

## Feasibility Study for Hotel/ Convention Center Project Russellville, Arkansas

**SUBMITTED TO**  
City of Russellville

**SUBMITTED BY**  
C.H. Johnson Consulting, Incorporated

December 3, 2012  
**FINAL DRAFT**



**JOHNSON  
CONSULTING**

Experts in Convention, Hospitality,  
Sport and Real Estate Consulting.

## TABLE OF CONTENTS

### SECTION I

TRANSMITTAL LETTER

### SECTION II

INTRODUCTION AND EXECUTIVE SUMMARY.....1

### SECTION III

ECONOMIC AND DEMOGRAPHIC ANALYSIS.....14

### SECTION IV

MEETINGS AND HOTEL INDUSTRY TRENDS.....27

### SECTION V

INDICATED FACILITIES ANALYSIS.....47

### SECTION VI

INTERVIEWS AND SURVEY RESULTS.....78

### SECTION VII

HOTEL ANALYSIS.....90

### SECTION VIII

PROGRAM RECOMMENDATIONS AND PROJECTIONS.....96

### SECTION IX

IMPLEMENTATION STRATEGY.....112

**SECTION I**  
TRANSMITTAL LETTER

December 3, 2012

Mr. Jeff Pipkin  
President/CEO  
Russellville Area Chamber of Commerce  
708 W. Main  
Russellville, AR 72801  
[jpipkin@russellville.org](mailto:jpipkin@russellville.org)

Re: FINAL DRAFT Feasibility Study for Hotel/Convention Center Project – Russellville, AR

Dear Mr. Pipkin:

**Johnson Consulting** is pleased to submit this draft report to the City of Russellville and the Arkansas Valley Alliance for Economic Development regarding a proposed hotel and convention center project. Pursuant to Johnson Consulting's engagement with the City of Russellville, this draft report provides an analysis of the economic and demographic characteristics of Russellville and the broader region; reviews trends in the convention and meetings industry; identifies and analyzes key characteristics of competitive and comparable venues; summarizes key observations from interviews and potential user surveys; provides facility program recommendations; discusses potential operating models, and provides an assessment of the feasibility of the proposed hotel and convention center, including demand and financial projections.

Johnson Consulting has no responsibility to update this report for events and circumstances occurring after the date of this report. The findings presented herein reflect analyses of primary and secondary sources of information. Johnson Consulting used sources deemed to be reliable, but cannot guarantee their accuracy. Moreover, some of the estimates and analyses presented in this study are based on trends and assumptions, which can result in differences between the projected results and the actual results. Because events and circumstances frequently do not occur as expected, those differences may be material. This report is intended for the clients' internal use and cannot be used for project underwriting purposes without Johnson Consulting's written consent.

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

Sincerely,

C.H. JOHNSON CONSULTING, INC.

**DRAFT**

CHARLES H. JOHNSON IV, PRESIDENT

**SECTION II**  
INTRODUCTION AND EXECUTIVE SUMMARY



## INTRODUCTION

Situated in west-central Arkansas, on Interstate 40, Russellville is a community of approximately 28,000 residents. Strategically positioned halfway between Arkansas' two largest cities – Little Rock and Fort Smith; between two national forests – the Ozark and the Ouachita National Forests; and along the banks of the 30,000-acre Lake Dardanelle and the Arkansas River, Russellville is ideally located to prosper in the tourism and convention markets.

## PROJECT DESCRIPTION AND VISION

Johnson Consulting was retained by the City of Russellville to prepare a market and financial feasibility study pertaining to a proposed hotel and convention center. Based upon a prior feasibility study completed in 2003, the City of Russellville purchased a 22-acre site for the development of the proposed facility. The City had a contractual agreement with a hotel/convention center developer that expired in 2009, due to the declining economy. As the City and community continue to consider the proposed development, an up-to-date feasibility study is warranted.

It is envisaged that the convention center on the subject site would serve the adjoining hotel, the proximate group of hotels around Exit-81 of Interstate 40, Arkansas Tech University, and the broader community. Further, the hotel and meeting space would not be in isolation. The balance of the site will have a marina, as well as some form of retail village offering. This study analyses the hotel and meeting aspect of the site plan and assumes that the entire complex will evolve as envisioned.

## OBJECTIVES

In order to assess the opportunity for a new hotel and convention center in Russellville, Johnson Consulting prepared a financial feasibility study, with a focus on addressing the following framework questions:

1. Market and Industry Potential: Which existing and proposed venues will the facility compete with, or complement? Who will utilize the facility and what are their needs, desires and expectations? What is the overall market potential of the proposed facility?
2. Program Considerations: If a facility is warranted, what size should the facility be? What physical attributes should the facility have? What is the facility's optimal configuration to capitalize on the market trends? What is the broader development potential of the site and its adjacent neighborhood?
3. Operations: How will the facility operate from a demand and financial perspective, as well as from a management and business-planning standpoint?

The key objective of this analysis is to provide Client representatives with an estimate of demand, recommendations relating to appropriate program elements, and a projection of financial operations. With this information in hand, the Client group can then begin addressing an operational business plan.



## METHODOLOGY

In order to complete the analysis required for this project, Johnson Consulting performed the following tasks:

1. Interviewed and surveyed various Client representatives, meeting facility operators and managers, hotel managers and operators, and independent event promoters, along with other relevant representatives, in order to gather information about expectations for the proposed project,
2. Examined and projected regional economic and demographic trends that may influence demand for the proposed venue.
3. Analyzed current and expected future trends in the convention and meetings industry, including locations, event types, and event attributes.
4. Identified and examined relevant competitive and comparable facilities, regionally, nationally and internationally.
5. Analyzed and projected trends in the local and regional hotel industries.
6. Developed recommendations regarding the optimum size and mix of spaces for the new convention center.
7. Projected future demand for the proposed hotel, in terms of room nights and occupancy, and convention center, in terms of annual events and attendance.
8. Utilized proven local, regional, and national formulas to forecast revenue and expense models.

## EXECUTIVE SUMMARY

The proposed hotel and convention center in Russellville presents a unique and appropriate opportunity to capitalize on a number of key characteristics of the location and the local and regional economies, including:

- A lack of convention and meeting space in the surrounding local and regional areas.
- Easy access to the proposed site, via the established highway network.
- Presence of major corporations, distribution and utility demand generators.
- Strategic location between Little Rock and Fort Smith, on a major Interstate, and at the top intersection in the community.
- An established hotel inventory supported by a transient population base.



- A variety of outdoor recreation offerings on site and throughout the local area, with the opportunity to add a commercial district next to the site..
- Proximity to Arkansas Tech University campus.
- Strong community interest in developing a new facility.

These factors, along with many others, provide a case for the development of a hotel and convention center on the subject site. Johnson Consulting is of the opinion that the proposed facility, if targeted and marketed appropriately, has the potential to become a real focal point in the community.

### INDICATED FACILITIES

The following table summarizes the key attributes of the comparable facilities identified as part of this analysis.





**Table 2 - 1**

Key Characteristics of Comparable Facilities and Markets							
	Proposed Hotel/ Convention Center	Fort Smith Convention Center	Lake Terrace Convention Center	Coralville Marriott Hotel and Conference Center	Marriott MeadowView Conference Resort and Convention Center	Bayfront Convention Center	Three Rivers Convention Center
<b>Location</b>							
Location	Russellville, AR	Fort Smith, AR	Hattiesburg, MS	Coralville, IA	Kingsport, TN	Erie, PA	Kennewick, WA
Metropolitan Area	Russellville	Fort Smith	Hattiesburg	Iowa City	Kingspor-Bristol-Bristol, Tennessee-Virginia	Erie	Kennewick-Pasco-Richland
<b>Demographic Characteristics (2011)</b>							
Metropolitan Area Population	85,328	302,197	145,041	155,136	312,452	282,714	263,573
Median Household Income	\$36,463	\$39,038	\$37,525	\$47,757	\$36,058	\$41,905	\$51,873
<b>Hotel</b>							
# Guest Rooms	200 rooms	-	-	Marriott 286 rooms	Marriott 305 rooms	Sheraton 200 rooms	-
<b>Meeting Space (SF)</b>							
Exhibit Space	18,000	40,000	14,755	29,596	34,768	28,800	21,600
Ballroom	-	-	-	21,910	18,541	13,500	-
Meeting Room(s)	8,000	5,440	7,936	5,168	6,320	14,023	11,474
Other	-	2 Additional Spaces	2 Outdoor Spaces	-	3 Amphitheatres (8,184 SF)	-	-
<b>Total Exhibit Space (SSF)</b>			<b>22,691</b>	<b>56,674</b>	<b>67,813</b>	<b>56,323</b>	<b>33,074</b>
<b>Events and Attendance</b>							
# Events (per annum)	Refer to Demand Projections	192	841	15*	-	386	252
Total Attendance (per annum)	Refer to Demand Projections	145,000	222,000	18,000	-	125,840	222,000
<b>Revenue and Expenses</b>							
Net Income (Loss) (\$'000s) - Most Recent Year	Refer to Financial Projections	(\$1,419)	(\$1,221)	(\$3,508)	\$1,043	(\$469)	(\$365)

\* Only related to conventions/ conferences - many other social events are held at the facility.

Source: Relevant Facilities, Statistics Canada, Demographics Now, JohnsonConsulting

Each of the facilities profiled above were developed in response to a community's desire to generate significant benefits for local and regional economies, to stimulate tourism, to serve local corporations and universities, and for urban renewal purposes. Although there is variation in the size, orientation, operating approach, and role that each of these facilities play in their communities, each facility demonstrates how a convention center can become a catalyst to stimulate the economy, grow and support the local hotel community, and provide a valuable asset for local residents and businesses. A number of the case studies also highlight the positive impact of locating convention facilities in an attractive setting, adjacent to a headquarters hotel, and with easy highway access. We envisage the convention center component of the proposed development in Russellville to be most directly comparable to the Three Rivers Convention Center in Kennewick. From a setting standpoint, the Coralville Marriott is comparable to the proposed hotel and convention center in Russellville, in terms of setting and the integration of the hotel and meeting facilities, but its funding strategy places significant burden on the City. A more ideal funding strategy was executed in the development of the MeadowView Marriott, although the City still pays a large subsidy to support operations and meet debt service obligations.

We see a simpler, somewhat less costly model being appropriate for Russellville. We do expect some finance support to still be required. But since the land is banked and paid for, and excess land exists for commercial development, it is expected that finance tools applied to the site could fund any capital and operating needs of the project.

## FACILITY RECOMMENDATIONS

Based upon our assessment of the market opportunity for the proposed hotel and convention center, and our analysis of competitive and comparable facilities, it is our opinion that a masterplan for a facility with the following program of spaces should be developed:

- **Hotel:** A 200-room hotel, incorporating one or more restaurants. It is recommended that an Embassy Suites, Hilton Garden Inn, Marriott Courtyard, or similar brand, be sought for the development.
- **Multi-Purpose Event Space:** 15,000 square feet of flexible space that can be utilized a ballroom or exhibit hall, divisible into numerous smaller sections.
- **Meeting Rooms:** 6,000 square feet of meeting and breakout space.

Prior analysis and development concepts contemplated a 220-room Marriott Courtyard, as well as 18,000 square feet of meeting and ballroom space. This is confirmed in our analysis, although, for simplicity, we assume a 200-room hotel.

## DEMAND PROJECTION

### CONVENTION CENTER

Our projections for the convention center component of the development assume the adjacent and simultaneous development of a chain-affiliated “limited service” 200-room hotel. The presence of this property, directly connected to the convention center, significantly increases the attractiveness of the facility to meeting planners. Without the hotel, the demand for conventions, conferences, tradeshow, and meeting events would be lower than the demand projected in this report. The site size allows for future room additions, which will only make the project more attractive.

The proposed convention center will be designed to be sufficiently flexible to accommodate the needs of numerous diverse entities. The following table summarizes the projected event schedule, by event type, for the proposed convention center over a 10-year period from 2015, which is assumed to be the first full year of operation of the facility.

**Table 2 - 2**

Projected Events at Proposed Convention Center										
Event Type	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
<b>Exhibit Events</b>										
Conventions/ Trade Shows	25	28	32	35	35	35	35	35	35	35
Consumer Shows/ Specialty Shows	8	9	10	10	10	10	10	10	10	10
Sub-total Exhibit Events	33	37	42	45	45	45	45	45	45	45
<b>Cultural and Social Events</b>										
Meetings & Seminars	70	71	72	73	73	73	73	73	73	73
Banquets	55	56	57	58	58	58	58	58	58	58
Entertainment Events	2	3	4	5	5	5	5	5	5	5
Other/ Civic Events	35	36	37	38	38	38	38	38	38	38
Sub-total Cultural and Social Events	162	166	170	174	174	174	174	174	174	174
<b>Total</b>	<b>195</b>	<b>203</b>	<b>212</b>	<b>219</b>	<b>219</b>	<b>219</b>	<b>219</b>	<b>219</b>	<b>219</b>	<b>219</b>

Source: Johnson Consulting

The convention center is projected to host 195 events in 2015 (Year 1), of which 33 events are projected to be Exhibit Events and 162 events are projected to be Cultural and Social Events. These projections are relatively conservative when compared to the demand schedules of the comparable facilities discussed above, and assume that Exhibit Events will comprise 10-20 percent of total events at the proposed conference center, which is consistent with our observations of comparable facilities.

The following table shows projected attendance at the proposed convention center from 2015 through 2024.

Table 2 - 3

Projected Attendance at Proposed Convention Center										
Event Type	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
<b>Exhibit Events</b>										
Conventions/ Trade Shows	8,500	9,500	10,900	12,300	12,600	13,000	13,300	13,700	14,000	14,400
Consumer Shows/ Specialty Shows	8,000	14,000	14,000	14,100	14,200	14,300	14,400	14,500	14,600	14,900
Sub-total Exhibit Events	16,500	23,500	24,900	26,400	26,800	27,300	27,700	28,200	28,600	29,300
<b>Cultural and Social Events</b>										
Meetings & Seminars	14,000	14,200	14,400	14,600	14,600	14,600	14,600	14,600	14,600	14,600
Banquets	16,500	16,800	17,100	18,000	18,600	19,100	19,700	20,300	20,900	21,500
Entertainment Events	2,300	3,800	4,600	6,200	6,400	6,500	6,600	6,800	6,900	7,000
Other/ Civic Events	30,600	30,600	32,300	32,900	33,400	34,000	34,800	35,500	36,300	37,100
Sub-total Cultural and Social Events	63,400	65,400	68,400	71,700	73,000	74,200	75,700	77,200	78,700	80,200
<b>Total</b>	<b>79,900</b>	<b>88,900</b>	<b>93,300</b>	<b>98,100</b>	<b>99,800</b>	<b>101,500</b>	<b>103,400</b>	<b>105,400</b>	<b>107,300</b>	<b>109,500</b>

Source: Johnson Consulting

Total attendance is projected to be 79,900 persons in 2015, increasing to 99,800 persons in 2019. Attendance is projected to increase with increases in the number of events, as shown in the previous table, but average attendance at individual events is also projected to increase year-on-year. As such, when the event schedule remains steady, as is assumed beyond year 2019 (Year 5), total attendance is still projected to increase slightly. Our figures do not include people days, or attendees that come to the venue on multiple days for one event, which may be included in visitor counts at other venues.

## HOTEL

The following table shows the projected market demand mix for the proposed hotel in Year 5 (2019), which is assumed to be the facility's stabilized year.

Table 2 - 4

Projected Market Demand Mix	
	2019
Corporate	39%
Group	45%
Leisure	16%
Total	100%

Source: Johnson Consulting

As shown, the largest demand segment is projected to be the Group market, accounting for 45 percent, followed by the Corporate market, which is assumed to account for 39 percent of demand in 2019. The predominance of these demand segments reflects the presence of the proposed hotel and convention center, as well as the strategic location of Russellville, which drives demand from the transient market.



## OPERATING PROJECTION

### CONVENTION CENTER

The following table presents a summary of the projected operating statement for the first 10 full years of operation of the convention center, based upon the operating projections as described in the preceding section of this report (Section 8 Program Recommendations and Demand Projection). Revenues include all revenues that can be used for operations. Expenses are categorized into two groups – **1) Direct Operating Expenses**, which are expenses related directly to the operation of, and demand, for the facility and vary depending on the volume of activity, and **2) Indirect Expenses**, which are incurred regardless of the level of activity at the facility. All revenues and expenses are inflated at a 2.5 percent annual rate.



Table 2 - 5

Proposed Convention Center - Pro Forma Operating Statement of Revenue and Expenses (Inflated Dollars)											
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
<b>Revenue</b>											
<b>Event Revenue</b>											
Space Rental	--	\$264,350	\$297,020	\$325,360	\$371,172	\$382,262	\$391,886	\$399,734	\$407,781	\$416,043	\$424,310
Net Food and Beverage	--	492,220	538,453	587,783	645,180	675,829	707,608	740,596	774,793	810,235	847,241
Equipment Rentals	--	72,696	83,723	94,004	109,921	116,035	121,930	127,482	133,299	139,400	145,724
Event Services	--	1,057	1,218	1,367	1,599	1,688	1,774	1,854	1,939	2,028	2,120
Advertising Revenue	--	33,750	34,594	35,459	36,345	37,254	38,185	39,140	40,118	41,121	42,149
Other Revenue	--	50,000	50,000	51,250	52,531	53,845	55,191	56,570	57,985	59,434	60,920
Land Lease Income											
Grant Income											
<b>Total Operating Revenue</b>	<b>\$0</b>	<b>\$914,074</b>	<b>\$1,005,007</b>	<b>\$1,095,222</b>	<b>\$1,216,748</b>	<b>\$1,266,912</b>	<b>\$1,316,573</b>	<b>\$1,365,377</b>	<b>\$1,415,914</b>	<b>\$1,468,261</b>	<b>\$1,522,464</b>
<b>Direct Operating Expenses</b>											
Contract Services	--	161,158	179,349	197,678	221,882	233,072	244,350	255,645	267,399	279,633	292,374
Utilities	--	225,000	230,625	236,391	242,300	248,358	254,567	260,931	267,454	274,141	280,994
Maintenance & Repairs	--	47,583	54,800	61,530	71,948	75,950	79,809	83,442	87,250	91,243	95,383
Supplies	--	10,574	12,178	13,673	15,988	16,878	17,735	18,543	19,389	20,276	21,196
Other Expenses	--	400	460	510	600	630	670	700	730	760	790
<b>Sub-total Operating Expenses</b>	<b>\$0</b>	<b>\$ 444,715</b>	<b>\$ 477,412</b>	<b>\$ 509,782</b>	<b>\$ 552,719</b>	<b>\$ 574,887</b>	<b>\$ 597,131</b>	<b>\$ 619,261</b>	<b>\$ 642,222</b>	<b>\$ 666,054</b>	<b>\$ 690,737</b>
<b>Indirect Expenses</b>											
Management Fee	--	100,000	102,500	105,063	107,689	110,381	113,141	115,969	118,869	121,840	124,886
Salaries and Wages	--	380,000	389,500	399,238	409,218	419,449	429,935	440,683	451,701	462,993	474,568
Employee Benefits	--	95,000	97,375	99,809	102,305	104,862	107,484	110,171	112,925	115,748	118,642
Sales and Marketing	--	50,000	51,250	52,531	53,845	55,191	56,570	57,985	59,434	60,920	62,443
General and Administrative	--	40,000	41,000	42,025	43,076	44,153	45,256	46,388	47,547	48,736	49,955
Insurance	--	84,994	87,119	89,297	91,529	93,817	96,163	98,567	101,031	103,557	106,146
Other Expenses	500,000	20,000	20,500	21,013	21,538	22,076	22,628	23,194	23,774	24,368	24,977
<b>Sub-total Indirect Expenses</b>	<b>\$ 500,000</b>	<b>\$ 769,994</b>	<b>\$ 789,244</b>	<b>\$ 808,975</b>	<b>\$ 829,199</b>	<b>\$ 849,929</b>	<b>\$ 871,178</b>	<b>\$ 892,957</b>	<b>\$ 915,281</b>	<b>\$ 938,163</b>	<b>\$ 961,617</b>
<b>Total Expenses</b>	<b>\$ 500,000</b>	<b>\$ 1,214,709</b>	<b>\$ 1,266,656</b>	<b>\$ 1,318,757</b>	<b>\$ 1,381,918</b>	<b>\$ 1,424,817</b>	<b>\$ 1,468,309</b>	<b>\$ 1,512,218</b>	<b>\$ 1,557,503</b>	<b>\$ 1,604,217</b>	<b>\$ 1,652,354</b>
<b>Net Operating Income (Deficit)</b>	<b>\$ (500,000)</b>	<b>\$ (300,636)</b>	<b>\$ (261,649)</b>	<b>\$ (223,535)</b>	<b>\$ (165,170)</b>	<b>\$ (157,905)</b>	<b>\$ (151,736)</b>	<b>\$ (146,842)</b>	<b>\$ (141,589)</b>	<b>\$ (135,955)</b>	<b>\$ (129,890)</b>
<b>Reserve for Replacement</b>	<b>\$ -</b>	<b>\$ 100,000</b>	<b>\$ 100,000</b>	<b>\$ 100,000</b>	<b>\$ 100,000</b>	<b>\$ 200,000</b>	<b>\$ 200,000</b>	<b>\$ 200,000</b>	<b>\$ 200,000</b>	<b>\$ 200,000</b>	<b>\$ 200,000</b>
<b>Net Income (Deficit) Before Debt Service</b>	<b>\$ (500,000)</b>	<b>\$ (400,636)</b>	<b>\$ (361,649)</b>	<b>\$ (323,535)</b>	<b>\$ (265,170)</b>	<b>\$ (357,905)</b>	<b>\$ (351,736)</b>	<b>\$ (346,842)</b>	<b>\$ (341,589)</b>	<b>\$ (335,955)</b>	<b>\$ (329,890)</b>

Source: Johnson Consulting



As shown, the proposed convention center is expected to operate at a net deficit throughout the projection period. However, the projected deficits are consistent with those observed at convention centers of similar size and orientation, as is explained in greater detail at the end of this section. Hence, the funding structure contemplated for the proposed convention center should address some funding resource to support operations slightly. Also, if the facility is operated as part of the hotel, which is recommended, savings in staff and marketing can occur, thereby reducing the operating deficit.

It is noted that land lease and grant income, if any, have not been included in these revenue projections, as assessing the value of this income stream is outside the scope of this assignment. As such, the operating deficits shown in the figure above are considered to be worst-case scenario at the time of these projections. It is our considered opinion, however, that opportunities exist for capturing both of these revenue streams and this should be explored in further detail as the project progresses.

## HOTEL

The following table presents a summary of the projected income and expense statement for the first 10 full years of operation of the proposed hotel. The estimates of income and expense are based on the results of operations of comparable hotels. It is noted that 'PAR' stands for 'Per Available Room' and 'POR' stands for 'Per Occupied Room Night'.



Table 2 - 6

Statement of Operating Proforma - 200-Room New Hotel (in \$000, Inflated)														
	2015			2016	2017	2018	2019			2020	2021	2022	2023	2024
1 Room Count	200			200	200	200	200			200	200	200	200	200
2 Available Room Nights	73,000			73,000	73,000	73,000	73,000			73,000	73,000	73,000	73,000	73,000
3 Occupancy Rates	52.8%			57.5%	61.1%	63.6%	63.6%			63.6%	63.6%	63.6%	63.6%	63.6%
4 Occupied Room Nights	38,513			41,960	44,627	46,455	46,455			46,455	46,455	46,455	46,455	46,455
5 Average Daily Rate	\$92.54			\$96.75	\$100.09	\$103.48	\$106.06			\$109.24	\$112.52	\$115.89	\$119.37	\$122.95
6 RevPAR	\$48.82			\$55.61	\$61.19	\$65.85	\$67.49			\$69.52	\$71.60	\$73.75	\$75.96	\$78.24
7 Percent of Change from Prior Year	--			13.9%	10.0%	7.6%	2.5%			3.0%	3.0%	3.0%	3.0%	3.0%
<b>Revenue</b>		<b>%</b>	<b>PAR</b>	<b>POR</b>				<b>%</b>						
8 Rooms	\$3,564	88.8%	\$17,820	\$92.54	\$4,059	\$4,467	\$4,807	\$4,927	86.2%	\$5,075	\$5,227	\$5,384	\$5,545	\$5,712
9 Hotel Food and Beverage	219	5.5%	1,096	5.69	284	352	422	432	7.6%	445	459	472	486	501
10 Telephone	22	0.5%	110	0.57	25	28	31	32	0.6%	32	33	34	35	37
11 Other Operated Departments	127	3.2%	633	3.29	152	177	200	205	3.6%	211	217	224	231	238
12 Rentals and Other Income	83	2.1%	413	2.14	95	106	115	118	2.1%	122	125	129	133	137
13 Total Hotel Revenue	\$4,014	100.0%	\$20,072	\$104.24	\$4,617	\$5,130	\$5,575	\$5,714	100.0%	\$5,885	\$6,062	\$6,244	\$6,431	\$6,624
<b>Expenses</b>														
14 Rooms	\$1,276	35.8%	\$6,380	\$33.13	\$1,413	\$1,510	\$1,577	\$1,616	32.8%	\$1,664	\$1,714	\$1,766	\$1,819	\$1,873
15 Hotel Food and Beverage	208	95.0%	1,041	5.41	270	334	401	411	95.0%	423	436	449	462	476
16 Telephone	29	131.1%	144	0.75	33	37	40	41	131.1%	43	44	45	47	48
17 Other Operated Departments	4	3.0%	19	0.10	5	5	6	6	3.0%	6	7	7	7	7
18 Rent and Other Income	1	1.5%	6	0.03	1	2	2	2	1.5%	2	2	2	2	2
19 Total Hotel Expenses	\$1,518	37.8%	\$7,590	\$39.42	\$1,722	\$1,888	\$2,025	\$2,076	36.3%	\$2,138	\$2,202	\$2,268	\$2,336	\$2,407
20 Departmental Operating Income	\$2,496	62.2%	\$12,482	\$64.82	\$2,894	\$3,242	\$3,550	\$3,638	63.7%	\$3,747	\$3,859	\$3,975	\$4,095	\$4,217
<b>Undistributed Operating Expenses</b>														
21 Administrative and General	\$325	8.1%	\$1,626	\$8.44	\$374	\$415	\$452	\$463	8.1%	\$477	\$491	\$506	\$521	\$537
22 Credit Card Commissions	60	1.5%	301	1.56	69	77	84	86	1.5%	\$88	91	94	96	93
23 Marketing	357	8.9%	1,786	9.28	406	446	479	491	8.6%	\$506	521	537	553	570
24 Utility Costs	201	5.0%	1,004	5.21	231	256	279	286	5.0%	\$294	303	312	322	331
25 Property Operations and Maintenance	141	3.5%	703	3.65	185	231	279	286	5.0%	\$294	303	312	322	331
26 Total	\$1,084	27.0%	\$5,419	\$28.14	\$1,265	\$1,426	\$1,572	\$1,611	28.2%	\$1,660	\$1,709	\$1,761	\$1,814	\$1,861
27 Gross Operating Profit	\$1,412	35.2%	\$7,062	\$36.67	\$1,630	\$1,815	\$1,977	\$2,027	35.5%	\$2,087	\$2,150	\$2,215	\$2,281	\$2,356
<b>Selected Fixed Charges</b>														
28 Property Taxes	\$161	4.0%	\$803	\$4.17	\$180	\$190	\$195	\$200	3.5%	\$206	\$212	\$219	\$225	\$232
29 Insurance	32	0.8%	161	0.83	37	41	45	46	0.8%	47	48	50	51	53
30 Total	\$193	4.8%	\$963	\$5.00	\$217	\$231	\$240	\$246	4.3%	\$253	\$261	\$268	\$277	\$285
31 Income Before Management Fees	\$1,220	30.4%	\$6,099	\$31.67	\$1,413	\$1,585	\$1,738	\$1,781	31.2%	\$1,834	\$1,889	\$1,946	\$2,004	\$2,071
32 Management Fee and Chain Services	\$112	2.8%	\$562	\$2.92	\$129	\$144	\$156	\$160	2.8%	\$165	\$170	\$175	\$180	\$185
33 Income after Management Fees	\$1,107	27.6%	\$5,537	\$28.75	\$1,283	\$1,441	\$1,582	\$1,621	28.4%	\$1,670	\$1,720	\$1,771	\$1,824	\$1,886
34 Reserve for Replacement	\$0	0.0%	\$0	0.00	\$0	\$0	\$0	\$0	0.0%	\$0	\$0	\$0	\$0	\$0
35 Project Net Operating Income	\$1,107	27.6%	\$5,537	\$28.75	\$1,283	\$1,441	\$1,582	\$1,621	28.4%	\$1,670	\$1,720	\$1,771	\$1,824	\$1,886

Source: Johnson Consulting





Hotel gross income is projected to be \$4.0 million in 2015, increasing to \$5.7 million in 2019. Net operating income is projected to be \$1.1 million in 2015, increasing to \$1.6 million in 2019. Net operating income as a percentage of revenue is projected to increase from 27.6 percent in 2015 to 28.4 percent in 2019.

## SUMMARY

As highlighted in the case studies presented Section 5 of this report, convention centers typically incur an operating deficit each year. However, the economic impact that these facilities have on their local and regional communities usually far outweighs the loss incurred. Deficit reduction may be achieved by allowing the convention center hotel operator to manage the convention facilities. Economies of scale and overhead reductions will result from joint management of the two facilities. However, if the hotel were to assume management of the convention center, the City should seek assurances that the convention center will be marketed and operated in a manner that maximizes the number of room nights generated by convention center events citywide, while at the same time will be available for community use. This objective could be accomplished through a formal booking policy that includes a written agreement that sets out procedures to be followed to insure that citywide events are given priority at the convention center. This will improve the overall impact of the proposed convention center on the City.

Whether the hotel operator or a professional management company operate the convention center, the City should also negotiate a room block commitment agreement with the hotel operator that would assure that an adequate number of hotel rooms would be available to accommodate attendees of convention center events. This room block commitment agreement would set aside a certain number of rooms each month for attendees to convention center events. Furthermore, the agreement would provide that the hotel operator charge competitive room rates for such group business.

Our projections are in line with comparable facilities, from both a demand and operating statement perspective, and are considered to be fair and reasonable. There are a myriad of policy, management and operating decisions to be made from this point forward. Many of these are material and could affect demand and financial performance of the proposed development.

## IMPLEMENTATION STRATEGY

The proposed project has the potential to be an outstanding urban renewal asset, from which residents of the region, local businesses and educational institutions will all benefit. City leadership used a very clever strategy to secure and land bank the site, without any debt, and save a fund for working capital and reserves. The entire site is not needed for the hotel and convention center, so additional revenue providing assets exist. Depending on how the deal comes together, the excess land and associated taxes could provide the required resource base to cross subsidize the costs required to fund capital for the convention center and to fund capital improvements.



The next phase of work requires preparation of an RFP. As the city will learn, the development community comes from two main camps - locals with a desire to execute a project such as this, with commercial development experience, but without hotel experience per se; and regional and national hotel developers, a few of which also have commercial real estate experience. The site funding will have to be artful and finding the right partner, combined with public officials able to weave the balance of public investment, is essential.

This analysis documents the economics for a hotel and convention center. In round numbers, the hotel and convention center is a \$35 to \$40 million project. The hotel will cash flow at the occupancy and rate projected, and an agreement can be visualized where the City can have the facility pose no operational risk, on an ongoing basis. The project economics do not address the convention center capital budget, which is estimated at \$12 to \$15 million (included as part of the overall \$35 to \$40 million project cost), and will require funding.

We are confident that by combining hotel and convention center operations, about \$300,000 in savings can be accomplished. We also believe that sales of land, land lease income, and “District” based taxes such as TIF property, hotel and sales taxes could be sufficient to address the capital requirements of the convention center. Dual strategies for other projects are provided below, outlining examples used in other markets.

**SECTION III**  
ECONOMIC AND DEMOGRAPHIC ANALYSIS

## ECONOMIC AND DEMOGRAPHIC ANALYSIS

In order to analyze the market opportunity for the proposed hotel and convention center, Johnson Consulting undertook a comprehensive review of market conditions in Russellville and Pope County, relative to the broader metropolitan area, as well as state and national averages. The key objectives of this analysis were to identify structural factors, opportunities and weaknesses that may affect the market's ongoing competitive situation, and to gauge the level of support that exists for the development of a new hotel and convention center.

While characteristics such as population, employment and income are not strict predictors of the performance of hotels and public assembly facilities, such as the proposed convention center, they provide insight into the capacity of a market to provide ongoing support for facilities and activities. In addition, the size and role of a marketplace, its civic leadership, proximity to other metropolitan areas, transportation concentrations, and the location of competing and/ or complementary attractions, directly influence the scale and quality of facilities that can be supported within that particular market.

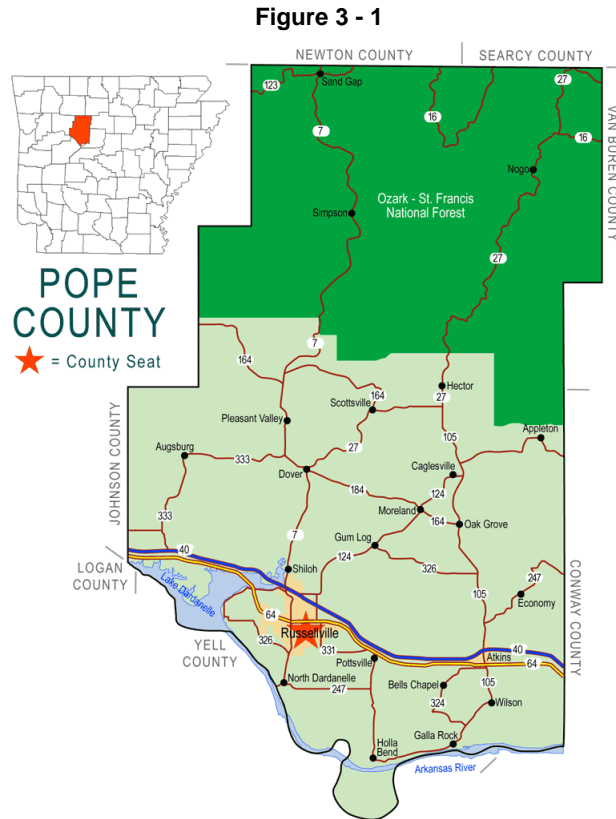
### MARKET OVERVIEW

Located in the Arkansas River Valley, between Ozark and Ouachita National Forests, Russellville is the county seat of, and largest city in, Pope County. Officially incorporated in 1870, Russellville has experienced various milestone events and activities throughout its history that have spurred commercial development and population growth. These include, among others, the expansion of the railroad in the early 1870s; the founding of Arkansas Tech University in 1909; the completion of the I-40 in 1956; the damming of the Arkansas River in 1965 and subsequent establishment of the Lake Dardanelle State Park; and the development of Arkansas Nuclear One during the 1970s.

Russellville, like many similarly sized U.S. cities and towns, experienced the decentralization of activities from its downtown core in the 1970s. This resulted in the abandonment and subsequent degeneration of many of the City's historical buildings. Although Arkansas Tech University is a thriving hub of activity, there is a lack of connectivity between the campus and Russellville's historic downtown center. Improving the flow of activity between these two centers is one of the key objectives of the City of Russellville's 'Year 2020 Comprehensive Development Plan'. Specifically, the Plan identifies the following strategies for preserving and enhancing the downtown and University areas:

- Promote the downtown as the heart of the community in terms of cultural, governmental and historical resources with supportive commercial activities.
- Encourage additional retail shopping and restaurants in the downtown.
- In cooperation with Arkansas Tech University and affected neighborhoods, fully integrate the growth and development of the University with the community.

The following figure shows the location of Russellville within Pope County.



Source: Encyclopedia of Arkansas, Johnson Consulting

Russellville boasts a variety of outdoor recreational opportunities, including hiking, camping, canoeing, hunting, and fishing. Lake Dardanelle serves host to numerous bass fishing competitions and tournaments annually.

**SUBJECT SITE**

The subject site relates to a 22-acre property, strategically located at Exit 81 of Interstate 40. The City-owned site has frontage to both the I-40 and the Arkansas River. Originally slated for a John Q. Hammons hotel development, and targeted by Bass Pro Shop and Cabela’s, it is envisaged that the site will be developed as a mixed-use urban village that incorporates a marina, hotel, and convention center, as well as retail uses along the I-40 frontage.

**CURRENT POPULATION**

In 2011 the City of Russellville had an estimated resident population of 28,413 persons, representing one-third (33.3 percent) of the total population of the Russellville Metropolitan Statistical Area (MSA). Between 2000 and 2011, the population of the City increased at an average annual rate of 1.5 percent, which was

slightly higher than the rates of growth recorded throughout Pope County (1.3 percent per annum), Russellville MSA (1.1 percent), Arkansas (1.0 percent) and the U.S. (1.0 percent).

**Table 3 - 1**

<b>Historic &amp; Current Population - City of Russellville (2000-2011) ('000s)</b>				
	<b>2000</b>	<b>2011</b>	<b>% Growth 2000-2011</b>	<b>CAGR* 2000-2011</b>
<b>U.S.</b>	281,399	313,514	11.4%	1.0%
<b>Arkansas</b>	2,673	2,968	11.0%	1.0%
<b>Russellville MSA</b>	76	85	12.9%	1.1%
<b>Pope County</b>	54	63	15.7%	1.3%
<b>City of Russellville</b>	<b>24</b>	<b>28</b>	<b>17.4%</b>	<b>1.5%</b>

\* Compounded Annual Growth Rate  
Source: *Demographics Now, Johnson Consulting*

## PROJECTED POPULATION GROWTH

Population projections prepared by the U.S. Census Bureau indicate that the population of the City of Russellville will reach 30,542 persons in 2016, representing an average annual rate of growth of 1.5 percent. This rate of growth is consistent with that forecast for Pope County (1.6 percent per annum), and slightly higher than the rates of growth projected throughout the Russellville MSA (1.3 percent), as well as the state (0.9 percent) and national (0.8 percent) averages.

**Table 3 - 2**

<b>Projected Population - City of Russellville (2011-2016) ('000s)</b>				
	<b>2011</b>	<b>2016</b>	<b>% Growth 2011-2016</b>	<b>CAGR* 2011-2016</b>
<b>U.S.</b>	313,514	326,847	4.3%	0.8%
<b>Arkansas</b>	2,968	3,110	4.8%	0.9%
<b>Russellville MSA</b>	85	91	6.5%	1.3%
<b>Pope County</b>	63	68	8.0%	1.6%
<b>City of Russellville</b>	<b>28</b>	<b>31</b>	<b>7.5%</b>	<b>1.5%</b>

\* Compounded Annual Growth Rate  
Source: *Demographics Now, Johnson Consulting*

Longer-term projections for Arkansas indicate that the state's population will increase at an average annual rate of 0.6 percent between 2020 and 2030, reaching 3.2 million people in 2030. This rate of growth is slightly

lower than the rate of increase forecast throughout the U.S. (0.8 percent per annum), reflecting a return to long-term growth rates in the state.

**Table 3 - 3**

Population Projection - Arkansas (2020-2030) ('000s)				
	2020	2025	2030	CAGR* 2020-2030
<b>U.S.</b>	335,805	349,439	363,584	0.8%
<b>Arkansas</b>	3,060	3,151	3,240	<b>0.6%</b>

*Source: U.S. Census Bureau, Johnson Consulting*

## AGE CHARACTERISTICS

The age characteristics of Russellville differ from those of Pope County, the Russellville MSA, Arkansas, and the U.S., primarily on the basis of a higher concentration of residents aged between 20 and 24 years, reflecting the presence of Arkansas Tech University (ATU). In 2011, 14.2 percent of residents of the City were aged between 20 and 24 years, compared to 9.8 percent of residents of Pope County, 8.7 percent of residents of the MSA, 6.9 percent of residents of Arkansas, and 7.0 percent of the resident population of the U.S. Russellville also comprises a higher proportion of younger residents aged between 15 and 19 years (10.4 percent) than the county (8.8 percent), MSA (8.4 percent), state (7.0 percent), and national (7.1 percent) averages, and a lower proportion of older residents aged 55 years and over, accounting for 22.1 percent of residents of Russellville, compared to 24.5 percent of residents of Pope County, 25.2 percent of residents of Russellville MSA, 26.4 percent of residents of Arkansas, and 24.9 percent of residents of the U.S.

Table 3 - 4

Age Distribution - City of Russellville (2011)										
Age Group (Years)	City of Russellville		Pope County		Russellville MSA		Arkansas		U.S.	
	No.	%	No.	%	No.	%	No.	%	No.	%
0-4	2,010	7.1%	4,180	6.6%	5,783	6.8%	200,969	6.8%	20,515,002	6.5%
5-14	3,238	11.4%	7,821	12.4%	11,084	13.0%	400,941	13.5%	41,651,303	13.3%
15-19	2,954	10.4%	5,563	8.8%	7,142	8.4%	207,128	7.0%	22,380,439	7.1%
20-24	4,033	14.2%	6,145	9.8%	7,450	8.7%	203,762	6.9%	21,925,644	7.0%
25-34	3,673	12.9%	7,678	12.2%	10,278	12.0%	383,341	12.9%	41,703,842	13.3%
35-44	3,064	10.8%	7,627	12.1%	10,424	12.2%	372,991	12.6%	41,722,752	13.3%
45-54	3,149	11.1%	8,540	13.6%	11,659	13.7%	414,670	14.0%	45,694,540	14.6%
55-64	2,702	9.5%	7,168	11.4%	9,789	11.5%	357,219	12.0%	37,049,733	11.8%
65-74	1,827	6.4%	4,676	7.4%	6,578	7.7%	238,658	8.0%	22,063,995	7.0%
75-84	1,205	4.2%	2,667	4.2%	3,759	4.4%	136,218	4.6%	13,245,781	4.2%
85+	558	2.0%	955	1.5%	1,383	1.6%	52,031	1.8%	5,561,498	1.8%
<b>TOTAL</b>	<b>28,413</b>		<b>63,020</b>		<b>85,329</b>		<b>2,967,928</b>		<b>313,514,529</b>	

Source: Demographics Now, Johnson Consulting

## MEDIAN AGE

In 2011 the median age of residents of the City of Russellville was 29.8 years, which was substantially lower than figures recorded for Pope County (35.2 years), Russellville MSA (35.9 years), Arkansas (37.3 years), and the U.S. (37.1 years). Between 2001 and 2011, the median age of residents of Russellville decreased by 7.7 percent, in contrast to the broader shift towards an ageing population, and reflecting the significant student population, as well as the influx of working age residents attracted to the many employment opportunities within the City.

Table 3 - 5

Median Age - City of Russellville (2000-2016)					
	2000	2011	2016	Growth 2000-2011	Growth 2011-2016
<b>U.S.</b>	35.3	37.1	37.0	5.1%	-0.3%
<b>Arkansas</b>	36.1	37.3	37.2	3.3%	-0.3%
<b>Russellville MSA</b>	35.2	35.9	36.0	2.0%	0.3%
<b>Pope County</b>	34.8	35.2	35.3	1.1%	0.3%
<b>City of Russellville</b>	<b>32.3</b>	<b>29.8</b>	<b>30.0</b>	<b>-7.7%</b>	<b>0.7%</b>

Source: Demographics Now, Johnson Consulting



The age characteristics of a local population are an important consideration when analyzing long-term demand for a new public assembly facility, such as the proposed convention center, as these characteristics could impact demand for certain types of public events, and would likely influence the types of events that promoters would bring to the area.

## EDUCATIONAL ATTAINMENT

The population of the City of Russellville is reasonably well educated, with 23.3 percent of residents holding a Bachelor's degree or higher. This figure is higher than those recorded across the county (20.0 percent), MSA (16.7 percent), and state (19.6 percent), but lower than the national average (28.6 percent). The largest proportion of residents of the City are high school graduates (32.4 percent), with a further 24.7 percent of residents having attended some college but not received a degree. This is generally consistent with the educational attainment characteristics of Pope County, Russellville MSA, Arkansas, and the U.S.

**Table 3 - 6**

Educational Attainment - City of Russellville (2011)										
	City of Russellville		Pope County		Russellville MSA		Arkansas		U.S.	
	No.	%	No.	%	No.	%	No.	%	No.	%
Less than High School	2,768	14.6%	6,731	16.6%	11,141	20.3%	329,699	16.8%	29,232,942	14.1%
High School Graduate	6,141	32.4%	14,752	36.4%	21,122	38.4%	700,406	35.8%	60,961,809	29.5%
Some College, No Degree	4,686	24.7%	9,056	22.3%	11,153	20.3%	422,916	21.6%	41,348,996	20.0%
Associates Degree	933	4.9%	1,903	4.7%	2,408	4.4%	120,794	6.2%	16,140,031	7.8%
Bachelor's Degree	2,931	15.5%	5,491	13.5%	6,175	11.2%	257,120	13.1%	37,295,395	18.0%
Graduate Degree	1,491	7.9%	2,639	6.5%	2,981	5.4%	127,721	6.5%	21,758,680	10.5%
<b>TOTAL</b>	<b>18,950</b>		<b>40,572</b>		<b>54,980</b>		<b>1,958,656</b>		<b>206,737,853</b>	

Source: Demographics Now, Johnson Consulting

## EMPLOYMENT

In 2010 the predominant industry of employment in Russellville was Services (22.5 percent of employed residents aged 15 years and older), predominantly Accommodation and Food Services, and Administrative and Waste Management Services, followed by Manufacturing (21.8 percent), and Government (19.9 percent). Between 2008 and 2010 decreases in employment were recorded across all industries except Finance, Insurance and Real Estate, and Government, which recorded increases of 1.4 percent and 2.1 percent per annum, respectively. The largest decreases in employment were recorded in the Construction (-6.8 percent per annum) and Manufacturing (-6.5 percent) sectors.

Table 3 - 7

<b>Non-Farm Employment by Industry - Russellville MSA (2008-2010)</b>				
	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>CAGR* 2008-2010</b>
<b>Construction</b>	3,223	2,828	2,801	(6.8%)
<i>% of Total</i>	9.8%	9.1%	9.0%	
<b>FIRE**</b>	2,050	2,121	2,107	1.4%
<i>% of Total</i>	6.2%	6.8%	6.7%	
<b>Government</b>	5,960	6,175	6,217	2.1%
<i>% of Total</i>	18.1%	19.8%	19.9%	
<b>Manufacturing</b>	7,787	6,776	6,811	(6.5%)
<i>% of Total</i>	23.7%	21.8%	21.8%	
<b>Retail Trade</b>	4,624	4,419	4,454	(1.9%)
<i>% of Total</i>	14.1%	14.2%	14.2%	
<b>Services</b>	7,124	6,837	7,024	(0.7%)
<i>% of Total</i>	21.7%	22.0%	22.5%	
<b>Transport &amp; Utilities</b>	2,093	1,968	1,860	(5.7%)
<i>% of Total</i>	6.4%	6.3%	5.9%	
<b>TOTAL</b>	<b>32,861</b>	<b>31,124</b>	<b>31,274</b>	<b>(2.4%)</b>

\* Compounded Annual Growth Rate

\*\* Finance, Insurance &amp; Real Estate

Source: BEA, Johnson Consulting

## UNEMPLOYMENT

The following table shows the annual unemployment rates for Pope County, relative to Arkansas and the U.S., for the period of 2000-2011 (note that unemployment data is not available at the minor MSA or city level outside of Census periods).

Table 3 - 8

Unemployment Rate - Pope County (2000-2011)						
	Pope County		Arkansas		U.S.	
	Rate	Change	Rate	Change	Rate	Change
2000	4.2%	-	4.2%	-	4.0%	-
2001	4.2%	0.0	4.7%	0.5	4.7%	0.7
2002	5.1%	0.9	5.3%	0.6	5.8%	1.1
2003	5.7%	0.6	5.8%	0.5	6.0%	0.2
2004	5.3%	(0.4)	5.6%	(0.2)	5.5%	(0.5)
2005	4.4%	(0.9)	5.1%	(0.5)	5.1%	(0.4)
2006	4.8%	0.4	5.3%	0.2	4.6%	(0.5)
2007	4.8%	0.0	5.3%	0.0	4.6%	0.0
2008	4.8%	0.0	5.4%	0.1	5.8%	1.2
2009	7.2%	2.4	7.5%	2.1	9.3%	3.5
2010	7.8%	0.6	7.9%	0.4	9.6%	0.3
2011	7.6%	(0.2)	8.0%	0.1	8.9%	(0.7)

Source: Bureau of Labor Statistics, Johnson Consulting

Between 2000 and 2011 the unemployment rate in Pope County has generally tracked in line with, or below, the state and national averages. In 2011, the unemployment rate in Pope County was 7.6 percent, which was lower than the unemployment rate recorded across Arkansas (8.0 percent), and substantially lower than the national average (8.9 percent).

## HOUSEHOLD INCOME

In 2011 the median household income in Russellville was \$36,672 per annum, which was generally consistent with figures recorded across Pope County (\$37,007), the MSA (36,463), and Arkansas (\$37,551), but well below the national average (\$50,008). Between 2000 and 2011, the median household income in Russellville increased at an average annual rate of 1.4 percent, which was similar to the rates of growth recorded across Pope County (1.2 percent per annum), Russellville MSA (1.4 percent), Arkansas (1.3 percent), and the U.S. (1.5 percent).

Table 3 - 9

Median Household Income - City of Russellville (2000-2016)					
	2000	2011	2016	CAGR* 2000-2011	CAGR* 2011-2016
<b>U.S.</b>	\$42,257	\$50,008	\$53,635	1.5%	1.5%
<b>Arkansas</b>	\$32,422	\$37,551	\$40,400	1.3%	1.4%
<b>Russellville MSA</b>	\$31,430	\$36,463	\$38,544	1.4%	1.3%
<b>Pope County</b>	\$32,352	\$37,007	\$39,003	1.2%	1.2%
<b>City of Russellville</b>	<b>\$31,541</b>	<b>\$36,672</b>	<b>\$38,038</b>	<b>1.4%</b>	<b>1.2%</b>

\* Compounded Annual Growth Rate

Source: *Demographics Now*, Johnson Consulting

Going forward, growth in median household incomes in Russellville is expected to slow slightly, relative to 2000-2011 (1.2 percent between 2011 and 2016), with the median household income projected to reach \$38,038 per annum in 2016. Nevertheless, the rate of growth forecast in the City is consistent with county (1.2 percent per annum), MSA (1.3 percent), state (1.4 percent), and national (1.5 percent) projections.

## CORPORATE PRESENCE

A strong corporate and business presence can be an important factor in the success of a new public assembly facility, such as the proposed convention center, because local businesses can attract residents to an area, provide disposable income, and support facilities through donations, advertising, and their requirement for event space.

The following table shows the largest public and private employers throughout the Pope County. As shown, the largest employers in the county are spread across a range of industries, with the largest single employers being the food manufacturing companies Tyson Foods, Inc., and ConAgra Foods, Inc., which are two of many leading Fortune 500 companies operating in the area. Specific employment figures are not available from the Arkansas Economic Development Commission.

Table 3 - 10

Largest Employers - Pope County (2012)	
	Industry
Tyson Foods, Inc.	Manufacturing
ConAgra Foods, Inc.	Manufacturing
St. Mary's Regional Medical Center	Health Care
Arkansas Nuclear One	Utility
Arkansas Tech University	Education
Russellville School District	Education
Wal-Mart	Retail Trade
Friendship Community Care, Inc.	Education
Atkins Prepared Foods LLC	Manufacturing
Transco Leasing, Inc.	Transportation
Pottsville School District	Education
Mahle Engine Components USA, Inc.	Manufacturing
Dover School District	Education
Bibler Brothers Lumber Company, Inc.	Manufacturing
Atkins School District	Education
McDonalds	Restaurants
Heritage Publishing Company	Telemarketing
Lowe's Home Centers, Inc.	Retail Trade
Sonic Drive In	Restaurants
Hackney Ladish, Inc.	Manufacturing

*Source: Arkansas Economic Development Commission, Johnson Consulting*

Not shown in the table above is Arkansas Nuclear One (ANO), which is Arkansas' only nuclear power plant, located on Lake Dardanelle in Russellville. ANO provides employment for 950 people throughout the River Valley area and draws in a significant number of out of state visitors that work on maintenance of the facility throughout the year.

## UNIVERSITY AND COLLEGE PRESENCE

The City of Russellville is home to:

- **Arkansas Tech University (ATU):** A state-supported higher education institution offering undergraduate and graduate courses in Applied Sciences; Arts and Humanities; Business; Education;

Natural and Health Sciences; and Professional Studies and Community Outreach. Across the Russellville campus and a satellite campus in Ozark, ATU has a student body of 10,464 students, of whom 2,700 reside on campus at Russellville.

## ACCESSIBILITY

The strategic location of Russellville, between Little Rock and Fort Smith, means that it is easily accessible via numerous modes of transportation, and as such can draw visitors from a wide catchment area:

- **Airports:** Russellville is situated within close proximity of two regional and one national airports:
  - Russellville Regional Airport (RUE), which is situated 2 miles southeast of downtown Russellville. RUE is a city-owned, public-use airport.
  - Fort Smith Regional Airport (FSM), which is located 3 miles southeast of downtown Fort Smith and approximately 1 hour and 30 minutes (drive time) to the west of Russellville. FSM is a public use airport, with scheduled daily services operated by American Airlines and Delta Air Lines, to Dallas Fort Worth and Memphis International Airport.
  - Little Rock National Airport/ Bill and Hillary Clinton National Airport (LIT), which is situated 2 miles east of downtown Little Rock and approximately 1 hour and 30 minutes (drive time) to the southeast of Russellville. LIT offers regular daily services operated by American Airlines, Delta Air Lines, Frontier, Southwest, United, and US Airways Express, to Las Vegas, Phoenix, Denver, Dallas, Houston, Memphis, Atlanta, Charlotte, Washington D.C., Baltimore, Detroit, Chicago, and St. Louis. The airport serves, on average, 2.2 million passengers annually.

There are also a number of smaller airfields located in and around Russellville and the surrounding region that are used for general aviation and support the corporations in Russellville.

- **Road:** Russellville has excellent highway access being located on Interstate 40, which provides connectivity to Little Rock to the southeast, Memphis, TN to the east and Oklahoma City, OK to the west. U.S. Highway 64/ State Highway 331 and State Highway 7 (Scenic Highway)/27 traverse downtown Russellville.
- **Buses:** Greyhound provides regular intercity bus services from Russellville throughout the U.S.

## HOTEL INVENTORY

In response to transient and some business demand, Russellville has developed infrastructure to accommodate visitors, including a strong service industry and a large inventory of hotels and other lodging facilities. As shown in the following table, the local hotel inventory comprises approximately 1,000 guest rooms and approximately 5,500 square feet of meeting space, with the largest hotel being the 149-room

Brookfield Inn (formerly the Holiday Inn). The Fairfield Inn and Suites has the largest meeting and conference space offerings of any hotel throughout the local area (2,650 square feet). The main concentration of hotels is located at Exit 81 of I-40, primarily to the east of State Highway 7/27 and within close proximity of the subject site.

**Table 3 - 11**

<b>Inventory of Lodging Facilities (Hotels/Motels) Russellville (2012)</b>		
<b>Hotel</b>	<b>Guest Rooms</b>	<b>Meeting Space (SF)</b>
Brookfield Inn	149	1,354
Best Western	99	-
Hampton Inn & Suites	83	729
Motel 6	79	-
Fairfield Inn & Suites	73	2,650
Comfort Inn & Suites	70	750
La Quinta Inn & Suites	68	-
Quality Inn	60	1,200
Relax Inn	60	-
Budget Inn	58	-
Super 8	54	-
Days Inn & Suites	48	-
American Best Value Inn	35	-
Park Motel	35	-
Lakeside Resort Motel & RV Park	17	-
Classic Inn	n/a	-
Economy Inn	n/a	-
<b>Total</b>	<b>988</b>	<b>6,683</b>

*Source: Arkansas Department of Parks & Tourism, Russellville Advertising & Promotions Commission, mpoint, Relevant Facilities, Johnson Consulting*

Additional lodging facilities (not shown in the table above) are available at Best Value Apartments, the Outdoor Living Center, Russellville Marina, The Turner Home, and Spring Lake Apartments.

## REGIONAL FACILITIES

The following table provides an overview of existing regional facilities.

Table 3 - 12

Regional Meetings Facilities - Russellville (2012)			
Facility	Max. Capacity (# Persons)	Facility	Max. Capacity (# Persons)
<b>Arkansas Tech University</b>		<b>Hughes Center</b>	
Room 104	24	Small Room	20
Ballroom	250	Large Room	80
Tucker Coliseum	3,500	Gym	500
Witherspoon	750	Knights of Columbus	n/a
Chartwells	450	La Quinta Inn & Suites	75
<b>Brookfield Inn</b>	<b>90</b>	<b>Lake Dardanelle</b>	<b>100</b>
<b>Boys &amp; Girls Club</b>		<b>Lake Point Conference Center</b>	
Board Room	30	Training Room A	30
Gym	400	Training Room B	30
Multipurpose Room	100	Training Room C	130
<b>Chamberlyne Country Club</b>	<b>n/a</b>	Executive Board Room	12
<b>Collectors Gallery Gathering Room</b>	<b>36</b>	Dining Room	150
<b>The Depot</b>	<b>n/a</b>	Russellville Country Club	110
<b>Fine Arts Bulding</b>	<b>1,875</b>	<b>WesterN SizzliN</b>	<b>100</b>
<b>Gardner Education Center</b>	<b>550</b>	<b>Chamber of Commerce</b>	<b>10-100</b>
<b>Hampton Inn &amp; Suites</b>	<b>50</b>		

Source: City of Russellville, Relevant Facilities, Johnson Consulting

As shown, the largest meeting and event spaces in Russellville are the Tucker Coliseum at Arkansas Tech University, which has capacity for 3,500 attendees, and the Fine Arts Building, which is an 1,875-seat auditorium.

## IMPLICATIONS

The City of Russellville has many of the key characteristics and requirements necessary to support a new convention center and hotel. These include steady population growth and expansion, a diverse economy with a mix of established and emerging industries, relatively low unemployment, and a limited supply of convention centers and other public assembly facilities, which means that events are often lost to other cities within the region. Further, it is our understanding through discussions with University representatives that, although Arkansas Tech University is home to the largest meeting and event space, they would prefer not to host the current level of non-University events, thereby freeing up calendar availability for University events. A new facility in the Russellville marketplace would relieve the pressure on University facilities.



**SECTION IV**  
MEETINGS AND HOTEL INDUSTRY TRENDS

## MEETINGS AND HOTEL INDUSTRY TRENDS

### MEETINGS INDUSTRY

Virtually all categories of meeting activities have experienced rapid worldwide growth since the early 1970s, with moderate downturns and rebounds reflective of national and international economic shifts. Notwithstanding the most recent global recession, the economic efficiency of using tradeshows to sell products, and for the pursuit of education and commerce, has fueled the creation of new events and the growth of existing events, in terms of both size and attendance. Cities throughout the world have responded and are still responding, albeit at a subdued pace, to this demand, along with efforts to bolster trade and development, by supplying millions of square feet of new or renovated exhibition and meeting space in both small and large markets.

In order to understand the long-term market demand for public assembly facilities, an analysis of entertainment, social event, and meeting industry trends is important. This subsection provides a general overview of the types of meeting facilities that exist in the industry, as well as the types of events that are commonly hosted. Also discussed are the general requirements that meeting planners look for in a prospective location, as well as an overview of current and likely future market trends, focusing on the impact of broader economic conditions on the meetings and events industry.

### TYPES OF FACILITIES

Each event type has unique facility needs. Certain events require large amounts of contiguous space, while others require many smaller meeting rooms. Often a single meeting will use many different types of spaces, such as large exhibit halls, banquet facilities, breakout meeting rooms, and theater seating.

As societies mature and become more sophisticated, so too does the meetings market. The diverse nature of the meetings industry, and the characteristics of various event types, necessitates a variety of alternative facilities.

The main types of public assembly facilities are summarized as follows:

- **Hotel and Meeting Room Facilities:** Many markets have developed a multipurpose or small convention or conference center complex within or adjacent to a hotel, as a means of improving the lure of the hotel and subsidizing its operations. These facilities, which have been undertaken in markets of varying sizes, are frequently developed through public-private partnerships whereby the public sector may assemble land, build parking, and fund meeting space components as a way to execute a project. Often the various project elements are developed as a joint project, in terms of timing, but in some markets, the public elements have been built first with the hotel coming later.

- **Conference Centers:** Conference centers provide a specialized combination of meeting spaces, high-tech amenities, and services in support of training and education initiatives. Most conference centers are operated in conjunction with a hotel, although some are part of a university and a small number operate as stand-alone venues.
- **Convention Centers:** On a larger scale, convention centers combine the meeting capabilities of a conference center with exhibit space. These facilities are designed to meet the broad needs of the Meetings, Incentive, Convention, and Exhibition (M.I.C.E.) industry and primarily serve as economic development enterprises for the community. Their mission is to bring outside visitors and associated spending into the community, although they may also host large locally oriented consumer events.
- **Exposition Halls:** These facilities focus exclusively on product and consumer shows that require little meeting space. Pure exposition halls generally exist in markets that have other convention and/or meeting venues available or in situations where the private sector has responded to a lack of supply by developing an inexpensive facility. Fairgrounds also offer facilities that are exposition-oriented.
- **Trademarts:** Trademarts or merchandise marts typically combine an exhibit facility, permanent display space that is occupied by businesses under long-term lease agreements, and specialized office space. These facilities provide space for the wholesale distribution of products in specific industries, including furniture, clothing, sporting goods, and computers. These facilities occur in large cities that serve as regional wholesale and marketing centers.
- **Fairgrounds:** Fairgrounds combine a number of assembly and exposition elements on a large campus. Facilities may include one or more exhibition halls, along with arena and meeting hall functions, although little meeting space is usually offered on the property. Typically located away from downtown areas, fairgrounds provide acres of parking for large events.
- **Events Centers:** Events centers, or arenas, are used as multi-purpose facilities to host a wide range of events, from small to mid-size conventions, and trade shows, to sporting events, concerts, and banquets. These facilities typically host many more locally oriented events than dedicated exhibit and ballroom space within convention centers. Events centers also incorporate breakout and meeting rooms, and often have a full commercial kitchen to cater banquet events.

## TYPES OF EVENTS

As outlined above, the events industry is comprised of various different types of events, including:

- **Conventions or Congresses:** These are privately held meetings of professional groups and associations that commonly take place in hotels, convention centers, or civic centers. These meetings attract association members and/or affiliates wishing to meet similar professionals and share ideas.

A convention can consist of a single meeting or a number of concurrent meetings during the event period, and are increasingly featuring exhibits to communicate ideas. These types of conventions are known as “conventions with exhibits.”

The term “convention” is generally used in North America, and “congress” is used in Europe, and sometimes in Asia, to describe the same type of events. However, conventions typically use more exposition space and have a more social nature than congresses, but this distinction is narrowing as congresses are becoming more like North American-style conventions.

Conventions are generally “high-impact” events since attendees normally stay several nights in the host city, generating hotel room nights. In addition to hotel expenditures, attendees purchase other goods and services while in the city such as food and beverage, souvenirs, and transportation that not only contribute to local business but also increase local and state tax revenues.

- **Temporary Expositions and Trade Shows:** These events are designed to bring buyers and sellers of industry-specific products together. Trade shows usually cater to a specific industry, however, multi-industry “trade fairs” also occur. Most trade show events are not open to the public.

Like conventions, trade shows offer a forum for exchanging industry ideas. They differ from conventions, however, because they are more product-and sales-oriented. Tradeshow are exhibit-intensive, and exhibitors prefer column-free, single-story, open-space facilities in which they construct temporary custom booths for product display. Tradeshow typically attract a large number of attendees, who originate from outside the host city but tend to have a shorter average stay than convention attendees.

The event programs run for a period of three to six days, with equal or slightly less time allocated to setting up and tearing down the event booths. Therefore, individual attendees may have less impact on the host city’s economy than a convention attendee.

Temporary exposition events are increasing the number of meetings held during an exhibition in an attempt to educate buyers about products, and as a result, are becoming more like “conventions with exhibits” (see previous point). However, in comparison to more formal conventions with exhibits, temporary expositions tend to maintain higher attendance figures, but a shorter average length of stay for attendees.

The following table displays the most frequent event categories for conventions with exhibits and trade shows.

Table 4 - 1

Top Event Categories - Conventions with Exhibits & Trade Shows		
Aerospace & Aviation	Energy & Mining	Police & Fire Fighters
Agriculture & Farming	Facilities, Engineering & Maintenance	Printing & Graphics
Apparel & Fashion	Food & Beverage	Radio, TV & Cable
Art & Architecture	Forest Products	Religious
Associations	Funeral Industry	Safety & Security
Building & Construction	Government	Sanitation & Waste Management
Business & Finance	Home & Garden Furnishings & Supplies	Science
Chemicals	Libraries	Stores & Store Fittings
Communications	Manufacturing & Industrial	Textiles
Computers & Computer Applications	Medical & Health Care	Transportation
Education	Military	Travel Industry
Electrical & Electronics	Ocean Supplies & Equipment	Veterinary

*Source: Trade Show Week Data Book*

- Assemblies:** These are largely association, fraternal, or religious events that require a large plenary hall, arena, or stadium. Similar to conventions, they are characterized by large numbers of attendees originating from outside the host city.
- Conferences:** These are smaller convention-type events and are typically held in meeting rooms and ballrooms or in formal conference centers. Like conventions and congresses, they are often sponsored by associations and corporations, and address current issues and information. Attendees and users typically demand high-quality facilities and most originate from out of town.
- Incentive Meetings:** The corporate market uses incentive meetings as a way to reward employees, combine recreation and business meetings, or to mix employees and clients in a business and recreational setting. Product launches, key account conferences, and award events are all-important aspects of this type of event.
- Consumer Shows:** These are public, ticketed events featuring exhibitions of merchandise, such as clothing, food, and antiques. These events are typically held in public assembly facilities such as hotels, convention centers, and exposition centers. They normally attract large numbers of attendees, and depending upon the size, location, and type of merchandise being displayed, these shows normally attract primarily local residents.

The following table displays a summary of the most prevalent types of consumer shows.

Table 4 - 2

Top Event Categories - Consumer Shows		
Antique	Golf	RV & Camping
Art	Health & Beauty	Sewing & Needlework
Auto	Holiday	Sports Good & Guns
Boat	Home & Garden	Super Sale
Computer	Jewelry & Gem	Toys & Hobbies
Ethnic	Jobs, Career & College	Travel
Film	Motorcycle	Weddings
Flower	Outdoor Sports	Woodworking
Gift & Craft	Pets	

*Source: Trade Show Week Data Book*

- **Entertainment Events:** Including performing arts, concerts, sporting events, and circuses that can be accommodated by a variety of facilities. Although entertainment facilities will typically be dedicated to one or more specific uses, multipurpose venues, such as convention centers, can accommodate a large variety of events, especially if they are designed appropriately. Entertainment event promoters require unobstructed space to arrange the performance and to allow attendees to view the show.
- **Permanent Expositions:** Permanent expositions are designed to promote commerce by establishing permanent exhibit areas for manufacturers. Although these facilities cater primarily to businesses, the general public is usually allowed to enter. Show promoters, however, discourage public attendance, as the primary intent of the exhibition is to promote wholesale trade. Permanent expositions use three types of product promotions:
  - **Sample Showcases:** These are small advertising displays of various new products. While company representatives do not staff the permanent facility of the showcase, personnel are usually available to provide buyers with information regarding the companies and their products.
  - **Export Marts:** These are facilities with staffed booths displaying domestic manufactured products. Export marts are typically arranged by industries and are meant to be one-stop-shops for prospective domestic and international buyers. The display areas are typically 200 to 600 square feet in size and are staffed with three to five people. In industries such as fashion, where seasonal sales patterns occur, booths are only staffed during peak sales periods, despite the fact that annual rents are collected for the space.
  - **Import Marts:** Foreign manufacturers use these to display their products to domestic buyers. Like export marts, they are typically arranged by industries, are 200 to 600 square feet in size, and are sometimes staffed (only during buying seasons). Often, trade associations representing mart

tenants sponsor temporary expositions, thereby creating a regional draw for the mart. If significant exposition space is provided, these events can become the dominant industry event in the country or region.

## **EVENT SPONSORS**

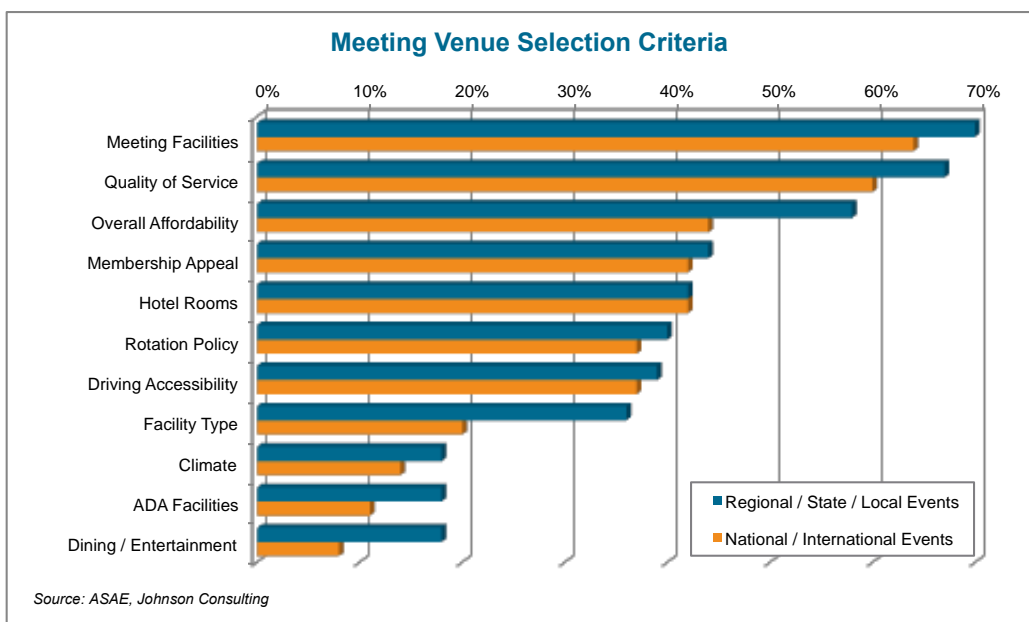
The meetings industry includes a wide variety of event types that are sponsored by different types of businesses and organizations, including:

- **Corporations:** Business meetings are an integral part of the meetings industry. They represent the majority of meetings held throughout the world, and topics can be as wide-ranging as the industries themselves. For the purposes of this report, corporate meetings will refer to off-site conferences, sales, and incentive meetings, such as the events that are often held at hotels.
- **Associations:** Trade and business associations represent certain industries and strive to keep members informed about current issues related to their industry. Associations sponsor meetings and conventions to serve this educational and informational purpose, and also assist in marketing efforts by holding trade shows where members can display and sell their products.
- **Educational Institutions:** Universities are increasingly recognizing that more continuing education occurs at meetings, rather than in classroom settings, and are becoming an important player in developing and sponsoring continuing education activities and conferences.
- **Government:** All levels of government hold meetings for the purpose of education, discussion of issues, and policy deliberation. In many countries, governments also create and sponsor trade shows in order to support sectors of the economy.
- **Independent Show Organizers, Incentive Houses, and Publishing Companies:** The meetings industry has grown so large that it now supports a growing number of organizations that specialize in the business of producing meeting events. These businesses may work on behalf of corporations and associations, and handle all aspects of a meeting, from booking attendees to event operations. Many publishing companies have trade show and convention management divisions, while incentive houses not only work for their corporate and association clientele, but may also develop programs and conferences as moneymaking ventures.
- **Social, Military, Education, Religious, Fraternal, and Ethnic (SMERFE) Organizations:** These organizations typically sponsor convention or assembly events that are not always business-related and tend to be geared more towards social networking and discussion of issues.

## MEETING PLANNER SELECTION CRITERIA

The American Society of Association Executives (ASAE), which is a membership organization of more than 22,000 association executives in 50 countries throughout the world, recently surveyed its members regarding their criteria for selecting a convention center destination. These executives are responsible for selecting destination(s) for a variety of events, ranging from small meetings to large exhibitions. The following figure illustrates the average responses of members who placed events in convention centers, including both regional and local events, as well as national and international events.

Figure 4 - 1



The survey respondents gave a high level of importance to the following criteria when selecting a convention center for either a regional, state or local event, or a national or international event:

- Availability and size of meeting facilities,
- Quality of service,
- Overall affordability,
- Membership appeal, and
- Availability of hotel rooms.



Meeting planners considered climate, ADA facilities, and dining/entertainment options as least important when selecting a venue.

In situations where there are only a limited number of cities with sufficient exhibit space to meet a planner's requirements, data from TradeShow Week, indicates that the most important selection criteria relates to hotel supply. More specifically, the top five criteria when selecting a city, as opposed to a venue, are:

- Hotel room prices and quality (69 percent of respondents);
- Open Dates (66 percent);
- Number of Hotel Rooms and Capacity (60 percent);
- Hotel Block Attrition Rates and Issues (56 percent), and
- Labor Costs and Service Issues (43 percent).

A competitive advantage for cities is gained by having an established and effective tourism and hospitality industry that provides event producers and attendees with high quality experiences and encourages interest in returning for subsequent events and meetings.

#### **IMPACT OF ECONOMIC CONDITIONS**

A recent survey of event planners, conducted by Red 7 Media, indicates that 75 percent of respondents have changed their site selection process due to the recent recession. Perhaps the most significant, and expected, change is that more than 50 percent of planners are now looking for value locations and lower costs for venues, hotels and services, with 46 percent of respondents stating that they are also now booking smaller hotel blocks.

The top five criteria currently used for selecting a city for an event are:

- Hotel Room Prices (72 percent of respondents);
- Convention Center and Exhibition Hall Size (66 percent);
- Airport Capacity and Airfares (64 percent);
- Hotel Room Availability (60 percent), and
- Availability of Open Dates (57 percent).

When compared to the Tradeshow Week data discussed previously, it is apparent that hotels continue to play an important role in differentiating cities. Concurrently, the importance of airlift has grown significantly, reflecting restricted travel budgets for many organizations, along with service and capacity cuts by many airlines. Approximately 64 percent of planners who have changed their selection criteria believe that the changes will remain in place for at least the next two years.

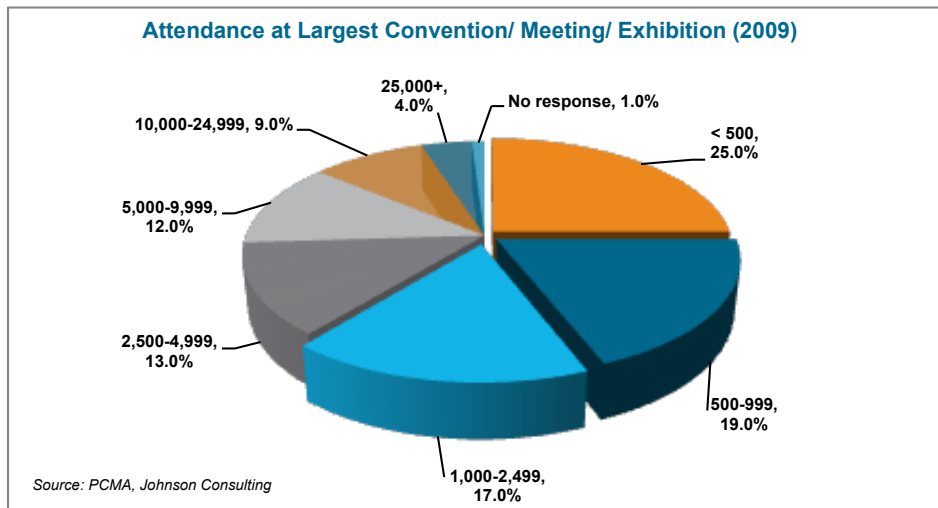
## EVENT ATTRIBUTES

The following analysis of event attributes is based primarily upon data obtained from the Professional Convention Management Association’s (PCMA) 2010 survey, which is the most current survey data available at this time.

### NUMBER OF ATTENDEES

An important element to consider in terms of the appropriate size and scope of meeting facilities is the size distribution of the events it will pursue. Based on the PCMA’s 2010 survey, 44 percent of respondents hosted less than 1,000 persons at their largest convention, meeting or exposition in 2009 (which is the most recent data available). The following figure shows the distribution of attendees based on the PCMA’s survey responses.

Figure 4 - 2



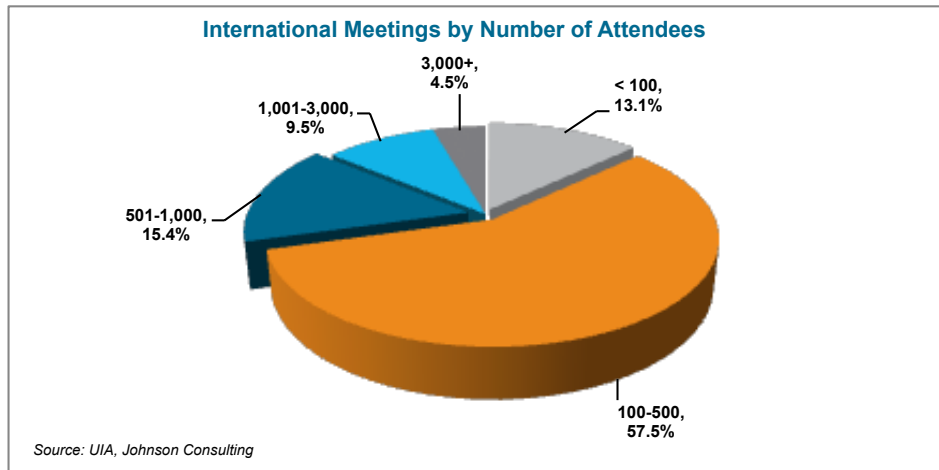
Between 2008 and 2009, close to half of survey respondents (48 percent) saw a decrease in the number of attendees at their largest convention, meeting or exhibition, a consequence of broader economic downturn. It is worth noting, however, that attendance is not always negatively impacted by an economic downturn because attendees seek different things from events during periods of economic growth versus periods of decline. More specifically, during a period of economic prosperity, attendees are typically motivated to attend a convention, meeting or exhibition by a desire to gain new industry information and technology that may

give them an advantage over their competitors. During periods of economic downturn and recession, attendees are motivated by a desire to understand what is happening in their market and stay abreast of the latest opportunities and challenges facing their industry. This means that key personnel will continue to attend what they consider to be their industry’s most important conventions, trade shows and meetings, even during periods of economic decline.

A recent survey of major global convention center executives, conducted by the International Association of Congress Centers (AIPC) and Red 7 Media (Research and Consulting), indicates that total attendance contracted by 6.3 percent throughout North America in 2010. Notwithstanding this, venues were optimistic about attendance levels in 2011, forecasting robust growth of 8.3 percent.

Analysis of the distribution of international meeting events by number of attendees reveals a trend towards smaller events. This finding is consistent with a movement towards smaller events in the worldwide convention, exhibition, and meeting industries. The following figure displays the distribution of international meeting events by number of attendees.

Figure 4 - 3

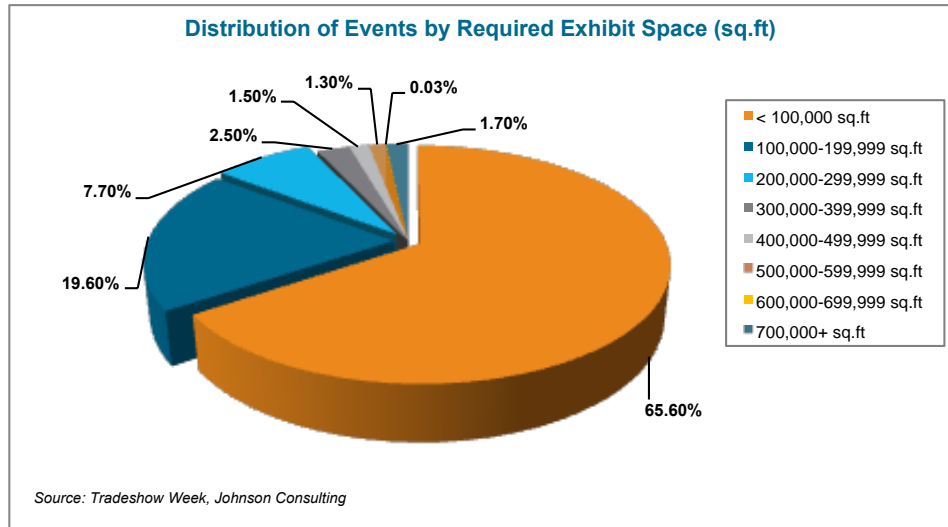


The majority of international meeting events (57.5 percent) are in the 100-500 attendee range. Very few of these meeting events have over 3,000 attendees (4.5 percent), while 86 percent have 1,000 or fewer attendees.

### EVENT SPACE REQUIREMENTS

The following figure highlights the distribution of shows by required exhibit space. As shown, the majority of events (nearly 66 percent) utilize less than 100,000 square feet of space.

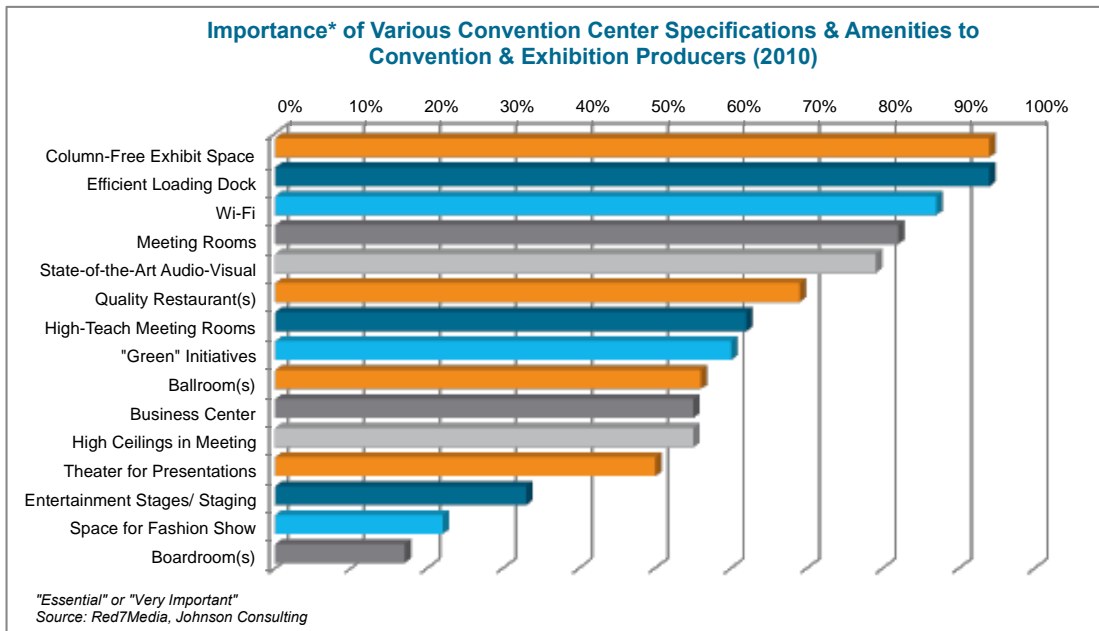
Figure 4 - 4



Recent surveys by Red 7 Media (Research and Consulting) indicate that the number of exhibitors has grown slightly (by 1-2 percent) in 2010, while total net square footage requirements have remained flat.

The following figure presents the importance of various specifications and amenities of event space to convention and exhibition producers based upon data from a recent Red 7 Media study. As shown, the most important factors relate to column-free exhibit space (94 percent of respondents), efficient loading dock facilities (94 percent), Wi-Fi (87 percent), meeting rooms (82 percent), state-of-the-art audio-visual capabilities (79 percent), and quality restaurants (69 percent). The following figure shows the importance of various convention center specifications and attributes.

**Figure 4 - 5**



**SEASONALITY**

Meetings occur throughout the year. However, just as the number of people taking vacations displays distinct seasonal patterns, so does the level of meeting activity vary from month-to-month. Since 2000, the first and fourth quarters have generally seen the most stable growth. Second and third quarters saw contraction during the beginning of the decade but growth in the past several years, with demand fluctuating much more during the second and third quarters as opposed to the first and fourth.

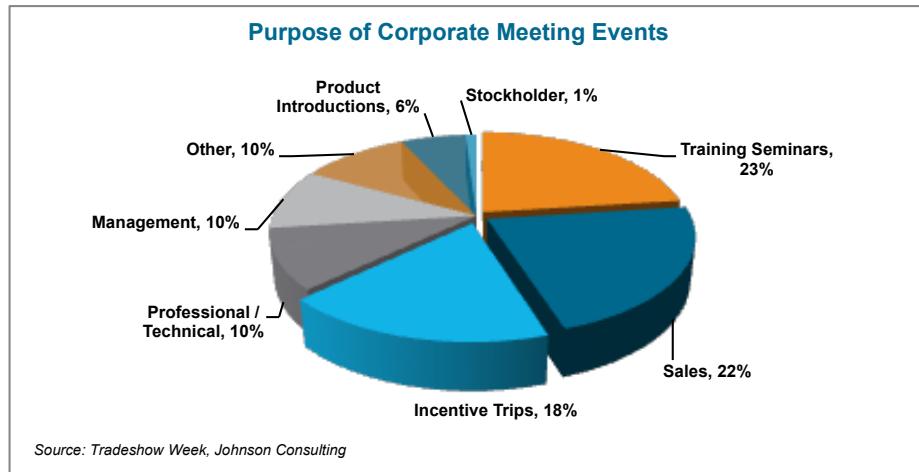
**LENGTH**

The average length of events recorded by the Union of International Associates (UIA) is four days. The increasing trend in meeting events is to concentrate activities into a shorter period of time. However, the UIA’s criterion of a minimum of three days causes its data to exclude a growing number of shorter meeting events from its analysis.

**PURPOSE OF EVENTS**

Corporate activity is responsible for a large share of overall meeting events, with demand often being generated from the local region, although cities and regions that are particularly attractive as destinations can attract meeting attendees from a much broader area. The following figure displays the distribution of corporate meeting types by purpose of meeting.

Figure 4 - 6



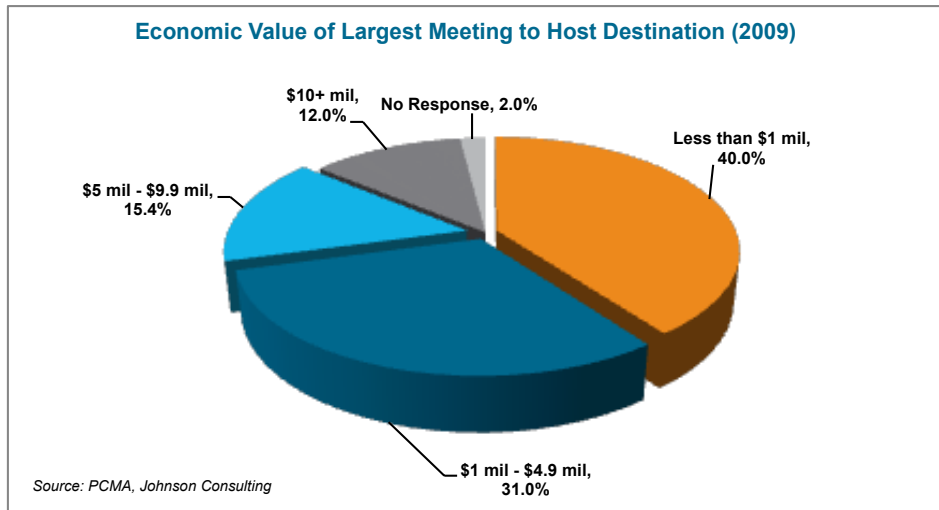
Training seminars, sales meetings, and incentive trips account for the largest share of overall meeting attendees. As shown, the meeting industry is diversified, with no single meeting type accounting for over 25 percent of overall attendees, and seven distinct categories of meetings all contributing significant volumes of attendees. This diversification helps to stabilize overall event demand, as the demand from each individual sub-sector of meeting events ebbs and flows with changes in business cycles and technology.

Overlaying and adding to this is the university training and conference sectors. There are hundreds of conference centers internationally that are affiliated with four year and community college institutions. They host some of the above events, but also create a huge volume of business in their own right.

### ECONOMIC IMPACT

The PCMA’s 2010 survey indicates that the average economic impact of respondents’ largest convention, meeting or exposition was \$3.6 million to the host destination in 2009, up from \$3.0 million in 2008. The following figure shows the economic value of survey respondents’ meetings to host communities in 2009.

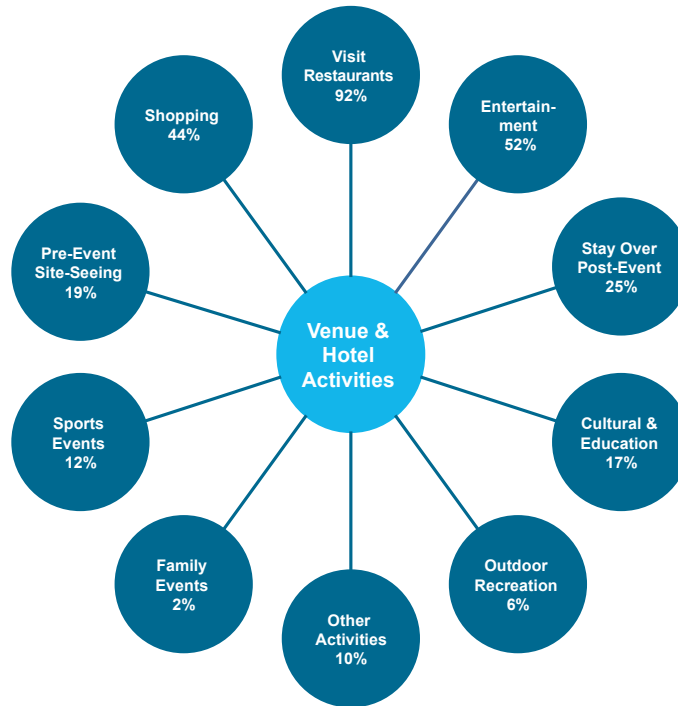
Figure 4 - 7



The average economic impact per trade show attendee is estimated to be \$1,000 per visit, with each convention or trade show attendee generating, on average, 1.8 total hotel room nights. Generally, association conventions generate the greatest economic impact, reflecting high levels of attendance and associated hotel, restaurant, retail and transportation spending. Exhibitors and corporate sponsors also contribute significantly to the overall impact of an event.

The following figure shows the ‘Convention and Meetings Eco-System’ as defined by Tradeshow Week, which identifies the activities that attendees will typically engage in outside of the convention center and hotel.

**Figure 4 - 8**



Source: TradeShow Week, Red 7 Media, Johnson Consulting

## MARKET CONDITIONS

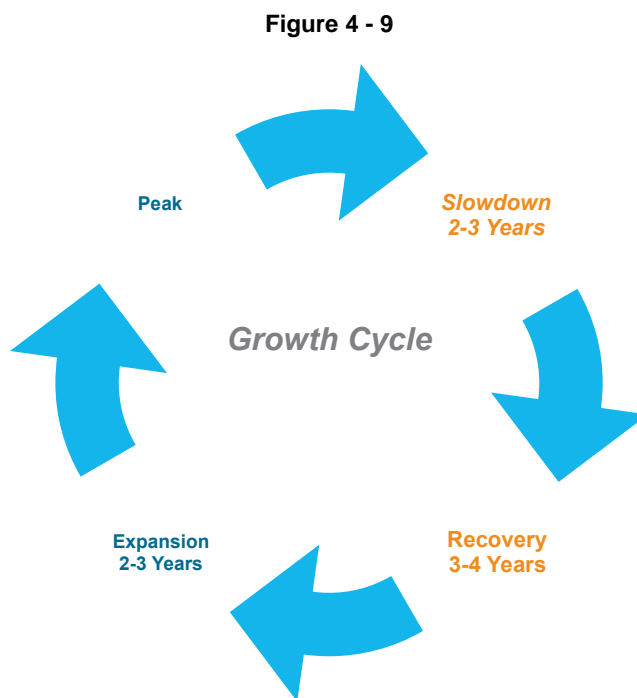
### RECENT TRENDS

As a whole, the meeting industry has experienced sporadic growth in the past ten years, dipping slightly in the early 2000's, then experiencing a significant period of growth followed by another wave of decline over recent years, reflecting broader economic conditions and the negative publicity associated with hosting meetings in upscale or resort destinations.

The impact of the recession on the global meetings industry was widespread - new hotel and meeting facility construction was delayed, and in many cases abandoned, corporations and associations dramatically reduced their meetings and events budgets, attendance levels fell sharply, and negative perceptions of the value of face-to-face meetings prevailed across governments, media and the general public.

Conditions in North America's convention and meetings industry generally remained flat through 2011, in line with the broader economy, however 2012 is seeing the transition of the industry towards recovery. The following figure shows the typical recovery and growth cycle experienced in the convention and meetings industry.





Source: Red 7 Media, Johnson Consulting

While new construction in the global convention center market remains slow, renovations are increasing, with the recent AIPC survey revealing that 60 percent of respondents having a new building or expansion project currently underway or in the planning stages. In North America, 59 percent of survey respondents are currently considering an expansion, refurbishment or development project. Client demand and competitive pressure, including increasing investment by hotels in properties with quality exhibition and meeting space, is driving development in the industry.

## OUTLOOK

As identified by Red 7 Media (Research and Consulting), and further commented on by Johnson Consulting, key indicators of improvement in the industry include:

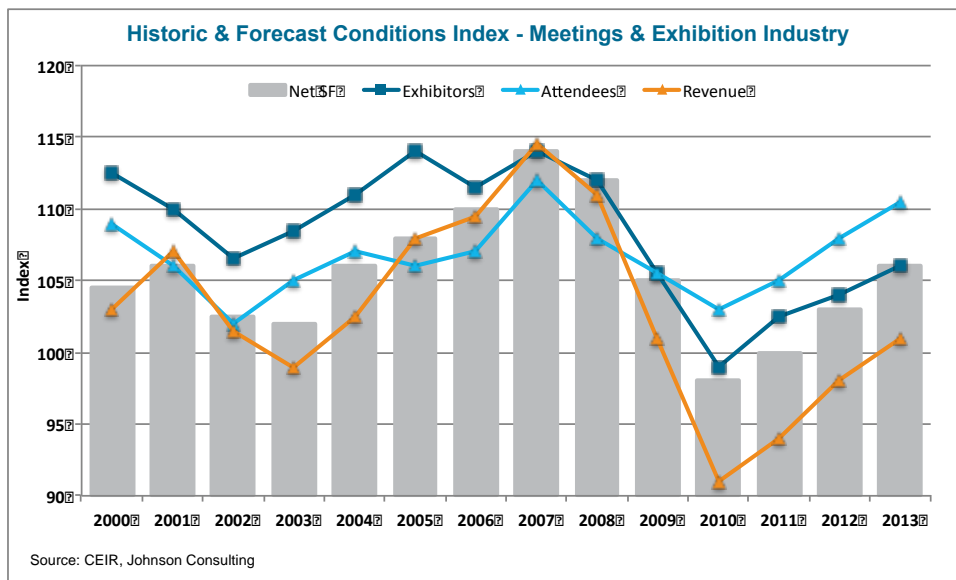
- **Consumer spending:** 70 percent of business events serve markets in which consumers ultimately purchase the products and services.
- **Attendance vs. Exhibitors:** Attendance is continuing to perform better than exhibitor participation, which is a good sign.
- **Exhibitor spending:** This will likely remain soft throughout the remainder of 2012;
- **Hotel rates:** 2011 rates for rooms blocks were level with, or slightly higher, than 2010 rates. Rates remained flat in 2011 but are expected to show slight increases in 2012;

- **Corporate events market:** There is potentially significant pent-up demand, as 50 percent of major global convention center managers consider meetings to be the second strongest sector, after associations, for near-term growth.
- **New events:** a sure sign of recovery will appear when new shows outside of the medical and IT sectors, and not just limited to conventions, are launched.

In 2011, PCMA survey respondents expect a 24 percent increase in the number of meetings and a 38 percent increase in attendance over 2009 figures. Almost 90 percent of respondents (89 percent) were not planning to cancel any events through 2010-2011, compared to only 54 percent in 2009.

The following figure shows recent and forecast trends in the meetings and exhibition industry, based on the Center for Exhibition Industry Research (CEIR) 2010 Index Report. The Index considers utilization (net square footage), number of exhibitors, number of attendees, and revenue and shows positive momentum beginning in mid-2009 and continuing through 2013 (the end of the forecast period).

**Figure 4 -10**



The emergence of positive indicators within the market, along with continued improvement in the broader economy, is expected to drive a recovery in North America’s convention and meetings market. Industry forecasts indicate that the market will return to pre-recession levels by 2015.

## SUMMARY

There are literally millions of conventions, tradeshows, and meetings happening annually throughout North America and around the world. The number of associations is changing, as is the number of corporations, but meetings will continue to occur. Although 2011 was a flat year and there may have been a slight structural change in meeting formats, and hence volume, the convention market saw signs of stabilization since the downturn in 2008-2009 with the majority of meeting planners and event organizers maintaining current event levels and anticipating event attendance to remain consistent or improve going forward. Furthermore, the rationale for meetings and associations still exists and will continue to do so.

## HOTEL INDUSTRY

In most markets throughout the U.S. and globally, hotel demand emanates from three primary demand segments, as follows:

- **Business:** The Business (or commercial) market segment comprises individuals who travel to a destination to conduct business, with activity amongst this group occurring primarily from Monday through Thursday and falling sharply on the weekends. The length of stay by Business guests typically varies between one and three days, with occupancy per room averaging between 1.2 and 1.3 persons. Demand from this market segment is generally constant throughout the year, although December and other holiday periods typically represent low periods.

Lodging choices are heavily influenced by brand loyalty, and particularly loyalty/ rewards programs. The location of lodging facilities also influences Business demand, with a demonstrated preference for facilities close to businesses and amenities.

- **Meetings & Groups:** This market segment relates primarily to corporate groups and Social, Military, Education, Religious, Fraternal, and Ethnic (SMERFE) groups who travel for seminars, conferences, tradeshows, and similar events. Similarly to Business travelers, demand from corporate groups tends to be concentrated between Monday and Thursday, while SMERFE groups display a preference for weekends. Demand from this market segment tends to be highest in fall and spring.

Lodging choices for the Meetings and Groups segment are influenced by the availability of meeting space, technology, and food and beverage options.

- **Leisure:** This market segment comprises individuals and groups who require accommodation when traveling for leisure purpose. Accordingly, demand from this group tends to be highest on weekends, as well as weekdays during holiday periods. The length of stay by Leisure guests typically varies between one and four days, with occupancy averaging between 1.8 and 2.5 persons per room.

Leisure demand is heavily influenced by disposable income, and proximity of lodging facilities to attractions, such as amusement parks, museums, and shopping malls. Events, such as college graduations or family reunions, also generate significant demand from the Leisure market segment.

## MARKET INDICATORS

The following table shows key indicators in the national convention hotel market, between 2008 and 2015 (forecasted). The statistics presented are based on a selection of facilities, selected on the basis of their size, market, and locational attributes.

**Table 4 - 3**

<b>U.S. Hotel Market Indicators (2008-2015)</b>			
	<b>Occupancy (%)</b>	<b>ADR</b>	<b>RevPAR</b>
<b>2008</b>	60.0%	\$107.08	\$64.28
<b>2009</b>	54.8%	\$97.68	\$53.49
<b>2010</b>	57.7%	\$96.70	\$55.80
<b>2011</b>	59.1%	\$101.05	\$59.76
<b>2012F</b>	60.9%	\$106.11	\$64.62
<b>2013F</b>	62.1%	\$111.94	\$69.51
<b>2014F</b>	62.7%	\$117.54	\$73.71
<b>2015F</b>	62.7%	\$121.07	\$75.92
<b>CAGR*</b>	<b>0.6%</b>	<b>1.8%</b>	<b>2.4%</b>

*\* Compounded Annual Growth Rate*  
 Source: HVS, Johnson Consulting

Growth in demand resumed in 2010, led by the return of business travel and some group activity, along with significant discounting by hoteliers. This is reflected in the increase in total occupancy observed in 2010, but the continued decline in ADR, which contracted by 1.0 percent over the same period. Notwithstanding this, RevPAR increased by 4.3 percent between 2009 and 2010.

Data from HVS and Smith Travel Research (STR) indicates that conditions in the U.S. hotel market (including non-convention hotels) continued to steadily improve throughout 2011, with total industry revenue growing by 7.5 percent in 2011 to \$137.5 billion, representing the largest percentage increase recorded over the previous 10 years. Occupancy improved to 59.1 percent, with the ADR increasing by 5.0 percent over 2010 and RevPAR increasing by 8.1 percent during the same period.



## OUTLOOK

Demand and hotel profitability grew steadily throughout 2011, and it is the general consensus among industry experts that modest gains will continue through year-end 2012 and into 2013. As employment levels continue improve, demand growth is forecast to increase with conditions in the industry forecast to stabilize in 2014. The result will be accelerating growth in ADRs as occupancy nears stabilization.

In 2013, STR forecasts that lodging supply will increase by 0.9 percent, which remains well below the long term average of 2.1 percent. As a result of this imbalance between demand and supply, HVS forecasts a an increase in occupancy levels to 62.1 percent. Strengthening demand and occupancies, along with low levels of new supply through year-end 2012, should permit hotels to reduce, and eventually eliminate, the substantial discounts implemented in response to the recession. Hotel operators are expected to increase room rates, with an average increase of 5.5 percent in ADRs forecast in 2013 (over 2012 forecast rates).

**SECTION V**  
INDICATED FACILITIES ANALYSIS



## INDICATED FACILITIES ANALYSIS

In order to understand the market opportunity for the proposed hotel and convention center, this section presents case study profiles of a set of analogue and comparable facilities. The key operating characteristics of these facilities are provided in the following profiles, and include:

- Size and character of facility program spaces.
- Recent and/ or planned expansions.
- A demand and financial profile, including the number and types of events and operating revenues and expenses, where available.

Information about event demand and the financial performance of indicated facilities provides insight into the general parameters within which the proposed hotel and convention center project can reasonably expect to operate.

The following table summarizes the key attributes of the facilities identified as part of this analysis.



**Table 5 - 1**

Key Characteristics of Comparable Facilities and Markets							
	Proposed Hotel/ Convention Center	Fort Smith Convention Center	Lake Terrace Convention Center	Coralville Marriott Hotel and Conference Center	Marriott MeadowView Conference Resort and Convention Center	Bayfront Convention Center	Three Rivers Convention Center
<b>Location</b>							
Location	Russellville, AR	Fort Smith, AR	Hattiesburg, MS	Coralville, IA	Kingsport, TN	Erie, PA	Kennewick, WA
Metropolitan Area	Russellville	Fort Smith	Hattiesburg	Iowa City	Kingspor-Bristol-Bristol, Tennessee-Virginia	Erie	Kennewick-Pasco-Richland
<b>Demographic Characteristics (2011)</b>							
Metropolitan Area Population	85,328	302,197	145,041	155,136	312,452	282,714	263,573
Median Household Income	\$36,463	\$39,038	\$37,525	\$47,757	\$36,058	\$41,905	\$51,873
<b>Hotel</b>							
# Guest Rooms	200 rooms	-	-	Marriott 286 rooms	Marriott 305 rooms	Sheraton 200 rooms	-
<b>Meeting Space (SF)</b>							
Exhibit Space	18,000	40,000	14,755	29,596	34,768	28,800	21,600
Ballroom	-	-	-	21,910	18,541	13,500	-
Meeting Room(s)	8,000	5,440	7,936	5,168	6,320	14,023	11,474
Other	-	2 Additional Spaces	2 Outdoor Spaces	-	3 Ampitheatres (8,184 SF)	-	-
<b>Total Exhibit Space (SSF)</b>			<b>22,691</b>	<b>56,674</b>	<b>67,813</b>	<b>56,323</b>	<b>33,074</b>
<b>Events and Attendance</b>							
# Events (per annum)	Refer to Demand Projections	192	841	15*	-	386	252
Total Attendance (per annum)	Refer to Demand Projections	145,000	222,000	18,000	-	125,840	222,000
<b>Revenue and Expenses</b>							
Net Income (Loss) (\$'000s) - Most Recent Year	Refer to Financial Projections	(\$1,419)	(\$1,221)	(\$3,508)	\$1,043	(\$469)	(\$365)

\* Only related to conventions/ conferences - many other social events are held at the facility.

Source: Relevant Facilities, Statistics Canada, Demographics Now, JohnsonConsulting



It is essential to understand that each of these projects have varying attributes – no one project is the same. At the end of the day, the operating model seen in Kingsport, combined with the community use model seen in Hattiesburg, is deemed most appropriate for Russellville. This results in a quality hotel, which operates the meeting space as an integral element of its operation. The Fort Smith Convention Center further provides an example of an attractive and successful venue in the region.

### **FORT SMITH CONVENTION CENTER** FORT SMITH, ARKANSAS

**LOCATION:** Located in downtown Fort Smith, the Fort Smith Convention Center (FSCC) opened in January 2001. The building encompasses a total of 145,000 square feet, and is set on an 18-acre campus.

**OWNERSHIP/ MANAGEMENT:** The FSCC is owned by the City of Fort Smith and managed by the Fort Smith Advertising and Promotion Commission (FSA&P), under a lease agreement that commenced in July 2011. The current lease is valid through December 31, 2014 with options to renew.



**FACILITIES:** The FSCC is comprised of a 40,000 square foot exhibit hall, 5,440 square feet of meeting space and the Arkansas Best Corporation Performing Arts Center, which is a 1,331-seat theater. The following table provides a breakdown of meeting space at the FSCC.



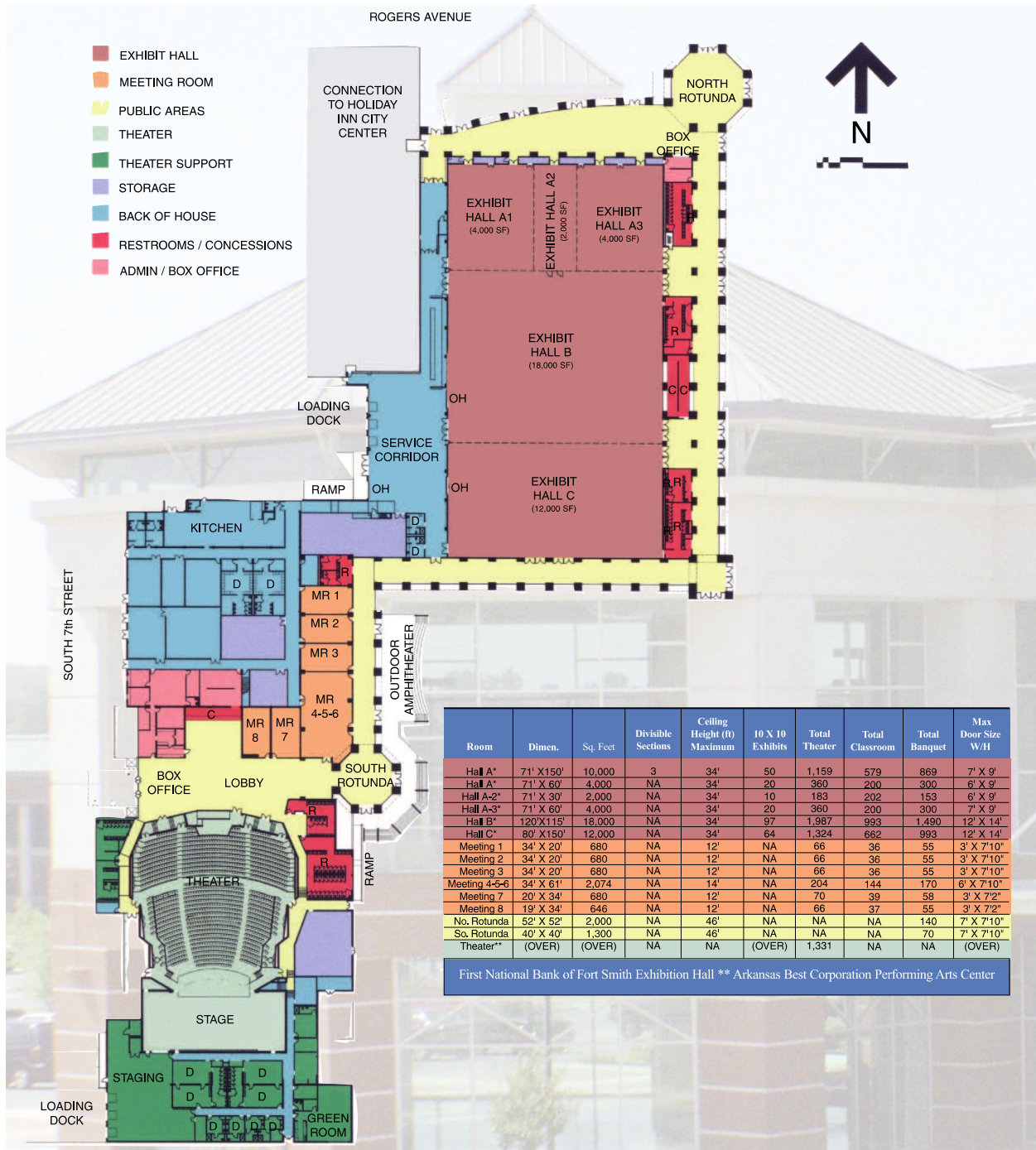
**Table 5 - 2**

Fort Smith Convention Center						
Summary of Exhibit and Meeting Space						
	Size (SF)		Capacity (# of Persons)			
	Individual (Smallest)	Combined (Largest)	Theater	Classroom	Banquet	Exhibits (# Booths)
<b>Exhibit Hall</b>						
Exhibit Hall	-	40,000	4,470	2,234	3,352	211
Hall A*	10,000	-	1,159	579	869	50
Hall B	18,000	-	1,987	993	1,490	97
Hall C	12,000	-	1,324	662	993	64
Subtotal Exhibit Hall SF		40,000				
<b>Meeting Rooms</b>						
Number of Rooms	6	6				
Smallest Room	646	-	66	37	55	-
Largest Room	-	2,074	204	144	170	-
Subtotal Meeting Room SF		5,440				
<b>Total</b>		<b>45,440</b>				
North Rotunda	-	2,000	-	-	140	-
South Rotunda	-	1,300	-	-	70	-

\* Divisible into 3 sections - 2 of 4,000 SF and 1 of 2,000 SF  
 Source: Fort Smith Convention Center, Johnson Consulting

The following figure provides a pictorial overview of facilities at the FSCC.

Figure 5 - 1



**DEMAND SCHEDULE:** In 2011 the FSCC hosted 192 events, attracting 145,000 attendees. Year-to-date demand information for 2012, as at October, indicates that the venue has hosted 226 events, attracting a total

of 175,000 attendees. Estimates by facility management indicate that the demand schedule for 2012 will total approximately 265 events and 196,000 attendees, representing a substantial improvement over 2011.

**REVENUE & EXPENSES:** The following table provides the FSCC's revenue and expense statement for the 2010-2011.

**Table 5 - 3**

Fort Smith Convention Center Revenue & Expense Statement (2010-2011) (\$'000s)		
	2010	2011
<b>Operating Revenues</b>		
Fees & Charges for Services	\$653	\$481
<b>Total Operating Revenues</b>	653	481
<b>Expenses</b>		
<b>Total Expenses</b>	2,145	1,901
<b>Operating Income (Loss)</b>	(\$1,492)	(\$1,419)
<b>Non-Operating Revenue (Expenses)</b>		
Operating Grants & Contributions	\$884	\$0
Capital Grants & Contributions	6	0
<b>Total Non-Operating Revenue (Expenses)</b>	891	0
<b>Net Income (Loss)</b>	(\$601)	(\$1,419)

Source: Fort Smith Convention Center, Johnson Consulting

As shown, the FSCC operated at a net deficit of \$1.4 million in 2011, before other financing sources. This represents a slight improvement over 2010, when the FSCC recorded a net deficit of \$1.5 million. In 2010, the FSCC received \$890,577 in operating and capital grants and contributions, resulting in a net operating deficit of \$601,189. In 2011, the facility no longer received State turnback funds, and attempts to pass a 1 percent prepared food tax to support the FSCC's operations failed. As a result, the facility recorded a net operating deficit of \$1.4 million.

Year-to-date (YTD) financial data as at October 2012 indicates that revenues at the FSCC have already surpassed the total revenue recorded in 2011 (\$517,494 for the first 10 months of 2012). Expenditures for YTD 2012 are \$1.0 million.

**FUNDING:** General obligation bonds issued in 1997 funded the construction of the FSCC. Between 2001 and 2010, the FSCC received a total of \$17.7 million in State turnback funds, which were used to pay down bond debt in 2001-2002 and subsequently to support operations and capital improvements. As previously noted, a 1 percent prepared food tax was proposed in 2011 to support operations at the venue, but it was not approved by voters.

**OBSERVATIONS:** The FSCC is a well-utilized facility, with demand levels through October 2012 already exceeding total figures for 2011. Although it is understood that new subsidy options are being explored following the expiration of State turnback funds, the deficit incurred by the FSCC, like many other convention centers, is justified on the basis of the return on investment and economic impact that it creates for the City. As the almost 12-year old facility continues to age, funding will be required for upgrades to insure that the FSCC is able to maintain its competitive position in the marketplace.

### LAKE TERRACE CONVENTION CENTER HATTIESBURG, MISSISSIPPI

**LOCATION:** Located to the northwest of downtown Hattiesburg, at the intersection of Interstate 59 and U.S. Highway 49, Lake Terrace Convention Center (LTCC) opened in 1998. The site comprises 32-acres of parkland and incorporates a 2-acre lake.



**OWNERSHIP/ MANAGEMENT:** The LTCC is operated by the Hattiesburg Convention Commission (HCC), which was formed by legislative mandate in 1991 to develop the Convention Center and other tourism-related facilities.

**FACILITIES:** The LTCC offers 14,755 square feet of exhibit space, 7,936 square feet of meeting space, and 6,100 square feet of outdoor event space, along with pre-function space, a full-service kitchen, and administrative space. The following table provides a breakdown of meeting space at the LTCC.

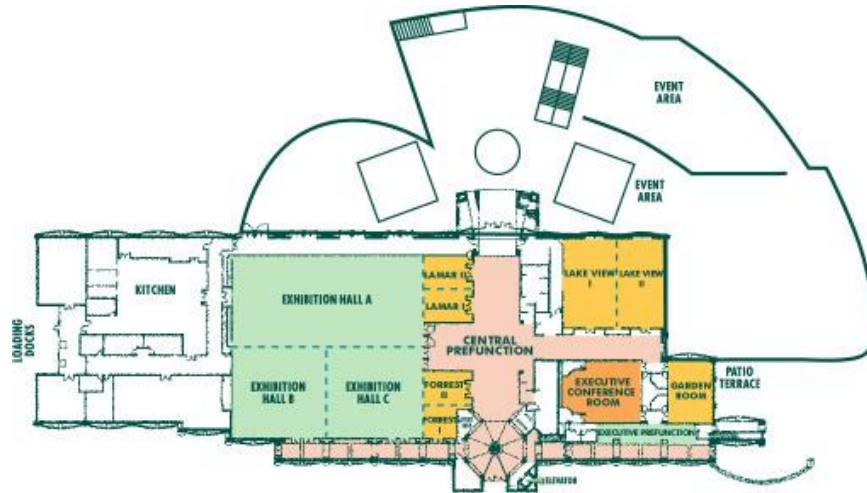
**Table 5 - 4**

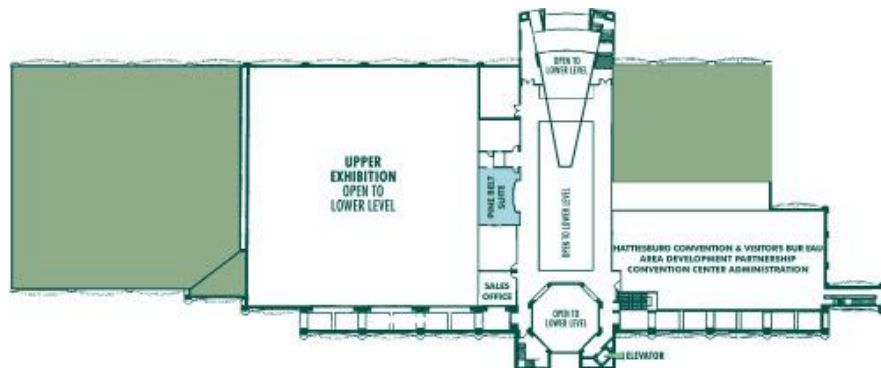
Lake Terrace Convention Center Summary of Exhibit and Meeting Space						
	Size (SF)		Capacity (# of Persons)			
	Individual (Smallest)	Combined (Largest)	Theater	Classroom	Banquet	Exhibits (# Booths)
<b>Exhibit Halls</b>						
Hattiesburg Exhibition Hall	-	14,755	1,500	600	1,000	78
Exhibit A	7,380	-	700	300	500	40
Exhibit B	3,690	-	400	150	240	20
Exhibit C	3,690	-	400	150	240	20
Subtotal Exhibit Hall SF		14,755				
<b>Meeting Rooms</b>						
Number of Rooms	8	5				
Smallest Room	360	-	50	21	24	-
Largest Room	-	3,350	389	180	168	18
Subtotal Meeting Room SF		7,936				
<b>Total</b>		<b>22,691</b>				
Lake Terrace (Outdoor)	-	5,120	-	-	-	-
Courtyard Patio (Outdoor)	-	980	-	-	-	-

Source: Lake Terrace Convention Center, Johnson Consulting

The following figure provides a pictorial overview of facilities at the LTCC.

**Figure 5 - 2**





Over the last several years, the LTCC has been contemplating expansion and attempting to lure a hotel to the property. The original design included an additional 17,000 square feet of exhibit and meeting space but was reduced due to public opposition to the cost of the project. Although costs estimates have not been prepared for an expansion of the facility, it is understood that the current expansion plan contemplates an additional 22,000 square feet of rentable space.

**DEMAND SCHEDULE:** The LTCC has emerged as an important economic resource for the community. The community is a center for medical services for the region and the location of the University of Southern Mississippi. On an annual basis, the facility hosts an average of 800 events, attracting around 225,000 attendees, indicating a high level of utilization and generating around 20,000 room nights annually. In 2010 (which is the most current data available), the LTCC attracted over 222,000 attendees to 1,283 event days. This represents a slight decrease in total attendance over 2009 (225,000 attendees) but an increase in total event days (1,247 event days in 2009). The following table provides a breakdown of the LTCC's event and attendance data for 2010, by event type.

Table 5 - 5

Lake Terrace Convention Center				
Estimated Demand Schedule (2010)				
	# Events	# Event Days	Attendance	Average Attendance Per Event
Conferences/ Conventions	76	141	24,283	355
Meetings	423	506	30,841	73
Trade Shows	13	27	57,393	4,529
Banquets	137	141	29,805	217
Consumer Shows	2	4	1,979	937
Miscellaneous	42	69	5,458	129
Performances/ Sports	81	302	58,638	721
Receptions	65	92	13,603	208
<b>TOTAL</b>	<b>841</b>	<b>1,283</b>	<b>222,000</b>	<b>264</b>

Source: Lake Terrace Convention Center, Johnson Consulting

At times, demand for the LTCC has been so robust that staff has been forced to make creative use of the entire event grounds by converting the public plaza space outside the facility into active space through the employment of temporary structures, such as pop-up tents. Given the site size and attributes in Russellville, similar strategies could be considered.

**REVENUE & EXPENSES:** The following table provides the LTCC's revenue and expense statement for the most recent year.



Table 5 - 6

<b>Lake Terrace Convention Center</b>	
<b>Revenue &amp; Expense Statement (Most Recent Year) (\$'000s)</b>	
	Most Recent Year
<b>Revenues</b>	
Exhibit & Convention Rents	\$258
Ticket Revenues	53
Food & Beverage	834
Interest	13
Miscellaneous	14
<b>Total Revenues</b>	<b>\$1,171</b>
<b>Expenditures</b>	
Salaries & Wages (including Benefits)	\$1,077
Food & Beverage	367
Building & Equipment Maintenance	372
Utilities	255
Professional & Management Fees	95
Insurance	76
Advertising & PR	42
Other	107
<b>Total Expenditures</b>	<b>\$2,392</b>
<b>Net Operating Income (Loss) Before Other Financing Sources</b>	<b>(\$1,221)</b>
Other Financing Sources (Special Sales Tax & MDOT Grant)	\$3,340
<b>Excess of Revenues &amp; Other Financing Sources over Expenditures</b>	<b>\$2,119</b>

Source: Lake Terrace Convention Center, Johnson Consulting

As shown, the LTCC operated at a net deficit of \$1.2 million, before other financing sources. The facility receives special taxes and other revenue sources that allow it to operate with a positive cash flow on an annual basis. In the most recent year, the facility recorded an excess of revenues and other financing sources of \$2.1 million over expenditures.

**FUNDING:** The LTCC was constructed at a total cost of \$14.0 million, with an addition \$910,000 spent to acquire the site. The facility was funded through a 2 percent tax on City restaurant and liquor sales, and a \$6.5 million general obligation bond issue. The City of Hattiesburg also has a 2 percent Tourism Promotion Tax, which helps fund the operations of the Hattiesburg CVB.

**OBSERVATIONS:** The LTCC was built in response to growing demand for meeting space and to attract new dollars and add room nights to the area. Since opening, the LTCC has earned a reputation as a high quality, service-focused convention and civic center. This service distinction, the environment and setting of the

Center, and affordability of the Hattiesburg market have allowed the CVB and LTCC staff attract a high volume of events and provide a strong contribution to the local economy.

Among the myriad of objectives of the LTCC is to serve as a generator of economic activity by attracting group meetings, conventions, and social activities. While a significant target market is non-resident or out-of-town groups, the LTCC also serves as a vital resource to Lamar and Forrest County businesses, organizations, and residents by providing high quality event, meeting and ballroom space. It is hoped that a new convention center in Russellville could serve a similar function.

### CORALVILLE MARRIOTT HOTEL AND CONFERENCE CENTER CORALVILLE, IOWA

**LOCATION:** Located in northwest Iowa City, approximately 1 mile to the north of the University of Iowa, the \$60 million Coralville Marriott Hotel and Conference Center (CMHCC) opened in 2006. The CMHCC anchors the Iowa River Landing, which is a 180-acre mixed-use development on the site of a former industrial park. The site also incorporates a wetlands park.



**OWNERSHIP/ MANAGEMENT:** The CMHCC is owned by the City of Coralville and operated by the Marriott hotel chain. Tax-exempt bonds were used for the entire complex, and these bonds are supported by a sales tax in the City.

**FACILITIES:** The CMHCC offers 286 guest rooms and 6 suites, along with 60,000 square feet of conference and meeting space. The following table provides a breakdown of conference and meeting space at the CMHCC.

Table 5 - 7

Coralville Marriott Hotel and Conference Center					
Summary of Exhibit and Meeting Space					
	Size (SF)		Capacity (# of Persons)		
	Individual (Smallest)	Combined (Largest)	Theater	Classroom	Banquet
<b>Exhibit Hall</b>					
Exhibit Hall	-	29,596	2,500	2,400	2,850
Subtotal Exhibit Hall SF		29,596			
<b>Ballroom</b>					
Coral Ballroom*	-	14,980	1,200	700	1,000
Salon A	2,756	-	200	90	120
Salon B	2,756	-	200	90	120
Salon C	4,922	-	400	150	240
Salon D	2,756	-	200	90	120
Salon E	2,756	-	200	90	120
Oakdale Ballroom*	-	6,930	600	300	350
Salon I	1,155	-	100	50	50
Salon II	1,155	-	100	50	50
Salon III	2,240	-	200	120	140
Salon IV	1,155	-	100	50	50
Salon V	1,155	-	100	50	50
Subtotal Ballroom SF		21,910			
<b>Meeting Rooms</b>					
Number of Rooms	10	10			
Smallest Room	384	-	35	20	30
Largest Room	-	650	44	20	30
Subtotal Meeting Room SF		5,168			
<b>Total</b>		<b>56,674</b>			

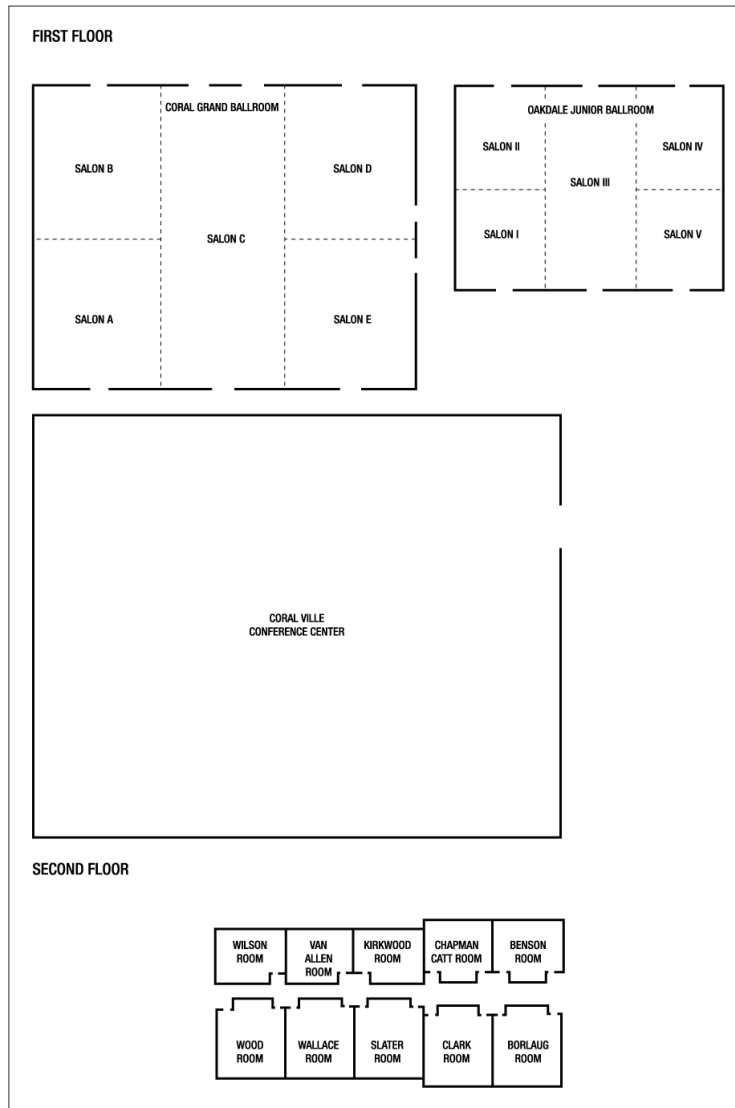
\* Various combinations of subsections available

Source: Coralville Marriott Hotel and Conference Center, Johnson Consulting

An analysis of the meeting space ratio at the CMHCC indicates that there is 104 square feet of exhibit space per guest room, plus 95 square feet of combined ballroom and meeting space per key. This indicates that the meeting space is extraordinarily sized for the number of hotel rooms.

The following figure provides a pictorial overview of facilities at the CMHCC.

Figure 5 - 3



The site is located off Interstate 80, in a redevelopment area along a river. The intersection where the project is located is much less attractive than Exit-81 in Russellville. The following figure shows the location of the CMHCC.

Figure 5 - 4



**Demand Schedule:** Since opening, the CMHCC has hosted an average of 15 events per annum, attracting between 800 and 1,600 attendees per event. The facility is attracting some State association business, previously held almost exclusively in Des Moines, Iowa, along with a small number of trade shows. However, the 15 reported events in the demand calendar only relate to events that use all aspects of the facility. Marriott does not report total usage to the City. Discussions with the facility’s asset manager indicate that there are, in fact, hundreds of events that occur at the facility annually.

Hotel occupancy has consistently remained in the range of 60 to 65 percent, averaging 63 percent since the CMHCC opened. The ADR is currently \$100.00 per room night.

Some additional benchmarks relating to demand at the CMHCC include:

- 26,000 group room nights annually.
- \$6 million in gross food and beverage revenue, \$500,000 of which occurs in the on-site restaurant.
- An overall \$15 million business entity that did not exist before.

**Revenue & Expenses:** The following table provides the CMHCC’s revenue and expense statements for 2009-2010 (which is the most current information available).

Table 5 - 8

Coralville Marriott Hotel and Conference Center		
Revenue & Expense Statement (2009-2010) (\$'000s)		
	2009	2010
<b>Operating Revenues</b>		
Charges for Sales & Services	\$14,208	\$13,072
<b>Total Operating Revenues</b>	<b>14,208</b>	<b>13,072</b>
<b>Operating Expenses</b>		
Contractual Services	9,840	2,950
Commodities	2,725	8,725
Depreciation	2,854	2,854
<b>Total Operating Expenses</b>	<b>15,419</b>	<b>14,529</b>
<b>Operating Income (Loss)</b>	<b>(1,211)</b>	<b>(1,457)</b>
<b>Non-Operating Revenue (Expenses)</b>		
Interest Revenue	\$16	\$8
Interest Expenses	(2,308)	(2,291)
Increase in Beneficial Interest in a Trust	237	231
<b>Total Non-Operating Revenue (Expenses)</b>	<b>(2,055)</b>	<b>(2,051)</b>
<b>Income (Loss) Before Transfers</b>	<b>(3,266)</b>	<b>(3,508)</b>
Transfers In	\$3,467	\$1,173
Transfers Out	(2,751)	(30)
<b>Net Income (Loss)</b>	<b>(2,550)</b>	<b>(2,364)</b>

Source: Coralville Marriott Hotel and Conference Center, Johnson Consulting

As shown, the CMHCC operated at a net deficit of \$3.5 million in 2010, before transfers. This represents a slightly higher deficit than recorded in 2009, when the facility operated at a loss of \$3.2 million. When transfers are accounted for, the CMHCC operated at a loss of \$2.4 million 2010, which represents a slight improvement over 2009, when the facility recorded a loss of \$2.5 million. Note that debt service for the convention center is included in the proforma.

**FUNDING:** To finance construction, the City entered into an agreement to lease the site, which it owns, to Bankers Trust Company as trustee, and subsequently leased it back for 99 years for a total lease payment of \$1 per annum. The City and Bankers Trust Company further entered into a lease purchase agreement that requires \$45.5 million in payments by the City for the proceeds that Bankers Trust Company obtained by selling Certificates of Participation in the lease to investors. The Certificates of Participation were issued in 2007, at a premium of \$1.2 million. These additional proceeds were also used to fund the project.

The Iowa River Landing, which is home to the CMHCC, forms part of the Mall/Highway 6 Urban Renewal Area (URA), which is a designated Tax Increment Financing (TIF) district. The City leverages substantial sales tax TIF revenue from Coral Ridge Mall, which is used to finance projects at Iowa River Landing. In 2010, the

CMHCC received \$498,748 of special revenue from the Mall/Highway 6 TIF, and \$674,700 in debt service from governmental funds.

**OBSERVATIONS:** The site of the proposed hotel and convention center in Russellville exhibits many similar characteristics to the Iowa River Landing, being an underdeveloped site, with interstate highway and river frontage, and similarly to the CMHCC, the proposed hotel and convention center will anchor a mixed-use development. It is understood that the City of Coralville sought a private developer to build the hotel component, but was unsuccessful. Because it had the resource base from the sales tax TIF, and because the site so blighted, the public sector saw the wisdom in executing the project for the community.

Like many other conference centers, the deficit incurred by the CMHCC is justified on the basis of the return on investment and economic impact that it creates for the City. Although the facility is generating sufficient revenue to meet interest and principal payments, it has required some level of subsidy since opening, and will continue to do so for the foreseeable future. Notwithstanding this, the CMHCC demonstrates the benefits associated with using sales tax TIF as a financing strategy.

Pertinent to Russellville, this project exceeds the size and quality, and expenditure required, to serve the Russellville market. A simpler, smaller, but still high quality, venue will accomplish the same goals in Russellville.

## MARRIOTT MEADOWVIEW CONFERENCE RESORT AND CONVENTION CENTER KINGSPORT, TENNESSEE

**LOCATION:** Situated in northwest Tennessee, just off Interstate 26, the Marriott MeadowView Conference Resort and Convention Center (Marriott MeadowView) opened in 1996 and is the only full-serve hotel in Kingsport. In 2009, the existing 195 guest rooms were extensively renovated and an additional 110 rooms were constructed. In 2011, a second expansion added 30,000 square foot executive conference center. The grounds also include the municipal Cattails championship golf course.



**OWNERSHIP/ MANAGEMENT:** The City of Kingsport owns the convention center and conference facilities at the Marriott MeadowView, while Eastman Chemical Company (Eastman) owns the hotel component. The entire facility is operated by the Marriott hotel chain under two separate management contracts, one overseen by the City and one overseen by Eastman. The City owns and operates Cattails golf course. All staff are employees of Marriott.

**FACILITIES:** The Marriott MeadowView now offers 305 guest rooms and 88,000 square feet of conference and meeting facilities, including pre-function space. The following table provides a breakdown of conference and meeting space at the facility.

**Table 5 - 9**

Marriott MeadowView Conference Resort and Convention Center					
Summary of Exhibit and Meeting Space					
	Size (SF)		Capacity (# of Persons)		
	Individual (Smallest)	Combined (Largest)	Theater	Classroom	Banquet
<b>Convention Center</b>	-	34,768	-	-	1,700
A	20,336	-	2,000	-	1,000
B	14,432	-	1,440	-	650
Subtotal Convention Center SF		34,768			
<b>Ballrooms</b>					
Grand Ballroom	-	9,862	800	500	450
Salon 1	1,100	-	100	60	50
Salon 2	1,129	-	100	60	50
Salon 3	1,094	-	100	60	50
Salon 4	973	-	70	50	50
Salon 5	999	-	70	50	50
Salon 6	968	-	70	50	50
Salon 7	1,191	-	100	60	50
Salon 8	1,223	-	100	60	50
Salon 9	1,185	-	100	60	50
MeadowView Ballroom	-	3,750	300	210	240
Salon A	1,150	-	100	70	60
Salon B	1,528	-	125	80	70
Salon C	549	-	40	15	20
Salon D	524	-	50	15	20
Cattalis Ballroom	-	4,929	500	325	300
Cattalis Salon 1	598	-	55	35	40
Cattalis Salon 2	598	-	55	35	40
Cattalis Salon 3	1,219	-	110	78	90
Cattalis Salon 4	1,219	-	110	78	90
Cattalis Salon 5	598	-	55	35	40
Cattalis Salon 6	598	-	55	35	40
Subtotal Ballroom SF		18,541			
<b>Amphitheaters</b>					
Crocket Amphitheater	-	1,888	120	-	-
Warriors Path Amphitheatre	-	2,204	60	-	-
Cumberland Amphitheatre	-	4,092	150	-	-
Subtotal Amphitheater SF		8,184			
<b>Meeting Rooms</b>					
Number of Rooms	13	11			
Smallest Room	384	-	30	15	20
Largest Room	-	1,128	-	30	-
Subtotal Meeting Room SF		6,320			
<b>Total</b>		<b>67,813</b>			

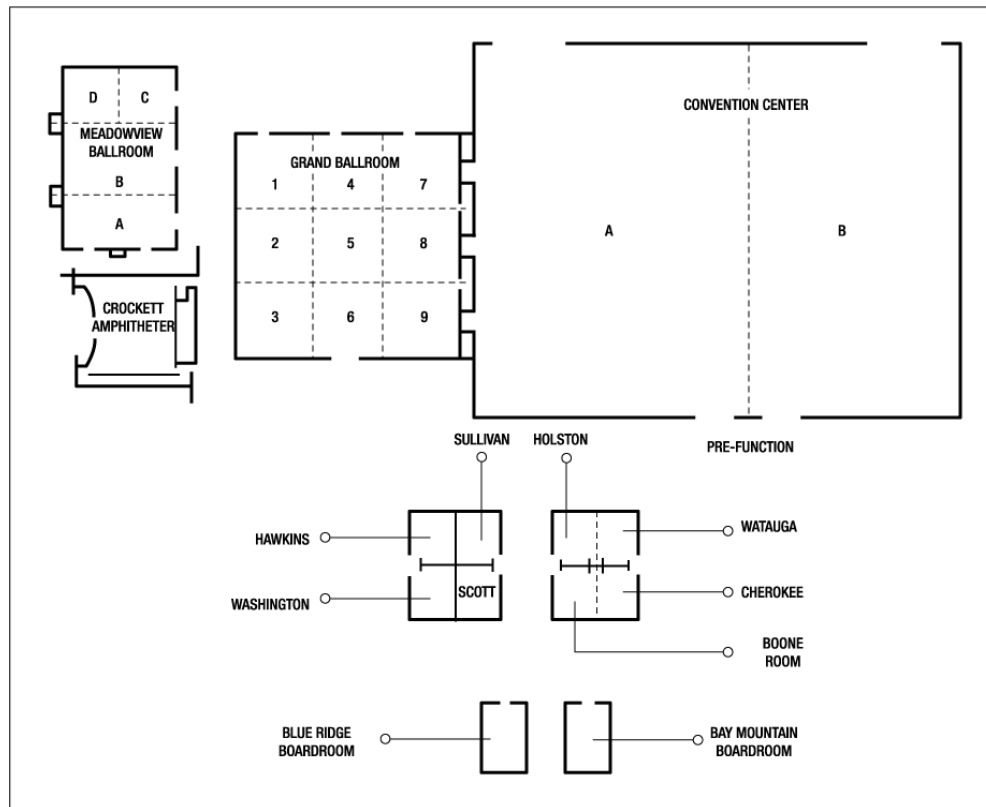
Source: Marriott MeadowView Conference Resort and Convention Center, Johnson Consulting



An analysis of the meeting space ratio at the Marriott MeadowView indicates that there is 113 square feet of convention center space per guest room, plus 81 square feet of combined ballroom and meeting space per key. This indicates that the meeting space is well sized for the number of hotel rooms.

The following figure provides a pictorial overview of facilities at the Marriott MeadowView.

Figure 5 - 5



**DEMAND SCHEDULE:** Event and attendance data for the Marriott MeadowView is not available. However, discussions with the facility’s asset manager indicates that the hotel recorded an occupancy of 62.0 percent in 2011, representing an improvement over 2010 (59.2 percent) and particularly over 2009 (52.3 percent), when an additional 110 rooms were added (causing certain areas of the existing hotel to be closed). Current occupancy levels are on track for further improvement in 2012, with the ADR being in the range of \$109 to \$113.

**REVENUE & EXPENSES:** The publically and privately owned components of the Marriott MeadowView maintain separate accounts, although they do share many costs such as marketing, accounting, engineering, and general management, among others. These shared costs are allocated between the entities on a monthly basis.

Because the hotel is privately owned, a detailed revenue and expense statement was not available. However, information from the facility's asset manager indicates that the hotel has achieved an average net operating profit of 24 percent per annum over the past 5 years. It is also understood that a substantial amount of the hotel's fixed overhead is allocated to the City's accounts.

The following table provides the revenue and expense statement for the City-owned convention and conference facilities at the Marriott Meadowview for 2010-2011.

**Table 5 - 10**

<b>Marriott MeadowView Conference Resort and Convention Center</b>		
<b>Revenue &amp; Expense Statement (2010-2011) (\$'000s)</b>		
	2010	2011
<b>Revenues</b>		
INT LGIP	\$3	\$3
Room Surcharge*	117	127
Furniture/ Fixture & Equipment Fees	135	176
Investments	180	41
From Regional Sales Tax Fund	1,695	2,293
<b>Total Revenues</b>	<b>\$2,130</b>	<b>\$2,641</b>
<b>Expenditures</b>		
Contractual	\$32	\$36
Other Expenses	81	112
Insurance	6	6
Capital Outlay	91	131
Subsidies & Contributions	563	406
Debt Service	597	608
FF&E Reserve	616	300
<b>Total Expenditures</b>	<b>\$1,986</b>	<b>\$1,598</b>
<b>Net Operating Income (Loss)</b>	<b>\$144</b>	<b>\$1,043</b>

\* 2% of gross room revenues generated by the Hotel & granted to the City for consideration of facility easements (namely the restaurant which is part of the City's footprint)

Source: Marriott MeadowView Conference Resort and Convention Center, Johnson Consulting

As shown, the City-owned components of the Marriott MeadowView recorded a net operating income of \$1.0 million in 2011, representing an improvement over 2010, when the facility operated at a net income of \$144,000. The largest revenue source is contributions from the Regional Sales Tax Fund.

**FUNDING:** The Marriott MeadowView was developed as a single project, under separate contracts with each owner (i.e. the City and Eastman). The initial cost to the City was \$20 million, excluding the cost of the golf

course, funded through a \$0.0025 regional sales tax. These revenues are paid into the Regional Sales Tax Fund, which is used for the payment of annual debt service. Eastman funded the hotel component of the Marriott MeadowView, at a total cost of \$20 million, equating to a cost of approximately \$100,000 per key. The 2009 renovation and expansion of the Marriott Meadowview cost \$15 million and was funded by Eastman Chemical Company. The \$15 million expansion in 2011 was funded by the City of Kingsport.

Since opening, the City has provided an operating subsidy to the convention center in the range of \$350,000 to \$600,000 annually, paid from the General Fund. This subsidy is justified on the basis that the facility generates an estimated economic impact of \$20 million. Eastman Chemical Company pays an internal account to the City of 2 percent of room revenue for use of the restaurant, which technically falls within the footprint of City-owned facilities at the Marriott MeadowView.

**OBSERVATIONS:** The Marriott MeadowView has established its role in the marketplace as offering a resort-type atmosphere, but at an affordable price. It provides an example of a successful hotel and convention center project developed through a public/private partnership and highlights the benefits of having an institutional player as the owner of the hotel component. The large subsidies provided by the City, through regional sales tax revenues, also play an important role in the success of the facility.

Opportunities may exist in Russellville to have tie-ins to Tyson, ConAgra and the University. Since neither Tyson nor ConAgra are headquartered in Russellville, the prospect of them taking an equity position is not as likely as seen in Kingsport, which is Eastman’s headquarters.

## **BAYFRONT CONVENTION CENTER** ERIE, PENNSYLVANIA

**LOCATION:** Located on the shores of Presque Island Bay, the Bayfront Convention Center (BCC), which opened in 2007, is part of a broader redevelopment district designed to enhance the overall image of Erie. The adjacent 200-room Sheraton Erie Bayfront Hotel, which is connected to the BCC via a skywalk, opened in 2008.



**OWNERSHIP/ MANAGEMENT:** The Erie County Convention Center Authority (ECCC) owns the BCC and the Sheraton hotel. The ECCC operates the BCC. White Lodging Services Corporation manages the Sheraton hotel.

**FACILITIES:** The following table provides a breakdown of conference and meeting space at the facility.

Table 5 - 11

Bayfront Convention Center					
Summary of Exhibit and Meeting Space					
	Size (SF)		Capacity (# of Persons)		
	Individual (Smallest)	Combined (Largest)	Theater	Classroom	Banquet
<b>Exhibit Halls</b>					
Exhibit Hall	-	28,800	4,114	1,920	1,920
North Hall	18,000	-	2,571	1,200	1,200
South Hall	21,550	-	1,549	720	720
Subtotal Exhibit Hall SF		28,800			
<b>Ballroom</b>					
Grand Ballroom	-	13,500	1,929	900	900
East	8,100	-	1,517	540	540
West	5,400	-	771	360	360
Subtotal Ballroom SF		13,500			
<b>Meeting Rooms</b>					
Number of Rooms	15	8			
Smallest Room	683	-	-	24	24
Largest Room	-	2,701	330	150	150
Subtotal Meeting Room SF		14,023			
<b>Total</b>		<b>56,323</b>			

Source: Bayfront Convention Center, Johnson Consulting

An analysis of the meeting space ratio between the BCC and the adjoining Sheraton hotel indicates that there is 144 square feet of exhibit space in the BCC per guest room, plus 138 square feet of combined ballroom and meeting space per key. This indicates that the BCC is well sized for the adjacent hotel, and vice-versa. The BCC is more of a “convention center” serving the City overall, than a hotel with a large amount of meeting and ballroom space. Erie is a relatively large metropolitan area, so a hotel with a large amount of meeting space, and with the capacity to expand, is more logical for Russellville.

The Sheraton hotel also offers some meeting space, which is sensible as this space is often used for receptions and smaller events, and as a supplement to the BCC when required. The following table provides a breakdown of the Sheraton’s meeting space.

Table 5 - 12

Sheraton Erie Bayfront Hotel					
Summary of Exhibit and Meeting Space					
	Size (SF)		Capacity (# of Persons)		
	Individual (Smallest)	Combined (Largest)	Theater	Classroom	Banquet
<b>Ballroom</b>					
Number of Rooms	3	1	-	-	-
Smallest Room	1,094	-	115	75	88
Largest Room	-	3,288	345	225	260
Subtotal Ballroom SF		3,288			
<b>Meeting Rooms</b>					
Number of Rooms	4	-			
Smallest Room	332	-	35	22	25
Largest Room	-	858	90	55	65
Subtotal Meeting Room SF		2,518			
<b>Total</b>		<b>5,806</b>			

Source: Sheraton Erie Bayfront Hotel, Johnson Consulting

An analysis of the meeting space ratio within the Sheraton hotel indicates that the hotel offers 16 square feet of ballroom space, 13 square feet of meeting space and 29 square feet of combined ballroom and meeting space per key.

**DEMAND SCHEDULE:** In 2010 (which is the most current data available) the BCC hosted 386 events, predominantly meetings (237 events) and banquets (101 events), and attracted a total of 125,840 attendees. The following table provides a breakdown of the BCC's event and attendance data for 2009-2010, by event type.



**Table 5 - 13**

<b>Bayfront Convention Center Demand Schedule (2009 - 2010)</b>		
	2009	2010
Trade Shows	8	9
Conventions	12	3
Consumer Shows	21	19
Banquets	52	101
Meetings	228	237
Special/ Other	23	17
<b>TOTAL</b>	<b>344</b>	<b>386</b>
<b>Attendance</b>	<b>117,563</b>	<b>125,840</b>

Source: Bayfront Convention Center, Johnson Consulting

**REVENUE & EXPENSES:** The following table provides the BCC’s revenue and expense statements for 2010-2011.

Table 5 - 14

<b>Bayfront Convention Center</b>		
<b>Revenue &amp; Expense Statement (2010-2011) (\$'000s)</b>		
	2010	2011
<b>Operating Revenues</b>		
Facility & Equipment Rentals	\$466	\$518
Concession/ F&B Revenue	1,500	1,968
Facility Service Charge	31	35
Box Office Fees	26	9
Advertising Revenue	3	5
Miscellaneous Revenue	24	19
Trade Revenue	4	4
Interest Income	1	(1)
Parking Revenue	1	2
Reimbursement - Staging	0	2
Reimbursement - Supplies	2	0
Reimbursement - Utilities	33	36
Reimbursement - Wages	66	77
<b>Total Operating Revenues</b>	<b>2,157</b>	<b>2,674</b>
<b>Operating Expenses Expenditures</b>		
Personnell Services	\$1,641	\$1,829
Contractual Services	257	266
Utilities	236	303
Supplies	587	685
Other Expenses	78	60
<b>Total Expenses</b>	<b>2,799</b>	<b>3,143</b>
<b>Income (Loss) Before Depreciation/Subsidy</b>	<b>(642)</b>	<b>(469)</b>
Depreciation	(\$1,868)	(\$1,770)
Subsidy - ECCCA (Room Tax Allocation)	484	532
Grant Revenue	3,000	0
Insurance Claims	0	9
Net Operating Expense	0	(19)
Non-Operating Revenues	19	0
Gain/Loss on Sale of Assets	(1)	0
<b>Net Income (Loss)</b>	<b>992</b>	<b>(1,716)</b>

Source: Bayfront Convention Center, Johnson Consulting

As shown, the BCC operated at a deficit of \$468,972 in 2011, before depreciation and subsidies. This represents an improvement over 2010, when the facility operated at a net deficit of \$642,036, reflecting an increase in revenues between 2010 and 2011. When depreciation and subsidies are accounted for, the BCC operated at a loss of \$1.7 million 2010. This is in contrast to 2010, when BCC recorded a net operating income of \$992,464 and primarily reflects the loss of grant revenue in 2011.

**FUNDING:** The \$44 million BCC was paid for in full by grants from the State of Pennsylvania, including \$8 million as part of the Redevelopment Assistance Capital Program, which is a grant program administered by the Office of the Budget for the acquisition and construction of regional, economic, cultural, civic and historical improvement projects. The Sheraton hotel was financed through \$47.8 million of tax-exempt revenue bonds issued by the ECCC and guaranteed by Erie County. Current cash flow is satisfying debt service repayments.

**OBSERVATIONS:** The BCC forms part of a broader redevelopment initiative and demonstrates how multiple funding mechanisms can be employed to finance a hotel and convention center project.

### THREE RIVERS CONVENTION CENTER KENNEWICK, WASHINGTON

**LOCATION:** Situated in western downtown Kennewick, Washington, the Three Rivers Convention Center (TRCC), which opened in 2004, is a state-of-the-art facility that serves the Tri-Cities region. This facility was added because it operates in a remote location, with a number of branch offices of large corporations.



**OWNERSHIP/ MANAGEMENT:** The TRCC is owned by the Kennewick Public Facilities District (KPF), which is responsible for the design and construction of the venue and oversees its general operation. In 2003 (prior to the opening of the facility), the KPF contracted the day-to-day operation and management of the TRCC to VenuWorks.

**FACILITIES:** The TRCC offers more than 33,000 square feet of dedicated meeting, ballroom, and exhibit space. No hotels are tied to the complex physically or operationally but there are several hotels within close walking distance. The following table provides a breakdown of conference and meeting space at the facility.



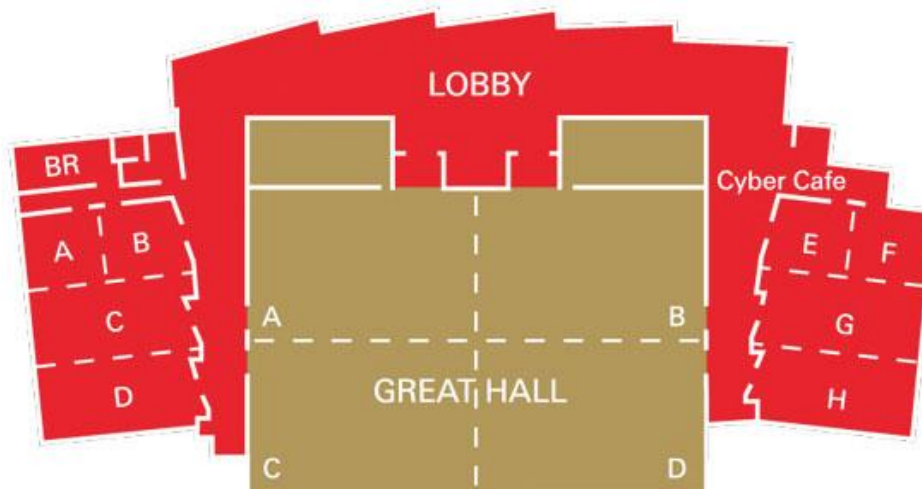
**Table 5 - 15**

Three Rivers Convention Center Summary of Exhibit and Meeting Space						
	Size (SF)		Capacity (# of Persons)			
	Individual (Smallest)	Combined (Largest)	Theater	Classroom	Banquet	Exhibits (# Booths)
<b>Exhibit Halls</b>						
Great Hall	-	21,600	2,050	1,200	1,200	140
Section A	5,400	-	500	270	340	34
Section B	5,400	-	500	270	340	34
Section C	5,400	-	500	270	340	34
Section D	5,400	-	500	270	340	34
Subtotal Exhibit Hall SF		21,600				
<b>Meeting Rooms</b>						
Number of Rooms	9	3				
Smallest Room	500	-	-	-	-	-
Largest Room	-	5,516	500	290	288	340
Subtotal Meeting Room SF		11,474				
<b>Total</b>		<b>33,074</b>				

Source: Three Rivers Convention Center, Johnson Consulting

The following figure provides a pictorial overview of facilities at the TRCC.

**Figure 5 - 6**



The KPF is currently contemplating an expansion to the TRCC to include additional exhibit hall, meeting room, lobby, and storage space. The expansion would respond to lost business that occurs as a result of insufficient space and a lack of an on-site hotel. Discussions are currently underway with A-1 Hospitality

Group to build a 102-room hotel adjacent to the TRCC. The maximum budget for the expansion is set at \$15 million, excluding the hotel (which would be built by the private sector).

**DEMAND SCHEDULE:** In 2010 (which is the most current data available) the TRCC hosted 252 events, predominantly meetings/ conferences (85 events) and banquets/ weddings (77 events), and attracted a total of 94,629 attendees. The following table provides a breakdown of the TRCC’s event and attendance data for 2010, by event type.

**Table 5 - 16**

<b>Three Rivers Convention Center Demand Schedule (2010)</b>			
	<b># Events</b>	<b>Attendance</b>	<b>Average Attendance Per Event</b>
Conventions/ Trade Shows	26	26,438	1,017
Meetings/ Conferences	85	31,263	368
Concerts	5	4,250	850
Banquets/ Weddings	77	27,180	353
Other	59	15,498	263
<b>TOTAL</b>	<b>252</b>	<b>222,000</b>	<b>881</b>

Source: Three Rivers Convention Center, Johnson Consulting

**REVENUE & EXPENSES:** The following table provides the TRCC’s revenue and expense statements for 2009-2010 (which is the most current information available).

Table 5 - 17

Three Rivers Convention Center		
Revenue & Expense Statement (2009-2010) (\$'000s)		
	2009	2010
<b>Revenues</b>		
Facility Rental	\$334	\$368
Food & Beverage	930	1,455
Less: Food & Beverage Cost of Goods Sold	(196)	(319)
In-House Event Revenue	219	234
Miscellaneous Event Revenues	54	54
<b>Total Revenues</b>	<b>1,340</b>	<b>1,790</b>
<b>Expenses</b>		
Personnel Expenses	\$923	\$1,221
General & Administrative	46	47
Occupancy	257	226
Travel	18	12
Event Expenses	59	95
Services & Operations	346	437
Depreciation	453	453
<b>Total Expenses</b>	<b>2,101</b>	<b>2,491</b>
<b>Net Operating Income (Loss)</b>	<b>(761)</b>	<b>(701)</b>
<b>Non-Operating Revenues (Expenses)</b>		
Sales Taxes	\$878	\$942
Interest Income	38	16
Interest Expense	(623)	(623)
<b>Total Non-Operating Revenues (Expenses)</b>	<b>294</b>	<b>335</b>
<b>Loss Before Contributions &amp; Transfers</b>	<b>(467)</b>	<b>(365)</b>

Source: Three Rivers Convention Center, Johnson Consulting

As shown, the TRCC operated at a net deficit of \$365,253 in 2010. This represents an improvement over 2009, when the facility operated at a loss of \$467,288. The largest revenue generators at the TRCC are food and beverage revenues and facility rental, while the largest expenditure is personnel expenses, including salaries, wages, and benefits.

**FUNDING:** The City of Kennewick and the KPFD entered into a 50-year lease agreement, with renewal options, under which the City provides the land upon which the TRCC is built. The annual rent is being waived by the City as an in-kind contribution through 2026, after which time the rent will be set at \$1 per annum. To fund the project, the KPFD issued \$12.8 million of Limited Sales Tax Obligation bonds in 2003. The City also issued bonds to support the project.

**OBSERVATIONS:** The TRCC is not performing as well as it could because it is too small. This highlights the importance of developing a program of spaces that is appropriately sized to serve the market and including an adjoining hotel to support the convention space.

## RECENT AND PLANNED PROJECTS

In addition to the indicated facilities described above, Arkansas and the surrounding region are home to a number of hotel and convention center projects that were either recently completed, are currently under construction, or are in the planning stages. Many of these also highlight innovative strategies, particularly with regard to ownership and financing, as follows:

- The **Texarkana Convention Center and Hilton Garden Inn** hotel opened in Texarkana, Texas in October 2012. The 25,000 square foot facility includes a 12,000 square foot ballroom, two meeting rooms, and a patio and pavilion for outdoor events. The attached Hilton Harden Inn offers 154 guest rooms, a swimming pool, and a restaurant. The \$24 million project was developed through a public/private partnership between the City of Texarkana and Daugherty Property Group (DPG), and the public subsidy was funded through hotel taxes. The City owns the convention center and DPG owns the hotel. DPG is responsible for the management and maintenance of both the hotel and convention center.
- Across the State line from the Texarkana Convention Center, the **Texarkana Arkansas Convention Center and Holiday Inn** hotel is currently under construction in Arkansas. The 100,000 square foot complex at Crossroads Business Park will have capacity to accommodate up to 1,000 attendees. The attached full-service Holiday Inn hotel offers 137 guest rooms and a restaurant. The \$18 million project is being funded and developed by a private company that will also own and operate the facility.
- Jefferson City, Missouri, is currently contemplating the development of a hotel and conference center, including 30,000-40,000 square feet of meeting and event space. In recent discussions, members of the City Council expressed a preference for pursuing a privately owned facility. The City would be responsible for construction, providing funding estimated at \$6 to \$8 million, which would come from lodging tax contributions. The chosen hotelier would be responsible for the design, layout and amenities, along with the day-to-day operation of the hotel and conference center. The City does not intend to provide any operational subsidies.

## CONCLUSIONS

Each of the facilities profiled above were developed in response to a community's desire to generate significant benefits for local and regional economies, to stimulate tourism, to serve local corporations and universities, and for urban renewal purposes. Although there is variation in the size, orientation, operating approach, and role that each of these facilities play in their communities, each facility demonstrates how a

convention center can become a catalyst to stimulate the economy, grow and support the local hotel community, and provide a valuable asset for local residents and businesses. A number of the case studies also highlight the positive impact of locating convention facilities in an attractive setting, adjacent to a headquarters hotel, and with easy highway access. We envisage the convention center component of the proposed development in Russellville to be most directly comparable to the Three Rivers Convention Center in Kennewick. From a setting standpoint, the Coralville Marriott is comparable to the proposed hotel and convention center in Russellville, in terms of setting and the integration of the hotel and meeting facilities, but its funding strategy places significant burden on the City. A more ideal funding strategy was executed in the development of the MeadowView Marriott, although the City still pays a large subsidy to support operations and meet debt service obligations.

We see a simpler, somewhat less costly model being appropriate for Russellville. We do expect some finance support to still be required. But since the land is banked and paid for, and excess land exists for commercial development, it is expected that finance tools applied to the site could fund any capital and operating needs of the project.

The proposed hotel and convention center in Russellville presents a unique and appropriate opportunity to capitalize on a number of key characteristics of the location and the local and regional economies, including:

- A lack of convention and meeting space in the surrounding local and regional areas.
- Easy access to the proposed site, via the established highway network.
- Presence of major corporations, distribution and utility demand generators.
- Strategic location between Little Rock and Fort Smith, on a major Interstate, and at the top intersection in the community.
- An established hotel inventory supported by a transient population base.
- A variety of outdoor recreation offerings on site and throughout the local area, with the opportunity to add a commercial district next to the site..
- Proximity to Arkansas Tech University campus.
- Strong community interest in developing a new facility.

These factors, along with many others, provide a case for the development of a hotel and convention center on the subject site. Johnson Consulting is of the opinion that the proposed facility, if targeted and marketed appropriately, has the potential to become a real focal point in the community.

**SECTION VI**  
INTERVIEWS AND SURVEY RESULTS



## INTERVIEWS AND SURVEY RESULTS

To evaluate the market potential for the proposed hotel and convention center, Johnson Consulting conducted a variety of interviews and surveys with potential users of the facility, business leaders, economic development officials, operators of existing facilities, and area hotel managers, among others. This section presents a summary of feedback provided to Johnson Consulting.

### INTERVIEWS SUMMARY

Johnson Consulting conducted a variety of interviews in person and over the telephone. Notable individuals, groups and organizations interviewed included:

- Members of the Russellville Hotel Community
- The City of Russellville
- Russellville Advertising & Promotion Commission
- Tyson Foods
- Entergy
- ConAgra Foods
- National Hotel Development & Management Companies

The above groups represent a broad spectrum of the Russellville business, hospitality and tourism sectors and are intimately familiar with the market area and sources of demand that may support a new hotel and convention facility. Some of the key issues and observations identified by the interviewees are summarized under the following subheadings.

### CURRENT MARKET DYNAMICS

- Currently, there are very little meeting or event offerings in the Russellville area. The facilities that do exist are either consumed by Arkansas Tech use (at campus facilities) or are community facilities that are both too small and do not offer the level of amenities for current and potential events.
- Arkansas Tech would like to preserve their facilities for University use. Three years ago, Arkansas Tech hosted a NCAA regional tournament that was a major boost for the local economy and area hotels. More events like this are being pursued but a lack of additional meeting space and quality hotel rooms have been a challenge. The University would like to push existing consumer, trade and association events out of the school facilities into another more appropriate convention or meeting facility.
- There are a lack of facilities to host corporate meetings and social functions.

- Russellville is a major tournament fishing destination due to Lake Dardanelle. A number of tournaments have awards ceremonies and dinner events that are currently not accommodated in area facilities and have to be held outdoors or not at all. It is estimated that currently there are 30 to 40 large fishing events currently, with an average of 300 people per event. This number could increase significantly and also attract higher caliber events if more appropriate facilities were available.
- There has been discussion of using allocated funds for the convention center and hotel project for other uses. Doing this would not be the highest and best use of the funds since the proposed convention center has the potential to be a significant economic impact and development engine, drawing people from out of the County and out of State.
- Russellville is currently at a competitive disadvantage due to a lack of infrastructure and attractions. However, a primary attraction is the State Park that has attendance of 500,000 people on an annual basis.
- There is concern about how other convention centers in Arkansas have been performing and the financial implications this poses for a new facility in Russellville.

#### **SITE DYNAMICS AND EXISTING OPERATIONS**

- The site that the City has secured for the proposed development is very strategically located next to I-40 and on the shores of Lake Dardanelle. The site is somewhat removed from the existing supply of hotel/motel facilities and the historic core of Russellville.
- Current demand for existing hotels is primarily business, with other top demand generators including tournaments and the university.
- Overall there are a number of fill days in the market. One hotelier stated that their property has an aggregate of 4 months of fill days.
- The new 43-room Days Inn has been absorbed by the market since its opening.
- There is general consensus that a new convention center will grow the overall market but a larger capacity hotel is needed to support events. Transportation/shuttles from area hotels and to the University and downtown may be helpful.
- Russellville loses events to other communities due to a lack of meeting space and a lack of funds for incentives to attract events, as happens in other locations.

The interviews overall revealed support for the development of a new hotel and convention center to promote more economic development and greater participation in the convention and tourism industry. Speaking with members of the hotel community, it became clear that the hotel community is concerned about the addition of a new hotel, but felt that overall a new convention center would help mitigate the risk to their respective properties. The existing portfolio of meeting facilities is incongruous with the demand





potential that Russellville and its business and leisure supply indicate. The fact that the Tucker Coliseum is already hosting consumer and association events that it doesn't want speaks to the demand potential for Russellville and a new convention center and hotel.

## POTENTIAL USERS SURVEY

In order to gauge overall interest in the proposed hotel and convention center, and assist in determining the attributes that will make the venue most appealing to potential users, Johnson Consulting conducted a survey of members of the meetings and event planning industry. Survey recipients included state, regional, national and corporate users, who are currently active in the Arkansas and broader southern U.S. market, have been active in the past or may have an interest in entering the market in the future.

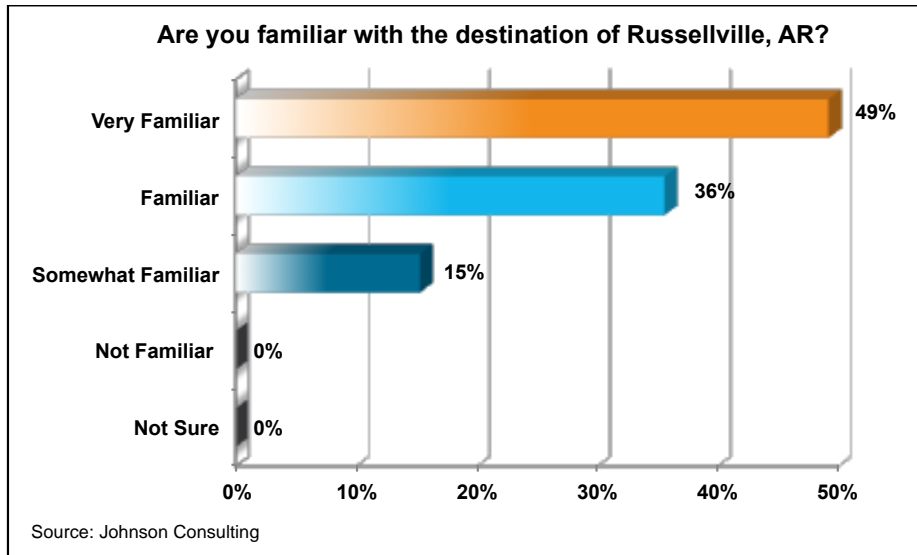
Our survey instrument was developed utilizing a web-based program and was distributed electronically. The survey sent to each recipient was identical. The survey remained 'active' for a period of three weeks, during which time recipients were sent multiple survey reminders.

We achieved a response rate of 35 percent. Industry standards dictate that a 10 percent response rate is generally outstanding for this type of analysis. As such, our sample size is considered to be statistically sound, and we expect to achieve an even larger sample size prior to issuance of our final report.

## FAMILIARITY WITH RUSSELLVILLE

The following figure provides a breakdown of the familiarity of survey respondents with the destination of Russellville.

Figure 6 - 1

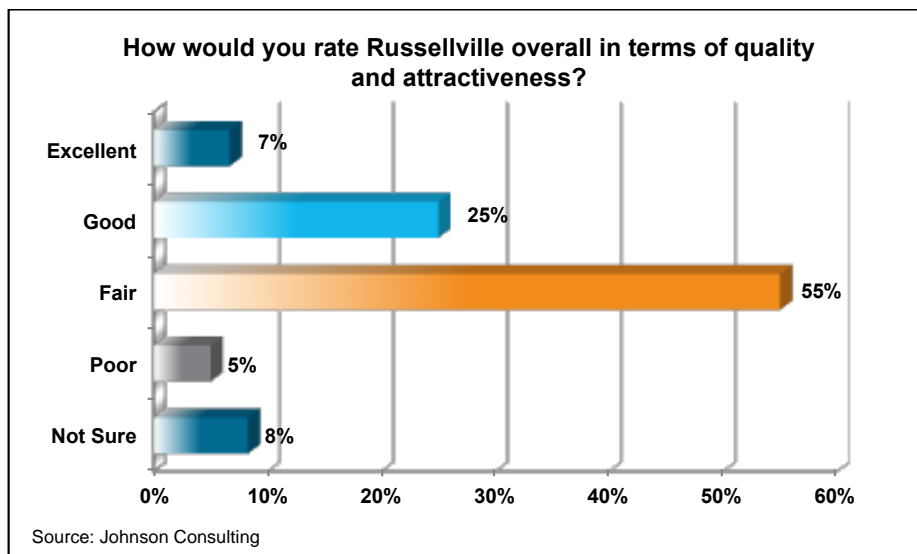


As shown, all respondents were familiar with Russellville, with 85 percent being ‘Very Familiar’ or ‘Familiar’ with the destination, and the remaining 15 percent being ‘Somewhat Familiar’ with Russellville. All survey respondents have visited Russellville before.

### QUALITY AND ATTRACTIVENESS

The following figure provides a breakdown of the ratings assigned to Russellville, by survey respondents, when asked to rate the destination in terms of quality and attractiveness, from an event planner’s perspective.

Figure 6 - 2



As shown, the predominant rating was ‘Fair’ (55 percent), followed by ‘Good’ (25 percent). A further 7 percent of respondents classified Russellville’s quality and attractiveness as ‘Excellent’, while 5 percent of respondents classified Russellville as ‘Poor’.

The following observations were made with regard to specific elements of Russellville’s quality and attractiveness:

- **Image:** The predominant response was ‘Good’ (57 percent), followed by ‘Fair’ (28 percent). A further 7 percent of respondents classified Russellville’s image as ‘Excellent’, with 2 percent classifying it as ‘Poor’.
- **Destination Appeal:** Close to half of respondents (45 percent) classified Russellville’s destination appeal as ‘Fair’. A further 28 percent classified Russellville’s destination appeal as ‘Good’ and 13 percent classified it as ‘Poor’ from an event planner’s perspective.
- **Hotel Room Availability:** The predominant response was ‘Fair’ (32 percent), with 34 percent of respondents stating that they were unsure about Russellville’s hotel room availability. A further 20 percent of respondents consider Russellville’s hotel room availability to be ‘Good’, while 12 percent classified Russellville’s hotel room availability as ‘Poor’.
- **Quality of Food and Beverage:** The predominant response was ‘Good’ (39 percent), with 29 percent of respondents stating that they were unsure about the quality of Russellville’s food and beverage offerings. A further 22 percent identified Russellville’s food and beverage offerings to be of ‘Fair’, while 7 percent of respondents consider the quality to be ‘Poor’.
- **Safety/ Security:** The predominant response was ‘Good’ (52 percent), followed by ‘Excellent’ (22 percent), indicating that close to three-quarters of respondents (74 percent) consider safety and security in Russellville to be ‘Good’ or better. A further 10 percent considered it to be ‘Fair’, while the remaining 15 percent of respondents were unsure about Russellville’s safety and security.
- **Accessibility:** More than half of respondents (57 percent) consider Russellville’s accessibility to be ‘Good’. A further 26 percent of respondents consider it to be ‘Excellent’, indicating that 83 percent of respondents rated Russellville’s accessibility as ‘Good’ or better. A further 7 percent of respondents identified accessibility as being ‘Fair’, while 2 percent stated that it was ‘Poor’.
- **Air Travel/ Car Travel:** The predominant response was ‘Fair’ (44 percent), followed by ‘Good’ (39 percent). A further 10 percent of respondents classified Russellville as being ‘Excellent’ with respect to air and car travel, while equal proportions (3 percent) classified it as ‘Poor’ or were unsure.
- **Entertainment/ Nightlife:** Aside from the 42 percent of respondents who were unsure about Russellville’s entertainment and nightlife offerings, the predominant response was ‘Poor’ (36 percent of all respondents). Only 19 percent of respondents classified Russellville’s entertainment and

nightlife as ‘Fair’, while 4 percent classified the quality and attractiveness of Russellville’s entertainment offerings and nightlife as ‘Good’ or better.

- **Appropriateness for Events you Manage:** The predominant response was ‘Fair’ (30 percent), followed by ‘Poor’ (27 percent) and ‘Good’ (24 percent). Only 7 percent of respondents classified Russellville as ‘Excellent’ with respect to appropriateness for the events they manage.

In summary, Russellville fared best (predominantly ‘Good’ or higher) with respect to safety and security, and accessibility. Russellville fared slightly worse (‘Good’ or ‘Fair’) with respect to image, and quality of food and beverage offerings, followed by destination appeal, hotel room availability, and air and car travel (predominantly ‘Fair’). Russellville fared worst (predominantly ‘Fair’ or ‘Poor’) with respect to entertainment/ nightlife, and appropriateness for the types of events that survey respondents manage

### SELECTION CRITERIA

Survey respondents were asked to rate the importance of various factors in selecting a destination and venue as ‘Not Important’, ‘Somewhat Important’, ‘Important’, ‘Very Important’, or ‘Extremely Important’. Key observations relating to survey responses are summarized as follows:

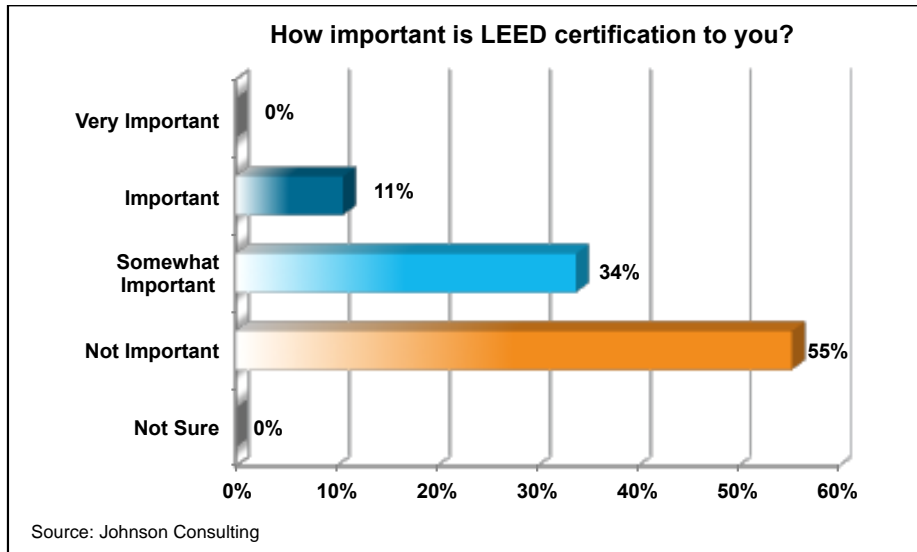
- **Image:** The predominant response was ‘Important’ (44 percent), followed by ‘Very Important’ (39 percent). A further 10 percent of respondents classified image as being ‘Somewhat Important’ in the selection of a destination for their event, while 2 percent of respondents stated that it was ‘Not Important’.
- **Destination Appeal:** Almost half of respondents (49 percent) stated that destination appeal is ‘Very Important’ when selecting a destination. A further 26 percent classified it as ‘Important’, with 19 percent stating that destination appeal is ‘Extremely Important’, indicating that more than two-thirds of respondents (68 percent) consider appeal to be ‘Very Important’ or higher when selecting a destination.
- **Hotel Room Availability:** The predominant response was ‘Very Important’ (44 percent). A further 39 percent of respondents indicated that hotel room availability is ‘Extremely Important’ when selecting a destination, indicating that 83 percent of respondents classify hotel room availability as ‘Very Important’ or higher.
- **Quality of Food and Beverage:** Clos to half of respondents (47 percent) classified the quality of food and beverage as being ‘Very Important’ when selecting a destination, with an additional 37 percent classifying it as ‘Extremely Important’, indicating that 84 percent of respondents consider the quality of food and beverage to be ‘Very Important’ or higher.

- **Safety/ Security:** The predominant response was ‘Very Important’ (47 percent), followed by ‘Extremely Important’ (37 percent), indicating that 84 percent of respondents consider safety and security to be ‘Very Important’ or higher when selecting a destination.
- **Accessibility:** More than half of respondents (56 percent) classify accessibility as being ‘Very Important’, with a further 30 percent classifying it as ‘Extremely Important’, indicating that 86 percent of respondents consider accessibility to be ‘Very Important’ or higher when selecting a destination. The remaining 14 percent of respondents consider safety and security to be ‘Important’.
- **Air Travel/ Car Travel:** The predominant response was ‘Very Important’ (53 percent), followed by ‘Important’ (26 percent) when selecting a destination. A further 18 percent of respondents stated that air and car travel is ‘Extremely Important’, indicating that 71 percent of respondents classify air and car travel as being ‘Very Important’ or higher.
- **Entertainment/ Nightlife:** The predominant response was ‘Important’ (44 percent), followed by almost equal proportions of respondents (25 percent and 23 percent respectively) who consider entertainment and nightlife to be ‘Very Important’ and ‘Somewhat Important’. A further 7 percent of respondents identified entertainment and nightlife to be ‘Extremely Important’.
- **Technology at Facility:** The predominant response was ‘Very Important’ (46 percent), followed by equal proportions of respondents (26 percent) who consider technology to be ‘Extremely Important’ and ‘Somewhat Important’.

In summary, the factors considered by survey respondents to be most important in selecting a destination are safety and security, accessibility, air and car travel, quality food and beverage, and hotel room availability, followed by destination appeal. In the preceding analysis, it was revealed that survey respondents perceive Russellville to generally fair well with respect to safety and security, and accessibility, reflecting the strategic location of Russellville. However, Russellville is only considered to rate as ‘Fair’ to ‘Good’ with respect to quality of food and beverage offerings, air and car travel, destination appeal, and hotel room availability.

The following figure indicates the relative importance of LEED certification (Leadership in Energy and Environmental Design) to survey respondents, when selecting a venue.

Figure 6 - 3

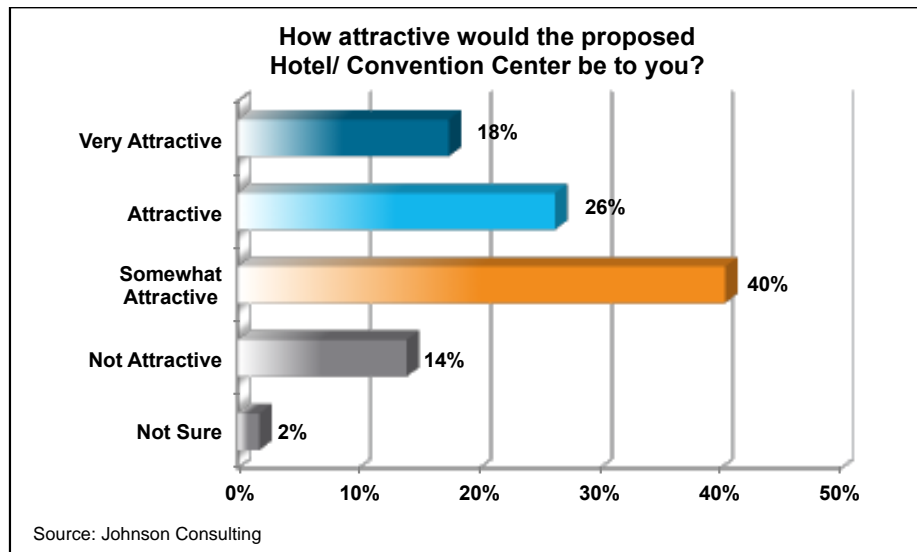


More than half of survey respondents (55 percent) stated that LEED certification is ‘Not Important’ when selecting a venue. A further 34 percent classified LEED certification as ‘Somewhat Important’, while the remaining 11 percent of respondents stated that LEED certification is ‘Important’ in selecting a venue for their event(s).

#### ATTRACTIVENESS OF PROPOSED HOTEL/ CONVENTION CENTER

The following figure provides a breakdown of the perceived attractiveness of the proposed hotel and convention center, based upon our recommended facility program 20,000 square feet of meeting space and an adjacent 200-room hotel.

Figure 6 - 4

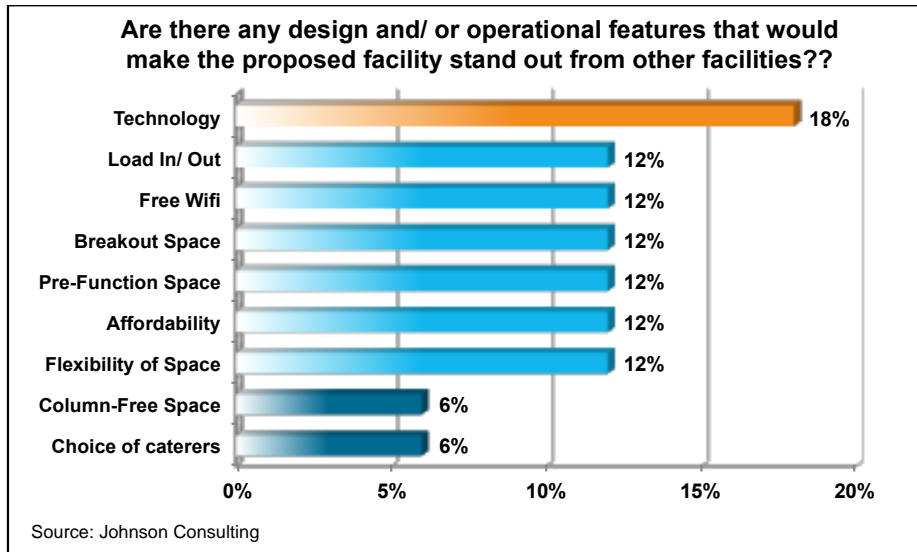


The predominant response among survey recipients was that the proposed hotel and convention center would be ‘Somewhat Attractive’ (40 percent), followed by ‘Attractive’ (26 percent). A further 18 percent of respondents stated that the proposed venue would be ‘Very Attractive’, indicating that 84 percent of respondents consider the proposed facility to be attractive (‘Somewhat Attractive’ or higher), with 44 percent of respondents stating that the proposed hotel and convention center would be ‘Attractive’ or ‘Very Attractive’. Only 14 percent of respondents stated that the proposed venue would not be attractive for their event(s).

The following figure provides a breakdown of responses when survey recipients were asked if there were any design and/ or operational features that would make the proposed hotel and convention center stand out from other facilities (note: this was an open ended question).



Figure 6 - 5

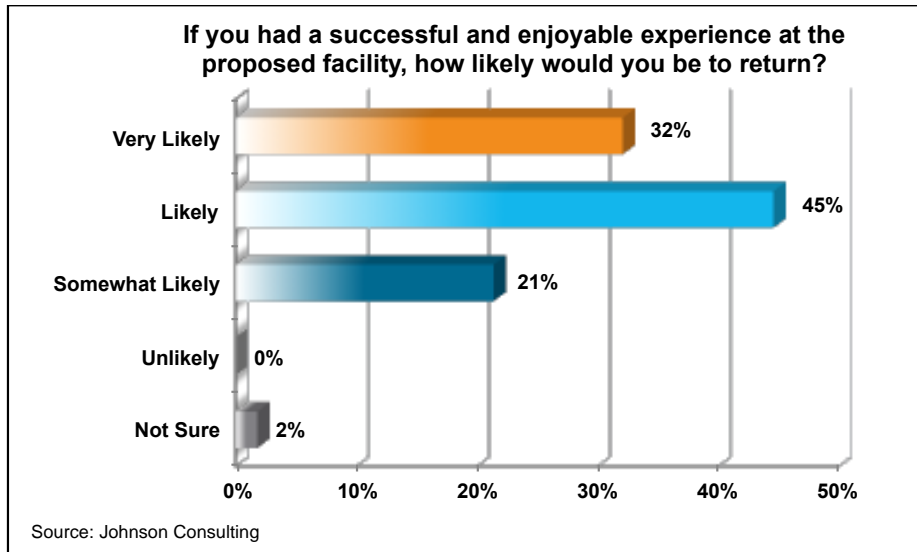


As shown, the most desirable feature of the proposed hotel and convention center is state-of-the-art technology, including screens and projectors (18 percent of respondents), followed by free WIFI, flexible space, ample breakout space, ample and attractive pre-function space, affordable rental rates, and ease of load in/ load out (all 12 percent of respondents).

The following figure provides a breakdown of responses when recipients were asked how likely they would be to return to the proposed hotel and convention center following a successful and enjoyable experience at the venue.



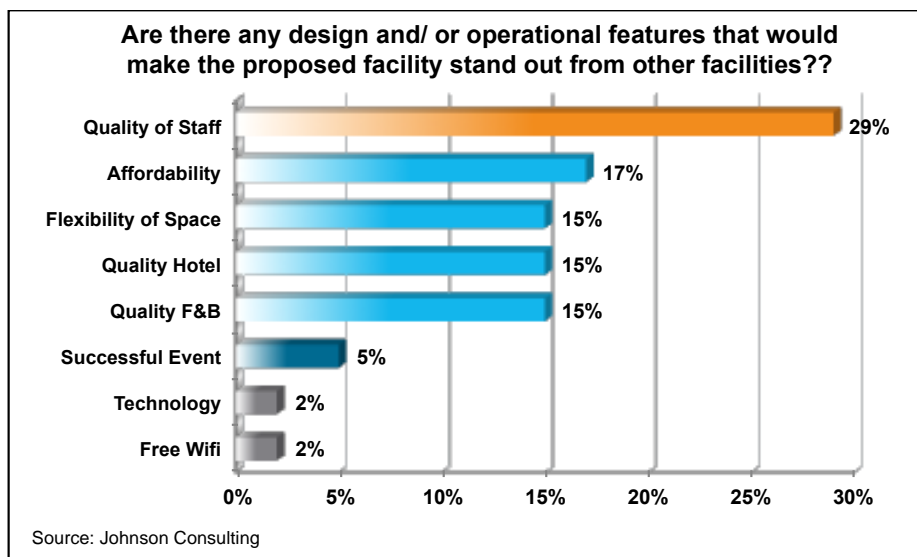
Figure 6 - 6



As shown, more than three-quarters of respondents (77 percent) would be ‘Very Likely’ or ‘Likely’ to return to the proposed hotel and convention center following a successful and enjoyable event. A further 21 percent of respondents would be ‘Somewhat Likely’ to return.

The following figure provides a breakdown of responses when recipients were asked to specifically identify the experiences that would bring them back to the proposed hotel and convention center (note: this question was open ended).

Figure 6 - 7





As shown, the quality of staff/ good customer service was the predominant experiences (accounting for 19 percent of respondents) identified as most likely to encourage repeat business. Additional factors include affordability (17 percent of responses), flexibility of space, quality of the hotel, and quality of food and beverage offerings (all 15 percent of responses), a successful event, that is profitable and achieves a high level of attendee satisfaction (5 percent), state-of-the-art technology (2 percent), and free WIFI (2 percent).

### **SOUTHERN U.S. AND PREFERRED VENUES**

Survey respondents were asked which southern U.S. destinations and/ or venues are best for their events. The top responses among survey respondents were as follows (note: this was an open-ended question):

- Hot Springs Convention Center (34 percent of respondents).
- Embassy Suites Little Rock Hotel and Convention Center (23 percent).
- Embassy Suites Northwest Arkansas – Rogers (11 percent).
- Hilton Branson Convention Center (9 percent).
- Fayetteville Town Center (6 percent).
- Wyndham Riverfront Little Rock (6 percent).
- Holiday Inn Fort Smith-City Center (6 percent).
- The Peabody Little Rock (6 percent).

### **CONCLUSION**

The general consensus among survey respondents, who included a mix of local, state, national, and corporate users, is that there is an opportunity for the proposed hotel and convention center to serve as a regional facility, if designed and marketed appropriately. State-of-the-art technology, along with free WIFI, flexible space, ample breakout space, ample and attractive pre-function space, affordable rental rates, and ease of load in/ load out were identified by survey respondents as being fundamental in encouraging repeat business.

Survey respondents ranked Russellville as ‘Fair’ with respect to hotel room availability. The proposed hotel will help to increase availability, and also provides an opportunity to incorporate a new restaurant(s) that will help enhance the overall quality of Russellville’s current food and beverage offerings, which is currently perceived as being ‘Fair’ to ‘Good’. To date, Surrey has not been marketed extensively to the convention and meetings industry, primarily due to a lack of a dedicated facility. The addition of the proposed hotel and convention center to the marketplace will help to raise awareness, and the appeal, of the destination. Although survey respondents classified Russellville’s entertainment offerings and nightlife as ‘Poor’, these factors did not rank particularly highly in terms of importance by survey respondents when selecting a destination for their event(s). Further, there is an opportunity to market the abundance of outdoor recreation opportunities that Russellville offers to entice both meeting planners and attendees alike.

**SECTION VII**  
HOTEL ANALYSIS

## HOTEL ANALYSIS

This section provides an assessment of Russellville’s lodging market and is based primarily upon data obtained from Smith Travel Research (STR), which is an independent hotel research firm whose statistics are widely used within the industry. STR has provided aggregate data on current and historic levels of supply and demand, as well as occupancy rates, Average Daily Rates (ADR) and Revenue per Available Room (RevPAR).

Our analysis specifically relates to the likely competitive set of the proposed hotel, which was defined based on an assessment of the date of development, size, tax collections and association with a major hotel chain of existing hotels in the Russellville marketplace. For the purposes of this analysis, the proposed hotel’s competitive set is defined as:

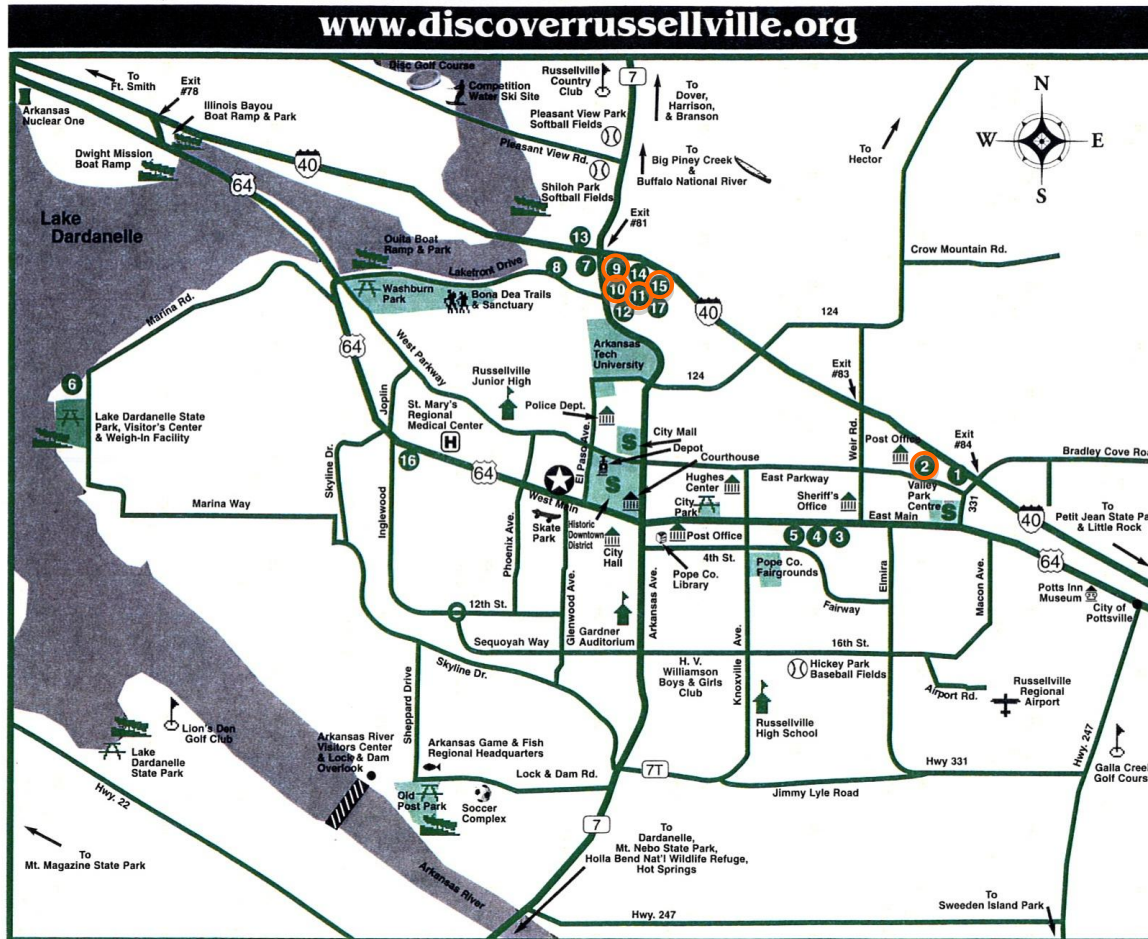
- Best Western (99 rooms).
- Fairfield Inn and Suites (73 rooms).
- Comfort Inn and Suites (70 rooms).
- La Quinta Inn and Suites (68 rooms).
- Hampton Inn (83 rooms).

The following figure provides an overview of Russellville’s hotel supply, highlighting the hotels within the competitive set. With the exception of the Comfort Inn and Suites, all of the hotels within the defined competitive set are located at Exit-81, within close proximity of the subject site. The Comfort Inn and Suites has been included in our analysis because of its relative quality, size and chain association.

Figure 7 - 1

# RUSSELLVILLE

[www.discoverrussellville.org](http://www.discoverrussellville.org)



Courtesy of:

**Russellville**  
**ARKANSAS**  
 Russellville Tourism & Visitors Center  
 708 West Main • Russellville, AR 72801  
 Ph. (479) 967-1762 • Fax (479) 968-5894  
 Email [promotion@russellville.org](mailto:promotion@russellville.org)

and the local businesses listed on the back

## LEGEND

-  Government Buildings
-  Parks
-  Schools
-  Shopping
-  Boat Ramps
-  Russellville Tourism & Visitors Center & Chamber of Commerce

## LODGING

- 1 Quality Inn • 479-967-7500 🐾
  - 2 Comfort Inn & Suites  
479-968-2424
  - 3 Woody's Classic Inn  
479-968-7774
  - 4 Relax Inn • 479-968-6332
  - 5 Budget Inn • 479-968-4959 🐾
  - 6 Russellville Marina & Cabins  
479-967-1543
  - 7 Hawthorn Inn & Suites 🐾  
479-968-4300
  - 8 Americas Best Value Inn 🐾  
479-968-5511
  - 9 Best Western • 479-967-1000
  - 10 Hampton Inn • 479-858-7199
  - 11 Fairfield Inn & Suites  
479-967-9030
  - 12 Economy Inn • 479-968-4400 🐾
  - 13 Motel 6 • 479-968-3666 🐾
  - 14 Super 8 • 479-968-8898 🐾
  - 15 La Quinta Inns & Suites 🐾  
479-967-2299
  - 16 Park Motel • 479-968-4862 🐾
  - 17 Days Inn • 479-280-1940
- 🐾 Pet friendly • Call for details

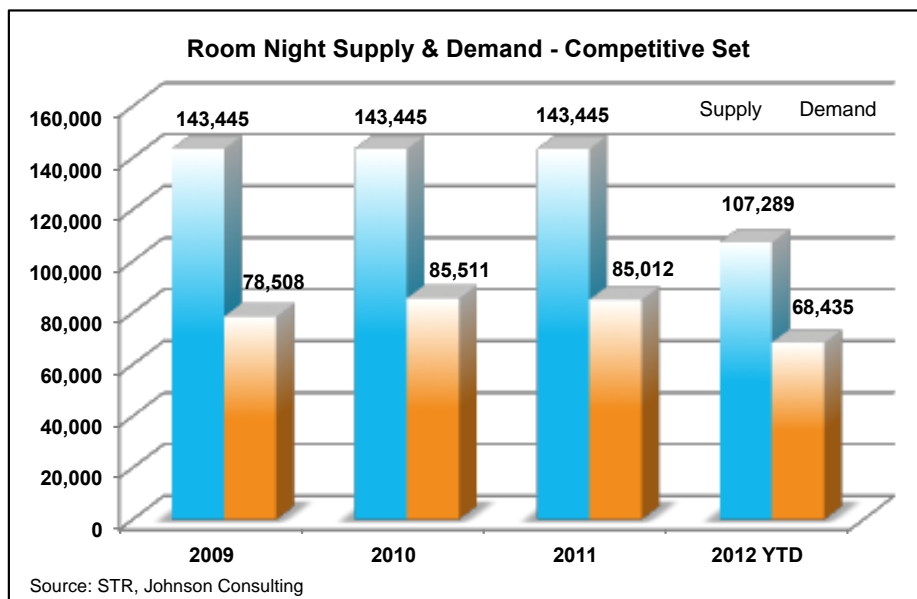
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STR only has complete records of the competitive set’s lodging statistics starting on October 2008 (as some properties were not built until 2008 and some did not participate in the reporting process prior to that time). As such, the following analysis relates to the competitive set’s annual statistics for 2009-2011, and year-to-date data for 2012 through September.

### ROOM NIGHT SUPPLY AND DEMAND

The following figure shows room night supply and demand within the competitive set, between 2009 and September 2012.

Figure 7 - 2

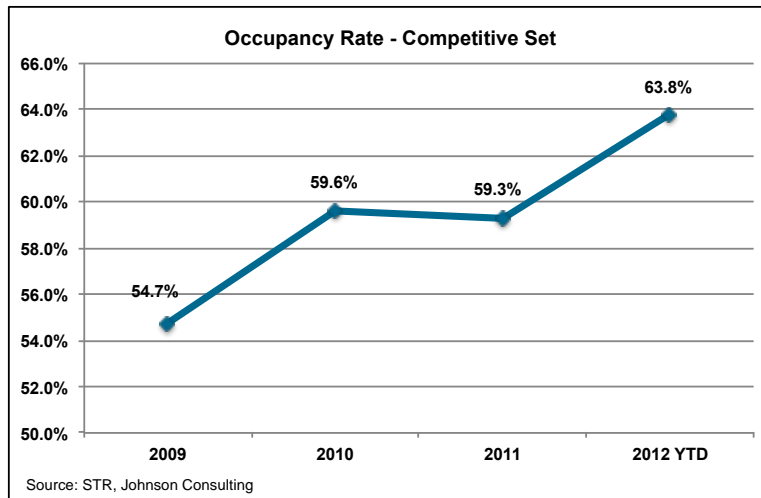


The competitive set’s room night supply has remained stable at 143,445 room nights per annum since 2009. Demand totaled 85,012 room nights in 2011, which represents a slight decrease over 2010 (85,511 room nights), but a substantial increase over 2009, when demand totaled 78,508 room nights. Between 2009 and 2011, room night demand increased at an average annual rate of 4.2 percent. As at September 2012, year-to-date data shows total demand of 68,435 room nights, which represents a substantial increase over the same period of 2011, when demand totaled 62,657 room nights.

### OCCUPANCY

The following figure shows the competitive set’s occupancy rate, between 2009 and September 2012.

Figure 7 - 3

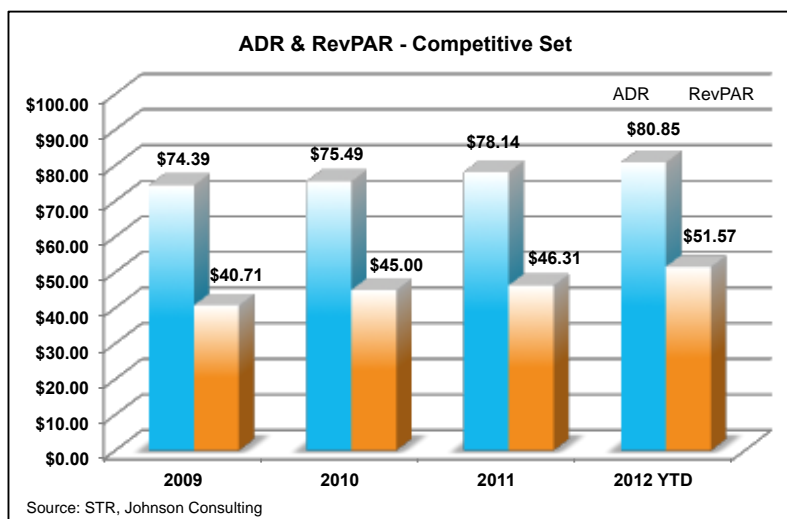


In 2011 the competitive set achieved an average occupancy rate of 59.3 percent, which represents a slight decrease over 2010 (59.6 percent), but a substantial improvement over 2009, when the occupancy rate averaged 54.7 percent. As at September 2012, year-to-date data continues the upward trend, with an average occupancy of 63.8 percent across the competitive set. This represents a significant improvement over the same period of 2011, when the overall occupancy rate was 58.4 percent.

### ADR AND REVPAR

The following figure shows the competitive set’s ADR and RevPAR, between 2009 and September 2012.

Figure 7 - 4



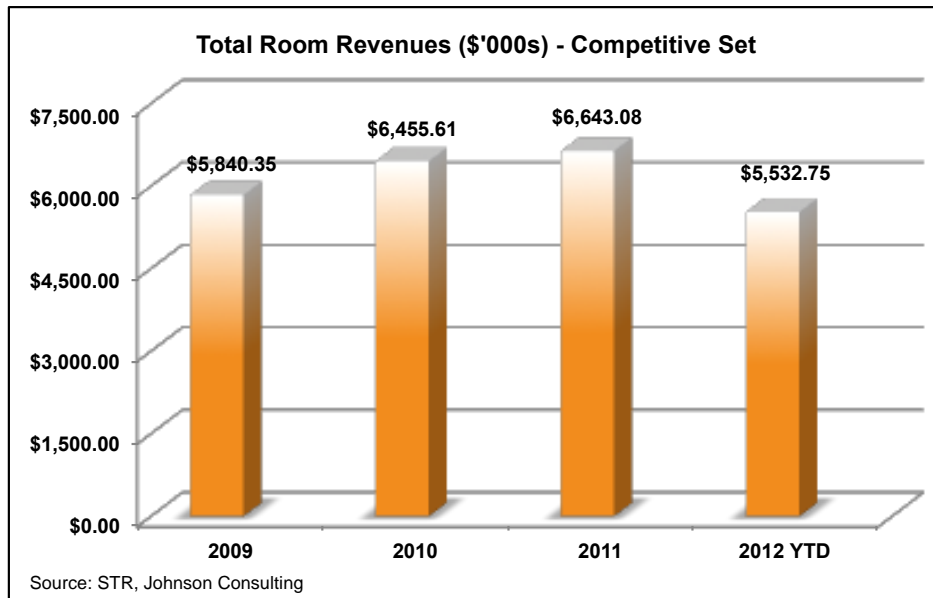
Between 2009 and 2011 the competitive set’s ADR and RevPAR steadily increased by average annual rates of 2.5 percent and 6.7 percent, respectively. In 2011, the ADR among the competitive set was \$78.14, while the

RevPAR was \$46.31. As at September 2012, year-to-date data shows a continued upward trend, with the ADR being \$80.85 and the RevPAR being \$51.57. These figures are substantially higher than figures for the same period of 2011, when the ADR was \$77.39 and the RevPAR was \$45.19.

### ROOM REVENUES

The following figure shows the competitive set’s total room revenues, between 2009 and September 2012.

Figure 7 - 5



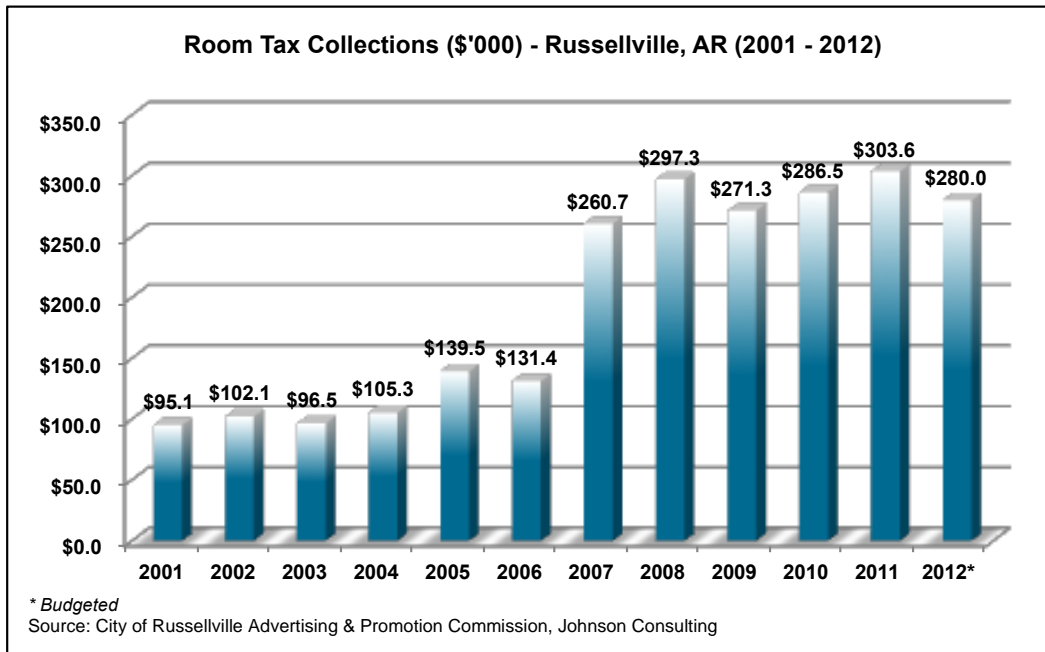
Between 2009 and 2011 the competitive set’s total room revenues steadily increased at an average annual rate of 6.7 percent, reaching \$6.6 million in 2011. As at September 2012, year-to-date data shows total room revenues of \$5.5 million, which is substantially higher than during the same period of 2011, when room revenues totaled \$4.8 million.

### ROOM TAX COLLECTIONS

The following figure shows room tax collections within the City of Russellville, between 2001 and 2012.



Figure 7 - 6



Room tax collections increased at a compounded annual rate of 10.3 percent between 2001 and 2012. The most significant growth occurred in 2007, when room tax collections increased by 98.4 percent over the previous year, due to an increase in the tax rate. In 2011 collections totaled \$303,568, with budgeted tax collections for 2012 totaling \$280,000.

### IMPLICATIONS

The preceding analysis highlights a general upward trend in key indicators among the competitive set. Although 2011 was a somewhat flat year in terms of occupancy, it showed significant growth in the competitive set’s average ADR and RevPAR, as well as total room revenues, key indicators of the health of the hotel market in Russellville. During the economic recession in the U.S., many hotels sacrificed ADR to maintain occupancy levels. Now that there is some stabilization, we are seeing ADRs increase nationally, and occupancy rates maintaining or increasing. Furthermore, year-to-date data as at September 2012 shows substantial improvement over the same period of 2011, indicating the return of positive momentum to the local market and creating suitable conditions to support a new hotel development.

**SECTION VIII**  
PROGRAM RECOMMENDATIONS AND PROJECTIONS

## PROGRAM RECOMMENDATIONS AND PROJECTIONS

Johnson Consulting has developed broad recommendations relating to the proposed hotel and convention center, based upon the research and analyses presented in prior sections of this report. This section presents these recommendations, along with demand and operating projections for the hotel and convention center. Our projections consider the proposed convention center and hotel components separately, and highlight the benefits of combining the development, construction, and financing of the convention center with the hotel project.

### FACILITY RECOMMENDATIONS

Based upon our assessment of the market opportunity for the proposed hotel and convention center, and our analysis of competitive and comparable facilities, it is our opinion that a masterplan for a facility with the following program of spaces should be developed:

- **Hotel:** A 200-room hotel, incorporating one or more restaurants. It is recommended that an Embassy Suites, Hilton Garden Inn, Marriott Courtyard, or similar brand, be sought for the development.
- **Multi-Purpose Event Space:** 15,000 square feet of flexible space that can be utilized a ballroom or exhibit hall, divisible into numerous smaller sections.
- **Meeting Rooms:** 6,000 square feet of meeting and breakout space.

Prior analysis and development concepts contemplated a 220-room Marriott Courtyard, as well as 18,000 square feet of meeting and ballroom space. This is confirmed in our analysis, although, for simplicity, we assume a 200-room hotel.

### CONVENTION CENTER

Our projections for the convention center component of the development assume the adjacent and simultaneous development of a chain-affiliated “limited service” 200-room hotel. The presence of this property, directly connected to the convention center, significantly increases the attractiveness of the facility to meeting planners. Without the hotel, the demand for conventions, conferences, tradeshow, and meeting events would be lower than the demand projected in this report. The site size allows for future room additions, which will only make the project more attractive.

### PROJECTED EVENTS

The proposed convention center will be designed to be sufficiently flexible to accommodate the needs of numerous diverse entities. The following table summarizes the projected event schedule, by event type, for the proposed convention center over a 10-year period from 2015, which is assumed to be the first full year of operation of the facility.

Table 8 - 1

Projected Events at Proposed Convention Center										
Event Type	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
<b>Exhibit Events</b>										
Conventions/ Trade Shows	25	28	32	35	35	35	35	35	35	35
Consumer Shows/ Specialty Shows	8	9	10	10	10	10	10	10	10	10
Sub-total Exhibit Events	33	37	42	45	45	45	45	45	45	45
<b>Cultural and Social Events</b>										
Meetings & Seminars	70	71	72	73	73	73	73	73	73	73
Banquets	55	56	57	58	58	58	58	58	58	58
Entertainment Events	2	3	4	5	5	5	5	5	5	5
Other/ Civic Events	35	36	37	38	38	38	38	38	38	38
Sub-total Cultural and Social Events	162	166	170	174	174	174	174	174	174	174
<b>Total</b>	<b>195</b>	<b>203</b>	<b>212</b>	<b>219</b>	<b>219</b>	<b>219</b>	<b>219</b>	<b>219</b>	<b>219</b>	<b>219</b>

Source: Johnson Consulting

The convention center is projected to host 195 events in 2015 (Year 1), of which 33 events are projected to be Exhibit Events and 162 events are projected to be Cultural and Social Events, as follows:

- Conventions and Tradeshows:** Generally held by associations, professional groups, and other membership organizations. In 2015, the proposed convention center is projected to host 25 conventions and tradeshows. In 2019 (Year 5), conventions and tradeshows are projected to stabilize at 35 events.
- Consumer and Specialty Shows:** Generally larger events than tradeshows, in terms of average attendance. Consumer and specialty shows, including with boating and fishing events, are projected to account for 8 events at the proposed venue 2015, and stabilize at 10 events in 2019.
- Meetings:** Generally require less space and attract fewer attendees than events in exhibition halls. It is projected that the venue will host 70 in 2015, increasing to 73 meetings in 2019. These meetings would be room night generating events.
- Banquets:** Generally smaller events that utilize a facility's breakout or meeting space, but the differ from meetings because they feature catered meals and relate primarily to gatherings such as luncheons and award dinners. It is projected that the venue will host 55 banquets in 2015, increasing to 58 banquets in 2019.
- Concerts and Entertainment Events:** The venue can be used for entertainment. Concerts and entertainment events, including touring concerts, family, cultural festivals, and other similar events. Concerts and entertainment events are projected to total 2 events in 2015, and stabilize at 5 events in 2019. Not included in this figure are entertainment events that may occur as part of fishing tournaments, etc.

- **‘Other’ Events:** These are events that are not considered to be part of the categories discussed above and may include, for example, community events such as graduations, school functions, and other public events that are not consumer shows. It is projected that the venue will host 35 ‘other’ events in 2015, increasing to 38 ‘other’ events in 2019.

These projections are relatively conservative when compared to the demand schedules of the comparable facilities discussed in Section 5 of this report. We assume that Exhibit Events will comprise 10-20 percent of total events at the proposed conference center, which is consistent with our observations of comparable facilities.

## PROJECTED ATTENDANCE

The following table shows projected attendance at the proposed convention center from 2015 through 2024.

**Table 8 - 2**

Projected Attendance at Proposed Convention Center										
Event Type	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
<b>Exhibit Events</b>										
Conventions/ Trade Shows	8,500	9,500	10,900	12,300	12,600	13,000	13,300	13,700	14,000	14,400
Consumer Shows/ Specialty Shows	8,000	14,000	14,000	14,100	14,200	14,300	14,400	14,500	14,600	14,900
Sub-total Exhibit Events	16,500	23,500	24,900	26,400	26,800	27,300	27,700	28,200	28,600	29,300
<b>Cultural and Social Events</b>										
Meetings & Seminars	14,000	14,200	14,400	14,600	14,600	14,600	14,600	14,600	14,600	14,600
Banquets	16,500	16,800	17,100	18,000	18,600	19,100	19,700	20,300	20,900	21,500
Entertainment Events	2,300	3,800	4,600	6,200	6,400	6,500	6,600	6,800	6,900	7,000
Other/ Civic Events	30,600	30,600	32,300	32,900	33,400	34,000	34,800	35,500	36,300	37,100
Sub-total Cultural and Social Events	63,400	65,400	68,400	71,700	73,000	74,200	75,700	77,200	78,700	80,200
<b>Total</b>	<b>79,900</b>	<b>88,900</b>	<b>93,300</b>	<b>98,100</b>	<b>99,800</b>	<b>101,500</b>	<b>103,400</b>	<b>105,400</b>	<b>107,300</b>	<b>109,500</b>

Source: Johnson Consulting

Total attendance is projected to be 79,900 persons in 2015, increasing to 99,800 persons in 2019. Attendance is projected to increase with increases in the number of events, as shown in the previous table, but average attendance at individual events is also projected to increase year-on-year. As such, when the event schedule remains steady, as is assumed beyond year 2019 (Year 5), total attendance is still projected to increase slightly. Our figures do not include people days, or attendees that come to the venue on multiple days for one event, which may be included in visitor counts at other venues.

Projected attendance by event type is summarized as follows:

- **Conventions and Tradeshows:** In 2015, attendance at the venue’s conventions and tradeshows is projected to total 8,500 people, representing an average approximately 340 persons per event. This is consistent with the type and size of convention and tradeshow events that the facility is expected to accommodate. Exhibitors will be in the market for several days, while buyers may come for a day or

two, unless there is an educational curriculum associated with the event. The schedule of events is projected to stabilize in 2019, with average attendance projected to be approximately 360 persons per event.

- **Consumer and Specialty Shows:** Average attendance at consumer shows is projected to be 1,000 persons per event in 2015, increasing to 1,460 persons per event in 2019. This equates to a total attendance of 8,000 persons in 2015, increasing to 14,200 persons in 2019.
- **Meetings:** In 2015 average attendance at meetings held at the proposed convention center is estimated at 200 persons per event, totalling 14,000 attendees. The demand schedule for meetings is projected to stabilize in 2019, with attendance averaging 205 persons per event and totalling 14,600 persons across all meetings. This is consistent with meeting attendance observed at comparable venues.
- **Banquets:** In 2015, the 55 banquets projected at the convention center are expected to attract a total of 16,500 attendees, representing an average attendance of 300 people per event. Attendance at banquets in projected to increase to 18,600 people in 2019, representing an average of 320 persons per event.
- **Concerts and Entertainment Events:** The 2 concerts and entertainment events projected in 2015 are expected to attract a total of 2,300 attendees, representing an average of 1,150 spectators per event. The demand schedule for concerts and entertainment events is projected to stabilize at 5 events in 2019, with attendance averaging 1,280 persons per event.
- **'Other' Events:** In 2015, 'other' events at the convention center are projected to attract 30,600 attendees, representing an average attendance of approximately 875 people per event. Total attendance at 'other' events is projected to increase to 33,400 persons in 2019.

## DEMAND SUMMARY

In summary, the proposed convention center is projected to host 195 events in 2015 (Year 1), attracting a total of 79,900 attendees. The event schedule is projected to stabilize at 219 events in 2019 (Year 5), with a total attendance of 99,800 people. These demand projections are in line with comparable facilities. When one compares this level of demand to the previously profiled case studies, we conclude this facility and market will perform reasonably well.

## OPERATING PROJECTION

The following table presents a summary of the projected operating statement for the first 10 full years of operation of the convention center, based upon the operating projections as described in the preceding section of this report (Section 8 Program Recommendations and Demand Projection). Revenues include all



revenues that can be used for operations. Expenses are categorized into two groups – **1) Direct Operating Expenses**, which are expenses related directly to the operation of, and demand, for the facility and vary depending on the volume of activity, and **2) Indirect Expenses**, which are incurred regardless of the level of activity at the facility. All revenues and expenses are inflated at a 2.5 percent annual rate.



**Table 8 - 3**

<b>Proposed Convention Center - Pro Forma Operating Statement of Revenue and Expenses (Inflated Dollars)</b>											
	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>
<b>Revenue</b>											
<b>Event Revenue</b>											
Space Rental	--	\$264,350	\$297,020	\$325,360	\$371,172	\$382,262	\$391,886	\$399,734	\$407,781	\$416,043	\$424,310
Net Food and Beverage	--	492,220	538,453	587,783	645,180	675,829	707,608	740,596	774,793	810,235	847,241
Equipment Rentals	--	72,696	83,723	94,004	109,921	116,035	121,930	127,482	133,299	139,400	145,724
Event Services	--	1,057	1,218	1,367	1,599	1,688	1,774	1,854	1,939	2,028	2,120
Advertising Revenue	--	33,750	34,594	35,459	36,345	37,254	38,185	39,140	40,118	41,121	42,149
Other Revenue	--	50,000	50,000	51,250	52,531	53,845	55,191	56,570	57,985	59,434	60,920
Land Lease Income											
Grant Income											
<b>Total Operating Revenue</b>	<b>\$0</b>	<b>\$914,074</b>	<b>\$1,005,007</b>	<b>\$1,095,222</b>	<b>\$1,216,748</b>	<b>\$1,266,912</b>	<b>\$1,316,573</b>	<b>\$1,365,377</b>	<b>\$1,415,914</b>	<b>\$1,468,261</b>	<b>\$1,522,464</b>
<b>Direct Operating Expenses</b>											
Contract Services	--	161,158	179,349	197,678	221,882	233,072	244,350	255,645	267,399	279,633	292,374
Utilities	--	225,000	230,625	236,391	242,300	248,358	254,567	260,931	267,454	274,141	280,994
Maintenance & Repairs	--	47,583	54,800	61,530	71,948	75,950	79,809	83,442	87,250	91,243	95,383
Supplies	--	10,574	12,178	13,673	15,988	16,878	17,735	18,543	19,389	20,276	21,196
Other Expenses	--	400	460	510	600	630	670	700	730	760	790
<b>Sub-total Operating Expenses</b>	<b>\$0</b>	<b>\$ 444,715</b>	<b>\$ 477,412</b>	<b>\$ 509,782</b>	<b>\$ 552,719</b>	<b>\$ 574,887</b>	<b>\$ 597,131</b>	<b>\$ 619,261</b>	<b>\$ 642,222</b>	<b>\$ 666,054</b>	<b>\$ 690,737</b>
<b>Indirect Expenses</b>											
Management Fee	--	100,000	102,500	105,063	107,689	110,381	113,141	115,969	118,869	121,840	124,886
Salaries and Wages	--	380,000	389,500	399,238	409,218	419,449	429,935	440,683	451,701	462,993	474,568
Employee Benefits	--	95,000	97,375	99,809	102,305	104,862	107,484	110,171	112,925	115,748	118,642
Sales and Marketing	--	50,000	51,250	52,531	53,845	55,191	56,570	57,985	59,434	60,920	62,443
General and Administrative	--	40,000	41,000	42,025	43,076	44,153	45,256	46,388	47,547	48,736	49,955
Insurance	--	84,994	87,119	89,297	91,529	93,817	96,163	98,567	101,031	103,557	106,146
Other Expenses	500,000	20,000	20,500	21,013	21,538	22,076	22,628	23,194	23,774	24,368	24,977
<b>Sub-total Indirect Expenses</b>	<b>\$ 500,000</b>	<b>\$ 769,994</b>	<b>\$ 789,244</b>	<b>\$ 808,975</b>	<b>\$ 829,199</b>	<b>\$ 849,929</b>	<b>\$ 871,178</b>	<b>\$ 892,957</b>	<b>\$ 915,281</b>	<b>\$ 938,163</b>	<b>\$ 961,617</b>
<b>Total Expenses</b>	<b>\$ 500,000</b>	<b>\$ 1,214,709</b>	<b>\$ 1,266,656</b>	<b>\$ 1,318,757</b>	<b>\$ 1,381,918</b>	<b>\$ 1,424,817</b>	<b>\$ 1,468,309</b>	<b>\$ 1,512,218</b>	<b>\$ 1,557,503</b>	<b>\$ 1,604,217</b>	<b>\$ 1,652,354</b>
<b>Net Operating Income (Deficit)</b>	<b>\$ (500,000)</b>	<b>\$ (300,636)</b>	<b>\$ (261,649)</b>	<b>\$ (223,535)</b>	<b>\$ (165,170)</b>	<b>\$ (157,905)</b>	<b>\$ (151,736)</b>	<b>\$ (146,842)</b>	<b>\$ (141,589)</b>	<b>\$ (135,955)</b>	<b>\$ (129,890)</b>
<b>Reserve for Replacement</b>	<b>\$ -</b>	<b>\$ 100,000</b>	<b>\$ 100,000</b>	<b>\$ 100,000</b>	<b>\$ 100,000</b>	<b>\$ 200,000</b>	<b>\$ 200,000</b>	<b>\$ 200,000</b>	<b>\$ 200,000</b>	<b>\$ 200,000</b>	<b>\$ 200,000</b>
<b>Net Income (Deficit) Before Debt Service</b>	<b>\$ (500,000)</b>	<b>\$ (400,636)</b>	<b>\$ (361,649)</b>	<b>\$ (323,535)</b>	<b>\$ (265,170)</b>	<b>\$ (357,905)</b>	<b>\$ (351,736)</b>	<b>\$ (346,842)</b>	<b>\$ (341,589)</b>	<b>\$ (335,955)</b>	<b>\$ (329,890)</b>

Source: Johnson Consulting



As shown, the proposed convention center is expected to operate at a net deficit throughout the projection period. However, the projected deficits are consistent with those observed at convention centers of similar size and orientation, as is explained in greater detail at the end of this section. Hence, the funding structure contemplated for the proposed convention center should address some funding resource to support operations slightly. Also, if the facility is operated as part of the hotel, which is recommended, savings in staff and marketing can occur, thereby reducing the operating deficit.

It is noted that land lease and grant income, if any, have not been included in these revenue projections, as assessing the value of this income stream is outside the scope of this assignment. As such, the operating deficits shown in the figure above are considered to be worst-case scenario at the time of these projections. It is our considered opinion, however, that opportunities exist for capturing both of these revenue streams and this should be explored in further detail as the project progresses.

## OPERATING REVENUE

The following table summarizes the assumptions applied to the various revenue stream line items included in the facility's operating pro forma.

**Table 8 - 4**

Revenue Assumptions		
Line Item	Units	2014 Base Year
<b>Revenue</b>		
<b>Space Rental</b>	per GSFD*	\$ 0.10
<b>Equipment Rental Rate</b>	per thousand GSFD	\$ 27.50
<b>Event Services</b>	% of total revenue	40%

\* Gross Square Foot Days  
Source: Johnson Consulting

Key elements of these assumptions and revenue projections include:

- Space Rentals:** Include the temporary rental of exhibit and meeting space, and other facilities, utilized for events. Assumptions of rental revenue per square foot are based upon a per-event or per-square foot rate. Gross Square Foot Days (GSFD) relate to the number of square feet of occupied exhibit space multiplied by the total number of event days. The projections assume an average rental rate of \$0.10 per GSFD. Space rental revenue is projected to be \$264,350 in 2015, which is the convention center's first full year of operation, increasing to \$382,262 in 2019.
- Net Food and Beverage:** Our projections assume that an outside organization is contracted to provide concessions and catering services. Revenue projections are based upon event attendance and reflect a percentage of gross sales that the organization will pay to the venue for the right to be the

exclusive provider of concessions, novelties, and catered meals. Net food and beverage revenue is projected to be \$492,220 in 2015, increasing to \$675,829 in 2019. Net food and beverage is calculated at 40 percent of gross sales. The following table provides a breakdown of food and beverage assumptions used for this projection.

Table 8 - 5

Food & Beverage Revenue Assumptions		
Line Item	Units	2014 Base Year
<b>Revenue</b>		
<b>F&amp;B Revenue (Gross)</b>		
Conventions/ Trade Shows	per attendee	\$ 20.00
Consumer Shows/ Specialty Expos	per attendee	\$ 1.10
Meetings & Seminars	per attendee	\$ 10.00
Banquets	per attendee	\$ 20.00
Entertainment Events	per attendee	\$ 1.00
Other/ Civic Events	per attendee	\$ 0.50

Source: Johnson Consulting

As seen in the Coralville project, discussed in Section 5 of this report, our number is very conservative. Good and beverage sales could actually be much greater.

- Equipment Rentals:** Includes the rental of furniture, audio/visual, and other equipment. The projections are based upon the total GSF of rental, with equipment rental revenue projected to be \$72,696 in 2015, increasing to \$116,035 in 2019.
- Event Services:** Includes revenue from services and reimbursements for labour provided to exhibitors, concert promoters, and other facility users. Facilities typically charge their users for a range of services, including electrical, cleaning, telephone, internet, decorating, audio/visual, and security. The facility will receive revenue from the provision of these services, either through direct charges provided by facility staff or through shared revenues from services provided through third-party vendors. The costs of temporary labour for stagehands, police, ushers, and paramedics, among others, are also recovered from facility tenants. Event services and cost-recovery revenue is projected to be \$1,057 in 2015, increasing to \$1,688 in 2019.
- Advertising:** Revenues are generated from the inventory of signage strategically located in the ballroom, concourses and other areas. Typically, advertising revenues are split between a facility owner and a private manager or marketing firm that sells the space. The total value of the advertising inventory is assumed to be \$75,000 and, of this amount, 90 percent is assumed to be sold each year. Many advertising contracts are long-term, for a constant amount until renewal, however, for the

purpose of this projection advertising revenues have been inflated each year. Net advertising revenue retained by the facility owner is projected to be \$33,750 in 2015, increasing to \$37,254 in 2019.

- **Other Revenues:** Represents miscellaneous revenues, such as those generated from vending machines. Other revenues are projected to be \$50,000 in 2015, inflated to \$53,845 in 2019.

In 2015 total operating income for the proposed convention center is projected to be \$914,074, increasing to \$1,266,912 in 2019. These figures are consistent with those recorded for comparable venues, as is the distribution of revenues, which shows that approximately half of revenues are attributable to food and beverage sales and half are attributed to space rental and general operations.

## EXPENSES

Direct expenses are those that fluctuate based on the usage of facilities. These expenses are contract services, utilities, building maintenance and repair, supplies, and other direct expenses. The following table presents a summary of assumptions utilized to project direct expenses for the convention center.

**Table 8 - 6**

Direct Expense Assumptions		
Line Item	Units	2014 Base Year
<b>Direct Expenses</b>		
Contract Services	per thousand GSFD	\$ 20.00
Maintenance & Repair	per thousand GSFD	\$ 18.00
Supplies	per thousand GSFD	\$ 4.00
Insurance	per attendee	\$ 0.80
Other Expenses	% of direct expenses	15%

Source: Johnson Consulting

Key elements of these assumptions and expense projections include:

- **Contract Services:** Depend on the level of facility utilization and are calculated based upon the number of rented GSFD. Contract services include cleaning, security, and electrical services and are projected to be \$161,158 in 2015, increasing to \$233,072 in 2019.
- **Utilities:** Reflect the facility's utility cost and are based upon the volume of activity within the venue. Utility expenses are projected to be \$225,000 in 2015 and increasing to \$248,358 in 2019.
- **Building Maintenance and Repair:** Reflects unscheduled maintenance associated with particular events occurring at the facility. This expense is calculated based on the GSFD of facility use and is projected to be \$47,583 in 2015, increasing to \$75,950 in 2019.



- **Supplies:** Expenses relating to supplies are projected to be \$10,574 in 2015, increasing to \$16,878 in 2019.
- **Other Expenses:** Relatively small expenditures that may vary based upon facility usage. Direct ‘other’ expenses are projected to be \$400 in 2015, increasing to \$630 in 2019.

In 2015 total direct expenses for the proposed convention center is projected to be \$444,715, increasing to \$574,887 in 2019. These figures are consistent with those recorded for comparable venues, as is the distribution of direct and indirect expenses.

### INDIRECT EXPENSES

Indirect expenses are those that do not vary based upon the number of events or attendance levels. These expenses include:

- **Management Fee:** Johnson Consulting assumes that a private management company, or organization such as the hotel operator, will be contracted to operate the proposed convention center. The actual management fee paid by the facility could be calculated in a number of different ways, including incentives based upon the facility’s operating and financial performance. As a minimum, it is anticipated that the convention center will pay to its management company a fee of \$100,000 per year.
- **Salaries and Wages:** The projections assume that the convention center will open with a staff of 9 full-time equivalent employees, as shown in the following table.

**Table 8 - 7**

Projected Staffing at Proposed Convention Center	
Position/ Department	# of Employees
Manager	1
Sales Manager	1
Event Manager	1
Engineer	2
Clerical	2
Staff	2
<b>Total</b>	<b>9</b>

*Source: Johnson Consulting*

Total payroll is assumed to be \$380,000 in 2015, increasing to \$419,449 in 2019, although it is noted that payroll is another expense that is highly dependent on decisions made by the owner.

- **Employee Benefits:** Estimated as a percentage of Salaries and Wages, and including workers' compensation, taxes, health and life insurance, vacation, and pension benefits. Benefits are assumed to be 25 percent of Salaries and Wages, equating to \$95,000 in 2015 and increasing to \$104,862 in 2019.
- **Sales and Marketing:** Reflect the expense incurred by the facility for marketing in addition to efforts made by outside agencies, such as the Convention and Visitors Bureau. This expense is comprised of the purchase of media and direct marketing and is projected to be \$50,000 in 2015, increasing to \$55,191 in 2019. This expense is inflated throughout the projection period.
- **General and Administrative:** Expenses relating to expenditures for staff training, travel, and registrations and memberships, along with printing, postage, and other small expenses. Based on the experience of similar facilities, general and administrative expenses are projected to be \$40,000 in 2015, increasing to \$44,153 in 2019. This amount is inflated throughout the projection period.
- **Insurance:** This expense is projected to be \$84,994 in 2015, increasing to \$93,817 in 2019. This amount is inflated throughout the projection period.
- **Other Expenses:** Small expenses that are not considered general and administrative, such as uniforms, tools and equipment, and gasoline. 'Other' expenses are projected to be \$20,000 in 2015, increasing to \$22,076 in 2019. A pre-opening budget of \$500,000 is also included in 'other' expenses.

In 2015 total indirect expenses for the proposed convention center is projected to be \$769,994, increasing to \$849,929 in 2019. These figures are consistent with those recorded for comparable venues, and reflect an appropriate distribution of direct and indirect expenses at the proposed venue.

## TOTAL EXPENSES

Total expenses at the proposed convention center, including direct and indirect expenses, are projected to be \$1,214,709 in 2015, increasing to \$1,424,817 in 2019. The ratio of revenues to expenses at the proposed venue is consistent with similar facilities.

## NET OPERATING INCOME (DEFICIT)

After consideration of all operating revenues and expenses, the proposed convention is projected to experience a pre-opening net operating deficit of (\$500,000), followed by a net operating deficit of (\$300,636) in 2015, improving to a deficit of (\$157,905) in 2019 and (\$129,890) in 2024.

The **Reserve for Replacement** account funds major planned projects, such as carpet, equipment, and roof replacement, as well as other scheduled maintenance programs that are not routine or paid for by the **Building Maintenance and Repair** account. Although facilities usually have unique schedules for funding their



Reserve for Replacement accounts, the annual amount deposited typically increases as the facility ages. For the proposed convention, the total deposit is assumed to be \$100,000 in 2015, increasing to \$200,000 in 2019.

After consideration of all revenues, expenses, and the deposits to the Reserve for Replacement account, the proposed convention center’s net operating deficit is projected to be (\$400,636) in 2015, (\$357,905) in 2019, and (\$329,890) in 2024.

It is noted that our projections do not include grant income or land lease income, however it is recommended and assumed that there will be continual capital and grant seeking activities that can result in annual operating resources for the venue.

## HOTEL

### DEMAND PROJECTIONS

The following table shows the projected market demand mix for the proposed hotel in Year 5 (2019), which is assumed to be the facility’s stabilized year.

**Table 8 - 8**

Projected Market Demand Mix	
	2019
Corporate	39%
Group	45%
Leisure	16%
Total	100%

*Source: Johnson Consulting*

As shown, the largest demand segment is projected to be the Group market, accounting for 45 percent, followed by the Corporate market, which is assumed to account for 39 percent of demand in 2019. The predominance of these demand segments reflects the presence of the proposed hotel and convention center, as well as the strategic location of Russellville, which drives demand from the transient market.

### OPERATING PROJECTION

The following table presents a summary of the projected income and expense statement for the first 10 full years of operation of the proposed hotel. The estimates of income and expense are based on the results of operations of comparable hotels. It is noted that ‘PAR’ stands for ‘Per Available Room’ and ‘POR’ stands for ‘Per Occupied Room Night’.



Table 8 - 9

Statement of Operating Proforma - 200-Room New Hotel (in \$000, Inflated)														
	2015			2016	2017	2018	2019		2020	2021	2022	2023	2024	
1 Room Count	200			200	200	200	200		200	200	200	200	200	
2 Available Room Nights	73,000			73,000	73,000	73,000	73,000		73,000	73,000	73,000	73,000	73,000	
3 Occupancy Rates	52.8%			57.5%	61.1%	63.6%	63.6%		63.6%	63.6%	63.6%	63.6%	63.6%	
4 Occupied Room Nights	38,513			41,960	44,627	46,455	46,455		46,455	46,455	46,455	46,455	46,455	
5 Average Daily Rate	\$92.54			\$96.75	\$100.09	\$103.48	\$106.06		\$109.24	\$112.52	\$115.89	\$119.37	\$122.95	
6 RevPAR	\$48.82			\$55.61	\$61.19	\$65.85	\$67.49		\$69.52	\$71.60	\$73.75	\$75.96	\$78.24	
7 Percent of Change from Prior Year	--			13.9%	10.0%	7.6%	2.5%		3.0%	3.0%	3.0%	3.0%	3.0%	
<b>Revenue</b>		<b>%</b>	<b>PAR</b>	<b>POR</b>				<b>%</b>						
8 Rooms	\$3,564	88.8%	\$17,820	\$92.54	\$4,059	\$4,467	\$4,807	\$4,927	86.2%	\$5,075	\$5,227	\$5,384	\$5,545	\$5,712
9 Hotel Food and Beverage	219	5.5%	1,096	5.69	284	352	422	432	7.6%	445	459	472	486	501
10 Telephone	22	0.5%	110	0.57	25	28	31	32	0.6%	32	33	34	35	37
11 Other Operated Departments	127	3.2%	633	3.29	152	177	200	205	3.6%	211	217	224	231	238
12 Rentals and Other Income	83	2.1%	413	2.14	95	106	115	118	2.1%	122	125	129	133	137
13 Total Hotel Revenue	\$4,014	100.0%	\$20,072	\$104.24	\$4,617	\$5,130	\$5,575	\$5,714	100.0%	\$5,885	\$6,062	\$6,244	\$6,431	\$6,624
<b>Expenses</b>														
14 Rooms	\$1,276	35.8%	\$6,380	\$33.13	\$1,413	\$1,510	\$1,577	\$1,616	32.8%	\$1,664	\$1,714	\$1,766	\$1,819	\$1,873
15 Hotel Food and Beverage	208	95.0%	1,041	5.41	270	334	401	411	95.0%	423	436	449	462	476
16 Telephone	29	131.1%	144	0.75	33	37	40	41	131.1%	43	44	45	47	48
17 Other Operated Departments	4	3.0%	19	0.10	5	5	6	6	3.0%	6	7	7	7	7
18 Rent and Other Income	1	1.5%	6	0.03	1	2	2	2	1.5%	2	2	2	2	2
19 Total Hotel Expenses	\$1,518	37.8%	\$7,590	\$39.42	\$1,722	\$1,888	\$2,025	\$2,076	36.3%	\$2,138	\$2,202	\$2,268	\$2,336	\$2,407
20 Departmental Operating Income	\$2,496	62.2%	\$12,482	\$64.82	\$2,894	\$3,242	\$3,550	\$3,638	63.7%	\$3,747	\$3,859	\$3,975	\$4,095	\$4,217
<b>Undistributed Operating Expenses</b>														
21 Administrative and General	\$325	8.1%	\$1,626	\$8.44	\$374	\$415	\$452	\$463	8.1%	\$477	\$491	\$506	\$521	\$537
22 Credit Card Commissions	60	1.5%	301	1.56	69	77	84	86	1.5%	\$88	91	94	96	93
23 Marketing	357	8.9%	1,786	9.28	406	446	479	491	8.6%	\$506	521	537	553	570
24 Utility Costs	201	5.0%	1,004	5.21	231	256	279	286	5.0%	\$294	303	312	322	331
25 Property Operations and Maintenance	141	3.5%	703	3.65	185	231	279	286	5.0%	\$294	303	312	322	331
26 Total	\$1,084	27.0%	\$5,419	\$28.14	\$1,265	\$1,426	\$1,572	\$1,611	28.2%	\$1,660	\$1,709	\$1,761	\$1,814	\$1,861
27 Gross Operating Profit	\$1,412	35.2%	\$7,062	\$36.67	\$1,630	\$1,815	\$1,977	\$2,027	35.5%	\$2,087	\$2,150	\$2,215	\$2,281	\$2,356
<b>Selected Fixed Charges</b>														
28 Property Taxes	\$161	4.0%	\$803	\$4.17	\$180	\$190	\$195	\$200	3.5%	\$206	\$212	\$219	\$225	\$232
29 Insurance	32	0.8%	161	0.83	37	41	45	46	0.8%	47	48	50	51	53
30 Total	\$193	4.8%	\$963	\$5.00	\$217	\$231	\$240	\$246	4.3%	\$253	\$261	\$268	\$277	\$285
31 Income Before Management Fees	\$1,220	30.4%	\$6,099	\$31.67	\$1,413	\$1,585	\$1,738	\$1,781	31.2%	\$1,834	\$1,889	\$1,946	\$2,004	\$2,071
32 Management Fee and Chain Services	\$112	2.8%	\$562	\$2.92	\$129	\$144	\$156	\$160	2.8%	\$165	\$170	\$175	\$180	\$185
33 Income after Management Fees	\$1,107	27.6%	\$5,537	\$28.75	\$1,283	\$1,441	\$1,582	\$1,621	28.4%	\$1,670	\$1,720	\$1,771	\$1,824	\$1,886
34 Reserve for Replacement	\$0	0.0%	\$0	0.00	\$0	\$0	\$0	\$0	0.0%	\$0	\$0	\$0	\$0	\$0
35 Project Net Operating Income	\$1,107	27.6%	\$5,537	\$28.75	\$1,283	\$1,441	\$1,582	\$1,621	28.4%	\$1,670	\$1,720	\$1,771	\$1,824	\$1,886

Source: Johnson Consulting

Hotel gross income is projected to be \$4.0 million in 2015, increasing to \$5.7 million in 2019. Net operating income is projected to be \$1.1 million in 2015, increasing to \$1.6 million in 2019. Net operating income as a percentage of revenue is projected to increase from 27.6 percent in 2015 to 28.4 percent in 2019.

## DISTRIBUTED INCOME AND EXPENSES

Key assumptions and projections related to distributed income and expenses are summarized as follows:

- **Rooms Department:** Room revenue is calculated by multiplying the estimated occupied room nights by the estimated average daily rate (ADR) projected in this analysis. Based on the projected ADR and room nights previously presented, room revenue is projected to account for 88.8 percent of total revenue in 2015, decreasing to 86.2 percent by 2019. Rooms department expenses include payroll and related costs associated with the front desk and housekeeping, operating supplies, laundry linens, cable television, and other items necessary to maintain guest rooms. Expenses are estimated at 35.8 percent of room sales in 2015 and 32.8 percent in 2019.
- **Food and Beverage:** Based on similar hotel performance, and assuming that the intention is to maximize food and beverage revenue at the convention center, it is projected that the hotel will generate \$219,000 in food and beverage sales in 2015, based on \$5.69 per occupied room night (POR), and increasing to \$432,000 in 2019. Food and beverage expenses for the hotel amount to 95 percent of food and beverage revenue throughout the projection period.
- **Telephone Department:** Telephone usage is declining in hotels due to cellular phone use. Estimated telephone revenue is based on the experience of the similar convention properties, and thus a projection of \$0.57 POR was used in 2015. The projection estimates expenses at 131.1 percent of telephone revenue throughout the period, as most guests use their cell phones now.
- **Other Operated Departments:** This income category is typically comprised of smaller departments that generate income from activities such as valet laundry, business services, and similar others. This income category is estimated to begin at \$3.29 per occupied room night in 2015. The projection estimates expenses of other operated departments at approximately 3.0 percent of revenue over the projection period, based on actual results from similar properties.
- **Rentals and Other Income:** This income category is typically comprised of interest, rental of equipment, in-house leases, commissions on vending machine sales, movies, and other miscellaneous income. This income category is typically highly dependent on occupancy. The projection estimates that rental and other income will be \$2.14 per occupied room in 2015. The expenses related to rental and other income are usually estimated and reported to be zero by hotel companies. This projection assumes an expense ratio of 1.5 percent.



## UNDISTRIBUTED OPERATING EXPENSES

Operating expenses that are not chargeable to a particular operating department are presented as undistributed operating expenses in accordance with the Uniform System of Accounts for hotels. These expenses are discussed in the following paragraphs.

- **Administrative and General:** This category covers expenses such as salaries and wages for management staff, bookkeeping, credit card commissions (which we have estimated separately), data processing charges, corporate office charges, office supplies, legal, accounting, allowance for bad debts, travel expenses, and similar items. General insurance (liability, business risk, etc.) is included in the Administrative and General (A&G) category. These expenses are expected to amount to 8.1 percent throughout the projection period.
- **Credit Card Commissions:** It is estimated that credit card commissions amount to 1.5 percent of total revenue throughout the projection period. These are pass-through expenses and do not provide revenue to the operator.
- **Marketing Expenses:** Marketing expenses include wages, salaries, employee benefits and payroll costs for a sales staff, local advertising, national brand system marketing costs, the cost of printing brochures, and other related items. Based on the marketing expenses typical for convention hotels, the projection estimates that marketing expenses begin at 8.9 percent of total revenues, declining to 8.6 percent.
- **Utilities:** Johnson Consulting estimates that utility expenses will be 5.0 percent of total revenue throughout the projection period.
- **Property Operations and Maintenance:** Property operations and maintenance expenses include salaries and wages, employee benefits, other payroll costs, normal maintenance of the building and grounds, landscaping and electrical and mechanical equipment. Based on the comparable information, property operations and maintenance expenses are expected to be 3.5 percent of total revenue in 2015 and due to typical wear-and-tear increase to 5.0 percent in 2019.

## FIXED CHARGES

Key assumptions and projections related to fixed charges are summarized as follows:

- **Property Taxes:** For the proposed hotel, property taxes are estimated at 4.0 percent in 2015.
- **Insurance:** This insurance category covers only the cost of building and contents insurance and no liability insurance. The liability insurance is found in the A&G expense. Based on the experience of similar properties, this expense is estimated to be 0.8 percent throughout the projection period.



- **Management Fees and Chain Services:** Unless the hotel is financed using tax-exempt bonds, the management fee will be generally based upon a percentage of revenues. The chain services expense includes the payments the hotel owes to the corporate parent for the company's rewards program and a variety of other services performed centrally by the chain company for its managed hotels. For the proposed hotel, the management fee and chain services combined are projected to be 2.8 percent annually, or \$112,000 in 2015, increasing to \$160,000 in 2019.
- **Reserve for Replacement:** As is standard for income-producing properties, a reserve for replacement for furniture, fixtures, and equipment, as well as other long-lived items has been included in this analysis. According to the HOST reports, the reserve for replacement in the competitive set is reported as 0.0 percent.

## CONCLUSION

As highlighted in the case studies presented Section 5 of this report, convention centers typically incur an operating deficit each year. However, the economic impact that these facilities have on their local and regional communities usually far outweighs the loss incurred. Deficit reduction may be achieved by allowing the convention center hotel operator to manage the convention facilities. Economies of scale and overhead reductions will result from joint management of the two facilities. However, if the hotel were to assume management of the convention center, the City should seek assurances that the convention center will be marketed and operated in a manner that maximizes the number of room nights generated by convention center events citywide, while at the same time will be available for community use. This objective could be accomplished through a formal booking policy that includes a written agreement that sets out procedures to be followed to insure that citywide events are given priority at the convention center. This will improve the overall impact of the proposed convention center on the City.

Whether the hotel operator or a professional management company operate the convention center, the City should also negotiate a room block commitment agreement with the hotel operator that would assure that an adequate number of hotel rooms would be available to accommodate attendees of convention center events. This room block commitment agreement would set aside a certain number of rooms each month for attendees to convention center events. Furthermore, the agreement would provide that the hotel operator charge competitive room rates for such group business.

The preceding projections are in line with comparable facilities, from both a demand and operating statement perspective, and are considered to be fair and reasonable. There are a myriad of policy, management and operating decisions to be made from this point forward. Many of these are material and could affect demand and financial performance of the proposed development.

**SECTION IX**  
IMPLEMENTATION STRATEGY

## IMPLEMENTATION STRATEGY

The proposed project has the potential to be an outstanding urban renewal asset, from which residents of the region, local businesses and educational institutions will all benefit. City leadership used a very clever strategy to secure and land bank the site, without any debt, and save a fund for working capital and reserves. The entire site is not needed for the hotel and convention center, so additional revenue providing assets exist. Depending on how the deal comes together, the excess land and associated taxes could provide the required resource base to cross subsidize the costs required to fund capital for the convention center and to fund capital improvements.

The next phase of work requires preparation of an RFP. As the city will learn, the development community comes from two main camps - locals with a desire to execute a project such as this, with commercial development experience, but without hotel experience per se; and regional and national hotel developers, a few of which also have commercial real estate experience. The site funding will have to be artful and finding the right partner, combined with public officials able to weave the balance of public investment, is essential.

This analysis documents the economics for a hotel and convention center. In round numbers, the hotel and convention center is a \$35 to \$40 million project. The hotel will cash flow at the occupancy and rate projected, and an agreement can be visualized where the City can have the facility pose no operational risk, on an ongoing basis. The project economics do not address the convention center capital budget, which is estimated at \$12 to \$15 million (included as part of the overall \$35 to \$40 million project cost), and will require funding.

We are confident that by combining hotel and convention center operations, about \$300,000 in savings can be accomplished. We also believe that sales of land, land lease income, and “District” based taxes such as TIF property, hotel and sales taxes could be sufficient to address the capital requirements of the convention center. Dual strategies for other projects are provided below, outlining examples used in other markets.

## FINANCING STRATEGIES FOR PUBLIC ASSEMBLY FACILITIES

In North America, cities or special purpose entities usually finance convention center construction with public debt, which is repaid over a 20 to 30-year period. Sources of funds used to repay the debt are usually tax revenues, and are often those generated from activities or businesses that are most likely to use, or otherwise benefit from, the facility. Hotel room occupancy taxes, sales taxes, car rental fees, parking taxes, meals taxes, airport access fees, and development fees are the revenue sources most commonly used to repay debt service. In addition, these tax sources are frequently used to finance the ongoing operating and marketing needs of the facility.

The mix of revenue sources selected in any given case depends upon the comparative level of existing taxes or fees, as well as what is considered to be both fair and feasible under the unique political and economic circumstances relating to each development. In most communities, a high level of commitment and

coordinated community-wide effort that includes both state and local governments, and possibly the private sector, is necessary to successfully fund a project.

## FINANCING MECHANISMS

The primary types of financing mechanisms for convention centers include:

- **Pay-As-You-Go Financing:** Projects that are relatively small, or that are financed in municipalities with rapidly growing tax bases, are sometimes paid for directly out of appropriated funds. The majority of facilities, however, are financed with long-term debt so that the repayment of capital costs corresponds to the period over which the facility is used and its economic benefits are realized.
- **General Obligation Bond Financing:** Long-term bonding using the general obligation of the city, county, and/ or state, either directly as part of a capital outlay program, or as guaranteed debt of an authority, provides relatively strong credit and relatively low borrowing costs for a project. General obligation bonding is typically reserved for projects perceived to benefit the population as a whole, such as educational, environmental, transportation, or correctional facilities, and is not often used directly for convention center financing.
- **Revenue Bond Financing:** Various taxes, fees, or other dedicated revenues could secure revenue bonds for a new convention center. Most of the recent convention center, and similar public assembly facility, projects in North America have used this financing structure, which can be tailored to fit the specific requirements of the local and state governments involved.

## PUBLIC PARTICIPATION IN HOTEL DEVELOPMENT

Public entities have owned hotels for many decades, as evidenced by numerous land lease structures at airports and in downtown settings. However, more direct participation has been called for as the private sector has had difficulty in obtaining hotel financing at reasonable equity and interest rate levels, if at all. Public participation can help hedge the financial risk in the early ramp-up years of a convention center hotel property. Credit enhancements, tax turn backs and abatements, and capital investment that count towards equity are tools that are used to get over the initial bubble. The public sector has creatively dealt with participation in many ways, sometimes unique to state and local regulations.

## PUBLIC SPONSORSHIP VIA TAX-EXEMPT BONDS

The most direct form of public participation is public ownership of the asset, allowing the hotel to qualify for tax-exempt financing and avoid property taxes. The City invests in the hotel as an insurance policy for its convention center and urban renewal efforts. While tax-exempt bond funding originated with larger projects and markets, it is now common in all market sizes.

Tax-exempt financing is achieved via creation of a publicly owned, tax-exempt bond financed structure. It utilizes a single purpose tax-exempt entity created by the public sector to issue revenue bonds to finance the construction of the project. The bonds are primarily secured by net cash flow from the hotel and hotel occupancy taxes, and may or may not be enhanced with bond insurance. These bonds typically require some financial backstop from a political jurisdiction, which is dependent on the strength of the local hospitality market, coverage ratios, and leverage levels of each project. Unfortunately, the spread for high yield tax-exempt bonds for new construction hotel projects has significantly widened resulting in increased financial backstops to secure investors.

The advantages to this approach are:

- An ability to get the deal done within the public sector’s timeline.
- Developing a hotel when the private sector is unwilling to invest in it.
- Exceedingly low cost of capital compared to a privately financed alternative.
- Ability to capture the upside of the project’s performance for assuming downside risk through profit distributions, which would otherwise flow to the private sector.
- The long-term nature of the financing.
- The public ownership of the project at bond retirement.

The disadvantages are:

- The significantly increased amounts of financing required to capitalize credit enhancement and financing reserves.
- Negative public perception and reaction to a publicly-owned hotel, which we have seen delay projects for several years in other markets nationally.
- Restrictions on performance-based contracts.
- Long-term performance risk.

#### **PUBLIC/ PRIVATE PARTNERSHIPS**

Traditional public investment, in the form of inducements to bridge the financing gap, has taken the form of land assemblage, public payments for parking and infrastructure, and funding public components of the hotel, such as meeting and ballroom space. This approach was used in Louisville for the Hilton Garden Inn, Fort Wayne for the new Marriot Courtyard, and in many other markets. Another strategy uses grants, tax abatements, or the creation of districts where taxes earned in the district are used to fund the public contribution. Often a combination of these sources is used to make a project happen, as has been demonstrated in numerous instances.

Land leases are also a common incentive for hotel developers. In some cases, a public entity may acquire the necessary land and lease it back to the developer for below market rates. The advantage to land leases is that they lower the development costs and allow the cost of the land to be amortized and subsequently paid for out of operating revenues.

Examples of incentives provided by public agencies to stimulate hotel development include:

- Tax abatement.
- Tax rebates.
- Tax Increment Financing (TIF).
- Equity participation.
- Construction of meeting space, parking structure, and/or other infrastructure.
- Credit enhancement of financing.
- Land assemblage.
- Rebate of development fees for licensing, permitting and water and sewer hookup fees.
- Free or nominal ground rent.
- Section 108 loans.
- Community Development Finance Authority (CDFA) grants or Community Development Block Grants (CDBG).

## SMALL TO MID-MARKET HOTEL DEVELOPMENT CASE STUDIES

### ST. CHARLES, MISSOURI

St. Charles, Missouri, located approximately 40 miles west of downtown St. Louis, is a growing suburb with a long history of attracting tourists to its well-preserved downtown and Lewis and Clark. Nearby riverboat gaming and the development of an arena provided critical mass to the City's cache of attractions. St. Charles worked for years to leverage that success by building a convention facility, with a hotel of good quality and size adjacent to the center being essential to the development's success. After several failed attempts, the City entered into a deal with John Q. Hammons (JQH) to develop the hotel and approved the building of the convention center.

**PROJECT:** The St. Charles Convention Center features approximately 27,600 square feet of exhibit space, two ballrooms totaling 20,000 square feet, and 9,300 square feet of meeting rooms. An adjacent convention center hotel is a 300-room Embassy Suites, funded by JQH.

**FINANCING:** The \$32.5 million convention center was funded by the City, while the \$40 million hotel is a public-private partnership with JQH. The City essentially provided free land to the hotel project and allows the hotel to run the convention center’s food and beverage operations. This provides the hotel with more revenue than it otherwise would have generated on its own and guarantees that the two integrated projects work together. The City formed a property and sales tax TIF around the hotel and uses the revenues from the TIF to partially fund the convention center. The hotelier pays 5 percent of food and beverage sales to the convention center, yielding an incentive to the hotel in the range of \$4 million over the first 30 years of the project. JQH agreed to pay 0.75 percent of gross hotel sales to expand the convention center ballroom. Global Spectrum is managing the convention center for the City.

### SALEM, OREGON

Salem is the capital of Oregon, yet due to its small size, had no primary meeting facility or full-service hotel. City leaders and the private sector came together to develop a combined facility that would help accommodate latent demand, and induce additional demand for space and room nights in the market.

**PROJECT:** The project is a combined 29,000-square foot conference center (with an 11,000 square foot ballroom), and Phoenix Grand Hotel with 193 suites and a restaurant. There is also a 400-space garage under the complex.

**FINANCING:** The private sector land-owner and hotel developers sold the land to the City for an amount equal to purchase and holding costs, as well as costs to demolish existing structures, estimated to be \$1.5 million. The development was then split into condominiums with easements so that the City retained ownership of the conference center and garage and the developer retained ownership of the hotel. The conference center element is funded by redevelopment agency tax revenues. No management fee is paid, but the developer retains all profits from the hotel and non-conference center food and beverage sales.

The hotel owner/operator agreed to operate the entire complex and take responsibility for conference center and garage losses up to \$100,000 in initial years and \$300,000 per year after the third year. The City funds operating losses beyond these amounts. In a complex arrangement, the purchase price for the land paid to the developer was dedicated as part of the developer’s contribution to the conference center operating gain/loss reserve (\$1.5 million). If the conference center and garage generate a profit, then these revenues are split with the City. The City’s portion is dedicated to the gain/loss reserve. The City also contributes \$300,000 per year to the gain/loss reserve until the reserve hits \$4 million.

### RECOMMENDATIONS

The various operating strategies and financing mechanisms detailed in this section are being utilized all throughout North America. As municipalities and local governments are becoming more aware of the economic and fiscal benefits that public assembly facilities create for the community, they are increasingly



issuing public debt over either the short- or long-term, the latter of which incurs significantly minimized risk due to the greater impact the venue produces for the community.

The best strategy varies from location to location, and is also influenced by the type of public assembly facility that is being considered. As demonstrated by the case studies presented in Section 5 of this report, there are very few successful public/ private partnerships that do not include some form of operating subsidy from the City. As the City continues to consider the proposed hotel and convention center, a detail analysis of available financing options, and the appropriateness of each, must be taken. The next logical step would be to explore the potential to leverage other land uses on the subject site, notably retail, to generate additional revenue to support the proposed hotel and conference center.