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
1. Project History
2. Meeting Planner Survey Results
3. Impact on GWCC Financial Performance
4. Project Development Costs
5. Private Developer IRR and Economic Gap Analysis
6. Public Development Debt Service Coverage Analysis
7. Public Funding Sources - Overview and Examples – Bill Corrado (Citi)
8. Economic Impact Analysis
9. Next Steps – Frank Poe
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.
- 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

<table>
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<tr>
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<tbody>
<tr>
<td>Total Induced Demand (PKF estimate)</td>
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<tr>
<td>Induced group demand (PKF estimate)</td>
</tr>
<tr>
<td>% of induced group demand attending GWCC Trade Shows and Conventions</td>
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<tr>
<td>Induced group demand attending GWCC Trade Shows and Conventions</td>
</tr>
<tr>
<td>Multiple occupancy factor (# of attendees per guest room)</td>
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<tr>
<td>Average length of stay (nights)</td>
</tr>
<tr>
<td>Induced Trade Show and Convention Attendees</td>
</tr>
<tr>
<td>Est. Average Revenue per Trade Show/Convention Attendee¹</td>
</tr>
<tr>
<td>Total Average incremental revenue</td>
</tr>
<tr>
<td>Incremental costs as a percentage of Revenue²</td>
</tr>
<tr>
<td>Total Incremental Costs ($)</td>
</tr>
<tr>
<td>Net incremental income</td>
</tr>
</tbody>
</table>

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

Source: PKF Hospitality Research, LLC.
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
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%.
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.
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).
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.
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.

<table>
<thead>
<tr>
<th>Bond Interest Rate</th>
<th>Debt Service Coverage Ratio (yr. 3)</th>
</tr>
</thead>
<tbody>
<tr>
<td>6%</td>
<td>1.14</td>
</tr>
<tr>
<td>5%</td>
<td>1.31</td>
</tr>
<tr>
<td>4%</td>
<td>1.51</td>
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</tbody>
</table>
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
- Hilton Cleveland Convention Center (In Development)
- McCormick Place Marriott Marquis (In Development)

Publicly-Subsidized Projects
- Omni Nashville Hotel
- Washington Marriott Marquis
- Houston Marriott Marquis (In Development)
- Portland Hyatt Regency (In Development)
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
The financing structure for a tax-exempt hotel financing.
7. Public Funding
Public Ownership Debt Structures

Historical Debt Structures

Publicly Owned Structures

<table>
<thead>
<tr>
<th>Non-Recourse Structure</th>
<th>Partial Recourse Structure</th>
<th>Recourse Structure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Senior (or Senior and Subordinate) Bonds</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Senior Bonds</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hotel Revenues</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-Rated</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2x Coverage</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Subordinate Bonds</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hotel Revenues</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Additional Security</td>
<td></td>
<td></td>
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<tr>
<td>Investment Grade</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Coverage Dependent Upon Form of Credit Support</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Key Money / Junior Bonds</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Private Sector &quot;Quasi Equity&quot;</td>
<td></td>
<td></td>
</tr>
</tbody>
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Flow of Funds

7. Public Funding
Security Structure and Forms of Credit and Operator Support

<table>
<thead>
<tr>
<th>Project</th>
<th>Rooms</th>
<th>Security / Credit Support</th>
<th>Operator Support</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Dallas</strong></td>
<td>1000</td>
<td>• Net Hotel Revenues</td>
<td>• Key Money - $6,000,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Hotel State Sales Tax Rebate (10 Years)</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Hotel State HOT Tax Rebate (10 Years)</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Hotel Local HOT Revenues</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Minimum Coverage from All Above – 1.27x</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• City Annual Appropriation Equal to 100% of Debt Service</td>
<td></td>
</tr>
<tr>
<td><strong>Baltimore</strong></td>
<td>756</td>
<td>• Net Hotel Revenues</td>
<td>• Manager Guaranty - $25,000,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Tax Increment Revenues</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Hotel Local HOT Revenues</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• City Annual Appropriation Equal to ~50% of Debt Service</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Minimum Coverage from All Above – 2.45x</td>
<td></td>
</tr>
<tr>
<td><strong>Phoenix</strong></td>
<td>1000</td>
<td>• Net Hotel Revenues</td>
<td>• Key Money - $5,000,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Sports Facilities Taxes Equal to 165% of Debt Service</td>
<td>• Operator Security - $8,000,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Minimum Coverage from All Above – 2.21x</td>
<td></td>
</tr>
<tr>
<td><strong>San Antonio</strong></td>
<td>1000</td>
<td>• Net Hotel Revenues</td>
<td>• Key Money - $14,000,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Hotel State Sales Tax Rebate (10 Years)</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Hotel State HOT Tax Rebate (10 Years)</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>• Hotel Local HOT Revenues</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• City-wide HOT Revenues Equal to ~100% of Debt Service</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Minimum Coverage from All Above - 3.25x</td>
<td></td>
</tr>
</tbody>
</table>
## 7. Public Funding
Security Structure and Forms of Credit and Operator Support

### Convention Center Hotels (+700 Rooms) Credit Support

<table>
<thead>
<tr>
<th>Project</th>
<th>Rooms</th>
<th>Security / Credit Support</th>
<th>Operator Support</th>
</tr>
</thead>
<tbody>
<tr>
<td>Denver</td>
<td>1100</td>
<td>• Net Hotel Revenues&lt;br&gt;  • Economic Development Payments, Subject to Appropriation, Equal to ~ 50% of Debt Service&lt;br&gt;  • Minimum Coverage from All Above – 2.00x</td>
<td>• Manager LOC - $10,000,000</td>
</tr>
<tr>
<td>Austin</td>
<td>800</td>
<td>• Net Hotel Revenues&lt;br&gt;  • Non-Recourse&lt;br&gt;  • Minimum Coverage – 3.00x (Senior Bonds)</td>
<td>• None</td>
</tr>
<tr>
<td>Houston</td>
<td>1200</td>
<td>• City-Wide HOT Revenues&lt;br&gt;  • Parking Revenues&lt;br&gt;  • State, County, City HOT Tax Rebates&lt;br&gt;  • Minimum Coverage from All Above - 1.50x</td>
<td>• Manager Inducement Fee - $6,000,000</td>
</tr>
<tr>
<td>St. Louis</td>
<td>1100</td>
<td>• Net Hotel Revenues&lt;br&gt;  • Non-Recourse&lt;br&gt;  • Minimum Coverage - 2.00x</td>
<td>• Manager Loan Guarantee - $10,000,000</td>
</tr>
<tr>
<td>Chicago</td>
<td>800</td>
<td>• Net Hotel Revenues&lt;br&gt;  • Non-Recourse&lt;br&gt;  • Minimum Coverage - 2.37x</td>
<td>• None</td>
</tr>
</tbody>
</table>
8. Economic Impact

Study performed by:

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