ANALYSIS OF THE OPERATIONS AND SALES OF THE LANCASTER COUNTY CONVENTION CENTER

Presented to the:

Lancaster County Convention Center Authority

May 16, 2012

CONVENTIONS SPORTS & LEISURE

May 16, 2012

Mr. Kevin R. Molloy
Executive Director
Lancaster County Convention Center Authority
25 South Queen Street
Lancaster, PA 17603

Dear Mr. Molloy:

Conventions, Sports & Leisure (CSL) has completed a draft of the analysis of the operation and sales of the Lancaster County Convention Center (Convention Center or Center). The research conducted as part of this study included extensive local interviews, analysis of historical Convention Center operations, analysis of competitive destinations and facilities and an overview of conditions in Lancaster County and within the region that impact the operations of the Center. The attached report presents our research, analysis and findings and is intended to assist facility management in evaluating various issues pertaining to the future of the Convention Center. The review of bond documents is presented as Appendix 1.

The analysis presented in this report is based on estimates, assumptions and other information developed from in-person interviews, industry research, market data, and analysis of competitive/comparable facilities and communities. Due to the inherent uncertainty involved with predicting future events and local/industry conditions, CSL will make no representation or warranty as to the findings or recommendations contained within any of our analyses, including any estimates, and shall have no liability for any representations (expressed or implied) contained in, or for any omissions from, such information. CSL cannot be held responsible for any future marketing efforts and/or other management actions on which future performance will depend.

We sincerely appreciate the assistance and cooperation we have been provided in the completion of this report and would be pleased to be of further assistance in the interpretation and application of our findings.

Very truly yours,

CSL International

CSL International

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I. Introduction

It is our understanding that the Lancaster County Convention Center Authority (Authority) has been directed by Wells Fargo Bank (WFB) to seek the services of a qualified consultant to conduct an analysis and recommend measures necessary to achieve compliance with the Debt Service Coverage Ratio and the Liquidity Covenant as defined in the Lancaster County Convention Center Authority's Hotel Room Rental Tax Revenue Bond indenture. As such, Conventions, Sports and Leisure International (CSL) was retained by the Authority, as required by WFB, to conduct an independent analysis of the financing, operations and sales of the Convention Center. A component of this project also included consideration of the overall Lancaster County Tourism product, and its effect on the generation of Lancaster County Hotel Room rental tax revenue.

In performing this assignment, our analysis focused on research and evaluation of the effectiveness of Convention Center operations, sales and marketing of the facility by the various involved entities, a review of governing documents, qualified management and other agreements, and other relevant documentation. The analysis addresses a number of key operational and performance areas, including assessment of market capture, financial operations/policies/procedures, sales and marketing issues, stakeholder relations and other such issues. In addition to detailed research and analysis specific to the Convention Center, a comprehensive benchmarking and best practices analysis was completed.

This report outlines the key findings associated with the analysis of local market conditions, historical Convention Center operations, competitive and comparable markets and facilities and other important characteristics specific to the Lancaster market.

The study process consisted of detailed research and analysis, including a thorough set of market-specific information derived from the following:

- More than 40 in-person interviews/meetings with Convention Center and Pennsylvania Dutch Convention and Visitors Bureau (PDCVB) management and sales staff, and other Lancaster visitor industry representatives.
- Site visits to the Convention Center, local hotel properties and other visitor amenities.
- Research and analysis of local and regional convention and visitor industry market resources and performance.
- Analysis of data from approximately 15 competitive and comparable facilities and markets.
- Analysis of lost business records (as maintained by the PDCVB).
- Review of surveys conducted with current and past users of Convention Center and/or Marriott event facilities.
- Analysis of existing documents and parameters regarding the financing and operations of the Center including QMA's, bond indentures, and other relevant project documents.
- Comparison of actual Convention Center performance versus projected or budgeted levels over recent years, focusing on areas such as attendance, room nights, space occupancy, revenue generation and cost containment, future year bookings and pace, customer satisfaction, etc.

This report consists of the following primary analysis sections:

- *Analysis of Local and Regional Market Conditions* – presents analysis of local attributes and hospitality infrastructure (i.e., event space, hotels, visitor amenities, transportation), relationships with visitor industry stakeholders, and other such factors.
- *Analysis Convention Center Utilization and Demand* – provides a review of utilization levels, event mix and related operational characteristics of the Convention Center.
- *Analysis of Competitive and Comparable Facilities and Markets* – provides a comparison of various physical characteristics and resources of competitive and comparable facilities and their host cities relative to the convention and visitor industry.
- *Analysis of Convention Center Financial Operations* – presents an analysis of the financial operations of the Convention Center since its opening. This analysis also includes benchmark analysis of various Convention Center performance measures against a set of comparable facilities.
- *Conclusions* – synthesizes the research and analysis conducted to this point into a series of findings and suggestions designed to enhance and improve various sales, marketing, management, operations and other important considerations.

II. Analysis of Local and Regional Market Conditions

A community's hospitality infrastructure, in terms of entertainment, attractions, hotels, restaurants and other such factors, can contribute significantly to the success of any event facility. The marketability of a convention center increases when a supporting visitor amenity infrastructure exists within close proximity, ideally within walking distance. As such, CSL has conducted an analysis of these and other local market attributes as they relate to the greater Lancaster area.

Stakeholder Interviews

In-person one-on-one interviews and/or focus groups with key local individuals and business leaders were conducted in Lancaster over several days to gain an understanding of the local market's attitudes with regard to the sales and operation of the Convention Center, Lancaster as an event destination, and other important factors. These interviews have included individuals such as representatives/officials of the Authority, Convention Center, PDCVB, City, Penn Square Partners, Chamber of Commerce, James Street Improvement District (JSID), hoteliers, restaurateurs, business leaders, and other civic and visitor industry representatives. Exhibit I-1 presents a summary of the individuals and organizations interviewed during this process.

Exhibit II-1
Summary of Stakeholder Meetings

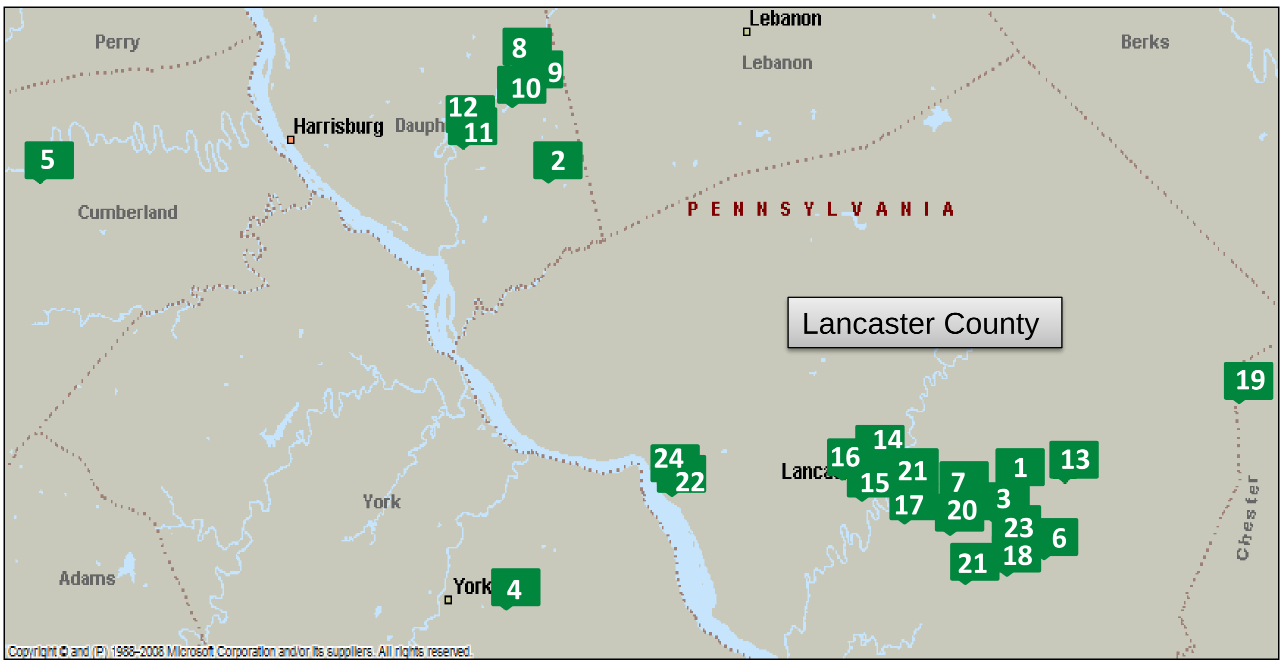
Name	Title	Organization
Al Duncan	Chair	LCCC Fiscal Impact & Recovery Task Force (PDCVB)
Blaise Holzbauer	Taskforce Member	LCCC Fiscal Impact & Recovery Task Force (PDCVB)
Bob Shoemaker	President	Lancaster Alliance
Chris Barrett	President	Pennsylvania Dutch Convention & Visitors Bureau
Chuck Simmons	Taskforce Member	LCCC Fiscal Impact & Recovery Task Force (PDCVB)
Craig Ebersole	Treasurer	Lancaster County
Craig Lehmann	County Commissioner	Lancaster County
David Nickoloff	President	Economic Development Company of Lancaster County
Dennis Stuckey	County Commissioner	Lancaster County
Deryl Stoltzfus	Taskforce Member	LCCC Fiscal Impact & Recovery Task Force (PDCVB)
Doug Shand	LCCCA Board	Lancaster County Convention Center Authority
Frank McCabe	Board Member	Penn Square Partners (Lancaster Marriott at Penn Sq)
Greg Paulson	Chief of Staff	Representative Mike Sturla's office
Josh Nowak	Director of Marketing & Sales	Lancaster County Convention Center, Lancaster Marriott @ Penn Sq., Interstate Hotels & Resorts
Kevin Fry	Chair, LCCCA Board	Lancaster County Convention Center Authority
Kevin R. Molloy	Executive Director	Lancaster County Convention Center Authority
Larry Hinnenkamp	LCCCA Board	Lancaster County Convention Center Authority
Lisa Riggs	Executive Director	James Street Improvement District
Mark Fitzgerald	Executive Vice President & COO	Penn Square Partners (Lancaster Marriott at Penn Sq)
Mark Moosic	General Manager	Lancaster County Convention Center, Lancaster Marriott @ Penn Sq., Interstate Hotels & Resorts
Mary Ellen Davis	Business Manager	Lancaster County Convention Center Authority
Michelle Gehman	President	Greater Lancaster Hotel Motel Association
Nevin Cooley	President	Penn Square Partners (Lancaster Marriott at Penn Sq)
Pat Snyder	Secretary LCCCA Board	Lancaster County Convention Center Authority
Peter Chiccarine	Member	Greater Lancaster Hotel Motel Association
Randy Patterson	RACL/Economic Development	City of Lancaster
RB Campbell	Treasurer, LCCCA Board	Lancaster County Convention Center Authority
Rep. Mike Sturla	State Representative 96th District	Commonwealth of Pennsylvania
Rick Gray	Mayor	City Of Lancaster
Rick Stammel	Chair, Board of Directors	Pennsylvania Dutch Convention & Visitors Bureau
Scott Martin	Chair, County Commissioners	Lancaster County
Sharron Nelson	Vice Chair, LCCCA Board	Lancaster County Convention Center Authority
Steve Geisenberger	LCCCA Accountant	Walz, Diehm, Geisenberger, Bucklin & Tennis, CPA's
Steve Sickking	Member	Greater Lancaster Hotel Motel Association
Tom Baldrige	President	Lancaster Chamber of Commerce
Tom Esser	VP Government Banking	Wells Fargo Bank
Tony Calvaresi	Relationship Manager	Wells Fargo Bank

Visitor Base and Primary Attractions

The greater Lancaster area and surrounding "Pennsylvania Dutch Country" has established itself is a well-branded, successful visitor destination. According to PDCVB estimates, as a whole, the destination attracts as many as 11 million annual visitors. The Bureau estimates that this visitor activity accounts for approximately $818 million in direct economic impact and nearly $460 million in indirect economic impact. Travel and tourism is reported to be the County's second largest industry employing nearly 40,000 people, both directly and indirectly. Recent growth in this industry has been noted as well. Based on statistics from Smith Travel Research Inc., visitors to Lancaster County booked a record 1.42 million room-nights in 2011. The previous record was 1.40 million, set in 2007.

We begin with a review of some of the primary regional attractions that drive this important industry. Exhibit II-2 presents a map highlighting the locations of several primary regional attractions.

Exhibit II-2
Primary Area Attractions



1	Aaron & Jessica's Buggy Rides	9	HERSHEYPARK	17	Railroad Museum of Pennsylvania
2	Adventure Sports in Hershey	10	Hershey's Chocolate World	18	Rockvale Outlet Center
3	Amish Village	11	Indian Echo Caverns	19	September Farm Cheese
4	AvalancheXpress Snow Tubing	12	Julius Sturgis Pretzel Bakery	20	Sight & Sound Theatre
5	Carlisle Sports Emporium	13	Kitchen Kettle Village	21	Strasburg Rail Road
6	Cherry Crest Adventure Farm	14	Lancaster Barnstormers Baseball	22	Susquehanna Glass Factory Outlet and Tour
7	Dutch Wonderland Family Amusement Park	15	Lancaster Quilt & Textile Museum	23	Tanger Outlet Center
8	Hershey Garden	16	President James Buchanan's Wheatland	24	Turkey Hill Experience

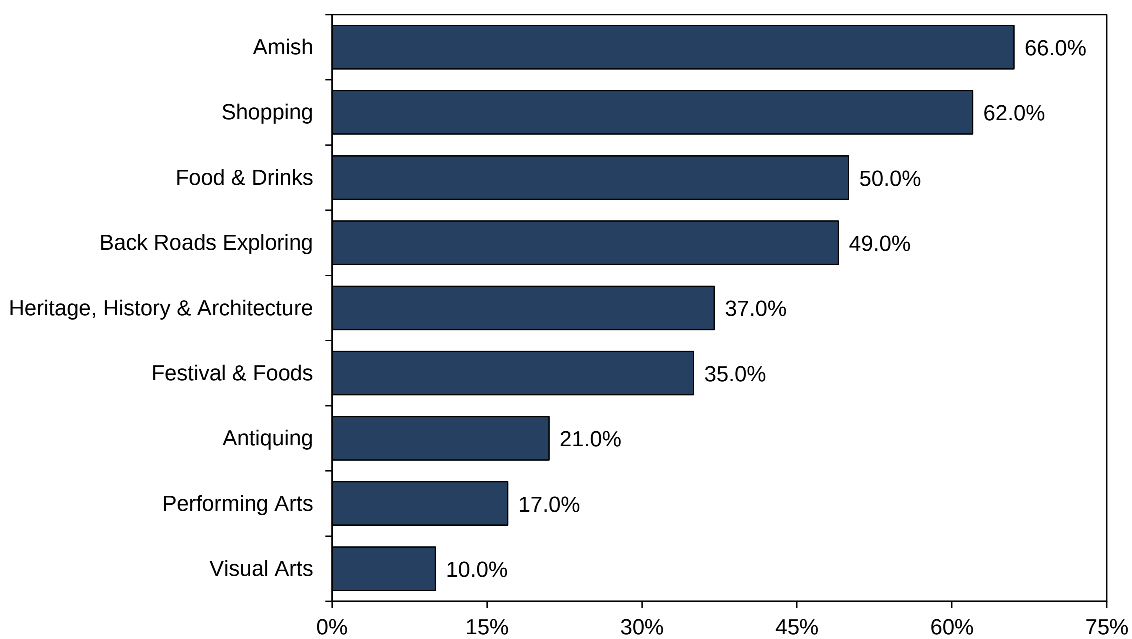
As presented above, a wide variety of unique attractions and entertainment options combine to provide a highly-unique visitor experience that is reflective of the area's history, inhabitants, natural attractions, attractions, etc. The PDCVB has been successful in packaging these assets to both domestic and international visitors.

In addition to those listed above, a variety of attractions, amenities and experiences surrounding the area's rich Amish heritage continue to attract visitors to Lancaster County. These include, but are not limited to the following:

- Amish Experience Theatre
- Amish Farm and House Countryside Tours
- Bacon Hollow Farm Amish Guest House
- Bird-in-Hand Restaurant & Smorgasbord
- Dutch Haven
- George's Woodcrafts
- Green Dragon
- Hans Herr House and Museum
- Hershey Farm Restaurant's Grand Smorgasbord
- Kitchen Kettle Village
- Mennonite Historical Society
- Strasburg Country Store & Creamery

Based on information collected in a 2009 survey with visitors to the area (conducted on behalf of the PDCVB), we have also assessed primary factors that attract travelers to the region. Exhibit II-3 summarizes the results of this research. It should be noted that, as oftentimes multiple factors contributed to a decision to travel to Lancaster County, the values to add to more than 100 percent.

Exhibit II-3
Primary Reasons for Visiting Lancaster County



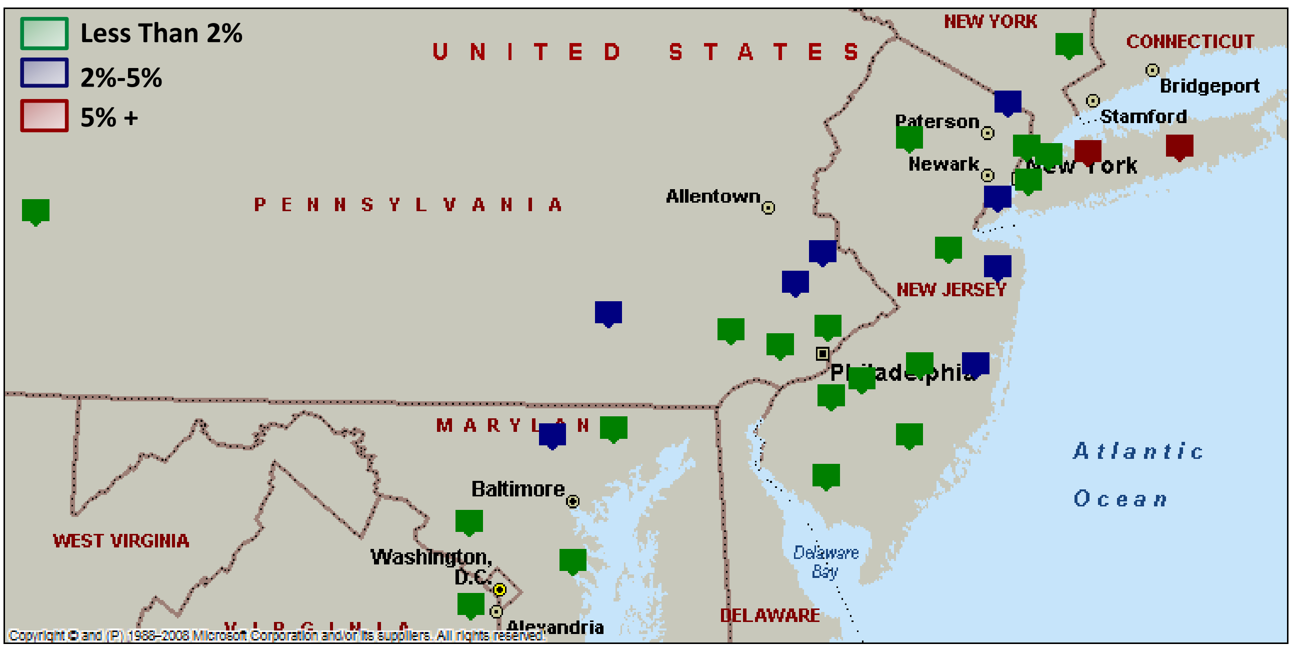
Note: The LCCC was not open at the time of this survey.
Source: PDCVB, 2009

The region's Amish heritage and culture is the most frequently cited reason cited as a motivating factor for visiting Lancaster County, as noted by approximately two thirds of all visitors surveyed. Retail and dining are also important drivers of visitation to the County (at 62 percent and 50 percent, respectively). Other natural and historical aspects that continue to attract visitation include back roads exploring and enjoying the heritage, history and architecture the community is known for.

It is important to note that the Convention Center had not yet been completed at the time of this survey.

We've also considered the origination of these visitors in an effort to understand the overall mix of visitation and its reach. Based on a 2010 report produced by Harmelin Media that considers both hotel and bed and breakfast stays, Exhibit II-4 on the following page displays a map that outlines the origin of visitors to the County.

Exhibit II-4
Origin of Visitors to Lancaster County by County



Source: Harmelin Media, 2010

As presented, the majority of visitation is derived from the east coast—most notably from New Jersey and New York. The destination is a popular drive-in market, attracting visitors from 18 different metropolitan areas. Between 2007 and 2009, the top performing zip codes tended to be non-urban in nature. In particular, the counties generating the most visitation to Lancaster County include (in order): Suffolk County (NY), Nassau County (NY), Montgomery County (PA), Monmouth County (NJ), Ocean County (NJ).

Based on a survey of approximately 900 travelers conducted in by H²R Market Research (on behalf of the PDCVB) in an effort to access the destination, brand perceptions and hurdles to visitation, it was noted that the current visitor base is comprised of high repeat visitors from within the region. Such visitors tend to visit often but have relatively short stays in the County (averaging approximately 2.6 nights).

Transportation and Accessibility

Located within close proximity to Interstates 83 and 76, Lancaster is within a day's drive to a number of major northeastern U.S. markets. Exhibit II-5 provides the driving distance (in road miles), as well as the approximate driving time, from Lancaster to select regional markets.

Exhibit II-5
Driving Distance to Regional Markets

Market	Distance	Driving Time
Baltimore, MD	73 miles	1.5 hours
Cleveland, OH	363 miles	6 hours
Manhattan, NY	152 miles	3 hours
Philadelphia, PA	77 miles	1.5 hours
Richmond, VA	212 miles	4 hours
Toronto, ON	467 miles	8 hours
Washington, D.C.	118 miles	2.5 hours
Pittsburgh, PA	238 miles	4 hours
Hershey, PA	28 miles	38 mins
Harrisburg, PA	38 miles	46 mins

Source: PDCVB, Mapquest, 2012

As noted earlier, the tourism and convention market unique to Lancaster consists primarily of drive-in visitors and event attendees. Several large metropolitan markets (i.e., Philadelphia, Baltimore, Washington DC, and New York City) are all less than three hours away via auto. Regional markets such as Hershey and Harrisburg are located within an hour's drive.

The ability of non-local event attendees to fly directly to the host market for their event(s) is often a factor in an event planner's decision as to where to bring their rotating event functions. As such, we have also examined the level of air access into and out of Lancaster—including both small regional and large international facilities.

Exhibit II-6
Driving Distance to Primary Airports

Airport	Driving Distance from Lancaster
Lancaster Airport	6 miles
Harrisburg Intl. Airport	33 miles
Philadelphia Intl. Airport	67 miles
Baltimore Intl. Airport	90 miles

Source: CSL; Google Maps, 2012

Lancaster airport (located approximately six miles from downtown Lancaster) provides limited service. Presently the only commercial airline is Cape Air, offering five round trip flights daily to the Baltimore/Washington International Thurgood Marshall Airport. Philadelphia and Baltimore airports (located approximately 67 and 90 miles from Lancaster, respectively) can require more than two hours to reach, given the traffic in the metropolitan areas. For those that fly to Lancaster, many arrive at (and rent cars from) either Baltimore or Philadelphia and drive. Given the drive-in nature of the Lancaster market, it is not likely that the air access issue materially impacts convention and tradeshow activity.

In addition to the air service described above, Lancaster is also served by train. Direct passenger rail service is available to Pittsburgh and Philadelphia (on an east/west route) and New York City and Washington DC (going north/south).

Local Hotel and Visitor Amenity Inventory

A community's hospitality infrastructure, in terms of hotels, restaurants, entertainment and other such factors, contributes heavily to the potential success of any convention center. The marketability of a center increases when a supporting hospitality infrastructure is available within close proximity. We begin with a review of the hotel and visitor amenity resources available within downtown Lancaster and the surrounding region.

The most important non-convention center amenity is the hotel package. Without sufficient nearby, quality hotel product, convention centers are extremely challenged in attracting non-local conventions, conferences, tradeshows and meetings, regardless of the attractiveness of their facility and the community's other supporting infrastructure. From a meeting planner's perspective, assembling a room block in as few properties as possible is critical. Oftentimes planners will utilize no more than two to three properties as close as possible to the host facility. As such, the location of a market's existing and planned inventory of hotel space can be critical in successfully accommodating events with a non-local attendee base.

Overall, the hotel properties in Lancaster are fairly well-distributed in terms of location throughout the area and provide of a variety of options in terms of quality and price. Based on information provided by Smith Travel Research, there are approximately 7,200 guestrooms County-wide. Within the County, there are a number of larger hotel properties that provide several hundred rooms and significant levels of event space (i.e., Lancaster Host Resort and Conference Center, Best Western Eden Resort & Suites, etc.). However, these properties are not located within walking distance of the Convention Center and would require shuttling of event attendees if used support the hotel needs of Convention Center events.

The market for conventions, tradeshows, meetings, banquets, and other such events in any community cannot grow beyond the hotel base available to accommodate out-of-town visitors. There is currently only one hotel property (the attached Lancaster Marriott at Penn Square) that could be considered to be located within walking distance of the Convention Center that provides what are generally considered to be "convention quality" hotel rooms. "Convention-quality" is a term that varies based on the particular community and type of group considered; therefore, in order to accommodate as many different groups as possible it is important to offer a variety of hotel properties with varying price ranges and available amenities. The Marriott provides 299 total guestrooms. Based on conversations with property management, between 150 and 200 rooms are typically available to serve the needs of Convention Center events.

Although there is a significant inventory of hotel rooms in and around Lancaster, with the exception of the Marriott, all require a shuttle to transport event attendees to and from the Center. Both the DoubleTree and Eden Best Western Premier are able to provide room blocks of up to 150 rooms. The limited hotel room inventory available within walking distance for events held at the Convention Center will continue to influence the Center's ability to attract events with significant room night generation.

The walkable area surrounding a convention center, in terms of its visitor amenities and attractions, has become an increasingly important factor in an event planner's site selection process. In the case of Lancaster, the area surrounding the Convention Center encompasses an active convention, hotel, restaurant and entertainment district in a walkable urban environment.

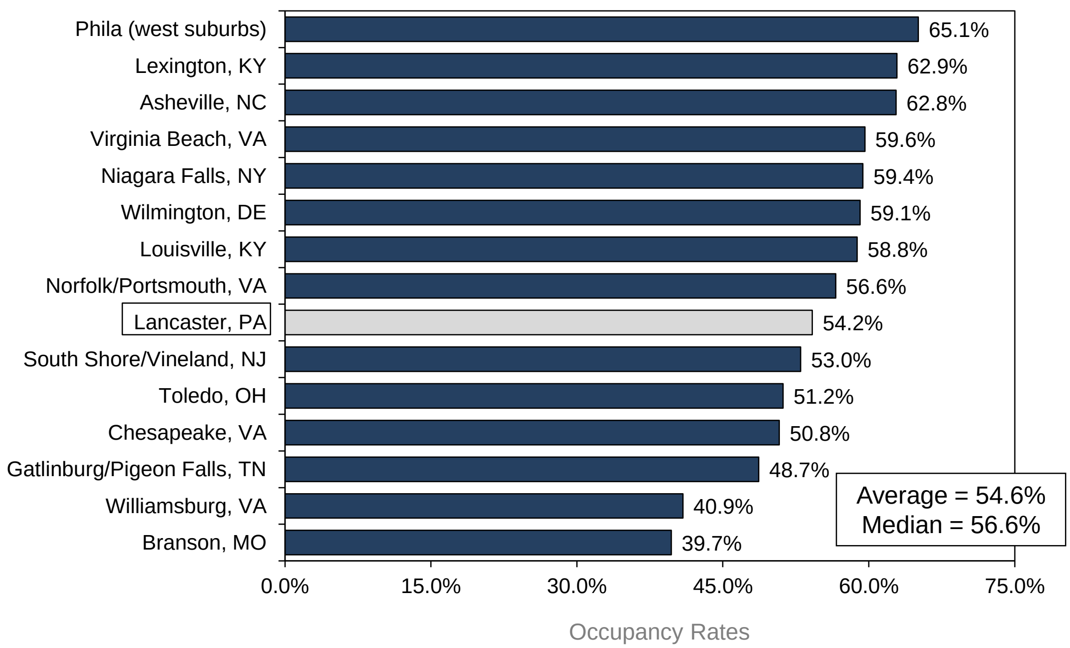
Based on conversations with and information compiled by the James Street Improvement District, since 2009, the area within a four block radius of the Convention Center has seen approximately $220 million in public and private investment. In terms of new retail businesses and services, since 2009, approximately 60 new or expanded retail/restaurant/service type businesses currently exist in the greater downtown area. Approximately half of these establishments are located within four blocks of the Convention Center. It should be noted that the amount of positive momentum directly associated with the opening of the Convention Center is difficult to quantify, although it has likely been a contributing factor.

Comparison of Hotel Market Performance

The success of the local and regional hotel industry is critical to the Convention Center, which relies on revenue from the County's 3.9 percent hotel occupancy tax to finance its debt. Our analysis of the local hotel market also includes a review of both average annual occupancy and average daily hotel room rates, in Lancaster County for calendar year 2011. Results are compared against a variety of competitive and comparable markets. It should be noted that data presented considers all rooms within the County—a supply of more than 2.6 million available rooms during 2011. Only a fraction of these rooms are located in downtown Lancaster.

We begin with a comparison of hotel occupancy rates for 2011 in Exhibit II-7.

Exhibit II-7
Comparison of Hotel Occupancy Rates –
Competitive & Comparable Markets

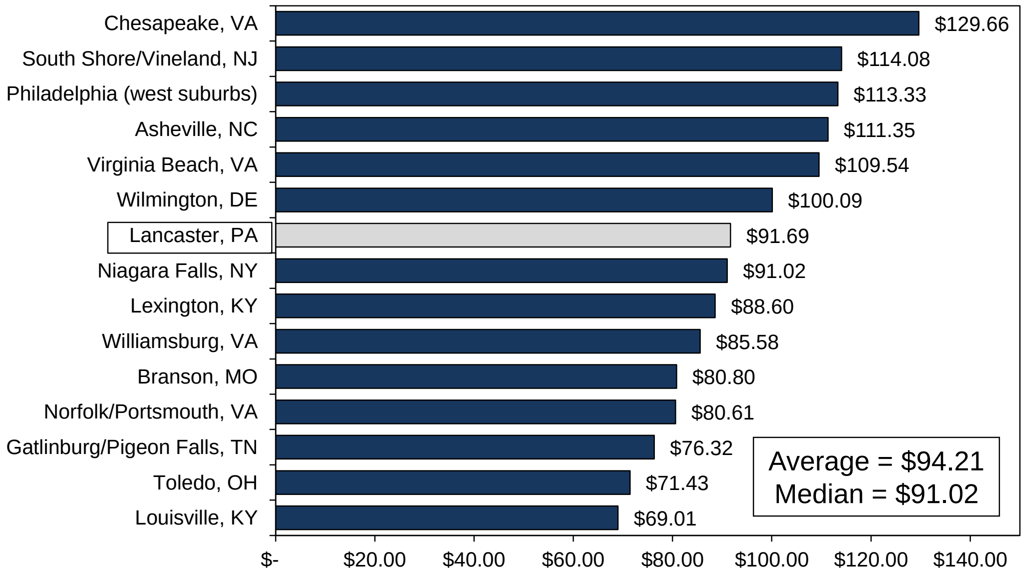


Source: Smith Travel Research, 2012

At 54.2 percent, occupancy levels within Lancaster County are very close to the overall average among the 14 competitive and comparable markets (54.6 percent). The western suburbs of Philadelphia achieved the highest overall occupancy in 2011, at more than 65 percent. The well-known visitor destination of Branson, Missouri experienced occupancy levels of less than 40 percent, ranking last. Lancaster County benefits from a strong visitor base and is a popular destination for a variety of youth sporting events. In 2011, the County realized a 5.2 percent increase in hotel occupancy rates over 2010. This represents an increase in total room nights of approximately 71,000.

Exhibit II-8 compares the average daily hotel room rate (ADR) for the same set of markets in 2011.

Exhibit II-8
Comparison of Average Daily Hotel Room Rate –
Competitive & Comparable Markets



Source: Smith Travel Research, 2012

Average daily hotel room rates in Lancaster County have remained fairly constant over the past three years. At $91.69 in 2011, the market compares well to similar communities, ranking ahead of many popular visitor destinations (including Niagara Falls, Williamsburg, Branson, and Gatlinburg).

It is also important to assess the revenue per available room (RevPAR) ratio to determine the strength of the local/regional hotel market. In 2011 the RevPAR for Lancaster County was approximately $49.69 and has grown by more than 16 percent over the past three years. When the RevPAR is rising, it is an indication that either occupancy rates are improving or that room rates are rising (or some combination of both), typically indicating a strong/growing hotel market.

Based on our interviews, research, analysis and experiences in Lancaster, we have summarized important strengths and weaknesses identified through our study process.

Strengths

- First class convention center and headquarter hotel product with highly-unique historical attributes.
- Successful reputation as a visitor destination with unique offerings (estimated 8 to 11 million annual visitors).
- Price points (although regional markets such as Harrisburg and Hershey are getting aggressive with rates).
- Location (proximity to Philadelphia and Harrisburg for state markets), Baltimore, DC, Pittsburgh.
- Vibrant "urban" downtown with variety of restaurants, retail and nightlife.

Weaknesses

- Lack of significant pre-opening sales/marketing effort.
- Walkable hotel inventory.
- Lack of industry reputation as a convention/tradeshow destination.
- Significant regional competition (Hershey, Harrisburg, Philadelphia).

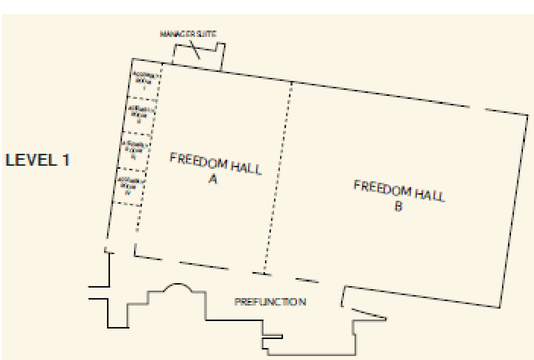
III. Analysis of Convention Center Utilization and Demand

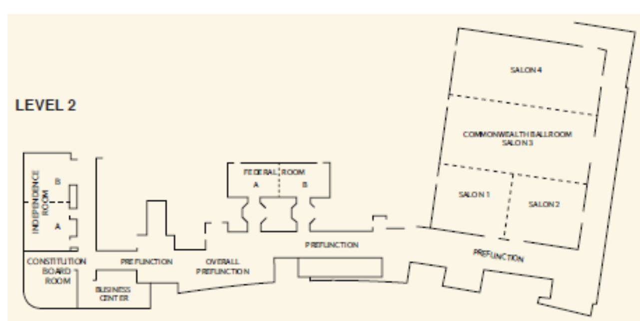
The purpose of this chapter is to inventory and analyze key elements of the historical operations of the Lancaster County Convention Center. Understanding utilization levels, event mix, future bookings and other such characteristics of the facility is important to provide a basis from which to evaluate its operations.

The Convention Center opened in 2009 as an adaptive reuse of the historic former Watt & Shand department store building. The mission of the Convention Center is to create community-wide economic benefit by contributing to the revitalization of downtown Lancaster, serving the local community, and encouraging overnight stays by attendees that benefit County-wide hotels, restaurants, retail merchants, and other segments of the economy.

The Convention Center is located within downtown Lancaster and is attached to the 299-room Lancaster Marriott at Penn Square. The approximate cost to construct the hotel and convention center was $178 million. The facility (including both Convention Center and hotel event space) is privately operated by Interstate Hotels & Resorts (IHR). The Redevelopment Authority of the City of Lancaster (RACL) maintains private ownership of the attached Marriott hotel. Penn Square Partners (PSP) is the provider of all food and beverage services throughout the facility (through IHR), with the exception of concession sales that occur with the Convention Center's controlled space.

In terms of sellable event space, the Convention Center (including Marriott-controlled space) offers approximately 46,500 square feet of exhibit space, 18,400 square feet of ballroom space (in two separate and divisible halls) and an additional 6,700 square feet of meeting space (divisible into 16 separate rooms). The Center regularly hosts conventions, tradeshows, public/consumer shows, sporting events, corporate meetings and events, conferences, receptions and other special events.





We begin our analysis with some highlights of Convention Center event activity over the past two and a half years, based on conversations with facility management, sales staff and our independent analysis of historical event data.

- Since opening in mid-2009, the Convention Center has hosted between 240 and 280 events each year.
- The Center competes with markets including Erie, Hershey and Harrisburg for regional and statewide events.
- Accessibility, price and quality of hotel and event space have been strong selling points.
- In 2011, half of all events occupying Freedom Hall were new to the facility.
- Based on PDCVB estimates, total trackable room nights associated with Convention Center event activity approximated 28,500 in 2011. This compares to an estimated 14,300 in 2010 and represents a nearly 100 percent increase in room night activity.

Based on information provided by IHR, Exhibit III-1 presents a summary of the current mix of business currently booked at the Convention Center for the period spanning 2010 through 2013, as well as future bookings through 2017.

Exhibit III-1
Summary of Current Convention Center Bookings & Future Targets

Current Bookings - Priority 1, 2, and 3 (Utilizes the LCCC)						
Room Nights			2010	2011	2012	2013
	Peak night w/ Overflow	(Cumulative over 4 days)				
Priority - 1	500	1,200	4	5	5	2
Priority - 2	300	900	3	4	3	1
Priority - 3 (those assisted by PDCVB)			1	4	3	0
		Total	**8**	**13**	**11**	**3**

Future Booking Targets (to be secured in 2012) - Priority 1 - 5 (Utilizes the LCCC)						
	2013	2014	2015	2016	2017	Future
P1	5	5	4	2	1	0
P2	6	4	3	1	0	0
P3 - P5	$838	$275	$50	-	-	-

Priority 3 - 5 future events are measured by trackable revenues.
IHR & PDCVB review future booking pace at the LCCCA Operations & Marketing committee meetings; held quarterly. Revenues above are reflected as multiples of ($1,000)

Source: facility management, 2012

The Authority and PSP have developed a system for classifying and targeting booking priorities between different types and sizes of events to be held at the Center. All business booked that utilizes the Convention Center space is categorized into one of five priority levels (Priority 1 through Priority 5). Priority 1 business represents the most positive impact on Lancaster County and City.

Current Convention Center bookings indicate 11 confirmed Priority 1, 2 and 3 events in 2012. This compares to 13 such events in 2011, and eight in 2010. The level of Priority 1 bookings (i.e., events generating over 500 peak room nights and/or 1,200 total room nights over four consecutive nights) has been relatively constant and consists of several important recurring events. Based on conversations with Convention Center management, very few users of the Center are occupying most or all available space for their event(s). This indicates the ability and the potential for the Convention Center to host multiple concurrent events.

We have also examined future booking targets for the Convention Center. Based on current sales goals and booking pace, by the end of 2012, facility management has a goal of booking 11 Priority 1 and 2 events for the Convention Center in 2013. Priority 3 through 5 events are often an important generator of facility revenues. An additional $838,000 in trackable revenue is targeted for 2012 among events within these segments. In sum, by the end of the current calendar year, combined Convention Center sales efforts have a goal of adding 17 Priority 1 events, 14 Priority 2 events, and nearly $1.2 million in revenues among Priority 3 through 5 events.

Each year, the Convention Center hosts a variety of large events that generate significant levels of non-local spending (and associated economic and fiscal impacts). Exhibit III-2 lists several of the larger events that have recently taken place at the Center. Corresponding attendance levels are representative of total attendance over the entire event. For example a three-day event with 7,000 people per day has a total attendance of 21,000).

Exhibit III-2
Summary of Large Convention Center Events - 2011

Event Name	Attendee Days
American Quilt Society Show	16,000
American Consumer Show	15,000
Global Awkening	14,000
Mission Fest	9,000
Starquest	8,000
Leadership Team Development	7,500
ShowStoppers	7,200
Life Expo	6,000
The Baby and Toddler Show	6,000
LaunchMusic	6,000
MLK Volleyball	6,000

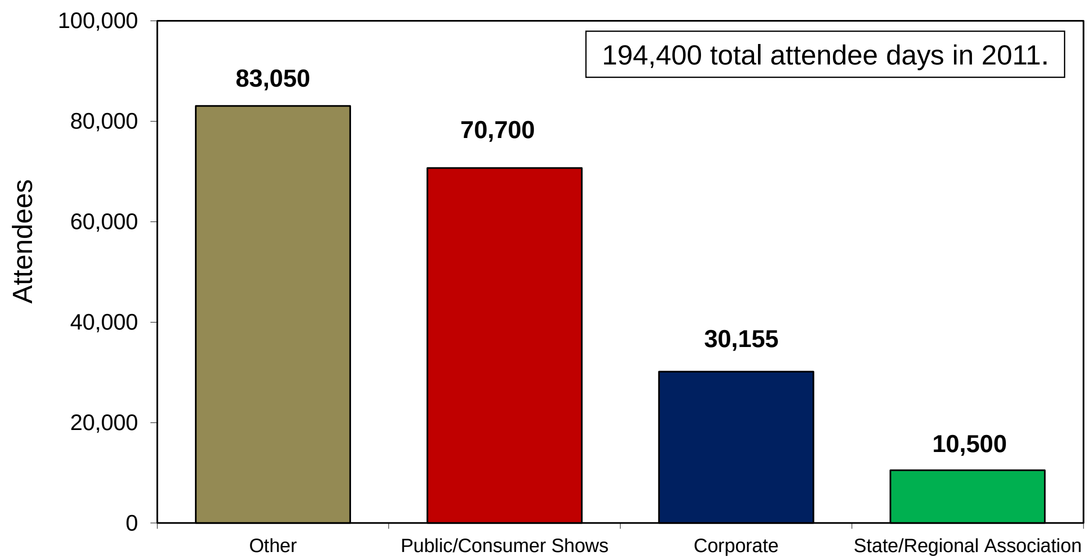
Source: facility management, 2012

In 2011, Convention Center exhibit space accommodated approximately 54 total events. Together, these functions generated more than 194,000 attendee days. In addition to several smaller events (with 2,000 or fewer attendee days), many large conventions, tradeshows, consumer shows, sporting events, etc. are regularly accommodated at the Center. Such event activity impacts local hotel rooms, generates restaurant, retail and other spending, provides a venue for significant community event activity, and appears to play an important role in the development of the downtown area.

Exhibit III-3 displays the estimated attendee days (in terms of event type) among all Convention Center events occupying Freedom Hall in 2011. Events are segmented into four primary event types, including the following:

- Public/Consumer Shows
- Corporate
- State/Regional Association
- Other

Exhibit III-3
Total Number of Attendee Days by Event Type - 2011



Notes: Figures include all events occupying Freedom Hall in 2011. Examples of "other" events include graduations, concerts, dinners, comedy shows, dance competitions, sporting events, etc.
Source: CSL International, facility management, 2012

Total attendee days associated with all events utilizing Freedom Hall space in 2011 approximated 194,400. When examined by event type, "other" event types generated the largest number of attendee days at the Convention Center—accounting for approximately 43 percent of total attendees of events held at the Center. Examples of "other" events include graduations, concerts, dinners, comedy shows, dance competitions, sporting events, and other events that provide entertainment opportunities for residents county-wide.

Public and consumer shows (such as The Baby and Toddler Show, Lancaster Historic Home Show, etc.) have generated the second largest attendance levels at the Convention Center, with estimated attendance of nearly 71,000 in 2011. Combined, these two event types accounted for nearly 80 percent of total attendee days generated by event activity at the Convention Center. While many of these events attract primarily local attendees and tend to have a limited ability to generate significant levels of economic impacts, the recurring American Quilters Show is estimated to generate 6,000 to 7,000 total room nights each year.

Corporate events generated more than 30,000 attendee days in 2011, while state and regional association activity represented five percent of overall Center attendance.

It is also important to measure facility use from the perspective of square footage occupancy. This is an important metric as it relates to how "busy" the building is. Occupancy levels can indicate the degree to which usage of the facility has reached a maximum capacity. The occupancy of a facility is determined to be within a practical maximum capacity range when the actual occupied space in a facility reaches a level of 70 percent of total sellable capacity. Above 90 percent occupancy, a facility has exceeded "practical maximum capacity" and may be turning away significant business.

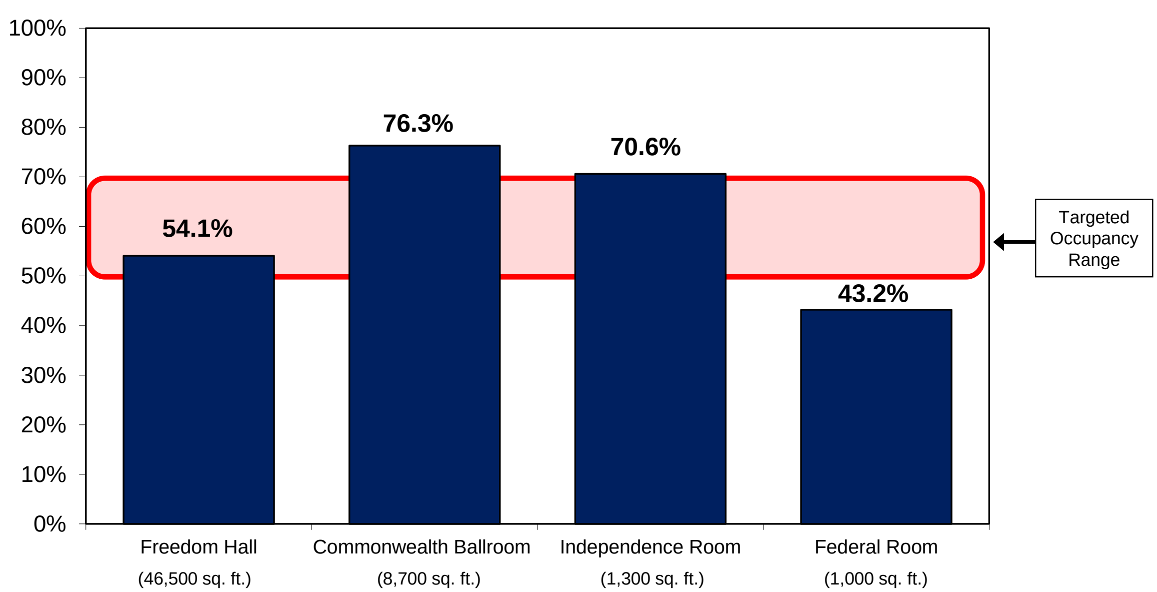
These assumptions account for the reality that a portion of the facility's total capacity is unsellable due to holidays, maintenance days and inherent booking inefficiencies that result when events cannot be scheduled immediately back-to-back. Occupancy levels below 50 percent may indicate that a center has not attracted sufficient market share necessary to support space levels. However, it is important to assess the wide variety of factors impacting event demand before making a determination that a lack of event demand exists.

Based on information and calculations provided by the Authority, Exhibit III-4 presents the occupancy percentages of individual space components within the Convention Center in 2010. In particular, we have segmented results for each of the following four primary spaces within the Center:

- Freedom Hall
- Commonwealth Ballroom
- Independence Room
- Federal Room

We have also identified the target occupancy percentage (ranging from 50 to 70 percent) for the convention facility industry, as presented below.

Exhibit III-4
Summary of Convention Center Space Occupancy - 2010

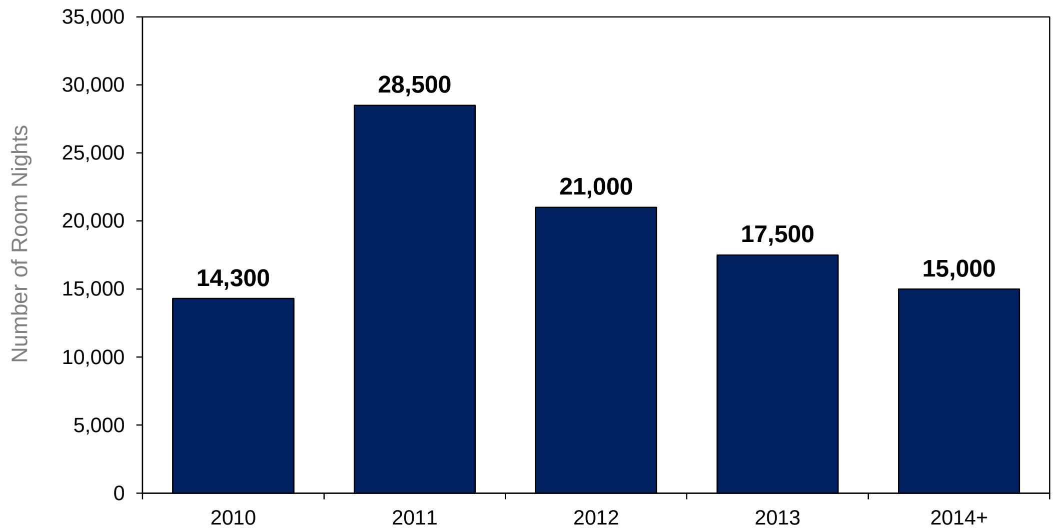


Source: facility management, 2012

As displayed, the Commonwealth Ballroom (8,700 square feet) and Independence Room (1,300 square feet) both operated above the target occupancy range of 50-70 percent in 2010. Occupancy within the 46,500-square foot Freedom Hall averaged approximately 54 percent in 2010. This compares to 43 percent for the 1,000-square foot Federal Room. Data for hotel-controlled space (floors 3 and 4) was not available.

Room night generation is an important measure of the success of any convention center and is an important element of the Convention Center's mission of creating community-wide economic benefit. Based on data compiled by the PDCVB, we have reviewed room night bookings associated with Convention Center events since 2010. Forward looking data (based on current bookings) is also presented for 2012, 2013 and beyond.

Exhibit III-5
Summary of Room Nights Associated with
Priority 1-3 Event Bookings at Convention Center (2010 – 2014+)



Source: PDCVB, 2012

Room night generation among Convention Center events has grown steadily over the past two years, reaching a high of approximately 28,500 in 2011. This represents a nearly 100 percent increase in total annual room nights since 2010 (the facility's first full year of operations). 2012 bookings indicate the potential for an estimated 21,000 total room nights; however, this number could be expected to grow as events continue to book short-term. Based on current bookings, more than 15,000 room nights are expected for years 2014 and later. We note that aggressive sales and marketing efforts did not begin until the Convention Center opened, likely having a negative impact on early-year room night generation.

It is useful to consider the room night profile in the context of total County-wide room night generation. At 28,500 room nights in 2011, the Convention Center accounted for approximately three percent of the approximately one million total room nights generated county-wide, with the remainder largely originating from the leisure segment.

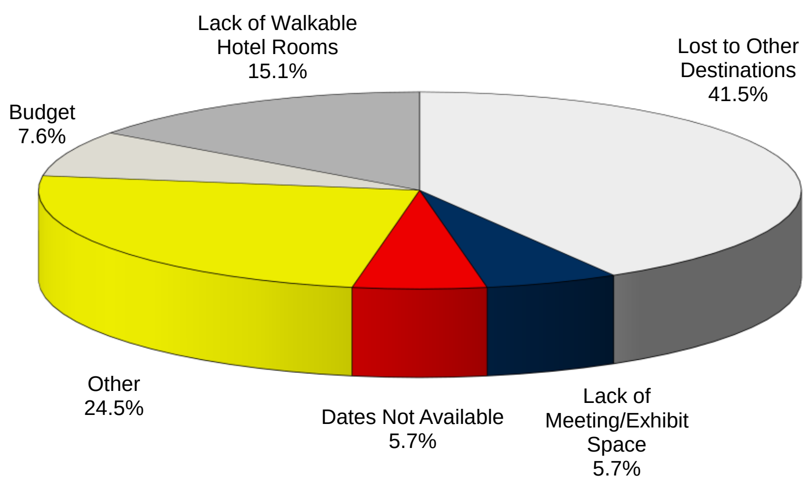
As part of our analysis of competitive and comparable facilities (presented in the following report chapter), detailed interviews were conducted with facility management at similar convention centers throughout the country. Through this research, several important operational aspects were discussed as they pertain to each facility, including the venue's ability to generate room nights in the market.

In terms of room night generation, the Convention Center's range of between 15,000 and 21,000 annual room nights is not dissimilar from that of other comparable venues. For example, based on conversations with management of the St. Charles Convention Center (in St. Charles, Missouri), the center is responsible for the generation of between 18,000 and 22,000 room nights a year. The Meydenbauer Center (in Bellevue, Washington) typically attracts an event mix requiring between 10,000 and 20,000 total room nights each year.

Another method of evaluating the demand for event space is to review Convention and Visitors Bureau data regarding events that indicated an interest in the particular community for a future event but could not be accommodated for one or more of a variety of reasons.

Representatives from organizations that indicated a potential interest in Lancaster for a future event but could not be accommodated were surveyed by the PDCVB regarding their reasons for not choosing Lancaster. Based on our review of these data (which include only Priority 1 through 3 bookings), Exhibit III-6 presents a summary of lost event business (in terms of number of events lost) by reason for the Convention Center in 2011.

Exhibit III-6
Summary of Primary Reasons for Lost Business - 2011



Note: Data includes only Priority 1 through 3 events.
Source: PDCVB, 2012

In 2011, a total of approximately 58 individual events were tracked by the PDCVB that could not be accommodated in Lancaster. This should not be interpreted as events that would have rotated to Lancaster if suitable facility, hotel and other visitor amenity conditions were available. Rather, this data reflects organizations that expressed an interest in Lancaster at one point during their event planning process but ultimately selected another destination.

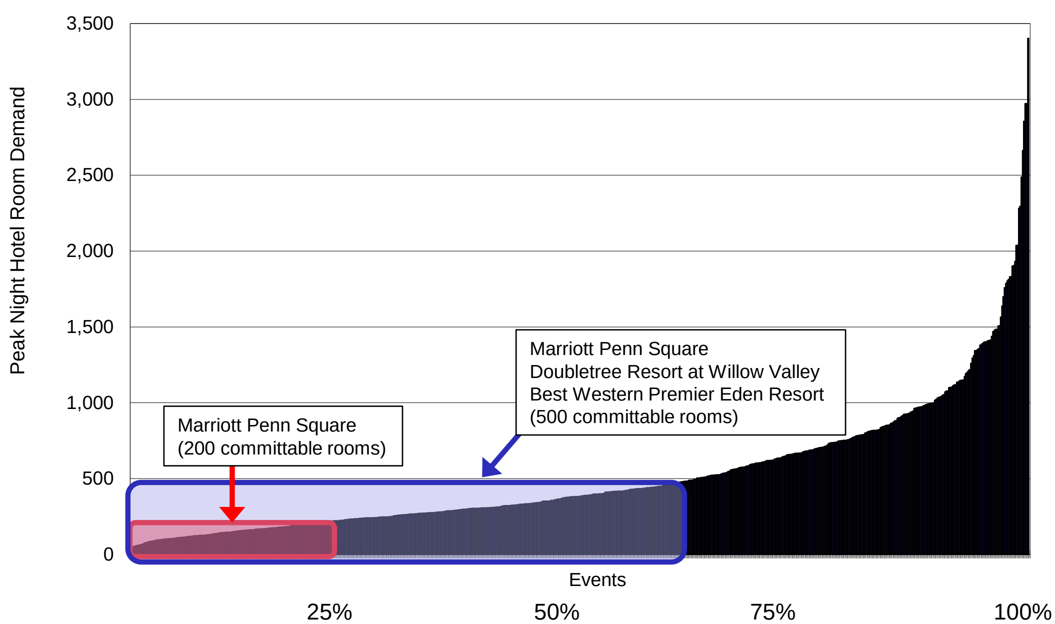
As noted by approximately 15 percent of event planners, the inventory of hotel rooms within a walkable vicinity of the Convention Center prevents Lancaster from successfully penetrating many event markets with significant non-local attendees. This represents the number one specifically referred-to deficiency among responses.

"Lost to other destinations" was the most frequently cited broad reason by event planners for not bringing their event to Lancaster. Other issues, such as a lack of direct air access, transportation concerns, canceled events, and related concerns were noted by nearly one-fourth of those questioned. Together, these two categories combine to account for approximately two-thirds of the total responses and both should be further investigated as to what could be done to improve the destination in these areas.

It is interesting to note that the percentage of event planners citing insufficient exhibit/meeting space or a lack of available dates at the Convention Center were each less than six percent of the total responses given.

In an effort to better understand the ability of the existing local hotel inventory to support the needs of Convention Center event activity, we have considered data relative to peak night hotel room demand among nationally-rotating conventions and tradeshows. Our analysis, as presented in Exhibit III-7, considers all events occupying between 10,000 and 50,000 gross square feet of exhibit space, based on recent actual event data compiled by Destination Management Association International.

Exhibit III-7
Summary of Peak Night Hotel Demand
National Events Requiring 10,000 to 50,000 GSF Exhibit



Note: Figures represent peak night hotel room demand among events requiring between 10,000 and 50,000 gross square feet of exhibit space.
Source: CSL International, DMAI 2012.

The existing inventory of hotel rooms within walking distance of the Convention Center is able to support approximately 25 percent of this national event market (for events requiring 10,000 to 50,000 gross square feet of exhibit space. Shuttling is required to support an event requiring 500 committable rooms. This highlights a competitive disadvantage of the Center when competing for rotating, room night generating events. To support the needs of an event requiring 800 rooms (75 percent of the market) would require five to six hotels. This review again underscores existing limitations with regard to the supply of hotel room surrounding and able to facilitate the demands several high impact events.

Interviews with Current and Past Convention Center/Marriott Users

Satisfaction among current and past users of an event facility can also indicate a venue's success and reputation within the industry. Marriott International (through a third party) regularly surveys its clients concerning their event experience (both Hotel and Convention Center events). These data include events such as conventions, public/consumer shows, sporting events, small meetings, weddings, etc. Although the data is not able to be separated between Convention Center and Hotel specific events, it does begin to provide some insight as to overall satisfaction with the facility. Based on a review of event satisfaction scores for the facility since opening, overall impressions of the Convention Center and Marriott complex have consistently increased, reaching a high of 88 percent in 2011. The score represents clients that rated the facility in the top two categories, either Excellent or Very Good.

The hotel, through Marriott, also surveys guests who stay at the hotel. These Guest Satisfaction Surveys have been very positive to date. Although individual scores were not available, based on conversations with facility management, within the Marriott Brand, the complex was rated number 26 out of 339 facilities (in terms of overall satisfaction) for 2011 and is consistently ranked high in terms of guestrooms, service levels, cleanliness and being well maintained.

Conclusions

Event, utilization, attendance and room night data have generally displayed a pattern of growth at the Convention Center since the facility opened in 2009. Occupancy levels within primary event spaces at the Center ranged between 43 and 76 percent in 2010; with the Commonwealth Ballroom and Independence Room frequently operating within the targeted range of space occupancy.

More than 80 percent of attendee days generated by event activity at the Center are derived through events with a primarily local attendee base (i.e., public/consumer shows, graduations, concerts, dinners, comedy shows, dance competitions, sporting events, etc.). The level of high-impact event bookings has been relatively constant (approximately eight Priority 1 and 2 events each year) and consists of several important recurring events.

The existing inventory of hotel rooms within walking distance of the Convention Center is able to support approximately 25 percent of the market for nationally-rotating events requiring 10,000 to 50,000 gross square feet of exhibit space. To meet the needs of larger events can require five to six hotels and significant shuttling efforts. Such limitations are likely affecting the market's ability to attract a variety of high impact events.

IV. Analysis of Competitive and Comparable Markets and Facilities

This chapter provides an analysis of various physical characteristics and resources of competitive and comparable facilities communities on both a regional and national level. These data help place the Convention Center and the overall Lancaster convention and visitor industry product within a comparable market context with respect to facility space, hotel inventory and other related market features. Numerous factors are considered by association, corporate and other event planners in determining the ability of a community to attract convention, conference, meeting and other flat floor event business. Some of the factors analyzed in this section include, but are not limited to the following:

- Total sellable event space
- Hotel room inventory
- Hotel room tax rate
- Sales/Marketing Budgets

Exhibit IV-1 presents the 15 competitive and comparable facilities and markets analyzed. The facilities and markets selected for comparison were largely identified based on their: (1) size similarities to the Convention Center, (2) presence in a regional competitive area, (3) presence in a market with an established visitor industry and (4) location within similar sized markets.

Exhibit IV-1
Competitive and Comparable Markets and Facilities

Facility	Market
Arlington Convention Center	Arlington, TX
Bayfront Convention Center	Erie, PA
Branson Convention Center	Branson, MO
Grand Wayne Convention Center	Fort Wayne, IN
Greater Tacoma Convention & Trade Center	Tacoma, WA
Lexington Center	Lexington, KY
M.C. Benton Convention Center	Winston-Salem, NC
Meydenbauer Center	Bellevue, WA
Monona Terrace Community and Convention Center	Madison, WI
Ocean City Convention Center	Ocean City, MD
Overland Park Convention Center	Overland Park, KS
Palm Beach County Convention Center	West Palm Beach, FL
St. Charles Convention Center	St. Charles, MO
Virginia Beach Convention Center	Virginia Beach, VA
Wildwoods Convention Center	Wildwood, NJ

Total Sellable Space

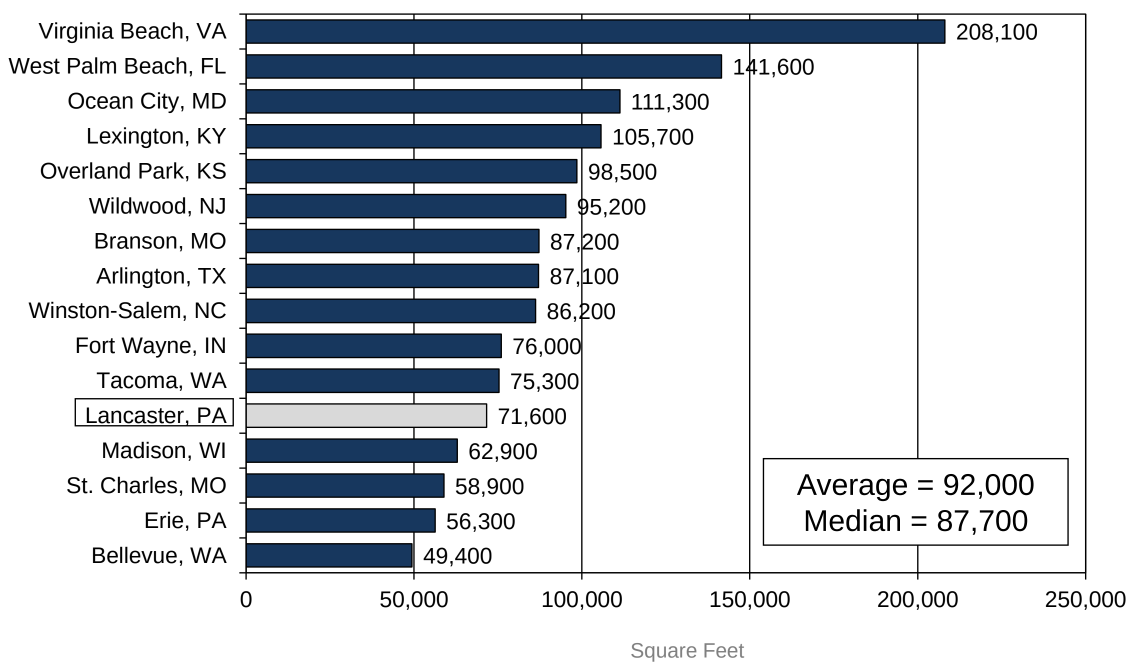
The amount of event space available at a convention center is an important factor in its ability to attract and retain events. We begin with a review of the types of space typically integrated into a traditional convention center.

Prime exhibit space refers to the dedicated exhibition area, typically used by conventions and tradeshows for exhibits that is column-free or with minimal columns, has high ceilings (at least 30 feet in height), utility floor grids (supplying electricity, telecommunications, water, etc.) and other such amenities. Several of the competitive and comparable facilities above also incorporate multipurpose space that is often used for exhibitions (such as lobby, registration and hallway space); however, this generally is not considered "prime" exhibit space and was therefore not included in this analysis.

Sufficient modern meeting and ballroom space is also important in attracting and accommodating events in the convention, conference and meeting industry. Based on CSL research, event organizers see it as an increasingly important factor in their selection of host cities. Meeting and ballroom space is typically highly flexible (sub-divisible) with high-end acoustics, event technology and separate service corridor access.

Exhibit IV-2 presents the rankings of all the competitive and comparable facilities analyzed in terms of total sellable space, which includes all available exhibit, meeting and ballroom space.

Exhibit IV-2
Comparison of Total Sellable Space
Competitive and Comparable Facilities



Source: facility floor plans and management, 2012

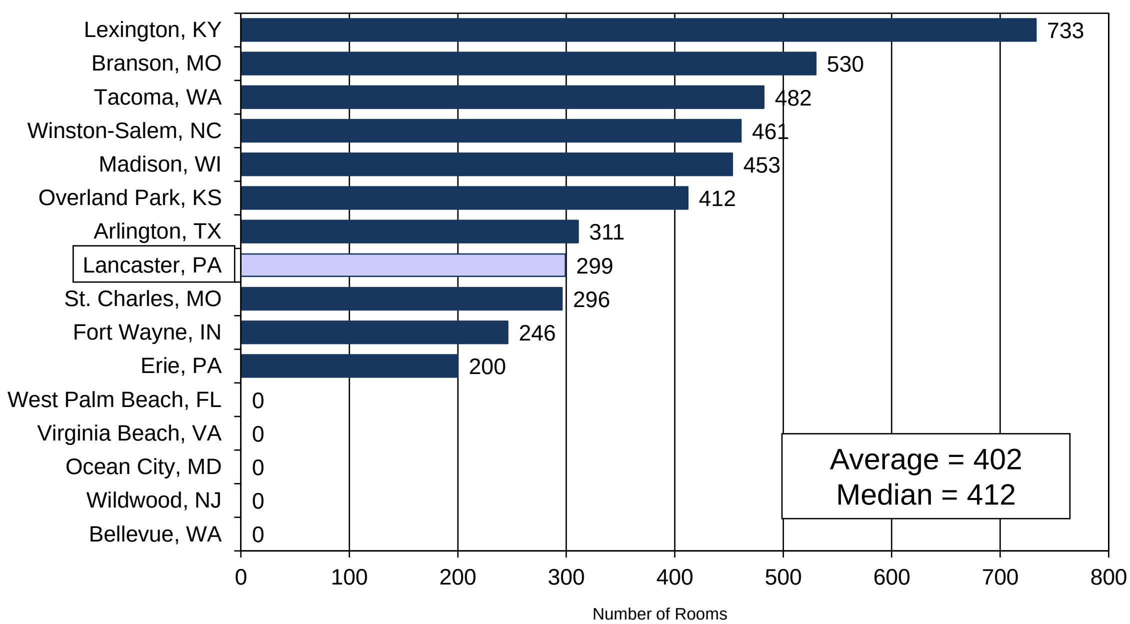
As shown, the amount of total sellable space offered at the competitive and comparable facilities reviewed varies widely, averaging approximately 92,000 square feet. The largest facility in terms of total sellable space is the Virginia Beach Convention Center, with more than 208,000 square feet. Offering approximately 71,600 square feet of total sellable space, the Convention Center ranks in the bottom third of the set of facilities reviewed and provides a similar amount of space as to what can be found in Tacoma (WA) and Madison (WI). The characteristics and mix of the sellable space offerings within each of these facilities underscores the diverse ways in which individual markets respond to particular event demand pressures.

Hotel Room Inventory

The availability of hotel rooms to serve the requirements of the convention industry is a critical factor in the success of any convention center. The inventory of hotel rooms in a community is measured in many different ways, such as the number of headquarter hotel rooms and the total rooms within one-half mile of the facility, both of which are considered herein.

Exhibit IV-3 details the inventory of hotel rooms at headquarter hotel properties serving each market's convention center. A headquarter hotels can be defined as a full-service, convention quality property that is attached or adjacent to a convention center.

Exhibit IV-3
Comparison of Headquarter Hotel Rooms
Competitive and Comparable Markets

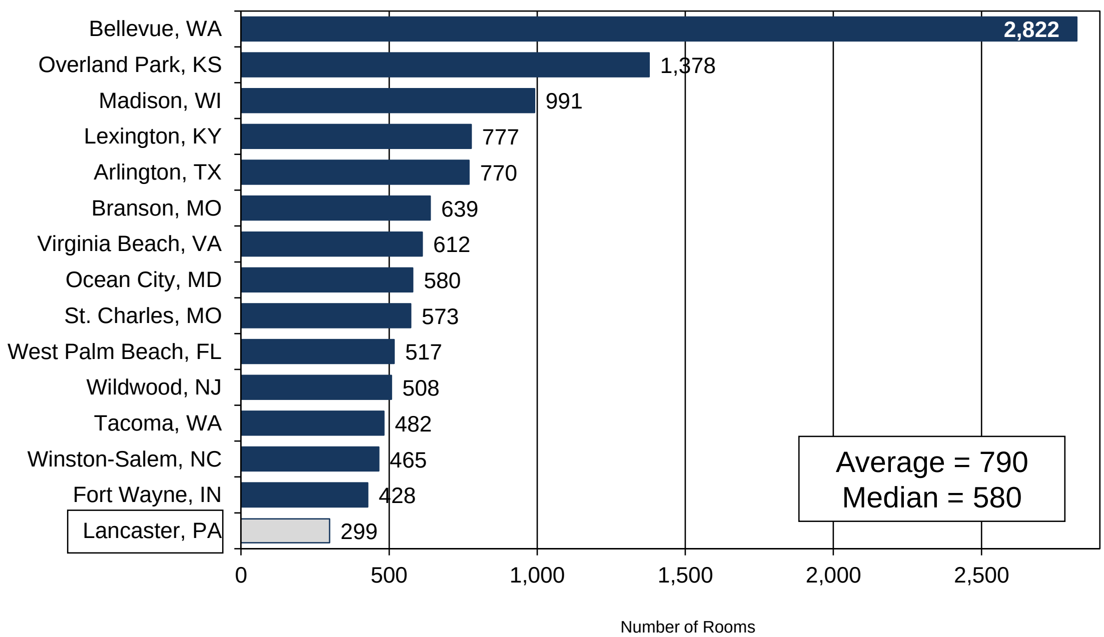


Note: Average and median calculations only include facilities with an adjacent or attached headquarters hotel.
Source: facility management, convention and visitors bureaus, 2012

The headquarter hotel inventory available near the Lexington Convention Center ranks at the top of the competitive and comparable markets, with 733 guestrooms in total (367 located at the Hilton Lexington and 366 at the Hyatt Regency Lexington). Five markets considered in this analysis do not currently provide adjacent or attached headquarter hotel rooms. Four of these markets (West Palm Beach, Virginia Beach, Ocean City and Wildwood) are successful visitor destinations and provide a significant inventory of rooms market-wide; however, none are attached or adjacent to their convention centers. As will be shown in the following exhibit, Bellevue's Meydenbauer Center benefits from a very large supply of rooms within walking distance of the Center and is therefore oftentimes able to meet the demands of many event planners. With 299 rooms provided at the attached Marriott, the Convention Center falls below the average of 419 hotel rooms (among venues providing a headquarter hotel).

Based on conversations with CVB management in each market, we measured the inventory of guest rooms within one-half mile of the respective convention centers in competitive and comparable markets. This is an important analysis because event planners typically prefer to achieve their room block in hotel properties located within a relatively short walking distance to the host facility. Results are summarized in Exhibit IV-4.

Exhibit IV-4
Comparison of Total Hotel Rooms within ½ Mile of the Center
Competitive and Comparable Markets



Note: Data include only "convention quality" properties.
Source: facility management, convention and visitors bureaus, 2012

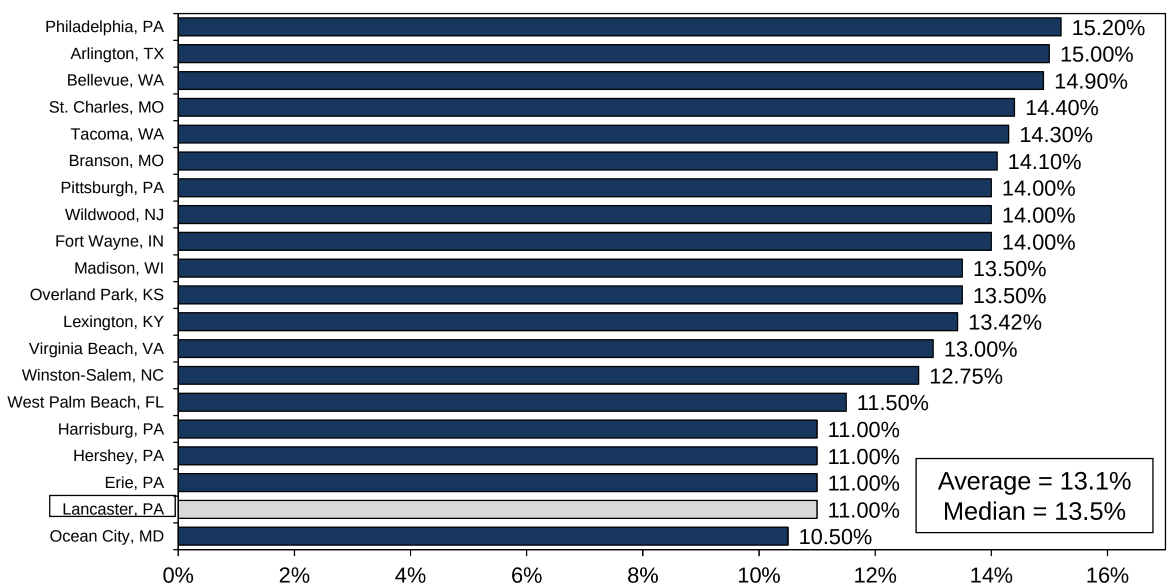
On average, competitive and comparable markets offer nearly 800 total guestrooms within one-half mile of their respective convention center. The Meydenbauer Center (in Bellevue, WA) offers the most hotel rooms within one-half mile, with more than 2,800 total guestrooms available in the immediate area. Overland Park (KS) and Madison (WI) also provide significant hotel inventory within one-half mile of their convention centers, with approximately 1,378 and 991 available rooms, respectively.

In the case of Lancaster, aside from the 299-room Lancaster Marriott at Penn Square, only the 225-room Brunswick Hotel is within six blocks of the Convention Center. It is currently listed for sale and the rooms are not of convention quality. Based on conversations with several local organizations, there are no plans to add hotel inventory downtown in the near future.

Hotel Room Tax Rate

In addition to hotel room availability, the total tax charged on hotel rooms can be another factor considered by meeting and event planners when making their site assessments. Locations with considerably higher room tax rates relative to other markets can, for some events, negatively impact the likelihood of the location being selected. Revenue collected from the short-term rental of lodging properties is also oftentimes used to fund the debt on public assembly facilities, as well as to support the operations of local destination sales and marketing organizations. Exhibit IV-5 provides a summary of total hotel room tax rates collected among the competitive and comparable markets reviewed. For purposes of comparison as to how Lancaster County ranks within Pennsylvania, we have included regional markets such as Philadelphia, Pittsburgh, Harrisburg, Hershey and Erie in this analysis.

Exhibit IV-5
Comparison of Total Hotel Room Tax Rate
Competitive and Comparable Markets



Note: Data include all applicable taxes and fees collected on short-term lodging.
Source: 2011 DMO Organizational & Financial Profile Study, convention and visitors bureaus, 2012

Ranging from between 10.5 to 15.2 percent, competitive and comparable markets collect an average of approximately 13.1 percent in hotel taxes. The total tax charged on hotel rooms in Lancaster County (11.0 percent) ranks near the bottom among the identified set of markets. This rate is in-line with several in-state markets (with which the Convention Center frequently competes for attracting certain events) including Harrisburg, Hershey and Erie.

Dauphin County is home to two markets in the above list (Hershey & Harrisburg). Hotel taxes collected within Dauphin County support two primary event facilities (Civic Center and Farm Show Complex).

An increase of 1.1 percent would put the market ahead of competitive regional markets such as Harrisburg and Hershey. However, a total rate of 12.1 percent would be below Pittsburgh and Philadelphia and would be somewhat reflective of the fact that the Convention Center is the third largest traditional public convention center in Pennsylvania.

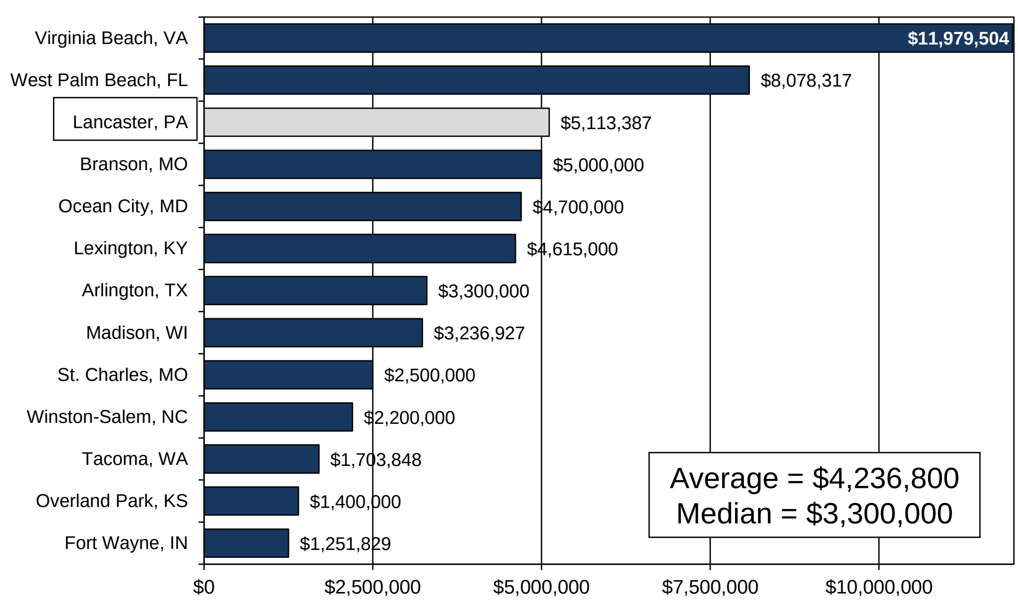
Within Pennsylvania, there are several current proposals to increase hotel tax rates; however; the tax increases must still be approved by the county governments before going into effect. These include the following counties:

- Lackawanna County – increase from 4.0 percent to 7.0 percent
- Erie County – increase from 5.0 percent to 7.0 percent
- Adams County – increase from 2.0 percent to 5.0 percent
- York County – currently considering options for an increase

Destination Marketing Organization Annual Budgets

Financial resources necessary to promote and sell a facility are another important element of a successful convention center. Many of the competitive and comparable markets utilize hotel room tax revenue to fund destination marketing organization (DMO) and/or convention center operations or debt service. Exhibit IV-6 below presents a summary of the annual DMO budgets among the competitive and comparable markets for which such data was available. The data presented was compiled through the 2011 Destination Marketing Association International CVB Organizational & Financial Profile and through interviews with destination marketing organization management.

Exhibit IV-6
Comparison of Destination Marketing Organization Annual Budgets
Competitive and Comparable Markets

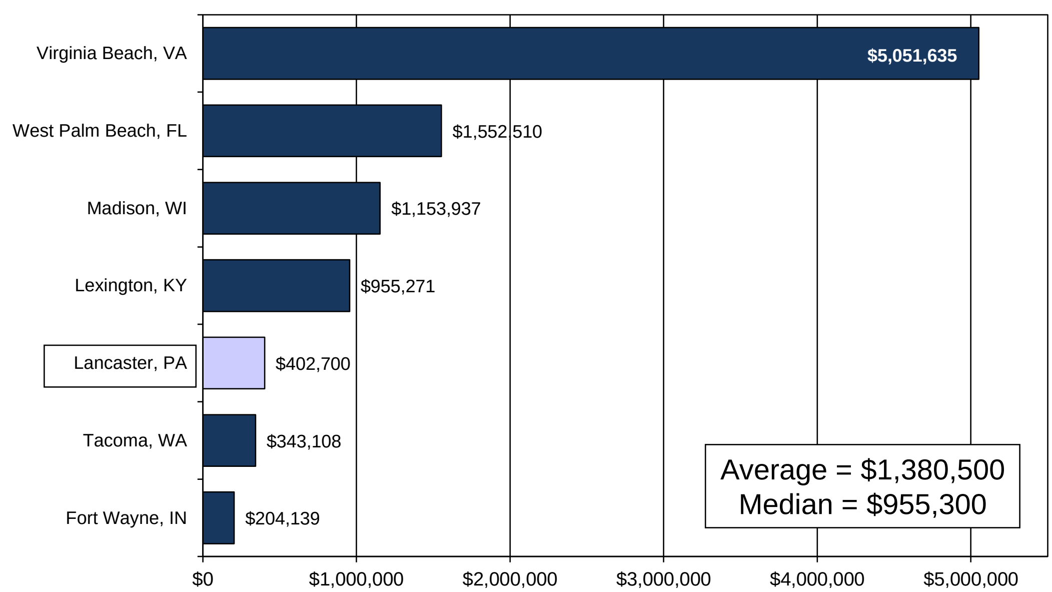


Source: 2011 DMO Organizational & Financial Profile Study, convention and visitors bureaus, 2012

At approximately $5.1 million, the annual budget of the Pennsylvania Dutch Convention and Visitors Bureau ranks ahead of several competitive and comparable markets. This total includes approximately $1.1 million in direct financial support from private attractions to fund media advertisement efforts. As discussed earlier, the region has established itself as a very successful visitor destination, attracting an estimated eight to eleven million visitors each year. As such, the PDCVB budget supports more than $3 million per year in leisure/tourism marketing. Well-known coastal visitor destinations such as Virginia Beach and West Palm Beach (which also have the largest two convention centers considered in this analysis) spend considerably more in marketing their communities. The CVB in Fort Wayne, Indiana operates with the lowest annual budget, at approximately $1.25 million per year.

Building on this research, we have also considered the allocation of dollars dedicated specifically to selling and marketing the convention industry. Based on interviews DMO management and information contained in the 2011 DMO Organizational & Financial Profile Study, Exhibit IV-7 presents a comparison of the total amount of financial resources spent annually on convention sales and marketing by each market.

Exhibit IV-7
Comparison of Destination Marketing Organization Allocation to Convention Sales and Marketing – Competitive and Comparable Markets



Note: Data include all personnel salaries and benefits, tradeshow participation, collateral materials, and other such efforts aimed at attracting and retaining convention, tradeshow, conference, meeting and other events.
Source: 2011 DMO Organizational & Financial Profile Study, convention and visitors bureaus, 2012

As presented, including all personnel salaries and benefits, tradeshow participation, collateral materials, and other such efforts aimed at attracting and retaining convention, tradeshow, conference, meeting and other events, the PDCVB allocated an estimated $402,700 toward selling and marketing the Convention Center and other local and regional event space in 2011. This will be impacted by the recent reallocation of funds to support Convention Center financing.

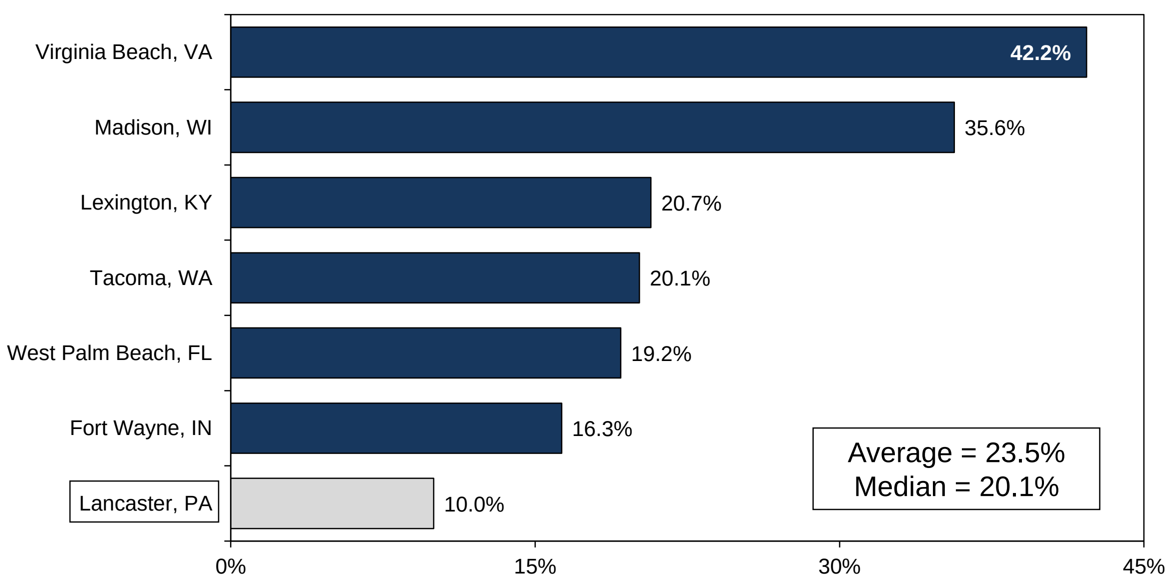
This compares to an average of nearly $1.4 million among the communities reviewed and is significantly less than current expenditures in Virginia Beach, West Palm Beach, Madison and Lexington.

Additionally, as will be discussed in more detail later in this report, it is important to note that sales and marketing efforts related to the Convention Center are handled differently than the majority of other convention centers throughout the country. Specifically, while the PDCVB actively engages in lead generation and collection for conventions, conferences, tradeshows and related events, primary sales/marketing/booking activities for the Convention Center is and has been the responsibility of IHR sales staff. Normally, in major markets throughout the country, the local DMO (i.e., CVB) would have the responsibility of marketing, sales and booking for economic-impact generating (long-term) conventions, conferences and tradeshows, while convention center sales staff would be responsible for "local" events (or short-term) that do not generate a certain threshold of hotel room nights.

Historically, the PDCVB has not been heavily focused on convention sales (given the magnitude and success of the visitor industry and, prior to 2009, a lack of traditional convention facilities). The emphasis placed on leveraging the market's visitor industry (as opposed to conventions/tradeshows) is perhaps supported by the fact that investment in this area generates millions of annual visitors. In comparison, room night generation attributed to Convention Center event activity has ranged from 15,000 to 21,000 in recent years.

In an effort to account for the significant variations in total DMO expenditures, Exhibit IV-8 displays the percentage of each market's total DMO budget that is allocated toward convention sales and marketing. It is important to note that such expenditures represent dollars spent attracting a wide variety of event markets to all facilities in the market (not just the primary convention center).

Exhibit IV-8
Percentage of Destination Marketing Organization Budget Allocated to Convention Sales and Marketing – Competitive and Comparable Markets



Note: Data include all personnel salaries and benefits, tradeshow participation, collateral materials, and other such efforts aimed at attracting and retaining convention, tradeshow, conference, meeting and other events.
Source: 2011 DMO Organizational & Financial Profile Study, convention and visitors bureaus, 2012

When considered in terms of the percentage of total dollars specifically directed to attracting and retaining convention, tradeshow and related event activity, Lancaster ranks last among the select set of markets considered in this analysis. Approximately $402,000 is spent on convention sales by the PDCVB (as part of a $4.0 million total budget when co-op funding provided by local attractions is subtracted), which translates to approximately ten percent of total resources. Many similar markets are allocating two to three times that percentage of their available dollars in these areas.

Comparable Facilities and Markets Case Study Analysis

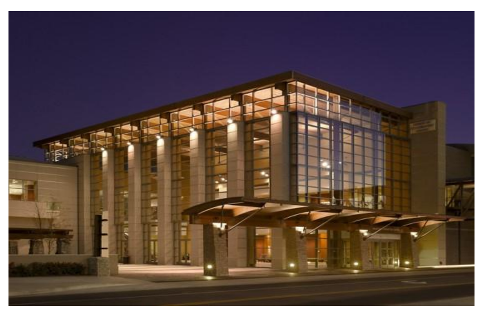
Our review of comparable national facilities and markets also involved conducting detailed interviews with convention center management and destination marketing organization representatives in a total of four markets:

Facility	Market
Branson Convention Center	Branson, MO
Greater Tacoma Convention & Trade Center	Tacoma, WA
Meydenbauer Center	Bellevue, WA
St. Charles Convention Center	St. Charles, MO

Each of these markets and their respective convention facility offer considerable insight with regard to the operations of small to mid-sized urban facilities. This section presents individual case studies highlighting relevant background information for each market with regard to facility offerings/amenities, operating characteristics, typical event and attendance levels and, as available, various economic benefits of the facility operations in the local community in terms of visitor infrastructure development, room night generation and other such measures.

Branson Convention Center

Branson, MO



- Part of the larger $420 million Branson Landing development (which includes 450,000 square feet of restaurants, retail and entertainment spanning 1.5 miles along Lake Taneycomo), the Branson Convention Center opened in 2007.
- The Center offers more than 87,000 square feet of sellable space, including two exhibit halls totaling 50,000 square feet, a 23,000-square foot ballroom and five meeting rooms.
- The 290-room Hilton Branson Convention Center Hotel is connected to the Center and the 243-room Hilton Promenade at Branson Landing is across the street.
- The Center is owned by the City of Branson and managed by Hilton Hotels Corporation.
- The number of event days held at the Center has increased each of the past three years, to a high of 272 in 2011.
- Corporate, SMERF and local catering events have generated the most activity at the facility over the past two years.
- The number of convention attendees has averaged approximately 140,000 each year.

St. Charles Convention Center
St. Charles, MO

- The Saint Charles Convention Center is a $35 million multi-functional facility that opened in 2005 approximately 20 miles from St. Louis, MO.
- The Center is owned by the Saint Charles County Convention and Sports Facilities Authority and is privately managed by Global Spectrum.
- It provides 35,700 square feet of exhibit space, 16,200 square feet of ballroom space, 6,500 square feet of meeting space (divisible into six breakout rooms) and more than 1,200 free parking spaces.
- The center has hosted between 390 and 480 events annually, attracting more than 250,000 attendees each year.
- The facility has been very successful in attracting and retaining corporate meeting and special event activity (i.e., Monsanto, Pfizer, etc.). Nearly 60 percent of events booked at the Center have been meetings, with banquets being the next most frequently booked events (consisting of 20 percent of total bookings).
- The center is responsible for the generation of between 18,000 and 22,000 room nights a year.

Meydenbauer Center
Bellevue, Washington

- Located in Bellevue, Washington, approximately nine miles east of downtown Seattle, the Meydenbauer Center opened in 1993 at a cost of approximately $29 million.
- The center provides a 36,000-square foot exhibition hall, a total of 12,000-square feet of meeting space (divisible into nine separate rooms), a 410-seat performing arts theater and a 434-stall underground paid parking garage.
- In recent years, the center has averaged more than 360 events per year. Annual attendance at these events has averaged approximately 190,000. Meetings comprise the majority of events booked at the center, with an average of 230 events annually and approximately 55,000 annual attendees.
- Total room nights associated with event activity ranges from between 14,000 and 16,000 room nights per year.
- Based on estimates by facility management, the Center had an economic impact of approximately $16.5 million in 2010.
- The Bellevue Conventions and Visitors Bureau was dissolved in recent years. To compensate, the center conducts its own sales and marketing efforts, operating with an approximate $500,000 budget.

Greater Tacoma Convention and Trade Center
Tacoma, Washington

- Owned and operated by the City of Tacoma, the Center opened in downtown Tacoma in 2004.
- There are 400 parking spaces on-site and Tacoma's light rail system (Link) offers additional transportation accessibility, with stations adjacent to the Center.
- The Center offers 75,300 square feet of sellable space, including a 49,500-square foot exhibit hall, a 13,400-square foot ballroom, and approximately 12,400 square feet of breakout meeting space.
- There are two hotels within one block--the 320-room full-service Hotel Murano (formerly the Tacoma Sheraton) and the 162-room Courtyard by Marriott.
- The total number of events accommodated by the Center over the past four years has ranged between 111 and 125.
- Total attendance has ranged from approximately 120,000 to 165,000 people per year.
- Room night activity associated with events at the Center has ranged from 12,000 to 15,000 per year, approximately 75 percent of which is derived from convention and conference events.

V. Analysis of Convention Center Financial Operations

We have analyzed various financial operating characteristics of the Convention Center. The analysis considers revenues and expenses generated through the operation of the Convention Center (and comparable facilities) and does not take into account various non-operating items, such public sector financial contributions, debt service, etc.

Historical Convention Center Financial Operations

In order to begin to evaluate the comparative performance of the Convention Center, detailed historical financial operating data was obtained and reviewed. Based on information contained in the Authority's Annual P & L Report (dated April 30, 2012), our analysis includes the operations of floors 1 and 2 of the Convention Center. Floors 3 & 4 are leased to Penn Square Partners and are not included in this analysis. Exhibit V-1 presents a summary, by major line item, of Convention Center operating revenues and expenses for the two-year period spanning 2010 and 2011.

Exhibit V-1
Summary of Historical Convention Center Revenues & Expenses

	2010	2011
Operating Revenue		
Space Rental & Facility Services	$1,017,109	$1,251,110
Food & Beverage Commission	172,851	180,389
Concessions Revenue	126,633	153,580
Total Operating Revenue	$1,316,593	$1,585,079
Operating Expenses		
Rental	$605,899	$545,268
F&B Concession Expenses + Shared Position	101,615	168,329
Administrative & General	253,736	274,100
Advertising & Marketing	280,470	273,335
Utilities, Energy & Maintenance	844,460	925,242
Management Fee	180,000	168,000
Insurance	78,929	74,357
Total Operating Expenses	$2,345,109	$2,428,631
Net Operating Income (Loss)	**-$1,028,516**	**-$843,552**

Notes: Figures for Lancaster include floors 1 and 2 of the LCCC.
Floors 3 & 4 are leased to Penn Square Partners and are not included in this analysis.
Source: LCCCA, 2012

As presented, net operating losses at the Convention Center have ranged from just over $1.0 million (in 2010) to approximately $844,000 in 2011. The Convention Center has averaged approximately $1.4 million in total operating revenue, generating annual averages of more than $1.1 million in room rental and more than $316,000 in concessions/catering revenue. Between 2010 and 2011, operating revenue increased by approximately 20 percent, to nearly $1.6 million. At approximately $2.4 million, total operating expenses have fluctuated very little over the past two years.

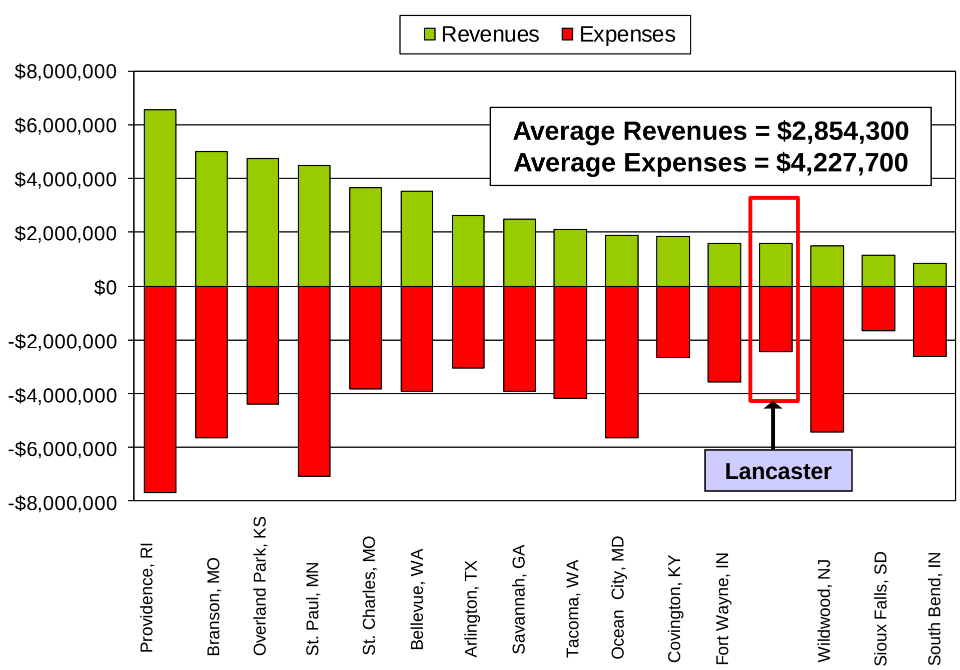
Revenue & Expense Analysis

Having established this benchmark, we obtained similar detailed financial operating data from several comparable convention center facilities. A total of 15 convention centers were considered in this benchmarking analysis, including facilities in the following markets:

- Arlington, TX
- Bellevue, WA
- Branson, MO
- Covington, KY
- Fort Wayne, IN
- Ocean City, MD
- Overland Park, KS
- Providence, RI
- Savannah, GA
- Sioux Falls, SD
- South Bend, IN
- St. Charles, MO
- St. Paul, MN
- Tacoma, WA
- Wildwood, NJ

We begin with a review of the financial performance among a variety of competitive and comparable small to mid-sized convention centers throughout the United States. Exhibit V-2 presents a summary of revenues generated and expenses incurred among the convention centers within the cities listed above. The analysis has been developed to reflect net operations. For instance, reimbursed event expenses and associated event revenues are not shown, rather they are assumed to pass through the financial operating estimates developed herein.

Exhibit V-2
Summary of Revenues & Expenses –
Competitive and Comparable Facilities



Note: Data include only revenues and expenses associated with facility operations. Items such as parking, debt service, operating subsidies and other "non operating" activities have been excluded.

Source: CSL, facility management, 2012

For purposes of comparison with the Convention Center, we have collected and reviewed recent year financial operating statements among similar venues. It should be noted that figures for Lancaster include floors 1 and 2 of the Convention Center. Floors 3 & 4 are leased to Penn Square Partners and are not included in this analysis.

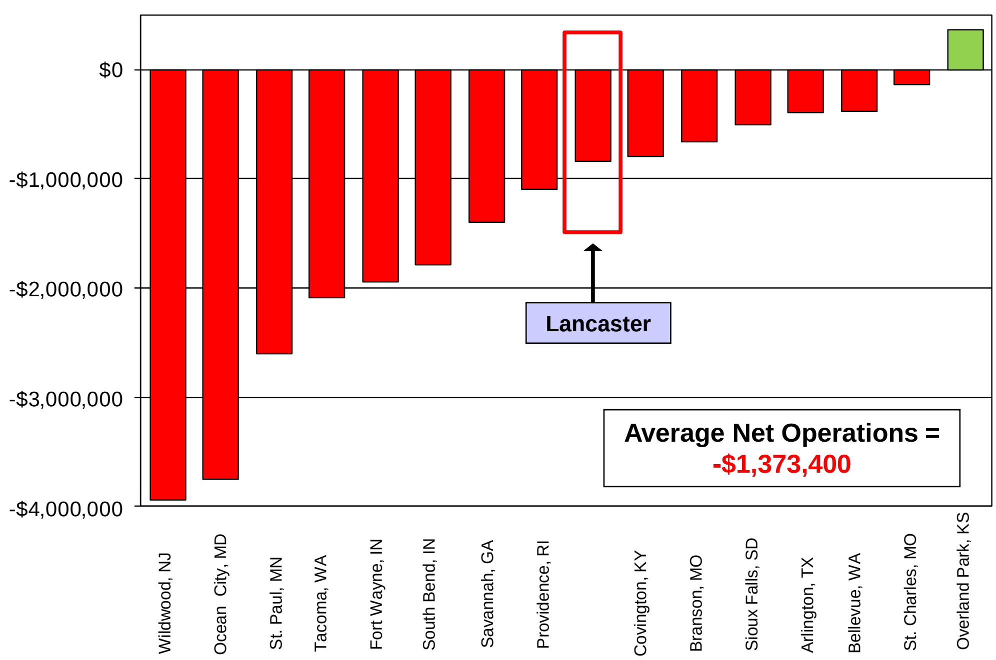
As shown, total net revenues generated among the identified convention centers range widely, from as little as $839,000 (in South Bend, IN) to nearly $6.6 million (in Providence, RI), averaging approximately $2.8 million.

With revenue of nearly $1.6 million in 2011, the Convention Center ranks at the low end of the facilities considered in this analysis. Total net expenses incurred ranged from a low of less than $1.7 million (in Sioux Falls, SD) to nearly $7.7 million (in Providence, RI). With expenses approximating $2.4 million in 2011, the Convention Center experienced the second lowest total operating costs among the facilities reviewed and compares well to the overall average of more than $4.2 million in annual convention center operating expenditures. The low cost structure is expected given the synergies associated with common hotel and center operations.

Comparison of Net Financial Operations

Exhibit V-3 highlights the net financial operations (revenues minus expenses) among the same set of convention centers.

Exhibit V-3
Summary of Net Financial Operations –
Competitive and Comparable Facilities



Note: Data include only revenues and expenses associated with facility operations. Items such as parking, debt service, operating subsides and other "non operating" activities have been excluded.

Source: CSL, facility management, 2012

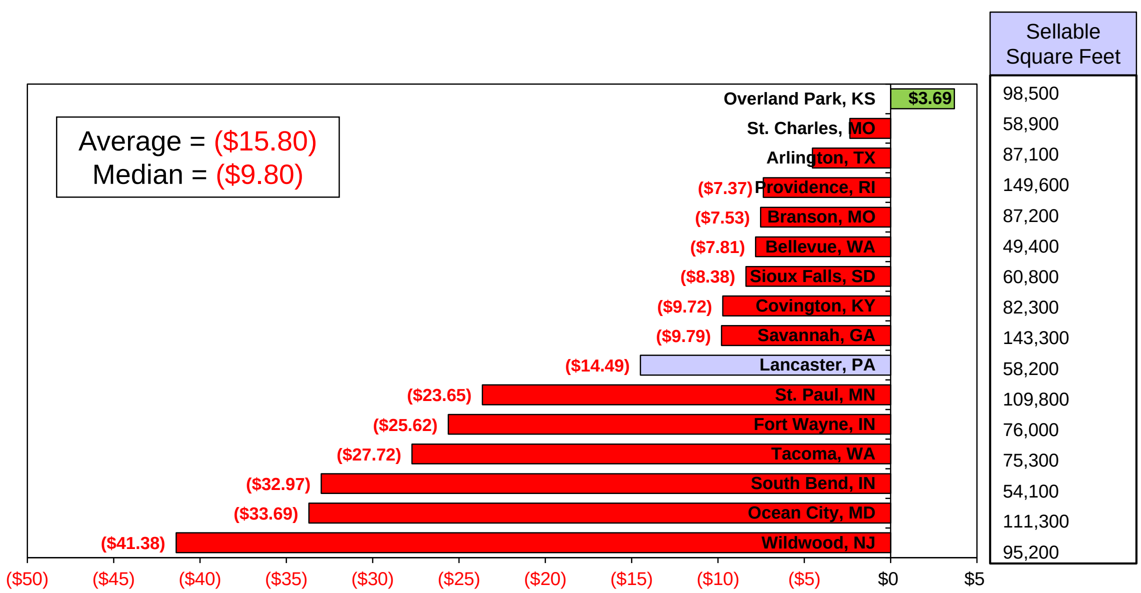
As shown in the exhibit, with a net operating deficit of approximately $844,000 in 2011, the Convention Center ranks well compared to the average of the facilities reviewed in terms of net operations. Two facilities that were frequently cited as being competitive with the Convention Center within certain event segments (the Wildwood Convention Center and the Ocean City Convention Center) operate at annual deficits that exceed $3.5 million. Only one facility operates with a positive cash flow—a relatively rare occurrence among convention centers in the United States.

As has been the case for decades, the vast majority of all publicly-owned convention centers operate at an annual deficit. The new visitation and economic impact (tangible and intangible) that are driven to local communities by convention centers are normally citied as justifications for their continued investment by the public sector.

It is important to note that there is a "story" behind each of the facilities reviewed and their respective operating revenue and expense results, in terms of variances in the ways in which they provide services (in-house versus contracted, contract terms, labor issues, unique event profiles, etc.). It is beyond the scope of this analysis to analyze the detail of each of these particular situations. We have made efforts to reflect operating line items on as comparable a basis as possible. Even with these efforts, there are aspects unique to each center that impact the analysis. In reviewing these results, it is therefore advisable to consider the general direction of the analysis, as opposed to minute differences in income and cost data. For example, if the cost structure for a center is significantly higher than any of the comparable markets reviewed, this finding should be considered carefully. Conversely, if there are relatively minor differences in cost data, it will be more difficult to reach conclusions upon which any future action could be made. That being said, information presented herein will be helpful in understanding in a broad sense how the Convention Center is performing relative to a set of competitive and comparable venues.

In an effort to account for the impacts that differences in facility size can have on resulting financial operations among the competitive and comparable convention centers (and the fact that Convention Center information includes only the operations of floors 1 and 2), we have conducted several analyses based on revenues generated and expenses incurred at each facility on a per square foot of sellable event space basis. We begin with a comparison of net financial operations per square foot among each of the 15 venues, as presented in Exhibit V-4.

Exhibit V-4
Summary of Net Financial Operations per Square Foot – Competitive and Comparable Facilities



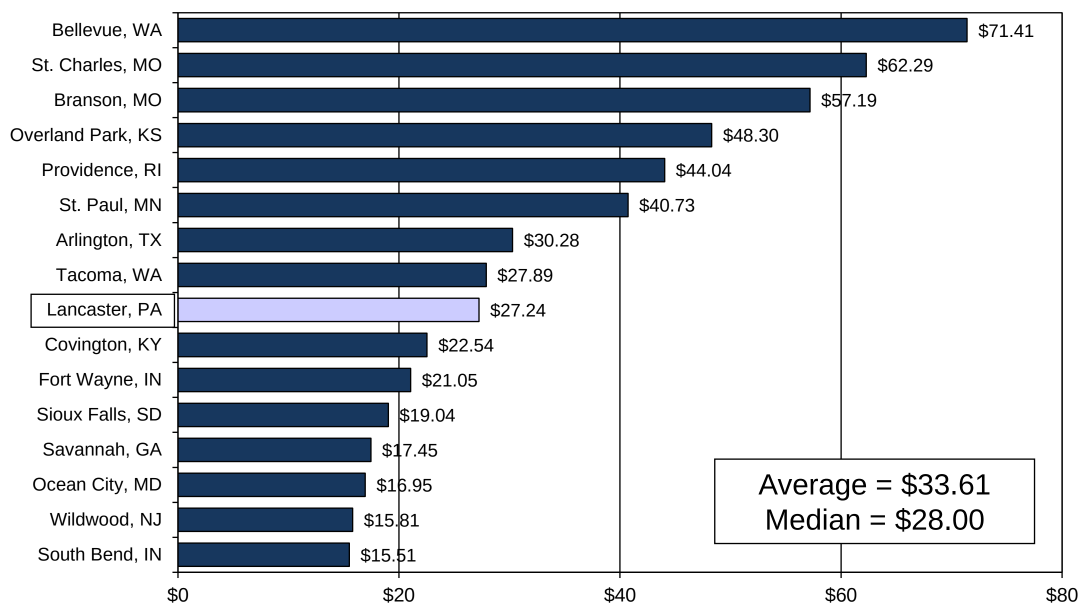
Note: Data include only revenues and expenses associated with facility operations. Items such as parking, debt service, operating subsides and other "non operating" activities have been excluded. Figures for Lancaster include floors 1 and 2 of the LCCC. Floors 3 & 4 are leased to Penn Square Partners and are not included in this analysis. As such, the sellable square footage used in this analysis is 58,200 square feet.
Source: CSL, facility management, 2012

The sellable square footage used in this analysis is 58,200 square feet. When adjusted to account for the size of each venue, the Convention Center's position among the competitive and comparable set of venues is little changed—ranking near the average of $15.80 per square foot in operating losses. With estimated operating loss of $843,550 and 52,800 square feet of available space, the Convention Center experienced losses of approximately $14.49 per square foot in 2011. This compares to deficits of less than $10 per square foot in more than half of the reviewed facilities. In contrast, six of the 15 facilities realized losses of between $23 and $41 per square foot.

Comparison of Total Operating Revenues

Exhibit V-5 presents a comparison of total revenue per square foot of sellable space among competitive and comparable convention centers.

Exhibit V-5
Total Revenue per Square Foot –
Competitive and Comparable Facilities



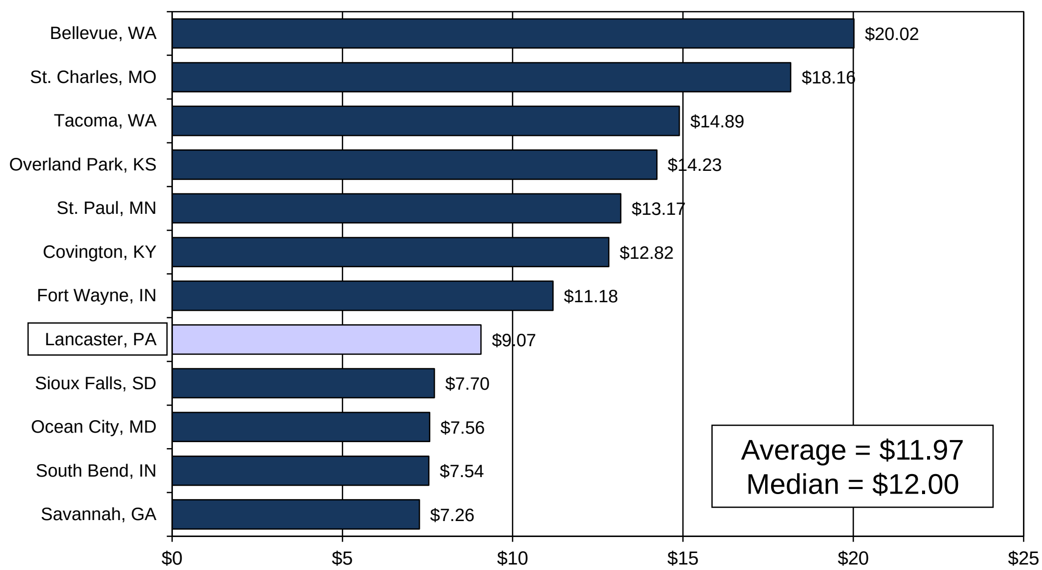
Note: Figures for Lancaster include floors 1 and 2 of the LCCC. Floors 3 & 4 are leased to Penn Square Partners and are not included in this analysis. As such, the sellable square footage used in this analysis is 58,200 square feet.
Source: CSL, facility management, 2012

Virtually all operating revenues are heavily impacted by event levels and mix. Revenues associated with Convention Center operations totaled nearly $1.6 million in 2011—which equates to an estimated $27.24 per sellable square foot of event space.

Comparison of Rental Revenues

Building rental revenues include charges for the leasing of facility spaces for event activities. The following exhibit presents total rental revenues for each facility for a recent complete year in terms of dollars per sellable square foot.

Exhibit V-6
Total Convention Center Rental Revenue per Square Foot – Competitive and Comparable Facilities



Note: Figures for Lancaster include floors 1 and 2 of the LCCC. Floors 3 & 4 are leased to Penn Square Partners and are not included in this analysis. As such, the sellable square footage used in this analysis is 58,200 square feet.
Source: CSL, facility management, 2012

In 2011, the Convention Center generated approximately $9.07 in rental revenues for each of the 58,200 sellable square feet controlled by the Authority, ranking near the midpoint of the 15 facilities considered in this analysis. This compares to a low of approximately $7.26 (at the Savannah International Convention and Trade Center) and more than $20.00 per square foot at the Meydenbauer Center (in Bellevue, WA). Interestingly, carpet was added to the main exhibit spaces at Meydenbauer Center, allowing for increased banquet ability and associated revenue. It is also important to note that the Savannah International Convention and Trade Center has experienced difficulty in attracting certain large events, due to a lack of hotel inventory proximate to the facility.

Variables that can influence a facility's ability to capture rental revenue often include factors such as the following:

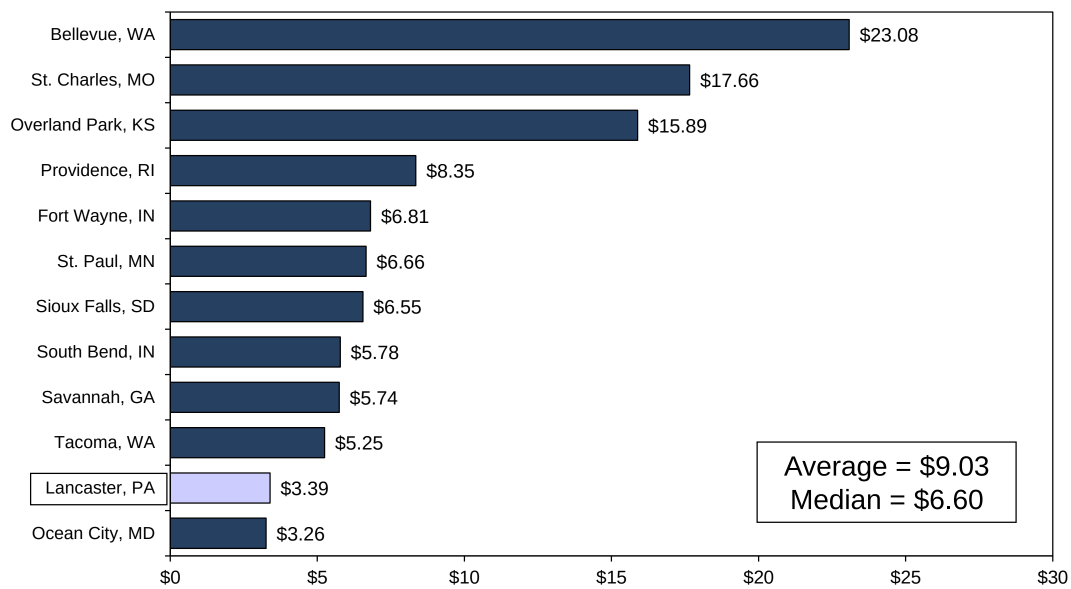
- rental rates;
- event demand/occupancy;
- discounting policies;
- move-in and move-out policies;
- local corporate climate; and
- services that are included in rent (i.e., booth cleaning, utilities and other services).

Move-in and move-out policies vary among facilities. Some centers charge a discounted portion of full space rental for each set-up and tear-down day, while other venues will allot a particular ratio of free move-in and move-out time for each event day. Differences in these policies can result in material changes to a facility's ability to generate rental revenue. The inclusion of other services (such as booth cleaning, utilities, etc.) in a center's rental rates can also impact the capture of revenues related to space rental. Typically, centers including the greatest amount of services in space rental are able charge more for space rental, thereby generating more overall rental (and possibly less service and "other") revenue.

Comparison of Food/Beverage Revenue

Food and beverage sales (concessions and catering) are often major revenue-generating sources at convention centers. Food service revenue consists of the sale of various food and beverage items and, for purposes of our analysis, is presented in terms of net revenue retained by the facility per sellable square foot. Exhibit V-7 presents a summary of net food and beverage revenue collected at each convention center.

Exhibit V-7
Food and Beverage Revenue per Square Foot –
Competitive and Comparable Facilities



Note: Data presented include the net revenue for all food and beverage service (catering, concessions, etc.) at each facility. We have adjusted the net F&B revenue collected at each comparable facility by ten percent to account for overhead expenses related to such operations, consistent with our calculations for the LCCC.
Source: CSL, facility management, 2012

Data presented include the net revenue (i.e., the actual dollars received by each center after all expenses and commissions, etc.) for all food and beverage service (catering, concessions, etc.) at each facility. Bellevue's Meydenbauer Center was able to generate approximately $25.65 per square foot in food and beverage sales in a recent year—the most among reviewed Centers.

In the case of Lancaster, we understand that food and beverage commissions, as well as concessions sales are collected based on sales within all four floors of the facility. Based on conversations with, and information provided by Authority and IHR management, total net concessions and catering revenues at the Convention Center approximated $197,400 in 2011, which represents an approximate 13 percent increase over 2010. This translates to approximately $3.39 for each of the Center's 71,600 sellable square feet (available on floors 1 through 4). This ranks last among the reviewed facilities.

As is typical in the industry, the majority of comparable facilities reviewed contract food service operations to outside vendors. Vendor commissions and the structure of the contracts vary among each facility, with most involving various percentages of gross food and beverage collections remitted to the center. At five percent of gross catering sales, the revenue split to the Authority is generally lower than that of similar contracts with other comparable convention centers across the country. However, it is important to note that Penn Square Partners agreed to a significant capital contribution to enhance and preserve downtown Lancaster, thereby necessitating a lower relative split of annual revenues to the Center.

It is also important to note that food and beverage sales at the Convention Center are accounted for differently than most traditional facilities. While the Center receives five percent of gross catering sales from IHR, concessions sales are maintained by the Convention Center (and are generally more profitable). As such, expenses related to concessions operations are combined with "shared positions" and have not been considered in this analysis.

Other factors that may influence a center's ability to capture food and beverage revenues may include:

- the pricing structure in place for such services;
- the level of competition posed by hotels and other local event facilities; and
- the magnitude of the local corporate base.

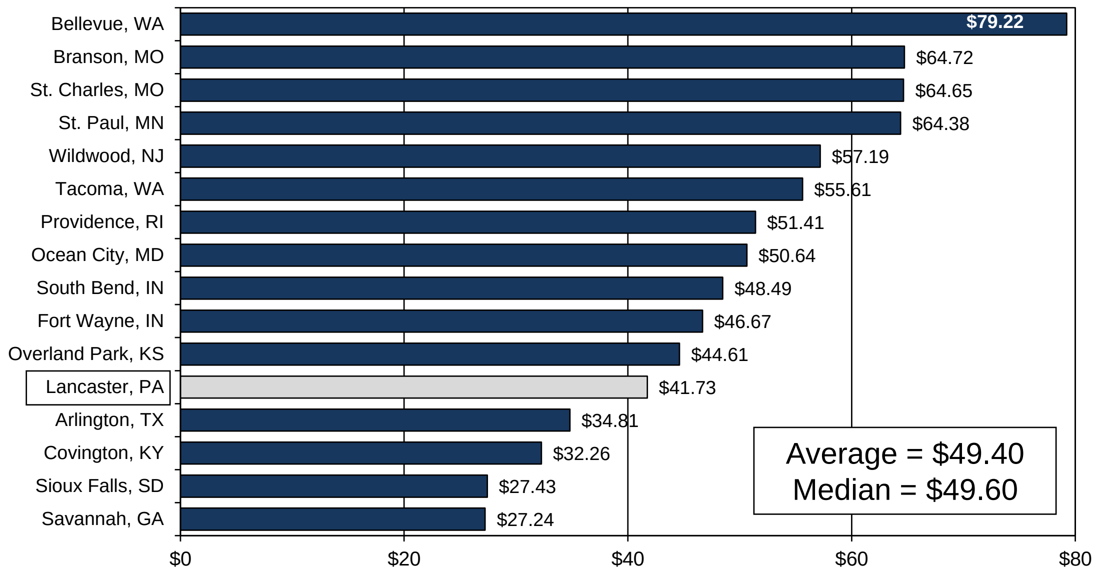
Comparison of Operating Expenses

Our benchmarking analysis of convention center financial operations also includes comparisons of operating expenses on a per square foot basis. The primary sources of operating expenses for a convention center include employee salaries, wages and benefits, professional/contractual services, utilities, general and administrative, insurance, materials and supplies, repairs and maintenance, and other expenses. A portion of the expenses are fixed, and will be incurred regardless of how the facility is operated. Other expenses are more variable in nature, increasing and decreasing with event activity, management etc.

Typically, it is difficult to compare very specific operating expense line items among facilities due to the different operating policies, service provision techniques, event levels, space, configuration, financial accounting practices, and other similar issues. For example, facilities that contract a majority of facility services to outside vendors will show a low salaries and benefits charge, with very high contract labor costs. Conversely, centers with a significant in-house staff will show just the opposite.

Exhibit V-8 presents a comparison of total operating expenses (per square foot) at each of the competitive and comparable facilities.

Exhibit V-8
Total Operating Expenses per Square Foot –
Competitive and Comparable Facilities



Note: Data include only expenses associated with facility operations. Items such as debt service, and other "non-operating" activities have been excluded. Figures for Lancaster include floors 1 and 2 of the LCCC. Floors 3 & 4 are to Penn Square Partners and are not included in this analysis. As such, the sellable square footage used in this analysis is 58,200 square feet.
Source: CSL, facility management, 2012

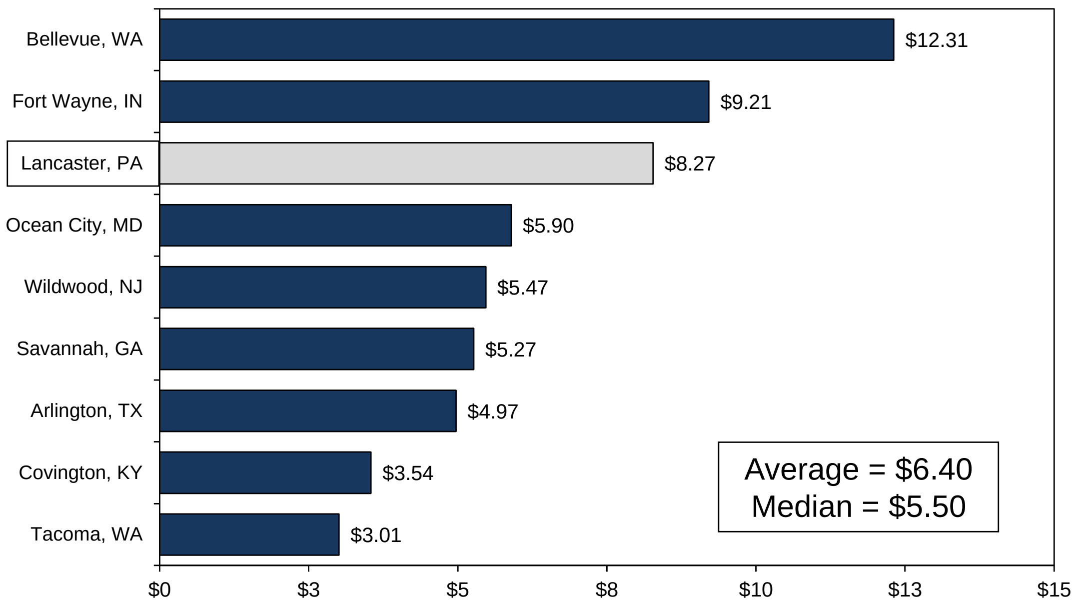
Data include only expenses associated with facility operations. Items such as debt service and other "non-operating" activities have been excluded. As presented earlier, total operating expenses for the Convention Center have ranged from $2.35 million (in 2010) to $2.43 million (in 2011). This very modest increase is reflective of various cost containing measures employed by facility management.

In the case of Lancaster, total costs approximated $41.73 per square foot of sellable space to operate the facility in 2011. At nearly 20 percent less than the average comparable facility, this compares favorably to similar venues.

Comparison of Utilities Expenses

Based on conversations with facility management, utilities costs experienced by the Convention Center have exceeded original budgets/expectations. At the request of the Authority, we have benchmarked total utilities costs (which reflect electric, gas, water and related expenses associated with the operation of a center) among several facilities for which such information was available.

Exhibit V-9
Total Utilities Expenses per Square Foot –
Competitive and Comparable Facilities



Note: Data include all charges for electricity, water/sewer, gas, etc. The sellable square footage used for Lancaster in this analysis is 58,200 square feet.
Source: CSL, facility management, 2012

It should be noted that total costs associated with utilities for the Convention Center are inclusive of floors 1 through 4 of the facility. A pro-rated share of operating costs are remitted to the Authority by PSP, based on square footage of space controlled. According to Convention Center representatives:

1. In 2009, 2010 and 2011, LCCC utilities expenses were more than $200,000 higher than originally projected.
2. Water and sewer costs continue to increase due to charges associated with mandated improvements to the Chesapeake Bay.

Based on our review, in 2010, utilities expenses at the Convention Center totaled approximately $467,900, growing to more than $481,600 in 2011. This represents an approximate three percent increase. Electricity charges have accounted for approximately 85 percent of total utilities costs at the Convention Center. When compared to similar nationwide venues, the Convention Center is above both the average and median of the selected venues.

VI. Conclusions and Alternative Courses of Action

We have conducted review and analyses as to the operations, roles and responsibilities of the various parties involved in the sales, marketing and operation of the Convention Center. Within this section, we present our review summary comments with respect to three key areas:

- Financial Operating Review
- Role of Authority Oversight
- Enhanced Authority Responsibilities

Financial Operating Review

We have reviewed the financial and event performance of the Convention Center, both with respect to a set of competitive and comparable venues, and based on our experience evaluating convention center development in cities throughout the country. One objective of this review is to identify opportunities to increase operating revenue and reduce operating expenses, thereby helping to stabilize the existing capital structure and to support the ability of the Authority to maintain important oversight functions.

As previously presented, our analysis indicates that total operating revenue per-square-foot of sellable space for the Convention Center are at the median of comparable/competitive facilities reviewed. Food and beverage revenues on a per-square-foot basis are 79 percent of median and 56 percent of average. This is largely due to the percentages of gross revenue retained by the Convention Center, as agreed to as part of the overall project financing plan.

Operating expenses are 84 percent of median. A lower expense structure is to be expected given efficiencies inherent in operating hotel and center space under single management. It should be noted that utility costs per-square-foot are materially above average relative to the comparable centers reviewed.

Based on discussions with current Convention Center and Authority management, there are several initiatives that they note have been or are being taken to achieve desired revenue and expense goals. These include the following:

1) Analysis of energy costs with utility owning transformers, versus purchasing the transformer, entering a service agreement, purchasing insurance while enjoying a lower rate.
2) Decrease solar gain with window film on southwesterly windows.
3) Working with consultants / industry experts to analyze energy utilization and consumption strategies.
4) Replaced light bulbs in Freedom Hall with bulbs that draw approximately 70kw less per bulb.
5) Soliciting proposals to assist in evaluating a fixed versus floating approach to electricity and gas purchase.
6) Purchase carpet for Freedom Hall to increase hall usage, representing a competitive edge for banquets and receptions.

7) Purchased additional exhibition drape colors to increase revenues from in-house exhibition services.

8) Identifying advertising mediums available for clients to purchase – new revenue source.

Based on our review, the carpeting of Freedom Hall and added decorator inventory (draping, etc.) have the potential to increase event activity, decrease event production costs and enhance Convention Center revenues. The costs to procure added inventory will likely be fully recouped within the first three to five years of the initial investment. Added revenue due to the Hall carpeting will depend on added event activity, which is difficult to quantify at this time. However, the banquet events likely to be attracted will often be local in nature, and will not be negatively impacted by the general lack of hotel inventory within ½ mile of the Center.

The exploration of additional advertising and sponsorship opportunities within the Center are reflective of emerging industry trends and should be aggressively explored. Added advertising/sponsorship revenue (potentially in the $20,000 to $50,000 range) should be targeted within the next 12 to 18 months.

Efforts to reduce energy use and costs should be on-going, and Convention Center and Authority management appear to be acting consistent with desired industry protocol.

There are other initiatives that could be considered to assist in improving Convention Center financial operating performance, as discussed below.

- Stronger sales staff incentives towards generating building revenue – it is our understanding that existing Convention Center sales staff, including PDCVB staff, are financially incentivized to generate both room nights and building revenue. It appears that more aggressive steps could be taken to focus on building operating revenue as part of the incentive structure, at least for the next several years. It may be beneficial to review the existing sales staff incentive structure, making adjustments that clearly delineate the incentives for generating center operating revenue. We strongly note that room night generation should remain a top priority for event sales staff. Consideration could also be given (at least on a temporary basis) to revising the Priority 1 to 5 system, giving added weight to events that generate significant facility revenue.
- Enhanced sales and marketing structure – There are currently two distinct sales teams responsible for generating event activity for the Convention Center, one working for IHR and the other for the PDCVB. There is a generally agreed on set of priorities for booking events based largely on room night generation. Up until recently, there has been relatively little coordination between the two sales teams, making it difficult to aggressively pursue events. Today, while discussions are underway as to enhancement to communications, the Convention Center sales and marketing structure suffers from somewhat of a disjointed, multi-party approach. We believe that a more coordinated approach to the sales and marketing structure, policies and procedures could be beneficial in securing added event activity, and that the Authority could play a more direct role in this structure. The unsigned Memorandum of Understanding between the Authority and PDCVB could provide some initial background for this issue. This concept is described in more detail later in this section.
- Consider limited event co-promotion – there may be opportunities for the Authority to increase its participation in limited co-promotion opportunities for various consumer and entertainment events. This would require partnering with a for-profit event sponsor, with Convention Center rental revenue put at risk in exchange for a share of event profit. If the event fails to meet revenue or attendance projections, the Convention Center could still generate ancillary revenue to help cover any marginal costs. Even attracting events

with local draw would enhance the vibrancy of the downtown area, increase awareness of the facility among residents, and could potentially generate a small amount of profit with limited risk.

Role of Authority Oversight

The Authority is charged with "providing a unique and inviting convention/ exhibition / event venue with an integrated, privately owned, first-class headquartered hotel". This function is particularly important given the role of a hotel management company in operating the County's convention center. It appears that the Authority and IHR have a productive working relationship, with IHR expertise centering on hotel management and Authority expertise geared towards the convention industry. This is an important distinction in that Authority management is able to introduce common convention industry practices, ensuring that the Convention Center serves as a resource and impact generator for the community, as opposed impacting a single hotel property.

There are numerous examples nationally of a contract management firm reporting to an organized entity such as an authority, as opposed to a city or county department. Often times, municipal government is not in a position to retain the expertise or to make the expenditures necessary to carefully oversee an asset such as a convention center. The authority structure is designed to facilitate this expert oversight. In Lancaster, the Authority has a two person staff, and appears to operate with minimal expenditures.

Going forward, this oversight structure should be continued, and efforts to ensure the following should be undertaken:

- The Authority's Executive Director should remain current with critical convention industry trends, and should participate in national industry forums (such as those supported by the International Association of Venue Managers) to ensure that this takes place.
- The Authority should interact with the PDCVB and IHR more formally in joint sales and marketing initiatives. This is discussed in greater detail in the next section of this summary.
- Continue to evaluate short and long-term opportunities for capital improvements that will keep the Convention Center current with respect to evolving event planners facility needs.
- Continue on-going efforts to evaluate opportunities to lower utility costs specifically, and reduce expenses/increase revenues generally.
- Continue to carefully monitor customer satisfaction levels, responding aggressively to any concerning trends in response levels.

Review of Specific Agreements

As part of this project, we have reviewed several agreements relating to the financing and operation of the Convention Center. Comments on various agreements are included as part of the finance review contained in Appendix 1, and in the following discussion.

Food and Beverage Concession Agreement – Dated December 20, 2001. We note that the agreement runs for 20 years which is for a longer term than is common in most convention center food and beverage agreements. We also note that the share of gross revenue remitted to the Authority equals five percent, increasing to ten percent if the gross revenue threshold of $7.3 million (increasing at three percent annually) is met, which it has not to date. The share of gross revenue allocated to the Convention Center owner (Authority) are somewhat below what is standard in agreements between convention center food and beverage vendors and facility owners. These agreements provide for owner revenue sharing at the 10 to 25 percent range. We also note that there is a provision in the agreement that calls for the Authority to fund 100 percent of Kitchen Facility equipment, and that the Authority will maintain and replace these items as needed. The fact that the hotel is a significant beneficiary of the Kitchen Facility equipment is not reflected in this component of the agreement. Finally, we note that agreements such as this are often negotiated in the context of larger facility development and financing agreements, and any areas that diverge from industry standard may result from the accumulation of terms and provisions in the global set of agreements.

Booking Policy & Room Bock Agreement ("RBA") – The RBA (including the First Amendment dated March 28, 2008), is by and between Penn Square Partners ("PSP") and the Authority. The RBA is not dated but is executed by both Authority and PSP representatives. The 1st Amendment is executed by representatives of the Authority and PSP. In general, a room block agreement is executed between an entity controlling hotel rooms, typically a hotel owner and/or hotel management company, and an entity controlling the operations and sales & marketing of a large scale meeting and exhibition space; such space most often being a publicly owned convention center. Often a room block agreement is a tri-party agreement for which the third party is a convention and visitors bureau ("CVB"). This tri-party agreement is necessary because the CVB is tasked with sourcing and booking association and/or group business for the public space and groups using the public space often have multiple night requirements for hotel rooms. The agreement obligates the parties in such a way that uniform definitions, terms, conditions and booking policies are utilized by all parties in order to facilitate common business objectives for the parties. In general, a room block agreement is executed for the purposes of ensuring that hotel rooms are available for publicly owned convention space and not necessarily for the use of other hotel meeting and public space, although agreements for the rental of hotel meeting and public space are often negotiated directly with the hotel if necessary.

This RBA seeks to protect the Authority's right to book meeting space and other areas within the hotel as well as to book hotel rooms for certain defined events. These events are principally defined as events which require hotel room nights and events that do not. Events that require room nights are bifurcated into events described as "First Scheduling Priority", in which a minimum of 500 hotel rooms are required, and "Second Scheduling Priority" in which a minimum of 300 hotel rooms are required. These 300 and 500 room night requirements are further defined as minimum nights required on a specific event's "peak night". That is to say, for an event of any duration, in which any number of room nights may or may not be required on any night of the event, there is at least one event night certain in which 500 room nights, for a First Scheduling Priority event, or 300 hotel rooms for a Second Scheduling Priority, are required. Relative to First and Second priority events, the Authority has the right to book First Scheduling Priority events as far in advance as it deems appropriate and Second Scheduling Priority events, generally, thirty six (36) months out. However, neither type of event can be booked less than twenty four (24) months from the first day of the event.

Events are further delineated into Third, Fourth and Fifth priority events each of which has no stated minimum hotel room night requirements. However hotel ownership, through its management company, has both the booking discretion and the pricing discretion to book any hotel rooms for these events or to allow these events to book into any Hotel Facilities Area of the hotel. As such, booking by the Convention Center, within hotel areas including hotels rooms, is subject to availability and the working relationship the Authority maintains with the convention center manager.

The Authority is also afforded the right to book First and Second priority events into hotel meeting and public space for a certain number of days in any particular month, based on the lesser of 10 event days or average usage in the three prior years during corresponding months. This right is also extended to booking hotel room blocks for event guests in any particular month, based on the lesser of 200 hotel rooms or average usage in three prior years during corresponding months. We comment on the challenges associated with the current Convention Center sales and marketing effort later in this section. With respect to the RBA, if an opportunity to amend the agreement existed, we would recommend reevaluating:

- Authority access for First and Second priority event types based on fixed event days and fixed room blocks during specific months;
- Agreed-on hotel room rates based on premiums to actual rates in preceding corresponding months versus annual averages. This would be beneficial in creating the ability to competitive rates for high-economic impact events.

<u>Lease Agreement between the Authority and Penn Square Partners</u> – The amended lease dated March 27, 2007 addresses the lease terms for 14,851 square feet of meeting, ballroom and business center space leased to Penn Square Partners (PSP) by the Authority. The lease term runs for 99 years, with a base annual rent of $100.00. PSP also pays a proportionate share of Convention Center maintenance costs (7.2 percent based on current calculations).

Given the significant costs of developing convention and hotel space, it is very common nationally for the public sector to provide financial assistance in a variety of ways, including build-out of event space for use by hotel owners/managers. The March 27, 2007 Lease Agreement appears to be consistent with this approach.

Enhanced Authority Responsibilities

There is a cycle of activities that is relevant to the broad functions of a convention center. In reviewing the current activities that encompass and surround the Convention Center as a community asset, it is useful to consider these activities, as described below.

- <u>Sales and Marketing</u> – These efforts first lay the ground work for creating awareness of the convention product in Lancaster. Then, specific sales efforts targeting convention, conference and trade events are undertaken. We note that the marketing and sales process for the Convention Center did not start until facility opening, whereas it is more typical to start this process several years in advance of opening.
- <u>Quality Management and Operations</u> – Once an event has been secured for a center, it is critical that the management team offer high quality service such that this becomes a competitive advantage for the center.
- <u>Leveraging Center Impacts</u> – A large event will direct hundreds (or in some cases thousands) of attendees to a very specific destination within the community. This provides an opportunity to positively impact hotels, and also restaurants, retail and other establishments within the areas surrounding the center. In this way, a center can be seen as an economic development asset, however, this requires continual, dedicated efforts to (1) leverage event attendees into use of existing businesses, and (2) work with economic development professionals to continually develop the inventory of restaurant/retail/entertainment businesses within a vibrant convention center district.

- Continual Evaluation of Asset Improvements – It is important that close attention is paid to the quality of the convention center asset, as well as the quality of the district surrounding the center. If either deteriorates, high-impact event activity will be negatively impacted.

The activities noted above combine to form a type of lifecycle for a convention center. Today, the Authority is active in various ways with each of these elements, particularly with the management and operations function. We suggest consideration of several other opportunities to further integrate the Authority into the center lifecycle, as described below.

Sales and Marketing

The current approach to Convention Center sales and marketing is inefficient, with the PDCVB and IHR approaching these efforts separately (although with some level of coordination as discussed previously). The lines of responsibility have not been particularly clear, causing a potential loss of momentum in the sales and marketing efforts.

There are numerous approaches to convention center sales and marketing coordination – generally revolving around structural and policy approaches. Consideration should be given to developing a set of policies and agreements to better coordinate Convention Center sales and marketing, including the following:

- Develop specific roles for the PDCVB, IHR and the Authority. This will not be a straightforward effort. A CVB is typically charged with booking events that require significant room nights and schedule at least 18 months into the future, with Center sales staff handling short term bookings. However, given that IHR staff book both Center and hotel space, they do focus on long term as well as short term bookings.
- Develop specific goals for each entity, focusing on:
  - room nights;
  - lead generation by event type;
  - conversion statistics;
  - center revenue; and
  - related statistics.

We recognize that the PDCVB and IHR operate as separate entities, each with a particular approach and responsibility as to Center sales and marketing efforts. The Authority should therefore take an important role in helping coordinating the PDCVB and IHR sales and marketing activities, ensuring that staff is deployed in a coordinated manner; and in evaluating overall performance relative to goals. The Authority could also play a role in helping arbitrate discussions as to Center pricing and discounting.

It would be highly useful to draft and execute a written agreement between the PDCVB, IHR and Authority as to roles, responsibilities, pricing/discounting procedures, goal setting and accountability. Through this type of process approach, we believe that significant progress can be made as to the effectiveness of the Convention Center sales and marketing efforts

If the policy approach descried above does not achieve desired goals, consideration should be given to pursuing a structural approach, under which a new sales and marketing team would be created, dedicated to selling all events (Priority 1 through 5) at the Convention Center. This team would require approximately six positions – a director, an assistant and four dedicated sales positions. These positions would focus on various event types (i.e., local, state, regional, national – and corporate, association, SMERF, etc.). The director would report to the Executive Director of the Authority, with a secondary line of reporting to the PDCVB and IHR. A clear set of metrics designed to measure sales performance would be developed, and would include factors such as event and attendance levels, room night generation, Convention Center revenue, and leads generated and conversion rate.

Examples of this model can be found in numerous markets, including St. Charles, MO. The St. Charles Convention Center is operated by a contract management firm under the direction of an Authority. The Center operations currently carry eight positions (including catering managers) largely dedicated to short and long-term sales and marketing efforts. The local convention and visitors bureau plays a lesser role in this sales process.

For the Convention Center, funding for this effort could initially draw primarily from a redirecting of existing PDCVB and IHR convention center sales and marketing expenditures. This model would reflect the fact that a significant majority of county-wide room night generation originates from leisure travel, and would allow the PDCVB to focus directly on this segment. Those responsible for Convention Center performance (Authority and IHR) would then have more direct control over facility sales and marketing efforts. An initial budget for such an entity, inclusive of salaries and marketing expense, could range between $600,000 and $700,000. To the extent that that funds allocated by the PDCVB and IHR are insufficient for this effort, added revenue, potentially secured as part of the solution to the Convention Center financing situation, would be needed.

<u>Other Functions</u>

As previously noted, there may be an opportunity for the Authority to participate more significantly in facilitating the impact on, and development of, restaurant, retail, entertainment, hotel and other development within the districts surrounding the Convention Center. The Executive Director would continue to work closely with leadership of the James Street Improvement District, and City and County Economic Development departments among other relevant organizations as part of these efforts.

As noted above, it may also be productive for the Executive Director to work with event promoters to evaluate opportunities to bring events to the Center through some form of limited co-promotion effort. The Executive Director would work closely with IHR and the promoters, offering only to defer some portion of potential revenue versus putting net financial resources at risk.

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We sincerely appreciate the assistance and cooperation we have been provided in the completion of this report and would be pleased to be of further assistance in the interpretation and application of our findings.

HREC Development Resources[sm]

HOSPITALITY REAL ESTATE COUNSELORS[sm]

memo

date: May 16, 2012

to: John Kaatz

from: Mark Tobin

cc: Kristoffar Nelson

re: Lancaster County Convention Center Authority: Review of Bond Documents

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CSL and HREC were provided a copy of a document dated September 2, 2011, entitled "Lancaster County Convention Center Authority Hotel Room Rental Tax Revenue Bonds, Series of 2003 and Series of 2007". Essentially this document details the terms and conditions of a restructuring of the 2007 bond offering. These documents were drafted by legal counsel selected by the Authority.

This restructuring occurred in the 3rd quarter of 2011, and for purposes of this review, the September 2nd documents are referred to as the "Bond Documents". The specifics of the 3rd quarter 2011 restructuring were not a primary focus of this review.

The Bond Documents are complex and detail various elements of the principal and interest payments for the 2003 Series and 2007 Series bonds, as well as the funding of various other accounts. Below we have prepared a focused assessment of certain of the covenants, terms and conditions applicable to the current capital structure.

Background

As we understand, in 2007 the Lancaster County Convention Center Authority (Authority) worked with an independent financial advisor and an independent swap advisor to generate a capital structure. As a result, the Authority agreed to issue synthetic fixed rate debt which entailed issuing variable rate demand bonds supported by a direct pay letter of credit which was hedged with swaps. We have been informed that this was necessary because the Authority did not have a public debt rating with which to issue traditional fixed rate bonds. Further, we have been informed that even if the Authority could have issued traditional fixed rate bonds, the interest rate on those bonds would have been higher than the effective fixed swap rate. We have not performed any analysis to determine the appropriateness of the selected debt instruments versus some other type of financing.

We have briefly reviewed the convention center operations pro formas prepared by the Authority's independent financial advisor in 2007. We shall not present an opinion as to whether or not the projections were representative of probable operations results given then current regional and national economic conditions. Broad economic conditions of the last five years have generated downward pressure on convention center and hotel industry performance around the country. Actual performance of the Hotel Room Rental Tax has been below the projections prepared in 2007 with the exception of the year 2007. Performance of the Convention Center's operations has also been below the projections prepared in 2007.

It is our understanding that in 2011, the Authority converted the variable rate bonds, which were supported by a direct pay letter of credit, into an Index Rate mode (as defined within the Bond Documents). This involved Wells Fargo Bank (WFB) agreeing to change its business practices with the Authority and converting from providing credit through a letter of credit to directly purchasing the bonds. In exchange, the Authority agreed to pay interest based on a Direct Purchase spread which is essentially a credit spread. Within the basis points representing the Direct Purchase spread, interest payments include the interest income which WFB receives for its business risk and other costs associated with participating in the transaction. The Direct Purchase spread is determined based on the authorized level of Hotel Room Rental Taxes.

The capital structure provides for more than just paying the principal and interest payments on the bonds with hotel room taxes. Within the capital structure, Hotel Room Rental Taxes are also used to make the swap payments, fund Sinking Funds, fund Debt Service Reserve Funds, provide operating funds for Interstate to operate the convention center, provides operating funds for the Authority administrative budget, and provides funds for FF&E replacement. When the Quarterly Debt Service Coverage Test and the Quarterly Liquidity Covenant Test are being "passed", the County Treasurer is directed, by and through agreement with the Trustee, to send the 20 percent of the Hotel Room Rental Taxes to the Pennsylvania Dutch Convention and Visitors Bureau. This is a function of the enabling Third Class County Convention Center Act.

Quarterly Debt Service Coverage Test & Quarterly Liquidity Covenant Test

These two tests are critical to measuring the credit quality of the Authority. More particularly, passing these two tests speaks to the amount of cash flow available to fund the various obligations within the capital structure and therefore speaks to the overall credit quality of the Authority and the financing itself. As the term of the bonds extends towards their maturities, an ongoing continuum of positive test "results" will suggest continued, and under certain situations, improved credit quality.

However, if Hotel Room Rental Taxes are insufficient to pass these quarterly tests, it is likely that credit quality will be perceived as weakening. The weakening of credit quality may manifest itself in any number of ways including increased interest rate expense, decreases in funding to the PDCVB, decreases in cash flow available to fund operations and administration of the convention center, and, likely, a decrease in interest from the capital markets to participate in any refinancing of the convention center debt should such an action ever be desired.

In order to evaluate these tests on a going forward basis, CSL/HREC needed to estimate Hotel Room Rental Tax Revenue for the period March 2012 through Dec 2014. CSL/HREC was provided historical tax revenues and it evaluated several additional sources to determine an estimate of the monthly tax revenues. A one percent annual growth rate for future hotel room rental tax collections has been assumed for purposes of this analysis.

Although the convention center appears capable of supporting the interest payments on the Series 2003 Bonds and Series 2007 Bonds, analysis suggests that, at the current Hotel Room Tax rate, the convention center will fail the Quarterly Liquidity Covenant Test for 9 months in 2012. Assuming the Applicable Spread remains constant in year 2013 and year 2014, analysis further suggests that the Quarterly Liquidity Covenant Test will fail in 7 months in 2013, and in 11 months in 2014. Again, these 2013 and 2014 outcomes are estimated to occur if the Index remains at March 1, 2012 levels, going forward, and there is no impact on cash flow from interest rates or other changes on the Mandatory Tender Date of March 1, 2013.

If the Applicable Spread increases for any reason, and current forecasted Hotel Room Rental Tax rate collections for 2012, 2013 and 2014 remain as estimated, the rate of failure for the Quarterly Liquidity Covenant Test and the Quarterly Debt Service Coverage Test will increase.

Interest Rate Impacts

The interest rate paid on the bonds is based on an agreed upon Index Rate. From the date of the restructuring in 2011 through February 28, 2012, the interest rate was based on weekly remarketing of the bonds in a variable rate mode and was: (1) 95 basis points for the Series 2003 Bonds, and; (2) 125 basis points for the Series 2007 Bonds. As of March 1, 2012 the applicable Index was (1) 175 basis points for the Series 2003 Bonds; and, (2) 190 basis points for the 2007 Series Bonds. This increase of 80 basis points for the Series 2003 Bonds and 65 basis points of the Series 2007 Bonds has created additional pressure on cash flow but has not affected the ability of cash flow to fund debt service. However, it has effectively reduced available cash flow to fund various other elements of the capital structure including providing funds for Center operations, marketing and the Authority administrative budget.

According to the Bond Documents, the Index can be reduced to (1) 115 basis points for the 2003 Series bonds; and, (2) 130 basis points for the 2007 series Bonds if the County-wide hotel room tax is increased to 4.9 percent.

The Bond Documents have a Mandatory Tender Date on March 1, 2013. There are a number of negative repercussions that can occur as of this date. One of these is that the Index would increase to a floor that is a 7 percent interest rate with an additional adjustment of 100 basis points on day 181 thereafter. We would respectfully suggest an evaluation of the strength of the revenue streams pledged to the capital structure as well as regular, ongoing discussions with WFB with the intent to determine the probable scenarios that may unfold as of the Mandatory Tender Date.

PDCVB Contributions

As previously stated, when the Quarterly Debt Service Coverage Test and the Quarterly Liquidity Covenant Test is being met, 20 percent of the Hotel Room Rental Taxes are provided to the PDCVB to assist it with tourism sales and marketing for the Lancaster destination. While this does not directly impact business at the convention center, it does contribute to overall room night demand in the County which generates incremental room night taxes. It is our understanding that the PDCVB also conducts marketing activities to corporate groups and association groups that are target customers of the convention center and does so in cooperation with the Interstate Hotel sales & marketing effort for the convention center.

Utilizing the estimated Hotel Room Rental Tax Revenues, analysis suggests that, at the current Hotel Room Rental Tax rate, the 20 percent contribution to PDCVB will not occur for 9 months in 2012, will not occur for 9 months in 2013, and will not occur in any month in year 2014. As of April 1, 2012, the PDCVB is no longer receiving the 20 percent.

Potential Shortfalls to Authority and IHR Administrative Budgets

Utilizing the estimated Hotel Room Rental Tax Revenues, analysis suggests that at the current Hotel Room Rental Tax rate, there will be several months within each year of the 2012 through year end 2014 period where there will be insufficient funds to meet the administrative budget needs of the IHR and the Authority. However, in year 2012 and 2013, cash flow in successive months of these shortfalls eliminates the prior month's shortfalls such that there are no year end shortfalls. However, analysis suggests that as of year end 2014, an aggregate shortfall for the administrative budgets of the IHR and the Authority will be approximately $300,000.

Potential Refinancing of Current Capital Structure

It is our understanding that initial, preliminary discussions have occurred relative to improving the credit quality of the bond issuance. We would suggest and strongly encourage any and all discussions regarding improving credit quality, whether or not in concert with a potential refinancing or a modification to the current indenture. It is important to note that any opportunity to refinance would likely be based on the capital market's perception and/or measurement of the strength of the Authority's credit as well as the Authority's ability to pay off or refinance the termination of the existing swaps.

It is probable that capital market considerations of Authority's credit quality may include both financial and operations metrics. Financial metrics may include, but may not necessarily be limited to, the ability of the cash flows to pay principal and interest payments on the Series 2003 Bonds and Series 2007 Bonds, the ability of cash flows to sustain the quarterly liquidity covenant test (the $5.25 million reserve requirement), the ability of cash flows to sustain the quarterly debt service coverage test, and the ability of cash flows to fund other reserve accounts. Operations metrics may include, but may not necessarily be limited to, the ability of the Hotel Room Rental Tax Revenue to continue to support the split of revenues to both the Authority and PDCVD, and the ability of cash flows to fund the administrative budgets and various reserves.

It is our understanding that as of December 31, 2011, the amounts related to terminating the swaps were approximately $14 million for the swap related to the Series 2003 Bonds and approximately $10 million for the swap related to the Series 2007 Bonds. The Authority recognizes that the swap obligation is a major impediment to a potential refinancing.

There is currently a guarantee on a portion of the debt on the convention center. The liability for this guarantee is currently with Lancaster County. It is possible that if the current guarantee could be substantially increased, by the county or some investment grade entity yet to be determined, that the opportunity to refinance the debt may be improved, thereby likely reducing interest expense.

FF&E Provisions within the Bond Documents

In general, we have been silent on provisions of the Bond Documents which we consider ordinary and usual for the type of restructuring that occurred in 2011. However, we wish to comment on the appropriateness of the existing FF&E provisions. FF&E requirements generally exist to ensure that a physical asset continues to be maintained at some certain defined standard. In this instance the referenced standard is that of the quality level as contained within the written standards for the Marriott brand.

Given that Convention Center's pre-function, meeting and ballroom spaces are highly integrated into and appurtenant to the Marriott Hotel and its pre-function, meeting and ballroom spaces, it is critical that all Convention Center (including both Authority and PSP space) be maintained in a manner consistent with the Marriott standards.

Quite often, when discussions regarding the restructuring of a hotel or convention center capital structure occur, the amount funded and accrued in FF&E reserves and capital expense reserves are "on the table" for negotiation to smaller percentages of revenue. We would strongly discourage any such discussion. In fact, we suggest considering a bifurcation of reserves into FF&E and Capital Expenditure ("CapEx") reserves, an increase in the total annual reserve funding requirement, with the discretion of CapEx reserves expenditures to be under the purview of the Authority.

The Direct Purchase ("DP") Spread / Potential Additional Revenue Sources

We have been told that there are Lancaster County stakeholders who have expressed the opinion that the DP Spread represents an expense that is a "drain" on cash flow. Further, we have been informed that certain stakeholders view a reduction in the DP Spread as a necessary part of any "global" solution. An opinion as to whether DP Spread, specifically, or the cost of capital in general is appropriate, given the credit quality of the Authority, is outside the scope of CSL's engagement. However, it is important to note that the DP Spread does represent a risk premium which WFB determined as necessary, and which the Authority agreed to, as part of the restructuring. The DP Spread is a function of the credit quality of the Authority.

Given that conditions to pass the Quarterly Debt Service Coverage Test and the Quarterly Liquidity Covenant Test are not currently being met, it is difficult to define a realistic scenario in which WFB would agree to reduce the DP Spread, reduce reserve or debt service coverage requirements or decrease other costs within the capital structure. However, we are of the opinion that there may will need to be additional revenue pledged to the capital structure in order to maintain Center and Authority operations, particularly in the short term. There are several sources of current or new revenue that could be pledged to the capital structure, as presented below:

Increase in County Wide Hotel Room Rental Tax

As stated above, the Bond Documents provide for the spread on the bonds to be reduced to: (1) 115 basis points for the Series 2003 bonds; and, (2) 130 basis points for the Series 2007 Bonds if the County-wide hotel room tax is increased to 4.9 percent. This would result in a decrease of: (1) 60 basis points for the Series 2003 bonds; and, (2) 60 basis points for the Series 2007 Bonds as compared to the current interest rate as of March 1, 2012.

The impact from a tax increase to 5.0 percent would be that the Quarterly Debt Service Coverage Test and Quarterly Liquidity Covenant Test would pass for every month through year end 2014. In addition, no shortfalls to IHR or Authority administrative budget would occur.

Analysis of the impact of an increase in the County Wide Hotel Room Rental Tax, with regard to the Quarterly Debt Service Coverage Test, the Quarterly Liquidity Covenant Test, various reserves and sinking funds as well as on the IHR or Authority administrative budget, was not considered beyond year end 2014.

There does not appear to be another source of revenue that can provide the necessary revenue streams within the timeframe needed to maintain Center and Authority operations. This is not to say that other sources of revenue should not be pursued. In fact, there may be opportunities to introduce a variety of other sources, and over time these could be used to add to or supplant Hotel Room Rental Tax revenue.

Other Revenue Streams

We are of the opinion that other potential revenue streams should be considered in addition to potential Hotel Room Rental Tax increases. We recognize that certain of these would require State, County and/or City legislative actions. Other cities with comparable facilities use other forms of taxes, in addition to Hotel Room Rental Tax, to fund tourism/economic development projects. Examples of convention and visitor industry funding sources in other markets include the following:

- Oklahoma City – broad community-wide sales tax, voter approved and implemented for a very short duration (five to seven years), and supportive of a set of projects inclusive of convention industry, senior centers, park development, recreation centers, schools and other desired municipal projects.
- Minneapolis – separate restaurant, liquor and entertainment taxes levied on downtown establishments.
- Boston – portions of car rental tax and a newly created tax on sight-seeing tours, and a parking surcharge.
- Denver – a new car rental tax and an allocation of the food and beverage tax.
- Chicago – restaurant tax in a downtown district, auto rental tax, and an airport taxi departure fee.
- New Orleans - 0.25 percent food and beverage tax for establishments with $500,000 or more in gross sales.

We also note that several communities in Pennsylvania are currently exploring increases in hotel tax rates to fund enhancements to the visitor industry sector.

For the Authority, there are several options for increasing revenue to service the current capital structure. In many cases, these may draw from geographic areas that perhaps benefit most from the Center. These are discussed briefly below. Further analysis will be needed to quantify potential revenue generation, and to assess the steps necessary for implementation.

- Business Improvement District (BID) Tax: Such a tax could be focused on some defined geographic area within the City of Lancaster surrounding the convention center, targeting those businesses that benefit most directly from Center operations. There is currently a Lancaster Downtown Investment District Authority (DID) that collects an assessment from property owners. Consideration should be given to some form of tax or assessment within the downtown area targeted to supporting the Convention Center.

- Tax Increment Financing: It is not uncommon to set in place a tax increment financing district from which various tax revenues in excess of a base collection level are contributed into a particular project, in this case the Convention Center. This concept should be considered.

- Increased Excise Tax: It is our understanding that an increase in the Hotel Room Rental Tax has been preliminarily discussed. Consideration could be given to an increase in the Excise Tax for hotels, thereby directly or indirectly supporting the Center. As there are no requirements for an 80//20 split for these funds with the PDCVB, there may be opportunities to allocate Excise Tax and Hotel Tax funds in a manner that maintains current PDCVB funding levels and supports the financing mechanism for the Center.

- Prepared Food & Beverage Tax: It is not uncommon for some form of prepared food and beverage tax to be used to support convention and visitor initiatives for a community. In many cases, the tax is applied only to a particular sub-set of the industry, for example only sit-down restaurants, restaurants that serve liquor, and/or restaurants within a defined district. Such a tax should be considered in this case to support Center financing, and also potentially to support various other destination sales and marketing initiatives sponsored by the PDCVB.

- Increased Sales Tax: As with the prepared food and beverage (or restaurant tax), consideration could be given to a broader sales tax initiative with a well defined time horizon and a defined set of projects to support. Such a tax would have the potential to support Center financing, as well as other community projects.

- Increased Property Tax: This is not a common method of financing investment in the convention and visitor industry, and is identified here only as an option should no other solution be found to Center financing issues.

- Improved Hotel Room Rental Tax collections: At present, there are discussions among certain constituencies in the Lancaster County community regarding the effectiveness of collections. An opinion as to current audit procedures is not within the scope of the CSL engagement. However, it is likely that current opinion regarding collections may exist due to inexact methodologies utilized in assessing estimated collections (e.g. use of

Smith Travel Research reports to estimate market wide room revenues). There are also other market specific rationales why collections may be less than perceived. We strongly encourage continued County efforts to effectively measure actual County-wide hotel revenues to ensure that all legally required payments due to Lancaster County are reported and paid by all hotel owners.

As noted above, each of these funding concepts should be considered as additive to the existing Hotel Room Rental Tax or in addition to some increase in the Hotel Room Rental Tax. Having said this, it does appear that an increase in Hotel Room Rental Tax would be effective in addressing current technical defaults. However, in our discussions with local industry, business and political leaders, the notion of broadening the responsibility for funding Center debt obligations, beyond the hotel industry through increased hotel room taxes, was suggested as an area of potential revenue that should be explored. We agree that Center operations benefit some specific industries and geographic areas more directly than others, and that the long term solution for solving the current financing dilemma should involve a combination of ideas that reflect this condition.

As a result, some combination of revenue sources noted above, in addition to the existing Hotel Room Rental Tax, should be considered. The decision regarding how to assemble a set of options for the Center will require various political and local business decisions, and cannot be defined solely as part of this review. We therefore suggest the following steps:

- An immediate exercise on the part of city and county finance officials to quantify revenue potential from the various revenue options noted herein.
- Defining of a set of revenue generating options that include assessments or taxes on the downtown and/or city area, reflective of those sectors/regions that benefit proportionally more than others.
- Discussions with political leaders as to which set of options may be acceptable for further consideration.
- Discussion with lenders as to modifications that could be made, in conjunction with approved additional revenue sources, which could benefit and improve the credit quality of the capital structure.

We are also of the opinion that a solution be crafted that extends beyond a 12 to 24 month time horizon. While it may be difficult to craft a solution that extends through the term of the bonds, it may be possible to craft a solution that creates stability in the capital structure for a 7 to 10 year timeframe. Benefits may include milestones with financial metrics that create triggers that may reduce interest rates, reduce reserve requirements, defease bonds, fund capital projects, and fund other activities.

Once each if not all of these steps have taken place, implementation of an agreed-on approach to addressing the immediate and long term capital structuring issues for the Center can take place.