

SECTION VI

ESTIMATED FINANCIAL OPERATING RESULTS

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A. INTRODUCTION

This section translates the utilization and attendance potential of the proposed convention center into projected revenues and expenses for a typical year of operation. A typical or stabilized year is defined as an average year over the facility's economic life. The projected operating results are expressed in 1999 value dollars and conform to the basic system of accounts employed by similar facilities, though no formal uniform system of accounts for public convention centers exists.

The operating results are based on a facility built and in a potential location as described in Section IV of this report, as well as the recorded operating results of comparable facilities in the Southwest. The following basic assumptions are necessary to realize the stated projections of operating results:

- *There will be a commitment to excellence in both design and construction;*
- *Full-service facilities will be provided, reflected by experienced and competent management;*
- *Professional and aggressive marketing of the proposed facility will be budgeted for, and pursued by, the management staff; and*
- *A competitive rental rate structure will be maintained.*

Financial information on comparable facilities was derived from the PKF Consulting database that includes financial operating statements of comparable public assembly facilities. As presented on the following page, we identified five facilities in the Southwest for which detailed financial data was available. These facilities range from 33,000 to 100,000 gross square feet, and all of the five facilities operate at a loss. In addition, we relied on data compiled by the International Association of Assembly Managers (IAAM) in preparing our estimates for the proposed convention center. The following table displays the detail and weighted average of the comparable facilities' financials expressed as a dollar per gross square foot of building area (in 1998 value dollars).

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B. ESTIMATED OPERATING INCOME

1. Facility Rental

Revenue projections have been made by combining projected utilization (in terms of events and event days) with average rental charges per event type. The following rate schedule and policies form the basis for the development of average revenues by type of event. These schedules are not intended to represent a recommended pricing policy that would ultimately be adopted, but rather, constitute a preliminary estimate that in our opinion is reasonable and competitive.

National, regional, and state association meetings will most likely use the entire facility, which we estimate to be \$750 per event day on average, which is within the range of the competitive facilities presented in Section III. Our calculation assumes that move days for association events will be charged 50.0 percent of the event day rental, per industry standards. Rental revenue from national and regional associations will begin in the second year and stabilize, at approximately \$42,000 per year in 1999 dollars, while rental revenue from state associations will stabilize at approximately \$54,000 per year in 1999 dollars.

Banquet, social, and civic functions will likely use all or various segments of the ballroom, and very few breakout-meeting rooms. While the main exhibit hall/ballroom will likely achieve rental rates in excess of \$1,000, we anticipate an overall average for banquets and social functions to be \$500 per day. These types of events are typically in the evening and do not require extra days to set up, therefore no move day room rental was assumed. In the stabilized year, banquet, social, and civic functions are expected to generate \$12,000 annually in rental revenue in 1999 dollars.

Consumer shows facility rental can be collected either as a flat fee from the show promoter or as a percentage of the admission fees. Based on our interviews with show promoters and reviews of comparable financials, we have assumed that the net facility rental to the facility will be \$1,500 per day and \$750 for move days. Consumer shows are expected to generate approximately \$68,000 annually in rental income in 1999 dollars.

The following tables calculate total rental revenue for the first three years by multiplying the event days and move days, calculated in the previous analysis, by the corresponding flat fees per day.

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FACILITY RENTAL - YEAR 1							
Event Type	Event Days	Flat Fee/Day	Event Day Revenue	Move In/Out Days	50% of Flat Fee	Move Day Revenue	Total Rental Revenue
Association Meetings - National & Regional	8	\$750	\$6,000	12	\$375	\$4,500	\$10,500
Association Meetings - State	12	\$750	\$9,000	12	\$375	\$4,500	\$13,500
Banquet, Social, & Civic Functions	26	\$500	\$13,000	0	\$0	\$0	\$13,000
Consumer Shows	6	\$1,500	\$9,000	6	\$750	\$4,500	\$13,500
Total	52	-	\$37,000	30	-	\$13,500	\$50,500

Source: *PKF Consulting*

FACILITY RENTAL - YEAR 2							
Event Type	Event Days	Flat Fee/Day	Event Day Revenue	Move In/Out Days	50% of Flat Fee	Move Day Revenue	Total Rental Revenue
Association Meetings - National & Regional	16	\$750	\$12,000	24	\$375	\$9,000	\$21,000
Association Meetings - State	24	\$750	\$18,000	24	\$375	\$9,000	\$27,000
Banquet, Social, & Civic Functions	24	\$500	\$12,000	0	\$0	\$0	\$12,000
Consumer Shows	18	\$1,500	\$27,000	18	\$750	\$13,500	\$40,500
Total	82	-	\$69,000	66	-	\$31,500	\$100,500

Source: *PKF Consulting*

FACILITY RENTAL - YEAR 3 (Stabilized)							
Event Type	Event Days	Flat Fee/Day	Event Day Revenue	Move In/Out Days	50% of Flat Fee	Move Day Revenue	Total Rental Revenue
Association Meetings - National & Regional	32	\$750	\$24,000	48	\$375	\$18,000	\$42,000
Association Meetings - State	48	\$750	\$36,000	48	\$375	\$18,000	\$54,000
Banquet, Social, & Civic Functions	24	\$500	\$12,000	0	\$0	\$0	\$12,000
Consumer Shows	30	\$1,500	\$45,000	30	\$750	\$22,500	\$67,500
Total	134	-	\$117,000	126	-	\$58,500	\$175,500

Source: *PKF Consulting*

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The stabilized rental revenue of approximately \$176,000 renders an income level of \$2.10 per gross square-foot, which is within the range of the comparables.

2. Catering and Concessions Revenue

Based on our review of the financial performance of comparable facilities, those requiring the least amount of subsidy as a percent of total expenses receive revenue in addition to facility rental from sources such as food and beverage, and building services. Food and beverage income can range from managing the food and beverage department internally, to collecting a commission from outside caterers. We have assumed that the proposed facility in Las Cruces will rely on outside caterers, who will pay a ten-percent commission to the facility. The following discussion and subsequent tables estimate total food and beverage revenue of which ten percent is considered as revenue to the proposed convention center.

We estimate the typical national or regional association to serve at least one catered meal costing, \$12.50 per person, and two coffee breaks costing \$2.50 per person, or \$5.00 per attendee per event. Therefore, each attendee is estimated to generate \$17.50 per event.

Regarding the typical state association, we also estimate the serving of at least one catered meal, costing \$10.00 per person, and two coffee breaks costing \$2.50 per person, or \$5.00 per attendee per event. Therefore, each attendee is estimated to generate \$15.00 per event.

We anticipate that not all the private banquet, social, and civic events will utilize outside catering service, but will still be serving food to attendees, thereby using the kitchen equipment. Therefore, we recommend assessing groups that choose to cater their own events \$1.50 per meal served, which is ten percent of the anticipated average catered meal per person.

Consumer and trade shows often provide concessions to show attendees. We estimate each attendee to spend \$1.00 on average, and assume that the concessionaire will be charged ten-percent commission. The following tables calculate the net food and beverage revenue for the first three years by multiplying event attendance by the corresponding anticipated dollars to be spent by each attendee.

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NET FOOD AND BEVERAGE REVENUE - YEAR 1

Event Type	Event Attendance	Meal Type	Dollar/Attendee	Total F&B Sales	Commission	Net F&B
Association Meetings - National & Regional	3,200	Catering	\$12.50	\$40,000	10.0%	\$4,000
		Breaks	\$5.00	\$16,000		\$1,600
Association Meetings - State	6,000	Catering	\$10.00	\$60,000		\$6,000
		Breaks	\$5.00	\$30,000		\$3,000
Banquet, Social, & Civic Functions	6,500	Catering	\$15.00	\$97,500		\$9,750
Consumer Shows	9,000	Concessions	\$1.00	\$9,000		\$900
Sub Total		Catering		\$97,500		\$9,750
Sub Total		Concessions		\$9,000		\$900
		Total		\$252,500		\$25,250

Source: *PKF Consulting*

NET FOOD AND BEVERAGE REVENUE - YEAR 2

Event Type	Event Attendance	Meal Type	Dollar/Attendee	Total F&B Sales	Commission	Net F&B
Association Meetings - National & Regional	6,400	Catering	\$12.50	\$80,000	10.0%	\$8,000
		Breaks	\$5.00	\$32,000		\$3,200
Association Meetings - State	12,000	Catering	\$10.00	\$120,000		\$12,000
		Breaks	\$5.00	\$60,000		\$6,000
Banquet, Social, & Civic Functions	6,000	Catering	\$15.00	\$90,000		\$9,000
Consumer Shows	27,000	Concessions	\$1.00	\$27,000		\$2,700
Sub Total		Catering		\$290,000		\$29,000
Sub Total		Concessions		\$119,000		\$11,900
		Total		\$409,000		\$40,900

Source: *PKF Consulting*

NET FOOD AND BEVERAGE REVENUE - YEAR 3 (Stabilized)

Event Type	Event Attendance	Meal Type	Dollar/Attendee	Total F&B Sales	Commission	Net F&B
Association Meetings - National & Regional	12,800	Catering	\$12.50	\$160,000	10.0%	\$16,000
		Breaks	\$5.00	\$64,000		\$6,400
Association Meetings - State	24,000	Catering	\$10.00	\$240,000		\$24,000
		Breaks	\$5.00	\$120,000		\$12,000
Banquet, Social, & Civic Functions	6,000	Catering	\$15.00	\$90,000		\$9,000
Consumer Shows	45,000	Concessions	\$1.00	\$45,000		\$4,500
Sub Total		Catering		\$490,000		\$49,000
Sub Total		Concessions		\$229,000		\$22,900
		Total		\$719,000		\$71,900

Source: *PKF Consulting*

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The stabilized rental revenue of approximately \$72,000 renders an income level of 0.86¢ per gross square-foot, which is within the indicated range of the comparables.

3. Building Services

Building Services include rental for tables, chairs, dance floors, lecterns, and public address equipment, as well as labor charges for setup. Among facilities of this size, there are two approaches regarding the pricing of building services. Some centers include building services in the cost of facility rental, while others charge separately by the table, chair, and setup-man-hour for this equipment. In order to maximize total income, while avoiding facility rental rates that are perceived as too excessive, we recommend moderate facility rental-pricing, paired with flexible but aggressive building services pricing. Based on our research of comparably sized facilities in the Southwest marketed in this fashion, we estimate building services to be approximately 0.50¢ per total square foot in the stabilized year. The first two years of building services revenue were adjusted for below stabilized utilization. In the stabilized year, we expect building services revenue to be \$42,000 dollars annually, in 1999 dollars, within the range of the comparables.

C. ESTIMATED OPERATING EXPENSES

Operating expenses for the various departments are projected on the basis of analysis of facilities of similar type and size, taking into account the anticipated utilization and unique characteristics for the proposed facility.

1. Wages, Salaries, and Employee Benefits

Expenses for all wages, salaries and employee benefits are the single largest expense of public assembly facility operations. Analysis of comparable financials reveals that the total personnel cost is typically greater than the total rental revenue. The comparable facilities reported an average personnel cost of \$3.89 per total square foot. Based on our analysis, we estimate wages for the proposed facility to be \$3.50 per total square foot, within the range of the comparables. In the stabilized year, wages are expected to be \$294,000 annually. The years prior to stabilization will vary slightly with utilization.

2. Utilities

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Utility charges for electricity, water, sewer, gas and refuse collection constitute a major operating expense. The comparable facilities reported utilities that ranged from \$1.33 to \$2.26 per total square foot, and averaged \$1.93 per total square foot. Some of these facilities had high ceilings and were therefore more expensive per square foot to heat and cool; facilities that had fewer utilization days had lower utilities per square foot. Based on the facility recommendations and estimated utilization of the proposed facility, we estimate utilities to average \$2.00 per total square foot. While utilities will vary slightly with utilization, a certain portion of the utilities is fixed. As such, we based the first year utilities on second year utilization. In the stabilized year, utilities are expected to be \$168,000 annually.

3. Repairs and Maintenance

This cost category consists primarily of window washing, moveable-wall maintenance, special electrical and plumbing, carpet cleaning, and other contractual services. The comparable facilities reported an average annual maintenance expense of 0.58¢ per total square foot, some of which was charged back to the user in the form of building services. Buildings with a higher level of finish and a greater degree of complexity had higher maintenance costs per square foot. Based on the useful life of the equipment, this expense category will be lowest the first two years of operation. Based on our research and analysis, we estimate repairs and maintenance to be 0.30¢ and 0.40¢ per square foot for the first and second year of operation, stabilizing in the third year at 0.50¢. Based on these estimates, repairs and maintenance will stabilize at approximately \$42,000 annually, which is within the range of the comparable facilities.

4. Materials and Supplies

This expense category includes minor purchases of items necessary for the cleaning and maintenance of non-salable areas, such as administrative offices, lobbies, walkways, and public restrooms. The comparable facilities reported an average expense of 0.32¢ per square foot. As we envision this facility to have an above-average level of finish, such as having carpeting as opposed to tiled floors, we have estimated materials and supplies to be above average as well. We estimate materials and supplies to cost 0.40¢ per square foot and are adjusted with utilization. As such, materials and supplies begin at \$8,000 in the first year and stabilize at \$34,000 annually, in 1999 dollars, in line with the comparable facilities.

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5. Marketing and Promotion

Although marketing and promotion expenditures are not the largest, they tend to be among the more critical elements for the success of a new facility. This expense category includes local promotion through printed materials and media advertising, but excludes marketing salaries, which are either included in the wages previously mentioned or paid by the local convention and visitors bureau. Most public assembly facilities are primarily used by the local community and, therefore, have a very small marketing expense, if any at all. Because of their popularity within their community, or lack of competition, they are routinely booked one year in advance for weekends and do not need to advertise. We anticipate that this would not be the case for a medium-sized facility in a generally small metropolitan market with strong competition from regional convention centers. In such a market, facility managers would have to co-promote events, such as consumer shows, in order to lure them to their facility. Of note is that our projections reflect the assumption that the proposed convention center would operate in conjunction with the Las Cruces Convention & Visitors Bureau in terms of marketing, thus attaining economies of scale.

The comparable facilities reported average marketing and promotion expenses of 0.61¢ per square foot. In order for the proposed facility to be competitive, we recommend a marketing and promotional budget of 0.60¢ per square foot, which will not vary with utilization. As such, we estimate marketing and promotional expenses to be approximately \$50,000 per year, within the range of the comparable convention centers.

6. Other

All expenses not covered thus far, such as liability insurance and professional services were grouped in this category, which was estimated to be \$42,000 annually.

D. SCHEDULE OF OPERATING RESULTS

Based on the preceding analysis of facility rental, food and beverage revenue, other operating revenues, and expenses for the first three years of operation, total income in the stabilized year is expected to be \$290,000 annually, or \$3.45 per gross square foot. Total expenses are expected to be approximately \$630,000, or \$7.50 per gross square foot. The resulting deficit

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is expected to be approximately \$340,000 annually, which is close to 54 percent of total income, and is within the range of the deficits highlighted by the comparable financials, that indicated a mid-point of nearly 52 percent. As will be discussed in Section VIII, although the proposed convention center will be operating with a deficit, the positive economic impact of the facility upon the city via the multiplier effect should be considered.

The following table states these amounts in 1999 dollars, and the ten-year projection table at the end of this section restates these amounts, assuming a three-percent inflation rate, and a first full operating year of 2002.

