

***The Economic and Revenue Impact
of the Pennsylvania Convention Center:
Update as of FY 1997, FY 1998***

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**Pennsylvania Economy League
Eastern Division
One Commerce Square
2005 Market Street
Suite 900
Philadelphia, PA 19103-7042
215-557-4434
E-mail: pel@libertynet.org**

Summary of Findings

At the request of the Pennsylvania Convention Center Authority (PCCA), the Pennsylvania Economy League--Eastern Division (PEL) was asked to prepare an updated estimate of the economic impact of activities at the Pennsylvania Convention Center for FY 1997 and FY 1998. During its first five years of operations, over 1.3 million conventioners and trade show attendees have helped to support over \$1.8 billion in economic activity in the City of Philadelphia, leading to over \$186 million in state and local tax revenues. The following table provides a summary of the major economic impacts associated with conventions and trade shows at the Pennsylvania Convention Center from FY 1994 through FY 1998.

Figure 1: Summary of Economic and Revenue Impact Supported by Convention and Trade Shows at the Pennsylvania Convention Center

FY	Delegate Attendance	Total Convention Center-Related Spending Impact (000s) ¹	Total Jobs Supported by PCC	Total Wages Supported by PCC (000s)	City Tax Revenues (000s)	State Tax Revenues (000s)
1994	185,000	\$253,003	5,174	\$107,106	\$13,795	\$12,768
1995	183,514	\$268,757	5,417	\$111,892	\$14,920	\$13,508
1996	292,615	\$365,934	7,165	\$151,102	\$19,695	\$18,498
1997	376,582	\$521,035	9,540	\$209,441	\$25,814	\$25,908
1998	286,470	\$399,673	7,364	\$165,416	\$21,173	\$20,088
Total	1,324,181	\$1,808,402		\$744,957	\$95,397	\$90,770

Some numbers may not add due to rounding.

Sources: International Association of Convention and Visitors Bureaus (IACVB), City of Philadelphia Revenue Department, Pennsylvania Convention Center, IMPLAN

¹ The spending impact is a measure of the goods and services produced in the local economy as a result of the spending by conventioners, their sponsoring associations, and the exhibitors at the conventions and trade shows.

Introduction

At the request of the Pennsylvania Convention Center Authority (PCCA), the Pennsylvania Economy League--Eastern Division (PEL) was asked to prepare an updated estimate of the economic impact of activities at the Pennsylvania Convention Center for FY 1997 and FY 1998. This update, when combined with PEL's May 1997 estimates for the Center's first three years of operations, spans the first five full fiscal years of the Center's operations. The PCCA supplied PEL with information regarding the number of jobs, wages, and residence of Convention Center employees and contractors and the attendance at conventions and trade shows. In addition, PEL utilized the most recent delegate spending estimates obtained from the International Association of Convention and Visitor's Bureaus.² With that information, PEL utilized multipliers generated through an economic model of the Philadelphia economy to produce estimates of convention-related direct and indirect spending, employment and wages³. That economic information is then utilized to generate estimates of the tax benefits realized by the City and the Commonwealth of Pennsylvania.

What is Economic Impact?

The economic impact of the Pennsylvania Convention Center is a function of the spending of delegates and associations who come to Philadelphia for a convention or trade show, and how that spending ripples through the City's economy and creates economic activity. Here is a simplified example: A delegate comes to Philadelphia for a convention. While in town, the delegate spends money on a wide variety of goods and services, the largest of which goes to a hotel for a room and meals. The hotel then uses that money to hire and pay its workers, to purchase and clean linens for the delegate's room, and to pay for all of the other goods and services that the delegate might utilize during their stay at the hotel. Meanwhile, the hotel worker uses the money that the hotel pays in salary to pay rent, to buy food, and to purchase the other goods and services that are needed for day-to-day life -- all of which translate into even more economic activity. At the same time, the cleaning service that the hotel uses to clean the linens has to pay workers, buy supplies, and maintain its building -- again, creating additional economic activity. The dollars that are spent locally make their way through the economy, divided and split between a host of individuals and companies, with some goods purchased locally and others purchased out of the City, until finally there is nothing left.

In addition to the delegate spending, the association that sponsors the convention is also spending money locally, on catered meals, the construction of exhibits by union workers, the

² In 1998, the IACVB released its most recent estimates of delegate, association, and exhibitor spending in convention cities around the country. The 1998 analysis provided greater detail for spending in large metropolitan areas like Philadelphia, which resulted in significant increases for exhibitor spending. In this analysis, PEL has adjusted and utilized these new estimates of exhibitor spending for all years throughout the report to provide a consistent examination of the economic performance of the Center.

³ PEL utilized IMPLAN, an input-output macroeconomic model of the Philadelphia economy produced by the Minnesota IMPLAN Group, Inc., of Stillwater, MN. The IMPLAN model is used throughout the country to evaluate the economic impact of business activities. PEL adjusted the figures in the model to reflect the influence of inflation for later years.

lodging and meals for staff, and a host of other expenses. That spending ripples through the economy in a similar manner, generating economic activity as a result of both direct and indirect activities.

What are we left with? Jobs and wages, as people are hired to provide the goods and services needed to support this new economic activity. And taxes, both in the form of direct taxes on spending like the sales tax and the hotel taxes, and the income-related taxes such as the City wage tax and the State income tax.

A Conservative Estimate

PEL's analysis remains a conservative estimate: jobs created outside of the city and spending that occurs outside of the City are not part of this analysis. As a result, the full tax revenue impact to outlying jurisdictions and additional tax revenues for the State (as a result of spending outside the City limits) that are generated outside of the City are not estimated. In addition, the analysis does not attempt to estimate all of the various tax revenues that are generated by the activities at the Center. City business, real estate, parking, and liquor-by-the-drink, as well as taxes generated in suburban jurisdictions are not captured in this analysis.

Focus on the City of Philadelphia – When calculating the economic impact of the Convention Center on the City of Philadelphia, new economic activity occurs when a visitor or organization from outside the city comes to the city and spends on local goods or services. For that reason, only events that draw visitors from outside the city count toward economic impact because these payments represent new money entering the City. Money that is already present in the City (i.e. local attendees and their spending) does not increase the Center's economic impact, because it is assumed that spending would have occurred in another form in the city.

As a result, this analysis does not include:

- gate shows, like the Flower Show, the Car Show, Craft Shows, or the Home and Boat Shows;
- meetings of local companies that are now held in the City at the Convention Center which prior to its opening were likely to be held out of the region;
- special events or performing arts events now held at the center;
- new shows that have emerged due to the presence of a first-class venue.

PEL also only uses 95% of delegate spending estimated by the IACVB to calculate the spending impact in the City of Philadelphia; the remainder is used to simulate those visitors that might choose to stay in a hotel out of the city or to spend their money at attractions outside of the City limits.

Focus on the Convention Center -- In addition to limiting the measured economic activity to that from attendees from outside of the City, this analysis also does not include the activity of conventions and trade shows that are held at the Center City Marriott hotel, directly next door and physically linked to the Convention Center. The synergy created by the simultaneous development of the Convention Center and the Marriott has only enhanced the economic activity that has occurred in the City. That success points to a similarly bright future when we think about the Marriott's expansion into the Reading Terminal Headhouse, the redevelopment of the City Hall Annex into a Courtyard by Marriott, the planned Loews and Ritz-Carlton Hotels, and

other hotel developments in Center City. Arguably, none of these major projects would have happened without the development of the Convention Center; however, separating local and non-local activities, as well as new activities versus activities that would have occurred without the new hotels is not within the scope of this project.

The PCVB Model – The Philadelphia Convention and Visitor's Bureau (PCVB) also calculates the projected "economic impact" of conventions and trade shows. The PCVB model is a way of calculating total direct spending by convention or tradeshow attendees. It does not utilize multipliers to calculate the indirect spending impact and is most useful for estimating the level of economic activity that will be generated by individual conventions and trade shows held in the Convention Center.

PEL's model differs from the PCVB model in three ways. First, it does not attempt to determine whether a visitor is from out of town or not. It takes all attendees and multiplies that by the average stay for Philadelphia conventions and trade shows (determined from PCVB information) to calculate total room nights. It then multiplies the total room nights for the year by the average spending per day, as calculated by the IACVB. Second, it calculates the spending by associations and exhibitors separately, by using the IACVB per delegate formula for large cities. Finally, it applies multipliers to the various categories of spending by delegates, associations and exhibitors, as a way to estimate the total spending impacts of dollars brought into the city by convention and tradeshow attendees. With the multiplier affects included, PEL is able to estimate the number of jobs and tax revenues supported by the convention and trade shows held at the Convention Center.

Economic Activity Supported by Convention and Trade Show Activities

Attendance and Spending

The economic impact of conventions and trade shows is primarily driven by the attendance and spending of delegates to the events held at the Convention Center. FY 1997 was the Center's best year to date, with over 376,000 people attending trade shows and conventions. FY 1998 did not match that level, with attendance reaching over 286,000. PEL then multiplies the total attendance by an average length of stay of 2.07, derived from Philadelphia Convention and Visitor's Bureau (PCVB) estimates of room nights and attendance plus a half day to represent hotel stays booked independently of the PCVB. In FY 97 and 98, convention and trade show activity is estimated to have supported over 1.3 million room nights at Philadelphia hotels.

Figure 2: Convention and Trade Show Attendance and Room Nights

FY	Convention Delegates	Trade Show Delegates	Total	Room Nights
1994	78,400	106,600	185,000	355,200
1995	77,946	105,568	183,514	378,039
1996	209,115	83,500	292,615	605,713
1997	230,082	146,500	376,582	779,525
1998	183,970	102,500	286,470	592,993
Total	779,513	544,668	1,324,181	2,711,470

According to the International Association of Convention and Visitors Bureaus (IACVB), the typical 1998 delegate spent approximately \$275 per day. The spending is divided among amounts each delegate spends in hotels, for meals at restaurants, on gifts and other retail items, and for a host of other goods and services like theater tickets, admissions to museums, taxis or subway tokens, etc.... In addition to the spending of delegates, the associations that sponsor the conventions or trade shows purchase additional goods and services locally; for example, a sponsoring association will hire workers to build exhibits or purchase services and food from local caterers for a luncheon. In its first five years of operations, an estimated \$969 million of direct spending has been supported by the spending of trade show and convention delegates, associations, and exhibitors.

Indirect impacts are the "ripple" effects which the direct spending by delegates and associations causes in other industries. Indirect jobs and their associated economic impacts are dispersed throughout the economy into industries such as eating and drinking establishments, retail stores, health care institutions, food stores, wholesale trade establishments, and educational institutions. The initial round of direct spending resulted in \$840 million of additional indirect spending generated throughout the local economy, resulting in \$1.8 billion in total spending directly or indirectly attributable to conventions and trade shows at the Pennsylvania Convention Center during its first five full years of operation. In FY 97, more than \$521 million was supported in the local economy as a result of the 376,600 convention and trade show visitors to the city; for FY 98, nearly \$400 million was supported by that year's 286,000 visitors.

Figure 3: Convention and Trade Show Supported Spending (000s)

FY	Delegate Spending	Association Spending	Exhibitor Spending	Total Spending	Direct Spending Impact	Indirect Spending Impact	Total Spending Impact
1994	\$84,265	\$10,715	\$48,413	\$143,394	\$135,506	\$117,497	\$253,003
1995	\$92,063	\$10,938	\$49,427	\$152,427	\$143,953	\$124,804	\$268,757
1996	\$151,786	\$17,946	\$40,304	\$210,035	\$196,086	\$169,849	\$365,934
1997	\$197,968	\$24,055	\$72,900	\$294,923	\$279,172	\$241,864	\$521,035
1998	\$155,114	\$18,848	\$52,535	\$226,498	\$214,156	\$185,517	\$399,674
Total	\$681,196	\$82,502	\$263,579	\$1,027,277	\$968,873	\$839,531	\$1,808,403

Jobs and Wages

The local economic activity associated with conventions and trade shows supports employment. In FY 97, more than 9,500 jobs in the City of Philadelphia were supported by the economic activity of the Pennsylvania Convention Center, resulting in wages of over \$209 million. In FY 98, nearly 7,400 jobs and over \$165 million in wages were supported by convention and trade show activity. During its first five years of operations, the convention and trade show activity at the Center has been responsible for nearly \$745 million in cumulative wages.

Figure 4: Employment Supported by Convention and Trade Show Activity*

FY	Total Direct Jobs	Indirect Jobs	Total Employment
1994	3,495	1,679	5,174
1995	3,636	1,781	5,417
1996	4,830	2,334	7,165
1997	6,424	3,116	9,540
1998	4,971	2,394	7,364

*Direct jobs are those jobs supported directly by convention and trade show spending and activities; Indirect jobs are those supported by additional rounds of spending throughout the economy.

Figure 5: Wages Supported by Convention and Trade Show Activity (000s)

FY	Total Direct Wages	Indirect Wages	Total Wages
1994	\$59,327	\$44,780	\$107,106
1995	\$59,684	\$52,208	\$111,892
1996	\$80,788	\$70,314	\$151,102
1997	\$112,742	\$96,659	\$209,401
1998	\$88,924	\$76,492	\$165,415
Total	\$401,465	\$340,453	\$744,916

Tax Revenues

The combination of spending and jobs results in new tax dollars to both the City and state. During its first five years of operations, the economic activity associated with the Convention Center has been responsible for almost \$160 million in tax revenues, combining nearly \$86 million for the City with close to \$74 million for the Commonwealth of Pennsylvania. During its first five fiscal years, the Center has been responsible for:

- \$11.6 million in City sales tax revenues
- \$35.3 million in City wage tax
- \$48.6 million in City hotel occupancy taxes
- \$71.9 million in Pennsylvania sales tax revenues
- \$18.9 million in Pennsylvania income taxes

In FY 97 alone, the activity of the Convention Center supported close to \$52 million in combined state and City taxes, with another \$41 million in state and local taxes being supported in FY 98.

Figure 6: City of Philadelphia Tax Revenue Supported by Convention and Trade Show Activity (000s)

FY	Sales Tax*	Wage Tax	Hotel Occ. Tax*	Annual Revenue
1994	\$1,622	\$5,156	\$7,018	\$13,795
1995	\$1,720	\$5,385	\$7,815	\$14,920
1996	\$2,364	\$7,123	\$10,209	\$19,695
1997	\$3,315	\$9,829	\$12,671	\$25,814
1998	\$2,553	\$7,764	\$10,856	\$21,173
Total	\$11,574	\$35,257	\$48,569	\$95,397

* Philadelphia has a one percent sales tax in addition to the state's 6% sales tax rate.

**Hotel occupancy tax revenues represent the tax revenues supported directly by the convention and trade show spending, plus the marginal increase in hotel tax revenue due to the increased tax rate enacted to support the Center. Actual hotel tax collections by the City of Philadelphia are higher due to the inclusion of business and tourist travelers.

Figure 7: Commonwealth of Pennsylvania Tax Revenue Supported by Convention and Trade Show Activity (000s)

FY	PA Sales Tax	PA Income Tax	Annual Revenue - PA
1994	\$10,080	\$2,706	\$12,786
1995	\$10,686	\$2,822	\$13,508
1996	\$14,684	\$3,814	\$18,498
1997	\$20,597	\$5,311	\$25,908
1998	\$15,884	\$4,204	\$20,088
Total	\$71,931	\$18,857	\$90,788

Figure 8: Combined Tax Revenues Supported by Convention and Trade Show Activity (000s)

FY	Phila. Tax Revenues	PA Tax Revenues	Combined Tax Revenues
1994	\$13,795	\$12,786	\$26,581
1995	\$14,920	\$13,508	\$28,428
1996	\$19,695	\$18,498	\$38,193
1997	\$25,814	\$25,908	\$51,722
1998	\$21,173	\$20,088	\$41,261
Total	\$95,397	\$90,788	\$186,185

Looking to the Future

During its first five years of operations, the Pennsylvania Convention Center has proven to be a generator of excitement, revenue, and jobs for the City of Philadelphia and the Commonwealth of Pennsylvania. Preliminary conservative projections of future years activity suggest that convention and trade show activity at the Convention Center will have supported over \$200 million in tax revenues for *each* of the City of Philadelphia and the Commonwealth of Pennsylvania after its first ten years of operations – over \$400 million total.

As we look to the future, the ongoing development of new hotels, the cumulative effect of the Greater Philadelphia Tourism Marketing Corporation's (GPTMC) marketing campaign, the landing of the Republican National Convention, and the potential expansion of the Center can only add to the benefits highlighted in this analysis.

For example, if the 4,000 hotel rooms now under construction enjoy an occupancy rate of 60 percent and an average room rate of \$135, the annual hotel tax yield to the city from those hotels would be just over \$8 million. Projections based upon an expanded Convention Center (assumed to be ready by 2003) say that the expanded Center would create sufficient hotel room night demand to support at least that rate of occupancy, while maintaining the current occupancy rate.

The challenge remains for the Center, the Convention and Visitor's Bureau, and the entire tourism industry to maintain the positive momentum and impressions that the initial half-decade of operations has engendered for the City and the region. Maintaining that momentum will not be easy. Nearly every major city is promoting its tourism and convention potential – often citing Philadelphia as an example of success. As a result, Philadelphia's tourist industry must continue to work harder and smarter than the competition to meet the challenges from cities both near and far for the lucrative convention and trade show business.