and general obligation bonds require different criteria for making decisions. If the convention center is to be financed through revenue bonds, the investment criterion would be the excess of present value of net operating revenues plus present value of the residual value of the center over present value of the initial outlay (cost of purchasing or leasing land and its improvement, construction, and equipment), where the discount rate is the rate of interest on bonds and the discount period is the economic (useful) life of the project. Since civic facilities are exempt from federal income taxes, depreciation charges and accounting profits need not be calculated for the purpose of feasibility analysis. The decision rule for building a municipally-owned convention center through issuance of revenue bonds, therefore, may be presented in the following inequality:

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