

Results of Additional Analyses Related to a Proposed Hotel at the GWCC

Presentation to the Stadium Development Committee

PKF Hospitality Research, LLC

March 25, 2014

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5. Private Developer IRR and Economic Gap Analysis
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9. Next Steps – Frank Poe

1. Project History

Fall 2013

- Three firms engaged to study the market and financial appeal of Hotel development on the GWCC Campus.
- Findings indicated that additional analyses were warranted.
- Results of these additional analyses are why we are here today.

2. Meeting Planner Survey Results*

- Results reinforced the initial findings that:
 - The proposed Hotel would be well received by the majority of the existing users of the GWCC.
 - The Hotel would improve downtown Atlanta as a convention destination - an important consideration as other competitive cities, such as Nashville and Dallas, have made significant infrastructure improvements in recent years.

3. Impact on GWCC

Financial Performance

**Rep-Year Estimates of Incremental Revenue, Expenses, and Profit at the GWCC
Assuming Construction of an 800-room Convention Hotel (in 2014 \$)**

<i>Total Induced Demand (PKF estimate)</i>		160,000
<i>Induced group demand (PKF estimate)</i>		145,000
<i>% of induced group demand attending GWCC Trade Shows and Conventions</i>	x	<u>100%</u>
<i>Induced group demand attending GWCC Trade Shows and Conventions</i>		145,000
<i>Multiple occupancy factor (# of attendees per guest room)</i>	x	1.6
<i>Average length of stay (nights)</i>	/	<u>2</u>
<i>Induced Trade Show and Convention Attendees</i>	=	116,000
<i>Est. Average Revenue per Trade Show/Convention Attendee¹</i>	x \$	<u>25.64</u>
<i>Total Average incremental revenue</i>	=	\$ 2,974,240
<i>Incremental costs as a percentage of Revenue²</i>	x	<u>45%</u>
<i>Total Incremental Costs (\$)</i>	=	\$ 1,338,408
<i>Net incremental income</i>	=	<u>\$ 1,635,832</u>

¹ Average revenue per trade show attendee was determined econometrically from historical income statements

² Incremental costs as a percentage of revenue per trade show attendee was determined econometrically from historical income statements

3. Impact on GWCC

Financial Performance

Conclusions

- We project that the new Hotel will generate an additional 116,000 trade show and convention attendees at the GWCC in a typical year.
- We project an increase in GWCC revenues (because of the new Hotel) of approximately \$2.974 million (in current year dollars) in a typical year, which results in an increase in annual net income of \$1.636 million.

4. Project Development Costs

Two Scenarios Considered:

1. Private Development:
 - GWCCA leases site for a nominal amount
 - Parking provided by GWCC
 - Access and Use agreement established

2. Public Development:
 - Hotel 100% publicly owned
 - Constructed by contractor engaged by GWCCA
 - Professionally managed by hotel operator

4. Project Development Cost

Conclusions

Two Scenarios Summary:

1. Private Development:
 - Total Development Cost: \$207 million
2. Public Development:
 - Total Development Cost: \$245 million

Variance primarily due to higher capitalized interest and debt service reserve funds for public financing scenario.

5. Private Development Scenario

Internal Rate of Return Analysis

IRR Analysis:

- Typical private investor requires a leveraged IRR in excess of 20% for a new construction full-service hotel development.
- Assuming current market financing assumptions for the Private Development Scenario the leveraged IRR on a total equity contribution of \$93.2 million is 10.9%.

5. Private Development Scenario

Economic Gap Analysis

Economic Gap Analysis:

- A public contribution of approximately \$50 million, reducing the private equity requirement to \$43 million, would be necessary to achieve a leveraged IRR of 20%.
- The public contribution could be raised by using alternative public sources of funds such as PILOT bonds (Payment in Lieu of Taxes), Tourism tax rebates, Georgia's Tourism Development Act Sales and Use Tax Rebates.

5. Private Development Scenario

Economic Gap Analysis

Economic Gap Analysis (continued):

- Equity participation or incentives from a brand/management company can increase IRR or lower risk, some examples include Key money, reduced fees prior to stabilization and management performance guarantees (reduces operating risk).

6. Public Development Scenario

Assumptions

Financing Assumptions:

- Financing, closing costs, legal and other fees are estimates based on developer experience; they can vary greatly.
- Assumed 100 percent bond financing.
- Interest rates, reserves and other costs will depend on the ultimate credit and guarantee structure.

6. Public Development Scenario

Financing Assumptions

Financing Assumptions (continued):

- Capitalized Interest payments assumed to be two years of interest during construction period.
- Debt service reserve fund assumed to be one year of debt service for the life of the bonds.
- Cost of issuing bonds includes legal, underwriting, rating agency, bond insurance and other related costs.

6. Public Development Scenario

Debt Service Coverage Analysis



- Project projected to cover debt service in all years of operations.
- The public scenario assumes no property taxes due and 100% public ownership.
- Other benefits (such as increased revenues at the GWCC, increased general sales and use and hotel tax revenues, etc.) have not been included in this analysis.
- Interest rate sensitivity is illustrated in the table below.

Bond Interest Rate	Debt Service Coverage Ratio (yr. 3)
6%	1.14
5%	1.31
4%	1.51

7. Public Funding

Overview and Examples

Presented by Bill Corrado, Director, Citi

7. Public Funding

Current State of the Convention Center Hotel Market

Publicly-Owned Projects



Hyatt Regency
McCormick Place



Omni Dallas Hotel

Publicly-Subsidized Projects



Omni Nashville Hotel



Washington Marriott Marquis



McCormick Place
Marriott Marquis
(In Development)



Hilton Cleveland
Convention Center
(In Development)



Houston Marriott Marquis
(In Development)



Portland Hyatt Regency
(In Development)

7. Public Funding

Motivation for Tax-Exempt Hotel Financing and Public Ownership

Public ownership and tax-exempt financing of a convention center hotel can provide the sponsoring municipality with a cost effective alternative to a subsidy of a privately-owned hotel.

Tax-Exempt Hotel Financing

- Limited Availability of Conventional Financing
 - Equity capital, when available, has demanded significant returns
 - Commercial bank construction lenders have stringent underwriting standards and limited permanent refinancing options
- Demonstrated Accessibility of Tax-Exempt Markets
- More Favorable Terms in Tax-Exempt Market
 - Lower “equity” requirements
 - Longer maturities
- Lower Interest Rates in Tax-Exempt Market
 - Improved project feasibility
 - Increased returns

Qualifying for Tax-Exempt Financing

- Public Ownership
- Hotel Operator Engaged Pursuant to a Qualified Management Agreement
 - 15-year maximum term
 - Primarily fixed fee structure

Key Credit Factors

- Rationale for the Project
- Development Team – Developer, Contractor, Manager
- Bondholder Security Provisions and Legal Structure
- Pledged Revenues and Debt Service Coverage

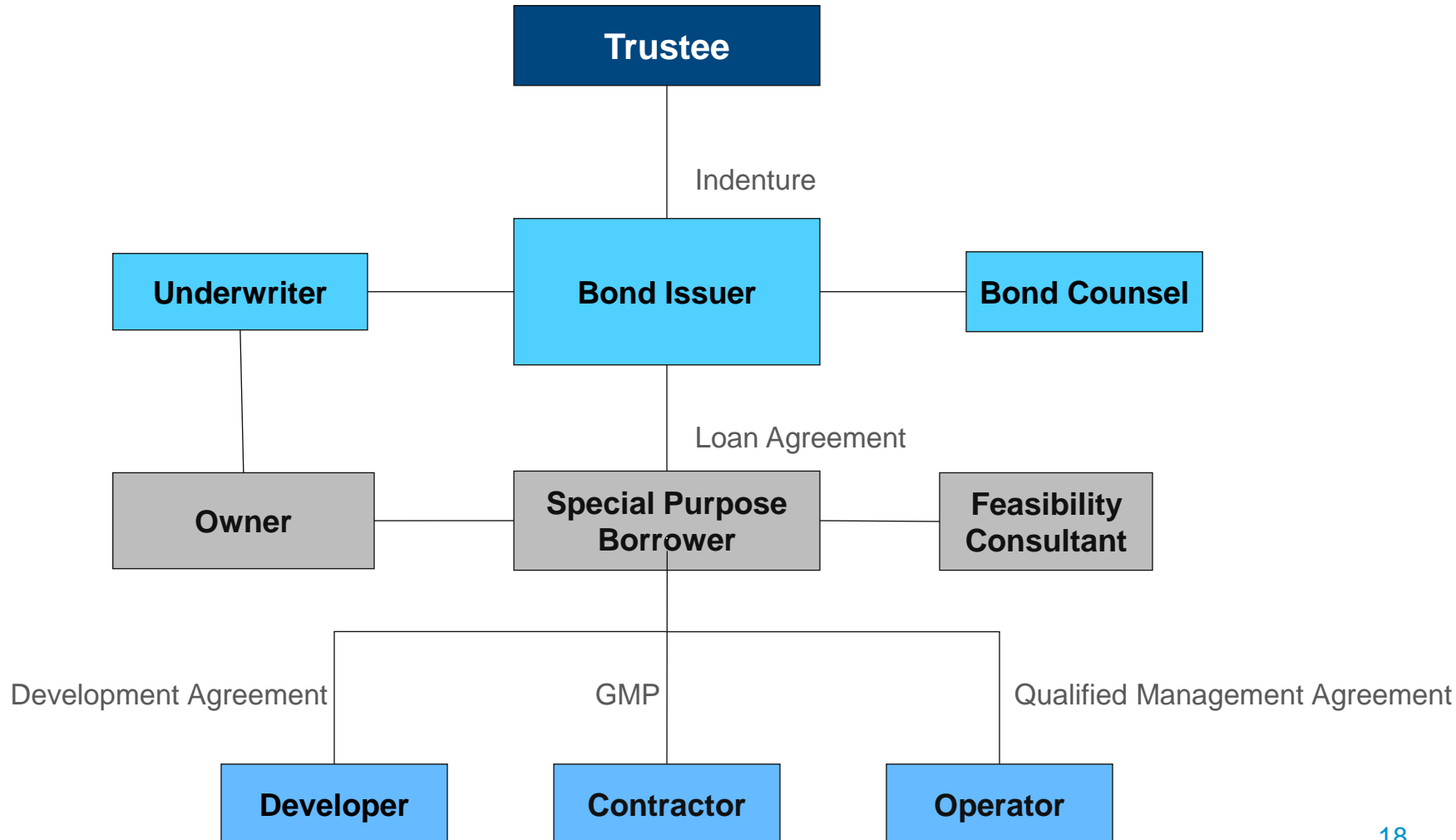
Current State of the Tax-Exempt Hotel Financing Market

- Market will no longer consider highly leveraged projects
- Debt service reserve funds and operating reserve funds are required
- Some portion of the operator’s management fee must be subordinated
- Required debt service coverage ratios have increased
- The interest rate premium on lower credit quality hotel revenue bonds has increased dramatically
- Most publicly-owned hotel transactions are being completed with some form of municipal credit support

7. Public Funding

Tax-Exempt Contract and Financing Structure

The financing structure for a tax-exempt hotel financing.



7. Public Funding

Security Structure and Forms of Credit and Operator Support

Convention Center Hotels (+700 Rooms) Credit Support

Project	Rooms	Security / Credit Support	Operator Support
Dallas	1000	<ul style="list-style-type: none"> • Net Hotel Revenues • Hotel State Sales Tax Rebate (10 Years) • Hotel State HOT Tax Rebate (10 Years) • Hotel Local HOT Revenues • Minimum Coverage from All Above – 1.27x • City Annual Appropriation Equal to <u>100% of Debt Service</u> 	<ul style="list-style-type: none"> • Key Money - \$6,000,000
Baltimore	756	<ul style="list-style-type: none"> • Net Hotel Revenues • Tax Increment Revenues • Hotel Local HOT Revenues • City Annual Appropriation Equal to <u>~50% of Debt Service</u> • Minimum Coverage from All Above – 2.45x 	<ul style="list-style-type: none"> • Manager Guaranty - \$25,000,000
Phoenix	1000	<ul style="list-style-type: none"> • Net Hotel Revenues • Sports Facilities Taxes Equal to <u>165% of Debt Service</u> • Minimum Coverage from All Above – 2.21x 	<ul style="list-style-type: none"> • Key Money - \$5,000,000 • Operator Security - \$8,000,000
San Antonio	1000	<ul style="list-style-type: none"> • Net Hotel Revenues • Hotel State Sales Tax Rebate (10 Years) • Hotel State HOT Tax Rebate (10 Years) • Hotel Local HOT Revenues • City-wide HOT Revenues Equal to <u>~100% of Debt Service</u> • Minimum Coverage from All Above - 3.25x 	<ul style="list-style-type: none"> • Key Money - \$14,000,000

7. Public Funding

Security Structure and Forms of Credit and Operator Support

Convention Center Hotels (+700 Rooms) Credit Support

Project	Rooms	Security / Credit Support	Operator Support
Denver	1100	<ul style="list-style-type: none">• Net Hotel Revenues• Economic Development Payments, Subject to Appropriation, Equal to <u>~ 50% of Debt Service</u>• Minimum Coverage from All Above – 2.00x	<ul style="list-style-type: none">• Manager LOC - \$10,000,000
Austin	800	<ul style="list-style-type: none">• Net Hotel Revenues• Non-Recourse• Minimum Coverage – 3.00x (Senior Bonds)	<ul style="list-style-type: none">• None
Houston	1200	<ul style="list-style-type: none">• City-Wide HOT Revenues• Parking Revenues• State, County, City HOT Tax Rebates• <u>Minimum Coverage from All Above - 1.50x</u>	<ul style="list-style-type: none">• Manager Inducement Fee - \$6,000,000
St. Louis	1100	<ul style="list-style-type: none">• Net Hotel Revenues• Non-Recourse• Minimum Coverage - 2.00x	<ul style="list-style-type: none">• Manager Loan Guarantee - \$10,000,000
Chicago	800	<ul style="list-style-type: none">• Net Hotel Revenues• Non-Recourse• Minimum Coverage - 2.37x	<ul style="list-style-type: none">• None

8. Economic Impact

Study performed by:

Ken Heaghney
State Fiscal Economist
Fiscal Research Center
Andrew Young School of Policy Studies
Georgia State University

8. Economic Impact

Findings:

The construction phase economic impact is estimated to be as follows:

- Total economic output increase of \$339.4 million;
- \$137.2 million in additional labor income;
- 2,781 in added jobs;
- \$8.3 million in additional state tax revenue;
- \$3.2 million in additional sales tax revenues for local governments.

These are one time benefits that persist during the construction phase.

8. Economic Impact

Findings (continued):

The annual economic impact once the Hotel becomes operational is estimated to be as follows:

- Total economic output increase of \$155.4 million;
- \$57.5 million in additional labor income;
- 1,676 in added jobs;
- \$4.3 million in additional state tax revenue;
- \$2.7 million in additional sales tax revenues for local governments;
- \$1.6 million in additional hotel/motel tax revenues for local governments;

8. Economic Impact

Findings (continued):

- Total out-of-state attendance of nearly 110 thousand generating over 220 thousand out-of-state visitor days.
- The direct spending by out-of-state visitors, exhibitors and organizers totals \$83.4 million while the total impact equals \$155.4 million. Thus, the multiplier is 1.86 and each dollar of initial direct spending generates an additional 86 cents in economic output for the state's economy.

9. Next Steps

- Developer discussions – review report material
- Invest Atlanta
- Further assessment of financing options – public/private
- Identify schedule for potential development – considering the NSP construction critical path
- Provide the Stadium Development Committee a status report within 90 days.

Questions?

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