

Analysis of the Operations and Sales of the Lancaster County Convention Center With Review of Bond Documents

LANCASTER COUNTY
CONVENTION CENTER AUTHORITY

Community Stakeholder Press Conference
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Destination and Center Conditions and Operating Review

- Destination strengths include unique attraction, vibrant downtown and significant drive-in population
- The lack of hotel inventory surrounding the Center presents a sales challenge
- Event use at the Center in early years has ranged between 240 and 280 annually.
Occupancy levels are within industry norms

Destination and Center Conditions and Operating Review

- A convention center can serve a variety of economic development goals:
 - Room night generation
 - Exposure to business leaders
 - Community gathering place
 - Support for downtown development

Center Financial Operating Review

- Operating subsidies for the Center dropped from \$1.03 million in 2010 to \$844,000 in 2011 – below comparable market averages
- Both revenue and expense measures are slightly below comparable market averages
- As with any center, opportunities exist to increase revenues and reduce expenses
- While these should be pursued, the net financial gain will not nearly approach the levels needed to address funding challenges

Center Sales and Marketing Review

- The Priority 1 and 2 event sales and marketing process has not reflected industry best practice
- Efforts should be undertaken to:
 - Define responsibilities
 - Set annual goals and measure results
 - Assure coordination between all relevant parties
- The Authority plays an important role in helping to coordinate and focus the sales and marketing process

Financing Review

- The current interest rate for Authority debt is below market rate for this type of project risk
- Improved Center financial operations will not address shortfalls
- Hotel tax collections are \$1.5 million below projection through 2011
- FF&E reserves have not been funded
- There is a March 1, 2013 milestone on which the interest rates could change significantly

Financing Review

- The current credit quality does not allow for a market based refinance
- Added revenue will be necessary to stabilize Authority financing

Financing Review

- Revenue options include:
 - Hotel Rm Rntl Tax – ability for timely change
 - Excise Tax- ability for timely change
 - Restaurant Tax – requires legislation
 - Tax Increment Financing – limited early year revenue
 - DID Fees – already in place
 - Local Option Sales Tax – requires state legislation

Financing Review

- Hotel room rental tax increase allows for cascading opportunities to further stabilize structure:
 - Immediate reduction in interest costs
 - Potential to modify bond terms
 - Opportunity to improve credit quality

Long Term Prospects

- Raising hotel room rental tax creates environment whereby Authority is conforming to the terms and conditions of current debt structure
- A longer-term solution may require additional credit support and bond modifications

Next Steps

- Evaluate appropriate approach to hotel room rental tax increase
- Discuss potential for added debt guarantees with public sector
- Negotiate with bank as to potential tender date revision associated with tax increase
- Discuss potential for modifications to agreement with PSP that could benefit capital structure
- Evaluate revenue potential and necessary steps to implement broader revenue support