



MARKET AND FEASIBILITY STUDY

Fredericksburg Conference Center

FREDERICKSBURG, TEXAS



SUBMITTED TO:

Mr. Ernest Loeffler
Fredericksburg Convention and Visitor Bureau
302 East Austin Street
Fredericksburg, Texas, 78624
director@fbgtx.org
+1 (830) 997-6523

PREPARED BY:

HVS Convention, Sports & Entertainment
Facilities Consulting
205 West Randolph
Suite 1650
Chicago, Illinois 60606
+1 (312) 587-9900



May 27, 2015

205 West Randolph
Suite 1650
Chicago, Illinois 60606
+1 312-587-9900
+1 312-488-3631 FAX
www.hvs.com

Mr. Ernest Loeffler
Fredericksburg Convention and Visitor Bureau
302 East Austin Street
Fredericksburg, Texas, 78624
director@fbgtx.org

Re: Fredericksburg Conference Center
Fredericksburg, Texas

Atlanta
Boston
Boulder
Chicago
Dallas
Denver
Las Vegas
Mexico City
Miami
Nassau
New York
Newport
San Francisco
Toronto
Vancouver
Washington
Athens
Buenos Aires
Dubai
Hong Kong
Lima
London
Madrid
Mumbai
New Delhi
Sao Paulo
Shanghai
Singapore

Dear Mr. Loeffler:

Attached you will find our Market and Feasibility Study of a Fredericksburg Conference Center in Fredericksburg, Texas.

We certify that we have no undisclosed interest in the property, and our employment and compensation are not contingent upon our findings. This study is subject to the comments made throughout this report and to all assumptions and limiting conditions set forth herein.

It has been a pleasure working with you. Please let us know if we can provide any additional services.

Sincerely,
HVS Convention, Sports & Entertainment
Facilities Consulting

Thomas A Hazinski
Managing Director

Catherine Sarrett
Project Manager

Brian Harris
Director



Table of Contents

SECTION	TITLE
1.	Introduction and Executive Summary
2.	Market Area Overview
3.	Industry Trends
4.	Comparable Venues
5.	Survey Findings
6.	Building Program Recommendations
7.	Demand Analysis
8.	Hotel Supply and Demand Analysis
9.	Site Evaluation
10.	Financial Analysis
11.	Economic Impact
12.	Approach to Financing
13.	Statement of Assumptions and Limiting Conditions
14.	Certification

1. Introduction and Executive Summary

Nature of the Assignment

The Fredericksburg Convention and Visitor Bureau (“FCVB”) engaged HVS Convention, Sports & Entertainment Facilities Consulting (“HVS”) to conduct a market and feasibility study for a proposed conference center in Fredericksburg, Texas. The FCVB tasked HVS with investigating whether the development of a conference center could enhance the demand potential of the meetings market in Fredericksburg and allow the city to compete more effectively for regional and state group meetings business

Methodology

In accordance with the Scope of Services, HVS performed the following tasks:

1. Thomas Hazinski and Catherine Sarrett traveled to Fredericksburg, Texas on December 16-17, 2014 for a site visit and client meeting. During this visit, they toured the city, local attractions, hotels, and other amenities and met with project stakeholders,
2. Analyzed the economic and demographic data that indicate whether, and the extent to which, the local market area would support the proposed conference center development,
3. Surveyed current and potential users of Fredericksburg’s group meeting infrastructure to understand their event needs, their overall impressions of Fredericksburg and its existing properties, and the likelihood of booking events in a new facility,
4. Compiled data on 25 competitive and comparable convention centers to inform and test the reasonableness of the building program recommendations,
5. Recommended a building program for a conference center in Fredericksburg based on the above steps,
6. Prepared event demand and attendance forecasts based on the implementation of the conference center recommendations,
7. Prepared a hotel market supply and demand analysis,
8. Prepared a site analysis to recommend preferred locations for the proposed conference center,
9. Prepared a financial forecast for the proposed conference center operations,

10. Prepared an economic and fiscal impact analysis for the proposed conference center, and
11. Outlined possible approaches to the management and funding of the proposed conference center.

HVS staff collected and analyzed all information contained in this report. We sought out reliable sources and deemed information obtained from third parties to be accurate.

Market Area Analysis

In Fredericksburg and Gillespie County, major employers in the service sector, including several food based manufacturers, drive the local economy. Although relatively small, the market enjoys low unemployment. Strong agricultural and manufacturing sectors are sources of a modest amount of group demand. An analysis of the wider drive time markets surrounding Fredericksburg shows a much stronger corporate base from which to draw meeting and conference demand, notably in markets within two to three hours of Fredericksburg.

As a convention and meeting option, Fredericksburg is well positioned in heart of the Texas Hill Country. Its easy drive-in access from large markets, such as San Antonio, has made it a popular tourism destination for weekend getaways. In addition to its growing reputation as wine country, downtown Fredericksburg has a well-defined dining and shopping district and historically significant cultural attractions. While the Fredericksburg market contains several smaller venues suitable for banquets, receptions, and other social events, it lacks a single venue which contains the combination of banquet and meeting spaces required to support a conference or large meeting. In addition, the larger event spaces in Fredericksburg are located in areas without convenient access to downtown dining, retail, and lodging properties, a feature of major importance to event attendees.

The addition of appropriately sized conference space should allow Fredericksburg to expand its share of the state meeting and conference market.

Comparable Venue Assessment

HVS analyzed 17 potentially competitive conference centers and hotels in the State of Texas and eight conference centers and hotels located in comparable wine country destinations in California, Kentucky, Oregon, and Washington. This analysis provides a basis for building program recommendations by comparing the function spaces and other amenities in each of the facilities along with other market characteristics relevant to the success of the venue.

The competitive and comparable venues have a varied mix of exhibit, ballroom, and meeting spaces. While some contain exhibit halls, most only offer meeting and ballroom spaces which can support light exhibitions as needed. Ballroom space

ranges from approximately 3,000 to over 40,000 square feet with most facilities housing between 7,000 and 15,000 square feet. Similarly, most venues contain between 3,000 and 12,000 square feet of breakout meeting space.

In addition to reviewing facility function space, HVS ranked Fredericksburg among competitors in Texas and comparable national venues on a variety of destination selection criteria including: hotel supply, population, median income, and corporate presence. The rank is based on the numerical data associated with each criterion, with one being the highest rank in each category. The figures below show Fredericksburg’s rank compared to each of the competitive and comparable sets of venues on each criteria and the total of all scores. For the purpose of this comparison, HVS assumes that the proposed FCC would contain 20,000 square feet of total function space and connect to a 150-room, full-service hotel property.

**FIGURE 1-1
RANKING OF LOCAL AREA COMPETITORS**

Venue	Total Function Space	Adjacent Hotel Capacity	City Population	2-hour Drive Time Population	MSA Median Inc	City Businesses	2-hour Drive Time Businesses	Total Hotel Rooms	Overall Rank
Embassy Suites San Marcos Hotel	1	1	2	1	6	2	1	2	1
New Braunfels Convention Center	5	9	1	2	2	1	2	1	2
Horsehoe Bay Resort (Marble Falls)	2	2	6	3	4	6	3	5	3
Proposed Conference Center	3	5	5	4	3	5	4	3	4
Inn of the Hills (Kerrville)	4	4	3	6	5	3	6	4	5
The Resort at Tapatio Springs (Boerne)	6	6	4	5	1	4	5	6	6
Y.O. Ranch Hotel & Conference Center (Kerrville)	7	3	3	6	5	3	6	4	7
Riverbend Conference Center (Marble Falls)	9	7	6	3	4	6	3	5	8
The Retreat at Balcones Springs (Marble Falls)	8	8	6	3	4	6	3	5	9

Compared to eight other destinations in the Texas Hill Country, a proposed venue in Fredericksburg has the fourth overall highest rank, suggesting an above average potential to generate meeting and conference demand.

**FIGURE 1-2
RANKING OF COMPETITIVE IN-STATE CONVENTION CENTERS**

Venue	Total Function Space	Adjacent Hotel Capacity	City Population	2-hour Drive Time Population	MSA Median Inc	City Businesses	2-hour Drive Time Businesses	Total Hotel Rooms	Overall Rank
Waco Convention Center	2	3	3	1	8	2	1	3	1
American Bank Center (Corpus Christi)	1	5	1	8	6	1	8	1	2
Galveston Island Convention Center	5	1	4	4	7	4	4	2	3
Moody Gardens Convention Center (Galveston)	4	2	4	4	7	4	4	2	4
Ortiz International Center (Corpus Christi)	7	6	1	8	6	1	8	1	5
Killeen Civic and Conference Center	3	9	2	6	5	3	6	5	6
Midlothian Conference Center	9	8	5	2	1	6	2	8	7
Proposed Conference Center	8	4	6	5	4	5	5	6	8
South Padre Island Convention Center	6	7	8	7	2	8	7	4	9
Bastrop Convention & Exhibit Center	10	10	7	3	3	7	3	7	10

Compared to nine stand-alone convention centers in small to medium Texas markets, Fredericksburg ranks in the middle for all destination criteria with an overall rank of eighth.

FIGURE 1-3
RANKING OF COMPARABLE NATIONAL VENUES

Venue	Total Function Space	Adjacent Hotel Capacity	City Population	2-hour Drive Time Population	MSA Median Inc	City Businesses	2-hour Drive Time Businesses	Total Hotel Rooms	Overall Rank
Napa Valley Marriott Hotel & Spa (Napa, CA)	6	2	3	1	1	3	1	1	1
Silverado Resort & Spa (Napa, CA)	8	1	3	1	1	3	1	1	2
Meritage Resort & Spa (Napa, CA)	7	5	3	1	1	3	1	1	3
Hyatt Vineyard Creek Hotel & Spa (Santa Rosa, CA)	5	6	1	3	3	1	3	2	4
Double Tree Sonoma Wine Country (Rohnert Park, CA)	4	3	4	2	2	4	2	6	5
Salem Conference Center (Salem, OR)	1	4	2	6	5	2	5	3	6
Proposed Conference Center	2	7	7	4	4	6	4	4	7
Paroquet Springs Conference Centre (Shepherdsville, KY)	3	9	6	5	6	7	6	7	8
Whitman Hotel & Conference Center (Walla Walla, WA)	9	8	5	7	7	5	7	5	9

Compared to eight conference centers and hotels in wine country locations throughout the U.S., Fredericksburg has a middle rank on destination criteria resulting in an overall rank of seventh.

When compared to group meeting venues in competing local markets, Fredericksburg’s potential in the meetings industry is above average. Within the State of Texas, Fredericksburg faces competition from several stand-alone venues and hotels with large amounts of conference space. A study of the comparable national venues provides insight into the types of venues which have had success in similar wine country destinations.

HVS concludes that the size, quality, and overall suitability of Fredericksburg’s current meeting spaces are not commensurate with the city’s ability to attract group events. Without improvement, Fredericksburg may begin to lose business to other markets that are developing new meeting venues. With a properly designed and located conference facility, Fredericksburg’s established presence and overall attractiveness as a tourism destination should allow the city to significantly expand meeting demand from its current level. Several market factors could temper this demand potential, including limited air service and hotel availability during prime tourism seasons.

User Survey and Interviews

HVS conducted a web-based survey of event planners to provide a basis for assessing the potential demand for a proposed conference center in Fredericksburg. HVS compiled a list of 638 event planners from the FCVB, the Texas Society of Association Executives, and other research. HVS also contracted

with Plan Your Meetings to perform an email “blast” to roughly 4,000 Texas-based corporate and association meeting planners.

Survey responses included 121 completed surveys and 49 partial surveys in which the respondent left one or more questions blank. Approximately 98 percent of respondents represent organizations based in the State of Texas, primarily including associations, corporations, and educational organizations. Key results include the following:

- Based on historical bookings and event planner perceptions, the strongest competition for the proposed conference center in Fredericksburg would come from hotel properties in the surrounding metropolitan areas of Austin and San Antonio and the Texas Hill Country destination of San Marcos.
- For those planners who have booked an event in Fredericksburg, most have been satisfied with the location and cost of hotel rooms and meeting venues. Many are less satisfied with the quality of meeting venues and hotel rooms. Aspects related to the size of event spaces received the lowest rankings from planners.
- The greatest deterrents to event planners considering Fredericksburg for an event are its distance from major cities and airports and its lack of adequate venues in which to place events. Specifically, planners identified the lack of full service hotel properties and meetings space which is too small and dated.
- Of those planners who have not been able to book an event in Fredericksburg, 70 percent note a lack of function space as the primary reason. Planners indicate a lack of adequate meeting space most often.
- Fredericksburg has several strengths as a group event destination, including its quaint downtown, dining and retail amenities, and natural beauty. Other planners note the area’s wineries and the history and culture of the city as desirable attributes.
- Given a conference center which suits their needs, over 60 percent of the planners feel that they would be “likely” or “somewhat likely” to book an event at the proposed venue in Fredericksburg. This figure increases to 65 percent when planners were asked to consider a conference center hotel. Both of these figures compare favorably to the 30 percent of respondents who had booked events in Fredericksburg in the past.
- Approximately 90 percent of events described by event planners could be accommodated by a venue with banquet seating for 250 people, 10 meeting rooms, and around 5,000 square feet of exhibit space.

- Approximately 90 percent of the events described by event planners require a hotel room block of less than 200 rooms, and 75 percent of events require a room block of less than 100 rooms. The majority of event planners prefer to book a room block in one full service hotel but would accept a block in up to four properties.

Facility Recommendations

While Fredericksburg enjoys a strong presence in the state tourism market, it does not currently have the facilities required to capture group meeting demand. HVS concludes that the development of a Fredericksburg Conference Center (“FCC”) would place Fredericksburg in a position to significantly expand its current presence in the group meetings industry. The venue could also serve the customer base currently using other smaller, older facilities in Fredericksburg, allowing many events which face venue size restrictions to grow and remain in Fredericksburg. The facility could also become a valuable amenity for local-based events and other needs. HVS program recommendations revolve around the principal that the venue must host simultaneous events with different venue needs and include the following elements.

- A 12,000 square foot multipurpose ballroom with a flexible wall system to allow the space to divide into three sections that could serve as space for banquets, light exhibition, and large assembly meeting space, and
- A 5,500 square foot meeting room block with a variety of large and small, flexible meeting spaces,

Including the above spaces, HVS estimates that the gross floor area of the proposed FCC would be approximately 40,000 square feet. A more precise determination of the floor areas would require a concept plan created by a design firm that illustrates how the proposed convention center would fit on the selected site. The process of concept planning would likely require adjustments to the recommended floor areas.

Demand Projections

The FCVB reports that Fredericksburg has lost several opportunities for group business due to its lack of appropriate meeting space. This lost business is often association or corporate business which typically requires event space that contains separate banquet and breakout meeting spaces in a single facility. This situation is corroborated by the HVS user survey in which nearly 30 percent of survey respondents reported that they have wanted to host an event in Fredericksburg but were unable to book the event due to insufficient event infrastructure. Of those planners, 70 percent cited insufficient event space as the primary reason for not booking their event in Fredericksburg.

The proposed FCC may enable Fredericksburg to recapture lost business and attract larger conferences and other group business from state and regional associations, regional corporations, and other groups.

The following figure presents demand projections for a stabilized year which would occur approximately four years after the opening of the proposed FCC.

**FIGURE 1-4
DEMAND IN STABILIZED YEAR**

	2021
Events	
Conferences	15
Meetings	75
Local Meetings	75
Banquets	45
Consumer Shows/Fairs	12
Other	10
Total	232
Average Attendance	
Conferences	210
Meetings	75
Local Meetings	40
Banquets	300
Consumer Shows/Fairs	1,500
Other	200
Total Attendance	
Conferences	3,150
Meetings	5,625
Local Meetings	3,000
Banquets	13,500
Consumer Shows/Fairs	18,000
Other	2,000
Total	45,000

Room Night Estimates

The introduction of the proposed FCC could attract a greater share of high impact conferences to the Fredericksburg market and allow Fredericksburg to retain events that would otherwise outgrow existing venues and move to competing markets. High impact conventions and conferences would bring a greater number of out-of-town visitors who require lodging. The following figure presents an estimate of room nights for FCC events during a stabilized year of demand.

**FIGURE 1-5
ROOM NIGHTS IN STABILIZED YEAR**

Type	2021
Conferences	5,700
Meetings	8,100
Banquets	1,800
Consumer Shows/Fairs	1,000
Total	16,600

Hotel Supply and Demand

The Regional Hotel Market, defined as midscale to upscale hotels within 45 minutes of Fredericksburg, provides an overview of the market surrounding Fredericksburg. Important characteristics of the regional hotel market include:

- strong room night demand and supply growth,
- weak winter demand,
- strong weekend demand,
- occupancy rates that do not rise above 60% on an annual basis,
- ADR based in part on strong weekend demand that provides pricing power,
- demand growth in 2014 strongly increased in some of the slowest months helping demand consistence, and
- consistent development of new hotels when overall occupancy rates were below 60%.

To analyze the local hotel market, HVS selected the following eight Fredericksburg hotels in the midscale and higher quality range that report operating performance to STR Global, and industry-wide data source.

**FIGURE 1-6
SELECTED PROPERTIES IN THE LOCAL HOTEL MARKET**

Name of Establishment	Class	Aff Date	Open Date	Rooms
Windcrest Inn & Suites	Midscale Class	Feb 2004	Sep 1983	46
Fredericksburg Inn & Suites	Upscale Class	Jun 1996	Jun 1996	103
Best Western Plus Fredericksburg	Upper Midscale Class	Jun 2011	Mar 2002	56
Comfort Inn & Suites Fredericksburg	Upper Midscale Class	May 2004	May 2004	57
La Quinta Inns & Suites Fredericksburg	Midscale Class	Nov 2004	Nov 2004	55
Inn On Baron`s Creek	Upper Upscale Class	Mar 2005	Mar 2005	90
Hampton Inn Suites Fredericksburg	Upper Midscale Class	May 2007	May 2007	55
Holiday Inn Express & Suites Fredericksburg	Upper Midscale Class	Jun 2012	Jun 2012	76
Total Properties:			8	538

The regional hotel market and the local hotel market share similar overall monthly variation, with winter lows and spring and summer highs. The local hotel market has a higher overall occupancy and average daily room rate (ADR) resulting in a significantly higher revenue per available room (RevPAR) premium over the regional hotel market. Both the regional hotel market and the local hotel market show significantly stronger occupancy rates on the weekends due to leisure guests from Austin and San Antonio. The local hotel market shows a day-of-week occupancy premium over the regional hotel market which is at its greatest on the weekends. The occupancy and ADR premium for the local hotel market over the regional hotel market provides support for the development of additional hotel rooms. The high weekend occupancy rates permit both the regional and local hotel markets to charge a significantly higher weekend ADR.

While occupancies and room rates currently support new hotel development, anticipated new supply will negatively affect market occupancy rates, albeit temporary. Additional hotel development will have to wait until room night demand absorbs the new rooms supply. The green box in the following figure shows the possible future opportunity for additional new hotel rooms to enter the Fredericksburg market.

**FIGURE 1-7
SELECTED MARKET DEMAND, OCCUPANCY, ADR, AND REVPAR**

Year	Average Daily Room Count	Available Room Nights	Annual Change	Occupied Room Nights	Change	Occupancy	Average Rate	Change	RevPAR	Annual Change	Supply Change
2015	584	213,087	8.5	119,380	4.1	56%	131.40	4.0	73.62	(0.2)	46
2016	609	222,173	4.3	123,587	3.5	56%	136.66	4.0	76.02	3.3	25
2017	655	239,101	7.6	128,028	3.6	54%	141.44	3.5	75.74	(0.4)	46
2018	707	258,055	7.9	141,446	10.5	55%	145.69	3.0	79.85	5.4	52
2019	788	287,711	11.5	149,788	5.9	52%	150.06	3.0	78.12	(2.2)	81
2020	788	287,711	0.0	154,417	3.1	54%	153.81	2.5	82.55	5.7	0
2021	788	287,711	0.0	158,392	2.6	55%	157.65	2.5	86.79	5.1	0
2022	788	287,711	0.0	160,968	1.6	56%	161.59	2.5	90.41	4.2	0

By 2021, the local hotel market is expected to return to occupancies above 55 percent, which is higher than the average over the last 12 years for the regional hotel market.

The conclusion that the market can add new hotel rooms by 2019 is supported by,

- The local hotel market has grown demand faster than supply from 2005 through the present,
- The regional hotel market had successfully developed new hotels when market occupancy rates were below 60%,
- The three hotels projected to open by 2017 will be absorbed by the market after the opening of the conference center in 2018,
- The projected opening of the conference center in 2018 would induce 15,700 room nights into the market, the majority of which would be weekday demand when the market has lower occupancy rates.
- The local hotel market is projected to return to over 55% occupancy by 2021, an occupancy level when new hotels have been consistently developed,

Friday and Saturday night occupancy levels should remain high, despite the addition of three new hotels to the market by 2018.

The additional weekday demand from the proposed conference center would reduce the difference between the current low weekday occupancy rates and the higher weekend rates. Assuming the local hotel market grows as expected over the

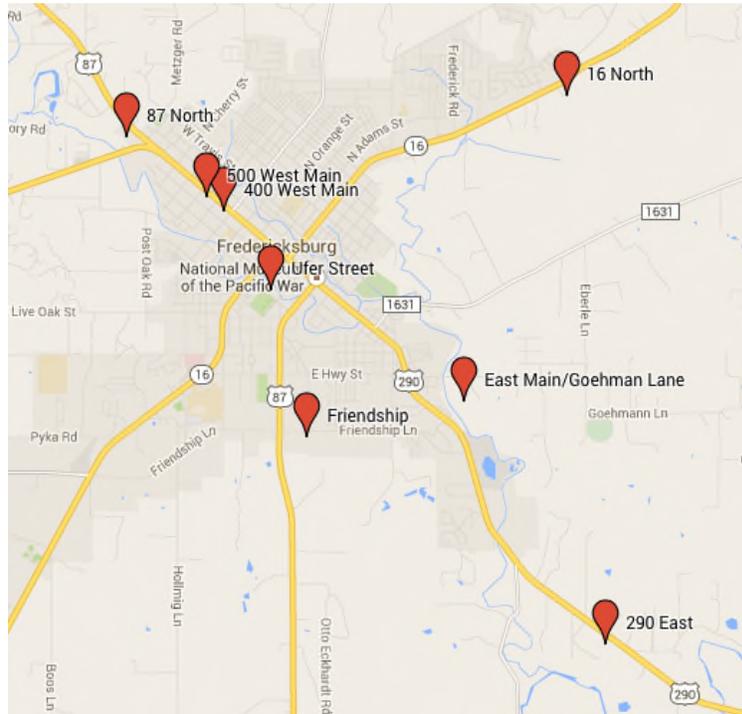
coming years, the market could absorb new hotel rooms within a year of the opening of the proposed conference center in 2018.

Site Selection Analysis

The suitability of a site for the development of a conference center is an important consideration affecting the economic viability of a facility and its ultimate marketability. Factors such as size, accessibility, visibility, and the proximity other amenities have a direct impact on the suitability of a particular site. The relationship between a conference venue and other nearby existing or planned land uses can also play an important role in selecting a site. Other factor, such as the cost of obtaining the site, infrastructure needs, and costs of improving a site should also be considered.

HVS compared the suitability of eight potential locations within Fredericksburg and its surrounding county. These sites include undeveloped land and vacant, existing structures which would require renovation or demolition. Some sites are currently owned by private developers and slated for future hotel and other development. Other sites would require acquisition by the city or other development group. The following figure provides a map of the locations of the seven sites in relation to Fredericksburg

**FIGURE 1-8
MAP OF POTENTIAL SITES**



HVS developed evaluation criteria to assess the relative strengths and weaknesses of the various potential conference center locations. The evaluation criteria include primary evaluation categories concerned with site considerations, access considerations, urban impact, and financial considerations. HVS rated the eight potential sites on 22 evaluation criteria. The rating of each site, combined with the relative importance of each criteria results in a weighted score for each potential location and a summary of the primary pros and cons for each site.

The following figure provides a summary of this evaluation.

**FIGURE 1-9
SITE EVALUATION SUMMARY**

Criteria		Weight ²	87 North	500 West Main	400 West Main	Ufer Street	Friendship	16 North	East Main/Goehman Lane	290 East
Site	Capacity for recommended building program	5	3	1	1	2	3	3	3	3
	Subject to City height restriction	2	3	1	1	1	1	3	3	3
	Subject to historic district restrictions	2	3	1	1	3	3	3	3	3
	Ability to assemble site	4	3	2	2	3	3	3	2	3
	Proximate to existing/planned lodging	5	3	1	1	2	1	1	3	3
	Proximate to downtown amenities	5	1	2	2	3	1	1	1	1
	City infrastructure in place	3	2	3	3	3	3	1	3	1
	Historic landmark considerations	2	3	2	2	3	3	3	3	3
Sub-Total Site Considerations			23	16	15	22	20	20	23	22
Urban	Potential for adjacent hotel development	5	2	1	1	2	2	1	2	2
	Potential for other surrounding development	4	3	3	3	3	3	2	2	2
	Displacement of existing uses	2	3	2	3	3	1	3	3	3
	Compatibility with neighboring land uses	3	3	2	2	2	3	3	3	3
	Compliance with existing zoning	2	3	2	2	2	1	3	3	3
Sub-Total Urban Impact			14	10	11	12	10	12	13	13
Access	Ease of access for drive-in	3	3	2	2	2	3	3	3	3
	Ease of access for pedestrians	3	1	2	2	3	1	1	1	1
	Ease of access for service vehicles	3	3	2	2	2	3	3	3	3
	Availability of existing/planned Parking	3	3	2	2	2	3	3	3	3
	Potential for traffic congestion	2	2	2	1	2	3	3	3	3
Sub-Total Access			18	15	15	18	19	19	19	19
Finance	Land assembly costs	3	3	2	2	2	2	3	3	3
	Cost of construction	2	2	2	2	2	2	2	2	2
	Potential for private investment	3	3	2	2	2	3	3	3	3
	Opportunity costs - alternative land uses	3	2	2	2	3	2	2	2	2
Sub-Total Financial Considerations			11	10	10	11	10	11	11	11
Total All Criteria			66	51	51	63	59	62	66	65

Weighted Scores ³		MAX	87 North	500 West Main	400 West Main	Ufer Street	Friendship	16 North	East Main/Goehman Lane	290 East
Site	84	71	45	45	70	60	58	70	68	
Urban	48	43	31	33	38	35	34	39	39	
Access	42	34	28	26	31	36	36	36	36	
Finance	33	28	22	22	25	25	28	28	28	
Total	207	176	126	126	164	156	156	173	171	
Percent of Maximum			85%	61%	61%	79%	75%	75%	84%	83%

- 1) Each criteria scored on a 1 to 3 scale based on site evaluation criteria described in Figures 9-3 and 9-4.
- 2) Rank of the importance of the criteria on a scale of 1 to 5 with five being most important and 1 being least important.
- 3) The importance of the criteria (weight) X the conformance score = the weighted score.

The above site analysis used 22 site evaluation criteria to narrow a list of 7 potential sites to four final sites with the highest overall scores: 87 North, 290

East, East Main/Goehman Lane, and Ufer Street. While none of the remaining sites possess a fatal flaw that would preclude them from consideration, they are not as well suited for the recommended conference center program.

HVS recommends further investigation into the four highest scoring sites, including the following.

- Preparation of concept plans and preliminary cost estimate for the proposed conference center by a design firm,
- Initial discussions with land owners of the 87 North, 290 East, and East Main Goehman Lane sites to understand ability to incorporate conference center program into current conceptual plans and the timing of anticipated developments, and
- Revaluation of the initial plans for Texas Center for Wine and Culinary Arts on the Ufer Street site to assess ability to incorporate conference center program into the current plans or as an alternate use of the site.

Financial Analysis

HVS applied a series of revenue and expense assumptions regarding the facility utilization and operations to develop a comprehensive operating financial statement for the proposed FCC. The figure below presents the stabilized year of operating projections for the proposed FCC, including the multi-purpose banquet hall and meeting spaces. All revenues and expenses are for a stabilized year of demand in inflated dollars.

**FIGURE 1-10
PROJECTED FINANCIAL OPERATIONS IN STABILIZED YEAR - 2021**

	Stabilized 2021
OPERATING REVENUE	
Facility Rental	\$375,000
Event Services (Gross)	203,000
Food & Beverage (Gross)	1,050,000
Other Revenue	8,000
Total	<u>\$1,636,000</u>
OPERATING EXPENSES	
Salaries & Benefits	\$631,000
Event Services Costs	173,000
Food & Beverage Costs	788,000
Repair & Maintenance	56,000
Administrative & General	28,000
Marketing & Sales	49,000
Insurance	33,000
Utilities	169,000
Other Expense	6,000
Total	<u>\$1,933,000</u>
OPERATING INCOME (LOSS)	(\$297,000)
NON-OPERATING EXPENSES	
Capital Maintenance	49,000
Total	<u>\$49,000</u>
TOTAL NET INCOME (LOSS)	(\$344,000)

For a stabilized year of demand, the operation of the proposed FCC would require a subsidy of approximately \$170,000. This is within the range of net incomes found in a sampling of similarly sized stand-alone conference centers as shown below.

**FIGURE 1-11
COMPARABLE VENUE OPERATING SUBSIDIES**

Venue	Function Space	Net Income	Year
Saratoga Springs City Center	32,000	(455,000)	2012
New Braunfels Convention Center	25,000	(217,000)	2014
Wenatchee Convention Center	25,000	(500,000)	2012
Salem Convention Center *	24,000	241,000	2014
Midlothian Convention Center	10,800	(169,000)	2012
Bastrop Convention Center	7,500	(468,000)	2013

* Facility operates food & beverage service in house.

HVS also investigated the operating scenario in which the proposed FCC is incorporated into a hotel or resort development. In this scenario, the hotel

operator would also be responsible for the marketing and operation of the conference center, and the conference center would be a department of the hotel. As a department of a larger hotel operation, operating expenses associated with some administrative and marketing activities, including some staff salaries, would be captured in other departmental budgets. HVS reevaluated the FCC operating expenses as departmental expenses to yield a departmental income for the FCC.

**FIGURE 1-12
PROJECTED DEPARTMENTAL INCOME IN STABILIZED YEAR-2021**

	Stabilized 2021
DEPARTMENTAL REVENUE	
Facility Rental	\$375,000
Event Services (Gross)	203,000
Food & Beverage (Gross)	1,050,000
Other Revenue	8,000
Total	<u>\$1,636,000</u>
DEPARTMENTAL EXPENSES	
Event Services Costs	\$173,000
Food & Beverage Costs	630,000
Repair & Maintenance	65,000
Administrative & General	173,000
Marketing & Sales	110,000
Utilities	95,000
Total	<u>\$1,246,000</u>
TOTAL DEPARTMENTAL INCOME (LOSS)	\$389,000

**Economic and Fiscal
Impacts**

HVS identified the new direct spending that would occur in the local economy due to the operations of the proposed FCC. HVS used the IMPLAN input-output model to estimate indirect and induced impacts as well as jobs created on the direct spending. HVS investigated the incremental impacts on the City of Fredericksburg and Gillespie County.

HVS direct spending estimates include only new spending that originates from outside the market area defined above. Spending by attendees who live within the market area is a transfer of income from one sector of the area’s economy to another; therefore, this analysis does not count spending by local residents as a new economic impact. HVS further removes attendee spending from groups which would transfer business to FCC from another venue in a market area.

The following figure summarizes the results of this analysis for the new, incremental spending projected in the market area. The figure also contains the corresponding fiscal or tax revenue impacts of this spending in the City of

Fredericksburg. All dollar figures represent a stabilized year of demand in 2015 dollars.

**FIGURE 1-13
ECONOMIC AND FISCAL IMPACTS**

	City of Fredericksburg	Gillespie County
Economic Impact	\$12.1 million	\$12.4 million
Fiscal Impact	280,700	57,500
Jobs	120 Jobs	120 Jobs
*In a stabilized year		

Approach to Financing

This report discusses industry practices and trends in financing conference center development. We considered two general approaches to ownership, operations, and financing: 1) a stand-alone conference center that would be publicly owned and operated, and 2) an integrated hotel conference center that would be developed through a public private partnership (“PPP”).

A public ownership model of a stand-alone conference center could be financed with the issuance of tax exempt debt. The tax exempt debt or “revenue bonds” would most likely be supported by a dedicated revenue source. HVS has not identified an existing revenue source that would generate enough revenue to support the project. If the City were to pursue this option, a new revenue stream would have to be put in place. Under public ownership, the operations could be done through contract management with a third party operator.

An integrated hotel and conference center development creates the potential for private investment in the project. While connected to a hotel the conference center would be “oversized” so as to generate external benefits to other hotels and businesses that support the tourism market. In a PPP, the hotel and conference center could be owned and developed by the private partner. The conference center may be publicly owned and financed but leased to the hotel owner who would be responsible for the construction and operation of the entire project. Public involvement may take the form of a public subsidy that “bridges the gap” between the cost of constructing and financing the project and the debt and equity that a private developer is able to secure.

The report discusses the forms and amounts of public participation that have successfully developed similar projects in other cities. Determining the optimal approach to financing in Fredericksburg could be accomplished through a request for developer proposers.

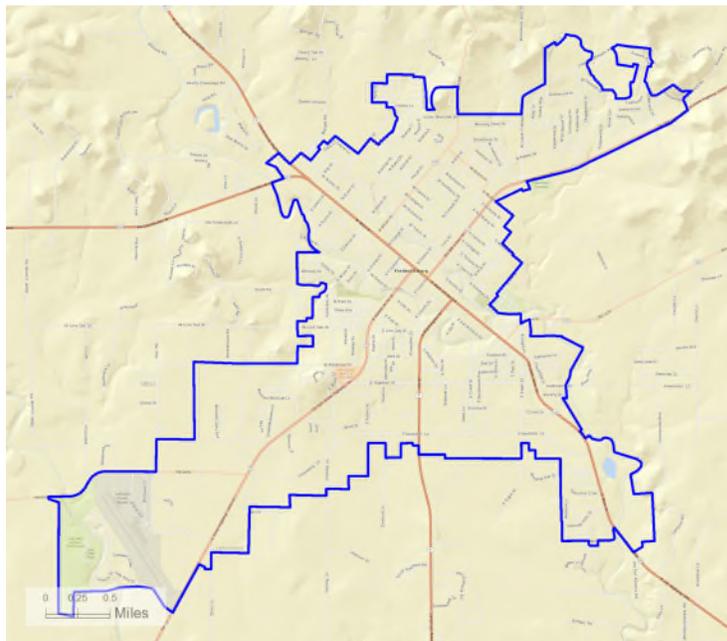
2. Market Area Overview

This market area analysis reviews economic and demographic data that describe the overall condition of the local economy in Fredericksburg, Texas. The characteristics of the area economy and trends that indicate growth or decline provide indicators of the performance of the Fredericksburg market in the meetings and convention industry. HVS analyzed the following indicators: population, income, retail sales, work force characteristics, employment levels, major businesses, transportation, event infrastructure, hotel supply, and tourism attractions.

Market Area Definition

The market area for convention and conference centers consists of the geographical region that offers transportation access, lodging, and other amenities to users of the facilities. For the purposes of this study, HVS defined the market study areas as the City of Fredericksburg and Gillespie County. The following map shows the Fredericksburg market area.

MAP OF FREDERICKSBURG MARKET AREA



Founded in 1846 by German Settlers, Fredericksburg grew slowly over its early decades, gaining fame as both a manufacturing center and a tourist destination. Fredericksburg gained national recognition when Lyndon B. Johnson became Vice President of the U.S. and later President. With attention focused on Johnson's home, the Texas White House, in nearby Stonewall, Fredericksburg prospered greatly as the tourism industry became increasingly important to the local economy.

Agriculture has long been a crucial component of the Fredericksburg and Gillespie County economy. The area in and around Fredericksburg has maintained its strong agricultural presence with several ranches, wineries, and farms thriving. Gillespie County supplies much of the produce grown in Texas, including 40 percent of the state's peaches. With its active downtown and established tourism market, Fredericksburg is enjoying a boom in agri-tourism and related businesses with visits to wineries, ranches, and farms on the rise. Other primary industries include specialty foods and beverages, aviation maintenance, and metal fabrication, and machinery.

FREDERICKSBURG HISTORIC DISTRICT



Economic and Demographic Review

For this analysis, HVS used the Complete Economic and Demographic Data Source published by Woods & Poole Economics, Inc. as a primary source of economic and demographic statistics. Woods & Poole runs a well-regarded forecasting service that uses a database containing more than 900 variables for each county in the nation. Their regional model yields forecasts of economic and demographic trends. Census data and information published by the Bureau of Economic Analysis serve as the basis for historical statistics. Woods & Poole uses these data to formulate projections, and the group adjusts all dollar amounts for inflation to reflect real change.

**FIGURE 2-1
ECONOMIC AND DEMOGRAPHIC DATA SUMMARY**

Economic Indicator/Area	Beginning Amount	2000	2010	2014	2020	Ending Amount	Annual Compound Change 2000 to 2010	Estimate Annual Compound Change 2014 to 2020
Resident Population (thousands)								
Gillespie County	20.9					28.8	1.7%	1.5%
State of Texas	20,944					30,280	1.9%	1.8%
United States	282,162					340,554	0.9%	1.0%
Per-Capita Personal Income* (thousands)								
Gillespie County	\$29.0					\$45.8	2.6%	1.7%
State of Texas	\$31.7					\$38.1	0.8%	1.2%
United States	\$33.8					\$40.2	0.7%	1.3%
W&P Wealth Index								
Gillespie County	94					124	1.9%	0.3%
State of Texas	95					95	0.1%	-0.1%
United States	100					100	0.0%	0.0%
Food and Beverage Sales* (millions)								
Gillespie County	\$27.1					\$50.6	3.5%	2.4%
State of Texas	\$25,682					\$45,404	3.0%	2.6%
United States	\$341,369					\$512,773	2.2%	1.8%
Total Retail Sales* (millions)								
Gillespie County	\$282.3					\$411.1	1.7%	2.3%
State of Texas	\$269,539					\$427,754	2.2%	2.7%
United States	\$3,612,260					\$4,803,190	1.2%	1.9%

* Inflation Adjusted

Source: Woods & Poole Economics, Inc.

The permanent population in Gillespie County has grown slightly slower than the rest of Texas, a trend expected to continue through 2020. Despite starting lower than state and national average in 2000, the County's personal income and wealth index are currently well above state and national averages and are expected to continue growing at above average growth rates. The corresponding growth rates of spending on retail and food and beverage items have surpassed the growth in personal income, outpacing both state and national growth rates.

To augment county level demographics, HVS used Esri Business Analyst to study the local Fredericksburg market and markets surrounding downtown Fredericksburg at various drive times. Esri Business Analyst Online is a well-regarded forecasting service that applies GIS technology to produce extensive demographic, consumer spending and business data analyses. Esri employs a

sophisticated location-based model to forecast economic and demographic trends. Esri bases historical statistics on U.S. census data, the American Community Survey, and other primary research. The following figure presents demographic data for the City of Fredericksburg, Texas and drive markets within one, two, and three hours of downtown Fredericksburg.

**FIGURE 2-2
LOCAL MARKET AND DRIVE TIME DEMOGRAPHICS**

Market	Population			Median Household Income (\$)		
	2014	2019	Annual Growth Rate	2014	2019	Annual Growth Rate
City of Fredericksburg	10,701	10,973	0.50%	50,641	57,331	2.51%
One-hour drive time	433,774	474,508	1.81%	61,009	75,642	4.39%
Two-hour drive time	4,500,204	4,963,789	1.98%	64,610	65,003	3.32%
Three-hour drive time	5,915,849	6,442,358	1.72%	51,930	60,850	2.55%

Source: ESRI

The relatively small and stable resident population of Fredericksburg is surrounded by a large, growing, and more affluent population base. Large population increases at the two and three-hour drive time markets indicate Fredericksburg’s proximity to large population centers in Texas.

**Workforce
Characteristics**

The characteristics of an area's workforce provide an indication of the type and amount of transient visitation local businesses would generate. Sectors such as finance, insurance, and real estate (FIRE), wholesale trade, and services produce a considerable number of visitors who are not particularly rate sensitive. The government sector often generates transient room nights, but per-diem reimbursement allowances often limit the accommodations selection to budget and mid-priced lodging facilities. Some employers of manufacturers, construction, transportation, communications, and public utilities (TCPU) contribute many visitors to the area.

The following table shows Gillespie County’s workforce distribution by business sector for the ten largest sectors.

**FIGURE 2-3
HISTORICAL AND PROJECTED EMPLOYMENT**

Sector/Geographic Area	Beginning Amount (thousands)	2000 2010 2014 2020				Ending Amount (thousands)
Gillespie County						
Health Care And Social Assistance	1.36					2.34
Retail Trade	1.66					2.32
Accommodation And Food Services	1.22					2.26
Farm	2.05					1.93
Construction	1.22					1.75
Finance And Insurance	0.49					1.29
Administrative And Waste Services	0.27					1.16
Manufacturing	0.71					1.14
State And Local Government	0.94					1.13
Other Services, Except Public Administration	0.75					1.05
Other	2.46					4.24
Total Gillespie County	13.10					20.61
U.S.	165,371					197,077

Source: Woods & Poole Economics, Inc.

While Gillespie County has a relatively small employment base, most employment sectors have enjoyed strong growth over the past two decades. Growth in the finance and administrative sectors has been the greatest with annual growth rates of over five percent. Historically the largest employment sector, the farm sector, experienced declines through 2010. Reversing this trend, farming is expected to have positive growth through 2020. Other sectors, such as health care, accommodation and food services, and manufacturing, have experienced positive employment growth, a trend expected to continue in the coming years.

Major Business and Industry

Providing additional context for understanding the nature of the regional economy, the following table presents a list of the major employers in the market area.

**FIGURE 2-4
MAJOR EMPLOYERS**

Firm	Number of Employees
Hill Country Memorial Hospital	656
H.E.B. Food Stores	250
Wal-Mart	239
Knopp Nursing/Retirement Homes	185
Allen Keller Company	110
Fredericksburg Enterprises	104
Central Texas Electric Cooperative	90
Boot Ranch	89
Security State Bank	85
James Avery Craftsman	76
Fischer & Wieser Foods	65
Opa's Smoked Meats	62
Mamacita's	60
Becker Vineyards	60
Heartland Enterprises	45

Source: Gillespie County Economic Development Commission

Gillespie County's major employers include service based employers with several food based manufacturers. The major employer profile indicates modest potential for generating local meeting and other group demand.

**FIGURE 2-5
LOCAL MARKET AND DRIVE TIME BUSINESS SUMMARY**

Market	Number of Businesses	Number of Employees
City of Fredericksburg	1,511	6,759
One-hour drive time	40,821	190,197
Two-hour drive time	336,810	1,782,570
Three-hour drive time	431,011	2,315,974

Source: ESRI

Business and employments statistics in the wider drive time markets surrounding Fredericksburg roughly reflect population. This analysis suggest a much stronger corporate base from which to draw meeting and conference demand, notably in markets within two to three hours of Fredericksburg.

**Unemployment
Statistics**

Unemployment statistics provide a measure of the health of the local economy and the basis for comparison to state and national trends. The following figure presents historical unemployment rates for the market area.

**FIGURE 2-6
UNEMPLOYMENT STATISTICS**

Year	Gillespie County	Texas	U.S.
2004	3.8%	6.0%	5.5%
2005	3.4%	5.4%	5.1%
2006	3.3%	4.9%	4.6%
2007	2.8%	4.4%	4.6%
2008	3.1%	4.9%	5.8%
2009	4.4%	7.5%	9.3%
2010	4.8%	8.2%	9.6%
2011	4.8%	7.9%	8.9%
2012	4.2%	6.8%	8.1%
2013	3.9%	6.3%	7.4%
Recent Month - Sep			
2013	4.0%	6.2%	7.2%
2014	3.2%	5.0%	5.9%

Source: Local Area Unemployment Statistics

Historically, the Gillespie County unemployment rate was below that of the State of Texas and well below the national rate. Like the rest of the country, the market experienced a spike in unemployment in 2009 peaking at 4.8 percent in 2010. As with the State of Texas, the impact of the national recession on employment in Gillespie County was not as severe as in other parts of the country. Recent signs of employment recovery suggest that as national economic conditions rebound, local unemployment levels have gradually returned to pre-recession levels.

Lodging Supply

A conference center’s ability to attract out-of-town groups depends greatly on the availability of nearby hotel rooms within a reasonable distance to the facility. Moreover, different events have different preferences with respect to the types of hotels that best meet the needs of their delegates and attendees. Most planners of professional conferences prefer large blocks of full-service hotel rooms in nationally branded properties. SMERF and sports event attendees prefer less expensive, limited-service hotel options that offer guest amenities such as complimentary breakfasts and free internet connections.

Smith Travel Research (“STR”) maintains a database of approximately 140,000 hotel properties and 13 million hotel rooms around the world. The figures below show the STR database inventory of all hotel rooms in Fredericksburg by service level and size. The quality of the hotels also indicates the market’s ability to support other meeting and event infrastructure.

**FIGURE 2-7
FREDERICKSBURG HOTEL INVENTORY**

Chain Scale	Number of Properties	Number of Guest Rooms	Percentage
Upper Midscale	5	321	27%
Midscale	2	101	9%
Economy	5	204	17%
Independent	10	550	47%
Total	22	1,176	

Size (Number of Guest Rooms)	Number of Properties	Number of Guest Rooms	Percentage
Less than 50	9	268	23%
50 to 99	11	681	58%
100 and over	2	227	19%
Total	22	1,176	

Source: STR

The City of Fredericksburg has over 20 hotel properties with nearly 1,200 hotel rooms. The majority of hotels in Fredericksburg are smaller properties with less than 100 rooms. The largest property is the 124-room Sunday House Inn. Fredericksburg has a good mix of service levels available with the greatest percentage of properties at the upper midscale level. Most guest houses and B&Bs in the market do not report to STR. In total, these properties sleep approximately 2,000 people.

The market does not currently contain a full service property; however, a 120-room full service, independent property is planned for a site just south of Main Street.

A more detailed analysis of hotel supply and demand in Fredericksburg is presented in Section 6 of this report.

Meeting and Event Infrastructure

Fredericksburg has a variety of hotel, restaurant, dance hall, and museum venues suitable for conferences, meetings, and social events. The following figure presents a summary of the larger event and meeting spaces available in Fredericksburg.

**FIGURE 2-8
CURRENT FREDERICKSBURG MEETING AND EVENT VENUES**

	Number of Exhibit / Ballroom / Meeting Divisions	Total Functions Space (Sq. ft.)
Venues with Lodging		
Hangar Hotel & Airport Conference Center	5	20,050
Inn on Barons Creek & Conference Center	5	6,050
Fredericksburg Inn & Suites	2	3,724
Hampton Inn & Suites	2	2,454
Hoffman Haus	3	2,234
Country Inn & Cottages	3	4,300
The Trois Estate	1	5,000
Holiday Inn Express	2	1,607
Rose Hill Manor	2	600
Venues without Lodging		
Gillespie County Fairgrounds & Exhibit Hall	1	14,000
Gillespie County Farm Bureau Center	2	6,500
St. Mary's Catholic Church	4	4,900
Fredericksburg Brewing Company	1	4,000
Hill Country University Center	4	3,096
Albert Dance Hall and Beer Garden	2	3,000
Kairos The Celebration Barn	1	1,480
Vaudeville	2	1,300
Lady Bird Johnson State Park Group Dining Hall	1	1,200
Lady Bird Johnson Golf Course	1	1,000
Gillespie County Historical Society	1	1,000
Auditoriums and Theaters		Sq. Ft./Seats
The Steve W. Shepherd Theater	1	2200/250
Rockbox Theater	1	10,000/392

Source: Fredericksburg CVB, Respective Venues

While the Fredericksburg market contains several smaller venues suitable for banquets, receptions, and other social events, it lacks a single venue which contains the combination of banquet and meeting spaces required to support a conference or large meeting. In addition, the larger event spaces in Fredericksburg are located in areas without convenient access to downtown dining, retail, and lodging properties, a feature of major importance to event attendees.

Transportation

Fredericksburg's central location in the Texas Hill Country makes it a convenient drive-in destination from several major population centers in Texas, including San Antonio (70 miles), Austin (77 miles), Dallas (260 miles), and Houston (260 miles).

As shown in the figure below, U.S. Highways 290 and 87 and State highway 16 run directly through Fredericksburg while Interstate 10 is a twenty minute drive from downtown.

**FIGURE 2-9
FREDERICKSBURG HIGHWAY MAP**



Air access into Fredericksburg is available at the Gillespie County Airport, approximately 3 miles from downtown. This facility is a general aviation airport suitable for private planes and jets. International airports in San Antonio and Austin are 1 hour and 15 minutes and 1 hour and 30 minutes from downtown Fredericksburg, respectively.

Tourist Attractions

Tourism is one of the most important sources of demand in the Fredericksburg economy. Many come to experience the Texas Hill Country in one of its most unique settlements. Filled with history, one-of-a-kind shopping, and some of the finest wine in North America, there is plenty to attract, and keep, visitors from all over the U.S.

- The *Fredericksburg Historic District* is listed on the National Register of Historical Places, and home to over 80 locations of historic significance. Its layout corresponds with the original settlement of the town, allowing tourists the opportunity to walk into history.
- Fredericksburg’s central shopping district begins just east of the Admiral Nimitz Museum and continues west to Milam Street. Main Street offers

historical buildings, shopping, dining, and entertainment. Marketplatz, on Main Street, offers pavilions, picnic tables, and public restrooms and hosts many festivals and local events.

- Enchanted Rock, the second largest granite formation in North America, rising 325 feet above the surrounding topography. The area also offers hiking trails, rock climbing, and cave exploration.
- The National Museum of the Pacific War is America's only museum dedicated to WWII's Pacific campaign. As one of the most intricate military museums in the nation, this attraction has over 40 media installations, 900 artifacts, and hundreds of photographs taking up over 33,000 square feet of space.
- The Pioneer Museum Complex is homage to the city's German heritage with several historic structures, and recreations of early Texas life. The Vereins-Kirche, the first public building of Fredericksburg is located at Marketplatz; built by settlers in 1847 and rebuilt in 1935, it served as school, fort, church, and a general public building.
- The Old St. Mary's Church/Marienkirche was completed in 1863 and is built in cruciform, typical of early Christian churches. The "new" St. Mary's was completed in 1908 and is considered one of the painted churches of Texas --- adorned with beautiful stained glass (with inscriptions in German) and stenciling. Both church buildings are outstanding examples of Gothic architecture and open for tours.
- Wildseed Farms is the largest working wildflower farm in the nation. With over 200 acres of wildflower seeds near Fredericksburg, the farm attracts buyers from throughout the U.S. Over 350,000 people visit the farm each year to explore walking trails, take photos and purchase seeds and flowers.
- The town honors Lady Bird Johnson, who lived much of her life in Texas Hill Country, with several establishments. A park full of native Texas flora and hiking opportunities, as well as the recently renovated golf course.
- The Texas Hill Country Wine Region is a popular wine destination. The region has over 40 wineries, plus tasting rooms representing wine from other regions of Texas and around the world. The region extends north from Fredericksburg to San Saba and west to Menard. Fredericksburg is at the epicenter of Texas's Hill Country wine region. The Fredericksburg area is home to over 20 wineries, many of which offer tours, tastings, and other programs for tourists.
- Opened to the public in 2008, the Texas White House is the focal point of the Lyndon B. Johnson National Historic Park. Located 16 miles east of Fredericksburg, the ranch is the lifelong home of America's 36th president.

WILDSEED FARMS**Conclusion**

This section discusses a wide variety of economic indicators for the local and regional market areas. Although relatively small, the market enjoys low unemployment. Strong agricultural and manufacturing sectors are sources of a modest amount of group demand. An analysis of the wider drive time markets surrounding Fredericksburg shows a much stronger corporate base from which to draw meeting and conference demand, notably in markets within two to three hours of Fredericksburg.

As a convention and meeting option, Fredericksburg is well positioned in the heart of the Texas Hill Country. Its easy drive-in access from large markets, such as San Antonio and Austin, has made it a popular tourism destination for weekend getaways. In addition to its growing reputation as wine country, downtown Fredericksburg has a well-defined dining and shopping district and historically significant cultural attractions. The City lacks a meeting facility which contains high quality ballroom and meeting space in a single venue. The addition of appropriately-sized conference space should allow Fredericksburg to expand its share of the state meeting and conference market.

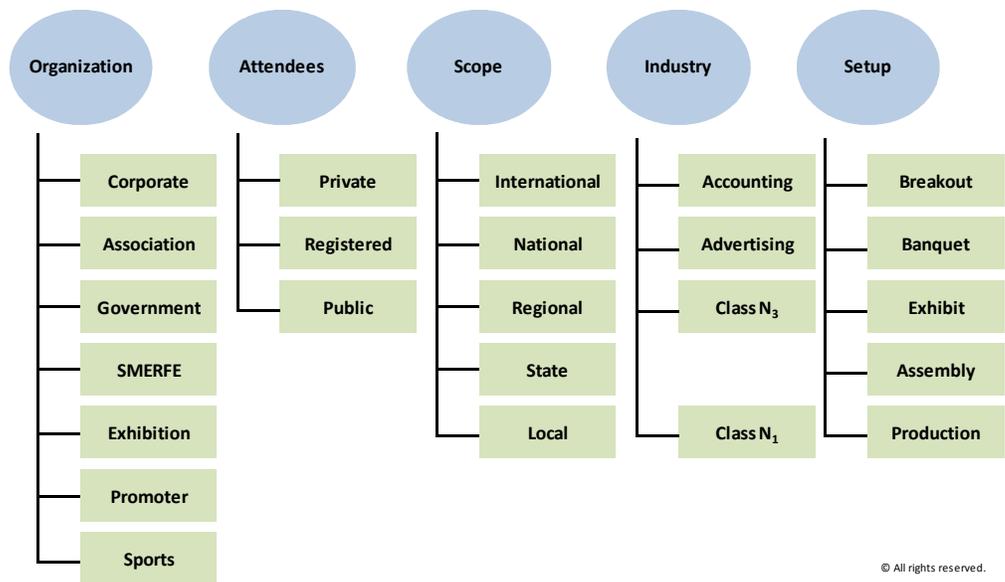
3. Industry Trends

In this section, HVS presents an analysis of the convention, conference, tradeshow and meeting industry, including trends in the supply and demand of meeting and event facilities, as well as trends in expenditures and meeting planner preferences. The purpose of this trends analysis is to provide background information necessary to assess the potential for a conference center in Fredericksburg, Texas. This section of the report also provides definitions of industry terms used throughout the remainder of this report.

OASIS® Event Classification System

Convention and conference centers measure their performance by tracking event activity, but the definition and classification of events lacks consistency throughout the industry. Each convention center or marketing organization has their own way of classifying and measuring event demand. HVS has developed a proprietary method of event classification called OASIS Event Classification Method® or OASIS®, which is a convenient acronym for five criteria of event categorization: Organization, Attendees, Scope, Industry, and Set-up. See the figure below.

**FIGURE 3-1
OASIS EVENT CLASSIFICATION SYSTEM**



© All rights reserved.

Following are definitions of the criteria in the OASIS Event Classification Method[®] and descriptions of the categories within each.

ORGANIZATION—the organization that sponsors or owns the event provides an important area of classification and can be described in five mutually exclusive categories:

- **Corporations**—corporations, or private business interests, are responsible for organizing the majority of events. The event organizers may be internal to the business or professional meeting planners.
- **Associations**—associations are usually membership organizations centered on specific business types, professions, or political purposes.
- **Government**—international, national, state, or local government organizations sponsor events. This category is particularly important in markets with a large government office presence.
- **Exhibition Company**—exhibiting organizations are companies or subsidiaries of companies established for the purpose of owning and promoting exhibiting events, such as trade and consumer shows.
- **Event Promoter**—event promoters are organizations that exist for the purpose of promoting concerts, entertainment, and other types of live events that require production set-up.
- **Sports Enterprise**—sports enterprises are companies or subsidiaries of companies that exist for the purpose of owning and promoting sporting events.
- **Social, Military, Educational, Religious, Fraternal and Ethnic (“SMERFE”)**—although similar to associations, this category includes the types of organizations described in the title. Sometimes called “affinity groups” SMERFE represents a distinct category because members of these organizations use personal disposable income for membership dues and event attendance and therefore tend to be more price-sensitive than associations with professional memberships.

The Organization criterion is most useful to marketing and sales organizations that rely on this information to make decisions on the allocation of staff and resources according to the type of organization sponsoring the event. Other industry participants, such as destination management companies and venue operators, also need to understand the type of organizations active in sponsoring events and value personal relationships with the event planners that represent them.

ATTENDEES—Event attendees can be placed in three distinct categories that distinguish the ways in which attendees gain access to events:

- **Private**—attendees come to the event by invitation only and do not pay a registration or admission fee. Private attendees may be individually asked to attend, as to a wedding, or invited by virtue of belonging to a certain group, such as company employees or shareholders.
- **Registered**—attendees do not necessarily need an invitation, but typically pay an advance registration fee to attend the event. Registered attendees are often called delegates or qualified buyers and they usually attend an event for multiple days.
- **Public**—the event is open to the general public. Attendees may need to purchase a ticket for admission such as at a consumer show. Other civic events may be free of charge.

In addition, some events have combination shows with an initial period of exclusive registered attendance and subsequent public attendance.

The Attendees category is particularly important to venue operators and industry analysts. Understanding the type of attendee at a given event is critical for assessing the impact on convention center operations and projecting economic impact. The length of stay of attendees and their spending patterns varies considerably among the types of attendees.

SCOPE—this category refers to the geographic origin of the attendees. Events are classified accordingly if a significant proportion of the attendees come from the indicated geographic region surrounding the convention center. Five categories capture all the potential geographic scopes and are self-explanatory:

- International
- National
- Regional
- State/Provincial
- Local

Understanding the origin of attendees is critical to event planners and in the estimation of the economic impact of events. Events that draw attendees from larger geographic regions tend to have higher new spending associated with the event. The allocation of marketing and sales resources may also break down according to the geographic scope of events.

INDUSTRY—in North America, HVS recommends relying on the North American Industry Classification System (“NAICS”) which replaced the previously used U.S. Standard Industrial Classification (“SIC”) system. NAICS was developed jointly by

the U.S., Canada, and Mexico to provide new comparability in statistics about business activity across North America. Other economic regions and countries have similar industrial classification systems that are widely used and can be adopted for the purposes of classifying events by industry.

NAICS has hundreds of categories but these categories are organized hierarchically in five levels. All categories can be rolled up into twenty of the top levels in the hierarchy. However, not all top level industry classifications are useful for event classification because little or no event activity is associated with them. Other top level categories, such as Manufacturing, are too broad to provide meaningful information, and level two or three categories can be used to form a useful breakdown of events.

The choice of industry classifications should result in a reasonable share of events falling into each category. According to the Tradeshow Week data book, the leading industries that are represented by conventions, tradeshow and exhibition include:

- Medical and Health Care
- Home Furnishings and Interior Design
- Sporting Goods and Recreation
- Apparel
- Building and Construction
- Landscape and Garden Supplies
- Computers and Computer Applications
- Education
- Gifts
- Associations

Use of the NAICS codes allows for the orderly roll-up of industrial classifications across different events and venues, regardless of the categories or the hierarchical levels that different people may choose to use. Industrial classification information is useful for those planning to develop new events and for other analysts that need to understand how trends in economic health of the underlying industries affect the success of particular events and venues.

SPACE SETUP—this final criterion provides for the categorization of events by set-up of the function spaces they utilize. These categories are not mutually

exclusive as events may use any combination of the five primary types of event set-up.

- **Breakout**—typically involves the use of meeting rooms, boardrooms or other multi-purpose spaces for meeting functions in a classroom or meeting setting. This set-up may involve some catering services such as coffee breaks or lunches.
- **Banquet**—includes the set-up for catered banquets events such as a weddings and may include some staging for presentations such as at a general session event.
- **Exhibit**—includes the set-up displays in exhibition halls or other multi-purpose spaces. Concession services and buffet lunches are often a component of this set-up.
- **Assembly**—includes set-up in theater style seating in plenary halls and fixed seat theaters or other multi-purposes spaces that are used primarily for assemblies and general sessions.
- **Production**—includes the set-up for concerts, entertainment, sporting events and other types of events that require significant staging, lighting, and other live-event related set-up.

Event Types

Application of the OASIS[®] system can provide precise definitions of commonly used event classifications. All commonly used terms for event types can be defined by a combination of three OASIS[®] categories: organization, attendees, and space set-up.

- **Conventions**—associations, government, and SMERFE organizations register attendees for multi-day events. Facility set up includes breakout, banquet and exhibit space set-up and may include plenary sessions. Typically, the primary purpose of a convention is information exchange.
- **Tradeshows**—provide a means for wholesalers and retailers to transact business with industry buyers. Like conventions, tradeshows offer a forum for exchanging industry ideas. In order to clearly differentiate conventions from tradeshows, HVS assumes that only corporations and enterprises can sponsor and produce tradeshows. Similar to conventions, tradeshows require registered attendees. While they also require exhibit space set-up, they only sometimes require banquet, plenary, and/or breakout space set-up.
- **Combination Shows**—are either corporate or enterprise produced, typically with an initial period of attendance by registered attendees only, and later by the public. Always requiring exhibit set-up, they sometimes also require plenary, banquet and/or breakout set-up for additional portions of their show.

- **Consumer Shows**—public, ticketed events featuring the exhibitions of merchandise for sale or display. Exhibition companies produce consumer shows, as they provide a means of product distribution and advertising. They only require exhibit space set-up.
- **Conferences**—require a mix of banquet and breakout space set-up as well as occasional assembly space, but do not require any exhibit set-up. Conferences can be conducted by any organization type, but always require attendees to be registered.
- **Meetings**—only require breakout space set-up. Like conferences, they can be produced from any of the organization types, but unlike conferences, they are private events to which one must be invited.
- **Banquets**—only require a banquet set-up for food and beverage meal service. These events also can be produced by any organizational type, and are either held privately or require guests to register.
- **Assemblies**—usually involve a ceremony, a speech, or another similar activity that attracts a crowd of spectators. Produced by any type of organization, assemblies are always public events. Additionally, assemblies only require a plenary set-up.
- **Fairs**—usually involve an exhibit booth set-up for a public event in which a number of organizations or companies represent themselves and/or a product or service, with a similar theme or purpose uniting the event. Corporations, associations, governments, or SMERFE groups may present a fair.
- **Concert/Entertainment**—usually a concert or some form of live entertainment, owned and organized by an event promoter for the public. Entertainment events only require production set-up.
- **Sports/Amateur Sports**—require only a production set-up. Attendees to sporting events, which are always organized by sports enterprises, may be public or registered. Some sporting events have both a registered and public aspect to the event over the span of a few days.

Trends

The purpose of this section is to describe the conference, convention, and meeting industry and analyze trends in the number of events, attendance, and the supply of facilities.

Supply Trends

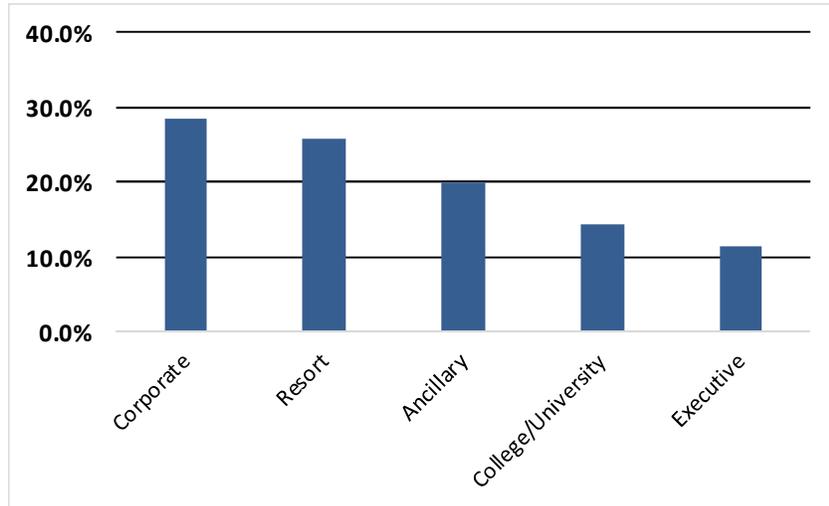
The convention and conference center industry experienced significant year-over-growth in supply from 2000 through 2006. Since 2007, the rate of growth in supply has slowed, but remained positive. As the majority of convention and meeting facilities involve public funding, economic conditions affect the level of

public investment in convention and meeting facilities that are intended to stimulate economic activity. As poor economic conditions continue to constrain public budgets nationwide, lack of available funding for convention and meeting facilities will continue to limit supply growth in the near future. As the economy improves, supply growth will likely remain low as convention venue projects have long lead times due to planning, financing and construction requirements.

Conference Centers

Conference centers typically have a mix of meeting and ballroom space and are ideally suited for conferences, meetings, and small conventions. Conference centers often host weddings, banquets, and other social functions along with small conventions and tradeshow. Each year the International Association of Conference Centers (IACC) conducts an in-depth survey of IACC certified conference centers in North America and issues a trends report based on its findings. The report distinguishes between residential and non-residential conference centers and provides a statistical and financial profile for each. While the majority of conference centers across the country do not have an IACC certification, the overall trends reported by the survey do provide some insight into the industries which have the most direct implications on the operations of a possible conference center in Fredericksburg.

FIGURE 3-2
PROFILE OF ALL SURVEYED NORTH AMERICAN CONFERENCE CENTERS

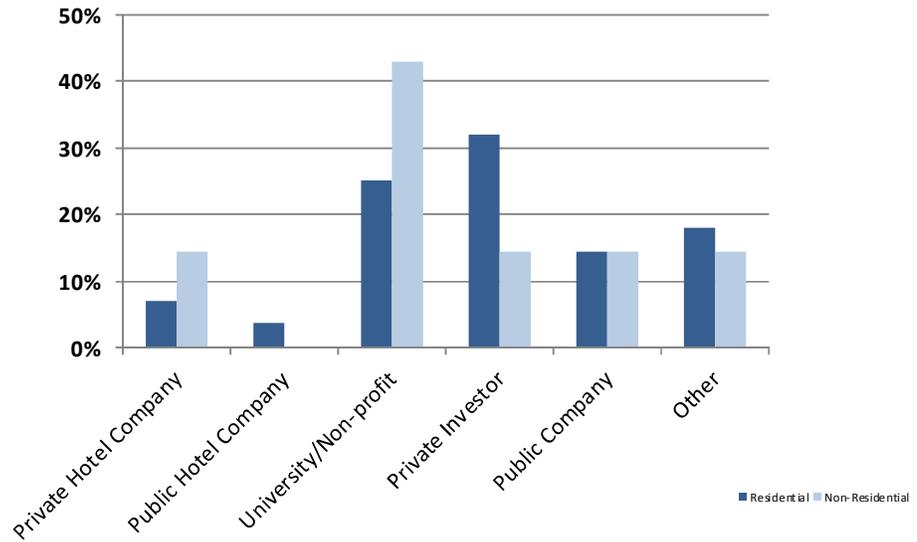


Source: IACC Trends in Conference Center Industry, 2014 Edition

Unlike convention centers, which are typically owned by a city or other public entity, conference centers have a variety of ownership structures. Public entities, private corporations, universities, and non-profit organizations often own

conference centers for their internal meetings and training. Function spaces are then rented to external organizations when not in use by the primary tenant.

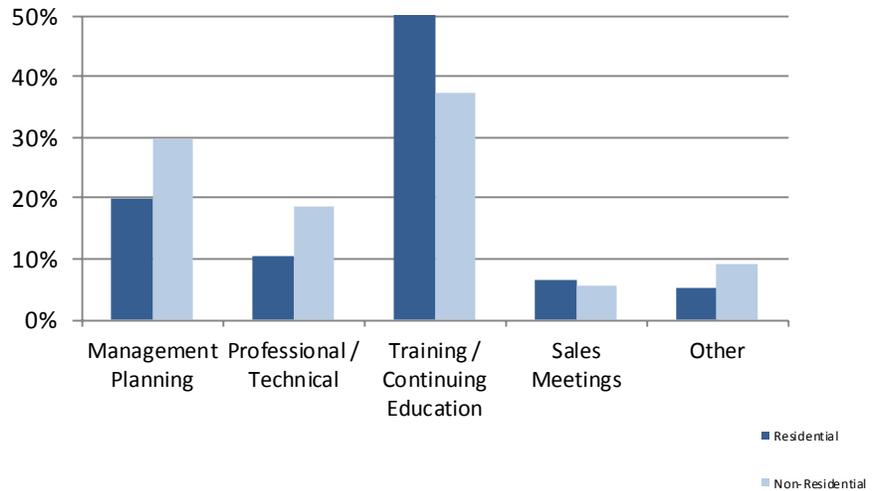
**FIGURE 3-3
PROFILE OF CONFERENCE CENTER OWNERSHIP**



Source: IACC Trends in Conference Center Industry, 2014 Edition

Unlike convention centers which utilize exhibit space to introduce new products and services in an industry, conference centers are most often used for training and continuing education purposes.

**FIGURE 3-4
TYPES OF MEETINGS IN CONFERENCE CENTERS**

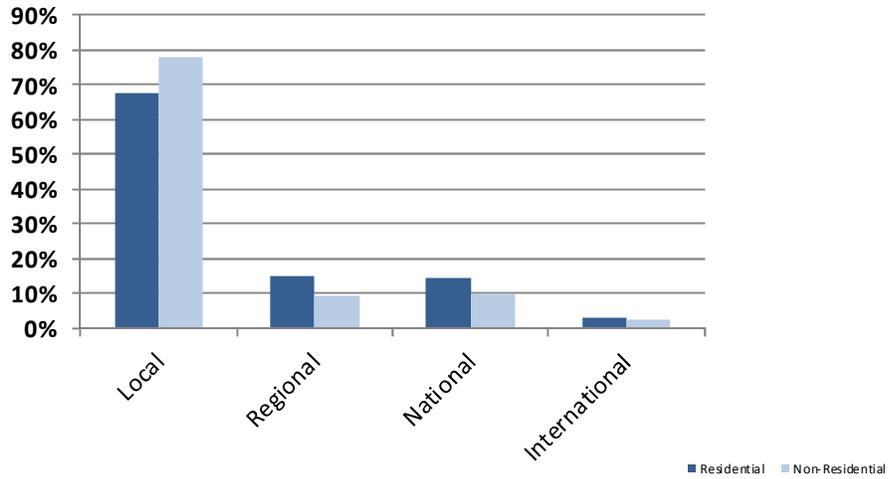


Source: IACC Trends in Conference Center Industry, 2014 Edition

As the meetings industry as a whole continues to rebound from recession, meeting planners also report being less concerned about the negative publicity associated with hosting events in upscale properties and destinations than in recent years.

Another indicator of the national recession’s impact on the meetings market is the geographic scope of meetings. As groups reduced their meetings budget, conference facilities began to rely more heavily on local meetings and events.

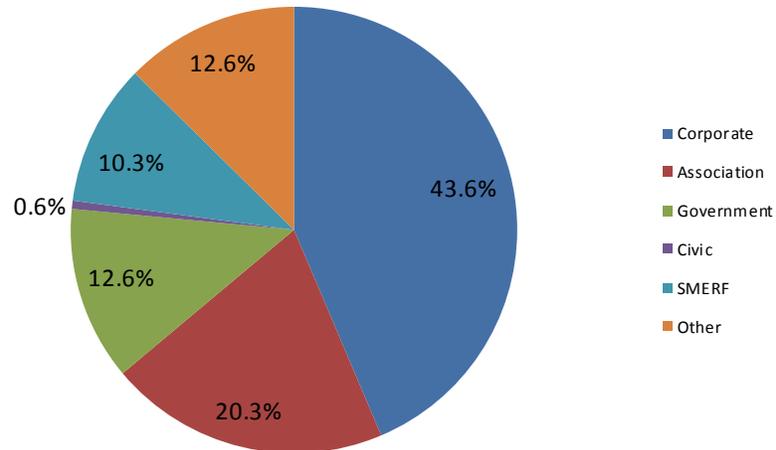
**FIGURE 3-5
CONFERENCE CENTER ATTENDANCE BY TYPE**



Source: IACC Trends in Conference Center Industry, 2014 Edition

The majority of meeting demand (75 percent) for non-residential conference centers was generated by corporate and association sources, as shown in the figure below.

FIGURE 3-6
NON-RESIDENT CONFERENCE CENTER DEMAND SEGMENTS



Source: IACC Trends in Conference Center Industry, 2014 Edition

Convention and Meeting Trends for the Future

Over the past few decades, the meeting and convention industry has evolved dramatically from a budding industry to a more mature one that has become an important driver of the national economy. As an established industry, the meeting and convention industry has been marked by rapid growth in the last four decades and a subsequent slowdown in supply growth in the late 2000s. As the economic recession continues to affect the level of demand and available budgets for conventions and meetings, the industry continues to evolve.

Technology: Rapidly evolving communications technology affects convention and conference centers as events need more band width, faster Wi-Fi connections, and reliable cellular connections. The capacities of these systems will need to be continually expanded in the foreseeable future.

Changes in Demand and Supply Transformation: As discussed earlier, the maturity of the industry has sharply increased competition. Nearby or attached hotel rooms, flexible meeting space, price points at convention centers and hotels, and airport capacity and rates continue to drive site selection, and thus dictate how supply changes over time. Quality of convention facilities and hotels continues to be an important factor in site selection.

Travel Costs: Organizations hosting and planning events continue to work with tightened budgets, as do attendees. Recent increases in travel costs have decreased

the desire to travel for some attendees and exhibitors. In the long run, expansions in the transportation system and continued innovations, as well as improved economic conditions, are likely to support the growth of the meeting industry.

Electronic Meetings: In recent years, industry experts have speculated that improvements in telecommunications technology would supplant the need for face-to-face meetings. While data indicates that some meetings and events have been replaced by webinars or other electronic forms of meetings, in the long run, electronic meetings act as a demand generator for future meeting growth by expanding the networks and interactions of businesses and organizations. Further advancements in communications technology will be necessary before electronic meeting became a realistic substitute for face-to-face meetings.

Mixed-Use Developments: For many markets, the presence of conference and convention centers offer an opportunity to develop an adjacent mixed-use attraction with land uses such as hotels, retail, dining, sports venues, and other entertainment uses. Some conference and convention centers have become the center of their own “districts,” offering a wide variety of entertainment options to delegates, event organizers, or exhibitors. The growth of mixed-use developments, particularly as economic conditions have improved, will continue to change the meeting and convention industry as supply transforms.

Implications for Fredericksburg

As the meetings and convention industry continues to rebound from its 2009 lows, Fredericksburg should have the opportunity to improve its market share of conference and meeting events by addressing its programming and strategic needs. Improved and expanded event space via the development of a state-of-the-art conference center should meet the needs of event planners. A popular tourism destination, Fredericksburg’s central location and proximity to large population centers in Texas make a new venue an attractive and competitive destination for attendees. The following sections in this report present estimates of Fredericksburg’s event demand potential in the meetings industry and the meeting infrastructure required to realize that potential.

4. Comparable Venues

This analysis of comparable venues provides a basis for developing building program recommendations and forecasts of event demand and financial operations. We compare the function spaces, adjacent hotel capacities, and characteristics of the markets relevant to the success of the event venues. We conclude with an assessment of the relative strengths and weaknesses of Fredericksburg.

Fredericksburg competes with other cities in the State of Texas for a share of association, corporate, and SMERFE business. Event planners select host cities for their events based on the overall package that a city may offer. Several factors determine a city's overall strength and potential in the meetings market. These factors include the attributes of the conference facilities, lodging supply, the economic and demographic profile of the community, transportation access, tourism amenities, and overall destination appeal.

HVS analyzed three set of venues:

- conference centers and hotel conference centers in the Texas Hill Country which would compete directly with the proposed venue in Fredericksburg,
- conference and convention centers in small to medium Texas cities that have tourism markets and may compete with proposed venue in Fredericksburg, and
- conference centers and hotel conference centers in comparable wine country destinations in California, Kentucky, Oregon, and Washington.

HVS analyzed competitive venues shown in the figure below.

**FIGURE 4-1
COMPARABLE VENUES**

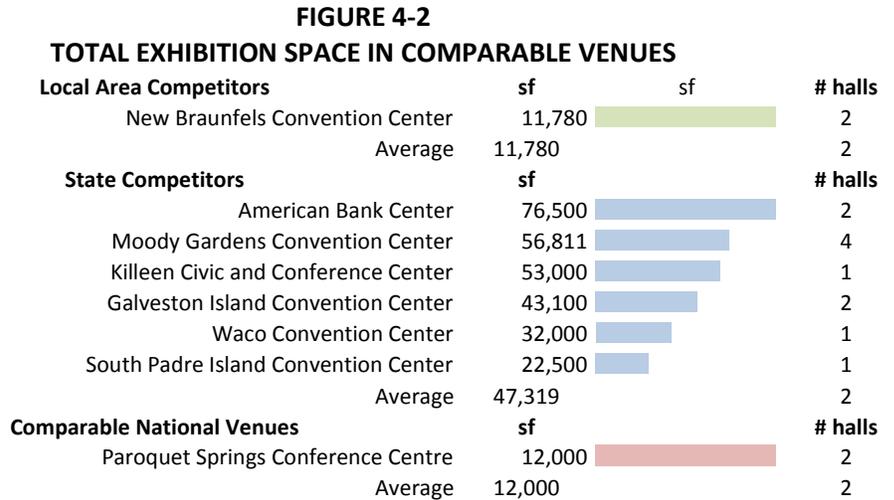
Name of Venue	Location		Total Function Space (square feet)
Local Area Competitors			
Embassy Suites San Marcos Hotel	San Marcos	TX	42,312
Horseshoe Bay Resort	Marble Falls	TX	27,499
New Braunfels Convention Center	New Braunfels	TX	24,564
Inn of the Hills	Kerrville	TX	17,113
The Resort at Tapatio Springs	Boerne	TX	12,000
Y.O. Ranch Hotel & Conference Center	Kerrville	TX	9,016
The Retreat at Balcones Springs	Marble Falls	TX	6,232
Riverbend Conference Center	Marble Falls	TX	3,501
State Competitors			
American Bank Center	Corpus Christi	TX	136,514
Waco Convention Center	Waco	TX	119,000
Killeen Civic and Conference Center	Killeen	TX	84,870
Moody Gardens Convention Center	Galveston	TX	81,091
Galveston Island Convention Center	Galveston	TX	70,300
South Padre Island Convention Center	S Padre Island	TX	31,404
Congressman Solomon P. Ortiz International Center	Corpus Christi	TX	23,805
Midlothian Conference Center	Midlothian	TX	10,837
Bastrop Convention & Exhibit Center	Bastrop	TX	7,500
Comparable National Venues			
Salem Conference Center	Salem	OR	24,290
Paroquet Springs Conference Centre	Shepherdsville	KY	18,611
Double Tree Hotel Sonoma Wine Country	Rohnert Park	CA	15,340
Hyatt Vineyard Creek Hotel & Spa	Santa Rosa	CA	12,995
Napa Valley Marriott Hotel & Spa	Napa	CA	11,729
Meritage Resort & Spa	Napa	CA	11,389
Silverado Resort & Spa	Napa	CA	11,315
Marcus Whitman Hotel & Conference Center	Walla Walla	WA	10,063

Sources: Respective Venues

Exhibition Space Assessment

Critical for several types of events such as conventions, tradeshow, and consumer shows, the amount and quality of exhibition space determines the size and type of events that a venue can accommodate. Convention centers typically house a dedicated exhibit hall and pursue exhibit based events. Conference centers and hotel conference centers do not contain an exhibit hall, instead offering banquet or lobby space for events which require small amount of exhibit space.

The figure below compares of available exhibition space in the competitive and comparable venues.



Sources: Respective Venues

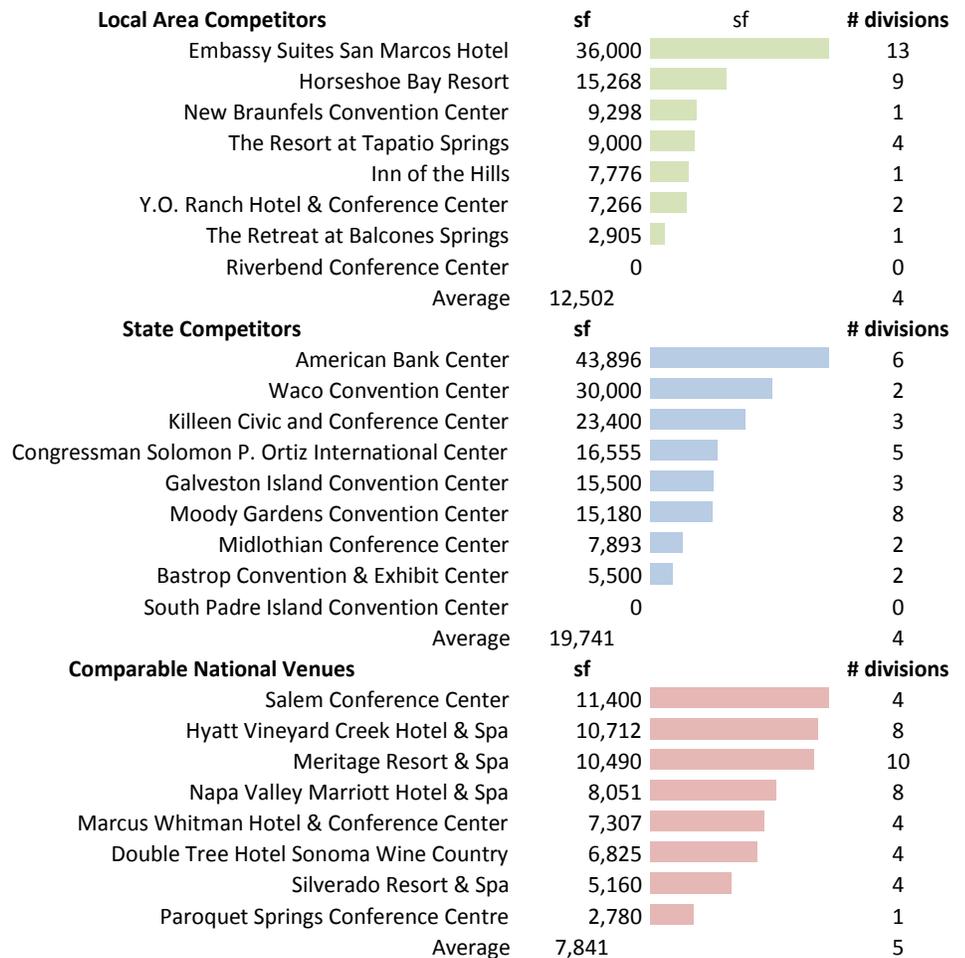
Of the local competitors, only the New Braunfels Convention Center offers a small exhibit hall. Other in state competitors contain dedicated exhibit space ranging from around 20,000 to 80,000 square feet. Only one of the comparable national venues contains a large dedicated exhibit hall. The above analysis indicates that Fredericksburg would likely not require an exhibit hall.

**Ballroom Space
Assessment**

In addition to social events (such as weddings and fundraisers) that host banquets, several other types of events, such as conferences, typically require food services in a ballroom setting. General assemblies at conferences and large meetings often use a ballroom with a theater or banquet set-up. As facility operators attempt to grow food service revenues at their facilities and event planners seek a higher level of service for their attendees, the size of the ballroom often determines a venue’s event size capacity.

The figure below compares of available banquet space in the competitive and comparable venues.

**FIGURE 4-3
BALLROOM SPACE IN COMPARABLE VENUES**



Sources: Respective Venues

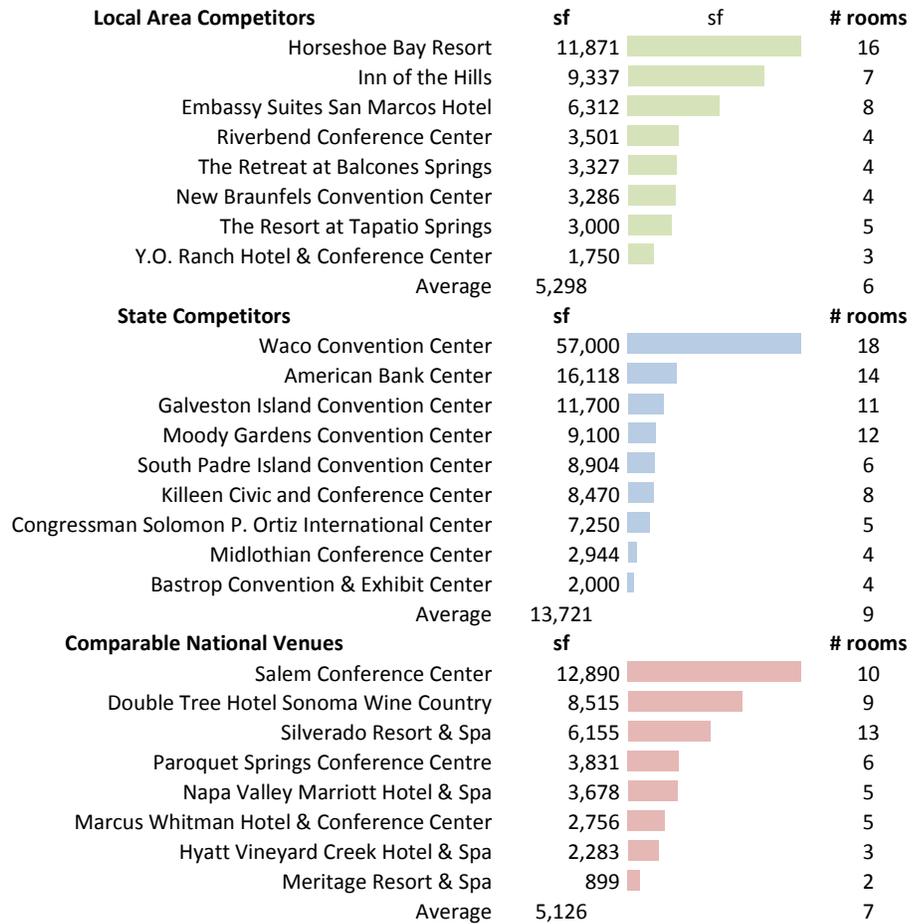
Ballrooms in competitive local area venues range from approximately 3,000 to the 36,000 square feet of ballroom space at the Embassy Suites San Marcos hotel which has two large ballrooms of 28,800 and 7,200 square feet. The comparable national venues also offer a range of ballroom sizes with an average of approximately 8,000 square feet. Ballrooms in convention centers tend to be larger, but often offer fewer divisions and less flexibility. Many competitive conference centers and hotel conference centers recognize the importance of a large, flexible ballroom and incorporate a large number of divisions to create multiple potential room layouts.

**Meeting/Breakout
Room Assessment**

Meeting rooms can accommodate sub-groups as they break out of larger general sessions at conventions and tradeshows. Additionally, these smaller rooms can support self-contained meetings, training sessions, seminars, classes, and a variety of small meeting functions. A facility’s meeting rooms are often its most frequently used function spaces. Generally, conference centers should offer meeting space proportionate to the amount of ballroom space available at the facility. However, the optimum amount of meeting space can vary depending on a facility’s target market. Many hotel properties contain large, flexible ballroom spaces which can be divided into several sections and used at breakout meeting space.

The following figure presents a comparison of available meeting space.

**FIGURE 4-4
MEETING SPACE IN COMPARABLE VENUES**



Sources: Respective Venues

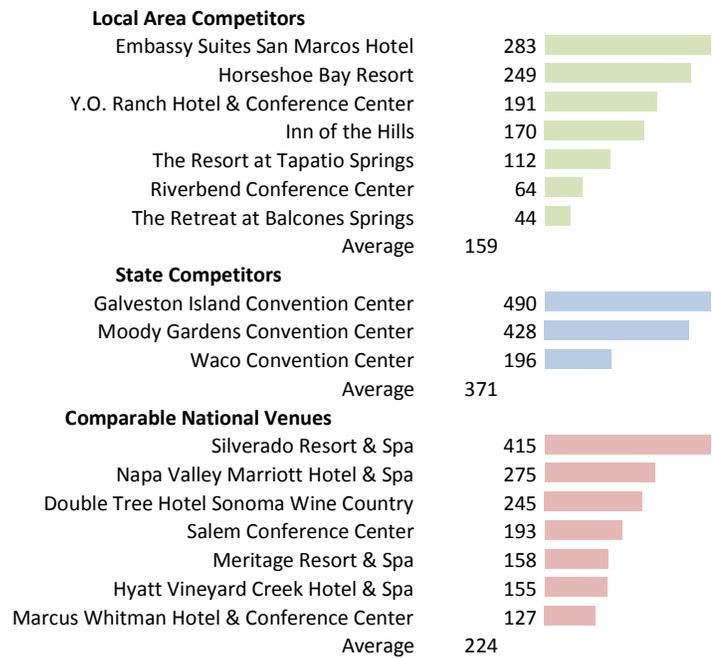
Meeting space in the area competitive venues ranges from approximately 2,000 to 12,000 square feet with a similar distribution found in the comparable national venues. Convention centers tend to have greater amounts of meeting space. Several venues from each competitive set house large amounts of meeting space and a greater number of meeting rooms, increasing their ability to host larger events and simultaneous smaller functions. Hotels with smaller amounts of dedicated meeting space often rely on flexible ballroom space for breakout meetings.

Adjacent Hotel Capacity

The quality and proximity of hotel supply represents one of the most important selection factors for facility users in recent years. To attract out-of-town groups, an adequate supply of nearby hotel rooms should support the lodging needs of delegates, exhibitors, and other attendees. Event planners consider proximity and connectivity as critical factors when evaluating the overall hotel packages available in competing communities. Generally, the number of rooms offered at hotels adjacent or connected to the convention center is the key point of comparison. Other important factors include hotel brands, service levels, building age, ease of access, and available meeting and banquet spaces in these hotels.

The figure below compares the number of adjacent hotel rooms in the competitive and comparable venues. The figure only shows those venues with attached lodging.

**FIGURE 4-5
ADJACENT HOTEL ROOMS IN COMPARABLE VENUES**



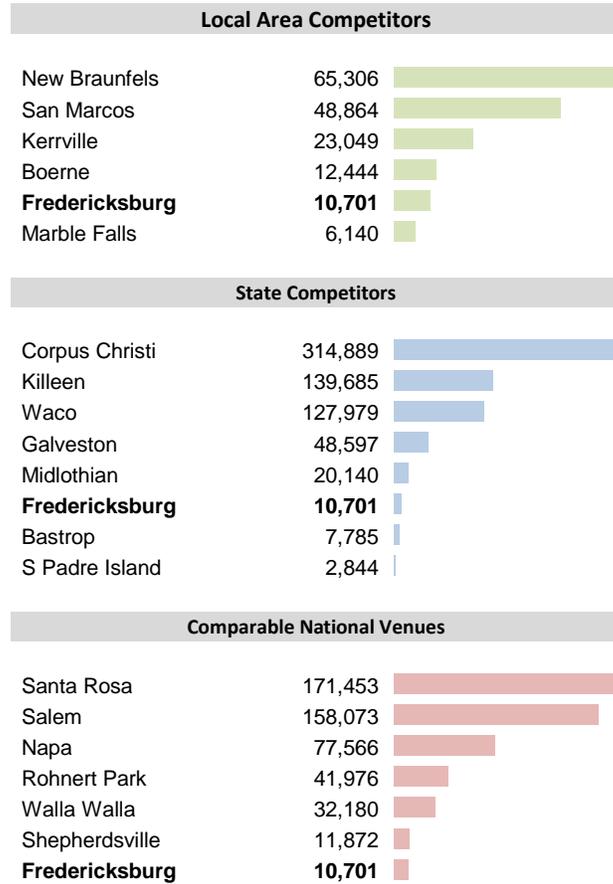
Sources: Respective Venues

Local area competitors offer a range of guest rooms and average approximately 160 rooms, while the comparable national venues average around 225 rooms. Three of the competitive convention centers in Texas have adjacent lodging with an average around 370 rooms.

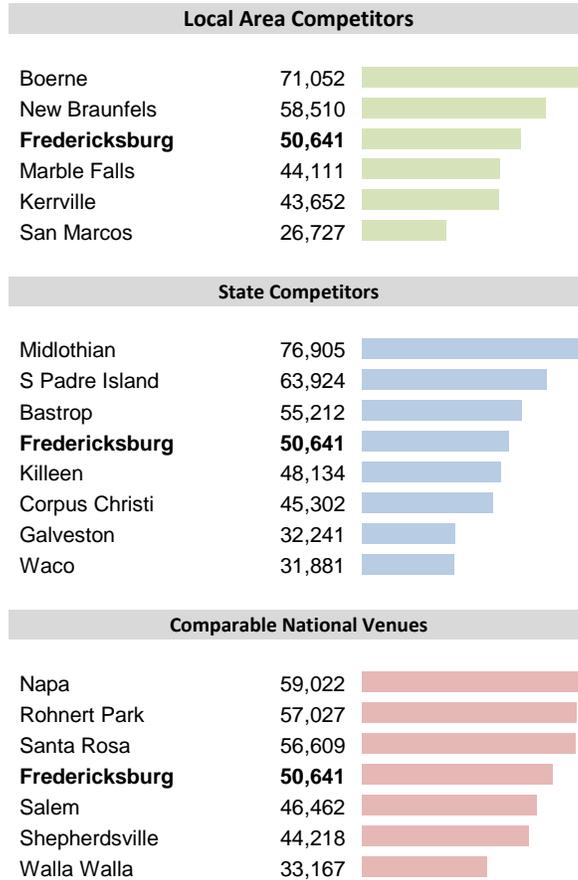
City Population and Income

Local area population and income data provide evidence of the ability of the local economy support public services and visitor amenities for event attendees. Because most convention and conference centers primarily target out-of-town users, local area population figures rarely have a direct correlation with overall demand potential. However, population and income data can provide a basis for understanding a community’s ability to support and sustain a convention or conference center, the surrounding neighborhood, and market. Additionally, population can determine the demand potential for certain types of events such as locally generated meetings, banquets, religious events, graduation ceremonies, concerts, and consumer shows. The following figures present city population and median household income data for the markets surrounding the three comparable venue sets.

**FIGURE 4-6
CITY POPULATION OF COMPARABLE MARKETS**



**FIGURE 4-7
MEDIAN HOUSEHOLD INCOME OF COMPARABLE MARKETS**



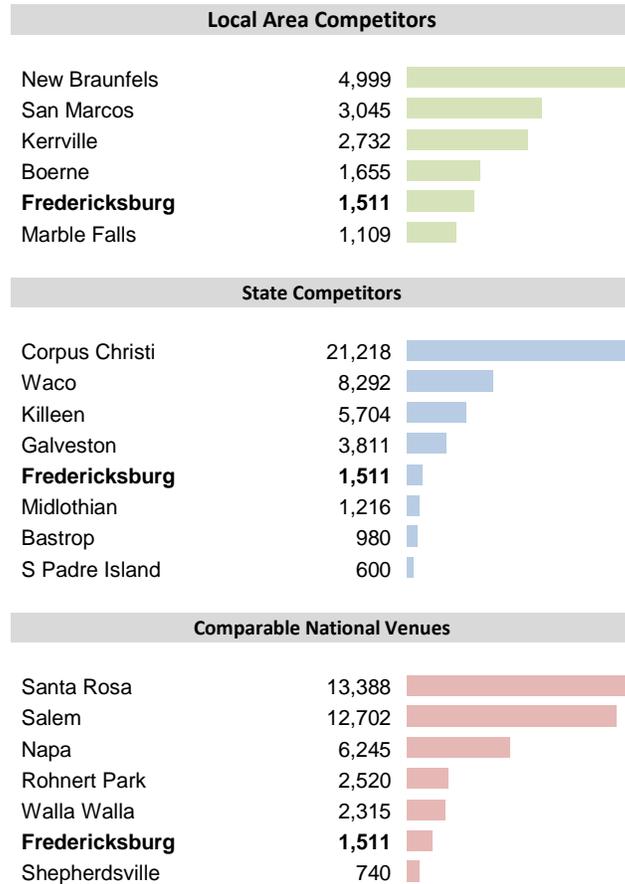
Source: Esri

Fredericksburg has one of the smallest city populations among the local in-state competitors, while its median income is about average, suggesting a more limited ability to drive locally-generated demand at a conference center. A similar scenario exists when comparing the Fredericksburg market to other wine country locations in the U.S.

Corporate Comparison

The density and breadth of a city’s corporate base indicates demand potential in the meetings industry. Businesses generate demand for conventions, conferences, training, and other industry-specific events. The following figures demonstrate how Fredericksburg compares with the comparable markets with respect to the total number of business establishments.

**FIGURE 4-8
NUMBER OF BUSINESS ESTABLISHMENTS IN COMPARABLE MARKETS**



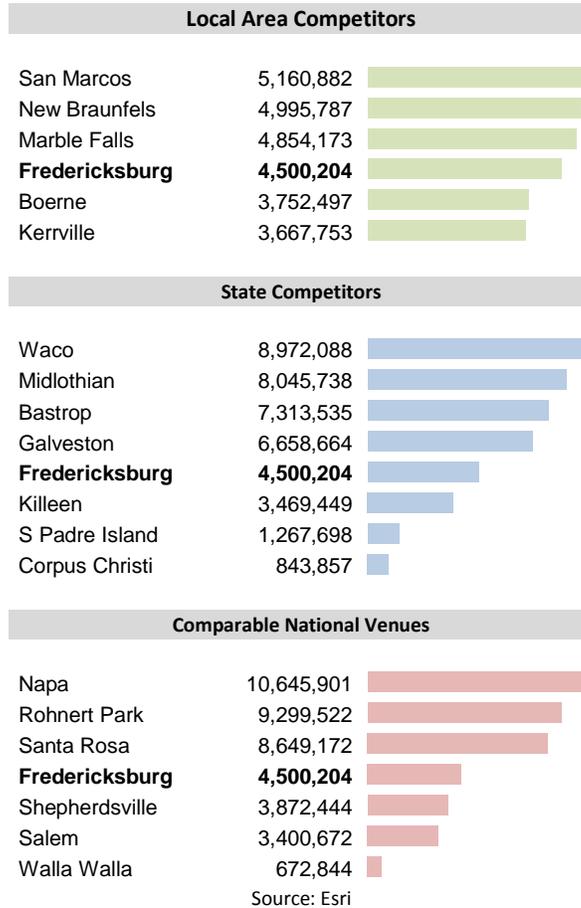
Source: Esri

The number of business establishments roughly follows population size. Fredericksburg has fewer business establishments compared to several local, state, and national markets, which suggests a more modest corporate base from which to draw event demand.

**Surrounding
Population**

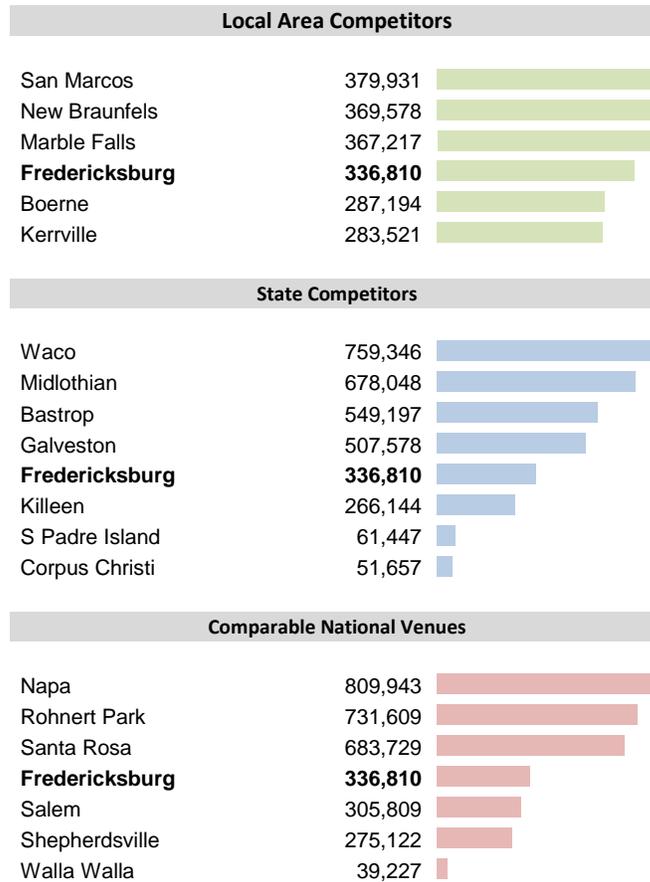
A better indicator of potential conference center demand is the surrounding drive-in market. For the purpose of this analysis, HVS considered the population and number of businesses in the two-hour drive time markets surrounding each competitive and comparable conference center market.

**FIGURE 4-9
TWO-HOUR DRIVE TIME POPULATION OF COMPARABLE MARKETS**



In each of the competitive sets, Fredericksburg has a two-hour drive time population that is at or slightly below the average. The average market size suggests that Fredericksburg has an average potential to generate events from the surrounding cities.

FIGURE 4-10
TWO-HOUR DRIVE TIME NUMBER OF BUSINESS ESTABLISHMENTS



Source: Esri

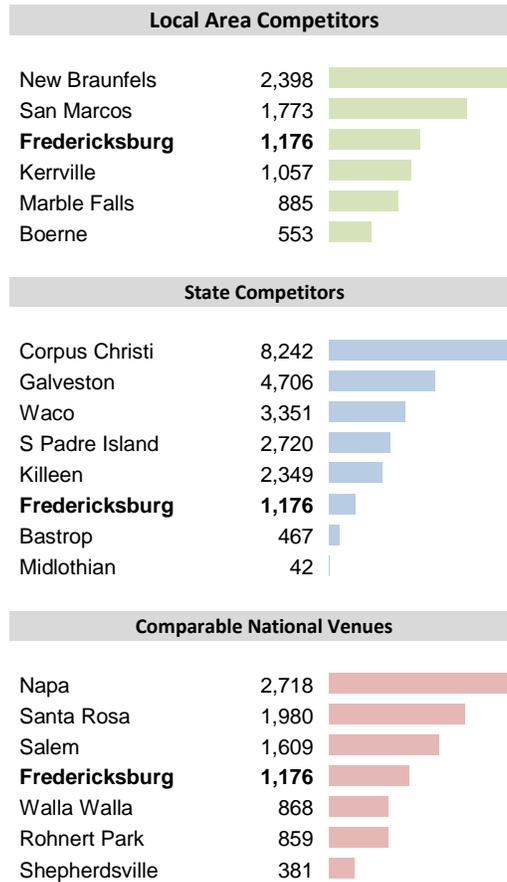
Compared the competitive venues in the Texas Hill Country, Fredericksburg has an average number of surrounding businesses. The other sets contain a wider variety of corporate presence with Fredericksburg falling slightly below the average.

Market Wide Hotel Rooms

Market wide lodging counts provide an indication of the visitation capacity of a market. While many of the comparable venues are integrated hotel conference centers, the market wide hotel capacity can provide insight into a destination’s ability to support a city-wide event in which multiple hotel properties are required for attendee lodging. The following figure presents the number of market-wide hotel rooms included in the STR database. Not all properties report to STR, therefore, the actual number of total guest rooms may differ. HVS assumes that a similar proportion of lodging properties report to STR and that the following

analysis provides a relative comparison of lodging inventory. The following figure presents a comparison of city-wide hotel rooms.

FIGURE 4-11
NUMBER OF CITY WIDE HOTEL ROOMS* IN COMPARABLE MARKETS



Sources: STR, HVS

* All markets above have multiple lodging properties that STR does not track and are not reflected above. In Fredericksburg, these properties, typically B&Bs and other guest houses, sleep approximately 2,000 people.

Fredericksburg has an average number of hotel rooms when compared to other cities in the Texas Hill Country and other national wine country destination. Compared to the destinations in Texas, Fredericksburg’s city-wide lodging inventory is below the average.

**Competitive
Destination Rankings**

HVS ranked Fredericksburg among the in-state competitors and national comparables on each of the destination selection criteria discussed in this report. The criteria include function space and adjacent hotel rooms, population, median

income, corporate presence, and the number of market wide hotel. The rank is based on the numerical data associated with each criterion, with one being the highest rank in each category. For the purpose of this comparison, HVS assumes that the proposed FCC would include 20,000 square feet of total function space and a connected 150-room hotel property.

The figures below show Fredericksburg’s and each of the comparable venues’ rank on each criteria and the total of all scores.

**FIGURE 4-12
RANKING OF LOCAL AREA COMPETITORS**

Venue	Total Function Space	Adjacent Hotel Capacity	City Population	2-hour Drive Time Population	MSA Median Inc	City Businesses	2-hour Drive Time Businesses	Total Hotel Rooms	Overall Rank
Embassy Suites San Marcos Hotel	1	1	2	1	6	2	1	2	1
New Braunfels Convention Center	3	9	1	2	2	1	2	1	2
Horseshoe Bay Resort (Marble Falls)	2	2	6	3	4	6	3	5	3
Proposed Conference Center	4	5	5	4	3	5	4	3	4
Inn of the Hills (Kerrville)	5	4	3	6	5	3	6	4	5
The Resort at Tapatio Springs (Boerne)	6	6	4	5	1	4	5	6	6
Y.O. Ranch Hotel & Conference Center (Kerrville)	7	3	3	6	5	3	6	4	7
Riverbend Conference Center (Marble Falls)	9	7	6	3	4	6	3	5	8
The Retreat at Balcones Springs (Marble Falls)	8	8	6	3	4	6	3	5	9

Compared to eight other destinations in the Texas Hill Country, a proposed venue in Fredericksburg has the fourth overall highest rank, suggesting an above average potential to generate meeting and conference demand.

**FIGURE 4-13
RANKING OF COMPETITIVE IN-STATE CONVENTION CENTERS**

Venue	Total Function Space	Adjacent Hotel Capacity	City Population	2-hour Drive Time Population	MSA Median Inc	City Businesses	2-hour Drive Time Businesses	Total Hotel Rooms	Overall Rank
Waco Convention Center	2	3	3	1	8	2	1	3	1
American Bank Center (Corpus Christi)	1	5	1	8	6	1	8	1	2
Galveston Island Convention Center	5	1	4	4	7	4	4	2	3
Moody Gardens Convention Center (Galveston)	4	2	4	4	7	4	4	2	4
Ortiz International Center (Corpus Christi)	7	6	1	8	6	1	8	1	5
Killeen Civic and Conference Center	3	9	2	6	5	3	6	5	6
Midlothian Conference Center	9	8	5	2	1	6	2	8	7
Proposed Conference Center	8	4	6	5	4	5	5	6	8
South Padre Island Convention Center	6	7	8	7	2	8	7	4	9
Bastrop Convention & Exhibit Center	10	10	7	3	3	7	3	7	10

Compared to nine stand-alone convention centers in small to medium Texas markets, Fredericksburg ranks at or below average for all destination criteria resulting in an overall rank of eighth.

FIGURE 4-14
RANKING OF COMPARABLE NATIONAL VENUES

Venue	Total Function Space	Adjacent Hotel Capacity	City Population	2-hour Drive Time Population	MSA Median Inc	City Businesses	2-hour Drive Time Businesses	Total Hotel Rooms	Overall Rank
Napa Valley Marriott Hotel & Spa (Napa, CA)	6	2	3	1	1	3	1	1	1
Silverado Resort & Spa (Napa, CA)	8	1	3	1	1	3	1	1	2
Meritage Resort & Spa (Napa, CA)	7	5	3	1	1	3	1	1	3
Hyatt Vineyard Creek Hotel & Spa (Santa Rosa, CA)	5	6	1	3	3	1	3	2	4
Double Tree Sonoma Wine Country (Rohnert Park, CA)	4	3	4	2	2	4	2	6	5
Salem Conference Center (Salem, OR)	1	4	2	6	5	2	5	3	6
Proposed Conference Center	2	7	7	4	4	6	4	4	7
Paroquet Springs Conference Centre (Shepherdsville, KY)	3	9	6	5	6	7	6	7	8
Whitman Hotel & Conference Center (Walla Walla, WA)	9	8	5	7	7	5	7	5	9

Compared to eight conference centers and hotels in wine country locations throughout the U.S., Fredericksburg ranks about average on destination criteria resulting in an overall rank of seventh.

Conclusions and Implications for Fredericksburg

When analyzed in the context of the overall market characteristics presented in Section 2 of this report, a study of competitive and comparable cities and venues indicates the appropriate building program for a conference center in Fredericksburg. When compared to group meeting venues in competing local markets, Fredericksburg’s potential in the meetings industry is above average. However, within the State of Texas, Fredericksburg faces competition from several stand-alone venues and hotels with large amounts of conference space. A study of the comparable national venues provides insight into the types of venues which have had success in similar wine country destinations.

HVS concludes that the size, quality, and overall suitability of Fredericksburg’s current meeting spaces are not commensurate with the city’s ability to attract group events. Without improvement, Fredericksburg may begin to lose business to other markets that are developing new meeting venues. With a properly designed and located conference facility, Fredericksburg’s established presence and overall attractiveness as a tourism destination should allow the city to significantly expand meeting demand from its current level. Several market factors could temper this demand potential, including limited air service and hotel availability during prime tourism seasons.

5. Survey Findings

Overview

HVS designed and conducted a survey of event planners to provide a basis for assessing the potential demand for a conference center development in Fredericksburg, Texas. This survey gathered information from professional event planners about their event needs and event destination preferences.

HVS collected contact information for 638 event planners from the Fredericksburg Convention and Visitor Bureau (“FCVB”). Via email, HVS introduced the purpose of the survey and provided a link to the web-based survey. HVS also contracted with Plan Your Meetings to perform an email “Blast” to roughly 4,000 Texas-based corporate and association meeting planners. The Blast included similar information as the HVS email and also provided the survey link. Survey responses included 121 completed survey and 49 partial surveys in which the respondent left one or more questions blank.

The following summary of responses highlights key results.

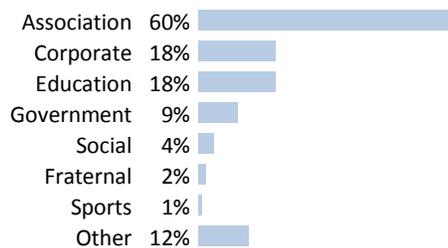
Survey Respondents

To indicate whether this group of respondents fairly represents a cross section of the meeting industry, HVS collected data on the type of organization they represent and the types of events they plan.

Survey respondents represent nearly 50 cities in the state with the largest majority (39 percent) residing in Austin. Other well represented metro areas include Dallas (17 percent) and Houston (6 percent).

To understand the types of organizations responding to the survey, HVS asked respondents a series of questions to describe the organizations they represent and their past use of venues in the market. Respondents may represent more than one type of organization, as shown in the figure below.

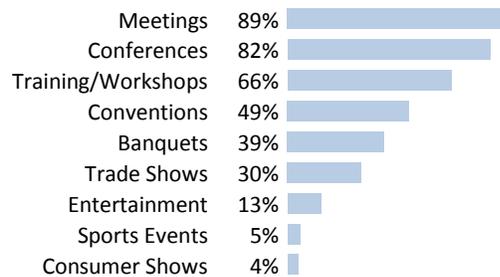
FIGURE 5-1
RESPONDING ORGANIZATIONS BY TYPE



Event planners representing associations make up 60 percent of the sample, followed by those representing corporations and educational institutions which each represent approximately 20 percent of the sample.

HVS asked event planners to identify the types of events they plan.

**FIGURE 5-2
TYPES OF EVENTS PLANNED**



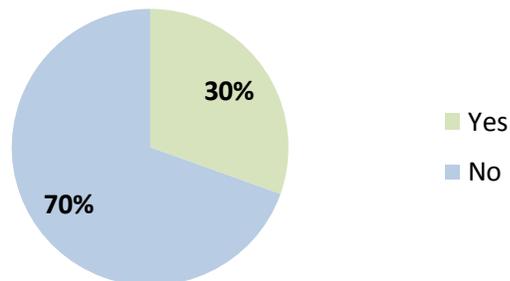
Meeting planners organize a wide variety of event types—most often meeting and conferences. Two-thirds plan training meetings and workshops, while nearly half plan conventions.

The sample obtained through this survey appears to reflect a broad cross section of event planners that are typical of the make-up of the industry as a whole.

Past Events

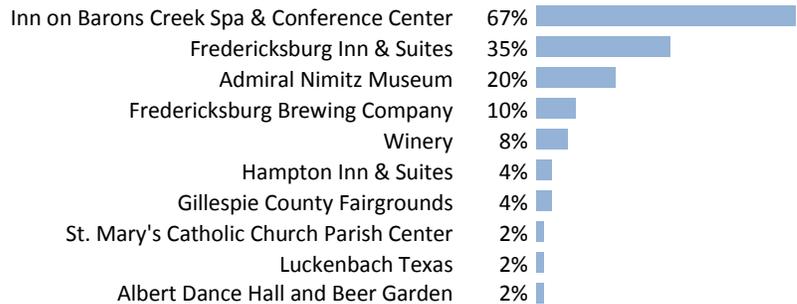
HVS asked event planners if they had planned an event in Fredericksburg during the past five years. See the figure below.

**FIGURE 5-3
EVENT HELD IN FREDERICKSBURG DURING
PAST 5 YEARS**



Approximately 30 percent of the survey respondents have hosted at least one event in Fredericksburg during the past five years, while 70 percent have not. For those planners who responded “yes” to the above question, HVS asked them to identify the Fredericksburg venues in which they placed their events.

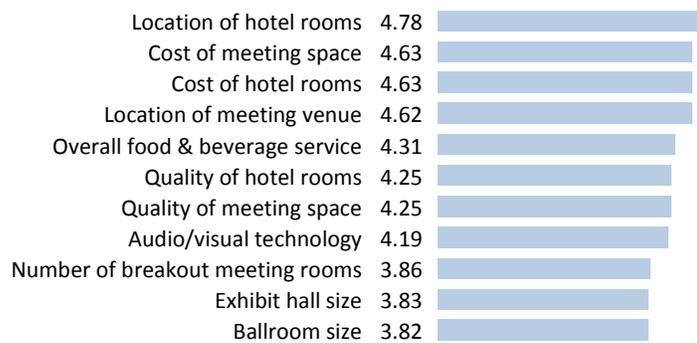
FIGURE 5-4
FREDERICKSBURG EVENT VENUES BOOKED BY EVENT PLANNERS



The Inn on Baron’s Creek was the most often mentioned venue by the respondents with approximately two-thirds having hosted an event at the property. Other often mentioned venues include Fredericksburg Inn & Suites, the Admiral Nimitz Museum, and the Fredericksburg Brewing Company. Becker Vineyards is the most often mentioned winery for events.

For those planners who had hosted an event in Fredericksburg, HVS asked them to rate their satisfaction with the city’s event infrastructure. In the following figure, a score of five indicates fully satisfied and a score of one indicates extremely dissatisfied with their experience in Fredericksburg.

FIGURE 5-5
PLANNER SATISFACTION WITH FREDERICKSBURG VENUES

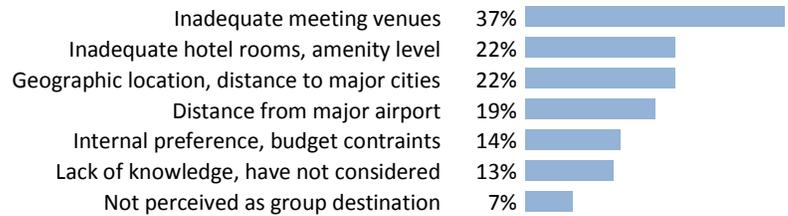


Most planners who have hosted in Fredericksburg have been satisfied with the location and costs of hotel rooms and meeting space. The overall quality of hotels

and meeting space ranks slightly lower. Planners are less satisfied with the size of event spaces as well as the number of available meeting rooms.

In an unaided question, HVS asked the 70 percent of event planners who have not held an event in Fredericksburg to identify why. HVS classified their answers into the categories shown in the figure below.

FIGURE 5-6
REASONS FOR NOT HOSTING EVENT IN FREDERICKSBURG



Meeting planners most often indicated the lack of sufficient meeting space as the primary reason for not hosting their events in Fredericksburg. Inadequate hotel rooms and the lack of resort amenities received several mentions as did Fredericksburg’s distance to major cities and airports. Several planners indicated a lack of knowledge about the destination and their perception that Fredericksburg is not a group destination.

HVS asked all event planners to identify up to five facilities outside of Fredericksburg in which they have recently held events. Respondents noted a variety of hotels, convention centers, conference centers, and other venues. The following figure shows the percentage of venue use by type.

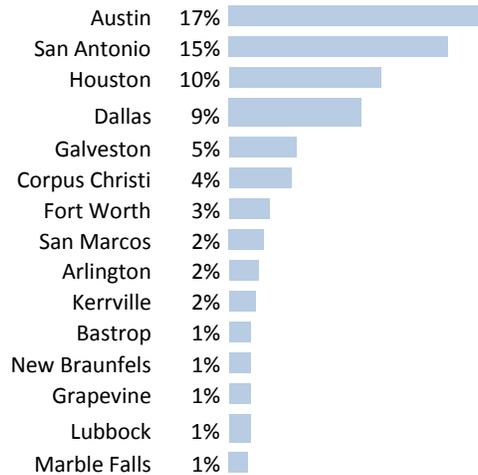
FIGURE 5-7
RECENTLY BOOKED EVENTS BY TYPE OF VENUE



Hotels and resorts make up over three-quarters of all other venues in which event planners have booked events. Convention and conference centers make up another 16 percent.

In total, planners reported hosting events in over 100 cities, with over 90 percent of those cities in the State of Texas. The following figure shows the Texas cities in which event planners most frequently place events.

**FIGURE 5-8
RECENTLY BOOKED EVENTS BY CITY**

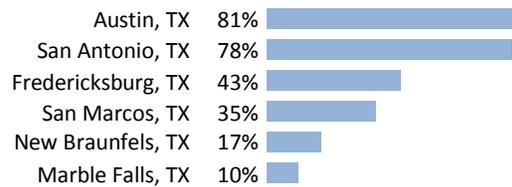


Planners identify venues in Austin, San Antonio, Houston, and Dallas most frequently. The smaller, coastal cities of Corpus Christi and Galveston also received several mentions. The most often mentioned cities in the Texas Hill Country include San Marcos, Kerrville, New Braunfels, and Marble Falls.

**Meeting Planner
Preferences and
Perceptions**

HVS asked event planners to identify the three best locations for planning their events from a list of cities in and around the Texas Hill Country. The following figure provides the top six destinations most often identified by event planners.

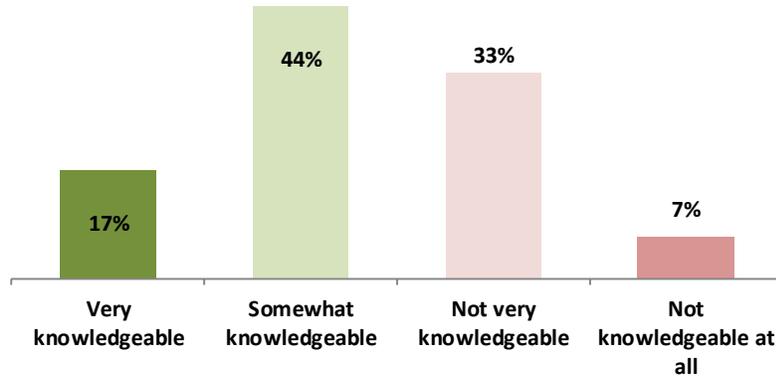
**FIGURE 5-9
TOP EVENT DESTINATIONS**



Planners mention the larger cities of Austin and San Antonio most often as the most desirable for their events. Since a large portion of the survey list includes event planners that have previously held an event or expressed an interest in Fredericksburg, Fredericksburg also receives the several mentions. San Marcos receives the next highest number of mentions followed by New Braunfels and Marble Falls.

Before responding to a series of questions regarding their perception of Fredericksburg as a group event location, HVS asked meeting planners to identify their level of knowledge about the destination.

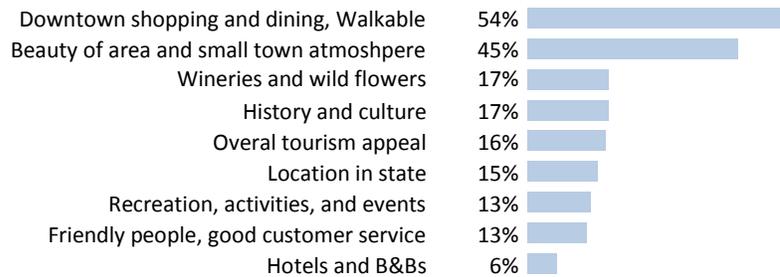
FIGURE 5-10
KNOWLEDGE OF FREDERICKSBURG



Over 60 percent report that they are at least somewhat knowledgeable about Fredericksburg. The remaining 40 percent of event planners claim to have little to no knowledge of the city as an event destination.

In an unaided, open response question, HVS asked meeting planners to state what they believe to be Fredericksburg’s main strengths and weaknesses as a group event destination. The following figures summarize their responses.

FIGURE 5-11
DESTINATION STRENGTHS



Event planners cite Fredericksburg’s quaint downtown and shopping and dining opportunities most often. Many planners also note the beauty of the Texas Hill Country and the small town atmosphere. Other strengths include the area’s wineries and the history and culture of the city.

FIGURE 5-12
DESTINATION WEAKNESSES

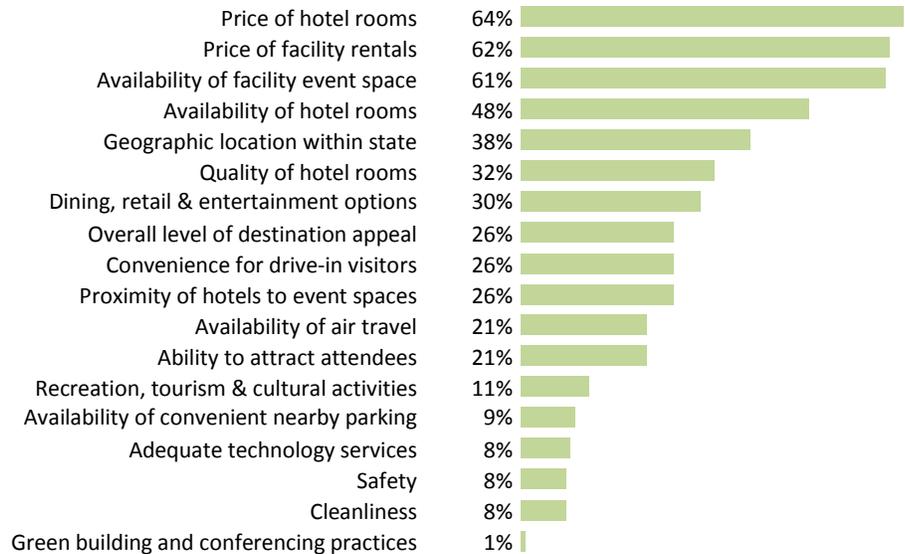


Event planners most frequently cited Fredericksburg’s location as its primary weakness as an event destination. Planners also note the City’s lack of meeting space for larger events. Fredericksburg’s smaller hotels and lack of a full service property also received several mentions from event planners.

Some destination attributes such as the availability of destination amenities appear as both strengths and weaknesses, which reflects the variety of locations, perspectives, and needs of event planners.

HVS asked survey respondents to identify their five most important criteria when selecting an event destination. The following figure presents the percentage of survey respondents who indicated which selection criteria ranked in their top five.

FIGURE 5-13
PERCENTAGE OF PLANNERS WHO CONSIDER CRITERIA MOST IMPORTANT



Most event planners cited the price of hotel rooms and event space and the availability of adequate facility event space as the important criteria when

selecting an event location. Just under half of the planners noted that the availability of hotel rooms also helps determine their choice. The geographic location, hotel quality, and dining, retail and entertainment options also rank highly among the respondents. Approximately one-quarter of event planners identified the proximity of hotel rooms to event space as one of their top five criteria.

HVS then asked event planners to rate Fredericksburg on these same criteria. In the following figure, a rating of five means excellent and a rating of one means poor.

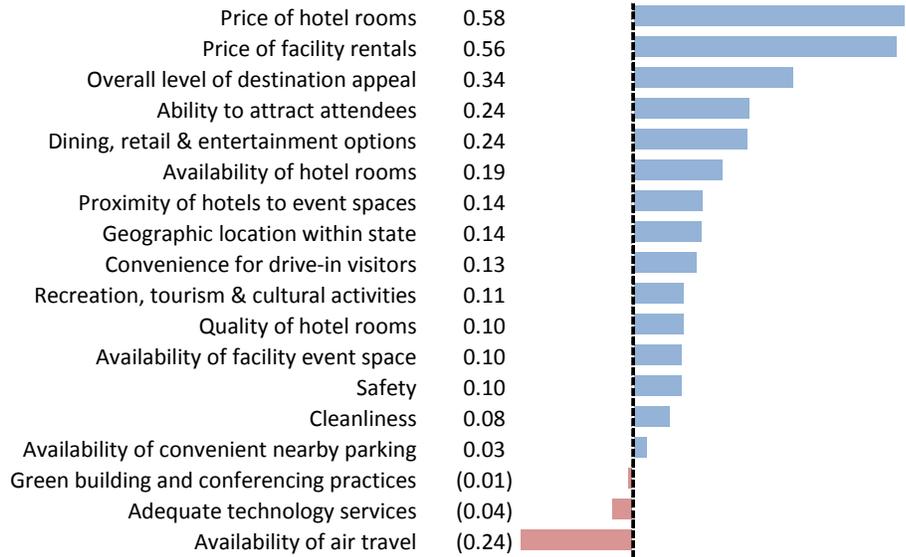
FIGURE 5-14
PLANNERS' SCORE OF FREDERICKSBURG ON CRITERIA



Fredericksburg received excellent ratings for the relatively important criteria of overall destination appeal and ability to attract attendees. It also ranks high on other criteria, such as safety and cleanliness. However, these criteria are less important to event planners, and therefore, do not create a significant advantage for the destination. Fredericksburg received above average ratings on pricing and average ratings on hotel room availability and geographic location.

To understand the relative impact of these perceptions, HVS created a net score for each criteria and weighted each net score by its importance as shown below.

**FIGURE 5-15
PLANNERS' NET RATING WEIGHTED FOR IMPORTANCE***



*Event planner score times the percentage of event planners who said the criteria was one of the five most important criteria.

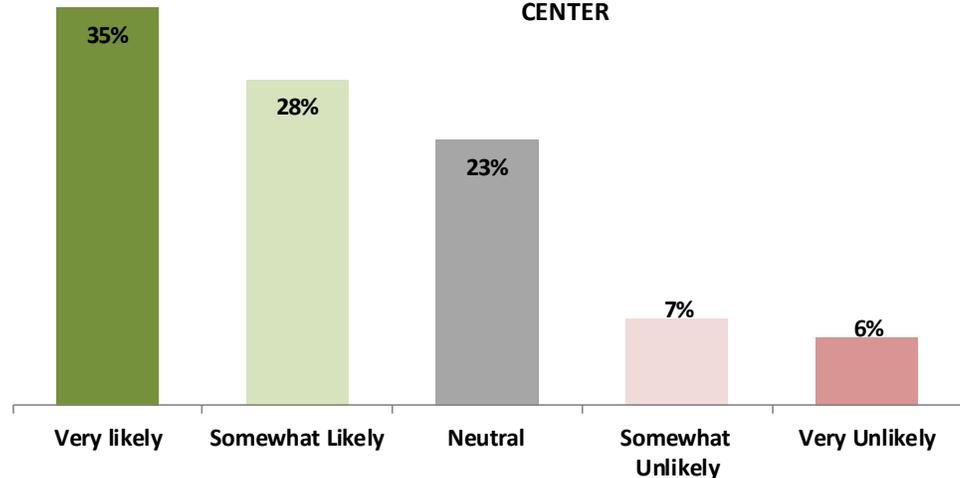
In interpreting these results, we assume that high and low scores make a meaningful difference in event planner decisions, and middle scores minimally effect their decisions. Net weighted scores near and below zero indicate a negative effect on demand. In the case of Fredericksburg, the lack of air travel has a negative effect on meeting demand potential.

**Event Characteristics
and Facility
Requirements**

HVS told event planners that Fredericksburg is considering the development of a new, stand-alone conference center. Based on this information, HVS asked respondents how likely they would be to book and event in Fredericksburg if the new venue met their event needs. The following figure presents the results of these responses.

FIGURE 5-16

LIKELIHOOD OF BOOKING EVENT IN FREDERICKSBURG CONFERENCE CENTER

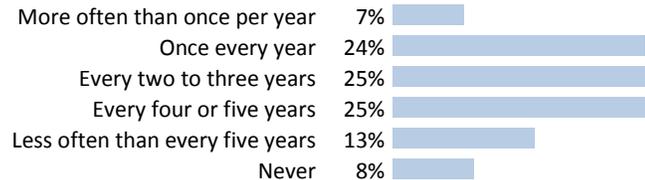


Well over half of the event planners (63 percent) would be very likely or somewhat likely to book an event in a new Fredericksburg conference center. This figures compares favorable to the 30 percent who have booked events in Fredericksburg in the past. Over 20 percent of the planners remain neutral, suggesting that continued marketing efforts are warranted to positively persuade this set of planners. Only a small percentage of planners report that they would be unlikely to host an event in Fredericksburg.

The figure below shows the frequency with which event planners would book events at the proposed conference center development if the venue met their function space needs.

FIGURE 5-17

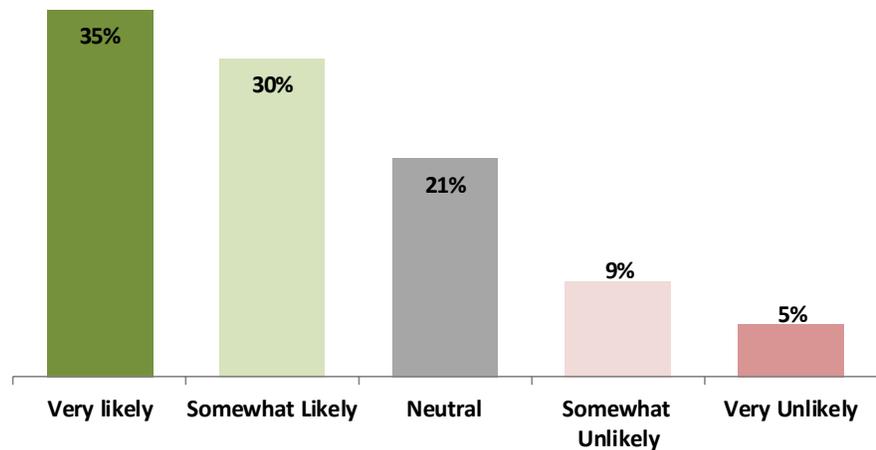
FREQUENCY OF EVENTS IN FREDERICKSBURG



Approximately 30 percent of the respondents would host an event in Fredericksburg at least once per year. Half would book an event every two to five years. Less than one-quarter would book less often or never.

HVS told event planners that Fredericksburg is also considering the development of a conference center hotel. Based on this information HVS asked respondents how likely they would be to book an event in Fredericksburg if the meeting space and adjacent hotel met their event needs. The following figure presents the results of these responses.

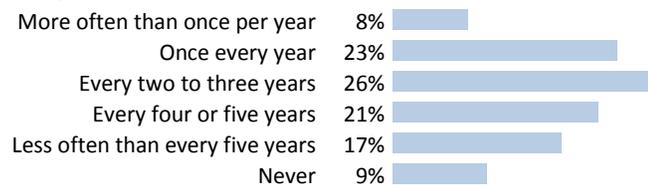
FIGURE 5-18
LIKELIHOOD OF BOOKING EVENT IN FREDERICKSBURG
CONFERENCE CENTER HOTEL



With the inclusion of an adjacent hotel, the percentage of event planners that would be likely to host an event in Fredericksburg increases modestly from 63 to 65 percent.

HVS asked event planners how often they would book events at conference center hotel in Fredericksburg if the venue and hotel met their function space needs.

FIGURE 5-19
FREQUENCY OF EVENTS IN FREDERICKSBURG

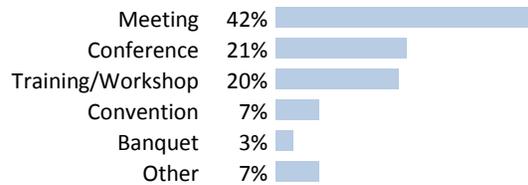


With the inclusion of an adjacent hotel, event planners indicate only a modest change in the frequency of event than for a stand-alone center.

To determine building program needs, HVS asked event planners to identify and describe their most typical or important event. This information included the name of the event, the type of event, approximate attendance, transportation methods, and the facility and lodging requirements. The responses shown in the following figures aggregate only the responses of event planners that would potentially consider booking an event in Fredericksburg, excluding those event planners that indicated they were somewhat unlikely or very unlikely to place an event in the proposed venue. Consequently, the results indicate the size, type, and attributes of a venue that would address the needs of event planners that would actually consider using the venue.

The following figure breaks down the events by type of meeting.

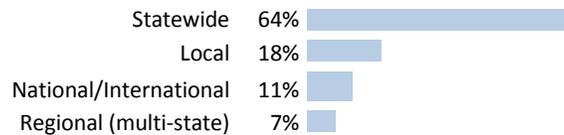
**FIGURE 5-20
EVENTS BY TYPE**



Meetings, conferences, and training make up a large majority (83 percent) of the events that would use the proposed venue. Conventions, banquets and other entertainment and trade shows make up the remaining 17 percent.

HVS asked survey participants to identify the scope (geographic origin of attendees) of their most typical event.

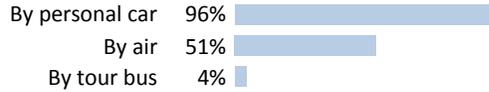
**FIGURE 5-21
EVENTS BY ATTENDEE ORIGIN**



Well over half of the events described by event planners have a state-wide attendee base. Local events make up the next highest percentage with fewer regional and national based events.

HVS asked event planners to identify all transportation methods event attendees use to travel to an event destination.

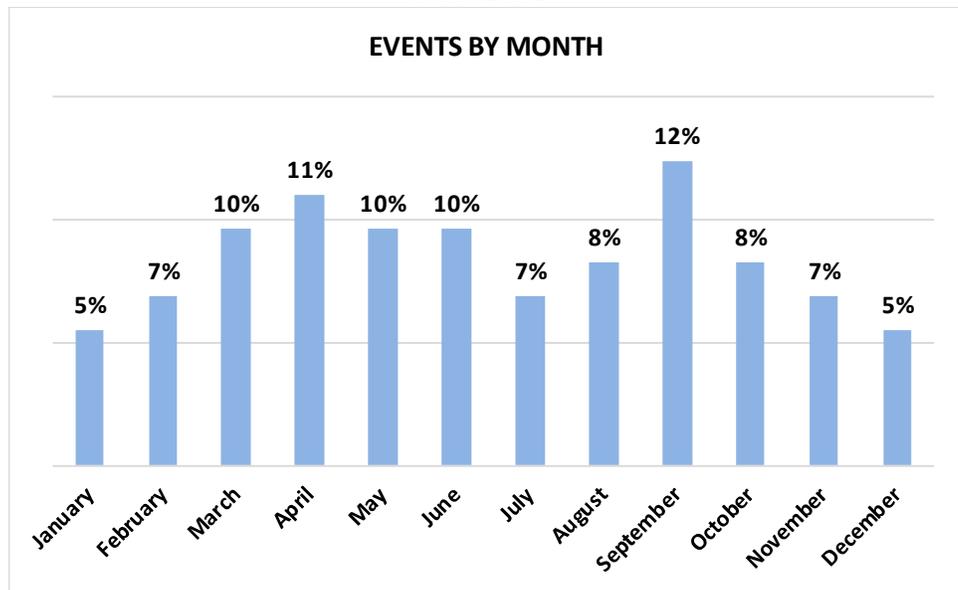
FIGURE 5-22
ATTENDEE TRANSPORTATION MODE



Almost all of events have at least some attendees travel by personal car, but over half of events require some attendees to use air travel. A small percentage of events use tour busses for attendees.

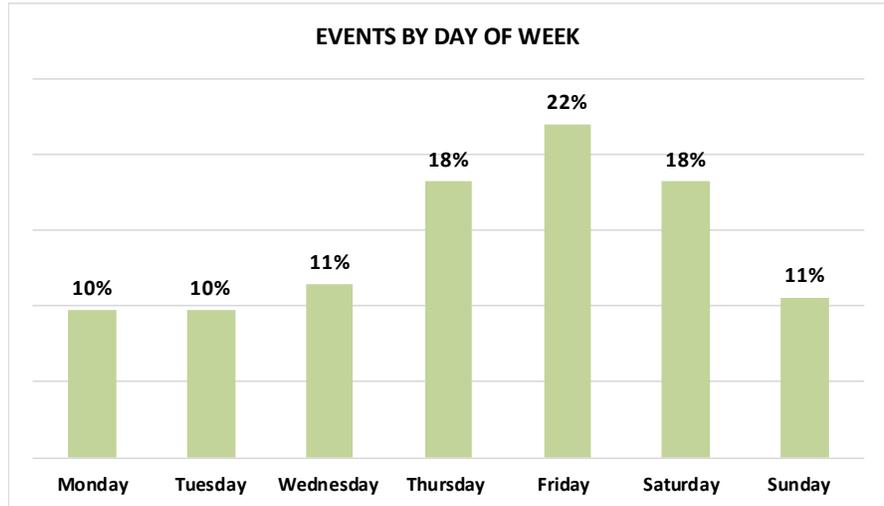
In order to determine the suitability for the events to be held in Fredericksburg, HVS asked event planners to identify the month and the days of the week in which the typical event takes place.

FIGURE 5-23
EVENTS BY MONTH



Most events occur in the spring and fall months with the most active times during March through June and September.

FIGURE 5-24



Events take place throughout the week with most occurring Thursday through Saturday.

HVS asked event planners to identify the typical type of venue in which they place their event.

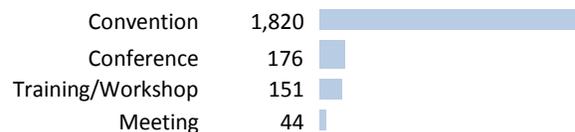
FIGURE 5-25
EVENTS BY TYPE OF VENUE



The greatest percentage of the events described are typically held in hotels and resorts. Around one-quarter are held in event venues or other venues including restaurants, museums, offices, and sports venues.

Event attendance levels indicate the quantity and size of function spaces that events require. HVS calculated the average attendance for each event type reported that could occur in the proposed convention or conference center.

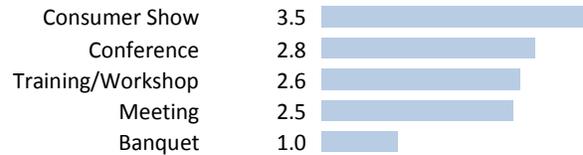
FIGURE 5-26
AVERAGE EVENT ATTENDANCE BY TYPE OF EVENT



The above figure shows that average attendance levels vary by event type. Conventions attract approximately 1,800 attendees, while conferences and training sessions average 150 to 175 attendees. Meetings are generally smaller events.

Event length also varies by event type. HVS asked event planners to identify the duration of their event.

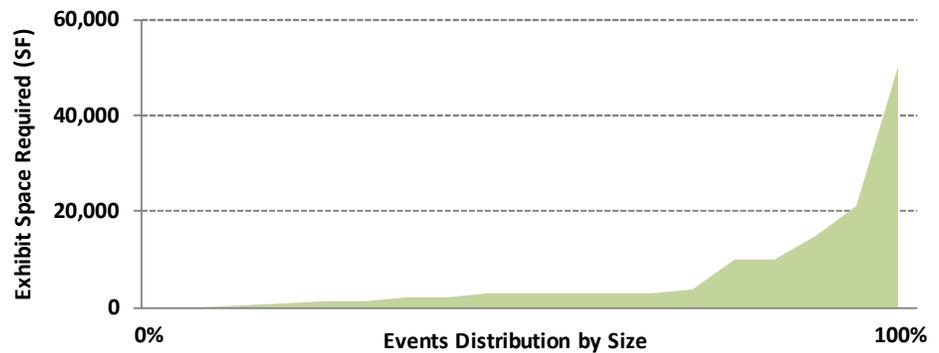
FIGURE 5-27
AVERAGE EVENT EVENT LENGTH BY TYPE OF EVENT



Most event last multiple days with consumer shows and conferences having the longest duration.

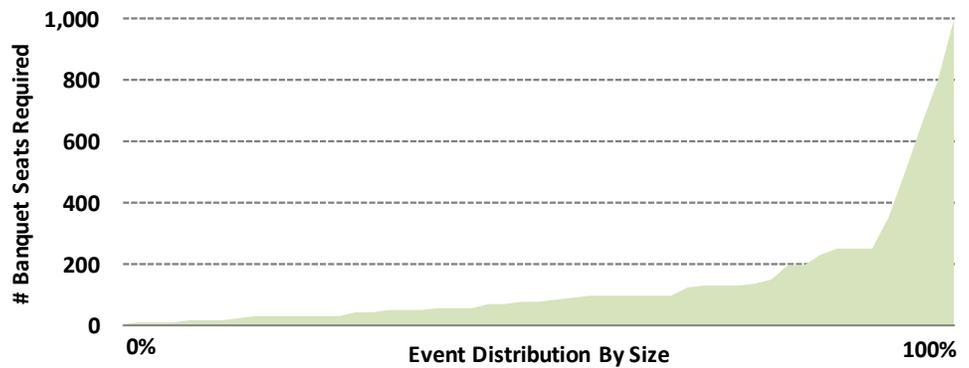
HVS asked event planners to identify facility exhibit, banquet, and meeting room needs for their events. Since facility needs vary by event type, HVS considers only those events which require a specific function space. For example, HVS excluded meetings from the analysis of exhibit space requirements. The following figures present distributions of space requirements for exhibit space, banquet seating, and meeting rooms.

FIGURE 5-28
EXHIBIT SPACE REQUIREMENTS FOR EXHIBIT EVENTS



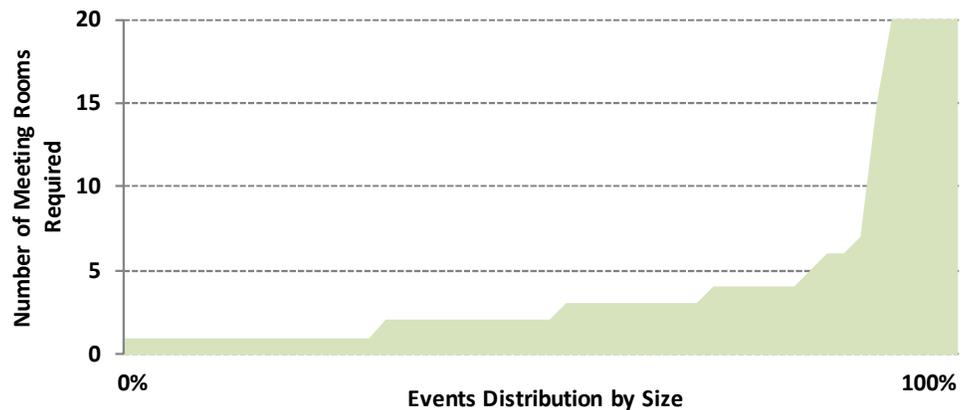
Most events described by planners do not require exhibit space. For those that do, three-quarters require less than 5,000 square feet and those that require larger amounts of exhibit space do not have a need for large banquet space.

FIGURE 5-29
BANQUET SEATING REQUIREMENTS FOR ALL EVENT TYPES



Most events require banquet seating for their attendees. Approximately 90 percent of the events require banquet seating for 250 people or less.

FIGURE 5-30
MEETING ROOM REQUIREMENTS FOR ALL EVENT TYPES



Most events also require breakout meeting space. Approximately 88 percent of events require 10 meeting rooms or fewer.

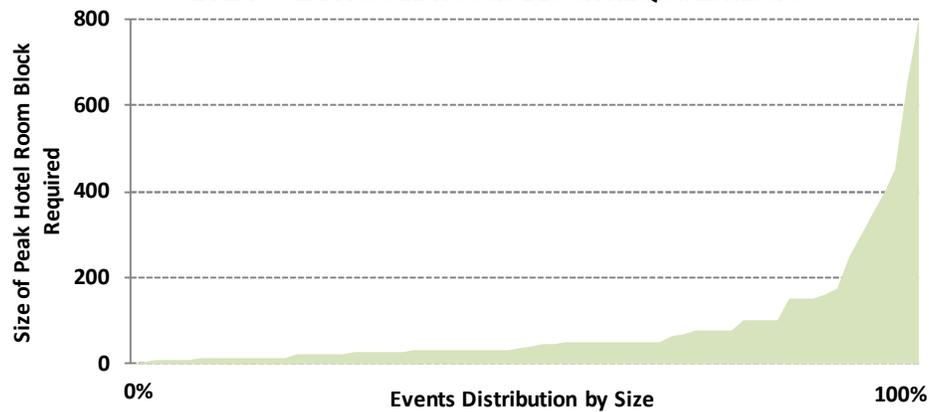
The above figures provide insight into the exhibit space, banquet seating, and meeting room requirements for typical events that event planners could book in Fredericksburg. These results also inform program recommendations as well as potential event demand and attendance projections.

Hotel Room Block Requirements

Hotel room block requirements for conventions, conferences, and other events can vary significantly and do not necessarily follow attendance levels.

FIGURE 5-31

EVENT PEAK HOTEL ROOM BLOCK REQUIREMENTS

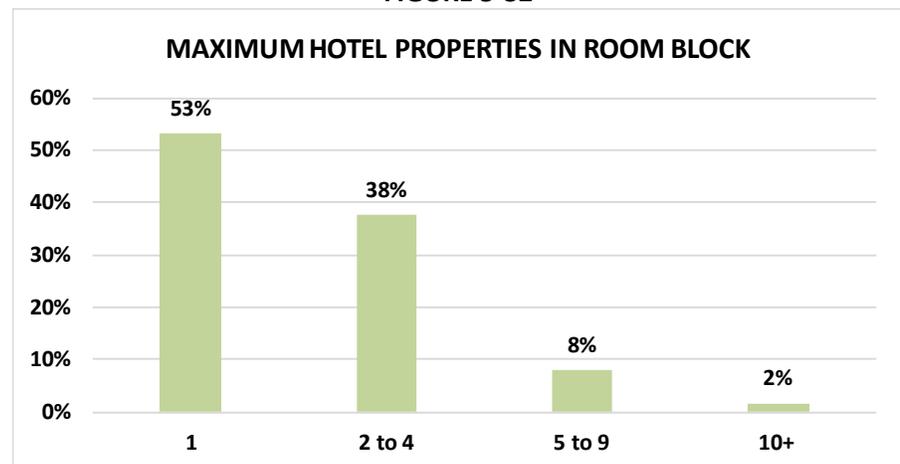


Around 90 percent of events described by planners require a peak meeting room block of fewer than 200 rooms, and 75 percent require fewer than 100 rooms.

HVS asked event planners to identify their preferred and maximum number of hotel properties necessary to accommodate their room block. The vast majority of planners (87 percent) prefer a single hotel property accommodate their entire room block. The following figure presents the maximum number of hotel properties that would be acceptable to event planners.

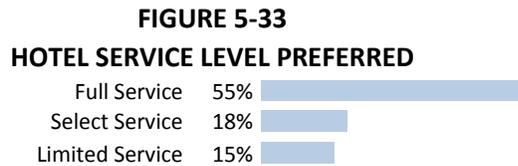
FIGURE 5-32

MAXIMUM HOTEL PROPERTIES IN ROOM BLOCK



Over half of the event planners would only consider a single property, and over 90 percent would only accept four or fewer hotel properties for their room block.

HVS asked event planners to identify the hotel service level preferred for their room block. The following figure presents the results of this analysis.

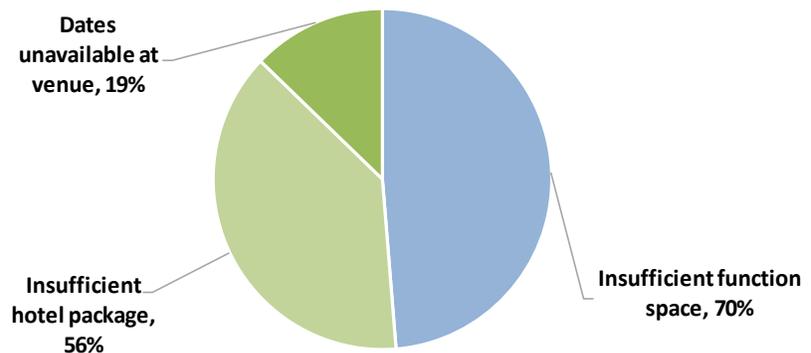


Preferences for hotel service levels are mixed with over half of the planners preferring a full service hotel and approximately equal numbers preferring select or limited service properties.

Event Infrastructure Needs

In order to further evaluate the specific meeting infrastructure needs in Fredericksburg, HVS asked event planners whether they had ever wanted to host an event in Fredericksburg but did not due to insufficient event infrastructure. Approximately 30 percent of survey respondents reported that they had been unable to host an event in Fredericksburg for this reason. Of those who responded positively, HVS asked them to specify the type of event infrastructure that was insufficient.

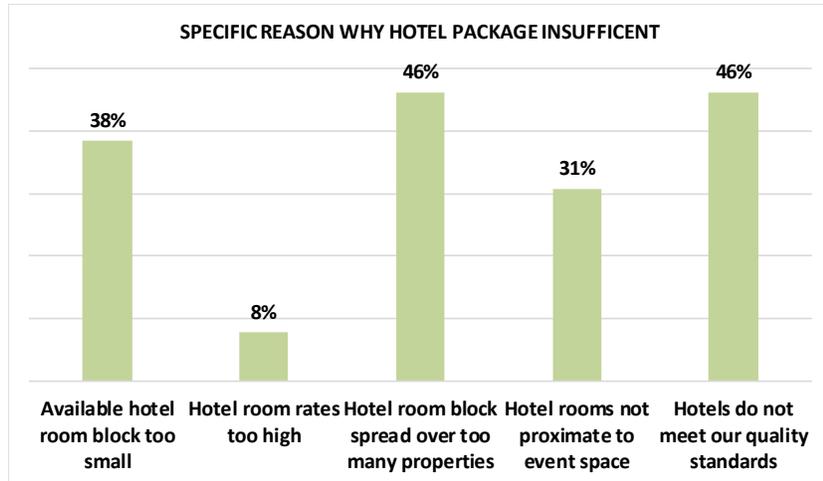
FIGURE 5-34
REASONS FOR NOT BOOKING DUE TO EVENT INFRASTRUCTURE



Insufficient function space received the most mentions from event planners while insufficient hotel package ranked second.

For those planners who cited an insufficient hotel package as the reason for not booking an event in Fredericksburg, HVS asked them to identify the specific reasons. For the following analysis, respondents could give more than one answer.

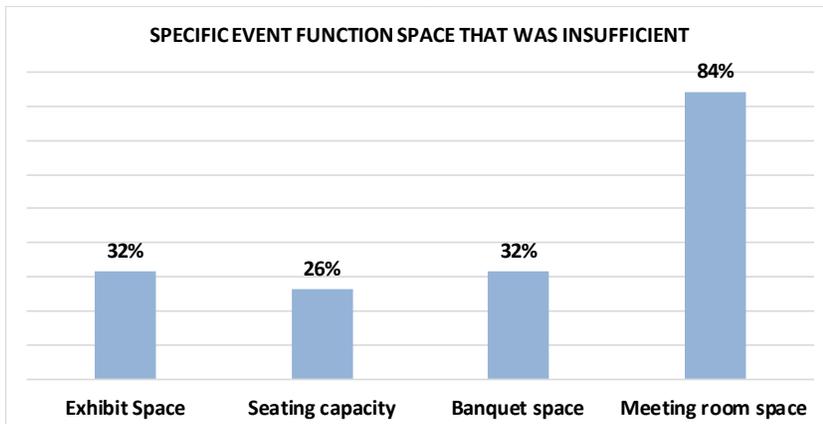
FIGURE 5-35



Nearly half percent of event planners who have not booked in Fredericksburg due to hotel insufficiencies indicate hotels are spread over too many properties and do not meet quality standards. Small room blocks also received several mentions.

For those planners who have not been able to host in Fredericksburg due to insufficient function space, HVS asked them to identify the specific space that was lacking. For the following analysis, respondents could give more than one answer.

FIGURE 5-36



Survey Conclusions and Implications for Fredericksburg

Almost 85 percent of respondents noted a lack of breakout meeting space in Fredericksburg and over 30 percent indicated that there is insufficient ballroom and exhibit space.

Survey respondents provide a good sample representation of the target market for the proposed conference center with the majority of planners representing associations, corporate businesses, and education groups in Texas. The event planners represent a variety of entities and plan a range of meeting and event types and sizes. Key findings and conclusions include the following:

- Based on historical bookings and event planner perceptions, the strongest competition for the proposed conference center in Fredericksburg would come from hotel properties in the surrounding metropolitan areas of Austin and San Antonio and the Texas Hill Country destination of San Marcos.
- For those planners who have booked an event in Fredericksburg, most have been satisfied with the location and cost of hotel rooms and meeting venues. Many are less satisfied with the quality of meeting venues and hotel rooms. Aspects related to the size of event spaces received the lowest rankings from planners.
- The greatest deterrents to event planners considering Fredericksburg for an event are its distance from major cities and airports and its lack of adequate venues in which to place events. Specifically, planners identified the lack of full service hotel properties and meetings space which is too small and dated.
- Fredericksburg has several strengths as a group event destination, including its quaint downtown, dining and retail amenities, and natural beauty. Other planners note the area's wineries and the history and culture of the city as desirable attributes.
- Given a conference center which suits their needs, over 60 percent of the planners feel that they would be "likely" or "somewhat likely" to book an event at the proposed venue in Fredericksburg. This figure increases slightly to 65 percent when planners were asked to consider a conference center hotel. Both of these figures compare favorably to the 30 percent of respondents who had booked events in Fredericksburg in the past.
- Approximately 90 percent of events described by event planners could be accommodated by a venue with banquet seating for 250 people, 10 meeting rooms, and around 5,000 square feet of exhibit space.
- Approximately 90 percent of the events described by event planners require a hotel room block of less than 200 rooms, and 75 percent of events require a room block of less than 100 rooms. The greatest majority of event planners prefer to book a room block in one full service hotel but would accept a block of up to four properties.



- Of those planners who have not been able to book an event in Fredericksburg, 70 note a lack of function space as the primary reason. Planners indicate a lack of adequate meeting most often.

6. Building Program Recommendations

In this section, HVS provides market driven recommendation for the development of a Fredericksburg Convention Center (“FCC”). The market area analysis, event planner survey, and analysis of comparable and competitive markets indicate that the development of a FCC would allow the city to grow its current meeting and conference demand, offering event planners an additional option for events in the Texas Hill Country

The facility recommendations presented herein describe the floor areas of various types of function spaces and other important convention center amenities. To formulate the recommendations for the proposed development, HVS relied on the following.

- An review of existing meeting and convention infrastructure in Fredericksburg,
- An in-depth user survey,
- An analysis of event space programming in competitive venues and comparable markets,
- Interviews with Fredericksburg Convention & Visitors Bureau (“FCVB”) staff regarding existing meeting demand and lost business, and
- Knowledge of standard industry practices.

The development program presented in this section should serve as a guide for subsequent physical planning aimed at providing the desired facility elements.

In terms of function space, Fredericksburg’ largest convention hotel property is the Hangar Hotel and Airport Conference Center which houses approximately 20,000 square feet of function space. With only 50 hotel rooms and located southwest of downtown Fredericksburg, this property lacks convenient access to restaurants, retail shops, and other lodging to support its function space. The Inn on Barons Creek, with 6,000 square feet, the Fredericksburg Inn and Suites, with 3,700 square feet, and the Hampton Inn with 2,500 square feet represent the largest hotel meeting venues in downtown Fredericksburg. While they offer higher quality space, these properties do not offer adequate amounts of function space for many events.

Program Recommendations

Other event spaces in Fredericksburg include the Gillespie County Fairgrounds, dance halls, restaurants, and function rooms in museums and churches. These venues are suitable for banquets and social functions, but do not contain the breakout meetings spaces necessary to support a conference or small convention.

HVS's survey of event planners indicates that many factors influence planners' selection processes when considering Fredericksburg as an event destination. Fredericksburg's existing reputation throughout Texas as a desirable tourism destination suggests that expanded event space could allow the City to expand its presence in the group meetings industry. If the development of a conference center in Fredericksburg produced a venue that suited their needs, around 65 percent of respondents report that they would likely host an event there. This compares favorably to the 30 percent of survey respondents who have held an event in Fredericksburg in the recent past.

HVS program recommendations for the proposed FCC would place Fredericksburg in a position to attract a significant number of new meetings and conferences to the Fredericksburg market. The venue could also serve the customer base currently using other smaller, older facilities in Fredericksburg, allowing many events which face venue size restrictions to grow and remain in Fredericksburg.

Functional requirements of the proposed FCC revolve around the principle that the venue must host simultaneous events with different venue needs, such as social events that use banquet space and corporate meetings that use a combination of meeting and banquet space. Banquet and meeting spaces should have sufficient size to accommodate large conferences with flexible divisions that can also serve as meeting and banquet space for smaller association and corporate events. Back of house spaces, including the loading dock and storage areas, should serve multiple events without hindering the efficiency of another event's operation. Specific recommendations include the following elements.

- A 12,000 square foot multipurpose ballroom with a flexible wall system to allow the space to divide into three sections that could serve as space for banquets, light exhibition, and large assembly meeting space, and
- A 5,500 square foot meeting room block with a variety of large and small meeting spaces,

The following figure provides a summary of FCC functions spaces. Detailed descriptions of FCC function and support spaces follow.

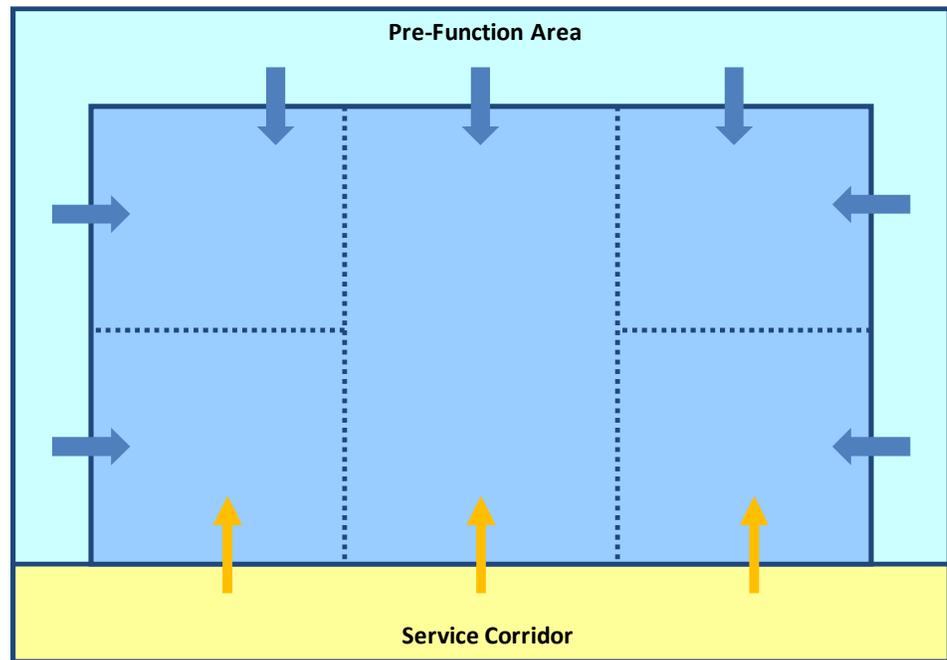
**FIGURE 6-1
FCC BUILDING PROGRAM RECOMMENDATIONS**

Event Space	Total Area (SF)	Capacities			Exhibit Booths (10'x10')
		Theatre	Banquet	Classroom	
Multipurpose Ballroom	12,000	1,330	710	830	70
Sub-Divisions					
Division 1	4,000	440	240	280	
Sub-division 1a	2,000	220	120	140	
Sub-division 1b	2,000	220	120	140	
Division 2	4,000	440	240	280	
Division 3	4,000	440	240	280	
Sub-division 3a	2,000	220	120	140	
Sub-division 3b	2,000	220	120	140	
Meeting Rooms	5,500				
Medium (2 at 1,500 sf)	3,000	170	90	100	
Small (2 at 750 sf)	1,500	30	10	20	
Board Rooms (2 at 500 sf)	1,000				
TOTAL MEETING SPACE	17,500				

Multipurpose Ballroom

Site constraints and other design issues would affect the final layout of the multipurpose ballroom. To allow for maximum flexibility as light exhibit, banquet, and meeting space, the multi-purpose ballroom should be carpeted with durable wall finishes and ceilings heights suitable for exhibit and banquet events. The multi-purpose ballroom should have convenient access to a main lobby and other pre-function spaces which are either stand-alone or shared with other function spaces. Service access should be such that each division of the multi-purpose hall has independent rear access allowing an event to take place in one division while another is being serviced for a separate event. The following figure provides of conceptual plan of the proposed multi-purpose hall.

**FIGURE 6-2
MULTIPURPOSE BALLROOM CONCEPTUAL LAYOUT**



Meeting Spaces

Meeting space is essential to provide breakout space for larger conference and meeting events and to support stand-alone meetings and food and beverage functions. Many events require banquet space which is separate and distinct from a meeting room block. While site constraints and other design issues will affect the final layout of these functional spaces, configuration of the meeting room block should be such that they conveniently support the new multipurpose hall. HVS recommends that the new meeting space be located in flexible blocks in areas which are conveniently accessible for attendees and efficiently serviced by event staff.

Event Support and Service Spaces

In addition to the function spaces provided above, the gross floor area of the FCC would include the following elements:

- Lobby and Pre-function Areas – A well-appointed lobby and pre-function areas provide meeting planners areas for greeting and registration, social gatherings, and well-defined public access to the multipurpose hall and meeting rooms. This space is also appropriate for stand-alone receptions, meals, and other community events.
- Circulation – Circulation space provides for the movement of attendees into and through the FCC. These areas would include hallways,

connecting walkways, and bridges as required. Depending on the concept plan, these areas could also include vertical circulation (stairwells, elevators, and escalators).

- Service access – Service corridors provide non-public access to the event hall and meeting rooms as well as connection to the facility’s loading docks, mechanical rooms, and storage.
- Drop-off zone – The FCC should have a well-defined vehicular drop-off area and pedestrian access solely for the use of event attendees.
- Loading areas – Service access that is separate from the drop-off zone, truck docks, and waste disposal areas necessary to support the FCC expansion.
- Kitchen – Depending on final site selection, further investigation should determine whether a main FCC production kitchen is necessary. At a minimum, a new pantry kitchen should be incorporated into the FCC space.
- Storage – Adequate and convenient equipment storage is important to the efficient operation of the facility.
- Facility Operations – Spaces needed to support facility’s management and physical plant, including offices, HVAC, plumbing, electrical and fire protection systems.

Including the above spaces, HVS estimates that the total gross size of the proposed FCC would be approximately 40,000 square feet. A more precise determination of the floor areas would require a concept plan created by a design firm that illustrates how the proposed convention center would fit on the selected site. The process of concept planning would likely require adjustments to the recommended floor areas.

7. Demand Analysis

HVS based event demand projections for the proposed Fredericksburg Conference Center (“FCC”) on the following research and analysis;

- the program recommendations presented in Section 6 of this report,
- an in-depth user survey detailed in Section 5,
- industry data and trends reports,
- key market and economic indicators outlined in Section 2,
- comparable venue program and demand data presented in Section 4, and
- discussions with representatives from the Fredericksburg Convention and Visitor Bureau (“FCVB”) management and sales staff and other local stakeholders.

For the purposes of this study, HVS assumes that all recommendations throughout this report are completed by January 1, 2018. HVS estimates that event demand would stabilize in 2021, the fourth year of operation. Demand projections also assume the presence of a highly qualified, professional sales and management team for the proposed FCC.

Lost Business

The FCVB is the primary sales and marketing organization dedicated to bringing meetings and other group events to Fredericksburg. The organization works with the local hotels and other venues to solicit business through proposals and other marketing efforts. The FCVB reports that Fredericksburg has lost several opportunities for group business due to its lack of appropriate meeting space. This lost business is often association or corporate business which typically requires event space to contain separate banquet and breakout meeting spaces in a single facility. This situation is corroborated by the HVS user survey in which nearly 30 percent of survey respondents reported that they have wanted to host an event in Fredericksburg but were unable to book the event due to insufficient event infrastructure. Of those planners, 70 percent cited insufficient event space as the primary reason for not booking their event in Fredericksburg.

Recent lost business includes the Texas Hill Country Chapter of Meeting Planners International which requires 15,000 square feet of meeting space for approximately 200 attendees and the Texas Society of Anesthesiologists which requires 10,000 square feet, including numerous breakout meeting rooms for its

400 attendees. In general, Fredericksburg's current event facilities are capable of hosting events with up to 200 attendees, but cannot offer those events separate spaces for both meals and break out meetings.

Based on user survey results, Fredericksburg often loses business to other cities in the Texas Hill Country, including San Marcos, New Braunfels, Kerrville, and Marble Falls. Each of these destinations has at least one venue with ballroom and meeting space ranging from 12,000 to 42,000 square feet of total function space.

Conference Center Demand Projections

HVS's analysis of comparable and competitive venues and an in-depth user survey suggest that the proposed FCC should allow Fredericksburg to grow its current meeting and convention demand in the face of strengthening competition from other regional markets. The development could also serve the customer base currently using smaller, older facilities in Fredericksburg, allowing many events which face venue size restrictions to grow and remain in Fredericksburg.

In addition to attracting out of town users, the proposed FCC could become a valuable public asset providing event space to a variety of local groups, including local government, civic organizations, nonprofits, schools, charities, and businesses. The multipurpose ballroom and meeting spaces would support meetings, fundraisers, exams, social events, recitals, sports competitions, graduation, health screenings, press conferences, and many other civic uses.

HVS based demand projections on the completion of the FCC by January 1, 2018. HVS estimates that following the completion of the proposed venue, incremental event demand would ramp up and stabilize after three years, during calendar year 2021. The figure below breaks down convention center event projections by type of event. Projections begin in the 2018 calendar year and go through 2022, one year following stabilized demand. Total attendance figures represent individual event attendees. A brief description of event types and demand assumptions follows.

**FIGURE 7-1
SUMMARY OF DEMAND PROJECTIONS**

	2018	2019	2020	2021	2022
Events					
Conferences	8	11	14	15	15
Meetings	45	60	68	75	75
Local Meetings	38	56	68	75	75
Banquets	32	36	41	45	45
Consumer Shows/Fairs	8	10	11	12	12
Other	7	8	9	10	10
Total	138	181	211	232	232
Average Attendance					
Conferences	210	210	210	210	210
Meetings	75	75	75	75	75
Local Meetings	40	40	40	40	40
Banquets	300	300	300	300	300
Consumer Shows/Fairs	1,500	1,500	1,500	1,500	1,500
Other	200	200	200	200	200
Total Attendance					
Conferences	1,680	2,310	2,940	3,150	3,150
Meetings	3,375	4,500	5,100	5,625	5,625
Local Meetings	1,520	2,240	2,720	3,000	3,000
Banquets	9,600	10,800	12,300	13,500	13,500
Consumer Shows/Fairs	12,000	15,000	16,500	18,000	18,000
Other	1,400	1,600	1,800	2,000	2,000
Total	30,000	36,000	41,000	45,000	45,000

Other events include sports events, exams, media/press events, event staging, and other civic uses.

Conferences—Conferences are multi-day events that require a mix of banquet and breakout space set-up and occasional assembly space, but they typically do not require a large exhibit set-up. The source of conferences would be primarily state associations and regional corporations with some national groups booking as well. This demand category also includes religious and other SMERF groups that would rotate to Fredericksburg for their annual events. HVS projects conference demand levels consistent with that found in comparable venues and markets

Meetings—Meetings require breakout meeting space but would not use banquet or exhibit space. Food service is limited to coffee breaks, breakfasts, or luncheons in meeting rooms. Local and regional corporations, state associations, religious groups, and government agencies all host meetings. Although the size of the meetings ranges from ten to over 1,000 persons, most meetings are small events that have fewer than 100 attendees and take place in breakout meeting space. Ballrooms could also handle larger meetings or several smaller simultaneous meetings as needed.

Local Meetings—Local government, civic organizations, and other local groups would use meeting space for meetings, information sessions, training, and exams. These events would typically not generate significant food and beverage revenue and would largely attract local attendees.

Consumer Shows/Fairs—Consumer shows are ticketed public events that attract local and regional attendees. The proposed FCC would be available for light exhibit events such as craft shows, food and wine expos, and art shows. The multipurpose ballroom and lobby spaces would be the primary exhibit space for vendors. These events would need some meeting space for support and back of house uses. Food and beverage services would be limited to concessions.

Banquets—Banquets are stand-alone social events, weddings, luncheons, and other meals typically booked by local corporations, social and civic organizations, and private clients. Flexibility of the ballroom and pre-function spaces would allow for a variety of banquet sizes and multiple simultaneous events. Since the ballroom must also accommodate the needs of the venue’s conference clients, this flexibility is crucial to operate the facility with minimal scheduling conflicts.

Other—Other events would include a variety of local-oriented facility rentals which include such events as school functions, event staging, blood drives, political rallies, and other civic uses.

Room Night Projections

HVS calculated the potential generation of room nights by the proposed FCC. These room nights represent the total room nights generated in the Fredericksburg market by the operations of the FCC. The following figure presents HVS’s assumptions used to generate room night estimates. HVS based room night assumptions on comparable venue data and industry research.

**FIGURE 7-2
ROOM NIGHT ASSUMPTIONS BY EVENT TYPE**

Type of Event	Length of Stay	Percent Lodgers
Conferences	2.50	90%
Meetings	2.00	80%
Local Meetings	1.00	0%
Banquets	1.00	20%
Consumer Shows/Fairs	1.00	8%
Other	1.00	0%

The introduction of the proposed FCC could attract a greater share of high impact conferences and meetings to the Fredericksburg market and allow Fredericksburg to retain events that would otherwise outgrow existing venues and move to

competing markets. Conferences and meetings would bring a greater number of out-of-town visitors who require lodging. The following figure presents an estimate of room nights for FCC events through calendar year 2022, one year following stabilized demand.

FIGURE 7-3
ROOM NIGHT FORECAST

Type	2018	2019	2020	2021	2022
Conferences	3,000	4,200	5,300	5,700	5,700
Meetings	4,900	6,500	7,300	8,100	8,100
Local Meetings	0	0	0	0	0
Banquets	1,300	1,400	1,600	1,800	1,800
Consumer Shows/Fairs	600	800	900	1,000	1,000
Total	9,800	12,900	15,100	16,600	16,600

HVS intends demand projections to show smooth growth over time. However, event demand and booking cycles do not always move smoothly. Business can shift due to unpredictable local and national economic factors. Event demand often runs in cycles based on rotation patterns and market conditions. HVS demand projections should be interpreted as a mid-point of a range of possible outcomes and as an average of multiple years.

Comparable Venue Demand

A good test for the reasonableness of demand projections is an analysis of demand at similarly sized venues in comparable markets. In order to evaluate demand projections for the proposed FCC, HVS expanded its comparable analysis to include a much broader selection of markets with venues of similar size to that proposed in Fredericksburg. The following figure compares the average of several years of recent demand for 15 venues with similar sized function spaces. These venues represent a wide range of markets with a mix of population size, economic breadth, and destination appeal. Because of the unique operating characteristics of exhibit and meeting facilities, no single facility or market can be considered a direct comparable to Fredericksburg. The average demand from a large set of venues provides evidence for the reasonableness of projections.

**FIGURE 7-4
COMPARABLE VENUE MEETING DEMAND**

	Average of Comparable Venues	Proposed FCC
Number of Events		
Conventions & Conferences	16	15
Consumer Shows/Fairs	20	12
Banquets	55	45
Meetings	117	150

Taking market factors into consideration, the demand projections for the proposed FCC are consistent with event demand currently found in other venues throughout the U.S. Smaller event numbers reflect the size and tourism base of the Fredericksburg market, resulting in a lower potential to generate meeting events through local industry. Additionally, the proposed FCC would not house an exhibit hall, but would host a small number of public consumer shows and fairs.

8. Hotel Supply and Demand Analysis

This section examines the regional and local Fredericksburg hotel markets, looks at the impact of recently opened and proposed properties, and shows projected changes in rooms supply, room night demand, occupancy, average daily rates (“ADR”), and Revenue per Available Room (“RevPAR”). For the purposes of this study, HVS defines the “regional hotel market” as midscale to upscale hotels within a 45-mile radius of Fredericksburg. We consider midscale to upscale properties in the city of Fredericksburg as the “local hotel market”. Regional and local hotel markets only include properties that report operating performance to Smith Travel Research (“STR Global”). The regional hotel market focuses on similar properties in the cities surrounding Fredericksburg and did not extend to Austin or San Antonio.

Hotel Demand Generators

The regional hotel market benefits from a variety of tourist and leisure attractions in the area. March to October comprise the peak months for tourism in this area. During other times of the year, weekend demand involves travelers passing through en route to other destinations, people visiting friends or relatives, and other similar weekend demand generators. The cities of San Antonio to the south and Austin to the east provide consistent weekend leisure demand from residents wishing to enjoy the many outdoor activities, shopping, and dining available in the Texas Hill Country. The primary attractions in the area are presented in the Market Overview, Chapter 2 of this report.

Historical Supply and Demand Data

Current and historical market performances of potential competitors serve as the basis for determining the feasibility of developing new hotels. The table below contains the specific properties in the STR Global Custom Trend Report used to calculate historical supply, demand, and ADR trends for the regional hotel market. The list of properties runs from oldest to newest in the regional hotel market.

FIGURE 8-1

REGIONAL PROPERTIES SELECTED BY HVS FOR THE STR GLOBAL CUSTOM TREND REPORT

Name of Establishment	City & State	Zip Code	Class *	Aff Date	Open Date	Rooms
Inn Of The Hills Resort & Conference Center	Kerrville, TX	78028	Upper Midscale Class	Nov 1990	Jun 1965	166
Best Western Sunday House Inn	Kerrville, TX	78028	Midscale Class	Feb 1990	Jun 1972	97
Tapatio Springs Hill Country Resort & Spa	Boerne, TX	78006	Luxury Class	Jul 1981	Jul 1981	111
Windcrest Inn & Suites	Fredericksburg, TX	78624	Upscale Class	Dec 2014	Sep 1983	46
Y O Ranch Hotel	Kerrville, TX	78028	Upper Midscale Class	Dec 1999	Jun 1984	190
Quality Inn Near Lake Marble Falls	Marble Falls, TX	78654	Midscale Class	Dec 2005	Dec 1985	49
Best Western Llano	Llano, TX	78643	Midscale Class	Sep 1993	Jun 1986	39
Best Western Johnson City Inn	Johnson City, TX	78636	Midscale Class	Dec 2003	Jun 1987	53
Best Western Marble Falls Inn	Marble Falls, TX	78654	Midscale Class	May 1996	May 1996	62
Fredericksburg Inn & Suites	Fredericksburg, TX	78624	Upscale Class	Jun 1996	Jun 1996	103
Quality Inn & Suites Kerrville	Kerrville, TX	78028	Midscale Class	Apr 2014	Feb 1998	55
Hampton Inn Marble Falls On The Lake	Marble Falls, TX	78654	Upper Midscale Class	Aug 1999	Aug 1999	64
Hampton Inn Kerrville	Kerrville, TX	78028	Upper Midscale Class	Jun 2000	Jun 2000	60
Comfort Inn & Suites Texas Hill Country Boerne	Boerne, TX	78006	Upper Midscale Class	Apr 2011	Jun 2001	62
Best Western Plus Fredericksburg	Fredericksburg, TX	78624	Upper Midscale Class	Jun 2011	Mar 2002	56
Holiday Inn Express & Suites Kerrville	Kerrville, TX	78028	Upper Midscale Class	Jul 2002	Jul 2002	64
Comfort Inn & Suites Fredericksburg	Fredericksburg, TX	78624	Upper Midscale Class	May 2004	May 2004	57
Horseshoe Bay Resort	Horseshoe Bay, TX	75657	Luxury Class	Jan 2014	Oct 2004	342
La Quinta Inns & Suites Fredericksburg	Fredericksburg, TX	78624	Midscale Class	Nov 2004	Nov 2004	55
Inn On Baron's Creek	Fredericksburg, TX	78624	Upper Upscale Class	Mar 2005	Mar 2005	90
La Quinta Inns & Suites Kerrville	Kerrville, TX	78028	Midscale Class	Apr 2005	Apr 2005	65
Hampton Inn Suites Fredericksburg	Fredericksburg, TX	78624	Upper Midscale Class	May 2007	May 2007	55
La Quinta Inns & Suites Boerne	Boerne, TX	78006	Midscale Class	Feb 2008	Feb 2008	67
La Quinta Inns & Suites Marble Falls	Marble Falls, TX	78654	Midscale Class	Jun 2008	Jun 2008	73
Hampton Inn Suites Boerne	Boerne, TX	78006	Upper Midscale Class	Jul 2008	Jul 2008	78
Fairfield Inn & Suites San Antonio Boerne	Boerne, TX	78015	Upper Midscale Class	Sep 2009	Sep 2009	78
Best Western Plus Blanco Luxury Inn & Suites	Blanco, TX	78606	Upper Midscale Class	Jan 2011	Mar 2010	51
Holiday Inn Express & Suites Marble Falls	Marble Falls, TX	78654	Upper Midscale Class	Apr 2010	Apr 2010	69
Holiday Inn Express & Suites Fredericksburg	Fredericksburg, TX	78624	Upper Midscale Class	Jun 2012	Jun 2012	76
Total Properties:					29	2433

* Brands/Chains are placed in a Chain Scale based on the previous year's annual system wide (global) Average Daily Rate.

Sources: STR Global and HVS

The STR Global Custom Trend Report contains the annual changes in room night demand and supply for the regional hotel market. The following figure presents these trends, along with the market-wide occupancy, average rate, and RevPAR. RevPAR provides an indication of how well hotels maximize rooms revenue.

FIGURE 8-2
HISTORICAL SUPPLY AND DEMAND TRENDS FOR THE REGIONAL HOTEL MARKET

Year	Average Daily Room Count	Available Room Nights	Change	Occupied Room Nights	Change	Occupancy	Average Rate	Change	RevPAR	Change
2003	1,309	477,945	—	268,855	—	56.3 %	\$65.34	—	\$36.76	—
2004	1,437	524,474	9.7 %	292,927	9.0 %	55.9	69.29	6.1 %	38.70	5.3 %
2005	1,885	688,180	31.2	395,903	35.2	57.5	84.64	22.1	48.69	25.8
2006	1,903	694,556	0.9	403,037	1.8	58.0	93.22	10.1	54.09	11.1
2007	1,927	703,325	1.3	388,019	(3.7)	55.2	100.93	8.3	55.68	2.9
2008	2,089	762,642	8.4	408,666	5.3	53.6	102.53	1.6	54.94	(1.3)
2009	2,190	799,376	4.8	380,141	(7.0)	47.6	102.04	(0.5)	48.52	(11.7)
2010	2,346	856,185	7.1	399,887	5.2	46.7	101.61	(0.4)	47.46	(2.2)
2011	2,365	863,103	0.8	410,983	2.8	47.6	102.16	0.5	48.64	2.5
2012	2,409	879,124	1.9	436,780	6.3	49.7	104.98	2.8	52.16	7.2
2013	2,439	890,325	1.3	459,021	5.1	51.6	110.25	5.0	56.84	9.0
2014	2,433	888,226	(0.2)	479,042	4.4	53.9	115.82	5.1	62.46	9.9
Average Annual Compounded Change: 2003-2014			5.8 %		5.4 %			5.3 %		4.9 %
Year-to-Date Through December										
2013	2,439	890,325	—	459,021	—	51.6 %	\$110.25	—	\$56.84	—
2014	2,433	888,226	(0.2) %	479,042	4.4 %	53.9	115.82	5.1 %	62.46	9.9 %

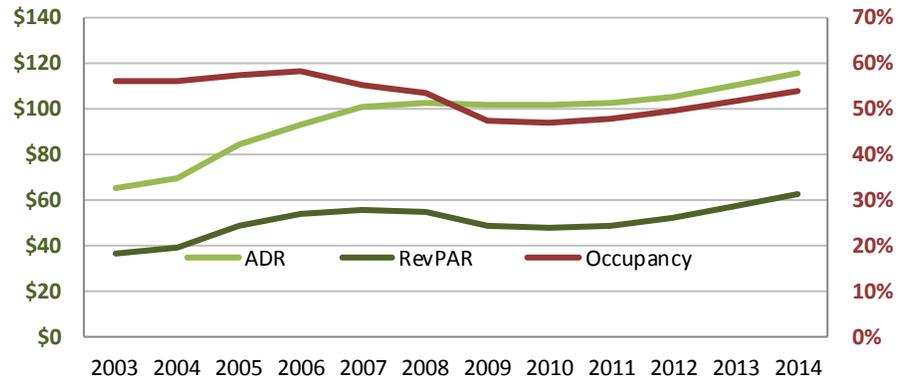
Source: STR Global

The regional hotel market showed strong growth in demand though 2006, but growth levels oscillated as the country entered the recession in the late-2000s.. However, the regional hotel market was more resilient than the nation as a whole, and has flourished after 2009.

The regional hotel market showed significant growth in supply in the decade up to 2012, adding over 300,000 room nights. However, growth has since slowed as demand has caught up with the increases in available room nights. The recently opened Fairfield Inn & Suites in Fredericksburg is the latest spurt of supply to the regional hotel market.

The regional hotel market’s historical performance illustrates the broad market in which any new hotels would need to compete for customers. The local hotel market, which will be presented later in the chapter, examines the performance of the primary competitors of any new hotel development in Fredericksburg.

FIGURE 8-3
HISTORICAL OCCUPANCY, ADR, AND REVPAR FOR THE REGIONAL HOTEL MARKET



Source: STR Global

From 2003 to 2014, the regional hotel market experienced a 5.4 percent annual growth in room night demand. Supply grew at the higher annual rate of 5.8 percent, which caused a modest decrease in occupancy. Due to strong annual ADR growth of 5.3 percent in the regional hotel market, RevPAR grew 4.9 percent, on an annual basis. The average rate across all calendar years presented is \$98.10. It fluctuated over the past decade from \$69 to \$116, with 2014 representing the peak year. The entrance of new high-quality, select-service hotels and renovations to existing hotels allowed local hotel operators to increase average rates every year from 2011 through 2014. Property managers reported high weekend ADR, which explains the higher than expected ADR, given the overall occupancy levels.

The regional hotel market added over 300,000 room nights in capacity from 2003 to 2014. The market has been able to support new construction despite occupancy that averaged 52.3% over the last 12 years, as shown below.

**FIGURE 8-4
NEW HOTEL CONSTRUCTION AND OCCUPANCY RATES**

Year	New Properties	New Rooms	Occupancy
2003			56.3 %
2004	Three Hotels	454	55.9
2005	Two Hotels	155	57.5
2006			58.0
2007	One Hotel	55	55.2
2008	Three Hotels	218	53.6
2009	One Hotel	78	47.6
2010	Two Hotels	120	46.7
2011			47.6
2012	One Hotel	76	49.7
2013			51.6
2014			53.9
Average			52.3

Source: STR Global

The regional hotel market experienced growth in demand and increases in ADR over the last 12 years. The significant increases in supply have caused a modest reduction in overall occupancy rates over the last 12 years. The average occupancy rate of 52.3 over the last 12 years would be a weak number for an urban market, but is not unusual for a seasonal resort hotel market like Fredericksburg.

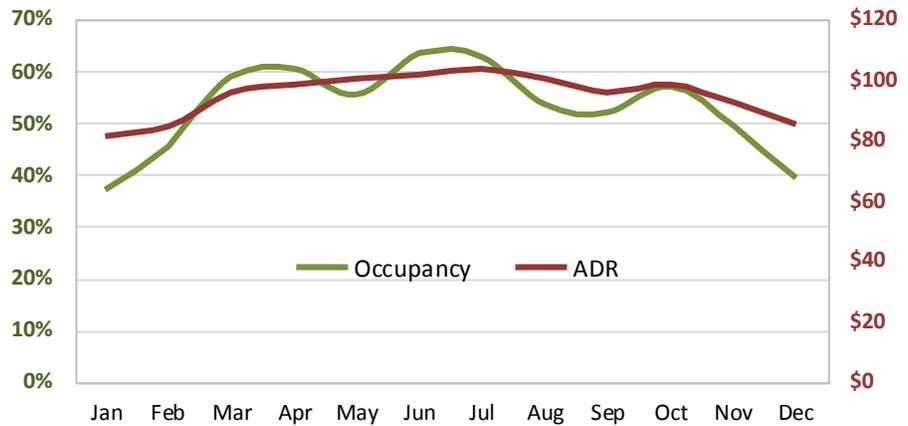
Patterns of Demand

Demand for hotel room nights is not constant in most markets. HVS examined both seasonal demand and day-of-week demand to determine market conditions unique to the regional hotel market.

Seasonality

The figure below shows the monthly occupancy and average rate trends for the selected properties in the regional hotel market.

**FIGURE 8-5
REGIONAL HOTEL MARKET SEASONALITY GRAPH**



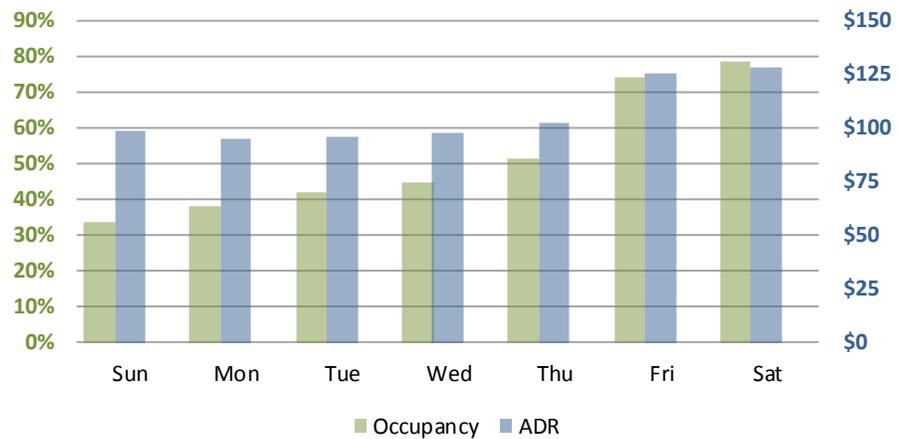
Source: STR Global

The above figure shows the seasonal nature of the regional hotel market. Market interviews indicate that leisure travel drives ADRs and occupancies during the spring and summer months. High occupancy during the peak months of June and July drive ADR higher.

Day-of-week

Interviews with local officials and hotel management indicate that a high level of weekend leisure demand is generated by residents of Austin and San Antonio. The following figure shows weeknight ADR and occupancy.

**FIGURE 8-6
REGIONAL HOTEL MARKET OCCUPANCY AND ADR BY DAY OF WEEK**



Source: STR Global

Due to the extensive leisure offerings in regional hotel market, both occupancy and ADR peak on Friday and Saturday nights. The ADR increases by over \$40 on the weekends compared to Sunday through Thursday. The following figure shows the strong weekend demand on a monthly basis throughout the year.

FIGURE 8-7
DAY-OF-WEEK OCCUPANCY BY MONTH

	Sun	Mon	Tue	Wed	Thu	Fri	Sat	Total Month
Jan - 15	24%	29%	32%	35%	39%	48%	48%	37%
Feb - 14	27%	35%	43%	42%	41%	69%	69%	47%
Mar - 14	37%	47%	52%	57%	63%	84%	83%	60%
Apr - 14	40%	50%	54%	56%	67%	92%	92%	64%
May - 14	43%	35%	42%	46%	52%	81%	89%	57%
Jun - 14	37%	44%	48%	50%	57%	87%	93%	58%
Jul - 14	42%	49%	52%	55%	67%	92%	94%	64%
Aug - 14	43%	38%	42%	47%	53%	79%	88%	57%
Sep - 14	28%	34%	42%	48%	54%	71%	79%	50%
Oct - 14	35%	44%	50%	50%	57%	82%	93%	59%
Nov - 14	32%	38%	40%	47%	57%	75%	77%	53%
Dec - 14	31%	35%	34%	42%	39%	55%	62%	42%
Total Year	35%	40%	44%	48%	54%	76%	80%	54%

Source: STR Global

The monthly occupancy by day-of-week, in the above figure, shows the consistently higher weekend occupancy rate, over the midweek rate.

The regional hotel market shows definite patterns of demand, with higher summer and lower winter demand with high weekend and low mid-week demand.

FIGURE 8-8
DAY-OF-WEEK ADR BY MONTH

	Sun	Mon	Tue	Wed	Thu	Fri	Sat	Total Month
Jan - 15	\$ 88	\$ 84	\$ 86	\$ 86	\$ 90	\$ 106	\$ 111	\$ 96
Feb - 14	87	90	99	99	98	114	112	103
Mar - 14	101	102	103	106	110	138	135	118
Apr - 14	102	104	104	104	110	141	143	119
May - 14	116	97	99	103	107	141	146	124
Jun - 14	102	100	100	105	114	147	149	122
Jul - 14	106	102	102	103	116	153	155	124
Aug - 14	112	96	100	104	110	146	151	126
Sep - 14	100	97	98	99	104	132	139	114
Oct - 14	101	100	102	99	105	137	144	118
Nov - 14	96	95	95	99	107	127	128	111
Dec - 14	89	87	89	96	93	113	115	99
Total Year	102	97	99	101	106	135	138	116

Source: STR Global

The combination of high summer demand combined with already high weekend demand allows properties to charge a premium, as shown above. This ADR premium is one of the factors allowing for the development of new hotels with annual occupancy rates often significantly below 60%.

Patterns of Demand Growth

The occupancy growth rate for 2014 was slightly above the 11 year average at 4.4%. The regional hotel market experienced increased demand during 10 of 12 months in 2014, compared to 2013, as shown in the figure below.

FIGURE 8-9
MONTHLY DEMAND FOR HOTEL ROOMS 2013/2014

	2013	2014	Percentage Change	2014 Occupancy Rate
January	24,601	27,202	10.6%	36.1%
February	29,940	31,825	6.3%	46.7%
March	45,398	45,097	-0.7%	59.8%
April	43,850	46,527	6.1%	63.7%
May	40,974	43,259	5.6%	57.3%
June	45,972	42,503	-7.5%	58.2%
July	45,934	48,203	4.9%	63.9%
August	42,151	43,099	2.2%	57.1%
September	34,989	36,486	4.3%	50.0%
October	39,876	44,644	12.0%	59.2%
November	37,466	38,332	2.3%	52.5%
December	27,870	31,865	14.3%	42.2%
	459,021	479,042	4.4%	53.9%

Source: STR Global

The market continues to show strength, providing the basis for future hotel development. A number of factors determine the timing of new hotel development separate from current market growth, including ADR, occupancy levels, cost and ability to develop new hotel rooms, financing costs, and anticipated future growth rates in demand and ADR.

The regional hotel market provides an overview of the market surrounding Fredericksburg. Important characteristics of the regional hotel market include,

- strong room night demand and supply growth,
- weak winter demand
- strong weekend demand,
- occupancy rates that do not rise above 60% on an annual basis,
- ADR based in part on strong weekend demand that provides pricing power,
- demand growth in 2014 strongly increased in some of the slowest months helping demand consistence, and
- consistent development of new hotels when overall occupancy rates were below 60%.

Local hotel market

Next, we will examine the local hotel market and estimate the future sources of demand and increases in supply, resulting in a projection of occupancy, ADR, and market suitability for future hotel development. We will also examine how the local hotel market differs from the regional hotel market, including comparing occupancy, ADR, monthly performance, and variations by day-of-the-week.

HVS reviewed the 2014 operating performance of a number of hotels in the Fredericksburg market. HVS selected the eight hotels in the midscale and higher quality range that report operating performance to STR. The list of properties runs from oldest to newest in the local market. The local hotel market is relatively small and the addition or removal of a single property that reports to STR would have an exaggerated affect. The table below shows these properties.

FIGURE 8-10
SELECTED PROPERTIES IN THE LOCAL HOTEL MARKET

Name of Establishment	Class	Aff Date	Open Date	Rooms
Windcrest Inn & Suites	Midscale Class	Feb 2004	Sep 1983	46
Fredericksburg Inn & Suites	Upscale Class	Jun 1996	Jun 1996	103
Best Western Plus Fredericksburg	Upper Midscale Class	Jun 2011	Mar 2002	56
Comfort Inn & Suites Fredericksburg	Upper Midscale Class	May 2004	May 2004	57
La Quinta Inns & Suites Fredericksburg	Midscale Class	Nov 2004	Nov 2004	55
Inn On Baron's Creek	Upper Upscale Class	Mar 2005	Mar 2005	90
Hampton Inn Suites Fredericksburg	Upper Midscale Class	May 2007	May 2007	55
Holiday Inn Express & Suites Fredericksburg	Upper Midscale Class	Jun 2012	Jun 2012	76
Total Properties:			8	538

Sources: STR Global & HVS

The eight selected hotel represent approximately 65% of the midscale or higher quality hotels in the Fredericksburg market

Demand

From 2005 to 2014, the local hotel market experienced a 4.1 percent annual growth in room night demand. Supply grew at a slower annual rate of 3.6 percent, which caused a modest increase in the average occupancy rate. The following figure presents the nine year trend for the local hotel market.

**FIGURE 8-11
HISTORICAL LOCAL HOTEL MARKET SUPPLY AND DEMAND TRENDS**

Year	Average Daily Room Count	Available Room Nights	Change	Occupied Room Nights	Change
2005	392	143,245	—	79,948	—
2006	407	148,555	3.7 %	78,981	(1.2) %
2007	444	162,030	9.1	79,829	1.1
2008	463	168,995	4.3	85,426	7.0
2009	463	168,995	0.0	85,405	(0.0)
2010	463	168,995	0.0	92,252	8.0
2011	463	168,873	(0.1)	91,701	(0.6)
2012	507	184,894	9.5	100,316	9.4
2013	538	196,370	6.2	109,843	9.5
2014	538	196,370	0.0	114,680	4.4
Average Annual Compounded Change:					
2005-2014			3.6 %		4.1 %
Year-to-Date Through December					
2013	538	196,370	—	109,843	—
2014	538	196,370	0.0 %	114,680	4.4 %

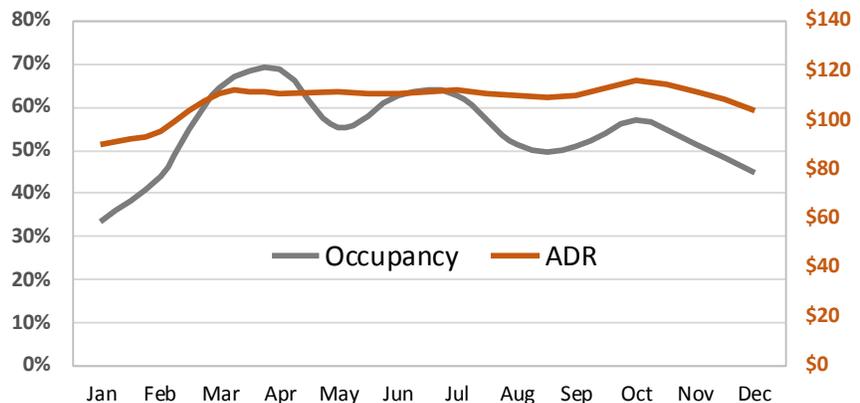
Source: STR Global

The local hotel market exhibited strong demand growth in 2013 and 2014, but the rate of increase slowed from 9.5 percent in 2013 to 4.4 percent in 2014.

Seasonality

The figure below shows the monthly occupancy and average rate trends for the selected properties in the local hotel market.

**FIGURE 8-12
LOCAL HOTEL MARKET SEASONALITY GRAPH**



Source: STR Global

**Seasonality
Comparison**

Demand is primarily weekend driven which limits the monthly occupancy rates. Due to high weekend demand, the ADR is higher than expected for the occupancy level.

To determine how the local hotel market varies from the regional hotel market, we compared monthly occupancy and ADR. The local hotel market has a monthly occupancy premium from 2% to 17% over the regional hotel market, as shown below.

**FIGURE 8-13
COMPARISON OF OCCUPANCY RATES FOR REGIONAL AND LOCAL HOTEL MARKETS**



Source: STR Global

The local hotel market has a monthly ADR premium from 1.8% up to 17.2% over the regional hotel market, as shown below.

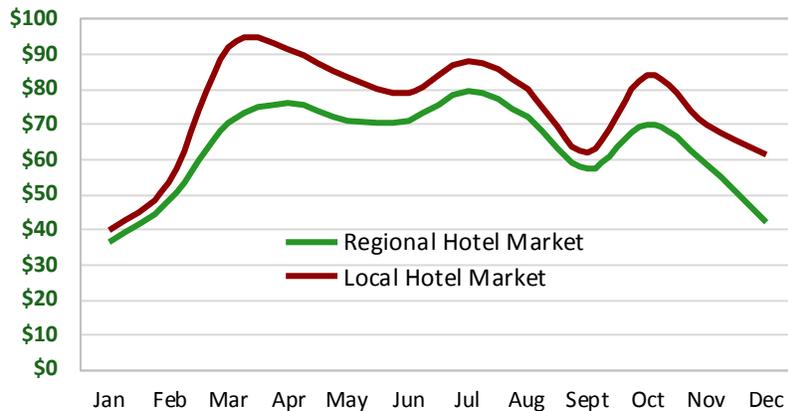
**FIGURE 8-14
COMPARISON OF ADR FOR REGIONAL AND LOCAL HOTEL MARKETS**



Source: STR Global

The regional hotel market and the local hotel market share similar overall monthly variation, with winter lows and spring and summer highs. The local hotel market has a higher overall occupancy and ADR resulting in a significantly higher RevPAR premium of 8% to 31% over the regional hotel market by month, as shown below.

FIGURE 8-15
COMPARISON OF REVPAR FOR REGIONAL AND LOCAL HOTEL MARKETS

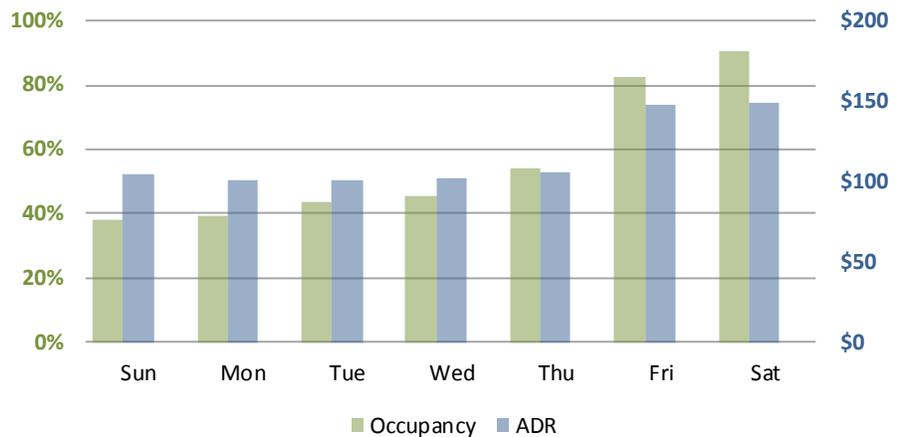


Source: STR Global

Day of Week

The local hotel market shows strong historical Friday and Saturday night demand along with a strong ADR. Weekday demand is much lower as is the ADR.

FIGURE 8-16
DAY OF WEEK OCCUPANCY FOR THE LOCAL HOTEL MARKET

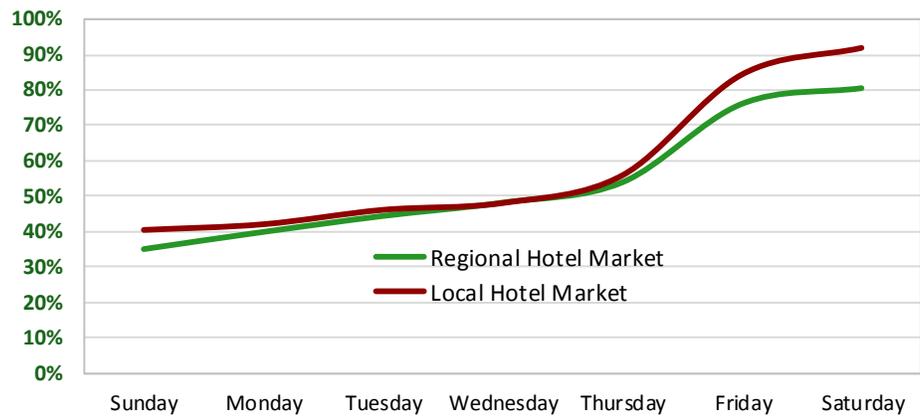


SOURCE: SOURCE: STR GLOBAL T

Both the regional hotel market and the local hotel market show significantly stronger occupancy rates on the weekends due to leisure guests from Austin and

San Antonio. The local hotel market shows a day-of-week occupancy premium over the regional hotel market of up to 13%. Despite the high demand on Friday and Saturday night the local hotel market has even higher levels of demand.

FIGURE 8-17
COMPARISON OF OCCUPANCY FOR REGIONAL AND LOCAL HOTEL MARKETS



Source: STR Global

The occupancy and ADR premium for the local hotel market over the regional hotel market provides support for the development of additional hotel rooms in the local hotel market. The high weekend occupancy rates are permitting both the Regional and local hotel markets to charge a significantly higher weekend ADR.

**Demand Analysis
Using Market
Segmentation**

For the demand analysis, HVS divided the overall market into three segments based on the nature of travel. Based on our knowledge of the local lodging market, we estimate the 2014 distribution of accommodated room night demand as shown in the figure below.

FIGURE 8-18
FREDERICKSBURG MARKET ACCOMMODATED ROOM NIGHT DEMAND

Market Segment	Accommodated Demand	Percentage of Total
Commercial	17,202	15 %
Meeting and Group	22,936	20
Leisure	74,542	65
Total	114,680	

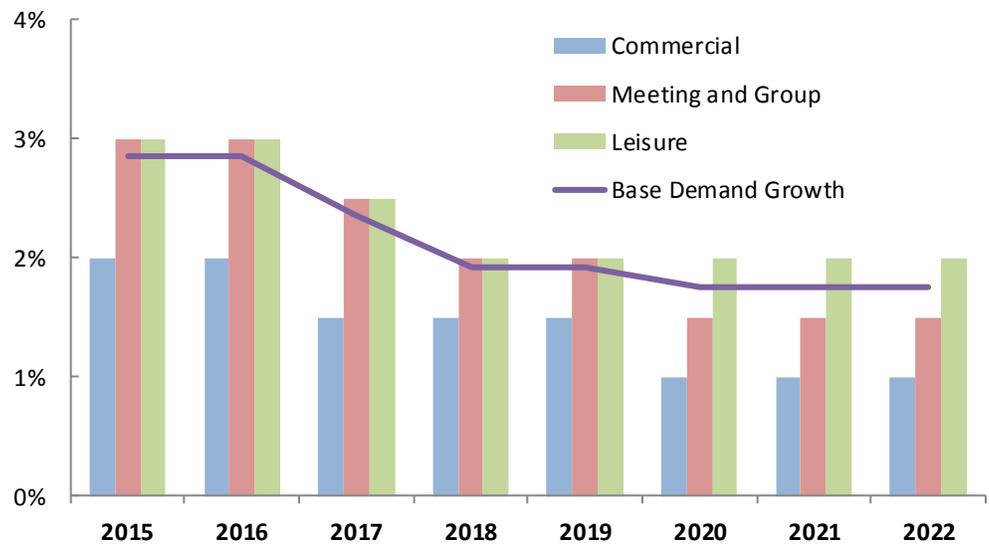
Commercial demand (15 percent) includes individuals traveling for business purposes. Meetings and group events generate approximately 20 percent of

market demand. Leisure demand (65 percent) consists of individual travelers on vacation or visiting family and friends and results in mostly weekend demand.

Projection of ADR and Occupancy

Utilizing the historical data and market interviews HVS prepared an estimate of future ADR and occupancy for midscale and above hotels in the local hotel market.

**FIGURE 8-19
AVERAGE ANNUAL COMPOUNDED MARKET SEGMENT GROWTH RATES**



HVS projected change to the competitive hotel market by adding latent demand, including unaccommodated and induced demand, to project the base market change.

Latent Demand

Latent demand reflects potential room night demand not absorbed by the existing competitive supply; unaccommodated demand and induced demand make up latent demand.

Unaccommodated Demand

Unaccommodated demand refers to individuals who do not secure accommodations in the market because of unavailable rooms. These travelers must defer their trips, settle for less desirable accommodations, or stay in properties located outside the market area. Because this demand does not yield occupied room nights, estimates of historical accommodated room night demand do not include it. If the market expects additional lodging facilities, guests could secure hotel rooms in the future. We must quantify this demand when making projections.

Based on an analysis of monthly and weekly peak demand and sell-out trends, we estimate that the market fails to accommodate 10 percent of the base-year leisure demand. The historic high occupancy rates on Friday and Saturday nights supports the unaccommodated room night demand estimate for unaccommodated leisure demand. The following figure presents our estimate of unaccommodated demand in the subject market.

**FIGURE 8-20
UNACCOMMODATED DEMAND ESTIMATE**

		Leisure Room Nights
January	0 %	0
February	5	235
March	5	377
April	15	1,105
May	15	1,027
June	15	962
July	15	1,131
August	15	978
September	10	538
October	10	681
November	5	285
December	5	276
Total	10 %	7,594

Induced Demand

Induced demand represents the additional room nights the Fredericksburg market could gain following the introduction of a new demand generator. Situations that could result in induced demand include the opening of the medical center, the opening of a convention center, or the addition of a new hotel with a distinct chain affiliation or unique facilities.

The proposed conference center would induce new demand in the meeting and group segment of the market. The following figure summarizes our estimate of induced room night demand in the local hotel market.

**FIGURE 8-21
INDUCED DEMAND CALCULATION**

Calendar Year	Meeting & Groups
2018	9,800
2019	12,900
2020	15,100
2021	16,600
2022	16,600

Accordingly, we incorporated approximately 17,000 room nights into our analysis, phased in over a four-year ramp-up period from the opening of the conference center.

**Total Project Increase
in Demand**

Based on historical growth rates and our understanding of the local market, HVS assumed growth rates in room night demand for each market segment as shown in the figure below.

**FIGURE 8-22
AVERAGE ANNUAL COMPOUNDED MARKET SEGMENT GROWTH RATES**

Segment	2014	through	2024	CAGR*
Commercial	17,000		20,000	1.5%
Meeting and Group	23,000		43,000	5.9%
Leisure	67,000		103,000	4.0%
Total	107,000		166,000	4.1%

Supply Changes

Based on information provided by the local officials, STR Global, local news sources, and the internal HVS database, HVS assumes that 385 new rooms would enter the local market. The figure below shows the new hotels that may enter the market over the next few years.

**FIGURE 8-23
PROJECTED FREDERICKSBURG HOTEL MARKET NEW SUPPLY**

Year	Proposed Property	Competitive Weight	Proposed Rooms	Weighted Room Count	Cumulative New Weighted Room Count
2015	Fairfield Inn & Suites	65%	77	50	50
2016	East Main Hotel	65%	63	41	91
2017	Ufer Street Hotel	65%	120	78	169
2019	Future Hotel	65%	125	81	250

We have included four new hotels in our analysis of the local hotel market including a 77-room Fairfield Inn & Suites that recently opened at 513 Friendship Lane in Fredericksburg. The second property is a 63-room hotel under development near the National Museum of the Pacific War in Fredericksburg, which is expected to open mid 2016. The third property will be a 4-star, 120-room hotel facing Barons Creek from Ufer Street opening in 2017. Amenities will include a restaurant, indoor pool, 3,000 square feet of meeting space, and a pedestrian bridge to Main Street.

Due to significant increases in demand, we added a future 125-room property that would be 65% competitive with the local hotel market, as defined. The market may be able increase supply at a faster rate if the new projects induced demand into the market from new demand generators such as a spa, a water park, extensive meeting space, or recreational facilities.

We considered three other properties but excluded them from the analysis based on the early stage of development. The first property is proposed hotel development at a 173-acre site on Hwy 290. The long-term development plan calls for up to two upscale hotels, a restaurant, and a wedding event center. Most of the local wineries are located near the site. The second property is a resort spa on 183 acre site. Initial development will be a 30-unit hotel, which may be expanded to over 100 rooms if demand is sufficient. The third property, a former tennis club located north of Fredericksburg on 87 north, may be redeveloped into a 140-150 room resort and sites for future retail development. The developer plans to retain the existing tennis courts and swimming pool for resort guests.

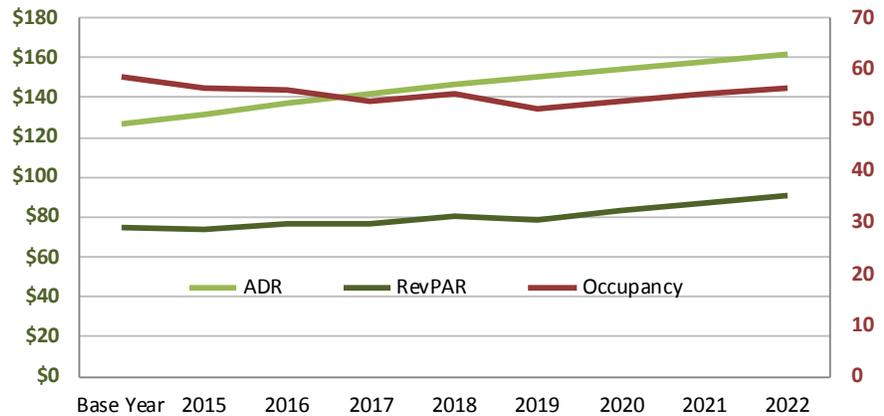
Accommodated Demand and Market- wide Occupancy

The following figure details our projection of lodging demand growth for the local hotel market. It includes the total number of occupied room nights and any residual unaccommodated demand in the market, assuming the impact of the proposed conference center.

**FIGURE 8-24
FORECAST OF AVERAGE MARKET OCCUPANCY**

Source	2015	2016	2017	2018	2019	2020	2021
Base Accommodated	118,000	121,000	124,000	127,000	129,000	131,000	134,000
Previously Unaccommodated	1,000	2,000	4,000	6,000	9,000	9,000	9,000
Induced	0	0	0	10,000	13,000	15,000	17,000
Total Available Demand	119,000	123,000	128,000	143,000	151,000	155,000	160,000
(Less Residual Demand)	(6,000)	(6,000)	(4,000)	(3,000)	0	0	0
Total Accommodated Demand	113,000	117,000	124,000	140,000	151,000	155,000	160,000
Accommodated Demand Change	4.1%	3.5%	3.6%	10.9%	5.9%	3.1%	2.6%
Available Room Night Change	8.5%	4.3%	7.6%	7.9%	11.5%	0.0%	0.0%
Marketwide Occupancy	56%	56%	54%	55%	52%	54%	55%

**FIGURE 8-25
FORECASTS OF AVERAGE MARKET OCCUPANCY AND ADR**



The forecast shows an increase in occupancy in 2015. In 2016 occupancy rates decline as the market absorbs the new supply. Occupancy rates begin to increase in 2017 as the increase in new supply slows down and market room night demand continues to grow with the local economy.

We expect ADR to increase on an annual basis as the new hotel properties with superior accommodations enter the market.

Rooms supply could increase by approximately 47%. This level of supply increase would negatively affect occupancy rates.

Conclusion

The regional hotel market experienced a 5.4 percent annual growth in room night demand from 2003 to 2014, while supply grew at a higher rate of 5.8 percent over the same time. This difference led to a modest decrease in the average occupancy rate over the last decade. After a period of modest economic contraction in the late 2000's, the regional hotel market entered into a period of expansion and growth. The area's diversity in leisure attractions forms the basis for a growing hotel market. Fredericksburg experienced a slightly negative growth rate for the first 7 months of 2013. The market should return to positive demand growth, but HVS expects a lower growth rate than the high growth experienced in the previous decade.

While occupancies and room rates currently support new hotel development, anticipated new supply will negatively affect market occupancy rates. Additional hotel development will have to wait until room night demand absorbs the new rooms supply. The green box in the following figure shows the possible future opportunity for additional new hotel rooms to enter the Fredericksburg market.

FIGURE 8-26
PROJECTED MARKET DEMAND, OCCUPANCY, ADR, AND REVPAR

Year	Average Daily Room Count	Available Room Nights	Annual Change	Occupied Room Nights	Change	Occupancy	Average Rate	Change	RevPAR	Annual Change	Supply Change
2015	584	213,087	8.5	119,380	4.1	56%	131.40	4.0	73.62	(0.2)	46
2016	609	222,173	4.3	123,587	3.5	56%	136.66	4.0	76.02	3.3	25
2017	655	239,101	7.6	128,028	3.6	54%	141.44	3.5	75.74	(0.4)	46
2018	707	258,055	7.9	142,046	10.9	55%	145.69	3.0	80.19	5.9	52
2019	788	287,711	11.5	150,488	5.9	52%	150.06	3.0	78.49	(2.1)	81
2020	788	287,711	0.0	155,217	3.1	54%	153.81	2.5	82.98	5.7	0
2021	788	287,711	0.0	159,292	2.6	55%	157.65	2.5	87.28	5.2	0
2022	788	287,711	0.0	161,868	1.6	56%	161.59	2.5	90.91	4.2	0

Sources: STR Global and HVS

Due to the high rate of demand growth in the local hotel market, HVS included a future 125-room property opening in 2019, which would be 65% competitive with the local hotel market. By 2021, the local hotel market is expected to occupancies above 55 percent, which is higher than the average over the last 12 years for the regional hotel market.

The conclusion that the market can add new hotel rooms by 2019 is supported by,

- The local hotel market has grown demand faster than supply from 2005,
- The regional hotel market had successfully developed new hotels when market occupancy rates were between 55 to 60%,

- The three hotels projected to open by 2017 will be absorbed by the market after the opening of the conference center in 2018,
- The projected opening of the conference center in 2018 would induce roundly 17,000 room nights into the market, the majority of which would be weekday demand when the market has lower occupancy rates.
- The local hotel market is projected to return over 55% occupancy by 2021, an occupancy level when new hotels have been consistently developed,

Currently, we expect Friday and Saturday night occupancy levels to stay high, despite the addition of three new hotels to the market by 2018.

The additional weekday demand from the proposed conference center would reduce the difference between the current low weekday occupancy rates and the higher weekend rates. Assuming the local hotel market grows as expected over the coming years, the market could absorb new hotel rooms within a year of the opening of the proposed conference center in 2018.

9. Site Evaluation

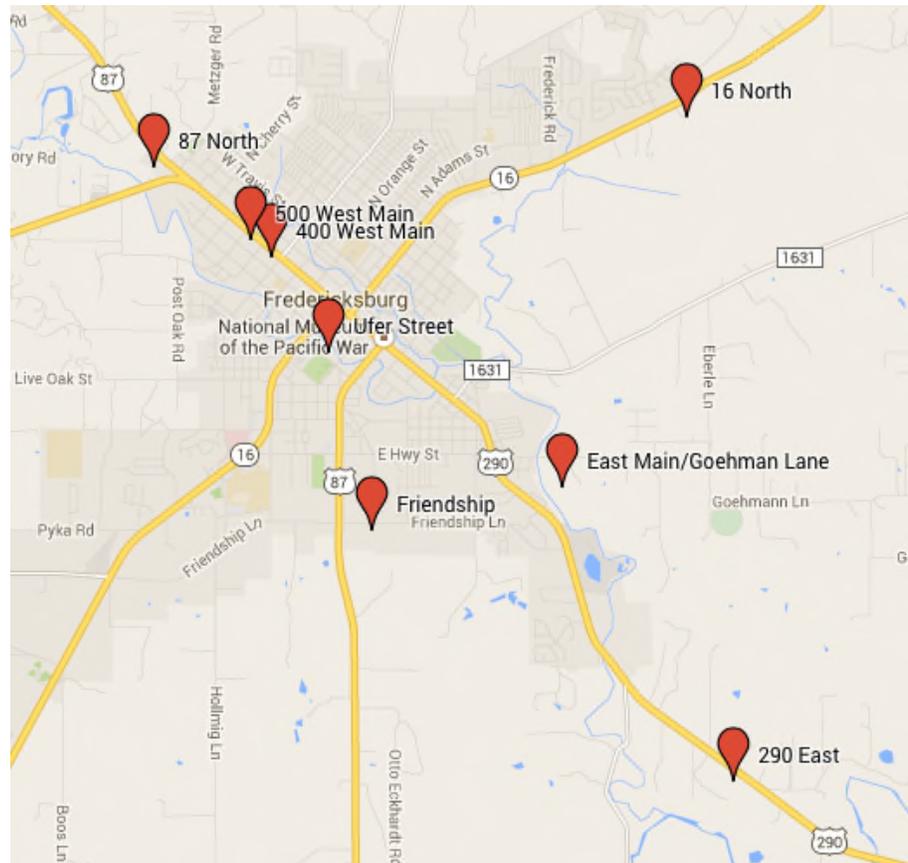
The suitability of a site for the development of a conference center is an important consideration affecting the economic viability of a facility and its ultimate marketability. Factors such as size, accessibility, visibility, and the proximity other amenities have a direct impact on the suitability of a particular site. The relationship between a conference venue and other nearby existing or planned land uses can also play an important role in selecting a site. Other factors, such as the cost of obtaining the site, infrastructure needs, and costs of improving a site should also be considered.

Destination appeal is a critical factor in event planner choice. In a highly competitive convention center industry in which most cities offer comparable venues, facility improvement alone does not create a competitive advantage. The event planner survey presented in Section 5 demonstrates that event planners are highly motivated to maximize attendance and choose destinations with this goal in mind. The vitality of the neighborhood surrounding a conference center creates destination appeal.

Potential Sites

In this section, HVS compares the suitability of eight potential locations within Fredericksburg and its surrounding county. With the assistance of the FCVB, HVS identified and toured these sites which represent a range of existing land uses and ownership. They include undeveloped land and vacant, existing structures which would require renovation or demolition. Some sites are currently owned by private developers and slated for future hotel and other development. Other sites would require acquisition by the city or other development group. The following figure provides a map of the location of the eight sites in relation to Fredericksburg. A brief description and detailed aerial view of each potential conference center site follows.

**FIGURE 9-1
MAP OF POTENTIAL SITES**



87 North – The 87 North site is located just northwest of the Fredericksburg city limit along Highway 87. The 14-acre site was formerly a private tennis club. Several structures remain on the site, including tennis courts, swimming pool, and club house. The tennis courts remain in use for lessons. The site was recently purchased by a developer with plans to develop a resort complex which would utilize existing tennis courts and swimming pool in conjunction with new 140 to 150 room hotel, conference center, squash and racquetball courts, and other amenities. Conceptual plans remain flexible and could be modified to incorporate recommended conference center program. There is also potential that the site could be annexed by the City of Fredericksburg. The site is not within walking distance to other hotels, but surrounding parcels are available for supporting development.



500 West Main – The 500 West Main site is located at the northwest end of downtown Fredericksburg. The 2.4-acre site is currently owned by the Scripps family and contains several vacant structures. While on Main Street, the site is several blocks from the prime dining and retail district and there are no existing or planned hotel properties within walking distance from the site.



400 West Main – The 400 West Main site is located at the northwest end of downtown Fredericksburg. The 3.7-acre site is former site of Crenwelge Motors and currently contains several vacant structures. While on Main Street, the site is several blocks from the prime dining and retail district and there are no existing or planned hotel properties within walking distance from the site.



Ufer Street – The Ufer Street site is located approximately two blocks southwest of downtown Fredericksburg directly across from Old Fair Park. The roughly 4-acre site is currently slated for the development of the Texas Center for Wine & Culinary Arts (“Culinary Center”), a 30,000 square foot facility dedicated to culinary classes, wine tastings, casual dining, and other food and wine related activities. In this site scenario, the proposed conference center would be incorporated into the Culinary Center under shared management. Initial plans for the Culinary Center include approximately 10,500 square feet of meeting function space. Selection of this site would require revised layouts to incorporate the recommended conference center program into the facility. Other planned development near the site includes a 120-room full service hotel on the site directly across Llano Street. The hotel developer reports that the opening of the hotel should take place during the summer of 2017.



Friendship – the Friendship site is located approximately one mile south of downtown Fredericksburg on Friendship Lane between Washington Street (Highway 87) and South Eagle Street. The 10-acre site is currently vacant and is just west of the recently opened Fairfield Inn hotel, a 78-room limited service property. The site is near Highway 87, a major highway connecting Fredericksburg to San Antonio and is a short drive from other hotel properties; however, the surrounding area has limited retail and dining amenities.



16 North – The 16 North site is located approximately two miles north east of downtown Fredericksburg along Highway 16 (North Llano Street). The 181-acre site is currently vacant. The site owner has plans to develop a resort spa retreat which would ultimately include 116 lodging units, spa, restaurant and bar, group event venue, and other amenities. Phased opening plans currently call for the initial construction of 30 lodging units to be completed in the spring of 2017. Conceptual plans remain flexible and could be modified to incorporate recommended conference center program. The site is not proximate to other hotel properties, and HVS is not aware of any other parcels available for supporting development in the surrounding area.

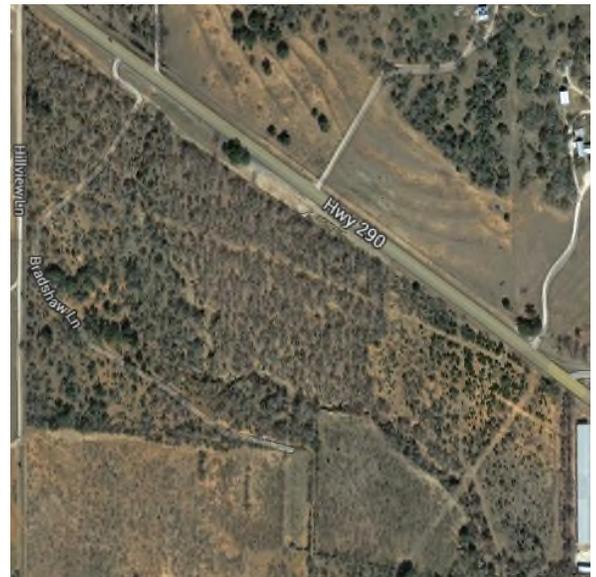


East Main/Goehman Lane

- The East Main Goehman Lane site is located approximately two miles southwest of downtown Fredericksburg along Highway 290. The 150-acre site is currently vacant with the exception of a single residence. The potential site developer does not own the site which is also being considered for other uses. Initial plans include a 134 to 150-room non-full service hotel, conference center, stand alone restaurant, and covered outdoor pavilion. The restaurant would provide catering to the hotel and conference center. The site is adjacent to the Fredericksburg city limits and has city water, sewer, and effluent running through the property. The site is near several wineries along Highway 290, a major highway connecting Fredericksburg to Austin. Other nearby attractions and amenities include the Texas Rangers pavilion and memorial and the Hill Country University Center. The site developer plans to create walkways from the proposed hotel property to these attractions.



290 East - The 290 East site is located approximately three miles south east of downtown Fredericksburg along Highway 290. The 173-acre site is currently vacant. The site owner is in the early stages of developing the land into a variety of uses, including lodging, restaurants, and an event center. At the time of this report, specific lodging and other development information is unavailable. The site is near several wineries along Highway 290, a major highway connecting Fredericksburg to Austin. The site is not proximate to other hotel properties, and HVS is not aware of any other parcels available for supporting development in the surrounding area.



Site Evaluation Criteria

HVS developed evaluation criteria to assess the relative strengths and weaknesses of the various potential convention center locations. The evaluation criteria include primary evaluation categories concerned with site considerations, access considerations, urban impact, and financial considerations. Each of these categories includes several specific evaluation criteria. The following figure lists the 22 evaluation criteria. The figure also indicates the importance of each evaluation criterion with a rank from one to five, with a rank of one indicating the least amount of importance and a rank of five indicating the greatest importance.

**FIGURE 9-2
SITE EVALUATION CRITERIA**

Evaluation Criteria	Importance Rank
Site Considerations	
Capacity for recommended building program	5
Subject to City height restriction	2
Subject to historic district restrictions	2
Ability to assemble site	4
Proximate to existing/planned lodging	5
Proximate to downtown amenities	5
City infrastructure in place	3
Historic landmark considerations	2
Urban Impact	
Potential for adjacent hotel development	5
Potential for other surrounding development	4
Displacement of existing uses	2
Compatability with neighboring land uses	3
Compliance with existing zoning	2
Access	
Ease of acces for drive-in	3
Ease of access for pedestrians	3
Ease of access for service vehicles	3
Availability of existing/planned Parking	3
Potential for traffic congestion	2
Financial Considerations	
Land assembly costs	3
Cost of construction	2
Potential for private investment	3
Opportunity costs - alternative land uses	3

HVS assigned each potential site a rank of one through three for each specific evaluation criterion. A score of one indicates that a site ranks poorly on the criterion and a score of three indicates that a site ranks favorably on the criterion.

The following series of figures present the evaluation criteria key outlining the meaning of each individual score.

**FIGURE 9-3
SITE EVALUATION CRITERIA KEY**

Site Considerations	3	2	1
Capacity for recommended building program	Site can accommodate full recommended program and support spaces to meet planner needs and operate efficiently	Site may require minor modification to building program that may minimally effect marketability and operation	Site requires major modifications to building program that may affect marketability and operation
Subject to City height restriction	Site is not subject to City's 3-story height restriction	Site is subject to City's 3-story height restriction, but variance is possible	Site is subject to City's 3-story height restriction, and variance unlikely
Subject to historic district restrictions	Site is not subject to City's historic district restrictions on branding	Site is subject to City's historic district restrictions on branding, but variance is possible	Site is subject to City's historic district restrictions on branding, and variance unlikely
Ability to assemble site	Site is owned or easily acquired and is properly zoned for use	Site is not owned and acquisition may be difficult	Site acquisition more difficult due to multiple owners or difficult negotiations
Proximate to existing/planned lodging	Site has sufficient integrated lodging suitable for majority of events	Site does not have sufficient integrated lodging but is within short walk to multiple lodging properties suitable majority of events	Attendee access to primary lodging options would require short drive
Proximate to downtown amenities	Site is within walking distance Main Street dining and shopping	Site is within one mile of Main Street dining and shopping	Main Street amenities are greater than one mile from site
City infrastructure in place	Site has city infrastructure in place	Site has some infrastructure improvements required	Site requires installation of all City infrastructure
Historic landmark considerations	Site has not historic landmark issues	Site has historic landmark issues that are not likely to impact design and program	Site has historic landmark issues that will likely impact design and program
Urban Impact	3	2	1
Potential for adjacent hotel development	Several surrounding sites available for future hotel development	Some surrounding sites may be suitable for future hotel development	No site currently available for future hotel development
Potential for other surrounding development	Several surrounding sites could be developed for compatible uses	Some surrounding sites could be developed for compatible uses	No surrounding sites could be developed for compatible uses
Displacement of existing uses	Site is currently vacant and has no planned development	Site is currently vacant but has planned development	Site is currently used for other purpose
Compatability with neighboring land uses	Intended use of site would not cause conflict with owners of surrounding land	Intended use of site would occasionally cause conflict with owners of surrounding land	Intended use of site would regularly cause conflict with owners of surrounding land
Compliance with existing zoning	Site has proper zoning for intended uses.	Site needs to be rezoned, but process should be relatively easy.	Site needs to be rezoned and process may be problematic.

**FIGURE 9-4
SITE EVALUATION CRITERIA (CONT.)**

Access Considerations	3	2	1
Ease of acces for drive-in	Site is conveniently located by major roadways for easy vehicle access	Site does not have direct access from major roadways. Most attendees would park and walk or shuttle to site	Site is in locations which is difficult to access by vehicle
Ease of access for pedestrians	Site has pedestrian-friendly routes from lodging and/or parking areas.	Site can be accessed by pedestrians but routes are not ideal	Access to site is not suitable for pedestrians
Ease of access for service vehicles	Site is easily accessed by trucks and other vehicles necessary for event production	Site has moderately easily access for trucks and other vehicles necessary for event production	Site is difficult to access by trucks and other vehicles necessary for event production
Availability of existing/planned Parking	Existing proximate parking is adequate to handle all event parking needs	Existing proximate parking is adequate to handle smaller events. Additional parking required for larger events	Existing proximate parking is minimal. Significant additional parking would be needed for all events
Potential for traffic congestion	Roads to site have no current traffic congestion issues	Roads to site have occasional traffic congestion issues	Roads to site have daily traffic congestion issues
Financial Considerations	3	2	1
Land assembly costs	Site is owned or otherwise available without purchase	Site can be purchased for a reasonable price	Site can be purchased for a higher price
Cost of construction	Site has minimal elements that would increase costs of construction	Site has some elements that would increase costs of construction	Site has several elements that would increase costs of construction
Potential for private investment	Use of site has high potential for private investment	Use of site has moderate potential for private investment	Use of site has no potential for private investment
Opportunity costs - alternative land uses	Intended use of site is the highest and best use of the land	Site has other potential uses which have similar returns as intended use	Site has other potential uses which have a higher return than intended use

Site Evaluation Summary

HVS rated the eight potential sites on 22 evaluation criteria. The rating of each site, combined with the relative importance of each criteria results in a weighted score for each potential location and a summary of the primary pros and cons for each site. This process identified preferred sites which would likely be the most suitable for the proposed conference center.

Final site selection of a specific land parcel for the facility would depend on evaluating multiple factors which are outside the scope of this study, including negotiations with land owners, specific legal and financing requirements, and environmental and geologic investigations. As a result, a suitable site in the preferred location may not be suitable for development.

The following figure provides a summary of this evaluation.

**FIGURE 9-5
SITE EVALUATION SUMMARY**

Criteria		Weight ²	87 North	500 West Main	400 West Main	Ufer Street	Friendship	16 North	East Main/ Goehman Lane	290 East
Site	Capacity for recommended building program	5	3	1	1	2	3	3	3	3
	Subject to City height restriction	2	3	1	1	1	1	3	3	3
	Subject to historic district restrictions	2	3	1	1	3	3	3	3	3
	Ability to assemble site	4	3	2	2	3	3	3	2	3
	Proximate to existing/planned lodging	5	3	1	1	2	1	1	3	3
	Proximate to downtown amenities	5	1	2	2	3	1	1	1	1
	City infrastructure in place	3	2	3	3	3	3	1	3	1
	Historic landmark considerations	2	3	2	2	3	3	3	3	3
Sub-Total Site Considerations			23	16	15	22	20	20	23	22
Urban	Potential for adjacent hotel development	5	2	1	1	2	2	1	2	2
	Potential for other surrounding development	4	3	3	3	3	3	2	2	2
	Displacement of existing uses	2	3	2	3	3	1	3	3	3
	Compatibility with neighboring land uses	3	3	2	2	2	3	3	3	3
	Compliance with existing zoning	2	3	2	2	2	1	3	3	3
Sub-Total Urban Impact			14	10	11	12	10	12	13	13
Access	Ease of access for drive-in	3	3	2	2	2	3	3	3	3
	Ease of access for pedestrians	3	1	2	2	3	1	1	1	1
	Ease of access for service vehicles	3	3	2	2	2	3	3	3	3
	Availability of existing/planned Parking	3	3	2	2	2	3	3	3	3
	Potential for traffic congestion	2	2	2	1	2	3	3	3	3
Sub-Total Access			18	15	15	18	19	19	19	19
Finance	Land assembly costs	3	3	2	2	2	2	3	3	3
	Cost of construction	2	2	2	2	2	2	2	2	2
	Potential for private investment	3	3	2	2	2	3	3	3	3
	Opportunity costs - alternative land uses	3	2	2	2	3	2	2	2	2
Sub-Total Financial Considerations			11	10	10	11	10	11	11	11
Total All Criteria			66	51	51	63	59	62	66	65

Weighted Scores ³		MAX	87 North	500 West Main	400 West Main	Ufer Street	Friendship	16 North	East Main/ Goehman Lane	290 East
Site	84	71	45	45	70	60	58	70	68	
Urban	48	43	31	33	38	35	34	39	39	
Access	42	34	28	26	31	36	36	36	36	
Finance	33	28	22	22	25	25	28	28	28	
Total	207	176	126	126	164	156	156	173	171	
Percent of Maximum			85%	61%	61%	79%	75%	75%	84%	83%

1) Each criteria scored on a 1 to 3 scale based on site evaluation criteria described in Figures 9-3 and 9-4.
2) Rank of the importance of the criteria on a scale of 1 to 5 with five being most important and 1 being least important.
3) The importance of the criteria (weight) X the conformance score = the weighted score.

Site Pros and Cons

Based on the above analysis and other investigation, HVS developed the following figure which presents the primary pros and cons for each potential site.

**FIGURE 9-6
SITE PROS AND CONS**

Pros	Cons
87 North	
Land acquired On site hotel/resort development through private developer Adjacent parcels available for supporting uses	Not near other existing or planned hotels May require City annexation Must drive to Main Street dining and shopping
500 West Main	
Near Main Street dining and shopping Developing vacant properties would enliven area	Land acquisition unclear No proximate existing or planned hotels Site may be too small for recommended program Site subject to City height and historic district restrictions
400 West Main	
Near Main Street dining and shopping Developing vacant properties would enliven area	Land acquisition unclear No proximate existing or planned hotels Site may be too small for recommended program Site subject to City height and historic district restrictions
Ufer Street	
Walkable access Main Street dining and shopping Walkable access to multiple hotel properties Adjacent hotel development through private developer	Site may be too small for recommended program Would require modifications to planned Culinary Center Site subject to City height restrictions
Friendship	
Adjacent to new 78-room hotel Near major transportation route Short drive to other hotel properties	Land acquisition unclear Must drive to Main Street dining and shopping Limited surrounding dining and shopping
16 North	
On site hotel/resort development through private developer	Limited hotel rooms planned for initial development Not near other existing or planned hotels Must drive to Main Street dining and shopping Limited surrounding dining and shopping
East Main / Goehman Lane	
On site hotel/resort development through private developer Near wineries and other attractions Some city infrastructure in place	Must drive to Main Street dining and shopping Limited surrounding dining and shopping Long term development horizon, early stages Land not owned by developer
290 East	
Land acquired On site hotel development through private developer Near wineries and other attractions	Must drive to Main Street dining and shopping Limited surrounding dining and shopping Long term development horizon, early stages

Conclusions

The above site analysis used 22 site evaluation criteria to narrow a list of eight potential sites to four final sites with the highest overall scores: 87 North, Ufer Street, East Main/Goehman Lane, and 290 East. While none of the remaining sites

possess a fatal flaw that would preclude them from consideration, they are not as well suited for the recommended conference center program.

HVS recommends further investigation into the four highest scoring sites, including the following.

- Preparation of concept plans and preliminary cost estimate for the proposed conference center by a design firm,
- Initial discussions with land owners of the 87 North and 290 East sites to understand ability to incorporate conference center program into current conceptual plans and the timing of anticipated developments,
- Discussions with potential developer of East Main/Goehman Lane site to understand status of land acquisition process, ability to incorporate conference center program plans, and the timing of anticipated developments,
- Discussions with all developers to assess their willingness to reserves parcels of land for future complementary development surrounding the conference center,
- Assess the need and potential for each site to attract private operators to provide transportation for event attendees to restaurants, museums, and other points of interest in Fredericksburg, and
- Reevaluation of the initial plans for Texas Center for Wine and Culinary Arts on the Ufer Street site to assess ability to incorporate conference center program into the current plans.

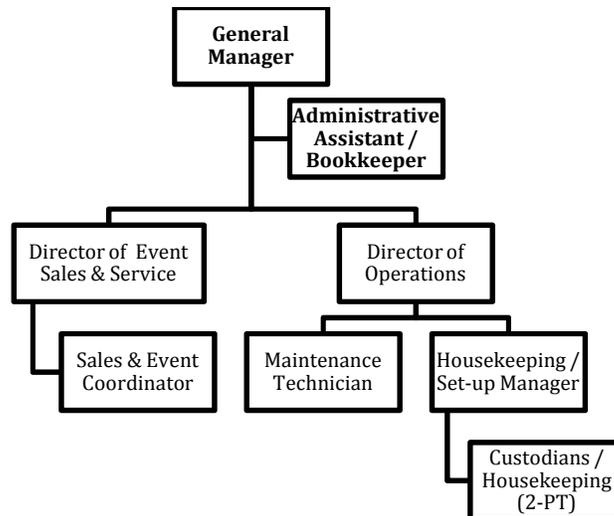
10. Financial Analysis

Approach to Operations Departments

Conference centers typically operate under three primary departments: administration and finance, event sales and service, and building operations. While maintaining the public facility and attracting and successfully hosting events remains the primary purposes of a conference center, each department can also be responsible for a variety of functions related to financial reporting, contract management, labor relations, and public relations.

The following figure provides a sample organization chart for conference center operations that could be implemented by the proposed FCC.

FIGURE 10-1
SAMPLE ORGANIZATION CHART FOR PROPOSED FCC



For the purpose of this analysis, HVS assumes that the proposed FCC would operate as a stand-alone conference venue. Operating expenses include all operations, sales, and administrative costs necessary to manage and market the venue. If the facility operation were incorporated into a larger hotel or resort development, the FCC would only generate direct and departmental expenses. As a department of a larger operation, costs associated with some administrative and marketing activities, including some staff salaries, would be captured in other departmental budgets. HVS presents this alternate operating scenario at the end of this section.

Outsourcing a conference center's food and beverage service to a third party likely results in the loss of potential revenue for the facility. However, it also represents a significant reduction in the need for food service staff and operating expenses related to food and beverage services. HVS assumes that, regardless of facility management structure, the proposed FCC would contract with third party food service providers in one of two basic forms.

- First, the FCC could contract with a single food service provider who would be responsible for all catering and concessions needs of the facility. In this scenario, the food service provider would place a permanent staff at the venue, including sales personnel, event management, and kitchen staff. Event organizers would contract directly with the food service company, and the FCC would receive a commission based on food and beverage sales. The main benefits to this option would be the consistency of product, quality, and service and the ability of facility and food service staffs to work together in bringing events to the venue.
- The second option would be to develop a list of pre-approved caterers from which an event organizer could select. This list would typically contain local restaurants and catering companies, allowing for greater local participation in events, a primary benefit of this option. In order to be on the pre-approved list, companies would agree to pay the FCC a commission based on an event's gross food and beverage sales.

Reporting Policies

Regardless of management approach, communication is critical between the city officials, day-to-day managers of the facility, and the general public. It is common practice for facility managers to provide annual reports to officials in charge of guiding public policy decisions related to conference centers.

HVS recommends that an annual report prepared by facility management should include, at a minimum, a description of events and attendance at the FCC, as well as a description of operating revenues and expenses associated with managing the venue. At least two years of historical annual data should be included in the annual report for comparison purposes. Based on our knowledge of industry standards, HVS suggests that the most common types of information typically available to a municipal owner of a conference center include the following items:

- Aggregated data on historical events and attendance, organized by event type,
- Historical operating revenues and expenses associated with the venue, organized by year,
- Organizational chart depicting staffing structure for the venue,

- Strategic plan, expressing marketing strategies, future booking and operational goals, and an approach to achieve those goals,
- Annual estimates of room nights and the economic and fiscal impacts generated by the venue's events, and
- An overview of positive impacts on the Fredericksburg community including data on charitable and community service events.

Facility managers typically collect most of this data, with the exception of room night and economic impact estimates which may require input from FCVB records.

HVS recommends presenting summaries of all the preceding data points in an annual report document that can be distributed to city officials. Implementation of this annual comprehensive reporting process may enable the City to communicate better the overall success and importance of the FCC to the general public. In most communities, this is a collaborative process that helps to ensure continued public support of the meetings and conference industry and public investment in conference related assets and marketing organizations

Sales & Marketing

The FCVB would serve as the primary sales and marketing organization for the proposed FCC. The FCVB's most basic sales efforts would involve educating event planners about Fredericksburg and the FCC. These efforts would include advertising campaigns, participation in tradeshow and conferences that target event planners, sales presentations, and coordinating familiarization tours for event planners. The FCVB currently leads similar efforts in these areas for the local hotels and other venues.

If event planners consider Fredericksburg as a site for their events, the FCVB also plays the role of event facilitator in two critical areas. First, the FCVB staff matches event planners' facility requirements with the most suitable event space in the market. Second, FCVB staff matches event planners' hotel requirements with the most suitable lodging properties in the community.

A CVB provides a centralized organization that can serve as an entry point or information hub for visitors from all segments, including the group segment, business transient travelers, and leisure travelers. Hotels located in the same community often organize and agree to tax their revenues with the goal of funding such an organization. The arrangement places the funding burden on those who most benefit. In the case of conference and visitors bureaus like the FCVB, hotels primarily benefit from the marketing organization's efforts. To a lesser extent, restaurants, retail stores, visitor attractions, service providers, and car rental companies benefit. For this reason, hotel taxes (and sometimes restaurant taxes

and car rental taxes) place among the most common sources of funding for these organizations in the United States.

In the greater Fredericksburg area, local hotel tax revenues are the primary sources of funding for the FCVB's \$2 million dollar operating budget. The FCVB is a 501(c)(6) nonprofit corporation, a common organizational structure for destination marketing organizations. The FCVB staff consists of fifteen full and part-time professional positions. The FCVB dedicates two staff members to meeting sales and services. Other staff is responsible for visitor sales and services, tourism sales, marketing, public relations, and administration.

The FCVB's current staffing level and staff functions are consistent with other regional and state markets without a primary conference venue. However, the future development of the proposed FCC should coordinate with the creation of at least one additional conference sales and service position well in advance of the opening of the proposed FCC. Additional staff dedicated to meetings and conferences would allow conference marketing to operate independently of tourism and destination marketing. This organizational structure is typical of most independent CVBs around the country.

HVS recommends that the proposed FCC's governing body and the FCVB formalize their working relationship to give the FCVB booking priority at the proposed FCC for dates at least 12 to 18 months in the future and beyond. Any dates within the 12 to 18-month booking window would be open to any potential user groups on a first-come, first-served basis. This sort of arrangement between conference centers and conference bureaus exists in many locations throughout the country. Such a booking policy maximizes the likelihood of attracting high-impact conferences and meetings from out of town groups by giving them booking priority. Opening up the schedule inside the 12 to 18-month booking window, however, allows a facility to fill in empty dates with lower-impact events to maximize revenue for the facility and serve as a valuable resource to the community for charitable and other civic events.

Estimates of Financial Operations

HVS uses a proprietary financial operating model to estimate revenues and expenses at conference centers. This model quantifies the key variables and operating ratios that determine revenue potential and expenses levels. Unless otherwise indicated, the model assumes an annual inflation rate of 2.5% applies to both revenues and expenses.

Operating FCC revenue line items include facility rental, food and beverage sales, and event services. The model uses a series of revenue assumptions based on attendance, floor area utilization, or occupied days. Attendance is measured in delegate-days, the average daily attendance times the number of event days. Floor

area utilization is measured in Gross Square Foot Days (“GSFD”)—the amount of floor area rented times the number of days it is rented including move-in and move-out days. Occupied days only include those days in which attendees are present.

To formulate the revenue assumptions, HVS relied on historical operations data from comparable venues, industry information, and information on price levels from local area sources. We adjusted the assumptions for inflation and other anticipated trends in price levels.

Revenue Assumptions

The figure below summarizes the operating income assumptions for the proposed FCC by type of event. A brief description of the each revenue item follows.

**FIGURE 10-2
REVENUE ASSUMPTIONS**

Type	Facility Rental per GSFD	Event Services (Gross) per GSFD	Food & Beverage (Gross) per Attendee
Conferences	\$0.15	\$0.08	\$75.00
Meetings	0.20	0.08	30.00
Local Meetings	0.12	0.05	10.00
Banquets	0.10	0.08	35.00
Consumer Shows/Fairs	0.15	0.10	4.50
Other	0.08	0.03	0.00

Facility Rental—Facility rental revenue includes the revenue the proposed FCC would receive from clients that reserve one or more function areas in the facility. Despite having published rates, conference centers typically charge rental fees based on negotiated daily rental fees. Not all events incur a facility rental fee. A facility may reduce or waive the room rental charges in order to book an event that has a strong economic impact on the local market. The above rates are based on the number of gross square foot days consistent with industry averages and comparable venues in Texas.

Event Services—Event Services include the fees charged to tenants for services that could include business services, audio and video technical assistance, set-up and take down of function spaces, cleaning services, security services, electricity and other utilities, commissions from decorators and other services provided by third-party contractors at events. Many events also require audio, video, communications and internet services. Banquets and other upscale events can require elaborate decorating services. Almost all events require cleaning services; cleaning of common areas may be complimentary for most events while cleaning

services offered to individual exhibitors can represent a significant source of revenue. Service charges vary by type of event. Some of these services may be included in the rental charges for using the facility, but others will be add-on service charges. The HVS model estimates event services revenues based on the number of gross square foot days consistent with industry averages.

Food and Beverage—Most events that would use the FCC’s function space would also arrange for food service for their attendees during their events. This food service includes catering which can range from coffee breaks associated with a meeting to a full dinner associated with a conference or banquet. Consumer shows, may generate concessions revenue. Most conferences generate demand for multiple meals during the course of these multi-day events. Meetings and banquets generally include a single meal or refreshment services. HVS projects estimated gross food and beverage revenues on a per delegate-day basis depending on the type of event.

In addition to the above event related revenues, HVS also projects that the proposed FCC would generate other revenues which may include damages billed to tenants, interest income, special fees, and other non-recurring ancillary income.

Operating Expenses Assumptions

HVS estimated operating expenses as a blend of fixed costs and variable percentage of operating revenues as summarized in the figure below. HVS based these fixed and variable assumptions on multiple years of comparable venue revenue and expense data and other industry standards. A brief description of each expense line item follows.

**FIGURE 10-3
OPERATING EXPENSE ASSUMPTIONS**

Expenditure	Percentage Revenue	Fixed Expense
Operating Expense		
Salaries & Benefits		\$543,750
Event Services Costs	85.0% of Event Services (Gross)	
Food & Beverage Costs	75.0% of Food & Beverage (Gross)	
Repair & Maintenance	2.0% of Total Operating Rev	20,000
Administrative & General	1.0% of Total Operating Rev	10,000
Marketing & Sales	3.0% of Total Operating Rev	
Insurance	2.0% of Total Operating Rev	
Utilities	5.0% of Total Operating Rev	75,000
Other Expense		5,000

Salaries & Benefits—HVS estimated the staffing level, salaries, and associated benefits for permanent full- and part-time employees dedicated to administration,

marketing, building operations, and other functions. This category does not include part time food & beverage staffing, which is included in vendor costs. The following figure provides a summary of the staff positions and associated salaries.

**FIGURE 10-4
PROPOSED VENUE STAFFING**

Position	Number	Salary	Total Salary
ADMINISTRATION/FINANCE			
General Manager	1	80,000	80,000
Administrative Assistant/Bookkeeper	1	40,000	40,000
SALES & MARKETING			
Director of Event Sales & Service	1	60,000	60,000
Sales/Event Coordinator	1	35,000	35,000
BUILDING OPERATIONS			
Director of Operations	1	55,000	55,000
Maintenance Technician	1	35,000	35,000
Housekeeping/Set-up Manager	1	40,000	40,000
Custodians/Housekeeping (PT)	2	20,000	40,000
TOTALS	9		385,000
Benefits		25%	96,250
TOTAL SALARY & BENEFITS			481,250

Event Services Costs—Event services costs are the costs incurred by the facility for client reimbursed expenses such as audio visual set-up, security, cleaning, and event set-up. HVS estimated event services costs as a percentage of gross event service revenue based on industry standards.

Food & Beverage Costs—HVS assumes that the food and beverage services would be operated by a third party food service operator. This operator may be a single entity that contracts with the facility to provide all catering and concessions services or a list of approved caterers that would contract directly with event organizers. HVS assumes the average commission paid by food service operators at 25 percent of gross sales. Food service operators would be responsible for all costs, including sales staff, event labor, raw materials, and other supplies.

Repair & Maintenance—This category includes both routine and one-time facility maintenance expenses that are primarily the responsibility of in-house facility operations personnel. It also includes more specialized activities, such as HVAC system maintenance, electrical work, and maintenance of other mechanical systems often contracted out to third parties.

Administrative & General—Office and administrative operations incur day-to-day facility expenses. Such expenses typically include travel, telephone, printing, permits, and other miscellaneous services.

Marketing & Sales—This category includes production of event marketing materials, travel, advertising, other costs associated with event sales.

Insurance—Insurance costs include property insurance and other liability insurance required for facility operations.

Utilities—Utilities, including electricity, gas, water, and other charges often represent one of the largest expenses incurred by facility operators.

Other Expenses—Other expenses could include expenses such as miscellaneous operations costs, legal costs, special training expenses, collection costs, credit losses, bank fees, and other small miscellaneous expenses.

Capital Maintenance Reserve—HVS assumes the establishment of a capital maintenance reserve equal to 3 percent of operating revenues. This reserve would fund the long-term maintenance and replacement of facility furnishings and systems.

Operating Pro Forma

The figure below presents the five-year financial projections for the proposed FCC including the multi-purpose ballroom and meeting spaces. The projections are in inflated dollars beginning January 1, 2018, the assumed opening of the proposed FCC.

**FIGURE 10-5
PROJECTED FINANCIAL OPERATIONS**

	2018	2019	2020	Stabilized 2021	2022
OPERATING REVENUE					
Facility Rental	\$228,000	\$304,000	\$366,000	\$375,000	\$384,000
Event Services (Gross)	125,000	165,000	198,000	203,000	208,000
Food & Beverage (Gross)	681,000	857,000	1,024,000	1,050,000	1,076,000
Other Revenue	8,000	8,000	8,000	8,000	8,000
Total	\$1,042,000	\$1,334,000	\$1,596,000	\$1,636,000	\$1,676,000
OPERATING EXPENSES					
Salaries & Benefits	\$518,000	\$531,000	\$544,000	\$558,000	\$572,000
Event Services Costs	107,000	140,000	168,000	173,000	177,000
Food & Beverage Costs	511,000	643,000	768,000	788,000	807,000
Repair & Maintenance	42,000	49,000	55,000	56,000	57,000
Administrative & General	21,000	24,000	27,000	28,000	29,000
Marketing & Sales	31,000	40,000	48,000	49,000	50,000
Insurance	21,000	27,000	32,000	33,000	34,000
Utilities	133,000	149,000	165,000	169,000	173,000
Other Expense	5,000	6,000	6,000	6,000	6,000
Total	\$1,389,000	\$1,609,000	\$1,813,000	\$1,860,000	\$1,905,000
OPERATING INCOME (LOSS)	(\$347,000)	(\$275,000)	(\$217,000)	(\$224,000)	(\$229,000)
NON-OPERATING EXPENSES					
Capital Maintenance	\$31,000	\$40,000	\$48,000	\$49,000	\$50,000
Total	\$31,000	\$40,000	\$48,000	\$49,000	\$50,000
TOTAL NET INCOME (LOSS)	(\$379,000)	(\$315,000)	(\$265,000)	(\$272,000)	(\$278,000)

For a stabilized year of demand, the operation of the proposed FCC would require a subsidy of approximately \$270,000. This is within the range of net incomes found in a sampling of similarly sized stand-alone conference centers as shown below.

**FIGURE 10-6
COMPARABLE VENUE OPERATING SUBSIDIES**

Venue	Function Space	Net Income	Year
Saratoga Springs City Center	32,000	(455,000)	2012
New Braunfels Convention Center	25,000	(217,000)	2014
Wenatchee Convention Center	25,000	(500,000)	2012
Salem Convention Center *	24,000	241,000	2014
Midlothian Convention Center	10,800	(169,000)	2012
Bastrop Convention Center	7,500	(468,000)	2013

* Facility operates food & beverage service in house.

HVS intends for financial projections to show the expected levels of revenues and expense. Projections show smooth growth over time. However, event demand and booking cycles are not always smooth. Unpredictable local and national economic factors can affect business. Event demand is often cyclical, based on rotation patterns and market conditions. Therefore, HVS recommends interpreting the financial projections as a mid-point of a range of possible outcomes and over a multi-year period rather than relying on projections for any one specific year.

Alternate Operating Scenario

HVS also investigated the operating scenario in which the proposed FCC is incorporated into a hotel or resort development. In this scenario, the hotel operator would also be responsible for the marketing and operation of the conference center, and the conference center would be a department of the hotel. HVS assumes that under this scenario, the operating revenues generated by the conference center would be consistent with those of a stand-alone venue. As a department of a larger hotel operation, operating expenses associated with some administrative and marketing activities, including some staff salaries, would be captured in other departmental budgets. HVS reevaluated the FCC operating expenses as departmental expenses to yield a departmental income for the FCC. HVS estimated departmental expenses as a blend of fixed costs and variable percentage of operating revenues as summarized in the figure below. A brief explanation of these assumptions follows.

FIGURE 10-7
DEPARTMENTAL EXPENSE ASSUMPTIONS

Expenditure	Percentage Revenue	Fixed Expense
Operating Expense		
Event Services Costs	85.0% of Event Services (Gross)	
Food & Beverage Costs	60.0% of Food & Beverage (Gross)	
Repair & Maintenance	4.0% of Total Operating Rev	
Administrative & General	3.0% of Total Operating Rev	90,000
Marketing & Sales	2.0% of Total Operating Rev	50,000
Utilities	3.0% of Total Operating Rev	40,000

Event Services Costs—Event services costs are the costs incurred by the facility for client reimbursed expenses such as audio visual set-up, security, cleaning, and event set-up. HVS assumes that these expenses would be consistent with those generated by a stand-alone conference center.

Food & Beverage Costs—Under this scenario, HVS assumes that the hotel operator would provide all food and beverage service for FCC events. Food and beverage costs represent the costs of goods and staffing expenses associated with this service and are estimated as a percentage of gross sales consistent with industry averages.

Repair & Maintenance—This category includes costs associated with both routine and one-time facility maintenance expenses associated with the FCC functions spaces. These costs include the staff salaries dedicated to this activity.

Administrative & General—This category includes office and administrative expenses associated with managing the FCC, including staff salaries.

Marketing & Sales—This category includes production of event marketing materials, travel, advertising, other costs associated with event sales, including staff salaries dedicated to this function.

Utilities—Under this scenario, utilities expense would include only those utility charges allocated to the FCC function spaces.

The figure below presents the five-year financial projections for the proposed FCC as a department of a hotel operation. The projections are in inflated dollars beginning January 1, 2018, the assumed opening of the proposed FCC.

**FIGURE 10-8
PROJECTED DEPARTMENTAL OPERATIONS**

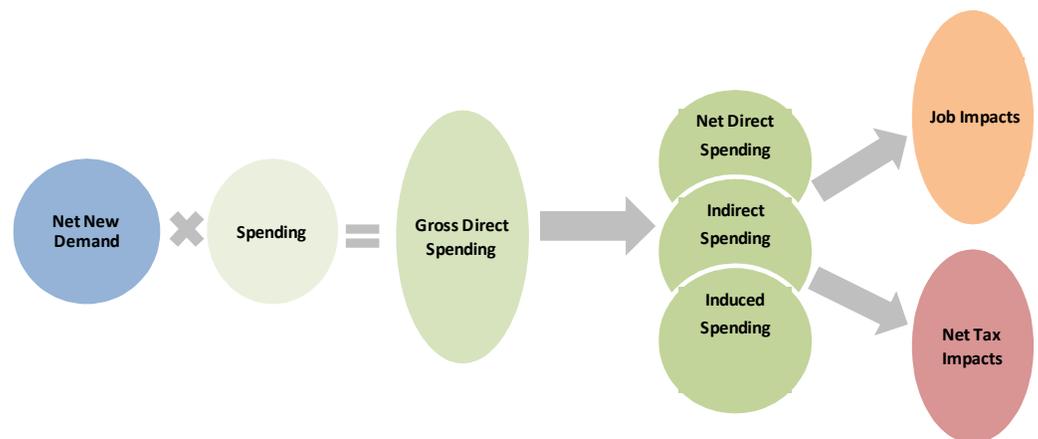
	2018	2019	2020	Stabilized 2021	2022
DEPARTMENTAL REVENUE					
Facility Rental	\$228,000	\$304,000	\$366,000	\$375,000	\$384,000
Event Services (Gross)	125,000	165,000	198,000	203,000	208,000
Food & Beverage (Gross)	681,000	857,000	1,024,000	1,050,000	1,076,000
Other Revenue	8,000	8,000	8,000	8,000	8,000
Total	\$1,042,000	\$1,334,000	\$1,596,000	\$1,636,000	\$1,676,000
DEPARTMENTAL EXPENSES					
Event Services Costs	\$107,000	\$140,000	\$168,000	\$173,000	\$177,000
Food & Beverage Costs	409,000	514,000	615,000	630,000	646,000
Repair & Maintenance	42,000	53,000	64,000	65,000	67,000
Administrative & General	128,000	139,000	150,000	153,000	157,000
Marketing & Sales	75,000	82,000	88,000	91,000	93,000
Utilities	74,000	84,000	93,000	95,000	98,000
Total	\$835,000	\$1,012,000	\$1,178,000	\$1,207,000	\$1,238,000
TOTAL DEPARTMENTAL INCOME (LOSS)	\$208,000	\$321,000	\$418,000	\$428,000	\$439,000

In a stabilized year of demand, HVS projects departmental income for the proposed conference center of approximately \$430,000.

11. Economic Impact

The proposed Fredericksburg Conference Center (“FCC”) would generate economic impact by attracting new visitors and importing their spending or new income into the local economy. Public investment in the project would increase attracting visitors that would not otherwise come to Fredericksburg. To measure this impact HVS calculated net new demand—the difference between event and attendance in the do-nothing and FCC development scenarios. The figure below outlines the process in which HVS translates this net new demand in the market to economic and fiscal impacts.

**FIGURE 11-1
ECONOMIC AND FISCAL IMPACT PROCESS**



HVS identified the new visitors and associated spending that would occur in the local economy due to the proposed development of the FCC. Based on the demand projections presented in this report, HVS estimated the amounts of income and employment that new visitors, event organizers, and exhibitors would generate in the City of Fredericksburg and Gillespie County.

Direct, Indirect, and Induced Spending

- **Direct spending** includes the new spending of event attendees and organizers. For example, an attendee’s expenditure on a restaurant meal is a direct spending impact. Direct spending includes only new spending that originates from outside Fredericksburg and Gillespie County. Spending by attendees who live within the market area is a transfer of income from one sector of the area’s

economy to another; therefore, this analysis does not count spending by local residents as a new economic impact.

- **Indirect spending** follows from the business spending resulting from the initial direct spending. For example, an event attendee's direct expenditure on a restaurant meal causes the restaurant to purchase food and other items from suppliers. The portion of these restaurant purchases that remain within count as indirect impacts.
- **Induced spending** represents the change in local consumption due to the personal spending by employees whose incomes change from direct and indirect spending. For example, a waiter at a local restaurant may have more personal income as a result of an event attendee dining at the restaurant. The amount of the increased income that the waiter spends in the local economy is an induced impact.

To generate direct spending estimates, HVS applied assumptions about the amounts of new spending generated by FCC events. HVS used the IMPLAN input-output model of the local economy to estimate indirect and induced spending. The sum of direct, indirect, and induced spending estimates make up the total estimated spending impact of the proposed development of the FCC.

Some refer to indirect and induced impacts as multiplier effects. The relationship between direct spending and the multiplier effects vary based upon the specific size and characteristics of a local area's economy.

The following figure

Sources of Direct Spending

HVS identified four sources of new direct spending impacts:

- **Overnight Guests:** Visitors to Fredericksburg who require overnight lodging, including conference delegates, meeting attendees, and attendees at other FCC events. Overnight delegate spending includes the spending on hotel catering by exhibitors and event organizers in addition to the personal spending of individual guests.
- **Daytrip Attendees:** Visitors to the FCC who do not require paid lodging. In most markets, day-trippers typically spend money on meals, shopping, local transportation, recreation and entertainment, and other goods and services while in town.
- **Event Organizers:** Individuals, associations, or other organizations that plan, sponsor, organize, and coordinate events that take place at FCC facilities. In addition to facility spending, event organizers also spend on lodging, meals,

local transportation, facility rentals, equipment rentals, and other goods and services required to plan and organize a successful event.

Estimation of new spending of each of these sources involves three sets of assumptions: 1) the number of new visitors to the market, 2) the geographic location of their spending, and 3) the amounts typically spent by each of the sources.

New Visitors

HVS estimated the percentage of each visitor type that would come from outside the market rather than from the local area. The spending estimates only include new visitor spending because non-residents import income, whereas residents transfer income already in the market area.

- Overnight Guests – HVS assumes that 90% of overnight guests attending FCC events would require hotel or motel lodging in the local market. Some overnight guests may stay with friends and family or outside the market.
- Day Trips – Estimates are based on the percentage of the population for the market area as a percentage of the total drive time population defined as the two-hour drive time.
- Exhibitor/Organizer spending on Attendees/Delegates – HVS based estimates on the percentage of attendees by events organized and exhibited by companies that would otherwise not hold or participate in an event in Fredericksburg.

The product of the visitor forecasts and the percent of demand new to the market yields an estimate of the sources of impact shown in the table below. That is:

$$\text{Total Overnight Guests} \times \text{Percent New} = \text{New Overnight Stays}$$

$$\text{Total Day Trips} \times \text{Percent New} = \text{New Day Trips}$$

$$\text{Total Delegate Days} \times \text{Percent New} = \text{New Delegate Days}$$

The figure below shows the number of new visitors to Fredericksburg and Gillespie County that generate new spending.

**FIGURE 11-2
SOURCES OF SPENDING IMPACTS**

Event Type	Overnight Visitor Days	Day Trips	Event Delegate Days*
City of Fredericksburg			
Conferences	6,400	2,600	8,505
Meetings	9,100	3,500	12,656
Local Meetings	0	600	0
Banquets	2,400	5,900	12,150
Consumer Shows/Fairs	1,300	8,500	16,200
Other	0	1,000	0
Total	19,200	22,100	49,511
Gillespie County			
Conferences	7,000	2,600	9,356
Meetings	9,100	3,500	12,656
Local Meetings	0	0	0
Banquets	2,400	4,700	12,150
Consumer Shows/Fairs	1,300	6,800	16,200
Other	0	800	0
Total	19,800	18,400	50,362

*Used to estimate event organizer spending.

Spending Parameters

Delegates, attendees, and event organizers spend locally on lodging, meals, local transportation, facility rentals, vendor services, meeting room rentals, equipment rentals, and other goods and services.

The “Daily Spending Parameters” include the daily spending by individual overnight delegates, day-trippers, event organizers, and exhibitors. Adjusted DMAI data provides estimates of exhibitor and organizer spending per attendee day. Facility revenue estimates include event organizer and exhibitor spending on facility rental, facility services, and event food and beverage. HVS used DMAI data and local visitor spending data provided by the FCVB to develop daily visitor spending estimates. The figure below states all daily spending parameters in 2015 dollars.

FIGURE 11-3

Daily Spending Per Overnight Stay		Amount in \$2015 Dollars	\$275.43
Hotel Average Daily Room Rate	\$105.04	38%	
Food services and drinking places	\$59.77	22%	
Hotels and motels, including casino hotels	\$45.62	17%	
Retail stores - general merchandise	\$28.14	10%	
Automotive equipment rental and leasing	\$9.23	3%	
Transit and ground passenger transportation	\$8.57	3%	
Retail stores - gasoline stations	\$1.88	1%	
State and local government passenger transit	\$1.66	1%	
Total	\$275.43	100%	
Daily Spending Per Day-trip Visitor			\$106.96
Food services and drinking places	\$59.77	56%	
Retail Stores - General Merchandise	\$28.14	26%	
Retail Stores - Gasoline Stations	\$1.88	2%	
Total	\$106.96	100%	
Organizer Spending per Delegate Day			\$3.43
Retail Stores - General Merchandise	\$1.25	36%	
Hotel Room Rate	\$1.10	32%	
Advertising and Related Services	\$0.97	28%	
Automotive Equipment Rental and leasing	\$0.06	2%	
Total	\$3.43	100%	

Sources: DMAI, STR, HVS, and CTI

Facility Revenue from Outside Spending

Event organizers and exhibitors would create additional spending impacts through spending at the FCC through facility rentals, the purchase of event food and beverage services, and other spending at the venue. HVS estimated future spending by exhibitors and event organizers at the FCC including:

Facility Rental—Facility rental revenue includes the revenue the FCC would receive from clients that reserve one or more function areas in the venue. Despite having published rates, facilities typically charge rental fees based on negotiated daily rental fees. Not all events incur a facility rental fee. A facility may waive the space rental charges if the event meets a certain minimum of food and beverage charges.

Food and Beverage—Most events that would use the FCC’s function space would also arrange for food service for their attendees during their events. This food service includes catering, which can range from coffee breaks associated with a meeting to a full dinner associated with a conference, banquet, or cabaret performance. Consumer shows and sports events may generate concession revenue. Most conferences and conferences generate demand for multiple meals during the course of these multi-day events. Meetings and banquets generally

include a single meal or refreshment services. Events like conferences and conferences typically spend the most per attendee.

Event Services—Event Services include the fees charged to tenants for services that could include business services, audio-visual rental and technical assistance, information technology set-up and take down of function spaces, cleaning services, security services, electricity and other utilities, commissions from decorators, and other services provided by third-party contractors at events. Banquets and other upscale events often require elaborate decorating services. Almost all events require cleaning services; cleaning of common areas may be complimentary for most events, while cleaning services offered to individual exhibitors can represent a significant source of revenue. Service charges vary by type of event. Some of these services may be included in the rental charges for using the facility, but others will be add-on service charges.

Other Revenue—Other revenue could include damages billed to tenants, special fees or dues, interest income, and certain non-recurring income.

The following figure shows estimated organizer and exhibitor spending at the venue for a stabilized year.

FIGURE 11-4
ESTIMATED FCC FACILITY REVENUE

SPENDING CATEGORY	2017	2018	2019	2020	2021
Facility Rental	\$211,800	\$275,700	\$323,100	\$351,900	\$351,900
Event Services (Gross)	\$116,400	\$149,700	\$175,100	\$190,600	\$190,600
Food & Beverage (Gross)	\$632,500	\$776,200	\$905,500	\$988,500	\$988,500
Other Revenue	\$7,000	\$7,000	\$7,000	\$7,000	\$7,000
Total	\$967,700	\$1,208,600	\$1,410,700	\$1,538,000	\$1,538,000

Source: HVS

Gross Direct Spending

HVS applied the previous sources of spending impacts and spending parameters to estimate gross direct spending for a stabilized year. See the figure below.

**FIGURE 11-5
GROSS DIRECT SPENDING**

City of Fredericksburg					
Direct overnight visitor spending	=	19,200	overnight visitors	x	\$275.62 = \$5.3 M
Direct day trip spending	=	22,100	daytrip visitors	x	\$106.96 = \$2.4
Organizer Spending	=	49,511	attendees	x	\$3.43 = \$0.2
					Facility Revenue * = \$1.4
					Total Gross Direct Spending = \$9.2 M
Gillespie County					
Direct overnight visitor spending	=	19,800	overnight visitors	x	\$275.62 = \$5.5 M
Direct day trip spending	=	18,400	daytrip visitors	x	\$106.96 = \$2.0
Organizer Spending	=	50,362	attendees	x	\$3.43 = \$0.2
					Facility Revenue * = \$1.4
					Total Gross Direct Spending = \$9.0 M

For the stabilized year of 2021 and stated in 2015 dollars.

* Assumes 90% of facility revenue shown in Figure 10-4 would be new to the market

Sources: DMAI, STR, HVS, and CTI

The figure below shows the annual gross direct spending generated by the development of the FCC over a five-year period beginning in the first year of operation.

**FIGURE 11-6
GROSS DIRECT SPENDING BY SOURCE**

	2017	2018	2019	2020	2021
City of Fredericksburg					
Delegate Overnight Spending	3,159,000	4,132,100	4,855,800	5,296,700	5,296,700
Daily Delegate Spending	1,538,200	1,904,300	2,167,700	2,370,200	2,370,200
Organizer Spending	108,400	136,000	155,700	170,100	170,100
Facility Revenue	870,800	1,087,700	1,269,600	1,384,100	1,384,100
Total	5,676,400	7,260,100	8,448,800	9,221,100	9,221,100
Gillespie County					
Delegate Overnight Spending	3,252,800	4,261,000	5,019,900	5,472,500	5,472,500
Daily Delegate Spending	1,279,400	1,586,000	1,807,700	1,975,600	1,975,600
Organizer Spending	110,000	138,100	158,400	173,000	173,000
Facility Revenue	870,800	1,087,700	1,269,600	1,384,100	1,384,100
Total	5,513,000	7,072,800	8,255,600	9,005,200	9,005,200

**IMPLAN Impact
Modeling**

HVS uses the IMPLAN input-output model to estimate indirect and induced spending and employment impacts. IMPLAN is a nationally recognized model developed at the University of Minnesota and commonly used to estimate economic impacts. An input-output model generally describes the commodities and income that normally flow through the various sectors of a given economy. The indirect and induced spending and employment effects represent the estimated changes in the flow of income, goods, and services caused by the estimated direct spending. The IMPLAN model accounts for the specific characteristics of the local area economy and estimates the share of indirect and induced spending that it would retain.

HVS categorized new direct expenditures into spending categories that we provide inputs into the IMPLAN model. Specifically, the IMPLAN model relies on spending categories defined by the U.S. Census according to the NAICS. Because the spending data from the spending surveys used by HVS do not match the NAICS spending categories, HVS translates the spending categories into the NAICS spending categories that most closely match.

**Annual Net Direct
Spending**

Not all of the gross direct spending counts as an economic impact because some of the spending does not generate income within the market. HVS adjusts gross direct spending to account for income that leaks out of the local economy by estimating retail margins and local purchase percentages. As a result, the realized direct spending (“net direct spending”) is lower than the gross direct spending in the market area.

Retail Margins

Spending at retailers creates a smaller economic impact compared to spending in other industries. Retailers add value equal to the margin or price increase of the good above the original price paid to obtain the good. The IMPLAN model is product based, so HVS uses IMPLAN margin numbers to account for the discrepancy between retail purchaser prices and producer prices.

**Local Purchase
Percentage**

To accurately measure spending impacts, HVS counts spending on products and services located in the market area. Some of the direct spending demand in the market area cannot be accommodated. For example, an event organizer may need to buy novelty items for all attendees, but find that the market area does not produce these items. This effect occurs for direct, indirect, and induced spending. HVS uses the IMPLAN SAM model values to track the percentage of a good purchased within the market area.

**Indirect and Induced
Spending**

The relationship between direct spending and the multiplier effects can vary based on the specific size and characteristics of a local area’s economy. HVS enters the gross direct spending estimate into the IMPLAN input output model of the local economy to estimate the net direct, indirect and induced spending. HVS obtained

the most recent available data from IMPLAN for the City of Fredericksburg and Gillespie County.

The following figures present the output of the IMPLAN model—the net new direct, indirect, and induced economic impacts and that are attributable to the proposed development of the FCC. HVS also used IMPLAN to estimate the jobs created based on the direct, indirect, and induced spending estimates.

Annual Net Spending Impacts

The figure below shows the annual net direct, indirect and induced spending generated for the City of Fredericksburg and Gillespie County.

**FIGURE 11-7
NET DIRECT, INDIRECT, AND INDUCED SPENDING***

	2017	2018	2019	2020	2021
City of Fredericksburg					
Net Direct	5,235,000	6,695,600	7,791,800	8,504,100	8,504,100
Indirect	1,265,200	1,618,200	1,883,200	2,055,300	2,055,300
Induced	896,600	1,146,700	1,334,500	1,456,500	1,456,500
Total City of Fredericksburg	7,396,800	9,460,500	11,009,500	12,015,900	12,015,900
Gillespie County					
Net Direct	5,087,500	6,527,000	7,618,500	8,310,200	8,310,200
Indirect	1,444,800	1,853,600	2,163,600	2,360,000	2,360,000
Induced	1,015,500	1,302,800	1,520,700	1,658,700	1,658,700
Total Gillespie County	7,547,800	9,683,400	11,302,800	12,328,900	12,328,900

*Stated in constant 2015 dollars.

Present Value of Net Spending

The proposed capital investment in the development of the FCC would likely be repaid over a 20- to 30-year period that coincides with the useful life of the asset. As a point of comparison with the capital investment, HVS calculated the present value of the net spending that it would generate over a 20-year period. We assumed a 5% discount rate that approximates weighted cost of public sector capital. The figure below shows the present value of spending for the City of Fredericksburg and Gillespie County.

**FIGURE 11-8
PRESENT VALUE OF NET SPENDING***

	\$ Millions
City of Fredericksburg	\$172
Gillespie County	\$176

*Stated in constant 2015 dollars.

Over a 20-year period, the present value of net spending impact on Fredericksburg would be approximately \$172 million with a slightly higher impact on Gillespie County. The amounts of impact should be compared to the potential capital investment in the project.

Employment Impacts

HVS calculated the full-time equivalent jobs supported by the spending in each economic sector. The figure below summarizes the results.

**FIGURE 11-9
NET DIRECT, INDIRECT, AND INDUCED FULL-TIME EQUIVALENT JOBS**

	2017	2018	2019	2020	2021
City of Fredericksburg					
Net Direct	55	70	81	89	89
Indirect	10	13	15	16	16
Induced	7	9	11	12	12
Total City of Fredericksburg	72	92	107	116	116
Gillespie County					
Net Direct	53	68	79	87	87
Indirect	11	14	16	18	18
Induced	8	10	12	13	13
Total Gillespie County	72	92	108	118	118

By a stabilized year of operation, the project would support approximately 116 new permanent full-time equivalent jobs in Fredericksburg.

Fiscal Impacts

Fiscal impacts represent the public sector share of the economic impacts from tax collections on new spending. The previously discussed spending estimates provide a basis for estimating potential tax revenue, as Gillespie County and the City of Fredericksburg would collect some of the spending through taxation.

The IMPLAN analysis results in direct, indirect, and induced spending classified into hundreds of detailed spending categories. HVS evaluated each of these spending categories to determine which taxes would apply to each type of spending output. HVS then used the appropriate tax rates to estimate the amount of tax revenue.

In addition to the state of Texas' 6 percent tax on lodging revenues, the City of Fredericksburg or Gillespie County collects an additional 7 percent tax depending on the location of the hotel. For the purpose of this analysis, HVS projects that 90 percent of lodging revenues are collected by hotels within the City of Fredericksburg resulting in an effective tax rate of 6.3 percent for lodging

revenues collected in Fredericksburg and 0.7 percent for those collected in Gillespie County.

HVS applied these effective tax rates to a detailed breakdown of spending and income categories that result from direct, indirect, and induced spending through operation of the FCC. HVS then estimated the potential annual revenue from each tax source as shown in the following figures.

FIGURE 11-10
FISCAL IMPACTS FOR CITY OF FREDERICKSBURG IN 2015 DOLLARS

Tax Category	Tax Base	Nominal Tax Rate	Effective Tax Rate	Estimated Tax Revenue
Local Sales & Use Tax	\$7,530,441	1.50%	1.50%	\$113,000
City Lodging Tax	2,662,665	7.00%	6.30%	\$167,700
			Total	\$280,700

Sources: City of Fredericksburg, IMPLAN, ESRI, and HVS

Two tax sources would generate approximately \$281,000 in annual tax revenue to the City of Fredericksburg in a stabilized year of operation. The estimated present value of fiscal impacts over 20 years of the expansion project would be approximately \$3.3 million.

FIGURE 11-11
FISCAL IMPACTS FOR GILLESPIE COUNTY IN 2015 DOLLARS

Tax Category	Tax Base	Nominal Tax Rate	Effective Tax Rate	Estimated Tax Revenue
County Sales & Use Tax	\$7,684,973	0.50%	0.50%	\$38,400
County Lodging Tax	2,726,274	7.00%	0.70%	\$19,100
			Total	\$57,500

Sources: Gillespie County, IMPLAN, ESRI, and HVS

Two tax sources would generate approximately \$58,000 in annual tax revenue to Gillespie County in a stabilized year of operation. The estimated present value of fiscal impacts over 20 years of the expansion project would be approximately \$680,000.

These economic and fiscal impact estimates are subject to the assumptions and limiting conditions described throughout the report. Numerous assumptions about future events and circumstances form the basis for these estimates. Although we



consider these assumptions reasonable, we cannot provide assurances that the project will achieve the forecasted results. Actual events and circumstances are likely to differ from the assumptions in this report and some of those differences may be material. The readers should consider these estimates as a mid-point in a range or potential outcomes.

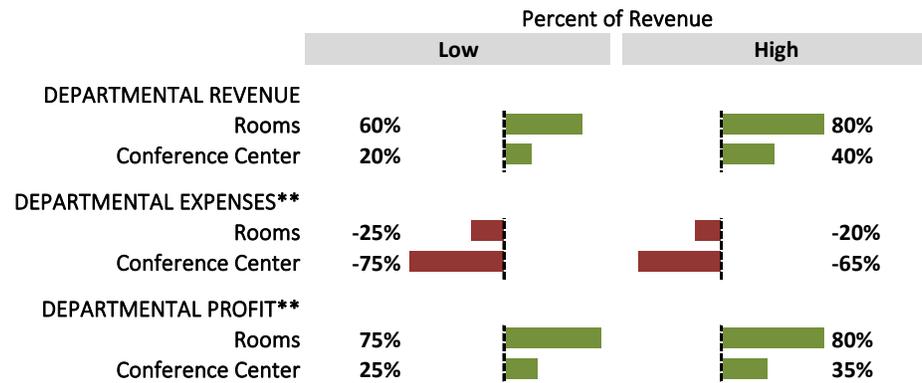
12. Approach to Financing

Economics of Conference Center Development

This section provides an overview of common strategies for conference center ownership, management, and funding, highlighting the alternate operating structures. This discussion includes two general options for the development and financing of a conference center: 1) as a stand-alone conference with public ownership, and 2) an integrated hotel conference center developed pursuant to a public-private partnership.

Most stand-alone conference centers do not generate enough net operating income to support their capital costs. Conference centers are loss leaders, which attract new visitors and generate hotel room sales and other visitor spending. An integrated hotel and conference center operation generates room revenue for the property owner. As the figure below illustrates, a hotel rooms department operation is significantly more profitable than a conference center operation.

FIGURE 12-1
TYPICAL HOTEL AND CONFERENCE CENTER DEPARTMENTAL OPERATIONS



*Shown as a percent of total revenue.

**Shown as a percent of departmental revenue.

Conference centers within hotels are typically proportional in size to the hotel room count (60 to 100 square feet per room). These proportions allow the room nights generated by the conference center to be captured primarily by its hotel. If properly sized, the conference space can provide an internal return on investment to the hotel owner through the generation of conference center and rooms revenue. In contrast, stand-alone conference centers are built to generate external

benefits to multiple hotels, restaurants, and other local businesses, which are not captured by the conference center owner.

The City of Fredericksburg is considering investment in a conference center that is either stand-alone or connected to a hotel but “oversized” such that it will generate external benefits to other hotels and businesses that support the tourism market.

Conference Center Ownership

Many stand-alone conference centers in the United States are publicly owned. Municipal or county ownership is the most common ownership arrangement for these facilities. Many communities have established quasi-governmental or non-profit authorities to own their conference facilities on behalf of the local and/or state governments. Regardless of ownership structure, a conference center board of directors or other advisory committee is typically responsible for the operation and long-term maintenance of the facility.

The primary benefits of a public ownership arrangement are public control of the development and operation and access to low cost tax exempt debt which is frequently used to finance the project. The primary risks associated with Municipal ownership concerns the initial and ongoing investments in the conference center. To remain competitive, the facility would likely require ongoing capital improvements. Moreover, a public owner would bear the risk associated with operating losses at the facility.

Most privately-owned conference centers are operated as departments of larger developments, including hotels, resorts, corporate headquarters, and universities. Privately-owned stand-alone centers are often located in larger metropolitan areas, primarily serving local businesses and corporations for off-site day meetings.

Conference Center Management under Public Ownership

Conference center management of a publicly-owned facility can take one of two primary forms. First, the governing authority, district, or local government department can directly employ an in-house staff to manage and operate the venue. With this arrangement, the venue owner maintains control over decisions related to the following activities:

- Financial reporting,
- Staffing levels and qualifications,
- Training and customer service requirements,
- Marketing priorities,
- Booking policies,
- Repair and maintenance schedules, and

- Long-term capital improvements.

The primary risks of this management arrangement include:

- Locating the necessary experience and talent to manage a facility successfully,
- Replacing expert management if key personnel leave,
- Financial operating risks associated with operating losses, and
- Inability to incentivize the sales team due to public employee compensation rules.

Some Texas cities with conference or convention centers operating under the management of a governing authority or local government include New Braunfels, Bastrop, and Waco.

The most common alternative to an in-house management staff is to engage a private facility management company to operate a venue. The private management company is responsible for operating a facility with a complete staff employed directly by the management company. Financial reporting and other operational procedures are typically governed by the standards established by the management company.

There is no correlation between a facility's financial performance and public versus private contract management. The experience and talent level of specific personnel within a conference center's management team is more important than whether the management is a public agency or a private company.

The most appropriate reason to consider private management of a conference center is that the public owner may not have the necessary experience, talent, or expertise available to manage the facility successfully. A private manager often provides a more professional and efficient operation.

Private management involves some disadvantages and risks. The requirement to pay management fees presents the clearest financial drawback. Management fees at conference centers are roughly three percent of gross revenue with additional incentive fees based on performance. If public management staff is either nonprofessional or when expenses are excessive, a change from public management to private management can improve the financial performance of a conference center. In such cases, the management fees may be well worth the investment.

One potential risk associated with using a private management firm is that a facility owner may not be able to monitor staff training and maintenance decisions

as closely as it would as an in-house operation. If a venue owner decides to engage a private management firm, HVS recommends the careful implementation of an evaluation process that focuses on both customer service satisfaction levels and facility maintenance procedures.

Another important risk associated with using a private management firm is that the host municipality may not have much control over the selection of top management positions at the conference center. The level of experience and talent a private management firm can bring to a public facility can vary substantially depending on whom the firm recruits for key positions, such as General Manager and Sales Director. Although the managers working for private management firms are among the world's best, each City must consider the likelihood of attracting this top tier of talent to its facility.

Some Texas cities with conference or convention centers operating under a private management contract include Corpus Christi, El Paso, and Beaumont.

Conference Center Funding Models

In the United States, counties and cities usually finance the construction of conference facilities with public debt, which is repaid over a 20- to 30-year period. Municipalities justify public investment either on the basis of the potential economic impact of a project or because it represents the development of a community asset with broad support that would not be developed without public spending.

Projects that are relatively small or in municipalities with rapidly growing tax bases are sometimes paid for directly out of appropriated funds. This type of pay-as-you-go financing is not often used for large projects. In Fredericksburg, as in most cities, the difficulty of providing sufficient revenues to pay for the entire project during the construction period effectively eliminates the pay-as-you-go option. The majority of conference centers are financed with long-term debt so that the payment of capital costs corresponds to the period over which the facility is used and its economic and public benefits are realized. Counties and cities typically structure the debt in the form of long-term tax-exempt bonds secured by one or more specific revenue source.

Municipalities sell two primary types of tax-exempt bonds, General Obligation Bonds or Revenues Bonds, to finance projects such as conference centers.

General Obligation Bonds

One possible revenue source to repay bonds would be general fund revenue, backed by the full faith and credit of the government, to make scheduled payments over the life of the bonds. These general obligation bonds ("GO bonds") primarily rely on real property taxes for repayment. This type of debt would provide a strong credit and relatively low borrowing costs for the project.

GO bonds typically fund projects perceived to benefit the population as a whole, such as educational, environmental, transportation, or correctional facilities. Because conference centers have a narrower group of users and people who benefit from these projects, GO bonds are seldom used as a funding source. Based on; 1) the lack of historical precedent in other cities, 2) the availability of alternative financing methods, HVS does not recommend the use of GO debt to finance the FCC.

Some alternative uses of GO debt might include;

- restricting it to a portion of the project costs such as site preparation, transportation improvements, and utilities;
- creating a short-term means of paying for some or all construction costs until revenues triggered by the new facility are realized; and/or,
- providing a guarantee to back-stop a new revenue source that is not initially creditworthy on its own or results in a lower bond rating without the backing of the gross receipts tax.

Revenue Bonds

Municipal governments can pledge revenue from existing or projected taxes and fees to support the repayment of tax-exempt debt on conference center projects. Bonds that are backed by such sources are called “revenue bonds” because the revenue from these taxes and fees provide the ability to repay debt. The interest rates paid on revenue bonds would vary depending on the reliability of the chosen revenue source. Interest rates also vary from one municipality to another depending on their credit ratings.

Counties and cities often target taxes or fees derived from the activities or businesses that are most likely to use or otherwise benefit from the facility. Hotel room occupancy taxes, sales taxes, car rental fees, parking taxes, food and beverage taxes, airport access fees, and development fees are the revenue sources most commonly used to repay debt service for conference center revenue bonds. In addition, municipalities frequently use these tax sources to finance the ongoing operating and marketing needs of their facilities. Most of the recent conference center projects throughout the U.S. have used this financing structure, which can be tailored to fit the specific requirements and debt structure of state and local governments.

The types of bonds used to fund particular projects depend on the size of the investment, lending rates, the creditworthiness of the borrowing entity, and the availability of revenue sources to repay the debt. The mix of revenue sources selected for particular projects depends on the comparative level of existing taxes

Integrated Hotel Conference Center Development

or fees, as well as what is considered to be both fair and feasible under the unique political and economic circumstances of each development.

As discussed earlier in this section, an integrated hotel and conference center development can generate positive cash flows and thereby create potential for private investment. But the amounts of private investment in the form of debt and equity that could be attracted to the project are unlikely to be sufficient to finance the entire project.

In a public-private partnership (“PPP”), the hotel and conference center could be owned and developed by the private partner. The conference center may be publicly owned and financed but is usually leased to the hotel owner who becomes responsible for the operation of the entire project. Public involvement may take the form of a public subsidy that “bridges the gap” between the cost of constructing and financing the project and the debt and equity that a private developer is able to secure.

Traditionally, full-service hotels have supported conference centers, but increasingly high quality select-service hotels have been developed adjacent to conference centers. Select-service hotels offer a more cost effective design and operation and may be more feasible in lower rated or tertiary markets.

Trends in PPPs for Hotel Conference Center Development

PPPs in hotel development are more frequently used in mid-sized, full-service hotel projects (200 to 500 rooms) in which a reasonable amount of public equity investment can make the difference between a feasible and infeasible project. For many smaller projects the potential benefit of new economic and fiscal impacts are modest and only justify a limited investment on the part of the sponsoring municipality. In other communities, a PPP is the only politically acceptable form of government support. Often other local hotel owners demand limits on government support of potentially competitive products. This is particularly true in stressed hotel markets where the proposed property would not induce significant amounts of new demand.

To assess trends and current industry practices in hotel and conference center PPPs, HVS analyzed 51 existing and planned projects. These projects included hotels with 100 to 400 rooms and an associated conference or convention center. We included some projects that have not yet opened. While these projects may change in scope, size, timing, or level of public participation, they provide insight into the current state of industry practices.

Data Sources

To perform our research HVS relied on the following data sources:

1. An HVS proprietary data base that tracks hotel sales transactions and operating histories,
2. HVS data base of prior hotel research reports that contains information on some hotel transactions that involved public financing or PPPs,
3. Publicly available offering statements and other prospectuses on hotel transactions,
4. Third party information on projects including industry and general media sources, and
5. First-hand knowledge of certain projects based on prior involvement in consulting activities related to the project.

HVS collected and analyzed all information contained in this report. HVS sought out reliable sources and HVS deemed information obtained from third parties to be accurate.

The properties included in this comparative analysis are shown in the table below.

FIGURE 12-2
COMPARABLE PUBLIC PRIVATE PARTNERSHIP DEALS

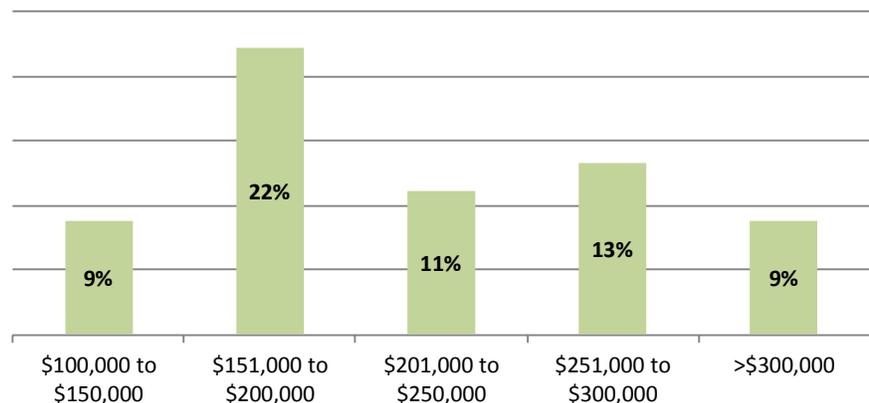
City, State	Property	Year Opened	Number of Rooms
Midland, Texas	TBD	2018	120
Bellevue, Nebraska	Courtyard by Marriott	2017	124
Layton, Utah	Hilton Garden Inn	2004	145
Grover Beach, California	TBD	2017	150
Allentown, Pennsylvania	Renaissance Hotels & Resorts	2015	170
Lewisville, Texas	Hilton Garden Inn	2007	171
Virginia Beach, Virginia	Hilton Garden Inn	TBD	176
Boston, Massachusetts	Element	2016	180
Dubuque, Iowa	Independent	2003	193
Salem, Oregon	Westin	2005	193
Pittsburg, Pennsylvania	Residence Inn	1997	196
Lincoln, Nebraska	Marriott	1983	197
Beaumont, Texas	Embassy Suites Hotels	2017	200
Reading, Pennsylvania	Doubletree	2016	200
Palm Springs, California	Dolce	TBD	210
Houston, Texas	Sheraton Hotels & Resorts	TBD	224
Ft. Myers, Florida	Sheraton Hotels & Resorts	2017	225
East Peoria, Illinois	Embassy Suites	2008	226
Normal, Illinois	Marriott	2009	227
Madison, Wisconsin	Hilton	2001	236
Virginia Beach, Virginia	Westin	2007	236
Hot Springs, Arkansas	Embassy Suites	2003	246
La Vista, Nebraska	Courtyard by Marriott	2009	246
Fort Wayne, Indiana	Courtyard by Marriott	2010	249
Portsmouth, Virginia	Renaissance	2001	250
Evansville, Indiana	Hilton	2016	257
La Vista, Nebraska	Embassy Suites	2008	257
Albuquerque, New Mexico	Embassy Suites	2005	261
Houston, Texas	Embassy Suites	2011	262
Murfreesboro, Tennessee	Embassy Suites	2008	283
Norman, Oklahoma	Embassy Suites	2008	283
San Marcos, Texas	Embassy Suites	2008	283
San Antonio, Texas	Embassy Suites	2010	285
Hampton, Virginia	Embassy Suites	2005	295
St Charles, Missouri	Embassy Suites	2005	296
Allen, Texas	TBD	2017	300
Franklin, Tennessee	Marriott	1999	300
Huntsville, Alabama	Embassy Suites	2005	300
Lancaster, Pennsylvania	Marriott	2009	300
St Johns County, Florida	Renaissance	1996	300
Sugarland, Texas	Marriott	2003	300
Lubbock, Texas	Independent - Overton	2009	303
Concord, North Carolina	Embassy Suites	2009	308
Oklahoma City, Oklahoma	Renaissance	1995	311
Greenville, South Carolina	Hyatt Regency	1982	328
Boston, Massachusetts	Aloft	2016	330
Frisco, Texas	Hyatt Place	2005	330
Richardson, Texas	Renaissance	2001	336
Irving, Texas	TBD	2017	350
Augusta, Georgia	Marriott	1992	372
Washington, District of Columbia	Embassy Suites	2005	384
Raleigh, North Carolina	Marriott	2008	400

The properties opened or will open between 1982 and 2018 and have an average of 256 rooms. A variety of brands are included in the data set, but Embassy Suites is the most common product (14 of 51 hotels). The prevalence of the Embassy Suites is due to the development of this brand by John Q. Hammons Hotels & Resorts, which made extensive use of public private partnerships over the past two decades.

Project Costs

The average cost of the comparable projects was approximately \$220,000 per room (stated in 2015 dollars). These project costs are inclusive of hard construction, furniture fixtures and equipment, and other related soft costs. Project costs are wide ranging depending on the location, timing, and quality of the hotel. The figure below shows the distribution of project costs on a per room basis.

**FIGURE 12-3
DISTRIBUTION OF PROJECT COSTS (ON A PER ROOM BASIS)**



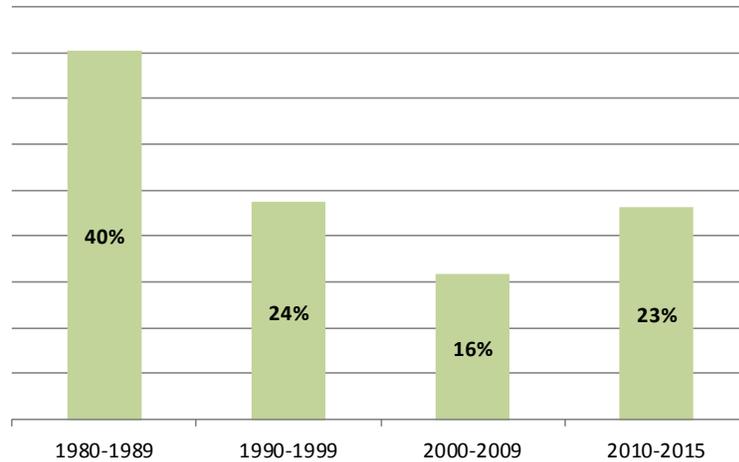
Less than 10% of projects have been accomplished for less than \$150,000 per room and most fall into the \$150,000 to \$250,000 per room range. Fewer than 10% of the hotels cost more than \$300,000 per room.

Estimates of Public Participation

Where sufficient information was available, HVS estimated the level of public participation as a percentage of total project costs. For some projects in which sponsoring governments provided some form of tax abatement or a cash subsidy, the estimate of public participation was straightforward. For other projects which involved loans, loan guarantees, subordinated land leases, and other forms of project support, required estimates of the amount of public participation.

The percentage of the public share of project costs has varied over the four decades, as shown in the figure below.

FIGURE 12-4
TRENDS IN PUBLIC PARTICIPATION IN PPP HOTEL PROJECTS

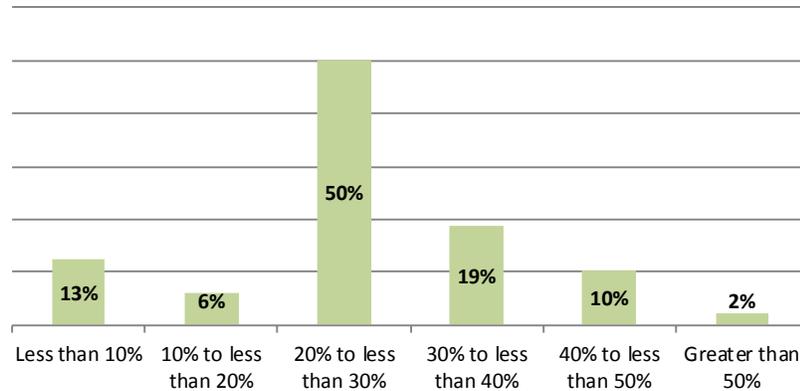


The 1980's saw the growth in use of industrial revenue bonds to finance projects but a 1986 law limited the availability of tax exempt financing for some projects. In the late 1990's, an IRS ruling expanded the use of tax exempt financing for publicly owned hotels. During the next decade, recessions and lack of government resources limited public participation in projects. In the current decade, new market tax credits, EB5 funding, and an improving economy have contributed to an increase in the level of public participation in hotel projects.

Public Participation in the Most Comparable Projects

In 48 of the comparable projects analyzed in this report, HVS obtained enough information to estimate the level of public participation.

**FIGURE 12-5
DISTRIBUTION OF PERCENTAGE OF PUBLIC PARTICIPATION**



Fifty percent of the projects received a public participation between 20% to 30% and twenty-nine percent of projects received between 30% and 50% public participation. The overall average level of public participation is approximately 24 percent.

Forms of Public Participation

State law often dictates the forms of allowable public participation except in cities with home rule governments that have broad taxing powers. The most frequently used methods of public subsidy include:

- Abatement of property taxes or subordination of the property taxes to return on equity investment.
- Abatement of hotel lodging taxes collected on property or redirection of those taxes to the project.
- A pledge of city-wide or special district lodging taxes to support a publicly financed component of the project.

Less frequently, public entities fund their contribution to the project using:

- Food and beverage tax revenues generated by the property or from a special district.
- General sales taxes or sales taxes from a special district.

Cash subsidies or proceeds of debt may be provided to support infrastructure development or to finance the conference center component of the project. Governments rarely use general obligation debt to support hotel projects as this

entails potential increases in real estate taxes, sales taxes, or other sources of public funds that are not generated by or related to the project.

Room Block Commitment Agreements

When a hotel and conference center is separately run and the local government is investing in the hotel, a room block commitment agreement can support the conference center's ability of book business. The level of public involvement in hotel projects may also be influenced by room block commitment agreements which require the hotel operator to make blocks of hotel rooms available for conference center events at acceptable room rates. These agreements help to assure that one of the primary public purposes of the project—generating new out-of-town visitation—can be achieved. However, under certain market conditions a room block commitment agreement may limit the hotel manager's ability to maximize revenue and income. For example, the advance commitment of room blocks to conference attendees may limit a hotel operator's ability to reserve room inventory for more profitable in-house groups or transient guests that generate higher room rates and more food and beverage revenues. The operating risk for a publicly supported hotel with a room block commitment may be higher than for a conventionally financed property. Consequently, the amounts of private equity placed at risk may be less for a property with a room block commitment agreement.

Conclusion

Determining the optimal approach to financing the conference center development in Fredericksburg would require:

- Making a final decision on the development of the Texas Center for Wine and Culinary Arts,
- Selecting the optimal site,
- Creating a development plan,
- Estimating project costs,
- Determining the amount of available private investment, and
- Estimating the required public participation and identifying public resources to dedicate to the project.

Most of these issues could be address through a request for proposal process that solicits the participation of developers in the proposed project.

13. Statement of Assumptions and Limiting Conditions

1. This report is to be used in whole and not in part.
2. All information, financial operating statements, estimates, and opinions obtained from parties not employed by HVS are assumed to be true and correct. We can assume no liability resulting from misinformation.
3. Unless noted, we assume that there are no encroachments, zoning violations, or building violations encumbering the proposed subject property.
4. The proposed facility is assumed to be in full compliance with all applicable federal, state, local, and private codes, laws, consents, licenses, and regulations (including a liquor license where appropriate), and that all licenses, permits, certificates, franchises, and so forth can be freely renewed or transferred to a purchaser.
5. We are not required to give testimony or attendance in court by reason of this analysis without previous arrangements, and only when our standard per-diem fees and travel costs are paid prior to the appearance.
6. If the reader is making a fiduciary or individual investment decision and has any questions concerning the material presented in this report, it is recommended that the reader contact us.
7. We take no responsibility for any events or circumstances that take place subsequent to the date of our report.
8. The quality of a facility's on-site management has a direct effect on a property's economic performance. The demand and financial forecasts presented in this analysis assume responsible ownership and competent management. Any departure from this assumption may have a significant impact on the projected operating results.
9. The impact analysis presented in this report is based upon assumptions, estimates, and evaluations of the market conditions in the local and national economy, which may be subject to sharp rises and declines. Over the projection period considered in our analysis, wages and other operating expenses may increase or decrease due to market volatility and economic forces outside the control of the facility's management.

10. We do not warrant that our estimates will be attained, but they have been developed on the basis of information obtained during the course of our market research and are intended to reflect reasonable expectations.
11. Many of the figures presented in this report were generated using sophisticated computer models that make calculations based on numbers carried out to three or more decimal places. In the interest of simplicity, most numbers have been rounded. Thus, these figures may be subject to small rounding errors.
12. It is agreed that our liability to the client is limited to the amount of the fee paid as liquidated damages. Our responsibility is limited to the client, and use of this report by third parties shall be solely at the risk of the client and/or third parties. The use of this report is also subject to the terms and conditions set forth in our engagement letter with the client.
13. Although this analysis employs various mathematical calculations, the final estimates are subjective and may be influenced by our experience and other factors not specifically set forth in this report.
14. This report was prepared by HVS Convention, Sports & Entertainment Facilities Consulting. All opinions, recommendations, and conclusions expressed during the course of this assignment are rendered by the staff of this organization, as employees, rather than as individuals.
15. This report is set forth as a market and feasibility study of the proposed subject project; this is not an appraisal report.

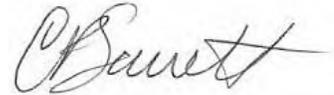
14. Certification

The undersigned hereby certify that, to the best of our knowledge and belief:

1. the statements of fact presented in this report are true and correct;
1. the reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are our personal, impartial, and unbiased professional analyses, opinions, and conclusions;
2. we have no present or prospective financial or personal interest with respect to the parties involved;
3. HVS is not a municipal advisor and is not subject to the fiduciary duty set forth in section 15B(c)(1) of the Act (15 U.S.C. 78o-4(c)(1)) with respect to the municipal financial product or issuance of municipal securities;
4. we have no bias with respect to the subject of this report or to the parties involved with this assignment;
5. our engagement in this assignment was not contingent upon developing or reporting predetermined results;
6. our compensation for completing this assignment is not contingent upon the development or reporting of a predetermined result that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal;
7. Thomas A Hazinski and Catherine Sarrett personally inspected the market described in this report.



Thomas Hazinski
Managing Director



Catherine Sarrett
Senior Project Manager