



City of Las Cruces

Proposed New Las Cruces Center

Presentation of the Financial Analysis

September 25, 2006

Proposed New Las Cruces Center

Study Process

Market Demand
Analysis
(KPMG)

Facility and
Site Analysis
(HNTB)

Financial
Analysis
(KPMG)

Strategic Approach to Potential Development

Market Research Completed in May 2005 Indicated Support for Development of the Proposed New Las Cruces Center If Built in Conjunction With a New Hotel

- Better meet the long-term needs of the fast growing community
- Increase penetration in various market segments such as smaller group business
- Increase economic impact
- Develop a niche that highlights Las Cruces' unique market characteristics in order to attract out-of-town business
- Consider development of the proposed new facility within the context of the City's overall long-term strategy for the community

Preliminary Building Program Recommendations Based on Market Research

- Exhibition Hall 20,000 - 25,000 SF
 - Ballroom 8,000 - 10,000 SF
 - Meeting Space 5,000 - 6,000 SF
-

TOTAL FUNCTION SPACE 33,000 - 41,000 SF

- Service and Support 33,000 – 41,000 SF
-

TOTAL GROSS BUILDING AREA 66,000 – 82,000 SF

↑
HNTB used the upper end of the range for
the purposes of its site analysis

Construction Alone Will Not Generate Event Activity

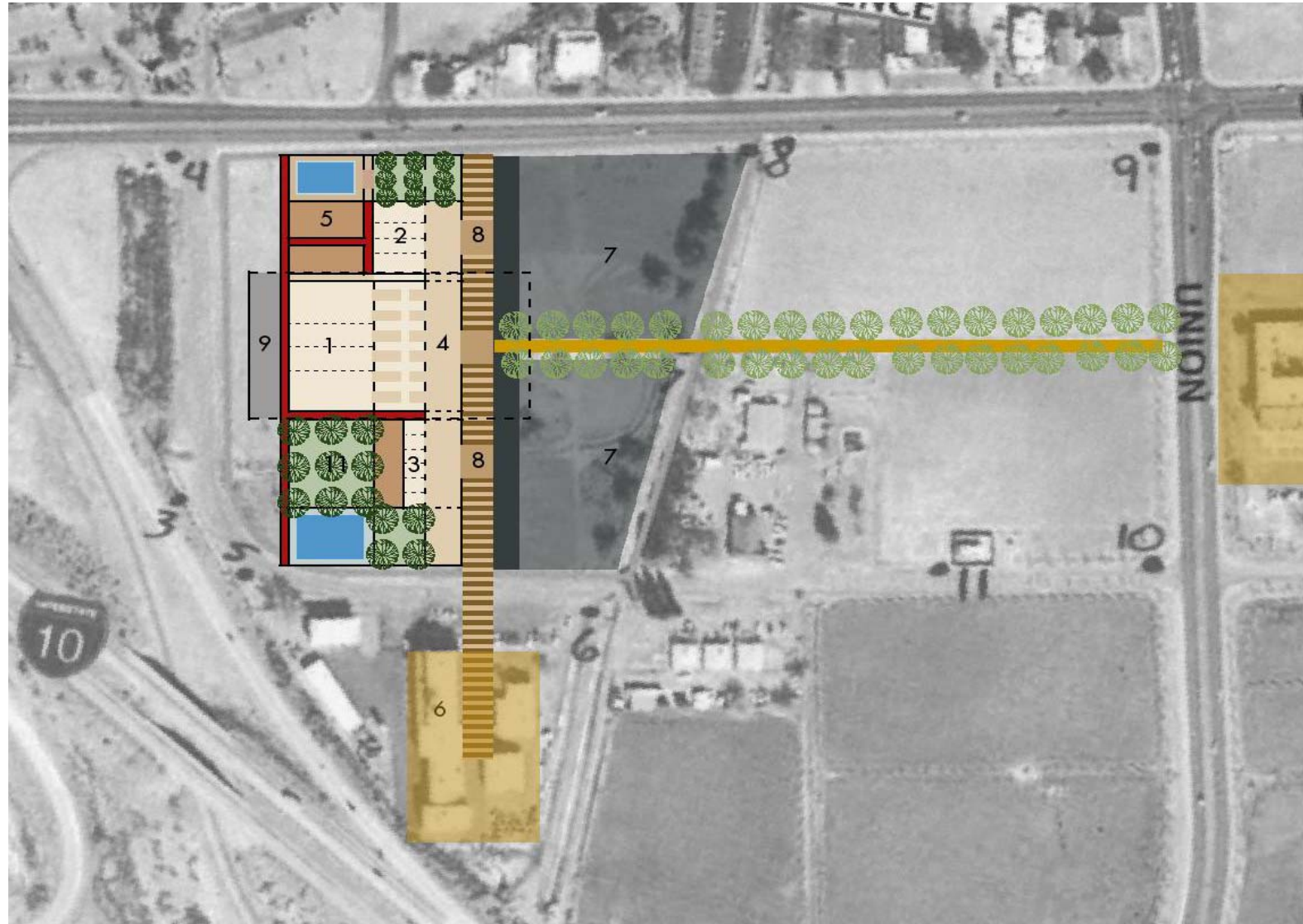
- The site will be adequate in terms of visibility, ingress and egress, parking, safety and other similar issues
- An adequate number of proximate, convention quality hotel rooms will be developed in conjunction with the proposed new facility
- Sufficient supporting infrastructure nearby (i.e. hotel rooms, restaurants, retail, entertainment, access etc.)
- High level of quality/customer service will be expected
- Develop mission statement consistent with City's objectives for the facility
- Consider developing joint marketing plan with management at the facility, proximate hotels and the CVB to establish convention/meeting industry niche where it can be successful given the proposed facility's building program, the competitive environment and the destination attributes
- Consider development of the proposed facility within the context of the City's overall long-term strategy for the community
 - Land availability
 - Infrastructure
 - Funding

HNTB Architecture Conducted the Site Analysis

- Beginning in December 2005, HNTB analyzed ten sites for the proposed facility which were narrowed to five sites based on various criteria including:
 - property large enough to accommodate building program & potential future expansion
 - accessibility
 - proximity to hotels, restaurants and other tourist amenities
 - minimal land acquisition
 - site infrastructure costs
- In March 2006, these five sites were ranked during discussions at a City Council meeting and two preferred sites, Tee Time and West University, were chosen for further study including preliminary design concepts
- In June 2006, HNTB presented its concept design analysis on the two sites and City Council chose the West University site for further study including estimating preliminary construction costs

West University Site – Site Plan

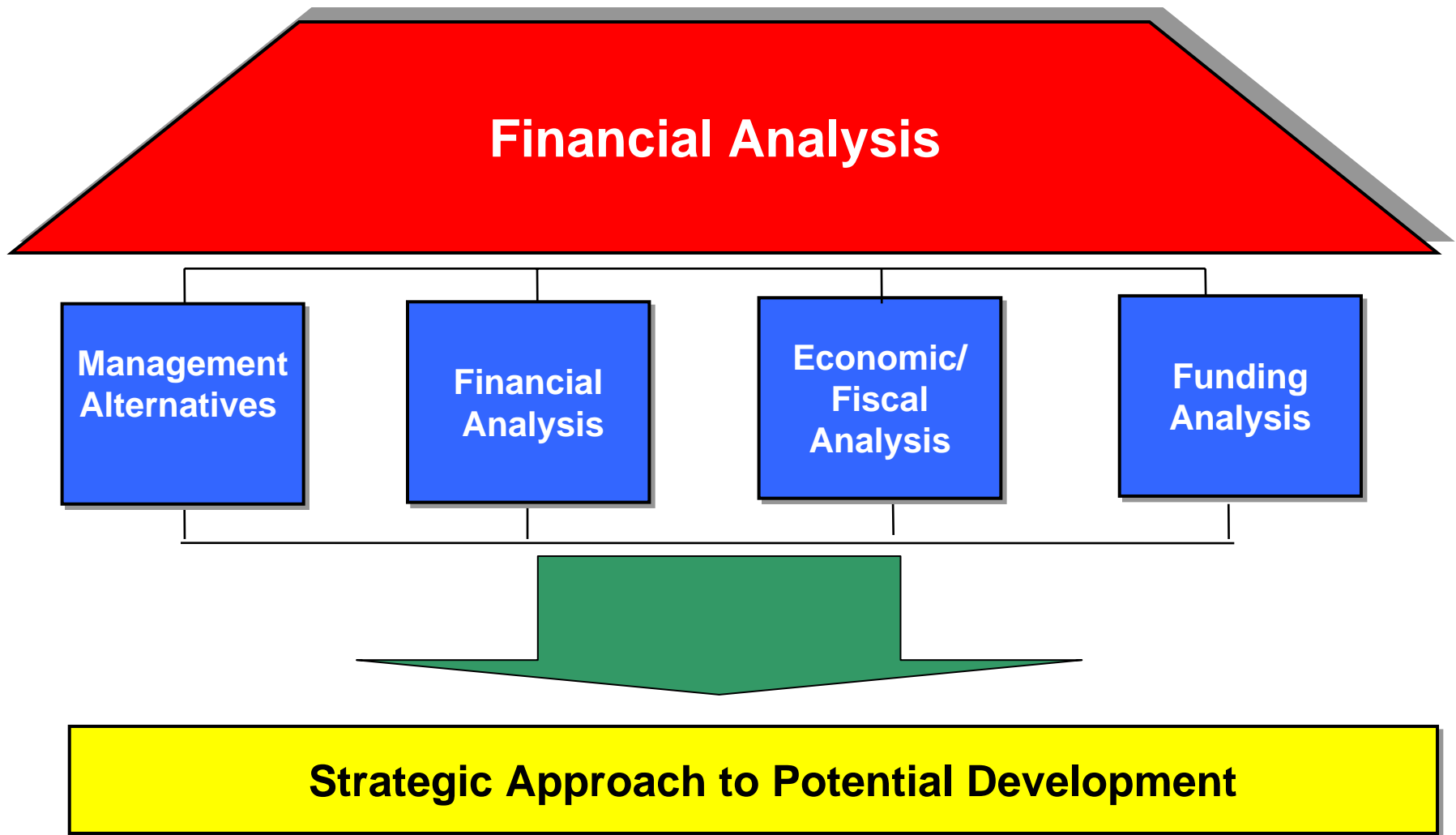
- 1 Exhibit Hall
- 2 Ballroom
- 3 Meeting Rooms
- 4 Prefunction/Lobby
- 5 Kitchen
- 6 Additional Rooms
- 7 Parking
- 8 Civic Promenade
- 9 Loading Dock
- 10 University
- 11 Expansion



Potential Partnership Between City And NMSU Is Being Explored

- Simultaneous to this site evaluation process, New Mexico State University (“NMSU”) had been contemplating development of a hotel/conference center as part of its master planning efforts
- The City and NMSU have recently engaged in ongoing discussions to explore the merits of formalizing a partnership where
 - the City would potentially assume responsibility for construction, ownership and operations of the proposed Las Cruces Center along University Avenue near Interstate 10
 - NMSU would potentially assume responsibility for development of an adjacent convention quality hotel

In Addition To Market And Site Factors, The City Should Also Consider Various Financial Issues Related To The Proposed Center



Management Alternatives

- Operating through traditional municipal management such as a City departmental structure
- Creating an independent authority
- Contracting with a third party management company that specializes in managing public assembly facilities and/or hotels

Management Alternatives (cont'd)

Municipal Management

Convention/civic centers are unique public assets that operate in an atmosphere requiring competitive business practices:

- Contractual agreements
- Frequent short term lease/use of facilities by customers
- Management of part-time and temporary staff resources
- Partnership with third party vendors and tenants
- Offering municipal service where alternatives are available to customers

While most centers were traditionally municipally operated, these unique characteristics brought about a market for management alternatives

Examples

Alamogordo Civic Center

Santa Fe Civic Center

Taos Convention Center

Management Alternatives (cont'd)

Independent Authority

- A fiscal resource is created or allocated by a unit(s) of government
- An inter-local agreement is pledged to the authority for specific purposes
- Tasked with the planning, design, financing, construction, operations and improvement to a designated project(s)
- Multiple jurisdictions or entities are involved in funding
- Provide autonomy and independence
- Typically most effective when they control a revenue source that is dedicated to funding operations and/or retiring debt service

Examples

Ardmore Tourism Authority – OK

Greater Boise Auditorium District - ID

Springfield Metro Expo/Auditorium Authority - IL

Management Alternatives (cont'd)

Third Party Management Company

- Balance events generating revenues and those generating economic impact
- Route events to their facilities throughout region/country
- Less civil service constraints on hiring, contract approvals, negotiating financial terms
- Provide autonomy when there may be strong political influence within a community
- Third party contractor agrees to provide funding (e.g. naming rights, sponsorships, advertising) as part of agreement when limited municipal funds are available for on-going maintenance and/or capital improvements

Examples

Albuquerque Convention Center

Clovis Convention Center

Judson F. Williams Convention Center in El Paso



Management Alternatives (cont'd)

Hotel Management Company

- Relatively limited convention quality hotel properties near the convention/conference center
- New convention/conference center is planned to be adjacent/proximate to a dominant convention quality hotel
- New convention/conference center is planned to be built contiguous or actually integrated with the physical components of a hotel (i.e., shared contiguous space)

Examples

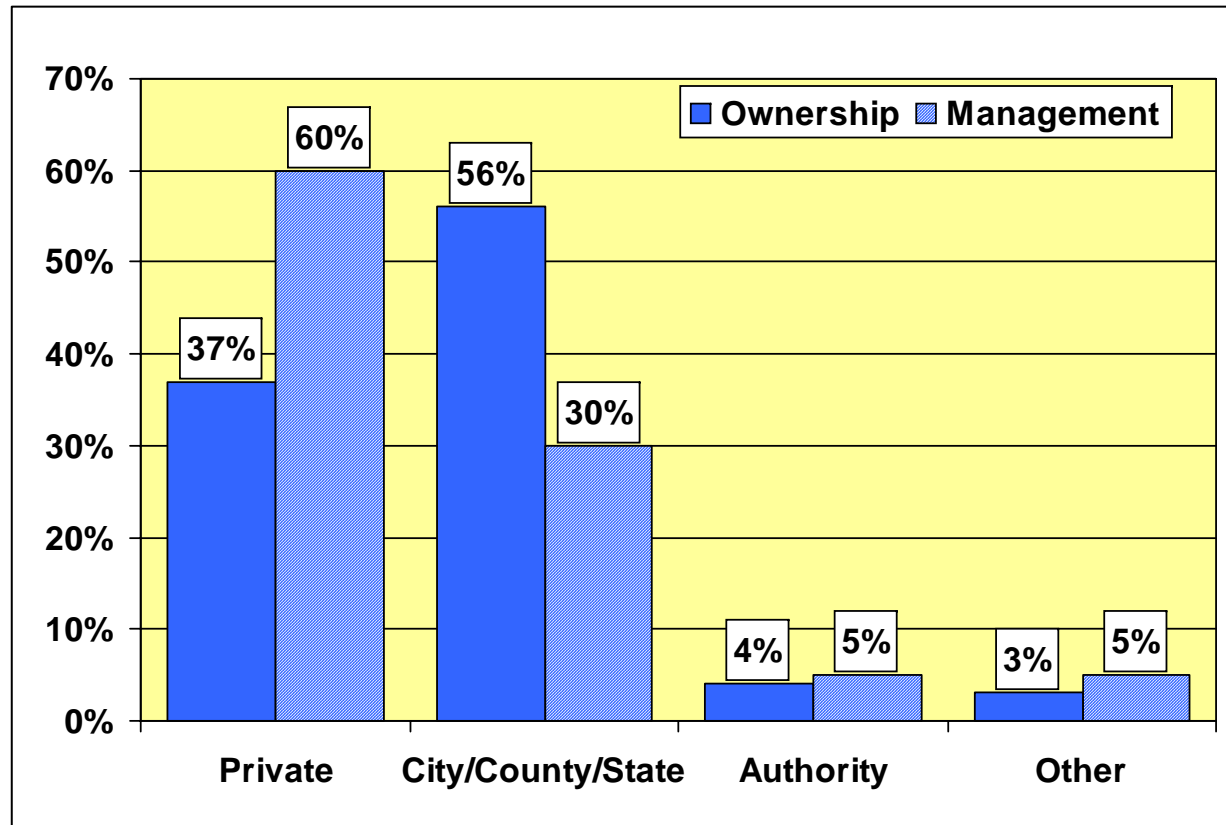
- M.C. Benton Jr. Convention and Civic Center - Winston-Salem, NC managed by the Noble Investment Group which also manages the two adjacent hotels – a Marriott and an Embassy Suites
- Branson Convention Center – MO will be managed by Hilton Hotels Corporation
- Cool Springs Conference Center – Franklin, TN managed by Noble Investment Group which also owns/operates the attached Marriott

Management Alternatives (cont'd)

Potential risks associated with third party management include, but are not limited to, the following:

- The municipality does not control all aspects of its asset
- Third party management could potentially be less sensitive to users, especially those that are local based and do not generate significant economic impact
- Because of the facility's proposed size, the overall cost of third party management (e.g., base and performance incentive fees) may be greater than the estimated operating deficit

Although The Majority Of Exhibit Halls In The U.S. Are Publicly Owned, Approximately 60% Are Privately Managed



Source: 2005 Major Exhibit Hall Directory.

The percentage of privately owned facilities has gradually been increasing over the last few years.

Revised Estimate of Utilization Based on the West University Site

- a defined site area on NMSU property with good interstate access and proximity to existing hotels
- Characteristics of the West University site present an opportunity to realize higher utilization than originally estimated particularly for conventions, conferences and meetings
- On-going development planning decisions such as the amount and type of space developed at the proposed NMSU hotel and operating strategies could further impact utilization estimates

Proposed New Las Cruces Center			
Category	Hypothetical Range of Event Activity For a Stabilized Year of Operations		
	Lower End		Upper End
Number of Events			
Conventions/Tradeshows/Conferences	22	to	24
Consumer/Public Shows	10	to	12
Meetings/Seminars	136	to	140
Banquets/Receptions	60	to	64
Other Public Events	12	to	16
Total	240	to	256
Average Attendance Per Event			
Conventions/Tradeshows/Conferences	400	to	450
Consumer/Public Shows	3,000	to	3,500
Meetings/Seminars	75	to	80
Banquets/Receptions	250	to	300
Other Public Events	1,000	to	1,200
Total Attendee Days			
Conventions/Tradeshows/Conferences	26,400	to	32,400
Consumer/Public Shows	30,000	to	42,000
Meetings/Seminars	10,200	to	11,200
Banquets/Receptions	15,000	to	19,200
Other Public Events	12,000	to	19,200
Total	93,600	to	124,000

Estimated Financial Operations For the Proposed Las Cruces Center

Category	Hypothetical Range of Financial Operations		
Total Operating Revenues	\$940,000	-	\$1,005,000
Total Operating Expenditures	\$1,284,000	-	\$1,418,000
Excess (Deficiency) of Operating Revenues Over Operating Expenditures Before Reserve for Replacement, Depreciation & Debt Service	(\$344,000)	-	(\$413,000)
Reserve for Replacement Fund	\$47,000	-	\$50,000
Excess (Deficiency) of Operating Revenues Over Operating Expenditures Before Depreciation & Debt Service	(\$391,000)	-	(\$463,000)

Notes: Amounts are presented in 2006 dollars.

See summary of significant assumptions in the full report.

- To safeguard the public investment, the City should allow for a dedicated reserve for replacement fund that is intended to cover any extraordinary capital repairs or improvements to the facility
- The majority of similar convention/civic centers typically realize an operating deficit

Estimated Economic Benefits For the Proposed New Las Cruces Center

Estimate of Economic Benefits Potentially Generated From Operations of the Proposed Las Cruces Center (annually recurring)			
Range for Stabilized Year of Operations			
Total Economic Benefits:			
Direct Spending	\$14,619,000	-	\$18,846,000
Induced/Indirect Spending	\$7,766,000	-	\$10,019,000
Total Spending	\$22,385,000	-	\$28,865,000
Total Employment (number of FTE jobs)	460	-	590
Total Earnings	\$10,613,000	-	\$13,687,000

Notes: Amounts are presented in 2006 dollars.
 FTE denotes full-time equivalent employees.
 See summary of significant assumptions in the full report.

Estimated Fiscal Benefits For the Proposed New Las Cruces Center

Estimated Annual Fiscal Impacts for a Proposed New Las Cruces Center for a Stabilized Year of Operations			
Range of Tax Revenues			
CITY OF LAS CRUCES			
Local Option Gross Receipts Tax	\$189,000	-	\$244,000
Lodgers Tax	128,000	-	161,000
Subtotal	\$317,000	-	\$405,000
DONA ANA COUNTY			
Local Option Gross Receipts Tax	\$68,000	-	\$88,000
Subtotal	\$68,000	-	\$88,000
STATE OF NEW MEXICO			
State Gross Receipts Tax	\$604,000	-	\$779,000
Personal Income Tax	163,000	-	211,000
Corporate Income Tax	81,000	-	104,000
Subtotal	\$848,000	-	\$1,094,000
TOTAL	\$1,233,000	-	\$1,587,000

Notes: Amounts are presented in 2006 dollars.

See summary of significant assumptions in the full report.

Trends in Convention/Civic Center Financing

- Historically the most common financing instrument and funding source for convention/civic centers has been revenue bonds repaid by dedicated hotel/motel tax proceeds
- Many facilities are funded through multiple partners (e.g., City, County, State, private)
- Increasingly local governments have been able to capitalize on special funding that may require approval at the State level
- Recently other financing and funding mechanisms have been used such as:
 - Collecting sales tax revenues prior to, and during, construction
 - Establishing tax increment financing districts
 - Utilizing sales tax rebates

Potential Funding Sources For the Proposed New Las Cruces Center

Given HNTB's cost estimate of approximately \$22.2 million to \$26 million and input from City finance officials, the proposed new center's debt service is estimated to range from approximately \$1.4 million to \$1.6 million if financed with 30-year revenue bonds

Convention Center Fee (as referred to as Lodgers Tax Surcharge)

- Maximum fee of \$2.50 per room night originally envisioned to fund construction of a proposed center
- Can be re-enacted by approval of City Council
- Estimated to generate approximately \$1.5 million annually based on
 - Historical room night data and new hotel supply provided by the CVB
 - The assumption of a 150-room is developed by NMSU adjacent to the proposed center
 - Estimated incremental new overnight business generated by facility operations

Potential Funding Sources For the Proposed New Las Cruces Center (cont'd)

Incremental Lodgers Tax Proceeds

- Current 5.0% lodgers tax is dedicated to CVB operations – existing level will be necessary for CVB to market the proposed center
- City officials indicated incremental collections could potentially be used to service debt service or fund operations of the proposed center
- Estimated at \$720,000 per year given new hotel supply and higher quality properties

CVB Fund Balance and Resource Development Fund

- City officials estimate that these two funds combined total \$2.7 million
- City officials indicated incremental collections could potentially be used to service debt service or fund operations of the proposed center

Potential Funding Sources For the Proposed New Las Cruces Center (cont'd)

New Mexico Finance Authority

- Assists qualified governmental entities with affordable financing of capital equipment and infrastructure projects by providing low-cost funds and technical assistance.
- Based on discussions with City representatives, Las Cruces' credit rating has allowed it to obtain favorable rates which are similar to those the NMFA has been able to provide for other projects.

Private Sector

- Naming rights could be considered to generate additional funding for the project

Summary of the Funding Analysis

The table presents a summary of the estimates for construction costs, annual funding requirements, annual revenue from potential funding sources and annual economic benefits for the proposed Las Cruces Center

Category	Proposed New Las Cruces Center
Estimated hard construction cost	\$22.2 million to \$26.0 million
Estimated annual debt service	\$1.4 million to \$1.6 million
Estimated annual operating deficit	\$391,000 to \$463,000
Estimated annual funding sources	
Convention center fee	\$1.5 million
Incremental lodgers tax proceeds ¹	\$720,000
CVB Fund Balance/Resource Development Fund ²	\$2.7 million
Estimated direct spending	\$14.6 million to \$18.8 million
Estimated FTE jobs	460 to 590

Notes: ¹ Incremental lodgers tax proceeds are not specific to operations of the Las Cruces Center only but rather reflect overall growth in supply and ADR in the market.

² This amount reflects the City's current estimated balance for these funds and is not an annual amount.

Potential Next Steps for the City of Las Cruces

- Select a final development site and further refine construction and total project costs
- Continue to research and refine potential funding options including, but not limited to, the re-enactment of the \$2.50 convention center fee (i.e., lodgers tax surcharge)
- Continue discussions with NMSU regarding the advantages/disadvantages/opportunities associated with formalizing a partnership where the City would potentially construct, own and operate the proposed new Las Cruces Center and NMSU would potentially develop an adjacent new convention quality hotel
 - Develop/approve cooperative agreement
 - Develop/approve lease agreement
 - Outline timing associated with key decision points for both parties

Questions/Discussion





While this presentation provides a summary of the research conducted, this information is extracted from a more detailed analysis of various data related to the proposed new Las Cruces Center. It is important for the reader to read all of the reports in their entirety in order to gain a better understanding of the methodology and the assumptions used.