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MEMORANDUM

To: Mr. Bill Kauffman and Mr. Bruce Brown

From: Bill Krueger

Date: October 28, 2011

Subject: Updated Financial Analysis Associated with a New Convention Center

Mr. Kauffman and Mr. Brown:

This memo outlines findings associated with an updated financial analysis of a proposed new convention center in Port Huron, Michigan. Conventions, Sports & Leisure International (CSL) was originally retained by the City of Port Huron to conduct a feasibility study of a new convention center in August of 2010. The subject of the study was a comprehensive analysis of market demand, supportable facility program, financial operating characteristics and economic impacts associated with a convention center co-located at McMorran Place in downtown Port Huron. The study report was finalized in early 2011.

Under this limited effort, CSL was again retained to update the financial analysis portion of the previous study to reflect a new convention center that was instead located near a renovated and re-branded hotel outside the core of downtown Port Huron. The analysis represented herein did not include any new primary market research to test the new site/location and overall project concept. Instead it reflects our review of the previous research and analysis, and our consideration of new project conditions via our industry experience.

It is suggested that CSL's final full 2010/2011 report be reviewed in its entirety to gain an understanding of the research, analysis and conclusions previously reached with regard to all aspects of the convention center project.

Current Situation

The City of Port Huron and St. Clair County are presently considering the possibility of investing in the development of (and possible participation in the operational funding of) a new convention center that would be connected to the existing Thomas Edison Inn, located outside and to the north of the central business district, but adjacent to the St. Clair River to the east and the Blue Water Bridge to the north.

The present owner of the Thomas Edison Inn has substantially advanced programmatic and funding planning in recent months for a major renovation and re-branding of the property. Current plans involve an approximate $7.0 million private investment ($4.0 million in physical renovation and $3.0 million in FF&E) that would renovate the existing Thomas Edison Inn to create a 149-key Hilton Garden Inn property. It is understood that a professional appraisal was recently completed that suggests a $13.1 million valuation upon completion, and that Hilton Worldwide, Inc. has toured the property/site and has approved plans for a Hilton Garden Inn franchise.

It is also understood that a basic framework of a public/private partnership in terms of general development, operations and funding aspects has been tentatively agreed upon by the parties. Under the present plan being considered for the project, through various funding sources provided by the County, City and CVB (and primarily via the financing mechanism of St. Clair County issued G.O. bonds), the public sector would fund the construction of a convention center that would be attached to the new Hilton Garden Inn hotel property. The private sector investors would fund the renovation of the hotel and develop a new attached restaurant (to operate under the Twisted Rooster franchise brand). The City/County would purchase the Thomas Edison Inn's existing 11,000 square feet of conference/meeting space (which would also be renovated) to operationally control and market it in conjunction with the new convention center space that it will fund the construction of. The restaurant will be built with a large enough capacity to also serve as the primary food and beverage provider for the convention center, relieving the need for the convention center to incorporate a prep or full kitchen within its developed structure. Lastly, the Blue Water Area Convention & Visitors Bureau would relocate into the new convention center, enabling it to work on-site to sell the destination and the new convention center asset to the visitor industry.

Initial operating concepts being discussed by the public and private stakeholders involve the Hilton Garden Inn being managed under contract by Hospitality Specialists (of Jacksonville, Illinois), with the restaurant being managed via lease by Meritage Hospitality. The convention center will be owned publicly (by the County, City or a potential joint public sports/convention authority), while day-to-day operational options for the convention center are still being assessed. Options include City/County management, CVB management or private management (via the hotel manager or other third party private management firm with expertise in operating convention/conference centers, such as SMG, Global Spectrum or VenuWorks).

Site, Hotel, Restaurant and Operating Model Issues

The 2010/2011 CSL feasibility study of a new convention center in Port Huron only contemplated the development of new convention center space at McMorran Place (that involved physical and operational integration with the existing McMorran Place structure in downtown and the development of a new full-service headquarters hotel adjacent to the site). Therefore, all the event, utilization, financial operations and economic impact estimates presented in the previous report are not relevant to the new project model located at the new site. For instance, the feasibility study estimated event levels, attendance and financial operating performance based on events assumed to be accommodated in the new convention space, plus the arena and auditorium. Additionally, certain efficiencies were assumed with shared staffing and overhead concerning the operations of all these functional areas.

Program Issues

Based on the detailed convention center market analysis conducted for the previous study, the following key programmatic components were deemed market supportable under the McMorran Place site model:

- Exhibit Hall:
    - Up to 25,000 square feet subdividable, column-free space
    - Minimum of 25-foot ceiling height
    - Utility floor grids, independent loading, public access, climate control
- Ballroom/Multipurpose Room:
    - Between 8,000 and 12,000 square feet of space
    - Subdividable, carpeted, upscale, higher than 20-foot ceiling height
- Breakout Meeting Space:
    - Between 5,000 and 7,000 square feet of additional breakout meeting space
    - Subdividable, multipurpose, upscale
- Sufficient pre-function, support and storage space.
- At least 125 quality hotel rooms (preferably full service) attached or adjacent.

As shown above, the previous study indicated three distinct space components: (1) a concrete floor exhibit hall, (2) a carpeted ballroom/multipurpose room, and (3) lower ceiling, carpeted breakout meeting space. These three areas of sellable space amounted to approximately 38,000 square feet on the low end and 44,000 square feet on the high end. However, it should be noted that some of the consideration involving the "exhibit space" sizing under the previous study was driven in part by the existing size of the Pavilion, which could have efficiently been converted to exhibit hall use. This is why the vernacular in the report was presented in terms of "up to 25,000 square feet" for the exhibit hall. The market demand analysis conducted in 2010/2011 technically suggested between 20,000 and 25,000 square feet.

Nevertheless, under this new contemplated model at the Thomas Edison Inn site, it is believed that a somewhat different programmatic model could be considered. It is our interpretation that the model has shifted more towards a "hotel-driven" conference center from the previous "stand-alone" facility model. This shift has also been underscored by recent comments from City and County officials—and private stakeholders of the project—that emphasize "financial performance" of the facility as much as "economic impact generation". This is different than some municipally-funded convention centers, where non-local event attraction is the overwhelming priority for the facility, even if it means that the annual operating subsidy required for facility operations is larger. While attracting new visitors to the area and thereby generating new economic impact for the local area is typically important for a project that involves substantial public sector investment, it is also understood that any operating deficit for the proposed new Port Huron project (that would be the responsibility of the County and/or City) should be attempted to be minimized. This suggests that the program may be better served to more resemble traditional hotel convention/conference space (essentially hotel-type conference/meeting space essentially "oversized" relative to the number of guestrooms in the attached hotel). This would mean slightly downsizing and making more upscale the largest hall (i.e., carpeted floors, higher finished space, greater subdivisibility, etc.), while also offering an appropriate level of flexible breakout meeting space (which could even include a "junior" ballroom/banquet room, along with lower ceiling-lower capacity breakout rooms).

Therefore, it is believed that a more appropriate space model for a new convention/conference center at the Thomas Edison Inn site would include:

- <u>Multipurpose Ballroom</u> – *20,000 to 25,000 square feet of rentable space*
  Largest contiguous single room in the facility (column-free, with ceiling heights of greater than 20 feet—ideally 30 feet), carpeted and highly subdivisible—allowing it to concurrently accommodate multiple events or activities, including, for example, a light exhibit function at one end and a food function or assembly at the other end, subdivided by air walls.

- <u>Meeting Space</u> – *10,000 to 15,000 square feet of rental space*
  Should include a diversity of individual room sizes, all carpeted with lower ceilings than the multipurpose ballroom, existing Thomas Edison space of 11,000 square feet includes some larger banquet room space that could be retained as a "junior ballroom" for mid-sized activities, but a significant number of small, low ceiling subdividable rooms for multiple breakouts of 25 to 50 persons should be created.

Overall, this suggests a "sellable" convention center program of between 30,000 and 40,000 square feet (i.e., rentable multipurpose ballroom and meeting space square footage). Under traditional stand-alone convention center programs, the industry "rule-of-thumb" is to multiply sellable facility event space by between 2.0 and 2.2 to approximate total gross facility footprint (i.e., to include lobby, circulation, kitchen, restrooms, back-of-house, storage, etc.). However, under Port Huron's current project model, the kitchen would be provided via the independent restaurant. Therefore, for planning purposes, it might be reasonable to think of gross convention center square footage in terms of using a factor of between 1.8 and 2.0. This would translate into gross convention center square footage of between 54,000 square feet on the low end to 80,000 square feet on the high end (depending on the low and high factors and the low and high sellable square footage numbers indicated herein. However, removing the 11,000 square feet of existing Thomas Edison Inn event space that will be part of the convention center program, gross square footage requirements of "new build" convention center space would potentially range between 36,000 and 56,000 square feet. This also includes some minor space allocations for assumed facility space build-out for CVB offices.

<u>Hotel Issues</u>

In terms of the contemplated headquarters hotel, the planned Hilton Garden Inn brand is consistent with the quality hotel product envisioned in the original convention center study, while the 149 guestroom level is in excess of the 125 rooms suggested in the study. Also, the enlarged parking area is also considered sufficient to support the hotel, convention center and restaurant.

The Twisted Rooster restaurant should be a strong asset to the overall hotel and convention center project; however, it is understood that Hilton requires that breakfast be offered by the Hilton Garden Inn itself and that the Twisted Rooster will only service lunch and dinner and not be able to provide direct "door-to-door" room service to hotel guests (rather, there would be a pick-up window at the restaurant for those hotel guests that call down an order). As such, it should be noted that this model does not technically represent a "full-service" hotel model (which is sometimes exclusively demanded by non-local convention/conference/meeting planners) and that, if the Twisted Rooster is to serve as the exclusive food service provider for the convention center, accommodations will have to be made to allow it to operate and service convention center events from "dawn to dusk", including everything from breakfasts, coffee breaks, lunches, dinners and evening cocktails, etc.

When the public sector invests in a convention center project that is located adjacent or attached to a private sector owned/operated hotel property, it is often advantageous for the public sector to negotiate at the outset a "room block agreement" with the hotel. The room block agreement serves to protect the public sector and its convention center investment through providing some guarantees by the hotel partner that certain blocks of rooms will be made available at specific rates for events that meet outlined criteria/thresholds. In this way, the agreement works to minimize the number of situations in which an important economic impact-generating convention, conference or tradeshow is not able to be attracted to the community because the hotel chooses to pass on a future room block booking for one reason or another. For instance, in some communities where there is not a room block agreement in place with the headquarters hotel, the CVB may approach the headquarters hotel with a strong qualified lead on a large piece of convention business to occur three years in the future, but the convention requires a discounted hotel room rate. If that piece of future business is to occur in the future during the hotel's normal peak occupancy season, the hotel might elect to decline to accept the block reservation at a discounted rate as it knows its hotel room inventory would be full at "top rate" anyways during that future time period. This is a prudent decision for the private sector hotel, but is detrimental relative to incremental visitation and economic impact for the greater community the public sector government represents.

Partnership and Operating Model Issues

The public/private partnership model that is currently being contemplated for this project would be somewhat atypical in the overall industry, primarily due to (1) the physical and operational removal of the kitchen and all food and beverage operations from the convention center, and (2) the number of management entities involved (i.e., with all three on-site facilities).

Typically, convention center projects (that have funding involvement by the public sector) reflect one of four basic models:

1. A stand-alone convention center that is owned and operated by the public sector;
2. A stand-alone convention center that is owned by the public sector and managed under contract by a private party;
3. A hotel/convention center joint project that involves public sector funding of the convention space construction and then the convention space is leased by the hotel to operate seamlessly with its hotel at its own financial operating risk or gain; or
4. A hotel/convention center joint project that involves public sector funding of the convention space construction and then the convention space is operated by the hotel operator under a contract which includes allowances for public sector operating subsidy should a convention center operating shortfall occur.

Each of the public/private partnership models (numbers 3 and 4) normally realize operating efficiencies as the hotel operator is also the operator of the convention space. This occurs through shared staffing (i.e., administrative, customer service, marketing, food and beverage, maintenance, etc.), shared overhead, and a typical "private sector mentality/approach" towards sales, marketing and operations.

However, in the case presently being considered in Port Huron, these types of synergies may be more limited due to the potential number of operators involved. For instance, the restaurant (food and beverage operations) will be operated by a separate entity from the hotel, and the hotel operator may not be the operator of the convention space—if a third party private management operator was contracted for instance.

Working under the assumption that an independent operator for the restaurant (and, therefore, the food and beverage provider for the convention center), the only management synergy that could theoretically be realized would be under a scenario where the hotel management firm was also contracted to manage the convention center. Additionally, meeting planners typically prefer to work with as few points of contact as possible when organizing, planning and executing their events. While the co-location of each of these three facilities on one site offers marketing advantages to attract events, any other operational efficiencies (which impacts the financial operating "bottom line" of the convention center) may be lost if some management consolidation among facilities is not achieved.

CSL has a strong understanding of convention center third party private management firms and the structure of management contracts and their terms. It has been mentioned by some stakeholders that a private management firm, such as SMG, Global Spectrum or VenuWorks, could be a candidate for convention center management. A few additional items relating to third party management would be relevant for planning discussion, including the following:

- In terms of qualified "third party" convention center private management firms (excluding hotel management firms, many of which have hotel conference space management experience, however), effectively only three prominent firms of note exist in the country—SMG, Global Spectrum, and VenuWorks (presented in order of the number of event facility management contracts each presently holds with municipal clients). Given our long-term interaction and performance reviews of these three firms, each are eminently qualified in our opinion to manage a Port Huron convention center.
- However, should any of these three firms obtain the management contract, the Port Huron convention center project would represent one of the smallest venues managed by any of the three firms. In some cases, this aspect can affect the quality of management personnel "talent" the firms place in facilities like this, along with the length of general manager tenure at the facility before he/she is relocated by corporate leadership to another facility in the country. This does not occur in all cases, however, and it can be negotiated specifically in any management contract and general manager application/interview process.
- Virtually 100 percent of all third party management contracts by these firms include both a base (or fixed) fee plus incentive fee that is paid to the firms for services rendered. If the convention center is publicly-financed (as Port Huron's would be), under federal law, the incentive fee cannot exceed the base fee. Based on our review of many dozens of management contracts, a typical fee arrangement for a project the size of Port Huron's might be $125,000 to $150,000 per year in base fee (at the low end) and an incentive fee that is effectively structured to equal or very closely near the base fee (i.e., $250,000 to $300,000 in total management fee cost to the public sector facility owner). These fees must be paid each year (representing the contract premium for management services, while all other expenses (including salaries of all private management staff) will also be paid by the facility owner. Therefore, in performing a cost/benefit relating to private management, these fees must be weighed along with the expected financial operating benefit the private management firms are expected to "bring to the table" versus other management options (i.e., public sector management through hiring a qualified facility manager or contracting with the hotel operator, etc.).
- Additionally, an increasingly important aspect in third party private management's consideration of proposed terms and fees is possible control over food and beverage operations and income. Each of the three national third party firms have affiliations with their own food and beverage operations, and oftentimes, fees to provide management services will be lower if they can contract through their affiliates to provide F&B. This issue also tends to be more important in smaller market projects (such as Port Huron), where fees tend to be more variable based on the firm's ability to secure F&B and sponsorship contracts for their affiliated partners.

Operating Philosophy/Approach Issues

Given our understanding of the return on investment (ROI) issues present with the hotel project, along with dynamics involved with the local Port Huron marketplace and convention center demand issues, it is very unlikely that any type of operator (whether it be the Hilton Garden Inn management firm, a third party private management firm, or other entity) would accept a contract that places financial operating risk associated with the convention center on their private ledger. For instance, this does not occur with third party private management firms, but in some communities, the hotel market is strong enough and hotel RevPAR and ROI is strong enough that the hotel partner accepts full financial operating risk or gain associated with a lease to operate the public sector funded convention/conference space. It is relatively clear that any operating deficit associated with convention center operations in Port Huron will have to be borne by the public sector (City and/or County) via subsidy.

Normally, the public sector in a community invests in a convention center project for the new visitation and associated economic/tax impacts it can provide locally by virtue of its non-local event attraction. Therefore, in these cases, it is advantageous for the public sector to negotiate a room block agreement with the headquarters hotel (who will benefit most from the public sector's investment) and to structure economic impact incentives into any convention center management agreement. These normally occur within the "incentive fee" components of management fees—reflected through non-local vs. local event mix goals, hotel room night generation goals, event attendee origin surveys, and the like. This is also why convention and visitor bureaus are often given booking control over publicly-funded convention centers for events wishing to book 12 months and out, 14 months and out, or 18 months and out. These were primary assumptions in CSL's original 2010/2011 feasibility study.

Based on discussions with representatives of the County and City, in addition to other stakeholders, it appears that minimization of any convention center annual financial operating deficit is just as important as new economic impact generation. If this is the case, the ability of the convention center to drive incremental visitation and economic impact to Port Huron will be slightly more limited, for a variety of reasons. Therefore, a room block agreement with the hotel could be structured with terms less demanding of the hotel, and with more inherent flexibility, and any convention center management contract would have many of its incentive terms based on expense reduction and revenue enhancement criteria. However, it is important to recognize that the cost of this approach will be a slight shift in event marketing and accommodation towards typically-smaller "local" events, such as wedding receptions, banquets, holiday parties, luncheons, meetings and the like. This should assist in minimizing convention center operating deficit, but could hinder (at certain time periods and for certain events) the ability of the community to maximize the attraction of new non-local events and visitors. Non-local conventions and tradeshows are significant economic impact generators for communities, but they often involve between one to three days of "set-up" when no event attendees are in local hotels in in the community, two to four days of the event (or show) and then a day or two of tear-down, when again, few non-local attendees are present in the local community. As such, "turning and burning" a bunch of local wedding receptions, luncheons and meetings (with high food and beverage per capita purchases and space rental at top rate) is often more advantageous in conference space under a revenue-generating emphasized philosophy.

Additionally, the smaller program outlined previously herein should also serve to improve the financial operating "bottom line" of the convention center, through higher occupancy and revenue generation per square foot in the convention center, as well as lower operating costs due to smaller overall square footage.

For the remainder of the analysis outlined in this document, we have assumed the aforementioned operating approach, which assumes a roughly equal emphasis on convention center operating revenue generation and operating expense reduction versus economic impact generation for the greater community.

Financial Analysis

Estimates related to potential construction costs and annual financial operating characteristics of a potential new convention center in Port Huron (under the current Thomas Edison Inn location scenario) are presented in this section.

Initially, in terms of potential construction costs for the convention center, it is important to recognize that construction costs for comparable convention center projects vary greatly throughout the country. Many variables exist that influence actual realized construction costs, including type of facility, size, components, level of finish, integrated amenities, costs of goods/services/labor in the local market, location and topography of the site, ingress/egress issues, cost savings related to developing a joint hotel/center project and other such aspects.

Nevertheless, in framing possible order-of-magnitude construction costs for a potential new Port Huron convention center, a number of items warrant consideration, including but not limited to:

- The gross square footage requirement for the facility will most certainly be slightly less than a traditional state-of-the industry convention center project, due to the removal of the kitchen from the program and some shared common space with the hotel.
- As previously indicated herein, it is estimated that gross square footage requirements of a new convention center's footprint might range between 36,000 and 56,000 square feet. This also includes some minor space allocation consideration for assumed office build-out for CVB.
- Normally, a current industry "rule-of-thumb" is to think about hard construction costs in terms of approximately $250 per gross square foot of facility, before adjusting up or down for local market cost characteristics. However, while there are ostensibly union issues and generally higher labor costs that often affect Michigan projects, it is believed that the removal of the typically higher-cost kitchen component and the bundling of the convention center construction with the greater construction project (as currently contemplated) would achieve important construction cost savings. Therefore, for purposes of this planning exercise, it might be useful to consider a construction cost per gross square foot of approximately $225.
- Applying this number to our gross square footage range results in a hard construction cost estimate of between $8.1 million and $12.6 million (in 2011 dollars).
- Importantly, in addition to these estimated hard costs, soft construction costs, costs associated with land purchase and/or improvement, other potential infrastructure improvement costs and potential annual operating costs will also need to be considered in the ultimate planning scheme. For comparable projects, these soft and other costs can sometimes add up to between 30 to 50 percent of overall hard construction costs.
- Detailed architectural concept, design and costing study would be required to specifically estimate hard and soft construction costs for a potential Port Huron convention center.

Under the previous convention center feasibility study, a new convention center located at and operationally integrated with McMorran Place (along with the development of an adjacent, quality new hotel) was estimated to annually generate approximately $1.5 million in operating revenue and $2.1 million in operating expenses, resulting in a net operating deficit of approximately $540,000 (before debt service and capital repair/replacement reserve funding). These operating revenue, expense and deficit figures included event activities and the operation of existing McMorran Place components (specifically, the Arena and Auditorium).

Additionally, these previously estimated figures assumed both: (a) a primary focus on attracting non-local, economic impact generating events, and (b) a 20 percent split to the convention center of gross food and beverage sales (through a more traditional convention center exclusive catering contract than contemplated now under the current scenario, and also influenced by the "concession" component for the Arena and Auditorium, which is a typically-higher margin contracted item for facilities).

For purposes of estimating potential annual financial operating characteristics for a new Port Huron convention center under the present state of planning, a number of key assumptions had to be made. Adjustments to any of these assumptions could have a material impact on revenues, expenses and/or operating profit/shortfall. The key assumptions include:

- Two management scenarios:
    - Scenario 1: Management By Non-Hotel Third Party
    - Scenario 2: Management By Hotel Management Company
- A new convention center comprising a total of 63,000 gross square feet (22,500 square foot multipurpose ballroom, 12,500 square feet in total other meeting space, and 28,000 square feet of back-of-house and support space—square footage numbers that represent the midpoint of the ranges previously outlined and at a 1.8 ratio of total space to sellable space). This also includes some minor space build-out considerations for relocation of CVB offices.
- Figures are presented for a stabilized year of operations (assumed to occur by the fourth full year), in 2011 dollars.
- As previously discussed within this document, the financial figures reflect an operating philosophy scenario that emphasizes both convention center "bottom line" and maximization of community-wide economic impact through discounting and booking measures that give preference and precedence to non-local conventions, conferences and tradeshows.
- It has been assumed that the CVB will be the primary marketing and booking agent for the convention center with respect to non-local conventions, conferences and tradeshows. For purposes of this analysis, it has been assumed that the CVB will market and book non-local hotel room night generating events 14 months and out, while the convention center management team will book other events (mostly local) 14 months and in.
- Food and beverage revenues are presented as "net" income to the convention center, reflective of an assumption that 15 percent of gross sales of food and beverage to convention center events will be retained by the convention center.
- We have not assumed any income in the presented financial operating estimates relating to lease payments for CVB office space in the convention center.
- Neither debt service payments nor capital repair/replacement reserve funding is included in the presented financial operating estimates. Normally, convention center industry rule-of-thumb suggests annual capital reserve funding of an amount that approximates 0.5 percent of hard construction costs, to prepare for future year capital needs. Either or both of these could be added to the financial analysis at the City/County's request, and with your participation in developing assumed figures.
- The figures assume some cost savings associated with utilizing labor from Baker College students in the hospitality and culinary programs.
- It has been assumed that future local market conditions will lead to significant demand from certain events such as wedding receptions, due to limited facilities of appropriate size and quality to host these types of events.

The exhibit below presents a summary of the estimated financial operating results for a new Port Huron convention center, under Scenario 1, located and operated pursuant to the assumptions presented herein in a stabilized year of operation (assumed to occur by the fourth full year of operation) and presented in 2011 dollars. These figures only represent the annual operations of the convention center facility component and do not include construction debt service payments, capital repair/replacement reserve funding obligations, additional CVB marketing budget needs, other non-operating expenses, nor any financial considerations or obligations borne by the public sector with regard to the hotel or restaurant.

Estimated Financial Operating Results for a New Convention Center at Thomas Edison Inn
(assumed operation by third party mgmt., stabilized year of operation, in 2011 dollars)
SCENARIO 1: Management By Non-Hotel Third Party

Operating Revenues	
Space Rental	$312,730
Food Service (net)	209,565
Contract Service & Other	218,295
Total Operating Revenues	$740,590
Operating Expenses	
Salaries, Wages & Benefits	$422,782
Utilities	113,062
Repair & Maintenance	27,727
General & Administrative	43,438
Insurance	28,075
Materials & Supplies	23,386
Professional Fees	16,938
Management Fee	250,000
Total Operating Expenses	$925,407
Net Operating Deficit	($184,817)

As shown in the exhibit above, a new convention center co-located with a new Hilton Garden Inn, associated restaurant and managed under contract by a third party private management company (i.e., SMG, Global Spectrum or VenuWorks), is estimated to generate an operating deficit (before debt service and capital reserve funding) of approximately $185,000 annually (upon stabilization of operations and in 2011 dollars).

Also as shown, the "premium" for private management (base fee plus incentive fee) has been estimated at $250,000 per year. It should be recognized that the expertise that is offered by any of the top three third party private management mentioned in this report will likely translate into measurable benefits concerning event attraction/accommodation, economic impact, and revenue maximization.

However, given the (1) lack of control over food and beverage, (2) the size of the facility, (3) the nature of the Port Huron marketplace and associated event demand, and (4) the assumption that the facility should minimize operating deficit, it is possible that the firm that is contracted to manage the hotel (Hospitality Specialists), assuming they offer a qualified management staff with experience in marketing, selling and servicing substantial conference space in other market/properties, could achieve critical efficiencies if they also were contracted to manage the convention center space. As previously mentioned in this document, the hotel management team will already have significant staffing and functional capabilities related to administrative, accounting, human resources, facility maintenance, customer service, marketing, etc. in place for the new Hilton Garden Inn property. Normally, these types of operational, staffing and overhead synergies relate to substantial cost savings for a relatively small convention center project such as what is currently being contemplated in Port Huron. In addition, the management fee paid is often lower when the convention center is operated by a common manager of the hotel.

The exhibit below presents a summary of the estimated financial operating results for a new Port Huron convention center, under Scenario 2, located and operated pursuant to the assumptions presented herein in a stabilized year of operation (assumed to occur by the fourth full year of operation) and presented in 2011 dollars. These figures only represent the annual operations of the convention center facility component and do not include construction debt service payments, capital repair/replacement reserve funding obligations, additional CVB marketing budget needs, other non-operating expenses, nor any financial considerations or obligations borne by the public sector with regard to the hotel or restaurant.

Estimated Financial Operating Results for a New Convention Center at Thomas Edison Inn
(assumed operation by third party mgmt., stabilized year of operation, in 2011 dollars)
SCENARIO 2: Management By Hotel Management Company

Operating Revenues	
Space Rental	$252,250
Food Service (net)	202,140
Contract Service & Other	187,110
Total Operating Revenues	$641,500
Operating Expenses	
Salaries, Wages & Benefits	$325,542
Utilities	113,062
Repair & Maintenance	20,795
General & Administrative	50,677
Insurance	29,370
Materials & Supplies	26,727
Professional Fees	16,938
Management Fee	100,000
Total Operating Expenses	$683,111
Net Operating Deficit	($41,611)

As shown in the exhibit above, a new convention center co-located with a new Hilton Garden Inn, associated restaurant and managed under contract by the hotel management company (Hospitality Specialists), it is estimated that the facility will generate an operating deficit (before debt service and capital reserve funding) of approximately $42,000 annually (upon stabilization of operations and in 2011 dollars). With any project of this nature, it is important to always consider that these financial figures are just estimates and are intended to represent "an average year upon stabilization". As such, there will likely be years (particularly those during the operational ramp up period of several years) in which the facility may underperform these estimates. Likewise, there may be years in which the convention center outperforms these estimates, and may generate a break-even or operational profit.

However, the figures related to Scenario 2 include some key assumptions, provided by representatives of the County. These include:

- An assumed total management fee (base plus incentive) of $100,000, payable to the hotel management company (Hospitality Specialists).
- Most of the convention center's routine repair and maintenance activities will be handled by hotel-based maintenance/technician personnel. Therefore, we have been directed to assume 0.5 full-time equivalent (FTE) maintenance/technician personnel for the convention center itself. As a comparison, 1.5 FTEs were assumed under Scenario 1, while between 2.0 and 3.0 FTEs are industry-standard for a convention center this size located elsewhere in the country. These figures do not include part-time event labor, expenses related to which have been assumed to be fully reimbursed by the events.
- As previously mentioned, the CVB will be responsible for marketing and booking long-term events (i.e., non-local, room night generating conventions, conferences and tradeshows) into the convention center 14 months and out. (Salaries/wages/benefits associated with this is not included in the convention center's operating expense ledger, under either scenario.) Unlike Scenario 1 (where there was assumed to be 1.0 FTE position dedicated solely to "local" event marketing and booking, i.e., 14 months and in), we have been directed to assume that the hotel management company will absorb this responsibility via its own sales/marketing staff. Therefore, we have assumed 0.0 FTEs for sales/marketing staffing expense in the convention center financial estimates. It is suggested that this aspect of the staffing structure be monitored carefully by the County/City to ensure that sales and marketing efforts are optimized at all periods of the year.

Lastly, it is important to recognize that the economic impacts that the new convention center would generate for the city and county will likely be lower than those presented in CSL's previous study, due to the assumed shift in operational philosophy, size of the facility and other aspects of the project. However, the new Hilton Garden Inn will be a differentiated hotel asset in the local area from other existing properties, and should represent the newest, highest quality property in the greater market area located in a picturesque location. Therefore, its development (along with the associated restaurant) should drive new hotel demand (via induced hotel demand from new convention/conference/meeting activity, as well as latent hotel demand by virtue of the lack of a quality, quasi-full-service hotel under a nationally-recognized flag in the local marketplace). Therefore, the hotel/restaurant projects will also generate some new economic impact to the community if developed. Some of this economic impact, in addition to all construction period related economic impacts, was not considered nor included in CSL's previous convention center feasibility study.