Pennsylvania Intergovernmental Cooperation Authority

The Pennsylvania Convention Center Expansion Project: Financial Impacts for the Commonwealth of Pennsylvania and the City of Philadelphia

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PICA Report

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Introduction

The Pennsylvania Convention Center (PCC) is a major economic asset of the City of Philadelphia and Commonwealth of Pennsylvania. Opened in 1993, PCC is currently in the process of a major expansion project that will increase the Center's exhibit space from 440,000 to 700,000 square feet. After the expansion, the Convention Center will become the 13th largest in the nation in terms of exhibit space, moving up from its current rank of 23rd. The larger capacity should significantly improve the Center's ability to compete for and host the largest conventions, and to host multiple events simultaneously. Significantly, in terms of exhibit space rankings, the expansion project will cause PCC to move ahead of the Washington, DC Convention Center, equal the Boston Convention Center, and move considerably closer to New York's Jacob K. Javits Convention Center. Two of these facilities – Boston and Washington, DC – recently completed expansions and all are considered among PCC's primary competitors.[1]

The increased levels of convention activity associated with the expansion should significantly increase economic activity in the city's hospitality sector and related industries, leading to direct fiscal and economic benefits to the City and Commonwealth. In addition, the Center's expansion should further enhance Philadelphia's visibility as a business location and tourism destination, an indirect, long-term economic benefit to the city and state.

The expansion project is financed through Commonwealth capital funds. As part of the legislation that enabled Commonwealth financing of the expansion, Act 3 of 2004, the Pennsylvania Convention Center Authority (PCCA) is required to submit a proposed financial plan for the expansion project to PICA, and PICA is required to "prepare a detailed analysis on the fiscal impact and financial risks" associated with the expansion.[2] PCCA submitted its *Pennsylvania Convention Center Authority Convention Center Expansion Project Business Plan*, the required financial plan, to PICA in November 2009. This report presents PICA Staff's analysis of the fiscal impact and risks associated with the expansion, as required under Act 3.

PICA had expected to receive the financial plan required under Act 3 in the fall of 2005, prior to the commencement of land assembly and construction of the Convention Center expansion project. Because the plan was not received until November 2009, after land acquisition was complete and construction underway, PICA did not undertake an exhaustive examination of the plan's projections of hotel tax revenues and PCCA operating deficits, or hire an industry expert to assess these projections. Accordingly, this report discusses these projections and assesses their reasonableness only in general terms.

The first section of the report describes the expansion project and its capital budget and funding sources. The second section discusses the City and Commonwealth's financial responsibilities related to the Convention Center currently, and how these responsibilities will change after the

[1] *Pennsylvania Convention Center Authority Convention Center Expansion Project Business Plan*, p. 5.
[2] 64 Pa. C. S. §6014.

expansion. The third section discusses the financial impact of the new financial arrangements on the City and Commonwealth. The fourth section reviews the financial projections contained in the *Business Plan* and assesses their reasonableness. The fifth section of the report discusses managerial issues that impact the Convention Center's economic and fiscal benefits to the City and Commonwealth. The sixth section concludes.

Pennsylvania Convention Center Expansion Project Costs and Sources of Funding

The *Business Plan* estimates the expansion project's total capital cost at $786 million, to be funded through a combination of $700 million in Commonwealth General Obligation (GO) bonds and $86 million in revenue bonds issued by the Pennsylvania Economic Development Financing Authority (PEDFA). The Commonwealth capital funds were authorized under Act 40 of 2004 and Act 83 of 2006. The *Business Plan* anticipates that the $700 million in GO debt will be incurred in thirteen separate issuances of 20-year bonds.[3] PEDFA is expected to issue approximately $312 million in revenue bonds in April 2010. Proceeds from this issue will be used to fund $86 million of expansion project construction costs, defease outstanding PCCA bonds, and establish a debt service reserve fund. The project capital budget as presented in the *Business Plan* is summarized in Table 1.

Table 1. Pennsylvania Convention Center Expansion Project Capital Budget

Budget Category	Amount
Land Assembly[1]	$223,626,000
Construction	459,242,000
Owners Cost	20,339,708
Architects Fee	16,410,802
Construction Management Fee	13,916,913
Insurance Premiums	11,456,034
Furniture, Fixtures, and Equipment	10,273,202
PCCA Project Staff	3,670,741
Fine Arts	1,550,000
Construction Testing	1,300,000
Mitigation Costs	1,000,000
Other	23,214,600
Total	786,000,000

1. Includes costs of land acquisition, demolition, business relocation, site preparation, and Commonwealth administration.

Source: *Business Plan*, p. 25.

[3] As of November 2009, nine of the anticipated thirteen Commonwealth GO bond issuances had occurred. Debt service associated with these bonds began in FY08, with $8 million in costs in that year.

In addition to the $786 million in costs shown in Table 1, the City of Philadelphia is contributing approximately $30 million to the expansion project's cost in the form of cash and in-kind contributions. These contributions include rights-of-way, encroachments, and street closures; transferring title of a former fire station at the site; waiving fees and charges associated with plan approvals, permits, utility shut-offs and relocations, inspections, and certificates of occupancy; and funding relocation of water systems.

The land assembly process was completed in October 2007. Construction began in the third quarter of 2008 and is expected to reach substantial completion by March 2011.

Changes in the City's and Commonwealth's Financial Obligations for the Convention Center as a Result of the Expansion

Since 1989, the City's financial obligations to the Convention Center have been determined under a Lease and Service Agreement (LSA) entered into by the City and PCCA. Under the LSA, the City pays an annual Service Fee to PCCA equal to PCCA debt service obligations, plus the PCCA operating deficit, plus debt service reserve requirement contributions, less certain hotel tax revenues dedicated to PCCA, less non-operating revenues. Under the LSA, at the beginning of the City's fiscal year, the City has generally paid PCCA an amount equal to gross PCCA debt service obligations for the year plus an estimate of PCCA's operating deficit. Once actual results are available for each fiscal year, the City receives from PCCA a Service Fee "offset" payment equal to the difference between the up-front payment and the City's actual Service Fee obligation under the LSA. This offset payment is received during the following fiscal year.

The expansion project will result in a major change in Convention Center-related financial obligations for the City and Commonwealth. These new obligations will commence once the PEDFA bonds are issued, which is anticipated to occur in April 2010. When this occurs, outstanding PCCA bonds will be defeased and the financial relationship between the Commonwealth, City, and PCCA will be governed by a "New Operating Agreement" which will remain in effect until December 31, 2039.[4]

[4] The original convention center project costs were funded in part through the issuance of $286 million in PCCA revenue bonds in 1989. Payment of the debt service on these bonds was secured by hotel tax revenues and the City's obligation to make an annual Service Fee payment to PCCA. The original bonds were refunded in 1994 and 2005. As of September 2009, $187.7 million in principal from the 2005 refunding bonds remained outstanding.

Under the New Operating Agreement, the City's annual financial obligation to PCCA is fixed at $15 million, with this obligation to last until 2039. The outstanding PCCA bonds are eliminated as a long-term obligation of the City. The Commonwealth will have the following financial obligations under the New Operating Agreement:

- Make annual payments for operations to PCCA equal to: PCCA net operating deficit, plus operating reserve fund contribution, less hotel tax revenues dedicated to PCCA (including the Hotel Room Rental Tax and Hospitality Promotion Tax, less the portion of these taxes dedicated to the Education and Training program)
- Make annual payments to PEDFA and PCCA for "debt and capital investment" equal to: Capital reserve contribution, plus net PEDFA debt service after interest earnings, plus Welcome Fund loan costs, less City service fee[5]
- Pay the debt service on its own GO debt issued to support the expansion project
- Fund the existing Education and Training program for twenty years

The New Operating Agreement also does the following:

- Gives the City and Commonwealth certain rights over PCCA budgets, auditing, and contract and reporting approval
- Creates a PCCA operating reserve fund of $10 million. This amount will be increased annually at the rate of inflation. These funds will be available for cash flow purposes, special marketing, and to offset PCCA operating losses with approval from the Commonwealth.
- Establishes a plan to ensure sufficient capital reserves to support Convention Center maintenance and capital investment. A PCCA capital reserve fund of $5 million will be established using existing capital or debt service reserves or proceeds from the PEDFA bond issue. The *Business Plan* presents a thirty-year capital plan that shows estimated sources and uses of funds for the capital reserve through FY33. The fund will be utilized to make payments for PCCA debt issued for the costs of renewal and replacement or furniture, fixtures, and equipment and to pay directly for other capital projects at the expanded Center.[6] This fund will be supported through the initial $5 million contribution, interest earnings, proceeds from PCCA borrowing, and Commonwealth contributions to cover PCCA debt service and additional "pay-as-you-go" contributions of $1.8 million through FY18 and $2.8 million from FY19 through FY30.

[5] Through a loan agreement between PCCA and the Philadelphia Industrial Development Corporation (PIDC), PCCA will receive $122 million through PIDC's Welcome Fund loan program to support construction costs for the expansion project. These funds will reduce the amount of Commonwealth debt needed to finance the expansion until 2014, when the Welcome Fund loan will be repaid. At that time, Commonwealth GO debt will be issued to finance the repayment.

[6] A detailed schedule of annual funding sources and uses for the capital reserve fund is presented in Appendix B on page 26 of the *Business Plan*.

The Commonwealth's financial obligations under the New Operating Agreement will be financed through a combination of General Fund revenue and funds from the Gaming Economic Development and Tourism Fund (GEDTF). The GEDTF was created under Act 71 of 2004 and receives revenue from a tax of 5 percent on gross revenue from slot machines in the Commonwealth. Under Act 53 of 2007, GEDTF funds of up to $64 million per year for thirty years can be utilized to fund debt service related to the Convention Center and to reimburse PCCA for operating expenditures.

Under other agreements that will be entered into by the Commonwealth, the City, and PCCA as a result of the expansion, the Commonwealth will have a fee interest in the land and improvements that make up the expansion project, a leasehold interest in the original convention center improvements, and a sub-leasehold interest in the original convention center land. These agreements will also obligate the Commonwealth to lease the land and improvements of the entire, expanded Convention Center to PCCA to operate as a single facility for approximately thirty years. Upon termination of this lease, the Commonwealth will retain ownership of the expansion land and improvements, while the ownership of the original land and improvements will return to the City.[7]

Projected Financial Impacts of Convention Center Expansion on the City and Commonwealth

Impact of the New Financial Arrangement on the City. The City will gain several benefits from the new post-expansion financial arrangement. First, the new arrangement eliminates the risk to the General Fund associated with variability in the City's annual net contribution to PCCA. Under the New Operating Agreement, the General Fund's annual contribution will be fixed at $15.0 million. As shown in Table 2, the annual net cost of the Convention Center to the City General Fund has fluctuated since FY01.

[7] *Business Plan*, p. 12.

Table 2. City of Philadelphia General Fund Revenues and Obligations Related to the Pennsylvania Convention Center Authority, FY01-FY10 (Dollars in Millions)[1]

	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10
Revenues[2]	$17.0	$13.0	$17.4	$14.2	$11.1	$18.3	$21.7	$20.6	$24.2	$1.3
Obligations	27.9	30.3	32.4	32.0	36.7	38.6	31.2	32.3	22.7	25.0
Net Obligations	10.9	17.3	14.9	17.8	25.6	20.3	9.4	11.7	(1.5)	23.7

Notes:

1. FY01-FY09 figures are actual, and FY10 figures are estimated. Obligation amounts shown for each year generally represent the City's initial payment applicable to the City's Service Fee obligation under the LSA. Revenue amounts shown generally reflect the Service Fee "offset" payment received from PCCA each year. This offset payment generally equals the actual Service Fee obligation for the prior fiscal year, less the City's prior year payment toward the obligation. For this reason, the net obligations shown in the table for each fiscal year are not equivalent to the City's actual Service Fee obligation for that year. See the discussion of the City's Service Fee obligation on page 3 of the text.
2. In City budget documents, the Convention Center-related revenue for FY03 includes an accrual of FY04 revenue. In the table, the accrued amount is excluded from FY03 revenue and shown as FY04 revenue to promote comparability.

Source: *Mayor's Operating Budget*, City of Philadelphia, various years; *Mayor's Operating Budget in Brief for Fiscal Year 2011*, City of Philadelphia.

From FY01 through FY08, the General Fund's net obligations to PCCA fluctuated in a range from $9.4 million to $25.6 million. In FY09, Convention Center-related revenue is projected to exceed costs by $1.5 million. This substantial change in net Convention Center costs in FY09 reflects the fact that the City's initial payment toward the FY09 Service Fee did not include the estimated PCCA operating deficit, unlike prior years, when the initial payment included the PCCA deficit along with projected PCCA debt service. This change reduced substantially the City's FY09 payment to PCCA and net Convention Center costs to the General Fund in FY09. However, this reduced FY09 payment will result in a lower Service Fee offset payment in FY10, currently projected at $1.3 million, well below prior year levels.

The fixed $15.0 million annual contribution under the New Operating Agreement is slightly higher than the $14.0 million average net General Fund cost associated with the Convention Center over the FY01-FY09 period. In constant (inflation-adjusted) dollars expressed in FY10 prices, the average cost over the FY01-FY09 period was $15.8 million.[8] Thus, the fixed $15 million cost to the City in FY10 represents a reduction in constant dollar terms from the level of previous years.

Establishing a fixed City obligation to support the Convention Center will help address one of the City's major financial challenges, the increasing share of its budget allocated to supporting the cost of debt service and long-term obligations. Long-term obligations include debt service on

[8] The inflation adjustment is based on the Consumer Price Index -- All Urban Consumers for the Philadelphia region, published by the U. S. Bureau of Labor Statistics.

City General Obligation bonds and lease-supported debt, PICA debt service, payments to reduce the City's unfunded pension liability, and City payments to support PCCA debt. In a January 2006 report, PICA noted the problem of rapidly increasing City costs for debt service and other long-term obligations.[9] These costs were 14.0 percent of the budget in FY01, and would have increased to 19.3 percent of the budget in FY10 if the City had not received State authorization to defer $155 million in payments to its Pension Fund. The increasing burden of fixed costs to support long-term obligations means that the City has reduced financial flexibility and reduced capacity to meet other priorities.

The December 2009 *Debt Management Policy* published by the City Treasurer's Office established a goal that tax-supported debt service plus the cost of long-term obligations be reduced to 15 percent of City General Fund expenditures. While the $15 million annual payment to PCCA will remain a long-term obligation of the City under the New Operating Agreement, fixing the City's annual Convention Center costs at $15 million will reduce the risk associated with long-term obligations and help the City meet the goal established in its *Debt Management Policy*.[10]

An additional benefit of the expansion is that City General Fund tax revenues should increase due to the economic impact of the Convention Center expansion. General Fund Wage, Business Privilege, Net Profits, Sales, Parking, and Amusement tax revenues should increase to the extent that the expansion results in an increase in the number of events and visitors at the Convention Center. The incremental tax benefit will result from taxes paid directly by convention center visitors and by businesses that serve the convention-center related economy. Hotel-related taxes should also increase due to the expansion, but these revenues will primarily benefit the Commonwealth by reducing its financial obligations to PCCA, and the Philadelphia Convention and Visitors Bureau (PCVB) and the Greater Philadelphia Tourism Marketing Corporation (GPTMC), two agencies that receive dedicated funding through the City's hotel-related tax revenues.

Impact of the New Financial Arrangement on the Commonwealth. The *Business Plan* projections of the Commonwealth's financial obligations under the New Operating Agreement over the next two fiscal years are shown in Table 3. Total Commonwealth obligations are projected at $58.7 million in FY11 and $58.8 million in FY12.

[9] The report, *Reversing the Trend of Doing Too Little With Too Much: Maintaining the City's Infrastructure While Reducing its Dangerously High Debt Load*, is available at www.picapa.org.
[10] The City's *Debt Management Policy* can be found at www.phila.gov/investor/pdfs/Debt_Management_Poli.pdf.

Table 3. Projected Commonwealth Convention Center-Related Payments, FY11-FY12 ($ in Millions)

	FY11	FY12
Payment to PCCA for Operations		
Net PCCA Operating Deficit	($21.0)	($23.7)
Operating Reserve Fund Contribution	(0.1)	(0.1)
PCCA Dedicated Hotel Tax Revenues[1]	22.1	22.9
Total Commonwealth Payment	1.0	0.8
Payment to PCCA and PEDFA for Debt and Capital Investment		
Capital Reserve Contribution	(2.5)	(2.5)
Net PEDFA Debt Service After Interest Earnings	(26.0)	(23.5)
Welcome Fund Loan Costs	(1.8)	(1.8)
City Service Fee	15.0	15.0
Total Commonwealth Payment	(15.3)	(12.8)
Debt Service for Commonwealth GO Bonds Used for Expansion	(44.4)	(45.1)
Total Commonwealth Obligations	(58.7)	(58.8)

Note:
1. Excludes portion of tax dedicated to education and training.

Source: *Business Plan*, Appendix E, p. 36

The Commonwealth has assumed new financial responsibilities under this arrangement. Additionally, the Commonwealth has assumed the risk associated with the uncertainty of two key variables that determine its net costs: hotel tax revenues and PCCA operating deficits. And the Commonwealth will increase its debt obligations, both as a result of the GO bonds and PEDFA bonds issued to finance the construction of the expansion and the defeasance of the outstanding PCCA bonds.

Overall, the Convention Center expansion project and the financing plan will result in a shift of financial liability and risk from the City to the Commonwealth. In light of the City’s significant financial challenges, this represents a major benefit to the City.

Review of Financial Projections in the *Business Plan*

Hotel Tax Projections. The City currently levies three taxes on hotel room rental receipts: the Hotel Room Rental Tax, the Tourism and Marketing Tax, and the Hospitality Promotion Tax. The Hotel Room Rental Tax rate has been 6 percent since July 1, 1999, of which 2 percent is dedicated to support PCVB and 4 percent is dedicated to PCCA.[11] The Tourism and Marketing Tax is levied at a rate of 1 percent, and revenues from this tax are dedicated to support GPTMC. The Hospitality Promotion Tax, which is levied by the City pursuant to authority granted under State Act 80 of 2008, was implemented on January 1, 2009. This tax is levied at a rate of 1.2 percent and dedicated to support PCCA, PCVB, and GPTMC.[12]

Table 4 presents revenues from the three hotel-related taxes from FY01 through FY10, the combined tax rate for all three taxes, and the estimated annual growth rate of the hotel tax base in Philadelphia. The table indicates that the annual growth in the hotel tax base – aggregate hotel room rental receipts in the city – has generally reflected overall macroeconomic trends. The tax base grew at an average annual rate of 0.8 percent from FY01 through FY09, with a significant decline of 11.4 percent in FY09 that reflected the weak economy. Current revenue projections suggest an increase of only 0.2 percent in the tax base in FY10, reflecting marginally better economic conditions in the current fiscal year.

The *Business Plan* projects an average annual increase in hotel-related tax collections dedicated to PCCA (including both the Hotel Room Rental Tax and the Hospitality Promotion Tax) of 4.5 percent over the period from FY10 through FY15. A portion of this increase reflects an increase in the share of the Hotel Room Rental Tax dedicated to PCCA beginning in FY11. This projection assumes that the hotel room tax base will increase at a rate higher than that of the past decade. This appears reasonable given that the likelihood of economic recovery, combined with the impact of the Center expansion on hotel room demand in the city. Nonetheless, the projections may not be met if the expansion project does not have the anticipated effect on the competitiveness of Philadelphia as a convention location, or if overall trends in the convention market are below expectations.

[11] The proportion of Hotel Room Rental Tax received by PCCA will increase to 70.8 percent in FY11 and 75 percent in FY16. The remainder of the tax will continue to be allocated to PCVB.

[12] Generally, nineteen-thirtieths of the revenues from this tax are dedicated to support GPTMC and PCVB, and the remainder is dedicated to PCCA. There are certain statutory restrictions on the allowable rate of growth in the portion of the tax dedicated to GPTMC and PCVB.

Table 4. City of Philadelphia Hotel-Related Tax Revenues and Rates and Estimated Annual Tax Base Growth, FY01-FY10[1] ($ in Millions)

	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10
Tax Revenues										
Hotel Room Rental	$28.6	$25.4	$24.8	$25.2	$28.3	$29.6	$32.7	$33.6	$30.6	$30.0
Tourism and Marketing	4.2	4.2	4.2	4.2	4.6	5.0	5.4	5.7	5.1	5.0
Hospitality Promotion	--	--	--	--	--	--	--	--	2.1	4.5
Total Hotel-Related Taxes	32.8	29.6	29.0	29.4	32.9	34.6	38.0	39.3	37.8	39.5
Combined Hotel Tax Rate[2]	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	8.2%
Estimated Tax Base Growth[3]		-9.2%	-2.0%	1.5%	11.9%	5.0%	10.0%	3.4%	-11.4%	0.2%

Notes:

1. The FY01-FY09 amounts are actual, and the FY10 amount is estimated.
2. As of the beginning of the fiscal year, July 1.
3. Annual growth in the hotel tax base, which is calculated as total hotel-related tax revenue divided by the combined hotel tax rate. For purposes of this calculation, the combined hotel tax rate is as presented in the table for each year except FY09. The FY09 rate is assumed to be 7.6 percent, reflecting the rate change from 7.0 to 8.2 percent as of January 1, 2009.

Source: *Supplemental Report of Revenues and Obligations*, City of Philadelphia, various years; *Mayor's Operating Budget in Brief for Fiscal Year 2011*, City of Philadelphia.

Projections of Convention Center Events and Attendees. Attendance at Convention Center events declined from 1,055,158 in FY06 to 856,952 in FY09, an average annual decline of 6.7 percent. The *Business Plan* projects a turnaround in this trend, with significant attendance increases projected from FY09 through FY12, a slight 0.8 percent decline in FY13, and modest increases in FY14 and FY15 (6.4 percent and 1.4 percent respectively). Average annual growth in total attendance is projected at 13.3 percent from FY09 through FY12, and 2.3 percent from FY12 through FY15. The largest attendance increase is projected in FY12, the first fiscal year in which the expanded Center will operate for the entire fiscal year. The projections appear reasonable in light of the significant increase in capacity of the expanded Center, and also in relation to estimated attendance from events that were booked as of January 2010. Still, the ability of the Center to reach its forecasted level of attendance does assume that the economic recovery will result in an overall improvement in the convention market through FY15.

Projections of PCCA Operating Deficit. The PCCA operating deficit is a major contributor to the Commonwealth's obligations. The *Business Plan* projects the deficit for FY10 at $17.9 million, down 5.7 percent from the FY09 deficit of $19.0 million. However, the *Plan* projects the deficit will increase to $21.0 million in FY11 and $23.7 million in FY12. The increase in the deficit in FY11 is projected to result from higher fixed costs due to the opening of the expanded Center in March 2011. These costs are not fully offset by projected increases in revenue resulting from increased activity at the Center.

PCCA operating expenditures are projected to increase 13 percent in FY11, when the expanded Center is expected to be open for four months of the fiscal year. Expenditures are projected to increase an additional 16 percent in FY12, the first fiscal year in which the expanded facility will operate for the entire year. The projected cost increases primarily reflect increases in the cost of purchased maintenance, housekeeping, and security services, and insurance, utilities, and building supplies. Total operating revenues are projected to increase at 5 percent in FY11 and 21 percent in FY12, reflecting increased rental, food and beverage fees, offset by declines in telecommunications and retail lease revenue.

Management Issues that Affect the Economic and Financial Impact of the Convention Center on the City and Commonwealth

The public policy rationale for public financing of the Convention Center expansion is that it will generate significant economic benefits to the city, region, and state, both in the form of economic activity directly caused by the expansion, and the economic growth that results over the long term from an enhancement of the city's image as a place to live, travel, and conduct business. The *Business Plan* estimates that the incremental impact of the expansion project for the city will be $819 million in increased economic activity on average over the 30-year period following the expansion. The region is estimated to gain $1.06 billion in increased economic activity over this period. In addition, the expansion is estimated to result in an additional $24 million in annual tax revenues to the City and an additional $51 million in annual tax revenues to the Commonwealth over this same period.[13]

Upon the completion of the expansion project, the Convention Center will have the space, technology, location, and amenities to be among the top-tier convention centers in the nation. It will have the physical attributes necessary to compete for the largest events in the national market. But the convention market remains highly competitive, particularly with the challenges posed by the current recession, the increasing use of technology for "virtual conferences," and other changes in the market. There are some areas where the Convention Center will need to improve to maintain its competitiveness and maximize the economic benefits of the Center to the city, region, and state.

Labor Issues

Even though the relationship between PCCA and the labor unions that provide services to Convention Center users seems incrementally improved from the publicly chronicled situation six years ago, labor concerns at the Convention Center remain. These concerns focus on two main areas: customer costs, and poor interactions between union contractors and customers.

[13] *Business Plan*, p. 6.

The hours and hourly fees charged by contractors are high relative to other centers, particularly those centers in the region that provide primary competition for the PCCA. In addition to high hourly rates, continuing confusion and disputes resulting from the byzantine series of work rules that govern the responsibilities of the multiple labor unions add significantly to the time needed to set up events as compared to other centers, further inflating customer costs.

The Convention Center's reputation has been further damaged by the anecdotal evidence of customer service problems associated with contractors working at the Convention Center.[14] In some cases internal labor disputes among the multiple unions have resulted in actions which blemished the event for attendees or exhibitors. Philadelphia has been praised by event planners and attendees for its reasonable hotel costs, abundant amenities, well designed Convention Center and the "walkable" nature of its downtown, and will soon have a larger, cutting-edge event facility. Despite these positives, these individuals routinely cite a reluctance to plan events in the Convention Center because of the costs and difficulties associated with the labor situation.

Further efforts to improve the situation with labor unions at the Center are needed to maximize the return on the City and State investment in the expansion project. The current contracts between PCCA and the major labor unions will be renegotiated between April and August of this year. Dramatic changes in the working relationships between the PCCA and its labor force are needed to improve cost structures and positively impact the relationships with Convention Center customers.

Maximizing Benefits and Strategic Planning

Another issue is the ability of PCCA and PCVB to make appropriate decisions based on accurate data on the net costs associated with particular types of events. In negotiating with potential Center clients, PCCA and PCVB officials should be able to offer incentives and rates to potential Center customers based on accurate data on the likely cost and revenue impacts of hosting a particular event. To do so, PCCA must continually track the fiscal costs of various types of events, and on this basis, develop and periodically update guidelines on fees and appropriate incentives for particular types of clients. These guidelines should find an appropriate balance between the economic benefits to the city and state associated with particular types of events, and their net fiscal costs to PCCA.

The PCCA does maintain a template for collecting the data necessary to complete this level of analysis. However, it is unclear how much this data is used in event management and long-term strategic planning for the Convention Center. This type of planning is especially important given the potential for conflict between the basic goals of the two agencies responsible for marketing the center. PCCA officials are understandably more concerned for the impact of events on the PCCA operating deficit, while PCVB officials are appropriately focused on maximizing

[14] These anecdotes come from discussions with senior PCCA Staff and letters and comments from event planners and event attendees.

Convention Center activity and associated economic impacts for the city and state. Policy guidelines that balance the goal of maximizing Center activity with the goal of minimizing net fiscal costs are necessary so that both agencies can make deals with Center clients that are in the best interest of the City and Commonwealth.

Finally, PCCA, PCVB, and GPTMC should develop and periodically update a strategic plan for marketing and operating the Center. Such a plan would assure coordination across the entities responsible for marketing the Center and other amenities in the City, and help maximize the public value of the expanded Center to residents of the city, region, and state.

Conclusion

Overall, the Pennsylvania Convention Center expansion project and its financing plan will result in a shift of financial liability and risk from the City to the Commonwealth. The Commonwealth will assume primary responsibility for financing PCCA debt and operational costs under the new agreement. The City’s annual contribution to the Convention Center, in inflation-adjusted terms, will be reduced to a level slightly below that of the average annual contribution over the past nine years. In addition, the City’s annual contribution will be fixed at $15 million per year, reducing the risk associated with the annual variability in the City’s costs under the past arrangement.

To maximize the potential economic benefits of the expanded Convention Center to the city and state, PCCA, together with the City and other agencies, should work to maximize the operational efficiency of the expanded Center. Customer service and cost issues associated with PCCA labor contracts need to be addressed. PCCA also needs to make use of data on costs for particular events to balance the goals of maximizing the economic impacts and minimizing the fiscal costs of Convention Center activity. Strategic planning and coordination across the entities responsible for marketing and managing the Center is needed as well. With these initiatives, the economic potential of the expanded Center for the city, region, and state can be fully realized over the coming decades.