

Who Runs San Diego? Six False Premises for Convention Center Expansion

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In 2009, then Mayor Jerry Sanders, the hotel industry, the Chamber of Commerce et al. decided that it was a [really keen idea to expand the Convention Center](#).

They guessed that it would cost about \$520 million to build and that there was a BIG market for expanded convention centers, and they warned us that Comic-Con would move on if we didn't expand the Convention Center. They knew they could never convince enough people in San Diego to agree to pay for this idea so they created [a special financing district](#) comprised of just hoteliers.

Cory Briggs wrote about this financing scheme last week in our [Who Runs San Diego?](#) series. On August 1, 2014 the 4th District Court of Appeal declared the financing district violated both the state constitution and the city charter.

But [Kevin Faulconer](#) has said "Expanding the convention center is one of the most important actions we can take to grow our local economy and create thousands of new jobs for San Diegans. This is an opportunity to put this litigation behind us and move forward with a successful plan."

So while that financing scheme, 6 years, 10 million dollars and a lot of credibility are down the drain, the idea that San Diego should expand its convention center lives on. It's the [Chargers](#) and Doug Manchester's turn to try to get your money.

We should talk.

Whether one supports the expansion or not, it is bad business, bad policy and bad governance to expend what will surely be more than a billion dollars of public money on premises that are more wishful thinking than hardnosed analysis. The convention center expansion is based on a number of assumptions that are at best questionable and arguably false.

False Premise #1. If you build it they will come.

From the [Convention Center Task Force](#) in 2009 to Kevin Faulconer today, the talking points for the boosters of the expansion include the factually challenged assertion that people are lined up at the city borders just waiting to book the additional space in an expanded convention center. This assertion flies in the face of the last 10 years of [contraction in the convention center market](#).

For more than a decade experts at the [Brookings Institute](#) (2005), the [Cato Institute](#), the [Wall Street Journal](#) and the conservative Manhattan Institute's [City Journal](#) have challenged the assertion that expanding convention centers increase attendance or help local economies.

One writer called the nationwide convention glut "[gigantic](#)" and then noted that the private sector wouldn't touch such goofy investments.

A local activist [website](#) has an extensive catalog of articles and documents revealing the history of what it calls "the convention center scam".

Perhaps the most powerful challenge to the use of public funds to benefit private enterprise in the construction of convention centers is made by one of the nation's foremost urban development experts, Heywood T. Sanders. In his recently published book [Convention Center Follies](#) he gives wide-ranging examples from cities across the country as well as in-depth case studies of Chicago, Atlanta, and St. Louis.

"The question is whether you can get any appreciable increase in business. When the best cases I can find are Las Vegas and Orlando doubling the size of their centers and getting a 10 percent to 15 percent increase in attendance, I don't think there will be much boost at all for San Diego." Apparently, says Sanders, "San Diego is building into a perfect storm."

Writers from [Boston](#), [Nashville](#), [Washington](#), [Baltimore](#), and [Indianapolis](#), have challenged the assumption that just because a convention center expands attendance will increase. Even [Las Vegas](#) has seen a decline in the number of conventions since 2004.

[Voice of San Diego](#) has raised questions about the expansion in its ongoing Narrative about the Convention Center Expansion.

Don Bauder at *The Reader* has been particularly merciless in exposing the poor logic of [expanding into a glut](#) again and again.

False Premise #2. Industry Consultants who are paid to say "Build It" are credible when they say what you paid them to say.

The studies that the boosters use to support expansion are written by consultants who ALWAYS find a good reason to build or expand a convention center. It's their job.

- AECOM: [Market, Feasibility & Impact Analysis for the Proposed San Diego Convention Center Expansion](#) (May 26, 2009)

- [Convention Center Expansion Hotel Projects](#) presentation by Piper Jaffray Hospitality Finance Group (an investment bank) (June 15, 2009)
- [Meeting Presentations and Documents](#) Provided to the Mayor's Citizen Task Force on the San Diego Convention Center Project (February through August 2010)
- [Mayor's Citizen Task Force on the San Diego Convention Center Project](#) – Final Report (September 2009)
- AECOM: [Refined Analysis of Additional Business Capture Derived from a Potential Expansion of the San Diego Convention Center](#) (November 15, 2010)

As *The Reader's* Don Bauder asks "[How Can Convention Centers Be So Dumb](#)"?

"Would you take advice from a gaggle of consultants whose forecasts in the past two decades have been off by 50 percent?"

'Getting half the business [that was projected] is about the norm,' says Heywood Sanders. [Author of Convention Center Follies] 'The actual performance is a fraction of what it is supposed to be.'

But such warning signals are not flashed by consultants, who are paid fancy prices by cities. Who are these error-prone consultants? They are units of major accounting firms, such as Pricewaterhouse-Coopers, KPMG, Ernst & Young, and Deloitte & Touche. Then there are private purported research firms such as C.H. Johnson Consulting and CSL International. They crank out so-called studies for cities with the same conclusion: build!

Often they use the same verbiage: "They are remarkably adept at saying exactly the same thing to other cities in exactly the same words. Much of the study for Anaheim was word-for-word from the study for Baltimore," says Heywood Sanders."

False Premise # 3 If you are overly optimistic about a lot of really important numbers no one will notice.

The numbers used by these consultants are, let's just call it enthusiastically optimistic. Their promises of streams of visitors with open wallets seldom come to fruition. The Independent Budget Analyst and the City Auditor called these consultants out on some whoppers.

The structure of the very complex convention center expansion financing has been declared a violation of both the state constitution and the city charter. But it is useful to examine the veracity of the numbers presented to the public.

The Independent Budget Analyst (IBA) reviewed an [AECOM study](#) that estimated an increase in TOT revenue of @\$12.7 million. In what can only be described as masterful bureaucratic understatement the IBA stated her "analysis demonstrates some [significant variances](#) from the results of the AECOM study." "The IBA estimates that total incremental City TOT revenue generated by the expansion may be anywhere from \$5.2 million to \$9.7 million. "

The consultant estimate of revenue was between a third and 2.5 times higher than the IBA's estimate of revenue. Neither estimate took into consideration extra expenses for police, fire and use of facilities by these hypothetical conventioners that would further reduce the estimated revenue.

In 2012, in response to allegations of fraud, a [City Auditor investigation](#) “determined that SDCCC misstated hotel room-night statistics in its annual reports and AECOM Report...”

Any discrepancy in published figures for attendance and/or hotel room-nights casts doubt on the veracity of all statistics reported.

Don Bauder chronicles the lack of rectitude by expansion backers in a 2011 article entitled [The Convention Center Liars](#) and a 2012 article entitled [More San Diego Convention Center Lies](#), and quotes Heywood Sanders, “This is one of the sad things about San Diego: an obvious history of misrepresentation.”

False Premise #4. Calling the expansion an economic engine, when it is more like an economic nudge and not a particularly effective one.

Expansion boosters like to claim the convention center would be an “economic engine” for the region, asserting the expansion would create 6,885 new jobs.

Vladimir Kogan, co-author of [Paradise Plundered](#), flatly states that [Convention Centers Are Not Economic Engines](#) and points out that if job creation is the goal, there are other far more cost-effective methods to increase employment in the area.

In [another analysis](#), Murtaza Baxamusa says that expansion boosters economic impact report “inflated the numbers in several ways. The report relied on outdated data about spending patterns by convention attendees, overestimating their impact on the local economy by a substantial margin, and incorrectly included economic impacts that will actually be realized outside of the region.

Baxamusa's more appropriate estimate suggests that the expansion will create only 4,500 permanent jobs in San Diego. Even if one uses the consultant's own numbers, they show that nearly 60 percent of the newly created jobs will be in industries that pay poverty wages and offer employees few health or other benefits. Indeed, a large share of workers filling these new positions will qualify for taxpayer-funded healthcare and other welfare benefits.”

False Premise #5. Using the Con (Comic-Con) to justify a billion dollar expense.

Everyone loves Comic-Con: the costumes, the fantasy, the celebrities. It is so SoCal cool.

The convention center boosters, who know a thing or two about shaping a message, realized that when bonds and amortizations and tax revenues and TOTs and financing districts are being discussed, most voters tune out. Comic-Con staying = good; Comic-Con going = bad. That's the extent of the message most folks got.

But when you look at the numbers it is not at all clear that Comic-Con is a big money maker for the city and certainly not one that economically justifies a billion dollar expense.

A *New York Times* article revealed that [Large Crowds Spend Little at Comic-Con](#).

As *VOSD* pointed out in [The Problem With Comic-Con's Money-Making Numbers](#), the numbers used by the expansion boosters were –here we go again– overly optimistic.

“Sure, there’s a \$178 million figure that’s been floating around, but “it’s based on outdated information. It includes assumptions of visitor spending from events that aren’t anything like Comic-Con. And it counts certain effects on San Diego’s economy twice.”

It is also not clear that size is the determining factor in Comic-Con’s decision. Comic-Con International’s David Glanzer said in a statement, “Any decision to remain in San Diego has always been based on a variety of issues, including hotel room rates, available meeting space and other concerns, none of which necessarily override the other.”

Even at its current size, the San Diego Convention Center dwarfs the venues available in other cities that have made bids, including Los Angeles and Anaheim.

False Premise # 6. This is the best way for the City of San Diego to spend its money.

Even if you use the demonstrably overblown, cherry picked, out of date numbers used by expansion boosters, you will see there is a very good reason nobody wanted to take this white elephant to the voters.

Even if you took the best case scenario, it was kind of a sucky deal for the taxpayer.

- The city’s rate of return of (best case) \$12.7 million on \$575 million dollars is not anything an investment banker or a hedge fund analyst would write home about.
- Best case, [the city makes \\$12.7 million, the hoteliers make \\$121 million](#). Who thought this was a fair shake for the taxpayer?
- If things don’t work out as planned, it was the city on the hook to pay off the bonds, not the hoteliers. So most of the benefit, and none of the risk went to the hoteliers. [Seven members of the 2012 city council](#), including self-proclaimed fiscal watchdog Carl DeMaio and soon to be iMayor Todd Gloria, thought this was just fine.
- Since the hoteliers were going to literally make out like bandits, why didn’t we get concessions: a higher minimum wage for workers at the hotels? Maybe they could have paid for child care for their workers or additional parks or parking or library hours, or security for the additional visitors or in some way, any way, give back to the community that was footing the bill.
- How accurate is the \$520 million dollar cost number? Were there competitive bids, an actual counting the nuts and nails of what it would really cost to build this behemoth. The last convention center expansion had enormous cost overruns.

And there were a couple of unpleasant details we never really talked much about:

- We still owe \$200 million on the last expansion and have \$30 million in deferred maintenance on the current convention center. What's up with that?
- Even if the convention center didn't end up underwater financially, there is a real possibility the rising sea level from climate change could put it under water—literally. Is this a risk we should be taking?

What other options are out there? If we are talking about spending a billion dollars...

- What if we just raised the TOT by the 3% we were discussing and put that roughly \$5.5 million per year into the general fund to use for services like police and firemen and libraries and parks and potholes?
- If the city borrowed \$575++ million dollars and did infrastructure work would that create more, better jobs than housekeepers and cabana boys?

So dear reader, if you are not shaking your head and mumbling to yourself, “Wadda they think we are, idiots?”, I have not done my job, or you have skipped over what you thought were the boring parts. In any event, the answer is yes.

There is a tried and true format that the folks who run San Diego use. It is very clever, very smooth, very predictable and very effective.

First, someone, maybe the Mayor, sets up a blue ribbon panel, task force, exploratory committee, concerned citizen group, what have you. It is populated with some or all of the usual suspects from the relevant non-profits, industry groups, the Chamber, San Diego County Taxpayer Association, Down Town Partnership, Labor, etc. You have not been paying attention if you cannot guess who is not represented at these confabs.

Then some highly scripted “public” meetings convene where the incredibly well spoken and well prepared presenters from the task force introduce glossy brochures and hip videos with enthusiastic talking points, well vetted for marketability, if not veracity.

There is a very professional website, and the talking points are echoed on the websites of the concerned groups who populate the task force. Certain media is waiting for the call and soon those talking points are on the news. They become the news.

These folk are very good and some variation of this scenario works most of the time. It worked for Proposition B. It worked for Plaza de Panama. It worked for the TMD. It worked on the deconstruction of Bob Filner. And it worked on the convention center expansion. But facts are pesky things, and they keep showing up, and attorneys and activists keep winning lawsuits setting aside bad policy decisions. Whew.

But wouldn't it be great if we had folks looking out for us as taxpayers and citizens from the get go, so we didn't have to rely on the kindness of judges to save us?

As we like to say in Texas, the fat lady ain't sung yet on the convention center. Stay tuned.

