

## Is there a business case for a new convention centre in Halifax?

In March, 2008, the Province of Nova Scotia and the Halifax Regional Municipality called for expressions of interest for construction of a new convention centre in Halifax. There are four resulting reports on the proposed convention centre and the business case for it:

- 1) *Phase One Report re: Redevelopment of the WTCC Halifax – A Review of Business Prospects and Implications*, Criterion Communications Inc., April 9, 2009 – Final
- 2) *Assessing the Potential for Expanded Convention/Trade Show Facilities in Halifax*, HLT Advisory, May, 2009
- 3) *Development of the New WTTC Convention Centre Business Case to Determine the Preferred Delivery Model*, Deloitte, July 14, 2009
- 4) *Economic Impact Assessment of the Proposed Redevelopment of a World Trade And Convention Centre in Halifax*, Gardner Pinfold, December, 2009

In early 2010, pursuant to a FOIPOP request, the four reports were released in heavily-censored form. In essence, all relevant information had been censored, and the reports were useless for any kind of analysis by members of the public. There were many expressions of concern by tax-payers, members of the press, various interest groups, and politicians.

On April 30<sup>th</sup>, 2010, the reports were released in mostly uncensored form. The only significant information that remains censored is the cost of the proposed new convention centre and some details on 'lost' business due to the size of the WTCC. However, the reports can now be reviewed to determine whether there is a good business case for construction of a new convention centre in Halifax.

### Report #1 by Criterion Communications

There are two main concerns with this report. First, Criterion Communications is linked to the industry support group for Canadian convention centres. The author of the report, the president of Criterion Communications, is the Executive Director of Convention Centres of Canada (of which the WTCC is a member) as well as Director, International Development for the Brussels-based International Association of Convention Centres. As such, the report is not the work of an independent consultant. While the author is clearly very knowledgeable about convention centres, there is a strong conflict of interest.

Second, the report states, in bold type, **'It is important to note that as a preliminary review, this report has been prepared without the benefit of any primary research and is therefore based entirely on the application of generally available industry information. Estimations contained in the report are solely the judgement of the author, given the available data, and should not be relied on for any detailed business or financial assessments.'**

Nevertheless, the Criterion report is useful for providing an overview of current market trends, and also for providing an estimate of the information that remains censored – the construction cost of a new convention centre. The report states that the size of a new centre should be in the range of 150,000 to 170,000 square feet of rentable area. It goes on to say that this translates to a building size of 300,000 to 340,000 square feet. It also indicates that construction costs can be expected to be from \$400 to \$500 per square foot, with resulting a building cost ranging from \$120 million to \$170 million. The average would be 320,000 square feet at \$450, for a cost of \$144 million.

It should be noted that the Request for Proposals subsequently issued by the Province called for a rentable area of only 120,000 square feet (with, presumably, a decrease in attendance expectations). At an average of \$450 per square foot, this would mean a construction cost of \$108 million. Because this current document is a review of the four consulting reports, however, the estimated construction cost of \$144 million will be used.

### Report #2 by HLT Advisory

This report's objective is 'to conduct an analysis of market potential for an expanded WTCC...'. It also includes preparation of an 'order of magnitude revenue and expense estimate for expanded convention

facilities...'. The market estimates are based on a 160,000 square foot (320,000 gross) convention centre, the average of the space recommended in the Criterion Communications report.

Page 42 of the report shows the projected market potential in terms of number of events, number of delegates per event, and length of stay per delegate. The report provides the average values of these parameters over the last five years (2005 - 2009), plus projections for Year 4 of operations in a new, expanded centre. However, the increases representing the net new business levels are *not* displayed leaving only the impression of increased levels resulting from a new, larger facility.

The net increases can be computed, and are shown in the table to the right. The first three columns show the average values over the past five years. The next three show the projected levels. The last three (not shown in the report) illustrate the new business expected from a new, larger facility. The table shows 17 new conventions, four new trade shows, and four new consumer shows. These projections, incidentally, are inconsistent with comments elsewhere in the same report indicating that the convention industry is highly competitive and expectations of market demand have not been met in many cases.

The report also shows revenue estimates for the above market estimates. Like the previous projections of event loading, the revenue items are shown only for the average of the 2005 - 2009 period, and for the Year 4 forecasts, again leaving the impression of increased business levels from a larger facility. Like the previous table, the net increases can be computed; they are shown in the table to the right. This table shows that the net increase in revenue from new convention business

HLT Advisory projections of event load in an expanded Halifax convention centre									
	2005 - 2009 average year			Projected Year 4			Projected Net increase in business		
	Events	Delegates	Length	Events	Delegates	Length	Events	Delegates	Length
<b>Conventions</b>									
<b>Local</b>									
Current size	15	358	3.3	19	350	3.0			
Future size	n/a	n/a	n/a	5	1,000	3.5	5	1,000	3.5
Subtotal	15	358	3.3	24	485	3.1	5	1,000	3.5
<b>National</b>									
Current size	14	529	5.2	12	500	5.0			
Future size	n/a	n/a	n/a	9	1,200	5.0	9	1,200	5.0
Subtotal	14	529	5.2	21	800	5.0	9	1,200	5.0
<b>Internat'l &amp; US</b>									
Current size	2	887	5.5	3	700	5.5			
Future size	n/a	n/a	n/a	3	1,000	5.5	3	1,000	5.5
Subtotal	2	887	5.5	6	850	5.5	3	1,000	5.5
<b>Total Conventions</b>									
Current size	31	465	4.2	34	434	3.9			
Future size	n/a	n/a	n/a	17	1,106	4.6	17	1,106	4.6
Subtotal	31	465	4.2	51	658	4.2	17	1,106	4.6
<b>Trade shows</b>									
Current size	9	1,573	2.1	7	1,500	2.0			
Future size	n/a	n/a	n/a	4	2,500	4.5	4	2,500	4.5
Subtotal	9	1,573	2.1	11	1,864	2.9	4	2,500	4.5
<b>Consumer shows</b>									
Current size	4	1,406	2.8	4	1,400	3.0			
Future size	n/a	n/a	n/a	4	5,000	6.0	4	5,000	6.0
Subtotal	4	1,406	2.8	8	3,200	4.5	4	5,000	6.0

HLT Advisory estimated revenue from convention, trade show & consumer show events									
	2005 - 2009 average year			Projected Year 4			Projected Net increase in business		
	Events	Rev/event	Revenue	Events	Rev/event	Revenue	Events	Rev/event	Revenue
<b>Conventions</b>									
<b>Local</b>									
Current size	15	\$37,007	\$555,105	19	\$35,000	\$665,000			
Future size	n/a	n/a	n/a	5	75,000	375,000	5	75,000	375,000
Subtotal	15	37,007	555,105	24	43,333	1,040,000	5	75,000	375,000
<b>National</b>									
Current size	14	73,442	1,028,193	12	75,000	900,000			
Future size	n/a	n/a	n/a	9	150,000	1,350,000	9	150,000	1,350,000
Subtotal	14	73,442	1,028,193	21	107,143	2,250,000	9	150,000	1,350,000
<b>Internat'l &amp; US</b>									
Current size	2	101,409	202,818	3	80,000	240,000			
Future size	n/a	n/a	n/a	3	160,000	480,000	3	160,000	480,000
Subtotal	2	101,409	202,818	6	120,000	720,000	3	160,000	480,000
<b>Total Conventions</b>									
Current size	31	57,617	1,786,118	34	53,088	1,805,000			
Future size	n/a	n/a	n/a	17	129,706	2,205,000	17	129,706	2,205,000
Subtotal	31	57,617	1,786,118	51	78,627	4,010,000	17	129,706	2,205,000
<b>Trade shows</b>									
Current size	9	22,486	202,375	7	22,500	157,500			
Future size	n/a	n/a	n/a	4	50,000	200,000	4	50,000	200,000
Subtotal	9	22,486	202,375	11	32,500	357,500	4	50,000	200,000
<b>Consumer shows</b>									
Current size	4	13,484	53,935	4	13,500	54,000			
Future size	n/a	n/a	n/a	4	50,000	200,000	4	50,000	200,000
Subtotal	4	13,484	53,935	8	31,750	254,000	4	50,000	200,000

convention business

is roughly \$2.2 million. The increase in revenue from trade shows and consumer shows is estimated at roughly \$200,000 in each case.

Revenues and expenses associated with this business are also shown in the report – but only for the year ending March 31<sup>st</sup>, 2009, and for Year 4 of operations, leaving the impression of increased business levels from a larger facility. The table illustrating the net increases is shown below. In this case, the full operating statement is shown – revenues, expenses directly associated with the serving delegates, and expenses allocated to administration, sales, etc. Examination of this table is a somewhat sobering experience. It appears that the projected net new business does produce \$2.8 million more revenue, but increased costs associated

HLT Advisory estimated statement of operations						
	Year ending Mar 31, 2009		Projected Year 4		Net increase	
<b>Revenue</b>						<b>Notes re projected Year 4 figures</b>
Conv's, trade & cons. shows	\$2,338,912	47.1%	\$4,621,500	59.3%	\$2,282,588	From revenue projections
Other events	2,456,825	49.4%	2,948,190	37.9%	491,365	Assumed 20% incr. on 5-year-average revenue
Commissions	95,357	1.9%	138,645	1.8%	43,288	Est'd 3% of conv'n, trade & cons. show revenue
Other income	79,531	1.6%	79,531	1.0%	0	Left at historical level (not dependant on volume)
<b>Total revenue</b>	<b>4,970,624</b>	<b>100.0%</b>	<b>7,787,866</b>	<b>100.0%</b>	<b>2,817,242</b>	
<b>Direct expenses</b>						
Food & beverages	821,156	16.5%	1,246,059	16.0%	424,903	Based on hist. av. food & bev as % catering rev
Salaries & benefits	2,026,471	40.8%	3,115,146	40.0%	1,088,675	Estimated at 40% of total revenue
Event expenses	62,390	1.3%	77,879	1.0%	15,489	Estimated at 1% of total revenue
Marketing services	23,705	0.5%	38,939	0.5%	15,234	Estimated at 0.5% of total revenue
Event contract services						
Administration	73,424	1.5%	116,818	1.5%	43,394	Estimated at 1.5% of total revenue
Operations						
Maintenance-building						
Maintenance-equipment						
<b>Total direct expenses</b>	<b>3,756,700</b>	<b>75.6%</b>	<b>5,858,445</b>	<b>75.2%</b>	<b>2,101,745</b>	
<b>Gross operating income</b>	<b>1,213,924</b>	<b>24.4%</b>	<b>1,929,420</b>	<b>24.8%</b>	<b>715,496</b>	
<b>Allocated expenses</b>						
Salaries & benefits	915,365	18.4%	1,006,901	12.9%	91,536	Assumed to incr. by 10% over 5-year-av. figure
Administration	537,968	10.8%	591,765	7.6%	53,797	Assumed to incr. by 10% over 5-year-av. figure
Sales & promotion	438,187	8.8%	547,734	7.0%	109,547	Assumed to incr. by 25% over 5-year-av. figure
Contract services						
Maintenance						
Energy						
Insurance						
Taxes						
<b>Total allocated expenses</b>	<b>3,119,537</b>	<b>62.8%</b>	<b>4,226,400</b>	<b>54.3%</b>	<b>1,106,863</b>	
<b>Operating income</b>	<b>-1,905,613</b>	<b>-38.3%</b>	<b>-2,296,980</b>	<b>-29.5%</b>	<b>-391,367</b>	

with the increased business result in a net loss of about \$390,000. In other words, the increased level of business would increase the operating loss.

But are the HLT projections of increased conventions reasonable? They certainly aren't consistent with several comments in the very same report. For example, on page 40 the report states 'The North American convention industry is highly competitive....In many cases, expectations of market demand have not been met, resulting in excess capacity and a growing tendency to compete on price and price-related factors across North America.' Moreover, it goes on to say 'Simply building a larger exhibit hall(s) will not guarantee success'.

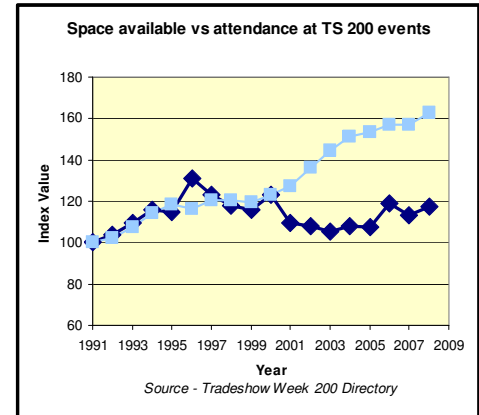
Also, included in HLT's projected increases are three large conventions from the United States and/or other international sources, yet the Criterion report points to challenges with the US market, including:

- 'continuing disincentives for US meeting planners, including US passport requirements,
- confusion re: Canadian GST rebate policies for planners and delegates,
- intense competition from US centres, many of which are offering space for free and/or other incentives, and
- proximity to the US in a time when few Americans are engaging in international travel'.

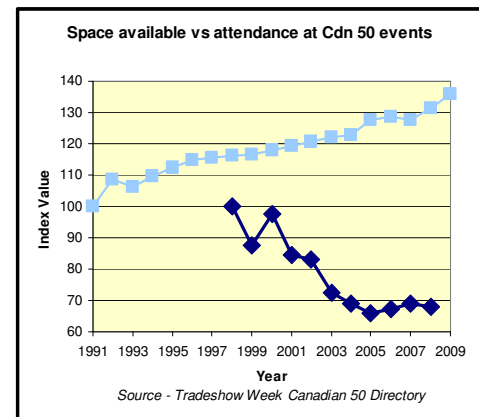
The Criterion report states 'The US market, which again consists primarily of a mix of corporate and association activities, has not been a significant part of the WTCC business mix to date, and this is unlikely to change in any major way in the near future' (my italics). Reasons given include:

- ‘Many US groups cannot meet outside of the US for organizational/constitutional reasons,
- Meeting in Canada adds new costs and logistical challenges to organizations who are used to organizing events primarily in the US,
- Many Canadian destinations (including Halifax) do not offer the kind of concentration of members in US/North American associations that would attract such organizations on rotation,
- There is a huge supply of often underutilized facilities in the US, many of which are attracting business with incentives which include deep cuts or elimination of rental charges and other measures which will be difficult to replicate in Canada, and
- There are many US-based alternatives for convention facilities on the east coast of North America.’

These comments are consistent with overall trends in the convention industry across North America, according to Dr. Heywood Sanders of the University of Texas at San Antonio. Dr. Sanders is the leading academic specialist on issues dealing with convention centres. His research shows increases in exhibit space but flat or decreasing attendance. Exhibit space in the US has grown from a bit over 40 million square feet in 1991 to almost 70 million in 2008. That’s about a 70% increase – while attendance has been decreasing since 1996. The graph to the right illustrates this divergence, where attendance at the largest 200 conventions and trade shows in the country (dark blue line) is shown plotted against the convention and trade show space available each year (light blue line). An index value has been used (1991 = 100) to enable showing the comparison on one graph.



In Canada, exhibit space for conventions and trade shows has grown from about 6.5 million square feet in 1991 to roughly 9 million in 2009. That’s almost a 40% increase, while attendance has declined by more than 30% since 1998. The divergence is quite striking, as shown in the graph to the right illustrating attendance at Canada’s 50 largest conventions and trade shows (dark blue line) against the convention and trade show space available each year (light blue line). As with the previous graph, index values have been used (1991 = 100) to enable showing the comparison on one graph.



The HLT report refers to the growth in the number of centres in Canada (new construction or refurbishment in Nanaimo, Ottawa, Niagara Falls, Fredericton, St. John’s, and Saint John) plus planning of new centres in Winnipeg, Calgary, Montreal, Charlottetown, and Edmonton. But nowhere does it reveal what has happened to levels of convention business after the new construction or expansion. There isn’t enough space in this short report to properly deal with this issue, but a glance at the above chart indicates the problems facing various Canadian cities which have recently invested heavily in new convention centres.

Given concerns about the strong growth of exhibit space and the drop-off in convention business across the US and Canada, it is appropriate to question the HLT projections of increased conventions. It is very possible that little or no new business would result, mirroring the experience at other Canadian centres.

### Report #3 by Deloitte

Deloitte’s report is disappointing for a number of reasons.

First, it appears to be incomplete. The study’s first objective was to examine the financial feasibility of a new convention centre in Halifax, but there is no financial feasibility analysis in the report. In fact, the term

‘financial feasibility’ is mentioned in only two places in the entire report; on both occasions as the first of five listed study purposes. How can a report be titled a ‘Business Case’ without a financial feasibility analysis?

The only comment in the report that might pertain to financial feasibility is the following... ‘The methodologies employed in the qualitative and quantitative analysis in this business case are supportive of the case for proceeding to a procurement process...’. The report goes on to state... ‘The proposed development appears to meet the overall project goals and objectives while also providing an estimated positive value for money outcome...’.

Apart from the somewhat mangled jargon (Can methodologies support anything?), it does not state or even infer anything like ‘our analysis indicates a strong business case...’. It says the proposed development ‘appears to meet’ project goals and objectives rather than ‘meets’. It refers to the proposed development ‘providing an estimated positive value for money outcome’. What does this mean?

Second, the economic impact appears to have been calculated only for the projected Year 4 operation, rather than for the *difference* between the projected Year 4 operation and the current WTCC operation. A proposed new facility is responsible only for the *incremental* increase in operating results between it and the current facility. Thus, an analysis of economic impacts of a new facility can only be undertaken on the *difference* in operating results. To do otherwise is to imply that the current facility is worthless and has no economic impact whatever – a fallacy which WTCC management would be quick to deny. This means that any economic impacts in the Deloitte report are grossly over-stated. Because of this and because the economic impact analysis is incomplete (it covers only the impact of delegate spending, leaving out operations of the WTCC and construction), it should probably be ignored.

### Report #4 by Gardner Pinfold

This report outlines expected economic impacts from construction and operation of the proposed new convention centre. Construction impacts are not commented on here because they are a once-only impact and have no long-term bearing. Calculations of annual economic impacts are based on the projections of conventions, trade shows, and consumer shows associated with a proposed new convention centre as developed in the HLT Advisory report (see page 2 of this document).

The report’s projections (on pages 19 and 21) of economic impacts from delegate spending and from operations of the proposed new convention centre are shown in the table to the right. Like the Deloitte report, though, the economic impact analysis seems to treat *all* delegate spending and WTCC operations as attributable only to the proposed new centre. The report’s train of analysis is not easy to follow, but it appears that, instead of measuring the economic impact of the proposed new convention centre *minus* the economic impact of the existing one, it attributes *all* of the business and the resulting economic impacts to the proposed new centre. This assumes that the economic impact of the existing centre is zero. Yet the annual reports of the existing WTCC emphasize the economic impact the facility brings to the Province. The 2009 report, for example, refers to generation of \$29 million in provincial tax revenues over the last ten years. This suggests that the existing WTCC generates about \$2.9 million per year in provincial tax revenues.

It is interesting that the Gardner Pinfold report indicates that the proposed new convention centre would generate less provincial tax revenue than this amount, even when attributing *all* the impact to the proposed new centre and discounting the present WTCC as worthless.

The table shows that the economic impact of Year 4 operations of the proposed new convention centre would generate \$2.68 million in provincial tax revenue and \$2.67 in federal tax revenue.

When the economic impact of the existing WTCC is accounted for (as if the analysis were conducted on a proper incremental basis), these figures would decrease to about 55% of the values in the table. That is, the

<b>Annual direct &amp; spinoff economic benefits (Projected Year 4 operations)</b>	
<b>From delegate spending</b>	
Employment	728
Provincial taxes	\$2,269,548
Federal taxes	2,257,323
	<u>4,526,871</u>
<b>From WTCC operations</b>	
Employment	132
Provincial taxes	\$410,666
Federal taxes	408,452
	<u>819,118</u>
<b>Total</b>	
Employment	860
Provincial taxes	\$2,680,214
Federal taxes	2,665,775
	<u>5,345,989</u>



economic impact of operating the proposed new convention centre would be an increase in provincial tax revenue of about \$1.47 million (55% of \$2.68 million) and in federal tax revenue of roughly a similar amount.

### **There's no business case**

Analysis of a business case must include investigation of the financial or economic return on any investment, whether it's being made by a company or a province. In this case the investment is roughly \$144 million in a proposed new convention centre.

Given that the WTCC is owned and operated by the provincial government through a crown corporation form of ownership, the Province is effectively the investor in this business case. The Province would be asked to fund (that is, to borrow) an expenditure of roughly \$144 million over a period of a few years to build a new convention centre, to pay interest charges on the loan, to absorb annual operating losses of about \$2 million, and to do this by way of increased tax revenue of about \$1.47 million.

The provincial cost of borrowing is about 6.22% now (May, 2010), and can be expected to increase over time as the economy improves and the Bank of Canada increases lending rates. Most experts call for increases of at least two percentage points, resulting in future borrowing rates of 8% or more.

Even at the rate of 6.22%, however, the borrowing cost on a provincial investment of \$144 million would be \$9 million. Adding an additional annual operating loss of about \$400,000 brings the annual total to about \$9.4 million. To ask the Province to handle \$9.4 million in additional annual expenditures through an annual tax increase of roughly \$1.47 million flies in the face of reason. It certainly doesn't make much of a business case.

It is possible, of course, that the federal government might match the provincial capital cost, so that each level of government would pay \$72 million. Then, the Province would be looking at a borrowing cost of 'only' \$4.5 million. The additional annual losses of about \$400,000 would then bring the annual total to about \$4.9 million, to be covered by increased tax revenue of about \$1.47 million. No business case there, either.

Even if the calculation is done assuming a smaller convention centre at a cost of only \$108 million to reflect the Province's Request for Proposals, this would mean borrowing costs of roughly \$6.7 million (as well as presumably lower visitor numbers due to the smaller facility). Adding the extra annual operating loss of about \$400,000 would bring the annual total to about \$7.1 million - not even close to the forecast increased tax revenue of about \$1.47 million. And assuming that the federal government contributed half, it would still be a provincial borrowing cost of \$3.36 million plus the additional operating loss of about \$400,000, for a total of \$3.4 million to be covered by increased tax revenue of about \$1.47 million.

In summary, there's no business case for an investment in a new convention centre costing from \$100 million to \$150 million.

### **So what's to be done?**

Given the importance of tourism, is there a way to attain the benefits that a larger and better-designed convention centre would bring? Apart from the benefits to hoteliers, restaurants, retailers, and other businesses which provide services to tourism visitors, a stronger convention/conference environment would encourage developers of hotels and other services to invest as well. Also, an active convention industry helps to cement Halifax's position within Atlantic Canada.

The fact remains that the current 26-year-old WTCC is showing its age, and that a renovation/enlargement might allow it to attract new and profitable convention and trade show business.

In 2006 a feasibility analysis was undertaken into renovating and enlarging the current WTCC, but it hasn't been released yet for public discussion. Does it show that the idea of spending serious money on the existing facility is a bad idea? Does it consider adding a floor or two to the existing centre? Does it consider increasing space for exhibits? What would be the costs of serious renovation and enlargement? Perhaps spending \$10 million, or \$20 million, or even \$30 million might be a good investment. Perhaps we'll know when the report is released.