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# AN ECONOMIC IMPACT STUDY OF A CONVENTION CENTER IN NORTHERN CALIFORNIA

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## ABSTRACT

*The purpose of this study was to assess the economic impact of a Convention Center located in a major commerce and industry city in northern California. Three research objectives were identified: 1) to develop profiles of attendees to the Convention Center events, 2) to estimate the total economic impact of the Convention Center to the community, and 3) to compare results of the current study to the results of baseline study conducted in 1994. Survey research method was utilized to carry out this study. The sample included 694 attendees to 13 public show, trade show, and conference type events that were scheduled between January through November 2006. Economic impact was estimated by using the IMPLAN economic impact assessment software and database system. Findings indicated that total direct spending was over \$12 million, which generated \$18 million in total economic impact, \$1.67 million in tax revenues, and 179.76 full-time jobs. Since the majority of the economic impact came from spending on lodging services, it was recommended that the Convention Center attracts more national or international events in order to generate more hotel room nights. The commercial environment nearby the Convention Center might need further improvement to lure more spending on shopping and food services by event attendees.*

## INTRODUCTION

The purpose of this study was to assess the economic impact of a Convention Center located in a major city in northern California. The city is one of the major commerce and industry centers in northern California with a population around 102,000. This Convention Center has over 262,000 square foot of floor space for various meetings and events, and hosts more than 90 major meetings and events every year. Currently, this Convention Center is operated by the local Chamber of Commerce & Convention-Visitors Bureau.

In 1994 a visitor's spending study was conducted in order to examine the economic environment of the region. The study estimated that 315,000 visitors attended meetings, events and trade shows that took place at the Convention Center, and it was estimated that these attendees generated a total local spending of more than \$45 million. However, this study only reported the direct spending, but did not estimate indirect and induced spending. Since this study, the economic environment has been drastically changed, which has prompted the Chamber of Commerce & Convention-Visitors Bureau to develop a comprehensive understanding of the total economic impact of the Convention Center to the local economy. In order to address these concerns, three research objectives were identified:

- Objective 1: To develop profiles of attendees to the Convention Center events. The attendee is defined by anyone over the age of 18 who came to the Convention Center for the purpose of attending an event, e.g., public show, trade show, or convention;
- Objective 2: To estimate the total economic impact of the Convention Center to the local community;
- Objective 3: To compare results of the current study to the 1994 study.

## **BACKGROUND**

An economic impact study refers to the methods used to track and aggregate monetary expenditures (or payments) as these payments move through a regional economy (Tyrrell & Johnston, 2001). Economic impact studies of specific events provide important information to travel and tourism authorities because they provide estimates of specific and total spending by visitors, and revenues, taxes, and jobs created in a region due to the event. These estimations provide strong support and justification for tourism and regional development (Dwyer, et al., 2000; Tyrrell & Johnson, 2007).

Economic impact studies are undertaken to determine economic effects of events or development projects on the income, wealth, and employment of the residents of a given geographic area, e.g., cities, counties, states, and nations. A longitudinal economic impact study of a particular event in a region can indicate the increase or decrease in the wealth of the local community through time.

Generally there are three measures of economic impact: visitor expenditures, tax revenues, and jobs created. Visitor expenditures can be measured by direct spending plus indirect and induced spending. Direct spending refers to the expenditures by visitors that include: lodging, foods, recreation and entertainment, local transportation, shopping, and others. These direct expenditures become business receipts that, in turn, are used to pay for employee wages and salaries and to purchase materials or services from other businesses, which are directly linked to the services provided to the customers.

Indirect spending refers to the spending by businesses that receive money from direct spending by visitors on goods and services, which are necessary to serve customers, including investment in new information system or other equipment. Consequently, businesses or vendors which provide the equipment or services must purchase materials, equipment, or services from others. As this chain reaction continues in the study area, income and employment are generated indirectly.

The third measure of economic impact is the induced effect of customer spending. Induced effect refers to, for example, additional demands for services resulting from those businesses and employees that are impacted by increasing direct spending and indirect effect.

The sum of direct, indirect, and induced effects divided by the direct spending is defined as the economic multiplier. The size of the economic multiplier is determined by the structure of the local economy. If the local economy can provide a relatively higher percentage of goods and services to visitors, this economy could have a larger economic

multiplier. On the other hand, if the local economy needs to purchase a relatively higher percentage of goods and services from other areas outside the local economy, i.e., leakage, this economy might have a small economic multiplier.

The second indicator of economic impact is the tax revenues which include sales taxes and transient occupancy tax (TOT). If the current local sales tax rate is 8.25%, for every \$100 purchase made within the city, the city receives \$1, which is equivalent to 12.12% of sales tax revenues. Tax revenues generated by the Convention Center could be estimated by: Total visitor expenditures x 8.25% x 12.12%. The current transient occupancy tax (TOT) rate is 9.5%. Transient occupancy tax revenue could be estimated by average daily lodging spending multiplied by total hotel room nights generated and the TOT by all event attendees.

The third indicator is the number of job created. A study by Dean Runyan Associates (2007) estimated that, for every \$101,000 in expenditures by travelers in California, one job could be created. Thus, job creation could be estimated by dividing total economic impact by \$101,000.

## RESEARCH METHODS

Survey research method was utilized to meet the objectives of this study. Survey targets were defined as attendees who were at least 18 years old and attended any of those 13 events at the Convention Center. A convenience sampling method was used to recruit survey participants. Participants were randomly recruited in the public area inside the Convention Center to reduce interruption of normal business. When recruiting survey participants, attention was paid to seek balanced representation of gender and age groups.

Data was collected from January through November 2006, which produced 694 attendees from thirteen events who voluntarily participated in this survey. The total number of attendees of these thirteen events was estimated at 42,413. The events surveyed included public show, trade show, and convention. **Public shows** are exhibitions that are open to the public, usually requiring an entrance fee. **Trade shows** are exhibitions of products and/or services, which are held by professional or industrial associations for their members. Trade show, in general, is not open to the general public. **Conventions** are events where the primary activity of the attendees is to attend educational sessions, participate in meetings and discussions, socialize and network, and/or attend other organized events.

The questionnaire used in the 1994 study was slightly modified in order to compare the results of the current study to the 1994 study results. The questionnaire items included information regarding mode of transportation, lodging services, and spending on lodging, foods, transportation, shopping, and others.

Economic impact was estimated by using the IMPLAN (Impact Analysis for Planning, 2004) software, which is an economic impact assessment software system. IMPLAN was developed by the US Forest Service and currently was maintained by the Minnesota IMPLAN Group (MIG, Inc., [www.implan.com](http://www.implan.com)). IMPLAN uses a regional input-output database, which keeps track of monetary flows between consumers and businesses and between businesses and businesses. The database is compiled from published data from the US Bureau of Economic Analysis, the US Bureau of Labor, and Census. This software and database system

was used to examine and estimate regional economic impact of spending by Convention Center attendees.

## RESULTS

Of these 694 attendees to the thirteen events, seventy-three percent of the participants were from the State of California. Eleven percent of the participants were from the eastern United States, and foreign participants accounted for 4.5% of the survey participants. The main mode of transportation was automobiles, 65%, and 32% of attendees were by air. The major arriving airport for those attendees who traveled by air was San Jose International Airport (68%) and San Francisco International Airport (29%).

Fifty-three percent of the respondents stayed in hotels. For those participants who stayed in a hotel or motel, the average spending on lodging was \$279.78 with an average of 3.09 hotel nights stayed. Further data analyses revealed that the participants spent \$69.97 on foods, \$44.18 on local transportation, and \$113.52 on shopping. These spending pattern was higher than results from the 1994 study.

The total spending of those who stayed in hotels, \$514.72, was significantly higher than those who did not stay in a hotel, \$49.54. Both figures were higher than the 1994 survey results, which were \$522 for hotel stayed attendees and \$22 for non-hotel attendees.

Based on the total number of estimated attendees, 42,413, of the surveyed events, total spending by hotel-stay and non-hotel-stay attendees was summarized in Table 1. It is obvious that hotel-stay attendees spent much more than non-hotel-stay attendees. The total spending by hotel-stay attendees was over \$11 million. However, the total spending by not-hotel-stay attendees was less than \$1 million.

Table 1: Estimations of total spending by the surveyed event attendees.

	Hotel Attendees	Non-Hotel Attendees	Total
Lodging	\$6,289,143.84	-	\$6,289,143.84
Food	\$2,460,089.72	\$396,090.77	\$2,856,180.49
Local transportation	\$1,854,958.00	\$171,234.00	\$2,026,192.00
Shopping	\$966,142.69	\$420,211.04	\$1,386,353.73
Total	\$11,570,334.26	\$987,535.81	\$12,557,870.07

These direct spending data were entered into the IMPLAN system to estimate the economic impacts. The smallest unit of economic impact analysis of the IMPLAN system is county. Total economic impact of spending by Convention Center event attendees is presented in Table 2. The total economic impact was estimated at \$18 million with a multiplier of 1.45. Total state and local tax revenues were estimated at \$1.67 million. Applying findings from the California travel impact study (Dean Runyan Associates, 2007)

that for every \$101,000 travel spending one job is created in travel related businesses, 179.76 full-time jobs were generated by the total aggregate spending of all event attendees.

When expanding the geographical economic impact region to the State of California, the total economic impact increased to \$19,014,663 with a multiplier effect of 1.51, and the total employment effect increased to 188.26 jobs. In other words, an additional \$6,456,794 and 8.50 jobs were generated elsewhere in the State of California as a result of those 13 meetings and events held at this Convention Center.

Table 2: Summary of total economic impact.

	Direct	Indirect	Induced	Total
Economic impact	\$12,557,869	\$2,532,027	\$3,065,965	\$18,155,861
Business tax revenues	\$1,328,248	\$134,580	\$208,862	\$1,671,690
Full-time employment	\$124.34	\$25.07	\$30.36	\$179.76

## CONCLUSION

This study investigated the economic impact of a convention center in northern California. Interpretation and generalization of the results should be cautioned and were limited due to the sampling method used and types of events surveyed. Also, the 1994 survey results were not adjusted by inflation rate when compared to results of the current study. Nevertheless, findings from this survey provided useful information to the convention and visitor bureau in formulating future marketing strategies.

This study showed a decline in event attendance which reduced the economic impact of the Convention Center attendees. Dean Runyan Associates' (2007) study of California travel impact shows that travel to this region reached its peak in 2000 due to booming of the information technology industry in this region. However, the "dot com bust" and outsourcing of the information technology industry and the terrorist attack in 2001 drove travel revenues to its valley in 2003. Although total spending by travelers to this region has been increasing in the past two years, much of the increase in spending could be attributed to higher hotel rates.

Although the tough economic environment in the past decade provided some explanations to the declining number of event attendees, competitions from the Internet which replaced some functions served by traditional conventions and tradeshow might create threats and competition to the Convention Center. This trend happens to many small- and mid-size convention centers in other cities. On the other hand, high spending and high attendance events were attracted to larger convention centers with more amenities and services. Results of the current study affirmed that the majority of economic impact comes from spending on lodging services. The Convention Center needs to realign its marketing strategies to host more national or international events which might generate more hotel room nights. Another recommendation might be to improve the commercial environment surrounding the Convention Center to lure more spending on shopping and food services by event attendees.

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