

# **Metropolitan Pier and Exposition Authority**

Interim Board Report  
Findings and Recommendations  
April 29, 2010

At a Tipping Point

**CHICAGO'S McCORMICK PLACE**

A Report by the  
Interim Board of the  
Metropolitan Pier & Exposition Authority  
April 29, 2010



## MPEA INTERIM BOARD OF DIRECTORS

### **STRATEGIC INFLECTION POINT**

“...a time in the life of a business when its fundamentals are about to change. The change can mean an opportunity to rise to new heights. But it may just as likely signal the beginning of the end.”

**Andrew S. Grove**  
**Intel’s Founder & CEO**

“Convention business in Chicago is at a crossroads. We can do what it takes...to modernize our business model and create new jobs and growth. Or, we can continue to operate at a competitive disadvantage and watch the steady decline of one of our state’s most important economic resources.”

**John S. Gates Jr.**  
**MPEA Interim Board Chairman**

If McCormick Place doesn’t get competitive, Chicago will become the Detroit of the Convention Business.

**C. W. Johnson**  
**Industry Expert**



## **MPEA INTERIM BOARD OF DIRECTORS**

### **MPEA INTERIM BOARD MEMBERS**

**April, 2010**

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## **MPEA INTERIM BOARD OF DIRECTORS**

# **MPEA INTERIM BOARD REPORT**

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## **MPEA INTERIM BOARD OF DIRECTORS**

### **EXECUTIVE SUMMARY**

As Chairman, I first want to thank the members of the MPEA Interim Board and MPEA staff for their tireless work and commitment through days of marathon meetings and in-depth analyses of all the critical issues that must be addressed to keep Chicago the premier destination for conventions and shows.

As you know, the General Assembly established the Interim Board to conduct a comprehensive review and analysis of McCormick Place operations and report findings and recommendations to the Joint Legislative Committee on the Metropolitan Pier & Exposition Authority. That phase of our work has concluded and the Board hereby submits its report to the Joint Committee today.

The recommendations are sweeping, and they are bold. They are also absolutely necessary to retain and create jobs and investment in Illinois and stay competitive in the industry.

The Interim Board established the following Guiding Principles to govern MPEA moving forward:

- Compete for and win every trade show and convention that would have a positive economic impact in Illinois.
- Make McCormick Place the high-quality/low-cost option for every show.
- Listen to customers and deliver what they ask for.
- Base each McCormick Place convention center decision on total cost vs. economic gain to the region.

The “second opinion” provided to this board has been extremely valuable as we strive to institute meaningful and lasting reform, balance the interests of all stakeholders, and clearly lay out the critical issues we must address. The findings and the recommendations of the board were informed by independent analyses by PricewaterhouseCooper LLP and C.H. Johnson Consulting, Inc., bench marking our performance and operations against competing venues and providing an in-depth review of our financial structure. The findings and recommendations of the Interim Board comports with their analysis and counsel.

The report contains urgent recommendations to put customers first. We have addressed four critical areas for reform: Debt Restructuring, Focus One (our in-house electrical provider) and Food Services, Labor Relations and Exhibitor Rights, and Sales and Marketing.



## **MPEA INTERIM BOARD OF DIRECTORS**

### **Interim MPEA Board Recommendations**

#### **Debt Restructuring**

Restructure the MPEA capital debt, replacing a debt service deficit (caused by decreasing tax revenue) to a \$25 to \$50 million surplus.

To be completely clear: We are not recommending new tax revenues or operating subsidies for McCormick Place. Our approach is to reallocate projected savings from debt restructuring to cut our costs to customers and balance our budget, as required by law.

Our work has been guided by the principle that we must deliver what the customer wants. These are workable and absolutely necessary solutions to address customer concerns and emerge stronger and more competitive than ever before.

#### **Focus One**

Close Focus One, our current in-house electrical and utility service provider, as soon as practicable and get McCormick Place out of the utility service business. All customers will bid such functions to outside electrical contractors. No markup of any kind by MPEA.

#### **Food Service**

Reduce MPEA cost profit margins to zero. Allow exhibitors to order packaged food from restaurants and other outside caterers.

#### **Labor – Exhibitor Rights**

- Make show labor public employees of MPEA to cancel all show labor contracts which are currently set between private contractors and labor unions. In turn, enter into new contracts between MPEA and the unions which will provide the fresh start we need to bring our work rules into alignment with our competition and protect 65,000 jobs and \$8 billion in spending.
- Establish one Move-in/Move-out labor bargaining unit, one Assembly/Disassembly bargaining unit, and one Electrical/Production bargaining unit.
- Give MPEA substantial control over work rules, jurisdictions, methods, means and personnel, subject to impact bargaining.
- Provide “exhibitor rights” that match those in competing destinations.
- Give MPEA the right to review and verify contractor billing statements to ensure that labor costs are accurately represented and passed through to shows and exhibitors and make savings transparent to customers.



## **MPEA INTERIM BOARD OF DIRECTORS**

### **Sales and Marketing**

To achieve a higher level of sales effectiveness and accountability, the Board recommends that any convention-related marketing funds from the State of Illinois or the City of Chicago be redirected to MPEA. MPEA would then develop a new sales and marketing effort exclusively focused on attracting business to McCormick Place.

### **MPEA COST CONTROL MEASURES**

During the current year MPEA management has made tremendous progress on cost savings issues it can control, by streamlining its operations and aggressively cutting expenses. As a result we have cut our overall spending by 20 percent through the following efforts:

- We have completed a reduction of our full-time workforce by 20%.
- We have implemented a two-tiered pension plan in 2009. New employees hired after July 1, 2009 can enroll in a “401k” type plan. We are the first major government agency to implement a two-tiered pension plan.
- We have frozen staff salaries for the past two years, while instructing staff at all levels to take 12 furlough days and two unpaid holidays during this fiscal year.
- In the next year’s budget we will continue its work to implement cost savings by scaling back Lakeside Center use, and structuring operations more economically including Security, Property Management, Focus One and Food Services.
- We also plan to realize more savings in the central office.

The Board also intends to continue to develop the revenue potentials of the Lakeside Center, the McCormick Place Hyatt Hotel and the Energy Center

We also plan to conduct a strategic analysis of Navy Pier to develop the venue within the next three to five years as a major international tourist destination and generate new revenue.

MPEA cannot alone resolve the challenges facing our industry or make the reforms we must to protect and grow jobs and advance the economic vitality of our state.

We now turn to the General Assembly to enact the reforms Illinois needs. The time to act is now.





## MPEA INTERIM BOARD OF DIRECTORS



### INTRODUCTION

#### **REPORT'S PURPOSE**

The purpose of this report is to present an examination of the issues and causes that has brought into question McCormick Place's competitiveness in the exhibition industry. The report has one singular focus....the presentation of recommendations to the Illinois General Assembly that will quickly restore Chicago's McCormick Place as this nation's leading convention center.

The Metropolitan Pier & Exposition Authority (MPEA) Interim Board of Directors, created in the wake of the McCormick Place crisis, was charged by the Legislature's leadership to present recommendations for corrective action by April 30th of this year. The Board first convened on April 6th and immediately embarked on a concentrated analysis of the key issues surrounding the controversy. The principal topics of that review are presented below followed by the Board's recommendations in Section 3.

It should be recognized that the Board conducted nearly all aspects of its review in open session, accessible to the press and public. In the spirit of transparency, it was the Board's belief that the public should hear what it would hear, the questions asked, and its deliberations to find solutions.

By doing so, it is the Board's hope that this process will lend weight to the recommendations it makes to the Legislature.

\* Throughout the report references are made to MPEA when discussing McCormick Place. MPEA is the public authority that manages McCormick Place and Navy Pier.



## MPEA INTERIM BOARD OF DIRECTORS

### SUBJECT MATTER ANALYSIS

- The current crisis at MPEA - How did we get here?
- Why now?
- How did MPEA respond?
- An examination of McCormick Place's current business model.
- The current nature of the convention & exhibition industry.
- Chicago's competitive position compared to other major convention centers.
- The status and correction of MPEA's financial position.
- Necessity of MPEA'S Debit Restructuring.
- Easing of MPEA's use of State funds for bond payments.
- Necessity of operating revenues, similar to other cities, to enable MPEA to lower customer costs and be more competitive.
- Reconciling Exhibitor expectations (costs & service levels experienced in other cities) with McCormick Place's labor & cost practices.
- Labor rates, work rules & jurisdictions.
- McCormick Place's overhead markups for labor & food services.
- General Contractor's markups & profits.
- The strengths & weaknesses of MPEA's sales and marketing model.
- Governance: The alignment of MPEA's Board and Management to maximize positive results and enhance accountability.





## MPEA INTERIM BOARD OF DIRECTORS

### HOW WE GOT HERE

“The reality is, Chicago is among the top quality convention locations in the United States – it can deliver the attendees and exhibitors perhaps better than any city to make shows successful. It has the best labor – it can build anything of any size, anytime. It has the biggest and best quality facilities. So what are the issues?”

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So begins the analysis of C.H. Johnson Consulting, Inc., one MPEA’s consultants hired to examine primarily labor issues at McCormick Place. But the point is well made, Chicago remains a primary destination for conventions and exhibitions and McCormick Place is acknowledged for the quality of its facilities and the skills of its work force. If this description of McCormick Place is true; then why the sudden crisis of major shows departing Chicago-- others threatening to follow?

As this review of the last six months begins, it is first important to note the purpose of the over 7.7 million sq. ft. of exhibit space and meeting rooms making up the McCormick Place complex. Simply put, McCormick Place has been a highly successful economic engine for the economy of the City of Chicago and the State of Illinois. And, convention shows are critical to Chicago's and the State's economy. According to the Chicago Convention and Tourist Bureau (CCTB), in 2008, Chicago conventions generated 45.6 visitors who spent an estimated \$11.8 billion in Chicago, generating \$656 million in tax revenue and supporting 65,000 jobs.

Yet, for all its past success, it is becoming evident that under its traditional and current business model, McCormick Place can no longer effectively compete in the convention and exhibition industry.

### CURRENT BUSINESS MODEL

In its time, the existing model worked. Chicago's geographic location and role as a transportation hub made Chicago a favored destination point for exhibitors and attendees. McCormick Place had the best facilities to handle the big shows that were prevalent in the industry at the time.

Its labor was acknowledged as being among the best in the industry, and still is. It is little known that Chicago's labor is regularly "imported" by shows in other cities because of their specialized skills.

#### • Self-Sustaining

Further, McCormick Place was "self-sustaining", meaning that it raised its own revenues to cover operations. McCormick Place was



## MPEA INTERIM BOARD OF DIRECTORS

### CURRENT BUSINESS MODEL (cont.)

most successful with its adoption of an "entrepreneurial" model in raising revenues to cover operation expenses. Its principal revenue generators were its Hyatt Hotel, the Energy Center, profit mark ups on Focus One labor and food. Their success minimized the need to charge large markups on hall rental and other services. Overall this benefited tax payers since there was no need to underwrite operations through government subsidies.

With its advantages of location, facilities and highly skilled labor, few cities could effectively compete with McCormick Place. For years, McCormick Place was a highly successful convention facility fulfilling its role in generating business and jobs for Chicago's hospitality industry.

However, since the events of 9-11, the convention industry has embarked on a paradigm change that continues to this day and has made the McCormick Place model *unsustainable*.

### PARADIGM CHANGE

The economic downturn caused by the events of 9-11 resulted in shows downsizing as exhibitors cut back in the face of fewer attendees. Competition increased as other cities expanded their convention capacities, exploited their own advantages and heavily invested in their marketing and sales.

Las Vegas and Orlando began to dominate the industry with their offerings of gambling, entertainment and sunshine. The availability of smaller shows prompted the market entry of formerly regional convention centers such as Atlanta, Houston, Denver and San Diego.

Critical to McCormick Place, most of its major competitors reside in "right to work" states. This makes their labor costs cheaper than Chicago's. It also allows them the agility to meet changing exhibitor demands regarding work rules.

Chicago's competitors also benefited from substantial government funding. Recognizing the tremendous economic benefits derived from convention shows, nearly all of Chicago's competing venues receive subsidies equating to 20-to-30 percent of their annual operating budget.

The end result of these events meant that Chicago's competitors could offer lower prices (and more profits) to owner, general contractors, exhibitors and attendees. Cost conscious customers were now driving the industry.

Chicago lacked the agility to adapt to the new market demands. McCormick Place began a multi-year decline in market share.



## MPEA INTERIM BOARD OF DIRECTORS

### SINCE 9-11

The current economic recession has only amplified McCormick Place's difficulties by turning what were once advantages into competitive drags--

- its hotel that once generously contributed large percentages of operating revenue is now reporting losses.
- its profits on labor and food, also a key source of operating revenues, are "cost determinates" of whether or not shows book at McCormick Place.
- its skilled labor with its pre-existing rules and jurisdictions became a barrier to meet customer demands (exhibitor rights) for greater flexibility on the show floor...and, significantly, an additional cost factor for customers.
- its operational "self-sustainability", once a plus for Illinois tax payers, is no match compared to the ability of other cities to out-market and under-price Chicago because of their of government subsidies.

dedicated tax collections, used to pay MPEA's past expansion bonds, are substantially down...this has necessitated having to draw down from scarce State funds to meet debt payments. MPEA lacks the authority to "restructure" its debt.

### COST CUTTING MEASURES

In the face of the new market conditions, McCormick Place responded within the constraints of its current business model but it continued to lose market share.

Required by law to present an annual balanced three-year budget, McCormick Place could not abandon its revenue generating profit centers. Therefore it marginalized any "cost saving" offerings to its customers to retain or secure new business.

With a budget deficit growing to \$28 million, to bring down operating costs, MPEA, instituted a series of cost cutting measures. These have included an over 20% reduction in its labor force, service cuts, important building maintenance projects were deferred and contract cancellations were re-bid for more favorable pricing. (A complete Listing of MPEA's Cost Cutting measures is provided on Page XX.) While substantive and important, these cuts are defensive in nature and cannot be considered as providing a competitive advantage.





## MPEA INTERIM BOARD OF DIRECTORS

- **Labor Costs**

Labor changes to meet customer demands for exhibitor rights have also proved to be out of McCormick Place's direct control. Labor and show general managers have been engaged in constant negotiations that have not resulted in satisfactory change. This inability to change work rules and jurisdictions would later prove to be a major source of discontent among McCormick Place customers.

- **Sales Incentive Fund**

Even a generous \$10 million dollar sales "incentive" fund provided by the State did not help. The conditions of the "incentive" fund proved to be too restrictive since it could only be used to attract "new" shows of over 10,000 attendees. It could not be used to "retain" shows that have the option to leave Chicago for other low cost cities. Since McCormick Place primarily competes for a small defined list of large shows, most of whom have been past Chicago customers, the incentive fund is ineffective in retaining this key market segment. In addition, the pay process is complex and cumbersome. McCormick Place is paid in arrears, carrying the expense into the next fiscal year before the legislature approves payment.

### MAJOR SHOWS DEPART

A strategic inflection point was reached in November 2009 when two major shows announced they were departing Chicago.

First, the Healthcare Information and Management Systems show announced its departure to Las Vegas representing a loss of 28,000 visitors and \$52 million to the local economy. Second, the International Plastics Exposition show a \$95.3 million trade giant selected to move to Orlando. Through its move to Orlando, Plastics said it expects to realize up to \$20 million in saving for exhibitors and attendees.

In each instance, the shows cited Chicago's high costs and restrictive labor conditions as the reasons for their departure. Together the loss of the multi-year shows total more than \$245 million in future spending for the local economy.

- **Demands to Cut Costs**

Soon other major shows made it known that they were re-evaluating their Chicago commitments. The International Home & Housewares Show said, "...our board members are critically concerned about the costs relating to labor, food and the operational aspects involved in exhibiting or attending our show at McCormick Place." Housewares further added that it is considering Las Vegas or Orlando for 2012 unless Chicago and the State of Illinois push to cut trade show costs.

Housewares draws 60,000 attendees and generates an estimated \$75



## MPEA INTERIM BOARD OF DIRECTORS

- **Governors and Mayor Respond**

million in local spending for Chicago.

Along with critical examples of high labor costs, a local TV news story highlighted McCormick Place's food costs through an example of a \$345 charge for four cases of Pepsi delivered to the show floor.

With so much at stake, on 1-11-10 Governor Quinn and Mayor Daley announced support for legislation to reform labor rules and contractor practices at McCormick Place. MPEA's Chairman John S. Gates, Jr. declared, "Convention business in Chicago is at a crossroads...We can do what it takes, pass this legislation to modernize our business model, create new jobs and growth, or we can continue to operate at a competitive disadvantage and watch the steady decline of our state's most important economic resources."

- **New MPEA Board Created**

Rather than consider the bill, the Legislature decided to conduct its own inquiry into MPEA's difficulties. It began by replacing the existing thirteen member MPEA Board and creating a seven member interim board. Legislative leaders then instructed the Interim Board to submit its recommendations to the Legislature.

It further created a 16-member Joint House and Senate panel to examine issues surrounding MPEA and make its own recommendations to the General Assembly by April 30, 2010. House leadership expressed confidence that a McCormick Place reform measure could be passed before adjournment on May 7, 2010.

- **Legislative Hearings**

The committee held hearings in early April and heard from all sides of the issue. Among the examples cited of high labor costs and abuses...

"We've gone from complaints about labor costs to anger and demand for change", said Chris Price of Graphic Arts Show Co.

- **Labor & Food Costs**

The National Restaurant Association (NRA), the city's most well known show made similar comments to the legislative panel. "It's not only pricing but also the hassle factor (referring to labor practices)" said Mary Pat Heftman, Executive Vice President of Convention, of the NRA.

Shows contractors contended that local work rules can cost a show \$1.6 million in McCormick Place compared to \$552,000 in Orlando. Some suggested eliminating Focus One, MPEA's unit that provides exhibitors with electrical, plumbing, telecom and Internet service inside the convention center.

Labor leaders responded by citing markups by show general managers in excess of 30-to-40% as the cause of high exhibitor bills. Tony



## MPEA INTERIM BOARD OF DIRECTORS

### • Show Owners Expect Action

DeGrado, president of Local 17 of the United Steelworkers, said exhibitor costs are driven up by markups charged by the biggest show contractors, Freeman Co. and Global Experience Specialist Inc. (GES)

The five unions working at McCormick Place, the riggers, carpenters, United Steel workers Local 17(Decorators Union), IBEW 134 and Teamsters 727, previously have called for reforms that included two provisions:

A customer bill of rights that clearly delineates standards by which labor and management must work with the customers to maximize their satisfaction with doing business at McCormick Place.

Audits of charges and fees that would make clear what costs or savings are, in fact, passed along to the customers.

Show owners made clear their expectations that legislative reform had to happen soon or they would take their business elsewhere. The Chicago Convention & Tourism Bureau's (CCTB) President and CEO Tim Roby said that if the Legislature takes no action during its spring session, "at least five and as many as twenty shows will announce they are leaving."

This set the stage for the MPEA Interim Board's deliberations and recommendations.

### NEW MPEA BOARD

As previously noted, the MPEA Interim Board first convened on April 6, 2010. Then it embarked on a high speed schedule of meetings to prepare recommendations to submit to the Joint Committee on MPEA. It adopted a set of operating principals to guide their deliberations and the formulation of its recommendations. Those recommendations were submitted to the Joint Committee on the 21<sup>st</sup> of April, 2010.

### Basis of Our Recommendations

We suppose that logic could question the soundness of recommendations made by a body that first convened just twenty-two days ago. In fact our work is founded on the expertise and insights of MPEA Board members (past and present); MPEA's customers, labor leaders, convention industry experts and MPEA's own professional staff.

Similar to the challenges that we now face, some of the solutions we propose in our recommendations have been well-known for years. For other, it has required the present crisis to bring forward leadership, the setting aside of obsolete practices, and the development of new business models.

In the final analysis, we stand confident that the recommendations we





## MPEA INTERIM BOARD OF DIRECTORS

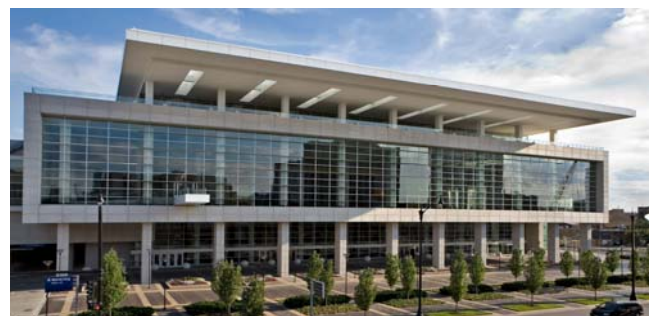
offer will prove real solutions for McCormick Place.

### **An Appeal To the Future**

The recommendations we put forward today and the solutions the General Assembly formulates in the weeks ahead...can not just deal with the issues of the here and now, as difficult as they might seem. The McCormick Place that emerges from the anticipated legislation must be one that combines financial capacity with business agility to adjust in the future to rapidly changing market conditions; not just to survive but to lead.

Throughout the history of Illinois and Chicago, we have been blessed with political and business leaders who have had the vision to build a great center of commerce from a small cross roads trading village... and the courage to propose, more than half a century ago, the construction of what is today, unquestionably, the finest convention complex in the nation.

As we address today's problems facing McCormick Place, we too must look beyond the horizon and build a legacy based on vision and courage.





**MPEA INTERIM BOARD OF DIRECTORS**

**METROPOLITAN PIER AND EXPOSITION AUTHORITY  
INTERIM BOARD OF DIRECTORS**

**DRAFT & CONFIDENTIAL**

**REPORT TO THE**

**JOINT COMMITTEE**

**ON THE**

**METROPOLITAN PIER AND EXPOSITION AUTHORITY  
ILLINOIS GENERAL ASSEMBLY**

**April 21, 2010**



## **MPEA INTERIM BOARD OF DIRECTORS**

### **GOVERNING PRINCIPALS**

- ♦ Compete for and win every trade show and convention that would have a positive economic impact in Illinois.
- ♦ Make McCormick Place the high quality/low cost option for every show.
- ♦ Listen to Customers and deliver what they ask for.
- ♦ Base each McCormick Place convention center decision on total cost versus economic gain to the region.
- ♦ Make McCormick Place a low cost center, not a profit center.



## MPEA INTERIM BOARD OF DIRECTORS

### DEBT RESTRUCTURING

**FINDINGS:** The issue of paramount importance which the General Assembly must address is the restructuring of MPEA's debt. This Board is encouraged that the leadership is now addressing an issue whose solution can dramatically improve MPEA's ability to compete with other major convention centers without having to further draw upon the State's General Revenue funds.

- The Authority's tax collections, which support the Authority's debt, declined in the aftermath of 9/11 and have further declined due to the current national economic crisis.
- State sales tax funds were drawn on the last two years to support the Authority's Capital Expansion debt. Without restructuring, such draws will continue for the foreseeable future, totaling as much as \$800 million.
- Our consultant's report verifies that all our major competitors receive direct government subsidies for marketing and operations. Without an operating subsidy, MPEA has had to generate operating funds by charging our customers higher prices for labor and food. This is a principal reason why MPEA has lost its competitive edge.
- Without access to capital, MPEA has been unable to develop projects that would generate operating income to relieve competitive pressure in the convention business.

**RECOMMENDATIONS:** The Board recommends that the Illinois General Assembly restructure MPEA's debt as follows:

- Increasing Maximum Deposit Amounts in the outer years in steps to \$350 million and allow refunding bonds to extend to 40 years
- Extending the \$31.7 million Dedicated State Tax revenues through FY2032 (or shorter if MPEA tax collections reach \$350 million sooner)
- Extending MPEA taxes and Max Deposit Amounts 50 years (to FY2060) with 40-year bonding authorization (FY2050 initially with annual extensions)
- Increasing initial par value limit for MPEA Expansion debt to \$2.8 billion
- Repaying of any future draws on the State sales tax backup given 1<sup>st</sup> priority claim on new debt capacity created by the annual extension of Authority taxes
- This restructuring will eliminate a projected draw against the State's sales tax of approximately \$40 million; we recommend directing \$20-to-\$25 million of that amount to MPEA's annual operating fund.

Pursuing this course of action would result in MPEA not having to draw on the State's General Revenue Fund. Of equal importance, having surplus tax revenues that can be used for operations, will allow MPEA to lower its customer costs thereby immediately making it more competitive.



## **MPEA INTERIM BOARD OF DIRECTORS**

### **FOCUS ONE & FOOD SERVICE**

**FINDINGS:** To annually balance its operating budget, MPEA uses profits generated from Focus One\* and its Food Service contract to offset other operating expenses. This has led to utility and food service charges that are significantly higher than experienced by our customers at other venues. To offset customer dissatisfaction, it is imperative that profit margins in Focus One and Food Service operations be eliminated to make MPEA cost competitive. This, however, will decrease operating revenues and create a serious additional operating loss. This Board will be analyzing significant additional cost reductions to help make up that operating loss.

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\* Focus One is responsible for the delivery of all utility services (electrical, plumbing, telecommunications, and internet) on the show floor.

**RECOMMENDATIONS:** The governing principal for this Board is to maximize customer satisfaction by eliminating sources of dissatisfaction that drives business away. If provided with a sufficient operating fund, the MPEA Board will immediately direct the following:

#### **Focus One**

Close Focus One as soon as practicable. Get out of the utility service business. Henceforth, all customers will bid such functions to outside electrical contractors.

#### **Food Service**

MPEA is prepared to cancel the existing food services contract and is preparing a new RFP on a fixed fee for service basis, which would allow MPEA to control pricing, quality and reduce its profit margin to zero.

MPEA will allow show organizers to permit exhibitors to order packaged food from restaurants and other outside caterers.



## MPEA INTERIM BOARD OF DIRECTORS

### LABOR – EXHIBITOR RIGHTS

**FINDINGS:** MPEA is recognized as having some of the best labor talent in the convention industry. However, multiple labor jurisdictions and inefficient work rules & labor practices put MPEA at a significant competitive and cost disadvantage compared to other convention centers. In addition, these practices increase the much publicized ‘hassle-factor’ for exhibitors and show organizers operating at McCormick Place. Some key customers have clearly stated their expectations of immediate change or MPEA will face the departure of their business. \* It should be recognized that negotiations have been on-going for some time between labor and show general contractors. While some concessions have been reached, they have not been near sufficient to put McCormick Place on a level playing field with our competitors.

#### **RECOMMENDATIONS:**

The Board recommends comprehensive labor reform whose major features include:

- Restructure existing labor contracts
  - MPEA becomes ‘Public Employer’ directly employing labor with right to contract out the administration of its employees
  - Strikes prohibited – interest arbitration only
  - One Move-In/Move-Out unit, one Assemble/Disassemble unit and one Electrical/Production unit
  - MPEA given substantial control over work rules, jurisdictions, methods, means, personnel, subject to impact bargaining
  - Combining the function of the International Alliance of Theatrical and Stage Employees (IATSE) with the electricians for purposes of stage productions and similar work as required to attract shows like Microsoft
- MPEA given right to review & verify contractor billing statements to ensure that labor costs are accurately represented and passed through to shows/exhibitors
- Provide the kind of “exhibitor rights” that customers experience in other convention centers.
- The resulting cost savings should clearly be identified and transparently communicated to all show managers, exhibitors, and other customers.

\* Statements derived from testimony before a legislative panel by the International Housewares Association, National Restaurant Association, and Graphic Arts Show Co.



## **MPEA INTERIM BOARD OF DIRECTORS**

### **SALES & MARKETING**

**FINDING:** The sales effort to attract shows to McCormick Place is divided between McCormick Place's internal sales staff and the Chicago Convention and Tourism Bureau (CCTB), an independent organization reporting to its own Board. For convention sales of McCormick Place, this structure is inefficient and lacks clear lines of responsibility. Although MPEA pays CCTB an annual base and incentive fee of \$1.5 million, CCTB also maintains sales responsibility for other city hotels and venues who compete with MPEA for business. For its convention and Chicago destination marketing, the CCTB receives funding directly from the State of Illinois and the City of Chicago.

**RECOMMENDATIONS:** To achieve a higher level of sales effectiveness and accountability, the Board recommends that any convention-related marketing funds from the State or the City be re-directed to MPEA. Then, MPEA would develop a new sales & marketing effort that is exclusively focused on attracting business to McCormick Place.



## MPEA INTERIM BOARD OF DIRECTORS

### GOVERNANCE

**FINDING:** The reporting relationship between the MPEA Board and the CEO is convoluted. Although at the present, this structure has been made to work, in the past it has led to well below optimal leadership, decision-making, strategic thinking and execution. This could occur again in the future.

Further, it has become evident that the business and future prospects of McCormick Place and Navy Pier have diverged significantly. They are in fact two distinct institutions, McCormick Place in the convention & exhibition business; and, Navy Pier focused on the retail, tourism, and entertainment business. The divergent character of these two institutions is not adequately served by the current governing structure. The interim board is in the process of developing a new strategic plan for Navy Pier as a major international tourist destination for Chicago. When formulated, the interim board will likely recommend a new governance structure for Navy Pier.

**RECOMMENDATION:** The interim MPEA Board did not recommend specific actions to be taken.





## MPEA INTERIM BOARD OF DIRECTORS

### Debt Restructuring

**FINDINGS:** The issue of paramount importance which the General Assembly must address is the restructuring of MPEA's debt. This Board is encouraged that the leadership is now addressing an issue whose solution can dramatically improve MPEA's ability to compete with other major convention centers without having to further draw upon the State's General Revenue funds.

- The Authority's tax collections, which support the Authority's debt, declined in the aftermath of 9/11 and have further declined due to the current national economic crisis.
- State sales tax funds were drawn on the last two years to support the Authority's Capital Expansion debt. Without restructuring, such draws will continue for the foreseeable future, totaling as much as \$800 million.
- Our consultant's report verifies that all our major competitors receive direct government subsidies for marketing and operations. Without an operating subsidy, MPEA has had to generate operating funds by charging our customers higher prices for labor and food. This is a principal reason why MPEA has lost its competitive edge.
- Without access to capital, MPEA has been unable to develop projects that would generate operating income to relieve competitive pressure in the convention business.

**RECOMMENDATIONS:** The Board recommends that the Illinois General Assembly restructure MPEA's debt as follows:

- Increasing Maximum Deposit Amounts in the outer years in steps to \$350 million and allow refunding bonds to extend to 40 years
- Extending the \$31.7 million Dedicated State Tax revenues through FY2032 (or shorter if MPEA tax collections reach \$350 million sooner)
- Extending MPEA taxes and Max Deposit Amounts 50 years (to FY2060) with 40-year bonding authorization (FY2050 initially with annual extensions)
- Increasing initial par value limit for MPEA Expansion debt to \$2.8 billion
- Repaying of any future draws on the State sales tax backup given 1<sup>st</sup> priority claim on new debt capacity created by the annual extension of Authority taxes
- This restructuring will eliminate a projected draw against the State's sales tax of approximately \$40 million; we recommend directing \$20-to-\$25 million of that amount to MPEA's annual operating fund.

Pursuing this course of action would result in MPEA not having to draw on the State's General Revenue Fund. Of equal importance, having surplus tax revenues that can be used for operations, will allow MPEA to lower its customer costs thereby immediately making it more competitive.



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### **Background**

MPEA was established with a two-part financial structure. On the operating side, the Authority covers its operating expenses by generating operating revenues in its various businesses: roughly \$100 million of revenue from the McCormick Place convention business, \$60 million from its hotel, \$40 million at Navy Pier and about \$5 million from its Energy Center. Unlike all of its major competitors in the convention industry, MPEA does not presently receive any operating subsidy. Rather, the Authority has utilized an 'entrepreneurial model' that attempts to generate internally sufficient income from its hotel, food service, parking and energy businesses to offset operating losses in its main convention business.

On the capital side, MPEA uses the revenue from several tourism taxes to pay the debt service on Expansion Project bonds issued to build its convention halls as well as its income producing properties such as the hotel. The Authority's taxes, established during FY1993, consist of a Food & Beverage tax in a downtown tax district, a Hotel tax in the city of Chicago and a countywide Auto Rental tax. These are gross receipt taxes that reflect the growth in nominal dollar revenues due to both real growth and inflation. MPEA also collects an Airport Departure tax that is a flat dollar amount on passengers taking taxis and limos into and out of O'Hare and Midway. Finally, through FY2001 MPEA received a share of surpluses at ISFA, but the Authority has not received any such funds since that time.

To the extent that collections from MPEA taxes fall short of debt service, a backup from the State sales tax covers that shortfall up to set annual limits. If collections exceed debt service, the surplus tax revenue comes to the Authority to be used for capital repair and maintenance.

The Authority has a second outstanding debt series, the Dedicated State Tax bonds. These bonds were issued in the mid-1980s and were used to build the North building. They have a final maturity of FY2015 and are paid from dedicated State funds in the amount of about \$31.7 million annually.

### **Tax Collection History**

The creation of the MPEA taxes at the outset of the Expansion program involved a delicate compromise. The taxes were imposed to support debt raised to build-out the MPEA campus to strengthen the Authority's position in the convention industry. Those taxes, however, were imposed on the visitors that come to those facilities. Therefore, there was a desire to keep the tax rates at the minimum level possible that would cover the cost of the debt.

From the establishment of the MPEA taxes through FY2001, the growth in MPEA taxes generated consistent surpluses and those surpluses were banked in a 30-year capital maintenance program. The buildings were each finished on time and on budget and the



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income from properties such as the hotel proved sufficient to cover operating losses in the convention business.

That balance was upset by 9/11, which caused a dramatic drop in the travel business and the MPEA tax collections that come from that travel business. The Authority was able to act on its own to cut operating costs to restore balance in its business operations, but MPEA lacks the authority to restructure its debt without approval from the State. Without a restructuring of outstanding debt to reflect lower tax collection levels, a growing slide in the Authority's finances developed. There were sufficient reserves and conservatism in the debt structure to avoid making draws on the State sales tax backup during FY2002-2008, but the surplus taxes used to fund maintenance dried up and investments in new income producing projects to offset losses in an increasingly competitive convention industry were put on hold.

The recession that followed the financial market collapse proved to be the tipping point. MPEA made a draw against the State sales tax to backup its Expansion debt service in FY2009 and, without a restructuring, will continue to make draws on the backup for the foreseeable future. Regular maintenance and repair have been deferred due to dwindling funds. And the recession has led to operating losses that have eaten into the Authority's operating reserves.

### **Necessary Elements of a Fix**

For the past several years, MPEA has proposed a restructuring of its Expansion debt within the existing MPEA tax collections by extending the final maturity of the debt to allow near term debt service to be reduced below projected tax collection levels. This solution is no longer practical. First, the Authority has exhausted its debt service reserve funds and begun to draw against the sales tax backup. The current recession has further reduced tax collection levels, increasing the amount of projected collection shortfalls, thereby increasing the amount of debt service that would need to be restructured. Second, financial markets remain negatively impacted by the recent financial crisis making it more difficult (and more costly) to issue the kind of backloaded, deferred interest and/or capital appreciation bonds that would be necessary to restructure the Expansion debt without new revenue. Third, at a time when the bond insurance industry is hobbled, the State credit rating that backs the rating on the Expansion debt is under pressure. Finally, the extraordinary level of economic volatility in recent years increases the risk inherent in the grand, fix-it-all-at-one-time restructuring proposals that have been considered in the past. For all these reasons, a different approach will be necessary.

As in past proposals, restructuring Expansion debt will require an extension of the final maturity of the debt (along with an extension of the MPEA taxes) and an increase in the outer years in the amount of debt service backed by the State sales tax (the Maximum Deposit Amount). New revenue also will be necessary to reduce the cost and the amount of backloading in the proposal. Further, it would be prudent to create the ability to address the restructuring in a series of incremental steps to more efficiently bring the structure to a more stable position. It also would be beneficial to give MPEA the



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capacity to establish and fund long-term capital plans. Finally, given the new resources that will be committed to the Expansion debt and the elevated level of economic volatility, mitigating the State's exposure to future collection shortfalls should be addressed.

### **New Revenue**

In the aftermath of 9/11 and the financial market collapse, MPEA tax collections have fallen to about \$30-35 million below debt service. That is roughly equivalent to a 2% city-wide hotel tax. To impose such an increase in MPEA taxes at this time would add to costs for the convention industry participants MPEA is trying to attract. Fiscal pressures at the State and City make direct subsidies difficult. Therefore, MPEA has proposed that the State funding that presently covers the debt service on the Dedicated State Tax bonds (approximately \$31.7 million annually with a final maturity of FY2015) be extended beyond FY2015 to FY2032. This (along with extending the final maturity of the Expansion debt) would create capacity to allow a restructuring that would avoid further draws on the State sales tax backup. During FY2011-2015, the State presently is paying both the Dedicated State Tax bonds debt service and draws to cover shortfalls in MPEA tax collections. Under this proposal the State would only pay \$31.7 million annually. By using that \$31.7 million to eliminate draws on the sales tax, this proposal is projected to save the State more than \$200 million through FY2015 and more than \$400 million through FY2025.

### **Projected Collections**

There is little long-term history for MPEA's taxes, so when looking at long-term trends in growth rates for gross receipt taxes (taxes that grow with nominal growth reflecting both real growth and inflation) we start with the State sales tax. We also look at a basket of the State's Hotel tax, Auto Rental tax and Sales tax (weighted at their relative weighting within the MPEA mix of taxes.). Finally, we look at the MPEA taxes in the context of these longer data series.

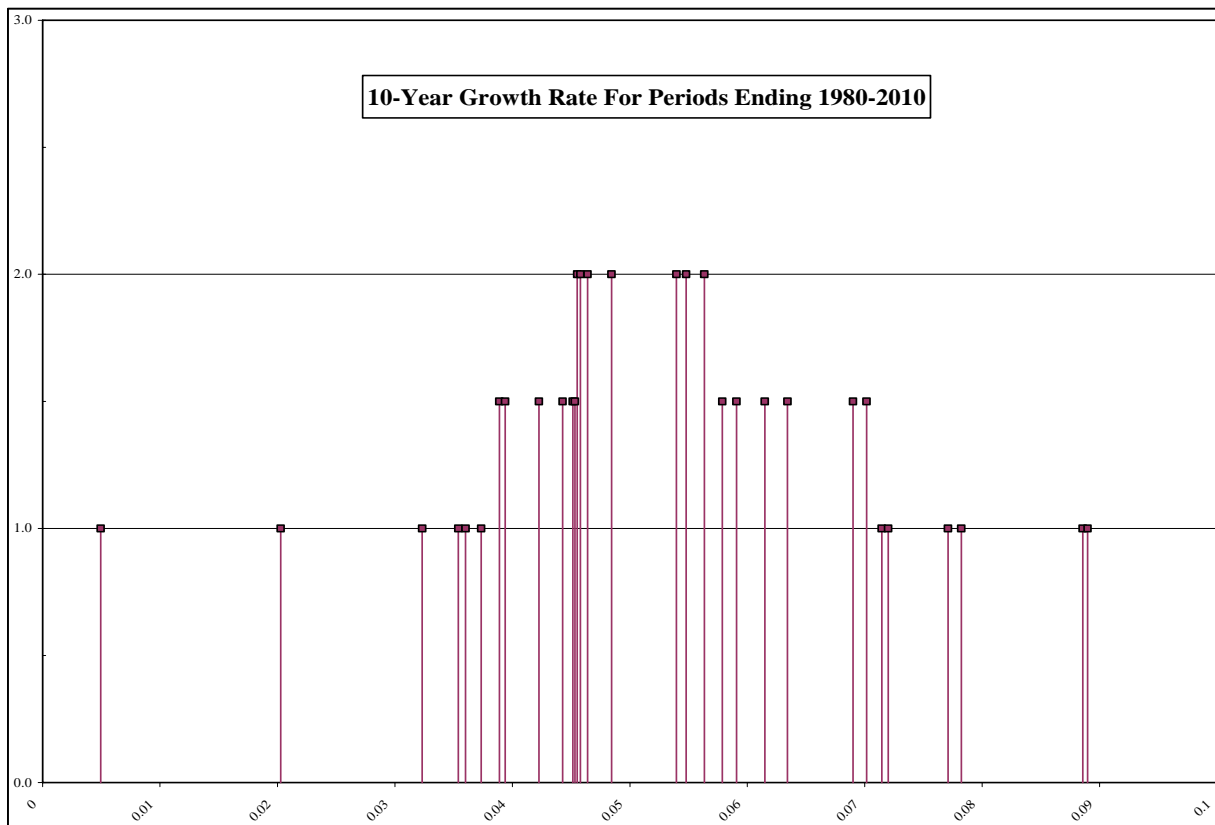
The first graph shows the range of 10-year growth rates that have been recorded for the State sales tax (the height of the lines has been set arbitrarily to illustrate each of the fifths of the data range; the placement of the lines reflects actual 10-year rates of growth recorded). The Sales tax graph shows a cluster of observations in the 4.5-6% range. The second graph shows indexed tax collections going back to 1973 – first the Sales tax, then starting in FY1988 the basket of three State taxes, and finally in FY1994 the MPEA taxes. Historical economic data, of course, do not 'prove' future economic projections the way observations in the sciences might. The take-aways from these graphs are simply:



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- Long-term growth in gross receipt taxes is not an aberration - 2-3% growth and 2-3% inflation is what happens, year-after-year and decade-after-decade, in all types of economic environments with 10-year growth rates of 4.5-6% common for the State sales tax.
- Throughout this period, the basket of State Hotel/Auto Rental/Sales taxes grew faster than the general Sales tax and the MPEA taxes grew faster than the basket of State taxes.
- Volatility in recent years has been unprecedented and it seems likely that the aftershocks from the extraordinary measures taken to respond to the crises will keep volatility elevated for some period of time.

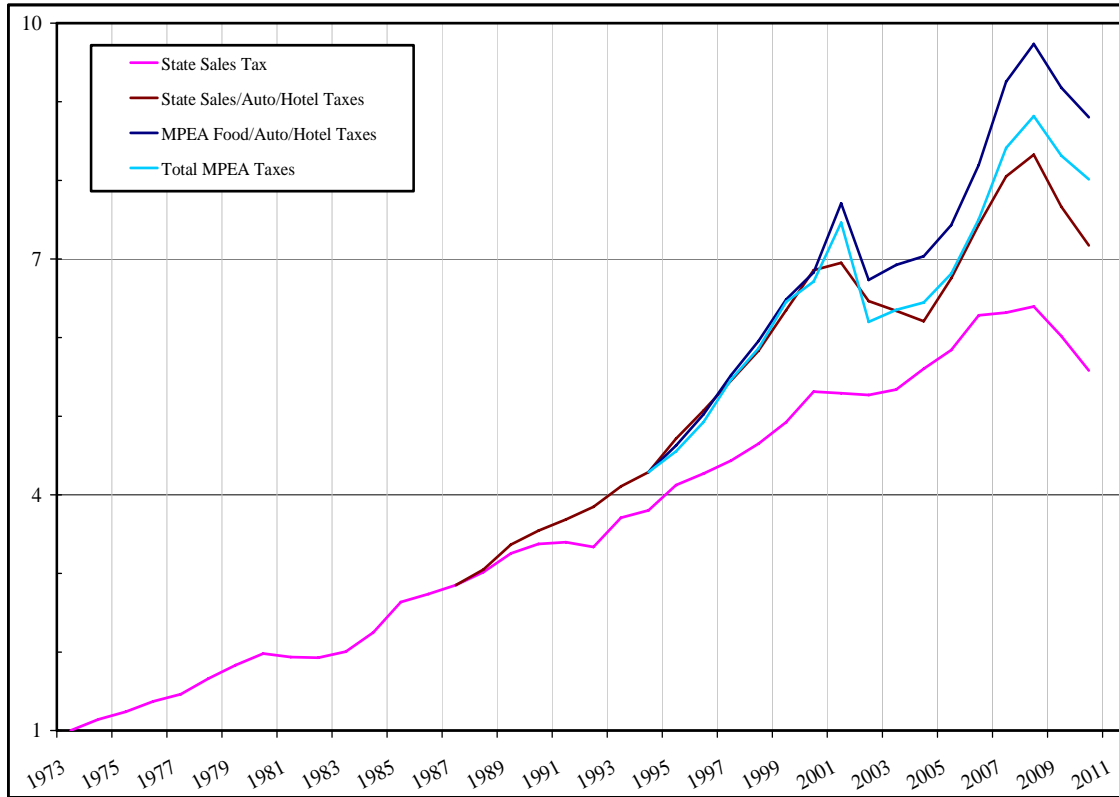
### Historical Sales Tax Collection Growth Rates





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### State of Illinois and MPEA Tax Collection Trends Indexed Amounts



Looking at the nearer term forecast, there are, as always, a range of forecasts, but growth in nominal GDP (real growth plus inflation) of 4.5-5.5% over the next couple of years are not unusual. Because Hotel collections have been so volatile of late, we asked HVS, a hotel industry consultant familiar with our hotel and the Chicago market, for a separate forecast for the Chicago hotel market and HVS projected revenue growth of 5% for the next two years – demand growth of 2-3% per year accompanied by rate growth of 2-3%. This actually is slow compared to a more normal recovery where some initial period of above trend growth is experienced.

Notwithstanding the support for longer-term growth of 5-5.5%, as a math exercise we also looked at what rate of growth would be necessary to restructure existing MPEA debt. With the extension of the \$31.7mm funding and the extension of the final maturity of the Expansion debt, FY2011 collections could grow at about 3.5% and still accomplish the restructuring – that implies 1.5% or so real growth and 1.5% or so inflation for the next 4 or 5 decades in a row. Quite extreme.



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### **Restructuring Proposal**

MPEA is proposing neither that we follow such a radically conservative model nor that we set a 40-year forecast and borrow up to the forecasted collections. We have proposed that we build into the debt structure the ability to access incremental debt capacity for a period of time to allow the flexibility to take a series of actions – restructuring near and medium term debt service in steps to more efficiently bring the Expansion debt structure to a more stable position and respond to unforeseen volatility. Specifically, the MPEA proposal includes:

- As in prior proposals, increase Maximum Deposit Amounts in the outer years in steps to \$350 million and allow refunding bonds to extend to 40 years.
- Extend the \$31.7 million Dedicated State Tax funding through FY2032.
- Extend MPEA taxes and Max Deposit Amounts 50 years (to FY2060) with 40-year bonding authorization (FY2050 initially with annual 1-year extensions).
- Increase initial par value limit for MPEA Expansion debt to \$2.8 billion.

Included within this proposal are two important ‘circuit breakers’ for the State. On the upside, should there be, for instance, a bout of inflation as we recover from the financial crisis that inflates the level of MPEA collections, the State’s \$31.7mm funding ends early if MPEA collections reach the \$350 million Max Deposit Amount earlier than anticipated. On the downside, should lower collections lead to future draws on the sales tax backup, the annual increments of additional debt capacity must first be used to repay those draws. In both cases, the State’s present exposure to Expansion debt is reduced. The result is a flexible debt structure within tight restrictions that provides an opportunity to work through this restructuring while protecting State funds in the process. In contrast, to do nothing at this time not only exposes the State to the projected future draws on the State sales tax, by undermining the financial strength of the Authority it risks multiplying those draws.



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### FOCUS One & Food Service

**FINDINGS:** To annually balance its operating budget, MPEA uses profits generated from Focus One\* and its Food Service contract to offset other operating expenses. This has led to utility and food service charges that are significantly higher than experienced by our customers at other venues. To offset customer dissatisfaction, it is imperative that profit margins in Focus One and Food Service operations be eliminated to make MPEA cost competitive. This, however, will decrease operating revenues and create a serious additional operating loss. This Board will be analyzing significant additional cost reductions to help make up that operating loss.

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\* Focus One is responsible for the delivery of all utility services (electrical, plumbing, telecommunications, and internet) on the show floor.

**RECOMMENDATIONS:** The governing principal for this Board is to maximize customer satisfaction by eliminating sources of dissatisfaction that drives business away. If provided with a sufficient operating fund, the MPEA Board will immediately direct the following:

#### **Focus One**

Close Focus One as soon as practicable. Get out of the utility service business. Henceforth, all customers will bid such functions to outside electrical contractors.

#### **Food Service**

MPEA is prepared to cancel the existing food services contract and is preparing a new RFP on a fixed fee for service basis, which would allow MPEA to control pricing, quality and reduce its profit margin to zero.

MPEA will allow show organizers to permit exhibitors to order packaged food from restaurants and other outside caterers.





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### **Privatization**

Broadly defined privatization represents the transfer of a government owned asset, or government run service from the public sector to the private sector. Privatization can take on three forms:

- Sale or lease of a public owned asset to the private sector (e.g. Skyway, Parking Meters).
- Transfer of day to day management of a facility or service to a private company, (for convention centers companies such as SMG, or Global Spectrum provide these services).
- Outsourcing of functions or services currently delivered by public sector employees to private sector employees.

In the world of convention center operations, privatization has come to mean either private management or outsourcing of services. Sale or lease of the facility is not a viable option as convention centers lose money on day to day operations, and many also have additional capital debt from construction or renovation costs.

### **Brief History of Convention Centers**

Purpose built, stand alone convention centers (facilities designed exclusively for meetings and expositions) are a relatively young industry in the United States, (approximately 50 years old). These venues were constructed with public dollars to generate economic development for a city, region or state. They were traditional “loss leaders” designed to generate spending in hotels, restaurants, transportation companies, and other businesses which make up the hospitality industry. Annually Chicago’s hospitality industry represents \$8 billion in spending and supports 65,000 jobs.<sup>1</sup>

Much of Chicago’s hospitality economic development comes directly from events and activities produced at McCormick Place. This economic activity is highly desirable because it generates spending in the local economy, as well as tax revenues in the form of sales tax, hotel tax, and other user fees. These revenues are generated without much cost for traditional government services, i.e., public schools, additional police and fire protection, or health services.

Given that many localities desired this economic development, destination after destination has made major capital investments to lure this business to their locality. In the past twenty years (1989-2009) gross square feet (g.s.f.) of exposition space in the United States has increased by 90% (47,300,000 to 90,000,000 g.s.f.).<sup>2</sup> In the past ten years the growth rate has been 42% (63,400,000 to 90,000,000 g.s.f) with 4.4 million gross sq. ft. still being built.<sup>3</sup> This is significant when you consider that the overall trade show/convention business has enjoyed modest growth of about 3% a year from 2001 to 2007, and has negative growth in the last two years.<sup>4</sup>



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### **How McCormick Place Operates Today**

There are three customers who use our facilities: show organizers, exhibitors, and attendees. We achieve our mission of economic development by leasing space to show organizers to produce trade shows, conventions, meetings or special events. Organizers hire various private contractors to assist in the production of the event. Examples would be general service contractors (decorators; GES/Freeman), audio visual contractors, bus companies, and private security firms. Exhibitors lease space from the show organizer to display products for sale or marketing purposes. Exhibitors also use the services of private companies (exhibitor appointed contractors, EAC's) for installation and dismantling of exhibits. Most activities or services provided to organizers or exhibitors are provided by private contractors.

McCormick Place has four major revenue streams to cover operational expenses. Rent charged to organizers to lease space. Revenue from utility services sold to exhibitors and organizers (electrical, plumbing, telephone and internet). Revenue from the sale of food concessions and catering operations, and finally revenue generated from on-site parking.

The modern day convention center is expected to employ a sales and contracting division, event services division, food & beverage division, facilities operations division, safety and security division, and in a majority of convention centers a utilities division which provides services to exhibitors and organizers.

### **Current Privatization Services at McCormick Place**

Of the four major revenue sources mentioned above two are currently provided by private contractors, food service and parking. The following services are provided today by McCormick Place and are outsourced to private companies:

- A portion of Sales & Marketing (Chicago Convention & Tourism Bureau – quasi – private company)
- Food Service (Chicago Restaurant Partners)
- Parking (Standard Parking)
- Housekeeping (Aramark/Globetrotters)
- Landscaping (Moore Landscaping)
- Selected operational contracts, for example:
  - Elevators/escalators
  - Window washing
  - Roof repairs



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### **Possible Future Privatization Services at McCormick Place**

McCormick Place management continues to explore if there are other opportunities to privatize additional services or functions currently provided by MPEA employees. In addition to this review, it is also possible to explore non-traditional opportunities available to MPEA. Outlined below is the status of those activities.

#### **Traditional**

- Security – Currently MPEA has contracted with Hillard Heintze to perform a review of our security operations at MPEA. They have been asked to review if parts of services provided by the security department could be privatized.
- Focus One – Currently MPEA provides utility services (electrical, plumbing, internet, phone) to show organizers and exhibitors who produce events in or facilities. This service is exclusive and provided by MPEA employees. MPEA management is currently meeting with all stakeholders (organizers, exhibitors, EAC's, general service contractors, and the unions) to determine if this service should be privatized as well. This could be done through an exclusive contract with a private company or through an open process where show organizers would pick their own company to do the work. Known as the “open electrical” model this is done by some buildings mainly on the west coast of the United States.
- Operations – Staff has provided information to Jones Lang LaSalle to determine if additional operations functions (general maintenance of facility) could also be performed by a private operator

#### **Non Traditional**

Staff continues to look at ways to use excess space to generate revenue by leasing to private operators for functions not traditionally seen as trade shows or conventions. One idea is to lease space for a data warehouse space, another as office space for a disaster recovery site.

#### **Conclusion**

Much of McCormick Place's operation is already performed via private contractors. There are opportunities to explore additional outsourcing and they should be reviewed. Finally, it is also possible that all remaining management of McCormick Place could be contracted to a private company thus making all operations and services privately operated.

#### **Footnotes**

1. Chicago Convention & Tourism Bureau
2. Trade Show Week
3. Trade Show Week
4. CEIR index/Trade Show Week



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### LABOR – EXHIBITOR RIGHTS

**FINDINGS:** MPEA is recognized as having some of the best labor talent in the convention industry. However, multiple labor jurisdictions and inefficient work rules & labor practices put MPEA at a significant competitive and cost disadvantage compared to other convention centers. In addition, these practices increase the much publicized ‘hassle-factor’ for exhibitors and show organizers operating at McCormick Place. Some key customers have clearly stated their expectations of immediate change or MPEA will face the departure of their business. \* It should be recognized that negotiations have been on-going for some time between labor and show general contractors. While some concessions have been reached, they have not been near sufficient to put McCormick Place on a level playing field with our competitors.

#### **RECOMMENDATIONS:**

The Board recommends comprehensive labor reform whose major features include:

- Restructure existing labor contracts
  - MPEA becomes ‘Public Employer’ directly employing labor with right to contract out the administration of its employees
  - Strikes prohibited – interest arbitration only
  - One Move-In/Move-Out unit, one Assemble/Disassemble unit and one Electrical/Production unit
  - MPEA given substantial control over work rules, jurisdictions, methods, means, personnel, subject to impact bargaining
  - Combining the function of the International Alliance of Theatrical and Stage Employees (IATSE) with the electricians for purposes of stage productions and similar work as required to attract shows like Microsoft
- MPEA given right to review & verify contractor billing statements to ensure that labor costs are accurately represented and passed through to shows/exhibitors
- Provide the kind of “exhibitor rights” that customers experience in other convention centers.
- The resulting cost savings should clearly be identified and transparently communicated to all show managers, exhibitors, and other customers.

\* Statements derived from testimony before a legislative panel by the International Housewares Association, National Restaurant Association, and Graphic Arts Show Co.



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MPEA is in a tenuous position. Much has been made about labor being the problem at McCormick Place. The reality is Chicago is among the top quality convention locations in the U.S. – it can deliver the attendees and exhibitors perhaps better than any city to make shows successful. It has the best labor – it can build anything of any size, anytime. It has the biggest and best quality facilities.

For MPEA to remain competitive and to ensure shows and exhibitors are treated fairly, equitably and economically, labor reform is necessary. Chicago faces a new and highly competitive market place that is undergoing drastic modernizations. Conversely, the labor structure in Chicago is based on an outdated construction industry model with practices and work rules originating in the 1960s or earlier. A radical, thorough, and complete overhaul of the labor structure, including some form of exhibitor's bill of rights, is now necessary.

The predominant labor jurisdictions that have collective bargaining agreements with the primary convention/exhibition facilities in the first-tier cities that compete with McCormick Place are as follows:

- **Chicago** (six labor jurisdictions) – Carpenters 10, Decorators 17, Freight Teamsters 714, Furniture Teamsters 714, and Riggers 136. IBEW 134 also works at MPEA and its collective bargaining agreement is with Focus One.
- **New York City** (three labor jurisdictions) – Carpenters (NY District Council), Teamsters (IBT Local 807), and Electricians / Telecommunications Workers.
- **Las Vegas** (three labor jurisdictions) – Teamsters 613 LCA-Casual, IBEW 357, and outside labor source.
- **Orlando** (three labor jurisdictions) – IATSE 835, IBEW 606, and Teamsters 385.

Source: Johnson Consulting

Work rule restrictions, including minimum crew size requirements, restrictive straight time windows, required stand-by and non-working labor, and a high number of jurisdictions, along with relatively high labor costs, impact significantly on Chicago's ability to compete with other cities, as shown in the tables below:



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Summary of Work Rules - Chicago					
WORK RULES	Carpenters	Teamsters 727	Riggers Local 137	Decorators	IBEW
Required non working labor.	Yes, there can be 1 per floor/ per building per event	Yes, Steward is non working when more then 6 union workers are on a floor	Yes, One non working steward per level per show	Yes, 1 when 6 or more men are employed on one floor, 2 with 75 or more employed	No
Restrictive "straight time" window *	M-F, 7/8A.M.-3:30/4:30 P.M.	M-F, 8A.M.-4:30 P.M.	M-F, 8A.M.- 430P.M., 10 A.M.-6:30P.M., 12:30 A.M.- 9P.M.	M-F, 8A.M.-10 A.M (start time), maximum 8 hours.	M-F, 7A.M.- 4:30 P.M. for 8 hours
Minimum work call.	2 hours before call, after work starts is 4 hours	4 Hours	4 Hours	4 Hours	4 Hours
Call by Name / Management Rights.	Yes	No	Yes, Foreman and 25 percent of work force	No	Yes, the foreman
Exhibitors allowed to install & dismantle own booth.	Only in booth of 300 sf or less. No power tools or ladders. Yes	Only in booth of 300 sf or less. No power tools or ladders.	Only in booth of 300 sf or less. No power tools or ladders.	Only in booth of 300 sf or less. No power tools or ladders.	Only in booth of 300 sf or less. No power tools or ladders.
<i>* Break of show Mon-Fri 4:30pm - 8:30pm ST, with exception of Teamsters.</i> Source: Freeman, GES, Johnson Consulting					

Summary of Work Rules - Las Vegas	
WORK RULES	Teamsters 631
Required Stand-By (non working) labor.	One steward for 100 or more workers
Restrictive "straight time" window .	M-F, 6A.M.-10 P.M. 8 hours
Minimum work call.	4 Hours
Call by Name / Management Rights.	Yes
Exhibitors allowed to install & dismantle own booth.	May setup own exhibits without assistance from union.
Source: Freeman, GES, Johnson Consulting	

Summary of Work Rules - Orlando	
WORK RULES	I.A.T.S.E. 835
Required Stand-By (non working) labor.	No
Restrictive "straight time" window .	M-F, 6A.M.- 9P.M. for 8 hours
Minimum work call.	4
Call by Name / Management Rights.	Yes
Exhibitors allowed to install & dismantle own booth.	May use ladders & power tools.
Source: Freeman, GES, Johnson Consulting	



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The hourly price of labor in Chicago is consistently higher than the U.S. average across all trades. In contrast, prices in Orlando are consistently lower than the national average, while hourly rates in Las Vegas are generally more closely aligned with U.S. figures, as shown below:

<b>2009 Hourly Price of Each Trade - Chicago and Competitive Cities</b>					
<b>Decorators, Drayage, Carpenters, Riggers, Electricians, Plumbers</b>					
<b>LABOR</b>	<b>CHICAGO</b>	<b>NEW YORK CITY</b>	<b>LAS VEGAS</b>	<b>ORLANDO</b>	<b>U.S. AVERAGE</b>
<b>Decorator</b>					
Straight Time (ST)	\$94.81	\$121.83	\$76.31	\$66.69	\$78.49
Over Time (OT)	\$143.89	\$173.71	\$115.82	\$104.19	\$121.84
Double Time (DT)	\$187.39	\$221.58	\$125.73	\$114.30	\$141.83
<b>Drayage</b>					
Straight Time (ST)	\$80.72	\$148.37	\$75.08	\$65.83	\$78.22
Over Time (OT)	\$118.14	\$207.06	\$112.53	\$99.59	\$119.36
Double Time (DT)	\$150.82	\$291.90	\$118.85	\$114.30	\$143.42
<b>Carpenter</b>					
Straight Time (ST)	\$96.68	\$148.89	\$84.14	\$71.08	\$82.90
Over Time (OT)	\$144.12	\$202.17	\$132.74	\$100.69	\$121.90
Double Time (DT)	\$184.64	\$249.44	\$143.48	\$130.50	\$148.58
<b>Rigger</b>					
Straight Time (ST)	\$99.45	\$142.21	\$75.05	\$75.83	\$84.88
Over Time (OT)	\$149.15	\$199.71	\$118.31	\$112.43	\$130.97
Double Time (DT)	\$197.17	\$266.50	\$123.71	\$124.70	\$156.41
<b>Electrician</b>					
Straight Time (ST)	\$96.00	\$120.12	\$91.63	\$70.00	\$85.36
Over Time (OT)	\$133.25	\$153.28	\$182.26	\$140.00	\$145.79
Double Time (DT)	\$172.75	\$153.28	\$180.52	\$140.00	\$145.18
<b>Plumber</b>					
Straight Time (ST)	\$95.00	\$75.00	\$81.83	\$70.00	\$81.42
Over Time (OT)	\$132.00	\$130.00	\$162.26	\$140.00	\$139.08
Double Time (DT)	\$171.00	\$130.00	\$162.26	\$140.00	\$142.96
Source: TSW (2009), Johnson Consulting					

Key observations from stakeholder interviews include:

- Show managers and owners are highly reliant on national service contractors, as these contractors are most familiar with labor markets across the nation. The profit margin for both the show manager and their service contractor is a primary consideration of site selection, followed by destination related costs such as hotel, bussing, and dining expenses.
- Exhibitors do not have an outright problem with paying more for quality labor. Chicago has some of the highest quality labor in the nation. Current work rules at McCormick Place are not based on convention industry standards and have a high





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level of jurisdiction overlap and duplication among the unions, causing the exhibitor to incur costs that are not reasonable from their perspective.

- Show managers, in fear of losing exhibitors, can move their shows to other “less expensive” locations, both labor cost wise and destination cost wise. Often times the first year in the new location is a success but attendance falls in subsequent years due to a lack of location vibrancy and other city qualities.
- Reaction to these proposed changes has been mixed, as control will be shifted away from national contracting companies and labor unions to McCormick Place.
  - Two of the nation’s primary contracting firms issued a joint statement: “Freeman and GES believe that fundamental labor reform in Chicago is necessary, and, while we support the goals of the proposed legislation, we share the concern of many of our Chicago customers regarding the potential cost and customer service implications of this specific approach.”
  - Other parties involved feel that the current Collective Bargaining Agreements (CBAs) are based off outdated work rules that need to be modified to make them more ‘fair’, in terms of efficiency and cost effectiveness, with some parties even suggesting that the entire system, as it operates today, needs to be removed and rebuilt from the ground up.

### **Exhibitor Rights**

Exhibitors traditionally have an adversarial relationship with labor. Exhibitors rely on labor to perform the majority of the installation and dismantling of their booths, however, they have little to no control over labor costs, timing, or work rules, and over the years, have expressed these concerns repeatedly. Particularly during setup, exhibitors often feel pressured to make a decision, no matter what the cost, to get their booth ready for show time. Thus, exhibitors believe they are at the mercy of labor. In addition to costs, exhibitors have publicly expressed concerns over issues such as:

**Retribution:** Exhibitors who violate either the published or the unofficial rules of dealing with labor report having materials disappear, damaged, or deliberately slow service.

**Attitude:** Exhibitors voiced displeasure at having to tiptoe around testy workers who had no interest in interacting with exhibitors civilly.

**Timing:** Adhering to strict work-rule schedules meant that exhibitors trying to make up for time lost to delays in getting freight delivered or services installed experienced additional delays because labor was not available to work outside of prescribed hours.

For McCormick Place to remain competitive, it must listen to, and address the needs of its customers. At minimum, customers and exhibitors should have rights, which mirror those that our customers get at other convention centers. These rights should address all





## **MPEA INTERIM BOARD OF DIRECTORS**

the work that exhibitors are able to do within their own booth space, everywhere else in the country, so long as they do not use heavy equipment. The current agreements at McCormick Place negotiated with the various unions do not go far enough to address these exhibitors concerns.

Though any changes to the current agreements of what exhibitors can/cannot do within their allocated space would require negotiations with the impacted labor unions, it is imperative that McCormick Place moves forward in its efforts to ease the restrictive, and often complicated, work rules, and allow exhibitors greater flexibility, as they experience in other convention venues.

It is an oddity in the industry that labor and contractors have access to the building, but the building has little influence on the outcome of service. Unions and contractors negotiate amongst themselves, typically to the exclusion of the building, without any alignment to the concept of creating benefits for McCormick Place, the City and the state. Changes to work rules have already been made but these haven't gone far enough to address the underlying issues enough to improve the competitiveness of Chicago.

There is general agreement that the situation at McCormick Place is untenable and changes need to be made to the current operational approach. The loss of more shows will put a severe burden on an already financially troubled funding system. Changes not only need to be made to the labor structure, but to the legislatively enabled funding sources and restrictions.



## MPEA INTERIM BOARD OF DIRECTORS

### Sales & Marketing

**FINDING:** The sales effort to attract shows to McCormick Place is divided between McCormick Place's internal sales staff and the Chicago Convention and Tourism Bureau (CCTB), an independent organization reporting to its own Board. For convention sales of McCormick Place, this structure is inefficient and lacks clear lines of responsibility. Although MPEA pays CCTB an annual base and incentive fee of \$1.5 million, CCTB also maintains sales responsibility for other city hotels and venues who compete with MPEA for business. For its convention and Chicago destination marketing, the CCTB receives funding directly from the State of Illinois and the City of Chicago.

**RECOMMENDATIONS:** To achieve a higher level of sales effectiveness and accountability, the Board recommends that any convention-related marketing funds from the State or the City be re-directed to MPEA. Then, MPEA would develop a new sales & marketing effort that is exclusively focused on attracting business to McCormick Place.



## MPEA INTERIM BOARD OF DIRECTORS

C. W. Johnson, an industry expert, has provided the following sales and market analysis:

Sales and marketing at McCormick Place is something that here-to-fore has not been as crucial as it is today. Before, Chicago was arguably undersupplied with space, there was less competition nationally, and the issues of labor and adjacent support were not being used as weapons against the City, as is currently the case in this buyer's market. Further, the stable of annually repeating and biennial events filled the calendar. With the advent of new space at McCormick Place and the loss of shows, dates have now become available. Hence, space is now more available and competition is fiercer.

The size of Chicago's shows are huge, compared to the cross section of all events nationally. Its facilities can house the top one percent of all shows in the world. It also can house shows that are smaller, that would go to cities like Minneapolis, San Antonio, New Orleans, Denver, and the like. The average events in these cities pale in comparison to the large shows at McCormick Place. One or two major events alone at McCormick Place have the economic profile of a year's worth of business at smaller city convention centers.

The classic business school case study cites how Kenmore became too dependent on Sears. Chicago perhaps became too dependent on its mainstream super shows. Now the City finds itself with more space and less shows. Meanwhile, recapturing its large shows, creating or taking shows from other markets, and targeting smaller shows is essential. However, the trade press is on a warpath about Chicago – and much of what is being said is at least somewhat true.

This is by no means a criticism of past actions of people or of past strategies. What was was. It is time to address now and the future. The knives are out. Chicago is not competitive, sales and marketing wise.

Seven elements make up Chicago's branding and sales efforts.

- MPEA's marketing budget is \$7 million, of which \$1.5 million is contracted to the Chicago Convention and Tourism Bureau (CCTB). The MPEA's marketing budget funds sales and event services staff, allows for participation in trade shows, funds customer visits, provides for incentives for attracting events and funds marketing materials and research.
- The CCTB's budget is \$14.1 million. This organization also markets McCormick Place, funds sales staff for multiple hotel events, creates destination and collateral material for group meetings, markets to attendees at conventions and trade shows trying to make them tourists while they visit Chicago. The CCTB's real job is two-fold:
  - Attract new events to the City, and
  - Serve as a coordinating intermediary between McCormick Place and City elements, notably hotels, busses, restaurants, and retail. Their role is most



## MPEA INTERIM BOARD OF DIRECTORS

tangible with McCormick Place, Navy Pier, hotels, and busses, as attendees use these in groups. For retail and restaurants, visitors shop and eat individually so the CCTB's role here is awareness, not direct coordination.

- The City of Chicago has two marketing aspects. One is its office of Tourism and Cultural Affairs, which operates with a budget of \$4.6 million, of which \$1 million goes to the CCTB. This budget is generally used for collateral material, tourist and visitor materials and supporting these efforts. Another very important aspect for Chicago and one of its best capabilities is the Mayor's Office of Special Events. This group operates with a significant budget and creates an array of events that bring millions of state, regional, national, and international visitors to the City.
- Another marketing vehicle is the Illinois Bureau of Tourism. This agency receives state-wide hotel tax and operates with a budget of \$56.6 million. It grants \$2.4 million to the CCTB and \$2.1 million to the City of Chicago for tourism and convention marketing and sales. Its resources are predominantly used to market the State as a destination for tourists.
- There are two economic development agencies active in Chicago- World Business Chicago and the Chicagoland Chamber of Commerce. They operate with \$2.5 million and \$8 million budgets, respectively. World Business Chicago promotes the Chicago area as an international business destination. The Chamber is a traditional Chamber of Commerce and works to promote the area as a strong business location. Neither organization promotes tourism per se, however both are conscious of the brand of Chicago and do things to fold into the theme of Chicago as a venue for business and, indirectly tourism.

Our two key observations from the above include:

- Very little money is actually spent to brand Chicago as a tourism destination. If CCTB's mandate is direct sales of group meetings and exploitation of convention visitors, making them tourists, it spends little on destination awareness. Once the City accounts for administrative costs, fulfillment and operating of visitor centers, very little is spent by the City to enhance the image of the City by that entity to promote the brand of Chicago as a tourism venue.
- While not the focus of this report, it is expected that Chicago is a driver in the Illinois tourism equation. Very little of the resource base controlled by the state is directly remanded back to the City.

Now, to marketing and sales at McCormick Place, specifically. Two entities combine to sell events at the Center- MPEA itself and the CCTB. Sensing the now present increased need for marketing and sales, in 2007 the CCTB and MPEA created a contractual



## MPEA INTERIM BOARD OF DIRECTORS

relationship that aligned their forces to become a more unified unit. The MPEA pools its marketing efforts with a portion of resources that are allocated by the CCTB into this effort. Dual budgets are proffered, sales goals are established, and *individually*, roles and responsibilities are assigned to each organization for certain duties.

- This contract is light years ahead of the more informal and assumed sales responsibilities that existed before. The word *individually* is italicized in the preceding paragraph. As one reads the contract, there are columns that say who is doing what, who is responsible for certain things, etc. This by definition shows separation, not unification. Customers see this window of unaccountability. It either is displayed in a weakness of perfect unity and coordination, or is used as a lever to work one side against the other as a customer sees a “good cop bad cop” opportunity to exploit and does so!

It is believed that sufficient resources are in place for marketing and sales between the CCTB and MPEA. Better alignment is needed, as is greater accountability. Principles that should exist in an improved marketing and sales effort are:

- Creation of a direct sales, services and event coordination unit that is formed from the CCTB and MPEA with no other responsibility than marketing and sales for McCormick Place and Navy Pier. Its staff should have no other organizational responsibilities but to these two organizations.
- A single executive responsible for the sales and marketing and customer service of events held at McCormick Place and Navy Pier.
- An organizational structure that shields confidential customer information from FOIA requests, and allows sales people to expend funds for sales and marketing purposes, typical in the industry, but atypical in a City or State department.
- An organizational structure that permits incentive compensation to be paid, based on room nights, event quality, and effort, as a group and as a team.
- An enhanced research and market intelligence function.

At the end of the day, the sales function should evolve to one that is more akin to that found in a hotel- A crack team of sales professionals aimed at filling up McCormick Place and Navy Pier. This unified approach is not yet sufficiently refined for the City of Chicago.



## MPEA INTERIM BOARD OF DIRECTORS

### Governance

**FINDING:** The reporting relationship between the MPEA Board and the CEO is convoluted. Although at the present, this structure has been made to work, in the past it has led to well below optimal leadership, decision-making, strategic thinking and execution. This could occur again in the future.

Further, it has become evident that the business and future prospects of McCormick Place and Navy Pier have diverged significantly. They are in fact two distinct institutions, McCormick Place in the convention & exhibition business; and, Navy Pier focused on the retail, tourism, and entertainment business. The divergent character of these two institutions is not adequately served by the current governing structure. The interim board is in the process of developing a new strategic plan for Navy Pier as a major international tourist destination for Chicago. When formulated, the interim board will likely recommend a new governance structure for Navy Pier.

**RECOMMENDATION:** The interim MPEA Board did not recommend specific actions to be taken.

# McCormick Place

MPEA Legislative Analysis

SUBMITTED TO:

Metropolitan Pier & Exposition Authority

SUBMITTED BY:

C.H. Johnson Consulting, Inc.

April 28, 2010



# C.H. JOHNSON CONSULTING, INC.

EXPERTS IN CONVENTION, SPORT AND REAL ESTATE CONSULTING

April 22, 2010

Mr. Juan Ochoa  
Chief Executive Office  
Metropolitan Pier and Exposition Authority  
301 E. Cermak Road  
Chicago, IL 60616

Dear Mr. Ochoa:

**C.H. Johnson Consulting, Inc.** (Johnson Consulting) has prepared a comparative analysis of McCormick Place vs. its primary competitors. The following report describes the methodology we utilized to conduct our analysis. The report also provides a discussion of factors, which are needed to support the Illinois legislature in its effort to enable McCormick Place to remain/become the most attractive and efficient facility.

Johnson Consulting has no responsibility to update this report for events and circumstances occurring after the date of this report. The findings presented herein reflect analysis of primary and secondary sources of information. Johnson Consulting used sources deemed to be reliable, but we cannot guarantee their accuracy. Moreover, some of the estimates and analysis presented in this study are based on trends and assumptions, which can result in differences between the projected results and actual results. Because events and circumstances frequently do not occur as expected, those differences may be material.

We have enjoyed serving you on this engagement and look forward to providing you with continuing service.

Sincerely yours,  
C.H. JOHNSON CONSULTING, INC.

A handwritten signature in black ink that reads "C.H. Johnson Consulting, Inc." in a cursive, flowing script.

CHARLES H. JOHNSON, IV  
PRESIDENT

## INTRODUCTION

The Metropolitan Pier and Exposition Authority (MPEA) has determined that a review of key operational issues is needed to support the Illinois legislature in its endeavor to enable McCormick Place to remain/become the most attractive and efficient facility. This effort is not only important for the end-user, but is vital to ensuring that the significant economic impacts caused by McCormick Place continue to occur in Illinois.

To perform this analysis MPEA has selected Johnson Consulting and PricewaterhouseCoopers to provide a multi-topic approach to the investigation of the following framework themes:

- Why convention centers are important, how they operate, and who they serve;
- A comparative analysis of McCormick Place to its primary competitors, and advantages of those competitors, i.e., work rules, funding sources, and support environment; and
- The direct economic and fiscal consequences of losing shows to other states.

These themes have been targeted to understand the source(s) of the challenges facing McCormick Place; the perception of these problems versus their real impact; and solutions that can be deployed to improve the operational outlook of McCormick Place. Additionally, the Illinois legislature is considering enacting legislation that would cause or allow the following:

- A reduction/consolidation of union jurisdiction from five to three,
- A provision that all show floor workers would be public employees of MPEA for a period of time,
- A stipulation that workers would not have the right to strike,
- A provision that the building would have the authority to negotiate work rules, allowing the facility to update the rules which are currently outdated and based upon construction industry rules that are not applicable to the tradeshow industry; and,
- The authority of the building to dispatch labor to tradeshow contractors.

The balance of this report provides a framework for both MPEA and the Legislature to evaluate the merits of the proposed legislation and determine the most appropriate course of action.

## EXECUTIVE SUMMARY

### Summary of Labor Related Issues

MPEA is in a tenuous position. Much has been said about labor being the problem at McCormick Place. The reality is that Chicago is among the top quality convention locations in the U.S. - it can deliver the attendees and exhibitors perhaps better than any city to make shows successful. It has the best labor - it can build anything of any size, anytime. It has the biggest and best quality facilities. So what are the issues? They are fourfold:

1. The funding structure at MPEA is problematic.
  - Management is forced to exploit profit centers;
  - The format for electrical charges causes them to be excessive;
  - The mandate for the building to support key regional economic industry clusters has been lost; and
  - There is no fungibility among capital and operating dollars
2. It is a privilege, not a right to work in the building.
  - MPEA does not foist its objectives on contractors or labor pools that work in the building; and
  - MPEA is too silent in work rule and jurisdictional matters
3. Labor work rules are based on construction industry structures and do not reflect competitive threats that are faced in the convention and tradeshow industry.
  - Smaller exhibitors are the most affected, irritated, and vocal about work rules that hinder them from doing simple tasks they are allowed to do in other buildings nationally. In reality, work rule and jurisdiction protection by labor does not result in material income to labor;
  - Broader, city-wide employment is negatively impacted by these building-level labor decisions made by event contractors and labor; and
  - Show management would rather rent the hall for longer periods to avoid paying labor premiums, consuming dates that could be rented more profitably by other events.
4. Marketing - the marketing and sales strategy used by the CCTB and the MPEA can be enhanced; the City of Chicago is under -branded. This topic is not addressed in this report.

The newly seated Board of Directors is considering remedies for the above matters, by:

1. Assessing solutions to funding
2. Simplifying and improving labor structure and costs to customers

Broad strategic focus by the MPEA Board should consider the following:

### **Funding**

- Associate the role of McCormick Place with economic development. This association justifies greater investment by the City and state in attracting events that:
  - Relate to key economic clusters
  - Create tourism
  - Improve the adjacent neighborhood
- While operational improvements are still possible at the MPEA, based on our experience, we conclude MPEA is generally well operated. Hence, the operational resource base needs to be increased sufficiently to:
  - Supplant losses in electrical income, to bring electrical pricing more in line;
  - Provide the MPEA sufficient discretionary marketing dollars to attract events; and
  - Develop an operational reserve to address contingencies and economic downturns.

### **Labor**

- The broader labor picture in Chicago is affected by labor policies at McCormick Place. For the Plastics show, Union policies (non-working stewards, standby labor, over and double time windows) support an estimated 10 to 15 Full Time Equivalent (FTE) jobs. Meanwhile these same policies cost:
  - 78 FTE's of labor at MPEA
    - 16 Electrical FTE's
    - 52 Other Event Labor FTE's

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## How an Event Works

The following table provides a summary of the key parties involved in the execution of an event, identifying their motivation and actions, along with the effects and long-term consequences of decisions made throughout the process on each of the parties involved.

Table 2 - 1

Consequence Matrix				
Influencer	Motivation	Action	Effect	Long-Term Consequence
Show Owner/Promoter	To retain & attract as many exhibitors as possible; To make as much money on the show as possible- shows often = 50% or more of an Association's annual budget	- Site selection (City amenities, Building attributes, cost) - Marketing & Promotions	- Rising cost to exhibitor causes increase in complaints; may or may not actually affect exhibitor return but complaints are worrisome to show owner	Show promoter pay costs for their space; Many buildings comp this area, but show management does pay for labor to set up their area; <b>Materiality of labor cost to overall costs-low</b> ; More influenced by complaints from exhibitors and influence of general services contractor, who often sits at table for site selection decisions; Pays for bussing, which is present for all larger shows. Poor adjacent hotel supply is a factor in Chicago.
Contractor/Decorator	Profit, customer success	Influences show owner to select venue where profit margins are highest	- Following the above, the contractor helps steer show to a "cheaper" city & venue - Greater profit margin for contractor at new location	Contractor negotiates labor agreements w/ most trades (except for Electrical at MPEA); Marks labor up 35+%. Expensive labor market is a good thing if they can get mark up on bigger labor expense billed to exhibitor; However, margin is reduced if they have to pay for non-working steward time and standing labor calls. <b>Materiality of labor cost-low to moderate, as contractor has plethora of profit centers in a show's production.</b>
Exhibitor	- Sale of Products & Services - High Attendee circulation at booth	- Rent floor space - Social & Hospitality events - Booth promotions - Pay for floor services - Occupy hotels & Patronize local businesses	As costs increase, exhibitors demand concessions, downsize booth size, request new & cheaper venue, or won't exhibit at all	Trade shows are a part of a firm's marketing expense; For larger firms, can be very small in terms of overall marketing expense; for smaller firms, can be a major investment; labor cost to an exhibitor is small in relation to other expenses- air, hotel, client entertainment, cross country booth shipping, booth development. Exhibitor needs good labor and Chicago has the best in the nation. What is troublesome is the inability to do easy tasks, and being charged on multi-jurisdictional duties, that really aren't such, <b>comparatively</b> high minimums. Cost is a factor and for small firms can be material, and some work rules in Chicago, while not material cost wise, are an inconvenience. The show manager hears these complaints.
Attendee	- Learn about new services and products - Networking - Education	- Pay for admission to event - Attend events & education sessions - Occupy hotels & Patronize local businesses	As less exhibitors display, fewer attendees come	Loss of Plastics show cost area hotels, retail, and restaurants \$17.1 million in sales and the equivalent of 103,500 man-hours of exhibit labor at McCormick Place, 113 jobs at hotels, and 90 jobs at retail and restaurant establishments.
Building	- <b>Forgotten mandates</b> - Advancement of Economic Sectors; redevelopment of adjacent neighborhoods - <b>Visible mandate</b> Generation of Tourism Economic Impact	- Lease space to show owner - Provide some or all services	As fewer shows, exhibitors, and attendees come, economic impact decreases; Absence of strategy and funding mechanism to target strategic industry sectors undermines regional industry base; Disassociation with funding from adjacent environment reduces adjacent economic environment's stewardship	Labor is a double edged sword for MPEA; Given its financial structure, electrical / technology yield substantial operating resources - MPEA does the same as decorators-exploits what it can.
Labor	- Work the most hours possible & Protect and grow jurisdiction	Work the show as dictated in CBAs; Broader labor has complete unawareness of the shortsightedness of protection within MPEA work rules- costs jobs at MPEA <b>AND</b> outside the building	Loss of work due to shows leaving or fewer overall exhibitors; Labor is correct, if they concede on work rules, a beneficiary is the show contractor; There is no mechanism to guarantee savings pass to the end user; Hence, more labor controlled by MPEA, the greater the chance savings are passed to end user, <b>IF</b> MPEA has alternative operating resources	Labor work rules have negatively impacted bigger \$ opportunity and have city-wide labor effect (Unite One, other City and State labor sectors); <b>Loss of shows is material to the City, state, labor that serves MPEA and associated businesses- hotels, restaurants, retail; Loss of \$ by unions due to work rule improvements is not material.</b>

Source: Convention/ Exhibition Facilities in Respective Cities, Johnson Consulting

## Site Selection – A Complex Algorithm

The following table presents the key factors that motivate and influence each of the parties. Labor and show contractors are a means to an end, not the end themselves.

**Table 2 - 2**

Site Selection - A Complex Algorithm Always a Series of Compromises				
City	Convention Center	Show Manager	Exhibitor	Attendee
<ul style="list-style-type: none"> <li>• Hotel Proximity;</li> <li>• Tourist Amenities;</li> <li>• Overall Hotel Supply;</li> <li>• Air Service;</li> <li>• Culture;</li> <li>• Industry Presence;</li> <li>• Marketing &amp; Sales.</li> </ul>	<ul style="list-style-type: none"> <li>• Size;</li> <li>• Configuration of Space;</li> <li>• Professionalism &amp; Service;</li> <li>• Cost;</li> <li>• Show Manager, Exhibitor &amp; Attendee Respect;</li> <li>• Marketing &amp; Sales.</li> </ul>	<ul style="list-style-type: none"> <li>• Income from Show;</li> <li>• Consistency with Economic Cluster;</li> <li>• Exhibitor Services;</li> <li>• Attendee Services;</li> <li>• Hassle Free Conditions.</li> </ul>	<ul style="list-style-type: none"> <li>• Maximum Exposure of Product;</li> <li>• Client Entertainment Opportunity;</li> <li>• Cost;</li> <li>• Hassle Free Conditions.</li> </ul>	<ul style="list-style-type: none"> <li>• Maximum Exposure to Products;</li> <li>• Client Entertainment Opportunity;</li> <li>• Ability to Network;</li> <li>• Recreation and Tourism;</li> <li>• Hassle Free Conditions.</li> </ul>

Source: Johnson Consulting

Not one item can be specifically attributed for an association's site selection. The table above lists 25 key factors, all with varying influences on a site selection decision.

## Comparative Labor Structures

The predominant labor jurisdictions that have Collective Bargaining Agreements (CBAs) with the primary convention / exhibition facilities in the first-tier cities that compete with McCormick Place are as follows:

- **Chicago** (five labor jurisdictions) – Carpenters 10, Decorators 17, Teamsters 727, and Riggers 136. IBEW 134 also works at MPEA and its collective bargaining agreement is with Focus One.
- **New York City** (three labor jurisdictions) – Carpenters (NY District Council), Teamsters (IBT Local 807), and Electricians / Telecommunications Workers.
- **Las Vegas** (three labor jurisdictions) – Teamsters 613 LCA-Casual, outside labor source (only when Teamster's need additional manpower), and IBEW 357.
- **Orlando** (three labor jurisdictions) – IATSE 835 (primary union), IBEW 606, and Teamsters 385.

The following tables present a summary of key work rules in Chicago, New York City, Las Vegas and Orlando for common trades among the buildings (not all unions are listed for some cities as this analysis focuses solely on the jurisdictions that are responsible for the loading/unloading of freight, booth setup for exhibitors,

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and providing electrical service). Work rule restrictions, including minimum crew size requirements, restrictive straight time windows, required stand-by and non-working labor, and a high number of jurisdictions, along with relatively high labor costs, impact significantly on costs, productivity and Chicago's ability to compete with other cities.

**Table 2-3**

## Summary of Work Rules - Chicago

WORK RULES	Carpenters	Teamsters 727	Riggers Local 137	Decorators	IBEW
Required non working labor.	Yes, there can be 1 per floor/ per building per event	Yes, Steward is non working when more than 6 union workers are on a floor	Yes, One non working steward per level per show	Yes, 1 when 6 or more men are employed on one floor, 2 with 75 or more employed	No
Restrictive "straight time" window *	M-F, 7/8A.M.-3:30/4:30 P.M.	M-F, 8A.M.-4:30 P.M.	M-F, 8A.M.- 430P.M., 10 A.M.-6:30P.M., 12:30 A.M.-9P.M.	M-F, 8A.M.-10 A.M (start time), maximum 8 hours.	M-F, 7A.M.- 4:30 P.M. for 8 hours
Minimum work call.	2 hours before call, after work starts is 4 hours	4 Hours	4 Hours	4 Hours	4 Hours
Call by Name / Management Rights.	Yes	No	Yes, Foreman and 25 percent of work force	No	Yes, the foreman
Exhibitors allowed to install & dismantle own booth.	Only in booth of 300 sf or less. No power tools or ladders. Yes	Only in booth of 300 sf or less. No power tools or ladders.	Only in booth of 300 sf or less. No power tools or ladders.	Only in booth of 300 sf or less. No power tools or ladders.	Only in booth of 300 sf or less. No power tools or ladders.

\* Break of show Mon-Fri 4:30pm - 8:30pm ST, with exception of Teamsters.  
Source: Freeman, GES, Johnson Consulting

**Table 2-4**

## Summary of Work Rules - New York City

WORK RULES	Truck Drivers 807	Carpenters	I.A.T.S.E
Required Stand-By (non working) labor.	If foreman is used he doesn't have to perform any work performed by a regular employee	One per shift	No
Restrictive "straight time" window .	M-F, 7/8A.M. - 4/5 P.M.	M-F, Start time: 7-10A.M- for 8 hours	M-F, Start time: 6-9A.M. - for 8 hours
Minimum work call.	8 hours	4 hours	
Call by Name / Management Rights.	Yes- Up to 3 men from the (20-man list)	Yes- Employer has right to name foreman on each	Yes
Exhibitors allowed to install & dismantle own booth.	May provide own supervisors. All labor provided by NYCCOC.	May provide own supervisors. All labor provided by NYCCOC.	May provide own supervisors. All labor provided by NYCCOC.

Source: Freeman, GES, Johnson Consulting



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**Table 2-5**

<b>Summary of Work Rules - Las Vegas</b>	
<b>WORK RULES</b>	<b>Teamsters 631</b>
Required Stand-By (non working) labor.	One steward for 100 or more workers
Restrictive "straight time" window .	M-F, 6A.M.-10 P.M. 8 hours
Minimum work call.	4 Hours
Call by Name / Management Rights.	Yes
Exhibitors allowed to install & dismantle own booth.	May setup own exhibits without assistance from union.
Source: Freeman, GES, Johnson Consulting	

**Table 2-6**

<b>Summary of Work Rules - Orlando</b>	
<b>WORK RULES</b>	<b>I.A.T.S.E. 835</b>
Required Stand-By (non working) labor.	No
Restrictive "straight time" window .	M-F, 6A.M.- 9P.M. for 8 hours
Minimum work call.	4
Call by Name / Management Rights.	Yes
Exhibitors allowed to install & dismantle own booth.	May use ladders & power tools.
Source: Freeman, GES, Johnson Consulting	

The hourly price of labor in Chicago is consistently higher than the U.S. average across all trades, as is the case in New York City. In contrast, prices in Orlando are consistently lower than the national average, while hourly rates in Las Vegas are generally more closely aligned with U.S. figures.

## Labor, Funding Sources & Adjacent Support Environment

In addition to the labor and work rule challenges, MPEA's current legislation has several significant liabilities, which include an inability to move dollars from operation and capital categories. The other issue is the extraordinary costs related to building these facilities. Capacity to maintain and expand facilities and to invest strategically in growing demand and competing on cost issues does not exist. As a result, the attached Hyatt hotel is a key contributor to balancing the operating revenue for MPEA, and forces McCormick Place to charge high rates for building rent, electrical service, and food service, producing a serious competitive disadvantage when competing against other facilities nationally. Without the Hyatt, the funding situation at the MPEA would be even more dire.

The following table provides a breakdown of revenue for each entity associated with MPEA.

**Table 2 - 7**

McCormick Place - Importance of Hotel to MPEA Surplus/(Deficit)- \$ Millions				
Fiscal Year	McCormick, Corp Center & Energy			
	Center	Navy Pier	Hyatt Hotel	Total MPEA
2002	(24.3)	(4.7)	15.2	(13.8)
2003	(10.4)	(3.7)	17.0	2.9
2004	(23.0)	2.1	12.6	(8.3)
2005	(20.0)	5.7	14.2	(0.1)
2006	(11.0)	3.6	18.2	10.8
2007	(9.0)	3.5	22.1	16.6
2008	(19.9)	3.2	24.8	8.1
2009	(22.7)	2.0	17.4	(3.4)
<b>Total</b>	<b>(140.3)</b>	<b>11.7</b>	<b>141.5</b>	<b>12.8</b>

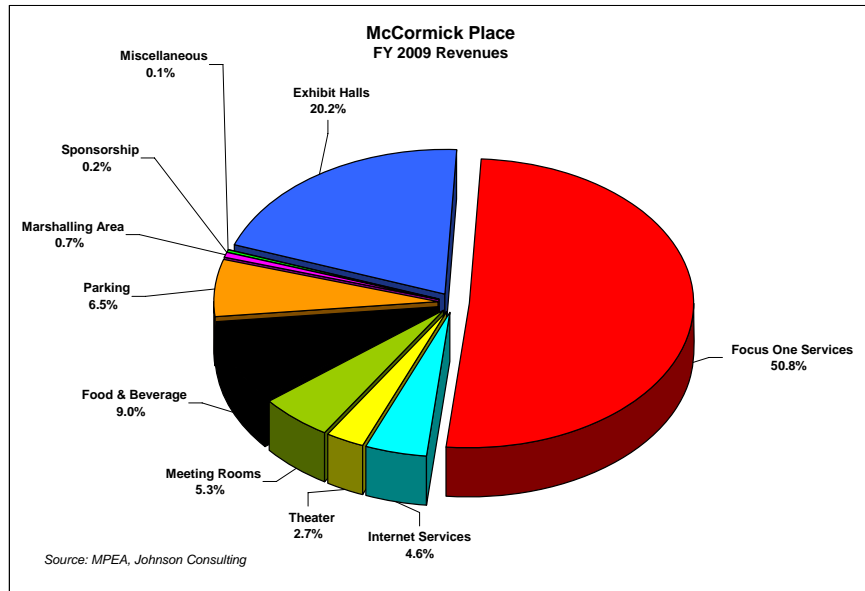
Source: MPEA, Johnson Consulting

In 2009, slightly more than half of the MPCC revenue or 50.8 percent was derived from Focus One Services, which are the utility services provided by McCormick Place for services such as: electrical, plumbing, telecommunications and internet. Another key provider of revenue is rent, which is broken down above into exhibit halls, meeting rooms, and theater. The combined total collected for rent accounts for 28.2 percent of the total operating revenue.

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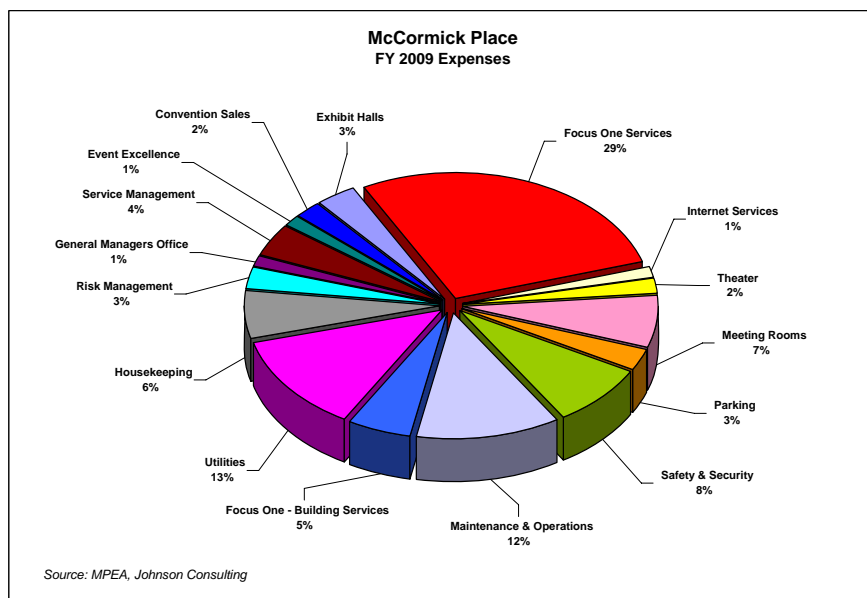
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Figure 2 - 1



The majority of the MPCC expenses, or approximately 30 percent, consist of Focus One Services. Focus One operates as a huge profit center for McCormick Place, with approximately a 17 percent profit margin. Utilities and maintenance round off the top three expenses for McCormick place with 13 and 12 percent respectively.

Figure 2 - 2



## Challenge

Internalizing Focus One has been profitable for the operations at McCormick Place, but has both advantages and disadvantages for the MPEA. Because the venue operates in a closed system, without any operating subsidy, MPEA has been forced to rely on its prime source of income, Focus One. As such, the MPEA has had to take on a similar role as the show contractors, marking up labor and charging fees where it can. Pricing for food service has also been reported as high for much the same reason. There also is no safety net being built and year-to-year fluctuations in operating revenues constrain sound long-term facility management and limit the building's flexibility in providing resources or incentives for shows to remain in Chicago.

MPEA's capital budget depends on the issuance of revenue bonds secured by certain taxes (bed, car rental, restaurant, and taxi). Tax collections, which can vary widely, have not kept pace with payment obligations in recent years due to the economic downturn and the downsizing and loss of shows. Finally, the MPEA has no ability to interchange capital funds and operating funds as special needs arise.

## Observations

MPEA has been savvy enough to suffer through the last decade using earned revenues and cutting costs. As compared to other major U.S. cities, Chicago is neither New York nor Los Angeles. New York has limited space and does not target the rotating show market like Chicago. Ninety percent of its business is repeating shows. Los Angeles has never been a player in the convention market. Like New York, Los Angeles has a stable of repeating events. It has abandoned the rotating convention market to Anaheim, San Diego and Las Vegas. Chicago, however, is different. It is a player in annually repeating tradeshow, but is also a player in rotating conventions. Chicago is now competitive with Orlando, Las Vegas, Atlanta, New Orleans, Boston and a whole host of smaller cities such as San Antonio, Indianapolis, and Minneapolis. As such, its event profile is more elastic, or sensitive, to price. Labor improvements are needed at the MPEA to address this concern. Supplemental dedicated revenue is needed by MPEA to reduce its reliance on services income, at the expense of losing shows to its competition. Competitive venues receive subsidies equating to twenty to thirty percent of their annual operating budget.

## Economic Consequences of Current Labor Agreements

It is true that the work rules regarding stand-by labor and non-working stewards are a source of additional income to Chicago's union workers. As a result, every show that comes to McCormick Place is a source of income for a greater number of workers. However, these same rules have created a situation in which Chicago has lost a competitive edge due to increased labor costs which many customers are resentful or, worst case, unwilling to pay.

While this incremental income is a positive to labor that works at McCormick Place, the magnitude of the financial impact is far outweighed by the negative impacts of losing shows because of it. These negative impacts are felt by Chicago's workers both inside and outside the building. The AFL-CIO and the Chicago Federation of Labor are the ones who should be of greatest concern, as they have the macro responsibility for labor. Work rule decisions that gain extra jobs annually at McCormick Place are actually costing many multiples of that gain to the broader, overall labor work volume in the City and State.

## Lessons from a Departing Show

The International Plastics Showcase (Plastics Show) is an event organized by the Society of the Plastics Industry that has left Chicago. It was last held in McCormick Place on June 22 through 26, 2009. The event showcased 1,580 booths of exhibits over five days with over 740,000 square feet of exhibit space rented, and attracted over 43,000 attendees.

The negative financial impacts of losing such a show are clear:

- \$4.8 million of revenues to McCormick Place,
- Over 28,000 reported room nights to area hotels<sup>1</sup>, and
- The spending of 43,000 visitors, plus thousands of exhibit personnel, press, and show staff that came to Chicago.

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<sup>1</sup> Note: The room nights summarized in the recap report relate to only those reported by the CCTB. It is unclear if the reported room nights include exhibiting personnel, or those outside CCTB's room block. It is our experience they do not; it is our best estimate that exhibitors add approximately 12,000 additional room nights and the reported room nights by attendees is understated by 50%; In the future, both the MPEA and CCTB should work to improve the quality of presentation clarity of show recap and demographic data collected for each show.

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The following table presents a summary of the economic impacts caused by the departure of the Plastics Show. These impacts not only affect McCormick Place, but also those who work there and those businesses and employees who rely heavily on such events booking in Chicago. The table demonstrates a powerful point concerning the importance that a single show has on the economy of Chicago as well as the citizens who live and work here. Chicago's inability to offer a competitive product does have significant consequences.

**Table 2 - 8**

<b>Impact Summary</b>				
<b>The International Plastics Showcase</b>				
<b>Direct Impacts</b>				
McCormick Place Revenue	\$4,794,000			
Labor				
Electrical	16	FTEs		
Other Event Labor	52	FTEs		
			119,068	man-hours
<b>Direct Impacts</b>				
Hotel Revenue	\$9,988,000			
Dining & Retail Revenue	\$7,048,000			
Labor				
Hotel	111	FTEs		
Dining & Retail	90	FTEs		
<b>Fiscal Impacts</b>				
Tax Revenues	\$2,613,052			
<i>Source: Johnson Consulting</i>				

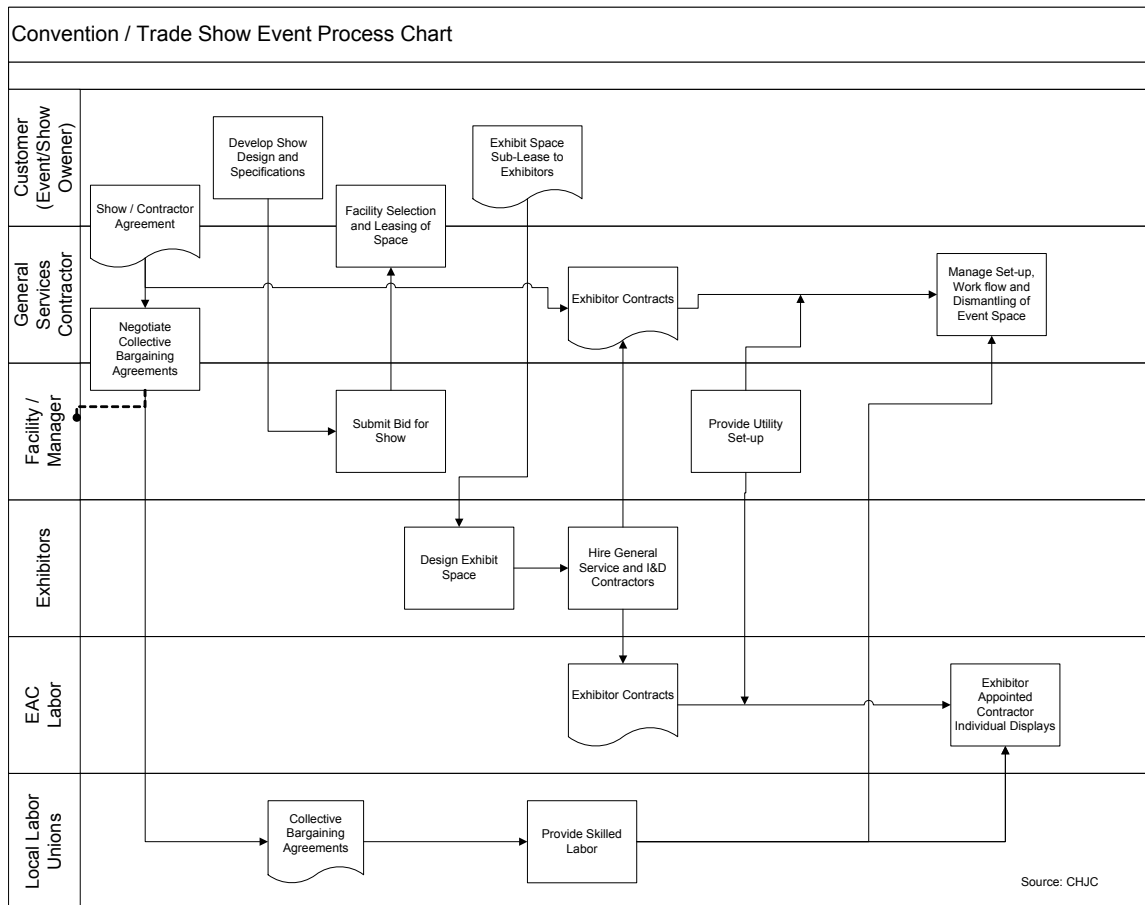
This analysis has a very positive flip side. Every new show has the reverse effect. Further, if work rules incentivize shorter show dates, i.e., less time required to move in and out of the building, substantially more windows for events could be made available at McCormick Place.

## How An Event Works

### Summary of Convention/Trade Show Operations

Figure 3-1 provides a process chart, outlining the various parties involved in the execution an event.

Figure 3-1



Several disparate, but integral parties are involved. Whether in Chicago, or other cities throughout the country, the relationship and interaction between these parties varies depending on a number of factors, including pricing policies, accepted labor practices, skill sets and costs. The above flow chart is important in understanding the array of influencing variables that a show manager faces when deciding on a site:

- The customer, from the venue's perspective, is the sponsor of a show. This is typically an association or large corporation with an in-house show manager. The show manager leases the floor space from the convention center on a



wholesale basis and then “subleases” portions of that space to individuals or companies who are attempting to sell products or services from booth space at the show.

- These “sub-lessees” are known as “exhibitors”. This leased exhibit space is then transformed according to the exhibitor’s specifications into the desired booth space. The level of work required to prepare both space for a show can vary considerably from a very simple pop up booth to an elaborate construction of an entire operating printing press. Some displays include advanced audio-visual, technological and mechanical features. Each show may have hundreds of exhibitors each with their own booth designs and specifications in addition to the show’s support spaces, which are controlled by the show manager.
- In order to execute an event and serve as the interface between individual exhibitors and the show itself, and to perform the necessary work to deliver, set up, dismantle, and remove the event, the show manager hires a general service contractor or “contractor”. The contractor is sometimes referred to as the “decorator”. Due to the complexity of setting up some shows, the agreement between the show manager and contractor is often a long-term contract in which the contractor will travel with a show across the country. Several national and regional contractors provide rental equipment, such as carpet and furniture, coordinate the receipt and return of goods sent to the site by customers, manage the labor, and plan the workflow of a show. The contractor is responsible for contracting the majority of the labor associated with a show, typically contracting with local unions and labor pools under collective bargaining agreements to provide the labor that general service contractor will need to serve its customers.
- In addition to providing the exhibit space to the customer, the convention center arranges for certain services important to attendees and exhibitors. Some buildings provide labor, cleaning, electrical, telecommunications, AV, food service, either with their staff or with vendors. Electrical, telecommunication, plumbing, gas, and air are most typical because building staff understand the operation of equipment that is actually installed in the building. Hence, like a show contractor, because of the swings in labor needs, a convention center usually contracts with local electricians’, plumbers’, and carpenters’ unions for utility set-up for the event as a whole and for the individual exhibitor spaces as needed. These functions are coordinated by the show’s contractor and the building together.

For those exhibitors who have large or complicated exhibits that routinely travel all over the country, many such exhibitors will choose to use either their own crews or will contract with an outside company to be responsible for the installation and dismantling of their exhibit. These installation and dismantle companies historically were known as “I&Ds” but are now referred to as Exhibitor Appointed Contractors (EACs); and, they typically will be hired by a large exhibitor to travel around the country installing and

dismantling their exhibit at different trade shows, in much the same manner a motor racing pit crew will follow its driver from venue to venue.

EAC agreements proliferated in the 1980s when shows were at their peak and contractors could not provide adequate labor to exhibitors due to overwhelming demand. Although these EAC companies often have their own labor agreements for their traveling “pit crew”, they must contract directly with local unions for any additional man power they may need to set up the exhibit. Such additional man power is then provided in accordance with the applicable work rules for that convention center under the collective bargaining agreements held with the show appointed contractor. In addition, the EAC companies must have the necessary permits to work in the facility. Exhibitors that use EAC’s typically are not the issue complaint-wise for a building or facility. Their crew is trained and the size of the event is so large that the cost of labor pales in comparison to other costs borne to develop and ship the exhibit.

Nationally, there are two major contracting firms, Freeman and GES. Because these firms work throughout the country, they have an excellent understanding of the different labor practices and work rule nuances in each city. They are considered to be an integral extension of a show’s staff and are relied upon to help a show make decisions regarding city and venue selection based on their knowledge and experience. Because understanding the cost and other implications of each city’s labor agreements is vital to the success of a show, a show will typically not move into a city without adequate knowledge of the labor situation.

## Consequences Matrix

The following table provides a summary of the key parties involved in the execution of an event, identifying their motivation and actions, along with the effects and long-term consequences of decisions made throughout the process on each of the parties involved.

Table 3-1

Consequence Matrix				
Influencer	Motivation	Action	Effect	Long-Term Consequence
<b>Show Owner/Promoter</b>	To retain & attract as many exhibitors as possible; To make as much money on the show as possible- shows often = 50% or more of an Association's annual budget	- Site selection (City amenities, Building attributes, cost) - Marketing & Promotions	- Rising cost to exhibitor causes increase in complaints; may or may not actually affect exhibitor return but complaints are worrisome to show owner	Show promoter pay costs for their space; Many buildings comp this area, but show management does pay for labor to set up their area; <b>Materiality of labor cost to overall costs-low</b> ; More influenced by complaints from exhibitors and influence of general services contractor, who often sits at table for site selection decisions; Pays for bussing, which is present for all larger shows. Poor adjacent hotel supply is a factor in Chicago.
<b>Contractor/Decorator</b>	Profit, customer success	Influences show owner to select venue where profit margins are highest	- Following the above, the contractor helps steer show to a "cheaper" city & venue - Greater profit margin for contractor at new location	Contractor negotiates labor agreements w/ most trades (except for Electrical at MPEA); Marks labor up 35+%. Expensive labor market is a good thing if they can get mark up on bigger labor expense billed to exhibitor; However, margin is reduced if they have to pay for non-working steward time and standing labor calls. <b>Materiality of labor cost-low to moderate, as contractor has plethora of profit centers in a show's production.</b>
<b>Exhibitor</b>	- Sale of Products & Services - High Attendee circulation at booth	- Rent floor space - Social & Hospitality events - Booth promotions - Pay for floor services - Occupy hotels & Patronize local businesses	As costs increase, exhibitors demand concessions, downsize booth size, request new & cheaper venue, or won't exhibit at all	Trade shows are a part of a firm's marketing expense; For larger firms, can be very small in terms of overall marketing expense; for smaller firms, can be a major investment; labor cost to an exhibitor is small in relation to other expenses- air, hotel, client entertainment, cross country booth shipping, booth development. Exhibitor needs good labor and Chicago has the best in the nation. What is troublesome is the inability to do easy tasks, and being charged on multi-jurisdictional duties, that really aren't such, <b>comparatively</b> high minimums. Cost is a factor and for small firms can be material, and some work rules in Chicago, while not material cost wise, are an inconvenience. The show manager hears these complaints.
<b>Attendee</b>	- Learn about new services and products - Networking - Education	- Pay for admission to event - Attend events & education sessions - Occupy hotels & Patronize local businesses	As less exhibitors display, fewer attendees come	Loss of Plastics show cost area hotels, retail, and restaurants \$17.1 million in sales and the equivalent of 103,500 man-hours of exhibit labor at McCormick Place, 113 jobs at hotels, and 90 jobs at retail and restaurant establishments.
<b>Building</b>	- <b>Forgotten mandates</b> - Advancement of Economic Sectors; redevelopment of adjacent neighborhoods - <b>Visible mandate</b> Generation of Tourism Economic Impact	- Lease space to show owner - Provide some or all services	As fewer shows, exhibitors, and attendees come, economic impact decreases; Absence of strategy and funding mechanism to target strategic industry sectors undermines regional industry base; Disassociation with funding from adjacent environment reduces adjacent economic environment's stewardship	Labor is a double edged sword for MPEA; Given its financial structure, electrical / technology yield substantial operating resources - MPEA does the same as decorators-exploits what it can.
<b>Labor</b>	- Work the most hours possible & Protect and grow jurisdiction	Work the show as dictated in CBAs; Broader labor has complete unawareness of the shortsightedness of protection within MPEA work rules- costs jobs at MPEA <b>AND</b> outside the building	Loss of work due to shows leaving or fewer overall exhibitors; Labor is correct, if they concede on work rules, a beneficiary is the show contractor; There is no mechanism to guarantee savings pass to the end user; Hence, more labor controlled by MPEA, the greater the chance savings are passed to end user, <b>IF</b> MPEA has alternative operating resources	Labor work rules have negatively impacted bigger \$ opportunity and have city-wide labor effect (Unite One, other City and State labor sectors); <b>Loss of shows is material to the City, state, labor that serves MPEA and associated businesses- hotels, restaurants, retail; Loss of \$ by unions due to work rule improvements is not material.</b>

Source: Convention/ Exhibition Facilities in Respective Cities, Johnson Consulting

## Show Operator / Promoter

The show operator / promoter is primarily driven by a desire to retain and attract as many exhibitors as possible, while also maximizing the amount of money made by the show or event. The primary responsibilities of the show owner include site selection, marketing and promotion.

Table 3-2

Show Owner / Promoter	
<b>Motivation</b> <ul style="list-style-type: none"> <li>▪ To retain &amp; attract as many exhibitors as possible;</li> <li>▪ To make as much money on the show as possible - shows often = 50% or more of an Association's annual budget.</li> </ul>	<b>Action</b> <ul style="list-style-type: none"> <li>▪ Site selection (City amenities, Building attributes, cost);</li> <li>▪ Marketing &amp; Promotions</li> </ul>
<b>Effect</b> <ul style="list-style-type: none"> <li>▪ Rising cost to exhibitor causes increase in complaints;</li> <li>▪ May or may not actually affect exhibitor return but complaints are worrisome to show owner.</li> </ul>	
<b>Long Term Consequences</b> <ul style="list-style-type: none"> <li>▪ Show promoter pay costs for their space;</li> <li>▪ Many buildings comp this area, but show management does pay for labor to set up their area;</li> <li>▪ <b>Materiality of labor cost to overall costs-low</b>;</li> <li>▪ More influenced by complaints from exhibitors and influence of general services contractor, who often sits at table for site selection decisions;</li> <li>▪ Pays for bussing, which is present for all larger shows.</li> <li>▪ Poor adjacent hotel supply is a factor in Chicago.</li> </ul>	

Source: Johnson Consulting

The show owner pays labor to set up their space, although the materiality of labor costs to overall costs is low. The show owner is more concerned about rising costs to exhibitors, which ultimately result in increasing complaints that are worrisome to the show owner. For larger shows, the show owner is also responsible for bussing, with the poor supply of adjacent hotels a key issue in Chicago.

## Contractor / Decorator

The primary motivations of the contractor are maximizing their profit, while also achieving a successful outcome for their clients. The contractor plays a key role in site selection, often influencing the show owner to select a venue where profit margins are greatest.

Table 3-3

Contractor / Decorator	
<b>Motivation</b> <ul style="list-style-type: none"> <li>▪ Profit;</li> <li>▪ Customer success</li> </ul>	<b>Action</b> <ul style="list-style-type: none"> <li>▪ Influences show owner to select venue where profit margins are highest.</li> </ul>
<b>Effect</b> <ul style="list-style-type: none"> <li>▪ Following the above, the contractor helps steer show to a "cheaper" city &amp; venue;</li> <li>▪ Greater profit margin for contractor at new location.</li> </ul>	
<b>Long Term Consequences</b> <ul style="list-style-type: none"> <li>▪ Contractor negotiates labor agreements w/ most trades (except for Electrical at MPEA);</li> <li>▪ Marks labor up 35% +;</li> <li>▪ Expensive labor market is a good thing if they can get mark up on bigger labor expense billed to exhibitor;</li> <li>▪ However margin is reduced if they have to pay for non-working steward time and standing labor calls;</li> <li>▪ <b>Materiality of labor costs-low to moderate, as contractor has plethora of profit centers in a show's production.</b></li> </ul>	

Source: Johnson Consulting

The contractor negotiates labor agreements with most trade jurisdictions (except Electrical in Chicago), and typically applies a mark-up of 35 percent or higher. Materiality of labor costs is low to moderate, as the contractor has a plethora of profit centers in a show's production.

## Exhibitor

An exhibitor seeks a high attendee circulation at their booth to maximize the sale of products and services. As costs increase, exhibitors demand concessions, downsize their booths, request new and cheaper venues, or remove their exhibit from the show.

Table 3-4

Exhibitor	
<b>Motivation</b> <ul style="list-style-type: none"> <li>▪ Sale of Products &amp; Services;</li> <li>▪ High Attendee circulation at booth</li> </ul>	<b>Action</b> <ul style="list-style-type: none"> <li>▪ Rent floor space;</li> <li>▪ Social &amp; Hospitality events;</li> <li>▪ Booth promotions;</li> <li>▪ Pay for floor services;</li> <li>▪ Occupy hotels &amp; Patronize local businesses.</li> </ul>
<b>Effect</b> <ul style="list-style-type: none"> <li>▪ As costs increase, exhibitors demand concessions, downsize booth size, request new &amp; cheaper venue, or won't exhibit at all.</li> </ul>	
<b>Long Term Consequences</b> <ul style="list-style-type: none"> <li>▪ Trade shows are a part of a firm's marketing expense;</li> <li>▪ For larger firms, can be very small in terms of overall marketing expense;</li> <li>▪ For smaller firms, can be a major investment;</li> <li>▪ Labor cost to an exhibitor is small in relation to other expenses - air, hotel, client entertainment, cross country booth shipping, booth development.</li> <li>▪ Exhibitor needs good labor and Chicago has the best in the nation.</li> <li>▪ What is troublesome is the inability to do easy tasks and being charged on multi-jurisdictional duties, that really aren't such, comparatively high minimums.</li> <li>▪ Cost is a factor and for small firms can be material, and some work rules in Chicago, while not material cost wise, are an inconvenience. The show manager hears these complaints.</li> </ul>	

Source: Johnson Consulting

Trade shows are part of a firm's marketing expense, and for smaller firms in particular can be a major investment. An exhibitor requires good labor, and Chicago offers the best labor in the nation. However, small exhibitors have a fundamental issue with not being allowed to carry out their own, easy tasks. These complaints are directed to the show manager and general service contractors, as well as the building.

## Attendee

An attendee is driven by a desire to learn about new services and products, and to network with colleagues. In attending a show, an attendee will pay for registration for the show, attend events and education sessions, occupy hotels and patronize local businesses. Labor does not directly interface with attendees. As less exhibitors display, less attendees will come.

**Table 3-5**

<b>Attendee</b>	
<b>Motivation</b> <ul style="list-style-type: none"> <li>▪ Learn about new services and products;</li> <li>▪ Networking;</li> <li>▪ Education.</li> </ul>	<b>Action</b> <ul style="list-style-type: none"> <li>▪ Pay for admission to event;</li> <li>▪ Attend events &amp; education sessions;</li> <li>▪ Occupy hotels &amp; Patronize local businesses.</li> </ul>
<b>Effect</b> <ul style="list-style-type: none"> <li>▪ As less exhibitors display, fewer attendees come.</li> </ul>	
<b>Long Term Consequences</b> <ul style="list-style-type: none"> <li>▪ Loss of Plastics show cost area hotels, retail, and restaurants \$17.1 million in sales and the equivalent of 103,500 man-hours of exhibit labor at McCormick Place, 113 jobs at hotels, and 90 jobs at retail and restaurant establishments.</li> </ul>	

Source: Johnson Consulting

## Building

The mandates that underpinned the development of McCormick Place (industry sector support, tourism) seem to have been forgotten. As fewer shows, exhibitors and ultimately attendees are attracted to the venue, the economic impact declines. The absence of a strategy and funding mechanism to target strategic industry sectors undermines the regional industry cluster base.



**Table 3-6**

<b>Building</b>	
<b>Motivation</b> <ul style="list-style-type: none"> <li>▪ <b>Forgotten mandates;</b></li> <li>▪ Advancement of Economic Sectors;</li> <li>▪ Redevelopment of adjacent neighborhoods;</li> <li>▪ <b>Visible mandate;</b></li> <li>▪ Generation of Tourism Economic Impact.</li> </ul>	<b>Action</b> <ul style="list-style-type: none"> <li>▪ Lease space to show owner;</li> <li>▪ Provide some or all services</li> </ul>
<b>Effect</b> <ul style="list-style-type: none"> <li>▪ As fewer shows, exhibitors, and attendees come, economic impact decreases;</li> <li>▪ Absence of strategy and funding mechanism to target strategic industry sectors undermines regional industry base;</li> <li>▪ Disassociation with funding from adjacent environment reduces adjacent economic environment's stewardship.</li> </ul>	
<b>Long Term Consequences</b> <ul style="list-style-type: none"> <li>▪ Labor is a double edged sword for MPEA;</li> <li>▪ Given its financial structure, electrical / technology substantial operating resources;</li> <li>▪ MPEA does the same as decorators - exploits what it can.</li> </ul>	

Source: Johnson Consulting

## Labor

Labor is motivated by a desire to work the most hours possible and protect and grow their jurisdictions. These jurisdictions work on the shows as dictated in the CBAs, and lose work when a show leaves or the number of overall exhibitors decreases.

Table 3-7

Labor	
<b>Motivation</b> <ul style="list-style-type: none"><li>▪ Work the most hours possible;</li><li>▪ Protect and grow jurisdiction.</li></ul>	<b>Action</b> <ul style="list-style-type: none"><li>▪ Work the show as dictated in CBAs;</li><li>▪ Broader labor has complete unawareness of the shortsightedness of protection within MPEA work rules- costs jobs at MPEA <b>AND</b> outside the building.</li></ul>
<b>Effect</b> <ul style="list-style-type: none"><li>▪ Loss of work due to shows leaving or fewer overall exhibitors;</li><li>▪ Labor is correct, if they concede on work rules, a beneficiary is the show contractor;</li><li>▪ There is no mechanism to guarantee savings pass to the end user; Hence, more labor controlled by MPEA, the greater the chance savings are passed to end user, <b>IF</b> MPEA has alternative operating resources.</li></ul>	
<b>Long Term Consequences</b> <ul style="list-style-type: none"><li>▪ Labor work rules have negatively impacted bigger \$ opportunity and have city-wide labor effect (Unite One, other City and State labor sectors);</li><li>▪ Loss of shows is material to the City, state, labor that serves MPEA and associated businesses- hotels, restaurants, retail;</li><li>▪ Loss of \$ by unions due to work rule improvements is not material.</li></ul>	

Source: Johnson Consulting

The loss of shows is material to the City, State, and labor that serves MPEA and associated businesses, including hotels, restaurants and retail.

## Site Selection – A Complex Algorithm

The following table presents the key factors that motivate and influence each of the parties. Labor and show contractors are a means to an end, not the influencer themselves.

**Table 3-8**

<b>Site Selection - A Complex Algorithm</b> <b>Always a Series of Compromises</b>				
<b>City</b>	<b>Convention Center</b>	<b>Show Manager</b>	<b>Exhibitor</b>	<b>Attendee</b>
<ul style="list-style-type: none"> <li>• Hotel Proximity;</li> <li>• Tourist Amenities;</li> <li>• Overall Hotel Supply;</li> <li>• Air Service;</li> <li>• Culture;</li> <li>• Industry Presence;</li> <li>• Marketing &amp; Sales.</li> </ul>	<ul style="list-style-type: none"> <li>• Size;</li> <li>• Configuration of Space;</li> <li>• Professionalism &amp; Service;</li> <li>• Cost;</li> <li>• Show Manager, Exhibitor &amp; Attendee Respect;</li> <li>• Marketing &amp; Sales.</li> </ul>	<ul style="list-style-type: none"> <li>• Income from Show;</li> <li>• Consistency with Economic Cluster;</li> <li>• Exhibitor Services;</li> <li>• Attendee Services;</li> <li>• Hassle Free Conditions.</li> </ul>	<ul style="list-style-type: none"> <li>• Maximum Exposure of Product;</li> <li>• Client Entertainment Opportunity;</li> <li>• Cost;</li> <li>• Hassle Free Conditions.</li> </ul>	<ul style="list-style-type: none"> <li>• Maximum Exposure to Products;</li> <li>• Client Entertainment Opportunity;</li> <li>• Ability to Network;</li> <li>• Recreation and Tourism;</li> <li>• Hassle Free Conditions.</li> </ul>

Source: Johnson Consulting

Not one item can be blamed for an association's site selection. The table above lists 25 key factors, all with varying influences on a site selection decision.

## COMPARATIVE LABOR STRUCTURES AND ARRANGEMENTS

This section compares the key attributes of exhibit labor in the first-tier cities and convention / exhibition centers that are competing with McCormick Place in Chicago. The competitive set is defined as follows:

### Primary Convention / Exhibition Facility

- Chicago, Illinois.....McCormick Place
- New York City, New York.....Jacob K. Javits Convention Center
- Las Vegas, Nevada.....Las Vegas Convention Center
- Orlando, Florida.....Orange County Convention Center

The predominant labor jurisdictions that have Collective Bargaining Agreements (CBAs) with the primary convention / exhibition facilities listed above include:

- **Chicago** (five labor jurisdictions) – Carpenters 10, Decorators 17, Teamsters 727, and Riggers 136. IBEW 134 also works at MPEA and its collective bargaining agreement is with Focus One.
- **New York City** (three labor jurisdictions) – Carpenters (NY District Council), Teamsters (IBT Local 807), and Electricians / Telecommunications Workers.
- **Las Vegas** (three labor jurisdictions) – Teamsters 613 LCA-Casual, outside labor source (only when Teamster’s need additional manpower), and IBEW 357.
- **Orlando** (three labor jurisdictions) – IATSE 835, IBEW 606, and Teamsters 385.

Given that there are significant variations in the number and types of labor teams working in each of the cities, this analysis focuses solely on the jurisdictions that are responsible for the loading/unloading of freight, booth setup for exhibitors, and providing electrical service. It is further noted that information is not equally available for all of the competing cities since some cities make more information available than others.

## Summary of Work Rules

Table 4-1 to presents a summary of key work rules in Chicago, New York City, Las Vegas and Orlando for common trades among the buildings (not all unions are listed for some cities). Work rule restrictions, including minimum crew size requirements, restrictive straight time windows, required stand-by and non-working labor, and a high number of jurisdictions, along with relatively high labor costs, impact significantly on costs, productivity and Chicago’s ability to compete with other cities.

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**Table 4-1**

## Summary of Work Rules - Chicago

WORK RULES	Carpenters	Teamsters 727	Riggers Local 137	Decorators	IBEW
Required non working labor.	Yes, there can be 1 per floor/ per building per event	Yes, Steward is non working when more than 6 union workers are on a floor	Yes, One non working steward per level per show	Yes, 1 when 6 or more men are employed on one floor, 2 with 75 or more employed	No
Restrictive "straight time" window *.	M-F, 7/8A.M.-3:30/4:30 P.M.	M-F, 8A.M.-4:30 P.M.	M-F, 8A.M.- 430P.M., 10 A.M.-6:30P.M., 12:30 A.M.- 9P.M.	M-F, 8A.M.-10 A.M (start time), maximum 8 hours.	M-F, 7A.M.- 4:30 P.M. for 8 hours
Minimum work call.	2 hours before call, after work starts is 4 hours	4 Hours	4 Hours	4 Hours	4 Hours
Call by Name / Management Rights.	Yes	No	Yes, Foreman and 25 percent of work force	No	Yes, the foreman
Exhibitors allowed to install & dismantle own booth.	Only in booth of 300 sf or less. No power tools or ladders. Yes	Only in booth of 300 sf or less. No power tools or ladders.	Only in booth of 300 sf or less. No power tools or ladders.	Only in booth of 300 sf or less. No power tools or ladders.	Only in booth of 300 sf or less. No power tools or ladders.

\* Break of show Mon-Fri 4:30pm - 8:30pm ST, with exception of Teamsters.  
Source: Freeman, GES, Johnson Consulting

**Table 4-2**

## Summary of Work Rules - New York City

WORK RULES	Truck Drivers 807	Carpenters	I.A.T.S.E
Required Stand-By (non working) labor.	If foreman is used he doesn't have to perform any work performed by a regular employee	One per shift	No
Restrictive "straight time" window .	M-F, 7/8A.M. - 4/5 P.M.	M-F, Start time: 7-10A.M- for 8 hours	M-F, Start time: 6-9A.M. - for 8 hours
Minimum work call.	8 hours	4 hours	
Call by Name / Management Rights.	Yes- Up to 3 men from the (20-man list)	Yes- Employer has right to name foreman on each	Yes
Exhibitors allowed to install & dismantle own booth.	May provide own supervisors. All labor provided by NYCCOC.	May provide own supervisors. All labor provided by NYCCOC.	May provide own supervisors. All labor provided by NYCCOC.

Source: Freeman, GES, Johnson Consulting

**Table 4-3**

## Summary of Work Rules - Las Vegas

WORK RULES	Teamsters 631
Required Stand-By (non working) labor.	One steward for 100 or more workers
Restrictive "straight time" window .	M-F, 6A.M.-10 P.M. 8 hours
Minimum work call.	4 Hours
Call by Name / Management Rights.	Yes
Exhibitors allowed to install & dismantle own booth.	May setup own exhibits without assistance from union.

Source: Freeman, GES, Johnson Consulting

Table 4-4 Summary of Work Rules - Orlando	
WORK RULES	I.A.T.S.E. 835
Required Stand-By (non working) labor.	No
Restrictive "straight time" window .	M-F, 6A.M.- 9P.M. for 8 hours
Minimum work call.	4
Call by Name / Management Rights.	Yes
Exhibitors allowed to install & dismantle own booth.	May use ladders & power tools.
Source: Freeman, GES, Johnson Consulting	

## Wages and Benefits

Table 4-5 compares the straight time wages and benefits for the labor jurisdictions in each city. Exhibit labor wages and benefits are generally consistent with those recorded in Las Vegas, substantially lower than those in New York City and higher than wages and benefits for exhibit labor in Orlando.

Table 4- 5 Wages* - Chicago and Competitive Cities Carpenters and Teamsters				
	CHICAGO	NEW YORK CITY	LAS VEGAS	ORLANDO
<b>Carpenters</b>				
Straight Time (ST)	\$36.52	\$40.25		
Over Time (OT)	\$54.78	\$60.38		
Double Time (DT)	\$73.04	\$80.50		
<b>Teamsters</b>				Lead Person Rate
Straight Time (ST)	\$21.60	\$33.48	\$25.60	\$19.20
Over Time (OT)	\$32.40	\$50.22	\$38.40	\$28.80
Double Time (DT)	\$43.20	\$66.96	\$51.20	\$38.40
* All wages reflect journeyman rates (2006), unless otherwise specified				
Source: Convention/ Exhibition Facilities in Respective Cities, CHJC 2006 Javits Report, Johnson Consulting				

## Cost of Living Differential

Chicago is ranked 126<sup>th</sup> in the national cost of living index, where the U.S. average is 100. When compared to the competitive cities, the cost of living in New York City is 31 percent higher than in Chicago, while the cost of living in Las Vegas and Orlando is 25 percent and 17 percent less expensive, respectively. Put another way, the cost of living in Chicago is 24 percent lower than New York but considerably higher than Las Vegas (34 percent) and Orlando (21 percent).

**Table 4- 6**

**Cost of Living Index - Chicago and Competitive Cities**

	CHICAGO	NEW YORK CITY	LAS VEGAS	ORLANDO
Index (U.S. Average = 100)	126	165	94	104
Cost of living relative to Chicago	0%	31%	-25%	-17%

Source: Sperling's, Johnson Consulting

The wage and benefits differential discussed above essentially reflects the differences in the cost of living in each of the competitive cities, with wages and benefits being highest in New York City and Chicago where the cost of living is higher. Intuitively, labor should be more expensive in Chicago than Las Vegas and Orlando, and straight time charges in Chicago are in line with these indices, as shown in Table 4-6. It is the work rules and exhibitor rights issues that are inconsistent.

### Hourly Price of Each Trade

The hourly price of labor in Chicago is consistently higher than the U.S. average across all trades, as is the case in New York City. In contrast, prices in Orlando are consistently lower than the national average, while hourly rates in Las Vegas are generally more closely aligned with U.S. figures.

**Figure 4- 1**

**Difference in Price of Labor to Exhibitor  
Relative to U.S. Average (2009)**

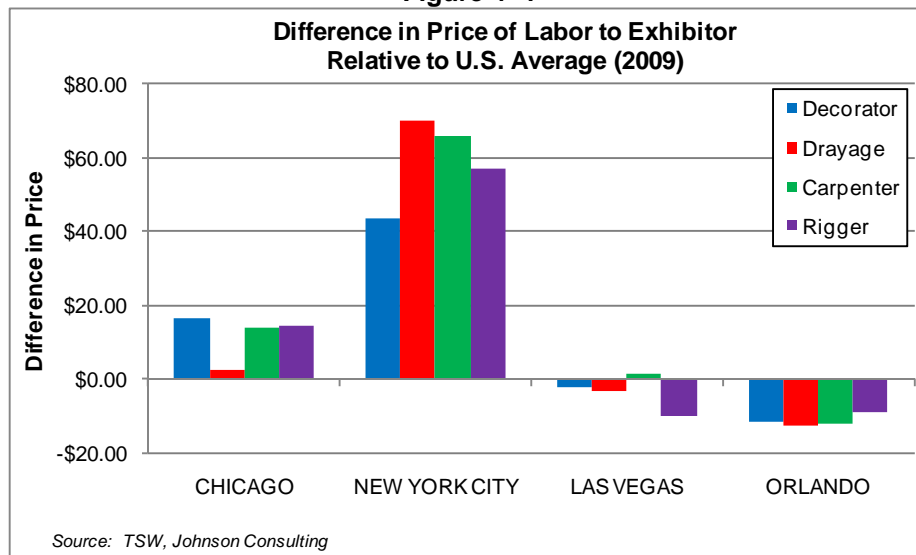


Table 4-7 provides a full comparison of hourly rates by trade in Chicago and competing cities. Among comparable cities, the hourly price charged to exhibitors for Chicago decorators, drayage, carpenters, riggers and electricians ranks second behind New York City, while the hourly price for Chicago plumbers is the highest across the comparable cities.

**Table 4- 7**

**2009 Hourly Price of Each Trade - Chicago and Competitive Cities  
Decorators, Drayage, Carpenters, Riggers, Electricians, Plumbers**

LABOR	CHICAGO	NEW YORK CITY	LAS VEGAS	ORLANDO	U.S. AVERAGE
<b>Decorator</b>					
Straight Time (ST)	\$94.81	\$121.83	\$76.31	\$66.69	\$78.49
Over Time (OT)	\$143.89	\$173.71	\$115.82	\$104.19	\$121.84
Double Time (DT)	\$187.39	\$221.58	\$125.73	\$114.30	\$141.83
<b>Drayage</b>					
Straight Time (ST)	\$80.72	\$148.37	\$75.08	\$65.83	\$78.22
Over Time (OT)	\$118.14	\$207.06	\$112.53	\$99.59	\$119.36
Double Time (DT)	\$150.82	\$291.90	\$118.85	\$114.30	\$143.42
<b>Carpenter</b>					
Straight Time (ST)	\$96.68	\$148.89	\$84.14	\$71.08	\$82.90
Over Time (OT)	\$144.12	\$202.17	\$132.74	\$100.69	\$121.90
Double Time (DT)	\$184.64	\$249.44	\$143.48	\$130.50	\$148.58
<b>Rigger</b>					
Straight Time (ST)	\$99.45	\$142.21	\$75.05	\$75.83	\$84.88
Over Time (OT)	\$149.15	\$199.71	\$118.31	\$112.43	\$130.97
Double Time (DT)	\$197.17	\$266.50	\$123.71	\$124.70	\$156.41
<b>Electrician</b>					
Straight Time (ST)	\$96.00	\$120.12	\$91.63	\$70.00	\$85.36
Over Time (OT)	\$133.25	\$153.28	\$182.26	\$140.00	\$145.79
Double Time (DT)	\$172.75	\$153.28	\$180.52	\$140.00	\$145.18
<b>Plumber</b>					
Straight Time (ST)	\$95.00	\$75.00	\$81.83	\$70.00	\$81.42
Over Time (OT)	\$132.00	\$130.00	\$162.26	\$140.00	\$139.08
Double Time (DT)	\$171.00	\$130.00	\$162.26	\$140.00	\$142.96
Source: TSW (2009), Johnson Consulting					

The following table provides a comparison of the hourly price for labor and the cost of living in Chicago, relative to the competing cities, and the national average.



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**Table 4- 8**

**2009 Hourly Price of Each Trade - Chicago and Competitive Cities  
Decorators, Drayage, Carpenters, Riggers, Electricians, Plumbers**

LABOR	CHICAGO	NEW YORK CITY	LAS VEGAS	ORLANDO	U.S. AVERAGE
<b>Decorator</b>					
Straight Time (ST)	\$94.81	\$121.83	\$76.31	\$66.69	\$78.49
<i>Difference Relative to Chicago</i>	-	28%	-20%	-30%	-17%
<i>Difference in Cost of Living Index</i>	-	31%	-25%	-17%	26%
<b>Drayage</b>					
Straight Time (ST)	\$80.72	\$148.37	\$75.08	\$65.83	\$78.22
<i>Difference Relative to Chicago</i>	-	84%	-7%	-18%	-3%
<i>Difference in Cost of Living Index</i>	-	31%	-25%	-17%	26%
<b>Carpenter</b>					
Straight Time (ST)	\$96.68	\$148.89	\$84.14	\$71.08	\$82.90
<i>Difference Relative to Chicago</i>	-	54%	-13%	-26%	-14%
<i>Difference in Cost of Living Index</i>	-	31%	-25%	-17%	26%
<b>Rigger</b>					
Straight Time (ST)	\$99.45	\$142.21	\$75.05	\$75.83	\$84.88
<i>Difference Relative to Chicago</i>	-	43%	-25%	-24%	-15%
<i>Difference in Cost of Living Index</i>	-	31%	-25%	-17%	26%
<b>Electrician</b>					
Straight Time (ST)	\$96.00	\$120.12	\$91.63	\$70.00	\$85.36
<i>Difference Relative to Chicago</i>	-	25%	-5%	-27%	-11%
<i>Difference in Cost of Living Index</i>	-	31%	-25%	-17%	26%
<b>Plumber</b>					
Straight Time (ST)	\$95.00	\$75.00	\$81.83	\$70.00	\$81.42
<i>Difference Relative to Chicago</i>	-	-21%	-14%	-26%	-14%
<i>Difference in Cost of Living Index</i>	-	31%	-25%	-17%	26%

Source: TSW (2009), Johnson Consulting

## Freight Handling

Table 4-9 presents a more detailed analysis of the straight time (ST), over time (OT) and double time (DT) rates and rules that apply to freight handling in Chicago, Las Vegas and Orlando. Across the three cities, the night differential and DT rules are similar. However, the price of freight handling labor is substantially higher in Chicago, for both teamsters and riggers, than in Las Vegas and Orlando. More specifically, the average cost to the exhibitor in Chicago for freight handling labor is 20 percent higher than in Las Vegas and 37 percent higher than in Orlando.

**Table 4- 9**

<b>2009 Rates Charged to Exhibitors - FREIGHT HANDLING</b>			
	<b>Straight Time</b>	<b>Overtime</b>	<b>Double time</b>
<b>Chicago</b>			
<b>Teamsters</b>			
Rate	\$80.72	\$118.14	\$150.82
When Applicable	Mon-Fri 8:00am - 4:30pm	After 4:30pm.	All time worked on Sun and holidays.
<b>Riggers</b>			
Rate	\$99.45	\$149.15	\$197.17
When Applicable	Mon-Fri 8:00am - 4:30pm, 10:00am - 6:30pm, 12:30am - 9:00pm (3 shift periods, maximum 8 hours per shift), and at break of show on Mon-Fri from 4:30 pm - 8:30 pm.	4:30pm - 8:30pm or after 6:30pm if at least 8 hours of ST has not been worked on that day.	Mon-Fri after 10 hours of work, Sun and all day holidays. For show breakdown, journeymen get DT after 12:30am.
<b>Las Vegas</b>			
Rate	\$75.08	\$112.53	\$118.85
When Applicable	Mon-Fri 8:00am - 10:00pm, maximum 8 hours.	All work from 10:00pm to 6:00am. All hours worked Sat-Sun up to maximum of 12 hours.	Holidays and all hours worked Mon-Sun after 12 hours.
<b>Orlando</b>			
Rate	\$65.83	\$99.59	\$114.30
When Applicable	Mon-Fri 8:00am - 5:00pm, maximum 8 hours.	All hours worked after 5:00pm and before 8:00am. Holidays first 14 hours worked.	All hours worked over 14 hours (in one day).
Source: TSW, Johnson Consulting			

The overtime and double time window for all trades in Chicago is so restrictive, that clients actually book extra dates in the facility to be able to work in straight time windows. This strategy consumes dates that could be used by other shows.

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## Booth Set-Up

Table 4-10 presents a comparison of rates and rules relating to booth set-up in each of the competing cities. Again, the cost of labor for booth set-up is substantially higher in Chicago than in competing cities, being 15 percent more expensive than Las Vegas and 45 percent more expensive than Orlando. The higher rates are acceptable. The jurisdiction restrictions and OT and DT windows are the issue.

**Table 4- 10**

2009 Rates Charged to Exhibitors - BOOTH SET-UP			
	Straight Time	Overtime	Double time
<b>Chicago</b>			
<b>Carpenters</b>			
Rate	\$96.68	\$144.12	\$184.64
When Applicable	Mon-Fri 8:00am - 4:30pm (or 7:00am - 3:30pm) At break of show on Mon-Fri from 4:30 pm - 8:30 pm	Mon-Fri 4:30pm - 8:30pm or after 6:30pm if at least 8 hours of ST has not been worked on that day. Saturday- First 8 hours worked within defined period.	Mon-Fri hours worked prior to scheduled start, Mon-Fri after 4 hours overtime, Sat outside of 8:00am - 4:30pm, all day Sun and all day holidays.
<b>Decorators</b>			
Rate	\$94.81	\$143.89	\$187.39
When Applicable	Mon-Fri 8:00am - 10:00 am (start time), maximum 8 hours. At break of show on Mon-Fri from 4:30 pm - 8:30 pm	Mon-Fri 4:30pm - 8:30pm or after 6:30pm if at least 8 hours of ST has not been worked on that day. Saturday - First 8 hours worked within defined period.	Mon-Fri after 4 hours OT or after any 10 hours worked in a day that starts prior to 6:00am, Sat before 8:00am or after 4:30pm
<b>Las Vegas</b>			
Rate	\$75.08	\$112.53	\$118.85
When Applicable	Mon-Fri 8:00am - 10:00pm, maximum 8 hours.	All work from 10:00pm to 6:00am. All hours worked Sat-Sun up to maximum of 12 hours.	Holidays and all hours worked Mon-Sun after 12 hours.
Rate	\$91.63	\$182.26	\$180.52*
When Applicable	Mon-Fri 8:00am - 5:00pm.	All hours worked Mon-Fri between 6:00am and 8:00am, and 5:00pm and 12:00am. All hours worked on Sat up to maximum of 8 hours.	Mon-Sat 12:00am - 6:00am, after 12 hours work, Sun, and all holidays.
<b>Orlando</b>			
Rate	\$65.83	\$99.59	\$114.30
When Applicable	Mon-Fri 8:00am - 5:00pm, maximum 8 hours.	All hours worked after 5:00pm and before 8:00am. Holidays first 14 hours worked.	All hours worked over 14 hours (in one day).
* Lower DT rate than OT rate reflects that TSW relates to Las Vegas as a whole, rather than specifically to Las Vegas Convention Center			
Source: TSW, Johnson Consulting			

## Electrical Service

Table 4-11 presents a comparison of rates and rules relating to electric services in each of the competing cities. The cost of electrical service labor in Chicago is 4 percent higher than Las Vegas, and 36 percent higher than Orlando.

**Table 4- 11**

<b>2009 Rates Charged to Exhibitors - ELECTRICAL SERVICE</b>			
	<b>Straight Time</b>	<b>Overtime</b>	<b>Double time</b>
<b>Chicago</b>			
<b>Electricians</b>			
Rate	\$95.00	\$132.00	\$171.00
When Applicable	Mon-Fri 7:00am - 4:30pm, maximum 8 hours.	Mon-Fri 4:30pm - 8:00am Saturday before 4:30 p.m.	From 4:30pm Sat to 8:00am Mon, after 8 hours work on Sat, all day Sun and holidays.
<b>Las Vegas</b>			
Rate	\$91.63	\$182.26	\$180.52*
When Applicable	Mon-Fri 8:00am - 5:00pm	All hours worked Mon-Fri between 6:00am and 8:00am, and 5:00pm and 12:00am. All hours worked on Sat up to maximum of 8 hours.	Mon-Sat 12:00am - 6:00am, after 12 hours work, Sun, and all holidays.
<b>Orlando</b>			
Rate	\$70.00	\$140.00	\$140.00
When Applicable	Maximum 8 hour shift per period, 3 periods.	Each shift works 8 hours ST per day. No OT applies.	Each shift works 8 hours ST per day. No DT applies.
* Lower DT rate than OT rate reflects that TSW relates to Las Vegas as a whole, rather than specifically to Las Vegas Convention Center			
Source: TSW, Johnson Consulting			

The above table does not capture the true cost born to the exhibitor when using the Focus One Electrical service. When an exhibitor comes to Chicago, they have to pay for a fee for the electrical hook up plus the labor cost of Focus One's service, often doubling the expense of what they pay in other locations. Labor is borne in the hook up fee for smaller set ups for electrical in other buildings. Further, OT and DT practices are employed in Chicago, where these are less restrictive in other markets.

Modified work rules that allow an exhibitor to hook up small items themselves (exhibitor rights), have less jurisdictional boundaries, have more reasonable OT and DT policies, which all affect the small exhibitor the most. McCormick Place relies too heavily on the revenues generated by Focus One to balance its internal operating budget. If McCormick Place did not have to rely so heavily on Focus One, there could be more accommodation given to the exhibitor, thereby increasing their satisfaction with McCormick Place. By focusing on the bigger picture of more volume versus exploitation of individual events, more appropriate work rules could be employed.

## **LABOR, FUNDING SOURCES, & ADJACENT SUPPORT ENVIRONMENT**

In response to the loss of multiple shows at McCormick Place, the Illinois Legislature and the Metropolitan Pier and Exposition Authority (MPEA) are working on solutions that may help the facility retain existing shows and attract new events to replace those that have left. This section of the report will outline the proposed changes; provide a summary of interviews with key stakeholders; and identify potential fiscal implications of the proposed labor changes. The importance of maintaining Chicago as the leading U.S. convention and tradeshow destination is critical, as it is estimated that McCormick Place generates 65,000 jobs and \$8 billion in economic impact to the State of Illinois.

### **Key Points of Proposed Labor Policy Modifications**

When exiting labor policies are modified or cancelled outright, there are numerous ripple effects that will occur over the next decade before the full implications of the changes are truly understood by all parties involved. Some of the primary modifications being considered are:

- A reduction in union jurisdictions from five to three,
- A provision that all show floor workers would be public employees of MPEA for a term of three years, and because of public employee status, workers would not have the right to strike,
- A stipulation that workers would not have the right to strike,
- A provision that the building would have the authority to negotiate work rules, allowing the facility to remedy the rules which are currently outdated and based upon construction industry rules that are not applicable to the tradeshow industry; and,
- The authority of the building to dispatch labor to tradeshow contractors.

In order to investigate the implications of the proposed changes, Johnson Consulting interviewed a number of parties who are directly involved or are familiar with the situation at McCormick Place. Key observations from these interviews are summarized below:

- Show managers and owners are highly reliant on national service contractors, as these contractors are most familiar with labor markets across the nation. The profit margin for both the show manager and their service contractor is a primary consideration of site selection, followed by destination related costs such as hotel, bussing, and dining expenses.

- Exhibitors do not have an outright problem with paying more for quality labor. Chicago has some of the highest quality labor in the nation. Current work rules at McCormick Place are not based on convention industry standards and have a high level of jurisdiction overlap and duplication among the unions, causing the exhibitor to incur costs that are not reasonable from their perspective.
- Show managers, in fear of losing exhibitors, can move their shows to other “less expensive” locations, both labor cost wise and destination cost wise. Often times the first year in the new location is a success but attendance falls in subsequent years due to a lack of location vibrancy and other city qualities.
- Reaction to these proposed changes has been mixed, as control will be shifted away from national contracting companies and labor unions to McCormick Place.
  - Two of the nation’s primary contracting firms issued a joint statement: “Freeman and GES believe that fundamental labor reform in Chicago is necessary, and, while we support the goals of the proposed legislation, we share the concern of many of our Chicago customers regarding the potential cost and customer service implications of this specific approach.”
  - Other parties involved feel that the current Collective Bargaining Agreements (CBAs) are based off outdated work rules that need to be modified to make them more ‘fair’, in terms of efficiency and cost effectiveness, with some parties even suggesting that the entire system, as it operates today, needs to be removed and rebuilt from the ground up.

It is an oddity in the industry that labor and contractors have access to the building, but the building has little influence on the outcome of service. Unions and contractors negotiate amongst themselves, typically to the exclusion of the building, without any alignment to the concept of creating benefits for McCormick Place, the City and the state. Changes to work rules having already been made but these haven’t gone far enough to address the underlying issues enough to improve the competitiveness of Chicago.

There is general agreement that the situation at McCormick Place is untenable and changes need to be made to the current operational approach. The loss of more shows will put a severe burden on an already financially troubled funding system. Changes not only need to be made to the labor structure, but to the legislatively enabled funding sources and restrictions.

## **MPEA Funding Sources**

In addition to the labor and work rule challenges, MPEA’s current legislation has several significant liabilities, which include an inability to move dollars from operation and

capital categories. The other issue is the extraordinary costs related to building these facilities. Capacity to maintain and expand facilities and to invest strategically in growing demand and competing on cost issues does not exist. As a result, the attached Hyatt hotel is a key contributor to balancing the operating revenue for MPEA, and forces McCormick Place to charge high rates for building rent, electrical service, and food service, producing a serious competitive disadvantage when competing against other facilities nationally. Without the Hyatt, the funding situation at the MPEA would be even more dire.

Table 5- 1, provides a breakdown of revenue for each entity associated with MPEA.

**Table 5- 1**

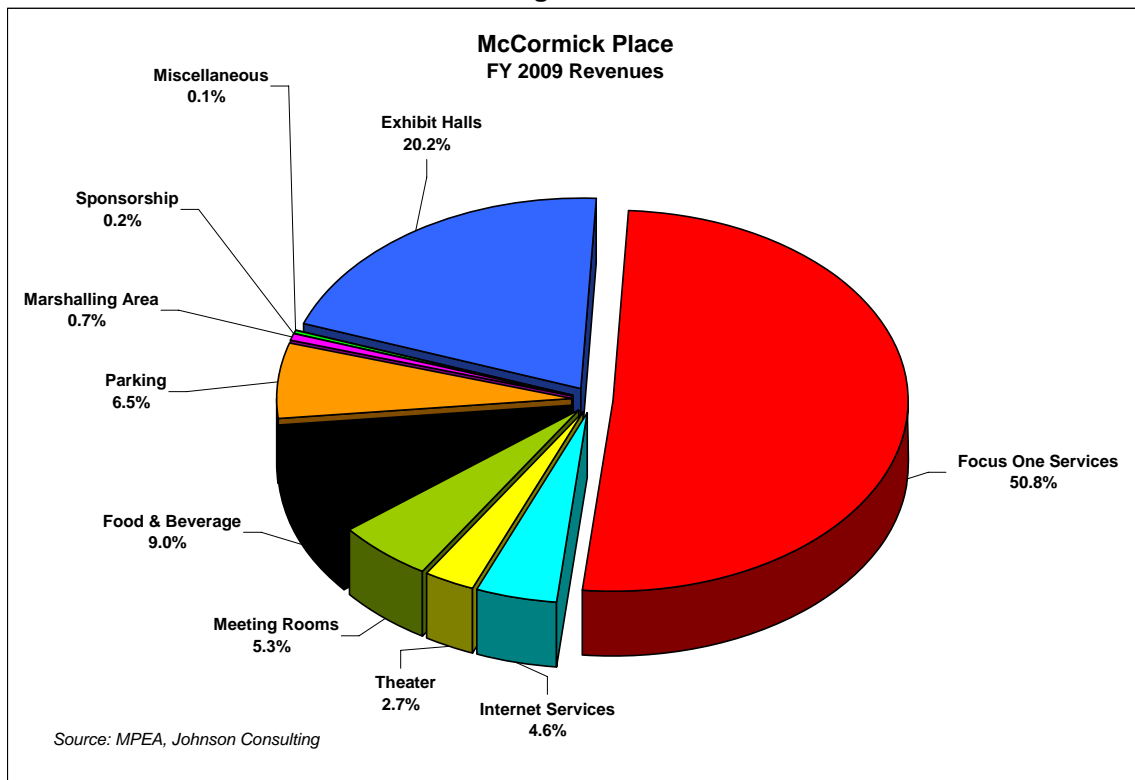
<b>McCormick Place - Importance of Hotel to MPEA Surplus/(Deficit)- \$ Millions</b>				
<b>Fiscal Year</b>	<b>McCormick, Corp Center &amp; Energy</b>			
	<b>Center</b>	<b>Navy Pier</b>	<b>Hyatt Hotel</b>	<b>Total MPEA</b>
2002	(24.3)	(4.7)	15.2	(13.8)
2003	(10.4)	(3.7)	17.0	2.9
2004	(23.0)	2.1	12.6	(8.3)
2005	(20.0)	5.7	14.2	(0.1)
2006	(11.0)	3.6	18.2	10.8
2007	(9.0)	3.5	22.1	16.6
2008	(19.9)	3.2	24.8	8.1
2009	(22.7)	2.0	17.4	(3.4)
<b>Total</b>	(140.3)	11.7	141.5	12.8

Source: MPEA, Johnson Consulting

As shown, McCormick/Corp Center/Energy Center have operated in the negative for the last seven years, with fairly wide swings, depending on the event calendar and economy. Navy Pier has managed to recover from operating in the red in 2002 and 2003, to a surplus of \$2.0 million in 2009. The biggest revenue generator is the Hyatt Hotel, which has produced a surplus of \$12 million or greater in each of the last eight years, with 2009 generating \$17.4 million, down from a high of \$24.8 million in 2008. The key components to MPEA operating in a net surplus of \$12.8 million over the last seven years are the Hyatt Hotel and Navy Pier, with Hyatt Hotel being responsible for over 90 percent of the revenue that balances the portfolio of facilities.

The McCormick Place Convention Center (MPCC) operating revenues for the fiscal year 2009 totaled \$105.5 million, while operating expenses totaled \$115.6 million, resulting in an MPCC a deficit of \$10.05 million. This deficit does not include the Corporate Center or the Energy Center Figure 5- 1, below provides a percentage breakdown of MPCC operating revenues.

Figure 5- 1

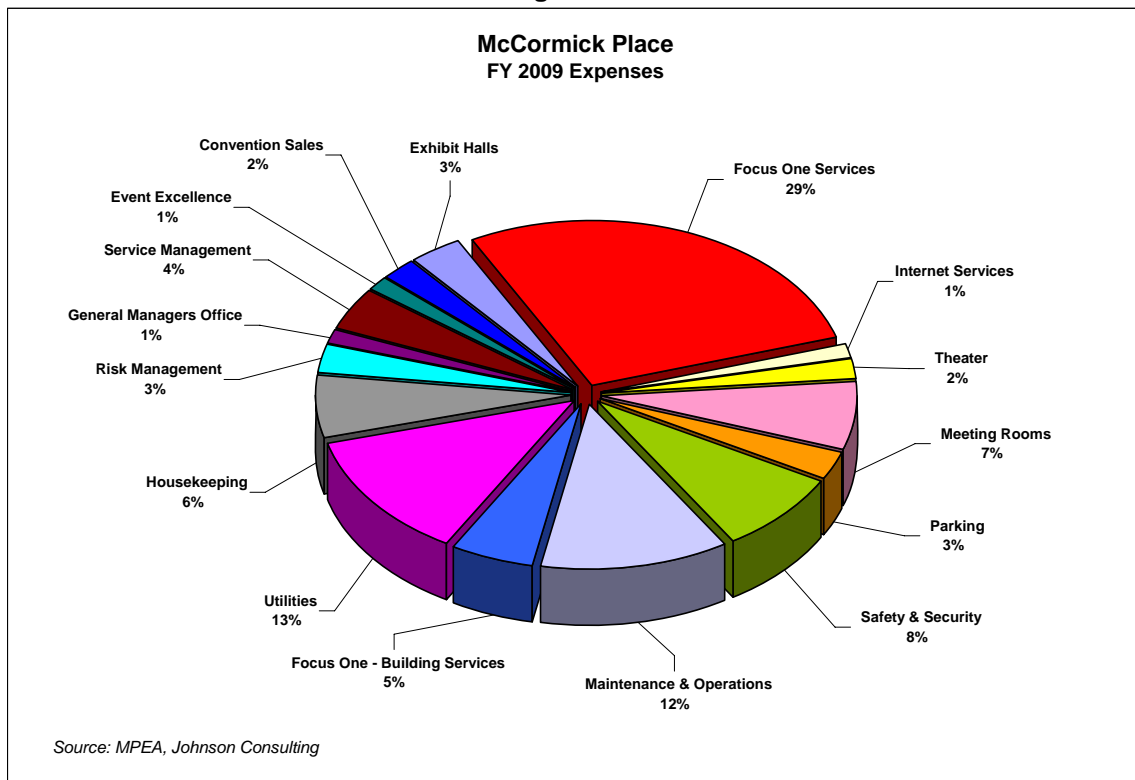


As shown, slightly more than half of the MPCC revenue or 50.8 percent is derived from Focus One Services, which are the utility services provided by McCormick Place for services such as: electrical, plumbing, telecommunications and internet. Another key provider of revenue is rent, which is broken down above into exhibit halls, meeting rooms, and theater. The combined total collected for rent accounts for 28.2 percent of the total operating revenue.

Figure 5- 2, provides a percentage breakdown of the expenses incurred at the MPCC.



Figure 5- 2



As shown, the majority of the MPCC expenses, or approximately 30 percent, consist of Focus One Services. Focus One operates as a huge profit center for McCormick Place, with approximately a 17 percent profit margin. Utilities and maintenance round off the top three expenses for McCormick place with 13 and 12 percent respectively.

## Challenge

Internalizing Focus One has been profitable for the operations at McCormick Place, but has both advantages and disadvantages for the MPEA. Because the venue operates in a closed system, without any operating subsidy, MPEA has been forced to rely on its prime source of income, Focus One. As such, the MPEA has had to take on a similar role as the show contractors, marking up labor and charging fees where it can. Pricing for food service has also been reported as high for much the same reason. There also is no safety net being built and year-to-year fluctuations in operating revenues constrain sound long-term facility management and limit the building's flexibility in providing resources or incentives for shows to remain in Chicago.

MPEA's capital budget depends on the issuance of revenue bonds secured by certain taxes (bed, car rental, restaurant, and taxi). Tax collections, which can vary widely, have not kept pace with payment obligations in recent years due to the economic downturn

and the downsizing and loss of shows. Finally, the MPEA has no ability to interchange capital funds and operating funds as special needs arise.

### Competitive Set Funding Sources

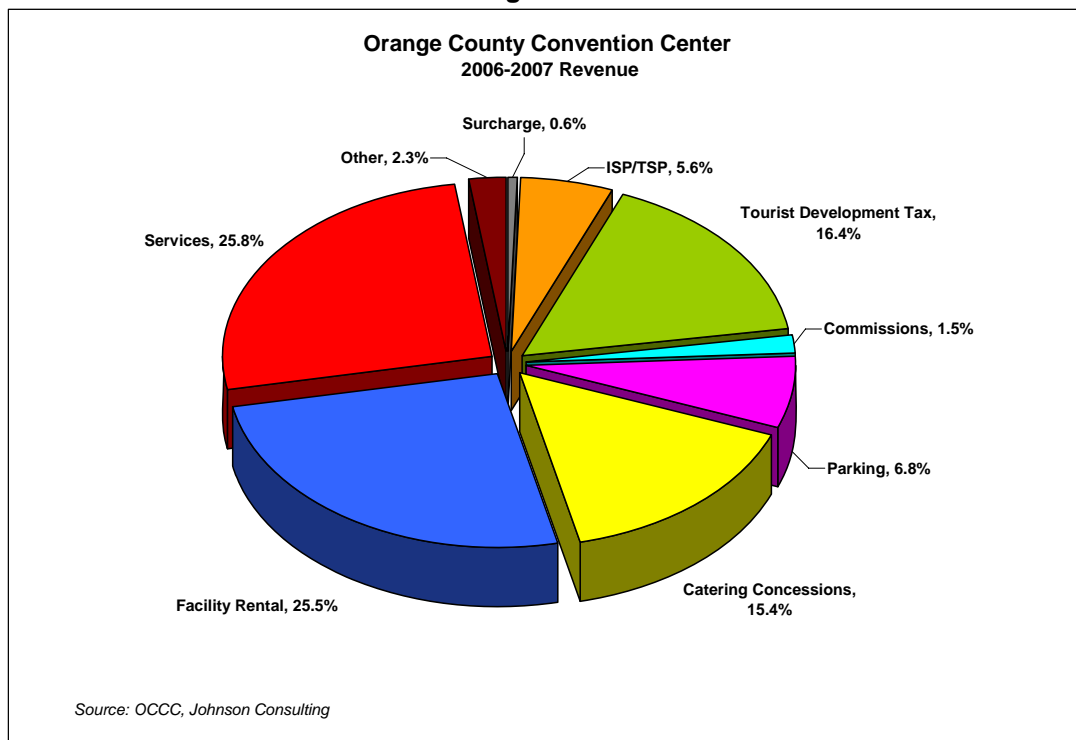
An analysis of the funding sources of competitor buildings illustrates that McCormick Place is operating at a competitive disadvantage. For this subsection, financial data for Orlando, Las Vegas, and Boston are analyzed. Orlando and Las Vegas were selected as they are the primary competitors of McCormick Place. Boston's facility was chosen because of:

- Availability of data,
- Their enlightened funding approach
- Their linking of the building's operation with industry sectors important to the City and state.

### Orange County Convention Center

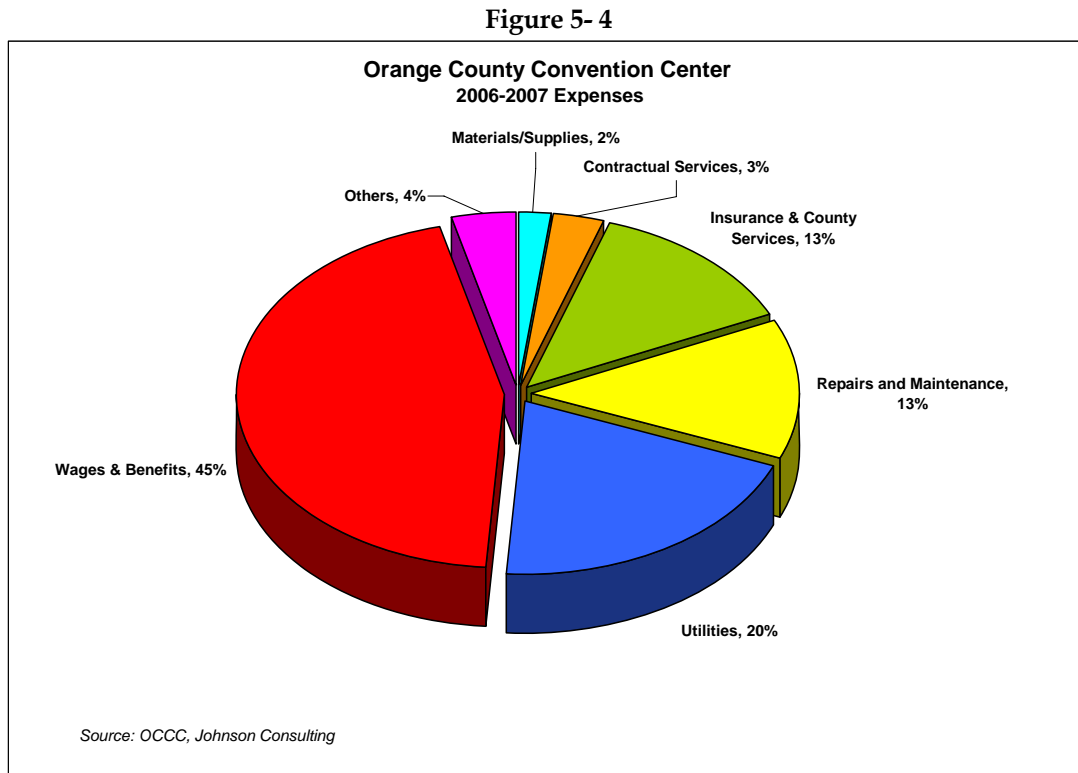
The OCCC operating revenues for the fiscal a recent year totaled \$60.68 million. Operating costs exceeded this amount and were balanced with County room tax.

Figure 5- 3



As shown, the OCC is substantially less reliant on Services income than the MPEA and a significant room tax stipend (approximately \$10 million, annually) is granted by the County.

Figure 5- 4, provides a percentage breakdown of the expenses incurred at the OCCC.



As shown, slightly below half of the OCCC expenses consist of wages and benefits, which represent 45 percent of the total operating expenses. Utilities and repairs are key elements to the overall operating expenses at OCCC, with a combined percentage of 23 percent.

## Las Vegas

Many people are amazed at the size of the budget of the Las Vegas Convention Center, but in fact, the reported size includes the equivalent of the operations of part of the State of Illinois' Department of Tourism, the Mayor's Office of Special Events, the CCTB and the operations of McCormick Place.

The Las Vegas Convention and Visitors Authority (LVCVA) is unlike a typical convention and visitors bureau in that it is not a membership-based organization. The LVCVA is a quasi-governmental agency. The LVCVA was established by state law and is funded by a county room tax.

The departments of the LVCVA are housed within the organization's four umbrella divisions: Executive, Administration, Operations and Marketing. The LVCVA also has capital expense authority for facilities within its span of responsibilities. The Operating division for the LVCVA is akin to the operating arm of the MPEA. The Operations Division has the overall responsibility for the operation, maintenance and security of the Las Vegas Convention Center and Cashman Center.

These facilities have direct responsibility for the operation and maintenance of the Las Vegas Convention Center and Cashman Center. The function oversees the Client Services, Engineering and Building Operations. The Las Vegas Convention Center, located adjacent to the Las Vegas Strip, encompasses approximately 3.2 million square feet with exhibit space of 2 million square feet and meeting space of nearly 250,000 square feet. Cashman Center is located on 51 acres near downtown Las Vegas.

The expenditure profile provided below summarizes the uses of the funds dedicated to the LVCVA.

**Table 5- 2**

<b>Las Vegas Convention Center LVCVA General Fund</b>			
<b>Function</b>	<b>FY 2007</b>	<b>Fy 2008</b>	<b>% Changes from 2007</b>
General Governance	\$7,799,028	\$9,192,348	17.9%
Marketing	\$33,079,357	\$33,908,754	2.5%
Advertising	\$84,713,300	\$88,074,185	4.0%
Operations	\$41,269,630	\$43,940,271	6.5%
Special Events/Others	\$38,416,918	\$38,886,196	1.2%
Total	\$205,278,233	\$214,001,754	

*Source: LVCVA, Johnson Consulting*

In contrast to the MPEA, the local room tax collected in Clark County operates in a closed system, allowing the LVCVA to solve its issues internally. It operates with a fairly small governance structure and the LVCVA spends significantly on marketing, sales and destination branding. The contrast with Chicago, is the amount of locally earned room tax that goes to the state. These dollars are not remanded back to either the MPEA or the City.

## Boston

The Massachusetts Convention Center Authority (MCAA) is among the best facilities at associating their convention facilities to the industry sectors important to the State economy. This message has gotten to the State and hence, the state provides a significant operating resource base to operate its facilities. The table below provides the 2009 event

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and attendance demand for the BCEC as well as the associated economic impact by industry sector.

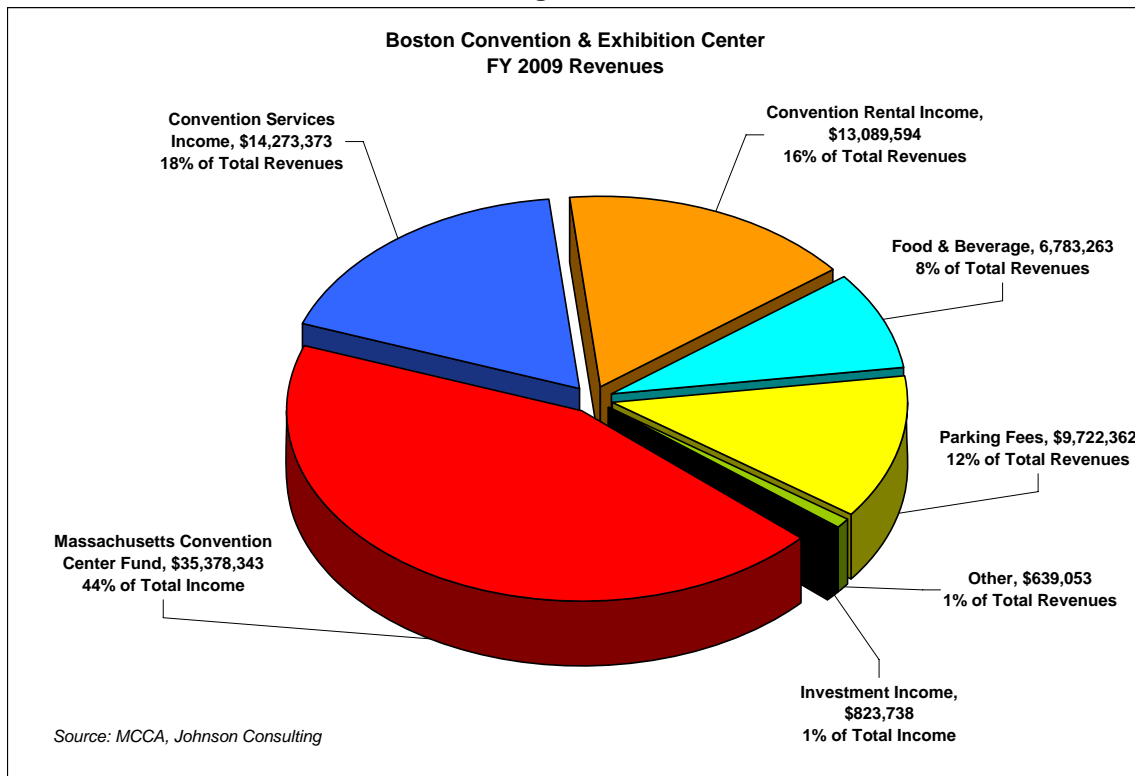
**Table 5- 3**

<b>BCEC</b>				
<b>2009 Event Demand &amp; Economic Impact by Industry</b>				
	<b>Events</b>	<b>Attendance</b>	<b>Room Nights</b>	<b>Economic Impact (In Millions)</b>
Commercial	28	260,772	40,193	\$74.30
Education	21	50,450	36,340	33.99
Technology	29	46,015	64,824	47.57
Medical/Life Sciences	38	152,998	230,842	166.55
Other	105	180,670	152,857	123.26
<b>Total</b>	<b>221</b>	<b>690,905</b>	<b>525,056</b>	<b>\$445.67</b>

Source: MCAA Johnson Consulting

The Boston Convention and Exhibition Complex (BCEC) operating revenues for the fiscal 2009 totaled \$80.7 million, of which \$35.4 million was subsidy support contributed by the Massachusetts Convention Center Fund. Expenses for 2009 totaled \$74.5 million. Figure 5- 5, below provides a percentage breakdown of the BCEC revenues.

**Figure 5- 5**



- 10 jobs associated with non-working stewards, standby labor and work rule restrictions.
- 111 FTE Hotel jobs
- 90 FTE Retail, restaurant and entertainment jobs
- 31 FTE other services jobs.
- Exhibitors are willing to pay for labor. It is poor exhibitors' rights policies, multiplicity of trades and jurisdictions, work windows and minimums that are damaging, and compared to other locales, not competitive.
- MPEA Board policy should address the following:
  - MPEA needs to be more assertive: Set McCormick Place's target work-rule structure and policies consistent with benchmarks of competitor venues, and fair to the Unions. This is currently not the case. McCormick Place should tell labor its rules for working in the building.
  - Winnow number of trades; five major trades is too many.
  - Consider more in-house control of labor. Show contractor controlled labor is subject to unknown markups and is less directed by the building.

**Side Bar** - Creating a new Union and making employees public is a strategy related to fear of strike. Change will come to labor- it will be mutually and amicably conceded, or attrition will take it. If Unions do not agree to a fair and reasonable agreement whereby MPEA can exert more influence over work rules, creating a new union with public employees is a reasonable strategy. Do not base labor policies on current labor contracts – start fresh.

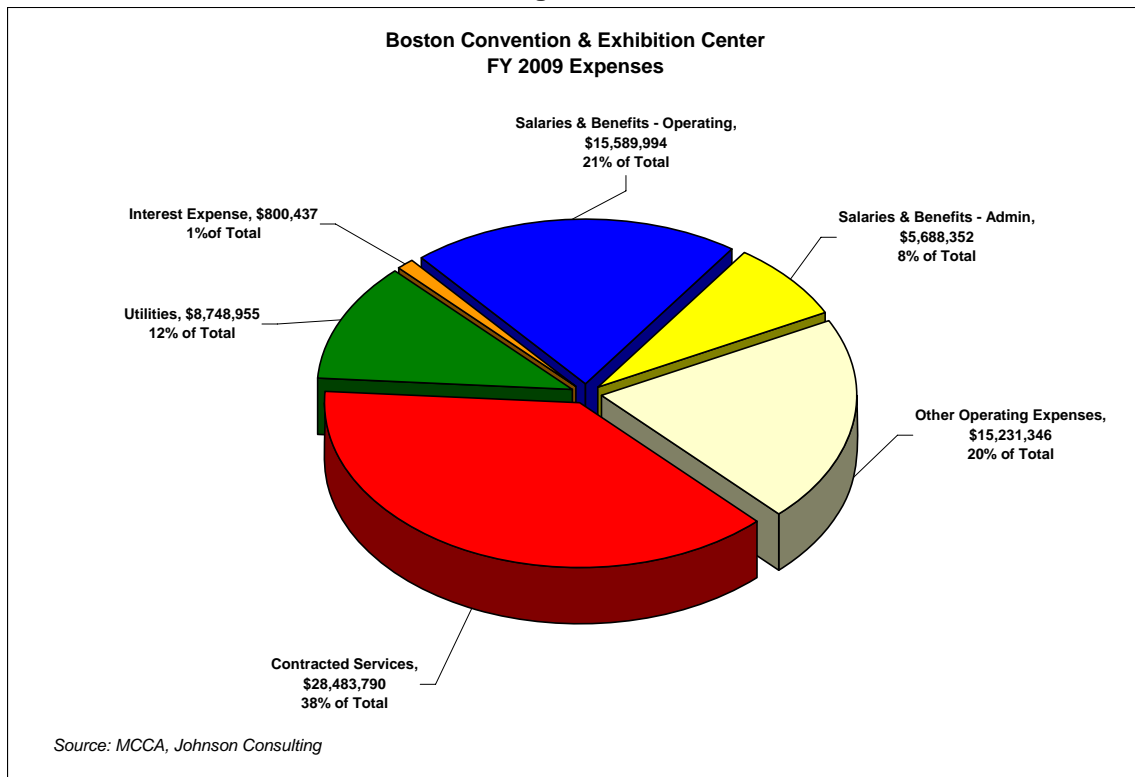
**Side Bar** – Carefully consider Focus One. The issues relate to need of MPEA's cash flow and its last resort effort to survive, not poor management. If outsourced, MPEA will have essentially created another "Services Contractor" and will have further removed labor it can influence.

**Side Bar** - Verify labor hours worked, confidentially. Work with show management to obtain their show contractor and exhibitor invoices for sample shows. Then, analyze margins between labor billed and show invoices to quantify show contractor margins. Exposure and transparency of this information will help inform future policy decisions.

As shown, slightly less than half of the BCEC revenue was derived from the Massachusetts Convention Center Fund. The building does not have to be as reliant on services as does the MPEA. Its services income is slightly greater than rent, whereas at the MPEA, services income is far greater than rent income.

Figure 5- 6, provides a percentage breakdown of the expenses incurred at the BCEC.

**Figure 5- 6**



As shown, the largest expense category is for contracted services with 38 percent of total expenses. This is followed by operating salaries and benefits, which is 21 percent of total expenses.

## Observations

MPEA has been savvy enough to suffer through the last decade using earned revenues and cutting costs. As compared to other major U.S. cities, Chicago is neither New York nor Los Angeles. New York has limited space and does not target the rotating show market like Chicago. Ninety percent of its business is repeating shows. Los Angeles has never been a player in the convention market. Like New York, Los Angeles has a stable of repeating events. It has abandoned the rotating convention market to Anaheim, San Diego and Las Vegas. Chicago, however, is different. It is a player in annually repeating tradeshows, but is also a player in rotating conventions. Chicago is now competitive

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with Orlando, Las Vegas, Atlanta, New Orleans, Boston and a whole host of smaller cities such as San Antonio, Indianapolis, and Minneapolis. As such, its event profile is more elastic, or sensitive, to price. Labor improvements are needed at the MPEA to address this concern. Supplemental dedicated revenue is needed by MPEA to reduce its reliance on services income, at the expense of losing shows to its competition.



## ECONOMIC CONSEQUENCES OF CURRENT LABOR ARRANGEMENTS

It is true that the work rules regarding stand-by labor and non-working stewards are a source of additional income to Chicago's union workers. As a result, every show that comes to McCormick Place is a source of income for a greater number of workers. However, these same rules have created a situation in which Chicago has lost a competitive edge due to increased labor costs which many customers are resentful or, worst case, unwilling to pay.

While this incremental income is a positive to labor that works at McCormick Place, the magnitude of the financial impact is far outweighed by the negative impacts of losing shows because of it. These negative impacts are felt by Chicago's workers both inside and outside the building. The AFL-CIO and the Chicago Federation of Labor are the ones who should be of greatest concern, as they have the macro responsibility for labor. Work rule decisions that gain extra jobs annually at McCormick Place are actually costing many multiples of that gain to the broader, overall labor work volume in the City and State.

### Lessons from a Departing Show

The International Plastics Showcase (Plastics Show) is an event organized by the Society of the Plastics Industry that has left Chicago. It was last held in McCormick Place on June 22 through 26, 2009. Table 6-1 summarizes a Post Event Report by Metropolitan Pier and Exposition Authority (MPEA) and Chicago Convention and Tourism Bureau (CCTB), recapping last year's event. The event showcased 1,580 booths of exhibits over five days with over 740,000 square feet of exhibit space rented, and attracted over 43,000 attendees. The negative financial impacts of losing such a show are clear:

- \$4.8 million of revenues to McCormick Place,
- Over 28,000 reported room nights to area hotels <sup>1</sup>, and
- The spending of 43,000 visitors, plus thousands of exhibit personnel, press, and show staff that came to Chicago.

<sup>1</sup> Note: The room nights summarized in the recap report relate to only those reported by the CCTB. It is unclear if the reported room nights include exhibiting personnel, or those outside CCTB's room block. It is our experience they do not; it is our best estimate that exhibitors add approximately 12,000 additional room nights and the reported room nights by attendees is understated by 50%; In the future, both the MPEA and CCTB should work to improve the quality of presentation clarity of show recap and demographic data collected for each show.

Table 6-1

<b>Joint MPEA/ CCTB - Post Event Report</b> <b>The International Plastics Showcase</b> <b>McCormick Place</b>	
<b>General Information</b>	
Event Name	The International Plastics Showcase
Account Name	Society of the Plastics Industry
Start Date Move-In Day	6/8/2009
Start Date Show Day	6/22/2009
End Date Show Day	6/26/2009
End Date Move-Out Day	7/2/2009
# of Move-In Days	15
# of Show Days	5
# of Move-Out Days	7
# of Total Event Days	27
NFS Used	741,770
Total Event SFDays (in 000's)	20,028
Total Move-In/Out SFDays (in 000's)	16,319
# of Attendees	43,102
# of Booths	1,580
Total Room Nights	28,322
Peak Room Nights	6,461
<b>Revenues</b>	
Rent (Show Floor)	\$1,200,000.00
Rent (Meeting Rooms)	12,920.00
Food and Beverage	288,843.57*
Electrical (Show Floor)	2,611,124.23
Electrical (Meeting Rooms)	61,089.00
Plumbing	197,873.00
Telecommunications	65,947.15
Internet	202,075.50
Parking	218,652.61
Marshalling	43,988.85
Miscellaneous	16,809.50
Total Facility Revenue	\$4,919,323.41
Shuttle Subsidy (Expenses)	(\$125,460.00)
Total Adjusted Revenue	\$4,793,863.41
<i>*Including Association Food and Beverage of \$118,000.</i> <i>Source: Metropolitan Pier and Exposition Authority, Chicago Convention and Tourism Bureau, McCormick Place Convention Center</i>	

When an event, such as the Plastics Show leaves Chicago, and cites the additional costs associated with McCormick Place as the reason, the question becomes, "Is it worth it to us as an organization to save us and show exhibitors money, at the

expense of the benefits gained by having this show occur elsewhere?" This show will find out. Its move sacrifices the positives of Chicago for no guarantee of greener pastures elsewhere.

Quantitatively, are the complex work rules in Chicago worth losing events over? Is it worth jeopardizing an entire show so that additional salaries can be earned via non-working stewards, stand-by labor, as well as restrictive overtime and minimums? And, how do the positive impacts of this labor income compare with the negative impacts of losing a show?

The first step is to determine the labor income associated with hosting an event such as the Plastics Show. The Post Event Report in Table 6-1 does not provide specific information on the exhibit labor for the event, i.e., the number of labor man-hours that are spent during move-in days, show days, and move-out days by each jurisdiction. The labor bill goes directly from the labor jurisdiction to the show contractor to the exhibitor. It is invisible to the MPEA.

The MPEA does produce electrical for shows and does have labor billed for its duties for the exhibitor. Table 6-2 calculates that the electrical and plumbing services provided to the Plastics Show during the 27 event and move in/out days is equivalent to 16 annual full time jobs.

**Table 6-2**

<b>Exhibit Electrical/Plumbing Labor Estimates International Plastics Showcase</b>			
	<b>Revenue</b>	<b>Hourly Rate</b>	<b>Hours Billed</b>
Electrical (Show Floor)	\$2,611,124	\$96	27,199
Electrical (Meeting Rooms)	61,089	96	636
Plumbing	197,873	95	2,083
Telecommunications	65,947	96	687
Internet	202,076	96	2,105
Total Hours Billed			32,710
FTE Annual Hours			2,080
FTE Jobs			16
<i>Source: MPEA, Johnson Consulting</i>			

As noted above, neither certain jurisdictional labor, nor show contractors report hours worked at McCormick Place. However, in a previous analysis performed by our firm at the Javits Center in New York City, data was revealed to us by the show contractors for a cross section of events. We used that data to approximate the number of labor hours dedicated to the labor disciplines coordinated by show contractors.

Table 6-3 summarizes the number of man-hours spent on four exhibit events whose actual exhibit labor costs was reported and verified by the show contractor and the building.

- The first key statistics to note from the table are the number of exhibit labor man-hours, shown in bold, derived from the exhibit labor costs divided by decorator's Straight Time (ST) rate in New York. It is also important to note that electrical labor has been excluded from these figures to make it comparative to the data being calculated for McCormick Place.
- The second key statistic is the calculation of the square foot days associated with duration of the event as well as the days dedicated to move-in/out. These figures are calculated by multiplying the number of event days (or move-in/out days) by the net square feet utilized by the event. Dividing the number of man-hours by the event square foot-days yields an estimate of the number of event labor man-hours required per square foot day during an event. As anticipated, the number of man-hours utilized during move-in/out is higher than those required during an event day.

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**Table 6-3**

<b>Summary of Four Actual Events at Javits Center</b>				
	<b>Medical Design and Manufacturing, June 2006</b>	<b>International Vision Expo, April 2006</b>	<b>LightFair, April 2005</b>	<b>International Gift/ Kids Stuff, August 2006</b>
# of Move-In Days	5	5	4	4
# of Show Days	3	3	3	6
# of Move-Out Days	1	1	1	1
# of Total Event Days	9	9	8	11
NSF Used	252,866	266,367	132,700	506,578
# of Booths	1,396	640	451	2,332
Total Event SFDays (in 000's)	2,276	2,397	1,062	5,572
Total Move-In/Out SFDays (in 000's)	1,517	1,598	664	2,533
<b>Costs to Show Managers</b>				
Exhibit Labor	\$1,911,573	\$3,001,199	\$2,188,914	\$3,212,007
Electric	411,710	369,884	261,887	990,883
Telcom	45,034	46,469	31,219	26,643
Cleaning	125,768	145,062	64,501	188,150
Audio/ Visual Equipment	3,286	4,128	9,255	3,330
Other Services	102,827	25,962	16,430	14,738
Rents	570,232	568,361	447,426	894,358
Miscellaneous	6,073	(930)	(25)	(2,037)
<b>Total</b>	<b>\$3,176,502</b>	<b>\$4,160,134</b>	<b>\$3,019,605</b>	<b>\$5,328,072</b>
NY Decorator's ST Rate (est. for 2006\$)*	\$111.50	\$111.50	\$111.50	\$111.50
# of Man-Hours	<b>17,144</b>	<b>26,917</b>	<b>19,632</b>	<b>28,807</b>
<b>Selected Ratio</b>				
SF/ Booth (incl. circulation)	181	416	294	217
SF/ Booth (excl. circulation)**	91	208	147	109
				<i>Most typical of shows***</i>
# of 8-Hour Shift Labor	2,143	3,365	2,454	<b>3,601</b>
Man-Hours/ 1,000 Event SFDay	8	11	18	<b>5</b>
Man-Hours/ 1,000 Move-In/Out SFDay	11	17	30	<b>11</b>
*Based on TradeShow Week data, adjusted to reflect 2006 dollars by 3 percent annual inflation.				
Decorator's rate is the lowest of three mostly-used skilled labor to build out exhibit events: decorator, carpenter, and rigger.				
**Circulation is assume to take up 50 percent of exhibit hall space.				
***Typical booth is 100 square feet (10 x 10).				
Source: Javits Center, Johnson Consulting				

Table 6-3 demonstrates that the number of man-hours required per 1,000 square feet of exhibit foot days is inversely proportional to the size of a show. Among the four exhibit events shown in Table 6-3, the International Gift/ Kids Stuff event in August 2006 is the most typical. Furthermore, its attributes are closest to the Plastics Show, even though its exhibitry would be much lighter and less complex than for Plastics.

The International Gift/ Kids Stuff show was a six-day event (or eleven-days, when move-in and move-out days are included) utilizing over 500,000 square feet of exhibit hall and showcasing 2,332 booths of exhibition. This show employed 28,807

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man-hours of exhibit labor, which translates to 3,601 eight-hour shifts, five man-hours per 1,000 event square foot days, and 11 man-hours per 1,000 move-in/out square foot days.

Table 6-4 applies these statistics to the Plastics Show to estimate the amount of exhibit labor spent on that event. Two methods are utilized. The first method uses the man-hours per 1,000 square feet days during actual event days. The second uses this same metric applied to move in/out days.

**Table 6-4**

<b>Exhibit Labor Estimates for The International Plastics Showcase</b>		
	<b>International Gift/ Kids Stuff Javits Center August 2006</b>	<b>The International Plastics Showcase McCormick Place June 2009</b>
# of Move-In Days	4	15
# of Show Days	6	5
# of Move-Out Days	1	7
# of Total Event Days	11	27
NSF Used	506,578	741,770
# of Booths	2,332	1,580
Total Event SFDays (in 000's)	5,572	20,028
Total Move-In/Out SFDays (in 000's)	2,533	16,319
Man-Hours/ 1,000 Event SFDay	5	5 (1)
Man-Hours/ 1,000 Move-In/Out SFDay	11	11 (2)
<b>Quantity of Exhibit Labor (in # of man-hours)</b>		
Actual, as reported	28,807	-
Estimated, based on (1)	-	<b>103,537</b>
Estimated, based on (2)	-	185,600
<i>Source: Javits Center, MPEA, CCTB, Johnson Consulting</i>		

As shown on the table, method 1 estimates that the Plastic Show utilized approximately 104,000 man-hours while method 2 estimates 186,000 man hours. The discrepancy is due to an unusually high number of move-in/out days for the Plastics Show (22 days for the Plastics Show vs. 5 days for the Gift Show). It has been noted that the work rules associated with overtime and double time have caused some shows to rent more days to move a show in and out rather than pay the labor premiums that may be required to work over weekends and evenings. This is the case for the Plastics Show in Chicago, resulting in the unusually high number of days to move the show in and out of the building. Therefore, the

estimation based on method 1 (event days) is likely to be a more accurate representation of labor.

When the Plastics Show's estimated 104,000 man-hours are divided by the standard 2,080 hours per year, the result is 50 annual full time equivalent jobs (FTE) associated with event labor. When combined with the 16 FTE jobs for electricians, the net result is that, over the course of the 27 days that the Plastics Show utilizes McCormick Place, labor equates to 66 annual FTE jobs. In terms of estimated payroll, using an average of \$80 per hour, these 66 jobs equate to almost \$9.1 million.

### How Do Work Rules Benefit Labor?

Table 6-5 presents a summary of an analysis prepared by Show Contractors operating at McCormick Place. The analysis shows minimum labor requirements for various sample events utilizing a varying number of exhibit halls for a varying number of days. Sample event G below most closely resembles the Plastics Show (17.6 million square foot days for the sample event vs. 20 million square foot days for the Plastics Show). McCormick Place establishes a minimum labor requirement of approximately \$271,500 for standby labor while event is open and a non-working steward, as shown as Event G in Table 6-5 below.

**Table 6-5**

Minimum Labor Requirement at McCormick Place							
Sample Event	# of Days	# of Halls	Estimated Ex-Hall SF (1)	Estimated SFDays (in 000's)	Minimum Standby Labor While Event is Open (2)	Minimum Non-Working Steward (3)	Total Minimum Labor Requirement
	(A)	(B)	(C)	(D) = (A) x (C)	(E)	(F)	(G) = (E) + (F)
A	4	1	840,000	3,360	\$20,166	\$8,486	\$28,652
B	4	2	1,209,000	4,836	\$40,333	\$16,972	\$57,305
C	5	3	1,357,000	6,785	\$72,598	\$31,822	\$104,420
D	6	4	1,657,000	9,942	\$120,984	\$50,915	\$171,899
E	10	1	840,000	8,400	\$50,415	\$21,214	\$71,629
F	12	2	1,209,000	14,508	\$120,999	\$50,915	\$171,914
<b>G</b>	<b>13</b>	<b>3</b>	<b>1,357,000</b>	<b>17,641</b>	<b>\$188,755</b>	<b>\$82,736</b>	<b>\$271,491</b>
H	23	4	1,657,000	38,111	\$463,772	\$195,173	\$658,945

1) Assuming that the halls refer to Hall A, B, C, and D of the McCormick Place.  
2) Costs for Events E through H are estimated based on those for Events A through D, proportionately to the number of days.  
3) Costs for Events A through D are estimated based on those for Events E through H, proportionately to the number of days.  
Source: Freeman, Johnson Consulting

For the Plastics Show (approximately 20 million square foot days), the minimum labor requirement is proportionately estimated at two full time equivalent jobs. This analysis does not include the benefit labor gains by its minimum calls, and the deployment of its comparatively restrictive Overtime and Double time windows. This is estimated at eight full time equivalent jobs, assuming the impact is a 15% premium.

In other words, the Unions' desire for an estimated ten full time equivalent jobs has cost the McCormick Place operation 67 jobs. This analysis is summarized in Table 6-6, below.

**Table 6-6**

<b>Impact Summary The International Plastics Showcase</b>			
	<b>Amount of Impact</b>	<b># of Jobs Supported</b>	
		<b>In Man-Hours</b>	<b>In FTE Jobs</b>
<b>Direct Economic Impact</b>			
McCormick Place Revenues	\$4,794,000	119,068 (1)	
MPEA Electrical Jobs			16 (2)
Contractor Billed Jobs			52
Contractor & MPEA Billed Work Rule Related Jobs			10
			<b>78</b>
<i>Notes:</i>			
<i>*Including sight-seeing tours, car rentals, taxis and local transportation services, exhibition booth services, and others.</i>			
<i>(1) Derived from the NY Gift Show-based estimates, assuming that Chicago's limiting work rules add approximately 15 percent to the estimated ST man-hours.</i>			
<i>(2) Assuming ten holidays, leaving 50 weeks of five 8-hour work days per year.</i>			

## **Chicago & Illinois' Lost Economic and Fiscal Benefits of a Departing Show**

Departing events do not only bring losses to the host facility and labor unions, but to the City of Chicago and the State of Illinois as well. When the Plastics Show leaves Chicago and the State, it is taking its attendees, exhibitors, room nights, and their associated revenues away from Chicago, which results in the loss of economic and fiscal benefits to the City and the State.

This subsection discusses the lost economic and fiscal benefit associated with the Plastics Show's departure in its broader context. It includes lost spending by the Show's attendees and exhibitors, and various tax revenues that are generated from those spending. The estimates are based on the Plastic Show's statistics as shown previously on Table 6-1.

Key statistics for estimating economic and fiscal benefits are the number of attendees, exhibitors, and room nights.

- Attendees – Plastics Show attendance was 43,102. Assuming that, on average, an attendee to the five-day Plastics Show stays in Chicago for 1.5 days, the 43,102 attendees translate to 64,653 attendee-days.
- Exhibitors – The number of exhibitors is estimated based on the number of booths and duration of show. The five-day Plastics Show exhibited 1,580



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booths. Assuming that, on average, there are two exhibitors per booth, the result is 3,160 exhibitors, 15,800 exhibitor-days, and 12,640 exhibitor-nights.

- Room Nights – McCormick Place reported that according to its Room Block Agreement, the Plastics Show occupied 28,322 room nights. However, McCormick Place also stated that many attendees did not go through the room block for their accommodation, and it can reasonably be assumed that approximately 50 percent, or 14,161 additional room nights should be added. Combined with the 12,640 room nights from the exhibitors, total room nights generated by the Plastics Show is estimated at 55,000.

Table 6-7 shows a simple estimate of the loss of economic benefits associated with the departure of the Plastics Show from Chicago and the State. The basis for the estimate is the following key statistics: 64,653 attendee-days, 15,800 exhibitor-days, and 55,000 room nights. Average daily spending of these attendees is derived from an estimate by Destination Marketing Association International (DMAI) and per diem rates for Chicago by the U.S. General Services Administration. Specific spending on lodging is assumed to be \$181.60 per room night, derived from the weighted average of per diem on lodging in Chicago. Additionally, the estimates also assume an additional \$100 of spending for each exhibit-day for booth rental and services.

**Table 6-7**

<b>The International Plastics Showcase Estimated Loss of Economic Benefits due to Departure of Event</b>			
	<b>Average Daily Spending</b>	<b>Volume of Activities</b>	<b>Total Spending (\$000's)</b>
Lodging	\$181.60	55,000 room nights	\$9,988
Eating and Drinking	71.00	80,453 person-days*	5,712
General Retail	16.60	80,453 person-days	1,336
Recreation, Entertainment, Sight-Seeing	10.30	80,453 person-days	829
Local Transit	11.90	80,453 person-days	957
Car Rental	8.60	80,453 person-days	692
Booth Rental and Services (for exhibitors only)	100.00	15,800 exhibitor-days	1,580
<b>Total</b>			<b>\$21,094</b>

*\*Includes attendee-days and exhibitor-days.  
Source: Destination Marketing Association International, General Services Administration  
Department of Revenue, Johnson Consulting*

As shown on the table, the loss of Plastics Show is estimated to cost area hotels, retail, and restaurants approximately of \$17 million in sales. It is also estimated to cost other related establishments approximately \$4 million in revenues. Total lost

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economic benefits are estimated at \$21.1 million. Added to this amount is the \$4.8 million of lost revenues to McCormick Place.

Employment-wise, in addition to the 78 FTE jobs lost by labor, the \$17 million in lost hotel, retail, and restaurant sales translates to over 100 FTE jobs at area hotels, and an estimated 90 FTE jobs at retail and restaurant establishments. The average employment at hotels is about .5 workers per hotel room. This means the economic support for an estimated 148 hotel rooms evaporated from the economies of Chicago and the State.

Table 6-8 shows a simple estimate of the loss of the economic, employment and fiscal benefits associated with the departure of the Plastics Show from Chicago, based on the economic spending estimated previously in Table 6-6.

**Table 6-8**

<b>Impact Summary The International Plastics Showcase</b>			
	<b>Amount of Impact</b>	<b># of Jobs Supported</b>	
		<b>In Man-Hours</b>	<b>In FTE Jobs</b>
<b>Direct Economic Impact</b>			
McCormick Place Revenues	\$4,794,000	119,068 (1)	(2)
MPEA Electrical Jobs			16
Contractor Billed Jobs			52
Contractor & MPEA Billed Work Rule Related Jobs			10
			<b>78</b>
Hotel Room Revenues	9,988,000	na	111 (3)
Restaurant and Retail Revenues	7,048,000	na	90 (4)
Revenues to Other Establishments*	4,058,000	na	31 (5)
<b>Total</b>	<b>\$25,888,000</b>	na	<b>233</b>
<b>Total all Jobs Lost</b>			<b>310</b>
# Rooms Lost, annualized	<b>148</b>		
<b>Fiscal Impact</b>			
Sales Tax	\$634,000		
Hotel/ Motel Tax	1,149,000		
Auto Rental Tax	76,000		
State Income Tax @ \$1,000/ Job	310,141		
Property Tax @ \$3,000/key	443,911		
<b>Total</b>	<b>\$2,613,052</b>		
<i>Notes:</i>			
<i>*Including sight-seeing tours, car rentals, taxis and local transportation services, exhibition booth services, and others.</i>			
<i>(1) Derived from the NY Gift Show-based estimates, assuming that Chicago's limiting work rules add approximately 15 percent to the estimated ST man-hours.</i>			
<i>(2) Assuming ten holidays, leaving 50 weeks of five 8-hour work days per year.</i>			
<i>(3) Assuming that 40 percent of revenues goes to salaries, which average at \$36,000.</i>			
<i>(4) Assuming that 33.33 percent of revenues goes to salaries, which average at \$26,000.</i>			
<i>(5) Assuming that 20 percent of revenues goes to salaries, which average at \$26,000.</i>			

As shown on the table, the loss of Plastics Show is estimated to cost the State of Illinois, Cook County, Regional Transportation Authority, Illinois Sports Facilities Authorities, Metropolitan Pier and Exposition Authority, and the City of Chicago the following:

- A total of 310 jobs
- \$26 million in spending
- Economic support for 148 hotel rooms on an annual basis
- A total of \$2.6 million of tax revenues associated with the show.

## Summary and Conclusion

Table 6-9 below presents a summary of the economic impacts caused by the departure of the Plastics Show. These impacts not only affect McCormick Place, but also those who work there and those businesses and employees who rely heavily on such events booking in Chicago. Table 6-9 demonstrates a powerful point concerning the importance that a single show has on the economy of Chicago as well as the citizens who live and work here. Chicago's inability to offer a competitive product does have significant consequences.

**Table 6-9**

<b>Impact Summary</b>			
<b>The International Plastics Showcase</b>			
<b>Direct Impacts</b>			
McCormick Place Revenue	\$4,794,000		
Labor			
Electrical	16	FTEs	
Other Event Labor	52	FTEs	
			119,068 man-hours
<b>Direct Impacts</b>			
Hotel Revenue	\$9,988,000		
Dining & Retail Revenue	\$7,048,000		
Labor			
Hotel	111	FTEs	
Dining & Retail	90	FTEs	
<b>Fiscal Impacts</b>			
Tax Revenues	\$2,613,052		
<i>Source: Johnson Consulting</i>			

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The consulting team has used the most scientific approach possible to develop the assumptions in this section, without having direct access to all of the data needed. We do know that at every point, reasonable and conservative estimates were used. It is our opinion that exhibitors complain about labor to show management and shows have chosen to leave the market.

This analysis has a very positive flip side. Every new show has the reverse effect. Further, if work rules incentivize shorter show dates, i.e., less time required to move in and out of the building, substantially more windows for events could be made available at McCormick Place.

# Metropolitan Pier & Exposition Authority McCormick Place Analysis

April 22, 2010



*McCormick Place Complex and Navy Pier*

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# I. Executive Summary

As part of the overall efforts to maintain and improve McCormick Place's competitiveness in the convention and trade show market, the Metropolitan Pier and Exposition Authority ("MPEA") engaged PricewaterhouseCoopers LLP ("PwC") and C.H. Johnson Consulting, Inc. ("CHJC") to conduct certain analyses related to McCormick Place and its competitive positioning. This report consolidates the analyses conducted by PwC and CHJC and is intended to enhance MPEA's understanding of McCormick Place's position in the competitive convention and trade show market in terms of convention center operating performance, destination characteristics, and the customer's (i.e. show management, exhibitors, and attendees) costs of doing business at McCormick Place. The following is a summary of the findings presented throughout this report:

- In recent years, the demand for convention space has not kept pace with the supply of space. This has been exacerbated by national/global economic conditions, which have resulted in a decreased level of interest in attending and/or exhibiting at trade shows, as well as significant increases in supply resulting from new and expanded facilities. All these factors have contributed to the challenges facing McCormick Place and an increased emphasis on the need to be successful in an increasingly competitive marketplace.
- Chicago has certain distinct strengths relative to its competition when it comes to the destination's attractiveness for events. These include:
  1. McCormick Place—the largest and most historically significant convention center in the country
  2. A large market-wide hotel room supply, strong air accessibility
  3. A strong local/regional population base coupled with its central location relative to the population centers on both U.S. coasts
  4. A high proportion of manufacturing employment—indicative of a strength in attracting manufacturing-related events
- Chicago's challenges relative to its competition include:
  1. Relative to the size of its convention center, and compared to its competitors, the total number of hotel rooms market-wide are low
  2. The total number of hotel rooms proximate to McCormick Place is significantly below its competitors. McCormick's headquarter hotel rooms, at 800, are below all its competitors and particularly low compared to Orlando, with nearly 4,400 rooms attached or adjacent to its convention center
  3. The low number of proximate hotel rooms poses a challenge to show managers, exhibitors, and attendees, which must incur additional time and costs associated with transportation between Chicago's downtown hotel core and McCormick Place (often multiple times per day)

4. A hotel room tax rate that is on the high end of the range of competitors
  5. A low destination marketing budget
  6. A relatively low percentage of hotel tax collections that are allocated to the convention center
- Relative to its four primary competitors (primary convention centers in Las Vegas, Orlando, Atlanta, and New York), McCormick Place has consistently trailed Las Vegas in terms of the share of net square feet rented among the largest 200 trade shows in North America. It has alternated the 2<sup>nd</sup> and 3<sup>rd</sup> position in market share with Orlando in recent years.
  - In the most recent year, McCormick Place hosted 91 exhibit hall events, which is below the average of competitive centers (97 events). McCormick's 64 conventions/trade shows are just below the average of competitive centers (66 events).
  - McCormick Place hosted approximately 2.4 million attendees, which is highest among the competitive centers. Despite McCormick Place's relatively low event volume, its average attendance per event was relatively high, resulting in the highest total attendance.
  - Events in McCormick Place's exhibit halls occupied over 500 million square-foot days (essentially, a measure of demand for space), which was more than any of the competitive centers.
  - Despite achieving the highest demand for space, McCormick Place's larger size results in a total exhibit hall occupancy rate (54.1 percent), which is tied for fifth highest among eight centers (average of 56.4 percent).
  - The effective rental rates at McCormick Place were \$0.049 (per square foot, per day) for conventions/trade shows and \$0.032 for consumer/public shows. In comparison to five competitive centers, McCormick Place was below the average for conventions/trade shows (\$0.054) and also below the average for consumer/public shows (\$0.055).
  - With a food and beverage revenue per cap of \$13.76 for all center events, McCormick Place ranks fifth among eight competitive centers and is below the average of \$17.24. While McCormick Place's relatively low food and beverage per caps seem to imply that its food and beverage sales are relatively low, it is important to note that this metric is a function of the number of attendees purchasing food individually, as well as catered functions. As such, McCormick Place's low food and beverage per caps may be partially attributed to its relatively high trade show attendance counts and greater proportion of trade shows versus conventions, versus the



competition (conventions tend to generate more banquet activities and other catered food functions than trade shows). Further analysis of these factors is recommended.

- In the most recent year, McCormick Place generated operating revenues and expenses that both far exceeded the competitive set; however, McCormick Place's operating deficit (revenues less expenses) of approximately \$10 million is below the average deficit of approximately \$15.4 million among three competitors for which this information was available.
- An important conclusion from the revenue and expense analysis is that McCormick Place appears to require a relatively lower operating subsidy than the competition and it is likely, based on its significantly higher operating revenues per square foot (\$41 versus \$23 for the competitive venues), achieving this largely through revenue generation.

## II. Introduction

As part of the overall efforts to maintain and improve McCormick Place's competitiveness in the convention and trade show market, the Metropolitan Pier and Exposition Authority ("MPEA") engaged PricewaterhouseCoopers LLP ("PwC") and C.H. Johnson Consulting, Inc. ("CHJC") to conduct certain analyses related to McCormick Place and its competitive positioning. This report consolidates the analyses conducted by PwC and CHJC and is intended to enhance MPEA's understanding of McCormick Place's position in the competitive convention and trade show market in terms of convention center operating performance, destination characteristics, and the customer's (i.e. show management, exhibitors, and attendees) costs of doing business at McCormick Place. This report addresses four areas as described below.

Services performed by PwC include the following:

- *State of the Industry:* A "state of the industry" assessment describing current conditions in the convention and trade show industry, including changes in the supply of space and event demand.
- *Destination Attributes:* Destination costs and attributes associated with hosting events in Chicago versus other competitive destinations including Orlando, Las Vegas, Atlanta, New York, New Orleans, Los Angeles, Anaheim, Washington DC, and Dallas. Destination characteristics compared included convention center facility characteristics, hotel room supply, air access, travel costs, destination marketing resources, population, and employment.
- *Convention Center Performance Analysis:* Historical operating performance of McCormick Place was compared to a set of competitive venues, including the primary convention centers in Orlando, Las Vegas, Atlanta, New Orleans, Los Angeles, Anaheim, and Washington DC. Metrics presented in this comparison included event volume, event attendance, exhibit hall utilization of space (measured by occupied square foot days and occupancy), food and beverage sales per capita, effective rental rates, and net operating income. This section also presents McCormick Place's share of supply and demand in the convention/trade show industry.

Services performed by CHJC included the following:

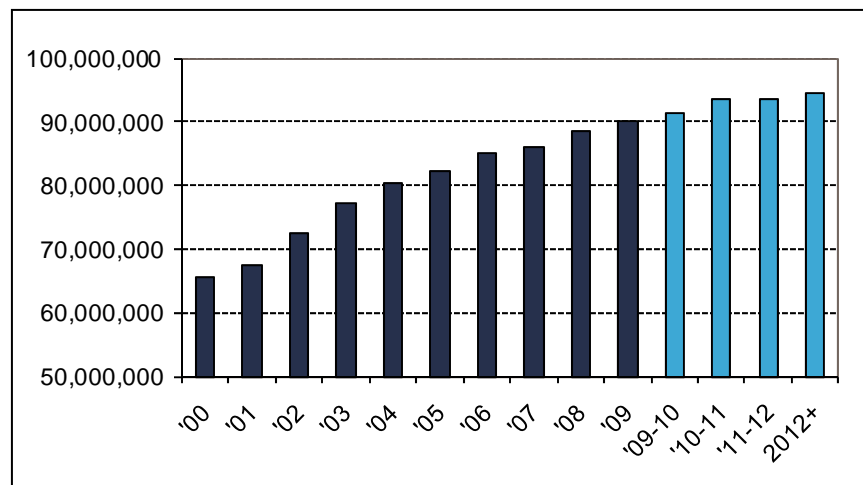
- *Cost Analysis:* Analysis of customer costs of doing business in McCormick Place versus a set of select competitive convention centers including Orange County Convention Center in Orlando, Las Vegas Convention Center, Georgia World Congress Center in Atlanta, and the Jacob K Javits Convention Center in New York. Costs were compared from a customer-centric perspective and included those associated with the building, decorators and show contractors, install and dismantle firms, and other labor costs.

# III. State of the Industry

## Trends in Supply and Demand

According to Tradeshow Week's *Major Exhibit Hall Directory*, the supply of exhibit space in North America increased 1.7% to approximately 90 million square feet during 2009. As of September 2009, approximately 4.4 million square feet of exhibit space was expected to be added to the supply in North America in future years. Of this, approximately 54 percent is attributed to new facilities, while 46 percent is attributed to expansions of existing facilities.

**Historical & Future Exhibit Space (Sq. Ft.) in North America**



Source: Tradeshow Week Major Exhibit Hall Directory(2009)

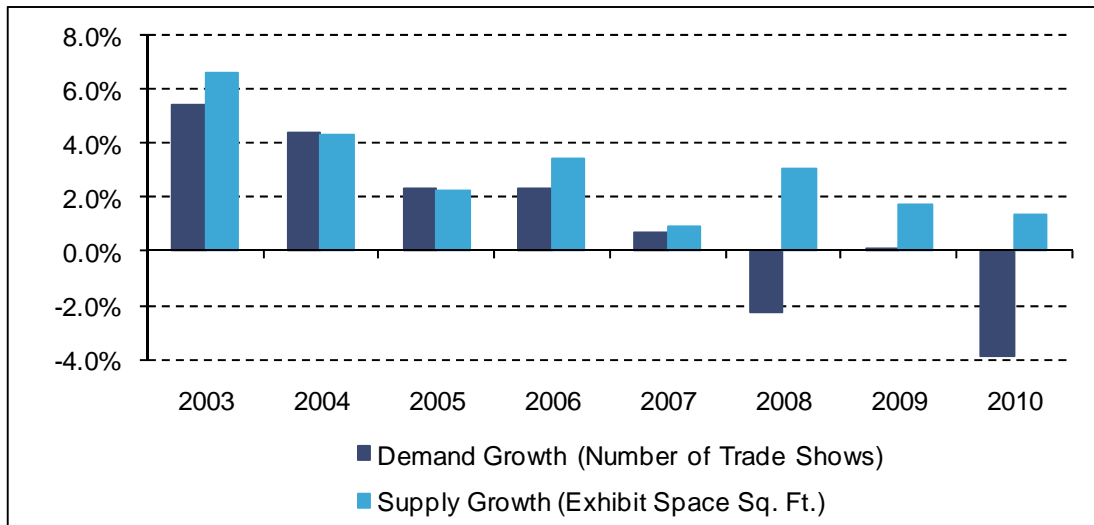
Noteworthy convention center expansions under construction include the Indiana Convention Center, which is adding 254,000 square feet of exhibit space and scheduled for completion in late 2010, and the Pennsylvania Convention Center, which is adding 226,000 square feet of exhibit space and scheduled for completion in March 2011.

Growth in the supply of exhibit space since 2003 was compared to growth of demand, as measured by the total number of trade shows in North America, in the following chart.

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## Trends in Supply & Demand in North America

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Note: Demand growth for 2010 was based on projected completions as of September 2009.

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Source: *Tradeshow Week Major Exhibit Hall Directory*; *Tradeshow Week Data Book (2003-2010)*

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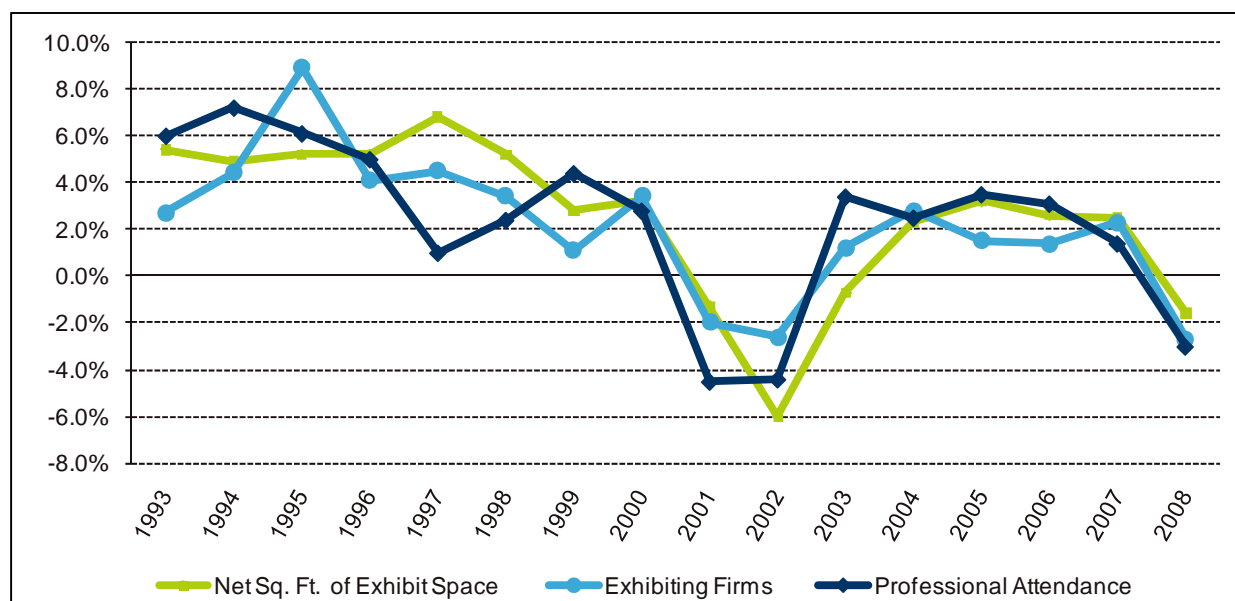
As illustrated, the growth in exhibit space has outpaced growth in the number of trade shows in most years since 2003. Despite the addition of new exhibit space in 2008, 2009, and 2010, the industry experienced negative to flat growth in the number of trade shows in each of these years. A review of total net square footage of trade shows as a measure of demand reveals a larger gap between supply growth and demand decline in 2010. While supply is estimated to grow 1.3 percent in 2010, the total net square footage of trade shows is expected to drop 5.8 percent, as reported by Tradeshow Week.

While the previous growth rates represent the entire trade show industry, the following chart presents historical growth of the 200 largest trade shows that take place each year in the U.S, as reported by Tradeshow Week. It is important to note that the largest 200 trade shows may fluctuate from year to year. In order to present data that is representative of trends in the industry, the growth figures presented are based only on the shows with a two-year comparison.

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### Average Annual Change in Conventions & Trade Shows

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Note: Data for 2009 had not yet been released at the time of analysis.

Source: *Tradeshow Week 200*

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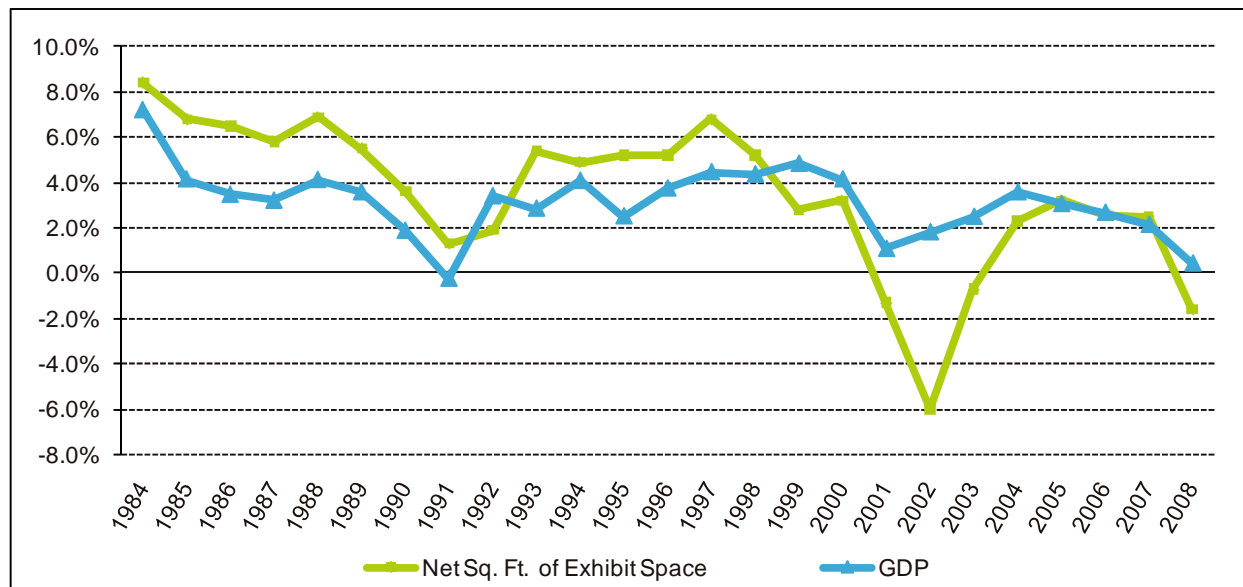
Following sharp declines in 2001 and 2002, the trade show industry showed signs of improvement for several years but was negatively impacted by economic conditions in 2008. The largest 200 shows of 2008 decreased 1.6 percent in net square footage of exhibit space, decreased 3.0 percent in professional attendance, and decreased 2.7 percent in the number of exhibiting companies as compared to the largest 200 shows of the previous year.

There appears to be a distinct correlation between national economic conditions and the performance of the industry, as evidenced by a comparison of Gross Domestic Product (GDP) growth and growth in the convention/trade show industry. Since convention/trade show events provide a means to market products, network for future business, and obtain information on new products, it is not surprising that a strong economy would be conducive to their growth and that an economic recession would correspond to their decline. The following chart illustrates growth of Real GDP and net square footage of exhibit space utilized between 1984 and 2008.

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### Convention/Trade Show Exhibit Space and GDP Growth Rates

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Note: Data for 2009 had not yet been released at the time of analysis.

Source: *Tradeshaw Week 200*; U.S. Department of Commerce (Bureau of Economic Analysis)

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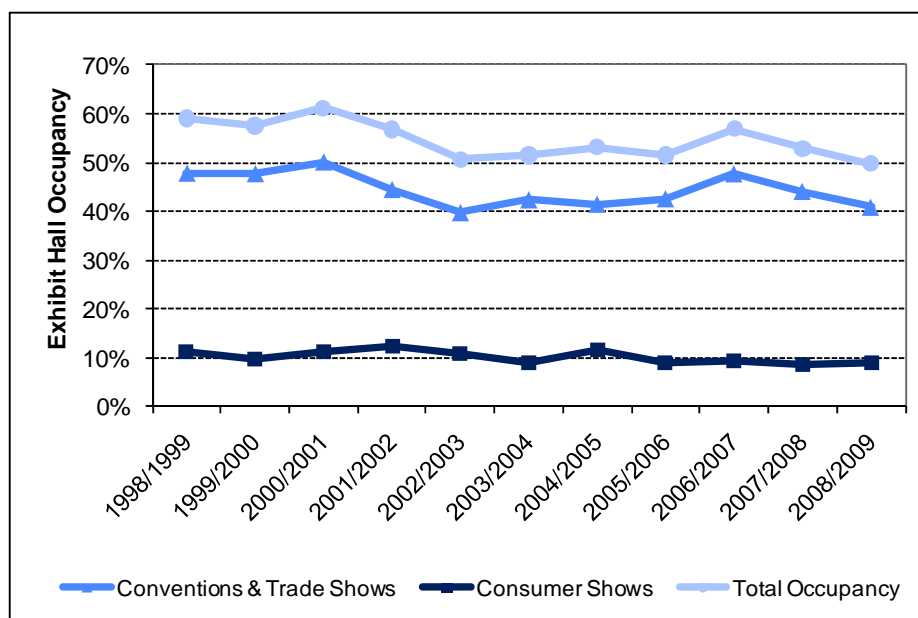
Historically, convention/trade show industry growth appeared to outpace the overall growth of Real GDP in a strong economy, yet it appeared to lag relative to growth of Real GDP during periods of recession.

### Gateway Destination Trends

PricewaterhouseCoopers researched comparative data on the performance of convention centers throughout North America. Participating convention centers were categorized by the number of hotel rooms in their respective metropolitan areas, and average operating statistics were presented for centers in what is termed “Gateway” (more than 30,000 rooms), “National” (15,000 to 30,000 rooms) and “Regional” (less than 15,000 rooms) markets. With over 115,000 hotel rooms in the metropolitan area, Chicago is considered to be a Gateway market.

The following chart illustrates average convention/trade show occupancy and consumer show occupancy for the exhibit halls of Gateway market convention centers. Exhibit hall occupancy is a function of several factors, including square footage of exhibit space utilized by events, event length, and number of event bookings. Thus, an increase in any one of these factors contributes to an increase in occupancy.

## Exhibit Hall Occupancy of Gateway Market Convention Centers

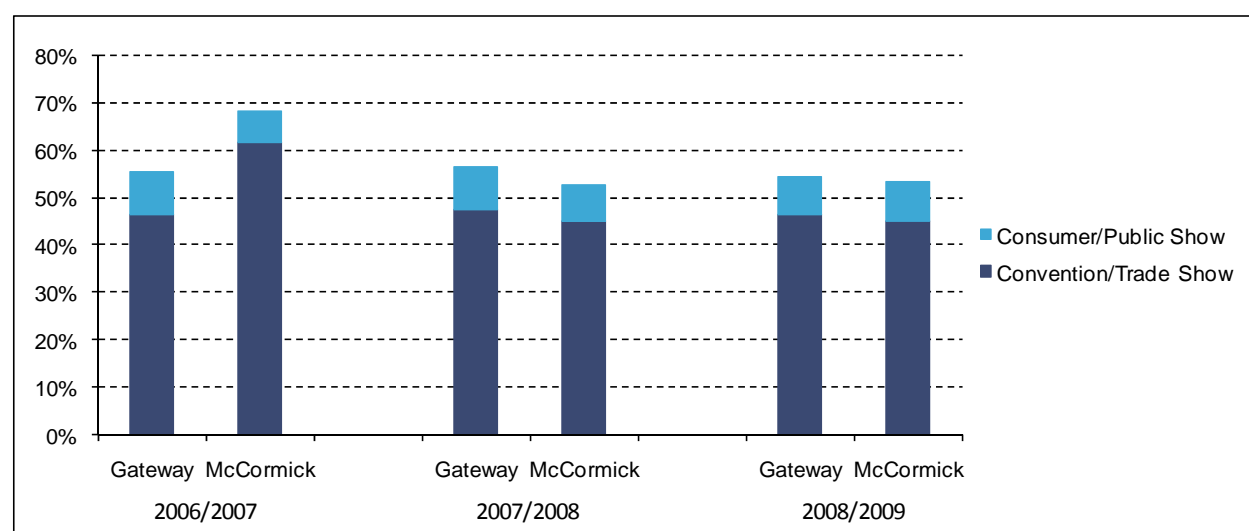


Source: PricewaterhouseCoopers

In 2008/2009, Gateway centers reported average occupancy of 40.9 percent from conventions/trade shows and 8.9 percent from consumer shows, or a total of 49.8 percent, representing the second consecutive year of decline.

Exhibit hall occupancy of Gateway centers was compared to McCormick Place in each of the past three reporting years in the chart below.

## Exhibit Hall Occupancy of Gateway Centers vs. McCormick Place



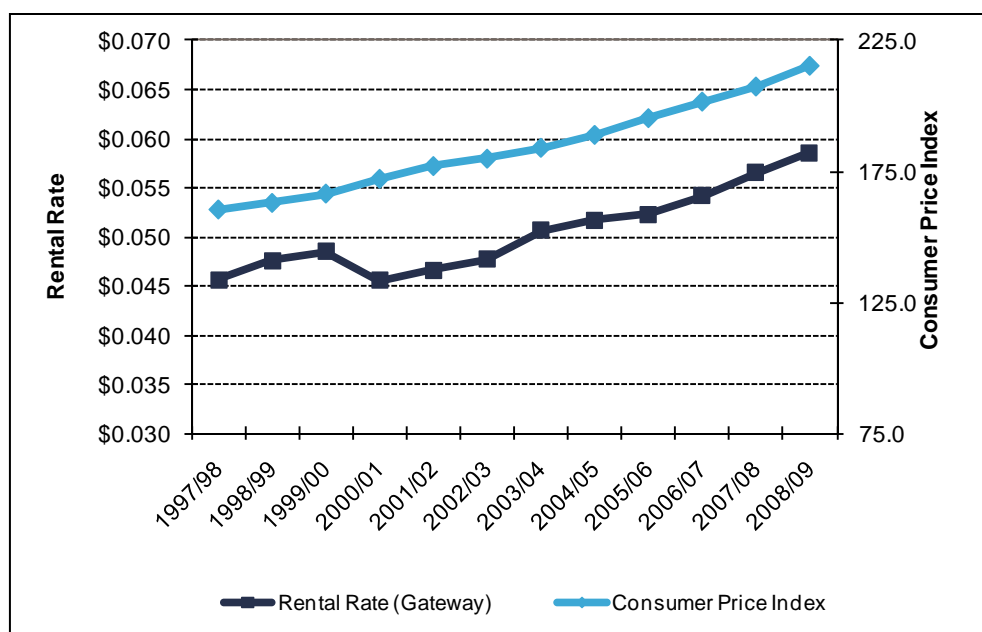
Note: Data for Gateway centers excludes McCormick Place and includes only those centers that provided information for each of the three reporting years presented.

Source: PricewaterhouseCoopers

While occupancy levels of Gateway centers remained relatively consistent from year to year, occupancy rates associated with conventions/trade shows and consumer shows at McCormick Place dropped approximately 15 percentage points in 2007/2008. This decline resulted from an increase in exhibit space (expansion of 460,000 square feet of exhibit space opened in August 2007) rather than a decline in exhibit hall usage—in fact, exhibit hall demand (occupied square foot days) increased 1.6 percent in 2007/2008.

Historical exhibit hall rental rates of Gateway centers, presented on a per-square-foot per-day basis, are illustrated below. Figures are presented as “effective rates,” thereby providing a method of comparison that accounts for free or discounted days for move-in and move out, discounts off published rates, and other such factors.

### Exhibit Hall Rental Rates of Gateway Centers



Source: PricewaterhouseCoopers; U.S. Department of Labor (Department of Labor Statistics)

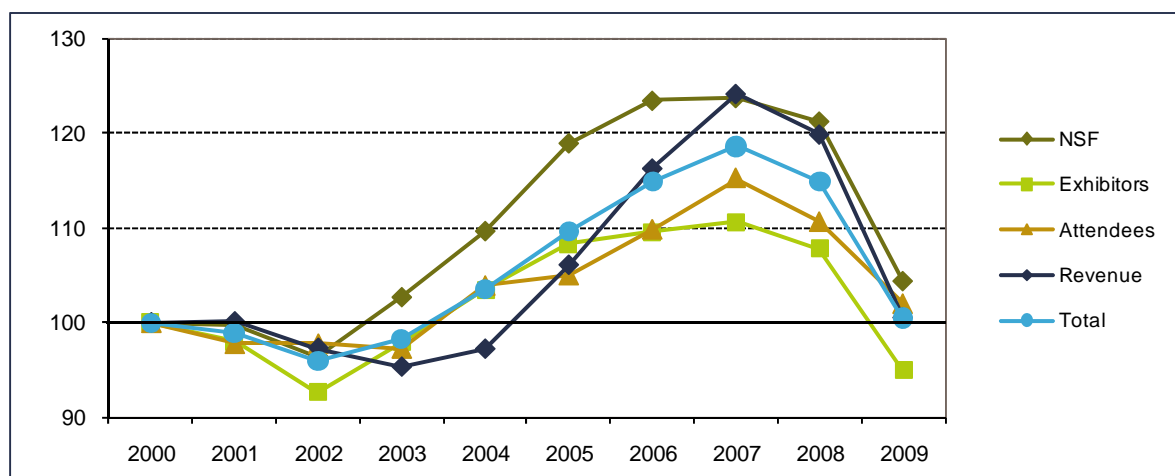
Over the ten-year period, effective rental rates experienced only one year of decline, however, the decline was 6.0 percent in a year when inflation was 3.4 percent. Since then, rental rates have steadily increased each year. In the most recent year, rental rate growth (3.7 percent) was consistent with inflation.

### Exhibition Industry Trends

The Center for Exhibition Industry Research (CEIR) publishes an annual report that provides exhibition industry performance across 11 key industry sectors. The CEIR Index reports year-over-year changes from 2000 to 2009 in four metrics—net square feet (NSF), number of attendees, number of exhibitors, and revenue—using a value of 100 in the base year of 2000. As presented in the following chart, the exhibition industry overall peaked in 2007, but by 2009 had dropped back to 2000 levels.



## Trends in the Overall Exhibition Industry



Source: Center for Exhibition Industry Research (CEIR) Exhibition Industry Index 2009

The table below presents the 2008 index score and growth rates for each of the 11 industry sectors.

## Index Score by Industry Sector

Industry	2008 Index Score <sup>1</sup>	2008 Growth <sup>2</sup>	CAGR 2000-2008
Sports, Travel, Entertainment, Art & Consumer Svcs.	140.8	-2.0%	4.4%
Transportation	132.4	-5.9%	3.6%
Medical & Health Care	128.3	1.3%	3.2%
Raw Materials & Science	124.2	3.4%	2.7%
Building, Construction, Home & Repair	121.3	-9.8%	2.4%
Industrial, Heavy Machinery & Furnished Bus. Inputs	118.4	1.1%	2.1%
Professional Business Services	116.3	-5.1%	1.9%
Government, Public & Non-profit	111.6	-3.9%	1.4%
Food	98.7	-3.0%	-0.2%
Communication & Information Technology	97.7	9.8%	-0.3%
Consumer Goods & Retail Trade	90.4	-7.0%	-1.3%

<sup>1</sup> Index score for each industry in 2008, compared with a base score of 100 in 2000.

<sup>2</sup> Percent growth from 2007 to 2008.

Note: Data for 2009 not available at the time of analysis.

Source: Center for Exhibition Industry Research (CEIR) Exhibition Industry Index 2009

In comparison to 2000, all industry sectors experienced positive growth with the exception of Food, Communication & Information Technology, and Consumer Goods & Retail Trade. Leading industries

include Sports, Travel, Entertainment, Art & Consumer Services; Transportation; and Medical & Health Care.

## Event Costs

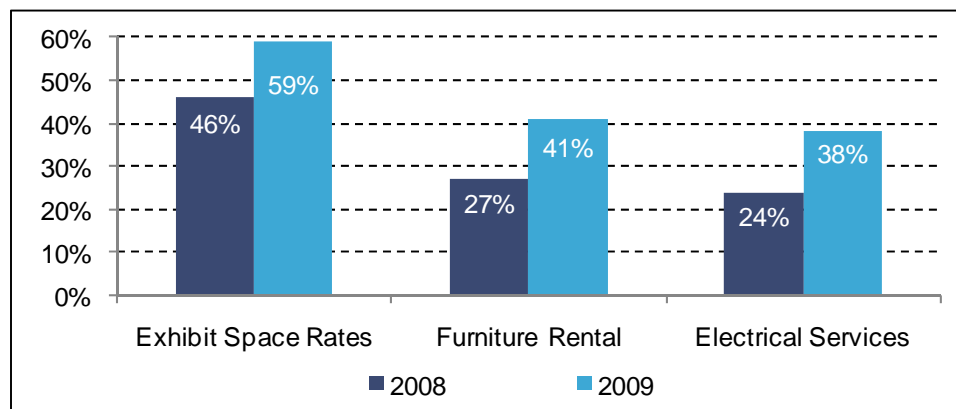
In light of economic conditions and reduced budgets, meeting planners are particularly interested in event costs and destination costs. In fact, meeting planners cited overall venue and destination cost, airfare, and travel costs as the top three factors influencing venue selection in Meeting Professionals International's *Future Watch 2009*.

According to Tradeshow Week's 2009 Survey of Corporate Exhibitors, 48 percent of all exhibitors believe the cost of show services (drayage, installation and dismantling, electrical, etc.) has increased by more than 5 percent. Seventy percent of survey respondents believe their materials handling costs exceeded the value received (compared to 65 percent last year). In addition, exhibitors became increasingly dissatisfied with the perceived value of exhibit space rates, furniture rental, and electrical services, as presented below.

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### Exhibitor Dissatisfaction of Value

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Source: Tradeshow Week Survey of Corporate Exhibitors (November 2009)

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When asked to report the single most inflated trade show cost, 50 percent of exhibitors reported materials handling (drayage) and 30 percent reported exhibit space.

## IV. Destination Attributes

This section compares key attributes of Chicago as an event destination to a selected set of competitive convention centers and their respective markets. The competitive set includes the following nine centers/destinations:

- Anaheim Convention Center (Anaheim, California)
- Dallas Convention Center (Dallas, Texas)
- Ernest N. Morial Convention Center (New Orleans, Louisiana)
- Georgia World Congress Center (Atlanta, Georgia)
- Jacob K. Javits Convention Center (New York, New York)
- Las Vegas Convention Center (Las Vegas, Nevada)
- Los Angeles Convention Center (Los Angeles, California)
- Orange County Convention Center (Orlando, Florida)
- Washington Convention Center (Washington D.C.)

### Convention Center Characteristics

Space characteristics of McCormick Place were compared to the competitive facilities in the following table. Facilities were ranked in terms of total exhibit space.

Facility Characteristics of Competitive Centers							
Center	Total Exh. Space (sq. ft.)	Prime Exh. Space (sq. ft.)	Contiguous Exh. Space (sq. ft.)	Meeting Rm Space (sq. ft.)	Ballroom Space (sq. ft.)	Total Function Space (sq. ft.)	Mtg/BR to Exhibit <sup>1</sup> Ratio
<b>McCormick Place</b>	<b>2,588,500</b>	<b>2,588,500</b>	<b>840,000</b>	<b>369,600</b>	<b>209,900</b>	<b>3,168,000</b>	<b>0.22</b>
Orange County CC	2,053,800	2,053,800	1,103,500	375,000	62,200	2,491,000	0.21
Las Vegas CC	1,940,600	1,940,600	623,100	235,800	0	2,176,400	0.12
Georgia World CC	1,366,000	1,366,000	607,500	251,100	58,700	1,675,800	0.23
Morial CC	1,068,500	1,068,500	1,068,500	330,900	66,900	1,466,300	0.37
Dallas CC	951,700	726,700	726,700	97,000	46,100	1,094,900	0.15
Javits CC	814,400	668,000	410,000	28,000	0	842,400	0.03
Anaheim CC	813,600	670,100	670,100	81,900	38,100	933,600	0.15
Los Angeles CC	719,600	557,600	346,900	72,100	0	791,700	0.10
Washington CC	703,000	703,000	473,000	118,200	52,000	873,200	0.24
<b>Average<sup>2</sup></b>	<b>1,159,000</b>	<b>1,083,800</b>	<b>669,900</b>	<b>176,700</b>	<b>36,000</b>	<b>1,371,700</b>	<b>0.18</b>
<b>McCormick Rank</b>	<b>1st</b>	<b>1st</b>	<b>3rd</b>	<b>2nd</b>	<b>1st</b>	<b>1st</b>	<b>4th</b>

<sup>1</sup> Ratio of meeting room and ballroom space to total exhibit space.

<sup>2</sup> Averages exclude McCormick Place. Average ballroom space also excludes centers without a ballroom.

Source: Facility Floor Plans

McCormick Place is the largest convention center in the country in terms of both exhibit space and total function space. Total function space grew to 3,168,000 square feet upon completion of the West Building expansion in August 2007, which added 460,000 square feet of exhibit space and 230,000 square feet of meeting/ballroom space. Prior to the expansion, McCormick Place was a close second to the Orange County Convention Center in terms of total function space.

## Hotel Room Supply

Hotel room supply is a key determinant of a destination's ability to attract and accommodate conventions and trade shows. The following table compares hotel room supply in Chicago to the competitive destinations.

### Hotel Room Supply

<i>Market<sup>1</sup></i>	<i>Market Hotel Rooms</i>	<i>Rooms per 1,000 Sq. Ft. Exhibit Space</i>
Las Vegas	160,300	83
Orlando	118,600	58
<b>Chicago</b>	<b>107,800</b>	<b>42</b>
Washington, DC	100,600	143
Los Angeles/Long Beach	98,000	136
Atlanta	94,300	69
New York	90,900	112
Dallas	76,300	80
Anaheim/Santa Ana	53,900	66
New Orleans	35,000	33
<b>Average, excluding Chicago</b>	<b>92,000</b>	<b>87</b>
<b>Chicago Rank</b>	<b>3rd</b>	<b>9th</b>
<small>1 . As defined by Smith Travel Research.</small>		

*Source: Smith Travel Research (February 2010); Facility Floor Plans*

With 107,800 hotel rooms in its market area, Chicago is ranked high among the competitive destinations; however, Chicago's market-wide hotel supply is among the lowest in relation to convention center exhibit space. This indicates a potential for challenges when assembling the city-wide room blocks required by event organizers.

Another critical destination selection factor, and in most cases more important than market-wide hotel inventory, is the availability of hotel rooms proximate to the convention center. As meeting planners and delegates are likely to select primarily "convention-class" hotels, properties that were not considered convention-class were excluded from this analysis. For purposes of this analysis, convention-class hotels

were defined as properties with at least 50 rooms and belonging to one of the following chain scales as defined by Smith Travel Research:

- Luxury (e.g. Ritz-Carlton, Four Seasons, St. Regis)
- Upper-Upscale Chains (e.g., Marriott, Hilton, Westin, Hyatt)
- Upscale Chains (e.g., Doubletree, Courtyard by Marriott, Crowne Plaza, Wyndham)
- Midscale Chains (e.g., Four Points by Sheraton, Holiday Inn, Hampton Inn)
- Independent-Upper
- Independent-Middle

The following table presents the convention-class hotel room supply within a quarter-mile radius of the destination's convention center—commonly considered “walking distance”—and a one-mile radius of the convention center in Chicago and each of the competitive markets. In addition to existing hotel rooms, hotels currently under construction were also presented.

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**Proximate Hotel Rooms: Quarter-Mile and One-Mile Radius of Convention Center**

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Center	City	----- Hotel Supply <sup>1</sup> -----		-- Rooms Under Construction --	
		Quarter-Mile Radius	One-Mile Radius	Quarter-Mile Radius	One-Mile Radius
Javits CC	New York, NY	139	26,761	0	3,496
Ernest N. Morial CC	New Orleans, LA	4,125	19,659	0	0
Orange County CC	Orlando, FL	6,098	13,683	750	750
Anaheim CC	Anaheim, CA	5,053	13,661	0	0
Las Vegas CC	Las Vegas, NV	3,776	12,896	0	0
Georgia World CC	Atlanta, GA	1,740	12,362	0	155
Washington CC	Washington, D.C.	2,772	10,732	0	204
Dallas CC	Dallas, TX	1,444	6,967	1,016	1,016
Los Angeles CC	Los Angeles, CA	1,481	6,371	0	0
<b>McCormick Place</b>	<b>Chicago, IL</b>	<b>800</b>	<b>1,032</b>	<b>0</b>	<b>0</b>
<b>Average, excluding Chicago</b>		<b>2,959</b>	<b>13,677</b>		
<b>Chicago Rank</b>		<b>9th</b>	<b>10th</b>		

1 Hotel supply includes rooms under construction.

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Source: Smith Travel Research (February 2010); Microsoft MapPoint

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As presented above, Chicago offers 1,032 rooms within a one-mile radius of the convention center, which ranks last and is significantly lower than the competitive destinations. Unlike most competitive markets, Chicago offers only one hotel within walking distance of the convention center—the 800-room Hyatt Regency McCormick Place, which is owned by the Metropolitan Pier and Exposition Authority and is connected to the center's South Building. Although New York is similarly challenged in that it has no attached or adjacent headquarter hotel and has only 139 rooms within a quarter-mile radius of the Javits Convention Center, New York has the largest supply of rooms within a one-mile radius of the convention

center. The MPEA has recognized the limited supply of proximate hotel rooms and has considered options related to development of a new headquarter hotel or expansion of the Hyatt. Noteworthy projects under construction in the competitive markets include the 1,016-room Omni Dallas Convention Center Hotel, scheduled to open in early 2012, and the 750-room addition at the Peabody Hotel Orlando, scheduled for completion in late 2010.

Headquarter hotel supply in each competitive market was also compared to Chicago below.

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#### Headquarter Hotels

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<i>Center</i>	<i>Brand</i>	<i>Rooms</i>	<i>Proximity to CC</i>
Las Vegas CC	Hilton	2,955	Adjacent
Javits CC	Marriott Marquis	1,949	0.8 miles
Ernest N. Morial CC	Hilton	1,622	0.3 miles
Anaheim CC	Hilton	1,572	Adjacent
	Marriott	1,030	Adjacent
Orange County CC	Hilton	1,417	Attached
	Rosen Centre	1,334	Adjacent
	Peabody <sup>1</sup>	1,641	Adjacent
Washington CC	Marriott Marquis (Planned) <sup>2</sup>	1,167	Attached
	Renaissance	807	1 block
	Grand Hyatt	888	0.3 miles
Georgia World CC	Omni	1,067	Attached
Dallas CC	Omni (U/C) <sup>3</sup>	1,016	Attached
	Hyatt Regency	1,120	0.3 miles
	Sheraton	1,840	0.6 miles
Los Angeles CC	JW Marriott / Ritz-Carlton <sup>4</sup>	1,001	Adjacent
<b>McCormick Place</b>	<b>Hyatt Regency</b>	<b>800</b>	<b>Attached</b>
<b>Average, excluding Chicago</b>		<b>1,402</b>	

<sup>1</sup> Includes the 750-room expansion currently under construction.

<sup>2</sup> Construction of the Marriott Marquis headquarters hotel was scheduled to start in late 2009 but was pushed back to summer 2010.

<sup>3</sup> The Omni Dallas Convention Center Hotel is currently under construction and scheduled to open in early 2012.

<sup>4</sup> The 878-room JW Marriott at L.A. LIVE shares a tower with the 123-room Ritz-Carlton Los Angeles at L.A. LIVE.

Note: Certain markets, such as San Francisco and New York, do not have a designated headquarter hotel; in such cases, hotels that event planners generally use as the headquarters location and/or the largest hotels in close proximity to the convention center were presented.

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Source: Smith Travel Research (February 2010); Microsoft MapPoint; PricewaterhouseCoopers

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In comparison to headquarter hotels in competitive markets, the Hyatt Regency McCormick Place has a relatively low room count—a competitive challenge for McCormick Place. The low number of proximate hotel rooms poses a challenge to show managers, exhibitors, and attendees, which must incur additional

time and costs associated with transportation between Chicago's downtown hotel core and McCormick Place (often multiple times per day)

## Air Access

Accessibility by air is an important characteristic of a destination, particularly in attracting national and regional events, for which many attendees fly into the destination. The following table presents the number of cities that can access the destination by direct flights and the driving distance between the airport and convention center.

<b>Air Access</b>					
<i>City</i>	<i>Airport</i>	<i>----- Number of Direct Flight Cities<sup>1</sup> -----</i>			<i>Distance in Miles<sup>2</sup></i>
		<i>Domestic</i>	<i>Int'l</i>	<i>Total</i>	
Atlanta	Atlanta Hartsfield-Jackson Int'l Airport	143	70	213	10
<b>Chicago</b>	<b>O'Hare / Midway<sup>3</sup></b>	<b>140</b>	<b>57</b>	<b>197</b>	<b>17</b>
Dallas	Dallas/Ft. Worth Int'l Airport	137	36	173	22
New York	LaGuardia / JFK <sup>4</sup>	83	89	172	13
Los Angeles	Los Angeles Int'l Airport	87	61	148	16
Washington, DC	Dulles / Reagan <sup>5</sup>	101	43	144	17
Orlando	Orlando International Airport	83	31	114	14
Las Vegas	Las Vegas McCarran Int'l Airport	75	19	94	3
New Orleans	Louis Armstrong New Orleans Int'l Airport	52	6	58	16
Anaheim <sup>6</sup>	Orange County John Wayne Airport	40	5	45	13
<b>Average, excluding Chicago</b>		<b>89</b>	<b>40</b>	<b>129</b>	<b>14</b>
<b>Chicago Rank<sup>7</sup></b>		<b>2nd</b>	<b>4th</b>	<b>2nd</b>	<b>9th</b>

1 Number of direct flight cities on April 1, 2010, as reported by OAG.

2 Driving distance in miles from airport to convention center.

3 Number of direct flight cities and number of airlines is presented for both Chicago O'Hare International Airport and Chicago Midway International Airport. Distance is presented as the average of O'Hare (23.0 miles) and Midway (11.4 miles).

4 Number of direct flight cities and number of airlines is presented for both LaGuardia Airport and John F. Kennedy International Airport. Distance is presented as the average of LaGuardia (9.0 miles) and JFK (17.7 miles).

5 Number of direct flight cities and number of airlines is presented for both Washington Dulles International Airport and Ronald Reagan Washington National Airport. Distance is presented as the average of Dulles (29.3 miles) and Reagan (4.3 miles).

6 Figures presented are for the Orange County John Wayne Airport. The Anaheim CC is also located 31 miles from the Los Angeles International Airport.

7 Rank is in terms of greatest number of direct flights, greatest number of airlines, and shortest distance from airport to convention center.

Source: OAG Flights; Airport websites; MapQuest

Between the Chicago O'Hare International Airport and Chicago Midway International Airport, Chicago has direct flight access to 197 destinations. In comparison to the competitive destinations, Chicago's accessibility by air is a competitive advantage.

## Destination Costs

While direct venue costs to event organizers (discussed in the next section) are important factors in venue selection, overall destination costs such as travel costs, hotel room rates, and hotel tax rates are also important considerations. The following chart ranks Chicago and the competitive destinations in terms of average one-way airfare cost.

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### Airfare Cost

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<i>City</i>	<i>Average One-Way Airfare Cost <sup>1</sup></i>
Washington, DC	\$208
Los Angeles	194
New York	187
Dallas/Ft. Worth	183
<b>Chicago</b>	<b>163</b>
New Orleans	158
Atlanta	156
Las Vegas	151
Orlando	132
<b>Average, excluding Chicago</b>	<b>\$171</b>
<b>Rank<sup>2</sup></b>	<b>5th</b>

1 Data for 3rd Quarter 2009

2 Rank is in terms of city with most expensive cost.

Note: Anaheim not included in the *Domestic Airline Fares Consumer Report*.

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*Source: Department of Transportation Domestic Airline Fares Consumer Report (Third Quarter 2009)*

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The average one-way airfare cost to/from Chicago is \$163, which is the fifth highest among the nine competitive destinations included in this analysis and is lower than the average cost of \$171.

In addition to airfare costs, Chicago's average per diem cost (a composite figure representing the daily costs of lodging, three meals, and car rental) and other representative travel costs were compared to the competitive markets.



## Travel Costs

Average Per Diem Cost <sup>1</sup>		Average Upscale Hotel Cost <sup>2</sup>		Average Meal Cost <sup>3</sup>		Average Full-size Car Rental Cost	
New York	\$513	New York	\$217	New York	\$132	New York	\$128
Washington, DC	477	Washington, DC	209	Los Angeles	123	Washington, DC	126
<b>Chicago</b>	<b>386</b>	Los Angeles	155	Anaheim	115	Dallas	125
Los Angeles	385	<b>Chicago</b>	<b>135</b>	Las Vegas	113	<b>Chicago</b>	<b>119</b>
Dallas	355	Las Vegas	126	Washington, DC	112	Anaheim	106
Anaheim	339	New Orleans	116	<b>Chicago</b>	<b>112</b>	New Orleans	104
New Orleans	335	Orlando	107	Atlanta	111	Los Angeles	86
Las Vegas	325	Atlanta	104	Dallas	110	Atlanta	85
Atlanta	316	Dallas	104	New Orleans	97	Orlando	84
Orlando	291	Anaheim	103	Orlando	86	Las Vegas	71
<b>Average<sup>3</sup></b>	<b>\$371</b>		<b>\$138</b>		<b>\$111</b>		<b>\$102</b>
<b>Rank<sup>4</sup></b>	<b>3rd</b>		<b>4th</b>		<b>6th</b>		<b>4th</b>

1 Average Per Diem Cost is sum of Average Upscale Hotel Cost, Average Meal Cost, and Average Full-size Car Rental Cost.

2 Excludes hotel occupancy taxes, sales taxes, and other fees.

3 Average daily cost of breakfast, lunch and dinner, including 15% tip.

4 Average excludes Chicago.

5 Chicago's rank among 10 cities in terms of city with most expensive cost.

Source: Business Travel News 2010 Corporate Travel Index

With a per diem cost of \$386, Chicago is among the more expensive of the competitive destinations, which have an average cost of \$371. However, Chicago's upscale hotel cost is slightly lower than the average of the competitive destinations.

In addition to the base hotel room cost, visitors must pay a tax on their hotel rooms which, in many major convention destinations, often comprises a significant portion of their final bill. Event planners consider the impact hotel room tax rates can have on attendance and attendee experiences when they select event destinations and have unofficially “boycotted” destinations due to high tax rates in the past. The total tax on hotel rooms for Chicago and each competitive market is presented in the following chart.

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**Hotel Room Total Tax on Rooms (may include general sales tax)**

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<i>City</i>	<i>Total Tax on Hotel Rooms</i>
New York	16.4% <sup>1</sup>
New Orleans	15.6% <sup>2</sup>
<b>Chicago</b>	<b>15.4%</b>
Anaheim	15.0%
Atlanta	15.0%
Dallas	15.0%
Washington, DC	14.5%
Los Angeles	14.0%
Orlando	12.5%
Las Vegas	12.0%
<b>Average, excluding Chicago</b>	<b>14.4%</b>

1 Rooms in New York City are subject to a 14.75% hotel tax and a \$3.50 special hotel bed tax (per room, per night). When applied to the average upscale hotel cost for each market presented previously, the "effective" hotel tax rate increases to 16.4%.

2 Rooms in New Orleans are subject to a 13.0% hotel tax and a \$1.00 to \$3.00 special hotel bed tax (per room, per night). When applied to the average upscale hotel cost for each market presented previously, the "effective" hotel tax rate increases to 15.6% (assuming a per room, per night tax of \$3.00).

---

*Source: Destination marketing organization management; PricewaterhouseCoopers*

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Chicago's total hotel tax rate of 15.39% is at the high end of the range of competitive destinations; however, it should be noted that certain other convention destinations such as Houston and San Antonio have tax rates up to 17.0%. Further, it is important to note the nightly tax of \$3.50 and \$3.00 (per-room, per-night) in New York and New Orleans, respectively. While the rates presented above reflect the total tax rate when applied to the average upscale hotel cost for each market, the "effective" hotel tax rates will vary based on actual hotel rates.

## Destination Marketing Resources

A convention center's success may be affected by the financial resources available to the city's primary destination marketing organization to market the destination. The following table compares the fiscal year 2009 annual budget of the Chicago Convention & Tourism Bureau ("Chicago CTB") to that of the primary destination marketing organization ("DMO") in seven of the competitive markets. Las Vegas was excluded from this analysis as the center/CVB relationship is unique in that the Las Vegas Convention and Visitors Authority serves as both the DMO and convention center owner/operator and has an exceptionally high budget.

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**Destination Marketing Organization Funding (FY 2009)**

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<i>Organization</i>	<i>Total Funding (in millions)</i>
DMO A	\$50,000,000
DMO B	\$32,000,000
DMO C	\$20,000,000
DMO D	\$19,000,000
<b>Chicago CTB</b>	<b>\$14,000,000</b>
DMO E	\$14,000,000
DMO F	\$13,000,000
DMO G	\$9,000,000
<b>Average<sup>1</sup></b>	<b>\$23,000,000</b>
<b>Chicago Rank</b>	<b>5th</b>

1 Average excludes Chicago CTB.

---

*Source: Destination marketing organization management; PricewaterhouseCoopers*

---

With a budget of approximately \$14 million, the Chicago CTB is in the middle of the range of competitive destinations, but significantly below the average of approximately \$23 million. The following table compares DMO funding relative to exhibit hall square footage.

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**DMO Funding per Exhibit Hall SF (FY 2009)**

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<i>Organization</i>	<i>DMO Funding per Conv. Ctr. Exhibit Hall Sq. Ft.</i>
DMO A	\$39
DMO B	\$27
DMO C	\$24
DMO D	\$15
DMO E	\$15
DMO F	\$12
DMO G	\$12
<b>Chicago CTB</b>	<b>\$5</b>
<b>Average<sup>1</sup></b>	<b>\$21</b>
<b>Chicago Rank</b>	<b>8th</b>

1 Average excludes Chicago CTB.

---

*Source: Destination marketing organization management; PricewaterhouseCoopers*

---

In relation to exhibit space, Chicago's destination marketing budget appears particularly low. While the average ratio in the competitive destinations is \$21 per square foot, Chicago has a ratio of only \$5 per square foot.

Chicago's DMO funding was also compared to the competitive destinations in relation to market-wide hotel room supply.

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**DMO Funding per Market Hotel Room (FY 2009)**

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<i>Organization</i>	<i>DMO Funding per Market Hotel Rooms</i>
DMO A	\$423
DMO B	\$367
DMO C	\$354
DMO D	\$217
DMO E	\$199
DMO F	\$181
DMO G	\$176
<b>Chicago CTB</b>	<b>\$132</b>
<b>Average<sup>1</sup></b>	<b>\$274</b>
<b>Chicago Rank</b>	<b>8th</b>

1 Average excludes Chicago CTB.

---

*Source: Destination marketing organization management; Smith Travel Research; PricewaterhouseCoopers*

---

Again, the Chicago CTB's funding appears low relative to market hotel room supply.

A city's DMO budget serves as an indicator of its ability to attract leisure and meetings visitors, including events to McCormick Place. In addition to traditional sales and marketing to events, in some cases, DMO budgets can even be used to offset certain event costs. With a budget of only \$14 million, which by the measures presented here appears low, the destination is at a competitive disadvantage relative to other destinations with greater funding of their DMOs.

## Hotel Tax Allocation

Hotel tax revenues may be allocated to one or several uses, such as the convention center (operations, debt service, and/or construction), sports facilities, DMO funding, or the municipality's general fund. In Chicago, the MPEA collects a 2.5 percent hotel tax which is allocated entirely to debt service. This translates to an allocation of 16.2 percent of total hotel tax revenues to the convention center. Chicago is compared to seven of the competitive destinations in the following chart.

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**Hotel Tax Allocation**

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	<i>Percent of Hotel Room Tax Allocated to Convention Center <sup>1</sup></i>
Center A	69.0%
Center B	52.4%
Center C	27.0%
Center D	25.0%
<b>Chicago</b>	<b>16.2%</b>
Center E	9.6%
Center F	0.0%
Center G	0.0%
<b>Average, excluding Chicago</b>	<b>26.1%</b>
<sup>1</sup> Includes allocations for convention center operations, construction, and/or debt service.	

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*Source: Destination marketing organization management; PricewaterhouseCoopers*

---

In comparison to the competitive destinations, a relatively low share of hotel tax revenues are directly allocated to the convention center in Chicago.

## Population

Population is an indicator of a market's potential for events that attract attendees from the local area or region such as trade shows and consumer shows. The number of delegates within driving distance of a show site also typically affects convention center event attendance. This is particularly true for regional consumer and trade association events, which tend to select destinations where their business activities, members, or prospective attendees are concentrated.

The following chart compares Chicago's Metropolitan Statistical Area ("MSA") population to the competitive destinations.

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**Metro Area Population (in millions)**

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<i>City</i>	<i>MSA Population</i>
New York	18.9
Los Angeles/Anaheim	12.9
<b>Chicago</b>	<b>9.6</b>
Dallas	6.3
Washington, DC	5.4
Atlanta	5.4
Orlando	2.1
Las Vegas	1.9
New Orleans	1.0
<b>Average, excluding Chicago</b>	<b>6.7</b>

---

*Source: Woods & Poole, 2008*

---

With a population of 9.6 million, Chicago is the third most populous metropolitan area in the U.S. and above the average of competitive destinations. As such, Chicago may have a competitive advantage in attracting events that draw large proportions of their attendees from within driving distance, such as consumer shows and regional trade association events. Furthermore, its central location in the U.S is a strength in attracting national trade shows that have significant attendees traveling from both the eastern and western regions of the country.

## Employment

The presence of a particular industry in a market may suggest potential for attracting related associations to the convention center. With employment of nearly 500,000 in the manufacturing sector, manufacturing is one of the largest industries in Chicago and accounts for 8.6 percent of total employment in the market. The following chart compares Chicago's manufacturing employment to the competitive destinations.

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**Employment**

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<i>City</i>	<i>Manufacturing Employment</i> <sup>1</sup>	<i>Total Employment</i> <sup>1</sup>	<i>Percent Manufacturing</i>
Los Angeles/Anaheim	680.9	7,781.0	8.8%
<b>Chicago</b>	<b>497.9</b>	<b>5,822.7</b>	<b>8.6%</b>
Dallas	316.1	3,857.1	8.2%
Atlanta	187.5	3,175.4	5.9%
New Orleans	36.2	671.8	5.4%
New York	487.6	10,982.6	4.4%
Orlando	44.6	1,189.5	3.7%
Las Vegas	29.5	1,189.5	2.5%
Washington, DC	70.9	3,945.3	1.8%
<b>Average, excluding Chicago</b>	<b>231.7</b>	<b>4,099.0</b>	<b>5.1%</b>
<b>Chicago Rank</b>	<b>2nd</b>	<b>3rd</b>	<b>2nd</b>

<sup>1</sup> Employment presented in thousands of jobs.

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*Source: Woods & Poole, 2008*

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In comparison to these destinations, Chicago appears to be more specialized in the manufacturing sector than most other destinations and may have an advantage in attracting the approximately 150 conventions and trade shows in the manufacturing sector each year.

## V. Center Performance Analysis

This convention center performance analysis compares certain performance metrics of McCormick Place to a selected set of competitive convention centers throughout the United States. The set of competitive facilities consists of seven convention centers located in major markets and containing at least 500,000 square feet of exhibit space.

- Anaheim Convention Center (Anaheim, California)
- Ernest N. Morial Convention Center (New Orleans, Louisiana)
- Georgia World Congress Center (Atlanta, Georgia)
- Las Vegas Convention Center (Las Vegas, Nevada)
- Los Angeles Convention Center (Los Angeles, California)
- Orange County Convention Center (Orlando, Florida)
- Washington Convention Center (Washington D.C.)

In order to maintain the confidentiality of performance data for other convention centers (a requisite to PwC's ability to collect this information), specific centers were coded separately for each performance metric; therefore, "Center A" in one table should not be assumed to be the same facility as "Center A" in a subsequent table. The information provided in this analysis was based solely on information provided by convention center management and was not verified or tested for accuracy. Data presented is for each center's most recent fiscal year (FY 2008/2009).

### McCormick Place's Share of the Industry

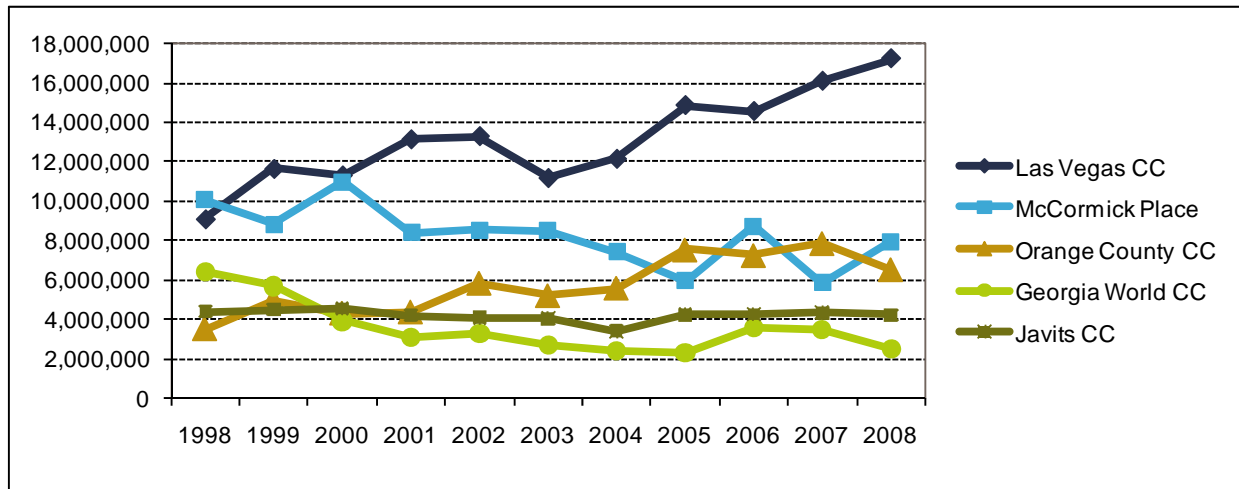
Before comparing specific performance metrics, McCormick Place's share of the convention/trade show industry in terms of exhibit hall supply and demand is compared to competitive centers. According to Tradeshow Week, McCormick Place hosted 18 of the 200 largest trade shows in 2008, representing 11.7 percent share of total exhibit space among all 200 shows. In comparison to other convention centers, McCormick Place was ranked second behind the Las Vegas Convention Center, which hosted 27 of the 200 largest trade shows, representing 25.4 percent share of all 200 shows. Other top centers included the Orange County Convention Center (19 events / 9.6 percent share), the Jacob K. Javits Convention Center in New York (15 events / 6.2 percent share), and the Georgia World Congress Center (11 events / 4.9 percent share). The historical trend of net square feet of exhibit space among the 200 largest shows in each year since 1998 of these five convention centers is presented in the following chart.



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**Total Net Square Feet of Exhibit Space Among 200 Largest Shows in Top 5 Convention Centers**

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Note: Data is based on the 200 largest trade shows of each year.

Source: *Tradeshow Week*

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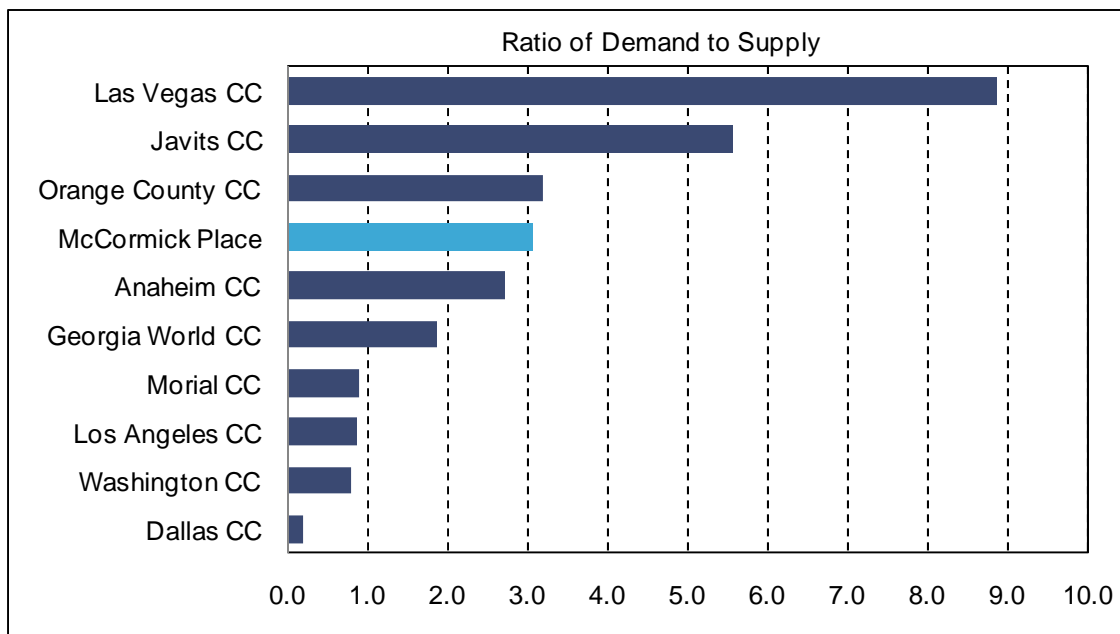
Over the 11-year period, the Las Vegas Convention Center nearly doubled its share of exhibit space in the 200 largest trade shows of each year. In comparison, McCormick Place's share peaked at 15.8 percent of total exhibit space utilized among the 200 largest shows in 2000 and has generally declined since then. It should be noted that McCormick Place's fluctuation from year to year, particularly in the past several years, is primarily attributed to several large events that have been on a two-year rotation.

This analysis is taken a step further by comparing demand to supply. In the following chart, net square feet of exhibit space among the 200 largest shows in 2008 is compared to exhibit space at the competitive centers in the U.S.

## McCormick Place Share of Supply and Demand (2008)

<i>Convention Center</i>	<i>SUPPLY Exhibit Space (Sq. Ft.)</i>	<i>Exhibit Space Rank in U.S.</i>	<i>DEMAND Net Sq. Ft. Exhibit Space</i>	<i>Ratio of Demand to Supply <sup>1</sup></i>
Las Vegas CC	1,940,600	3	17,219,487	8.9
Javits CC	814,400	9	4,233,904	5.2
Orange County CC	2,053,800	2	6,544,482	3.2
<b>McCormick Place</b>	<b>2,588,500</b>	<b>1</b>	<b>7,943,597</b>	<b>3.1</b>
Anaheim CC	813,600	10	2,225,368	2.7
Georgia World CC	1,366,000	4	2,545,635	1.9
Morial CC	1,068,500	5	968,200	0.9
Los Angeles CC	719,600	12	620,460	0.9
Washington CC	703,000	13	563,226	0.8
Dallas CC	951,700	7	193,067	0.2

<sup>1</sup> Ratio of demand (net square feet of indoor exhibit space utilized by Top 200 trade shows in 2008, as reported in the Tradeshow Week 200) to supply (exhibit space square footage).



Note: In addition to the seven convention centers presented in the performance analysis, this analysis includes the Jacob K. Javits Convention Center and the Dallas Convention Center.

Source: Tradeshow Week; Facility floorplans

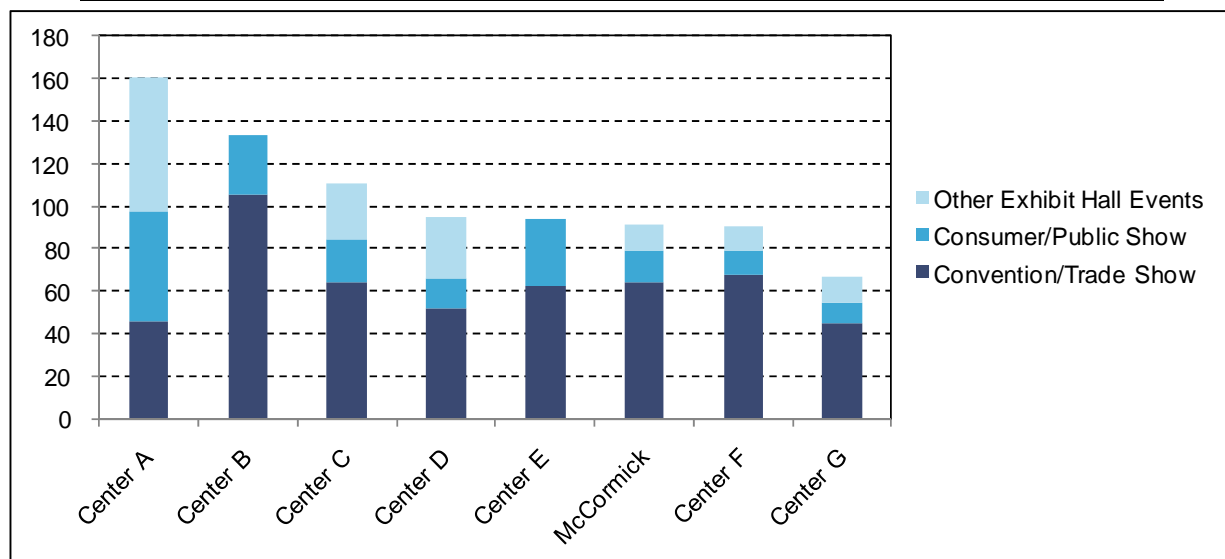
As presented, McCormick Place has approximately 2.6 million square feet of exhibit space and hosted approximately 7.9 million net square feet of exhibit space among the 200 largest shows in 2008, resulting in a ratio of demand to supply of 3.1. In comparison to the other primary convention centers, McCormick Place's ratio of demand to supply is lower than the Las Vegas Convention Center, Jacob K. Javits Convention Center, and the Orange County Convention Center.

## Event Volume

The number of exhibit hall events, including the breakdown of conventions/trade shows, consumer/public shows, and other exhibit hall events for each competitive center is presented below.

<b>Event Volume</b>				
<i>Center</i>	<i>Convention/ Trade Show</i>	<i>Consumer/ Public Show</i>	<i>Other Exhibit Hall Events</i>	<i>All Exhibit Hall Events</i>
Center A	46	51	64	161
Center B	105	28	0	133
Center C	64	20	27	111
Center D	52	14	29	95
Center E	62	32	0	94
<b>McCormick Place</b>	<b>64</b>	<b>15</b>	<b>12</b>	<b>91</b>
Center F	68	11	11	90
Center G	45	9	13	67
<b>Average<sup>1</sup></b>	<b>66</b>	<b>18</b>	<b>18</b>	<b>97</b>
<b>McCormick Place Rank</b>	<b>4th</b>	<b>5th</b>	<b>5th</b>	<b>6th</b>

<sup>1</sup> Average excludes McCormick Place.



Source: Center management; PricewaterhouseCoopers

McCormick Place hosted 91 exhibit hall events, which is below the average of competitive centers, while McCormick's 64 conventions/trade shows is also below that of the competitive centers.

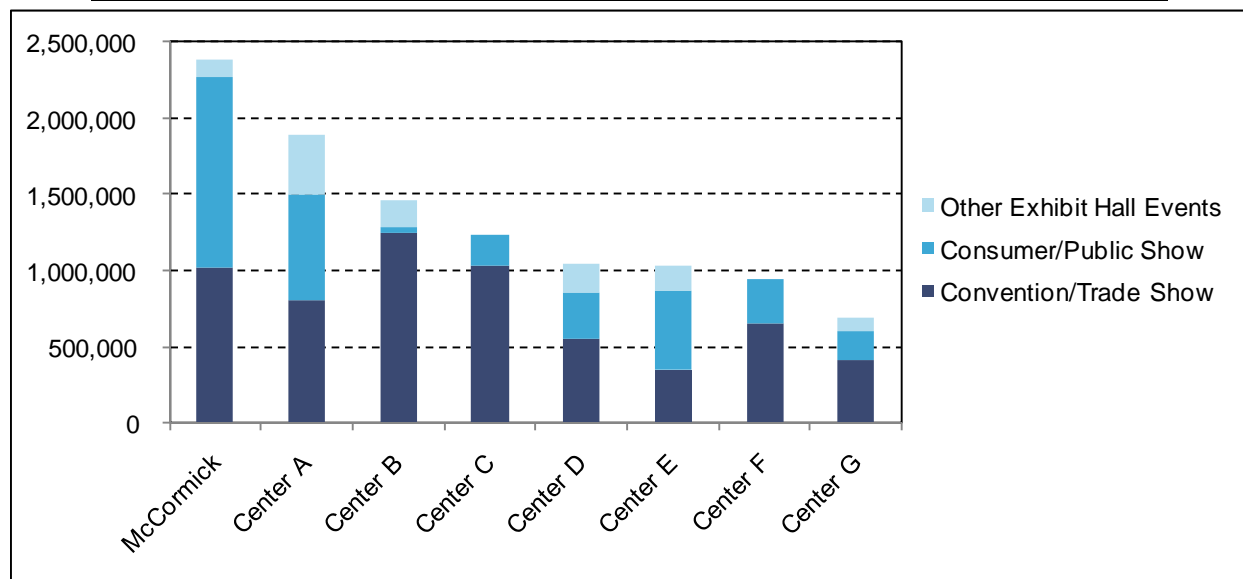
## Event Attendance

Event attendance associated with the events shown above is presented for McCormick Place and the competitive centers below.

### Event Attendance

<i>Center</i>	<i>Convention/ Trade Show</i>	<i>Consumer/ Public Show</i>	<i>Other Exhibit Hall Events</i>	<i>All Exhibit Hall Events</i>
<b>McCormick Place</b>	<b>1,018,994</b>	<b>1,256,559</b>	<b>102,362</b>	<b>2,377,915</b>
Center A	804,749	698,562	390,021	1,893,332
Center B	1,244,343	35,255	177,508	1,457,106
Center C	1,034,175	199,659	0	1,233,834
Center D	556,071	292,987	201,080	1,050,138
Center E	345,827	515,148	176,469	1,037,444
Center F	651,835	294,292	0	946,127
Center G	408,133	194,809	80,984	683,926
<b>Average<sup>1</sup></b>	<b>720,733</b>	<b>318,673</b>	<b>205,212</b>	<b>1,185,987</b>
<b>McCormick Place Rank</b>	<b>3rd</b>	<b>1st</b>	<b>6th</b>	<b>1st</b>

1 Average excludes McCormick Place.



Source: Center management; PricewaterhouseCoopers

McCormick Place hosted approximately 2.4 million attendees, which is the highest of the competitive centers. Despite McCormick Place's relatively low event volume, its average attendance per event was relatively high, resulting in the highest total attendance.

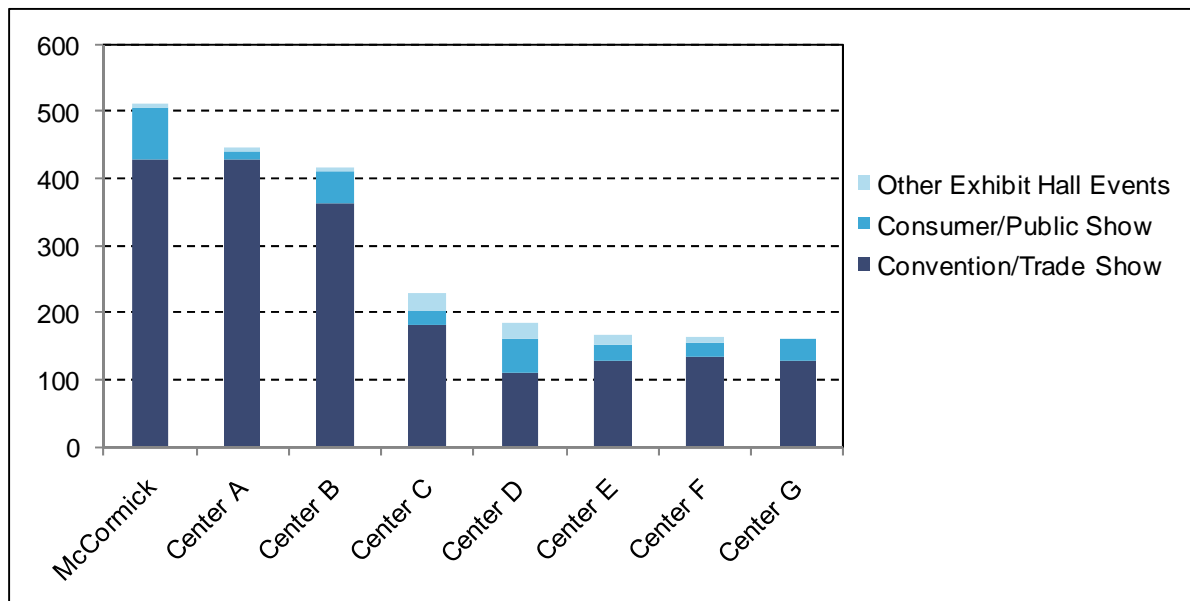
## Exhibit Hall Occupied Square Foot Days

Occupied Square Foot Days (OSFD) serves as the basis for calculating exhibit hall occupancy rate, which describes the amount of space occupied or rented during the year as a percent of the total amount of space available for rent. OSFD is calculated as the product of total exhibit space utilized per event and the number of event days (including move-in/ move-out). Exhibit hall OSFD for McCormick Place and the competitive centers is presented below.

### Exhibit Hall Occupied Square Foot Days (in millions)

	<i>Convention/ Trade Show</i>	<i>Consumer/ Public Show</i>	<i>Other Exhibit Hall Events</i>	<i>Total OSFD</i>
<b>McCormick</b>	<b>426.9</b>	<b>79.6</b>	<b>5.8</b>	<b>512.3</b>
Center A	427.3	12.4	7.2	446.9
Center B	363.4	46.6	5.2	415.3
Center C	180.5	22.0	26.1	228.6
Center D	109.2	49.9	24.9	184.0
Center E	126.5	26.1	13.3	165.9
Center F	134.5	20.6	8.1	163.2
Center G	127.5	33.1	0.0	160.6
<b>Average<sup>1</sup></b>	<b>196.2</b>	<b>29.6</b>	<b>12.2</b>	<b>237.9</b>
<b>McCormick Place Rank</b>	<b>2nd</b>	<b>1st</b>	<b>7th</b>	<b>1st</b>

1 Average excludes McCormick Place.



Source: Center management; PricewaterhouseCoopers

Events in McCormick Place's exhibit halls occupied over 500 million square-foot days, which was more than any of the competitive centers. As illustrated above, approximately 83 percent of McCormick Place's total OSFD was attributed to conventions/trade shows, approximately 16 percent was attributed to consumer/public shows, and approximately one percent was attributed to other exhibit hall events.

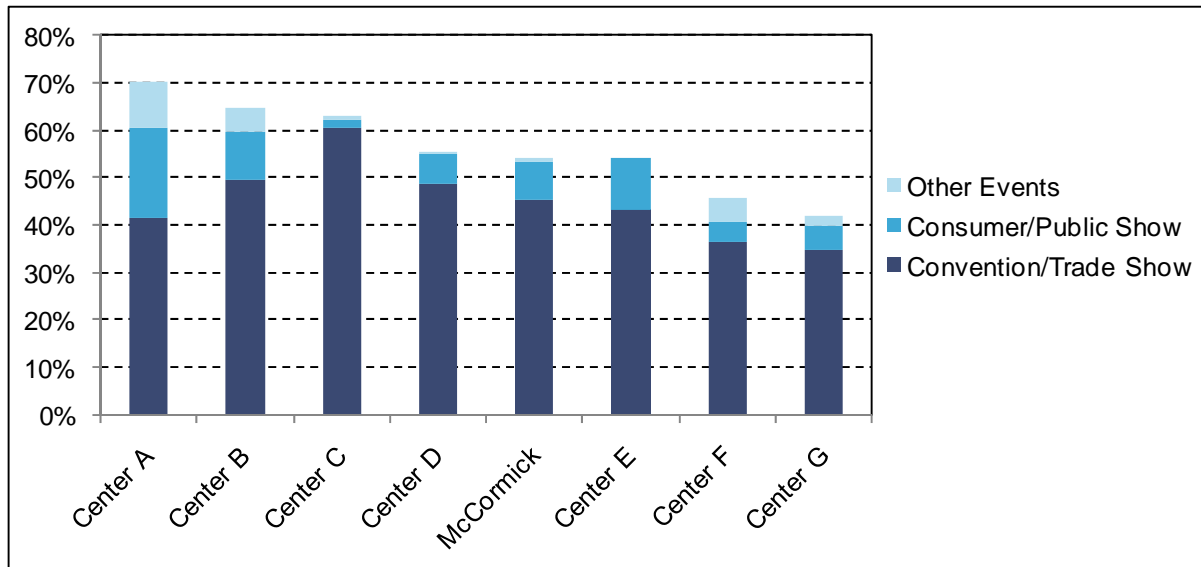
## Exhibit Hall Occupancy

It is practically impossible for any convention center to realize 100 percent occupancy of its exhibit hall space from conventions/trade shows and consumer shows. Major trade shows, conventions, and consumer shows require “blocks” of several days to permit set-up and move-out, as well as time for the event itself. As a result, scheduling often leaves small gaps of time that cannot be filled by events requiring several days. Historically, it has been recognized industry-wide that the “practical” maximum exhibit hall occupancy rate from conventions, trade shows, and consumer shows is approximately 70 percent; however, we consider an “efficient” range to be approximately 50 to 60 percent. Generally speaking, occupancy levels less than 50 percent suggest the existence of marketable opportunities or open dates, while an occupancy rate of 60 percent or greater increases the potential for significant lost business or “turn-aways.” The following chart compares exhibit hall occupancy of McCormick Place to the competitive centers.

## Exhibit Hall Occupancy

<i>Center</i>	<i>Convention/ Trade Show</i>	<i>Consumer/ Public Show</i>	<i>Other Events</i>	<i>All Exhibit Hall Events</i>
Center A	41.6%	19.0%	9.5%	70.0%
Center B	49.3%	10.2%	5.2%	64.6%
Center C	60.3%	1.7%	1.0%	63.1%
Center D	48.6%	6.2%	0.7%	55.6%
<b>McCormick Place</b>	<b>45.0%</b>	<b>8.4%</b>	<b>0.6%</b>	<b>54.1%</b>
Center E	42.9%	11.1%	0.0%	54.1%
Center F	36.2%	4.4%	5.2%	45.8%
Center G	34.5%	5.3%	2.1%	41.8%
<b>Average<sup>1</sup></b>	<b>44.8%</b>	<b>8.3%</b>	<b>3.4%</b>	<b>56.4%</b>
<b>McCormick Place Rank</b>	<b>4th</b>	<b>4th</b>	<b>7th</b>	<b>5th</b>

1 Average excludes McCormick Place.



Source: Center management; PricewaterhouseCoopers

Despite achieving the highest OSFD, McCormick Place's larger size results in total exhibit hall occupancy that is tied for fifth highest among the competitive centers.

## Effective Rental Rate

The following charts compare exhibit hall rental rates at McCormick Place to the competitive centers. As discussed in the State of the Industry section, rates are presented as "effective rates" per gross square foot of exhibit space occupied, thereby providing a method of comparison that accounts for free or discounted days for move-in and move-out, discounts off published rates, and other such factors.

## Effective Rental Rates

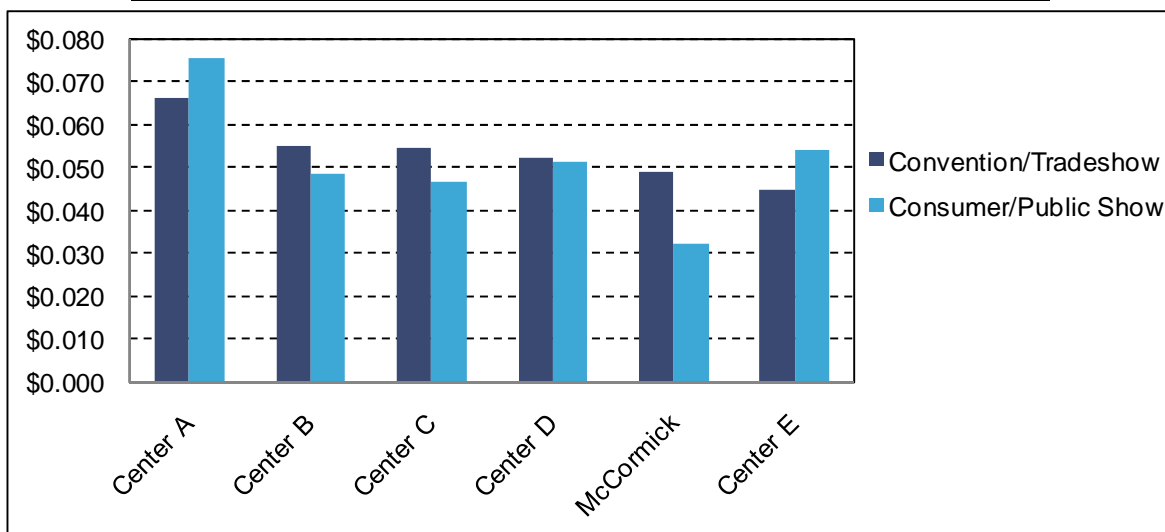
Center	Convention/ Trade Show	Consumer/ Public Show	All Events <sup>1</sup>
Center A	\$0.066	\$0.075	\$0.063
Center B	0.055	0.049	0.055
Center C	0.054	0.047	0.058
Center D	0.052	0.051	0.052
McCormick Place	<b>0.049</b>	<b>0.032</b>	<b>0.050</b>
Center E	0.045	0.054	0.047
Center F	N/A	N/A	0.058
Center G	N/A	N/A	0.045
<b>Average<sup>2</sup></b>	<b>\$0.054</b>	<b>\$0.055</b>	<b>\$0.054</b>
<b>McCormick Place Rank<sup>3</sup></b>	<b>5th</b>	<b>6th</b>	<b>6th</b>

1 Includes "other" events.

2 Average excludes McCormick Place.

3 Rank of convention/trade shows and consumer/public shows is among 6 centers;  
rank of all events is among 8 centers.

N/A Breakdown of revenues by event type was not available.



Note: Effective rental rates were presented on a per-square-foot, per-day basis.

Source: Center management; PricewaterhouseCoopers

The effective rental rates at McCormick Place were \$0.049 (per square foot, per day) for conventions/trade shows and \$0.032 for consumer/public shows. In comparison to five centers, McCormick Place was below the average for conventions/trade shows and also below the average for consumer/public shows.



## Food & Beverage Revenue per Attendee

Similar to McCormick, F&B operations of competitive centers are operated by an exclusive third-party contractor. The charts below present F&B revenue per-attendee basis.

### Gross Food & Beverage Revenue per Attendee

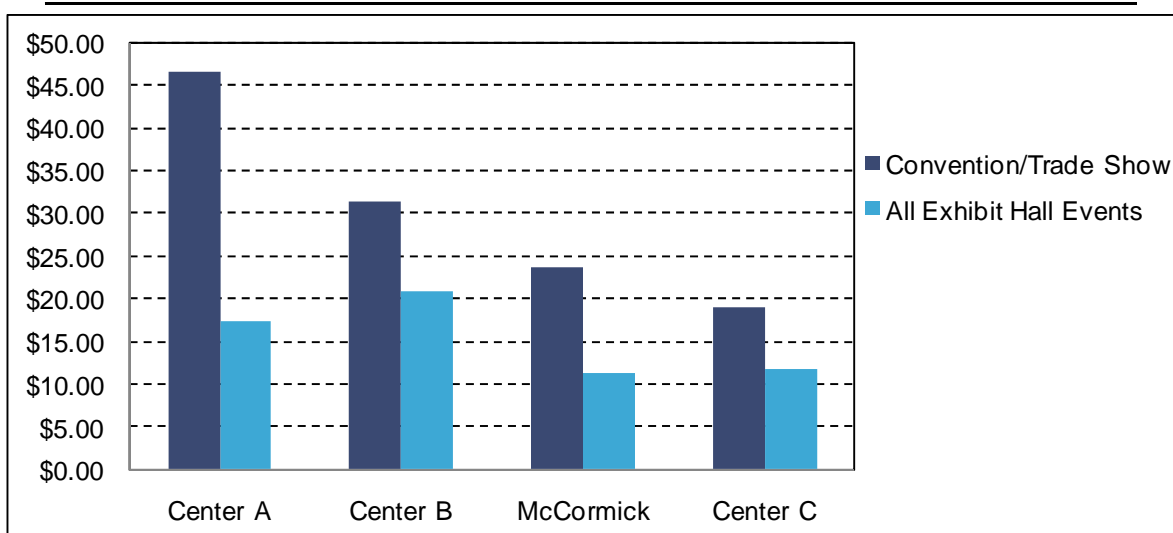
<i>Center</i>	<i>Convention/ Trade Show</i>	<i>Consumer/ Public Show</i>	<i>All Events Exhibit Hall <sup>1</sup></i>	<i>All Events Entire Facility</i>
Center A	\$46.60	\$2.06	\$17.42	\$18.88
Center B	\$31.47	\$4.11	\$20.78	\$20.78
<b>McCormick Place</b>	<b>\$23.68</b>	<b>\$1.50</b>	<b>\$11.21</b>	<b>\$13.76</b>
Center C	\$18.91	\$0.42	\$11.79	\$13.03
Center D	N/A	N/A	N/A	\$28.01
Center E	N/A	N/A	N/A	\$17.53
Center F	N/A	N/A	N/A	\$13.63
Center G	N/A	N/A	N/A	\$8.80
<b>Average<sup>2</sup></b>	<b>\$32.33</b>	<b>\$2.20</b>	<b>\$16.67</b>	<b>\$17.24</b>
<b>McCormick Place Rank<sup>3</sup></b>	<b>3rd</b>	<b>3rd</b>	<b>4th</b>	<b>5th</b>

1 Includes "other" exhibit hall events.

2 Average excludes McCormick Place.

3 Rank of convention/trade show s, consumer/public show s, and all exhibit hall events is among 4 centers;  
rank of all events in entire facility is among 8 centers.

N/A Breakdown of revenues by event type was not available.



Source: Center management; PricewaterhouseCoopers

With a food and beverage revenue per cap of \$13.76 for all center events, McCormick Place is ranked fifth among eight competitive centers and is below the average of \$17.24. While McCormick Place's relatively low food and beverage per caps seem to imply that its food and beverage sales are relatively low, it is important to note that the metrics presented above are a function of the number of attendees purchasing food individually, as well as catered functions. As such, McCormick Place's relatively low food and beverage per caps may be partially attributed to its relatively high trade show attendance counts and greater proportion of trade shows versus conventions, relative to the competition (conventions tend to generate more banquet activities and other catered food functions than trade shows). Further analysis of these factors is recommended.

## Net Operating Income

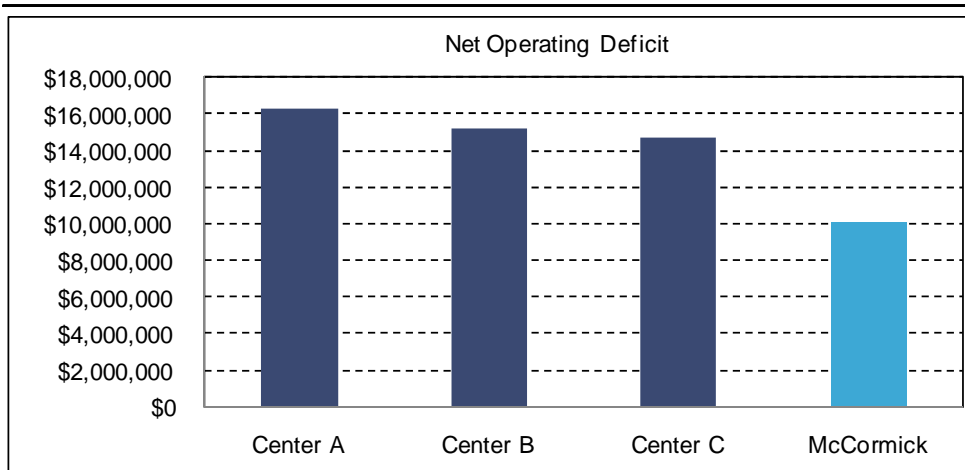
Convention centers typically generate an operating deficit and the vast majority require operating subsidies to cover the deficit. McCormick Place is no exception and generated an operating deficit of approximately \$10 million in fiscal year 2009. McCormick Place's operating revenues, operating expenses, and net operating income were compared to the competitive centers (those that provided such information) in the following chart.

## Financial Operations (FY 2009)

<i>Center</i>	<i>Operating Revenues</i>	<i>Operating Expenses</i>	<i>Net Operating Income (Deficit)</i>
Center A	\$18,460,000	\$34,712,000	(\$16,252,000)
Center B	\$43,100,000	\$58,300,000	(\$15,200,000)
Center C	\$24,800,000	\$39,500,000	(\$14,700,000)
<b>McCormick Place</b>	<b>\$105,553,000</b>	<b>\$115,602,000</b>	<b>(\$10,049,000)</b>
<b>Average<sup>1</sup></b>	<b>\$28,787,000</b>	<b>\$44,171,000</b>	<b>(\$15,384,000)</b>
<b>McCormick Place Rank</b>	<b>1st</b>	<b>1st</b>	<b>4th</b>

1 Average excludes McCormick Place.

Note: Centers are listed in order of largest net operating deficit.



Source: Center management; PricewaterhouseCoopers

Despite generating revenues and expenses that far exceeded the competitive set, McCormick Place's operating deficit of approximately \$10 million is significantly below the competitors' average operating deficit of approximately \$15.4 million. McCormick Place operating revenues cover approximately 91 percent of its operating expenses. This ratio is compared to the competitive centers in the following chart.

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**Operating Revenues as a Percent of Operating Expenses (FY 2009)**

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<i>Center</i>	<i>Revenues as a Percent of Expenses</i>
<b>McCormick Place</b>	<b>91%</b>
Center A	74%
Center B	63%
Center C	53%
<b>Average, excluding McCormick</b>	<b>77%</b>

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*Source: Center management; PricewaterhouseCoopers*

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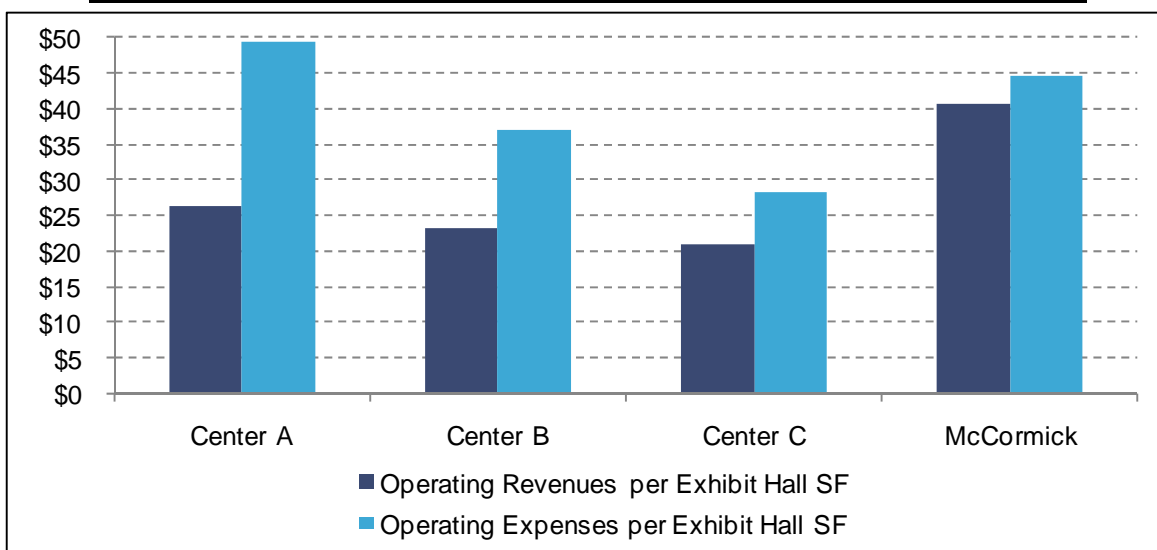
In comparison to three competitive centers, McCormick Place's ratio of 91% is well above than the average of 77 percent, indicating that McCormick Place generates higher operating revenues in relation to operating expenses as compared to these centers.

In addition to the comparison of figures in total, the following charts compare operating revenues, operating expenses, and net operating income/deficit relative to exhibit hall square footage.

## Financial Operations per Exhibit Hall Square Foot

<i>Center</i>	<i>Operating Revenues per Exhibit Hall SF</i>	<i>Operating Expenses per Exhibit Hall SF</i>	<i>Net Operating Income per Exhibit Hall SF</i>
Center A	\$26	\$49	(\$23)
Center B	\$23	\$37	(\$14)
Center C	\$21	\$28	(\$7)
<b>McCormick Place</b>	<b>\$41</b>	<b>\$45</b>	<b>(\$4)</b>
<b>Average<sup>1</sup></b>	<b>\$23</b>	<b>\$38</b>	<b>(\$15)</b>
<b>McCormick Place Rank</b>	<b>1st</b>	<b>2nd</b>	<b>4th</b>

1 Average excludes McCormick Place.



Source: Center management; PricewaterhouseCoopers

An important conclusion from these revenue and expense charts is that McCormick Place appears to require a relatively lower operating subsidy than the competition and it is likely, based on its significantly higher operating revenues per square foot (\$41 versus \$23 for the competitive venues), achieving this through revenue generation. As revenue generation for McCormick Place may be explained through higher revenues from its customers, the following section will address customer cost comparisons.

## VI. Cost Analysis