

FEASIBILITY ANALYSIS FOR A NEW CONVENTION CENTER

In Lincoln, Nebraska

PHASE 2 REPORT

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LINCOLN
CONVENTION
AND VISITORS
BUREAU

CSL



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Introduction

In 2022, CSL completed a Feasibility Study for the potential development of a Lincoln Convention Center. Report findings suggested unmet market demand among state, regional and local event planners for a state of the industry convention product within Lincoln, and several sites were identified that could potentially accommodate a convention facility.

To build on these positive findings, the Lincoln Convention & Visitors Bureau (CVB) again retained CSL to conduct a Phase 2 analysis of a potential convention center development. This Phase provides estimates and analysis of the costs and benefits associated with the potential project, in additions to potential funding sources and governance/management structures that could be employed to support its development and operations. The primary tasks completed as part of this study effort are outlined below.

1.

Development Cost Analysis: High-level development cost estimates for the potential Convention Center.
2.

Financial Operations Analysis: Estimates of the potential Convention Center’s annual financial operations.
3.

Economic Impact Analysis: Estimates of the incremental economic and fiscal (tax) impacts associated with the potential Convention Center.
4.

Financing Options: Listing and summary of various financing sources that could be used to fund operations and/or debt service for a potential Convention Center.
5.

Governance/Management Options: Summary narrative regarding the various ownership and management structures that could be employed at the potential Convention Center.

Key findings from each of these tasks are included herein.

Established Building Program

The analysis assumes the development of the market supportable Lincoln Convention Center program determined as part of the initial Feasibility Study. As noted in the Study, the recommended building program represents a convention product offering that would be optimized in terms of size and finish to address the majority of Lincoln’s measured market demand, and to maximize economic impacts and incremental revenue. Based on the previous analyses undertaken, key aspects of a market supportable facility program for a Lincoln Convention Center are presented below.

Potential Lincoln Convention Center – Supportable Building Program

CONVENTION SPACE (Approximately 54,000 SF of sellable event space, 75,600 SF of support space, totaling 129,600SF of built space)	
<div><div>Exhibit Hall:</div><div><div>• 25,000-30,000 SF</div><div>• Carpeted multipurpose hall</div><div>• Minimum ceiling height of 35 feet</div><div>• Column-free (or no less than 90-foot centers)</div><div>• Floor utility boxes on a 30’ x 30’ matrix</div><div>• Subdivisibility via 2 or 3 movable air walls (allowing for 3 to 4 separated event spaces)</div><div>• Covered loading docks & service via the rear length of the halls, public access via the front</div></div></div>	<div><div>Breakout Meeting Space:</div><div><div>• 10,000-12,000 SF</div><div>• Carpeted, upscale</div><div>• Minimum ceiling height of 12 feet</div><div>• Subdivisible, rooms with various capacities</div><div>• One or more hybrid presentation/engagement rooms</div></div></div>
<div><div>Ballroom:</div><div><div>• 10,000-12,000 SF</div><div>• Carpeted, upscale</div><div>• Minimum ceiling height of 25 feet</div><div>• Subdivisible via air walls</div><div>• Robust a/v, live production and broadcast capabilities</div></div></div>	<div><div>Pre-Function Space:</div><div><div>• ~5,000+ SF pre-function space usable for events</div><div>• High, multi-level ceiling heights</div><div>• Natural light</div><div>• Public art and trend forward furnishings</div></div></div>
	<div><div>Outdoor Event Space:</div><div><div>• Prioritize patio and/or rooftop terrace product</div><div>• ~5,000 SF of usable event space</div><div>• Tent put-ins and/or permanent kiosks</div><div>• Electrical and fiber internet access</div></div></div>

A breakdown of estimated per square foot costs of each of the proposed facility’s components is presented on the following page.

1. Development Costs

The table below presents a high-level overview of the construction costs (on a per square foot basis) for each of the proposed building program’s components. Given recent industry trends in new-facility development, planner preferences for compact event facilities, and the physical size of various sites throughout Lincoln, it is assumed that a potential Lincoln Convention Center would be a two-story structure. A “stacked” structure increases costs, resulting in an overall conceptual construction cost of between \$600 and \$650 per square foot.

Potential Lincoln Convention Center – Estimated Development Cost Estimates

	Square Feet	Low \$600 per sf	High \$650 per sf
Sellable Event Space			
Exhibit/Multipurpose Space	30,000	\$18,000,000	\$19,500,000
Ballroom Space	12,000	\$7,200,000	\$7,800,000
Meeting Space	<u>12,000</u>	<u>\$7,200,000</u>	<u>\$7,800,000</u>
Total Sellable Event Space	54,000	\$32,400,000	\$35,100,000
Support Space (1.4 x Sellable Space)	<u>75,600</u>	<u>\$45,360,000</u>	<u>\$49,140,000</u>
Total Construction Cost	129,600	\$77,760,000	\$84,240,000
Added 10% Contingency		\$7,776,000	\$8,424,000
30% Soft Costs		\$25,660,800	\$27,799,200
Total Project Cost		\$111,196,800	\$120,463,200

As shown, assuming a two-story building with 129,600 gross square feet of space, total construction costs (without contingency) are estimated to range from \$77.8 million to just over \$84.2 million. Adding a contingency range of ten (10) percent increases these figures to \$85.5 million and \$92.7 million, respectively.

In addition to costs for construction, soft costs will be incurred, including project management and design fees, owner’s FF&E (furnishings, fixtures, and equipment), permitting, testing and inspection fees, financing and legal services, and other various project expenses.

Assuming a 30 percent allowance for soft costs, resulting, total estimated project costs for the proposed Lincoln Convention Center range from approximately **\$111 million to \$120 million**. It is important to note, however, that continued escalation in the construction industry may significantly drive these costs upwards in subsequent years. Should escalation continue, the project cost may materially increase. For example, should overall project costs rise to \$700 per square foot, the project may approximate \$130 million in total project costs.

2. Financial Analysis

An analysis of estimated operating revenues and expenses associated with a potential Lincoln Convention Center was conducted. This presentation is designed to assist project representatives in estimating the financial attributes of a Lincoln Convention Center and cannot be considered as a presentation of expected future results. The assumptions disclosed herein are not all-inclusive, but are those deemed to be significant. Because events and circumstances frequently do not occur as expected, there will usually be differences between estimated and actual results and these differences may be material.

This financial operating analysis only considers revenues and expenses generated through the operation of the Lincoln Convention Center. The analysis does not consider potential ancillary income that may be related to the project (such as incremental tax revenue, admissions surcharges, naming rights income, interest income, etc.), nor does it consider other non-operating costs/expenditures, such as construction debt service and capital repair/replacement funding. As with all new convention facilities, an initial startup period is assumed before event levels are anticipated to stabilize. Financial operating estimates are shown in terms of constant 2023 dollars.

As shown in the exhibit below, a Lincoln Convention Center is estimated to generate approximately \$3.1 million in annual operating revenue in a stabilized year of operations (Year 4), while incurring approximately \$3.2 million in operating expenses. Key revenue streams include event space rental (approximately \$2.0 million), food & beverage sales (\$997,600), and other revenues such as sponsorships, audiovisual, and other event services (\$96,200). This results in an operational loss of approximately \$112,900 annually, which outperforms the average of 12 comparable facilities identified within the initial Feasibility Study. It is typical for public assembly facilities to run at annual operational deficits. Communities throughout the country invest in these facilities to generate economic and fiscal impacts; and to create a venue for important local events. Estimated economic and fiscal impacts for a potential Lincoln Convention Center are summarized on the subsequent pages.

Pro Forma for a Potential Lincoln Convention Center (Years 1 through 4)				
FINANCIAL OPERATIONS	Opening Year 1	Year 2	Year 3	Stabilized Year 4
OPERATING REVENUES				
Rental Income	\$1,298,100	\$1,550,600	\$1,802,000	\$2,000,800
Food & Beverage (net)	\$626,500	\$767,500	\$906,000	\$997,600
Other Revenue	\$88,000	\$90,600	\$93,400	\$96,200
Total Operating Revenues	\$2,012,600	\$2,408,700	\$2,801,300	\$3,094,500
OPERATING EXPENSES				
Personnel	\$1,666,900	\$1,800,200	\$1,925,400	\$2,036,800
Utilities	\$222,200	\$243,100	\$261,900	\$280,000
Operations	\$321,000	\$340,400	\$358,200	\$375,800
General & Administrative	\$389,200	\$404,600	\$419,700	\$434,900
Insurance	\$75,000	\$80,000	\$80,000	\$80,000
Total Operating Expenses	\$2,674,200	\$2,868,400	\$3,045,200	\$3,207,400
OPERATING INCOME (LOSS)	(\$661,700)	(\$459,700)	(\$243,900)	(\$112,900)

3. Economic Impact Analysis

The investment in a Lincoln Convention Center project will be expected to provide important quantifiable economic impact and fiscal benefits. These quantifiable benefits often serve as the “return-on-investment” of public dollars that are contributed to develop the facility project and site. To evaluate the proposed Convention Center’s impact on the Lincoln community, we have measured potential new in-area spending, or spending that would not be generated without the development of the proposed Center. Direct spending represents the primary spending that would occur as a result of the construction and operations of the Convention Center. Direct spending occurs in three ways:



The flow of gross direct spending is adjusted to reflect only the spending that is considered net new to the local economy (i.e., Lincoln). The resulting spending after all adjustments is referred to throughout the remainder of this analysis as net new direct spending.

The multiplier effects estimated in this analysis include:

- **TOTAL OUTPUT** represents the total direct, indirect, and induced spending effects generated by the Convention Center. Total output is calculated by multiplying the appropriate total output multiplier by the estimated direct spending within each industry.
- **PERSONAL INCOME (EARNINGS)** represents the wages and salaries earned by employees of businesses impacted by the Convention Center. Personal earnings are calculated by multiplying the appropriate personal earnings multiplier by the estimated direct spending within each industry.
- **EMPLOYMENT** is expressed in terms of total jobs and includes both full and part-time jobs. Employment is calculated by dividing the appropriate employment multiplier by one million, and then multiplying by the estimated direct spending within each industry.

The quantitative impact figures do not include economic impact that could be generated by other greater project elements associated with downtown development and other ancillary private sector development/investment that may occur as result of the Convention Center development (i.e., hotels, restaurants, etc.). Some of the impacts associated with the Convention Center would be quantitatively captured by these other developments and improvements, but substantial additional economic impact could be generated by any new public or private investment that occurs at, or near, the site. The net effect of a calculation of quantified economic impact could hypothetically be several times greater in magnitude (depending on the level of investment and development outcomes that are ultimately realized at, or near, the site).

In addition to the quantifiable benefits associated with a Convention Center, there are a number of existing and potential benefits that cannot be quantified. In fact, these qualitative benefits tend to be a critical factor in the consideration of public and private investment in facilities of this nature. These include issues pertaining to quality of life, ancillary economic development facilitation, employment opportunities, community pride, complementing the growth of downtown Lincoln, and other items.

As previously indicated, the economic impacts associated with a Lincoln Convention Center have been analyzed and projected. Results are shown and discussed within the following four groupings:

- A) Construction Impacts
- B) In-Facility Impacts
- C) Out-of-Facility Impacts
- D) Qualitative Impacts / Other Benefits

(A) Construction Impacts (one-time)

The impact of the construction phase is determined by the magnitude and nature of the construction expenditures as well as the geographic region in which they take place. The exhibit below summarizes the estimated net new economic impacts that could be generated in Lincoln and Lancaster County associated with the construction of a Lincoln Convention Center. These impacts represent one-time impacts from construction.

For purposes of this analysis, hard and soft construction costs associated with a potential new Lincoln Convention Center are assumed to approximate \$115.8 million. Soft construction costs are estimated to be 30 percent of hard construction costs. It is assumed that 20 percent of spending on materials and 30 percent of spending labor would occur within the local area, thereby representing net new spending for the local economy. This results in approximately \$36.9 million in net new spending for Lincoln.

As shown, the estimated economic output (direct spending plus indirect and induced spending) in Lincoln associated with the Convention Center construction period is estimated at \$62.2 million (in 2023 dollars). This impact figure is lower than the assumed total construction cost expenditures amount due to the assumed leakage of a subset of materials and labor spending outside of Lincoln.

Summary of Estimated One-Time Construction Period Economic Impacts
Associated with a Lincoln Convention Center (2023\$)

Direct Spending	\$36,891,900
Indirect/Induced Spending	<u>\$25,330,600</u>
Economic Output	\$62,222,500
Personal Income	\$20,953,600
Employment (full & part-time jobs)	442
Total City, County, and State Taxes	\$3,510,600



The project is also estimated to generate over \$3.5 million in tax revenue. This figure includes collections generated by the following tax rates:

- State Sales Tax (5.5 percent)
- City Sales Tax (1.75 percent)
- State Hotel Tax (1.0 percent)
- County Hotel Tax (4.0 percent)
- City Hotel Tax (1.0 percent)
- City Prepared Food Tax (2.0 percent)

(B) In-Facility Impacts (ongoing)

Direct spending would be generated through the operations of the Lincoln Convention Center (represented through operating revenues) driven by events, attendees and renting organizations. This spending occurs with respect to both event and non-event items, such as space rental, admissions, food and beverage, retail sales, sponsorship and advertising, and other such in-facility purchases.

Estimated in-facility direct spending associated with the operation of a Lincoln Convention Center is summarized below. Economic impacts are further increased through re-spending of the direct spending. The total impact is estimated by applying an economic multiplier to initial direct spending to account for the total economic impact. The total output multiplier is used to estimate the aggregate total spending that takes place beginning with direct spending and continuing through each successive round of re-spending. Successive rounds of re-spending are generally discussed in terms of their indirect and induced effects on the area economy. Estimated “net new” in-facility economic impacts associated with the operation of a Lincoln Convention Center are summarized below.

Summary of Estimated Annual In-Facility Economic Impacts
Associated with a Lincoln Convention Center (2023\$)

ECONOMIC IMPACTS	Opening Year 1	Year 2	Year 3	Stabilized Year 4
B) IN-FACILITY IMPACTS				
Direct Spending	\$1,024,500	\$1,227,300	\$1,429,500	\$1,580,000
Indirect/Induced Spending	<u>\$711,100</u>	<u>\$851,300</u>	<u>\$991,000</u>	<u>\$1,095,000</u>
Economic Output	\$1,735,600	\$2,078,500	\$2,420,500	\$2,675,000
Personal Income	\$709,900	\$851,000	\$991,500	\$1,095,600
Employment (full & part-time jobs)	22	27	31	34
Total City, County, and State Taxes	\$97,300	\$116,700	\$136,100	\$150,300

(C) Out-of-Facility Impacts (ongoing)

Outside the Lincoln Convention Center itself, additional direct spending would be generated in the local area by attendees, exhibitors, participants, and event staff on lodging, food and beverage, retail, entertainment, transportation, etc. in connection with their visit to the area. Estimated out-of-facility direct spending associated with the operation of a Lincoln Convention Center is summarized below.

Summary of Estimated Annual Out-of-Facility Economic Impacts
Associated with a Lincoln Convention Center (2023\$)

ECONOMIC IMPACTS	Opening Year 1	Year 2	Year 3	Stabilized Year 4
C) OUT-OF-FACILITY IMPACTS				
Net New Hotel Room Nights	16,400	20,200	23,900	25,800
Total Attendee Days	80,400	93,700	106,300	112,600
Net New Non Local Visitor Days	37,800	45,300	52,800	56,300
Direct Spending	\$6,524,300	\$8,227,900	\$10,007,400	\$11,033,400
Indirect/Induced Spending	<u>\$4,430,400</u>	<u>\$5,586,800</u>	<u>\$6,794,800</u>	<u>\$7,491,200</u>
Economic Output	\$10,954,700	\$13,814,700	\$16,802,100	\$18,524,700
Personal Income	\$4,447,500	\$5,608,000	\$6,820,100	\$7,518,900
Employment (full & part-time jobs)	138	173	211	232
Total City, County, and State Taxes	\$759,800	\$960,000	\$1,169,200	\$1,290,100

Economic impacts are further increased through re-spending of the direct spending. The total impact is estimated by applying an economic multiplier to initial direct spending to account for the total economic impact. The total output multiplier is used to estimate the aggregate total spending that takes place beginning with direct spending and continuing through each successive round of re-spending. Successive rounds of re-spending are generally discussed in terms of their indirect and induced effects on the area economy. Estimated out-of-facility economic impacts associated with the operation of a Lincoln Convention Center are summarized below.

As shown, during a stabilized year of operations (Year 4), the Lincoln Convention Center is estimated to generate just over \$11.0 million in out-of-facility direct spending for the area, leading to just over \$18.5 million in total estimated economic output. Direct spending would support just over \$7.5 million in personal income for the destination, as well as net new 232 jobs annually. Activity at the Convention Center is also estimated to generate nearly \$1.3 million in tax revenue per year, which includes all sales, hotel and prepared food and beverage tax revenues collected by the City, County, and state. As previously noted, these include the state hotel tax (a 5.5 percent rate), City sales tax (1.75 percent), state hotel tax (1.0 percent), County hotel tax (4.0 percent), City hotel tax (4.0 percent), and City prepared food tax (2.0 percent).

(D) Qualitative Impacts / Other Benefits

In addition to the quantifiable benefits discussed in this chapter, some benefits related to the construction and operation of a Lincoln Convention Center cannot be quantitatively measured. Beyond the economic activity and jobs indirectly provided, these types of non-quantifiable impacts of a project of this nature and scope can serve to elevate Lincoln's profile and brand as a visitor destination and as a quality place to live, work, learn and play.

In fact, these qualitative benefits tend to be a critical factor in the consideration of public and private investment in projects of this nature, particularly those involving a major investment in community assets and infrastructure. These include issues pertaining to quality of life, ancillary economic development facilitation, employment opportunities, community pride and other such issues. Potential non-quantifiable benefits could include:



Potential Transformative and Iconic Effects – High profile, event facility projects, like new or expanded convention centers, can have extensive, long-lasting transformative impacts on host communities and destinations, in terms of quality of life, community prestige, perception by visitors and non-locals, and other such effects.



Quality of Life for Residents – New/expanded convention centers and other similar event facility projects provide diversified activities for local residents and families, which can make host communities more attractive and enjoyable places to reside. Quality convention facilities can contribute to enhancing community pride, self-image, exposure and reputation. All these items can assist in retaining and attracting an educated workforce, particularly younger adults who often desire quality meeting, entertainment, cultural, leisure and recreational amenities.



New Visitation – New visitors will be attracted to the area because of an event at a new convention facility. These attendees, in turn, may elect to return to the area later with their families, etc. for a leisure visit after visiting the area for the first time.



Spin-Off Development – New retail/business tend to invariably sprout up near major new/expanded convention center developments, spurred by the operations and activities associated with the convention facility, representing additions to the local tax base.



Anchor for Revitalization – Major convention center development can oftentimes serve as an anchor for larger master plans and revitalization efforts. Convention centers can annually attract hundreds of thousands of attendees. This added visitation to a downtown can be critical to the health & vitality of existing nearby businesses, as well as providing the incentive for future investment by the private sector in business improvements.



Other Benefits – Increased synergy with other local event, hospitality and entertainment facilities can lead to increased tourism activity to Lincoln and Lancaster County. Likewise, convention facility and hospitality infrastructure investment will enhance the options for area residents and businesses to select as a host venues for events.

4. Funding Analysis

The purpose of this section is to provide a summary of the sources of funding that have been used within the public assembly facility industries and to discuss their potential for use in the possible development of a new Lincoln Convention Center. The intent of the analysis is not to produce a financing plan for facility development, but rather to discuss certain financing vehicles, as well as public and private revenue sources, that could be utilized to fund the project(s).

Typical Public Sector Funding Sources

While there are a variety of public sector funding vehicles and revenue sources that have been used in the financing of public assembly facility projects in communities throughout the country, a large percentage are provided by the public sector through the issuance of revenue bonds and other financial mechanisms. Types of financing/funding vehicles that are commonly used in public assembly projects throughout the country include:

- Revenue Bonds
- Tax Increment Financing (TIF)
- Pay-As-You-Go Financing
- Certificates of Participation
- State/Federal Assistance
- Private/Public Equity & Grants

Under situations where bonds have been issued, debt service is often supported by local tax revenue, which has tended to include the following:

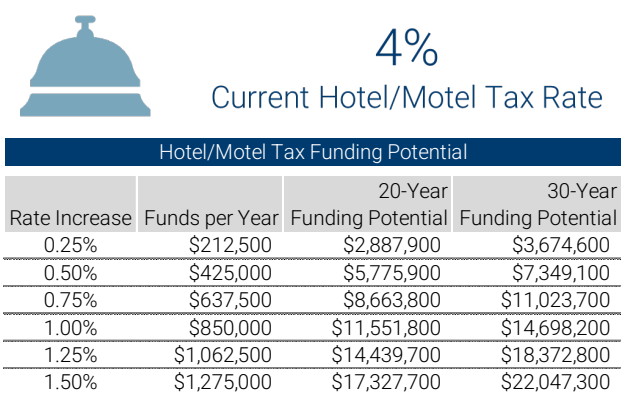
- Hotel/motel taxes
- Sales & use taxes
- Auto rental/taxicab taxes/fees
- Sin taxes (alcohol, cigarette, etc.)
- Admissions/entertainment taxes

For a potential new Lincoln Convention Center, opportunity may exist in the future to leverage hotel/motel and/or sales tax to fund the development of the project. The ability for these potential tax revenue sources to provide funding for a Lincoln Convention Center are summarized below and on the following pages. This evaluation is intended to present the order-of-magnitude funding potential of each funding source. It is important to note that the most appropriate funding option for the project will ultimately depend on community input and the preferences of project leadership.

City Hotel/Motel Tax Potential

The total effective hotel tax for a hotel stay in Lincoln is 15.25 percent. This includes 7.25 percent in total sales tax, 1.0 percent in hotel tax that goes to the state of Nebraska, 4.0 percent in hotel tax that goes to Lancaster County, and 4.0 percent in hotel tax that goes to the City of Lincoln. Given the significant impact of the Convention Center on the downtown area and the City, hotel/motel tax at the City level could be a source of revenue to fund development and/or operations of the facility. With the existing hotel tax already being used to support the Lincoln CVB and the debt service for the Pinnacle Bank Arena project, it is likely that a hotel tax increase would be needed to for a potential Convention Center project. The adjacent graphic presents a summary of the funding potential of hotel/motel tax increases, segmented by 0.25 percent increments up to 1.50 percent.

Based on historical hotel/motel tax collections, a 1.00 percent hotel/motel tax increase is estimated to generate approximately \$850,000 in funding per year, resulting in nearly \$11.6 million (net present value) in funding potential for a 30-year financing term at a 4.0 percent interest rate. In considering previously shown cost estimates, this should be viewed as more of a supplementary funding tool, and/or could be used to subsidize the facility's operations.



A hotel/motel tax rate increase to fund the project could be completed via public vote or by local hoteliers initiating a self-assessment. In this way, the local hotel properties would be investing in the economic benefits provided by the Convention Center. Lincoln likely has capacity for a moderate hotel/motel tax increase in the future. For comparative context, Omaha, NE currently has a hotel/motel tax rate of 17.50 percent, which is increased to 20.50 percent at properties near the CHI Health Center. Alternatively, a portion of the existing hotel/motel tax rate could be re-directed to a potential Convention Center project upon the sunseting of the debt service for Pinnacle Bank Arena.



1.75%

Current Tax Rate

Sales Tax Funding Potential			
Rate Increase	Funds per Year	20-Year Funding Potential	30-Year Funding Potential
0.10%	\$5,333,333	\$72,481,700	\$92,224,200
0.25%	\$13,333,333	\$181,204,400	\$230,560,400
0.50%	\$26,666,667	\$362,408,700	\$461,120,900
0.75%	\$40,000,000	\$543,613,100	\$691,681,300
1.00%	\$53,333,333	\$724,817,400	\$922,241,800

Sales Tax Potential

Lincoln’s total sales tax rate of 7.25 percent is comprised of a 5.5 percent state tax rate and 1.75 percent City rate. The City rate was increased from 1.5 percent in 2018 to fund various safety improvements for the community. As shown to the left, a 0.25 percent sales tax increase is estimated to provide just over \$13.3 million in annual revenue, totaling nearly \$231 million (net present value) in total funding potential for a 30-year term. Considering previously shown project cost estimates, a modest sales tax increase or portion of existing sales tax could potentially fund the development of a new Lincoln Convention Center.

The use of sales tax or a sales tax increase to fund a new Lincoln Convention Center would require a public vote. Typically, if used for specific projects, sales tax revenue can fund community-focused quality of life projects due to the local public supplying a significant portion of the funds. In some communities, due to the visitor industry generating a substantial amount of sales tax revenue, the funds are used for visitor industry projects such as public assembly facilities. In Oklahoma City, for instance, a temporary, five-year one percent tax increase has been installed to fund a variety of visitor-related projects in addition to various projects that benefit the local resident base. A brief case study on this “MAPS” initiative is presented below. This type of temporary sales tax increase, that could fund both a Lincoln Convention Center and other quality of life improvements, could potentially pass a public vote. Following Oklahoma City’s example by fully educating the public about the temporary nature and significant benefits of the increase will be important to its passing.

CASE STUDY: Transformation of Oklahoma City through the MAPS Program

Oklahoma City was economically stressed in the 1990’s, with representatives of prospective business relocation targets citing a poor quality of life as an impediment. City officials prepared an economic development and investment plan that involved a voter approved, temporary sales tax increase to fund projects selected by the community. Key elements of this plan included the following.

A slate of projects is identified by city leaders to go before the voters for approval. The set of projects address needs and amenities for a wide variety of demographic groups in order to generate community-wide support, and projects are voted on as a group, versus individually.

A specified increase in the sales tax is required (1.0 percent), and all projects are funded out of this revenue, with no debt incurred. An operating endowment for each project is also funded out of sales tax proceeds.

A volunteer Citizens Advisory Committee is appointed to recommend architects, help develop planning documents and identify contractors. These findings and recommendations are presented to city council for approval.

Due to its proven success, the MAPS program has been approved four separate times by the public, each with varying timelines ranging from five to eight years. The program has funded the following transformative projects for the community:

- Renovation to the Civic Center Music Hall.
- Renovations to the Oklahoma State Fairgrounds.
- Construction of Ford Center, now Chesapeake Energy Center and home to the NBA Thunder.
- Construction of the Bricktown Canal to help establish a vibrant entertainment district.
- Construction of a dam and recreation structures on the Oklahoma River, allowing for world class canoe, kayak and rowing competitions.
- Development of a new library and learning center.
- A new state-of-the-art downtown convention center and Oklahoma State Fairgrounds upgrades.
- A massive, 70-acre public park in the downtown area.
- A new streetcar/transit system.
- Biking and hiking trail system upgrades to improve interconnectivity.

Other Potential Revenue Sources

In recent years, a growing number of communities have explored ways in which the private sector can participate in reducing the overall funding burden borne by the public sector. This participation has taken the form of:

- Naming rights.
- Sponsorships.
- Upfront service provider fees and facility component build-outs.
- Exclusive facility use agreements.
- Private donations of capital and/or land.

Each of these opportunities for private sector participation in funding the facility should be evaluated. Given the potential costs for construction and the annual costs to operate, such private sector participation may be a necessary component of a successful project.

Naming Rights and Sponsorships

Naming rights and other unique sponsorships have been increasingly considered in the public assembly industry in recent years. Naming rights agreements typically consist of a local corporation paying a fee upfront and/or over a series of consecutive years in exchange for the use of their company's name for the entire facility or various components of it. Naming rights agreements are much more prevalent with professional sports facilities than with other event facilities such as convention centers. This is primarily attributable to typically much greater exposure potential at professional sports facilities (i.e., national broadcast coverage of events, exposure through other forms of media, millions of annual spectators, etc.).

However, a small number of convention centers in small to mid-sized markets have sold naming rights for the entire facility or components of it. Examples include the \$1.5 million, 14-year deal to name the Central Bank Center in Lexington, KY; the \$4.0 million, 20-year deal to name the Tyson Events Center in Sioux City, IA; the \$2.5 million, 10-year deal to name the Community Choice Credit Union Convention Center in Des Moines, IA; and the \$23.5 million, 20-year deal to name the CHI Health Center in Omaha, NE. These naming rights transactions tend to succeed to the extent target companies can identify long-term benefits. These benefits can include: a revenue return, visual exposure for the sponsor, access to the attendees at the facility, sponsorship opportunities with events at the facility and other tangible benefits.

Upfront Service Provider Fees and Facility Component Build-outs

Much of the recent private sector participation in public assembly facility funding has taken the form of up-front capital in exchange for guaranteed exclusive operating rights. For instance, a food service operator may contribute a portion of the costs of constructing the kitchen facilities or providing kitchen equipment in exchange for the right to provide food service in the building (or facility complex). These provider fees can also include other in-house services, such as: (1) electrical, (2) utilities/environmental control, (3) internet and communications, (4) virtual meetings/satellite, (5) audiovisual, (6) security systems, (7) entertainment; and other such items.

Several communities have partnered with one or more telecommunications firms whereby, in exchange for various advertising and sponsorship opportunities with the project, the firms installed the telecommunications systems (i.e., fiber optic and copper-based wiring, wireless components, equipment, etc.) at their own expense. In addition, the partnering firms may also receive revenue rights as facility users use the technology. Other private sector firms have provided similar build-outs in exchange for other unique opportunities at the facility, such as an exclusive area within the event facility that is used as a test area or showcase for the firm's products or services.

Tax Increment Financing (TIF) District

Tax increment financing (TIF) districts are occasionally used to support public assembly facility projects throughout the country. A TIF district essentially involves capturing assessed valuation growth within a specific area (i.e. TIF district) related to a particular development. Typically, a redevelopment agency delineates a project area and declares a base year. The existing base-assessed valuation is taxed as before by each overlapping taxing entity covering a portion of the project area. The additional assessed valuation, added to the tax rolls over the base, is taxed at the same rate as the base valuation. However, the tax revenues attributed to the new incremental assessed valuation are remitted to the redevelopment agency and used to pay debt service. This is accomplished without an increase in the property tax rate paid by local residents and businesses.

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The City of Lincoln has actively employed TIF districts to fund major redevelopment projects, particularly in the downtown area. Examples include Cornhusker Square, 8th Street at Haymarket Square, Lincoln Station, the Grainger Building, the Embassy Suites, and the O Street Skywalk, and City Council recently approved \$4.2 million in support for a \$22 million redevelopment of Gold's Building downtown into a 104-room hotel. It is anticipated that TIF support will be a material funding source for a potential Lincoln Convention Center.

5. Governance and Management

The analysis presented herein focuses on governance and day-to-day management approaches for public event venues such as a potential Lincoln Convention Center.

When considering event venue management and governance structures, it is important to note that a public assembly venue can be a highly significant economic impact generator for a community, and that it operates in a highly competitive industry attracting events ranging from conventions to concerts. Whereas most municipal departments operate with missions that broadly focus on providing superior resident services, a convention center and arena must succeed in a highly competitive national and regional environment.

This competitive environment can make it critical for center management to operate with a high degree of flexibility and autonomy to make short term decisions on pricing, discounting, staffing, purchasing, repairs and other operational areas. Event customers may require near immediate responses during negotiating for rental rates, discounting, services and other areas. Unexpected capital repair issues may require quick action to prevent negative impact to events that are being held at the center.

Numerous cities around the country have retained a private firm to operate their public assembly venues under certain contract terms. It is important to note that these private firms do not agree to absorb any operating losses for a venue, they simply charge a fee to manage the city's asset. If there are operating losses, these are still passed on to the city.

This section highlights the strengths and weaknesses of various public assembly venue management approaches, while carefully considering the types of industry conditions that uniquely impact success in the event venue industry.

Various Models for Public Event Center Management and Oversight

It is important to make a distinction between public assembly venue governance, and day-to-day management.

The governance role focuses on providing strategic direction and oversight to event venue executive management. Broad policy, strategy and mission issues are addressed as part of overall center governance. The Pinnacle Bank Arena Advisory Committee currently provides this type of oversight for Pinnacle Bank Arena. In many communities, board members are appointed by a Mayor with approval from a Council. The Board provides advice and guidance to management regarding key policy issues.

Day-to-day management focuses on the operational aspects of a center, ensuring a well-run and maintained facility, high customer satisfaction, and credible financial performance. Based on our industry experience, we have summarized the strengths and weaknesses of the two approaches (contract firm or direct hire) for day-to-day center management.

Day-to-Day Public Event Venue Management – Contract Firm versus Direct Hire Management

There are two primary options for day-to-day management of a public event venue – using a contract management firm, or a direct hire. For context, day-to-day management for Pinnacle Bank Arena is currently provided by ASM Global, a third party management group, who reports to the Advisory Committee.

Under a privatization model, a firm is retained to operate the city's asset. The firm is paid a fee typically inclusive of a fixed fee and an incentive fee. The incentive fees are typically earned as the firm achieves agreed on benchmarks. These benchmarks can focus on controlling operating expenses, increasing operating revenues, maintaining high levels of customer service, increasing room night generation, major event attraction and numerous other subjective categories determined by the owner of the asset. As noted above, while the private firm may earn incentives for controlling operating costs and maximizing operating revenues, the city is still responsible for paying any operating losses.

Various strengths and weaknesses of the private firm versus direct hire approach are summarized on the following page.

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Operational Policies and Procedures

A contract management firm can provide a national perspective on various policies and procedures related to purchasing and personnel decisions, drawing from their experience at other centers under management across the country. Use of a contract management firm can also provide an opportunity to migrate towards policies and procedures that may be more reflective of the need for very timely decisions in areas of contracting, personnel and purchasing, without the constraints of various city rules that are not necessarily well designed for the public event industry. Contract management can help facilitate rental rate adjustments and overall deal making that can reflect the importance of being highly responsive to customer needs.

A direct hire management approach can also allow for highly effective accounting and event reporting approaches; however without the ability to incorporate data from a wide cross-section of venues.

Day-to-day management by a direct hire versus contract management firm can maximize city (or other owner) direct control over convention center operations, rental rates, booking policies and sales efforts. Control factors including the ability to accommodate rate adjustments for community events, the ability to select certain vendors operating in the center, and the ability to share staff among other city venues can be important to a city and are lessened with use of a private firm to manage a center.

Maintenance and Repair

Contract management firms can introduce industry practices used in their other operated venues with respect to maintaining and enhancing event facilities. Given their national reach, these firms can help ensure that industry trends impacting facility maintenance are addressed. In some cases, implementing capital repairs under a municipal structure can require a significant amount of time and process work to adhere to regulations designed for a very broad set of city assets, and not necessarily tailored to the timing and specialty needs of a public event venue. It is important to note that a contract management firm does not fund capital repairs, they simply allocate funds provided by the city to needed repair areas.

Management Experience

A contract management firm may have the ability to secure executive staff from other venues under management. In effect, they create a “farm team” of highly trained professionals they can rely on to staff a center. Employees directly hired by a municipality can also bring extensive industry experience, as long as a professional management selection process is undertaken to find industry experienced talent.

Management Fee

Retaining a contract management firm will require payment of several hundred thousand dollars annually. This fee typically consists of a fixed payment, and an incentive payment based on various incentives including center revenues, expenses, room nights and related factors. The ability of a contract management firm to implement policies that could create added net revenue will have to be considered in the context of incurring the management fee.

For example, a management firm with extensive contacts in the entertainment industry may represent that they have the ability to attract more large concerts. If this is an important element to the city, the management contract could specify financial penalties if the management firm does not deliver on promised event increases.

Key Takeaways for A Potential Lincoln Convention Center

For the development of a Convention Center in Lincoln, the ownership of the facility could be public, given the importance of the project to the broader hospitality community and overall downtown development efforts. The ownership entity could be the City or County, or a new public Authority. The Authority model would allow for important input into the sales, booking and operational strategies of the new center from the local hospitality, economic development, community and other sectors. Even with city, county or joint ownership, an authority or advisory board could be established to provide this important community and stakeholder input.

Under a direct hire management model, whereby individuals are hired by the City, there will likely be a need to create an executive and administrative function, including a general manager, finance, human resources, technology and other areas. Given the depth of required administrative overhead, it is likely that a new Lincoln Convention Center would operate at an annual deficit before debt service or capital repair funding. This is very common within the convention and conference center industry.



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Under a third-party management model, the ownership entity of the new Convention Center would need to lead the creation and distribution of a formal RFP for a third-party management firm. The entity, or a special selection committee, would then lead interview, selection, and negotiation processes to elect a preferred third-party vendor. With recent consolidation in the public assembly venue management industry, the third-party firms listed above are often aggressively pursuing opportunities even in small- to mid-sized markets. A Lincoln Convention Center ownership entity should consider ways to leverage this market demand to in order to select a management partner and structure a deal that best meets the goals of the community.

Alternatively, consideration could be given to retaining ASM Global due to their existing in-market presence at Pinnacle Bank Arena. The efficiencies created with shared janitorial, event setup, accounting, human resource and other departments would help minimize the possibility of the new Center operating with a net annual loss.