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October 28, 1998

Mr. Joe Pitts
Executive Director,
Clarksville Area Chamber of Commerce
312 Madison Street
Clarksville, Tennessee 37040

Dear Joe:

Transmitted with this letter is The Sherwood Consultancy's Technical Memorandum presenting an interim report of findings and initial conclusions resulting from TSC's "second update study" of the proposed Clarksville Conference Center. The findings set forth in it are based on the interviews I conducted in May and research done at that time in Clarksville as well as research done elsewhere since then, primarily in connection with financing. The sections of the report are consistent with the categories of work identified in the propo- sal/contract governing TSC's assignment.

This report represents about 85% completion of TSC's assignment. It is missing detailed analyses of operations and economic impacts, which have changed because TSC has expanded the utilization profile. However, these and some other parts of the report would benefit from a "go ahead" from the Conference Center Phase III Task Force as to the facility's final space program. Right now I am working with the program developed by Odell in 1996. I need to know whether the current Odell work is likely to result in any changes to that configuration. Such changes could alter the utilization program further and affect the operations and impact analyses.

TSC's work in this phase has raised certain issues/questions that I believe the Task Force needs to address. I had hoped to summarize the major ones in this cover letter, but have run out of time to do so. In any case, it might be useful for people to read the whole report! Answers will not necessarily be easy because, in most instances, money and interjursidictional relationships are involved. Nevertheless, in my judgment these issues must be addressed and the questions answered in order for the project to move ahead at the local level.

Most sincerely,

John Sherwood
Senior Consultant

TECHNICAL MEMORANDUM

October 28, 1998

TO: Joe Pitts, Clarksville-Montgomery County Chamber of Commerce
FROM: John Sherwood
SUBJECT: INTERIM REPORT PRESENTING FINDINGS AND PRELIMINARY CONCLUSIONS RESULTING FROM WORK ON THE CLARKSVILLE CONFERENCE CENTER SECOND UPDATE STUDY

This report presents the findings and preliminary conclusions of The Sherwood Consultancy (TSC) concerning various economic matters related to the conference center that is being considered for development in Clarksville, Tennessee. The report is an interim document intended to provide the Conference Center Phase III Task Force and the planning consultant (Odell) with guidance as they pursue their particular components of this process. At several points in this document multiple options are indicated as possible routes that the Clarksville community might take to advance the development of this facility. Optimally the Task Force/Odell will consider these options and eliminate some. TSC can focus on the consensus choices in our final report. Consequently, this report should be viewed as a discussion document intended to provide information of value to the Task Force/Odell and to foster thinking about ways for the community to implement development of this facility. It also provides information that serves to document the importance of the facility to the Clarksville-Montgomery County community.

The baseline for this work is the "first update study" conducted by Legg Mason Realty Group, the results of which were reported to the Clarksville-Montgomery County Economic Development Council via Technical Memorandum dated February 27, 1996.

This report consists of the following sections:

I. Utilization
II. Operations
III. Ownership/Management
IV. Impact
V. Financing

I. UTILIZATION

Utilization is the key component of the economic side of the conference center. The objective is to develop a facility for which there is a clear need in the community and which will generate economic benefits for Clarksville and Montgomery County. The best indicator of these matters is the amount of use (utilization) that the facility will experience. Research conducted by TSC in connection with this second update study revealed that the prospects for utilization (events and average attendance) have increased over those set forth in the February, 1996 report prepared by Legg Mason Realty Group. This is due primarily to the following factors:

- Strong recent growth in the Clarksville area economy and the likelihood of this growth continuing for the foreseeable future;
- Changes in APSU's concept for the University Center and thus its heightened need for conference and banquet space off-campus;
- Plans to develop a world class museum in association with Fort Campbell;
- The needs of downtown civic organizations for meeting space;

A summary of the number of events and performances and the projected attendance for the facility as currently estimated and as estimated in 1996 is set forth below.

TABLE 1
SUMMARY OF UTILIZATION
CONFERENCE/EXHIBITION CENTER*
CLARKSVILLE, TENNESSEE

	1998 Study			Change from 1996 Study		
Activity	Events	Performance/Days	Attendance	Events	Performance/Days	Attendance
Expositional	80	162	191,400	+15	+30	+28,400
Performing Arts	7	7	3,500	+ 2	+ 2	+ 1,000
Community	82	92	62,600	+15	+17	+ 5,300
Total Activity	169	261	257,500	+42	+48	+34,700

* Conference Center with Exhibit Hall facility as proposed in Odell's 1996 report

Source: 1998 data from The Sherwood Consultancy; 1996 data from Legg Mason Realty Group's 1996 report

Events and performance/days are projected to increase at a faster rate than attendance because the types of events that will result from the stronger APSU connection and the increased visitation to the Clarksville area from the Don F. Pratt Museum associated with Fort Campbell will be primarily in the categories of reunions/meetings/conferences/classes -- activities with smaller attendance. With regard to potentially competitive facilities, such as the recently opened Paris Landing Conference Center and the possibility of a new conference center in Hopkinsville, TSC believes that these facilities will not have a substantive impact on utilization of a Clarksville conference center.

The utilization profile assumes that there will be a *tourist information center* operated by the Tourism Council in the conference center complex. However, none of the events tabulated above are directly associated with the presence of the tourism office. Rather, it will serve to generate daily visitation to the building by visitors to the area and will help draw visitors to downtown Clarksville.

TSC recommends that three facilities that have been discussed as possible tenants in the conference center *not be included* in it. They are:

- Offices of the Economic Development Council/Chamber of Commerce;
- The Business and Community Solutions Center;
- The Data Center.

TSC believes that the cost to the conference center of providing space for these facilities is greater than the financial return that the building would get. Or, looking at it from the reverse perspective, if these facilities had to pay "economic rents" for space in the conference center, it might jeopardize their financial well being. The revised utilization profile shows a substantial amount of activity in the building. These "not directly related" facilities might complicate operation of the center, not enhance it. TSC understands, however, that inclusion of one or more of these facilities in the center might be requirement of a major investor, such as the city or the EDC. That would be a reasonable trade-off and should be evaluated on its merits.

II. OPERATIONS

The increased utilization indicated above will result in more income to the center -- but also higher expenses. The kinds of smaller events that are generating the increased use will not result in commensurately greater income. In its 1996 report, Legg Mason Realty Group (LMRG) estimated that the conference/exhibition center would have income in a typical year of operation of $417,000 and expenses of $532,000 for an annual operating loss of $115,000. Based on the new utilization estimates, keeping the same rent schedule but assuming somewhat greater income from non-rental sources (concessions, advertising), TSC estimates, on an order-of-magnitude basis, that, in 1998 dollars, income would be about $450,000 and expenses $570,000 for an annual operating deficit of $120,000. For planning purposes it should be assumed that the operating deficit in any year of stabilized operation would be in the range of $100,000 to $150,000.

III. OWNERSHIP/MANAGEMENT

A. Ownership

There has been a presumption that the city of Clarksville will own the conference/exhibition center, primarily because it is likely that the city will be the primary investor in the facility. The city has certainly been the principal public sector entity interested in seeing the center built. However, in research conducted by TSC in connection this update, an alternative approach was suggested and found support at senior levels of the city and county. That approach would be to establish a multi-jurisdictional authority that would develop and own the center. The authority form is currently in use in the area to provide several different types of services. TSC believes that it would be useful in this instance.

Members of the authority would be, at the very least, the City of Clarksville and Montgomery County. However, it might be appropriate to expand it to include one or more of the adjacent counties and, perhaps, Austin Peay State University. TSC recognizes that the city is the most directly and heavily involved party regarding development of the center and is likely to put more money into it than any other entity. However, there is need to expand support for the facility as broadly as possible. While the non-city members of the authority might not make as substantial direct investments in it, their support would be important to winning a State of Tennessee contribution to it. In addition, some techniques for funding the center are likely to require at least the acquiescence of, if not the direct involvement of, Montgomery County. An authority structure would open up some funding approaches that might not otherwise be available. *TSC believes that the task force should discuss this approach and take a hand in promoting it if it is found to be viable.*

B. Management

In an increasing number of instances management of facilities such as the conference center is being contracted out to organizations that make this their business. These operators usually get a flat fee for their services plus a percentage of income or a "bonus" if they can cut the operating deficit by a certain amount. Professional management entities contend that they can cut costs by operating the facility more efficiently while generating more income by expanding utilization through broader and more effective marketing. A side benefit is that the contract manager is more removed from local issues and politics. 4 While the benefits of a contract manager can be quite real, TSC believes that in this instance the city or an authority would be capable of operating the center because it is not that large or complex a facility. If it was the city, it would probably establish a new administrative unit comprised of the facility and its employees. *The nature of the operating entity is not a critical factor at this point in the planning process but it will need to be considered in the future.* If the task force has any thoughts on this matter, TSC would be interested in hearing them. The Ramada, while a likely potential provider of certain services, such as catering, would not appear to be a candidate for being the manager of the entire complex.

IV. IMPACT

Impact analyses carry the potential for considerable mischief depending on the methodology employed and the principal assumptions used in their analysis. In short, such studies can be made to say almost anything. TSC's impact studies employ a very conservative approach in order to assure clear and objective conclusions. However, in the final analysis a study of this type is simply a model of a possible scenario. Another analyst might apply different assumptions and methodologies to the same assignment and get very different results. Certain characteristics of TSC's approach are identified below.

- Spending impacts are established for only those people who are *visitors* to Clarksville/Montgomery County. It is assumed that residents attending events at the conference center will spend their money in Clarksville/Montgomery County anyhow and that the *net, new* spending of visitors -- people living outside the county -- creates the meaningful impacts. That isn't entirely true, however, since the presence of an event at the conference center might cause a resident to spend money there rather than at some non-Montgomery location.

- Impacts fall into two principal categories: *economic* and *fiscal*. Economic impacts represent expansion of the local economy as a result of spending at and by people using the conference center and are expressed in terms of jobs, payroll and development. Fiscal impacts take the form of tax revenues generated by the spending and by any new business activity that results from the spending.

- This analysis addresses only the *beneficial* impacts of development and operation of the conference center. Clearly, there will be *costs* to the public sector and maybe to the population as a whole. For instance, there will be increases in public services and possibly in congestion. TSC is not in a position to analyze these costs and it is not customary to do so in analyses of this nature.

A. Categories of Impacts

TSC's methodology uses five principal types of economic/fiscal impact. One of these, *construction* impacts, will occur only once during the development and operation the conference center. The others occur annually. Except for construction, these impacts are based on spending occurring at the conference center and in the community by people attending events at the center. Descriptions of the five types of impact are set forth below.

- **Construction.** Construction impacts occur during the design and building of the facility. This is a one time impact that will positively affect the Clarksville/Montgomery County economy over an 18-24 month period.

- **Direct.** Direct impacts result from "first round spending" at the conference center and in the community by visitors attending events.

- **Indirect.** Direct spending generates "second round" spending. This is a result of the "direct" dollars circulating throughout the Clarksville/Montgomery County economy. Indirect spending is mathematically derived as a *multiple* of direct spending. TSC uses a very conservative multiplier of 1, which means that the amount of indirect spending is equal to the direct and that total spending impacts are equal to the total of direct and indirect. This multiplier is near the low end of multipliers used in studies of this nature but it is consistent with multipliers derived in a Bureau of Labor Statistics study for urban areas.

- **Induced.** This category describes the *development* that might occur as a result of direct and indirect spending. Such spending will generate business at local commercial establishments such as hotels, restaurants and shops, especially those in the immediate vicinity of the center. That increased business has the potential for encouraging the owner of an existing operation to expand and/or to attract an investor willing to develop a new business.

- **Intangible.** Some impacts cannot be quantified but they do exist. It is generally acknowledged that the presence in a community of a conference center or a theater, stadium or similar major audience support facility at which events of interest to the citizens of the community occur and/or which create a real "presence", serves to heighten citizen interest. It increases local pride and gives people something else to do and talk about. Such intangible impacts ultimately come back to the community in the form of businesses wanting to locate there and people wanting to live there. It makes the community a better place.

B. Impact Areas

Most of the impacts will be felt throughout the city of Clarksville and Montgomery County. However, *induced* impacts, those are expressed in terms of new construction and development, will occur primarily, though not exclusively, in the portion of downtown Clarksville in the immediate vicinity of the conference center. It was suggested to TSC that the part of the city zoned "CBD" would serve well as the area likely to be most directly impacted by the facility. TSC agrees with that observation and will use the CBD zone as the area in which the bulk of induced impacts will occur.

C. Quantification of Impacts

TSC estimates the size of the various impacts in the paragraphs below. These are primarily "order-of-magnitude" estimates based on the figures in the Legg Mason Realty Group study of 1996 expanded to reflect the increase in utilization projected in this study as well as some price inflation and the generally more upbeat economy that the Clarksville area is experiencing. These figures can be finalized if there is no change in the building program for the conference center.

- **Construction.** TSC has not estimated construction impacts at this time. The level of such impacts will depend on the total cost of designing and building the center and the sources of the funds used to pay for it. However, this will be a significant construction project generating a large number of jobs over an 18-24 month period. The amount of net new money introduced to the local economy as a result of the project will depend, in part, on how it is funded. If the sources of funds are primarily local and debt is retired through taxes paid primarily by residents, then the net construction impact is lessened. However, if the state makes a significant contribution and there are taxes visitors, the net impact of the construction money is increased. In any case, the facility will create a substantial number of jobs and some increase in spending for the kinds of local products used in the construction.

- **Direct and Indirect.** Annual direct (first round) spending in Clarksville/Montgomery County by visitors (both overnight and day trippers) as a result of events occurring at the conference center is estimated at $3,511,500 ($2,547,400 overnight visitors/$964,100 day trippers). The overnight visitor figure assumes that 20% of attendees will be accompanied by another person whose daily expenditures will be half that of the attendee. Most visitor expenditures will occur at hotels, restaurants and shops. In addition, there will be $2,060,000 of expenditures by local residents. While this will not be net, new money to Clarksville/Montgomery County, it probably will be to downtown Clarksville. Given the ground rules with regard to the relationship between direct and indirect spending, *total* spending by visitors will be over $7 million annually (2X the direct). TSC estimates that these visitor expenditures will generate fiscal impacts in the form of increased taxes: approximately $187,000 in *new sales taxes* and $65,500 in *new hotel room taxes* each year at the current sales and room tax rates. Not included in this total are taxes that might be applied to items sold within the conference center, which would be additional.

- **Induced Impacts.** Clarksville's central business district, described as the area that is zoned "CBD", will be the location of the bulk of the development that would occur as a result of expenditures made by people using the conference center. It has been pointed out to TSC that the Legg Mason report might have been overly conservative when estimating the development that could result from the presence of the conference center. TSC agrees that the Legg Mason analysis considered only the direct spending by visitors and not the ability of the conference center to serve as a focal point/incentive for additional downtown development. TSC's research in 1998 revealed that there are a number of important projects under development and being considered for downtown Clarksville. The riverfront work is particularly relevant. TSC believes that the combination of these projects and the conference center will spur more development than would be supported by the increased visitor expenditures alone. TSC estimates that the presence of the conference center, in concert with the other improvements to the downtown (including those occurring at Austin Peay), will generate the following induced development: 50 room addition to existing hotel; new 120 room mid-priced business/tourist hotel; 30,000 square feet of restaurant space; 20,000 square feet of shops. In addition, should this development occur as expected, additional office space estimated at 50,000 square feet might be attracted to the downtown. (Tax revenues from sales that would occur in these businesses, other than the taxes identified above in the direct/indiect impacts analysis, have not been included in the tax revenue figures.)

V. FINANCING THE CONFERENCE CENTER

There are many different ways to finance the conference center. (Attached to this report is a paper entitled "Financing Convention Centers" prepared by Salomon Smith Barney. It is very clear and direct and reveals that, while there may be options, there are no easy answers.) Most financing approaches require increasing somebody's taxes. The most palatable approach is to increase taxes on people other than local residents. However, taxes on visitors could negatively impact businesses that depend on visitors. Another approach is to link tax revenues to business activity directly resulting from the presence of the conference center itself. In the following paragraphs TSC covers various aspects of financing a conference center in Clarksville.

A. Contributions to Cost

One way to make the facility easier to finance locally is to reduce the amount of the cost that needs to be financed. TSC's offers the following observations regarding various sources of capital support.

- **Montgomery County.** The county does not appear to be in a position to make a capital contribution to the facility.

- **State of Tennessee.** Many states are helping communities develop conference, sports and other "civic center" types of facilities. The State of Tennessee has done this in Nashville. TSC believes that it may also have made grants to some of the smaller municipalities to help build such facilities. In any case it would seem reasonable for the state to provide Clarksville/Montgomery County with a grant equal to 10% or so of its cost to build the conference center. This might be easier if the development entity was a multi-jurisdictional authority encompassing several counties.

- **Austin Peay State University.** APSU is willing to pay for use of the facility on an event by event basis but does not see itself, at this time due to other projects, as being able to make a case for a contribution to the capital cost.

- **Economic Development Council/Chamber of Commerce.** The EDC has developed a proposal for making a capital contribution to the center in exchange for space. TSC believes that the proposal might not serve the interests of either the EDC or the conference center, primarily because the financial contribution would likely be less than the cost to build the space. If the size of the contribution was raised, plus "rent" to cover operating costs associated with occupancy, the expense might be too great for the EDC. This avenue needs to be explored further.

- **Private Contributions**. There are individuals and businesses in the Clarksville area with the financial capability to make a contribution to the cost of building the conference center. With something to gain from having the facility next door, the Ramada River view is a prime candidate. TSC believes, however, that even given the benefits, it is unreasonable to expect the owners of the hotel to provide any significant portion of the cost. In fact, the center will benefit from the presence of the hotel as much as the reverse. While private contributions (sometimes in exchange for naming rights, sometimes without strings) have helped a number of communities develop facilities, this source is unpredictable. The Task Force might devote some thought to the likelihood of this occurring in Clarksville.

B. Amortizing Bonds

If the conference center is to be built it will have to involve financing via bonds issued by a regional authority or the City of Clarksville. Even if the regional authority approach is used, the city will have to take the primary position in guaranteeing amortization of the debt because it has the most extensive resources. TSC offers the following observations regarding bonds and ways to amortize them.

- **General Obligation Bonds.** The issuance of bonds secured by the general revenues of the city is the most direct and clear way to finance the facility. Even though Clarksville is in very good financial shape and has seen its tax revenues rise through growth at a rate of almost 5% a year over the past ten years, general obligation bonds carry the possibility of increasing taxes on local residents. (One cent on the property tax brings in about $87,000 in revenues.) Consequently, this technique is probably politically unpalatable. The county does not appear to be in a position to help. School construction remains its primary focus.

- **Revenue Bonds.** Revenue bonds can be repaid with revenues generated by taxes on items oriented toward visitor/entertainment as well as through revenues raised via growth in property tax revenues within a tax increment financing district.
  - **Hotel/Motel Tax.** To be used to increase tourism. Almost universally used in other communities to help finance conference type facilities. Currently at three percent. Half goes to the Tourism Council. City gets 1/4 (about $105,000) and

gives it to the museum. County gives its 1/4 to the library. Could be increased to 5% and all or portion of the city and county portions dedicated to the conference center.

- **Sales Tax.** Currently brings in over $5 million to the city. A quarter cent increase would generate an estimated $150,000 a year.
- **Meals Tax.** No such tax at the present time but taxes on restaurant meals have been used in other communities for this purpose.
- **Revenues from Tax Increment.** The central business district could be designated a tax increment financing district (TIF). The increase in property taxes occurring after the conference center was opened could be pledged to repayment of the center's bonds. At present property tax rates, each $10 million of new development would generate $_________ in property tax revenues.

Perhaps the most important point here is that there are many different ways to pay for the conference center, but, in the case of Clarksville and Montgomery County, the most appropriate ones are probably going to result in new or increased taxes.

FINANCING CONVENTION CENTERS

APPROACHES AND KEY CONSIDERATIONS

INTRODUCTION

Municipalities in recent years have increasingly turned to convention center and other similar projects to invigorate downtown areas and attract convention generated commercial activity. This primer briefly examines the approaches and key credit issues that municipalities must consider prior to undertaking a convention center or related facility financing.

The public policy rationale for these types of projects rests on the economic concept of the multiplier. The multiplier is the dollar of commercial activity or income added to a local economy from a dollar spent by a conventioneer. Estimates for multipliers vary from $2 to $8. In other words, each dollar a business traveler expends in a city attending a convention or trade show adds between $2 and $8 dollars to the local GDP. The impact and magnitude of the multiplier is critical to the policy rationale for a convention center project since, except for a very few exceptions, convention centers do not generate sufficient revenues to repay the bonds issued to build them. Therefore, convention center projects are viewed as public investment that brings additional dollars to a city which justifies the public expense of building these facilities.

FINANCING APPROACHES

There are three general approaches to structuring a convention center financing. These are:

1. General Obligation Security Structures
2. Bonds Secured by Dedicated Taxes
3. Lease Revenue Security Structures

General Obligation Security Structures

This is the most simple and straightforward way for a municipality to undertake any form of financing. General obligation ("G.O.") bonds are secured by the full faith and credit of the borrowing government which implies that all potential real property, income and sales taxes as well as other forms of governmental revenues (i.e.; user fees) are available to repay creditors.

This approach is the least common of the three approaches mentioned. General obligation debt, being the most secure form of municipal debt, is usually reserved for the most important governmental functions (e.g.; schools, water systems, roads). Moreover, G.O. bonds frequently require voter approval or other forms of constitutional limitations that make casual employment of this method of financing impractical. However, if a municipality is determined to undertake a project and the political will is present and all legal requirements can be met; this form of financing will allow a project to proceed where the other financing approaches are untenable due to unacceptable credit ratings or unavailability of other income sources.

Bonds Secured by Dedicated Taxes

This is a much more common financing

approach where a municipality dedicates specific taxes (or "revenue streams") to support the bond issue. The types of taxes usually dedicated can include commercial activity likely to be increased by the project but this is not a requirement. The revenue stream is pledge to bond holders pursuant to local law and an indenture or bond resolution. Bondholders are protected by legal provisions that proscribe the amount of additional debt that can be issued, minimum debt service coverage requirements and the flow-of-funds which dictate how revenues are collected and disbursed.

The risk to bondholders of this type of financing is that the revenue stream is typically not self-adjusting. A downward trend in economic activity or other shock to commercial activity may adversely affect the ability of the dedicated revenues to pay off the bonds.

The revenue streams that have been employed for convention center financings are:

- ✓ Hotel/motel room taxes
- ✓ Food and beverage sales taxes
- ✓ Rental car taxes
- ✓ Taxi fare surcharges
- ✓ General sales taxes
- ✓ Lottery receipts
- ✓ Construction industry/building trades surcharges
- ✓ Developer fees
- ✓ Tax increment revenues (where only the increase in the assessed valuation of real property is taxed)
- ✓ Utility taxes

Using a dedicated revenue stream allows a municipality to preserve its limited general obligation capacity yet gives potential creditors a clear indication of how they will be repaid. These kinds of revenue streams are typically more easily pledged than general tax revenues and more easily raised, if required, than more broad based forms of taxes.

The rating agencies, bond insurers, "buy-side" analysts and other market participants have developed a sophisticated methodology to analyze the credit quality of the various revenue streams. In general, the broader the tax base, or the more unrelated the revenues streams, the higher the credit quality. In other words, a general sales tax would be considered more creditworthy than one limited to hotel occupancy or restaurant activity.

Accounting firms and other consultants frequently are asked to provide projections and proformas to give potential investors confidence that the revenues pledged will be adequate to support the financing.

Dedicated revenues that are derived from commercial activity dependent on the convention center (e.g. rental car taxes or taxi fare surcharges) are considered less creditworthy than unrelated taxes (e.g.; utility taxes or lottery receipts). Despite this fact, their is a strong public policy rationale for linking the cost of a convention center to those forms of commercial activity that are likely to increase from its development. Moreover, hotel taxes, food and beverage taxes, rental car taxes and taxi fare surcharges affect the desirability of a convention center destination. Therefore, a municipality must be careful not to impede, through over-taxation, convention related commercial activity.

Lease Revenue Security Structures

This is the other common approach for

convention center financings. The bonds issued (or sometimes the securities issued under this approach called Certificates of Participation or "COPs") are secured by a municipality's pledge to appropriate debt service when it becomes due and payable. This is a weaker pledge than a general obligation commitment and less specific than a dedicated tax since the municipality does not dedicate a specific revenue stream.

This approach gives municipalities greater flexibility since they can meet their debt service obligation from any available revenues. Also, this approach may allow for greater leverage of a revenue source since no debt service coverage is required because the government has committed to pay debt service.

This approach is useful when multiple governmental entities (e.g.; a county and city government) are cooperating on a project. In some cases, this approach is the only alternative when there are legal prohibitions on more direct forms of debt.

In general, lease transaction are rated one full notch below the general obligation rating of a municipality. As with all lease transactions, "essentiality" is the key credit factor. Investors must have confidence that if the facility performance is below expectations that future governmental officials will honor their predecessors' commitment. The degree of political support that a convention center financing enjoys and its importance to the local economy thus becomes critical in evaluating these credits.

Additional Considerations

Some additional considerations that are critical to financing convention centers are discussed below.

Siting - Siting a facility will be critical to a successful project. As is typical with public works this can be a highly politicized process. However, there are some aspects to the siting process that are unique to convention financings. These are:

- Communication links to mass transit, highways and airports
- The level and state of the hotel rooms stock and the proximity of hotel rooms to meeting facilities
  (Many municipalities are considering bond financed hotels that will support their convention centers.)
- Tourist attractions and other forms of entertainment
- The neighborhood and requirements to improve it and how will that aspect of the project be financed - this is especially important if the project is part of an urban investment initiative

Feasibility Studies - Some big six as well as other accounting firms provide feasibility reports. Obtaining a positive, comprehensive feasibility study is critical, especially for a new project with an unproven market. The feasibility study will detail expected revenues and costs, and the competitive positioning of the facility. Basically, all aspects of a convention center or exhibition hall operations are covered by these reports. Proforma financial projections may be prepared, but increasingly the projection period covered is very short providing limited long-term comfort for bondholders.

Competition - There are more convention centers and exhibition halls than there used to be. The competition to fill those halls will mostly be conducted through price competition. Most convention centers do not make money on their operations let alone provide a return on their investment capital. At best they break even, but they mostly are a net drain on government resources (while providing a net plus to a local economy). Low occupancy and competitive pressure will mean that all convention center operators must figure out how to meet the needs of their market and at low costs.

This is especially true for those facilities in locations not typically considered as "destination cities" and are not regional commercial centers. The first tier convention centers may experience big peaks and troughs in their usage but by virtue of their locations they have less of a challenge to keep their facilities filled. Regional facilities are also better positioned.

Since convention centers typically are not for profit entities, they may never close despite not being economical. Businesses in competitive industries frequently sacrifice profitability for market share - which can make for a very tough competitive environment.

Any city contemplating a convention center financing or an expansion of an existing convention center must clearly identify the competitive advantages that it has that will make it attractive to its potential market.

Salomon Smith Barney Convention Center Expertise

Salomon Smith Barney ranks as the number one underwriter of convention and civic centers. Since 1993, Smith Barney has managed 30 convention center/sports facility transactions totaling an aggregate principal amount of over $2.5 billion. Noteworthy convention center financings which we have senior managed include:

- St. Louis Regional Convention and Sports Complex
- Marion County, Indiana Convention and Recreational Facilities Authority
- McCormick Place Expansion Project, Chicago
- Ernest N. Morial Convention Center, New Orleans
- The Municipal Building Authority of Salt Lake County, Utah

Leadership Position in Municipal Finance

Salomon Smith Barney is recognized as a leader in the area of public finance, having consistently been ranked among the top three underwriters of all municipal debt. In 1997, we ranked as the *number one* underwriter of long-term negotiated bonds having senior managed over $20.7 billion with a market share of 12.5%. Given the difficult nature of convention center financing programs, it is critical to select a senior managing underwriter which has a demonstrated commitment to municipal finance -- a commitment which Smith Barney clearly possesses. The municipal finance business has always been and continues to be one of our most important business segments.

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