

Memorandum



CITY OF DALLAS

DATE January 28, 2022

TO Honorable Mayor and Members of the City Council

SUBJECT **Kay Bailey Hutchison Convention Center Dallas (KBHCCD) Master Plan – Responses to the Transportation and Infrastructure (TRNI) Committee**

Convention and Event Services continued its discussion with members of the Transportation and Infrastructure (TRNI) Committee January 18, 2022. As with the initial briefing at the December 7, 2021 Committee meeting, staff presented the Kay Bailey Hutchison Convention Center Dallas (KBHCCD) Master Plan recommended alternative, 3C West of Lamar, and information related to Texas Local Government Code Chapter 334 (Brimer). Staff were asked to brief at the February 2, 2022, City Council meeting, wherein staff will seek a recommendation for City Council approval of resolutions to move forward with a convention center concept on February 9, 2022. Additionally, staff will seek a recommendation for the following on either February 23rd or March 9th:

- A resolution authorizing approval of the supplemental agreement for the completion of the 30% design of the selected convention center alternative for Phase 1 of the KBHCCD Master Plan.
- A resolution by City Council that:
 - provides for the planning, acquisition, establishment, development, construction, or renovation of a venue project,
 - designates each venue project and the method of venue project financing, and
 - authorizes the submittal of the resolution to the Comptroller for a determination that the venue project financing will not have a significant negative fiscal impact on state revenue.

In the interim, staff would like to provide additional clarifying information regarding the questions and comments posed at the January 18th TRNI meeting.

Convention Center Purpose and Economic Development

Question 1: For the full City council, identify the top five reasons to support the Convention Center.

At the heart of the KBHCCD Master Plan are the Goals and Objectives, which represent the specific reasons why the Convention Center District should be addressed and improved. The Plan's Goals and Objectives are the roadmap for developing and analyzing specific alternatives that address the problems plaguing the Convention Center and the surrounding district. The Goals and Objectives for this project represent specific challenges and opportunities and have been developed through a robust and rigorous stakeholder/public involvement process, and include:

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1. **Develop a world-class Convention Center** that incorporates new technologies, maximizes existing and new urban spaces, and serves as a catalyst for economic growth by bolstering the Convention Center District.

A reimaged KBHCCD can bolster economic growth in the City of Dallas. Public entities invest in convention centers because the taxes, jobs, and economic impact of the convention center provide a strong return on any costs associated with building and operating the facility. However, the KBHCCD has fallen behind its competition and is losing its competitiveness, thereby jeopardizing its potential as a catalyst for economic growth.

2. **Increase transportation connectivity**, access, and safety to address local and regional needs.

With the planned investments in Texas High Speed Rail (TxHSR) and other transit investments underway in the area, including the D2 Subway in the Central Business District, now is the time to leverage these transportation investments to connect the Convention Center District with a world-class KBHCCD. These transit options will also include routes that connect mixed-use developments on the current site of the Convention Center, Downtown, Fair Park and other local, and regional destinations to improve transit connectivity for visitors, residents, and workers. Transportation investments will also consider enhancing regional connections and the provision of more equitable services that address the needs of the underserved populations.

3. **Create a healthy and safe urban environment** that integrates the Convention Center with great public spaces and a diverse mix of commercial, retail, residential, and entertainment uses.

The Convention Center is located between two areas of strong growth and could benefit from the strong market in Downtown and the Cedars. The current east-west orientation of the Convention Center is a barrier between these two areas of development. Expanding the Convention Center would free up a significant area of City-controlled parcels for development that connects surrounding neighborhoods and promotes increased levels of vibrancy and pedestrian activity.

4. **Support a viable funding mechanism** that will increase and capture value throughout the Convention Center District and promote long-term operations.

The reduced hotel tax receipts generated during the pandemic provided an unintended financial benefit to the City of Dallas through the State approved Project Financing Zone (PFZ). If the City moves ahead with the PFZ while tax receipts are below historic levels due to the pandemic, the City will maximize the amount of incremental growth. Additionally, the recommended financing plans (PFZ and Chapter 334) do not take funding away from other City of Dallas priorities. It is important to note that no taxes paid by local citizens will be utilized for the Convention Center.

5. **Represent the values and diversity of the City of Dallas** in terms of inclusion, contracting opportunities, sustainability, resilience, and equitable economic development and investment options.

Equity across all phases of project development is central to the City of Dallas and the KBHCCD Master Plan. The project ensures equitable contracting, workforce, and small business development. The KBHCCD Master Plan ultimately envisions a district surrounding the Convention Center that creates equitable employment opportunities, mixed-income housing, and enhanced transportation access particularly to areas deemed underserved. Further, the City of Dallas has a robust diversity and inclusion requirement for businesses interested in participating in the delivery of an expanded and renovated convention center facility.

Question 2: Are there more or less convention centers today nationwide than 20 years ago?

Since 2002, there have been multiple convention centers built and expanded nationwide. However, from 2011 - 2020, U.S. GDP increased by 34.7% vs. a 2.1% increase for convention space. As group event business generally tracks the overall economy, supply growth has been constrained relative to overall economic and event business demand growth. Many of the new centers are in smaller markets and are not direct competitors to the KBHCCD. There is no definitive data source on the number of nationwide convention centers over a 20-year period, but some organizations do track growth over different timeframes. For example, UFI, the Global Association of the Exhibition Industry, publishes a world map of Exhibition Venues. Their latest report, dated 2018, compares the number of venues and total area of exhibition space compared to 2011. The UFI data counts 73,737,371 square feet of exhibition space in the United States across 326 venues. This is a 2.1% increase compared to 2011.

With 724,000 square feet of exhibition space, the KBHCCD mainly competes with destinations that rank in the top 25 convention centers based on exhibit hall size. There are roughly 25 centers in North America with more than 500,000 square feet of exhibition space. Since 2002, there have been three new centers built with 500,000 square feet or more of exhibition space (Washington DC, 2003; Boston, 2004; and Phoenix, 2006). There have been no new stand-alone centers of 500,000 square feet or more built since 2006.

Question 3: How would you characterize the capacity of convention centers nationwide as they have expanded?

From 2011 to 2017, the exhibition hall capacity of convention centers in North America has increased by 2.1% (2018 UFI Report). Many facilities have also expanded by adding meeting rooms, ballrooms, and public spaces. Since 2011, most of the dollar value of convention center expansions have occurred in already successful destinations (Las Vegas, 2021; New York, 2021; Anaheim 2017; Nashville, 2013; Seattle, Under Construction).

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Since 2002, five centers have been expanded from below 500,000 square feet to over 500,000 square feet (Salt Lake, 2005; San Francisco, 2003; Indianapolis, 2011; Denver, 2004; Philadelphia, 2011). No new destinations have joined the 500,000 square feet facility level since 2011.

Question 4: Has the number of convention centers grown in North Texas? Have existing North Texas convention centers expanded?

There is no comprehensive data that covers all convention centers in North Texas. The KBHCCD is a large facility in a major metropolitan area; and, as such does not compete with many of the other significantly smaller venues in North Texas. The KBHCCD's main in-state competitors are Austin, Houston, and San Antonio:

- Austin: Currently planning to demolish their existing center and rebuild a larger facility on the same site.
- Houston: Completed its last major exhibition expansion in 2003, and has also added 2 headquarters hotels, a major park space, parking and a new façade and entry.
- San Antonio: Completed an expansion in 2016 that replaced its oldest exhibit halls and ballrooms with new spaces.

Question 5: What are the national attendance trends of convention centers over last 20 years? What is the expected growth of convention centers according to national organizations? Who is responsible for the Convention Center attendance projections? What other projections has the consultant come up with and have they been accurate? Do other plans speak to the need for a destination around the Convention Center?

There is not a national convention center tracking database that has been consistently tracking the industry for 20 years. The prior industry periodical went out of business around the time of the Great Recession. The Trade Shows News Network (TSNN) has been tracking the top 250 tradeshow for the past several years, but it is not a comprehensive look at all events in all venues.

However, economic consultant, Rob Hunden, CEO, Hunden Strategic Partners, has posited that based on his extensive experience, the convention industry's performance mimics that of the overall U.S. economy. As the economy grows or contracts, the convention industry does as well. Whichever industries are growing tend to grow in terms of related industry events and attendance.

Within that framework, there are trends that shift in terms of the type of space used. For example, as noted in briefings, ballrooms are the most productive type of space and have become larger and more influential over the past 20 years (2000-present). Exhibit halls were the most important type of space for the prior 30 years (1970-2000). This is one of the reasons that despite Dallas' large exhibit space and overall size, the facility struggles with many events and event types, as it lacks the large ballrooms and numerous meeting rooms demanded by today's impactful events.

Hunden Strategic Partners is responsible for the projections. The timeline between study and opening day is often 10+ years and the number of venues that get built as prescribed is limited. However, those that have been built based on the recommendations have generally outperformed projections. We are not aware of other studies suggesting a destination district.

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Question 6: Could the decision be deferred for 1-5 years?

Staff does not recommend a deferral because Dallas is currently enjoying significant levels of new economic development and interest. The opportunity to leverage this energy is now, utilizing this planning effort to encourage smart and well-planned development that transforms and connects surrounding neighborhoods and promotes increased levels of vibrancy and pedestrian activity. The KBHCCD Master Plan addresses more than just the introduction of an improved/expanded Convention Center. As important, it recognizes the power of improving and transforming the surrounding district and creating new and enhanced connections regionally, and between surrounding neighborhoods and Downtown. Postponing this planning effort would result in lost opportunities to holistically address and plan for a new level of economic vitality, job growth, connectivity and patron experience in Downtown and the surrounding neighborhoods. Opportunities that can be realized and leveraged today, are few and far between. Deferring the decision would also mean making substantial repairs and investment in the facility. Investments which would likely cost more to make on an existing facility and would also likely be discarded with any of the possible alternatives at a later date.

Question 7: Does the Convention Center generate enough revenue to cover its costs?

Convention and Event Services (CES) is a self-supporting enterprise fund department with several streams of revenue, including five categories of event revenues, mixed beverage taxes, and hotel occupancy taxes (HOT). In February 2019, CES received City Council approval to enter into a management agreement with Spectra Venue Management for the convention center. Deliverables for that contract include implementing procedures and processes that maximize event revenues and reduce expenses for the Center. Presently, event revenues and mixed beverage taxes cover much of the center's expenses. HOT covers debt services, capital expenses and improvements, and any difference in operating expenses not covered by other revenues.

Please see the City of Dallas Convention & Event Services Department's most recent fiscal year ended 9/30/21 Enterprise Fund Budget Summary Link (page 13), available at:

<https://dallascityhall.com/departments/budget/financialtransparency/DCH%20Documents/Budget%20Accountability%20Report/Budget%20Accountability%20Report%20-%20September%202021.pdf>

Question 8: What economic development has come from past investments in the Convention Center and the hotel?

Economic development projects, with the exception of the Omni Dallas Hotel, around the Convention Center have been limited by the orientation of the structure which leaves very little abutting space available for mixed use construction. However, the Convention Center has and continues to contribute to Downtown and the region's economic development by bringing hundreds of thousands of event attendees and visitors to Dallas. The money attendees spend in hotels, restaurants, and retail establishments support local small business and thousands of jobs. Prior investments have helped keep the facility competitive in drawing convention business and these economic benefits. By designing an expanded facility that can host multiple simultaneous events and will attract additional shows, the Convention Center will generate greater and more consistent business for hotels, restaurants, and retail establishments.

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Past efforts have not approached the Convention Center District as comprehensively or with economic development as an explicit goal, limiting their focus to the facility and its architecture. Convention goers and event planners emphasize the importance of a vibrant district in addition to a state-of-the-art facility in choosing destinations. Other cities have increasingly sought ways for their convention centers to better connect with and enhance their surrounding districts, which is something this plan accomplishes.

With billions of dollars of development in the pipeline for Downtown, this plan provides a canvas for a new vibrant, green, walkable, district that will draw momentum to the southwestern corner of Downtown with a mixture of land uses that enhance the convention experience and connects an otherwise disconnected portion of Downtown to areas where the City and its partners have already invested. The construction project itself will also have tremendous economic impact, including direct impacts to the construction industry, and indirect and induced impacts from the business and personal spending that will occur as the construction dollars circulate through the economy.

Question 9: Omni - \$400M in debt – Revenue is coming from the Omni but backed by taxpayers. Once newer and closer hotels are built, what happens to Omni? The financing slide explained the backing of the Omni revenue bonds but did not reference the City of Dallas. Is the City of Dallas not a final fall back?

The financing slides in the January 18th TRNI briefing were specific to the debt service related to the KBHCCD.

Since its opening the Omni Dallas Hotel (Omni) has been a financial success and has been able to cover all debt even through the pandemic. The City is not required to pay the debt should the Dallas Convention Center Hotel Development Corporation (DCCHDC) default but has a moral obligation, which gives the City Council the authority to consider making grants or loans from the City's general fund to the issuer in the extremely unlikely event that the pledged revenues are insufficient to service the debt. If it chooses to do so, the City Council would then appropriate any grants or loans to cover any shortfalls.

For the proposed expanded and renovated convention center to achieve its full potential, it is essential that additional hotel rooms be developed in very close proximity. Currently the Omni runs at near capacity and ranks among the very top of all convention hotels in their competitive set in terms of occupancy and average room rate. With the expansion of the center's ability to book larger and more frequent events and being physically connected to the center, the Omni would continue to be the first choice of all customers utilizing the facility.

Question 10: It was brought up that more cities across the nation and in our area are building convention centers and that capacity has increased (“but yet, we’re being asked to support a new center”). Are other cities building convention centers because they are profitable?

Public entities invest in convention centers because the taxes, jobs and economic impact of the convention center provides a strong return on any costs associated with building and operating the facility.

Question 11: In what ways have we learned that modernized convention centers are beneficial? Other than profitability, how do convention centers help cities?

A recent *Tourism Economics* study suggests convention centers and tourism in general improves public perceptions of the destination as a place to live, attend school, start a career or business, or purchase a home. When combined with an actual visit, the impact of on all these activities was even more magnified. Convention centers net a positive return on the dollars invested in them, and provide an important public amenity paid for primarily through taxes paid by visitors to the city – not citizens; in other words, “other people’s money”.

The business-to-business trade show market in the US is worth \$15.58B and provides direct jobs at vastly different levels of the U.S. trade show market, including operating and hosting events, jobs related to exhibit design, construction, and logistics, and showcasing local businesses and products. Convention centers also serve as the venue for important public events, including but not limited to graduations, inaugurations, celebrations, job fairs, public interest events, as well as concerts and attractions that benefit the residents of Dallas. Additionally, the KBHCCD, as with other centers across the nation, has historically served as a public resource for providing shelter to hurricane victims and residents without water or power, sheltering refugees, and providing services for our homeless population.

Question 12: It was mentioned that the Convention Center can’t financially sustain itself. But it was never intended as a revenue generator, in and of itself, correct? The revenue comes in other forms, correct?

With the combination of all revenue sources (event revenue, mixed beverage taxes, and HOT), Convention and Event Services (CES) is self-supporting without using general fund assistance. Nearly all convention and event facilities are economic impact generators that provide business and profit to local businesses such as restaurants, hotels, retailers, attractions, entertainment events, transportation companies, tour operators and many other types of businesses. As demonstrated in briefings, the existing KBHCCD generates enough business to support thousands of jobs throughout the City and beyond. In economic development and impact terms, convention facilities are purposely designed to induce visitation and spending that would otherwise not come to Dallas.

Convention Center Area Plan

Question 13: If the recommendation is to tear down the Convention Center, have you looked at other locations (e.g., Fair Park or the airport)? Why do we think that it’s beneficial to put the Convention Center Downtown? Is it because it is close to the existing location? Is it because all of the hotels are Downtown? What about the new transportation hub? Aren’t we trying to invest in a walkable and revitalized CBD?

The Goals and Objectives of the KBHCCD Master Plan recognize the need for an improved and expanded Convention Center, and address the opportunity to drive new development, economic vitality, and job growth Downtown. By improving the district surrounding the Convention Center, new connectivity is created to surrounding neighborhoods and passive and active pedestrian

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opportunities are introduced. Convention Center activity is part of the recipe that drives this new level of economic vitality as the activity and energy within the walls of the building extend to the local neighborhoods, restaurants, hotels, and retail establishments. Locating the Convention Center away from Downtown would truncate this opportunity for economic spillover and vitality. Convention Center patrons expect localized opportunities such as restaurants, retail and other amenities such as hotels, that are within a close walking distance from the facility. Moreover, bond covenants dictate that the Convention Center must be located within 1000 ft of the Omni Dallas Hotel.

Question 14: How do we address having a cemetery outside of the convention center? What about moving the cemetery to a historic park?

A goal of the KBHCCD Master Plan is to create a destination unique to Dallas around the Convention Center. Pioneer Cemetery is an important piece of the history of the City of Dallas. The Cemetery is a Dallas Landmark (2002) and included in the State Historic Marker Program (1994). Any relocation requires coordination with an advisory council and Landmark Commission. The City promotes and celebrates the cemetery as an important City asset.

Preliminarily, the draft plan proposes to formalize the existing informal path through the cemetery to connect it to City Hall Plaza to the east and Pioneer Park and Pioneer Plaza to the west. Integrating the historic cemetery into a larger open space network will draw more visitors to the cemetery as part of a strategy to celebrate what is unique about Dallas. Should City Council select the west of Lamar option, the cemetery will no longer be at the ‘front door’ of the Convention Center but will still be accessible to Convention Center visitors through a connected network of parks and open spaces. In next phase, as we further develop the land uses and open space components of the plan, we will refine the design concepts and determine how the cemetery is incorporated.

Question 15: Transportation implementation is missing ridesharing; parking, etc. – these are urgently needed. The transportation section is also missing discussion about getting to the Convention Center from the airport.

A comprehensive transportation master plan will be prepared for the Convention Center area once City Council selects a preferred Convention Center alternative. The plan will encompass rail and bus transportation, pedestrian and active transportation, shared-ride services, vehicular access, and parking. The plan will identify and preserve options for providing transit service between the region’s airports and the Convention Center and will address new and emerging technologies.

If you have additional questions, or require further information, please contact me or Rosa Fleming, Director of CES.



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