

Raleigh Convention Center

Throwing good money after bad

DR. MICHAEL SANERA AND KEVIN MUNGER

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This report examines 52 contracts signed by the Raleigh Convention Center for the period of July–December 2011 and is a follow-up to the September 2008 John Locke Foundation report “The New Raleigh Convention Center: A taxpayer-funded money pit.”

KEY FACTS

- ♦ Raleigh Convention Center (RCC) staff continues to provide favored organizations deep discounts for the use of meeting rooms and convention space.
- ♦ For the period of July through December 2011, RCC staff awarded discounts to 40 of 52 organizations, discounts totaling almost \$569,000 with the average being 54 percent off the list price of RCC rooms.
- ♦ These discounts are similar to those given by RCC staff for the first ten months of operation (September 2008 to June 2009), which totaled \$555,000 with the average being 58 percent discount off the list price.
- ♦ During the last half of 2011, twelve *unlucky* organizations were not given discounts but paid the full list price.
- ♦ Taxpayers need to be aware that RCC staff have broad discretionary power to award discounts, including granting free use of RCC space.
- ♦ Organizations receiving deep discounts are not the only beneficiaries. The taxes that subsidize these discounts unfairly subsidize a very small group of downtown businesses and property owners.
- ♦ In addition to the table contained in this report, the JLF created a searchable website (johnlocke.org/site-docs/research/RCC) that lists the contract and discount amounts for past RCC organizational users. Interested citizens can see for themselves the organizations that received discounts and those that did not.

200 W. Morgan, #200

Raleigh, NC 27601

phone: 919-828-3876

fax: 919-821-5117

www.johnlocke.org

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BACKGROUND

Nationwide, cities have rushed to “save” their downtowns by forcing taxpayers to pay for expensive, deficit-producing convention centers and subsidize private hotels. The resulting glut of convention-center space has forced each city to make a choice: provide even more taxpayer-funded discounts and subsidies to organizations to use its convention center or face having an empty one. Giving discounts and subsidies has a lower political cost for city politicians who made bad decisions to build a convention center than does having the public see it go empty and unused.

This subterfuge is abetted by some local media outlets, who serve as convention center boosters instead of taxpayer watchdogs. As a result, taxpayers have little awareness of the true costs of convention center boondoggles, who pays, and who benefits.

To help rectify this problem, the John Locke Foundation has published reports on convention centers in Asheville, Charlotte, and Raleigh.¹

In addition, a JLF Regional Brief on “The New Raleigh Convention Center: A taxpayer-funded money pit” documented the the discounts awarded by RCC staff before

the convention center’s doors opened in September 2008. That report found that RCC staff awarded \$2.3 million in discounts — an average of 60 percent off for convention and meeting room space in the RCC.²

SAME OLD STORY: RCC GIVES AWAY \$569,000 IN SIX MONTHS

During the second half of 2011, the convention center staff gave away nearly \$569,000 in discounts to 40 out of the 52 organizations using the RCC — an average of 54 percent off the list price of the RCC rooms.³ The discounts were not spread out evenly, however; far from it.

In fact, most of that \$569,000 were for very large discounts given to a select few conventions. Eighteen of the 52 organizations received discounts ranging from 60 to 100 percent off list prices. These 18 organizations received \$432,000 of the \$569,000 in discounts, accounting for 76 percent of total awarded discounts.⁴ The RCC has offered arguments in defense of this practice, but it is obviously vulnerable to political favoritism.

The trend of providing rooms for no charge or token charges of \$1 continues. Of the 52 contracts awarded, 8 were no charge or

Table 1. Organizations charged full price for Raleigh Convention Center space⁵

<i>Conference Dates (2011)</i>	<i>Organization</i>	<i>Paid Full List Price</i>
July 11–15	NC Commission on Volunteerism and Community Service	\$900
July 16	Annual All White Attire Fundraiser	\$6,150
July 22	Creflo Dollar 2011 CHANGE Experience	\$5,250
August 18–20	Women of Power Conferences Presents Warring Women Win!	\$750
September 23	Southeastern Guitar and Amp Show	\$10,750
September 27	Flood and Ethics Seminar	\$200
October 8	Evans Wedding Ceremony and Reception	\$1,200
October 8	SGM ‘11 Bike Choice Awards Show	\$750
October 29	PUSH Womens Conference	\$500
November 7–8	PCB Carolina 2011	\$8,500
November 25	Alpha Kappa Alpha	\$6,150
November 27	2011 PlantStruxure	\$29,750

for token charges for convention and meeting space valued at \$96,800.⁶

Other RCC users were not so lucky. Twelve users paid full list price for RCC rooms (see Table 1 for a list of those unfortunate enough to pay full price for convention center space).

The reasons for these practices are not complicated. The lost revenue from RCC users that were given large discounts must be subsidized with taxpayer money. Perhaps even more troubling, the discretion given to RCC officials when assigning discounts provides unnecessary temptation for favoritism and possible corruption.

WEAK JUSTIFICATIONS FOR ARBITRARY DISCOUNTS AND SECRECY

RCC officials defend the legitimacy of granting deep discounts, but their arguments fall short. The most obvious claim is that the discounts are legitimate because they are accompanied by requirements for food and beverage sales. The policy is provided in an email from Michael Williams, Raleigh's Assistant Director of Public Affairs, in which he states, "the room fee may be waived if the gross food and beverage revenue to the RCC is at least six times the room rental fee."⁷

There are two problems with this claim. First, the revenue from food and beverages goes not to the RCC, but to Centerplate, the private company that holds a monopoly on all food and beverage served at the RCC. The city receives only a small fraction of these revenues, and as stated in the previous 2008 report, "the contracts with Centerplate catering ... are not public documents, and Centerplate has refused to make them available."⁸

Second, the policy is not administered evenhandedly. Of the 14 organizations that bought food, only three received free rooms because they bought the required amount of food, nine got discounts (with two getting free rooms) but did not buy the required amount of food, and two bought food but got no discount at all.

The real policy is revealed later in Mr. Williams' email. He stated that these are negoti-

ated deals, and the organization that "has the *best negotiating skills* gets the best deal."⁹

Complete government transparency should be the norm; secrecy can be justified only under serious concerns about safety or privacy. Such concerns are absent here, so the RCC's opacity in this area is not acceptable. (For this reason, JLF is posting RCC contracts online at johnlocke.org/site-docs/research/RCC, so that all citizens and groups will have access to RCC contracts.)

Another RCC defense of the discounts is that their goal is not to make money or even to break even, but rather to bring people downtown and put "heads in beds." In this line of thought, they see the RCC not as an enterprise that pays for itself like city water and sewer enterprise funds, but rather as a way for taxpayers to subsidize hotels and restaurants in downtown Raleigh, discriminating against hotels and restaurants in other areas of Raleigh that collect the taxes subsidizing the RCC.

Putting that in the context of the previous RCC argument makes it seem ridiculous. If the RCC wants to bring people to downtown restaurants, why does it have a private contract with Centerplate? Doesn't that contract explicitly discourage people from eating out and benefiting downtown restaurants?

Additionally, for this argument to make the RCC a good idea for taxpayers, who financed its \$215 million construction, conventions would have to come from out of the area. Conventions of local residents merely redirect hotel and restaurant sales from Raleigh's periphery to downtown Raleigh — a practice that is financially neutral for Raleigh as a whole and that also does not justify RCC discounts.

Unfortunately, the RCC does not track data of this kind. The economic benefit of the local conventions is close to zero, and the benefits of state- and regional-level conventions are considerably small, too, because many attendees come from the Triangle area and choose not to stay in hotels. RCC boosters fail to take these factors into account in

Table 2: Conferences at the Raleigh Convention Center, July–December 2011¹⁰

Conference/ Meeting Date(s)	Conference Name and Sponsoring Organization	Total Meeting Room(s)		Discount	
		List Price	Contract amount paid	In dollars	Percentage
July 11-15	NC Commission on Volunteerism and Community Service	\$900	\$900	\$0	0.00%
July 12-15	National Association for Health Care Recruitment Annual Meeting	\$20,050	\$18,170	\$1,880	9.40%
July 16	Annual All White Attire Fundraiser	\$6,150	\$6,150	\$0	0.00%
July 17-21	Plug-in 2011 Conference and Exposition	\$29,050	\$10,700	\$18,350	63.20%
July 22	Creflo Dollar 2011 CHANGE Experience	\$5,250	\$5,250	\$0	0.00%
July 24-28	Women's Baptist Home and Foreign Missionary Conference	\$11,250	\$6,000	\$5,250	46.70%
July 30	Zemonek Wedding Reception	\$650	\$1	\$649	100.00%
Aug. 1–5	2011 Basic Skills and Family Literacy Conference	\$52,500	\$12,000	\$40,500	77.10%
Aug. 11–14	NCSFA South Atlantic Fire Rescue Expo	\$46,200	\$25,925	\$20,275	43.90%
Aug. 15–19	NCNLA Summer Green Show 2011	\$10,750	\$9,500	\$1,250	11.60%
Aug. 18	AB Chance/Foundation Technologies Engineering Seminar	\$500	\$250	\$250	50.00%
Aug. 18–20	Women of Power Conferences Presents Warring Women Win!	\$750	\$750	\$0	0.00%
Aug. 25	2011 ICD-11 Summit: North Carolina's Navigation to ICD-11	\$2,500	\$1,750	\$750	30.00%
Aug. 25–29	Jimmy V Celebrity Golf Classic	\$33,550	\$0	\$33,549	100.00%
Aug. 26–28	MLG Pro Circuit 2011	\$46,400	\$40,000	\$6,400	13.80%
Aug. 31	CVB Annual Luncheon	\$13,250	\$500	\$12,750	96.20%
Sept. 1–2	IBSA 2011 Fall Show	\$11,250	\$8,800	\$2,450	21.80%
Sept. 7–9	American Institute of Architects 2011 Annual Conference	\$16,700	\$11,000	\$5,700	34.10%
Sept. 9–11	Home Show	\$72,000	\$18,000	\$54,000	75.00%
Sept. 12–14	Southeastern Conference for RIMS	\$3,825	\$2,050	\$1,775	46.40%
Sept. 13–17	NC Association for the Education of Young Children	\$39,050	\$11,500	\$27,550	70.60%
Sept. 13–14	2011 Triangle Business Growth Expo	\$14,200	\$12,000	\$2,200	15.50%
Sept. 14	Progress in Motion Rail Forum	\$1,500	\$0	\$1,499	100.00%
Sept. 17–22	TMC Fall Meeting and SuperTech Competition	\$90,600	\$24,000	\$66,600	73.50%
Sept. 23–24	2011 Raleigh Feis	\$11,650	\$6,150	\$6,150	52.80%
Sept. 23–25	Southeastern Guitar and Amp Show	\$10,750	\$0	\$0	0.00%
Sept. 27	Flood and Ethics Seminar	\$200	\$200	\$0	0.00%
Sept. 28–30	NC State Human Resources 2011 Conference	\$20,650	\$16,500	\$4,150	20.10%
Oct. 7–10	LEGO KidsFest	\$55,650	\$35,000	\$20,650	37.10%
Oct. 7	The USO of NC Annual Salute to Freedom Gala	\$2,150	\$0	\$2,050	95.30%
Oct. 8–11	Elementary School Conference	\$21,450	\$8,000	\$13,450	62.70%
Oct. 8	Evans Wedding Ceremony and Reception	\$1,200	\$1,200	\$0	0.00%
Oct. 8	SGM '11 Bike Choice Awards Show	\$750	\$750	\$0	0.00%
Oct. 10–16	North American Assoc. for Environmental Education 2011 Annual Conference	\$32,250	\$0	\$32,249	100.00%
Oct. 18–21	16th Annual North Carolina Workers' Compensation Educational Conference	\$26,350	\$10,000	\$16,350	62.00%
Oct. 21–23	National Inclusion Project	\$12,550	\$0	\$12,300	98.00%
Oct. 21–25	NC League of Municipalities	\$48,800	\$11,500	\$37,300	76.40%
Oct. 25–28	Association of Christian Schools International	\$33,050	\$25,000	\$8,050	24.40%
Oct. 29	PUSH Womens Conference	\$500	\$500	\$0	0.00%
Oct. 29	Rex Gala	\$2,500	\$0	\$2,500	100.00%
Oct. 31–Nov. 2	NC Affordable Housing Conference	\$13,200	\$3,500	\$9,700	73.50%
Nov. 2–6	Junior League of Raleigh A Shopping SPREE	\$65,850	\$36,625	\$29,225	44.40%
Nov. 3–6	NC Veterinary Conference	\$25,300	\$5,000	\$20,300	80.20%
Nov. 7–8	PCB Carolina 2011	\$8,500	\$8,500	\$0	0.00%
Nov. 7–14	Sigma Xi, The Scientific Research Study	\$34,100	\$10,000	\$24,100	70.70%
Nov. 25	Alpha Kappa Alpha	\$6,150	\$8,500	\$0	0.00%
Nov. 27–Dec. 3	2011 PlantStruxure	\$29,700	\$29,700	\$0	0.00%
Nov. 30	Marketing Competitive Events Conference for District 3	\$4,700	\$4,250	\$450	9.60%
Dec. 5–8	Annual Sales Meeting	\$16,750	\$11,000	\$5,750	34.30%
Dec. 7–8	AENC Tradeshow 2011	\$7,900	\$5,000	\$2,900	36.70%
Dec. 16–17	Champion Cup Nationals-NC Holiday Cheers to You	\$13,500	\$7,500	\$6,000	44.40%
Dec. 16–17	Cree Winter Party	\$11,650	\$1	\$11,649	100.00%

their claims about the economic benefits of its conventions — claims that must therefore be greatly exaggerated.

Even in the case of state- or national-level conventions, however, the discounts are neither moral nor just. They fail the “who pays/who benefits” test: the costs of the discounts are borne by all taxpayers,¹¹ while the benefits accrue only to select downtown businesses and property owners. Among those who believe that the redistribution of wealth is a legitimate government enterprise, very few would have the audacity to openly claim that financially better off downtown property and business owners should be subsidized by taxpayers who are less well off.

Downtown Raleigh is a much more attractive, vibrant place than it was even a decade ago. It would be a mistake, however, to assume that Raleigh’s improvement owe largely or solely to the effects of the Raleigh Convention Center. Just compare Fayetteville Street with the Glenwood South area. The city has spent about a billion dollars on Fayetteville Street with street improvements, subsidized hotels and restaurants, and the RCC. Glenwood South, on the other hand, has received no subsidies, but it has become the vibrant center of nightlife in Raleigh because residents have chosen to go there instead of Fayetteville Street.

A recent *Wall Street Journal* op-ed by Steven Malanga of the Manhattan Institute sums up the convention center scam nicely. The process Malanga describes should sound very familiar to long-time Raleigh residents who witnessed the destruction of the old Raleigh convention center, the construction of the new, purportedly \$192 million convention center whose cost overruns pushed its final bill to \$215 million, and the \$20 million taxpayer subsidy to the new downtown hotel:

Then there’s Boston, perhaps the quintessential example of a city that interprets failure in the convention business as a license to spend

more on it. Massachusetts officials shelled out \$230 million to renovate Hynes Convention Center in the late 1980s. When the makeover produced virtually no economic bounce, officials decided that the city needed a new, \$800 million center financed by a hotel occupancy excise tax, a rental-car surcharge, and the sale of taxi medallions. Opened in 2004, that new Boston Convention and Exhibition Center was projected (by consultants hired by the state) to have Boston renting some 670,000 additional hotel rooms annually within five years. Instead, Beantown saw just 310,000 additional hotel room rentals in 2009.

Now Massachusetts officials want to spend \$2 billion to double the size of the Boston Convention Center and add a hotel. Of course, they predict that the expanded facilities would bring an additional \$222 million into the local economy each year, including 140,000 hotel room rentals. Even with these bullish projections, officials claim that the hotel would need \$200 million in public subsidies.¹²

CONCLUSION

Many of Raleigh’s public and private leaders like to boast that Raleigh is at the forefront of progressive trends. As far as convention centers go, Raleigh is a follower that has failed to learn from other cities’ convention-center catastrophes. Raleigh is going down the same dismal road that leads to never-ending taxpayer subsidies that transfer wealth from the have-nots to the haves.

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Dr. Michael Sanera
*Director of Research and Local Government Studies
at the John Locke Foundation*

Kevin Munger
Research Intern at the John Locke Foundation

End Notes

1. For Asheville, see Dr. Michael Sanera, “Solving Asheville’s Civic Center Dilemma: Making Lemonade Out of a Lemon,” John Locke Foundation *Policy Report*, December 2005, johnlocke.org/research/show/policy%20reports/65; for Charlotte and Raleigh, see Sanera, “North Carolina Convention Centers: Important Lessons for Asheville and Wilmington,” JLF *Policy Report*, June 2006, johnlocke.org/research/show/policy%20reports/73.
2. Sanera, “The New Raleigh Convention Center: A taxpayer-funded money pit,” JLF *Regional Brief* No 58, September 4, 2008, johnlocke.org/research/show/policy%20reports/174.
3. “Raleigh Convention Center Contracts,” johnlocke.org/site-docs/research/RCC.
4. *Ibid.*
5. *Ibid.*
6. *Ibid.*
7. E-mail from Michael Williams to Michael Sanera, September 8, 2011.
8. “The New Raleigh Convention Center,” p. 2.
9. Williams e-mail.
10. “Raleigh Convention Center Contracts,” johnlocke.org/site-docs/research/RCC.
11. The taxes used to finance the discounts fall into two categories: the *hotel tax* primarily (but not exclusively) affects out-of-towners; the *meals tax*, on the other hand, primarily affects residents of Raleigh and Wake County (for further discussion, see “The New Raleigh Convention Center,” p. 4).
12. Steven Malanga, “Have We Got a Convention Center to Sell You!”, *The Wall Street Journal*, December 31, 2011, available at www.manhattan-institute.org/html/miarticle.htm?id=7759.