



Feasibility Study for a Proposed New Multipurpose Event Venue in Cambridge

Executive Summary

Presented to the:

City of Cambridge
&
Maryland Economic
Development Corporation



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Executive Summary

At the request of the City of Cambridge, the Maryland Economic Development Corporation (MEDCO) retained Conventions, Sports & Leisure International (CSL) to conduct a feasibility analysis of a proposed new multipurpose venue to replace Governor's Hall. This summary highlights the key findings of this research. The full report should be reviewed in its entirety to gain an understanding of the study methods, limitations and implications.

The research conducted as part of this study included an overview of conditions in and around Cambridge, stakeholder interviews and focus groups, a public forum, analysis of historical Governor's Hall operations, an assessment of existing and planned venues within the region that could impact the operations of a new event facility, analysis of comparable facilities nationally, interviews with existing and potential users of event facilities in Cambridge, assessment of cost parameters associated with new facility development, analysis of potential event levels and resulting economic and fiscal impacts, a review of management options, and an analysis of potential sites to be considered for development.

The contents of this study will allow the City of Cambridge and other community leaders/stakeholders to make informed decisions regarding the feasibility of the potential project.

Introduction and Analysis of Local and Regional Market Conditions

As with the existing Governor's Hall, the envisioned venue is intended to act as a year-round, flexible facility capable of hosting a wide variety of community and regional activities that will enhance the quality of life and viability of the Cambridge area, as well as stimulating the regional economy. Based on feedback collected throughout the study process, important goals for the facility include:

- serving as a home for community events;
- promoting visitation/tourism;
- creating opportunities to stimulate business activity;
- fostering an awareness of Cambridge and its offerings;
- minimizing development and operational costs; and
- maximizing the variety and nature of events capable of being hosted in order to optimize utilization.

Cambridge is within relatively close proximity of the greater metropolitan areas of both Baltimore and Washington, D.C. This highly-populated area would, in most cases, be looked at as providing considerable opportunity when it comes to evaluating the potential success of a multipurpose event venue and the possibility of attracting both event producers and related attendees. However, Cambridge's location on the eastern shore of the Chesapeake Bay and approximately 40 miles south of the Chesapeake Bay Bridge's connection to the western shore presents accessibility problems, which could hinder its ability to attract outside interest.

A wide variety of event facilities currently exist both within Cambridge on the eastern shore of Maryland. This inventory of event space can and will have an effect on a potential new venue in Cambridge and has been carefully considered throughout this analysis.

The demographics in the immediate Cambridge area, which can also be an important consideration of event planners/producers, are not particularly robust. Further, the population and average household

income for both the City of Cambridge and Dorchester County do not suggest a large and financially-healthy population.

Analysis of Historical Governor's Hall Operations

Event, event utilization day, occupancy, and attendance data have all remained relatively consistent at Governor's Hall over the past four years, with some metrics experiencing modest increases over the period. In terms of the event-type categories that represent the largest and second-largest proportions of total attendance and total utilization days during the period (festivals and meetings/banquets/reunions), year-over-year growth was seen in nearly every year. This underscores the value of this venue as a community gathering place that will be important to preserve in some fashion going forward.

Occupancy levels, though strong on the weekends, are very low during the week (Monday through Thursday). Such occupancy patterns are often the case with smaller market facilities that serve primarily locally-based events. With that said, whereas Governor's Hall (and likely its potential replacement) seems to have a strong, consistent base of local weekend events, the opportunity going forward lies in the ability of the facility to attract regional events and to increase occupancy during the week.

Comparable Facility Analysis

We have assembled case studies that highlight the operational and physical characteristics among a set of ten existing facilities across the United States that could offer some element of comparable insight with respect to population, facility size and amenities, geographic location and other such characteristics. Through discussions with facility management, data were collected relative to development cost & funding, ownership and operational structure, staffing levels, historical event information, financial operations, square footage/seating capacity, rental rates, recent business trends, market characteristics, expansion and/or improvement plans, hotel inventory, and economic impact and/or area development resulting from the facility. Such information has been critical in our evaluation of the appropriate facility to meet the needs of the Cambridge community, as well as many important operational characteristics that should be expected and planned for.

The amount of total sellable space (exhibit, ballroom and breakout meeting space) offered at the comparable facilities reviewed varies widely, averaging approximately 19,000 square feet. The characteristics and mix of the sellable space offerings within each of these comparable facilities underscores the importance of offering a sufficient square footage and variety of functional facility spaces in an effort to attract and accommodate a wide variety of events.

Market Demand and Event Characteristics Analysis

Detailed in-person and telephone interviews were completed with event promoters and planners representing key market segments that could use a potential new venue in Cambridge, including the following:

- Current/Past Users of Governor's Hall
- Touring Event Promoters
- Public/Consumer Shows
- Cheer and Dance Events/Competitions

- Sporting and Recreational Events
- Other Event Opportunities

The survey results produced a great deal of valuable information on the likelihood of event planners rotating their event(s) to Cambridge, as well as specific event characteristics of those events that represent the potential demand. The information collected as part of this analysis helps to define the strengths, weaknesses and future event potential for a new event facility in Cambridge.

Physical and functional limitations of existing Cambridge area event facilities suggests that some level of event activity produced by local and regional groups may be leaving the community. Comments from event planners that have used and/or considered Governor's Hall in the past suggest a very defining set of attributes that have significantly impacted event activity. The unique physical conditions of the space (including floor size, acoustics, level of finish, ability to etc.), perceived distant location from the Western shore of Maryland, the set of newer and more competitive facility alternatives within the region, and lack of walkable amenities adjacent to the site make attracting some events challenging. However, the multi-use nature of the facility, availability of free parking, the large, open nature of the space and its competitive rental rates have provided opportunities to succeed in a number of event markets.

Aggressive sales efforts could serve to identify unique event opportunities at a new venue. To enhance the event sales and service processes and in order to compete more effectively for added event activity from the segments noted herein, we believe that consideration should be given restructuring the existing Governor's Hall staff to allow for one full-time position dedicated to both generating and servicing new business for the venue.

It is estimated that event activity at a new Cambridge multipurpose event center could reach nearly 80 events and nearly 47,000 attendee days per year during a stabilized year of operation. This compares to an average of nearly 50 annual events and fewer than 36,000 total attendee days at the current Governor's Hall.

Building Program and Construction Cost Analysis

Based on the previous analyses undertaken, key aspects of a market supportable facility program for a potential new Cambridge event facility are presented below.

- Primary Area Square Footage – A minimum flat floor area (when seating is retracted) of 15,000 contiguous square feet. The ability to subdivide this space into a minimum of three sections will be important in an effort to "right size" the venue.
- Secondary Area Square Footage – 2,500 to 3,500 square feet of divisible, breakout meeting space. This space should be divisible into four to six individual rooms of varying sizes.
- Other Support Areas – Sufficient levels of other service and support areas typical in small, multipurpose event facilities (i.e., pre-function, kitchen, lobby, restroom, concession stand, storage, load-in/out and other such space).
- Parking – With a potential capacity for groups of up to 2,000, the recommended parking stall count would be 500 to 700 spaces.

The order-of-magnitude hard construction costs could range between \$4.0 million and \$5.6 million for a new multipurpose events center in Cambridge. It is important to note that these estimates take into account the expected modest level of finish associated with the supportable building program, as well as the lower average construction costs on the eastern shore of Maryland. Soft costs (i.e., financing costs, legal, architectural, consulting, permitting, FF&E, etc.) would be in addition to these estimates, and could

add 20 to 25 percent to total construction costs. As such, the total development costs could approximate between \$4.8 and \$7.0 million. In addition to the estimated hard and soft construction costs, costs associated with land acquisition and improvement, other potential infrastructure improvement costs and potentially annual operating costs will also need to be considered in the ultimate planning scheme, if subsequent planning steps are taken.

A capital improvements budget equal to 0.5 percent of the total construction cost is recommended and could approximate \$24,000 to \$35,000 per year.

Analysis of Financial Operations & Economic/Fiscal Impacts

Historically, Governor's Hall has operated relatively close to break-even over the past several years. In 2010, the venue realized an approximate \$3,600 profit. This grew to nearly \$44,000 in 2011. In 2012, the Board of Directors for Sailwinds of Cambridge LLC opted to financially compensate its primary operational staff (a total of \$39,500), which resulted in an operating loss of nearly \$11,000.

In the case that the current venue was to continue to operate in the future, similar financial operating results could be expected going forward.

Upon a stabilized year of operation (assumed to occur the fifth full year), a new multipurpose event facility in Cambridge is estimated to generate an operating deficit of approximately \$62,400 per annum (in 2013 dollars). This figure only represents the annual operations of the center and does not include debt service payments, capital repair/replacement reserve funding obligations or other non-operating expenses. This type of operating loss is consistent with comparable multipurpose event facilities throughout the country.

The estimated total annual direct spending associated with the existing Governor's Hall has ranged from \$506,000 to \$771,000, averaging more than \$711,000 over the past four years. Of this total, it is estimated that approximately 75 percent of facility-related spending is generated by non-local event attendees (both drive-in and overnight visitors).

Direct spending associated with a potential new Cambridge event facility could approximate \$899,000 in a stabilized year of operations in 2013 dollars. This growth represents an increase of more than 26 percent over what Governor's Hall is currently generating in terms of direct spending associated with event activity.

Operations of the existing Governor's Hall currently result in an estimated \$950,000 in total output. If Governor's Hall were to continue to operate in the future, similar impacts could be expected. This estimated level of annual direct spending associated with a stabilized year of operations for a new multipurpose event facility in Cambridge could generate approximately \$1.23 million in total output (total direct, indirect and induced spending). The premium in economic impact associated with a new venue can be largely attributed to its increased ability to attract and retain a greater number and proportion of events, many of which could have some level of out-of-town attendance.

Total salaries and wages that could be supported by the amount of spending generated by the operations of a new event venue in Cambridge are estimated at approximately \$390,000 annually, while full and part-time employment levels supported by this level of spending are estimated at 16 total primary and secondary positions.

The estimated total annual tax impact (including state and local sales and hotel/motel taxes) of Governor's Hall has averaged approximately \$53,000 over the past four years. Given the event levels and associated impacts estimated to take place assuming new multipurpose event center development, total tax collections could increase to more than \$68,000 during a stabilized year of operations (in 2013 dollars).

It is estimated that a new multipurpose event center could generate total State of Maryland tax collections (from both direct and indirect spending) of nearly \$50,000 annually, representing nearly 73 percent of total taxes generated. It should be noted that some element of displacement of event activity within the State could reduce these impacts. For example, if an event is attracted to Cambridge that otherwise would have booked in state, there would be no net new impact to the State.

Management Structure Analysis

Governor's Hall is currently owned and operated by an independent, non-profit organization (Sailwinds of Cambridge, LLC). Sailwinds of Cambridge, LLC operates under the oversight of a seven-member volunteer Board of Directors. Facility management has been effective in operating the facility with very little financial or other support from the public or private sectors. Governor's Hall has experienced very modest levels of facility improvements/enhancements in recent years and has operated with minimal staffing/support. Both revenues and expenses associated with Governor's Hall operations are low relative to industry standards.

Similar to the majority of comparable multipurpose event facilities located in small communities throughout the country, it is recommended that oversight/control for a potential new Cambridge event facility is handled by city/county or other municipal/regional governmental body.

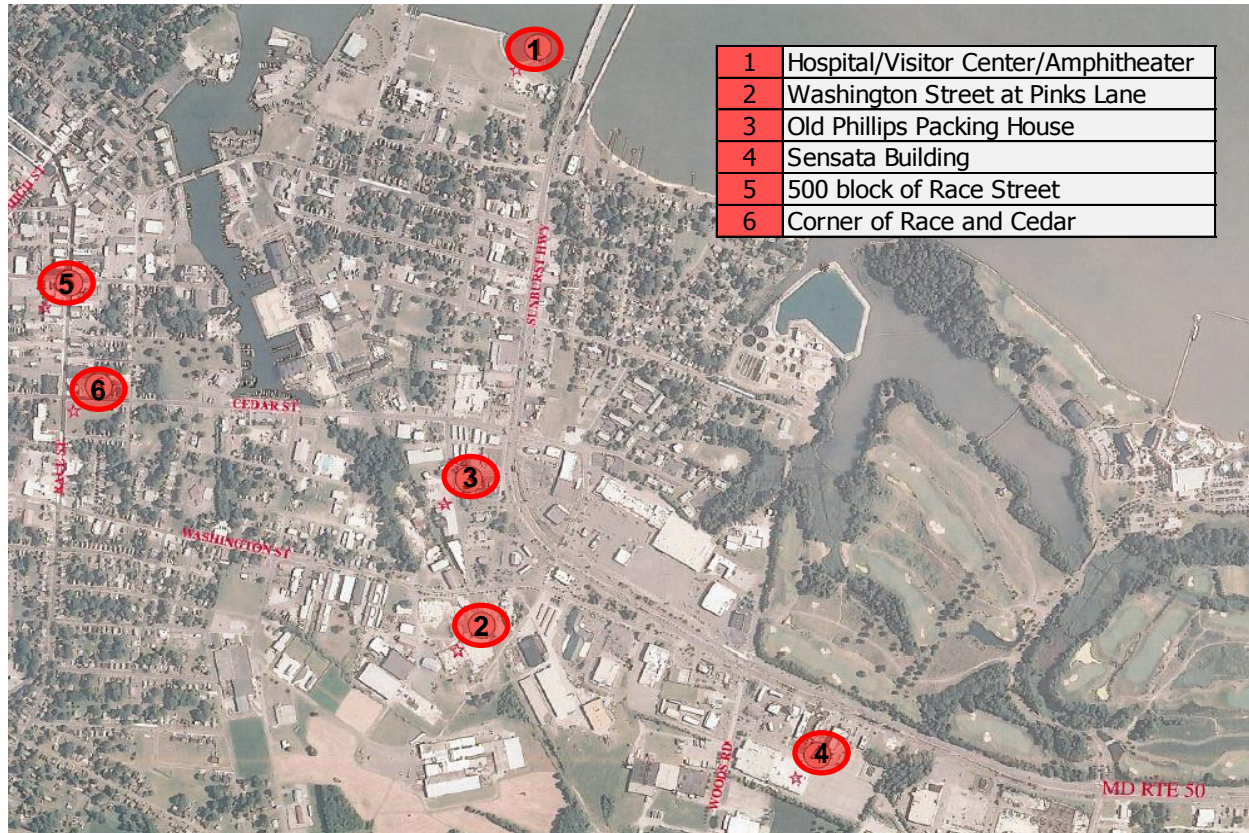
Given the relatively low operating revenue profile of a potential Cambridge facility, the importance of both local and non-local events and the likely interest and management fees that a potential private operator might require, it is suggested that a new multipurpose event facility be operated internally. We suggest that an individual with a minimum of several years of civic/event center management be retained to serve as the facility's general manager. Such a position could include a shifting of current Governor's Hall staff to the new facility. If Sailwinds of Cambridge, LLC were to continue to operate a new event facility in Cambridge, we suggest that the City of Cambridge play an increased role in facility oversight (perhaps through a City-appointed Board of Directors that seeks involvement and support from a wide variety of industry sectors and project stakeholders).

A significant amount of time and effort will be needed to make a new event facility in Cambridge successful. As discussed earlier in this report, regarding sales staff, we recommend a change in current approach, which may require hiring for a dedicated, full-time sales and service position. Specific tactics that should be employed relative to selling a new venue include close contact with key promoters, outreach to local institutions, targeting events from competitive facility calendars, and evaluating a revision to the pricing structure.

Site/Location Analysis

The location and site of an event facility can have a significant impact on its operational success and its ability to generate new visitation and associated economic impact in a host community.

In coordination with City representatives and project leaders, a total of six potential site areas throughout the Cambridge market were identified for evaluation. These include the following:



A large number of characteristics and factors are typically important when evaluating the attractiveness of sites/locations. To assist in the evaluation of each of the potential sites, a set of ten specific site evaluation criteria were employed:

- Size, Configuration and Topography
- Infrastructure/Site Condition
- Future Expansion Potential
- Parking Availability
- Traffic Access
- Visibility from Major Roadways
- Hotel Rooms Within Walking Distance
- Restaurants, Attractions, Entertainment & Leisure
- Synergy with Surroundings/Setting
- Economic Development Potential

Based on these factors, each of the potential sites was analyzed using a site evaluation matrix. This evaluation process incorporates the strengths and weaknesses of each site under consideration for each criterion deemed important for the project.

Relative to other sites, Site 1 (Hospital/Visitor Center/Amphitheater) offers the most desired combination of characteristics related to site suitability. For purposes of this analysis, we have assumed a full build out of the proposed waterfront development initiative discussed earlier in this report. This location outperformed other sites due to its proximity to the waterfront and amphitheater, as well as the planned mix and concentration of traditional visitor amenities that event planners and attendees often find attractive (such as restaurants, bars, retail, entertainment and hotel rooms,—all within a “pedestrian-friendly” walking environment). Other potential sites represent viable options as well. In particular, Site 2 and Site 6 should also be considered as alternatives, as project planning moves forward.