Agenda

Board of Directors

Friday, March 2, 2018
Following CAA Operations Committee Meeting
Kent County Commission Chambers
300 Monroe Avenue, NW, Grand Rapids, MI

1.	Call to Order	Steve Heacock
2.	Minutes of February 2, 2018	Action
3.	Committee Reports	
	A. Operations Committee	
	B. Finance Committee	
	i. Consolidated Financial Statement for Period Ending January 31, 2018	Action
	ii. SMG January 2018 Financial Statements – Van Andel Arena® and DeVos Place®	Information
4.	Hotel Study RFP Recommendation	Action
5.	SMG Report and Facilities Calendars	Rich MacKeigan
6.	Public Comment	
7.	Adjournment	

Next Meeting Date: Friday, May 4, 2018
Following CAA Finance Committee Meeting

MINUTES OF THE GRAND RAPIDS-KENT COUNTY CONVENTION/ARENA AUTHORITY MEETING OF BOARD OF DIRECTORS Friday, February 2, 2018

Attendance

Members Present:	Steve Heacock, Chairperson	
	Lew Chamberlin	
	Birgit Klohs	
	Richard Winn	
Members Absent:	Rosalynn Bliss	
	Charlie Secchia	
	Floyd Wilson, Jr.	
Staff/Others:	Wayman Britt	Kent County
	Eric DeLong	City of Grand Rapids
	Tim Gortsema	Grand Rapids Griffins
	Chris Machuta	SMG
	Rich MacKeigan	SMG
	Doug Small	Experience Grand Rapids
	Eddie Tadlock	SMG
	Brad Thomas	Progressive AE
	Susan Waddell	CAA
	Richard Wendt	Dickinson Wright

1. Call to Order

Chairperson, Steve Heacock, called the meeting to order at 8:45 a.m. Secretary/Treasurer, Richard Winn, recorded the meeting minutes.

2. Minutes of Prior Meeting

Motion by Ms. Klohs, support by Mr. Chamberlin, to approve the January 5, 2018, Minutes. Motion carried.

3. Committee Reports

A. <u>Operations Committee</u>

i. Experience Grand Rapids Report

Mr. Small provided an overview of the CVB's recent bookings, sales activities, marketing efforts, and major bid presentations. In December 2017, staff booked 11 state and national groups for DeVos Place®. Staff hosted 12 site visits in December and a total of 150 in 2017. 2017 was a record year for Kent County, with room revenue just shy of $211 million. Room inventory increased 700 rooms in 2017 and the next increase will occur in 2019.

B. <u>Finance Committee</u>

i. Acceptance of December 2017 Consolidated Financial Statements

Motion: Mr. Winn, supported by Mr. Chamberlin, moved to accept the December 2017 Consolidated Financial Statements. Motion carried.

ii. SMG December 2017 Van Andel Arena® and DeVos Place® Financial Statements

The SMG financial statements were included in the agenda packet as information items.

iii. Second Quarter Capital Roll Update

The second quarter capital roll report was included in the agenda packet as an information item.

iv. Auto Parking System Periodic Reporting

The quarterly report of City/County parking card utilization was included in the agenda packet as an information item.

4. FY 2018 Budget Amendment

Motion: Ms. Klohs, supported by Mr. Chamberlin, moved to approve the FY 2018 Budget Amendment, as requested. Motion carried.

5. DeVos Performance Hall Recognition Signage

Chair Heacock recommended approval for recognition signage to be installed in the foyer of DeVos Performance Hall to acknowledge Miner S. and Mary Ann Keller for their generosity, leadership in downtown revitalization, and promotion of public art.

Motion: Mr. Winn, supported by Ms. Klohs, moved to the recognition signage, as presented, and to authorize SMG to initiate production and installation of the signage, with the intent to host an appreciation event for Mrs. Keller to unveil the signage once complete. Motion carried.

6. SMG Report and Facilities Calendars

Mr. MacKeigan reported that he will be out of the office, attending a *Pollstar* conference next week.

7. Public Comment

None.

8. Adjournment

The meeting adjourned at 9:30 a.m.

Richard A. Winn, Recording Secretary

Grand Rapids-Kent County
Convention/Arena Authority
Consolidated Financial Report
January 31, 2018

GRAND RAPIDS-KENT COUNTY CONVENTION / ARENA AUTHORITY
ENTERTAINMENT, CONVENTION, SHOW & SPORTS FACILITIES

Financial Dashboard
Year-To-Date (7 Months)
January 31, 2018

Van Andel Arena®						
	All Events			Concert		
	Prior Year	Budget	Actual	Prior Year	Budget	Actual
Events	62	61	62	17	16	15
Attendance	358,797	347,800	354,103	139,578	130,000	123,238
Event Income	$ 2,546,367	$ 2,166,480	$ 2,202,396	$ 1,669,503	$ 1,344,317	$ 1,353,008

DeVos Place®						
	All Events			Convention/Trade		
	Prior Year	Budget	Actual	Prior Year	Budget	Actual
Events	237	266	290	63	60	89
Attendance	291,077	291,700	369,159	79,296	60,000	88,707
Event Income	$ 2,950,747	$ 3,272,399	$ 3,865,045	$ 1,149,504	$ 1,143,000	$ 1,376,315

	Prior Year	Budget	Actual
Operating Income (Loss)	$ 1,219,921		$ 1,899,200
Capital/Repair/Replacement	(1,578,734)	(1,581,284)	(1,688,647)
Net - To/(From) on Fund Balance	$ (358,813)	$ (1,581,284)	$ 210,553 (1)

*NOTES: (1):

Unrestricted Fund Balance @ June 30, 2017 $ 23,411,454

Grand Rapids-Kent County Convention/Arena Authority
Summary by Facility/Other
Fiscal Year Ending June 30, 2018

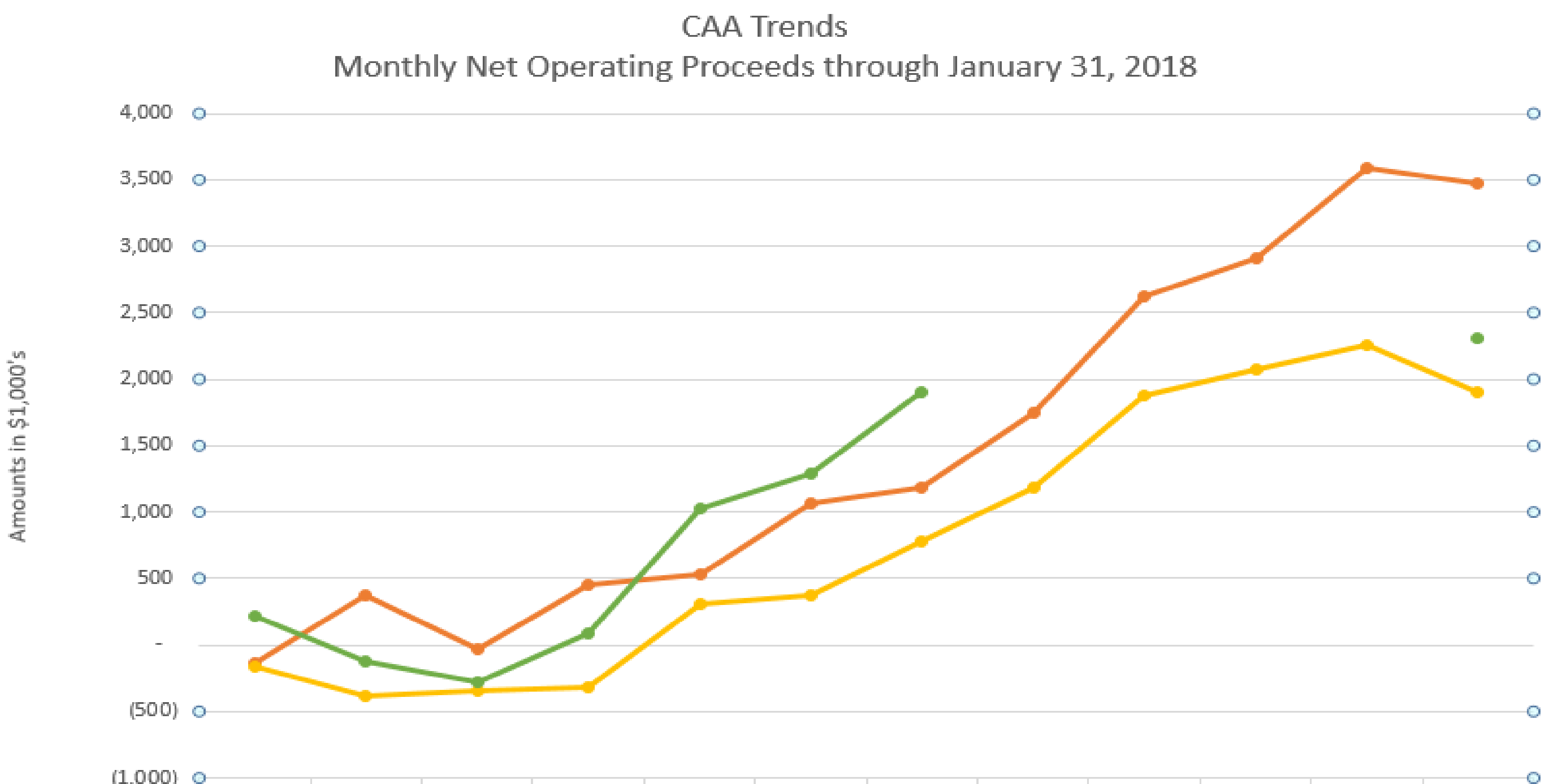
	FY 2018				FY 2017
	7/1 - 1/31 Year-to-Date	Roll	Estimate*	Budget	Prior Year
Van Andel Arena					
Operating - Revenues	$ 3,535,214	$ 2,367,327	$ 5,902,541	$ 5,862,420	$ 7,215,161
- Expenses - Facilities	(2,408,492)	(2,061,764)	(4,470,256)	(4,417,724)	(4,384,253)
- Base Management Fees	(102,923)	(73,517)	(176,440)	(177,134)	(173,661)
- Incentive Fee	-	(97,631)	(97,631)	(101,780)	(178,902)
Net Operating Income (Loss)	1,023,799	134,415	1,158,214	1,165,782	2,478,345
Parking	229,000	155,987	384,987	384,987	314,180
Pedestrian Safety	(18,752)	(89,248)	(108,000)	(108,000)	(106,657)
Net Proceeds (Cost) of VAA	**1,234,047**	**201,154**	**1,435,201**	**1,442,769**	**2,685,868**
DeVos Place Convention Center					
Operating - Revenues	3,905,813	2,953,812	6,859,625	6,337,310	6,491,239
- Expenses - Facilities	(3,683,248)	(2,401,832)	(6,085,080)	(5,979,448)	(6,016,985)
- Base Management Fees	(102,923)	(73,517)	(176,440)	(177,134)	(173,661)
- Incentive Fee	-	(255,249)	(255,249)	(252,488)	(168,420)
Net Operating Income (Loss)	119,642	223,214	342,856	(71,760)	132,173
Parking	656,081	487,685	1,143,766	1,143,766	1,221,140
Pedestrian Safety	(14,434)	(36,566)	(51,000)	(51,000)	(56,179)
Net Proceeds (Cost) of DVP	**761,289**	**674,333**	**1,435,622**	**1,021,006**	**1,297,134**
Other					
Revenues	254,074	167,176	421,250	371,250	266,360
Expenses	(350,210)	(578,663)	(928,873)	(928,873)	(708,397)
Net Other	(96,136)	(411,487)	(507,623)	(557,623)	(442,037)
Total Net Proceeds/Operating	**1,899,200**	**464,000**	**2,363,200**	**1,906,152**	**3,540,965**
Capital Expenditures	(1,688,647)	(2,620,875)	(4,309,522)	(4,385,000)	(2,359,728)
Results Net of Capital Expenditures	**$ 210,553**	**$ (2,156,875)**	**$ (1,946,322)**	**$ (2,478,848)**	**$ 1,181,237**

*Updated estimate will be based on quarterly performance and projections for balance of year. Next quarterly update to be provided with March financial report (5/4/18 Board meeting).

Grand Rapids-Kent County Convention/Arena Authority
Budget Summary by Facility/Other
Financial Trends for Year Ending June 30, 2018

	Annual			Year-To-Date		
	FY 2017 Final	FY 2018 Budget	Percentage Change	FY 2017 7/1 - 1/31	FY 2018 7/1 - 1/31	Percentage Change
Van Andel Arena						
Operating - Revenues	$ 7,215,161	$ 5,862,420	(18.7)	$3,962,733	$ 3,535,214	(10.8)
- Expenses - Facilities	(4,384,253)	(4,417,724)	(0.8)	(2,485,056)	(2,408,492)	3.1
- Base Management Fees	(173,661)	(177,134)	(2.0)	(101,302)	(102,923)	(1.6)
- Incentive Fee	(178,902)	(101,780)	43.1	-	-	-
Net Operating Income (Loss)	2,478,345	1,165,782 -	(53.0) -	1,376,375	1,023,799	(25.6)
Parking	314,180	384,987	22.5	155,823	229,000	47.0
Pedestrian Safety	(106,657)	(108,000)	(1.3)	(44,912)	(18,752)	58.2
Net Proceeds (Cost) of VAA	**2,685,868**	**1,442,769**	**(53.7)**	**1,487,286**	**1,234,047**	**(17.0)**
DeVos Place Convention Center						
Operating - Revenues	6,491,239	6,337,310	(2.4)	2,977,577	3,905,813	31.2
- Expenses - Facilities	(6,016,985)	(5,979,448)	0.6	(3,304,203)	(3,683,248)	(11.5)
- Base Management Fees	(173,661)	(177,134)	(2.0)	(101,302)	(102,923)	(1.6)
- Incentive Fee	(168,420)	(252,488)	(49.9)	-	-	-
Net Operating Income (Loss)	132,173	(71,760)	(154.3)	(427,928)	119,642	128.0
Parking	1,221,140	1,143,766	(6.3)	408,770	656,081	60.5
Pedestrian Safety	(56,179)	(51,000)	9.2	(18,943)	(14,434)	23.8
Net Proceeds (Cost) of DVP	**1,297,134**	**1,021,006**	**(21.3)**	**(38,101)**	**761,289**	**1998.1**
Other						
Revenues	266,360	371,250	39.4	152,469	254,074	66.6
Expenses	(708,397)	(928,873)	(31.1)	(381,733)	(350,210)	8.3
Net Other	(442,037)	(557,623)	(26.1)	(229,264)	(96,136)	58.1
Total Net Proceeds/Operating	**3,540,965**	**1,906,152**	**(46.2)**	**1,219,921**	**1,899,200**	**55.7**
Capital/Repair Expenditures	(2,359,728)	(4,385,000) [1]	(85.8)	(1,578,734)	(1,688,647)	(7.0)
Results Net of Capital Expenditures	**$ 1,181,237**	**$ (2,478,848)**	**(209.9)**	**$ (358,813)**	**$ 210,553**	**158.7**

[1] Includes a budget amendment, adpoted on February 5th, adding $500,000 to the DVP Door Replacement Project.



	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
FY17 Actual	(140)	370	(30)	450	530	1,070	1,190	1,740	2,620	2,915	3,585	3,465
FY18 Budget	(166)	(384)	(341)	(319)	311	378	778	1,181	1,870	2,079	2,260	1,906
FY18 Actual	213	(121)	(274)	85	1,033	1,290	1,899					2,313

Accumulative Net Proceeds by Month

Lagging 36 Months Net Operating Proceeds
4,500,000
4,000,000
3,500,000
3,000,000
2,500,000
2,000,000
1,500,000
1,000,000
500,000
-
Feb-15
Mar-15
Apr-15
May-15
Jun-15
Jul-15
Aug-15
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May-17
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Jul-17
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Oct-17
Nov-17
Dec-17
Jan-18

Significant Notes

Van Andel Arena®

- Page 1 - Fifteen concerts generated $1,353,008 in event revenue, a decrease of (19.0%) from prior year (17 concerts) of $1,669,503.
- Page 3 - Net proceeds of $1,234,047 decreased by (17.0%) from prior year of $1,487,286.

DeVos Place®

- Page 1 - Convention/trade show business generated $1,376,315 in event revenue, an increase of +19.7% from prior year (attendance increased from 79,296 to 88,707) of $1,149,504.
- Page 3 - Net "proceeds" of +$761,289 increased by +1,998.1% from prior year Net Proceeds of ($38,101).

Grand Rapids-Kent County Convention/Arena Authority
Administrative Accounts
Net Other Detail
31-Jan-18

	Annual			Actual		
	FY 2017 Final	FY 2018 Budget	Percentage Change	FY 2017 7/1-1/31	FY 2018 7/1/-1/31	Percentage Change
Other						
Revenues						
Interest/Capital Contr.	$ 176,908	$ 286,250	61.8	$ 94,451	$ 144,411	52.9
Miscellaneous	89,452	135,000	50.9	58,018	109,663	89.0
	266,360	421,250 (2)	58.2	152,469	254,074	66.6
Expenses						
Marketing (CVB/Sports)	125,000	200,000	60.0	100,000	75,000	(25.0)
Diversity Initiative	68,077	150,000	120.3	21,152	32,594	54.1
Wages/Benefits	129,780	131,468	1.3	61,071	70,784	15.9
Professional Services	61,715	65,500	6.1	34,037	44,865	31.8
DID Assessment	38,405	55,422	44.3	38,405	40,254	4.8
Food & Beverage Repairs	-	40,000	100.0+	-	-	-
Consulting Services	117,709	150,000 (1)	27.4	49,654	18,713	(62.3)
Landscaping	14,001	25,000	78.6	10,376	18,146	74.9
Procurement of Art	28,941	30,000	3.7	26,719	8,056	(69.8)
Insurance	17,238	21,483	24.6	21,062	25,084	19.1
Supplies/Other	107,531	60,000	(44.2)	19,257	16,714	(13.2)
	708,397	928,873	31.1	381,733	350,210	8.3
Net Proceeds - Operating	$ (442,037)	$ (507,623)	(19.3)	$ (229,264)	$ (96,136)	58.1

Notes:

(1) Includes SMG $33,355 and $116,645 for hotel study.

VAN ANDEL
ARENA
GRAND RAPIDS

VAN ANDEL ARENA

FINANCIAL STATEMENT
FOR THE PERIOD ENDED JANUARY 31, 2018

PROUD HOME OF THE GRAND RAPIDS GRIFFINS – TWO TIME CALDER CUPS CHAMPIONS

Distribution:

Grand Rapids – Kent County Convention / Arena Authority
Robert White
Harry Cann
Hope Parkin
Howard Feldman
Richard MacKeigan
Chris Machuta

SMG

An SMG Managed Facility

VAN ANDEL ARENA
ROLLING FORECAST
FISCAL YEAR ENDING JUNE 30, 2018

	YTD	ROLL	TOTAL FYE	BUDGET FYE	VARIANCE
NO. EVENTS	62	46	108	100	8
ATTENDANCE	354,103	286,004	640,107	612,100	28,007
DIRECT EVENT INCOME	678,432	802,074	1,480,506	1,517,650	(37,144)
ANCILLARY INCOME	1,011,031	328,938	1,339,969	1,397,670	(57,701)
OTHER EVENT INCOME	512,933	260,792	773,725	679,500	94,225
TOTAL EVENT INCOME	2,202,396	1,391,804	3,594,200	3,594,820	(620)
TOTAL OTHER INCOME	1,332,818	975,523	2,308,341	2,267,600	40,741
TOTAL INCOME	3,535,214	2,367,327	5,902,541	5,862,420	40,121
INDIRECT EXPENSES					
EXECUTIVE	106,673	101,065	207,738	216,712	8,974
FINANCE	123,410	115,243	238,653	256,576	17,923
MARKETING	186,177	125,769	311,946	260,906	(51,040)
OPERATIONS	1,092,533	972,926	2,065,459	2,047,399	(18,060)
BOX OFFICE	86,766	90,374	177,140	168,146	(8,994)
LUXURY SEATING	1,842	66,367	68,209	84,049	15,840
SKYWALK ADMIN	30,171	24,745	54,916	57,900	2,984
OVERHEAD	883,842	638,793	1,522,635	1,503,170	(19,465)
TOTAL INDIRECT EXP.	2,511,415	2,135,282	4,646,696	4,594,858	(51,838)
NET REVENUE ABOVE EXPENSES	**1,023,799**	**232,045**	**1,255,845**	**1,267,562**	**(11,717)**
LESS INCENTIVE FEE		97,631	97,631	101,780	4,149
NET REVENUE ABOVE EXPENSES AFTER INCENTIVE	**1,023,799**	**134,414**	**1,158,214**	**1,165,782**	**(7,568)**

Comments:

The arena continues a strong fiscal year with a couple of sold out concerts in Chris Young and Avenged Sevenfold. Arena continues to perform a little ahead of budget, however, down from last year.

General Manager

Assistant General Manager

VAN ANDEL ARENA
FINANCIAL STATEMENT HIGHLIGHTS
FOR FISCAL YEAR ENDING JUNE 30, 2018

The following schedule summarizes operating results for both the current month and Year to Date as compared to budget and prior year:

MONTH	January Actual	January Budget	January FY 2017
Number of Events	11	12	13
Attendance	86,365	83,100	91,144
Direct Event Income	$157,727	$151,150	$87,351
Ancillary Income	315,142	210,361	266,374
Other Event Income	110,799	82,000	37,763
Other Operating Income	193,360	204,121	184,854
Indirect Expenses	(365,029)	(382,906)	(397,293)
Net Income	$411,999	$264,726	$179,049

YTD	YTD 2017 Actual	YTD 2017 Budget	YTD 2017 Prior Year
Number of Events	62	61	62
Attendance	354,103	347,800	358,797
Direct Event Income	$678,432	$950,700	$983,204
Ancillary Income	1,011,031	820,280	1,054,100
Other Event Income	512,933	395,500	509,063
Other Operating Income	1,332,818	1,343,246	1,416,366
Indirect Expenses	(2,511,415)	(2,680,342)	(2,586,358)
Net Income	$1,023,799	$829,384	$1,376,375

EVENT INCOME

Event income came in at expected levels for the month.

ANCILLARY INCOME

Ancillary income came in well ahead of budget for the month as the Chris Young and Avenged concerts performed very well on both concessions and merchandise.

INDIRECT EXPENSES

Indirect expenses came in consistent with expectations for the month.

Van Andel Arena
Income Statement
For the Seven Months Ending January 31, 2018

	Current Month Actual	Current Month Budget	Variance	Current Month Prior Year	Year to Date Actual	Year to Date Budget	Variance	Year to Date Prior Year
Event Income								
Direct Event Income								
Rental Income	$344,614	$257,150	$87,464	$264,950	$1,248,425	$1,278,200	($29,775)	$1,504,524
Service Revenue	199,716	248,000	(48,284)	129,757	1,470,271	1,442,000	28,271	1,604,974
Service Expenses	(386,603)	(354,000)	(32,603)	(307,356)	(2,040,264)	(1,769,500)	(270,764)	(2,126,294)
Total Direct Event Income	**157,727**	**151,150**	**6,577**	**87,351**	**678,432**	**950,700**	**(272,268)**	**983,204**
Ancillary Income								
F&B Concession	266,154	180,479	85,675	215,194	848,100	709,049	139,051	860,157
F&B Catering	18,831	16,142	2,689	18,934	83,005	61,491	21,514	89,181
Novelty Sales	30,507	13,740	16,767	11,977	68,803	49,740	19,063	83,918
Booth Cleaning	0	0	0	1,028	2,658	0	2,658	1,386
Audio Visual	0	0	0	19,341	8,815	0	8,815	19,558
Other Ancillary	(350)	0	(350)	(100)	(350)	0	(350)	(100)
Total Ancillary Income	**315,142**	**210,361**	**104,781**	**266,374**	**1,011,031**	**820,280**	**190,751**	**1,054,100**
Other Event Income								
Ticket Rebates(Per Event)	110,799	82,000	28,799	37,763	512,933	395,500	117,433	509,063
Total Other Event Income	**110,799**	**82,000**	**28,799**	**37,763**	**512,933**	**395,500**	**117,433**	**509,063**
Total Event Income	**583,668**	**443,511**	**140,157**	**391,488**	**2,202,396**	**2,166,480**	**35,916**	**2,546,367**
Other Operating Income								
Luxury Box Agreements	131,267	148,038	(16,771)	124,204	924,534	950,665	(26,131)	1,007,749
Advertising	56,680	52,083	4,597	56,680	375,611	364,581	11,030	379,965
Other Income	5,413	4,000	1,413	3,970	32,673	28,000	4,673	28,652
Total Other Operating Income	**193,360**	**204,121**	**(10,761)**	**184,854**	**1,332,818**	**1,343,246**	**(10,428)**	**1,416,366**
Adjusted Gross Income	**777,028**	**647,632**	**129,396**	**576,342**	**3,535,214**	**3,509,726**	**25,488**	**3,962,733**
Operating Expenses								
Salaries and Wages	162,179	209,099	(46,920)	167,410	1,285,741	1,463,693	(177,952)	1,362,009
Payroll Taxes and Benefits	35,414	63,430	(28,016)	65,728	309,056	444,010	(134,954)	381,947
Labor Allocations to Events	(80,887)	(107,925)	27,038	(82,970)	(693,627)	(755,475)	61,848	(745,163)
Net Salaries and Benefits	**116,706**	**164,604**	**(47,898)**	**150,168**	**901,170**	**1,152,228**	**(251,058)**	**998,793**
Contracted Services	22,178	21,150	1,028	19,522	163,468	148,050	15,418	148,636
General and Administrative	40,381	25,823	14,558	47,806	304,129	180,761	123,368	289,061
Operations	3,549	8,065	(4,516)	3,179	32,124	56,455	(24,331)	26,567
Repair and Maintenance	39,564	30,258	9,306	30,621	222,245	211,806	10,439	209,972
Operational Supplies	15,431	20,792	(5,361)	14,716	125,419	145,544	(20,125)	103,621
Insurance	23,707	14,736	8,971	24,358	103,497	103,152	345	104,682
Utilities	88,810	82,717	6,093	92,451	556,440	579,019	(22,579)	603,724
SMG Management Fees	14,703	14,761	(58)	14,472	102,923	103,327	(404)	101,302
Total Operating Expenses	**365,029**	**382,906**	**(17,877)**	**397,293**	**2,511,415**	**2,680,342**	**(168,927)**	**2,586,358**
Net Income(Loss) From Operations	**411,999**	**264,726**	**147,273**	**179,049**	**1,023,799**	**829,384**	**194,415**	**1,376,375**
Other Non-Operating Expenses								
Adjusted Net Income(Loss)	**411,999**	**264,726**	**147,273**	**179,049**	**1,023,799**	**829,384**	**194,415**	**1,376,375**

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SMG - Van Andel Arena
Grand Rapids - Kent County Convention/Arena Authority
Event Summary
For the Seven Months Ended January 31, 2018

Event Type	Events/Days Actual	Events/Days Budget	Attendance Actual	Attendance Budget	Total Event Income Actual	Total Event Income Budget
Family Show	7	8	23,302	26,500	140,021	162,385
Sporting Event	5	4	16,075	10,000	122,122	81,180
Concert	15	16	123,238	130,000	1,353,008	1,344,317
Team Home Games	23	24	137,288	160,800	248,785	381,984
Other	12	9	54,200	20,500	338,461	196,620
GRAND TOTALS	62	61	354,103	347,800	2,202,396	2,166,480

As Percentage of Overall

Event Type	Events/Days Actual	Events/Days Budget	Attendance Actual	Attendance Budget	Total Event Income Actual	Total Event Income Budget
Family Show	11.29%	13.11%	6.58%	7.62%	6.36%	7.50%
Sporting Event	8.06%	6.56%	4.54%	2.88%	5.54%	3.75%
Concert	24.19%	26.23%	34.80%	37.38%	61.43%	62.05%
Team Home Games	37.10%	39.34%	38.77%	46.23%	11.30%	17.63%
Other	19.35%	14.75%	15.31%	5.89%	15.37%	9.08%

Van Andel Arena
Balance Sheet
As of January 31, 2018

ASSETS

Current Assets		
Cash	11,874,489	
Account Receivable	1,261,798	
Prepaid Expenses	54,369	
Total Current Assets		**$13,190,656**
Total Assets		**$13,190,656**

LIABILITIES AND EQUITY

Current Liabilities		
Accounts Payable	1,103,450	
Accrued Expenses	400,040	
Deferred Income	1,979,713	
Advanced Ticket Sales & Deposits	10,413,322	
Total Current Liabilities		$13,896,524
Other Liabilities		
Equity		
Funds Remitted to CAA	(1,646,634)	
Expenses Paid Direct by CAA	491,111	
Beginning Balance Equity	(574,145)	
Current Year Equity	1,023,799	
Total Equity		($705,868)
Total Liabilities and Equity		**$13,190,656**

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SMG - Van Andel Arena
Grand Rapids - Kent County Convention/Arena Authority
Summary of Accounts Receivable
As of January 31, 2018

Current - Under 30 Days		
	Food & Beverage	425,384
	Ticketing	737,382
	Merchandise	7,507
	Permanent Advertising	-
	DeVos Place	(80,481)
	Operating	149,273
Over 30 Days		19,558
Over 60 Days		3,175
Over 90 Days		
Total Accounts Receivable		1,261,798

SMG - Van Andel Arena & DeVos Place
Grand Rapids - Kent County Convention/Arena Authority
Management Fee Summary
Fiscal Year Ending June 30, 2018

MANAGEMENT FEE SUMMARY

	Arena Estimate	DeVos Place Estimate	Total Estimate	FY 2017 Actual
Net Revenue above Expenses	1,255,845	598,105	1,853,950	2,957,840
Benchmark ++			750,000	750,000
Excess	1,255,845	598,105	1,103,950	2,207,840

Incentive Fee Calculation (Only if above greater than zero)

	Arena Actual	DeVos Place Actual	Total Estimate	Total Actual
Base Fee	176,440	176,440	352,880	347,322
Incentive Fee				
Revenue	5,902,541	6,859,625	12,762,166	13,706,400
Benchmark Revenue	5,150,000	4,550,000	9,700,000	9,600,000
Revenue Excess	752,541	2,309,625	3,062,166	4,106,400
Incentive Fee **	86,722	266,158	352,880	347,322
Total SMG Management Fee	263,162	442,598	705,760	694,644

** Incentive fee is 25% of the first $500,000 in excess, 30% of remaining capped at base fee amount.

++ If net revenues above expenses exceeds $700,000, SMG is eligible for 75% of the incentive fee.

DE VOS PLACE

FINANCIAL STATEMENT
FOR THE PERIOD ENDED JANUARY 31, 2018

Distribution:

Grand Rapids – KentCounty Convention / Arena Authority
Robert White
Harry Cann
Hope Parkin
Howard Feldman
Richard MacKeigan
Chris Machuta

An SMG Managed Facility

DE VOS PLACE
ROLLING FORECAST
FISCAL YEAR ENDING JUNE 30, 2018

	YTD Actual	Roll	TOTAL FYE	BUDGET FYE	VARIANCE
NO. EVENTS	290	240	530	485	45
ATTENDANCE	369,159	280,721	649,880	579,000	70,880
DIRECT EVENT INCOME	1,837,517	1,525,178	3,362,695	3,195,900	166,795
ANCILLARY INCOME	1,500,560	1,192,262	2,692,822	2,533,410	159,412
OTHER EVENT INCOME	526,968	184,454	711,422	501,000	210,422
TOTAL EVENT REVENUE	3,865,045	2,901,894	6,766,939	6,230,310	536,629.00
TOTAL OTHER REVENUE	40,767	51,919	92,686	107,000	(14,314)
TOTAL OPERATING REVENUE	3,905,813	2,953,813	6,859,625	6,337,310	522,315
INDIRECT EXPENSES					
EXECUTIVE	123,283	93,538	216,821	212,411	(4,410)
FINANCE	145,989	129,028	275,017	280,881	5,864
MARKETING	71,959	63,469	135,428	175,259	39,831
OPERATIONS	714,770	847,605	1,562,375	1,581,754	19,379
EVENT SERVICES	890,280	332,540	1,222,820	1,174,280	(48,540)
BOX OFFICE	132,802	43,118	175,920	133,748	(42,172)
SALES	219,167	225,856	445,023	429,439	(15,584)
OVERHEAD	1,487,922	740,194	2,228,116	2,168,810	(59,306)
TOTAL OPERATING EXP.	3,786,171	2,475,348	6,261,520	6,156,582	(104,938)
NET REVENUE ABOVE EXPENSES	**119,642**	**478,465**	**598,105**	**180,728**	**417,377**
INCENTIVE FEE		255,249	255,249	252,488	(2,761)
NET OPERATING REVENUE OVER OPERATING EXPENSES	**119,642**	**223,216**	**342,856**	**(71,760)**	**414,616**

Comments:

January continued the strong performance of the convention center. While overall peformance fell below budget for the month, it was consistent with revised forecast and ahead of prior year.

General Manager

Assistant General Manager

/

DE VOS PLACE
FINANCIAL STATEMENT HIGHLIGHTS
FISCAL YEAR ENDING JUNE 30, 2018

The following schedule summarizes operating results for both the current month and Year to Date as compared to budget and prior year:

MONTH	January Actual	January Budget	January FY 2017
Number of Events	30	45	31
Attendance	71,703	64,350	68,757
Direct Event Income	$310,173	$348,650	$277,397
Ancillary Income	140,461	218,480	125,004
Other Event Income	30,146	36,300	43,879
Other Operating Income	23,901	2,666	4,574
Indirect Expenses	(548,511)	(513,049)	(566,377)
Net Income	($43,830)	$93,047	($115,523)

YTD	YTD 2017 Actual	YTD 2017 Budget	YTD 2017 Prior Year
Number of Events	290	266	237
Attendance	369,159	291,700	291,077
Direct Event Income	$1,837,518	$1,623,800	$1,477,942
Ancillary Income	1,500,560	1,352,499	1,149,805
Other Event Income	526,968	296,100	323,000
Other Operating Income	40,767	18,662	26,830
Indirect Expenses	(3,786,171)	(3,591,343)	(3,405,505)
Net Income	$119,642	($300,282)	($427,928)

EVENT INCOME

Event income came in a little behind budget and consistent with revised forcast overall.

ANCILLARY INCOME

Ancillary income came in below budget for the month due to lower than anticipated spending on catering and decorating. Both revenue streams have been trending consistent with expectations for the year so we are not anticipating any sort of trend.

INDIRECT EXPENSES

Indirect expenses came in at consistent levels for the month.

DeVos Place
Income Statement
For the Seven Months Ending January 31, 2018

	Current Month Actual	Current Month Budget	Variance	Current Month Prior Year	Year to Date Actual	Year to Date Budget	Variance	Year to Date Prior Year
Event Income								
Direct Event Income								
Rental Income	$316,656	$370,850	($54,194)	$289,435	$1,937,147	$1,709,500	$227,647	$1,582,726
Service Revenue	161,438	258,100	(96,662)	169,938	1,867,170	1,662,600	204,570	1,581,073
Service Expenses	(167,921)	(280,300)	112,379	(181,976)	(1,966,799)	(1,748,300)	(218,499)	(1,685,857)
Total Direct Event Income	**310,173**	**348,650**	**(38,477)**	**277,397**	**1,837,518**	**1,623,800**	**213,718**	**1,477,942**
Ancillary Income								
F&B Concession	25,601	26,575	(974)	23,936	141,329	91,550	49,779	96,917
F&B Catering	17,116	81,150	(64,034)	9,104	519,355	501,675	17,680	349,357
Novelty Sales	284	1,674	(1,390)	0	38,025	10,088	27,937	20,400
Booth Cleaning	18,909	40,596	(21,687)	18,439	143,574	160,106	(16,532)	128,162
Telephone/Long Distance	113	0	113	225	7,980	0	7,980	788
Electrical Services	38,694	4,680	34,014	32,224	237,294	209,550	27,744	209,899
Audio Visual	15,475	31,080	(15,605)	18,630	205,124	192,930	12,194	181,520
Internet Services	6,197	13,125	(6,928)	5,475	55,992	62,500	(6,508)	49,576
Equipment Rental	18,072	19,600	(1,528)	16,971	151,887	124,100	27,787	113,186
Total Ancillary Income	**140,461**	**218,480**	**(78,019)**	**125,004**	**1,500,560**	**1,352,499**	**148,061**	**1,149,805**
Other Event Income								
Ticket Rebates(Per Event)	30,146	36,300	(6,154)	43,879	526,968	296,100	230,868	323,000
Total Other Event Income	**30,146**	**36,300**	**(6,154)**	**43,879**	**526,968**	**296,100**	**230,868**	**323,000**
Total Event Income	**480,780**	**603,430**	**(122,650)**	**446,280**	**3,865,046**	**3,272,399**	**592,647**	**2,950,747**
Other Operating Income								
Luxury Box Agreements	1,217	1,333	(116)	1,217	9,269	9,331	(62)	9,610
Advertising	21,000	0	21,000	1,000	21,000	0	21,000	1,000
Other Income	1,684	1,333	351	2,357	10,498	9,331	1,167	16,220
Total Other Operating Income	**23,901**	**2,666**	**21,235**	**4,574**	**40,767**	**18,662**	**22,105**	**26,830**
Adjusted Gross Income	**504,681**	**606,096**	**(101,415)**	**450,854**	**3,905,813**	**3,291,061**	**614,752**	**2,977,577**
Operating Expenses								
Salaries and Wages	289,910	298,949	(9,039)	207,943	2,612,564	2,092,643	519,921	1,730,638
Payroll Taxes and Benefits	57,081	99,063	(41,982)	67,903	630,269	693,441	(63,172)	519,151
Labor Allocations to Events	(174,064)	(189,839)	15,775	(93,681)	(1,822,602)	(1,328,873)	(493,729)	(971,590)
Net Salaries and Benefits	**172,927**	**208,173**	**(35,246)**	**182,165**	**1,420,231**	**1,457,211**	**(36,980)**	**1,278,199**
Contracted Services	31,957	23,692	8,265	44,008	225,094	165,844	59,250	223,680
General and Administrative	24,312	33,156	(8,844)	34,498	213,028	232,092	(19,064)	186,935
Operations	1,364	11,571	(10,207)	3,714	97,030	80,997	16,033	74,952
Repair and Maintenance	63,500	48,100	15,400	75,993	400,042	336,700	63,342	292,656
Operational Supplies	22,939	24,225	(1,286)	32,712	162,655	169,575	(6,920)	120,047
Insurance	25,058	20,804	4,254	9,094	144,298	145,628	(1,330)	111,375
Utilities	191,751	128,567	63,184	169,721	1,020,870	899,969	120,901	1,016,359
SMG Management Fees	14,703	14,761	(58)	14,472	102,923	103,327	(404)	101,302
Total Operating Expenses	**548,511**	**513,049**	**35,462**	**566,377**	**3,786,171**	**3,591,343**	**194,828**	**3,405,505**
Net Income(Loss) From Operati	**(43,830)**	**93,047**	**(136,877)**	**(115,523)**	**119,642**	**(300,282)**	**419,924**	**(427,928)**
Other Non-Operating Expenses								
Adjusted Net Income(Loss)	**(43,830)**	**93,047**	**(136,877)**	**(115,523)**	**119,642**	**(300,282)**	**419,924**	**(427,928)**

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SMG DeVos Place
Grand Rapids - Kent County Convention/Arena Authority
Year to Date Event Summary Report
For the Seven Months Ended January 31, 2018

Event Type	Events/Days Actual	Events/Days Budget	Attendance Actual	Attendance Budget	Total Event Income Actual	Total Event Income Budget
Convention/Trade Shows	89	60	88,707	60,000	1,376,315	1,143,000
Consumer/Gated Shows	22	16	81,543	49,000	430,242	350,730
DeVos Performance Hall	96	92	159,328	121,600	1,332,307	997,188
Banquets	19	22	14,430	17,600	221,409	240,570
Meetings	41	53	12,044	15,900	375,883	372,643
Other	23	23	13,107	27,600	128,888	168,268
GRAND TOTALS	290	266	369,159	291,700	3,865,045	3,272,399
As Percentage of Overall						
Convention/Trade Shows	30.69%	22.56%	24.03%	20.57%	35.61%	34.93%
Consumer/Gated Shows	7.59%	6.02%	22.09%	16.80%	11.13%	10.72%
Devos Performance Hall	33.10%	34.59%	43.16%	41.69%	34.47%	30.47%
Ballroom Exclusive	6.55%	8.27%	3.91%	6.03%	5.73%	7.35%
Meetings	14.14%	19.92%	3.26%	5.45%	9.73%	11.39%
Other	7.93%	8.65%	3.55%	9.46%	3.33%	5.14%

DeVos Place
Balance Sheet
As of January 31, 2018

ASSETS

Current Assets		
Cash	3,181,711	
Account Receivable	1,016,089	
Prepaid Expenses	236,914	
Total Current Assets		**$4,434,714**
Total Assets		**$4,434,714**

LIABILITIES AND EQUITY

Current Liabilities		
Accounts Payable	73,060	
Accrued Expenses	258,261	
Deferred Income	167,129	
Advanced Ticket Sales & Deposits	2,493,484	
Total Current Liabilities		$2,991,935
Other Liabilities		
Equity		
Funds Remitted to CAA	(640,294)	
Expenses Paid Direct by CAA	898,784	
Beginning Balance Equity	1,064,649	
Current Year Equity	119,640	
Total Equity		$1,442,779
Total Liabilities and Equity		**$4,434,714**

SMG - DeVos Place
Grand Rapids - Kent County Convention/Arena Authority
Summary of Accounts Receivable
As of January 31, 2018

Current - Under 30 Days		
	Food & Beverage	42,855
	Ticketing	248,572
	Merchandise	-
	Decorating	18,908
	Audio/Visual	15,475
	Van Andel Arena	80,481
	Operating	513,388
Over 30 Days		42,248
Over 60 Days		54,162
Over 90 Days		
Total Accounts Receivable		1,016,089

SMG - Van Andel Arena & DeVos Place
Grand Rapids - Kent County Convention/Arena Authority
Management Fee Summary
Fiscal Year Ending June 30, 2018

MANAGEMENT FEE SUMMARY

	Arena Estimate	DeVos Place Estimate	Total Estimate	FY 2017 Actual
Net Revenue above Expenses	1,255,845	598,105	1,853,950	2,957,840
Benchmark ++			750,000	750,000
Excess	1,255,845	598,105	1,103,950	2,207,840

Incentive Fee Calculation (Only if above greater than zero)

	Arena Actual	DeVos Place Actual	Total Estimate	Total Actual
Base Fee	176,440	176,440	352,880	347,322
Incentive Fee				
Revenue	5,902,541	6,859,625	12,762,166	13,706,400
Benchmark Revenue	5,150,000	4,550,000	9,700,000	9,600,000
Revenue Excess	752,541	2,309,625	3,062,166	4,106,400
Incentive Fee **	86,722	266,158	352,880	347,322
Total SMG Management Fee	263,162	442,598	705,760	694,644

** Incentive fee is 25% of the first $500,000 in excess, 30% of remaining capped at base fee amount.

++ If net revenues above expenses exceeds $700,000, SMG is eligible for 75% of the incentive fee.

Van Andel Arena®
DeVos Place®

Memorandum

To: CAA Board of Directors

From: Richard MacKeigan

Date: February 15, 2018

Re: Hotel Study RFP Recommendation

Since 2015, a task force that included Steve Heacock, Rick Winn, Charlie Secchia, and myself have been exploring ways to convert the underutilized DeVos Place® Monroe Avenue meeting rooms into high-yield spaces that allow greater street activation. The group engaged the services of Progressive AE to design a solution. Project goals included creating a financial catalyst to generate revenue, creating an urban corridor that enlivens Monroe Avenue and the skywalk, and creating a destination that is synergistic with the convention center and its future opportunities. The team added Rockford Construction to gain a developer's perspective for a revised study scope that would encompass the building's highest and best use.

Grand Action's 2016 destination asset study recommended a new 350-500 room hotel attached or adjacent to the convention center, as well as expansion of the convention center be explored as a near term goal. Based on this recommendation, the task force drew up a design concept for a 24-story, 400-room, full-service upscale convention hotel. The CAA Board took action, at its April 2017 meeting, to move forward with a feasibility study. At the June 2017 meeting, the CAA Board indicated it would like to include a hotel study for the Van Andel Arena®, as well. A hotel and conference center behind the Arena would enable Experience Grand Rapids and SMG to book additional conventions. At that meeting, the Board allocated $125,000 for consulting services to cover hotel studies for Monroe Avenue and the Van Andel Arena®, approved development of an RFP, and authorized me to pursue the option of combining the Monroe hotel study with a convention center study. Subsequent discussions about the need to expand the convention center muddled the hotel issue, and it was decided to bifurcate the two.

Once the RFP was completed in December 2017, a number of stakeholders reviewed the RFP for thoroughness. The RFP was sent to 10 professional convention center consultant organizations, on January 5, 2018. The deadline to submit proposals was January 31, 2018, and five very qualified firms responded (listed below with their estimated costs):

• CSL International	$88,722
• Hunden Strategic Partners	$68,000
• HVS Convention, Sports & Entertainment Facilities	$49,450
• Johnson Consulting	$74,500
• Jones, Lang, LaSalle	$90,000

All proposals are within budget. In addition to local staff review, Senior SMG Corporate Staff, as well as Senior SMG Field Staff, familiar with the process of hotel development, were asked to look over the proposals. All agreed that all of the firms are well positioned to do the work.

Based on the evaluation process results, I am recommending that the CAA engage the services of HVS. While all the firms could do the work, and do the work well, HVS is best suited for our specific needs. They have completed over 30 projects in the Grand Rapids market since 2010 and all in the "Hotel Study" realm. Additionally, HVS has extensive experience dealing with 'headquarters hotel' projects as well as 'hotel districts', both of which match up well with our needs.

HVS is the global professional services leader on hospitality intelligence. It has a team of more than 300 people located in over 50 offices throughout the world who specialize in all types of hospitality assets, including hotels, restaurants, casinos, shared ownership lodging, mixed-use developments, and golf courses, as well as conventions, sports, and entertainment facilities. SMG corporate has extensive experience with HVS and is confident that they will efficiently provide comprehensive and practical advice.

HVS can also provide an Economic Impact Analysis and provide Development Assistance if we desire. The Economic Impact Analysis would compare current conditions (no further hotel development) as well as if a hotel were to be built. The Development Assistance could include help selecting a developer, operator, RFP/Q development, negotiation assistance, and other.

While an extra cost, the overall fee would still be within budgeted amounts. The Economic Impact Analysis is quoted at $8,750 and the Development Assistance would be dependent upon specific work required.

I am recommending the CAA enter into an agreement with HVS to perform the study and would ask the CAA take action to approve.

HVS

PROPOSAL TO PROVIDE CONSULTING SERVICES

Headquarters Hotel Market Demand and Feasibility Study

GRAND RAPIDS, MICHIGAN

HVS
Convention, Sports & Entertainment
Facilities Consulting
Chicago, Illinois

205 West Randolph
Suite 1650
Chicago, Illinois 60606
+1 312-587-9900
+1 312-488-3631 FAX
www.hvs.com

January 31, 2018

Susan M. Waddell
Grand Rapids-Kent County Convention/Arena Authority
303 Monroe Ave NW
Grand Rapids, MI 49503
616-742-6500
swaddell@smggr.com

Re: Headquarters Hotel Market Demand and Feasibility Study

Dear Ms. Waddell,

HVS Convention, Sports & Entertainment Facilities Consulting ("HVS") is pleased to present this proposal to provide a Headquarters Hotel Market Demand and Feasibility Study in Grand Rapids, Michigan.

Grand Rapids-Kent County Convention/Arena Authority (CAA) is the seven-member board that administers DeVos Place, DeVos Performance Hall, and Van Andel Arena. The CAA seeks an independent market demand and feasibility assessment of a new headquarters hotel adjacent to the DeVos Place Convention Center and a new hotel and conference center adjacent to the Van Andel Arena. This analysis follows the recommendations of a previous Destination Asset Study, which concluded that additional hotel inventory would likely increase events coming to Grand Rapids. The CAA seeks to strategically plan the growth of the Grand Rapids convention and hospitality markets and identify new opportunities to increase the performance and impact of the convention, event, and hospitality markets. Two authority-owned sites are under consideration.

The CAA needs the assistance of an experienced consulting team with in-depth knowledge of the hotel and convention center industries and familiarity with the Grand Rapids market.

HVS offers such a team. We are recognized as the leading hospitality consulting firm. We conduct thousands of consulting engagements around the world each year. Our methods in hotel analysis and valuation have set the standard for the industry. Our database on hotel operations is unmatched. HVS has performed over 30 hotel appraisal and feasibility studies in Grand Rapids since 2010. Our experience in Grand Rapids and our readily available hotel market data will allow us to perform this engagement more efficiently and thoroughly than any of our competitors.

HVS also has extensive experience in analysis of public involvement in hotel investment. For your interest, we have attached in Section 6 of this submittal an article on this topic authored by HVS consultants, Tom Hazinski and Brian Harris.

Convention, Sports & Entertainment
Facilities Consulting
Chicago, Illinois

This proposal shall remain valid for 120 days. On behalf of our team, we are excited about this important project, and we look forward to hearing from you.

Very truly yours,

Thomas Hazinski

Managing Director
HVS Convention, Sports & Entertainment Facilities Consulting
thazinski@hvs.com

Table of Contents
Headquarters Hotel Market Demand and Feasibility Study Proposal

As requested in your RFP, we present our response in the following sections.

1. Firm Overview

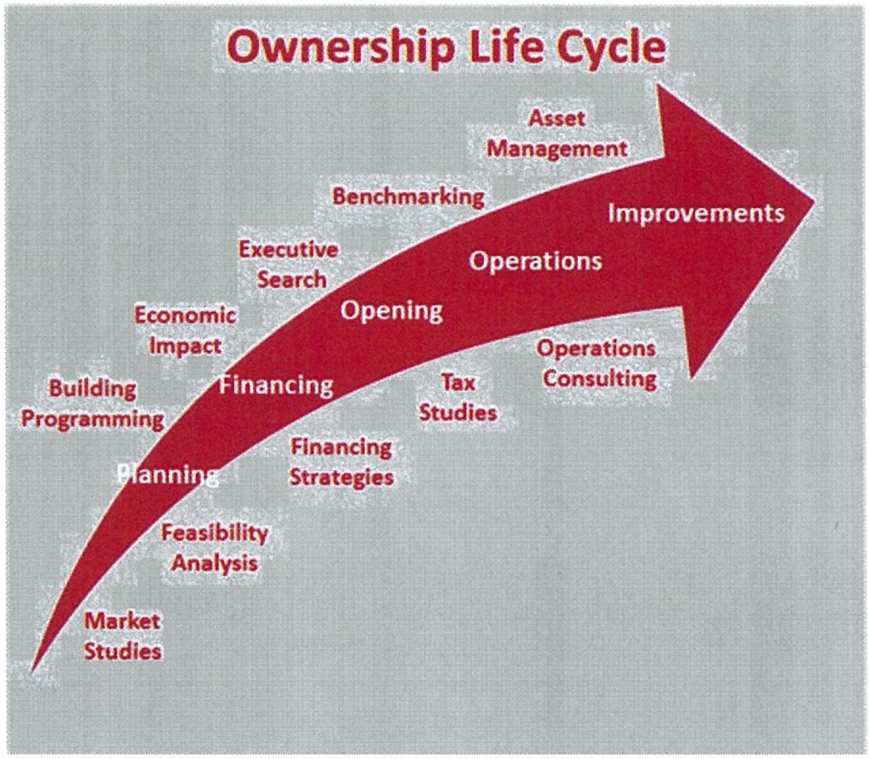
HVS Firm History

Since 1980, HVS, the leading global hospitality consulting organization, has provided financial and valuation consulting services for over 35,000 assignments throughout the world for nearly every major industry participant. Our professional staff of more than 450 industry specialists offers a wide range of services, including market feasibility studies, valuations, strategic analyses, impact studies, advisory and development planning, and litigation support. With over 51 offices in 13 countries, we offer one of the most comprehensive knowledge bases in the industry. Last year alone, HVS completed more than 3,000 feasibility studies, appraisals, and consulting engagements. HVS is respected worldwide by developers, underwriters, operators, and investors. We operate independently as consultants and have no ownership in any venues.

By engaging HVS for this assignment, you will benefit from access to some of the most experienced hospitality consultants in the industry and the industry's most comprehensive databases. Our reputation among investors, bankers, rating agencies, developers, and public officials is extremely important to us and ensures that we pay close attention to each engagement we accept. HVS offer a wide range of skills and experience in the analysis of a variety of land uses including hotels, convention and conference centers, civic and event centers, water parks, entertainment and arts centers, sports facilities, restaurants, casinos, and other land uses related to hospitality and tourism.

HVS Convention, Sports & Entertainment Facilities Consulting

Since 2001, HVS has served public and private owners of convention, sports and entertainment facilities. We have completed hundreds of assignments throughout the world analyzing the feasibility of convention and conference facilities, event and performing arts centers, hotels, water parks, mixed-use hospitality developments, civic centers, sports facilities, tourism attractions, and other public assembly facilities. We serve owners through the life-cycle of public facilities ownership from the project inception and throughout their operation and ongoing improvement.



We have performed numerous market, operational, feasibility, and economic impact studies of public assembly projects. Our studies often appear in municipal bond offering statements, and our staff has presented these studies to rating agencies, bond insurers, and investors. As a global hospitality consulting firm, HVS has many resources at its disposal that our competitors lack.

Objective Advice to the Public Sector

HVS prides itself on providing public sector clients with analysis and recommendations designed to result in the most efficient use of public resources. We regularly recommend against projects and suggest modifications to prior assumptions whenever necessary. The HVS team regularly works for municipal clients - approximately 90 percent of our work is conducted for public-sector clients.

Public Input

The HVS team regularly works for municipal clients providing analysis of public assembly facilities. Many of our projects require our team to assist the community in consensus building and providing a public process to include multiple stakeholders in the decision-making process. Our team members have led a variety of public meetings with stakeholders. We commit to work with closely with the leaders and stakeholders in Grand Rapids to ensure our recommendations reflect the local community.

2. Key Staff

The following HVS staff assigned to this project bring the mix of market knowledge, industry experience, and analytical skills needed for the assignment.

Thomas Hazinski

Thomas A. Hazinski, Managing Director of HVS Convention, Sports & Entertainment, has over 20 years of experience in the public policy arena as a public official and as a consultant. He specializes in providing economic and financial research to public agencies and private developers involved in economic development initiatives. For the past fifteen years, Tom has specialized in the analysis of convention, sports and entertainment markets and associated real estate developments. In January 2001, he started the Chicago office of HVS as its Managing Director. Tom holds a Master's Degree in Public Policy from the Harris School of Public Policy at the University of Chicago, where he specialized in municipal finance. He completed four years in the post-graduate degree program, including doctoral course-work, before leaving to pursue active management. Tom has managed over 400 assignments related to the analysis of public assembly facilities including convention center and/or headquarter hotel studies in Chicago, Illinois; Boston, Massachusetts; Tucson, Arizona; Atlanta, North Carolina; Albany, New York; Baltimore, Maryland; San Antonio, Corpus Christi, and Houston, Texas; Portland, Oregon; and many other large and small venues throughout the world.

Tom would serve as project manager.

Brian Harris

Brian Harris, Director at HVS Convention, Sports & Entertainment, brings extensive experience in public facility financing to HVS. He served as Vice President of Analytical Services, ScheerGame Sports Development, LLC and worked in a similar capacity at William R. Hough & Co. Prior to that, Harris was deputy manager of public finance at Raymond James. During his 25-year career as an analyst and as a manager of analytical services, he has worked on over 1,000 municipal financing projects ranging from basic general obligation bond issues to complex derivative transactions. His hotel studies include properties in Austin, Houston, and Corpus Christi, Texas; Chicago, Illinois; Dayton, Ohio; Des Moines, Iowa; and Manchester, New Hampshire. Brian has provided hotel analyses in Normal and Peoria, Illinois, as well as Manhattan, Kansas. He conducted an analysis for convention center headquarters hotels in Virginia Beach, VA, Aurora, CO, Houston, TX, Chicago, IL, Atlanta, GA, Bloomington, IN, Tucson, AZ, Portland, OR, Corpus Christi, TX, Fort Lauderdale, FL, and Albany, NY.

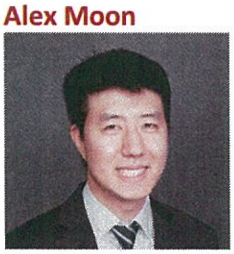
Brian would serve as hotel feasibility consultant.

Catherine Sarrett

Catherine Sarrett is a Senior Director with HVS Convention, Sports & Entertainment and performs market analysis and feasibility studies for convention, conference, sports, and entertainment facilities. Cathy has spent over 15 years in the convention, sports and entertainment field as a consultant, financial analyst, and owner's representative during design and construction. Project experience includes a comparative analysis of labor pricing and policies and resulting economic impacts for McCormick Place in Chicago and feasibility studies of convention center developments in Aurora, Colorado; Cedar Rapids, Iowa; Fargo, North Dakota; and Tallahassee, Florida. She also studied the feasibility of a hotel and conference center in suburban Columbus, Ohio, an assessment of the convention center market in Memphis, and expansion options for the Amarillo Civic Center in Texas. She led the firm's work studying the expansion options of the Washington State Convention Center in Seattle, the Broward County Florida Convention Center, the Wisconsin Center in Milwaukee, and the Robinson Center in Little Rock, Arkansas. She assessed the impact of additional headquarters hotels on the performance of the Georgia World Congress, the Indianapolis Convention Center, and the Cobb Galleria Center in Atlanta. She is currently studying the expansion options of the Bellevue Convention Center in Bellevue, Washington and conducting a futures market study of the Kay Bailey Hutchison Convention Center in Dallas. Cathy served as the owner's Senior Director for the design and development of the Wells Fargo Center in Philadelphia, PA. She received her Bachelor of Science in Civil Engineering from Duke University and spent several years as a structural engineer before entering the Wharton School of the University of Pennsylvania where she received her Master's of Business Administration in Finance and Marketing.

Cathy would serve as convention/conference consultant.

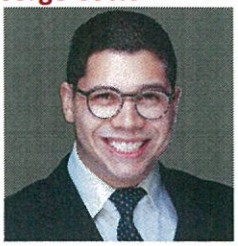
Alex Moon



Alex Moon is an Associate at HVS Convention, Sports & Entertainment. He provides research support for senior HVS staff in the performance of market, feasibility, tax, and impact studies. Alex earned his Bachelor of Arts in Mathematics, Economics, and Mathematical Methods in the Social Sciences (MMSS) from Northwestern University. He recently provided research and analysis for development of a new conference center in Torrance, California, a convention/conference center analysis in Racine, Wisconsin, and a new conference center in Medford, Oregon. He also provided analysis development of additional meeting and event space for a large casino on the east coast and analyzed the development of a conference center in Brookfield, Wisconsin. He conducts the economic impact analysis of the Phoenix Convention Center, which is an annual contract through 2018.

Alex would serve as analyst.

Jorge Cotte



Jorge Cotte is an Associate at HVS Convention, Sports & Entertainment. He provides research support for senior HVS staff in the performance of market, feasibility, tax, and impact studies. Jorge earned his Bachelor of Arts in Economics from the University of Chicago. He recently provided research and analysis for the expansion of the Wisconsin Center in Milwaukee, various tourism attractions in Loveland, Colorado, and development of a convention center in Riyadh, Saudi Arabia. He also assisted in the analysis of a new convention and event space in Lloydminster, Alberta and analyzed the development of a new convention center in San Diego. He recently provided 30-year projections of the Hotel Occupancy Tax for San Antonio, Texas, that are pledged to repay debt incurred for the expansion of the Henry B. Gonzalez Convention Center.

Jorge would serve as analyst.

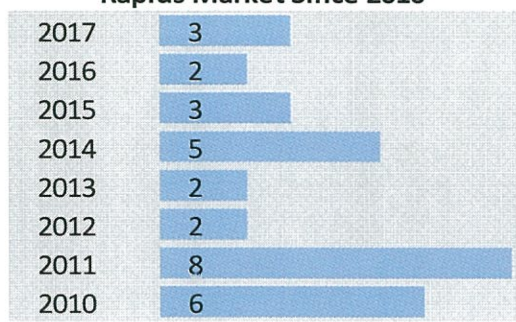
HVS

3. Experience and References

Local Experience

HVS as a firm has completed over 30 hotel studies in Grand Rapids since 2010. As part of these recent analyses, we have current and historical data on the hospitality market in Grand Rapids, as shown in the table below.

Over 30 HVS Hotel Studies in Grand Rapids Market Since 2010



Convention Center Hotel Experience

HVS has worked for thousands of clients on the analysis of hotel projects, as well as analyzing the impact of new hotels on the performance of convention center demand and financial operations.

The following table summarizes some of our experience in the analysis and implementation of hotel and convention center projects. The staff proposed to work on your project in Grand Rapids led the analysis of all projects listed below.

HVS CONVENTION CENTER HEADQUARTERS HOTEL EXPERIENCE

City	Type of Assignment	Brand
Albany, NY	Convention Center and Headquarters Hotel Feasibility, Economic Impact, Operator Selection and Negotiation	Renaissance by Marriott
Albuquerque, NM	Hotel Appraisal & Preliminary Analysis of Convention Hotel Development	Hyatt
Albuquerque, NM	Headquarters Hotel Analysis	n/a
Arlington, TX	Convention Center and Headquarters Hotel, Developer Selection and Negotiation	to be determined
Atlanta, GA	Headquarters Hotel Feasibility for Georgia World Congress Center	to be determined
Atlanta, GA	Headquarters hotel feasibility for the Cobb Galleria Centre	to be determined
Aurora, CO	Convention Center and Headquarters Hotel Feasibility, Economic Impact, Review of Developer Projections	Gaylord
Austin, TX	Convention center & headquarters hotel market and feasibility analysis	Hilton
Baltimore, MD	Hotel Feasibility Study, Financing Plan, Selection Process, Transaction Advisor	Hilton
Bloomington, IN	Convention Center and Hotel Market and Feasibility Study, Financing Plan, Economic Impact	to be determined
Boston, MA	Hotel Market and Feasibility Study, RFP Development, Developer Selection Assistance	Omni
Branson, MO	Hotel & Convention Center Analysis	Hilton
Chicago, IL	Headquarter Hotel Expansion Study, Economic Impact, Developer Selection Assistance, Transaction Advisor	Hyatt
Chicago, IL	Feasibility Study for Additional Headquarter Hotel, Economic Impact, Developer Selection Assistance, Transaction Advisor	Marriott
Coralville, IA	Management Contract Negotiations Advisor	Marriott
Dallas, TX	Hotel Market and Feasibility Study, Transaction Advisor	Omni
Denver, CO	Hotel Feasibility Study and Convention Center Demand Analysis	Hyatt
Corpus Christi, TX	Convention Center and Hotel Market and Feasibility Study, Financing Plan, Economic Impact	to be determined
Dallas, TX	Convention Center District Recommendations, including additional Headquarters Hotel	to be determined
Fort Lauderdale, FL	Hotel Market and Feasibility Study	Hilton

HVS CONVENTION CENTER HEADQUARTERS HOTEL EXPERIENCE (CONTINUED)

City	Type of Assignment	Brand
Henderson, NV	Hotel Market and Feasibility Study	to be determined
Houston, TX	Hotel Market and Feasibility Study	Hilton
Houston, TX	Hotel Market and Feasibility Study for an Additional HQH	to be determined
Indianapolis, IN	Asset Management	Marriott
Jacksonville, FL	Hotel Market and Feasibility Study	Adam's Mark (now a Hyatt Regency)
Miami, FL	Hotel Market and Feasibility Study	to be determined
Nashville, TN	Hotel Feasibility Study, Assessment and Impact Analysis of 2nd hotel	Omni
New Orleans, LA	Hotel Market and Feasibility Study, Convention Center District Study	to be determined
Omaha, NE	Development Assistance/Negotiations, Financing, Operating/Room Block Agreements, Transaction Advisor	Hilton
Overland Park, KS	Market and Feasibility Study , Financing Plan, Impact Analysis, Selection Process, Transaction Advisor	Sheraton
Phoenix, AZ	Hotel Market and Feasibility Study	Sheraton
Portland, OR	Hotel Market and Feasibility Study	Hyatt
Raleigh, NC	Feasibility and Development Assistance for Convention Center and Hotel	Marriott
San Antonio, TX	Feasibility Study, Financing Plan, Developer Selection, Tax Analysis, Operator Agreements, Transaction Advisor	Hyatt Regency
San Diego, CA	Hotel Appraisal	Hilton Bayfront
Schaumburg, IL	Market and Feasibility Study , Financing Plan, Asset Management	Renaissance by Marriott
St. Louis, MO	Hotel Market and Feasibility Study	Renaissance by Marriott
Tallahassee, FL	Convention Center and Hotel Market and Feasibility Study, Financing Plan, Economic Impact	to be determined
Tucson, AZ	Hotel Market and Feasibility Study	to be determined
Virginia Beach, VA	Hotel Market and Feasibility Study, Economic Impact, Developer Selection Process	to be determined
West Palm Beach, FL	Headquarter Hotel Development Advisory Services and Negotiations	Hilton

Similar Experience

While each HVS consulting engagement presents unique challenges, many of our assignments are similar to the study requested by the Grand Rapids-Kent County Convention/Arena Authority. Following are some examples of our relevant work.

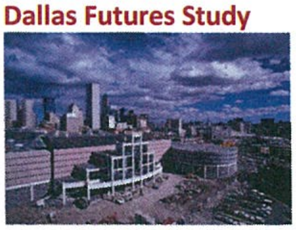
Nashville, Tennessee
Omni Headquarters
Hotel Feasibility

First Southwest Company retained HVS to provide assistance in evaluating the development, construction and operation of a full-service hotel adjacent to the newly proposed Music City Center. The Metropolitan Government of Nashville had recently approved a plan to build a new downtown convention center. The Metropolitan Government proceeding with a new full-service hotel in conjunction with the convention center project. In June 2009, the team of Portman/Hansel Phelps was selected to design and develop the new headquarters hotel. In August 2009, Marriott was selected to be the operator for the facility. The objective of our assignment was to perform a hotel market demand analysis for this proposed hotel in Nashville and to represent our public-sector client in their planning deliberations. HVS evaluated the supply and demand in the Nashville hotel market, provided a building program recommendation, analyzed the site, estimated the economic and fiscal impact of the project, and provided an opinion on project feasibility. Our study appeared in offering statements for the hotel financing. The 800-room Omni Nashville opened in 2013.

Raleigh, North Carolina
Downtown Hotel
Development Strategy

The City of Raleigh and the Steering Committee engaged HVS to identify new opportunities to increase the impact of the hospitality industry in Raleigh. The market area, and specifically the downtown area, has seen significant changes and positive growth in the last decade. Demand for downtown accommodations has increased and group demand is now competing with transit and leisure demand for available rooms. HVS assessed lodging supply and demand trends to create a strategy for future development of the market. The study included an assessment of the potential for growth of Raleigh's hospitality and convention markets, analyzed lost business due to the lack of room blocks for convention groups, and helped determine the best path for future development that allows the hospitality industry to continue to thrive and grow.

Dallas, Texas
Dallas Futures Study

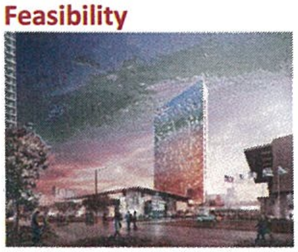


The Tourism Public Improvement District ("TPID") of Dallas engaged HVS Convention, Sports & Entertainment to conduct an analysis of potential expansion for the Kay Bailey Hutchison Convention Center ("KBHCC") and development new hotels in Dallas, Texas. TPID asked HVS to prepare a visionary and data-driven plan to revitalize the attractiveness of the KBHCC. The analysis included recommendations for improvements within the KBHCC and an assessment of the surrounding convention center district. HVS prepared an assessment of the local market and tourism offerings, surveys and held focus group meetings with event planners, compiled and analyzed data on 25 competitive venues and markets, prepared a convention center district benchmarking analysis of five successful convention markets, recommended district improvements and KBHCC expansion program, projected the performance and economic impact of an expanded KBHCC, and assessed the impact of the development of adjacent hotel properties.

Chicago, Illinois
Hyatt McCormick Place Expansion

HVS was engaged by the Metropolitan Pier and Exposition Authority (MPEA) to conduct a study of the expansion of the Hyatt Regency McCormick Place, the hotel adjacent to the largest convention center in the United States. The project involved a market study of the downtown hotel market and the national market for conventions and tradeshows. The MPEA asked HVS Chicago to recommend the optimal approach to hotel expansion and develop an approach to financing the project. HVS provided a market and feasibility analysis to determine the optimal approach to the Hyatt's expansion, projection of financial operations post expansion, estimated capital costs, recommend an approach to financing the project, and an estimate the economic impact of the expanded Hyatt. MPEA is moving forward with the expansion of the Hyatt as recommended by HVS Chicago. We assisted the MPEA in selection of and negotiations with firms for the design and construction of the expansion. We then provided financial and operating consulting services to the MPEA on the project.

Chicago, Illinois
Marriott Marquis Feasibility

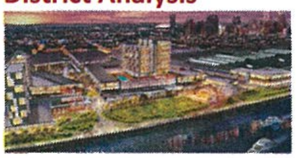


HVS was engaged by the Metropolitan Pier and Exposition Authority (MPEA) to conduct a study of an additional hotel adjacent to McCormick Place, as well as determined its effect on the existing Hyatt hotel and the McCormick Place Convention Center. The Marriott Marquis Chicago will include 1,205 guest rooms and over 93,000 square feet of meeting space. The objective of our assignment was to perform a hotel market demand analysis for this proposed hotel and to represent our public-sector client in their planning deliberations. HVS evaluated the supply and demand in the hotel market, provided a building program recommendation, analyzed the site, and provided an opinion on project feasibility. Directly connected to McCormick Place, this project is now under construction and the Chicago Marriott Marquis is planned to open in late 2017.

Corpus Christi, Texas
American Bank Center Complex Expansion and Headquarters Hotel

The Corpus Christi Convention & Visitors Bureau ("CVB") hired HVS to provide a market and feasibility analysis, including the potential for long- and short-term growth of Corpus Christi's convention and hospitality markets. The American Bank Center Complex is Corpus Christi's primary venue for convention, sport, entertainment, and performing arts events. SMG manages the complex, which is comprised of the American Bank Center Convention Center, the American Bank Center Arena, and the American Bank Center Selena Auditorium. The CVB was looking to examine new opportunities to increase the impact of the hospitality industry in Corpus Christi. HVS performed a market and feasibility analysis to determine the demand and appropriate size of recommended facility enhancements, including consideration of meeting/event space and development of new hotels. The study also analyzed the economics, project income and expenses, economic impacts of the recommended facilities, identify possible financing sources and scenarios, and recommended amenities for the destination. The analysis determined the current and future needs of facility users and how any redevelopment could serve to enhance offerings and increase events in Corpus Christi. We also worked with an architectural partner on recommendations for improvements.

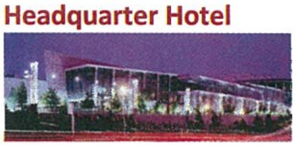
New Orleans, Louisiana Ernest N. Morial Convention Center District Analysis



HVS was hired by the Ernest N. Morial Convention Center to provide strategic planning services. The goals of the project are to provide an opportunity for new and additional experiences for the millions of tourists that visit New Orleans each year and to improve the ability of the Convention Center to attract high-impact convention and tradeshow events. Several studies regarding the entertainment district are complete, including the vision plan for the entire development, retail assessment, and recommendations on expansion of the Convention Center. HVS provided the following services:

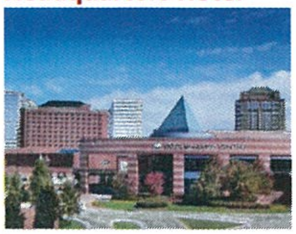
- a market and feasibility study for the new convention hotel with 1,000 to 1,500 rooms;
- recommendations regarding the building program for a mixed-use development adjacent to the Convention Center;
- analysis of how these new developments would impact the Convention Center business;
- economic impact analysis of the convention center and entire proposed development; and
- coordination with financial advisors and the master planning team.

Atlanta, Georgia Georgia World Congress Center Headquarter Hotel



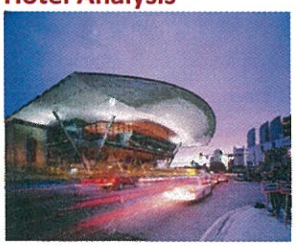
HVS was engaged to conduct a market demand and needs assessment study for a proposed headquarters hotel at the Georgia World Congress Center ("GWCC"). The proposed hotel property is assumed to open January 1, 2021 and include 800-rooms. HVS provided a feasibility study for the headquarters hotel located adjacent the GWCC. As a part of this assignment, HVS also assessed the impact the proposed hotel would have on the operations of the GWCC.

Atlanta, Georgia
Cobb Galleria Centre
Headquarters Hotel



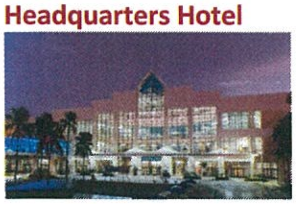
The Cobb-Marietta Coliseum & Exhibit Hall Authority engaged HVS to conduct a market demand and needs assessment study for a proposed headquarters hotel at the Cobb Galleria Centre. There is currently no hotel that serves as the headquarters hotel for the venue. HVS provided a feasibility study for a 350-room property located adjacent the Centre. As a part of this assignment, HVS also assessed the impact the proposed hotel would have on the operations of the Cobb Galleria Center. The Authority was interested in identifying opportunities to increase the performance of the Cobb Galleria Centre and allow the venue to compete more effectively for group meetings business against local, regional, state, and national competitors.

Boston, Massachusetts
Boston Convention
Hotel Analysis



The Massachusetts Convention Center Authority (MCCA) engaged HVS to study the development of hotels to serve the Boston Convention & Exhibition Center (BCEC) and, along with a group of planning and design firms, to work with the MCCA staff and the Convention Partnership to create strategies for expansion of the convention center and improvement of the surrounding neighborhood. Since its opening in 2004, the BCEC met with success in attracting new and larger convention and tradeshow events that could not be accommodated by the existing Hynes Convention Center. The BCEC greatly expanded the potential for development in the South Boston Seaport District, but since redevelopment of the Seaport District is a work in progress, the BCEC currently suffers from a lack of proximate hotel rooms and other urban amenities that would improve the attractiveness of the BCEC as an event destination. The Convention Partnership (a group of public and private sector stakeholders) considered a wide range of potential expansion options and HVS helped assess the relative costs and benefits of various types of hotel development and convention center expansion. We studied the feasibility of full-service, extended-stay, and focused-service hotel developments in the District.

Fort Lauderdale, FL
Broward County
Convention Center
Headquarters Hotel

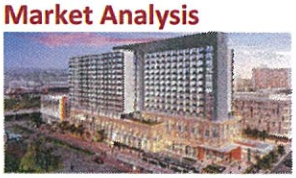


Broward County engaged HVS to conduct a Market Study and Economic Impact Analysis of the Broward County Convention Center (BCCC) in Fort Lauderdale. The purpose of the study was to develop a plan to expand and improve the BCCC in order to increase its effectiveness and allow for better utilization and increased usage. The study also analyzed the introduction of a new headquarters hotel adjacent to the BCCC, which would support the expanded BCCC and further enhance the demand potential of the meetings market in Broward County. HVS conducted an assessment of the current operations of the BCCC, surveyed users, analyzed comparable and competitive facilities, provided facility recommendations, and project demand and a financial proforma. HVS submitted the Needs Assessment and Market Study in July of 2012, and updated the analysis in the spring of 2013. We conducted our work in collaboration with an architectural team, who provided a Master Plan for the convention center. In 2014, we were engaged to provide an economic and fiscal impact analysis of the expanded BCCC and new hotel. The project is moving forward based on our recommendations and analysis.

Palm Beach County, Florida Headquarters Hotel Advisory Services

HVS provided consulting and advisory services to Palm Beach County, Florida in the development of a proposed hotel adjacent to the Palm Beach County Convention Center. The hotel includes 403 rooms and includes all the typical amenities for a convention center hotel. Palm Beach County was considering entering into a public-private partnership and providing a subsidy to the project. HVS provided recommendations on the approach to the financing structure and assisted in the negotiation with developers. HVS worked on behalf of the County to review and negotiate the hotel development agreement, room block agreement, and hotel lease. The County Commissioners and Town Council approved the project and the Hilton Hotel opened in January 2016.

Portland, Oregon Headquarters Hotel Market Analysis



The Metropolitan Exposition Recreation Commission (MERC) hired HVS to perform a market study of a convention center headquarters hotel. The study evaluated the market supply and demand for a convention center headquarters hotel in Portland and projected the estimated costs of and revenues derived from such a facility, and evaluated various operating models that have been suggested for the Project. Our analysis updated previous studies and provided a focused analysis and recommendations. HVS issued its report in late 2007. The Client has approved a proposal to develop the headquarters hotel at the Oregon Convention Center. MERC selected a development team and secured financing for the project. Construction began in July 2017 for the 600-room Hyatt Regency, expected to open in 2019.

Virginia Beach Headquarters Hotel Market Study

The City of Virginia Beach engaged HVS to conduct a market study of a proposed convention center headquarters hotel. The proposed 400-room hotel is intended to be a full-service lodging facility affiliated with a national brand and will feature a restaurant, a lounge, 38,300 square feet of meeting space, a pool, an exercise room, and a business center. The City owns the site adjacent to the Convention Center. Following the submission of the Hotel Market Study, HVS assisted the City in negotiations for the developer and operator of the hotel. Our scope included a headquarters hotel feasibility study and facility program recommendation, economic and fiscal impact analysis, assistance in drafting and issuance of request for development proposals, development team selection, and negotiation of development and operating agreements. HVS is currently updating our analysis for the City and CVB.

HVS

References

We encourage the Grand Rapids-Kent County Convention/Arena Authority to contact our clients listed below. HVS provides objective and valuable advice, which is the reason our clients are satisfied and many of them engage us for multiple projects.

Convention Center Expansion and Headquarters Hotel Feasibility
Corpus Christi Convention & Visitors Bureau
101 North Shoreline Boulevard, Suite 430
Corpus Christi, Texas, 78401
Ms. Paulette Kluge, CEO
Phone: 361-881-1877, 361-887-9023
Email: PKluge@visitcorpuschristitx.org

Convention and Downtown Hotel Strategic Plan
City of Raleigh
500 S. Salisbury Street
Raleigh, NC 27601
Ms. Hazel Cockram, Assistant Director
Phone: 919-996-8521
Email: hazel.cockram@raleighnc.gov

Omni Headquarters Hotel Feasibility and Financing
Metropolitan Government of Nashville and Davidson County, Tennessee
Mr. Rich Riebeling, Director of Finance
1 Public Square, Metro Courthouse Suite 106
Nashville, Tennessee 37201
Phone: 615-862-6151
Email: Richard.Riebeling@nashville.gov

Broward County Convention Center Expansion and Headquarters Hotel
Broward County, Florida
Mr. Carlos Puentes, Deputy Director
1950 Eisenhower Boulevard
Fort Lauderdale, Florida 33316
Phone: 954-765-5908, 954-765-5900
Email: cpuentes@broward.org

HVS

4. Scope of Work

Approach to the Scope of Services

We designed our scope of services to meet your goals and allow us to provide our findings and recommendations according to schedule. The figure below summarizes the tasks involved in our proposed scope of services.

Analysis Common to Both Sites	
1	Project Orientation and Fieldwork
2	Market Analysis
3	Historical Operational Data
4	Hotel Supply and Demand Analysis
Analysis Performed for Each Site	
5	Building Program Recommendations
6	Site Assessments
7	Impact on the Operations of DPV/VAA
8	Hotel Occupancy and ADR Estimates
9	Hotel Financial Projections and Feasibility
10	Sensitivity Analysis
11	Public/Private Development Best Practices
12	Financing Alternatives
Optional Services	
	Economic and Fiscal Impacts
	Development Assistance

ANALYSIS COMMON TO BOTH SITES

Task 1: Project Orientation and Fieldwork

Members of our HVS team will meet with client representatives in Grand Rapids to discuss our study in more detail and to formulate a schedule for performing the fieldwork. We will gather information from you that may assist us in performing this assignment. Introductions to governmental officials, hospitality representatives, and business leaders would increase the effectiveness of our research and expedite the fieldwork process. HVS will also perform the following tasks:

- On-site inspection of the DVP and VAA, potential sites, the market area, and the surrounding area;
- Meet with client staff and various venue staff, including:
    - CAA Board members, CAA Executive Director, and CAA Finance Director to discuss overview of project and current market conditions.
    - Executive staff of Experience Grand Rapids to obtain historical demand, lost business, and future group business forecasts.

- Representatives of the Greater Grand Rapids Area Chamber of Commerce, Downtown Grand Rapids, Inc., The Right Place, former representatives of Grand Action, and business partners to assess market demographics and public/private projects.

- Obtain previous studies and reports from the client and other sources including but not limited to annual reports, economic impact studies, lost business, occupancy reports, and benchmark studies;
- Conduct interviews with business and government officials to collect relevant statistical market data which will be used in locating and quantifying demand for the meeting, event, and entertainment space. Primary types of data include quality of supply, seasonality, weekly demand fluctuations, vulnerability to economic trends and changes in travel patterns and other related factors;
- Conduct meetings and or focus groups with local, regional, and or national hotel developers to identify any possible barriers to entry related to hotel development in Grand Rapids. HVS maintains a contacts database of all the major developers in the US and this data will be available in our selection of appropriate participants in this discussion.
- Investigate the existing availability of lodging facilities to support facilities;
- Tour existing properties and venues in the area and meet with their management and sales staff. Our discussion would include assessment of market performance and any plans for expansions, upgrades, or new facilities. Properties will include but not be limited to Amway Grand Plaza Hotel, JW Marriott, Homewood Suites by Hilton, Courtyard by Marriott, The Grand River Hotel, City Flats Hotel, Holiday Inn Downtown, Hampton Inn & Suites Downtown;
- Interview local officials such as City of Grand Rapids, Grand Rapids Area Chamber of Commerce representatives, other tourism officials, city and economic development agencies, hotel industry representatives, and other related organizations, along with an investigation of the market area to reveal patterns reflecting growth, stability, or decline;
- Research expense factors relating to local conditions such as labor, energy rates, assessed values and taxes. In most instances, we will attempt to utilize actual expense experience from comparable venues; and
- Gather statistics relating to general economic and demographic trends that indicate future demand potential.

Task 2: Market Assessment

HVS will assess key market variables and economic data, culminating in an analysis of the following:

- Local area conditions
- Demographic and economic characteristics

- Work force characteristics
- Projected economic growth
- Business climate and major employers
- Corporate presence
- Colleges and universities
- Meetings and assembly facilities
- Arts, culture, and entertainment
- Retail destinations
- Hotel supply (including number of rooms by type and meeting space)
- Leisure and tourism and future expected trends
- Visitor industry-related taxes
- Proposed development initiatives
- Transportation/air access and costs

Task 3: Historical Operating Review/Lost Business

HVS will tour DVP and the VAA and gather historical operating data to gain insights about facility needs, customer concerns, lost business statistics, and trends in demand during the past several years.

Our team will obtain operations data including:

- Historical event schedules and demand/attendance by event type and space utilization
- Historical financial operating data (including revenues, expenses, cash flow, debt service, management fees, etc.
- History of room night generation
- Future booking data
- Lost business reports
- Governance and funding structure
- Booking policies and relationships
- Organizational chart and staffing information
- Current fees/rates for services
- Contractual agreements with third-parties

When available, the data obtained during this step will serve as a key input into our thinking about current trends and future demand potential for the convention and event industry in Grand Rapids. Historical demand will provide a basis for understanding whether events are increasing or decreasing in size and number. Lost business data will help us determine what types of events are considering Grand Rapids and why these events eventually ended up going to another community. In our lost business analysis, we will determine reasons for lost business and the level of event attendee and room nights. HVS will evaluate whether additional rooms in a new headquarter hotel would address the concerns of a significant portion of meeting and event planners identified in the lost business reports. Financial operating data will provide an understanding of the level of investments required to operate major public facilities in this market. HVS will also compile and analyze data on future bookings at DVP and VAA and sort this data by type of event and booking status.

Task 4: Hotel Supply and Demand Analysis

The HVS integrated hotel database includes operating information on over 60,000 properties in the U.S. and we have the most up to date database on hotel developments of any consulting firm in the industry. This unmatched resource will be available to the Grand Rapids CVB as we provide our hotel analysis and recommendations.

HVS will perform an analysis for evaluating market demand and supply as it relates to the event, meeting, and trade industries. HVS will compile data on the historical performance of the Grand Rapids hotel market and estimate the occupancy and average daily room rate of a set of primary properties in the market that serve the event and meeting industries. This analysis provides the basis for estimating future underlying demand growth and unaccommodated room night demand in the market.

The supply and demand analyses typically include the following steps:

- Using the occupancy levels and market segmentations of the market properties, the number of room nights accommodated in each segment is calculated by multiplying each property's room count by its occupancy by segment and 365 days. This yields the accommodated room night demand. The annual number of room nights occupied per room in each segment is also calculated (room nights occupied per year divided by the room count), and the resulting figure serves as a competitive index.

- Latent demand (which consists of unaccommodated and induced demand) is estimated for each market segment.

- In circumstances involving the development of a major new demand generator, we would also forecast induced demand and include this in our overall demand projections for the market.

- Growth rates are projected for each of the market segments.

- The total usable room night demand (which consists of usable latent demand and accommodated demand) is projected.

- The area's guestroom supply and total room nights available are quantified for each projection year.

HVS will identify potential new supply that is planned, under construction, or rumored to be developed in the market area. This will guide our projections of near-term supply growth. We will also use long-term historical growth trends in room supply to guide our forecast of long-term future supply growth.

HVS will provide a 10-year forecast of hotel supply and demand and room rates. This analysis will result in a quantification and documentation of probable future trends in the market's occupancy, average rate, and overall room revenues. We will also comment on how the hotel industry relates to the convention and event industries.

Interim Findings and Client Conference Call

Upon completion of the above analysis, HVS will hold a conference call with client representatives to present and discuss our initial findings. We will review our findings, discuss the next steps of our analysis, and initiate the following tasks.

ANALYSIS PERFORMED FOR EACH SITE

The following tasks will be performed for each of the two sites under consideration: adjacent to DVP and adjacent to the VAA.

Task 5: Building Program Recommendations

The match between the market demand and the quality and size of any recommended hotel development is essential to the success of the property. Based on our analysis, HVS will provide recommendations regarding the appropriate, functions spaces, amenities, and parking needs associated the hotel development at each site. The recommendations will also consider compatible mixed-used facilities. The recommended facilities may include an analysis of the following elements:

- Rooms by type (king, double, suite, etc.),
- Number and size of event space including exhibition, meeting rooms, and banquet space,
- Kitchen/banquet facilities,
- Types of restaurant and lounge facilities,
- Concierge floors and amenities,
- Quantity and location of pre-function/lobby space,
- Support spaces,
- Number of required parking spaces,
- Technology requirements,
- Health, fitness, and spa facilities,

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- Business services and amenities, and
- Others as appropriate.

Task 6:
Site Analysis

The suitability of the land for a hotel development is an important consideration affecting the economic viability of a facility and its ultimate marketability. Based on specific criteria, HVS will assess the two sites to determine appropriateness for the recommended facility and assess the amount of land required for the recommended facility. HVS employs a site evaluation matrix that involves 20-30 variables that help to determine access, circulation, parking, size, topography, visibility, and the availability of utilities, which have a direct impact on the desirability of a site.

Task 7:
Impact on the Operations of the DVP/VAA

HVS will project the impact of the hotel development recommendations on the operations of the DVP and the VAA under two scenarios: with and without the development of an adjacent hotel.

Meeting Planner Interviews: HVS will interview meeting and event planners that reflects primary segments of current and potential event demand. We will seek information on the characteristics of the events that they plan, and their specific facility needs. We will gather information regarding:

Event Characteristics

- Type of event
- Geographic scope of event (national, state, regional, local)
- Types of spaces and services required
- Attendance and room nights
- Anticipated changes in event size
- Past event locations
- Perceived obstacles to holding event in Grand Rapids

Interest / Impressions of the Market

- Overall level of interest in utilizing facilities
- Relative attractiveness of peer and competing markets
- Market attractiveness in respect to key site selection criteria

Competitive Convention Venues – HVS will analyze competitive venues with a focus on tracking recent and anticipated changes to competitive venues and market performance.

Peer Convention Venues: HVS will compile and analyze data on convention facilities that are comparable (located in other parts of North America). Data on the physical characteristics, event demand, and financial operations of the comparable facilities may provide models for best practices in Grand Rapids. The comparable facilities will be selected in consultation with client representatives.

DVP/VAA Demand Projection Scenarios: HVS will provide demand projections assuming the development of the recommended hotel product. HVS will provide demand in several different event categories that may be suitable for the facility. Demand projections will include the number of events, number of event days, number of attendees, and the amount of exhibit and meeting space utilized for the first 10 years of operation.

Room Night Demand Forecast: Our demand projections will provide the basis for room night demand estimates. We will provide the room nights demand forecast under the recommended development scenario. We will create a statistical model of the number of room nights generated by events at the recommended hotel as well as additional events books at DVP/VAA. These room night demand estimates will be incorporated into HVS hotel analysis as an important component of the overall room night demand in the hotel market. **Financial Projections:** HVS will project operating revenues and expenses for the DVP and the VAA under two scenarios: with and without the development of the recommended hotel product. Financial projections will include a detailed line-by-line account of all revenue sources and expenses. The forecast of financial operations covers the same ten-year period as the demand projections.

Task 8: Hotel Occupancy and ADR Estimates

Based on our market research, supply and demand analysis, and facility recommendations, HVS will provide a projection of occupancy and average daily rates for each site. Our projections will show annual occupancy and average rate for the opening year all the way through stabilization. Thereafter, occupancy will stabilize, and room rates are expected to grow with inflation.

As new competitive supply or additional demand generators open in the Grand Rapids market area, the hotel market may experience substantial positive or negative changes in occupancy or average daily rates. Our analysis will attempt to model these changes over the projection period, based on the most current available information and planning data.

HVS will provide a 10-year projection of occupancy and average daily rates (ADR) for the proposed hotel. Revenue per available room (RevPAR) is a third variable we analyze, which can be calculated by taking the product of the occupancy and ADR for a given year. The occupancy and average rate projections allow us to calculate annual room revenue at the proposed hotels.

Task 9: Hotel Financial Projections and Feasibility

Annual room revenue (occupied room night multiplied by ADR) is the starting point of our forecast of income and expenses. But other potentially important revenue categories, such as food and beverage sales and other sources need to be forecast. HVS will identify each key revenue category for the proposed facility and forecast annual revenue levels in each category for a 10-year period.

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HVS will also project fixed and variable expenses for both sites for each site. The HVS proprietary SPIDER© database allows us to analyze actual financial operating statements of over 60,000 of hotels around the country. From this vast financial data library, we will select a highly relevant set of "comparable facilities" as the basis of a detailed analysis of expense ratios appropriate for the proposed hotel. HVS will identify each expense category for the proposed hotel and forecast annual expense levels in each category for a 10-year period. Our forecast of income and expenses will be consistent with the Uniform System of Accounts for the Lodging Industry.

Task 10: Sensitivity Analysis

HVS will provide projections for two (2) pessimistic scenarios including:

- a 7.5% decline in revenue per available room ("RevPAR") and
- a 15% decline in RevPAR.

HVS will determine the appropriate decline of occupancy and ADR to reach each of the pessimistic RevPAR scenarios, as well as the appropriate changes to expense ratios for each of the scenarios.

Task 11: Public/Private Development Best Practices

HVS will conduct in-depth research regarding best practices for public private headquarters hotel development in the US.

Public sector involvement in convention center hotel projects is common due to the high cost of development and lack of private capital for such investments. Proximate hotels are essential for many convention centers to remain competitive in the convention center industry. As most communities desire the economic impact of group events and the spending of the visitors they attract, many are providing public subsidies to projects that are not feasible on a purely private basis. HVS maintains unapparelled databases of hotel developments and actual operating data.

Task 12: Financing Alternatives

HVS can identify alternative sources of funding the recommended hotel. Case studies from financing plans used in other markets (including facilities in Michigan, as well as nationwide) will help to illustrate various options. HVS can explore various innovative approaches to project financing, including various forms of public/private partnerships, among others. This analysis and discussions with client representatives will lead to a recommended financing plan that achieves the best practical match of project benefits and costs.

Reporting

Before our initial fieldwork, we will provide you with a detailed information request letter, establish an agenda for a project kick-off meeting, and schedule all other necessary meetings. After completion of the program recommendations task of our study, we will issue a draft report and convene a meeting to discuss our interim findings. We will make any necessary adjustments to the remaining scope of work. Upon completion of the study, we will submit a draft report and arrange a meeting to present our findings. After our meeting, we will incorporate any agreed-upon changes and issue a final report. We will provide a fully-documented narrative report that will explain our findings, assumptions, and recommendations. Reports will be provided electronically in PDF format.

Optional Services

The CAA may want to consider the following analysis that may be helpful in the decision-making process for any new hotel development. These services are not included in our fee and would require additional authorization.

Economic Impact Analysis: HVS can will provide an economic impact analysis under the following scenarios: 1) assuming current and anticipated market conditions continue with existing facilities and 2) assuming the hotel development recommendations are implemented. HVS can estimate the following types of impacts:

- Direct impacts include the visitor expenditures, payroll, and employment resulting from the events and operations occurring at the new hotel.
- Indirect impacts are the supply of goods and services resulting from the initial direct facility-related spending.
- Induced impacts represent the change in local consumption due to the personal spending by employees whose incomes are affected by direct and indirect spending.
- Employment impacts can also be used to measure economic impact. Using the IMPLAN model, HVS will estimate the direct, indirect, and induced jobs supported by the construction and ongoing operations at the proposed project. IMPLAN defines employment as the number of full-time equivalent jobs.
- Fiscal Impacts represent the incremental tax revenue collected by the municipality associated with the net new spending related to the activity at the facility.

Development Assistance: Assistance in selection and negotiation with a developer and/or operator of the new hotel. These may include creation of development RFQ/P, evaluation of proposals, negotiation with developer, assist with development agreements, room block agreements and related real estate and financing documents that may be necessary to facilitate the transaction.

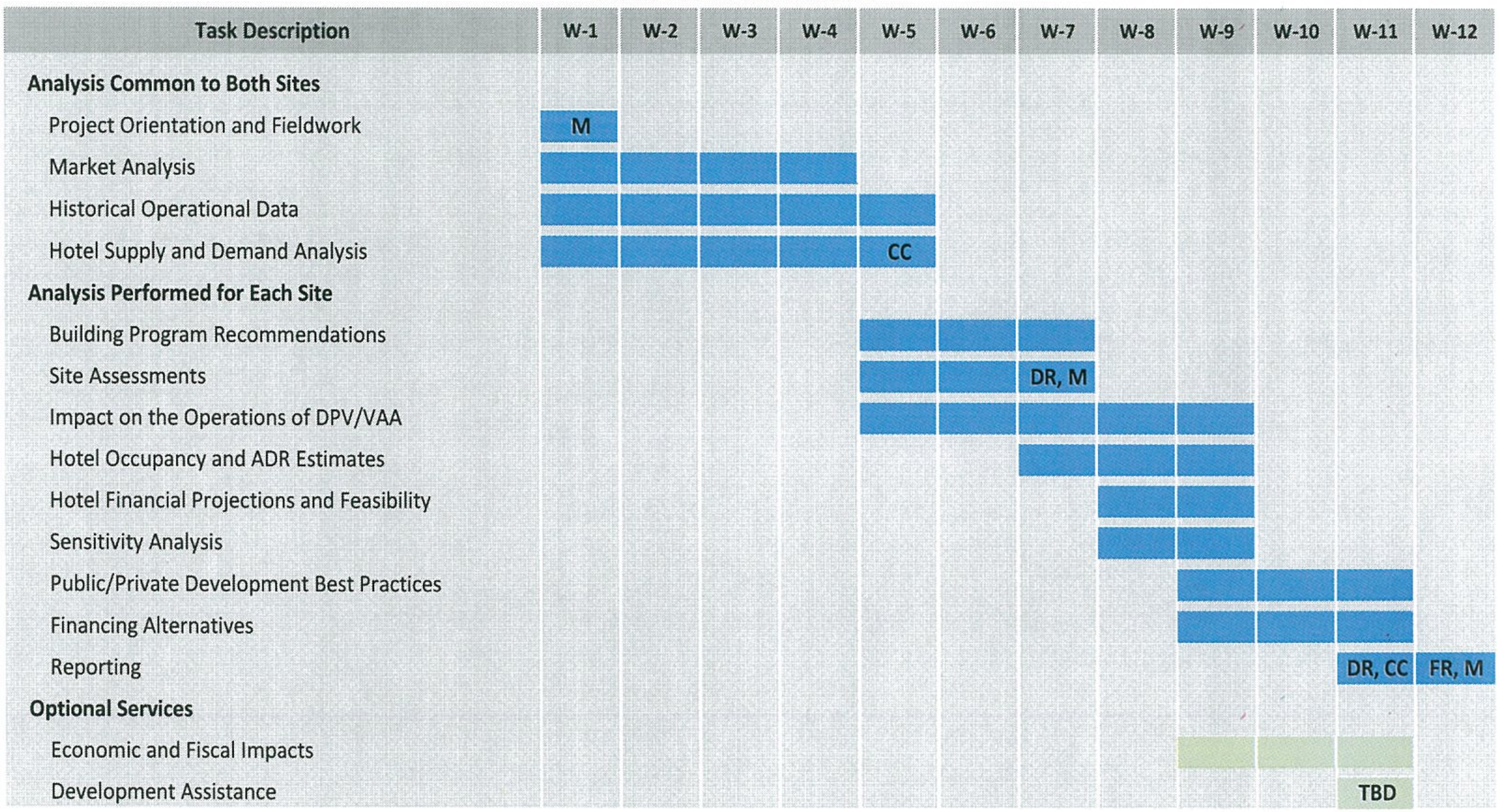
Reporting

Before our initial fieldwork, we will provide a detailed information request letter, establish an agenda for a project kick-off meeting, and schedule all other necessary meetings and draft reporting timelines. We will submit a draft report and convene an in-person meeting to discuss our findings. After our meeting, we will incorporate any agreed-upon changes and issue a final report. We will provide a fully-documented narrative report that will explain our findings, assumptions, and recommendations. Reports will be provided electronically in PFD format.

5. Timeline and Costs, Proposal Form

We propose a 12-week schedule, beginning from the date of our fieldwork. The figure below illustrates our proposed schedule.

PROPOSED SCHEDULE



M = Meeting

We propose to perform the scope of services presented in the proposal for a fee of $49,450. A retainer of will be due upon authorization to proceed. The figure below breaks down our fee proposal.

PROPOSED FEES

Analysis Common to Both Sites		
1	Project Orientation and Fieldwork	$7,200
2	Market Analysis	2,500
3	Historical Operational Data	5,000
4	Hotel Supply and Demand Analysis	5,000
Analysis Performed for Each Site		
5	Building Program Recommendations	2,500
6	Site Assessments	2,500
7	Impact on the Operations of DPV/VAA	11,250
8	Hotel Occupancy and ADR Estimates	3,000
9	Hotel Financial Projections and Feasibility	2,500
10	Sensitivity Analysis	1,500
11	Public/Private Development Best Practices	2,000
12	Financing Alternatives	4,500
	Total	$49,450
Optional Services		
	Economic and Fiscal Impacts	$8,750
	Development Assistance	TBD

In addition to the fees presented above, you agree to reimburse us for reasonable out-of-pocket expenses incurred on your behalf. We will bill expenses at cost and we do not expect expenses to exceed $5,000. Expenses will include all travel related expenditures for four person trips, the cost of all data from third-party data sources including STR and ESRI data, and the production of presentation materials and reports.

Our complete Proposal Form is provided in the following page.

GRAND RAPIDS-KENT COUNTY
CONVENTION/ARENA AUTHORITY
PROPOSAL FORM
(To be filled out completely and attached to proposal)

Legal Business Name: North Star Research Corp. aka HVS Convention, Sports & Entertainment Facilities Consulting

Address: 205 West Randolph, Suite 1650 Chicago, IL 60606

Phone: 312-587-9900

Email: thazinski@hvs.com

Proposal Amount: $49,450

Print Name and Title: Thomas Hazinski, Managing Director

Authorized Signature: Thomas Hazinski

Today's Date: 1/30/2018

Are you proposing to use other companies or firms in this project as a partnership? If yes, please list them below with contact names.

no

6. Additional Materials

Included in this section is our recent article on public involvement in hotel investment.

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Public Involvement in Convention Center Hotel Financing*

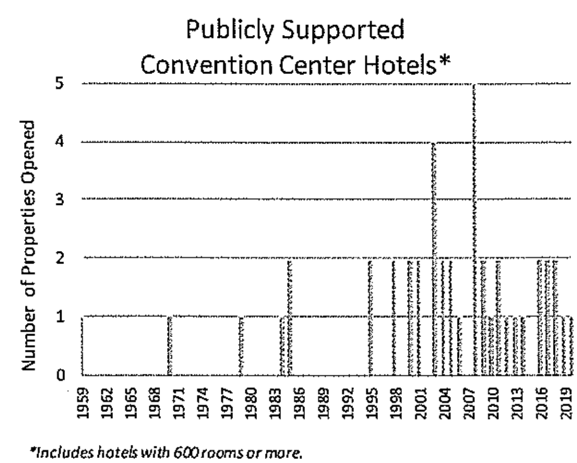
September 12, 2017

Public sector involvement in convention center hotel projects is common due to the high cost of development and lack of private capital for such investments. Event planners expect the presence of a hotel adjacent to a convention center. Consequently, proximate hotels are essential for many convention centers to remain competitive in the convention center industry. As most communities desire the economic impact of group events and the spending of the visitors they attract, many are providing public subsidies to projects that are not feasible on a purely private basis.

Public involvement in hotel development may be divided into two general categories: 1) public/private partnerships, and 2) public financings. In a public/private partnership, the hotel is typically owned and developed by the private partner, and public involvement takes the form of a public subsidy or "bridging the gap" between the cost of constructing and financing a hotel project and the combination of equity and loans a private developer can secure for the project. In the category of public financing, the sponsoring municipality issues taxable or tax-exempt debt to cover the cost of constructing and financing the hotel project, accessing the municipal bond market rather than conventional sources of hotel debt and equity. The net operating revenues of the hotel are pledged as the first source of funds for the repayment of the bonds. A comparison of the two approaches to hotel financing is presented in the table on the following page.

Trends

The figure on the right shows the frequency of publicly supported convention center hotels by year of opening date from 1959 to present to 2020. Three projects are currently under construction. HVS research found 44 hotel projects with 600 or more rooms that had substantial public-sector involvement in their financing.



The maturation of a highly competitive convention market has placed increasing pressure on cities to improve their appeal by adding hotel supply proximate to their convention venues. A change in tax law in 1996, which expanded the ability of governments to publicly finance hotels with municipal debt, also caused public sector investment in hotels to become more frequent.

Since 1959, the only hotel projects of 600 rooms or more outside of the gaming and resort industries that have been privately financed have occurred in New York City, Austin, and Seattle, where high

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Comparison of Hotel Financing Approaches

Issue	Public/Private Partnership	Public Financing
Ownership	A privately owned single purpose entity, typically a limited liability corporation ("LLC") holds title to the hotel. The owner is responsible for engaging the developer and operator.	A publicly controlled entity, that may be an agency of the sponsoring municipality or a not-for-profit corporation, holds title to the hotel. Through the ownership entity, the sponsoring municipality engages the hotel developer and operator. Various forms of non-profit ownership are possible under internal revenue service ("IRS") rules.
Operations	The hotel may be managed by a hotel brand company (e.g. Marriott, Hilton, Hyatt, Intercontinental, Lowes). Or the hotel may be operated by a third party with a franchise agreement to brand the property. Compensation of the manager is typically based on a percentage of gross revenue, net operating income or both.	A hotel management company is engaged to operate the hotel under a Qualified Management Agreement ("QMA") that conforms to IRS regulations. The maximum length of a QMA is 15 years, which is shorter than the typical term of operating agreements for privately owned hotels. Compensation to the operator must be on a fixed-fee basis rather than as a percentage of revenue or net operating income. Most publicly financed hotel deals have been managed by a major hotel company.
Financing	Privately owned hotels are typically financed with a mix of debt and equity. In the current markets, lenders will lend 65% to 70% of the value of the project and equity investors or mezzanine lenders provide the balance of the funding. Typically the developer obtains a variable rate construction loan, which is later replaced with permanent financing when hotel operations stabilize. Equity investment is obtained by selling stock in the LLC and the development group may have a controlling interest in the LLC. In public/private partnerships, a governmental entity may also provide an equity contribution to the project with little or no expectation of obtaining a return on their equity investment.	Publicly owned hotels are debt financed through the issuance of municipal bonds and perhaps with some public equity contributions. Some of the bonds may be "non-recourse" which means that the revenues of the project are the only source of debt payment and credit. To be rated as investment grade, debt service coverage on non-recourse debt must exceed two times debt service. Typically, net operating income is not sufficient to secure enough non-recourse debt to finance the entire project. Consequently, the sponsoring municipality may provide credit enhancement. This usually involves a pledge to pay debt service if hotel revenues are insufficient.
Cost of Funds	Interest rates on permanent debt may range from 4.5% to 5% in the current financial markets. Private equity investors may require 15% to 20% return on equity due. These parameters vary depending on credit market conditions and the availability of capital for hotel investment.	In today's financial markets, non-recourse debt carries interest rates of 7 to 7.5%. The interest costs of credit enhanced debt depends on the sponsoring municipality's credit rating. An AAA-rated municipality may achieve interest rates of 4.0% to 5.0%. Subordinated debt carries negotiated interest rates in the range of 9% to 12%. Consequently, the costs of funds for a publicly financed hotel are substantially less than privately financed hotels.
Forms of Public Subsidies	Public subsidies may take the form of land contributions, infrastructure and parking development, tax abatements, tax turn-backs, and cash subsidies.	In addition to the public subsidies offered in the public/private partnerships, municipalities may credit enhance municipal debt, which is a form of public subsidy. One advantage of a public financing is to reduce the necessary amounts of contributed public equity as compared to a public/private partnership.
Forms of Public Subsidies	The investors in the LLC usually claim the residual project income from operations and the sale of the asset. Municipalities may negotiate a share of project income in exchange for providing public subsidies. Developers often negotiate a "preferred return," which gives the developer a first claim on income.	The sponsoring municipality owns the residual project income from operations and the sale of the asset.

occupancy and room rates can support development of a full-service hotel. All other developments have required some form of public support, either through public financing and ownership or a through a public/private partnership.

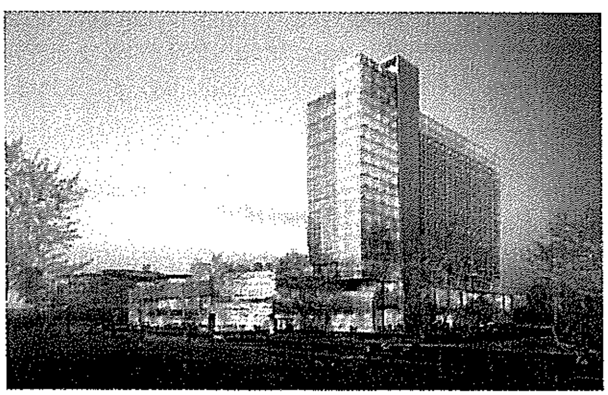
Share of Public Investment

The table on the right lists convention center hotel projects with more than 600 rooms that have received public sector support. This analysis covers the opening dates of hotels for the years 1959 through 2020.

Forty-two cities have participated in 44 convention center hotel projects with 600 or more hotel rooms. Twelve projects have been publicly financed. Where information was available, HVS estimated the share of public investment in public-private partnerships of these hotel projects. The estimated share of public investment has averaged 33% and ranged from approximately 10% to 65%.

Public Private Partnerships

The amount of public support required to finance a hotel through a public/private partnership is dependent upon the gap between the capital cost of the project and the amount of debt and equity that can be raised in the capital markets.



Oklahoma City Omni – This 600-room property which is slated to open in 2020 is being financed through a public/private partnership.

Convention Center Hotel Projects

City	Hotel Brand	Opening Year	Number Rooms
Public/Private Partnerships			
National Harbour	Gaylord Hotels	2008	2000
Dallas	Sheraton	1959	1842
Grapevine	Gaylord Hotels	2004	1811
Atlanta	Marriott Marquis	1985	1663
Aurora	Gaylord Hotels	2018	1507
Orlando	Independent	1995	1408
Philadelphia	Marriott	1995	1408
New Orleans	Hyatt Regency	2011	1193
San Diego	Hilton	2008	1190
Washington	Marriott Marquis	2014	1175
Indianapolis	JW Marriott	2011	1005
San Antonio	Grand Hyatt	2008	1003
Houston	Marriott Marquis	2016	1000
Kansas City	Marriott	1985	983
Jacksonville	Hyatt Regency	2001	966
St Louis	Marriott	2003	917
Los Angeles	JW Marriott	2010	878
Boston	Westin	1984	803
Nashville	Omni	2013	800
Boston	Westin	2006	793
Miami Beach	Loews	1998	790
Baltimore	Marriott	2008	750
Tampa	Marriott	2000	719
Charlotte	Westin	2003	700
Pittsburg	Westin	2000	618
Louisville	Marriott	2005	616
Indianapolis	Marriott	2001	615
Fort Worth	Omni	2009	614
Louisville	Omni	2018	612
Miami	Hyatt Regency	1979	612
Oklahoma City	Omni	2020	600
Portland	Hyatt Regency	2019	600
Publicly Financed Hotels			
Chicago	Hyatt Regency	1998	1258
Chicago	Marriott Marquis	2017	1205
Houston	Hilton	2003	1200
Denver	Hyatt Regency	2005	1100
Austin	Fairmont	2017	1048
Dallas	Omni	2012	1001
Phoenix	Sheraton	2008	1000
Austin	Hilton	2003	800
Baltimore	Hilton	2009	757
Birmingham	Sheraton	1970	757
Cleveland	Hilton	2016	600
Omaha	Hilton	2004	600

Public/private partnerships in hotel development are more frequently used for projects in which a reasonable amount of public equity investment can make the difference between a feasible and infeasible project.

The financial feasibility of a hotel depends on several factors, including:

- construction costs,
- estimated net operating income of the hotel,
- interest rate levels,
- availability of equity,
- seasonality and volatility of the local hotel market, and
- other factors that affect the allocation of investment risk and return.

For the recently approved project in Oklahoma City, city leaders chose to engage a private developer to construct a $235.5-million, 600-room Omni Hotel adjacent to the new convention center. The city will contribute $85.4 million capital (36% of the total) by issuing debt to be repaid with revenues from a tax increment financing district and other sources.

Publicly Financed Hotels

The first publicly financed hotel project completed under current IRS rules was the Hyatt at McCormick Place in Chicago. The Chicago project and the Sheraton in Sacramento were the first and only projects to be financed with all non-recourse debt where the only source of debt repayment payment and credit for the bonds was the net operating income of the projects.

Less favorable credit markets, decreasing access to capital, and uneven performance of hotel markets since 2001, forced all subsequent projects to be credit enhanced. That is, the sponsoring municipality or another third-party entity guarantees that at least a portion of the debt service will be paid if hotel net operating income is not sufficient. After the 2008 Great Recession and the disappearance of mono-line insurers, third-party guarantees became unavailable. Local governments assumed increasing amounts of risk in publicly financed projects or turned to public/private partnerships that shifted risks to the private sector.

Marriott Marquis Chicago – opened in September of 2017 and was financed by the Metropolitan Pier and Exposition Authority in Chicago with tax exempt debt using a public ownership model.

In public financings, the public sector raises 100% of the capital through debt issuance. The primary advantages of public financings are lower costs of capital and the benefits of retaining ownership and control over of the hotel asset. In public/private partnerships, credit enhancement offered by local governments can provide the security required to borrow in the capital markets.

In most cases, the public sector also benefits from room block commitment agreements, which require the convention hotel manager to commit a large share of their room inventory to convention center events at reasonable rates.

But, these financial advantages require the assumption of more risk—primarily the risk of an underperforming project that does not generate sufficient revenues to repay debt and provide for capital replacement costs.

Most municipalities seek to balance their level of financial risk with the market demands for a level of public financial commitment that makes the project feasible. Risk mitigation strategies include the following:

- Reduction of the project size in terms of the number of rooms and function space that reduces overall capital costs.

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- Structuring debt so that projected net operating income is substantially greater than debt service requirements. Debt service coverage ratios greater than 1.25 allow for the project to perform below expectation without requiring the sponsoring municipality to act on its pledge to pay debt service.

- Creating extraordinary debt service reserve funds that are available throughout the "ramp-up" period of the hotel (the first four to five years of operation) when the risk of failure is the greatest.

- Using project related taxes such as hotel, sales, and property taxes to pay debt service. To the extent that project revenues are new incremental revenues to the city that would not be realized without the project, the use of new project revenues entails no financial risk to the sponsoring municipality.

Houston Americas-Hilton– Opened in 2003, this 1200-room property was financed with revenue bonds, the repayment of which was supported with hotel net income, parking garage revenue, and city-wide lodging taxes.

- Limiting the amount of debt service that is credit enhanced. The strength of the local hotel market and its history of volatility or stability determine the share of the debt service that may be non-recourse. Non-recourse debt (issued at reasonable interest rates) typically requires annual net operating income more than two times debt service. A sponsoring municipality may seek to maximize the amount of non-recourse debt. However, this strategy has the effect of reducing debt capacity because the interest rate levels on non-recourse debt may be substantially more than credit enhanced municipal debt.

Facing debt capacity limitations and seeking to maintain control of the project in any unforeseen foreclosure situation, some municipalities have chosen to credit enhance the entire debt issuance. In Houston, the city issued revenue bonds supported by city-wide lodging taxes to support the development of their headquarters hotel and convention center expansion.

Even though many of these projects opened prior to or during the 2008 Great Recession, only one project, the St. Louis Renaissance project (subsequently renamed the Marriott St. Louis Grand) defaulted on its debt. Other projects such as the Sheraton Hotel in Phoenix faced dual challenges of the recession and event planner boycotts brought on by passage of unpopular State legislation. None-the-less, guarantees of debt repayment by the city allowed the Phoenix Sheraton and other projects facing challenging economic conditions to continue to successfully operate and avoid default.

Conclusion

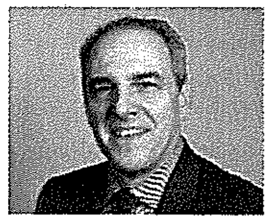
Public agencies may choose from a wide variety of options to provide public support for a convention center hotel project. This support can come in the form of bond financing, the donation or favorable leasing of land or infrastructure, empowerment zone development, and other methods of support discussed herein. Whatever forms the public support may take, public officials often try to provide a level of support that is commensurate with the expected economic impacts the proposed project is expected to generate in the local community.

Reviews of headquarters hotel projects conducted by HVS and other consulting companies have shown that the new hotels generate new room night demand in their communities. But, hotels often require three to four years to become fully absorbed by the local market. During this transitional period before the new hotel reaches stabilization, the occupancy rates and average daily room rates of existing hotel properties may decline. As the new hotel reaches stabilization and generates additional room night demand, the occupancy levels and ADR of competitive hotel properties are expected to return to normal levels.

The impact of these hotels on convention center activity in the cities HVS has studied is less conclusive. In some cities, the number of meetings and conventions and total attendance experienced a significant increase in the first year following the opening of some hotels. In other cities, convention center sales staff indicate that the number of leads – indicators of potential future business – have increased following the opening of a headquarters hotel. Given that many event planners operate on multiple-year planning horizons, the full effect of a headquarters hotel on convention center activity might not be realized until several years following the hotel's opening.

As in any competitive industry, continuous product improvement is necessary to maintain market share. Assessment of the impact of a headquarters hotel on convention center demand should consider the alternative scenario of the lack of such development, which may result in the loss of convention business.

ABOUT THE AUTHORS



Thomas Hazinski *is the Managing Director of HVS Convention, Sports, & Entertainment Facilities Consulting in Chicago, Illinois. His consulting practice is dedicated to the market and financial analysis of public assembly facilities. Mr. Hazinski has 30 years of experience as both a public official and a consultant. He specializes in providing economic and financial research to public agencies involved in economic development initiatives. Mr. Hazinski holds a master's degree in public policy from the University of Chicago's Harris School of Public Policy. He is an adjunct professor in the School of Hospitality Management at Roosevelt University in Chicago.*
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Brian Harris *is a Senior Director at HVS. He brings extensive experience in public facility financing. He served as Vice President of Analytical Services, ScheerGame Sports Development, LLC and previously in a similar capacity at William R. Hough & Co. Harris was deputy manager of public finance at Raymond James. During his 25-year career as an analyst and as a manager of analytical services, he has worked on over 1,000 municipal financing projects ranging from basic general obligation bond issues to complex derivative transaction.*
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