

**DIGEST OF
THE STATE PARTICIPATION IN THE RENOVATION AND EXPANSION
OF THE SALT PALACE**

We have reviewed the State of Utah's participation in the renovation and expansion of the convention facilities at the Salt Palace. Preliminary estimates show that the renovation and expansion project will cost \$61 million. These monies are to be used to renovate and expand the Salt Palace in three construction phases. Phase I consists of adding a banquet room and new meeting rooms, and Phase II of renovating the existing structure to meet industry standards. These two phases, for which adequate justification exists, are estimated to cost \$31 million. Phase III, adding 100,000 square feet of exhibition space, as well as meeting rooms, is expected to cost \$30 million. Before construction proceeds for this phase, we believe answers are needed to important questions. Answering these questions is essential because the resulting decisions will affect the size and scope of the project along with future investments.

Reviewing this project was difficult, because there are no architectural drawings or detailed cost analysis of the project. Until these are prepared, a complete assessment of the project cannot be made.

We have not attempted to conduct an extensive audit of the feasibility of the project. We have limited our work to reviewing information provided by Salt Lake County and the Salt Lake Convention Visitors Bureau, and interviewing project participants. Our intent is to provide you with information about the status of the project as well as point out questions that still need answering. Information about the project and important unanswered questions are summarized below.

Arena Contract. The arena contract between Salt Lake County and Larry Miller, has contributed to the controversy over the Salt Palace project, because under that contract all Salt Lake arena events which encompasses most of the positive cash flow to the Salt Palace was transferred to Mr. Miller in his new arena. The contract gives Mr. Miller all arena events for 25 years and prohibits Salt Lake County from operating the Acord arena as an arena beginning in October 1991, the anticipated opening date of the new Jazz arena. According to the Office of Legislative Research and General Counsel, the contract appears to be valid, enforceable, and within the authority of Salt Lake County to execute. Since the arena cannot be used as an arena, we believe the arena contract was the catalyst for the expansion of the Salt Palace.

Renovation and Expansion. The C & L study proposed three different renovation and expansion plans. They recommended the third plan, estimated to cost \$61 million. The project consists of three separate construction phases. We reviewed the concepts behind the three phases yet we could not audit the cost and size of each phase since there was not enough detailed information.

Phase I provides a new 38,000-square-foot banquet room located on the first level and 12 new meetings rooms on the second level, directly above the banquet room. In addition, a new entrance and drop-off area would be built on West Temple. This phase will take approximately

12 months to complete at an estimated cost of \$25 million. The concept that a banquet room is needed at the Salt Palace appears sound. However, a risk of competition exists if, after a large hotel-quality banquet room is built in the Salt Palace, another first class hotel is built in Salt Lake also offering banquet facilities.

Phase II is intended to bring the existing facility up to industry standards. C & L estimates that it will take approximately 8 months at an estimated cost of \$6.6 million. Everyone we interviewed agreed that the Salt Palace needs renovating. We have been told that physical drawbacks will be addressed however, no plans currently exist detailing what will be done to correct the drawbacks.

Phase III consists of demolishing the arena, adding 100,000 square feet of exhibition space and constructing 12 additional meeting rooms. C & L estimated that this phase will take 2.25 years at an estimated cost of \$30 million. Phase III is the most expensive portion of the project and requires careful planning to insure that the final product is of the size and configuration that can be sold. Before moving ahead with the expansion, we believe there are three questions that should be discussed further.

Should the Acord arena be removed? There are many differing opinions about the disposition of the Acord arena. No decision has been made. While Phase III calls for its removal, we could not find agreement about what to do with the space. Until this decision is made, Phase III cannot proceed.

Will Demand Support Expansion? What makes this project difficult to evaluate is obtaining accurate estimates of future demand. Making these forecasts means accepting the assumption that once the facilities are built (supply) delegates or room-nights booked (demand) will increase. Experts believe that benefits in excess of the costs can be expected. While perfect data may not be possible, we think more can be done to improve the accuracy and quality of the information available. In addition, we believe more can be done with the information developed about the project to assess whether we are prepared to generate the demand needed to make the project economically viable. What information is available indicates there is a need for more accurate projections and consistent data, and that this data would make more accurate projections of demand possible. In addition, we believe that the expected spending estimated by C & L may take longer than six years to achieve.

Is A Large Convention Hotel Needed? A third question that also needs answering is whether a large convention hotel is needed to satisfy the expected demand for hotel rooms. If it is, we believe plans for expansion should include discussion of how to attract the hotel. In addition, the public subsidy for the convention hotel should be presented to the public as part of the Salt Palace project.

Master Planning. A final area we reviewed concerned the need for long-range planning. Much of the debate and controversy over the Salt Palace could be solved through better long-range planning. As of today, no master plan has been developed. There is so little space in the Salt Palace complex to accomplish all that is required of a convention center, that careful

long-range planning is of utmost importance.