



Financial Analysis for the Proposed New Las Cruces Center

Final Draft Report

September 2006

ADVISORY

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September 18, 2006

Mr. Michael D. Johnson
Public Works Director
City of Las Cruces
P.O. Box 20000
575 S. Alameda, Room 124
Las Cruces, NM 88004

Dear Mr. Johnson:

Per our original agreement letter dated January 19, 2005 and amended agreement dated February 24, 2006, we have completed our financial analysis related to the development of a proposed new Las Cruces Center. The report presented herein summarizes the findings from our research and completes the services agreed to be provided by KPMG LLP ("KPMG") as described in our engagement agreements.

This accompanying analysis was prepared for the City of Las Cruces ("City") for its consideration of plans for development of the proposed Las Cruces Center. The findings and assumptions contained in the report reflect analysis of primary and secondary sources of information including, but not limited to, information that was provided by the City, HNTB Architecture ("HNTB"), the New Mexico Taxation and Revenue Department, management at comparable facilities as well the market research previously conducted by KPMG and summarized under separate cover in our report dated May of 2005. We have utilized sources that are deemed to be reliable but cannot guarantee their accuracy. In accordance with the terms of our engagement, the accompanying report is restricted to internal use and may not be relied upon by any third party for any purpose. Notwithstanding these limitations, it is understood that this document may be subject to public information laws and, as such, can be made available to the public upon request. We have no obligation, unless subsequently engaged, to update this report or revise this analysis as presented due to events or conditions occurring after the date of this report. Neither this report, nor any portion thereof, may be used for any other purpose without the prior written consent of KPMG.

This analysis was prepared under the Consulting Standards issued by the American Institute of Certified Public Accountants (AICPA) and does not constitute an examination, compilation or agreed upon procedures in accordance with the standards established by the AICPA. As such, we do not express an opinion or any other form of assurance on whether the prospective financial statements are presented in conformity with AICPA presentation guidelines or on whether the underlying assumptions provide a reasonable basis for the presentation.

The client has authorized the final report to be sent electronically for its convenience. However, only the hard copy of the final report should be viewed as our work product.

We have enjoyed working on this engagement and our relationship with the City and look forward to the opportunity to provide you with continued service.

Sincerely,

DRAFT REPORT

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Introduction

The City of Las Cruces has studied the potential need for a proposed new Las Cruces Center for several years. Based on various changes in the Las Cruces market area, KPMG was retained to provide advisory services to assist the City in assessing the merits of developing the proposed facility. The research in the market analysis that was completed in May 2005 suggested that additional exhibit/meeting/ballroom space would place the City in a better position to meet the long-term needs of the community, increase its penetration in various market segments such as smaller group business and increase economic impact. Because the availability and location of hotel rooms are such an important criteria for meeting planners, developing a new, convention quality hotel in conjunction with the proposed new Las Cruces Center will be important to its success. Several models have been used in other markets to develop convention quality hotels including various forms of public/private partnerships. It is important to recognize that a hotel market demand assessment was not conducted as part of this study effort. As such, it is recommended that additional analysis related to a new hotel be performed if the City considers any future development initiatives.

Subsequent to the presentation of market analysis findings in May 2005, the City issued a Request for Information (“RFI”) to gauge private sector interest in the development of the proposed new Las Cruces Center and hotel. Noble Investment Group (“Noble”) and Global Entertainment/Fain Signature Group (“Global”) responded to the RFI with different concepts for the proposed project. While both proposals aimed to provide a facility that would be multi-purpose in nature, each proposed concept would be better suited for a primary use.

Noble’s concept envisioned the dedicated exhibit, meeting and ballroom space required by more traditional conventions, meetings and social events. This type of facility is consistent with the building program outlined in the market analysis that could serve to attract out-of-town visitors for Statewide conventions/conferences as well as host consumer trade shows, meetings, banquets, receptions and civic events that accommodate the growing needs from area residents and businesses. In addition, Noble’s proposed facility concept could accommodate smaller entertainment events in the exhibit hall with retractable or portable seating.

Introduction (cont'd)

By contrast, Global proposed a more traditional arena concept that would be better suited to host sports and entertainment events with support space that could accommodate consumer/trade shows (on the arena floor) and/or local meeting and social events. This type of facility would likely compete on a state and regional level with a different set of venues than those profiled in the market analysis. Recent discussions between the City and Global confirmed that this proposed venue would not compete with the proposed Las Cruces Center but would target more sports and entertainment events in the West Mesa vicinity.

Subsequent to the market analysis and at the direction of the City, HNTB began its site analysis for the proposed center in December 2005. The site analysis included working with the client group to develop and prioritize the site selection criteria, ranking sites based on the site selection criteria, preparing preliminary estimates of construction costs and illustrating conceptual site plans. HNTB analyzed ten sites for the proposed facility based on certain criteria: property large enough to accommodate building program and potential future expansion; accessibility; proximity to hotels, restaurants and other tourist amenities; minimal land acquisition and site infrastructure costs. Based on HNTB's analysis, the sites were narrowed to five.

In March 2006, the 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.

Introduction (cont'd)

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 and NMSU would potentially assume responsibility for development of an adjacent cost quality hotel near Interstate 10 in order to enhance the mutual benefits for both projects.

In addition to market and site factors, the City should also consider various financial issues as it explores the merits of developing the proposed new Las Cruces Center and hotel. This report discusses several financial elements that should be considered in conjunction with the findings of the market and site analyses for any future planning purposes including: a summary of potential management alternatives, management’s estimate of financial operations and economic and fiscal benefits generated from the on-going operations of the proposed new Las Cruces Center as well as a summary of existing and potential funding sources that could be used for the proposed project.

Executive Summary

Since May 2005 when management initially estimated utilization for the proposed new center, there have been several changes in the marketplace that could positively impact usage at the proposed facility including, but not limited to, growth in higher-end hotel supply, a defined site area on NMSU property with good interstate access and proximity to existing hotels. Based on the site analysis conducted by HNTB, recent discussions between the City and NMSU as well as direct input from City representatives, it is estimated that the West University site presents an opportunity to realize higher utilization than originally estimated particularly for conventions, conferences and meetings. Based on these assumptions, management's estimate of utilization at the proposed new center on the West University site is estimated to range from 240 to 256 events and 93,600 and 124,000 attendee days during a stabilized year of operations. On-going development planning decisions such as the amount and type of space developed at the proposed NMSU hotel and booking policies could impact the utilization estimates.

The management approach for the proposed new center is important because it impacts all aspects of operations including marketing, utilization, financial operations and overall efficiency of the facility. Existing venues are typically managed in one of three methods: municipal management, independent authority or third party management. Each of these options is discussed in more detail in Section 3 of this report.

One of the primary reasons these facilities are developed is because of the economic impacts that the project can generate in terms of spending, employment and tax revenues for the local and state governments. One objective of convention/civic centers is typically to attract events that draw patrons from outside of the immediate market area who spend money on hotels, restaurants and other related services. In many cases, these net new benefits can outweigh the operating costs, and, as such, provide economic and fiscal benefits to the local and State economies in which they operate.

Executive Summary (cont'd)

Total spending generated from the on-going operations of the proposed new Las Cruces Center is estimated to range from \$22.4 million to \$28.9 million annually (in 2006 dollars) in Dona Ana County during a stabilized year of operations. It is also estimated that the economic activity associated with the proposed new Las Cruces Center could generate approximately 460 to 590 full-time equivalent jobs in Dona Ana County. These jobs would be created in many sectors of the economy which would both directly and indirectly support the increased level of business activity in the area.

Tax revenues from the on-going operations of the proposed new Las Cruces Center and attendee spending generated in the City, Dona Ana County and the State of New Mexico are estimated to range from approximately \$1.2 million to \$1.6 million (in 2006 dollars) for a stabilized year of operations.

With respect to financial performance, it is important to understand that the vast majority of stand-alone convention/civic centers typically realize an operating deficit. Management estimated an operating deficit ranging from \$391,000 to \$463,000 (in 2006 dollars) for the proposed new Las Cruces Center for a stabilized year of operations. It is important to read the accompanying summary of significant assumptions in Section 4 of this report which provides further detail regarding the financial estimate.

The question then becomes, "If the community chooses to pursue development of the Las Cruces Center, how can it be financed?" Section 5 of this report presents a description of traditional funding sources and financing instruments used at similar facilities. In addition, this section includes several hypothetical funding options for the proposed center based on the unique local/State environment, construction cost information provided by HNTB as well as input from City and State finance officials.

Executive Summary (cont'd)

Based on preliminary hard construction cost estimates ranging from approximately \$22.2 million to \$26.0 million developed by HNTB as well as information provided by representatives of the City, annual debt service for 30-year revenue bonds is estimated to range from approximately \$1.4 million to \$1.6 million at interest rates of approximately 4.5%. It should be noted that the construction cost estimates do not include non-construction “soft” costs for design and construction management fees; testing and inspections; furniture, fixtures and equipment (“FF&E”); financing; project administration; marketing and opening costs; or owner’s project contingency which will need to be considered when estimating total project costs.

The New Mexico State Legislature enacted legislation that authorized certain local governmental entities the ability to impose by ordinance a convention center fee (also referred to as a lodgers tax surcharge) up to a maximum of \$2.50 per room for each day the room is occupied subject to specific exemptions which the City Council in Las Cruces approved. The purpose of the convention center fee was to provide a dedicated funding source for the proposed new facility in Las Cruces which had been under consideration for a number of years. However, due to citizen opposition of the convention center fee, it was repealed by City Council.

Because the State legislation is still in place, it is our understanding that the convention center fee can be re-enacted in Las Cruces by approval of the City Council. Estimates suggest that this convention center fee could generate approximately \$1.5 million annually based on historical room night data and new hotel supply provided by the CVB, the assumption that a 150-room hotel is developed by NMSU adjacent to the proposed new Las Cruces Center as well as new business generated by operations of the Las Cruces Center. As such, this estimated funding source could potentially service approximately \$25.0 million in debt based on a 30-year revenue bond issue at 4.5% interest which is within the range of the preliminary hard construction cost estimates prepared by HNTB.

Executive Summary - (cont'd)

Based on the anticipated growth in hotel supply provided by the CVB and an assumed increase in the average daily rate (“ADR”) due to higher quality properties being developed, lodgers tax proceeds could potentially increase by 53% over calendar year 2005 collections or approximately \$720,000 per year. In addition, the City’s budget office estimated that there is approximately \$2.7 million available between the CVB Fund Balance and the Resource Development Fund. City officials indicated that both of these sources could potentially be used towards servicing the debt and/or funding ongoing operations of the proposed Las Cruces Center.

Based on the assumptions previously described, the table below provides 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.

While this section presents a summary of the research conducted, this information is extracted from a more detailed analysis of various data related to the proposed new center. It is important for the reader to review the report in its entirety in order to gain a better understanding of the methodology and the assumptions used.

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Management alternatives

One of KPMG's tasks was to identify potential management options for the proposed new Las Cruces Center. While the governance structure should play a significant role in oversight, establishing and administering policy as well as maintaining accountability for the facility, the management team should be responsible for overseeing the day-to-day operations of the facility including implementing the mission statement and operating policies. Consequently, the management approach is important because it impacts all aspects of operations including marketing, utilization, financial operations and overall efficiency of the facility. For instance, management's ability to effectively negotiate rental rates and be flexible in implementation of the booking policy can directly impact utilization, financial performance and/or economic impact generated from the facility. In some instances, publicly run facilities are limited in their capability to act as quickly as other management approaches.

As such, some elected bodies choose to delegate the management of facility operations to an authority or to a third party that provides industry knowledge and representation. In addition to these two specific issues, management through an authority or a third party can sometimes offer stability and insulation from political influence which can be desired attributes by customers, vendors, facility management and staff who typically prefer a continuity of purpose and ability to function within a business environment that is not affected by each election.

Management alternatives (cont'd)

Potential management options at the proposed new Las Cruces Center include, but are not limited to, the following:

- 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

Each of these three alternative approaches to management can be found within the public assembly facility industry and are discussed in more detail on the pages that follow.

Management alternatives – traditional municipal management

Historically, public assembly facilities are one of the few public assets that operate in a semi-business atmosphere requiring contractual agreements, frequent short term lease/use of facilities by customers, management of part-time and temporary staff resources for numerous events and partnership with third party vendors and tenants. These operating conditions are unique within the public services provided by government whose natural inclination is to apply one set of guidelines to all municipal departments.

Unlike many municipal services where citizens do not have a choice, event producers and meeting planners have a variety of facilities to choose from when deciding where to host their event. In addition, attendees have a variety of options where they can spend their discretionary income. Given the competitiveness among convention/civic centers, these facilities need to operate in a manner that is consistent with well-established industry practices.

As with any municipally run facility, the goals and objectives may change with each political cycle. For instance, the number and diversity of events may be the primary objective of one official and fiscal performance may be the priority of another. These changes in the facility objectives can be counter-productive if not managed effectively. As such, clearly defining a mission statement that reflects community consensus and operating objectives (e.g., generating economic impact) can allow a facility to set forth an operating and marketing strategy that is consistent and long-term in implementation. This approach also provides a more stable environment for meeting planners when considering a facility for future use. In general, municipally operated facilities are more successful when management has the ability and the authority needed to aggressively operate and book the facility without incurring onerous procedures.

Management alternatives – independent authority

In many states, an authority is a political subdivision of a City, County and/or State that is allowed by an act of state or local legislature. The Springfield Metro Expo/Auditorium Authority in Illinois, the Classic Center Authority in Athens, Georgia and the Ardmore Tourism Authority in Oklahoma are examples of authorities that operate convention/civic centers. An authority can also be multi-jurisdictional such as the Tampa Sports Authority in Florida which is a quasi-State organization funded by both the City of Tampa and Hillsborough County. This form of management structure is typically pursued when a fiscal resource is created or allocated by a unit(s) of government and when an inter-local agreement is pledged to the authority for specific purposes. In many cases, the authority is tasked with the planning, design, financing, construction, operations and improvement to a designated project(s).

One primary objective of creating an authority is to obtain a funding source that can allow for the independent operations of the facility. This approach has value if there is a political consensus and will to identify a revenue stream from existing or new fiscal sources that can help stabilize the operations of a municipality's public assembly facility and provide for its long-term improvement and maintenance.

While authorities similar to those in Springfield, Ardmore and Athens often provide autonomy and independence, they are typically most effective when they control a revenue source that is dedicated to funding operations and/or retiring debt service. Authorities can also be beneficial when multiple jurisdictions and/or entities (e.g., facility and convention and visitors bureau) are involved in the funding and/or operations of public assembly facilities such as in Charlotte, North Carolina and St. Louis, Missouri.

Management alternatives – third party management company

Many municipalities around the country utilize the services of a private management company (e.g., Global Spectrum, SMG, Compass Facility Management) or a private operator, such as a hotel, to manage the operations of their convention/civic centers. Private management companies can address a variety of needs and issues confronted by governmental entities that, in many cases, result in a more effective and efficient means of facility operations than municipally run venues.

As mentioned previously, although the majority of stand-alone convention/civic centers typically realize an operating deficit, these facilities are usually developed because of the economic and fiscal impacts that they can generate. Consequently, convention/civic centers typically aim to attract events that draw patrons from outside of the immediate market area who spend money on hotels, restaurants, and other similar services. Given these unique economics and the financial constraints for many municipalities, there is sometimes a conflict for the management team at convention/civic centers which struggles to balance hosting events that operate at a profit and positively impact the facility's financial performance and hosting events that do not necessarily contribute positive cash flow but generate significant economic impact to a community.

Management alternatives – third party management company (cont'd)

As such, private management of a public assembly facility may be more effective under certain conditions which include, but are not limited to, the following:

- Civil service constraints may limit a municipality's ability to retain and hire qualified personnel that are experienced in the industry and compensated for their skill set relative to other similar positions in the industry
- Union labor will be involved and the municipality is unable or unwilling to negotiate a favorable contract for rates
- Efficient operations will likely be hampered by strong political influence and operating autonomy is desired
- Facility management will likely be unable to effectively negotiate rates and other concessions and consequently would not be as competitive with other facilities because of municipal constraints in negotiating financial terms with meeting planners and event producers
- Contract approval requirements would likely be onerous and time consuming
- Municipalities have limited funds for significant maintenance requirements and/or capital improvements to facilities and a third party contractor agrees to provide funding as part of its management agreement

Typically the management company charges a base management fee in addition to a performance or incentive fee. The performance or incentive fee is capped at the annual base management fee amount and is usually tied to measurable operating results such as increasing the number of events and/or attendance and/or improving the financial operations as compared to a baseline benchmark target.

Management alternatives – third party management company (cont'd)

Private management contracts have become more common in recent years and, as such, facility owners are demanding more from them. Some municipalities have required the management company to commit capital funds for the project to help ensure they have a vested interest in its operational success. Sources of such commitments may include naming rights, sponsorships and advertising contracts. Private management contracts are including an increasingly higher portion of the fee based on performance. Various regulations restrict management contracts for facilities financed by tax exempt bonds which include, but are not limited to, the following:

- Limiting performance or incentive fees to the negotiated base fee
- Limiting the term of the agreement
- Excluding distribution of profits to the management company

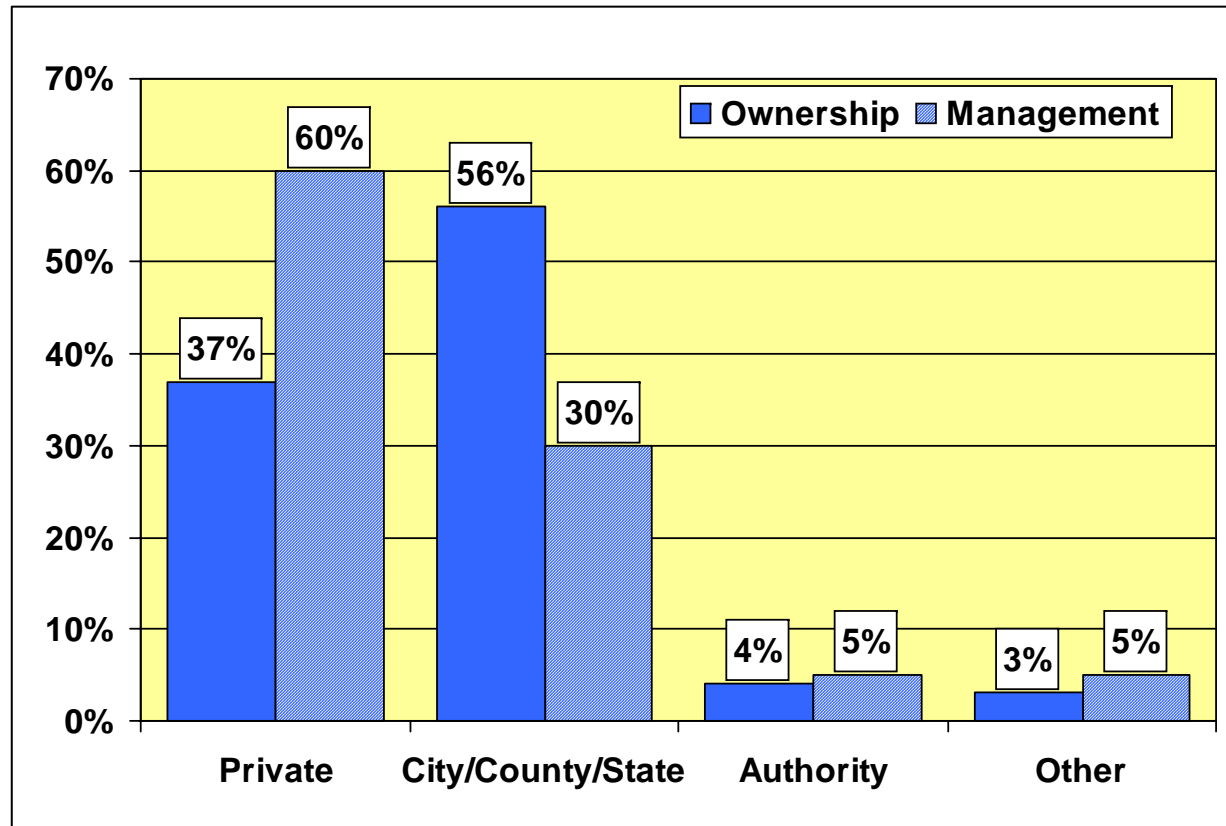
Management alternatives – third party management company (cont'd)

One common challenge for municipalities considering third party management is losing control of the asset. However, the private management company is a representative of the municipality charged with managing and promoting the asset. As such, the municipality can manage the amount and type of control that it retains through the terms of its management agreement. For instance, in most private management agreements, the municipality still retains ownership, approves the operating and capital budgets, provides input and direction regarding policy, receives regular financial and management reports, and has the ability to terminate the management company for cause. Typically, the municipality is actively involved in the hiring and/or approval of the facility's general manager and has a designated contract administrator that oversees the terms of the contract and serves as liaison between the governmental entity and the management company.

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 including hiring of personnel, determining the event mix, ensuring quality service and overseeing on-going repairs and maintenance of the facility
- 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, capital improvements) 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.

In addition, the percentage of privately owned facilities has been gradually increasing over the last few years.

Management alternatives at select competitive and/or comparable facilities

As a point of reference, the following table outlines the ownership and management structure of other competitive and/or comparable facilities. Eight of the profiled facilities are operated by an authority or private management company. Because private management companies typically manage multiple facilities across the nation, one benefit is that these companies can potentially route events among those facilities.

Ownership and Management Structure at Select Competitive and/or Comparable Facilities

Facility	Location	Owner	Operator
Alamogordo Civic Center	Alamogordo, NM	City	City
Albuquerque Convention Center	Albuquerque, NM	City	Private management
Amarillo Civic Center	Amarillo, TX	City	City
Ardmore Convention Center	Ardmore, OK	Ardmore Tourism Authority	Ardmore Tourism Authority
Boise Centre on The Grove	Boise, ID	Greater Boise Auditorium District	Greater Boise Auditorium District
Clovis Civic Center	Clovis, NM	City	Private management
Cox Business Services Convention Center	Oklahoma City, OK	City	Private management
Farmington Civic Center	Farmington, NM	City	City
Frisco Conference Center	Clinton, OK	City	City
Judson F. Williams Convention Center	El Paso, TX	City	Private management
Lubbock Memorial Civic Center	Lubbock, TX	City	City
Mesa Centennial Center	Mesa, AZ	City	City
Phoenix Convention Center	Phoenix, AZ	City	City
Prairie Capital Convention Center	Springfield, IL	Springfield Metro Expo/Auditorium Authority	Springfield Metro Expo/Auditorium Authority
Reed Center	Midwest City, OK	City	City
Roswell Convention & Civic Center	Roswell, NM	City	City
Ruidoso Convention Center	Ruidoso, NM	Village	Village
Santa Fe Civic Center	Santa Fe, NM	City	City
St. Cloud Civic Center	St. Cloud, MN	City	City
Taos Convention Center	Taos, NM	Town	Town
Tucson Convention Center	Tucson, AZ	City	City
Tulsa Convention Center	Tulsa, OK	City	Private management beginning 2007
Yuma Civic & Convention Center	Yuma, AZ	City	City

Notes: Sorted alphabetically by facility.

Sources: Individual facility management; Individual CVBs.

DRAFT REPORT – SUBJECT TO CHANGE

This report is restricted to the internal use of the City of Las Cruces and cannot be relied upon by any third party for any purpose.

Management alternatives – third party hotel management company

Another variation of private management includes convention/civic centers that are managed by hotel management companies. In many instances, the facilities are located in smaller markets. Jointly managing the convention/civic center and the hotel with similar operating objectives provides one-stop shopping to meeting planners for both hotel and convention services. Common attributes of communities that utilize this management option typically include, but are not limited by, the following:

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

Examples of where this management approach is used include:

- The M.C. Benton Jr. Convention and Civic Center which is owned by the City of Winston-Salem and managed by the Noble Investment Group which also manages the two adjacent hotels – a Marriott and an Embassy Suites
- Scheduled to open in August of 2007, the Branson Convention Center will be owned by the City of Branson and managed by Hilton Hotels Corporation
- The Franklin Marriott Hotel in Franklin Tennessee is owned by the Noble Investment Group and the attached Cool Springs Conference Center is jointly owned by the City and the County. Both facilities are managed by Noble Management Group

Management alternatives – summary

As the City continues to explore the merits of the proposed new Las Cruces Center, it will need to consider the management approach that best meets the overall development objectives for the community. This decision will be particularly important given the competitiveness of the State/regional market and the convention and meetings industry as a whole, the anticipated level of expectations for customer service at the proposed new facility, the anticipated capital and on-going financial investment associated with the project, and the recommendation that the proposed new center be developed in conjunction with a hotel.

Consequently, the proposed new center will need to be operated in a first-class manner by an aggressive, experienced management team with strong State and regional industry contacts in order to enhance its competitiveness which could be accomplished by any of the three management options. As with any business operation, there are several approaches to managing public assembly facilities, each of which has advantages and disadvantages depending on the situation.

The mission statement is a critical element to a facility's operation because it dictates the booking policy, utilization and financial performance of that asset. A facility's mission statement should clearly outline the goals and operating objectives of the facility (e.g., diversity of event mix, financial profitability, economic impact, etc.) and the expectations of facility management and the booking policy should appropriately support and implement the mission statement through its prioritization of events. For instance, some events that generate economic impact to the community may not result in positive financial performance for the facility, particularly given the competitiveness of the convention and meetings industry. However, if the center's booking policy gives priority to those events that generate economic impact to the community, there should be an incentive for the hotel operator to block rooms for these types of convention/meeting events. Irrespective of the management approach utilized, a well-defined mission statement and booking policy can help reduce the potential for perceived differences in the facility's role by various stakeholders.

Management alternatives – summary (cont'd)

Typically there is pressure on most publicly funded assets to operate with a high degree of fiscal responsibility. As stated previously, municipally operated facilities tend to be more successful when facility management has the ability and the authority that it needs to aggressively operate and book the facility without incurring onerous procedures. Traditional municipal management represents a viable option if the City is able to establish policies and procedures that allow the proposed center to operate in a semi-business atmosphere consistent with well-established industry practices and not experience the majority of conditions previously discussed that potentially makes private management a more effective and efficient means of facility management.

Creating an independent authority to oversee the proposed center is another option to consider, particularly if multiple jurisdictions and/or entities are involved in the project. As stated earlier, authorities are typically more effective when they control a revenue source that is dedicated to funding operations and/or retiring debt service. Potential benefits of operating as an independent entity rather than as a governmental department may include, but are not limited to, providing greater latitude in staffing, compensation, contracts and incentive pay; increasing revenue generating potential; providing financial accountability and reporting; and allowing for greater autonomy while still being funded by public sources. Authorities are usually governed by a Board of Directors that provides oversight and accountability. While the Board of Directors should provide objectives for the facility to accomplish, the management team is charged with formulating the best course of action to achieve the goals and objectives of the authority.

Management alternatives – summary (cont'd)

Contracting with a third party operator, such as a private management company or a hotel management company, may offer the City the opportunity to provide professional, specialized management and potentially minimize its financial risk associated with operations of the proposed new center. For instance, the City may choose to assume responsibility for the debt service while the facility operator would be responsible for any potential operating loss (or gain) associated with operations. In addition, the municipality can manage the amount and type of control that it retains such as defining a certain number of dates for local/civic events, approving the operating and capital budgets, and receiving regular financial and management reports through the terms of the management agreement. While it is premature to determine whether funding will be taxable or non-taxable in nature, it is important to recognize that the structuring of certain contractual agreements such as management agreements can impact the tax status. As stated previously, the mission of the venue should be established and supported by the terms of any management agreement.

As mentioned previously, NMSU is exploring the merits of developing a new hotel on its campus. Recently there have been discussions between the City and NMSU related to formulating a partnership to develop these two entities in order to enhance the mutual benefits of both projects. If built, the proposed new center and proposed new NMSU hotel should operate as seamlessly as possible in order to enhance both the competitiveness of the facility and the experience of the user. As such, meeting planner negotiations, business interaction and event relationships will likely be tightly integrated between these two entities. Incentives for the hotel to accommodate center group business that generates economic impact through room blocks and rates should be defined to encourage the hotel operator's cooperation in achieving the City's overall goals for the proposed new facility.

However, should the City and NMSU decide to pursue a partnership where the City assumes responsibility for construction, ownership and operation of the proposed new Las Cruces Center and NMSU assumes responsibility for development of an adjacent convention quality hotel, strong consideration should be given to maintaining separate management teams at these facilities based on the independent ownership structure by two governmental entities.

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Financial analysis

Based on the preliminary building program, information from comparable convention/civic centers as well as other primary and secondary sources including the findings in the market analysis, KPMG assisted the City in preparing its hypothetical, order-of-magnitude estimate of operating revenues and expenses for the proposed new Las Cruces Center. The estimate of operating revenues and expenditures discussed in this section are expressed in 2006 dollars for a hypothetical range of event activity representing a stabilized year of operation.

With respect to financial performance, it is important to understand that the vast majority of stand-alone convention/civic centers typically realize an operating deficit. However, one of the primary reasons these facilities are developed is because of the economic impacts that the project can generate in terms of spending, employment and tax revenues to local and state governments. One objective of convention/civic centers is typically to attract events that draw patrons from outside of the immediate market area who spend money on hotels, restaurants and other similar services. In many cases, these net new benefits can outweigh the operating costs, and, as such, provide economic and fiscal benefits to the local and State economies in which they operate. A summary of the estimated economic and fiscal benefits associated with the proposed new Las Cruces Center is provided later in this section of the report.

This analysis is based on certain hypothetical assumptions pertaining to operations of the facility, attendance levels and other related financial assumptions as provided and agreed to by the City of Las Cruces and its advisors. No independent verification of this information was made by KPMG and we assume no responsibility for the accuracy or reliability of the information provided to us. The accompanying analysis was prepared for internal use by the City for its consideration of plans for the development of the Las Cruces Center and should not be used for any other purpose including financing of the project.

Financial analysis (cont'd)

The analysis performed was limited in nature, was prepared under the Consulting Standards issued by the American Institute of Certified Public Accountants (AICPA) and does not constitute an examination, compilation or agreed upon procedures in accordance with the standards established by the AICPA. Therefore, KPMG does not express an opinion or any other form of assurance on the information presented in this report. As with all estimates of this type, we cannot guarantee the results nor is any warranty intended that they can be achieved. The estimates of revenues and expenditures are based on the anticipated size, quality and efficiency of the proposed new facility. Since these estimates and assumptions are based on circumstances that have not yet transpired, they are subject to variation. Further, there will usually be differences between estimated and actual results because events and circumstances frequently do not occur as expected, and those differences may be material.

Summary of significant assumptions - general

This section of the report summarizes several operational assumptions that were used in developing the estimates of event activity and financial operations for the proposed new Las Cruces Center. Key hypothetical assumptions used in this analysis include, but are not limited to, the following:

- Total exhibit space is contiguous
- The facility will be municipally owned and operated
- An aggressive marketing approach is taken by management at the proposed new Las Cruces Center, proximate hotels, as well as other marketing agencies such as the Las Cruces CVB, particularly in attracting convention/meetings business
- The estimate in this analysis excludes certain non-operating revenues (i.e., interest income) and non-operating expenses (i.e., interest, depreciation)
- The financial estimate is rounded to the nearest thousand and expressed in 2006 dollars
- The proposed new facility will be tax exempt
- This analysis does not assume a ground lease payment for use of the property
- This analysis assumes that no other similar, competitive facilities are constructed in the immediate market area
- The facility offers meeting/event planners the high-quality space that they require
- An adequate number of convention quality hotel rooms are developed proximate to the proposed new Las Cruces Center in conjunction with any added space - as a point of reference, meeting/event planner survey respondents indicated a need for a peak night committable block of approximately 120 hotel rooms
- The site will be adequate in terms of visibility, ingress and egress, hotel accommodations, parking, safety and other similar issues
- The economy continues to rebound and the impact of war and terrorism decreases

It should be noted that these assumptions are preliminary in nature and will continue to be refined as decisions related to the building program and other operating characteristics continue to evolve.

Summary of significant assumptions – building program

If the City chooses to pursue the proposed new Las Cruces Center, it is important that this initiative occurs in tandem with the development of a convention quality hotel adjacent and/or within walking distance to the proposed center. Assuming that this related infrastructure is in place, research conducted in the market analysis indicates that a total of approximately 33,000 SF to 41,000 SF of leaseable space in a combination of exhibit space and high-end, flexible meeting/ballroom space would place the facility in a better competitive position to attract more convention and meetings business as well as accommodate various local consumer shows, meetings, and socials. The following summarizes the preliminary building program recommendations:

Component	Square Footage of Space Preliminary Recommendation		
	Proposed New Las Cruces Center		
Exhibit Hall (SF)	20,000	-	25,000
Ballroom (SF)	8,000	-	10,000
Meeting Space (SF)	5,000	-	6,000
Total Function Space (SF)	33,000	-	41,000
Estimated Support Space (SF)	33,000	-	41,000
Estimated Gross Building Area (SF)	66,000	-	82,000
Number of Breakout Rooms	10		12
Ratio of Meeting/Ballroom Space to Exhibit Space	65%		64%

A more detailed building program can be found in the site analysis prepared by HNTB Architecture under separate cover. However, refinements to the building program will likely occur as development planning efforts continue.

Summary of significant assumptions - utilization

The hypothetical, order-of-magnitude estimate of operating revenues and expenditures is based on several assumptions including the hypothetical estimate of utilization. It is important to understand that the development of space will likely take several years to complete. In addition, event activity at new convention/civic centers typically experiences a “ramp up” period to a stabilized level of activity which occurs for several reasons. For instance, some groups that book their event years in advance may not want to risk that a facility’s construction is delayed and not completed in time for their event. In addition, some groups may choose to let management “fine tune” its operations before meeting in the new facility. However, it is important to recognize that the overall utilization at any facility is typically dependent on a number of factors and is rarely consistent. For purposes of this analysis, it is assumed that the hypothetical range represents a stabilized year of operations.

The estimated utilization presented in the table is based on results of the user survey, event activity at competitive/comparable centers, information and input provided by the City and its advisors as well as other research. Attendee days represent the total number of people attending an event including the same individuals returning during multi-day events. For example, a three-day convention with 400 delegates equates to 1,200 attendee days.

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

Note: This estimate has been revised since the market analysis was completed in May 2005 to better reflect the attributes of the West University site such as interstate accessibility, proximity to NMSU and proximity to existing hotels.

Summary of significant assumptions - operating revenues

The estimate of operating revenues for the proposed new Las Cruces Center is based on the building program and hypothetical utilization shown previously, information from competitive/comparable facilities as well as other research. Total operating revenues are estimated to range from approximately \$940,000 to \$1.0 million for a stabilized year of operations.

Category	Hypothetical Range of Operating Revenues		
Building Rental	\$375,000	-	\$400,000
Food & Beverage	350,000	-	375,000
Event Services	95,000	-	100,000
Equipment Rental	90,000	-	95,000
Other	30,000	-	35,000
Total Operating Revenues	\$940,000	-	\$1,005,000

Note: Non-operating revenues such as interest income are not included in above amounts.

Many convention/civic centers receive additional non-operating revenues including transfers from local and/or State governments dedicated to capital improvements and/or operations. For purposes of this analysis, only those revenues generated by on-going operations of the proposed new Las Cruces Center are estimated.

Summary of significant assumptions - operating revenues (cont'd)

1. **Building Rental** – This line item includes revenue from the rental of space at the facility. Typically, convention/civic centers charge different rate structures for various types of events such as conventions, tradeshows, consumer shows, and other events depending on the type of space utilized (i.e., exhibit halls and meeting rooms). Although most facilities have published rental rates for various areas of the facility, effective rates realized are typically lower than published rates due to several factors including:

- Some rates may be negotiated to attract quality, high-impact events
- Meeting rooms or other space may be complimentary in conjunction with rented space or food functions
- Move-in/move-out days are often priced at one-half the normal rate
- Some facilities offer reduced rental rates to special groups such as local, non-profit, and charitable organizations

Based on the building program, estimated event activity and information from competitive and/or comparable centers, building rental revenue is estimated to range from approximately \$375,000 to \$400,000 (in 2006 dollars) for a stabilized year of operations.

2. **Food & Beverage** – This line item is generated by sales of alcohol, catering, concessions and vending. Typically, convention/civic centers either contract with a third party service provider for food and beverage services and retain a certain percentage of revenues generated or they perform food and beverage services in-house. Alternatively, with the joint development of a hotel, the hotel management company could potentially fill the role of a food service provider.

Summary of significant assumptions - operating revenues (cont'd)

For purposes of this analysis, it is assumed that food and beverage services will be provided by a third party at the proposed new Las Cruces Center. Based on this assumption, the estimated event activity as well as information from competitive and/or comparable centers, net food and beverage revenue to the facility is estimated to range from \$350,000 to \$375,000 (in 2006 dollars) for a stabilized year of operations.

3. **Event Services** – This line item relates to income received from services provided to exhibitors and other users such as labor reimbursements, utility reimbursements, commissions and other types of miscellaneous services. For purposes of this analysis, event services revenue is estimated to range from approximately \$95,000 to \$100,000 (in 2006 dollars) for a stabilized year of operations.
4. **Equipment Rental** – This line item includes income derived from the rental of facility equipment such as tables and chairs, audio/visual equipment, etc. Equipment rental revenue is assumed to vary with event activity and is estimated to range from approximately \$90,000 to \$95,000 (in 2006 dollars) for a stabilized year of operations.
5. **Other** – Other revenues, which include items such as advertising and service charges, are estimated to range from approximately \$30,000 to \$35,000 (in 2006 dollars) for a stabilized year of operations.
6. **Parking** – For purposes of this analysis, it is assumed that no parking revenue will be generated at the proposed new center.

Summary of significant assumptions - operating expenditures

Management's estimate of operating expenditures for the proposed new Las Cruces Center is based on the building program and hypothetical utilization shown previously, financial information from competitive/comparable facilities as well as other research. Total operating expenditures for a stabilized year of operations are estimated to range from approximately \$1.3 million to \$1.4 million.

Category	Hypothetical Range of Operating Expenditures		
Personnel Services	\$521,000	-	\$571,000
Benefits	130,000	-	143,000
Materials & Supplies	70,000	-	75,000
Repairs & Maintenance	55,000	-	60,000
Contract Services	104,000	-	114,000
General & Administrative	70,000	-	75,000
Sales & Marketing	50,000	-	55,000
Utilities	200,000	-	225,000
Insurance	54,000	-	65,000
Other	30,000	-	35,000
Total Operating Expenditures	\$1,284,000	-	\$1,418,000

Note: Non-operating expenses such as depreciation are not included in above amounts.

Based on input from the client group, it is assumed that the proposed new Las Cruces Center will be owned by the City and, therefore, would be tax exempt. In addition, this analysis does not assume a ground lease payment for use of the property based on input from the City. Non-operating expenditures such as debt service and depreciation are excluded from this analysis which focuses on expenditures associated with on-going operations.

Summary of significant assumptions - operating expenditures (cont'd)

- 1. Personnel Services** – Although the staffing requirements and subsequent salaries and wages can represent a significant expense for a public assembly facility, an analysis of comparable facilities throughout the country indicates that the permanent full-time staffing plans vary greatly. This variance in staffing levels is generally attributed to several factors. One factor relates to the management philosophy of maintaining event-related personnel as full-time or part-time staff. Another factor relates to the management and physical relationship the facility might have to other public facilities. For example, the staffing for a stand-alone convention/civic center is different than for a multi-purpose convention/arena complex. A third influence to the staffing plan and management is the union atmosphere, including strength of the management's bargaining position in labor negotiations. Another determinant of staffing requirements is the extent of contract services used at the facility.

Based on the recommended building program, event activity and staffing plans of comparable facilities, a staffing plan of between 16 and 18 full-time equivalents for a stabilized year of operations is assumed for the proposed center. For purposes of this analysis, personnel services which consist of salaries and wages are estimated to range from approximately \$521,000 to \$571,000 (in 2006 dollars) for a stabilized year of operations.

- 2. Benefits** – Based on information from competitive and/or comparable facilities and input from the client group, this analysis assumes a benefits package of 25% of personnel services which equates to a range of approximately \$130,000 to \$143,000 (in 2006 dollars) for a stabilized year of operations.

Summary of significant assumptions - operating expenditures (cont'd)

3. **Materials and Supplies** – This line item consists of the costs associated with office supplies, janitorial supplies and other similar items that are necessary for the day-to-day operation of the proposed new Las Cruces Center. Expenses for materials and supplies are estimated to range from approximately \$70,000 to \$75,000 (in 2006 dollars) for a stabilized year of operations.
4. **Repairs and Maintenance** – This line item includes various expenses related to the building, equipment and ground maintenance. Repairs and maintenance expenses can vary based on event activity and are estimated to range from approximately \$55,000 to \$60,000 (in 2006 dollars) for a stabilized year of operations.
5. **Contract Services** – Contract services generally include the cost of event labor, cleaning and other vendor services associated with events that is not charged back to the user and is consequently borne by the facility. Based on information from competitive and/or comparable facilities and for purposes of this analysis, management estimates contractual services to be 20% of personnel services at the proposed new facility. Based on this assumption, the expenses related to contractual services are estimated to range from approximately \$104,000 to \$114,000 (in 2006 dollars) for a stabilized year of operations.
6. **General and Administrative** – These expenses relate to line items such as travel and entertainment, dues, memberships, subscriptions and other general administrative costs. General and administrative expenses are estimated to range from approximately \$70,000 to \$75,000 (in 2006 dollars) for a stabilized year of operations.

Summary of significant assumptions - operating expenditures (cont'd)

- 7. Sales and Marketing** – Providing the proposed new Las Cruces Center alone will not bring new events to the facility. An aggressive marketing strategy will need to be undertaken to diversify and increase the event base at the proposed new Las Cruces Center, specifically as it relates to convention and meeting activity. Management at the proposed new center, proximate hotels, the Las Cruces CVB and other marketing agencies will need to work together with Las Cruces Center management to jointly solicit events in order to maximize both financial and human marketing resources and minimize the marketing dollars spent by the facility. Sales and marketing expenses for the facility relate to both event promotion and facility marketing. In order to attract the estimated event activity to the proposed new center, sales and marketing expenses are estimated to range from approximately \$50,000 to \$55,000 (in 2006 dollars) for a stabilized year of operations.

Again, this amount is intended to supplement other area-wide marketing agencies such as the City and the Las Cruces CVB and should be expended for familiarization trips, tradeshow attendance, direct marketing efforts and other literature and advertising expenditures for the facility.

- 8. Utilities** – Utilities generally represent one of the highest expense items for convention/civic center operations. In order to control this expense, it is recommended that the City pass through to the user, to the extent possible, utility costs related to a particular event. Utility expenses are partially variable depending upon the level of utilization. In many facilities, these costs are handled as an expense that is reimbursed or partially reimbursed by the event at a later date or, for civic uses, a utilities charge is assessed. For purposes of this analysis, it is assumed that the utility cost shown represents the total non-reimbursable costs, net of any pass-through arrangements. Utility costs are estimated to range from approximately \$200,000 to \$225,000 (in 2006 dollars) for a stabilized year of operations.

Summary of significant assumptions - operating expenditures (cont'd)

9. **Insurance** – Based on input from City finance officials, it is assumed that the proposed new facility will be self-insured. Based on the proposed building program, estimated event activity and preliminary construction cost estimates, insurance costs are estimated to range from approximately \$54,000 to \$65,000 (in 2006 dollars) for a stabilized year of operations.

10. **Other Expenses**– Other expenditures include miscellaneous costs not reflected in other categories such as service charges and various other operational costs. For purposes of this analysis, other expenses are estimated to range from approximately \$30,000 to \$35,000 (in 2006 dollars) for a stabilized year of operations.

11. **Reserve for Replacement Fund** – To safeguard the public investment, the City should allow for an annual payment that is specifically designated as a reserve for replacements and repairs. This fund is intended to cover any extraordinary annual/future capital repairs or improvements to the facility. For purposes of this analysis, the reserve for replacement fund is estimated to be 5% of operating revenues which would range from \$47,000 to \$50,000 (in 2006 dollars) for a stabilized year of operations.

Management's estimate of the annual operating deficit for the proposed new Las Cruces Center

Management's estimate of operating revenues over operating expenditures before depreciation and debt service for a stabilized year of operations is based on several hypothetical assumptions including the proposed building program, estimated utilization for the proposed new center, information from comparable facilities, as well as other primary and secondary sources including findings in the market analysis. As this analysis represents a net revenue and expenditures assessment, it is subject to change depending on the actual building program, contractual agreements with third party service providers, and further refinements regarding operating strategies for the proposed facility.

Proposed New Las Cruces Center
Estimate of Operating Revenues Over Operating Expenditures
Before Depreciation and Debt Service (in 2006 dollars)
For a Stabilized Year of Operations

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)

Note: See accompanying summary of significant assumptions.

Economic and fiscal impacts analysis

This section of the report presents an estimate of the economic and tax revenue benefits that might accrue to Dona Ana County as a result of operations of the proposed new Las Cruces Center. The City, County and State would continue to benefit from the facility's operations in a number of ways, including such tangible and intangible benefits as:

- Enhancing the area's image as a business, meetings and tourist destination
- Receiving increased State and regional exposure through destination marketing and visitation
- Providing a first-class meeting venue for residents and for out-of-town delegates/attendees
- Providing a potential catalyst for further development initiatives in the Las Cruces area
- Generating additional economic activity
- Enhancing fiscal revenues

Each of these benefits is important in assessing the overall impacts of the proposed new Las Cruces Center to the area. While the value of most of these benefits is difficult to measure, the economic activity generated in the region can be quantified. As such, this analysis estimates the direct, induced and indirect benefits associated with the operations of the proposed new Las Cruces Center at the County level as well as the associated tax revenues.

Economic impact analysis - methodology

An assessment of the economic impact benefits that could potentially accrue to Dona Ana County as a result of the proposed facility can be approached in several ways. One approach, which is frequently used in the industry, considers the expense side of a facility's operations as well as attendee, exhibitor, association and show producer spending for documentation of the initial direct impacts to a community. In this approach, all expenses generated by facility operations from personnel services, materials and supplies, repairs and maintenance, contract services, sales/marketing, utilities, insurance, etc., are used as an initial measure of economic activity within the marketplace. Once the amount for direct spending is estimated, a multiplier is applied to generate the total (direct and induced) spending, earnings and employment associated with the project. This "multiplier" effect is estimated in this analysis using a regional economic forecasting model provided by the Minnesota IMPLAN Group, Inc.

The economic activity directly generated through the on-going operations of the proposed new Las Cruces Center and the spending of its users affects more than just the facility and immediately surrounding restaurants and businesses. As this money ripples through the economy, several other economic sectors are impacted and jobs are created. For example, when the caterer at the proposed new Las Cruces Center purchases food for an event, everyone from the wholesaler to the farmer that produced the food is impacted. In addition, local government entities that tax these economic transactions also benefit. The specific aggregate industries used in this analysis are:

- hotel/entertainment establishments
- eating and drinking places
- transportation
- retail trade
- business services

Economic impact analysis - methodology (cont'd)

The three categories of measurement used to assess the economic impact of a project are spending, earnings and employment which are defined below:

- **Total spending (output)** represents the total direct and indirect/induced spending effects generated by the project. This calculation measures the total dollar change in spending (output) that occurs in the local economy for each dollar of output delivered to final demand.
- **Personal earnings** represents the wages and salaries earned by employees of businesses associated with or impacted by the project. In other words, the multiplier measures the total dollar change in earnings of households employed by the affected industries for each additional dollar of output delivered to final demand.
- **Employment** represents the number of full-time equivalent jobs supported by the project. The employment multiplier measures the total change in the number of jobs supported in the local economy for each additional \$1.0 million of output delivered to final demand.

Summary of estimated annual economic benefits associated with the proposed new Las Cruces Center

Total Spending

The direct spending amounts generated by the proposed new Las Cruces Center are applied to the multipliers to generate estimates of total spending. Outputs from the model indicate that total (direct and induced/indirect) spending from facility operations could range from approximately \$22.4 million to \$28.9 million annually in Dona Ana County for a stabilized year of operations. Therefore, the direct spending in Dona Ana County induced an additional \$7.8 million to \$10.0 million annually in economic activity.

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

Note: Amounts are presented in 2006 dollars.

Employment

Based on the IMPLAN model, which calculates the number of jobs per \$1.0 million in direct spending, it is estimated that the economic activity associated with the proposed new Las Cruces Center could generate approximately 460 to 590 total jobs in the County during a stabilized year of operations. These jobs would be created in many sectors of the economy, which would both directly and indirectly support the increased level of business activity in the area.

Earnings

Estimates generated by the IMPLAN model indicate that total earnings could range from approximately \$10.6 million to \$13.7 million annually in the County during a stabilized year of operations. Based on the model, average salary (earnings) for the jobs created in the County are estimated to be approximately \$23,000.

Summary of direct spending

The first step in calculating economic impact is estimating the direct spending. The benefits generated at the County level result from the impact of direct spending both by attendees and activities that support events held at the proposed facility. Direct spending impacts would be annually recurring in nature. The primary types of spending quantified in this analysis include:

- Attendee spending, including out-of-town delegates and local attendees
- Association spending
- Exhibitor spending
- Budgetary spending by the proposed new Las Cruces Center

Per capita attendee spending amounts are estimated based on the Convention Expenditure and Impact Study conducted by Destination Marketing Association International (DMAI), formerly known as the International Association of Convention and Visitors Bureaus (IACVB), which reflects the spending patterns of thousands of convention and meeting delegates from a broad base of meeting types. The 2004 Convention Expenditure and Impact Study provides the spending attributes for regional/national business, however, State/local spending attributes were unavailable due to an inadequate sample. Thus, figures from the 2002 Convention Income Survey were inflated by a 3% annual inflation rate to estimate 2006 State/local amounts.

Summary of direct spending (cont'd)

Attendee Spending

Based on event activity at comparable facilities, user survey results and input from the client group, attendee days at the proposed new center were separated into those estimated to attend regional/national events and State/local events. The DMAI Convention Income Survey provides spending estimates by scope of event. For purposes of this analysis, high impact attendees are defined as those that stay overnight in a hotel room. In general, low impact attendees are defined as local patrons attending consumer shows, civic events and meetings. As such, adjustments are made to the DMAI overnight spending estimates to account for low-impact spending. For purposes of this analysis, all regional/national event attendees and a percentage of attendees at State/local events are classified as high-impact. All remaining attendees are classified as low impact. It is further assumed that 15% of high-impact attendees are accompanied by their spouse.

The following table presents the total spending characteristics per delegate day for delegates and spouses.

Per Day Spending	State/Local		Regional/ National
	High Impact	Low Impact	High Impact
Delegate	\$242	\$53	\$278
Spouses	\$113	n/a	\$116

Source: DMAI.

Summary of direct spending (cont'd)

Association & Exhibitor Spending

Sponsoring organizations have substantial investments in the events that they host. These organizations purchase goods and services from either the convention/civic center, food and beverage contractor or from outside sources. Items such as exhibit space and equipment rental are typically provided by the center, which are reflected as revenues for the provider. Since this spending is eventually reflected in the budgetary spending by the center, these amounts are excluded from association spending to avoid double counting. Estimated association spending amounts are provided by the DMAI Convention Expenditure and Impact Study and are based on spending per attendee day.

The DMAI Convention Expenditure and Impact Study also provides spending estimates for exhibitors per attendee day. Adjustments to these estimates are made to avoid double counting similar to association spending. Based on conversations with DMAI representatives, exhibitor spending at State/local events can be higher than that at regional/national events since these exhibitors are more likely from the local area. Thus, they tend to spend a greater portion of their exhibit-related expenses within their own community. Conversely, exhibitors attending regional/national events are likely to spend a greater portion of their expenses where they are based as opposed to the event location.

Association and exhibitor spending per delegate day are presented below.

Per Day Spending	State/Local	Regional/ National
Association	\$15	\$16
Exhibitor	\$118	\$75

Source: DMAI.

Summary of direct spending (cont'd)

Budgetary Spending for the Proposed New Las Cruces Center

Budgetary spending refers to the “expense side” generated by the proposed new Las Cruces Center. Regardless of the source or magnitude of the revenues the building produces, this analysis focuses on the operating expenditures occurring in the local economies. With this approach, only amounts that are actually expended are captured as economic impact. Estimates are also made regarding the percentage of direct expenditures that occur in the local economy in order to account for spending on items such as federal taxes, home mortgage payments, car loan payments, insurance, travel and vacation, higher education and mail-order purchases, which may leak out of the County.

Summary of Direct Spending

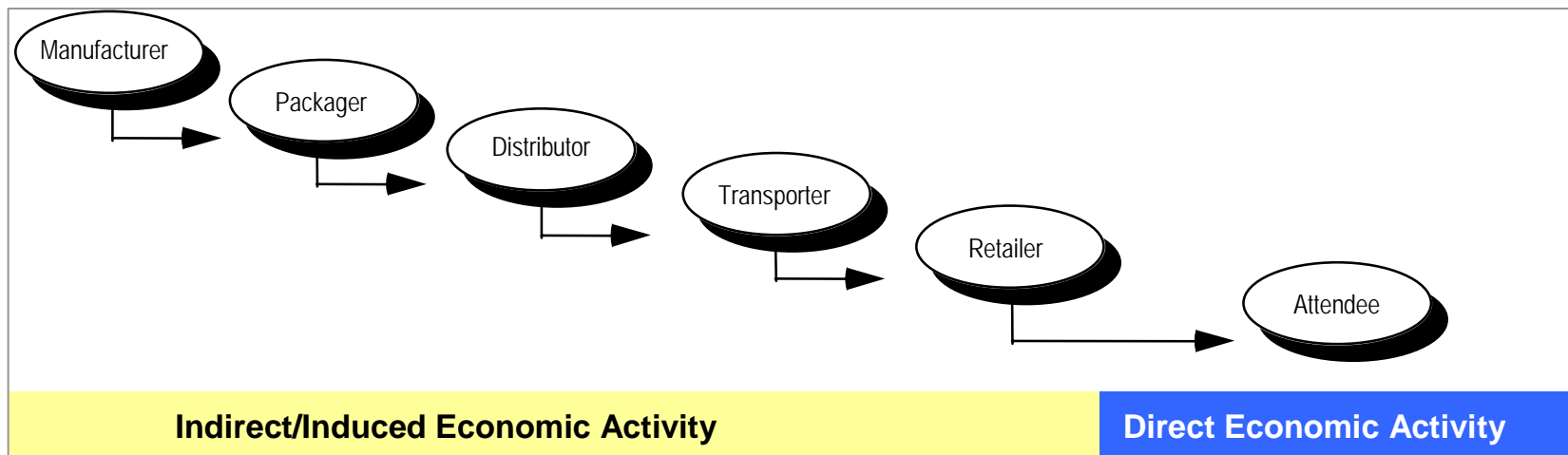
Based on management’s estimate of financial operations and the DMAI spending estimates, the total direct spending related to Las Cruces Center attendees, associations, exhibitors and budgetary spending is estimated to range from approximately \$14.6 million to \$18.8 million for a stabilized year of operations.

Category	Range of Direct Spending	
Attendee Spending	\$8,988,000	- \$11,604,000
Association & Exhibitor Spending	4,812,000	- 6,333,000
Proposed Facility Budgetary Spending	819,000	- 909,000
Total	\$14,619,000	- \$18,846,000

Notes: Amounts are presented in 2006 dollars.

Induced/indirect spending

The economic activity generated through the on-going operations of the proposed new Las Cruces Center affects more than just the facility. In preparation of new spending in the economy, several other economic sectors are impacted and jobs are created. It is a common misconception to assume that the induced spending occurs subsequent to the purchase of the good as an "after effect." To further illustrate this point, consider that raw materials are purchased, labor is hired, goods are produced, transported and marketed to retailers before the attendee spending takes place. To yield direct spending, several intermediary levels of spending must occur first.



Multipliers

In an effort to quantify the inputs needed to produce the total output, economists have developed multiplier models. This “multiplier” effect is estimated in this analysis using a regional economic forecasting model provided by Minnesota IMPLAN Group, Inc., a private economic modeling company. The format and data is based on models developed and maintained by the U.S. Department of Commerce, Bureau of Economic Analysis (BEA). One of the major advantages of this type of model is that it is sensitive to both location and type of spending, and has the ability to provide induced/indirect spending, employment and earnings information by industry category.

The direct spending amounts generated by the operations of the proposed new Las Cruces Center are applied to the multipliers in order to calculate estimates for total spending, total earnings and total employment (jobs). The Dona Ana County multipliers used in this analysis are shown in the following table.

Multipliers for Dona Ana County			
Category	Spending	Employment*	Earnings
Hotels/Entertainment	1.576940	45.7	0.743472
Eating & Drinking Places	1.518861	34.9	0.508720
Retail Trade	1.373915	24.8	0.594763
Transportation	1.518912	16.7	0.560785
Business Services	1.545395	26.7	0.896461

Note: *FTEs per \$1.0 million of direct spending.
Source: IMPLAN.

Summary of estimated annual fiscal impacts associated with the proposed new Las Cruces Center

The estimated direct and indirect/induced spending generated by the on-going operations of the proposed new center creates tax revenues for the City of Las Cruces, Dona Ana County and the State of New Mexico. Experience in other markets suggests that a significant portion of the direct spending would occur proximate to the proposed new Las Cruces Center. In addition, other spending on business services and everyday living expenses of residents likely occurs within other areas of the State.

Several tax sources potentially impacted by facility operations were identified in order to estimate the taxable amounts to apply to each respective tax rate. Although other taxes may be impacted by the ongoing operations of the proposed new Las Cruces Center, this analysis estimates revenues generated from the following taxes based on the direct and indirect/induced spending amounts previously discussed:

City of Las Cruces

- *Local Option Tax*
- *Lodgers Tax*

Dona Ana County

- *Local Option Tax*

State of New Mexico

- *Gross Receipts Tax*
- *Personal Income Tax*
- *Corporate Income Tax*

Summary of estimated annual fiscal impacts associated with the proposed new Las Cruces Center (cont'd)

Tax revenues from the on-going operations of the proposed new Las Cruces Center and attendee spending are estimated to generate approximately \$1.2 million to \$1.6 million annually to the City of Las Cruces, Dona Ana County and the State of New Mexico for a stabilized year of operations and are summarized below.

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

Note: Amounts are presented in 2006 dollars.

Summary of estimated annual fiscal impacts associated with the proposed new Las Cruces Center (cont'd)

City Taxes

Local Option Gross Receipts Tax – The City of Las Cruces levies a 1.5625% local option gross receipts tax that applies to the total amount of money or other considerations that a business receives for its transactions within the City. Based on information provided by the New Mexico Taxation and Revenue Department, approximately 54% of New Mexico's total gross receipts are taxable. As such, 54% of estimated total output is multiplied by the 1.5625% local option gross receipts tax for purposes of this analysis.

Lodgers Tax – The City of Las Cruces imposes a tax on hotels and motels located within the City limits at a rate of 5%. The proceeds are used for promoting area tourist attractions and other facilities, as well as cover any operating deficits for these facilities. For purposes of this analysis, the 5% lodgers tax is applied to 100% of estimated direct hotel spending.

County Taxes

Local Option Gross Receipts Tax – Dona Ana County levies a 0.5625% local option gross receipts tax that applies to the total amount of money or other considerations that a business receives for its transactions within the County. Based on information provided by the New Mexico Taxation and Revenue Department, approximately 54% of New Mexico's total gross receipts are taxable. As such, 54% of estimated total output is multiplied by the 0.5625% local option gross receipts tax for purposes of this analysis.

Summary of estimated annual fiscal impacts associated with the proposed new Las Cruces Center (cont'd)

State Taxes

Gross Receipts Tax – The State of New Mexico levies a 5% gross receipts tax that applies to the total amount of money or other considerations that a business receives for its transactions within the State. Taxable transactions include the sale of property including certain intangible property, sale of services, lease of property and performance of research and development services out of the State when initial use of the product occurs within the State. Based on information provided by the Taxation and Revenue Department, approximately 54% of New Mexico's total gross receipts are taxable. As such, 54% of estimated total output is multiplied by the 5% gross receipts tax for purposes of this analysis.

Personal Income Tax – The State of New Mexico uses a graduated seven-bracket tax on personal income. The computation of State taxable income begins with federal adjusted gross income and provides for State deductions and exemptions. Personal income taxes represent the State's second largest revenue source. Based on data provided by the Taxation and Revenue Department, the total tax liability for the State in 2004 was approximately 1.54% of State adjusted gross income. For purposes of this analysis, this 1.54% effective rate was multiplied by total estimated earnings to estimate the impact to personal income tax collections.

Corporate Income Tax – The State of New Mexico imposes a graduated three-bracket tax on a corporation's federal taxable net income attributable to business conducted in New Mexico. Based on data from the Taxation and Revenue Department, the total tax liability for the State was approximately 0.360% of New Mexico's Gross State Product, a measure of total output in the economy. For purposes of this analysis, the 0.360% effective rate was multiplied by total output to estimate the impact the proposed new Las Cruces Center's operations could have on corporate income tax collections.

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Funding analysis

The question then becomes, “If the community chooses to pursue development of the Las Cruces Center, how can it be financed?” This section of the report presents a description of traditional funding sources and financing instruments used at similar facilities.

Public assembly facilities such as convention/civic centers have been traditionally financed with a variety of public and private funds. However, the primary source of underwriting for debt service on construction of these facilities is still derived from public avenues. Throughout the United States, convention/civic centers have used a variety of financing techniques and sources of funding to construct their facilities. A summary of traditional funding sources, financing techniques and methods used to fund other similar projects is presented in this section of the report. Although the various alternatives presented in this report represent the most commonly used forms of financing, not all of them are appropriate for the City of Las Cruces with respect to the proposed development of the Las Cruces Center. City, County and State laws, fiscal sources and debt issuance capacity of governmental entities for bonding purposes all influence the ability to use any one of these funding sources or financing instruments presented.

Funding sources

A. Funding Sources - For purposes of this discussion, a distinction is made between a funding source and a financing instrument. Funding sources can usually be defined as one of two types: one-time and recurring. The most common one-time source of funding is a grant or cash contribution. However, the majority of funding sources are recurring in nature and include, but are not limited to, the following:

- Surplus revenue or designated facility revenues
- Lodgers tax
- Food and beverage tax
- Special taxes (i.e., admission or ticket tax)
- Community development tax
- Ad valorem tax
- Sales tax
- State and local appropriations
- Governmental grants
- Tax increment revenues

These sources of funds represent the most common means of funding construction for new or expanded convention/civic centers. Traditionally, these sources are paid into a fund account or are in some way dedicated or committed to the retirement of annual debt incurred through a particular financing medium.

A portion of the sources outlined above represent fiscal sources under the control of local and/or state government. Typically, joint financing plans that have local and state government involvement result in a convention/civic center owned and operated by the local governmental entity. Most facilities developed by local and/or state governments rely on fiscal sources such as sales or gross receipts tax, lodgers tax, food and beverage tax, or various redevelopment awards. Increasingly, local governments have been able to capitalize on special funding that may require approval at the State level (e.g., changes in taxes imposed or amounts on existing taxes) to assist in their convention/civic center project. In some instances, this may require approval of the State Legislature. In addition, one-time grants by State governments for special projects are sometimes provided.

Funding sources (cont'd)

The funding for a portion of the construction costs could be addressed by a variety of non-government sources, particularly revenues derived from naming rights. However, it should be recognized that naming rights are strongly market driven and their viability in the Las Cruces market would need to be tested through an extensive pre-development marketing initiative. The number of corporate headquarters located in the market can represent an opportunity to solicit capital participation in this project. The civic orientation of the facility, potential physical visibility of the facility, as well as goodwill and advertising value of the facility could generate some participation in capital funding either on a one time up-front basis or on an annual recurring basis. Although naming rights deals have historically been applied only to arenas and stadiums, there have been recent naming rights deals for convention/civic centers as well. Examples include the following:

- Duke Energy Center in Cincinnati, OH - \$12 million for 30 years
- Cox Business Services Convention Center in Oklahoma City, OK - \$1.7 million for 7 years
- Midwest Express Center in Milwaukee, WI - \$9.25 million for 15 years
- Alliant Energy Center in Madison, WI - \$6.3 million for 20 years
- Touchstone Energy Place in St. Paul, MN - \$2.35 million for 10 years
- Qwest Center Omaha in Omaha, NE - \$14 million for 15 years

For an up-front fee or annual payment over a period of time, a corporation could negotiate for a number of items including name of the facility and advertising preferences. In addition, the goodwill and recognition of any capital donation might be enhanced by matching the gift to an actual component of the facility development effort such as the acquisition of the property. In this manner, the negotiated amount relates directly to a stated need of the facility's funding.

Financing instruments

B. Financing Instruments - This section presents a summary of traditional financing instruments. These financing instruments may or may not be applicable to financing the proposed new Las Cruces Center.

General Obligation Bonds - Since the tax base and taxing authority of the government are pledged towards repayment, these bonds have the lowest interest rate of all forms of bond financing. Interest rates do vary, depending on existing bond indebtedness. General obligation bonds issued by the City, County or by some State governments have to be coordinated with other government financing plans and typically require voter approval through a public referendum.

Revenue Bonds - Revenue bonds are secured by one or more defined revenue sources. Most public assembly revenue bonds are based on a pledge of a dedicated revenue source, such as a lodgers tax, admission tax, food and beverage tax, general sales tax or other special assessments. The use of special purpose tax levies represents a means by which capital costs may be linked with recurring benefits and is typically directed at those sectors of the local economy which directly benefit from the facility. One of the primary advantages of revenue bonds is that the issue need only pledge specific revenues and not the full faith and credit of the issuer. However, because of this, revenue bonds typically require a higher interest rate than general obligation bonds.

Financing instruments (cont'd)

Tax Increment Bonds – Tax increment or tax allocation bonds are secured by a pledge of net increases in property or sales taxes resulting from the development of an area within a defined redevelopment district. The success of this type of financing is dependent upon a redevelopment district being established and a strong market driven redevelopment atmosphere that would provide a constant source of new privately owned and financed projects within the district. This technique can be particularly useful in addressing infrastructure improvements needed for the construction or expansion of convention/civic centers in urban settings.

Certificates of Participation - Certificates of Participation (COPs) are used to fund the construction of convention/civic centers throughout the United States. This financing method, unlike general obligation or revenue bonds, does not legally pledge government money to pay the annual debt service. Under this method, COP holders are repaid through an annual lease appropriation by the sponsoring government agency. Because this agency does not commit the taxpayers over a long term, funds can be obtained without voter approval. Further, COPs are not subject to many other statutory requirements applicable to bonds, including interest rate limitations, election requirements, competitive sales requirements, semi-annual or fixed-rate interest payment requirements. Consequently, a government agency can react quickly to favorable financial market conditions and structure a deal in a timely manner. On the other hand, because no funds are legally pledged, COPs carry a higher interest cost due to added risk. A COP holder's only recourse upon default is the value of the asset (i.e., the facility).

Taxable Versus Non-Taxable Debt – While it is premature to determine whether the debt issuance will be taxable or non-taxable in nature, it is important to recognize that the structuring of certain contractual agreements can impact its tax status.

Financing/funding case studies

Interviews were conducted with representatives of select municipalities to discuss the various strategies used to construct, operate and maintain their facilities. Municipalities were chosen based on recent funding, similar building programs as that of the proposed new Las Cruces Center and/or geographic location. These discussions are summarized on the pages that follow.

Clovis Civic Center (Clovis, NM) – Recently opened, the Clovis Civic Center was developed at a cost of approximately \$7 million. The facility features an 11,000 SF ballroom, a 1,750 SF meeting room and a 1,550 SF meeting room. The City of Clovis issued a \$3.5 million revenue bond and contributed an additional \$3.5 million in cash to fund the project. A portion of the City’s gross receipts tax is anticipated to be utilized for debt service and/or operations of the facility, while a portion of the City’s lodgers tax is anticipated to be dedicated to operations.

New Santa Fe Civic Center (Santa Fe, NM) – The New Santa Fe Civic Center is planned as a replacement for the aging Sweeney Convention Center. Scheduled to open in the fall of 2007, the Civic Center is anticipated to offer more than 40,000 SF of exhibition space and include a 600-vehicle underground parking garage. Preliminary construction costs for the facility are estimated at approximately \$54 million and will be funded via a \$10 million cash contribution from the City of Santa Fe and \$44 million in revenue bonds issued by the New Mexico Finance Authority, a State agency created to assist with affordable financing of capital equipment and infrastructure projects. A portion of the lodgers tax proceeds are anticipated to be used for facility operations as well as funding the debt service.

Ardmore Convention Center (Ardmore, OK) – The Ardmore Convention center opened in 2004 and is owned/operated by the Ardmore Tourism Authority, which is a City Trust. Total construction costs were \$8.4 million which were funded by a half-cent City sales tax collected for two years during and briefly after construction. On-going operations are supported by a portion of the local hotel/motel tax. A new Spring Hill Suites hotel is currently under construction on an adjacent lot. The new property recently opened and is a wholly private venture.

Financing/funding case studies (cont'd)

Reed Center (Midwest City, OK) – The Reed Center opened in 2003 and is owned and operated by Midwest City. The center was funded via a \$15.0 million revenue bond issue. The City sought private developer assistance for the construction of a headquarters hotel without success. The 151-room Sheraton Midwest City Hotel opened in early 2006 and was also funded by the City. In 2005, the City refinanced the original bond issue to include an additional \$15.0 million for construction of the hotel. This bond issue is repaid by a portion of the local sales tax dedicated to capital projects. In addition, several million dollars were received in the form of a State grant because the Reed Center is a designated storm shelter.

Bayfront Convention Center (Erie, PA) – Scheduled to open in 2007, the Bayfront Convention Center is anticipated to offer a 28,800 SF exhibition hall, a 13,500 SF ballroom and 14,000 SF of meeting space. The facility is currently under construction and the anticipated project cost of \$44 million is currently being funded through State grants. A 5% hotel/motel tax was implemented in 2000 for the Erie County Convention Center Authority's operations and it is anticipated that a portion of this funding will be used to subsidize the facility's operations.

Branson Regional Convention Center (Branson, MO) – The \$52 million Branson Regional Convention Center is currently under construction and is expected to open in June 2007. The facility is expected to offer 60,000 SF of exhibition space, 20,000 SF of ballroom space and 15,000 SF of meeting space. Tax increment bonds were issued by the City for the entire \$52 million construction cost. In addition, it is anticipated that a 300-room hotel will also be constructed that will serve as the facility's headquarters hotel.

Financing/funding case studies (cont'd)

Grand Wayne Convention Center (Fort Wayne, IN) – The \$46.7 million expansion/renovation to the Grand Wayne Convention Center was completed in May 2005 and more than doubled the space available at the facility. Approximately 48,500 SF of exhibition space is complemented by nearly 27,500 SF of meeting/ballroom space. The facility is owned by the City of Fort Wayne Redevelopment Authority and operated by the Convention and Tourism Authority. Approximately 5% of the funding was provided by corporate foundations while the remaining portion came from various City, County and State sources, including a \$33 million revenue bond issued by the Redevelopment Authority. Several sources including a downtown TIF district, hotel/motel taxes and Professional Sports Designation Area are being used to subsidize the facility's operations and fund debt service.

Greater Tacoma Convention and Trade Center (Tacoma, WA) – Opened in 2003, the Greater Tacoma Convention and Trade Center offers 51,000 SF of exhibition space, a 14,000 SF ballroom and 11,000 SF of meeting space. The facility sits adjacent to a 319-room Sheraton and 160-room Courtyard by Marriott. The \$120.7 million project included hard and soft costs for the facility, land purchase, a parking deck for the facility and expansion of downtown parking by 1,000 spaces. The majority (60%) of the funding was provided by the City via general obligation bonds supported by the hotel/motel tax, while the remaining portion (40%) was provided by the City via revenue bonds supported by the sales tax credit and parking enterprise fund.

Ocean Center (Daytona Beach, FL) – The Ocean Center is currently undergoing a \$60 million expansion/renovation that will add approximately 97,400 SF of exhibition space and 30,100 SF of breakout space to the existing facility, which currently offers 46,000 SF of exhibition space and 19,900 SF of breakout space. Construction is anticipated to be completed in 2007 and is being funded via tourist development tax revenue bonds. The tourist development tax was increased by 1% to help fund the new debt service.

Potential funding strategies for the proposed new Las Cruces Center

Historically the most common financing instrument and funding source used for convention/civic centers has been revenue bonds repaid by dedicated hotel/motel (or lodgers) tax proceeds. This is primarily due to the fact that this tax is typically borne by users of the facility rather than local residents. Facilities are increasingly being funded through multiple partners (e.g., City, County, State, private) as many jurisdictions have begun to understand the impact such facilities can have on their economies. Recently other financing and funding mechanisms have been used to fund convention/civic centers throughout the U.S. such as:

- Collecting sales tax revenues prior to, and during, construction (e.g., Georgia and Oklahoma)
- Establishing tax increment financing districts (e.g., Missouri and Indiana)
- Sales tax rebates (e.g., Tennessee and Washington)

Based on preliminary hard construction cost estimates ranging from approximately \$22.2 million to \$26.0 million developed by HNTB as well as information provided by representatives of the City, annual debt service for 30-year revenue bonds is estimated to range from approximately \$1.4 million to \$1.6 million at interest rates of approximately 4.5%. It should be noted that the construction cost estimates do not include non-construction “soft” costs for design and construction management fees; testing and inspections; furniture, fixtures and equipment (“FF&E”); financing; project administration; marketing and opening costs; or owner’s project contingency which will need to be considered when estimating total project costs.

As discussed earlier in this section, a variety of funding sources have been utilized to finance the construction/expansion of convention/civic centers. The following discusses potential sources that could be used to fund the construction and ongoing operations of the proposed new Las Cruces Center.

Potential funding strategies for the proposed new Las Cruces Center (cont'd)

The New Mexico State Legislature enacted legislation that authorized certain local governmental entities the ability to impose by ordinance a convention center fee (also referred to as a lodgers tax surcharge) up to a maximum of \$2.50 per room for each day the room is occupied subject to specific exemptions (e.g., if a person has been a permanent resident of the lodging facility for a period of at least thirty days) which the City Council in Las Cruces approved. The purpose of the convention center fee was to provide a dedicated funding source for the proposed new facility in Las Cruces which had been under consideration for a number of years. However, due to citizen opposition of the convention center fee, it was repealed by City Council.

Because the State legislation is still in place, it is our understanding that the convention center fee can be re-enacted in Las Cruces by approval of the City Council. Estimates suggest that this convention center fee could generate approximately \$1.5 million annually based on historical room night data and new hotel supply provided by the CVB, the assumption that a 150-room hotel is developed by NMSU adjacent to the proposed new Las Cruces Center as well as new business generated by operations of the Las Cruces Center. As such, this estimated funding source could potentially service approximately \$25.0 million in debt based on a 30-year revenue bond issue at 4.5% interest which is within the range of the preliminary hard construction cost estimates prepared by HNTB.

As mentioned previously, the City of Las Cruces currently imposes a 5% lodgers tax on hotel and motel rooms rented within the City. Proceeds from the tax are used to promote tourist attractions and facilities, while State law was amended in 1983 to allow use of the proceeds to defray operating costs of such facilities. According to information provided by the CVB, new hotel development will increase the City's current supply by 35% in the next 18 months and the quality of these new properties is expected to increase the ADR over historical levels. Assuming 5% growth in ADR could increase lodgers tax proceeds by 53% over calendar year 2005 collections or approximately \$720,000 per year. In addition, the City's budget office estimated that there is approximately \$2.7 million available between the CVB Fund Balance and the Resource Development Fund. City officials indicated that both of these sources could potentially be used towards servicing the debt and/or funding ongoing operations of the proposed Las Cruces Center.

Potential funding strategies for the proposed new Las Cruces Center (cont'd)

The New Mexico Finance Authority (NMFA) could also provide assistance in funding the proposed new Las Cruces Center. The NMFA assists qualified governmental entities with affordable financing of capital equipment and infrastructure projects by providing low-cost funds and technical assistance. Representatives at the NMFA indicated that the Public Project Revolving Fund would likely be the best source of NMFA funding as it provides AAA-insured, tax-exempt rates as well as flexible financing structures. This source was utilized to assist in the funding for the construction of the New Civic Center in Santa Fe. Based on discussions with City officials, 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.

Based on the assumptions previously described, the table below provides 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 funding strategies

summary of significant assumptions/limiting conditions

- Preliminary hard construction cost estimates of \$22.2 million to \$26.0 million as provided by HNTB.
 - The construction cost estimates do not include non-construction “soft” costs for design and construction management fees; testing and inspections; furniture, fixtures and equipment (“FF&E”); financing; project administration; marketing and opening costs; or owner’s project contingency which will need to be considered when estimating total project costs.
- Debt service assumptions provided by representatives at the City (rate, term and types of financing).
- It is assumed that a hotel with at least 150 rooms is developed by NMSU adjacent to the proposed new Las Cruces Center. However, KPMG did *not* conduct a market demand analysis for a new hotel as part of its study. As such, an arbitrary number of hotel rooms was used in order to estimate the convention center fee and the increase in lodgers tax collections.
 - It is our understanding that NMSU has retained advisors that will conduct a market and financial analysis for the proposed new hotel in order to assist NMSU in its decision making process
 - Consistent with discussions between the City and NMSU staff, it is assumed that this hotel will be subject to the lodgers tax and the convention center fee even though rooms at institutions of the federal government, the State or any political subdivision thereof are exempt from the convention center fee

Potential funding strategies

summary of significant assumptions/limiting conditions (cont'd)

- Utilization and financial operating assumptions shown earlier in this report.
- The analysis presented in this report relies on factual and financial information provided by a variety of sources including, but not limited to, the City and the New Mexico Department of Revenue. While KPMG believes that the information used in this report is accurate, KPMG has not independently verified the information and does not warrant its accuracy. Any changes to this information could change the results of this analysis.
- These estimates are merely suggestive and do not take into account the various economic variables that could impact the information provided to us by entities listed above and thereby the resulting estimates.
- It is important to recognize that this is a hypothetical, order-of-magnitude estimate and significantly more research and analysis will need to be conducted prior to generating any definitive financing plan.

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