DAYTONA BEACH
CONVENTION CENTER HOTEL
FEASIBILITY ANALYSIS

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Prepared for

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1.0 Introduction and Background

1.1 Assignment and Methodology

The CEO Business Alliance ("Client") retained Fishkind & Associates, Inc. ("Consultant") to analyze the economic feasibility of a convention center hotel. If the Consultant determined that a convention center hotel was feasible, then the Consultant would develop a financing plan for the hotel.

The first research task is to identify potential sites for the hotel. The hotel must be in close proximity to the Ocean Center to function as a true convention center hotel, so the Consultant limited the search to sites within 1/4 mile of the Ocean Center.

Next the Consultant investigated the appropriate hotel program for the convention center hotel. This included consideration of the quality of hotel, size, facilities, and related features to include in the hotel program. Once the basic hotel development program was established, the Consultant estimated the construction costs for the program. The program was tested and costs refined to provide the preliminary hotel program for market analysis.

Then the Consultant developed a financial pro forma for the proposed convention center hotel. The pro forma is driven by market analysis supporting the rate and occupancy of the hotel along with projections for all other revenues and costs using data on comparable hotels from Smith Travel Research Data.

Using the pro forma as a foundation the Consultant analyzed the prospects for a privately developed and funded hotel. Then the pro forma model for the hotel was use to evaluate a publicly funded hotel.

Based on the analysis of the options the economically feasible option was selected as the basis for developing the financing plan. The Consultant considered the financing structures used by other cities in funding their convention center hotels. The Consultant then structured financing options and vetted them through consultation with potential underwriters. After review by potential underwriters the Consultant finalized the financing plan.

1.2 EZONE Overview

In November 2010, the City of Daytona Beach received its Daytona Beach E-ZONE Masterplan which analyzed in detail the area surrounding the Ocean Center Convention Center extending from the Main Street Pier along Main Street to the Halifax River and along A1A from Harvey Street to the north end of the Ocean Walk Village & Shoppes. Appendix 1 highlights the boundaries of the E-ZONE.

The E-ZONE encompasses the major entertainment zone for Daytona Beach and Volusia County, which includes Main Street and the Main Street Pier, Ocean Center, Hilton Hotel, Peabody Auditorium and the Boardwalk. The E-ZONE Master plan evaluated the strengths and weaknesses of the area and ultimately made recommendations for future needs with respect to infrastructure and venues which would increase economic activity and vitality within the market. The E-ZONE's Master plan recommendations include the following:

1. 150,000 square feet of retail, dining and entertainment space
2. Five hotels including a headquarters Convention Hotel
3. Improved traffic calming and roundabout at A1A and Main Street
4. Six parking garages
5. A man-made reef
6. A river marina
7. A multi-use trail underpass at the Main Street Bridge
8. Event-ready open space

The E-ZONE Master plan also indicates that there are core projects within the above recommendations. As the E-ZONE Masterplan indicates…

> *"Momentum has to be jumpstarted to ignite regeneration of Daytona Beach. An image change is critical to create demand and generate investment activity for Main Street Daytona Beach…With limited financial tools available, the City and County must work together to regenerate Main Street Daytona Beach."*
>
> *"The Master Plan identifies core 'foundation projects' need to advance the process;*
>
> 1. *A hotel transaction to move a Convention Hotel forward to compliment the Ocean Center and create demand*
> 2. *An engaging, comfortable and safe Main Street and A1A walkable district, with strong link to the beach*
> 3. *Provision of parking that is near the desired Main Street destinations, accompanied by an equitable revenue generation program, including shared and remote parking*

4. *A coordinated marketing program focusing on countywide destination and events – we're stronger together*

The convention hotel is a critical component of the program to re-establishing Daytona Beach as a destination and place. In addition, this critical piece of infrastructure has the ability to induce demand and make the Ocean Center Convention Center more appealing to national clientele.

2.0 Convention Center Hotel Location Analysis

The Daytona Beach Convention Hotel will need to meet the expectations of the potential client base. Ultimately, to meet those needs the hotel will need to include the following:

1. Full-Service hotel (400+ rooms)
2. Within walking distance of Ocean Center (< 1 mile)
3. Connect via skywalk if possible (<1/4 mile)
4. Multiple dining/bar locations within hotel
5. Spa facilities
6. Conference Room facilities
7. Business Center
8. Fitness Center

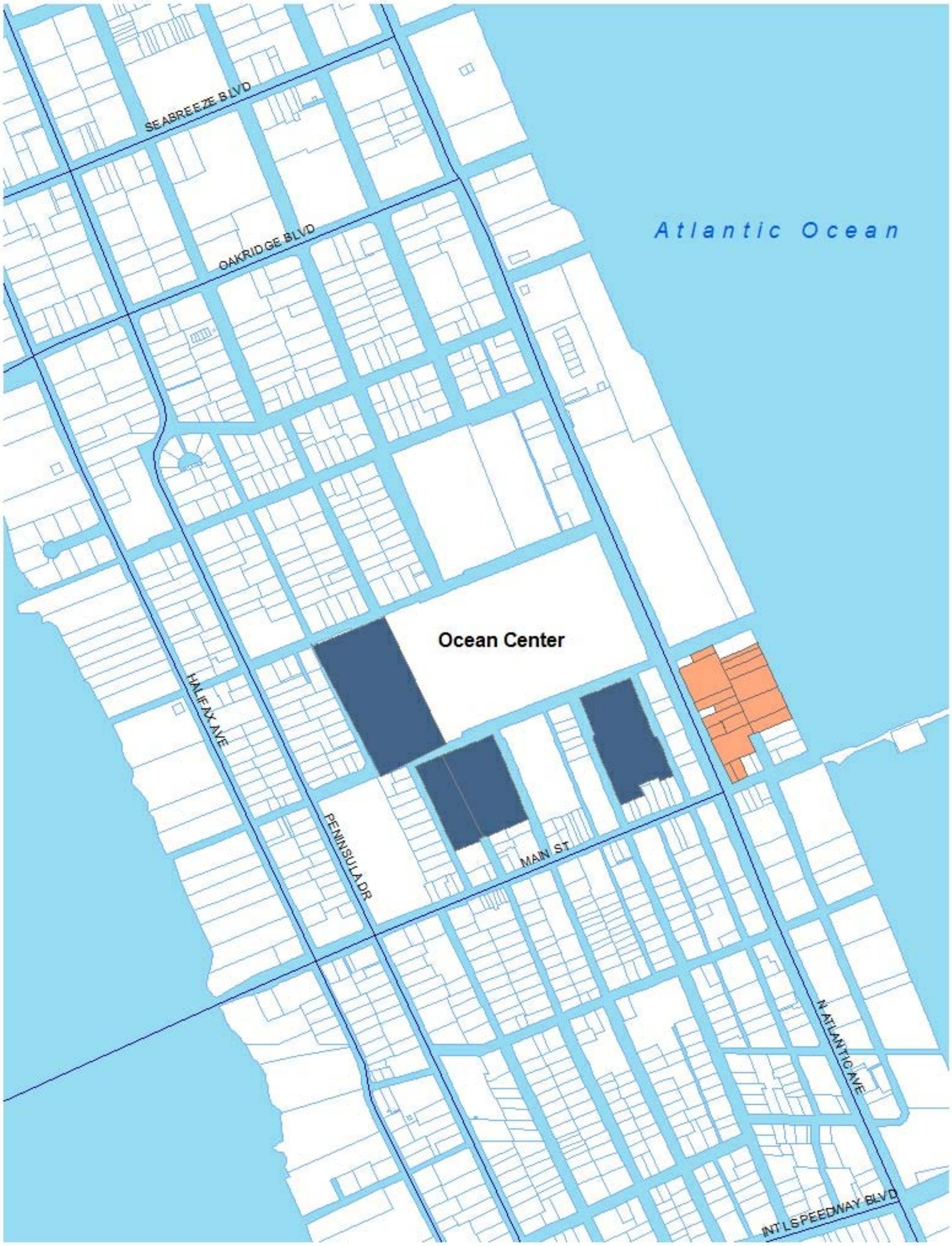
There are four potential sites available that are in close enough proximity to the Ocean Center to serve as potential convention center hotel locations. One is on the ocean front and the others are not. The question is whether or not the hotel needs to be oceanfront. The Consultant will provide analysis of its findings with respect to full-service hotels in Florida and along the Atlantic Coast from Daytona Beach in Volusia County to Amelia Island in Nassau County.

2.1 Potential Site Locations

Based on the sites surrounding the Ocean Center, the Consultant has identified four potential sites that are within 1/4 miles of the convention center and could connect via a skywalk. Those sites are highlighted in Map 1. As noted, there are likely other potential locations for a convention hotel beyond the borders of the EZONE; however, the hotel and Ocean Center would need to carefully evaluate transportation considerations for a hotel guests if the distance is beyond comfortable walking distance.

As the map shows, three of the sites are located west of A1A and one site is oceanfront. The three sites west of A1A are owned by either the City or County. The oceanfront site is controlled by a private entity.

Map 1. Potential Convention Center Locations (<0.25 miles)



Source: Fishkind and Associates, Inc.
*These site locations do not represent ALL potential site locations for the proposed convention hotel

2.2 Oceanfront vs. Non-oceanfront Locations

Hotels Along Atlantic Coast (Volusia to Nassau County)

The Consultant's first step in evaluating proper site location involved an analysis of hotels extending from Daytona Beach to Amelia Island. This study analyzed the locations of hotels classified as midscale hotels with food and beverage to luxury class which were located at or near the beach. The first initial finding is that the only hotel from Daytona Beach to Amelia Island greater than 150 rooms not located on the beach is the Sawgrass Marriott in Ponte Vedra, Florida.

While it is noteworthy that this facility has significant event space, it also has the added advantage of its golf venue which is one of the best in the United States and its PGA golf tournament is well regarded as the "Fifth Major." This facility represents an outlier to every other hotel along the Atlantic coast from Volusia County to Nassau County. Table 1 provides a summary of hotels located at or near the coast.

Table 1. Mid-Scale to Luxury Class Hotels Along Atlantic Coast 150+ Rooms

Property Name	City	Market Class	Rooms
Hilton Daytona Bch Resort Ocean Walk	Daytona Beach	Upper Upscale Class	744
Marriott Sawgrass Golf Resort & Spa	Ponte Vedra Beach	Upper Upscale Class	508
Ritz-Carlton Amelia Island	Amelia Island	Luxury Class	444
Plaza Resort & Spa	Daytona Beach	Upscale Class	322
Omni Villas Of Amelia Island	Amelia Island	Upper Upscale Class	259
Daytona Beach Resort & Conf Center	Daytona Beach	Upscale Class	250
Omni Amelia Island Plantation Resort	Amelia Island	Upper Upscale Class	249
La Playa Resort & Suites	Daytona Beach	Midscale Class	238
The Shores Resort & Spa	Daytona Beach	Upper Upscale Class	212
Plaza Ocean Club	Daytona Beach	Midscale Class	206
One Ocean Resort Hotel & Spa	Atlantic Beach	Luxury Class	193
Holiday Inn Resort Daytona Beach Oceanfront	Daytona Beach	Upper Midscale Class	187
Comfort Inn Oceanfront	Jacksonville Beach	Upper Midscale Class	177
Holiday Isle	St Augustine	Upper Midscale Class	151
Courtyard Jacksonville Beach Oceanfront	Jacksonville Beach	Upscale Class	150

Source: Smith Travel Research

Comparison of Room Rates (Oceanfront vs. Non-Oceanfront)

The Consultant compared rates of oceanfront and non-oceanfront rooms from Daytona Beach to Jacksonville Beach to assess the premium of room rates associated with an oceanfront hotel. The Consultant gathered and compared room of like kind rooms and dates with the only difference essentially being the location of oceanfront vs. non-oceanfront. Table 2 summarizes the hotels sampled and the rate findings.

Table 2. Room Rate Comparison Data

		October 21-23, 2011	Feb 17-19, 2012	May 11-13, 2012
Hotel	Class	Room Rate*	Room Rate*	Room Rate*
Hilton Daytona Bch Resort Ocean Walk	Upper Upscale Class	$159	$299	$209
Comfort Inn Oceanfront	Upper Midscale Class	$175	$200	$200
Holiday Isle	Upper Midscale Class	$139	$136	$169
Oceanfront	AVG	$158	$212	$193
Hilton Garden Inn Jacksonville Ponte Vedra	Upscale Class	$139	$119	$129
Hilton Garden Inn St Augustine Beach	Upscale Class	$129	$139	$169
Hampton Inn Amelia Island @ Fernandina Bch	Upper Midscale Class	$143	$155	$155
Fairfield Inn & Suites Jacksonville Beach	Upper Midscale Class	$135	$160	$189
Non-Oceanfront	AVG	$137	$143	$161
Oceanfront Premium (AVG)	27.8%	15.5%	47.8%	20.0%

*Room rate based on two-night reservation of room with 2 queen/double beds
Source: hotel reservation sites

2.3 Convention Center Competition

The proposed Convention Hotel of 500 rooms would be the third largest on the Atlantic Coast from Volusia County to Nassau County. The only hotel of significant size not oceanfront is the Sawgrass Marriott which is home to two TPC Golf Courses and six additional courses, totaling 153 holes of golf on the resort.

In addition, the Ocean Center is one of nine convention centers greater than 100,000 square feet in Florida. Those convention centers are listed in Table 3.

Table 3. Florida Convention Centers – 100,000+ Square Feet

Convention Center	Location	Square Feet
Orange County Convention Center	FL - Orlando	2,539,559
Tampa Convention Center	FL - Tampa	699,643
Miami Beach Convention Center	FL - Miami / Ft. Lauderdale	629,830
Palm Beach County Convention Center	FL - West Palm Beach	356,162
Greater Fort Lauderdale/Broward County Convention Center	FL - Miami / Ft. Lauderdale	324,852
Ocean Center	FL - Daytona Beach	180,000
Lee Civic Center	FL - Fort Myers	122,000
The Lakeland Center	FL - Lakeland	100,000

Source: U.S. Convention Directory

With respect to competition within comparable cities with comparable convention product, Daytona is one of two cities which lack a dedicated Headquarter Hotel. Table 4 summarizes the findings.

Table 4. Comparable Cities – Meetings/Convention Product

	Metro Population	Exhibit Space (SqFt)	Ballroom/Meeting Space (SqFt)	Total Function Space	Size of Dedicated HQ Hotel	# of Hotel Rooms Supporting
Baltimore, MD	2,686,982	300,000	121,000	421,000	750	7,461
Myrtle Beach, SC	272,629	100,800	19,000	119,800	400	4,128
Virginia Beach, VA	1,683,451	150,000	60,000	210,000	290	3,413
Savannah, GA	348,479	100,000	45,000	145,000	400	2,402
Daytona Beach, FL	507,337	137,000	43,000	180,000	-	1,803
West Palm Beach, FL	1,838,192	100,000	43,000	143,000	-	1,797
Charleston, SC	683,471	77,000	25,000	102,000	250	1,303
Average	1,145,792	137,829	50,857	188,686	422	3,187

Source: Johnson Consulting (via Daytona E-ZONE Masterplan Study)

Given the competition for conventions in Florida (specifically Orlando) and the competitive set, the proposed Daytona Beach Convention Hotel should take advantage of every inherent and differentiating amenity. This is especially true when the amenity of the oceanfront will result in additional operating income for the hotel.

2.4 Site Location Recommendation

The potential sites owned by both the County and City are limited due to lack of direct beachfront access. In addition, the distance to the beach, while not excessively far, is far enough to be an inconvenience which will make the hotel less attractive to convention attendees and will be a significant factor for leisure travelers wanting a beach experience.

In addition, when evaluating long-term planning issues, additional parking will be necessary to serve the needs of both future convention attendees and those frequenting the beach. As shown in the EZONE Masterplan, the city and county sites adjacent to the Ocean Center are much better suited to serve future parking needs and smaller hotels. Limitations associated with the land-side sights include:

- Direct proximity and access to the beach
- Limited pricing power in terms of Average Daily Rate (ADR)
- EZONE Masterplan recommendations indicate the city and county sights are ideal for a mix of structured parking, smaller hotels, and mixed-use

The Consultant believes that while the Convention Hotel will cater to the needs and expectations on conventioneers, it also important that the hotel capitalize on Daytona Beach's inherent advantage, which is the beach itself. Given the nature of the price premium associated with an oceanfront room of an estimated 28%, the Consultant believes that a hotel not located on the oceanfront will sacrifice operating income due to the lost premium associated with oceanfront rooms. The Consultant believes that an oceanfront Convention Hotel will meet both the needs of conventioneers as well as leisure travelers and take proper advantage of the "World's Most Famous Beach."

3.0 Market Considerations

The Consultant's analysis included a set of assumptions with respect to the hotel operation. The most notable revenue assumptions include the initial occupancy rate (66%) and ADR (starting at $176/night). As discussed in Section 2.2, the advertised room rates of upper scale oceanfront hotels ranged from $159/night to $299/night. The Consultant used an ADR of $176/night. The occupancy increased incrementally peaking at 75%. The ADR was forecasted to grow at the rate of inflation, which was estimated at 2.5%.

Additional revenue items analyzed included revenue from hotel food and beverage operations, spa, retail, vending, and parking. In addition, in most resort/convention hotels, a standard resort fee is included. The Consultant worked with local full-service hotel providers in estimating the revenue for the hotel. The Consultant also used Smith Travel Research's 2010 Full Service Host Report, which provided detailed aggregated analysis of revenue and expenses for a sample of full-service hotels throughout Florida.

Using similar source materials for revenue estimation, the Consultant estimated the operating expenses associated with the proposed facility. With respect to expenses, the Consultant estimated costs ranging from the Costs Per Occupied Room (COPR) for hotel operations, food and beverage Cost of Goods Sold (COGS) and labor, to hotel management fees and standard hotel operation and maintenance.

Taking into account the full complement of revenues and expenses, the Consultant was able to best estimate the house profit of the operation. In this case, the house profit was estimated at 32% of total revenue and net operating income was estimated at 20% of total revenue, which is consistent with data observed in the Smith Travel Research data and consistent with the performance of local full-service hotels. Appendix 2 provides the detail with respect to the assumptions applied to the overall project pro forma.

4.0 Project Synopsis and Construction Cost Estimates

4.1 Project Synopsis

The E-ZONE Masterplan indicates that a convention hotel is a key component of infrastructure. The importance of a convention hotel is critical to re-establishing Daytona Beach as a destination and place. In addition, this critical piece of infrastructure has the ability to induce demand and make the Ocean Center Convention Center more appealing to national clientele.

As part of the financial analysis, the Consultant evaluated varying iterations of financing associated with the following pieces of infrastructure: 1) 500-room hotel with 890 structured parking spaces, 2) skywalk 3) @40,000 square feet of retail space and 4) a 1,500-space public parking garage west of A1A.

4.2 Construction Cost Estimates

The Consultant tested hotels ranging in size from 425 rooms to 750 rooms with respect to generation of net operating income and revenues generated at the local level with respect to local ad valorem taxes, sales tax, and additional fees. The Consultant's finding is that the optimal hotel size is between 425 and 500 rooms. Given this finding, the Consultant believes that to capitalize on the location and influence event generation at the Ocean Center, the convention hotel should be on the order of 500 rooms.

The Consultant conducted a financial analysis evaluating the financial performance with respect to a 506-room oceanfront hotel. This hotel will include 44,000 square feet of retail space and 891 structured parking spaces. Table 5 summarizes the development specifics with respect to number hotel rooms, retail space, and number of structured parking spaces associated with the convention hotel structure.

Table 5. Proposed Hotel Specifics

	Convention Hotel Conference Resort
#Hotel Keys	506
# Parking Spaces	891
	-
Hotel	591,000 sf
Retail	44,000 sf
Parking	276,000 sf

Total	911,000 sf

Source: R. Don Henderson GC Company

The Consultant worked with a local construction specialist which provided detailed construction cost estimates associated with the infrastructure components listed above. It is important to note that the cost of the hotel includes design fees and furniture, fixtures and equipment (FF&E). Table 6 summarizes the construction cost findings. The construction cost estimates compare the cost of an oceanfront hotel on the site controlled by private entity and the cost of a non-oceanfront hotel on the City of Daytona Beach's current parking lot, just west of A1A.

Table 6. Construction Cost Estimates

	Convention Hotel Conference Resort
Hotel	$ 90,030,000
Retail	$ 3,430,000
Parking	$ 10,530,000

Total Building Costs	$ 103,990,000
Total Cost per SF-->	$ 114.15
Total Cost per Key-->	$ 205,500
Total Cost per Space-->	$ 116,700
Hotel Cost per Key-->	$ 177,900
Retail Cost per SF-->	$ 77.95
Parking Cost per Space-->	$ 11,800

Source: R. Don Henderson GC Company

An additional cost beyond the hotel, retail and parking is a skywalk and second public parking garage (1,500 spaces), which would connect the proposed hotel to both the Hilton Hotel to the north and provide access to the Ocean Center by crossing A1A. The estimated cost of the skywalk facility is $6.9 million and the 1,500-space public parking garage west of A1A is estimated at a cost of $19.1 million. Table 7 summarizes the estimated total cost of construction associated with the infrastructure discussed.

Table 7. Construction Cost Estimates (Phases 1 & 2)

Convention Hotel Development Program	Private Costs (Phase 1)	Public Costs (Phase 2)
Cost of vertical for hotel (506 rms)	$90,030,000	$0
Retail Space	$3,430,000	$0
Cost of Parking Garage	$10,530,000	$0
Skywalk	$0	$6,926,250
Parking Deck (west of A1A - 1,500 spaces)	$0	$19,148,808
	=============	=============
Total Est. Cost of Construction	$103,990,000	$26,075,058

Source: R. Don Henderson GC Company

5.0 Private Equity Scenario Pro Forma Analysis

5.1 Financial Structure

The Consultant modeled a financial structure that involves both private and public participation. The private participation includes a significant equity investment involved with the hotel, retail, and parking structure. The public participation includes the financing of the 1,500-space public garage west of A1A as well as the skywalk. Table 8 provides a summary of the allocation of the total construction costs between the private and public and in phases.

Table 8. Construction Cost Estimates and Private-Public Split

Convention Hotel Development Program	Private Costs (Phase 1)	Public Costs (Phase 2)
Cost of vertical for hotel (506 rms)	$90,030,000	$0
Retail Space	$3,430,000	$0
Cost of Parking Garage (891 spaces)	$10,530,000	$0
Skywalk	$0	$6,926,250
Parking Deck (west of A1A - 1,500 spaces)	$0	$19,148,808
	=============	=============
Total Est. Cost of Construction	$103,990,000	$26,075,058

Source: R. Don Henderson GC Company and Fishkind and Associates, Inc.

The private investment in the hotel, retail and the 891-space parking garage is modeled as financed through private equity ranging from $50 million to $100 million and some debt financing through traditional means. The public financing in Phase 2 is envisioned to occur through a bond issuance via the County, City or CRA to finance this secondary component of public EZONE infrastructure.

5.2 Financial Pro Forma Analysis (Private Component)

As shown in Section 4.2, the total estimated cost of construction for Phases 1 and 2 is $130.1 million. As shown in Section 5.1, the cost of construction on the hotel, retail space and 891-space parking garage is estimated at $104 million. In addition, the private side will incur the cost of the land estimated at $35 million. The total construction and financing costs on the private side are provided in Table 9. As shown in Table 9, there are three separate scenarios showing private equity investment ranging from $50 million to $100 million.

Table 9. Construction Cost Estimates (Private)

Convention Hotel Development Program	Costs	Costs	Costs
Cost of vertical for hotel (506 rms)	$90,030,000	$90,030,000	$90,030,000
Retail Space	$3,430,000	$3,430,000	$3,430,000
Cost of Parking Garage (891 spaces)	$10,530,000	$10,530,000	$10,530,000
Skywalk	$0	$0	$0
	============	============	============
Total Est. Cost of Construction	**$103,990,000**	**$103,990,000**	**$103,990,000**
*Land Equity (4 acres)**	TBD	TBD	TBD
Value of Project (Vertical & Land)*	$138,990,000	$138,990,000	$138,990,000
Private Equity Investment	$35,000,000	$55,000,000	$75,000,000
Private Equity Investment to Land	$15,000,000	$20,000,000	$25,000,000
Total Private Equity Investment	**$50,000,000**	**$75,000,000**	**$100,000,000**
Financed Construction	$68,990,000	$48,990,000	$28,990,000

Source: R. Don Henderson GC Company and Fishkind and Associates, Inc.
*The land value will be determined based on location

As shown in Table 9, the range of financing after the private equity investment range from $69.0 million to $29.0 million. Table 10 provides a summary of the debt financing for the three scenarios.

Table 10. Private Construction & Financing Estimates (Phase 1)

Private Equity Investment Scenario	**$50,000,000**	**$75,000,000**	**$100,000,000**
Bank Financing Portion	Estimated Debt	Estimated Debt	Estimated Debt
Construction Fund	$68,990,000	$48,990,000	$28,990,000
Cost of Issuance	$1,034,850	$734,850	$434,850
Debt Service Reserve	$9,431,892	$6,697,714	$3,963,342
Capitalized Interest (3 years)	$17,442,000	$12,385,800	$7,329,240
Rounding	$1,257	$1,635	$569
Total amount financed	$96,900,000	$68,810,000	$40,718,000
Annual Debt Service Payment	$9,431,892	$6,697,714	$3,963,342
Permanent Financing			
Rate: Perm financing	9.00%		
Periods:	30		
Debt Serv. Res. P&I (Mo.)	12		
Cap I months	36		

Source: Fishkind and Associates, Inc.

The sources of revenue associated with the private investment include the following:

- NOI from the hotel operation (includes $15 Resort Fee)
- Retail lease payments
- Parking garage revenue
- Ad valorem tax increment back to hotelier
- Ocean Center facility fee via hotel

Convention Hotel Net Operating Income

The Consultant's analysis included a set of assumptions with respect to the hotel operation. Section 3.0 summarizes the sources and general methodology in estimated the operational revenues and expenses of the proposed hotel. Appendix 2 provides the detail with respect to the assumptions applied to the overall project pro forma and forecast project net operating income.

Retail Lease Revenue

The development plans for the building of 44,000 square feet of retail space, which will be leased to various retailers. The Consultant recommends that the mix of retailers associated with the retail component should focus on high end food service, which would cater to the business and convention visitors and be within walking distance of the Hilton Ocean Walk, the proposed Convention Hotel and the Ocean Center. In addition, the Consultant recommends that the Client attempt to attract local/regional retailers and restaurants that would be unique to the retailing complex and give the project a local feel as well.

The revenue streams associated with the retail component include collection of lease revenue from the retail space and the collection of a percentage of gross sales beyond a negotiated gross sales base. In this case, the Consultant has assumed that the market retail lease rate is $23 per square foot. Table 11 summarizes assumptions associated with the retail component. As the data shows, the net present value of the retail revenue stream is estimated to total $10.1 million.

Table 11. Retail Revenue Estimates

Retail Lease Revenue Calculations	
Total SqFt	44,000
Vacancy Rate	15.00%
Total Occ SqFt	37,400
% of Project Occ	85.00%
Total Annual Rent	$860,200
Avg. Rent/SqFt	$23.00
Escalator	1.5%
NPV at 9%	$10,118,118

Source: Fishkind and Associates, Inc.

Parking Garage Revenue (Hotel)

The revenue associated with the 600 spaces dedicated to the hotel as part of the structured parking is included within the revenues and net operating income of the hotel operations. Revenue for the 291 spaces not dedicated to the hotel is shown as a separate and distinct revenue source.

As stated above, the structured parking component of the project has been intentionally oversized within the convention hotel so that some additional parking can be provided to the public. The Consultant estimated that the hotel will need access to 600 spaces for hotel guests and hotel staff. The remaining 291 spaces for the public can be used for access to the convention center, beach, Pier, etc… Table 12 summarizes assumptions associated with the parking garage. As the data shows, the net present value of the parking garage revenue is estimated at $6.2 million.

Table 12. Parking Garage Revenue Estimates (291 Spaces)

	Year 1
Total Spaces	891
Spaces for Hotel	600
Public Spaces	291
Garage Inflation Rate	2.00%
Garage Rate ($/day)	$10.00
Occupancy	65%
Transient Annual Rev.	$690,398
NPV at 9%	$6,227,410

Source: Fishkind and Associates, Inc.

Ad Valorem TIF Revenue

A typical source of public funding is the ad valorem taxes generated by the facility, which can be pledged as a source of revenue against the annual debt service. In this case, the Consultant estimated the net present value of this revenue stream at $18.4 million. The analysis assumes that 100% of the ad valorem tax revenue generated by the property would be given back to the developer/private entity. Table 13 summarizes the findings.

Table 13. Ad Valorem TIF Estimates from Hotel/Retail

Volusia County Millage	5.7771
Daytona Beach Millage	6.8034
CRA Millage	12.5805
TIF Estimates	
Value of Hotel & Retail Space	$ 138,990,000
Taxable Value of Hotel (85% of Value)	$ 118,141,500
Ad valorem TIF from hotel & retail space	$1,486,279
Share of TIF	100.00%
TIF Total (30 Years)	**$44,588,374**
NPV of TIF at 7%	**$18,443,299**
	Split
To Private Investment Group	100.00%
To Public	0.00%
NPV of TIF to Private Entity	**$18,443,299**
NPV of TIF to Public	**$0**

Source: Volusia County and Fishkind and Associates, Inc.

Ocean Center Facility Fee via Hotel

To facilitate the funding of the hotel and the other infrastructure components including the public infrastructure facilities, the Consultant created an Ocean Center Facility Fee. This fee would be a 1% fee added to the ADR based on the amount of equity investment. In addition, 25% of the proceeds of this fee would be dedicated to the public. Table 14 summarizes the first year's fee and the estimated net present value of the revenue stream.

Table 14. Ocean Center Facility Fee (via Hotel)

		Year 1
Hotel ADR		$175.75
% for Facility Fee	1.00%	$0.00
Ocean Center Facility Fee		$1.76
Ocean Center Facility Fee Annual Revenue		$214,233
% Revenue to Private Entity	75.00%	$160,675
% Revenue to Public	25.00%	$53,558
NPV of Facility Fee to Hotel at 9%		$2,023,338
NPV of Facility Fee to Public at 9%		$674,446

Source: Volusia County and Fishkind and Associates, Inc.

The Consultant proposes that the Ocean Center institute its own facility fee for each convention attendee, which would then be pledge as a source for debt service associated with the public financing. This fee would fund bond debt service and public event programming which would create public events centered in the EZONE, such as at the Pier, Boardwalk, Main Street, etc… A description of this fee is located in Section 6.3.

It is understood that there is an element of market acceptance for such a fee. However, this fee is necessary and critical in securing a source of funding for the project and for future projects within the EZONE. At the end of the 30-year term, this fee generated by the hotel can be continued and harnessed by the City and County as a source of funding for future EZONE infrastructure projects, which could include enhanced landscaping, Pier improvements, etc…

Summary of Private Findings

The Consultant's hotel pro forma and total project analyses are provided in Appendix 2 and Appendix 3, respectively. The summary of each scenario's combination of equity and debt financing and rate of return is provided in Table 15.

Table 15. Scenario Rate of Return Summary

Private Equity Investment	$50,000,000	$75,000,000	$100,000,000
Debt Financing	$96,900,000	$68,810,000	$40,718,000
Total Debt & Equity	$146,900,000	$143,810,000	$140,718,000
IRR	7.9%	9.5%	9.4%
NPV at 20%	-$28,878,714	-$37,073,122	-$49,778,689

Source: Fishkind and Associates, Inc.

As the data show, each scenario results in an IRR ranging from 7.9% to 9.5%, which is less than the requisite rate of return of 20%. Assuming a 20% discount rate, the private investment falls short of the necessary rate of return.

5.3 Private Scenario - Pro Forma Analysis (Public Component)

As shown in Section 4.2, the total estimated cost of construction is estimated at $130.1 million, with the cost of construction on the public side estimated at $26.1 million. Table 16 summarizes the financing associated with the public infrastructure.

Table 16. Construction Cost Estimates (Public)

Bank Financing Portion	Estimated Amount of Debt
Construction Fund	$26,075,058
Cost of Issuance	$391,126
Debt Service Reserve	$2,736,473
Capitalized Interest (3 years)	$4,753,980
Rounding	$363
Total amount financed	$33,957,000
Annual Debt Service Payment	$3,305,250
Permanent Financing	
Rate: Perm financing	7.00%
Periods:	30
Debt Serv. Res. P&I (Mo.)	12
Cap I months	36

Source: R. Don Henderson GC Company and Fishkind and Associates, Inc.

The sources of revenue associated with the public financing include the following:

- Parking garage (1,500 spaces – public parking garage)
- Ocean Center facility fee (1% of ADR) – % of proceeds
- Ocean Center facility fee via Ocean Center for debt and public programming

Parking Garage Revenue (Public Spaces)

In addition to the spaces within the convention hotel structure, the overall project includes an additional 1,500 spaces on the west side of A1A on the city's current parking lot adjacent to Hog Heaven BBQ. The revenue associated with this Phase 2 structure is summarized in Table 17.

Table 17. Phase 2 - Parking Garage Revenue Estimates (1,500 Spaces)

	Year 1
Total Spaces	1,500
Garage Inflation Rate	2.00%
Garage Rate ($/day)	$10.00
Occupancy	55%
Annual Revenue	$3,011,250
NPV at 7%	$34,247,570

Source: Fishkind and Associates, Inc.

<u>Ocean Center Facility Fee via Hotel</u>

As described in Section 6.3, the hotel will charge an ocean center facility fee and share an agreed portion of this revenue to aid public financing of infrastructure. In addition, the Consultant proposes that the Ocean Center institute its own facility fee for each convention attendee, which would then be pledge as a source for debt service associated with the public financing. This fee would fund bond debt service and public event programming which would create public events centered in the EZONE, such as at the Pier, Boardwalk, Main Street, etc…

The Consultant's analysis indicates that the Ocean Center will need to generate an estimated $400,000 annually through an additional Ocean Center fee. As Table 18 indicates, the fee represents an estimated additional 9% of total Ocean Center revenue, which translated to a little more than $1.25 per Ocean Center attendee. Table 19 provides a detailed forecast of Ocean Center fee revenue over 30 years.

Table 18. Ocean Center Facility Fee Estimates

Year	08-09	09-10	10-11	est. 12-13
Revenue ($)	$4,046,216	$5,071,340	$3,968,857	$4,362,138
Attendance	274,252	301,014	304,030	293,099
Attendee Days	484,305	531,564	536,890	517,586
$/Attendee	$14.75	$16.85	$13.05	$14.88
$/Attendee Days	$8.35	$9.54	$7.39	$8.43
	Proposed Fee Revenue			$388,190
	New Fee's % of Estimated Rev.			9%
			Fee ($)/Attendee	$1.32
			Fee ($)/Attendee Days	$0.75

Source: Fishkind and Associates, Inc.

Table 19. Ocean Center Facility Fee Estimates

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
Annual Ocean Center Attendee Days	517,586	527,938	689,177	690,318	691,460	705,289
Total Facility Fee	$0.75	$0.75	$0.75	$0.75	$0.75	$0.75
Attendee Facility Fee for Debt Service	$0.25	$0.25	$0.25	$0.25	$0.25	$0.25
Component of Fee for Event Programming	$0.50	$0.50	$0.50	$0.50	$0.50	$0.50
Attendance Growth Rate	2.00%					
Fee Increase	$0.50					
Total Fee Revenue	$388,190	$395,954	$516,883	$517,738	$518,595	$528,967
Annual Revenue for Debt via OC	$129,397	$131,985	$172,294	$172,579	$172,865	$176,322
Annual Rev for EZONE Programs via OC	$258,793	$263,969	$344,588	$345,159	$345,730	$352,645
	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12
Annual Ocean Center Attendee Days	719,395	733,783	748,459	687,085	700,827	714,843
Total Facility Fee	$1.25	$1.25	$1.25	$1.25	$1.25	$1.25
Attendee Facility Fee for Debt Service	$0.75	$0.75	$0.75	$0.75	$0.75	$0.75
Component of Fee for Event Programming	$0.50	$0.50	$0.50	$0.50	$0.50	$0.50
Total Fee Revenue	$899,244	$917,229	$935,573	$858,856	$876,033	$893,554
Annual Revenue for Debt via OC	$539,546	$550,337	$561,344	$515,314	$525,620	$536,132
Annual Rev for EZONE Programs via OC	$359,698	$366,892	$374,229	$343,543	$350,413	$357,422
	Year 13	Year 14	Year 15	Year 16	Year 17	Year 18
Annual Ocean Center Attendee Days	729,140	743,723	758,597	773,769	789,245	805,030
Total Facility Fee	$1.75	$1.75	$1.75	$1.75	$1.75	$2.25
Attendee Facility Fee for Debt Service	$1.25	$1.25	$1.25	$1.25	$1.25	$1.75
Component of Fee for Event Programming	$0.50	$0.50	$0.50	$0.50	$0.50	$0.50
Total Fee Revenue	$1,275,995	$1,301,515	$1,327,546	$1,354,096	$1,381,178	$1,811,317
Annual Revenue for Debt via OC	$911,425	$929,654	$948,247	$967,212	$986,556	$1,408,802
Annual Rev for EZONE Programs via OC	$364,570	$371,861	$379,299	$386,885	$394,622	$402,515
	Year 19	Year 20	Year 21	Year 22	Year 23	Year 24
Annual Ocean Center Attendee Days	821,130	711,920	726,158	740,682	755,495	770,605
Total Facility Fee	$2.25	$2.25	$2.25	$2.75	$2.75	$2.75
Attendee Facility Fee for Debt Service	$1.75	$1.75	$1.75	$2.25	$2.25	$2.25
Component of Fee for Event Programming	$0.50	$0.50	$0.50	$0.50	$0.50	$0.50
Total Fee Revenue	$1,847,543	$1,601,820	$1,633,856	$2,036,874	$2,077,612	$2,119,164
Annual Revenue for Debt via OC	$1,436,978	$1,245,860	$1,270,777	$1,666,533	$1,699,864	$1,733,861
Annual Rev for EZONE Programs via OC	$410,565	$355,960	$363,079	$370,341	$377,748	$385,303
	Year 25	Year 26	Year 27	Year 28	Year 29	Year 30
Annual Ocean Center Attendee Days	786,017	801,737	817,772	834,128	850,810	867,826
Total Facility Fee	$2.75	$2.75	$3.25	$3.25	$3.25	$3.25
Attendee Facility Fee for Debt Service	$2.25	$2.25	$2.75	$2.75	$2.75	$2.75
Component of Fee for Event Programming	$0.50	$0.50	$0.50	$0.50	$0.50	$0.50
Total Fee Revenue	$2,161,547	$2,204,778	$2,657,760	$2,710,915	$2,765,133	$2,820,436
Annual Revenue for Debt via OC	$1,768,539	$1,803,909	$2,248,874	$2,293,851	$2,339,728	$2,386,523
Annual Rev for EZONE Programs via OC	$393,009	$400,869	$408,886	$417,064	$425,405	$433,913
Total Fee at 7%	$12,531,050					
NPV of Fee for Debt Service via OC at 7%	$8,399,269					
NPV of Fee for Event Programs via OC at 7%	$4,131,781					

Source: Ocean Center, Fishkind and Associates, Inc.
*Includes bump in attendance due to new convention hotel which carries forward through forecast

Tourist Development Tax Revenue from Hotel

A typical source of public funding is the local tourist development tax (TDT) generated by the hotel, which can be pledged as a source of revenue against the annual debt service. Table 20 summarizes the TDT estimates associated with the convention center hotel. In Volusia County, the total Tourist and Convention Development Tax to be collected on short term rentals is 6%. This total includes:

- Tourist Development/Resort Tax – a 3% tax on short term rentals (6 months or less) of living accommodations. Revenue from these funds are pledged to secure and liquidate revenue bonds for the acquisition, construction, extension, enlargement, remodeling, repair, improvement, maintenance, operation or promotion of one or more publicly owned and operated convention centers, sports stadiums, sports arenas, coliseums or auditoriums within Volusia County.

- Convention Development Tax - a 3% tax on short term rentals (6 months or less) of living accommodations. Revenue is to be used to promote and advertise tourism; and to fund convention bureaus, tourist bureaus, tourist information centers, and news bureaus.

Table 20. Hotel TDT Revenue Estimates

Tourist Development Tax Estimates	
Number of Rooms	506
Days of Operation	365
ADR ($)	$175.75
Occupancy Rate	67.0%
Tourist Development Tax Rate	6.00%
Annual Total	$1,304,874
Share of TDT	100%
TDT Total (30 Years)	$39,146,233
NPV of TDT at 7%	$16,192,241

Source: Volusia County and Fishkind and Associates, Inc.

In the private equity scenario, the Tourist Development/Tax Resort component of the TDT is not assumed to be available due to its being pledged to support financing for the Ocean Center. However, the Consultant believes that it is in the County's interest to commit to providing significant advertising revenue to support the project and the EZONE. The Consultant believes that it is in the County's interest to commit revenue generated by the hotel equivalent to the money generated by the TDT of the hotel in advertising to the project.

While it is not an officially committed funding source, it does represent revenue generated by the facility which can be pledged to support the convention hotel project which will aid in the County and City's shared vision for the EZONE and Ocean Center.

Summary of Public Findings

The Consultant's hotel pro forma and total project analyses are provided in Appendix 2 and Appendix 3, respectively. The summary of the public's revenue streams compared to the total amount financed is provided in Table 21. As the data shows, the net present value of the revenue streams generates an estimated surplus of $9.5 million over a 30-year period.

Table 21. Summary of Public Findings

Summary	$
Total Amount Financed (Public)	$33,957,000
NPV of Public Revenue at 7%	
TIF to Public	$0
OC Facility Fee via Hotel	$820,812
OC Facility Fee via OC	$8,399,269
Parking Garage West of A1A (1500 spaces)	$34,247,570
Total	**$43,467,651**
GAP less Public Financing	**-$9,510,651**

Source: Fishkind and Associates, Inc.

6.0 Hotel Finance Authority Scenario

Given that the estimated rate of return associated with the private investment scenario is only 7.9% to 9.4%, which is not likely to attract private investment; the Consultant prepared an alternative scenario, whereby the landowner/development group enters into a PPP with either a combination of the County and City or just the City of Daytona Beach. The selected municipality will form a CCHFA to construct, own and operate the Hotel. In this scenario, the developer/investment group will contribute the land, franchise agreement, permits, engineering reports, and architectural drawings to the partnership.

The City and/or County will form the CCHFA to finance, own and operate (via contract) the hotel, retail and parking structure. The CCHFA will include representatives of the County and development group with the County/Daytona Beach maintaining a majority position. The CCHFA will issue an estimated $128,002,000 in bonds to finance the construction of the convention hotel and other infrastructure components.

Financing Plan

The plan is for the CCHFA to issue $128,002,000 of tax-exempt bonds to fund the construction budget and various bond funds. Included is one year of debt service reserve and 3 years of capitalized interest. The annual debt service is $8,325,000 assuming 30 years at 5 percent. Table 22 summarizes the financing.

Table 22. Hotel Authority Financing Estimates (Public)

Bank Financing Portion	Estimated Amount of Debt
Construction Fund*	$98,990,000
Cost of Issuance	$1,484,850
Debt Service Reserve	$8,326,714
Capitalized Interest (3 years)	$19,200,300
Rounding	$137
Total amount financed	$128,002,000
Annual Debt Service Payment	$8,326,714
Permanent Financing	**Public**
Rate: Perm financing	5.00%
Periods:	30
Debt Serv. Res. P&I (Mo.)	12
Cap I months	36

Source: R. Don Henderson GC Company and Fishkind and Associates, Inc.
*includes $5M key money paid by manager

Pledged Revenues and Repayment of Bond Debt

The revenue streams necessary to secure the bond debt for the Hotel Authority scenario are similar to the revenue streams associated with the private equity scenario discussed in Section 5.2 and Section 5.3. In the case of the CCHFA, some additional revenue streams have been created or fees have been augmented to meet necessary debt service coverage ratios. In addition, the Consultant included pledges of components of the TDT as a source of credit support that would need to be initiated by Volusia County.

The debt service on the bonds is estimated at $8,325,000 assuming a 30-year term and a 5% tax-free rate. To repay the bonds the CCHFA will pledge the following:

- Net operating income of the Hotel
- Retail lease revenue from the retail operation
- A percentage of gross sales revenue from the retail operation
- Parking garage revenue from the public spaces
- Ad valorem tax revenue from project (TIF)
- Ocean Center facility fee revenue (via hotel)
    - Fee set at 3% of ADR ($5.27 per stay)
- Ocean Center facility fee revenue (via Ocean Center)
    - Fee set at an estimated $1.00 fee per attendee day ($estimated $2.00 per attendee)
- A pledge of the tourist development tax money generated by the convention hotel
- A pledge of a portion of the tourist development tax money associated with the 3% of Convention Development Tax currently distributed to the three advertising authorities in Volusia County

The TDT money represents a significant source of revenue allocated to the Ocean Center and to the three advertising authorities within Volusia County. Table 23 summarizes the findings. As the data indicates, according to a Volusia County budget representative, approximately 70% of the Convention Development Tax is used for advertising and promotion with the other 30% used for salaries, administrative expenses and equipment.

To meet market debt service coverage ratios, the Consultant recommends that the County pledge the 70% of the convention development tax money allocated to advertising promotion to the project. In the case of 2011, this would represent an estimated $4.8 million. This pledge does not represent a use of the funds, but rather a source of funds if the project does not perform. Table 24 provides a summary of the debt service coverage through 2038 assuming the pledge of a portion of the convention development tax money.

Table 23. History of Volusia County Tourist Development Tax Revenue

		Convention Development Tax			
	Resort Tax Collection	Halifax Area Advertising Authority	SE Volusia Advertising Authority	West Volusia Advertising Authority	TOTAL
2011	$6,762,517	$5,262,172	$1,155,504	$298,972	$13,479,165
2010	$6,703,203	$5,192,383	$1,156,484	$309,503	$13,361,573
2009	$6,762,532	$5,328,502	$1,056,015	$332,376	$13,479,425
2008	$7,564,006	$6,017,495	$1,098,554	$396,954	$15,077,009
2007	$7,926,293	$6,364,242	$1,084,856	$423,851	$15,799,242
2006	$7,634,966	$6,147,357	$1,032,305	$401,254	$15,215,882
2005	$7,342,730	$5,869,070	$995,796	$426,397	$14,633,993
2004	$7,529,439	$6,121,934	$1,013,004	$362,686	$15,027,063
2003	$5,244,059	$5,702,194	$959,906	$324,161	$12,230,320
2002	$4,626,268	$5,678,561	$904,140	$356,356	$11,565,325
2001	$4,508,215	$5,469,315	$942,284	$348,322	$11,268,136
2000	$4,637,649	$5,647,860	$635,943	$354,717	$11,276,169

Source: Volusia County Tourist Development Collections via the website: http://www.volusia.org/finance/distribution.htm

Table 23. History of Volusia County Tourist Development Tax Revenue (continued)

			29.0%	71.0%
	TOTAL	Convention Development Tax Subtotal	% to Admin/ Equipment*	% to Research, Ads, Promotion*
2011	$13,479,165	$6,716,648	$1,947,828	$4,768,820
2010	$13,361,573	$6,658,370	$1,930,927	$4,727,443
2009	$13,479,425	$6,716,893	$1,947,899	$4,768,994
2008	$15,077,009	$7,513,003	$2,178,771	$5,334,232
2007	$15,799,242	$7,872,949	$2,283,155	$5,589,794
2006	$15,215,882	$7,580,916	$2,198,466	$5,382,450
2005	$14,633,993	$7,291,263	$2,114,466	$5,176,797
2004	$15,027,063	$7,497,624	$2,174,311	$5,323,313
2003	$12,230,320	$6,986,261	$2,026,016	$4,960,245
2002	$11,565,325	$6,939,057	$2,012,327	$4,926,730
2001	$11,268,136	$6,759,921	$1,960,377	$4,799,544
2000	$11,276,169	$6,638,520	$1,925,171	$4,713,349

Source: Volusia County Tourist Development Collections via the website: http://www.volusia.org/finance/distribution.htm
*Source: Volusia County Budget Representative

These funds are projected to provide coverage to sell the bonds and to service the debt. As the data shows, the net operating income of the hotel is not sufficient to cover the debt service. In the case of the convention hotel associated with the Ocean Center, public participation is critical in funding the infrastructure. Table 24 summarizes the coverage ratios and Table 25 provides a summary of the net present value of the revenue streams compared to the initial amount financed at 5%. Appendix 4 provides the full cash flow pro forma and debt service coverage analysis.

Table 24. Public Debt Service Coverage Summary (Hotel Finance Authority Scenario)

	2014*	2015	2016	2017	2018
DSC Ratio	8.67x	2.07x	2.09x	2.15x	2.14x
	2019	2020	2021	2022	2023
DSC Ratio	2.23x	2.30x	2.35x	2.41x	2.46x
	2024	2025	2026	2027	2028
DSC Ratio	2.54x	2.64x	2.72x	2.78x	2.87x
	2029	2030	2031	2032	2033
DSC Ratio	2.94x	3.05x	3.12x	3.16x	3.23x
	2034	2035	2036	2037	2038
DSC Ratio	3.35x	3.42x	3.50x	3.58x	3.66x
	AVG				
DSC Ratio	3.02x				

Source: Fishkind and Associates, Inc.

*Year 2014 has a high DSC due to the third year of capitalized interest calculated into the financials

Table 25. Summary of Sources of Funding (CCHFA Scenario)

Summary	$
Total Amount Financed (Public)	$128,002,000
NPV of Public Revenue at 5.0%	
Hotel Operating Profit	$154,762,723
Retail Lease (rent)	$14,229,965
TIF to Public	$23,161,655
TDT from Hotel	$18,194,212
Pledge of 70% of Convention Dev. Tax (TDT)	$66,492,928
OC Facility Fee via Hotel	$13,160,386
OC Facility Fee via OC	$14,790,309
Parking Garage (291 spaces)	$7,822,107
Total	$312,614,284
GAP less Public Financing	**-$184,612,284**

Source: Fishkind and Associates, Inc.

As the data indicates, this scenario shows a net present value surplus of $184.6 million. This surplus is associated with the significant debt service coverage through the project's revenue and County credit support. It is important to note that the County credit support involves County pledges of tourist development tax money generated by the hotel and a significant portion of Convention Development Tax money allocated for advertising and promotion within the County. These two specific pledges are critical to the annual debt service coverage and securing the lowest interest rate possible for the project.

Division of Excess Revenue after Payment of Debt Service and Reserves

The pro forma projects excess revenues after the payment of debt service and the funding of normal reserves and continual modernization of the Hotel. The CCHFA will distribute any excess revenues beyond debt service coverage to the landowner/developer/hotel investment entity per the private/public partnership agreement. In this scenario, it is assumed that the landowner takes a deferred position and is not compensated until all public investment is recouped, with the landowner capturing revenue beyond negotiated debt service coverage. The payment plan to the landowner/developer will be subject to bond counsel review. It is likely that payment to the private investment group will be restricted to a minimum debt service coverage ratio to be negotiated.

Potential Limitations of Hotel Finance Authority Scenario

As with any financing scenario, there are potential limitations. In the case of the public/private investment scenario, which envisions significant equity commitments from the private sector, there is a probability that no investor is willing to take the capital risk in the convention hotel. Similarly, there are limitations with the hotel finance authority scenario. The identified concerns are included below:

1. The County and City will need to make a difficult and potentially unpopular decision to create the Hotel Finance Authority.

2. The County will need to make a difficult and unpopular decision to pledge a significant portion of Convention Development Tax money currently used for advertising and promotion in Volusia County.

3. The pledged revenue streams include an Ocean Center facility fee collected by the hotelier which represents an estimated $5.25 per hotel stay. This scenario also includes an Ocean Center facility fee that will be generated by the Ocean Center, which is estimated at $2.00 per attendee ($1.00 per attendee-day). These fees may not be accepted in the marketplace and inherently limit hotel stays and convention activity.

4. This scenario involves private participation and investment via the landowner and development partner(s). The private partners may not feel comfortable with the idea that the CCHFA will ultimately control the direction of the project.

7.0 Recommendation on Site Location and Financing Structure

The Consultant's analysis focused on identifying the most appropriate and feasible site location and financing structure for the proposed convention hotel. Based on the data and information in Section 5.0 and Section 6.0, the Consultant's findings include the following:

Site Location

- Given the available sites, the convention hotel on the oceanfront is the highest and best use for that site. Limitations associated with the land-side sights include:
    - Direct proximity and access to the beach
    - Limited pricing power in terms of Average Daily Rate (ADR)
    - EZONE Masterplan recommendations indicate the city and county sights are ideal for a mix of structured parking, smaller hotels, and mixed-use

- The Consultant recommends a convention hotel on the order of 500 rooms, which will result in a critical mass of Class A hotel rooms which will be able to attract conventions of greater size and national prominence.

- The Consultant believes that as one of two beachfront full-service hotels, the proposed convention hotel can capitalize on its position with aggressive marketing and pricing. In addition, its adjacency to retail and restaurants makes for compelling sales and market capture.

- The viability of the hotel and the performance of the Ocean Center are inextricably linked in that the additional hotel rooms allow for the opportunity to capture additional conventions and meetings it otherwise cannot currently attract. In the same way, the Ocean Center must execute and market itself accordingly to take advantage of the additional hotel rooms and drive convention activity.

Financing Structure

As indicated in the report, the estimated construction cost for the hotel, retail and parking spaces is $104 million. The skywalk and 1,500-space public parking deck is estimated at $26.1 million. Table 26 summarizes the estimated construction costs.

Table 26. Construction Cost Estimates

Convention Hotel Development Program	Costs (Phase 1)	Costs (Phase 2)
Cost of vertical for hotel (506 rms)	$90,030,000	$0
Retail Space	$3,430,000	$0
Cost of Parking Garage (891 spaces)	$10,530,000	$0
Skywalk	$0	$6,926,250
Parking Deck (west of A1A - 1,500 spaces)	$0	$19,148,808
	=============	=============
Total Est. Cost of Construction	$103,990,000	$26,075,058

Source: R. Don Henderson GC Company

The Consultant's analysis focused on two financing scenarios for Phase 1: 1) a private investment scenario with various equity commitments ranging from $50 million to $100 million and 2) the CCHFA scenario. As the data indicates, the private investment scenarios generate rates of return ranging from 7.9% to 9.4%, which is not near the 20% rate of return a private developer would be looking for with respect to this type of project. Table 27 summarizes the findings that were identified in Section 5.4.

Table 27. Private Investment Scenario Rate of Return Summary

Private Equity Investment	$50,000,000	$75,000,000	$100,000,000
Debt Financing	$96,900,000	$68,810,000	$40,718,000
Total Debt & Equity	$146,900,000	$143,810,000	$140,718,000
IRR	7.9%	9.5%	9.4%
NPV at 20%	-$28,878,714	-$37,073,122	-$49,778,689

Source: Fishkind and Associates, Inc.

Given the private investment scenarios rate of return, the Consultant believes that Phase 1 of the project can only move forward through the Hotel Authority scenario described in Section 6.0. This type of financing structure is consistent with how other municipalities have financed their own convention hotels. Phase 2 will proceed at a later date to be determined.

8.0 Hotel Public Ownership and Credit Support Overview

The Consultant is working with Citigroup (Citi) in investigating the marketability of the proposed convention hotel. Representatives with Citi provided the following information with respect to how publicly financed hotels have come to fruition in other locations.

"In the current hotel financing market, convention center hotels almost always require some sort of municipal investment or credit support. Given the need for municipal credit support or investment for hotel financings, the great majority of cities and counties have chosen to own their convention center hotel projects and enjoy the benefits of residual cash flow from the project. This structure has been preferable to the alternative structure where a city/county/state supports bonds issued on behalf of private owners and where the private owner enjoys the cash flow and the upside from the hotel.

<u>Forms of Credit Support</u>

Municipal credit support provided to hotel projects has been provided in a number of forms, such as a pledge of:

- Additional tax revenues;
- A general fund appropriation; or
- A general obligation

The goal of the credit support provided has been to either;

- Provide sufficient support to achieve minimum investment grade ratings on the hotel revenue bonds of BBB-; or
- Provide support to maximize the credit ratings on the bonds.

In publicly owner projects, the credit support should be viewed as an investment by the city/county/state. The municipal credit support will strengthen the security structure for the project financing and will lower the transaction's cost of funds. As discussed above, types of municipal credit support vary and can include credit support via a pledge of dedicated tax revenues or general fund revenues.

Table 28 provides the security and, when applicable, forms of credit support cities, counties, and states have used to support their major convention center hotel projects. When debt service coverage has been sufficient from hotel cash flows alone, a non-recourse financing has been possible (such as Chicago). More recently, most convention center hotel financings have had some form of additional credit support (Dallas). Citigroup's financings are in bold."

Table 28. Convention Hotel Credit Support Summary

Convention Center Hotels (+700 Rooms) Credit Support				
Sale Date	**Project**	**Rooms**	**Security / Credit Support**	**Underlying Ratings**
08/17/2009	**Dallas**	**1000**	• **Net Hotel Revenues** • **Hotel State Sales Tax Rebate (10 Years)** • **Hotel State HOT Tax Rebate (10 Years)** • **Hotel Local HOT Revenues** • **Minimum Coverage from All Above – 1.27x** • **City Annual Appropriation Equal to 100% of Debt Service**	**A2/A+**
01/26/2006	Baltimore	756	• Net Hotel Revenues • Tax Increment Revenues • Hotel Local HOT Revenues • City Annual Appropriation Equal to ~50% of Debt Service • Minimum Coverage from All Above – 2.45x	Baa3/BBB-
12/01/2005	Phoenix	1000	• Net Hotel Revenues • Sports Facilities Taxes Equal to 165% of Debt Service • Minimum Coverage from All Above – 2.21x	Baa3/BBB-
05/15/02005	**San Antonio**	**1000**	• **Net Hotel Revenues** • **Hotel State Sales Tax Rebate (10 Years)** • **Hotel State HOT Tax Rebate (10 Years)** • **Hotel Local HOT Revenues** • **City-wide HOT Revenues Equal to ~100% of Debt Service** • **Minimum Coverage from All Above - 3.25x**	**Baa2/BBB-**
06/20/2003	Denver	1100	• Net Hotel Revenues • Economic Development Payments, Subject to Appropriation, Equal to ~ 50% of Debt Service • Minimum Coverage from All Above – 2.00x	Baa3/NR
06/11/2001	Austin	800	• Net Hotel Revenues • Non-Recourse • Minimum Coverage – 3.00x (Senior Bonds)	Baa3/BBB-
04/19/2001	Houston	1200	• City-wide HOT Revenues • Parking Revenues • State, County, City HOT Tax Rebates • Minimum Coverage from All Above - 1.50x	A3/A-
11/16/2000	**St. Louis**	**1100**	• **Net Hotel Revenues** • **Non-Recourse** • **Minimum Coverage - 2.00x**	**Baa3/NR**
02/27/1996	**Chicago**	**800**	• **Net Hotel Revenues** • **Non-Recourse** • **Minimum Coverage - 2.37x**	**NR/BBB-**

Source: Citi

Based on the Hotel Authority analysis provided in Section 6.0 and the pro forma in Appendix 4, representatives with Citi have indicated they are interested in discussing the project further with both the City and County.

9.0 Conclusions and Keys to Success

The pro forma and package of revenues and pledges associated with the Hotel Authority Scenario in Section 6.0 represents the best chance for the proposed convention hotel in Daytona Beach, Florida. Citi's interest in the project under the financing terms provided is encouraging. Table 29 summarizes the proposed convention hotel and associated credit support.

Table 29. Convention Hotel Credit Support Summary

Sale Date	Project	Rooms	Security / Credit Support	Underlying Ratings
TBD	Daytona Beach	506	• Net Hotel Revenues • Parking Garage Revenue • Ad Valorem TIF from Hotel • Tourist Development Tax from Hotel • 70% of Convention Development Tax • Ocean Center Facility Fee (via OC & Hotel) • Minimum Coverage from All Above – 2x	TBD

The Consultant is encouraged by this third party financial assessment. For the project to move forward, specific action items will be necessary at the local government level. Below are a summary action items and keys to project success:

- The convention hotel must be on the oceanfront to leverage Daytona Beaches' most inherent advantage, which is the "World's Most Famous Beach" which will attract both convention attendees as well as leisure travelers.

- The CCHFA scenario requires that the landowner/development group enter into a PPP with either a combination of the County and City or just the City of Daytona Beach. To finance the convention center hotel the City, or the County, or both governments jointly must establish a CCHFA which would issue tax-exempt bonds to fund construction of the convention center hotel, parking garage, and associated improvements. Use of a financing authority to construct convention center hotels a method often used by local governments to finance similar hotel projects in other cities. In this scenario, the developer/investment group will contribute the land, franchise agreement, permits, engineering reports, and architectural drawings to the partnership.

- The Authority would issue an estimate $128,002,000 of tax-exempt bonds to fund the construction budget and various bond funds. The annual debt service is estimated at $8,325,000 assuming 30 years at 5 percent.

- As discussed, in the CCHFA scenario, the landowner will contribute the land to the CCHFA for an initial price of zero. The landowner will then take a deferred position of payment for its contribution assuming that the project is profitable. The analysis indicates that there are sufficient funds beyond the necessary debt service coverage to compensate the joint venture partner on reasonable commercial terms.

- Volusia County and the City of Daytona Beach will need to make decisions regarding allocation of the project generated TDT and pledging a significant portion of the Convention Development Tax as credit support to secure an advantageous interest rate and provide the market required debt service coverage associated with the CCHFA's bond issuance.

- If local municipalities cannot make commitments described herein, the County and City will need to find common ground in some other form of credit support that is mutually agreeable, which will secure the 5% interest rate, which is critical to keeping the debt service coverage manageable and marketable.

- As described in the report and included within the financials, assuming the project breaks ground, and is constructed; the project will need the City and the County to fund outdoor events, concerts, etc… in the EZONE. These events will highlight the Pier, retailers in the EZONE, and make the area the central focus for Daytona Beach and create an atmosphere attractive to both conventioneers as well as leisure travel.