HOTEL AND MEETING SPACE DEMAND STUDY

Monona Terrace Community and Convention Center

MADISON, WISCONSIN

SUBMITTED TO:

Bill Zeinemann
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November 6, 2020

Bill Zeinemann
City of Madison
One John Nolen Drive
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wzeinemann@mononaterrace.com

Re: Monona Terrace Community and Convention Center
Madison, Wisconsin

Dear Mr. Zeinemann:

Attached you will find our Hotel and Meeting Space Demand Study of a Monona Terrace Community and Convention Center in Madison, Wisconsin.

We certify that we have no undisclosed interest in the property, and our employment and compensation are not contingent upon our findings. This study is subject to the comments made throughout this report and to all assumptions and limiting conditions set forth herein.

It has been a pleasure working with you. Please let us know if we can provide any additional services.

Sincerely,
HVS Convention, Sports & Entertainment
Facilities Consulting

Thomas Hazinski

Thomas A Hazinski, MPP
Managing Director

Brian Harris

Brian Harris
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Jorge Cotte

Jorge Cotte
Senior Associate

1. Introduction and Executive Summary

Nature of the Assignment

The City of Madison engaged HVS Convention, Sports & Entertainment Facilities Consulting ("HVS") to conduct a Hotel and Meeting Space Demand Study for the Monona Terrace Community and Convention Center ("MTCC") in Madison, Wisconsin. The City of Madison could enhance the demand potential for convention and meeting business in Madison and allow it to compete more effectively against local and regional competitors. This report should inform the City's strategic planning for continued growth of the downtown hotel market, expansion of meeting space at the MTCC, and redevelopment of public spaces in downtown and on the Lake Monona waterfront.

Facility Ownership

The Frank Lloyd Wright-designed Monona Terrace Community and Convention Center opened in 1997. First proposed in 1938, it was approved by City voters in 1992. In 2001, the Hilton Madison Monona Terrace opened, adding 240 attached rooms to the venue.

The facility is owned by the City of Madison and serves dual functions, as a meeting space that serves the surrounding community and as a convention center that attracts out-of-town business. Its mission to serve the City and provide accessible options for local meetings and internally produced events for Madison residents is key to any considerations of future development and expansion of the MTCC.

Methodology

In accordance with the Scope of Services, HVS performed the following tasks:

1. Thomas Hazinski, Brian Harris, and Jorge Cotte from HVS traveled to Madison, Wisconsin on January 13, 2020 for a site visit and client meeting. During this visit, we toured the facility, performed a site inspection, met with facility management and other key industry participants, and gathered relevant data.
2. Analyzed the economic and demographic data that indicate whether, and the extent to which, the local market area supports the City of Madison lodging market and MTCC operations.
3. Surveyed current and potential users of the MTCC to understand their event needs, their overall impressions of Madison and the MTCC, and the likelihood of booking events in the expanded facility.

4. Reviewed and analyzed historical demand and attendance data, as well as lost business, provided by the City of Madison.
5. Reviewed and analyzed sales and marketing data provided by Destination Madison.
6. Compiled data on 17 competitive and comparable convention centers to inform and test the reasonableness of the building program recommendations.
7. Recommended a facility program expansion based on the above steps.
8. Prepared event demand and attendance forecasts based on the implementation of the program recommendations.
9. Prepared a hotel market analysis and forecast the impact of MTCC expansion on the hotel market.
10. Prepared a financial forecast for the proposed City of Madison operations.
11. Prepared an economic and fiscal impact analysis for the proposed City of Madison expansion.

HVS collected and analyzed all information contained in this report. HVS sought out reliable sources and deemed information obtained from third parties to be accurate.

Description of Existing Facility

Located in downtown Madison, the MTCC serves the city as the primary public venue for conventions, conferences, and trade shows. It also hosts sporting events, consumer shows, banquets, and local meetings.

The following image provides an aerial view of the MTCC and surrounding infrastructure. An overview of the function spaces at the MTCC follows.

AERIAL VIEW OF THE MTCC

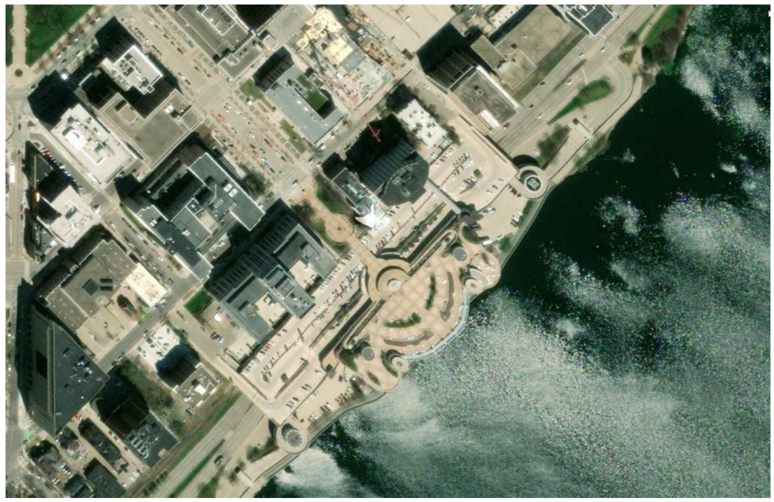


FIGURE 1-1
CURRENT FACILITY PROGRAM AND CAPACITIES

Event Space	Total Area (SF)	Capacities			Exhibit Booths (10'x10')
		Theatre	Banquet	Classroom	
Exhibit Hall	**37,200**	**3,300**	**2,000**	**3,300**	**212**
Hall A	18,600	1,600	1,000	928	106
Hall B	18,600	1,600	1,000	928	106
Ballroom	**13,524**	**1,518**	**936**	**832**	
Ballroom A	3,822	418	234	224	
Ballroom B	3,822	418	234	224	
Ballroom C	2,940	330	180	176	
Ballroom D	2,940	330	180	176	
Hall of Ideas	**6,840**	**792**	**450**	**48**	
Hall E	1,140	112	72	72	
Hall F	1,140	112	72	72	
Hall G	1,140	112	72	72	
Hall H	1,140	112	72	72	
Hall I	1,140	112	72	72	
Hall J	1,140	112	72	72	
Meeting Rooms					
Main Level Meeting Rooms					
k through r (eight rooms)	460	40	27	21	
Mezzanine Meeting Rooms					
Wisconsin	493	50	30	30	
Dane	493	50	30	30	
Hall of Fame	600	70	30	40	
Total Meeting Space	**5,266**				
TOTAL FUNCTION SPACE	**62,830**				
Lecture Hall	5,540	315			

Source: MTCC

Market Area Analysis

The Madison, WI MSA contains Madison—the state capital of Wisconsin—and the University of Wisconsin-Madison. Given its importance in the state, Madison maintains a high level of connectivity to the remainder of Wisconsin and the Midwest through a well-developed highway network and highly functioning regional airport. The population and economy of Madison are projected to grow from 2019 to 2025, bolstered by growing technology and state and local government sectors. Due to a high level of business and leisure demand, the Madison, WI MSA contains a well-developed lodging supply—found mostly in Madison and Wisconsin Dells. Tourism to Madison can either focus on the many diverse tourist attractions. Group meeting demand is generated by the MTCC, the Alliant Energy Center, the University of Wisconsin, and several full-service hotel properties.

Comparable Venue Assessment

HVS analyzed 17 competitive convention centers in the state of Wisconsin and across the United States. This analysis provides a basis for building program recommendations by comparing the function spaces and other amenities in each of the facilities along with other characteristics of the markets relevant to the success of the venue.

FIGURE 1-2
COMPETITIVE VENUE ANALYSIS – RANK OF SELECTION CRITERIA

Name of Venue	Location	Total Function Space (sf)	Exhibiton Space	Ballroom Space	Meeting Space
Regional Comparable Venues					
Minneapolis Convention Center	Minneapolis	591,411	475,200	27,522	88,689
Alliant Energy Center	Madison	390,320	370,000	0	20,320
Wisconsin Center	Milwaukee	265,841	188,695	37,506	39,640
Schaumburg Convention Center	Schaumburg	145,265	97,200	39,892	8,173
Kalahari Resorts - Wisconsin Dells	Wisconsin Dells	115,078	0	89,760	25,318
La Crosse Center	La Crosse	80,646	50,342	19,592	10,712
KI Convention Center	Green Bay	72,982	35,003	25,228	12,751
Monona Terrace Convention Center	**Madison**	**62,830**	**37,200**	**13,524**	**12,106**
Grand Geneva Resort & Spa	Lake Geneva	48,166	13,770	28,516	5,880
Oshkosh Convention Center	Oshkosh	18,510	0	15,400	3,110
National Comparable Venues					
Americas Center	St. Louis	644,369	485,000	27,625	131,744
Huntington Convention Center of Cleveland	Cleveland	318,225	225,000	43,175	50,050
CHI Health Center	Omaha	258,226	194,300	41,876	22,050
DeVos Place	Grand Rapids	234,243	162,000	40,000	32,243
Iowa Events Center	Des Moines	223,951	146,926	28,800	48,225
Raleigh Convention Center	Raleigh	212,061	146,843	32,617	32,601
Central Bank Center	Lexington	105,709	66,000	23,498	16,211
Buffalo Niagara Convention Center	Buffalo	102,869	64,410	12,367	26,092
Monona Terrace Convention Center	**Madison**	**62,830**	**37,200**	**13,524**	**12,106**

Source: HVS and respective venues

The MTCC function space capacity is smaller than most regional competitors, including smaller cities. Its capacity ranks last among national comparable venues.

HVS ranked Madison among competitors on its suitability as a meeting and group destination. Site selection criteria include hotel supply, drive time population, travel costs, air access, median income, and surrounding amenities. The rank is based on the numerical data associated with each criterion and the weight of each criterion.

The figure below shows the rank of Madison and each of its competitive cities on each criterion and the total of all scores.

FIGURE 1-3
COMPETITIVE VENUE ANALYSIS – RANK OF SELECTION CRITERIA

Rank	Facility	Weighted Destination Score
1	Milwaukee, WI	0.745
2	Minneapolis, MN	0.744
3	Cleveland, OH	0.546
4	St. Louis, MO	0.521
5	Raleigh, NC	0.451
6	Schaumburg, IL	0.437
7	Buffalo, NY	0.432
8	Grand Rapids, MI	0.384
9	**Madison, WI (MTCC)**	**0.381**
10	Des Moines, IA	0.371
11	Lexington, KY	0.329
12	Omaha, NE	0.319
13	La Crosse, WI	0.303
14	Green Bay, WI	0.250
15	Oshkosh, WI	0.230
16	Madison, WI (Alliant)	0.204
17	Lake Geneva, WI	0.195
18	Wisconsin Dells, WI	0.019

Madison ranks ninth-best in the overall score. Its strengths are in median income, surrounding housing occupancy, and nearby amenities, such as restaurants. It has weaknesses in population base and public transportation access. The overall results show that Madison has a below-average potential for events as compared to national competitors but above average compared to Wisconsin venues.

User Survey and Interviews

HVS conducted a web-based survey of event planners to provide a basis for assessing the potential demand for an expanded MTCC and headquarters hotel development in Madison, Wisconsin. HVS obtained a list of 5,122 event planners from Destination Madison and the MTCC. About 8.4% of those solicited responded. Respondents included professionals from organizations representing national, regional, state, and local associations, government entities, and corporate and other organizations conducting or planning events. Key findings and conclusions include the following:

- Roughly half of the survey respondents have booked an event at the MTCC over the past five years. Overall, planners were pleased with the experience, giving the highest ratings to the size and quality of event spaces.
- Based on historical bookings, the MTCC's strongest competition comes from convention centers and hotels in Milwaukee, Chicago, and surrounding

Midwest markets. Wisconsin Dells and Green Bay compete with Madison for instate business.

- Aside from external factors, such as geographic location and weather, the greatest deterrents to event planners considering the MTCC for an event include air access, parking and transportation options, and the overall cost of the destination.
- Madison has several strengths as a group event destination, including its entertainment and recreation opportunities, dining options, and overall destination appeal. Other planners note the quality of function spaces.
- In the current configuration of the MTCC, the exhibit hall and meeting rooms can accommodate over 86% of the events described by event planners. Banquet capacity can accommodate over 90%. These results indicate a greater need for an expansion to host simultaneous events rather than much larger events.
- For a significant majority of planners, high-quality hotel rooms within walking distance of an event venue are an absolute necessity. Planners prefer to book room blocks in full-service properties in upper upscale brands.
- Lodging requirements vary with an average peak room block of approximately 360 rooms. About 93% of events can be accommodated by 1,000 room block at their peak.
- 65% of planners indicate that they would be very likely or likely to book an event at the MTCC given the development of a headquarters hotel and expansion of the MTCC.

The survey results indicate that the development of hotel adjacent to and expansion of the MTCC would create a modest increase in demand at the convention center. Expansion and improvements to the MTCC's ballroom and meeting space would allow the facility to relieve some scheduling conflicts with the ability to host more simultaneous mid-size events that require exhibit, ballroom, and meeting spaces.

Building Program Recommendations

HVS developed building program recommendations for an MTCC expansion. This recommended facility program can serve as a guide for subsequent physical planning aimed at providing the desired program elements.

HVS program recommendations would position the City of Madison to attract new conventions and conferences and expand its ability to hold simultaneous events in different parts of the building. HVS recommends expansion and headquarters hotel development be part of the City's strategic planning to redevelop Law Park and expand access and amenities to the Lake Monona waterfront.

HVS recommends the following elements to allow the venue to compete effectively:

- A 37,000 square foot multipurpose/flex space,
- A 5,250 square foot block of flexible meeting space, and
- a rentable 10,450square-foot terrace overlooking Law Park.

The following figure shows the recommended amounts and capacities of event function spaces and the total function space of the expanded MTCC.

FIGURE 1-4
BUILDING PROGRAM RECOMMENDATIONS

Function Space	Existing MTCC	Recommended Expansion	Expanded MTCC
Exhibit Space	37,200		37,200
Multipurpose Space		37,000	37,000
Ballroom(s)	13,524		13,524
Meeting Room Blocks	10,520	5,250	15,770
Boardroom	1,586		1,586
Total Space	62,830	42,250	105,080

Demand Projections

MTCC and Destination Madison provided HVS with historical bookings, including event types, length, attendance, and booked room nights. The following figure summarizes the historical performance of the MTCC from 2015 through 2019.

FIGURE 1-5
HISTORICAL FINANCIAL OPERATIONS

	2015	2016	2017	2018	2019
Event					
Conventions	27	33	29	29	30
Conferences	31	29	28	29	26
Meetings	194	200	199	164	170
Consumer Shows	21	24	20	20	20
Banquets	218	236	217	190	167
Sports	5	5	3	4	5
Entertainment	43	31	16	11	10
Community Events	112	113	107	104	99
Community Meetings	9	8	10	6	4
Total	660	679	629	557	531
Attendee					
Conventions	18,527	23,129	21,089	19,878	21,002
Conferences	10,936	10,467	8,260	9,872	8,069
Meetings	26,973	29,722	32,775	28,512	29,657
Consumer Shows	108,521	112,861	112,263	115,784	117,279
Banquets	49,688	57,171	55,006	48,841	46,696
Sports	17,375	15,775	13,243	14,504	14,550
Entertainment	14,005	13,845	18,565	12,411	9,723
Community Events	42,627	43,147	39,793	43,598	38,469
Community Meetings	181	156	235	152	126
Total	288,833	306,273	301,229	293,552	285,571
Occupied Room Night					
Conventions	18,959	32,721	24,991	20,205	21,498
Conferences	5,135	4,319	4,900	4,853	4,115
Meetings	30	55	na	na	40
Consumer Shows	55	250	110	250	225
Banquets	na	na	na	89	na
Sports	7,450	7,435	5,935	7,235	5,475
Total	31,629	44,780	35,936	32,632	31,353

Source: MTCC and Destination Madison

Additional data provided detail on space utilization and occupancy. Occupancy percentage is measured as the number of days space is occupied in a given year. At above 60%, the ballroom segments A and B are the most used spaces at the MTCC. Overall, the ballroom has a 54% average occupancy, followed by the Grand Terrace (52%) and the Hall of Ideas (49%). The meeting room block had below 40% occupancy in 2019. Given the seasonal nature of event demand and weekday booking patterns, the maximum practical occupancy of a convention center is approximately 70%.

An expanded MTCC with additional headquarters hotel development should allow the city to capture additional convention and other group business from regional corporations and associations, state associations, local corporations, and other groups. The expansion should allow the venue to expand utilization by its existing client base and attract conventions, conferences, and meetings that are not currently accommodated in existing spaces.

The following figure presents the difference in demand projections for a stabilized year, which would occur approximately three years after the opening of the expansion.

FIGURE 1-6
COMPARISON OF EVENT DEMAND

Event Type	Events		Average Attendance		Total Attendance	
	Base 2023	Stabilized 2026	Base 2023	Stabilized 2026	Base 2023	Stabilized 2026
Conventions	30	40	700	800	21,000	32,000
Conferences	29	50	330	400	9,570	20,000
Meetings	185	240	160	160	29,620	38,430
Consumer Shows	21	25	5,400	5,500	113,400	137,500
Banquets	206	250	250	250	51,500	62,500
Sports	4	5	3,500	3,500	14,000	17,500
Entertainment	22	22	800	800	17,600	17,600
Community Events	107	120	390	390	41,730	46,800
Total	611	762			298,600	372,580

Based on analysis of comparable venues, online surveys, and lost business, HVS estimates that the MTCC can grow its business by attracting expanding its ability to hold simultaneous events. The addition of a 37,000 square foot ballroom and 5,250 square feet of breakout space, along with continued growth in the hotel market, will help the MTCC attract more conventions, conferences, meetings, and banquets. In a stabilized year, we estimated an expanded MTCC could generate 54,540 room nights in the market, an increase of 19,250.

Financial Projections

For the purposes of this analysis, we assume that expansion opens in 2024, as described in the building program recommendations section of this report. As discussed in our demand analysis, a three-year ramp-up period would be necessary to stabilize the operation in 2026. We initially project financial operations in uninflated 2020 dollars for the opening year and the stabilized year, then apply an inflation rate of 2.5% to all line items (unless otherwise stated).

The figure below compares inflated projections for the base year before expansion (2023) with projections for a stabilized year of operations (2026).

FIGURE 1-7
COMPARISON OF FINANCIAL PROJECTIONS ($ THOUSANDS)

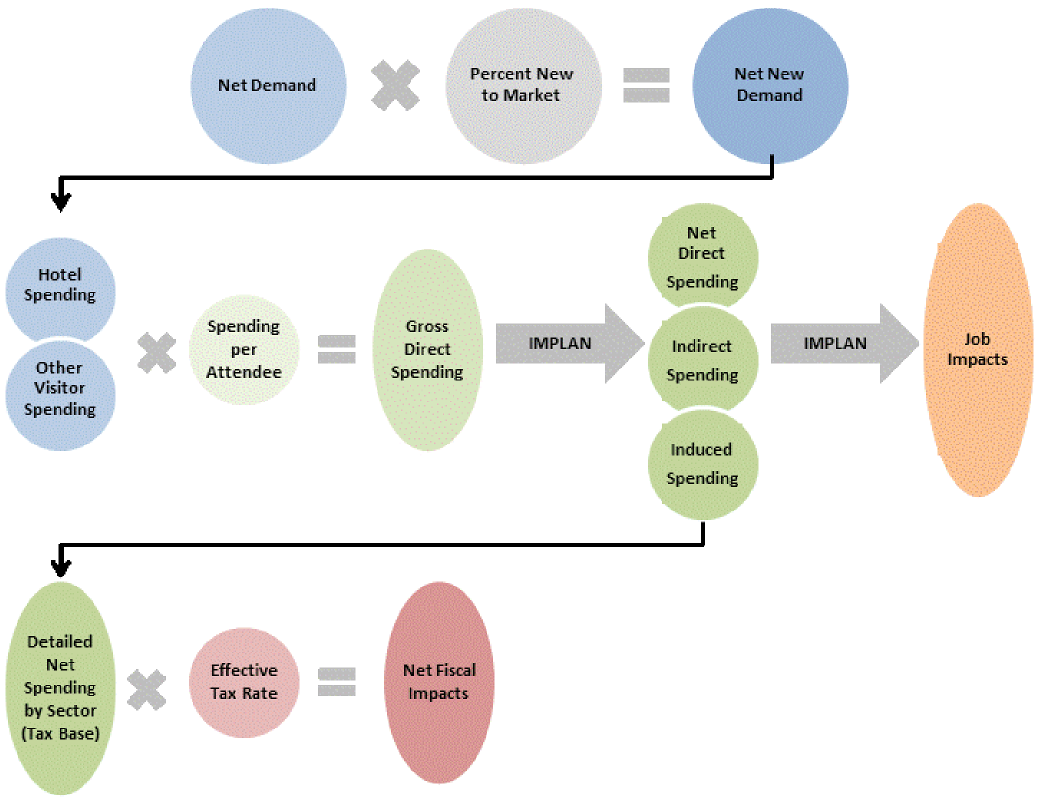
	Base Year		Post Expansion Stabilized Year	
	CY 2023		CY 2026	
	Amount	% Total	Amount	% Total
Revenue				
Facility Rental	$1,564	14%	$2,217	13%
Catering (Gross)	7,686	67%	11,848	68%
Event Services	2,263	20%	3,244	19%
Total Revenue	$11,513	100%	$17,308	100%
Salaries & Wages	$6,127	53%	$7,430	43%
Catering Costs	5,765	50%	8,293	48%
Purchased Services	2,470	21%	3,462	20%
Supplies & Equipment	600	5%	865	5%
Inter-Departmental Expenses	351	3%	519	3%
Total Operating Expense	$15,312	133%	$20,570	119%
NET OPERATING INCOME (LOSS)	($3,799)	-33%	($3,261)	-19%
Fixed Expense				
PILOT/Other	$338	3%	$338	2%
Total Fixed Expense	338	3%	338	2%
Non-Operating Income & Expense				
Transient Occupancy Tax	$4,295	37%	$4,625	27%
Total Non-Operating Income & Expense	$4,295	37%	$4,625	27%
TOTAL NET INCOME (LOSS)	$158	1%	$1,026	6%

HVS intends for financial projections to show the expected levels of revenues and expenses. Projections show smooth growth over time. However, event demand and booking cycles are not always smooth. Unpredictable local and national economic factors can affect business. Event demand is often cyclical, based on rotation patterns and market conditions. Therefore, HVS recommends interpreting the financial projections as a mid-point of a range of possible outcomes and over a multi-year period rather than relying on projections for any one specific year.

Economic Impact Methodology

To estimate the economic impact of the proposed expansion, HVS followed the methodology outlined in the figure below.

FIGURE 1-8
METHODOLOGY FOR ECONOMIC AND FISCAL IMPACT ANALYSIS



HVS identified the new spending that would occur in the local economy due to the proposed renovation and expansion of the MTCC. HVS estimated the amounts of income and employment that new visitors, event organizers, and exhibitors would generate in the City of Madison and the State of Wisconsin. HVS analyzed the economic impact of the MTCC in two scenarios, current MTCC operations and an expanded MTCC, as described in Sections 6, 7, and 8 of this report.

HVS uses estimates of the amounts of spending per visitor or attendee to estimate gross direct spending or income imported into the market. Gross direct spending provides the inputs into the IMPLAN model of the local area economics. IMPLAN then generates estimates of total net spending. Spending falls into three categories: net direct spending, indirect spending, and induced spending. Many refer to indirect and induced impacts as multiplier effects. The sum of direct, indirect, and induced spending estimates make up the total estimated spending impact of the MTCC operations. HVS used the IMPLAN model to estimate the increase in employment associated with the total net spending.

To estimate fiscal impacts, HVS identified the sources of net new spending that would generate tax revenues from Sales & Use Taxes and Lodging Taxes. The detailed outputs of the IMPLAN model quantify the tax base for each tax. We applied the appropriate tax rate to the estimate of spending to generate fiscal impact estimates.

Economic and Fiscal Impact

HVS calculated economic impacts by comparing total spending with an MTCC expansion to total spending with no expansion. The following figure shows the increased net spending in the City of Madison and the State of Wisconsin in a stabilized year.

FIGURE 1-9
SUMMARY OF INCREASE IN ECONOMIC AND FISCAL IMPACTS AFTER EXPANSION

Summary of Impacts*	City of Madison	State of Wisconsin
Economic Impact (thousands)	$32,747	$23,068
Fiscal Impact (thousands)	$481	$1,559
Jobs	290	200

*In a stabilized year.

In a stabilized year, Madison could expect a net spending impact of over $32.7 million, and Wisconsin could expect a net spending impact of $23.1 million. HVS estimates that spending would support approximately 290 full-time equivalent jobs respectively in Madison and 200 full-time equivalent jobs in Wisconsin. Lodging taxes on that increased spending could generate $481,000 in new tax revenue for Madison. Sales taxes on increased spending could generate approximately $1.6 million in new tax revenue for the State of Wisconsin.

COVID-19 Impact

COVID-19, a strain of the coronavirus, was identified in China in December 2019. It has since spread to most countries around the globe. As of this writing, the impact of the virus in the United States has been felt throughout the nation. Federal, state, and local governments, individual corporations, and other institutions have imposed travel restrictions and other safety measures. All 50 states have reported cases of COVID-19, with over 22 states reporting over 100,000 cases, including over 400,000 in Illinois.[1] In some regions of the country, the growth curve of infections, hospitalizations, and deaths has flattened or begun to decline. In contrast, in other regions, the daily reported number of infections has continued to grow. Currently, there is limited insight into how long it will take for the infection

[1] Centers for Disease Control and Prevention, October 30, 2020
https://www.cdc.gov/coronavirus/2019-ncov/cases-updates/cases-in-us.html

rate to decrease to an acceptable level. Growth in testing, improved treatments, and ultimately, a widely available vaccine will be necessary before a return to normalcy.

In addition to the cost of human life, the broader impact of the spread of COVID-19 and the response to it has triggered an unprecedented economic contraction, from which the negative effects are likely to be longer-lived than the virus itself. Starting in April 2020 and continuing through the date of this study, restaurants and entertainment venues, including movie theaters and bowling alleys, have temporarily ceased normal operations or been forced to operate on a limited basis.

Health experts offer a wide range of opinions on how long restrictions on travel or on operations of restaurants and entertainment venues should remain in place. Government responses have varied from state to state and among cities throughout the US. While the short-term impact on the economy is severe, it is difficult to assess the impact on activity and spending, given the lack of understanding of the longer-term impacts of the pandemic.

Ultimately, the impact of the COVID-19 pandemic on the hospitality industry will depend on its course, the extent and duration of travel restrictions, as well as the public's responses to these events. For this study, HVS assumes a gradual easing of travel restrictions and social distancing requirements through the end of the year and the second quarter of 2021.

HVS assumes that the US economy has entered a recession in the second quarter of 2020. HVS analyzed historical data to determine the lengths and patterns of prior recoveries from major economic downturns and based projections on those historical precedents. The recovery from an economic downturn spurred by the COVID-19 pandemic may mirror earlier recovery patterns; however, the rate of recovery for the economy remains unknown. Given the lack of certainty surrounding several key economic variables, HVS projections produced in this report should be considered to reflect assumptions and conditions at the time of the writing.

The time-frame of the projections in this study is beyond the more immediate period of likely impact of the current crisis. Consequently, we have assumed a return to the normal function of the markets by the time the proposed expansion and hotel developments would take place.