



Maryland Stadium Authority



Baltimore Convention Center Expansion Market & Economic Analysis

**Final Report
February 2012**



February 28, 2012

Mr. Gary McGuigan, Project Executive
Maryland Stadium Authority
333 West Camden Street, Suite 500
Baltimore, Maryland 21201

Dear Mr. McGuigan:

Crossroads Consulting Services LLC, in association with Hospitality and Gaming Solutions, has completed its market and economic impact analysis for the Maryland Stadium Authority associated with the proposed expansion of the Baltimore Convention Center. This report summarizes our research and analysis.

The information contained in the report is based on estimates, assumptions, and information developed from market research; knowledge of the convention, sports and entertainment industries; input from existing and potential demand generators; as well as other factors including, but not limited to, data provided by the Maryland Stadium Authority, the City of Baltimore, management at the Baltimore Convention Center, and Visit Baltimore. We have utilized sources that are deemed to be reliable but cannot guarantee their accuracy. All information provided to us by others was not audited or verified and was assumed to be correct. Moreover, estimates and analysis regarding an expanded facility are based on trends and assumptions and, therefore, there will usually be differences between the projected and actual results because events and circumstances frequently do not occur as expected, and those differences may be material. We have no obligation, unless subsequently engaged, to update this report or revise the information contained therein to reflect events and transactions occurring after the date of this report.

In accordance with the terms of our engagement letter, the accompanying report is restricted to internal use by the Maryland Stadium Authority and the City of Baltimore and may not be relied upon by any third party for any purpose including financing. Notwithstanding these limitations, it is understood that this document may be subject to public information laws and as such can be made available to the public upon request.

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

Although you have authorized reports to be sent electronically for your convenience, only the final hard copy report should be viewed as our work product.

We have enjoyed our ongoing relationship with the Maryland Stadium Authority and the City of Baltimore and look forward to providing you with continued services in the future.

Sincerely,

Crossroads Consulting Services LLC

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Introduction and Executive Summary

Introduction

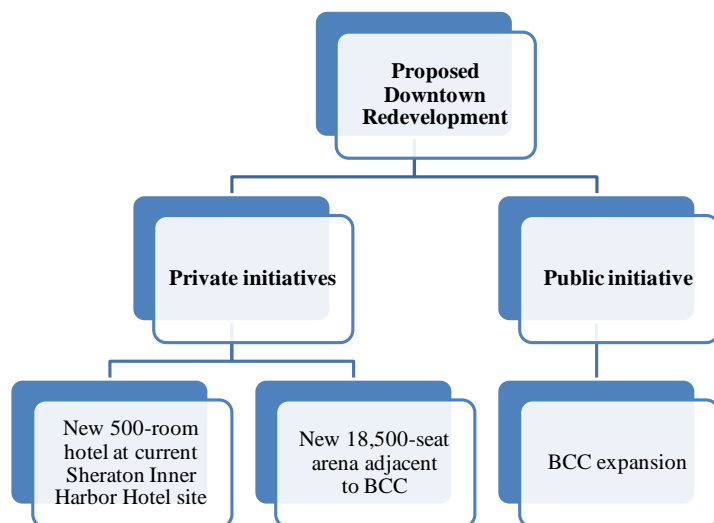
Established by the State General Assembly in 1986, the Maryland Stadium Authority’s (MSA) mission is to plan, finance, build and manage sports and entertainment facilities in Maryland; provide enjoyment, enrichment, education, and business opportunities for citizens; and develop partnerships with local governments, universities, private enterprise, and the community. Its projects promote historic preservation, adaptive reuse, community redevelopment, cultural arts, and civic pride. The Baltimore Convention Center (BCC) is one of the projects with which MSA is involved.

The BCC is a convention and exhibition hall located in downtown Baltimore. The center is owned and operated by the City of Baltimore (City). The facility was constructed in two separate phases: the original Center opened in 1979 and an expansion, which increased the BCC to its current size, was completed in 1997. The existing center offers approximately 300,000 SF of exhibit space, a 36,700 SF ballroom and 85,000 SF of meeting space in 50 breakout rooms. Both the BCC’s debt service and ongoing operating deficit are jointly funded by the City and the MSA. The expansion bond issue and related operating agreement between the City and MSA expires in 2014.

The 757-room, City-owned Hilton Baltimore hotel opened in 2008 and is connected to the BCC by an enclosed skywalk bridge. The BCC is conveniently located within walking distance to the Hilton, Sheraton and Marriott. In aggregate, Baltimore offers a total of 9,300 hotel rooms. The BCC is also accessible via the City's light-rail with a stop located just across the street.

In May 2011, the Greater Baltimore Committee (GBC) revealed plans for a proposed new 18,500-seat arena, a 500-room hotel and an expanded BCC. A significant aspect of the proposal is that a local businessman and current owner of the Sheraton Inner Harbor Hotel would form a partnership to privately fund construction of the new hotel and arena. The possible private sector investment is contingent on public sector financing of the BCC expansion.

Proposed Private/Public Joint Development Concept



Current plans call for demolishing the Sheraton Inner Harbor Hotel and its adjoining parking garage to make way for a proposed new 500-room hotel and an 18,500-seat arena. In addition, the east wing of the BCC would be demolished and replaced by an expanded facility on multiple levels.

City representatives have consistently stated that development of a new arena to replace the existing 1st Mariner Arena is a priority. Opened in 1962, the 1st Mariner Arena currently offers 11,000 permanent seats on three levels. While the facility has hosted a wide range of sports and entertainment events and has an established base of arena-related business, it is increasingly becoming functionally obsolete. In addition, the patron experience is compromised with poor sightlines, inadequate restrooms and concessions, undersized concourses and vertical circulation, as well as out-of-date lighting, finishes, graphics and overall aesthetics.

Significant financial investments have been made in the public assembly facilities in downtown Baltimore through construction, expansion, and/or renovation. The opening of Oriole Park at Camden Yards in 1992 set the stage for first class facilities in downtown which was followed by expansion of the BCC in 1996, construction of M&T Bank Stadium in 1998, renovation of the Hippodrome Theatre in 2004 and construction of the 757-room Hilton Hotel in 2008.

By contrast, relatively limited funds have been invested in the 1st Mariner Arena since its construction. In fact, the arena represents one of the last major public facilities that has not been addressed within the urban core. Based on the 1st Mariner Arena's age and location in the heart of downtown Baltimore, the community has grappled with the long-term role of the facility relative to other master planning and economic development initiatives.

As such, several market and economic studies have been completed related to the development of a new arena in Baltimore. Although these studies explored different potential development scenarios, operating strategies and site locations, market research consistently supported demand for a new arena in order to maintain, expand and diversify its market share of concerts, family shows, entertainment acts and sporting events.

The private sector's interest in developing a new hotel and arena has created a unique opportunity to combine two major public assembly projects in downtown Baltimore and potentially realize synergies from a land use, physical planning, operational, and economic perspective.

Given this backdrop, the City and the MSA retained Crossroads Consulting to conduct a market and economic study that evaluates the merits of expanding the BCC. In addition, limited market assessments were conducted based on secondary research related to the proposed privately financed hotel and arena initiatives in order to comment on their overall viability and estimate their order-of-magnitude economic and fiscal impacts.

More specifically, the objectives of the study are to assist the City and the MSA in assessing the following:

- Does there appear to be incremental market demand that supports expansion of the BCC?
- How might economic and industry trends impact future operations of the BCC?
- How does the BCC rank in key facility and destination characteristics relative to its competitive set?
- What lessons can be learned from other competitive/comparable convention centers?
- What building program requirements appear to place the BCC in a more competitive position to maintain, grow and diversify its event base and accommodate anticipated future demand?
- How do current convention infrastructure elements (i.e., headquarters hotels, proximate hotel supply, etc.) impact the facility's market penetration? Do any changes need to be made?
- What are the market and financial implications of a status quo scenario?
- If market demand appears to warrant expansion, what would be the potential operating characteristics in terms of estimated incremental new utilization, operating revenues and expenses, and economic/fiscal benefits?
- How might the proposed private sector ancillary development initiatives (i.e., hotel and arena) impact the BCC? What new economic and fiscal benefits might they generate?
- What are potential next steps?

Specific research tasks conducted by Crossroads Consulting for the study include the following:

- Conducted interviews and/or work sessions with a variety of groups including, but not limited to, representatives from the MSA, City of Baltimore, GBC, Visit Baltimore, Baltimore Development Corporation, Whiting-Turner Contracting Company, BCC management, 1st Mariner Arena management, and area hoteliers
- Summarized trends in the convention/meetings industry
- Profiled select demographic and economic data
- Profiled hotel supply and demand characteristics of Baltimore City
- Analyzed historical event activity at the BCC
- Analyzed attributes of competitive/comparable destinations and facilities
- Surveyed and/or interviewed existing users as well as potential users of an expanded BCC
- Prepared a SWOT analysis of the proposed BCC expansion as part of the larger development plan
- Developed a preliminary estimate of utilization and financial operations for an expanded BCC
- Conducted a limited market assessment of the proposed new 500-room hotel and 18,500-seat arena based on secondary research
- Estimated the potential incremental and total economic impacts in terms of spending, employment and earnings associated with each of the three development components under consideration based on the research and analysis described in the previous tasks
- Summarized findings into a written report



Executive Summary

Since its opening the BCC has generated economic and fiscal benefits to the local and State economies. Over the last three fiscal years, the facility has hosted more than 430 events and 1.3 million in total attendance. During that same period, conventions and tradeshow represented approximately 36% of total events, 50% of total usage days and 57% of total attendance annually. In addition, this specific market segment averaged more than \$307.1 million in direct spending at the State level that supported 5,100 jobs and generated \$41.5 million in local and State taxes annually.

The City and State have made significant financial investments in the BCC, the Hilton Baltimore and other public projects from construction to on-going maintenance in order to attract events that generate economic activity. As the figures suggest, there is a significant, quantifiable return on investment to the City and State. As such, the BCC has proven to be a valuable economic generator attracting a variety of industry segments to the City and State and fostering their unique markets through the exchange of business ideas and knowledge. The proposed public-private development could further enhance the overall Baltimore visitor market by creating a setting that cultivates shared uses, connectivity and a traveler-friendly environment.

Convention Center Industry Trends

Over the last 20 years, the U.S. convention and meetings market experienced tremendous growth in the supply of exhibit and meeting space through both new construction and expansion. This increased supply led to a more competitive marketplace where numerous facilities can accommodate meeting planners' needs strictly in terms of the amount of space required. Industry trends suggest that facilities located in destinations offering an attractive package in terms of overall appeal, hotel supply, accessibility, and cost have been better able to maintain, grow and/or diversify their business during challenging economic times.

Similar to the broader economy, the convention and meetings industry has experienced a downturn in recent years. However, several sources are projecting positive economic and industry growth in key metrics. While convention/meetings industry demand trends have generally correlated to those of the broader economy, there tends to be lag of between 12 and 18 months.

BCC's Competitive Position

Despite economic conditions and a finite number of potential conventions/tradeshows, the BCC has successfully competed for these event types in recent years based on the following strengths and attributes:

- Hotel supply proximate to the BCC
- Central location/proximity to major cities
- Perceived price/value by customers

- Visitor amenities such as Inner Harbor
- Tourism service industry
- Existing base of convention/tradeshow users
- Proximity to association headquarters
- Regional economy involved in relatively strong business sectors (i.e., medical, bio-tech)

Despite offering one of the lowest amounts of total function space (i.e., exhibit, ballroom and meeting space) among its primary convention center competitors, a snapshot of utilization indicates that the existing BCC compared favorably in terms of convention/tradeshow attendance.

Although Baltimore offers more hotel rooms at its headquarters hotel properties (1,600 vs. 1,100) and within walking distance (5,400 vs. 5,300) relative to the average of the competitive set, it offers significantly less hotel rooms citywide (9,300 vs. 22,400).

Meeting planners indicated that the opening of the Hilton Baltimore adjacent to the BCC was one of the primary reasons for choosing to host their event in Baltimore. Visit Baltimore estimates that the Hilton Baltimore has created \$250 million in large Citywide convention/meetings business that could not have met in Baltimore without this additional inventory. This hotel has also positively impacted Baltimore's ability to host Citywide/in-house meetings according to Visit Baltimore.

Several of the BCC competitors either have or are planning to enhance their convention centers and/or surrounding environment in order to enhance their destination package and overall competitive position:

- Boston Convention & Exhibition Center is contemplating expansion which is anticipated to include a commercial area around the facility with several new hotels, restaurants, and stores
- David L. Lawrence Convention Center in Pittsburgh - Riverfront Plaza opened in May 2011 which connects the convention center to the surrounding entertainment district and natural environment
- Indiana Convention Center completed its expansion in 2011
- Music City Center is a new convention center currently under construction in Nashville with an anticipated opening in 2013
- Pennsylvania Convention Center opened its expansion in 2011
- Washington D.C. Convention Center - Marriott Marquis is currently under construction and scheduled to open in 2014

Because convention centers including the BCC operate in a buyer's market, it is important for customers to realize both real and perceived value.

Market Demand for BCC Expansion

Several performance measures and industry indicators suggest that market demand has equaled and potentially exceeded the BCC's current supply of space. According to lost business reports, date availability and inadequate space at the BCC accounted for 20% of lost events while inadequate hotel meeting/ballroom space and hotel date availability accounted for an additional 11% of lost events. As a result, Baltimore is losing convention/tradeshow business to its competitors.

The BCC is operating at or near practical maximum occupancy in its exhibit and ballroom space. Relatively high occupancy levels sustained for an extended period of time are typically an indicator that additional space is warranted by market demand. Future bookings suggest BCC occupancy levels could be sustained for several years beyond 2012. However, if the product and destination are not continually improved, reinventing the BCC's marketing strategy will become more critical in order to sustain similar occupancy levels.

Red 7 Media is a privately-held business media company that publishes magazines and newsletters as well as produces conferences and trade shows in the Event and Media industries. The Red 7 Media Research and Consulting Practice helps leaders in the event and media industries analyze data and information to make more informed business decisions. Red 7 Media conducted a study for Visit Baltimore in 2010 to report industry trends and identify market potential for events requiring greater than 300,000 gross SF of exhibit space. The study found that if the BCC offered a total of 500,000 gross SF of exhibit space, the potential universe of events it could host increased by 368, approximately 265 of which rotate nationally or in the Mid-Atlantic region. Attracting 3% to 5% of these potential incremental events annually would equate to nine to 13 additional conventions/tradeshows, respectively.

In a separate initiative, Visit Baltimore identified 243 lost and/or potential meetings, tradeshows, sporting events and conventions that were either too large to be accommodated by the current BCC or have been lost because of space issues. These events were identified using Destination Marketing Association International's (DMAI) database, *Tradeshow Week's* list of top national convention and meeting groups and Visit Baltimore's tracked lost business data. Of these groups, 183 require greater than 300,000 SF of exhibit space and average 3,900 peak room nights. In addition, 96% of these groups could be accommodated by Baltimore's existing citywide hotel supply.

As a point of reference, one convention/tradeshow drawing an average attendance of 5,200 people for 3.5 days is estimated to generate \$6.5 million in direct spending that supports 100 total jobs at the State level and results in nearly \$900,000 in tax revenues combined to the City and State.



According to the *2011 State & Regional Associations of the U.S. and National Trade and Professional Associations of the U.S.* Baltimore is proximate to nearly 3,500 associations that are headquartered in Maryland, D.C., Virginia, Delaware and Pennsylvania. These account for 21% of all associations headquartered in the U.S. These groups represent a target market within the State and region for annual conventions, tradeshow and smaller division meetings.

In addition to this macro level potential demand industry-wide, representatives of State, regional and national associations were surveyed in order to assess their future needs at the BCC and their reasons for choosing (or not choosing) Baltimore as a destination. Survey research with meeting planners indicated that Baltimore would be a more desirable market with the planned public-private development project. Approximately 57% of survey responses from meeting planners ranked Baltimore below their top 10 sites with its current package. The proposed expansion/development package would move Baltimore to the top 10 destination ranking for 81% of survey respondents. Perhaps more importantly, both past and potential customers expressed an interest in hosting their event at an expanded BCC. Furthermore, approximately 18% of all positive respondents indicated that the proposed new arena would positively impact their decision to host their event at the BCC.

Consistent with lost business reports citing date availability as a common reason, the percentage of BCC exhibit hall events and Inner Harbor hotel occupancy mirror the trend of potential demand by month. Peak seasons include spring, early summer and fall. Expansion could create flexibility to accommodate multiple events simultaneously and host a broader range of event sizes.

While these sources of potential demand are not additive, they illustrate the order-of-magnitude potential for incremental new events that could be accommodated by an expanded BCC.

Potential Impact of Remaining Status Quo

Although the analysis in this report compares the historical three-year average for BCC operations to an estimate for an expanded BCC, market research suggests that remaining static will likely result in a decline of event activity over time. As a point of reference, hosting 15% less convention/tradeshow and meeting activity at the BCC is estimated to result in a decrease in total spending of approximately \$78.4 million in the State, of which approximately \$68.5 million would occur in the City. This potential decline in event activity is estimated to yield \$2.1 million and \$4.3 million in lost tax revenues to the City and State, respectively. The incremental benefit of expansion will likely increase relative to the historical three-year average with time. Furthermore, the proposed private sector's development initiative provides a unique opportunity to significantly change the BCC's surroundings and enhance the City's competitive position as a convention/meeting destination.

BCC Expansion Program

Merging an existing asset and new construction offers both opportunities and challenges. One advantage is the ability to improve the overall program to realize operational efficiencies. If expansion is pursued, it will be imperative to appropriately position program elements in a way that realizes critical synergies with the existing building and its functionality as well as within the proposed broader development project. The arena is envisioned to be an iconic structure downtown, thus integrating the proposed hotel and BCC expansion from an architectural perspective will be important.

Proposed programmatic changes need to directly coincide with potential market demand. The following summarizes preliminary building program recommendations based on market research:

Summary of Preliminary Building Program Recommendations					
Component	Existing BCC	Expanded BCC		Incremental New Space	
Exhibit Hall (SF)	300,000	500,000	-	500,000	200,000 - 200,000
Ballroom Space (SF)	36,700	86,700	-	96,700	50,000 - 60,000
Meeting Space (SF)	85,000	125,000	-	130,000	40,000 - 45,000
Total Function Space (SF)	421,700	711,700	-	726,700	290,000 - 305,000
Ratio of Meeting/Ballroom Space to Exhibit Space	41%	42%	-	45%	

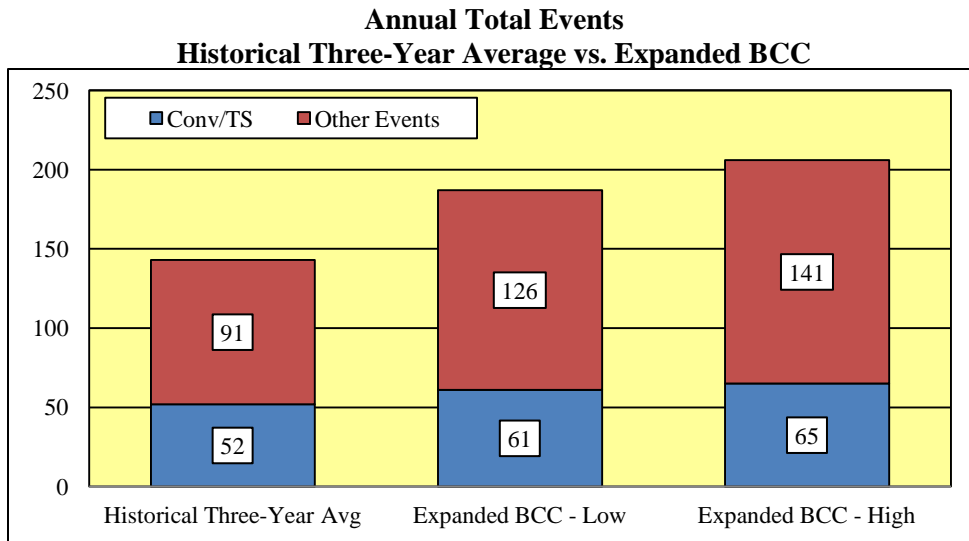
This combination of space should allow the BCC to accommodate both larger events as well as simultaneous events requiring all three function spaces. Ideally, additional exhibit space should be contiguous and column-free. If contiguous space cannot be achieved, maximizing the amount of exhibit SF on one level is recommended. A new ballroom and additional flexible meeting space should be developed to support any new exhibit space.

The primary objectives for an expanded BCC are to host additional shows that cannot currently be accommodated, host more events simultaneously, and improve event logistical efficiency in order to increase activity and economic/fiscal benefits. Therefore any expansion should seek to maximize flexibility, contiguous exhibit space, and functionality among spaces in order to enhance the BCC's long-term marketability and competitive position.

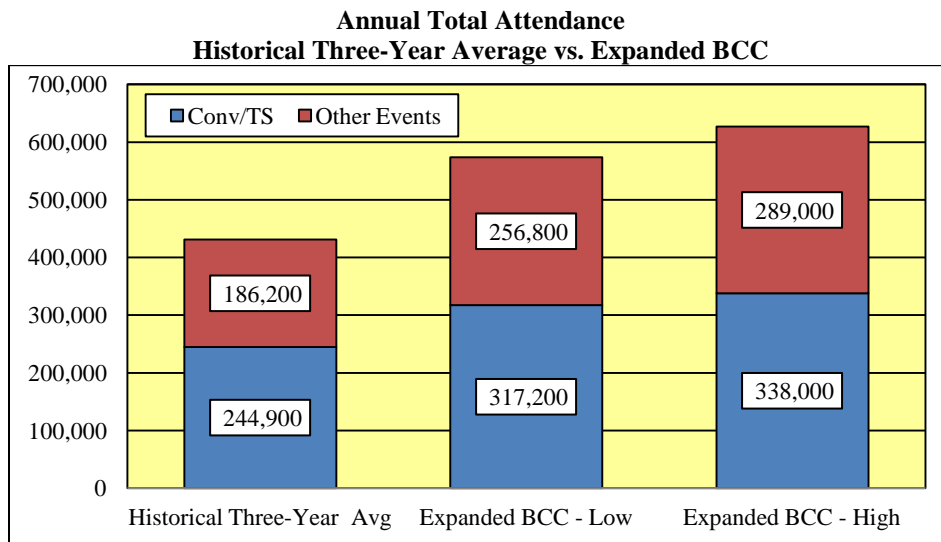
Impact of BCC Expansion on Event Activity and Financial Operations

Based on market research, the financial and economic analysis focused on quantifying incremental new event activity, operating revenue and expenses, as well as economic and fiscal impacts that could potentially be generated by an expanded BCC. The following graphs compare the historical three-year average (FY 2009 through FY 2011) to a range of estimated activity for an expanded BCC.

An expanded BCC is estimated to host 17% to 25% more conventions/tradeshows compared to the historical three-year average.



Convention/tradeshaw attendance is estimated to increase by 30% to 38%. Other event attendance is estimated to increase by 38% to 55% driven primarily by public events, meetings and sporting events.



The proposed 67% increase in exhibit space is estimated to increase annual BCC event activity by 31% to 44%. This increased activity is estimated to generate approximately 250,000 to 340,000 incremental hotel room nights which should benefit hotels proximate to the BCC (e.g., the Hilton Baltimore) as well as other Inner Harbor properties.



Operating revenues are estimated to increase by 26% to 38% relative to the historical three-year average whereas operating expenses are estimated to increase between 22% and 32%. The annual operating subsidies provided by the City and the State are estimated to increase between 18% and 26% at an expanded BCC.

Comparison of Operating Revenues and Expenses - Historical Three-Year Average and Expanded BCC						
Category	Three-Year Average (FY 2009 - FY 2011)	Expanded BCC Range (Stabilized Year)		Incremental New Range (Stabilized Year)		
		Low	High	Low	High	
Operating Revenues	\$9,514,000	\$11,960,000	\$13,120,000	\$2,446,000	\$3,606,000	
Operating Expenses	17,683,000	21,590,000	23,375,000	3,907,000	5,692,000	
Operating Revenues Over Operating Expenses Before Debt Service and Depreciation	(\$8,169,000)	(\$9,630,000)	(\$10,255,000)	(\$1,461,000)	(\$2,086,000)	
City Subsidy	\$2,723,000	\$3,210,000	\$3,418,000	\$487,000	\$695,000	
State Subsidy	\$5,445,000	\$6,420,000	\$6,837,000	\$975,000	\$1,392,000	

Note: Subsidy amounts assume that the City continues to fund one-third of the operating deficit and the State funds the remaining two-thirds.

Existing State bonds are scheduled to be paid off in 2014 and City bonds in 2019. The financial pro forma is preliminary and will need to be refined as decisions related to the building program and other operating characteristics continue to evolve. In addition, the estimates for event activity and financial operations should be considered within the context of the economic and fiscal benefits to the City and State that could be generated by an expanded BCC.

Economic and Fiscal Benefits Associated with BCC Expansion

The following tables summarize the estimated incremental new economic benefits from ongoing activities of an expanded BCC as measured by spending, jobs and earnings. As shown, the total annual incremental new spending (i.e., direct/indirect/induced) is estimated to range between \$214.4 million and \$284.6 million at the State level of which between \$186.7 million and \$247.8 million would occur at the City level.

Comparison of Economic Impacts Generated From BCC Operations - Low End						
Category	Three-Year Average (FY 2009 - FY 2011)		Expanded BCC (Stabilized Year)		Incremental New (Stabilized Year)	
	City of Baltimore	State of Maryland	City of Baltimore	State of Maryland	City of Baltimore	State of Maryland
Spending						
Direct Spending	\$367,784,000	\$386,999,000	\$487,808,000	\$513,010,000	\$120,024,000	\$126,011,000
Indirect/Induced Spending	204,169,000	271,099,000	270,859,000	359,469,000	66,690,000	88,370,000
Total Spending	\$571,953,000	\$658,098,000	\$758,667,000	\$872,479,000	\$186,714,000	\$214,381,000
Total Jobs	5,700	6,500	7,600	8,600	1,900	2,100
Total Earnings	\$229,002,000	\$247,416,000	\$303,784,000	\$328,054,000	\$74,782,000	\$80,638,000

Comparison of Economic Impacts Generated From BCC Operations - High End						
Category	Three-Year Average (FY 2009 - FY 2011)		Expanded BCC (Stabilized Year)		Incremental New (Stabilized Year)	
	City of Baltimore	State of Maryland	City of Baltimore	State of Maryland	City of Baltimore	State of Maryland
Spending						
Direct Spending	\$367,784,000	\$386,999,000	\$527,055,000	\$554,264,000	\$159,271,000	\$167,265,000
Indirect/Induced Spending	204,169,000	271,099,000	292,678,000	388,396,000	88,509,000	117,297,000
Total Spending	\$571,953,000	\$658,098,000	\$819,733,000	\$942,660,000	\$247,780,000	\$284,562,000
Total Jobs	5,700	6,500	8,200	9,300	2,500	2,800
Total Earnings	\$229,002,000	\$247,416,000	\$328,246,000	\$354,475,000	\$99,244,000	\$107,059,000

Note: City amounts include State amounts.



Fiscal impacts generated by an expanded BCC are estimated to increase by 32% to 43% at both the City and State levels. Approximately 68% of the fiscal impacts are estimated to occur at the State level.

Comparison of Fiscal Impacts Generated From BCC Operations							
Municipality/Tax	Three-Year Average (FY 2009 - FY 2011)	Expanded BCC Range (Stabilized Year)		Incremental New Range (Stabilized Year)			
		Low	High	Low	High		
City of Baltimore							
Hotel/Motel Tax	\$11,840,000	\$15,581,000	-	\$16,829,000	\$3,741,000	-	\$4,989,000
Local Personal Income Tax	2,405,000	3,190,000	-	3,447,000	785,000	-	1,042,000
Admissions & Amusement Tax	1,625,000	2,171,000	-	2,358,000	546,000	-	733,000
Parking Tax	1,046,000	1,432,000	-	1,556,000	386,000	-	510,000
Subtotal	\$16,916,000	\$22,374,000	-	\$24,190,000	\$5,458,000	-	\$7,274,000
State of Maryland							
Sales & Use Tax	\$24,749,000	\$32,788,000	-	\$35,450,000	\$8,039,000	-	\$10,701,000
Personal Income Tax	8,511,000	11,285,000	-	12,194,000	2,774,000	-	3,683,000
Corporate Income Tax	1,974,000	2,617,000	-	2,828,000	643,000	-	854,000
Motor Vehicle Rental Tax	635,000	869,000	-	944,000	234,000	-	309,000
Subtotal	\$35,869,000	\$47,559,000	-	\$51,416,000	\$11,690,000	-	\$15,547,000
GRAND TOTAL	\$52,785,000	\$69,933,000	-	\$75,606,000	\$17,148,000	-	\$22,821,000

From an operational perspective, the incremental tax revenues estimated to be generated from operations of an expanded BCC compare favorably to the estimated City and State contributions towards the operating subsidy. However, a more detailed cost/benefit analysis should be completed that includes estimated debt service, a reserve for replacement fund and other related project costs.

Potential Impact of Ancillary Private Sector Developments

The private sector's stated interest in constructing and financing the hotel and arena has led the City to evaluate the merits and opportunities of the BCC expansion within the context of a broader development plan.

Proposed New Hotel

Limited market research suggests that the new hotel, which is anticipated to be a higher-end property, would benefit Baltimore in a number of qualitative ways. These include enhancing the BCC operation by increasing its proximate room supply, diversifying the downtown's hotel inventory, and providing a key element in the overall public/private development initiative that can further enhance the visitor experience.

Incremental new impacts are based on the assumption that only 163 guest rooms are net new to the City's inventory and that all group-related business at the hotel is taken into account in the estimates of economic and fiscal impacts at an expanded BCC. Although the proposed net new increase in hotel rooms should benefit the BCC from a marketability standpoint as well as the City and the State from an economic perspective, the relatively minimal increase in supply should not adversely impact surrounding hotels.

Relative to quantitative economic benefits, the incremental new direct spending generated from corporate/leisure business at the proposed new hotel is estimated to range from \$5.2 million to \$5.6 million annually which could support 80 to 90 total new jobs. The incremental new total spending (i.e., direct/indirect/induced) is estimated to range from \$8.1 million to \$8.8 million annually. The proposed new hotel is estimated to generate \$848,000 to \$919,000 in annual incremental new fiscal benefits, of which \$343,000 to \$372,000 or 40% would occur at the City level. This analysis does not assume any potential tax incentives to the private hotel developer.

Proposed New Arena in Downtown Baltimore

The current development plan for the proposed new arena provides synergies with other existing facilities, particularly the BCC. Qualitative benefits associated with a new downtown arena include positively impacting the overall quality of life to area residents and businesses; providing community pride; offering a first-class community asset that hosts diverse events and benefits residents; receiving State and regional media exposure; and supporting other downtown development initiatives. In addition, the arena could be a differentiating factor for some groups and further enhance downtown Baltimore as a destination as cited by meeting planners.

Relative to quantitative economic benefits, the incremental new direct spending generated from operations of the proposed new downtown arena is estimated to range from \$7.5 million to \$8.8 million annually which could support 180 to 210 total new jobs. The incremental new total spending (i.e., direct/indirect/induced) is estimated to range from \$12.4 million to \$14.5 million annually. The proposed new arena is estimated to generate \$1.1 million to \$1.3 million in annual incremental new fiscal benefits.

Based on the arena's historical event activity, the potential incremental economic and fiscal impacts associated with ongoing operations of a new arena may be somewhat limited in the short-term. However, the 1st Mariner Arena's age and increasing functional obsolescence will likely result in a decline in marketability and market share over time. Thus, a new arena would yield even higher incremental economic and fiscal impacts in the long-term.

The potential private sector investment in a new downtown arena presents a unique opportunity for the City to replace its existing aging asset, enhance the vibrancy of downtown, create synergies with the BCC, and provide a first-class facility to better meet citizens' sports, entertainment, cultural and civic needs.

Potential Combined Incremental Economic and Fiscal Impacts – Proposed Development Project

The proposed public/private partnership presents the City and State with an opportunity to leverage private investment for public benefit, meet a stated objective to develop a new arena in downtown Baltimore that better accommodates residents' sports and entertainment needs, enhance the overall destination package, and increase out-of-town visitation that generates economic activity to the City and the State.



Estimated new direct spending generated from operations of the proposed development project in aggregate is estimated to range from \$138.7 million to \$181.6 million annually which could support 2,360 to 3,100 total new jobs. The incremental new total spending (i.e., direct/indirect/induced) is estimated to range from \$234.9 million to \$307.8 million annually.

Summary of Incremental New Economic Impacts Generated From Proposed Development Plan								
Category	Expanded BCC		Proposed New Hotel		Proposed New Arena		Total	
	Low	High	Low	High	Low	High	Low	High
Spending								
Direct Spending	\$126,011,000	- \$167,265,000	\$5,152,000	- \$5,581,000	\$7,508,000	- \$8,781,000	\$138,671,000	- \$181,627,000
Indirect/Induced Spending	88,370,000	- 117,297,000	2,959,000	- 3,206,000	4,857,000	- 5,690,000	96,186,000	- 126,193,000
Total Spending	\$214,381,000	- \$284,562,000	\$8,111,000	- \$8,787,000	\$12,365,000	- \$14,471,000	\$234,857,000	- \$307,820,000
Total Jobs	2,100	- 2,800	80	- 90	180	- 210	2,360	- 3,100
Total Earnings	\$80,638,000	- \$107,059,000	\$3,185,000	- \$3,451,000	\$4,991,000	- \$5,840,000	\$88,814,000	- \$116,350,000

Note: Incremental amounts for the expanded BCC reflect estimates at the State level; the majority of which would occur in the City of Baltimore.

Estimated incremental annual fiscal impacts range from \$6.4 million to \$8.3 million at the City level and \$12.8 million and \$16.7 million at the State level.

Summary of Incremental Fiscal Impacts Generated From Proposed Development Plan								
Municipality/Tax	Expanded BCC		Proposed New Hotel		Proposed New Arena		Total	
	Low	High	Low	High	Low	High	Low	High
City of Baltimore								
Hotel/Motel Tax	\$3,741,000	- \$4,989,000	\$247,000	- \$268,000	\$40,000	- \$46,000	\$4,028,000	- \$5,303,000
Local Personal Income Tax	785,000	- 1,042,000	33,000	- 36,000	52,000	- 61,000	870,000	- 1,139,000
Admissions & Amusement Tax	546,000	- 733,000	0	- 0	408,000	- 482,000	954,000	- 1,215,000
Parking Tax	386,000	- 510,000	63,000	- 68,000	55,000	- 64,000	504,000	- 642,000
Subtotal	\$5,458,000	- \$7,274,000	\$343,000	- \$372,000	\$555,000	- \$653,000	\$6,356,000	- \$8,299,000
State of Maryland								
Sales & Use Tax	\$8,039,000	- \$10,701,000	\$353,000	- \$382,000	\$346,000	- \$404,000	\$8,738,000	- \$11,487,000
Personal Income Tax	2,774,000	- 3,683,000	110,000	- 119,000	172,000	- 201,000	3,056,000	- 4,003,000
Corporate Income Tax	643,000	- 854,000	24,000	- 26,000	37,000	- 44,000	704,000	- 924,000
Motor Vehicle Rental Tax	234,000	- 309,000	18,000	- 20,000	0	- 0	252,000	- 329,000
Subtotal	\$11,690,000	- \$15,547,000	\$505,000	- \$547,000	\$555,000	- \$649,000	\$12,750,000	- \$16,743,000
GRAND TOTAL	\$17,148,000	- \$22,821,000	\$848,000	- \$919,000	\$1,110,000	- \$1,302,000	\$19,106,000	- \$25,042,000

Although not quantified in this analysis, construction costs for a development of this scope can also provide significant economic and fiscal impacts to the region during the construction period.

Potential Next Steps

A market/economic analysis is an initial step in any planning process. Based on the existing site location constraints and the order-of-magnitude construction costs, integrating the BCC expansion with the existing facility structure as well as the proposed new arena will require detailed proactive and strategic planning to maximize operational opportunities and mitigate potential site planning and physical programmatic issues.

Based on market research and corresponding economic/fiscal benefits that could potentially be generated by this project, next steps may include:

- Secure funding to conduct more detailed site and architectural planning studies
- Outline the potential operating terms and structure of any public-private partnership
- Assess the physical programming issues associated with each individual element as well as the development project in aggregate
- Refine BCC expansion program options into a more detailed spatial program which maximizes marketability relative to competitive set, operational functionality, physical site constraints, and cost
- Address other expansion related issues such as minimizing disruption to the existing BCC, assessing the impact to future bookings, addressing existing operational inefficiencies, sharing common spaces and major systems to realize ongoing operational efficiency
- Estimate construction and total project costs
- Develop a cost-benefit analysis including the estimated return on investment for potential funding partners
- Identify potential financing strategy

Because the information presented in the executive summary is extracted from the more detailed analysis, it is important for the reader to review the report in its entirety in order to gain a better understanding of the research, methodology and assumptions used. The remainder of this report summarizes the key findings and conclusions from our research and analysis which can serve as a tool for the City's and the MSA's on-going planning decisions related to the proposed development plan.

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Market Analysis

When choosing a location, meeting planners and event producers typically view several characteristics of a destination as important to the success of their event. Key attributes may include accessibility via air and/or highway, hotel room inventory, and/or the number of restaurant/retail/entertainment establishments proximate to the event site.

The importance that meeting planners and event producers place on these factors differs depending on the type of event. For instance, local events may place more importance on the accessibility of the venue to both exhibitors and attendees from the surrounding communities. A consistent desire from both professional and trade associations is the number of convention quality hotel rooms proximate to the facility which allows the attendees to move freely between meetings and can decrease the cost of hosting the event if a shuttle service is not required.

As such, the local market area in which the BCC operates contributes to the center's marketability to conventions, tradeshow and meetings. Factors such as demographic/economic conditions, the vibrancy of the area immediately surrounding the convention center, and overall destination appeal to both event planners and attendees can all impact a convention center's overall competitiveness within the broader marketplace.

Market Overview

This section of the report profiles select market characteristics including demographic/economic statistics, accessibility, hotel market, and travel/tourism statistics.

Demographic/Economic Statistics

Population serves as a base from which events at the BCC can draw attendance and other forms of support. The Baltimore/Towson Metropolitan Statistical Area (Baltimore Metro area), which consists of Baltimore City and six surrounding counties in Maryland: Anne Arundel, Baltimore, Carroll, Harford, Howard, and Queen Anne's has experienced minimal population growth (5.1%) over the last 10 years, per capita personal income has grown significantly (38.1%) over the same period.

The MSA is home to more than 2.7 million people and employs nearly 1.7 million. Total employment has risen 7.0% over the time period shown despite a nationwide economic downturn during much of the decade. Both the Baltimore Metro area and Maryland have consistently had lower unemployment than the U.S. average over the past decade.

Demographic/Economic Characteristics						
Year	Baltimore/Towson MSA			Unemployment Rate		
	Population	Per Capita Personal Income	Total Employment	Baltimore/Towson MSA	Maryland	U.S.
2001	2,577,904	\$35,688	1,544,987	4.3%	4.1%	4.7%
2002	2,600,580	\$36,614	1,558,013	4.8%	4.5%	5.8%
2003	2,621,815	\$37,675	1,567,941	4.8%	4.5%	6.0%
2004	2,638,066	\$40,194	1,595,675	4.6%	4.3%	5.5%
2005	2,649,586	\$42,064	1,629,652	4.4%	4.1%	5.1%
2006	2,662,048	\$44,639	1,660,750	4.0%	3.8%	4.6%
2007	2,669,702	\$46,779	1,695,664	3.8%	3.6%	4.6%
2008	2,677,712	\$48,296	1,690,667	4.7%	4.4%	5.8%
2009	2,690,886	\$48,201	1,653,383	7.5%	7.1%	9.3%
2010	2,710,489	\$49,285	n/a	7.9%	7.5%	9.6%
% Change (2001-2010)	5.1%	38.1%	7.0%	83.7%	82.9%	104.3%
Avg Annual % Change	0.5%	3.8%	0.7%	8.4%	8.3%	10.4%

Sources: Bureau of Labor Statistics, U.S. Census Bureau, Bureau of Economic Analysis.

As shown in the following table, the State of Maryland has consistently experienced growth over the past 10 years in its gross state product which is a measurement of the economic output of a state or subset of a country. It is the sum of all value added by industries within the state and serves as a counterpart to the national gross domestic product or GDP. Over the time period shown, Maryland has outgrown the U.S. despite the corresponding national economic downturn. This is indicative of the State's economic diversity which can allow the BCC to market itself to convention and meeting activity sponsored by a variety of market segments.

Gross State/Domestic Product (\$ in millions)				
Year	Maryland	% Change	U.S.	% Change
2001	\$195,641		\$10,218,019	
2002	\$206,669	6%	\$10,572,388	3%
2003	\$216,691	5%	\$11,067,759	5%
2004	\$232,215	7%	\$11,788,909	7%
2005	\$248,139	7%	\$12,554,538	6%
2006	\$261,076	5%	\$13,310,937	6%
2007	\$273,693	5%	\$13,969,323	5%
2008	\$281,659	3%	\$14,270,462	2%
2009	\$285,116	1%	\$14,014,849	-2%
2010	\$295,304	4%	\$14,551,782	4%
Total % Growth		51%		42%
Average Annual % Growth		5.1%		4.2%

Source: Bureau of Economic Analysis, U.S. Department of Commerce

Historically a working-class port town focused on steel processing, shipping, auto manufacturing and transportation, Baltimore now has a modern service economy led by high-tech, biotech, medicine and tourism. As shown in the following table, the City's largest employers include Johns Hopkins University and the University of Maryland as well as many medical service related companies that support the University's internationally known medical school and associated research. Several Fortune 1,000 companies such as Constellation Energy, Legg Mason and T. Rowe Price call Baltimore home. Other Fortune 500 companies based in Maryland include Lockheed Martin, Marriott International, Coventry Health Care and Host Hotels & Resorts.

City of Baltimore's Largest Employers				
Rank	Company	Employees	Product/Service	Industry
1	Johns Hopkins University	22,700	Higher Education	Educational Services
2	Johns Hopkins Hospital and Health System	15,753	Medical Services	Health Care
3	University System of Maryland	8,900	Higher Education	Educational Services
4	University of Maryland Medical System	8,790	Medical Services	Health Care
5	Medstar Health	6,206	Medical Services	Health Care
6	LifeBridge Health - Sinai	4,940	Medical Services	Health Care
7	Constellation Energy / BGE	3,150	HQ / Energy Products and Services	Utilities
8	St. Agnes HealthCare	2,730	Medical Services	Health Care
9	Abacus	2,482	Security Services	Administrative Services
10	Mercy Health Services	2,305	Medical Services	Health Care
11	Baltimore Veterans Affairs Medical Center	1,922	Medical Services	Health Care
12	Kennedy Krieger Institute	1,700	Health Services for Disabled Children	Health Care
13	U.S. Social Security Administration	1,600	Income Security Program	Federal Government
14	Morgan State University	1,437	Higher Education	Educational Services
15	Marriott International	1,400	Hotels/Motels	Accommodation and Food Services
16	Loyola University Maryland	1,338	Higher Education	Educational services
17	M&T Bank	1,136	Banking Services	Finance and Insurance
18	T. Rowe Price Group	1,045	HQ / Financial Services	Finance and Insurance
19	Bon Secours Baltimore Health System	1,035	Medical Services	Health Care
20	H&S Bakery	950	Commercial Food Products	Manufacturing
21	Baltimore Sun	876	Newspaper Publishing & Printing	Information
22	Bank of America	846	Banking Services	Finance and Insurance
23	Verizon	683	Telecommunications	Information
24	National Institutes of Health	636	Medical Research	Federal Government
25	W. R. Grace & Co.	545	Specialty Chemicals	Manufacturing
26	Legg Mason	540	HQ / Financial Services	Finance and Insurance
27	Baltimore City Community College	475	Higher Education	Educational Services

Source: Baltimore Development Corporation.

The employment sector is a consideration when targeting various events. A large services sector is typically a positive indicator for the number of corporate events being held in the area. The services sector typically has significant financial resources to host activities such as meetings, banquets, receptions and other special events. In addition, employers may be members of associations and can be instrumental in attracting larger regional or national groups to Baltimore. Education and health services sectors are also target markets for conventions, tradeshow and meetings in Baltimore given the area's employment base. As shown in the following table, the area's employment diversity among several industry sectors can assist in marketing the BCC to a variety of event activity.

Non-Farm Employment by Industry - February 2011				
Industry	Baltimore-Towson MSA		Baltimore City	
	Total Jobs	% of Total	Total Jobs	% of Total
Education & Health Services	239,700	19.2%	109,300	31.6%
Government	228,800	18.3%	82,600	23.9%
Trade, Transportation, and Utilities	221,300	17.7%	35,900	10.4%
Professional & Business Services	184,500	14.8%	36,800	10.6%
Leisure & Hospitality	103,800	8.3%	22,300	6.4%
Financial Activities	71,200	5.7%	16,800	4.9%
Mining, Logging, and Construction	63,700	5.1%	8,700	2.5%
Manufacturing	59,800	4.8%	12,600	3.6%
Other Services	54,200	4.3%	16,800	4.9%
Information	20,600	1.7%	4,000	1.2%
Total	1,247,600	100%	345,800	100%

Notes: Sorted in descending order by total jobs in the Baltimore-Towson MSA.

Total jobs are not seasonally adjusted.

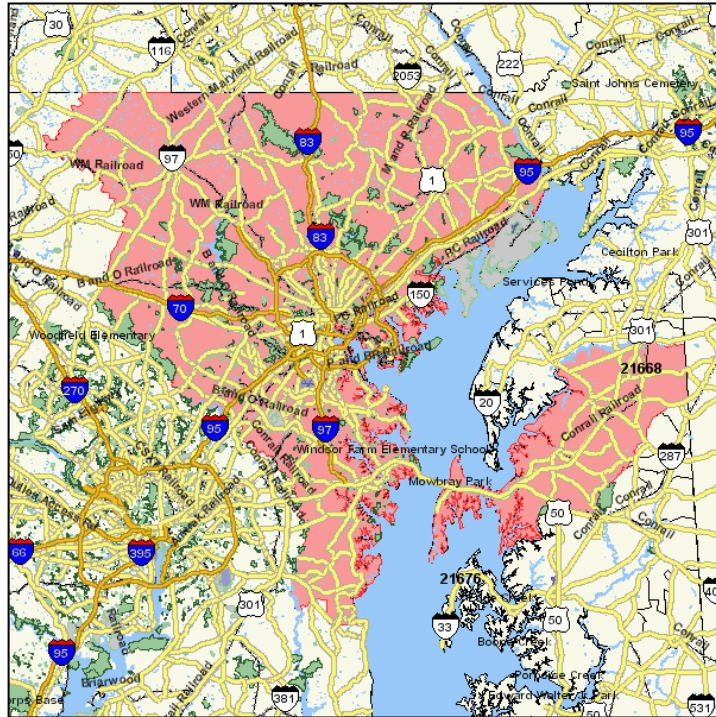
Source: U.S. Bureau of Labor Statistics.

Accessibility

Accessibility via air and highway are important factors to event and meeting planners. In addition, the location and accessibility of a facility relative to hotels, restaurants, entertainment establishments and the general population base can impact its marketability for certain types of events such as conventions/tradeshows and sporting events.

Baltimore is located in central Maryland along the west coast of the Chesapeake Bay. It is accessible via interstate to a variety of major northeast and mid-Atlantic cities including Washington, D.C., Philadelphia, New York, and Richmond. Primary interstates serving Baltimore include I-95, I-97, I-70, and I-83.

Regional Vehicular Access



Source: Claritas.

Air access is considered to be an important factor in terms of attracting regional and national conventions and meetings business. Baltimore is primarily serviced by the Baltimore-Washington International Airport which is located approximately 15 miles from the BCC.

The Federal Aviation Administration (FAA) defines enplanements as domestic, territorial and international passengers who board an aircraft in scheduled and non-scheduled service of aircraft. As shown in the adjacent table, the number of passenger enplanements at the Baltimore-Washington International Airport has increased 7.4% over the period shown despite economic conditions that have negatively impacted travel trends in other destinations.

Baltimore-Washington International Airport		
Year	Passenger Enplanements	Percentage Change
2001	10,098,700	
2002	9,367,500	-7.2%
2003	9,768,000	4.3%
2004	10,103,600	3.4%
2005	9,829,400	-2.7%
2006	10,297,600	4.8%
2007	10,487,800	1.8%
2008	10,215,200	-2.6%
2009	10,339,000	1.2%
2010	10,848,600	4.9%
Average	10,135,500	
10-Year Change	7.4%	

Note: Passenger enplanements are rounded to the hundred.

Source: Federal Aviation Administration.

Hotel Market

Baltimore offers 5,400 hotel rooms in the Inner Harbor area and 9,300 citywide. Most BCC-related out-of-town attendees stay in the Inner Harbor area given its proximity to the facility. As such, this section of the report highlights the Baltimore City hotel market and specifically addresses the dynamics and performance of the Inner Harbor hotel sub-market.

Baltimore City Hotel Market

The Baltimore City hotel market experienced an increase of supply of nearly 35% between 2005 and 2010, whereas hotel demand increased for that same period at a rate of 16.5%. The majority of new supply to the Baltimore City consisted of limited-service and extended stay properties. The following chart illustrates the historical occupancy rates and average daily room (ADR) rates for the Baltimore City hotel market.

Baltimore City Historical Hotel Performance							
Calendar Year	Room Supply	Percent Change	Room Demand	Percent Change	Occupancy	Average Daily Rate (ADR)	Percent Change
2005	2,528,955		1,788,875		70.74%	\$150.90	
2006	2,539,780	0.43%	1,687,418	-5.67%	66.44%	\$157.78	4.56%
2007	2,803,302	10.38%	1,842,173	9.17%	65.71%	\$160.56	1.76%
2008	3,044,946	8.62%	1,838,515	-0.20%	60.38%	\$156.85	-2.31%
2009	3,312,961	8.80%	1,878,704	2.19%	56.71%	\$139.85	-10.84%
2010	3,411,039	2.96%	2,084,417	10.95%	61.11%	\$138.66	-0.85%
2010*	2,545,106		1,596,206		62.72%	\$138.23	
2011*	2,545,176	0.00%	1,632,600	2.28%	64.14%	\$140.76	1.83%

Note: * includes year to date figures through September for 2010 and 2011.

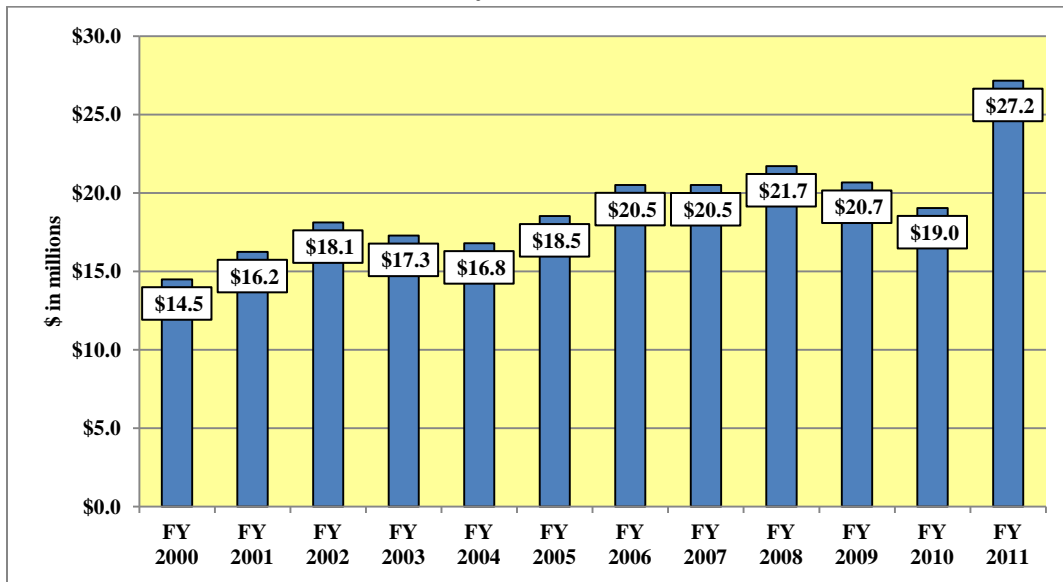
Source: Smith Travel Research.

As illustrated, the achieved ADR for the Baltimore City market peaked at \$160.56 in 2007. Similar to overall U.S. hotel trends, the ADR for the Baltimore City decreased by approximately 8% from 2005 to 2010.

The late 2000s recession is an ongoing global economic problem that began in December 2007 and took a particularly sharp downward turn in September 2008. The recession was sparked by the outbreak of the late-2000s financial crisis and has affected the broader world economy with higher detriment in some countries than others. Despite continued poor consumer confidence, official data reports a historically modest recovery for the U.S. economy as a whole as well as the hotel industry.

The following graph illustrates trends in hotel tax collections in Baltimore City. Consistent with occupancy and ADR trends, hotel tax collections declined in FY 2009 and FY 2010 but rebounded in FY 2011 due to a 13% increase in hotel sales as well as a two point increase in the tax rate.

Baltimore City Hotel Tax Collections



Note: The hotel tax rate increased from 7.5% to 9.5% in FY 2011.

Source: City of Baltimore.

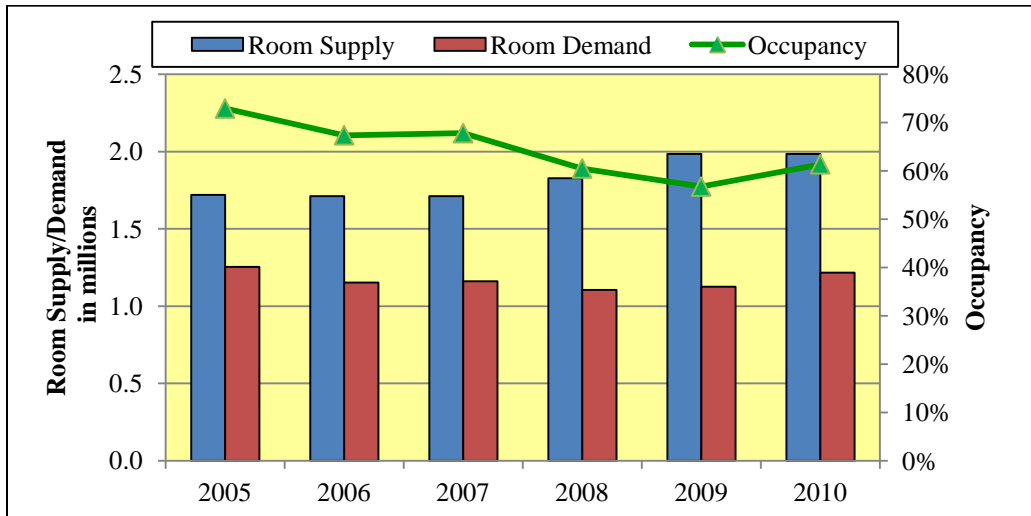
Baltimore Inner Harbor Hotel Sub-Market

As mentioned previously, preliminary development plans associated with the BCC expansion and development of the surrounding area includes a new 500-room full-service, nationally chain-affiliated hotel that would replace the existing 337-room Sheraton Inner Harbor Hotel. Originally opened in June of 1985 and located within the Inner Harbor hotel sub-market, the Sheraton Inner Harbor Hotel features a business center, fitness center, indoor pool, and sauna and gift shop. Food and beverage options include Morton’s Steakhouse and the Orioles Grill and Sports Bar. The Sheraton Inner Harbor Hotel has 14,324 SF of meeting space, including a ballroom, and a 10,524 SF gallery.

The proposed new property would provide 163 incremental rooms in the Inner Harbor sub-market that would represent an overall increase of 3% in room supply. The programming and national chain-affiliation of the proposed property have not been finalized at the time of this report.

The following graph illustrates the trends in Inner Harbor hotel supply, demand and resulting occupancy. Despite the opening of the Hilton Baltimore in 2008, the Inner Harbor sub-market has been able to absorb the additional supply relatively quickly.

Inner Harbor Hotel Market Trends



Source: Smith Travel Research.

The defined competitive set was selected based on knowledge of the local lodging market. Relevant factors considered in determining the defined competitive set include market mix, demand generators, rate structure, the quality of facilities and the proximity to the BCC. Given the proposed new hotel will be full-service with some meeting space, the existing supply will compete in varying degrees to the proposed hotel. The competitive set for the proposed new property is illustrated in the following table.

Competitive Properties - Proposed New Hotel Inner Harbor Hotel Sub-Market		
Hotel	Guest Rooms	Meeting Space SF
Hilton Baltimore	757	60,000
Marriott Baltimore Waterfront	753	80,000
Sheraton City Center ¹	707	27,718
Renaissance Harborplace Hotel	622	31,000
Marriott Baltimore Inner Harbor	524	15,600
Hyatt Regency Baltimore	488	40,000
Radisson Plaza Lord Baltimore	439	18,700
Holiday Inn Baltimore Inner Harbor	375	12,000
Sheraton Inner Harbor	337	14,324
Days Inn Baltimore ²	250	n/a
Inter-Continental Baltimore	195	9,137
Total	5,447	308,479
Average	495	30,848

Notes: Sorted in descending order by number of guest rooms.
¹Formerly the Wyndham Baltimore.
²The Days Inn is closed for renovation.
³The new Four Seasons that opened in November 2011 is not included.

Sources: Hospitality & Gaming Solutions, hotel properties.

During the course of our fieldwork, operating statistics for each property were obtained through interviews conducted with on-site management, Smith Travel Research, and various ownership entities. Based upon this research, the following table illustrates the historical supply and demand for accommodations at this competitive subset of properties:

Competitive Properties - Proposed New Hotel Inner Harbor Hotel Sub-Market - Historical Performance							
Calendar Year	Room Supply	Percent Change	Room Demand	Percent Change	Occupancy	Average Daily Rate	Percent Change
2005	1,719,880		1,253,913		72.91%	\$159.99	
2006	1,712,215	-0.45%	1,153,568	-8.00%	67.37%	\$166.64	4.16%
2007	1,712,215	0.00%	1,161,043	0.65%	67.81%	\$174.96	4.99%
2008	1,827,671	6.74%	1,105,619	-4.77%	60.49%	\$171.03	-2.25%
2009	1,984,505	8.58%	1,126,704	1.91%	56.75%	\$153.65	-10.16%
2010	1,984,505	0.00%	1,217,843	8.09%	61.37%	\$152.97	-0.44%
2010*	1,484,301		935,053		63.00%	\$151.89	
2011*	1,484,301	0.00%	942,699	0.82%	63.51%	\$153.76	1.23%

Note: *Includes year to date figures through September.

Sources: Hospitality & Gaming Solutions, Smith Travel Research.

As shown, there has been a significant increase in supply with the opening of the 757-room Hilton Baltimore in August of 2008, increasing the market's inventory by 15% between 2005 and 2010. However, the overall demand for accommodations decreased from 2005 to 2010 by 2.9% resulting in a net decrease in ADR over the same time period of 4.4%. The largest demand decrease occurred from 2005 to 2006, prior to the Hilton Baltimore opening. Year to date statistics through September indicate similar demand and a slight increase in ADR from 2010 to 2011.

Future Changes to Supply

During the course of our fieldwork, we interviewed local operators, and planning representatives from the community in which the competitive hotels operate to ascertain the status of any ongoing or proposed hotel developments.

The Four Seasons Baltimore recently opened on November 20, 2011. This is the first five-star property in the Baltimore hotel market since the opening of the Hilton Baltimore in 2008. Located in the Inner Harbor Hotel sub-market, the 276-room property features 45 luxury suites. Other hotel amenities include three restaurants, lounge, spa, health club and 20,000 square feet of meeting space. For its guest room supply, this property offers a high ratio of meeting space. This is indicative of the dynamics of the Baltimore market which is heavily weighted in group business.

The Four Seasons is the only addition to supply in the Inner Harbor hotel sub-market since 2008. In the adjacent City Center sub-market, there are two additional properties under construction. Despite being 90% complete, the 126-room Staybridge Suites is in bankruptcy. The 200-room Hotel Indigo is approximately 90% complete, although funding is not available to complete the project.

Inner Harbor Hotel Market Area - Demand Segmentation and Growth

Our interviews with representatives of the competitive hotels indicate that room night demand emanates from the following primary demand segments: group, commercial individual, and leisure. The segmentation of the competitive market demand segments for 2010 is presented in the following table.

Competitive Properties - Proposed New Hotel	
Inner Harbor Hotel Sub-Market - Demand Segmentation 2010	
Demand Segment	Percent to Total
Group	60%
Commercial Individual	20%
Leisure	20%
Total	100%

Source: Hospitality & Gaming Solutions, hotel properties.

➤ **Group Demand**

Group demand represents the largest source of room night demand in the competitive market, accounting for approximately 60% of the total market demand in 2010. All of the properties within the competitive set have a significant amount of meeting space. The majority of group demand stems from corporate groups, training, BCC related business and social groups. The group segment is typically characterized by the following requirements:

- Discounted room rates
- Flexible meeting and banquet facilities
- Quality food and beverage service

The booking pace for group business for 2012 is off by nearly 10% from the previous year. However, local hoteliers and the pace report from the BCC indicated that they are ahead of pace for 2013 and 2014. It is likely that demand levels in the group segment will decrease by 1% to 2% in 2012 and rebound with growth rates of 2% in 2013 and 2014, respectively.

➤ **Commercial Individual Demand**

Commercial individual demand represented approximately 20% of the demand in the competitive market in 2010. Demand for this segment is comprised of executives visiting their respective offices, traveling consultants and salesmen, and employees traveling to the local area for training purposes. The commercial/individual traveler demand is characterized as follows:

- High degree of single occupancy
- Average length of stay is typically one to three nights
- Efficient check-in and check-out procedures required
- Increasingly rate sensitive and frequently book rooms via the Internet
- Strong interest in frequent travel programs with major hotel brands
- Require proximity to the place of business and accessibility to major transportation routes

Commercial individual demand is expected to grow minimally between 2012 and 2016 at a rate of 0.5% to 1.0%. The modest growth is due to a sluggish office market, with city vacancy rates at 19.3%, as of the third quarter 2011. Additionally, in terms of business climate, Maryland ranked 19th in *Forbes Magazine's* annual list of "Best States for Business and Careers." In formulating the list, Forbes measures costs, labor supply, regulatory environment, current economic climate, growth prospects and quality of life.

The 2011 results for the State of Maryland for each of the aforementioned categories are as follows:

- Business costs - 42nd
- Labor supply - 12th
- Regulatory environment - 22nd
- Current economic climate - 14th
- Growth prospects - 40th
- Quality of life-9th

➤ Leisure Demand

Leisure demand represented approximately 20% of total market demand in 2010. This market segment is comprised of families and couples primarily during the weekends on vacation, visiting friends and family, or attending an event in the area. This demand segment can be characterized as follows:

- High incidence of weekend occupancy
- Average length of stay is typically one to two nights
- Desire to be close to entertainment, restaurants, and retail
- A relatively high percentage of multiple occupancy

According to State officials, tourism grew in Maryland by 3.5% from 2008 to 2009. Demand in this market segment is expected to continue to grow moderately for the next five years at a rate of 1% to 1.5% annually. A variable in Baltimore's continued success for leisure demand, specifically the Inner Harbor market, is the perception of crime in the Inner Harbor area.

Impact of Proposed New 500-Room Full-Service Hotel

A new national chain-affiliated hotel property adjacent to the expanded BCC would further enhance the marketability of Baltimore as a group business destination. The following chart illustrates competitive convention venues that also had new hotel properties in conjunction with a convention center expansion.

BCC Competitive/Comparable Venues Headquarter Hotel Development				
City	Convention Venue	Hotel	Scheduled Opening	Guest Rooms
Washington, D.C.	Washington Convention Center	Marriott Marquis	May 2014	1,175
Philadelphia, PA	Pennsylvania Convention Center	Hilton Home2 Suites	Summer 2013	246
Nashville, TN	Music City Center	Omni, Hyatt Place ¹	Summer/Fall 2013	1,055

Note: ¹The 800-room Omni is slated to open in the summer of 2013; the 255-room Hyatt Place is scheduled to open in fall of 2013.

Source: Hospitality & Gaming Solutions, hotel properties.

As a destination, Baltimore has a significantly lower number of rooms on a city-wide basis relative to its primary convention center competitors. Conversely, all of the profiled destinations offer at least one convention hotel or are in the process of constructing one. The competitive set has an average of 1,100 headquarters hotel rooms versus 1,600 rooms in Baltimore. In addition, there are 5,400 hotel rooms within walking distance to the BCC, which is comparable to the average of competitive cities of 5,300 rooms.

The latter two metrics (i.e., headquarter hotel rooms and the number of hotel rooms within walking distance to a convention center) are the most relevant metrics to the BCC. The following chart illustrates the metrics for Baltimore and competitive destinations.

Summary of Select Hotel -Related Destination Attributes						
Facility	Hotel Supply				Hotels Within One Mile	
	HQ Hotel(s)	HQ Hotel(s) Rooms	Within Walking Distance	Citywide	ADR	Occupancy
Colorado Convention Center	yes	1,100	7,000	42,000	\$108	64%
Cervantes Convention Center (St. Louis)	yes	875	8,000	38,000	n/a	n/a
Music City Center (Nashville)	under construction	800	2,150	33,000	n/a	60%
Indiana Convention Center	yes	575	4,700	32,000	\$125	65%
Charlotte Convention Center	yes	1,110	4,000	32,000	\$129	65%
Washington D.C. Convention Center	under construction	1,165	11,255	29,000	\$215	76%
Atlantic City Convention Center	yes	500	500	17,677	\$93	85%
Boston Convention & Exhibition Center	yes	795	1,690	16,994	\$210	79%
Minneapolis Convention Center	yes	320	5,700	14,700	\$125	66%
San Diego Convention Center	yes	2,550	11,400	11,789	\$207	73%
Pennsylvania Convention Center	yes	1,410	6,400	10,463	\$152	71%
Existing Baltimore Convention Center	yes	1,600	5,400	9,300	\$153	62%
Gaylord National Resort & Convention Center	yes	615	3,550	4,320	\$141	64%
David L. Lawrence Convention Center (Pittsburgh)	yes	2,000	2,940	9,000	n/a	n/a
Average (Excluding BCC)		1,100	5,300	22,400	\$150	70%
Median (Excluding BCC)		900	4,700	17,700	\$140	66%

Notes: Sorted in descending order by citywide hotel supply.

Music Center Center is currently under construction.

Sources: Management at individual facilities; destination marketing organizations; Federal Aviation Administration; Smith Travel Research; secondary research.

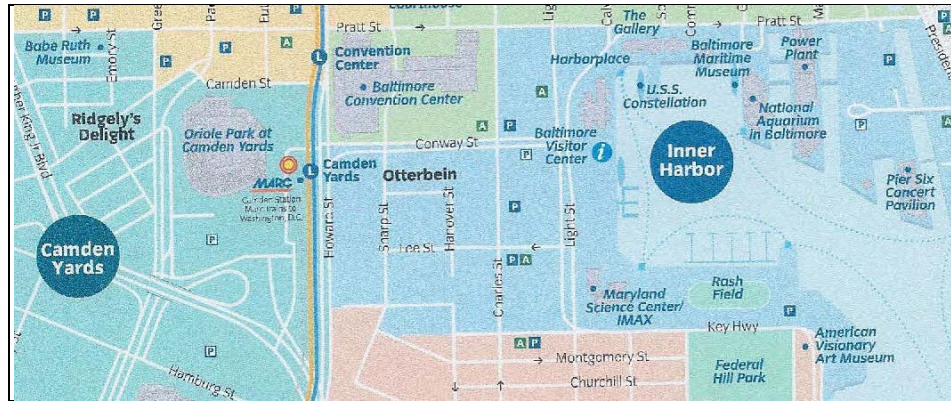
In evaluating the need for additional hotel rooms in the Baltimore Inner Harbor sub-market, the following facts should be considered:

- In 2011, the Baltimore Inner Harbor hotel sub-market achieved an occupancy level of 62%. Current hotel performance is below the competitive cities average of 70%. Additional capacity is available given the current level of demand.
- The Baltimore Inner Harbor hotel sub-market is driven by group business, which accounts for 60% of the demand. This is a significantly higher amount of group business compared to national and competitive city averages. With a lack of corporate expansions or companies relocating to Baltimore in the near term, it is likely the Inner Harbor sub-market will continue to cater to group business in the short term.
- The summer months in the Baltimore Inner Harbor hotel sub-market are also the peak times for leisure travel in the market which coincides with two of the peak months for convention demand (May and June). Despite the convergence of these two market segments in May and June, occupancy levels in 2011 were 73.0% and 72.3%, respectively, indicating additional capacity.
- The addition of 163 incremental new rooms at the proposed new hotel represents a negligible increase in the Baltimore Inner Harbor supply (+3.0%). Diversifying the hotel product proximate to the BCC should benefit all area hotels by enhancing the venue's marketability for citywide conventions and maintaining its competitive position with regard to proximate room supply.
- Given the current performance of the Baltimore Inner Harbor hotel sub-market, additional hotel properties, excluding the proposed new 500-room hotel to replace the Sheraton, do not appear feasible or financeable at this juncture. When the Inner Harbor hotel occupancy levels rebound to a level of at least 68%, it is likely that additional hotel rooms would be added to the market.

Travel/Tourism Statistics

Convention/meeting planners often consider a destination's appeal to delegates when considering whether to host their event at a particular facility. The BCC is located in downtown Baltimore adjacent to the Inner Harbor, an urban entertainment district along the City's waterfront. The complex offers a variety of restaurants, retail and attractions for business and leisure travelers alike within close proximity to the BCC and surrounding hotels. Entertainment options include Harborplace and the Gallery shops, Maryland Science Center, World Trade Center, Fort McHenry, Baltimore Maritime Museum, water activities, and the National Aquarium.

Map of Downtown Baltimore



Source: Downtown Partnership of Baltimore.

The Maryland Department of Business and Economic Development (DBED) reports tourism related sales tax collections by region which are calculated using eight tourism related codes and including general sales/use tax, hotel/motel taxes, admissions/amusement taxes. As shown in the following table, the Central Region, which includes Baltimore, generated the highest tourism related sales tax collections in each of the three profiled years. These numbers illustrate the significance of tourism to both the regional and State economies.

Tourism Related Sales Tax Collections by Region									
Fiscal Year	Central Region	% of Total	% Change	Capital Region	Eastern Region	Southern Region	Western Region	Statewide Total	% Change
FY 2008	\$138,904,219	48%		\$94,083,351	\$36,052,539	\$11,894,966	\$11,322,813	\$292,257,888	
FY 2009	\$154,870,774	46%	11%	\$116,776,858	\$39,926,811	\$14,225,119	\$13,273,303	\$339,072,865	16%
FY 2010	\$140,116,193	43%	-10%	\$117,125,767	\$38,431,120	\$13,885,733	\$12,556,906	\$322,115,719	-5%

Note: The Central Region is defined as the Baltimore-Towson MSA.

Source: Maryland Tourism Development Board.

Both the region and the State experienced a significant increase in FY 2009 followed by a decline in FY 2010. The decline in FY 2010 was on par with the national decline in visitor spending reported by the U.S. Travel Association of 8.8%. According to the Maryland Tourism Development Board, the State outperformed both the national and regional FY 2010 trends in several travel metrics including leisure/hospitality jobs, hotel rooms sold and visitor volume.

According to research conducted by Longwoods International, Baltimore hosted 21.3 million domestic visitors in 2010, a 4.4% increase from 2009. Of those visitors, 15% of the trips were for business, 42% leisure and 39% to visit family/friends. Overall, 41% of trips were overnight stays. Longwoods International estimated more than 6.7 million overnight leisure visitors in 2010 which was generally in line with 2009 figures.

A biennial survey of meeting planners conducted by Visit Baltimore in 2010 ranked Baltimore 18th as a “great all-around convention city”, higher than Philadelphia, Pittsburgh and Charlotte but lower than Boston and Washington, D.C.

Industry Trends

The BCC's success is somewhat dependent on the attributes of the industry as a whole. In order to assess potential market demand for an expanded BCC, this section summarizes historical and projected industry trends relative to the supply and demand for convention center space in the U.S. as well as site selection criteria that meeting planners consider when selecting a facility and a destination.

General Overview of U.S. Convention & Meetings Market

Over the last 20 years, the U.S. convention and meetings market experienced tremendous growth in the supply of exhibit and meeting space through both new construction and expansion. This increased supply led to a more competitive marketplace where numerous facilities can accommodate meeting planners' needs strictly in terms of the amount of space required.

The increase in supply combined with broader economic conditions such as higher unemployment, increased costs associated with travel and lower corporate returns has resulted in a downward trend in overall demand for convention and meeting space in recent years. However, the current environment provides an edge to those facilities located in destinations offering an attractive amenities package and proximate to a broad industry base of conventions and meetings hosted for a variety of geographic segments (i.e., State, regional, national or international). Baltimore's overall appeal, hotel supply, accessibility, regional corporate and association base combined with the BCC's proximity to restaurants and entertainment options have allowed it to maintain a relatively steady flow of convention, tradeshow and meeting business during challenging economic times.

As a point of reference, the following table illustrates the site selection criteria that meeting planners considered very important and their relative ranking by type of event.

Decision Factors Considered "Very Important"				
Factor	Corporate Meetings	Corporate Incentives	Association Conventions	Association Meetings
Availability of hotels or other facilities suitable for meetings	78%	62%	84%	68%
Affordability of destination	77%	55%	79%	77%
Safety and security of destination	62%	77%	65%	62%
Ease of transporting attendees to/from location	61%	54%	50%	45%
Distance traveled by attendees	58%	36%	50%	53%
Transportation costs	48%	41%	36%	40%
Clean and unspoiled environment of destination	37%	59%	29%	26%
Climate	33%	73%	19%	17%
Mandated by corporate policy	26%	22%	24%	22%
Availability of recreational facilities such as golf, swimming, tennis, etc.	21%	70%	10%	10%
Sightseeing, cultural or other extracurricular attractions	15%	66%	16%	10%
Glamorous or popular image of location	12%	59%	10%	10%

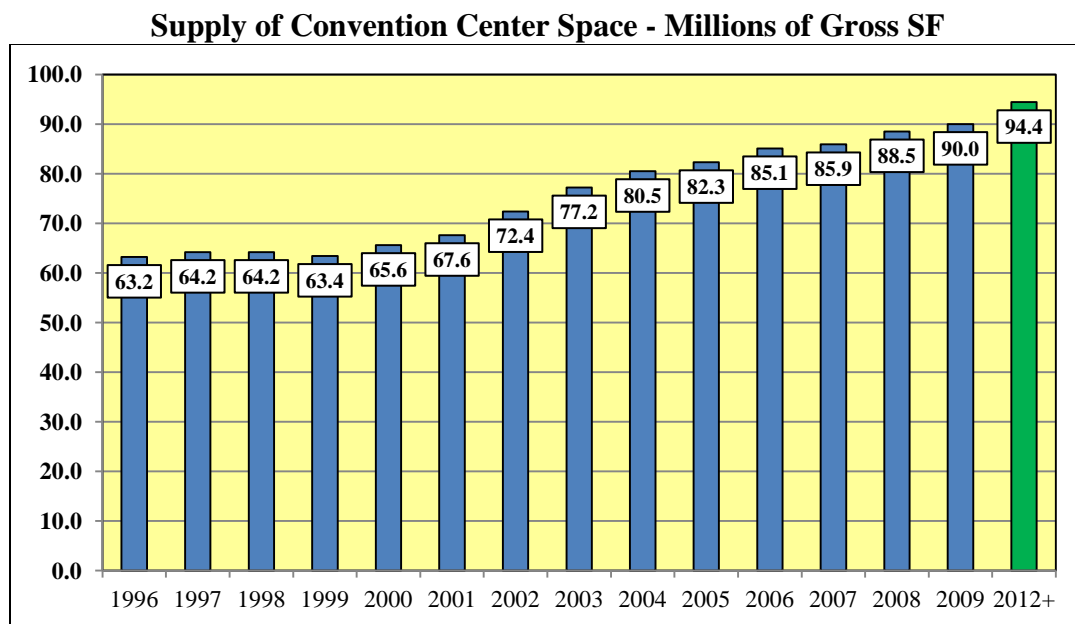
Source: Meetings & Conventions.

Visit Baltimore retained *Tradeshow Week* in 2009 to conduct a survey of convention and tradeshow producers and asked for their ranking of destination criteria. Similar to the *Meetings and Conventions* report, the survey indicated that hotel room prices/quality, availability of open dates, and hotel room capacity ranked as the top three requirements.

There is no one source that measures the strength and performance of the convention and meetings industry. The breadth of facility types and geographic locations coupled with the variety of event types and sizes makes the ability to succinctly account for the entire industry’s current or future position difficult. However, this section of the report presents data that represents the leading and most comprehensive sources available including Visit Baltimore research files, Center for Exhibition Industry Research (CEIR), Meeting Professionals International (MPI), Professional Convention Management Association (PCMA), Red 7 Media Research and Consulting, Standard & Poor’s (S&P), and DMAI.

Supply Trends

As shown in the following graph, the convention center building boom peaked in 2002 and 2003 with gross SF annual growth exceeding 6.5% each year.

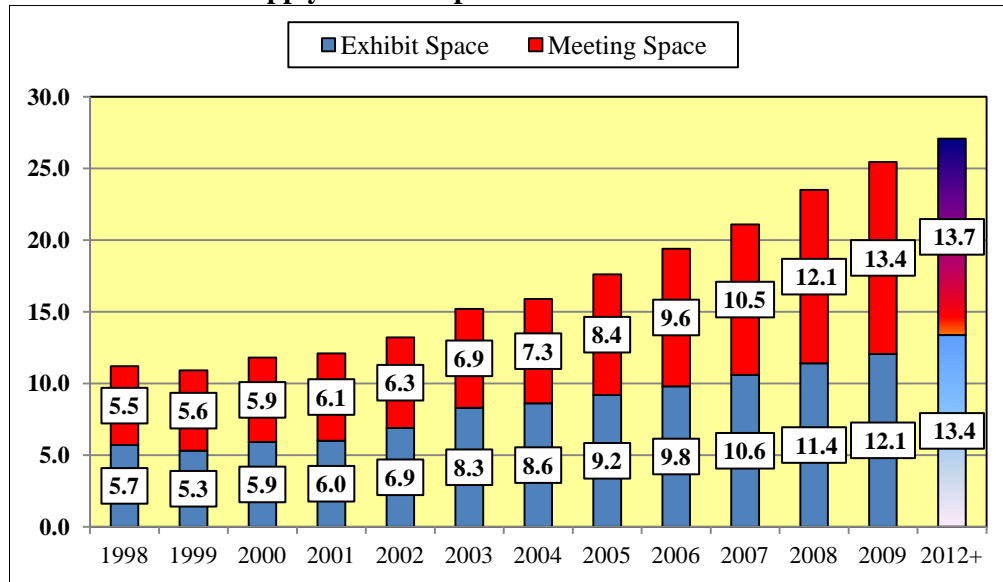


Source: *Tradeshaw Week*.

While supply growth has slowed significantly, new space has recently been developed and/or is under construction; many of which were underway prior to the economic downturn. For instance, the Pennsylvania Convention Center recently completed an expansion that more than doubled the facility’s sellable space. Nashville is building a new convention center anticipated to open in 2013 that will feature 515,000 SF of function space.

There has been a similar supply boom in hotel meeting and exhibit space. As shown in the following graph, hotel function space in the U.S. has more than doubled from approximately 11.2 million in 1998 to 25.5 million in 2009. This development primarily took place in Las Vegas and other resort-type, all-inclusive properties such as those operated by Gaylord Hotels. Consequently, a growing number of hotels are able to directly compete with exhibition/convention facilities.

Supply of Hotel Space - Millions of Gross SF



Source: *Tradeshaw Week*.

Perhaps more importantly, hotels with exhibit space can have an advantage over convention centers because they control all major components of an event (i.e. function space, lodging and food/beverage) under one roof. Since the hotel is the primary beneficiary of all revenue streams, it can negotiate packages as it sees fit in any or all areas to attract business. For instance, a hotel can offer meeting and/or exhibit space for free or at a deeply discounted rate because it would still receive revenue from the rooms and food service which is often more profitable. In addition, some privately operated hotels offer entertainment (i.e. a headliner act for a banquet) as part of their overall package to entice meeting planners. Many of these properties are situated in suburban locations, remote from other businesses that might attract some of the attendee spending away from the hotel’s internal revenue generators.

Four of the 15 largest hotel/convention facilities are run by Gaylord Hotels: Gaylord Texan Resort & Convention Center in Grapevine, Texas; Gaylord Palms in Kissimmee (outside of Orlando) Gaylord Opryland in Nashville; and Gaylord National Resort & Convention Center in National Harbor, Maryland. Gaylord Hotels is a business of Gaylord Entertainment’s Hospitality and Attractions Group. These all-inclusive developments are important for several reasons. First, private sector development suggests market demand for convention space adjacent to hotel rooms since the private sector is typically more cautious about making large financial investments without expecting a relatively high return on investment. Secondly, now that the company has multiple properties, Gaylord Hotels is in a strong competitive position to geographically route groups for several years within their own hotel/convention properties.

Demand trends

While the supply of exhibition and meeting space has experienced significant growth over the past decade, demand has been less aggressive. In fact, overall economic conditions have led to a larger gap between the supply of and demand for space. The result has been a buyer's market in recent years with larger convention centers vying for more moderately sized events and hotels aggressively marketing their function space to small and mid-sized events. As a result, moderately sized convention centers such as the BCC have had to compete on the overall package price. Meeting planners are comparing destinations on their facility rental, hotel room rates, as well as other financial concessions to attract their business.

The following table summarizes industry data provided by CEIR which tracks annual changes in several industry metrics: net SF used for exhibitions, total number of exhibitors and attendees and industry revenues. As shown, the industry has undergone two seasons of negative growth at the start of the decade as well as between 2008 and 2010. Several national economic events led to periods of slower growth or retraction in the convention/exhibition industry since 2001. The events of September 11, 2001, had a direct impact on the recession in the early part of the decade while various national and global events impacted the convention/exhibition industry during recent years. According to data provided by CEIR, the industry rebounded to pre-recession levels approximately three years after the recession in 2001 - 2002. CEIR is projecting a longer turnaround from the current recession with moderate growth projections beginning in 2011 but 2013 levels of all metrics to remain below the start of the decade.

Year-On-Year Percent Change of the Metrics and CEIR Index														CAGR, 2000-2010
Metric	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011p	2012p	2013p	
Net SF	1.2	-3.3	0.0	3.8	2.2	1.4	3.6	-1.4	-10.9	-2.1	2.3	3.3	3.0	-0.6
Exhibitors	-2.5	-3.2	2.0	2.6	2.2	-1.8	2.2	-2.0	-10.7	-1.1	2.1	2.8	2.4	-1.2
Attendees	-2.7	-4.2	3.0	2.4	-0.5	0.7	3.9	-3.2	-7.5	2.4	2.5	2.8	2.5	-0.6
Real Revenues ¹	3.8	-5.6	-2.1	3.9	5.7	0.6	4.8	-3.6	-9.6	-8.4	2.5	3.9	3.4	-1.1
Total	-0.1	-4.1	0.7	3.2	2.4	0.2	3.6	-2.6	-9.7	-2.4	2.4	3.2	2.8	-0.9

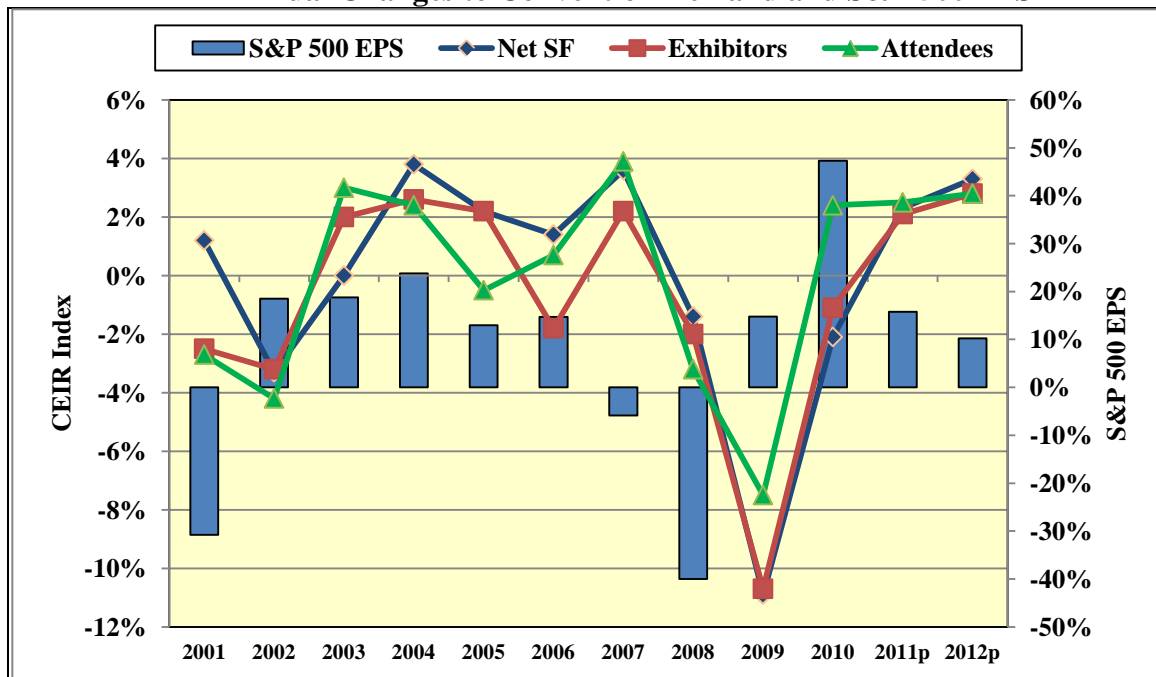
¹Inflation adjusted revenues, adjusted for CPI for all urban consumers.

p = projected

Source: CEIR

The following graph illustrates annual changes of key convention industry measures alongside the S&P 500 earnings-per-share (EPS) in order to further illustrate the relationship between the convention industry and overall economic conditions.

Annual Changes to Convention Demand and S&P 500 EPS



Note: p = projected
Sources: CEIR, Standard & Poors, 2012.

The correlation between overall U.S. economic trends and that of the convention industry is highlighted in the graph. Negative S&P earnings per share data precedes periods of convention industry retraction similar to periods of positive economic and industry growth. S&P earnings began to experience growth in 2009 whereas the convention and meetings industry tends to lag 12 to 18 months behind the broader economy. According to S&P and CEIR, overall economic and convention industry conditions are projected to increase throughout 2011 and 2012. This is further substantiated by event planner projections discussed later in this section.

CEIR also tracks the exhibition industry by segment. As shown in the following table, the medical and healthcare industry represents the most exhibition events which, despite the overall economic conditions, managed to sustain a minor average annual growth rate during the past decade. Other sectors also experiencing slight average annual growth over the past ten years include sporting goods, travel and amusement as well as machinery and finished business outputs and the government sector. According to management, BCC target market segments commonly include medical/healthcare, raw materials/science, education, sports and government. Three of these industries experienced positive growth during the past decade which likely contributed to the BCC's ability to generally sustain its business.

Industry Wide Growth by Segment			
Industry	% of Exhibitions	2010 Growth Rate	CAGR 2000-2010
Government	3.9%	3.1%	3.6%
Machinery and Finished Business Outputs	4.9%	-8.9%	2.4%
Medical and Healthcare	17.3%	-1.3%	0.6%
Sporting Goods, Travel and Amusement	5.5%	-3.0%	0.6%
Raw Materials and Science	10.4%	-5.2%	-0.2%
Building, Construction, Home & Repair	4.3%	-8.7%	-0.9%
Discretionary Consumer Services	5.3%	1.5%	-1.1%
Communications and Information Technology	8.7%	-5.7%	-1.9%
Transportation	4.6%	-2.3%	-2.0%
Financial, Legal, Real Estate	7.3%	1.1%	-2.3%
Consumer Good/Retail	7.2%	6.2%	-2.4%
Education	7.5%	-3.7%	-2.5%
Food	3.1%	4.5%	-2.6%
Business Services	10.0%	-5.5%	-3.4%
Overall Exhibition Industry	100.0%	-2.4%	-0.9%

Notes: Sorted in descending order by CAGR 2000-2010 growth.

Highlighted industries are target markets for Baltimore as identified by Visit Baltimore and BCC management.

Source: CEIR.

CEIR also tracks exhibition industry data by segment and projects future changes given broader economic and segment-specific factors which is illustrated in the following table.

CEIR Index Projections by Segment			
Segment	2011p	2012p	2013p
Consumer Goods & Retail Trade	5.2%	3.4%	2.7%
Food	4.6%	3.8%	3.4%
Transportation	4.3%	5.1%	3.3%
Building, Construction, Home & Repair	3.9%	6.0%	5.0%
Discretionary Consumer Services	3.5%	3.7%	2.7%
Communications and Information Technology	3.4%	7.1%	6.2%
Sporting Goods, Travel and Amusement	3.3%	4.7%	3.8%
Professional Business Services	3.2%	3.6%	2.9%
Financial, Legal & Real Estate	3.0%	3.5%	3.0%
Overall Exhibition Industry	2.4%	3.2%	2.8%
Raw Materials and Science	2.0%	3.0%	3.4%
Machinery and Finished Business Outputs	2.0%	4.0%	4.8%
Medical and Healthcare	1.2%	1.5%	1.5%
Government	-0.9%	0.2%	0.9%
Education	-2.4%	-1.4%	-1.1%

Source: CEIR

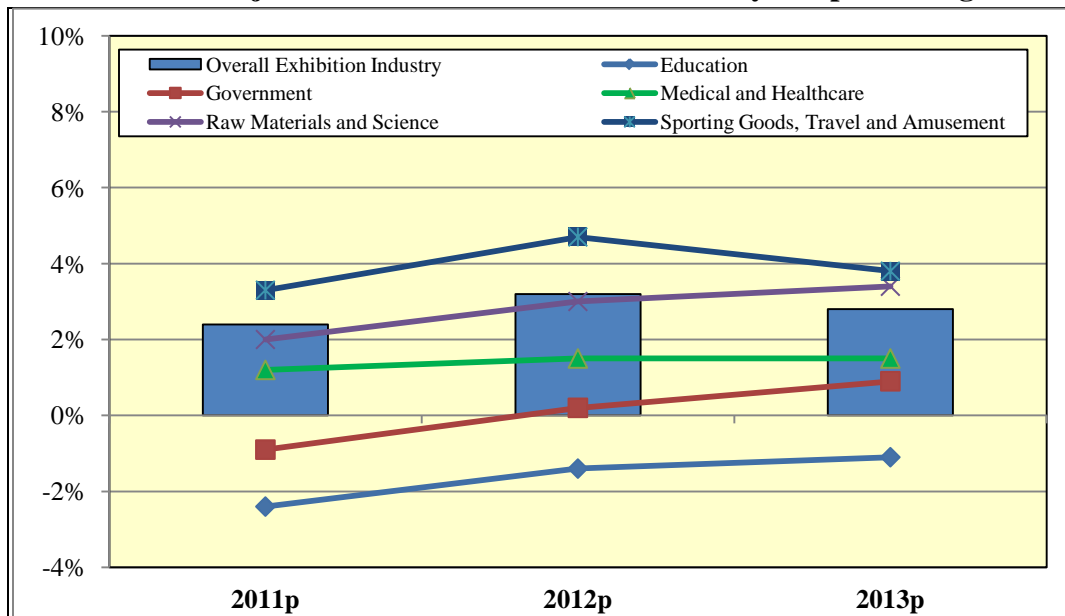
Projected growth in exhibition metrics for 2011 is led by consumer related segments including consumer goods/retail, food, transportation, building/construction/home & repair, and discretionary consumer services. Economic growth and job creation improvements are anticipated to drive pent-up consumer demand after several years of decline. This improvement in demand is anticipated to translate to increased exhibition activity in these related sectors as well.

Industries that ranked among the highest over the last decade in terms of annual growth (i.e., medical/healthcare, raw materials/science) are projected to grow at a higher rate than they have in the past, though not as strongly as consumer goods.

According to CEIR, the education sector is likely to be negatively impacted in the next several years by substantial constraints in state and local government spending with resulting projected declines in the segment’s CEIR index. Exhibitions in the government sector outperformed the overall exhibition industry during the past decade. Increases in the number of government programs and level of expenditures, particularly for security related activities, helped fuel this growth. Increasing federal deficits are resulting in declining federal aid to state and local governments which is anticipated to lead to a moderate decline in the CEIR government sector index during 2011 and virtually steady figures thereafter.

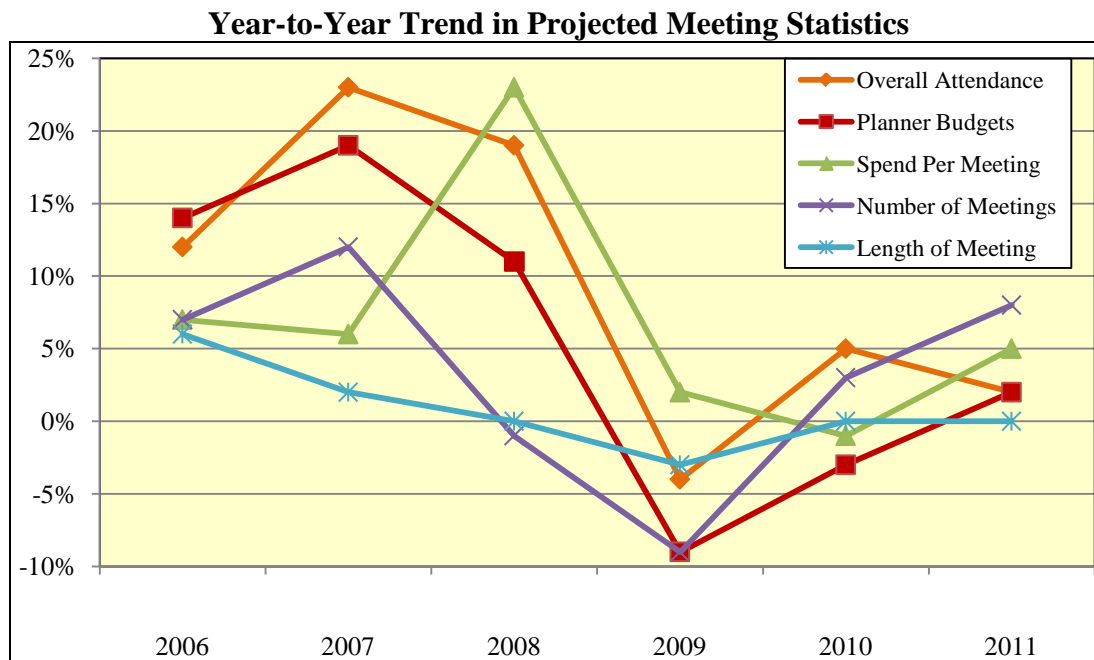
Projections for BCC’s market niches are highlighted in the following graph relative to the overall exhibition industry which is projected to grow at 2.4%, 3.2% and 2.8%, respectively, over the next three years. CEIR projects relatively higher growth for the sporting goods, travel and amusement industry and similar growth for the raw materials/science and medical/healthcare industries. Government and education are projected to lag the broader industry over the next several years.

CEIR Index Projections - Overall Exhibition Industry vs Specific Segments



Note: p = projected
Source: CEIR.

MPI conducts an annual survey (*Future Watch*) to gather key facts and comment on meeting industry trends. The following graph illustrates that meeting planners project growth in attendance, planner budgets, spending per meeting and the number of meetings in 2011 after two years of decline in several key statistics. *Future Watch* also reports survey results from suppliers who also report projected increases in the number of meetings (+11%) to be served by their organization and the number of proposals prepared by the respondent (+14%).



Source: MPI *Future Watch*.

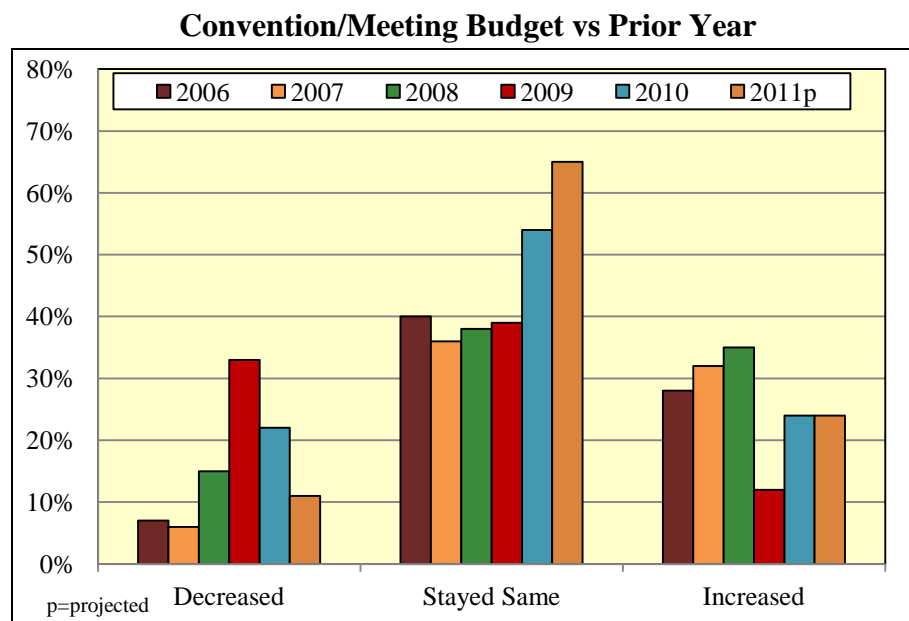
Two dominant trends according to survey respondents are strategic meetings management (SMM) and return on investment (ROI). SMM is a disciplined approach to company-wide meetings that delivers measurable business objectives and value. While meeting budgets are projected to increase, high-level financial scrutiny is projected to continue through 2011 and, as such, meetings will be required to produce more quantifiable results to justify their cost. SMM has traditionally been linked to the corporate market but is increasingly becoming more common in the association industry as well. This suggests a continued buyers' market with meeting planners demanding competitive rates.

Future Watch also reports that many meeting professionals have changed the formats of their large events by splitting them into smaller, regional events. In doing so, cost savings can be realized and this strategic site selection has improved attendance. This trend would be favorable for destinations such as Baltimore that offer a moderately sized building with convenient hotel access and a number of associations headquartered in their region.

However, some respondents do report a plan to re-combine into larger events going forward with key site selection criteria including accessibility and affordability. Economic trends in recent years have resulted in more planners and suppliers working jointly towards a win-win negotiation. Hotels and other suppliers are reported to increasingly negotiate bulk buying, fixed price and multiple event agreements.

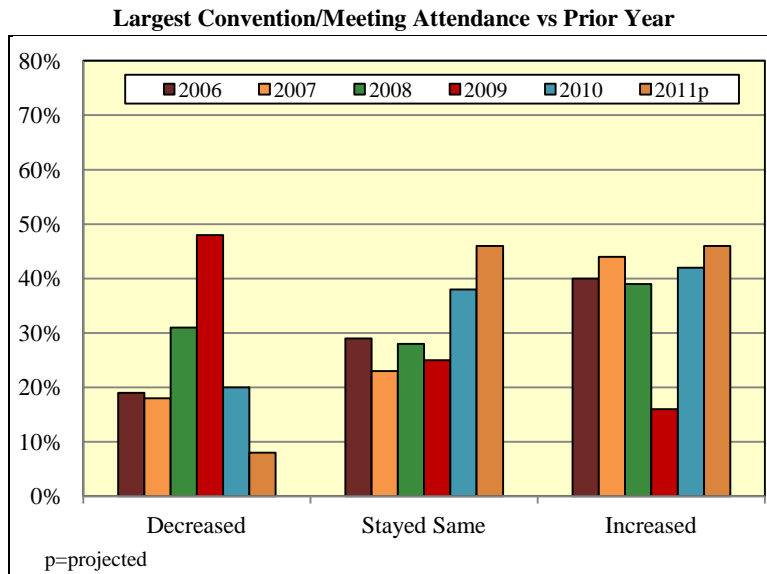
Finally, MPI's survey respondents also report that more meeting professionals are demanding innovative technology. Continued focus on efficiency has caused meeting planners to explore virtual meeting technology, budget tracking software, smart phone applications, social media, delegate tracking and polling tools that can help them achieve event goals and report ROI. This increased interest in technology will likely require educational seminars about product use and application going forward. The scope of event technology is also expanding to include use pre and post-event as well as during the meeting itself. Increasingly, delegates and speakers are demanding more technological tools and continual access during meetings via social media, multi-media presentations, and audience interactivity tools. Eighty-eight percent (88%) of meeting professionals surveyed say that new tech solutions will directly affect the future of meetings and events.

PCMA conducts an annual survey of meeting planners to assess their actual bookings for the current year as well as their plans and perceptions of the coming year. The most recent survey was published in 2011 with 952 planners responding. As shown in the following table, 2009 peaked in terms of planners' projections for decreasing budgets. According to the majority of respondents, budgets are anticipated to remain steady in 2011, suggesting a mild improvement over recent years.

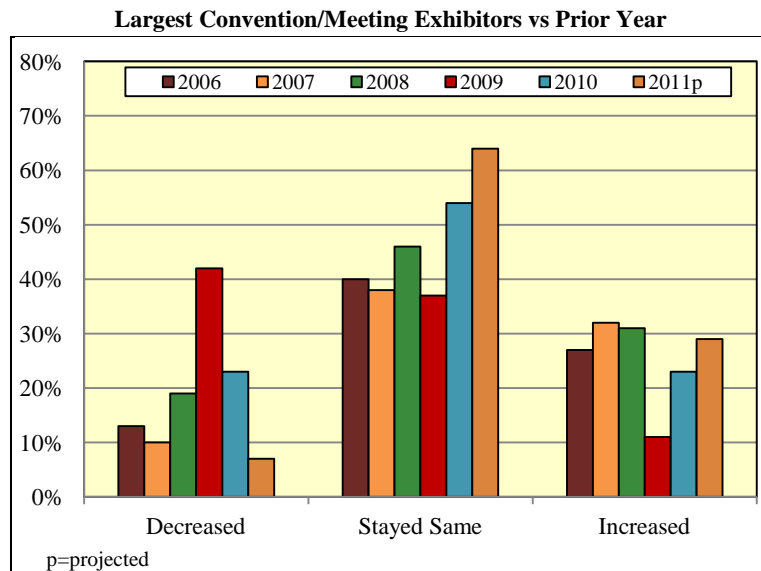


Source: PCMA Meetings Market Survey.

Similarly, more planners project their largest convention/meeting attendance and the number of exhibitors will stay the same or increase in 2011.



Source: PCMA Meetings Market Survey.



Source: PCMA Meetings Market Survey.

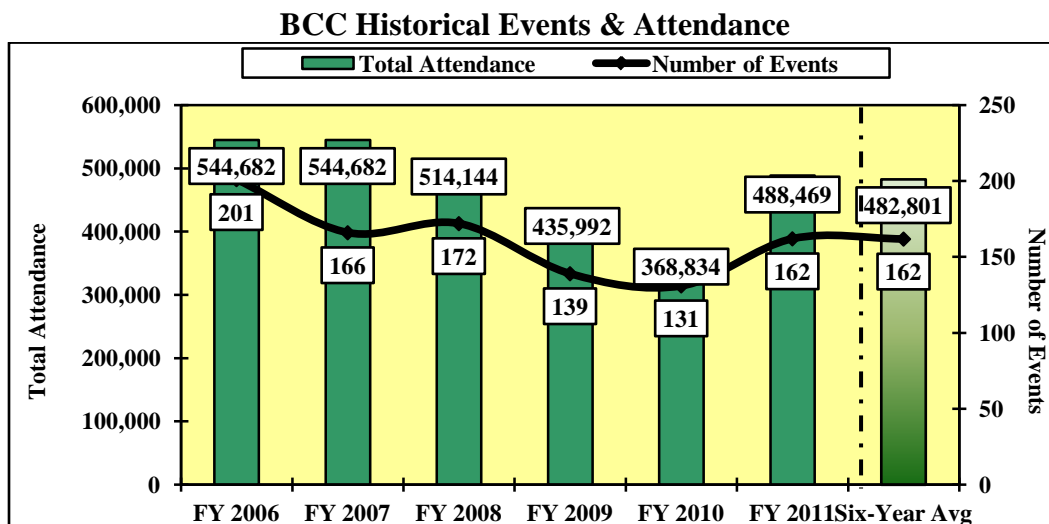
Similar to the broader economy, the convention and meetings industry has experienced a downturn in recent years. However, several sources are projecting positive economic and industry growth in key metrics.

BCC Utilization Analysis

Understanding historical utilization at the BCC is one factor in assessing the potential need for expansion. In order to gain an understanding of the types of events that the BCC has held as well as general event attributes, the facility’s event activity was analyzed for FY 2006 through FY 2011. This section of the report includes an analysis of event activity by type, seasonality, occupancy levels, as well as the amount of exhibit space utilized. Lost business reports and future bookings are also analyzed. Understanding the reasons for lost business particularly as they relate to space limitations and/or date conflicts in order to assist the MSA and the City in assessing the potential demand for additional BCC space. Future bookings are an indicator of a center’s demand.

BCC Utilization Trends

The following graph illustrates the number of events and total attendance at the BCC for the last six fiscal years.



Source: BCC management.

Despite the opening of the Hilton Baltimore hotel in 2008, BCC event activity declined in FY 2009 and FY 2010 which was likely attributable to broader economic conditions. BCC utilization increased in both total events and total attendance in FY 2011. As noted earlier, meeting planners indicated that the opening of the Hilton Baltimore adjacent to the BCC was one of the primary reasons for choosing to host their event in Baltimore. Because group business typically books several years in advance, it is likely that the additional supply provided by the Hilton Baltimore has been instrumental in booking BCC business for FY 2011 and beyond.

As shown in the table that follows, conventions/tradeshows have consistently accounted for the highest portion of total attendance at the BCC over the last six fiscal years. These events typically attract a higher percentage of overnight attendees and thus generate significant economic impact. Average attendance for conventions/tradeshows has been fairly consistent over the time period shown attracting approximately 4,800 attendees per event.

Detailed Summary of Historical BCC Utilization													
FY 2006							FY 2007						
Event Type	Number of Events	Event Days	Event Length	Total Usage Days	Total Attendance	Average Attendance Per Event	Event Type	Number of Events	Event Days	Event Length	Total Usage Days	Total Attendance	Average Attendance Per Event
Conventions/Trade Shows	62	176	2.8	307	286,087	4,614	Conventions/Trade Shows	58	179	3.1	321	286,784	4,945
Meetings	85	157	1.8	179	67,736	797	Meetings	64	127	2.0	152	67,726	1,058
Food Functions	9	8	0.9	12	8,642	960	Food Functions	11	11	1.0	18	17,155	1,560
Public Events	29	59	2.0	82	143,635	4,953	Public Events	20	47	2.4	70	146,233	7,312
Sporting Events	8	26	3.3	32	31,147	3,893	Sporting Events	6	11	1.8	14	19,459	3,243
Other	8	16	2.0	18	7,435	929	Other	7	13	1.9	14	7,325	1,046
Total	201	442		630	544,682		Total	166	388		589	544,682	
FY 2008							FY 2009						
Event Type	Number of Events	Event Days	Event Length	Total Usage Days	Total Attendance	Average Attendance Per Event	Event Type	Number of Events	Event Days	Event Length	Total Usage Days	Total Attendance	Average Attendance Per Event
Conventions/Trade Shows	54	191	3.5	295	266,281	4,931	Conventions/Trade Shows	54	158	2.9	268	249,186	4,615
Meetings	70	130	1.9	155	81,237	1,161	Meetings	55	132	2.4	146	73,765	1,341
Food Functions	12	18	1.5	28	12,420	1,035	Food Functions	4	4	1.0	7	3,300	825
Public Events	23	55	2.4	77	118,946	5,172	Public Events	14	29	2.1	36	82,926	5,923
Sporting Events	7	45	6.4	53	28,300	4,043	Sporting Events	8	20	2.5	26	22,050	2,756
Other	6	17	2.8	19	6,960	1,160	Other	4	6	1.5	7	4,765	1,191
Total	172	456		627	514,144		Total	139	349		490	435,992	
FY 2010							FY 2011						
Event Type	Number of Events	Event Days	Event Length	Total Usage Days	Total Attendance	Average Attendance Per Event	Event Type	Number of Events	Event Days	Event Length	Total Usage Days	Total Attendance	Average Attendance Per Event
Conventions/Trade Shows	51	183	3.6	291	218,603	4,286	Conventions/Trade Shows	52	206	4.0	340	266,876	5,132
Meetings	53	100	1.9	115	46,272	873	Meetings	76	178	2.3	313	61,558	810
Food Functions	2	2	1.0	5	2,200	1,100	Food Functions	5	12	2.4	23	5,495	1,099
Public Events	11	33	3.0	47	66,684	6,062	Public Events	18	52	2.9	97	127,010	7,056
Sporting Events	8	8	1.0	10	25,675	3,209	Sporting Events	6	21	3.5	32	24,025	4,004
Other	6	6	1.0	7	9,400	1,567	Other	5	8	1.6	15	3,505	701
Total	131	332		475	368,834		Total	162	477		820	488,469	

Source: BCC management.

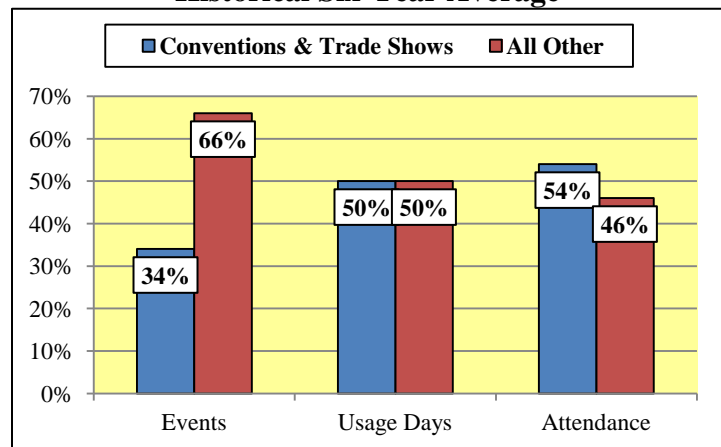
Meetings have consistently represented the largest number of BCC events but tend to have the smallest average attendance. Food functions represent larger social events averaging 1,100 attendees in the past two years.

Public events, which typically attract local residents, can be beneficial in terms of occupying a building during non-peak seasons for other events generating overnight stays. These events also serve the local community by bringing many dealers/providers of a particular product or service to one location for buyers' convenience.

Sporting events, which include competitions such as gymnastics, wrestling, cheerleading, and the martial arts, are likely to attract family and/or friends who join the competitor as part of the overnight visitors. In addition, sporting competitions are also likely to have attendees who extend their stay to enjoy the host destination's amenities.

Over the last six fiscal years, conventions and tradeshow represented approximately 34% of total events, 50% of total usage days and 54% of total attendance annually.

**Distribution of Event Activity –
Historical Six-Year Average**



There are several methods of calculating convention center occupancy. Some facilities utilize a measurement of total days used divided by the days available, others account for only event days. For purposes of this analysis, occupancy is calculated based on the total usage days utilized divided by the total days available which accounts for the amount of space used by each event.

It is generally considered that a convention center with occupancy levels of 65% to 75% is operating at its practical maximum given that events utilizing these types of facilities often require move in/out days which can hinder its ability to accommodate another in-coming event immediately. Furthermore, occupancy is impacted by the number of days that are required for building maintenance and upkeep, etc. when the center cannot be sold as well as the amount of space.

Although trending downward in recent years, exhibit hall occupancy at the BCC has ranged from 84% in FY 2009 to 73% in FY 2011 and ballroom occupancy has ranged from 60% to 66% over the last three fiscal years. BCC exhibit and ballroom space are reaching practical maximum occupancy. As a point of reference, conventions/tradeshows averaged 59% of total exhibit hall occupancy before the Hilton Baltimore opened and 65% of overall exhibit hall occupancy since its opening. Ballroom occupancy at the BCC has not been negatively impacted by the opening of the Hilton Baltimore.

The following graph illustrates occupancy of the BCC exhibit space and ballroom space.

BCC Exhibit Hall & Ballroom Occupancy

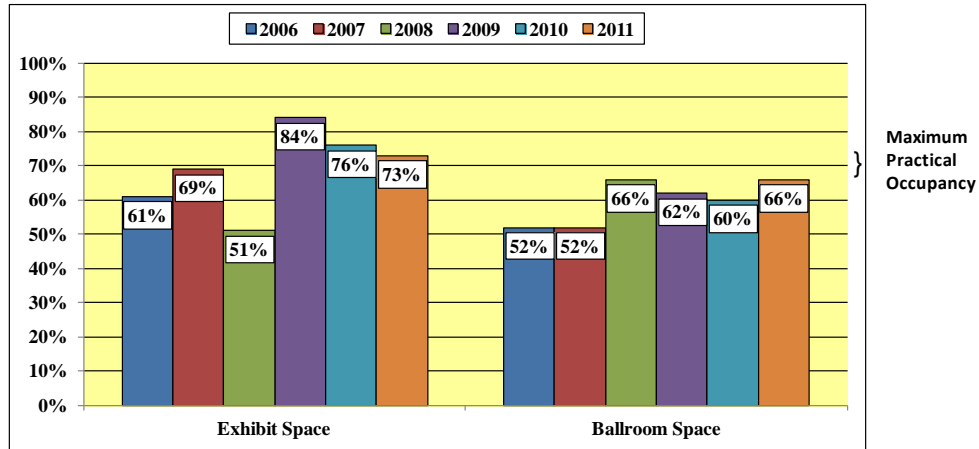
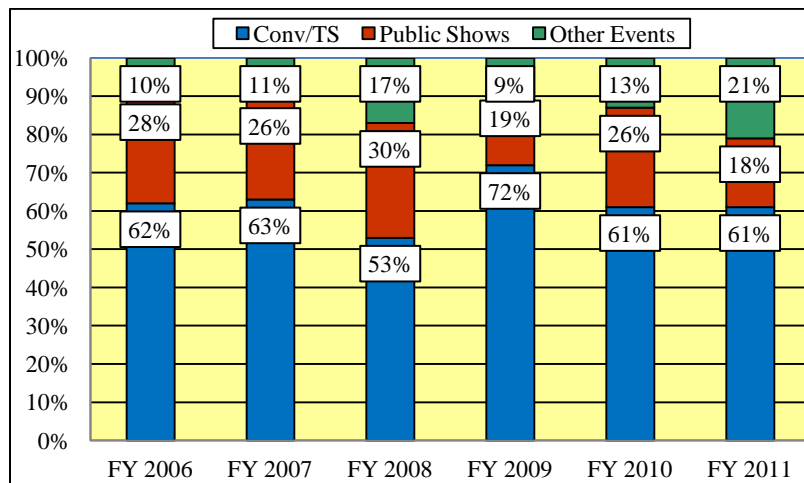


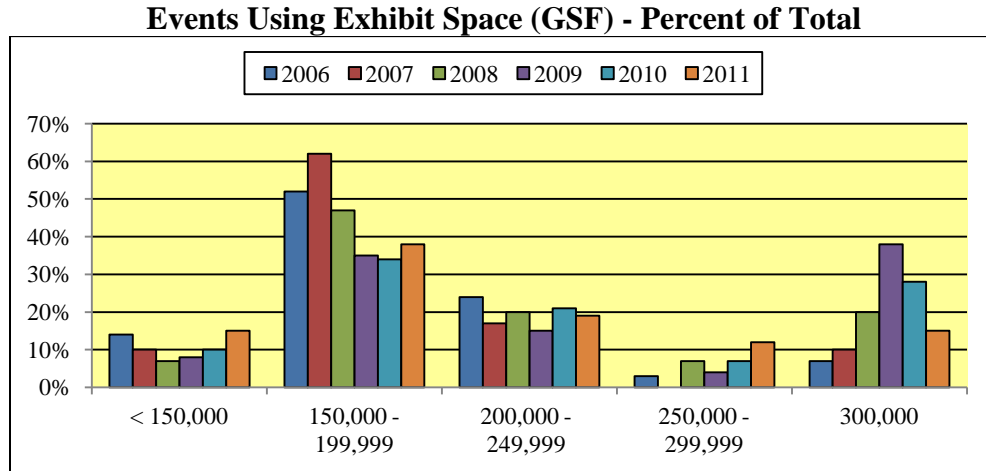
Exhibit halls E, F and the Swing space consistently rank among the most occupied with the exception of FY 2010. According to BCC management, these halls offer the greatest amount of contiguous, column-free space (185,000 SF) with a consistent ceiling height that is preferable to meeting planners and exhibitors.

Exhibit hall occupancy is reported by BCC management in three event categories: conventions/tradeshows, public shows and other events. Other events include banquets, meetings, graduations, sporting events, social events, concerts, festivals, etc. The following graph illustrates that conventions/tradeshows have consistently accounted for the highest percentage of exhibit hall usage days over the last six fiscal years. The percentage of exhibit hall usage for both public shows and other events has fluctuated during the profiled period. This is consistent with sound booking policies which allow management to book these types of events within a shorter timeframe as space is available.

% of Exhibit Hall Total Use Days by Event Type

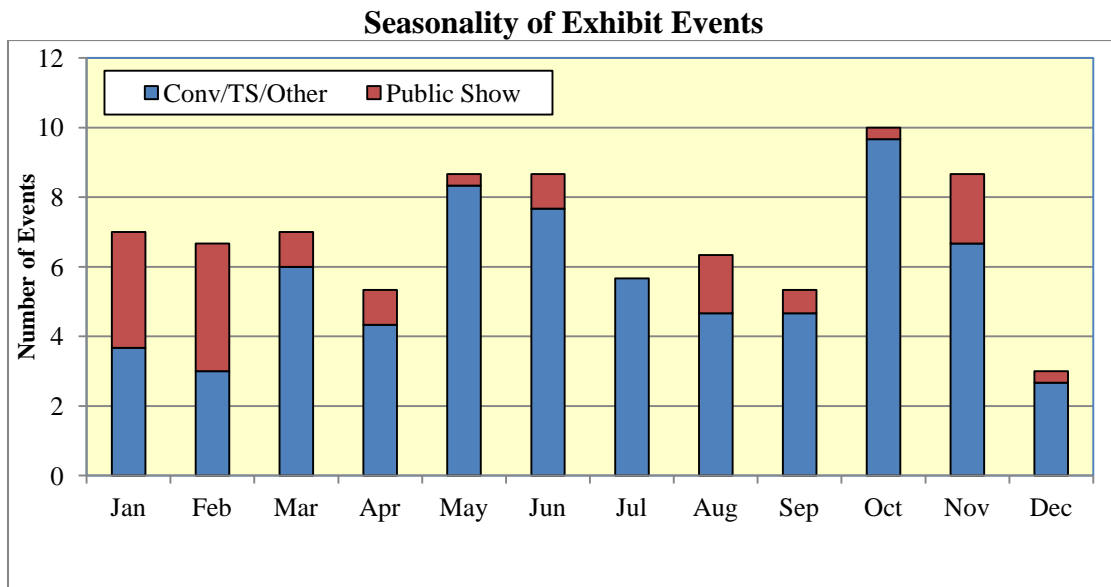


As illustrated in the following graph, of those events requiring exhibit space, the majority use less than 200,000 SF. On average, events requiring less than 200,000 SF have accounted for 55% of BCC exhibit hall users over the past six years.



An analysis of the gross square footage of events utilizing exhibit space indicates that the percentage of events requiring all 300,000 SF significantly increased between FY 2006 and FY 2009 before declining in both FY 2010 and FY 2011.

The following graph illustrates the seasonality of events requiring exhibit space. As shown, conventions/tradeshows and other events peak in early summer and fall. Public shows occur more frequently in the winter.



BCC Lost Business

Visit Baltimore maintains statistics on events that considered Baltimore for their event but ultimately decided not to bring their business to the City. For purposes of this analysis, we only analyzed events that were contemplating hosting their event at the BCC. As shown in the following table, group decision factors such as Board decision, geographic rotation, membership vote, group politics and selection of another city represent the largest number of total hotel rooms lost during the period analyzed. Facility, hotel and/or overall destination pricing rank second. This is consistent with Baltimore's ranking by *Business Travel News* as the number 10 destination in terms of Corporate Travel Index which includes lodging, rental car and restaurant costs in 100 U.S. cities.

Summary of BCC Lost Business Reports (Tracked 2007 through 2011)								
Reason	Events		Event Days		Total Hotel Rooms		Attendance	
	Number	%	Number	%	Number	%	Number	%
Group Decision	156	35%	773	33%	728,463	31%	418,070	29%
Facility and/or Destination Pricing	85	19%	477	21%	463,347	20%	264,422	18%
Date Availability-BCC	59	13%	324	14%	335,853	14%	214,566	15%
Inadequate Space-Hotel	37	8%	209	9%	202,093	9%	92,250	6%
Inadequate Space-BCC	32	7%	154	7%	186,647	8%	168,675	12%
Cancelled	28	6%	145	6%	159,857	7%	110,000	8%
Other	11	2%	57	2%	117,306	5%	76,000	5%
BCC Booking Policy/Negotiations	18	4%	90	4%	69,378	3%	41,978	3%
Date Availability-Hotel	13	3%	63	3%	60,058	3%	28,750	2%
None Given	5	1%	23	1%	24,431	1%	20,800	1%
Total	444	100%	2,315	100%	2,347,433	100%	1,435,511	100%
BCC Date/Space Related	91	20%	478	21%	522,500	22%	383,241	27%

Notes: Sorted in descending order by total hotel rooms.

BCC reason relates to internal reasons such as "contract negotiations" and "booking policy requirements".

Source: Visit Baltimore.

Lost business reports tracked between 2007 and 2011 and provided by Visit Baltimore indicate that the BCC has lost 444 events, 2,315 event days, 1.4 million in total attendance and 2.3 million hotel rooms. Combined, BCC date availability and inadequate space accounted for 22% of total room nights lost. A further breakdown of lost business at the BCC due to inadequate space indicates that inadequate exhibit space, meeting space and ballroom space accounted for approximately 93,000, 47,500 and 20,700 lost room nights, respectively. As previously mentioned, BCC exhibit hall and ballroom occupancy are approaching practical maximum in recent years; this trend is contributing to the space availability issues for additional groups. Space and date availability are considered controllable factors in the sense that these can be changed by facility ownership/management. Group decision factors, however, are considered uncontrollable in a direct sense by facility management. In aggregate, inadequate hotel meeting/ballroom space and hotel date availability accounted for 12% (or 262,150) of lost room nights.

"BCC booking policy/negotiations" reasons include not allowing groups with smaller peak room night needs to book outside 18 months without pairing them up with other groups. Other lost business in this category may include groups that require significant meeting space relative to their use of exhibit space and/or peak room nights. The BCC and Visit Baltimore have requirements that preclude them from booking the facility too far in advance in these types of situations. Some customers are not flexible on their dates and, as such, cannot be accommodated within their desired timeframe, allowing Visit Baltimore and BCC staff greater flexibility for larger, citywide events. In general, these reasons appear to be consistent with the facility's booking policy and sound business decisions routinely employed in the industry.

Relative to lost business, conventions/tradeshows accounted for 74% of the total attendance and 71% of the total hotel rooms. On average, lost conventions/tradeshows are smaller in terms of average attendance (3,700) compared to the historical six-year average (4,800) at the BCC.

Summary of BCC Lost Business Reports by Event Type (Tracked 2007 through 2011)									
Event Type	Events		Event Days		Total Hotel Rooms		Average	Attendance	
	Number	%	Number	%	Number	%		Number	%
Conventions/Tradeshows	286	64%	1,491	64%	1,675,694	71%	3,731	1,067,129	74%
Meetings	154	35%	811	35%	665,254	28%	2,317	356,782	25%
Sporting	2	0%	7	0%	4,810	0%	2,500	5,000	0%
Local Shows	2	0%	6	0%	1,675	0%	3,300	6,600	0%
Total	444	100%	2,315	100%	2,347,433	100%		1,435,511	100%

The majority of events in the lost business report were scheduled to occur in FY 2008 through FY 2016. Most of these events were scheduled to occur in May through October which is consistent with the Inner Harbor's peak occupancy and BCC's peak exhibit hall usage.

BCC Lost Business (Tracked 2007 through 2011)								
Month	Events		Event Days		Total Hotel Rooms		Attendance	
	Number	%	Number	%	Number	%	Number	%
January	21	5%	113	5%	102,763	4%	70,275	5%
February	17	4%	85	4%	95,498	4%	66,475	5%
March	33	7%	147	6%	166,025	7%	92,685	6%
April	40	9%	203	9%	218,614	9%	125,520	9%
May	59	13%	291	13%	286,366	12%	148,200	10%
June	55	12%	302	13%	341,002	15%	231,510	16%
July	53	12%	275	12%	297,233	13%	176,730	12%
August	40	9%	230	10%	304,418	13%	230,800	16%
September	43	10%	230	10%	154,612	7%	84,364	6%
October	51	11%	279	12%	217,265	9%	112,302	8%
November	22	5%	120	5%	108,917	5%	58,400	4%
December	10	2%	40	2%	54,720	2%	38,250	3%
Total	444	100%	2,315	100%	2,347,433	100%	1,435,511	100%

Note: Sorted by month.

Source: Visit Baltimore.

Future BCC Bookings

Many conventions/tradeshows are booked several years in advance, particularly large national events. Based on a facility's booking policy, public shows, meetings, banquets and other events typically contract their event in the short-term (i.e., within 18 to 24 months). Consequently, it is not unusual for a greater number of future bookings to be within the next few years. Future bookings at the BCC indicate that occupancy is likely to remain relatively strong over the next few years.

Future convention/tradeshow bookings through 2021 account for 120 events, 844,275 attendees and more than 934,200 room nights. Average attendance for future booked events (7,000) is anticipated to be higher than the historical six-year average of approximately 4,800.

Future BCC Convention/Tradeshow Bookings						
Calendar Year	Events	Attendance		Room Nights		Average GSF
		Total	Average	Total	Average	
2012	39	282,275	7,238	194,223	4,980	136,256
2013	25	162,500	6,500	193,788	7,752	135,000
2014	15	108,700	7,247	146,881	9,792	175,500
2015	18	122,000	6,778	164,305	9,128	181,944
2016	15	118,800	7,920	152,856	10,190	190,700
2017	1	5,000	5,000	7,484	7,484	215,000
2018	2	12,500	6,250	16,066	8,033	45,500
2019	3	18,500	6,167	36,131	12,044	210,000
2020	1	7,500	7,500	7,880	7,880	300,000
2021	1	6,500	6,500	14,624	14,624	220,000
Total	120	844,275		934,238		
Average	12	84,400	7,000	93,400	7,800	181,000

Source: Visit Baltimore.

Potential Demand Generators

In order to assess the potential demand for an expanded BCC, it is important to understand the macro level population of events as well as gather input directly from potential users to gauge how the BCC and Baltimore are viewed in terms of attracting their event(s). Several sources were used to assess potential demand including primary and secondary research. It is important to note that there is not one single industry source that can provide a measure of the universe of demand. As such, several sources are presented to show the order-of-magnitude demand that exists in the broader market place as well as the BCC's potential to grow its current share. The various sources do not represent mutually exclusive demand potential.

As mentioned previously, Red 7 Media conducted a study for Visit Baltimore in 2010 to report industry trends and identify market potential for events requiring greater than 300,000 gross SF of exhibit space. The study found that if the BCC offered a total of 500,000 gross SF of exhibit space, the potential universe of events it could host increased by 368, approximately 265 of which rotate nationally or in the Mid-Atlantic region. Attracting 3% to 5% of these potential incremental events annually would equate to nine to 13 additional conventions/tradeshows, respectively.

Supply of U.S. Conventions & Tradeshows		
Exhibit Space Gross SF	Share	Number of Events
Major U.S. Convention & Tradeshows		3,067
Require up to 300,000 SF	71.0%	2,178
Require 300,000 SF to 500,000 SF	12.0%	368
Rotate Nationally or in Mid-Atlantic	8.6%	265
Incremental Universe of Possible Events	8.6%	265

Sources: Tradeshow Week; Red 7 Media

In a separate initiative, Visit Baltimore identified 243 lost and/or potential meetings, tradeshow, sporting events and conventions that were either too large to be accommodated by the current BCC or have been lost because of space issues. These events were identified using Destination Marketing Association International’s (DMAI) database, *Tradeshow Week’s* list of top national convention and meeting groups and Visit Baltimore’s tracked lost business data. Of these groups, 183 require greater than 300,000 SF of exhibit space and average 3,900 peak room nights. In addition, 96% of these groups could be accommodated by Baltimore’s existing citywide hotel supply.

According to the *2011 State & Regional Associations of the U.S. and National Trade and Professional Associations of the U.S.*, there are 613 associations headquartered in Maryland. Baltimore is proximate to nearly 3,500 associations that are headquartered in Maryland, D.C., Virginia, Delaware and Pennsylvania. These account for 21% of all associations headquartered in the U.S. These groups represent a target market within the State and region for annual conventions, tradeshow and smaller division meetings.

Distribution of Association Headquarters			
State	State/ Regional		Total
	Associations	National Associations	
Virginia	242	925	1,167
D.C.	60	1,082	1,142
Maryland	192	421	613
Pennsylvania	260	228	488
Delaware	60	14	74
Total	814	2,670	3,484

Source: Associations of the United States, 2011.

In addition to this macro level potential demand industry-wide, representatives of State, regional and national associations were surveyed in order to assess their future needs at the BCC and their reasons for choosing (or not choosing) Baltimore as a destination. Survey participants were selected from a variety of sources including past users of the BCC, lost business reports from Visit Baltimore, and potential groups requiring more than 300,000 gross SF of exhibit space as well as *State & Regional Associations* and *National Trade & Professional Associations* publications.

Web-based surveys were emailed to existing users of the BCC as well as potential users of an expanded facility. The survey process sought to gauge how the existing BCC is positioned to meet the long-term needs of the groups from the meeting planners’ perspective. Because these types of projects can take several years to develop from conception to construction, it is important to obtain input on meeting planners’ anticipated long-term needs rather than just their current short-term needs. Questions focused on event-related information (e.g., scope, seasonality of event, attendance, event length, and location where group has met in the past), convention space requirements (e.g., amount and type of space requirements), hotel requirements (e.g., required peak room night block, total room nights) as well as other factors influencing their decision to meet in Baltimore as well as their interest level in meeting at the BCC with and without expansion.

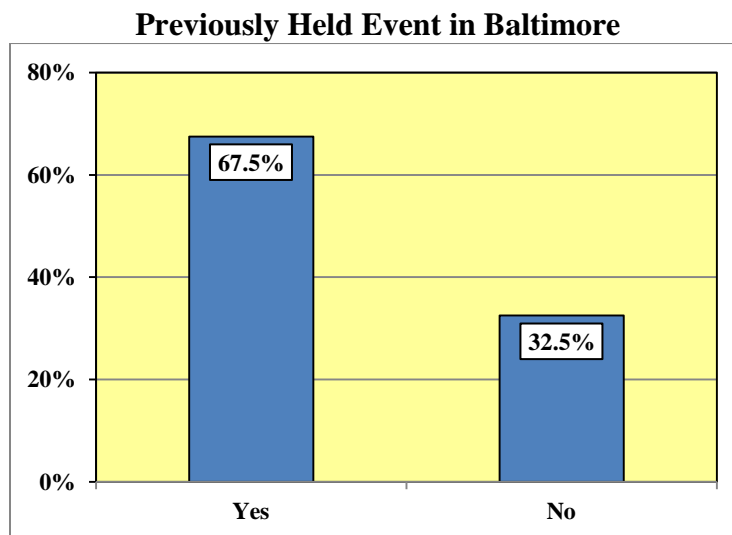
Over 420 groups were contacted of which 77 meeting planners responded to the survey effort, an 18% response rate. This section of the report presents a summary of the findings from this analysis including facility-specific and destination-related requirements.

The primary objectives of the survey effort were to determine:

- The selection criteria used by meeting planners when choosing a convention and meeting destination and how, in general, Baltimore and the BCC meet these objectives;
- Facility requirements that will be necessary to service their long-term growth expectations; and
- The likelihood of choosing the BCC as a facility for their event given the existing building program as compared to an expanded facility with the broader proposed development elements including a new hotel and arena.

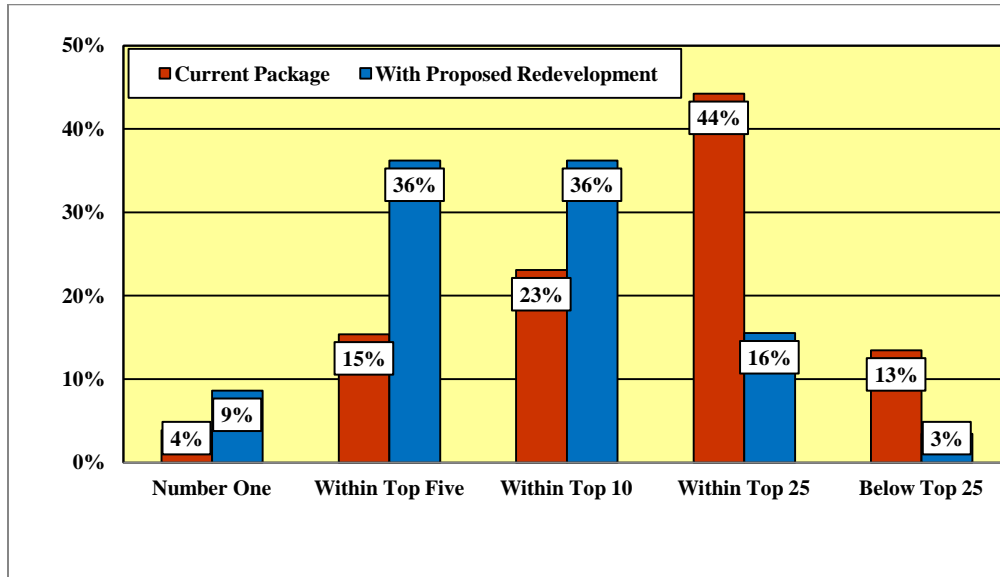
The pages which follow summarize the results of the survey effort.

Approximately two-thirds of respondents have previously met in Baltimore.



Meeting planners were asked to rank Baltimore among other meeting/convention destinations with its current convention center/amenities package as well as with the proposed expansion/development. Survey research with meeting planners indicated that Baltimore would be a more desirable market with the planned public-private development project. Approximately 57% of survey responses from meeting planners ranked Baltimore below their top 10 sites with its current package. The proposed expansion/development package would move Baltimore to the top 10 destination ranking for 81% of survey respondents.

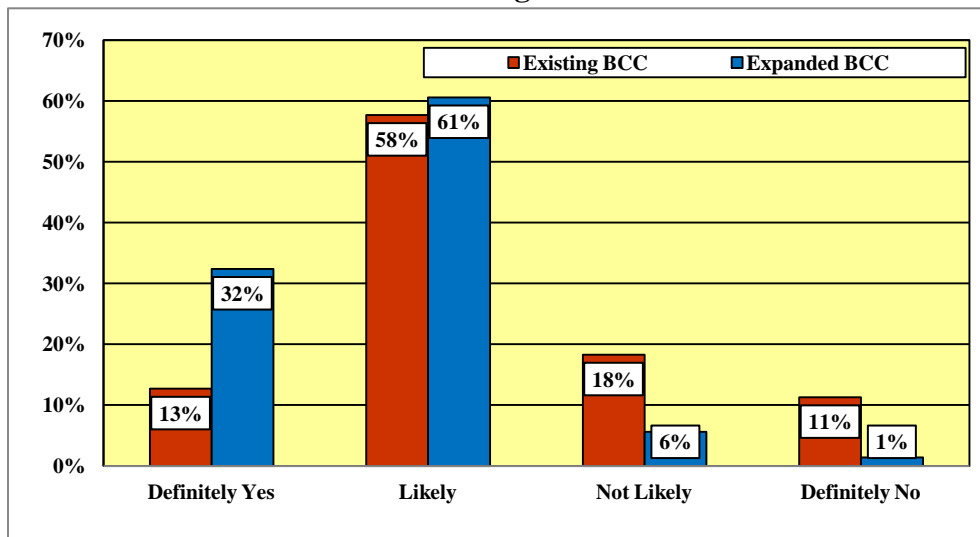
Baltimore's Rank as a Destination



Other cities where respondents have held their events include, but are not limited to, Atlantic City, Boston, Chicago, Denver, Indianapolis, Minneapolis, Nashville, New Orleans, Orlando, Philadelphia, Phoenix, San Antonio, San Diego, San Francisco, St. Louis, and Washington, D.C.

Meeting planners were asked if they would consider meeting at the BCC given the existing program and with the proposed expansion. As shown in the following graph, 71% of meeting planners responded “Definitely Yes” or “Likely” with the existing program whereas 93% responded favorably with the proposed expansion. Although many groups surveyed would consider the existing BCC for their events, they have been unable to secure dates and/or space due to the BCC and/or hotel availability.

Would You Consider Hosting Your Event at the BCC?



Overall all positive respondents report an average total attendance of approximately 5,600 including delegates, exhibitors and spouses/guests. The subset of positive respondents who would only consider hosting their event at an expanded BCC indicated their events average 6,600 in total attendance.

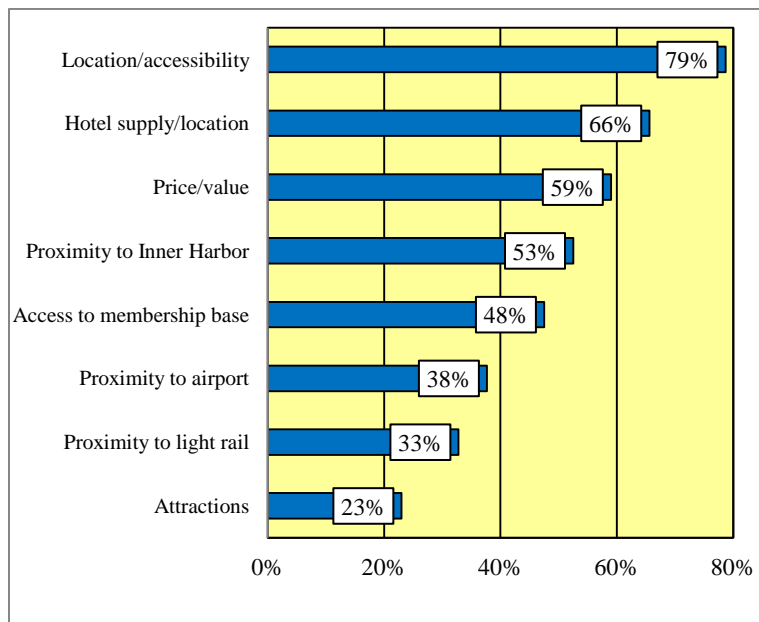
Average Response - Positive Respondents		
Attendance	Expansion Only	All
Delegates	4,400	3,800
Exhibitors	2,100	1,100
Spouses/Guests	100	700
Total Attendance	6,600	5,600

Note: Not all respondents provided each attendee category; some only provided a total.

Approximately 18% of all positive respondents indicated that the proposed new arena would positively impact their decision to host their event at the BCC. Seventy-nine percent (79%) of all positive respondents indicated that the arena would have no impact on their site selection while 3% reported it would negatively impact their decision.

Meeting planners that responded favorably to hosting their event at an expanded BCC responded that Baltimore’s strengths were location/accessibility, hotel supply, price/value and proximity to the Inner Harbor amenities, respectively.

Baltimore’s Strengths in Attracting Your Group



Note: Respondents could mark multiple categories.

By contrast, those that responded unfavorably to hosting their event at the BCC cited size/type of facility, delegates not interested in Baltimore and cost/value as destination weaknesses.

All respondents indicating an interest in meeting at the BCC were asked the amount of gross exhibit space required. Overall, positive respondents required an average of 171,000 SF of exhibit space while the subset who would only consider hosting their event at an expanded BCC required an average of 210,000 SF of exhibit space. Positive respondents average more than four event days with an additional three to four move in/out days which are longer in average length than conventions/tradeshows historically held at the BCC.

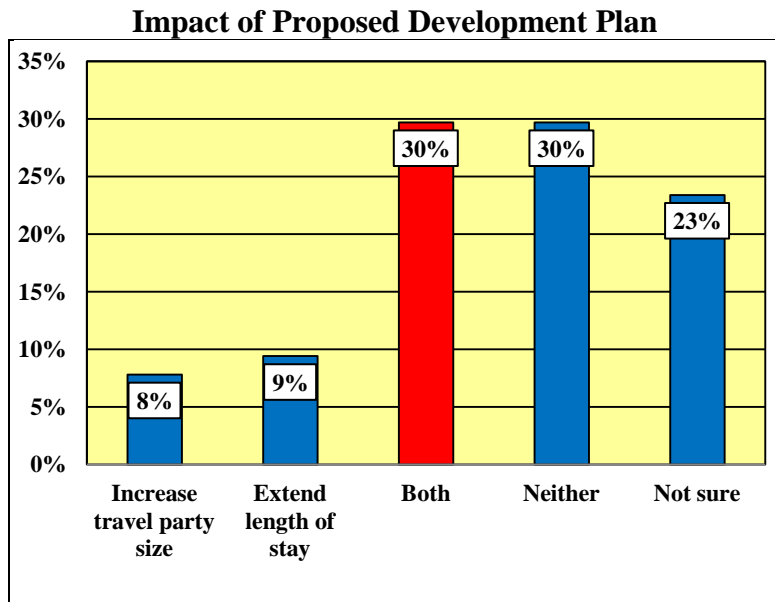
Average Response - Positive Respondents		
Average Space Requirements	Expansion Only	All
Exhibit space (SF)	210,000	171,000
General Session (largest capacity)	5,900	2,400
Meeting Rooms (number)	34	24
Meeting Space (SF)	60,700	50,900
Banquet (largest capacity)	1,900	1,200
Banquet (SF)	22,300	22,300
Average Event Length	Expansion Only	All
Event Days	4.4	4.2
Move In/Out Days	4.3	3.2
Total Usage Days	8.6	7.1

The vast majority of positive respondents indicated that the exhibit space required for their event must be contiguous and offering their required exhibit space on two levels would preclude them from hosting their event at the BCC.

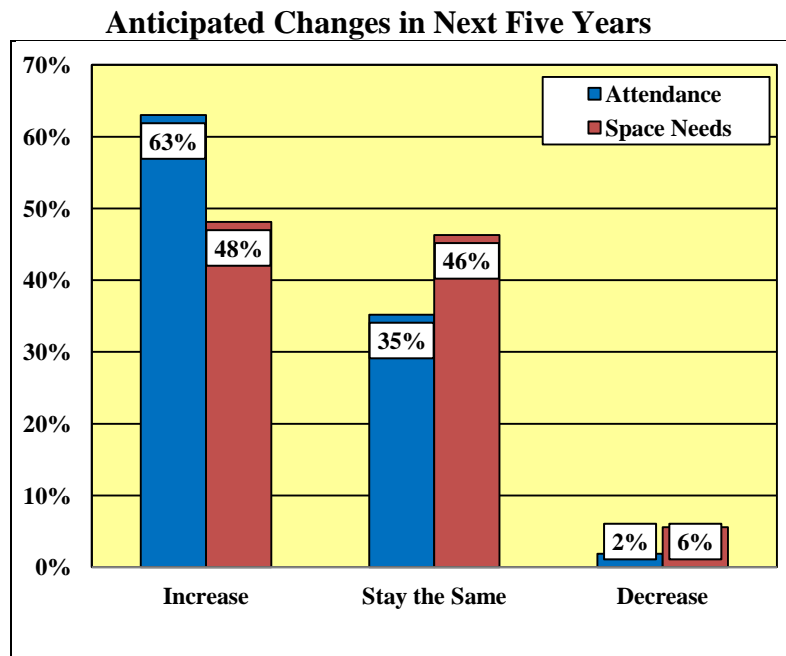
On average, all positive respondents indicated that approximately 82% of attendees stay overnight with a minimum of 910 rooms in the headquarter hotel block and a total of 2,000 peak rooms citywide. Several meeting planners commented that additional proximate hotel rooms would be required to accommodate their business.

Average Response - Positive Respondents		
Hotel Requirements	Expansion Only	All
Percent Overnight Attendees	87%	82%
Peak Citywide Rooms	3,300	2,000
Minimum HQ Hotel(s) Block	1,160	910

Positive respondents were asked whether the proposed expansion/development plan would positively impact their attendee travel party size and/or length of stay in Baltimore. As shown in the adjacent graph, 30% of all positive respondents indicated the proposed plan would positively impact both travel party size and their average length of stay. Planners indicated an additional 1.7 travel party members and additional 1.7 days, on average.

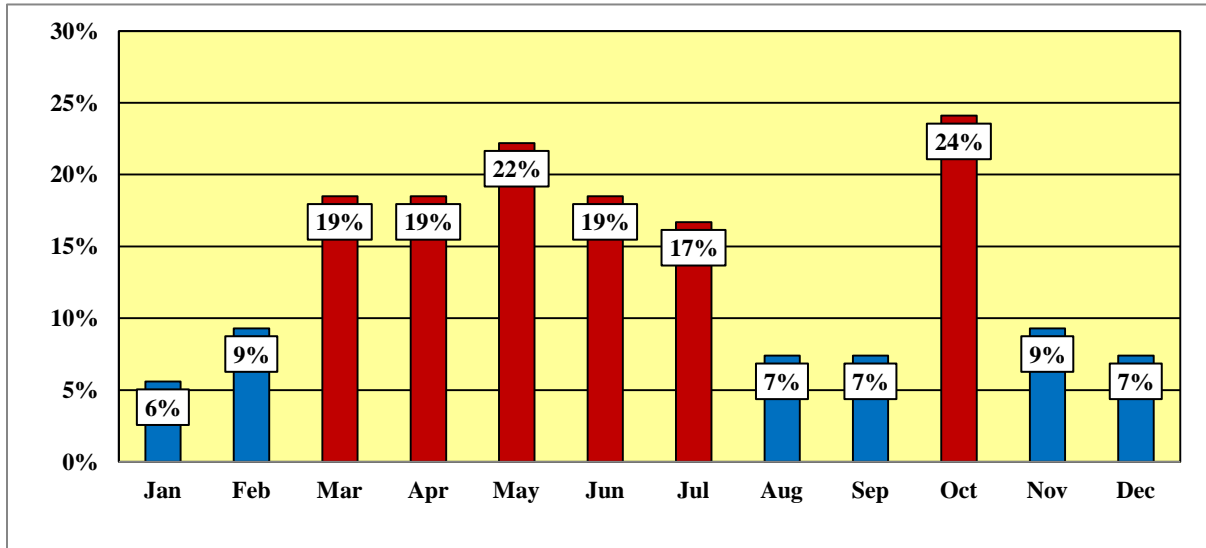


As shown in the adjacent graph, approximately 63% of all positive respondents anticipate an increase in attendance whereas space needs were almost evenly split among groups projecting increasing needs and those anticipating static needs.



October is the most popular month for conventions from the sample with spring and summer also common target dates for responding groups. Consistent with lost business reports citing date availability as a common reason, the percent of BCC exhibit hall events and Inner Harbor hotel occupancy mirror the trend of potential demand by month. Peak seasons include spring, early summer and fall. In order to accommodate additional convention/ tradeshow demand, the BCC will likely require additional exhibit space and possibly additional proximate hotel rooms to accommodate peak room night demand and/or simultaneous events.

Month When Largest Convention is Held



Competitive/Comparable Facility Analysis

In order to gain an understanding of the market within which an expanded BCC would operate, competitive/comparable facilities and destinations are analyzed and compared to the BCC and Baltimore's characteristics. For purposes of this analysis, profiled facilities used in this analysis were chosen based on one or more of the following: the amount of exhibit and meeting/ ballroom space; information in lost business reports; as well as input from the BCC and Visit Baltimore. This analysis will assist the City and the MSA in assessing Baltimore's position relative to other convention/tradeshows markets as they explore the need for expanded convention space.

Based on this criterion, the following convention centers are profiled:

- Atlantic City Convention Center in New Jersey
- Boston Convention and Exhibition Center in Massachusetts
- Cervantes Convention Center in St. Louis
- Charlotte Convention Center in North Carolina
- Colorado Convention Center in Denver
- David L. Lawrence Convention Center in Pittsburgh
- Gaylord National Resort and Convention Center in National Harbor
- Indiana Convention Center in Indianapolis
- Minneapolis Convention Center in Minnesota
- Music City Center in Nashville
- Pennsylvania Convention Center in Philadelphia
- San Diego Convention Center in California
- Walter E. Washington Convention Center in Washington D.C.

The table that follows summarizes the ownership/operator structure of the profiled competitive/comparable facilities. While all but one of the profiled facilities are publicly funded, many utilize independent authorities to serve as the owner and/or operator of their asset. In addition, several others maintain public ownership and contract with a third party to privately manage their centers. Only the Minneapolis Convention Center is owned and operated by the City similar to the BCC.

Competitive/Comparable Facilities - Owner/Operator			
Facility	Location	Owner	Operator
Atlantic City Convention Center	Atlantic City, NJ	Atlantic City Convention & Visitors Authority	SMG
Boston Convention & Exhibition Center	Boston, MA	Massachusetts Convention Center Authority	MCCA
Cervantes Convention Center	St. Louis, MO	St. Louis Convention and Visitors Commission (CVC)	St. Louis CVC
Charlotte Convention Center	Charlotte, NC	City	Charlotte Regional Visitors Authority
Colorado Convention Center	Denver, CO	City/County	SMG
David L. Lawrence Convention Center	Pittsburgh, PA	Sports & Exhibition Authority of Pittsburgh & Allegheny County	SMG
Gaylord National Resort and Convention Center	National Harbor, MD	Gaylord Hotels	Gaylord Hotels
Indiana Convention Center	Indianapolis, IN	Indiana Stadium and Convention Building Authority	Capital Improvement Board of Managers
Minneapolis Convention Center	Minneapolis, MN	City	City
Music City Center	Nashville, TN	Metro Nashville	Convention Center Authority
Pennsylvania Convention Center	Philadelphia, PA	Pennsylvania Convention Center Authority (PCCA)	PCCA
San Diego Convention Center	San Diego, CA	City	San Diego Convention Center Corporation
Walter E. Washington Convention Center	Washington, D.C.	Washington Convention and Sports Authority	WCSA

Note: Sorted alphabetically.

Sources: Management at individual facilities; secondary research.

Crossroads Consulting obtained and analyzed programming information, destination attributes and operating data from the profiled set based on detailed interviews with management, industry resources, published reports and our internal database. The data shown in this report is based on available information for each of the profiled facilities. However, detailed operating data was not available for all of the profiled facilities. In addition, individual convention centers are not identified in the comparative operating tables and graphs because some information was provided confidentially.



Building Programs

The table below summarizes the building programs for the profiled competitive/comparable facilities. On average, these centers offer significantly more exhibit, meeting and ballroom space than currently offered at the BCC. Despite its smaller size, the existing BCC offers a similar ratio of meeting/ballroom space to exhibit space as profiled centers.

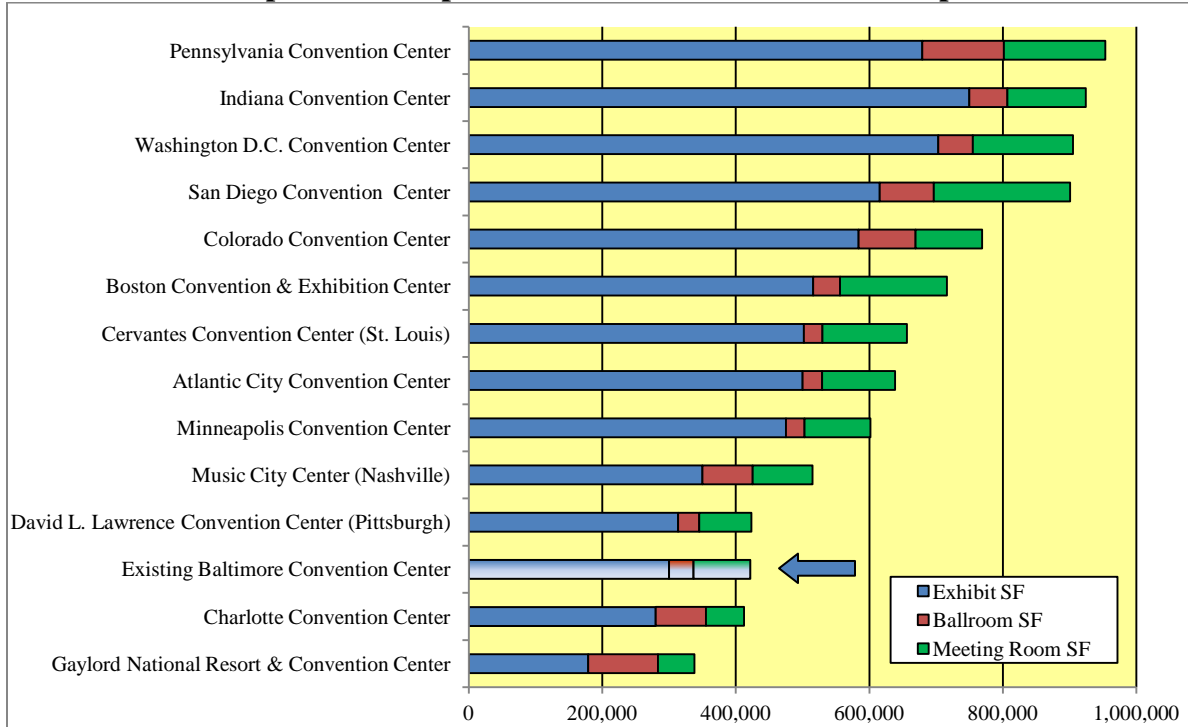
Competitive/Comparable Facility Building Program Characteristics											
Facility	Location	Year Built	Maximum Contiguous Exhibit SF	Exhibit Hall SF	Ballroom SF	Meeting Room SF	Total Function SF	Ratio of Ballroom/ Meeting SF to Exhibit SF	Divisible Meeting Rooms	Average SF / Meeting Room	Plans for Expansion?
Pennsylvania Convention Center	Philadelphia, PA	2011	528,000	679,000	122,400	152,000	953,400	40%	73	2,082	no
Indiana Convention Center	Indianapolis, IN	1972	566,600	749,600	57,100	117,600	924,300	23%	104	1,131	no
Washington D.C. Convention Center	Washington, D.C.	2003	473,000	703,000	52,000	150,000	905,000	29%	66	2,273	no
San Diego Convention Center	San Diego, CA	1987	525,700	615,700	80,700	204,114	900,514	46%	72	2,835	yes
Colorado Convention Center	Denver, CO	1990	584,000	584,000	85,000	100,000	769,000	32%	63	1,587	no
Boston Convention & Exhibition Center	Boston, MA	2004	516,000	516,000	40,000	160,000	716,000	39%	84	1,905	yes
Cervantes Convention Center	St. Louis, MO	1977	502,000	502,000	27,600	126,700	656,300	31%	59	2,147	no
Atlantic City Convention Center	Atlantic City, NJ	1997	500,000	500,000	29,400	109,100	638,500	28%	45	2,424	no
Minneapolis Convention Center	Minneapolis, MN	1991	376,200	475,200	27,500	99,100	601,800	27%	87	1,139	no
Music City Center	Nashville, TN	2013	350,000	350,000	75,000	90,000	515,000	47%	60	1,500	no
David L. Lawrence Convention Center	Pittsburgh, PA	2002	236,900	313,400	31,600	78,500	423,500	35%	51	1,539	no
Existing Baltimore Convention Center	Baltimore, MD	1979	300,000	300,000	36,700	85,000	421,700	41%	50	1,700	
Charlotte Convention Center	Charlotte, NC	1995	280,000	280,000	75,300	57,100	412,400	47%	45	1,269	no
Gaylord National Resort & Convention Center	National Harbor, MD	2008	179,000	179,000	104,300	54,700	338,000	89%	60	912	no
Average (Excluding BCC)			432,100	495,900	62,100	115,300	673,400	39%	100	1,700	
Median (Excluding BCC)			500,000	502,000	57,100	109,100	656,300	35%	100	1,600	

- Notes:
- Sorted in descending order by total function space.
 - Prefunction, concourses and lobby spaces are excluded from all centers.
 - Indianapolis and St. Louis total exhibit space include adjacent stadium floors.
 - Music City Center is currently under construction.

Sources: Management at individual facilities; secondary research.

As shown in the following graph, the existing BCC offers the third lowest amount of total function space relative to the profiled competitive/comparable facilities. The Gaylord National Resort & Convention Center in National Harbor, which competes with the BCC for group business, offers a total of 338,000 SF of total function space. From a broader industry perspective, the BCC currently ranks as the 67th largest convention center according to Red 7 Media.

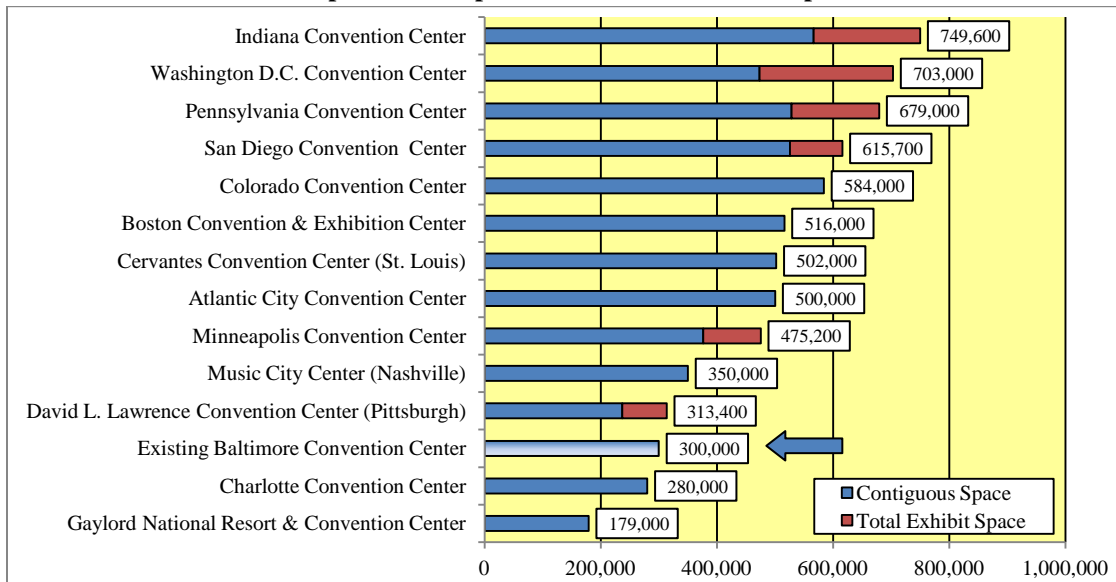
Competitive/Comparable Facilities – Total Function Space



Sources: Management at individual facilities; other research.

Of the profiled centers, only the Gaylord National Resort & Convention Center and Charlotte Convention Center offer less exhibit space than the existing BCC. Primary competitors in Boston, Philadelphia and Washington offer significantly more contiguous and total exhibit space.

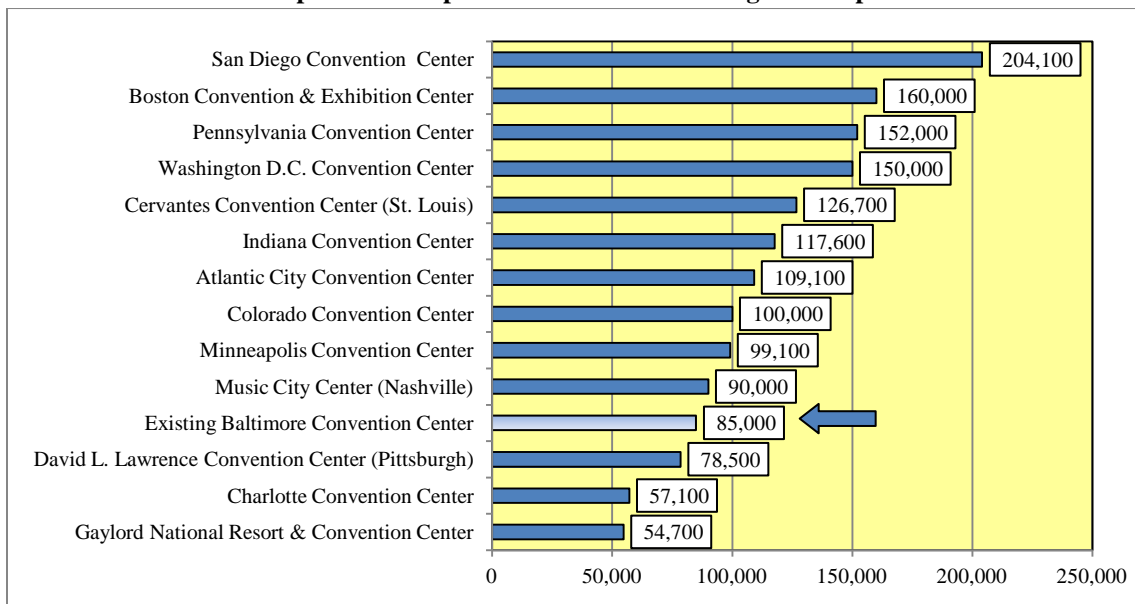
Competitive/Comparable Facilities – Exhibit Space



Sources: Management at individual facilities; other research.

As with exhibit space, the existing BCC ranks in the bottom three in terms of the amount of total meeting room space.

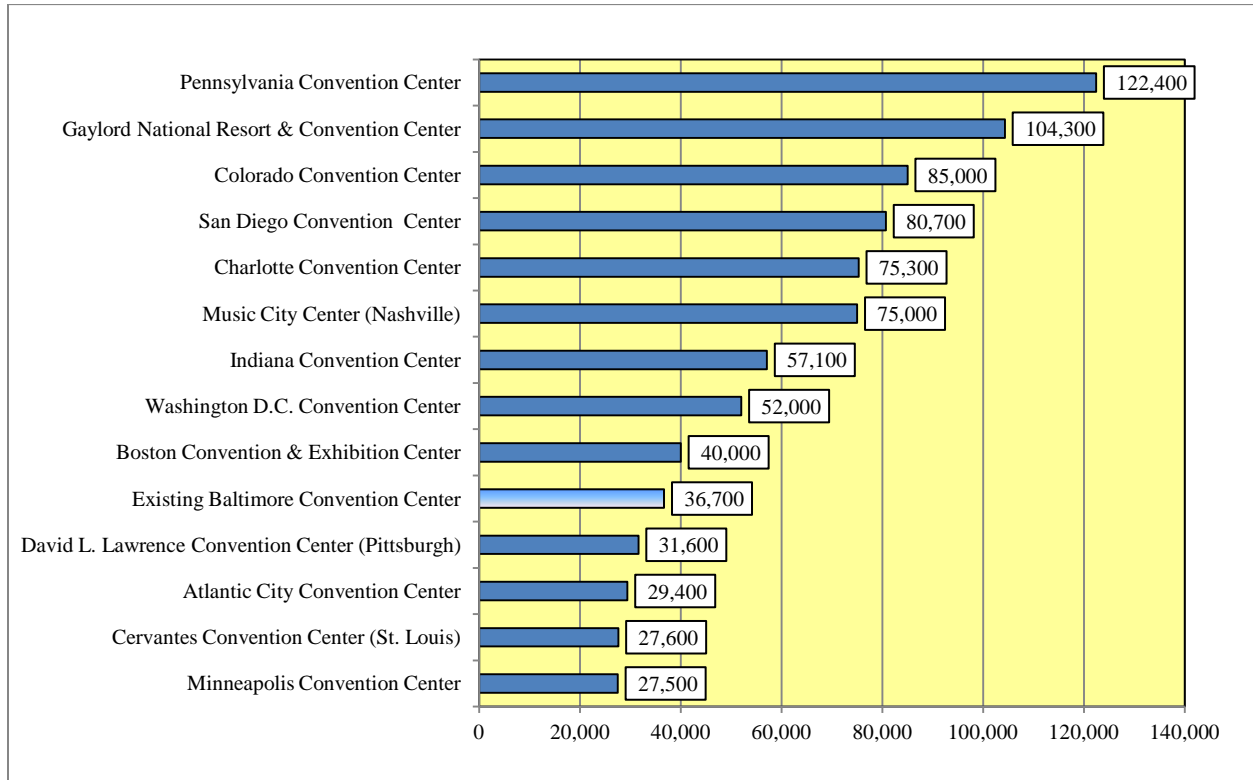
Competitive/Comparable Facilities – Meeting Room Space



Sources: Management at individual facilities; other research.

Although ranking in the bottom five, the existing BCC offers a similar amount of ballroom space as the Boston Convention & Exhibition Center (BCEC), which is actively exploring expansion that would include a larger ballroom.

Competitive/Comparable Facilities – Ballroom Space



Sources: Management at individual facilities; other research.



Destination Characteristics

As mentioned previously, convention and meeting planners consider destination characteristics in their site selection process. Particularly as the exhibition/meeting industry has undergone a supply boom and a demand slump in recent years, planners are increasingly booking venues with better overall destination packages (i.e., proximate hotel rooms, nearby entertainment/restaurants, safe/secure surroundings, etc.) to support their facility. In addition, the resulting buyer's market has planners considering the overall price of hosting their event in a particular city including facility, lodging, food and transportation costs. The table below outlines various metrics used by meeting planners to gauge the relative competitiveness of cities under consideration.

Summary of Select Destination Attributes										
Facility	Air Service	Hotel Supply				Hotels Within One Mile		Per Diem	Tax Rates	
	CY 10 Passenger Enplanements ¹	HQ Hotel(s)	HQ Hotel(s) Rooms	Within Walking Distance	Citywide	ADR	Occupancy	Corporate Travel Index	Rental Car Tax	Total Tax on Hotel Rooms
Colorado Convention Center	25,241,962	yes	1,100	7,000	42,000	\$108	64%	\$301	7.25%	14.85%
Cervantes Convention Center	6,044,760	yes	875	8,000	38,000	n/a	n/a	\$261	8.24%	17.74%
Music City Center ²	4,432,527	under	800	2,150	33,000	n/a	60%	\$262	1.00%	15.25%
Indiana Convention Center	3,728,698	yes	575	4,700	32,000	\$125	65%	\$250	4.00%	17.00%
Charlotte Convention Center	18,629,181	yes	1,110	4,000	32,000	\$129	65%	\$279	8.00%	15.25%
Washington Convention Center	8,736,804	under	1,165	11,255	29,000	\$215	76%	\$462	10.00%	14.50%
Atlantic City Convention Center ³	669,470	yes	500	500	17,677	\$93	85%	n/a	\$5.00/day	14.00%
Boston Convention & Exhibition Center	13,561,814	yes	795	1,690	16,994	\$210	79%	\$409	\$10.00/transaction	14.45%
Minneapolis Convention Center	15,512,487	yes	320	5,700	14,700	\$125	66%	\$306	11.20%	13.40%
San Diego Convention Center	8,430,509	yes	2,550	11,400	11,789	\$207	73%	\$317	11.11% +	12.50%
Pennsylvania Convention Center	14,951,254	yes	1,410	6,400	10,463	\$152	71%	\$338	2.00%	15.20%
Existing Baltimore Convention Center	10,848,633	yes	1,600	5,400	9,300	\$153	62%	\$343	11.50%	15.50%
Gaylord National Resort & Convention Center	8,736,804	yes	2,000	2,940	9,000	n/a	n/a	n/a	11.50%	16.00%
David L. Lawrence Convention Center	3,996,656	yes	615	3,550	4,320	\$141	64%	\$298	\$4.00/day	14.00%
Average (Excluding BCC)	10,205,600		1,100	5,300	22,400	\$150	70%	\$320.00		14.93%
Median (Excluding BCC)	8,736,800		900	4,700	17,700	\$140	66%	\$300.00		14.85%

Notes: Sorted in descending order by citywide hotel supply.

¹Passenger enplanements are defined as domestic, territorial and international passengers who board an aircraft in scheduled and non-scheduled service of aircraft.

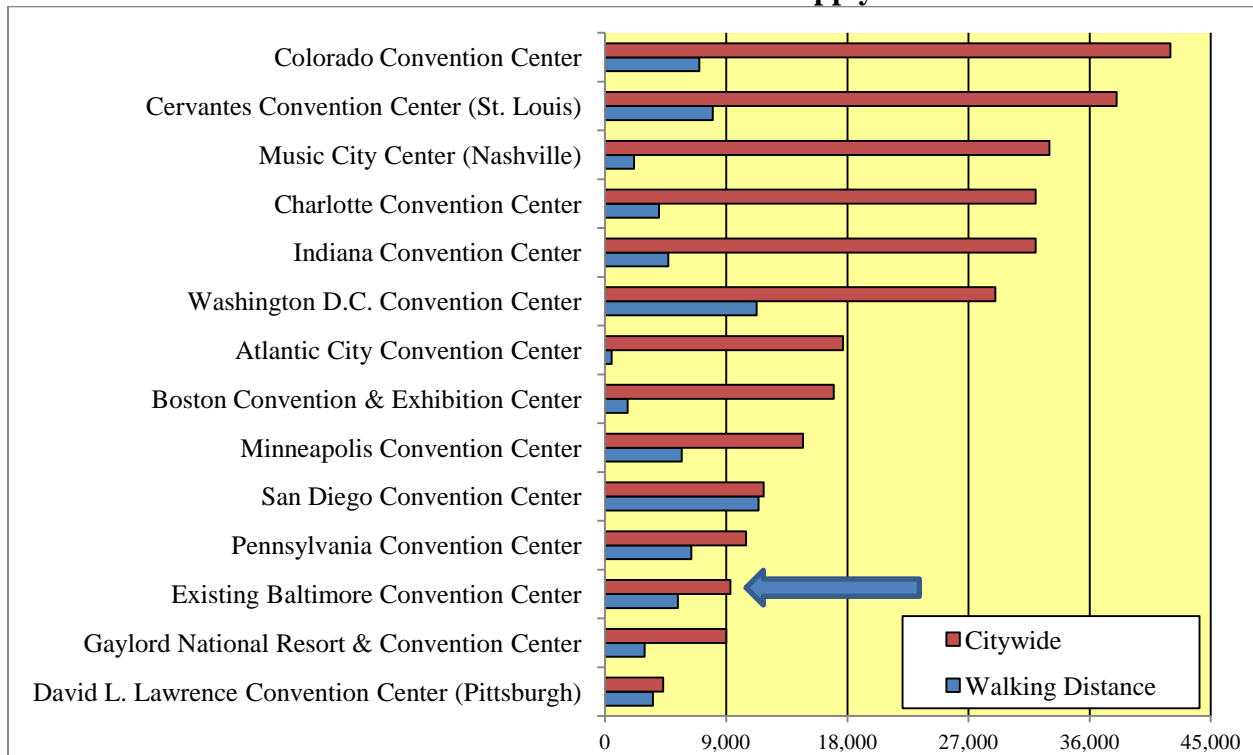
²Nashville also applies a \$2.50 surcharge per room night.

³Atlantic City hotel stays are subject to a City luxury tax, State sales tax and State occupancy fee.

Sources: Management at individual facilities; destination marketing organizations; Federal Aviation Administration; Smith Travel Research; secondary research.

As shown in the previous table, Baltimore ranks sixth relative to the profiled competitive cities in terms of FAA reported passenger enplanements. All of the profiled destinations offer one or more headquarter hotel(s) or are constructing one. Baltimore offers more (1,600) headquarter hotel rooms than the competitive set average (1,100) and a comparable hotel supply within walking distance of the BCC. On average, competitive cities offer 141% more hotel rooms citywide than Baltimore. The ability for Baltimore to compete for larger groups will likely require additional citywide rooms over time.

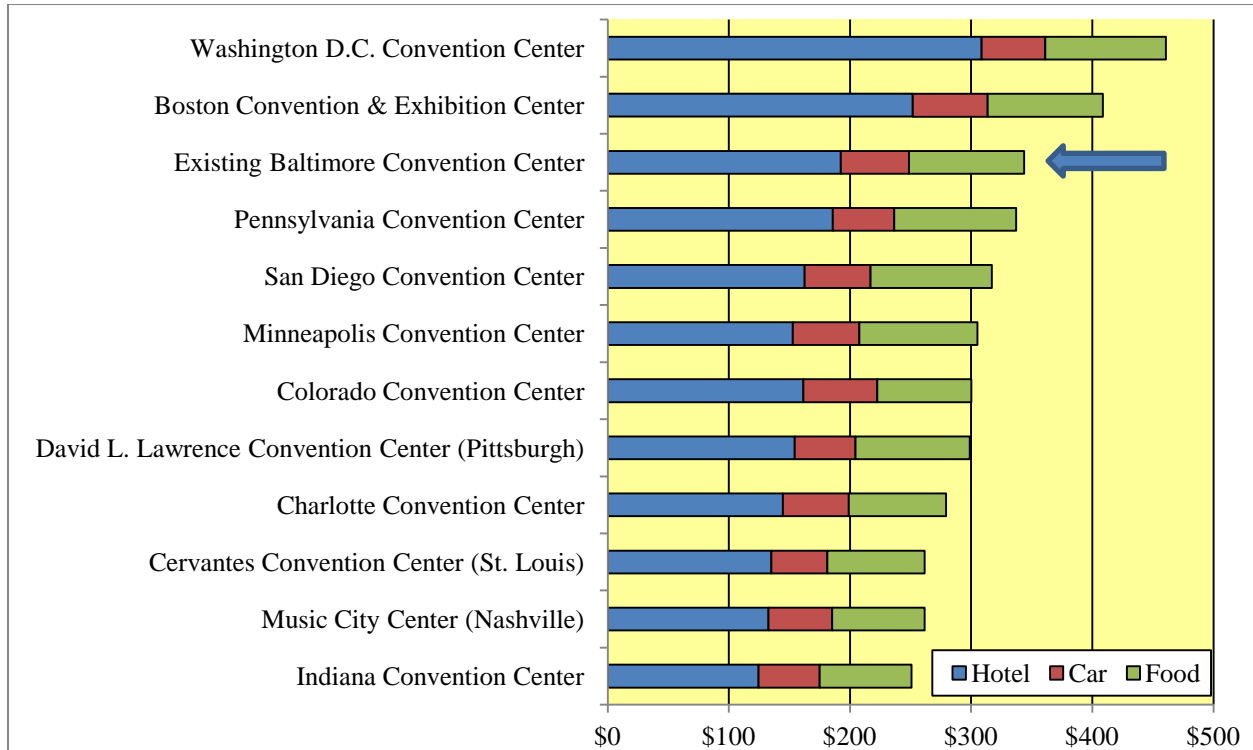
Profiled Destinations - Hotel Supply



Sources: Individual facilities; destination marketing organizations; secondary research.

Business Travel News publishes an annual corporate travel index ranking 100 U.S. cities in terms of various travel related costs including lodging, car rental and food. According to the 2011 index, Baltimore ranks third highest among the competitive set in terms of average corporate travel costs with a total for the three categories of \$343 which is 7% higher than the average of profiled cities. The following graph compares Baltimore’s corporate travel index ranking among the profiled set.

Profiled Destinations - Corporate Travel Index

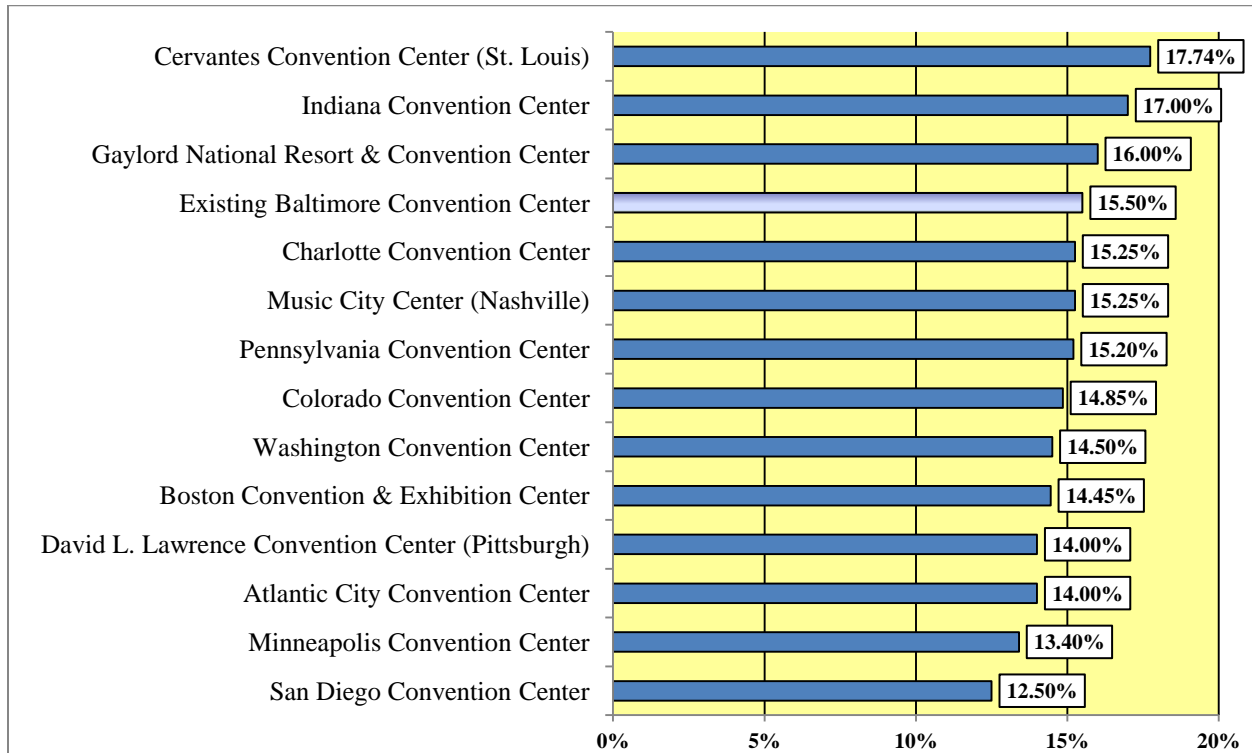


Note: Corporate travel index not available for Atlantic City or National Harbor.

Source: Business Travel News.

While Baltimore has the fourth highest total tax on hotel rooms (15.5%), its rate is comparable to the average of profiled destinations (14.9%). Baltimore’s relatively high business travel costs and total tax on hotel rooms could potentially impact its competitive position, particularly in a buyer’s market. This is consistent with lost business reports citing pricing (related to the BCC itself and other destination-related costs such as lodging) as the second most popular reason. However, input from existing/potential user groups also ranked price/value as one of Baltimore’s strengths.

Profiled Destinations – Total Tax on Hotel Rooms



Note: Nashville also charges a \$2.50 surcharge per room night.

Atlantic City hotel stays are subject to a City luxury tax, State sales tax and State occupancy fee.

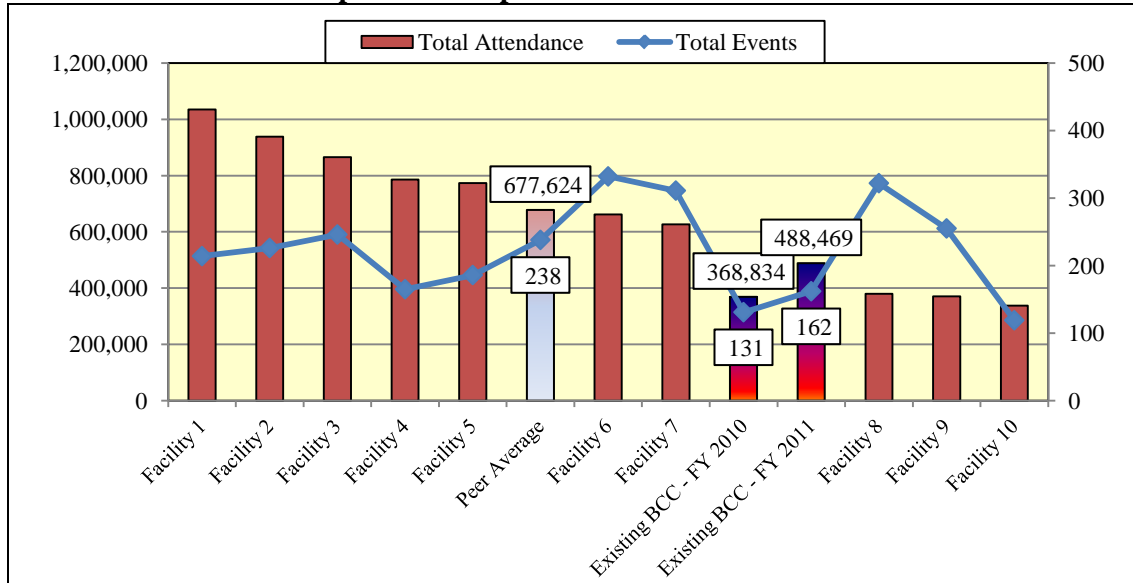
Source: Individual facilities; destination marketing organizations; secondary research.

Utilization

Utilization at convention centers is impacted by factors such as the physical product, market characteristics, accessibility, mission statement, booking policy, rental and labor rate structure, regionally competitive facilities, marketing efforts and general economic conditions. The following graph illustrates total events and total attendance at profiled facilities. Individual convention centers are not identified in the comparative utilization graph because some information was provided confidentially.

The BCC hosted fewer events and total attendance compared to profiled competitive/comparable facilities. Both FY 2010 and FY 2011 data is shown for the BCC since competitive/comparable facilities provided operating data for CY 2010 or FY 2010.

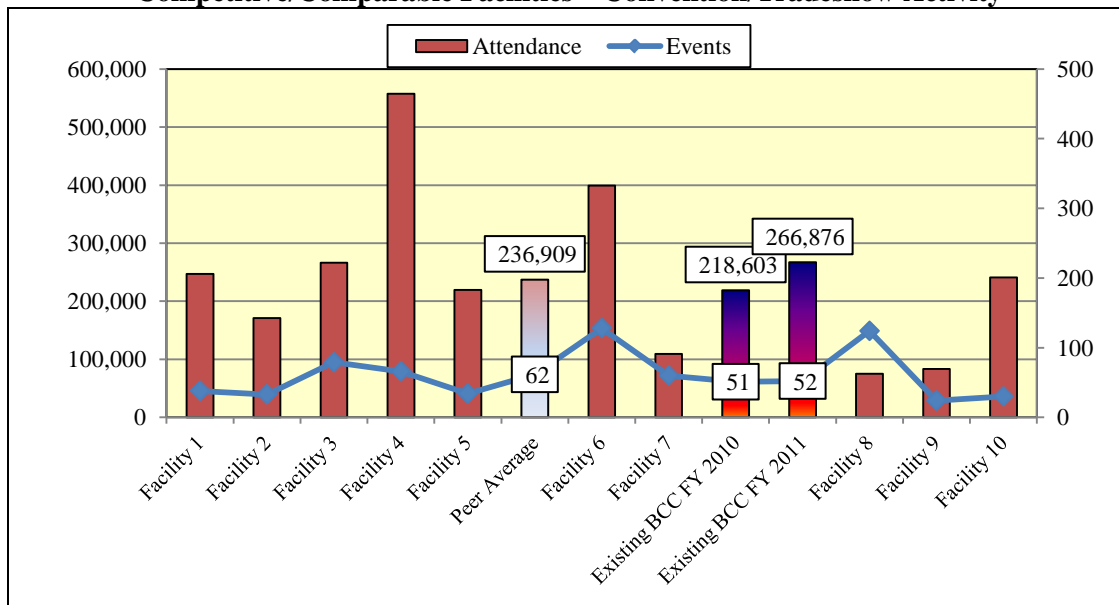
Competitive/Comparable Facilities - Utilization



Sources: Management at individual facilities; Crossroads Consulting research.

On average, the BCC hosted fewer conventions/tradeshows than profiled competitive/comparable centers. Despite offering one of the lowest amounts of total function space (i.e., exhibit, ballroom and meeting space) among its primary convention center competitors, the BCC compared favorably in terms of average and total convention/tradeshow attendance. Profiled centers hosted more “other events” and a higher total attendance which is primarily attributable to more public show attendance. Other events include public shows, food functions, meetings, sporting events and miscellaneous civic functions.

Competitive/Comparable Facilities – Convention/Tradeshow Activity



Sources: Management at individual facilities; Crossroads Consulting research.



Financial Performance

Comparing financial performance at competitive/comparable facilities can offer a good frame of reference from which to benchmark historical and projected financial operations of the existing BCC and any potential expansion. It is important to recognize that facilities vary in their methods of financial reporting and, as such, not all categories or line items are uniformly reported. Consequently, for purposes of this analysis, adjustments have been made to the financial information as reported by the facilities in order to try to make the data as consistent as possible for comparative purposes. For instance, operating revenues do not include any public funding or tax revenue such as hotel/motel tax collections for any of the profiled facilities. Similarly, facility operating expenses exclude depreciation expense, debt service, large asset purchases, and any effect of taxes. It is important to understand that the majority of stand-alone convention centers typically realize an operating deficit, few realize an operating profit.

The following table compares operating revenues and operating expenses for the BCC in FY 2010 and FY 2011 to the competitive/comparable facilities for which data was available. As shown, the BCC realized less operating revenues, less operating expenses and a higher operating deficit than the average of profiled facilities, many of which offer more total function space.

Competitive/Comparable Facilities - Financial Operations											
Category	Facility 1	Facility 2	Facility 3	Facility 4	Facility 5	Comp Avg	Facility 6	Existing BCC (FY 2011)	Existing BCC (FY 2010)	Facility 7	Facility 8
Operating Revenues	\$12,608,000	\$26,858,000	\$4,680,000	\$23,741,000	\$6,312,000	\$14,142,000	\$13,196,000	\$9,202,000	\$8,844,000	\$8,419,000	\$17,319,000
Operating Expenses	\$11,438,000	\$29,258,000	\$8,502,000	\$27,600,000	\$10,981,000	\$20,679,000	\$20,664,000	\$18,061,000	\$18,053,000	\$23,965,000	\$33,023,000
Net Income/(Loss)	\$1,170,000	(\$2,400,000)	(\$3,822,000)	(\$3,859,000)	(\$4,669,000)	(\$6,537,000)	(\$7,468,000)	(\$8,859,000)	(\$9,209,000)	(\$15,546,000)	(\$15,704,000)
Expense Coverage Ratio	110%	92%	55%	86%	57%	68%	64%	51%	49%	35%	52%

Notes: Sorted in descending order by net income/(loss).

Expense Coverage Ratio = Operating Revenues/Operating Expenses.

Sources: Management at individual facilities; Crossroads Consulting research.

Case Studies

In order to assist the MSA and the City with various development planning decisions associated with the proposed BCC expansion, Crossroads Consulting interviewed management at select competitive/comparable facilities and conducted secondary research to compile input on lessons learned. The following summarizes key points obtained from this research.



Pennsylvania Convention Center

The Pennsylvania Convention Center Authority (Authority) was established by the Commonwealth of Pennsylvania (Commonwealth) in 1987 to develop a convention center in Philadelphia. Later that same year, Marriott Hotels committed to build a headquarters hotel adjacent to the center. Located in Center City Philadelphia, the Pennsylvania Convention Center (PCC) opened in 1993 spurring new development including restoration of the Reading Terminal Train Shed and Market as well as additional hotels – all of which have contributed to increased visitation and economic activity. Since its opening, the PCC has hosted a wide variety of events including conventions, tradeshows, public shows, meetings, banquets and special events.

Opened in 1995 and located adjacent to the PCC, the 1,400-room Philadelphia Marriott Downtown is one of the largest hotels in the City. The property recently completed a \$6.3 million renovation that upgraded the lobby to include spaces for wireless connectivity, business meetings and retail. Proximate hotel supply is an important attribute in terms of attracting out-of-town groups to the PCC.

The Authority recently engaged in a large-scale expansion of the PCC that opened in March 2011. Its expanded size allows it to accommodate some of the largest conventions and trade shows as well as host multiple major events simultaneously. The expanded PCC features 953,000 SF of function space which more than doubled the previous building's size. It now offers the most contiguous exhibit space in the Northeast (528,000 SF), surpassing Boston and Washington, D.C.

In order to better position the PCC to continue to play an important role for years to come in creating new jobs and building a stronger economy, the Commonwealth committed a significant financial investment in the PCC expansion project. Under the current operating agreement executed between the Authority, the City, and the Commonwealth in April 2010, responsibility for the capital funding and operating deficits for the Authority shifted from the City to the Commonwealth. The City's financial obligation to the Authority is now capped at \$15 million annually through December 31, 2039.



Walter E. Washington Convention Center

Consideration of the development of the existing Walter E. Washington Convention Center began in 1986. The District and the hospitality industry agreed that certain sectors of the hospitality industry would be taxed to finance costs of constructing and equipping the new facility. In 1994, the Council of the District enacted the Washington Convention Center Authority (WCCA) Act which, among other things, authorized the issuance of bonds to finance the new convention center and established that dedicated taxes would be pledged to pay debt service on such bonds.

The WCCA is a corporate body and an independent authority of the District government created pursuant to the Washington Convention Center Authority Act of 1994. The WCCA was established for the purpose of acquiring, constructing, equipping, maintaining and operating a new convention center. The Washington Convention Center opened in 2003 and is located in the heart of downtown. The old Washington Convention Center was imploded and a parking lot was erected in its place, which today hosts special events.

In 2009, the WCCA merged with the D.C. Sports and Entertainment Commission to create one organization with a broader vision for increasing economic impact through the promotion of conventions and meetings as well as sports and entertainment offerings for the District. The Washington Convention and Sports Authority (WCSA) creates economic and community benefits for the District through the attraction and promotion of hospitality, athletic, entertainment and cultural events. The Authority owns and manages the Walter E. Washington Convention Center and the Stadium-Armory campus which includes Robert F. Kennedy Memorial Stadium, the DC Armory and the surrounding Festival Grounds, and serves as the owner and landlord for Nationals Park.

The WCSA receives its funding by generating operating revenue, collecting dedicated taxes and earning interest income on invested funds. The dedicated taxes include a separate hotel sales and use tax of 4.45% of the District's 14.5% on hotel room charges. The WCSA also receives 1% of the District's 10% sales and use tax on restaurant meals, alcoholic beverages consumed on the premises and rental vehicle charges.

In 2002, the WCSA commissioned a study to assess the future development needs including any additional functional space and/or support elements such as a headquarter hotel. According to meeting planners surveyed, a disadvantage of the District was the necessity to use multiple hotels to house attendees. Consequently, additional hotel development was found to be necessary to enhance the new convention center's competitive position. The hotel development was recommended to be large, convention quality property(s) offering a significant number of hotel rooms per property. Small "boutique" hotels were not recommended given they do not provide a large enough critical mass of rooms to meet the room demand that would be required by larger group business.

The \$537 million, four-star Washington Marriott Marquis is currently under construction and is scheduled to open in 2014. It is located across the street from the convention center and tied together with an atrium skylight. The hotel will offer 1,175 guest rooms and more than 100,000 SF of function space including 50,000 SF of ballroom space. The new hotel's financing is a public/private partnership where the District contributes \$136 million in a tax increment financing (TIF) package and an additional \$25 million to be paid off with further TIF revenue. The former WCCA provided a \$25 million loan and a \$22 million grant for the project. The developers will contribute \$331 million in debt and equity. It is anticipated that the new property will enhance convention/tradeshows bookings offering meeting planners a significant room block in one property.



Boston Convention & Exhibition Center (BCEC)

The Massachusetts Convention Center Authority (MCCA) was created in 1982 to operate the then-Hynes Auditorium and Boston Common Garage. In 1997, the MCCA authorized construction of the BCEC in the South Boston Seaport, some distance from the main concentration of hotels in Boston.

The new convention center was funded at the State and local level with the Commonwealth issuing \$694.4 million in special obligation bonds to finance the BCEC as well as projects in Springfield and Worcester. A convention center fund was established by the MCCA to secure and provide payment of State bonds. The fund includes revenues from a portion of the Commonwealth's occupancy tax concentrated in Boston Convention Center Financing District (BCCFD) as well as the following:

- 5% tax upon sales at new retail shops in BCCFD
- 5% surcharge on the ticket price for any land or water based tour in Boston
- State's share of the vehicular rental surcharge which is \$9.00
- \$2 per day surcharge on parking at any facility constructed as part of the BCEC project
- Additional funds generated in Springfield and Worcester

The City of Boston issued \$157.8 million in bonds to cover BCEC site acquisition and development which are repaid by hotel occupancy tax receipts. Sources dedicated to repayment of these bonds include the City's local option room occupancy excise tax (4%), sale of 260 hackney (or taxi) licenses and the City's share of the vehicular rental surcharge (\$1.00). The overall funding scheme was designed to place the tax burden on the visitors rather than the citizens of the Commonwealth.

The Project was a joint venture of the Boston Redevelopment Authority and the Massachusetts Convention Center Authority and it opened in June 2004. The facility's location away from Boston's hub of hotel rooms put it at a competitive disadvantage as many other convention destinations were opening headquarters hotel properties. Since the convention center's opening, the 790-room Westin headquarters hotel and the 450-room Renaissance Boston Waterfront Hotel have opened. Their proximity has enhanced the BCEC's marketability to groups attracting out-of-town attendees, helping it to host 30 conventions/tradeshows in FY 2010 with an average attendance of 8,000.

In 2009, a strategic development study was conducted for the MCCA that assessed future expansion and development options for the BCEC. The study indicated support for an expansion of the exhibit and meeting space; addition of a 65,000 to 75,000 SF multi-use ballroom; a new 5,000 fixed seat auditorium; as well as additional hotel inventory. Adding a headquarter hotel was cited as a critical need by meeting planners. The study also recommended planning for between 335,000 SF and 400,000 SF of exhibit space as well as 105,000 SF and 125,000 SF of meeting space in order to maintain its current high proportion of meeting space to exhibit space.

In June 2011, a 27-member State panel endorsed the \$2 billion project which includes an addition of a second exhibit hall, new meeting rooms and multi-purpose space, and an adjacent headquarters hotel with up to 1,200 rooms. The panel also recommended that the MCCA spend \$4 million for additional parking as well as other restaurant and retail facilities that would support the project. The proposal is currently under consideration at the City and State level.



Gaylord National Resort & Convention Center

National Harbor is a 300-acre, public/private, mixed-use development in Prince George's County, Maryland that includes six hotels, restaurants, entertainment, retail establishments and residential units. The County, State of Maryland and private developer Peterson Cos. teamed to begin development in 2004 with the County dedicating \$160 million and the State providing \$200 million in infrastructure and roadway development. The County and State envisioned the project as a means to draw visitors from nearby Washington, D.C. to the Potomac Riverfront as well as create a vibrant commercial center. Initial plans called for upscale retailers, restaurants and resort/entertainment outlets including Disney and Starbucks but the economic downturn has caused some to withdraw. Residential sales also wavered initially but are currently 80% sold; retail space is 85% occupied.

In addition to economic woes impacting the development's success for some events has been concerns about access for major events or attractions. The lack of mass transit options has impacted its marketability for some major events.

Considered the cornerstone of the broader development, the AAA Four-Diamond Gaylord National Resort and Convention Center opened in April 2008. Gaylord National is the largest-combined, non-gaming hotel and convention center on the East Coast, offering 2,000 guest rooms; 338,000 square feet of indoor exhibit, meeting and ballroom space; restaurants and a full-service spa.

Gaylord National Resort and Convention Center recently announced development of a new outdoor waterfront venue slated to open in spring 2012. The 15,000 square-foot space will accommodate up to 700 guests for a seated dinner or 1,200 guests for a reception along the Potomac Riverfront.

Gaylord Hotels is a multi-property hospitality company focused on meetings and conventions. The company operates three other mega hotel/convention properties in Nashville, Kissimmee, and Grapevine. The Gaylord National is a unique competitor to the BCC in its ability to negotiate multi-year contracts among its other venues as well as control all aspects of convention and meeting planning from lodging, food and function space requirements. Its location within the larger National Harbor development, proximate to restaurants, retail and entertainment outlets can make this an attractive competitor to meeting planners.



Indiana Convention Center

Opening in 1972 as the Indiana Convention-Exposition Center, four major expansions of the Indiana Convention Center steadily increased the amount of exhibit space from the original three exhibit halls with a total of 123,000 square feet up to the current eleven halls with 566,600 SF of contiguous exhibit space. The last expansion, completed in January 2011, added 254,000 SF of exhibit space and 63,000 SF of meeting space. The two-level addition includes an enclosed connector between the Convention Center and Lucas Oil Stadium, new home of the NFL Colts.

Lucas Oil Stadium opened in August 2008 and features 183,000 SF of contiguous exhibit space including the stadium floor and two exhibit halls. It features a retractable roof and seats 63,000 for football games including 137 suites.

Both venues are operated by a State legislated municipal body, Capital Improvement Board (CIB), and funded by the State and consolidated City of Indianapolis-Marion County government. Initial and ongoing investments in the facilities have been motivated by their ability to foster growth in the local, regional and State economies by drawing visitors and their associated spending. From its inception, the CIB has recognized the need to work in tandem with the private sector to foster diverse economic growth. The CIB's assets, activities and ancillary amenities allow a larger private hospitality industry to operate. In turn, the hospitality industry mutually develops and services the region's significant convention, cultural,

entertainment and recreational activity and amenities. This synergistic public/private relationship has allowed Indianapolis to continue to compete in the convention/meeting and sporting event industries.



San Diego Convention Center

A major downtown redevelopment campaign in the 1970s led to development of the San Diego Convention Center (SDCC) on 11 acres of Port of San Diego-owned land along San Diego Bay. City voters approved a proposal to build the waterfront convention center and the Port agreed to fund the entire project at a cost of \$164 million with no debt service. The City Council then created the San Diego Convention Center Corporation to manage and operate the new facility. The SDCC opened in 1989 and underwent a significant expansion in 2001 that more than doubled its original size.

Subsequently the SDCC Corporation took over operations of the CVB as well in order to control all the sales, marketing, booking and servicing of events. According to management, the unique “corporation” entity that operates the SDCC allows it to operate with a business mentality and has fostered the facility’s relationship with area hoteliers. Bringing the CVB operation in-house has also served to enhance hotelier cooperation in terms of bidding for major conventions/tradeshows.

A proposed Phase 3 expansion, that would increase the capacity of the SDCC by 33%, is currently moving forward. In spring 2010, six acres of adjacent land were acquired where the proposed expansion would be built. The City of San Diego is exploring financing options for the estimated \$550 million project.

Despite the economic downturn, the SDCC has continued to attract similar annual levels of conventions/tradeshows events and attendance as well as resulting room nights from this activity. Expansion studies report that the SDCC’s location makes it an attractive destination. Characteristics such as its hotel supply, air access, commercial vibrancy of the neighborhood, and destination appeal to attendees are often cited as San Diego’s strengths by convention/meeting planners.



Music City Center

The Metropolitan Government of Nashville and Davidson County (Metro Nashville) began studying the potential to increase convention space in downtown Nashville either through an expansion of its existing convention center or development of a new facility in 2004. The Music City Center Committee, comprised of business leaders and community activists, recommended a new convention center would be the best option to accommodate additional demand and generate visitation to the City.

In April of 2010, the Convention Center Authority issued \$623 million of tourism revenue bonds to finance the construction of the Music City Center. The bond proceeds financed the cost of design, land acquisition, and development, a \$415 million construction budget and a \$40 million debt service reserve fund. The bonds are payable primarily from tourism-related revenues and incremental sales tax revenues generated in connection with the Music City Center. The specific funding sources include a portion of the existing hotel/motel tax, an additional one-point hotel tax, a \$2 convention center fee per room night countywide, a 1% rental car tax, and a \$2 airport ground transportation departure tax.

Groundbreaking was held in March 2010 and the anticipated opening date is 2013. The new facility is located in downtown Nashville adjacent to the Bridgestone Arena and the Country Music Hall of Fame. In August 2010 an announcement was made regarding development of an 800-room headquarters hotel also slated to open in 2013. The hotel will also offer 80,000 SF of function space including two ballrooms. The \$273 million property is a public/private partnership. Omni Hotels will privately finance the project and receive incentives that include an annual payment from the Convention Center Authority funded by tourism taxes generated by the hotel's operation. Metro government has pledged \$25 million and the City pledged \$103 million over 20 years and the balance will be paid by Omni Hotels.

Lessons Learned from Case Studies

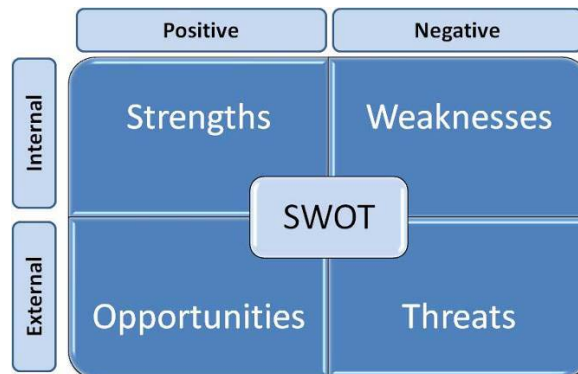
Each of the communities represented by the above case studies faced unique funding, site and/or operational challenges that can provide useful insights for the City and the MSA as they continue to evaluate the merits of the proposed BCC expansion development planning. Some of the observations provided by representatives of these communities/facilities include, but are not limited to, the following:

- Minimizing disruption/facility closure during construction/expansion is imperative.
- Additional convention function space alone does not ensure that a destination will increase its market share.
- The appropriate balance of exhibit and flexible meeting/ballroom space may vary based on target market segments (i.e., some are more meeting room intensive).

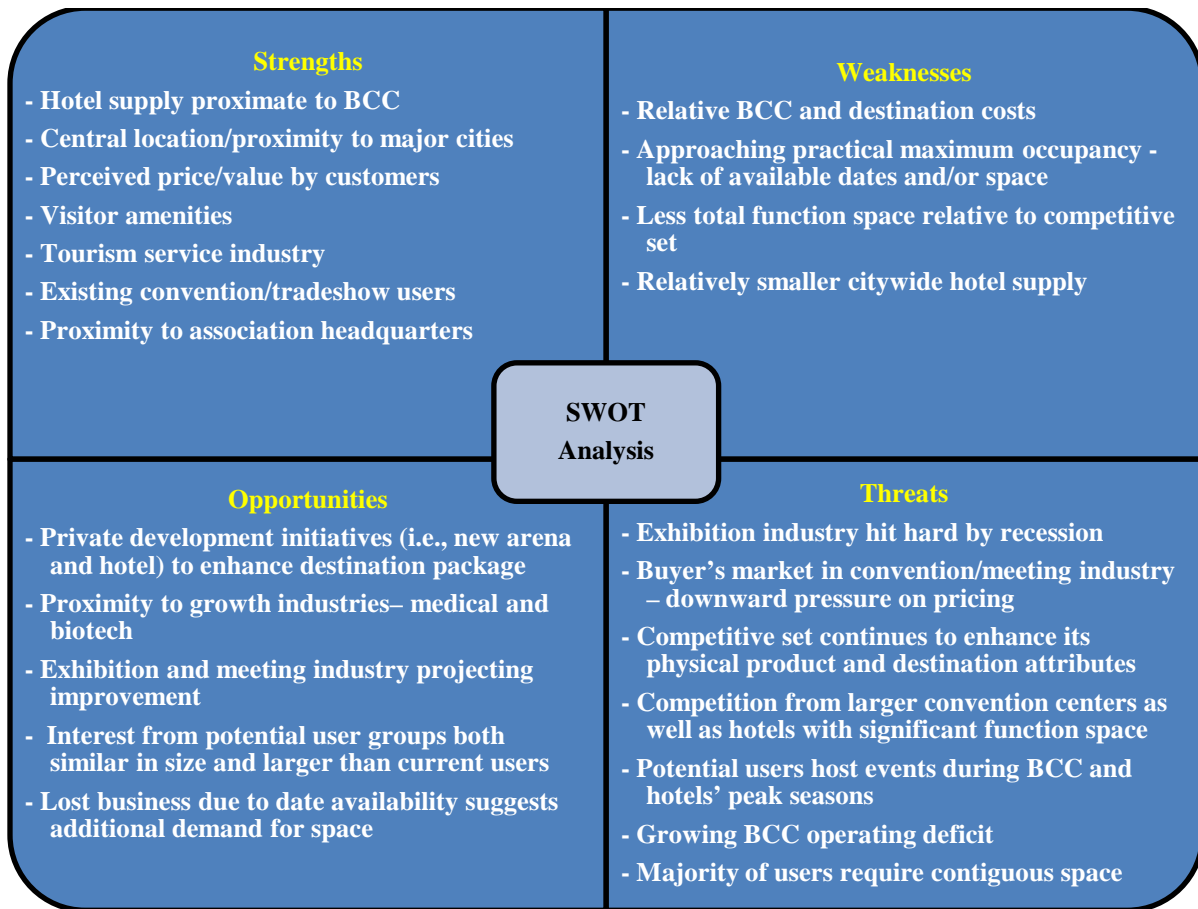
- Maximizing contiguous, column-free exhibit space augments a facility’s marketability and overall competitiveness.
- Proximity to hotels and other supporting elements such as restaurants, retail and entertainment outlets enhances a convention center’s marketability.
- Offering a headquarter hotel(s) is crucial to a convention center’s long-term success.
- Accessibility for pedestrians and auto traffic is important in terms of attracting high attendance events and for perceived safety/appeal.
- Fostering an environment that promotes both public and private investment in the overall destination package, rather than viewing the convention center as a stand-alone asset, helps facilities to compete more effectively in the convention/meeting industry.

SWOT Analysis

A SWOT analysis outlines the key internal and external factors, both positive and negative, impacting a project or concept.



Based on the research conducted for this study, the following summarizes market related strengths, weaknesses, opportunities and threats associated with an expanded BCC.



Preliminary BCC Expansion Building Program

Merging an existing asset and new construction offers both opportunities and challenges. One advantage is the ability to improve the overall program to realize operational efficiencies. If expansion is pursued, it will be imperative to appropriately position program elements in a way that realizes critical synergies with the existing building and its functionality and well as within the proposed broader development project. The arena is envisioned to be an iconic structure downtown, thus integrating the proposed hotel and BCC expansion from an architectural perspective will be important.

Proposed programmatic changes need to directly relate to potential market demand. Research conducted in the market analysis indicates that an increase of 200,000 SF of exhibit space, a 50,000 to 60,000 SF ballroom and 40,000 to 45,000 SF of meeting space would place the BCC in a better competitive position to attract more event activity. This combination of space should allow the BCC to accommodate both larger events as well as simultaneous events requiring all three function spaces.

The following summarizes preliminary building program recommendations based on market research:

Summary of Preliminary Building Program Recommendations						
Component	Existing BCC	Proposed BCC Expansion			Incremental New Space	
Exhibit Hall (SF)	300,000	500,000	-	500,000	200,000	200,000
Ballroom Space (SF)	36,700	86,700	-	96,700	50,000	60,000
Meeting Space (SF)	85,000	125,000	-	130,000	40,000	45,000
Total Function Space (SF)	421,700	711,700	-	726,700	290,000	305,000
Ratio of Meeting/Ballroom Space to Exhibit Space	41%	42%	-	45%		

Ideally, exhibit space should be contiguous and column-free. If contiguous space cannot be achieved, maximizing the amount of exhibit SF on one level is strongly recommended. In addition, a new ballroom and flexible meeting space should be developed to support any new exhibit space. The BCC currently offers a ratio of ballroom/meeting space to exhibit space comparable to its competitors. Because several of its target markets (e.g., medical groups) are typically meeting-intensive, this ratio should be maintained or even enhanced with any expansion. Given the relatively higher portion of meeting space in the existing BCC, priority should be placed on flexible ballroom space that can accommodate diverse activities.

The primary objectives for an expanded BCC are to attract additional shows that cannot currently be accommodated, host more events simultaneously, and improve overall event logistics in order to increase event activity and economic/fiscal benefits. Therefore any expansion should seek to maximize flexibility, contiguous exhibit space, and functionality among spaces in order to enhance the BCC’s long-term marketability and competitive position. Strategically locating and integrating new space will be important in order to efficiently meet the requirements of multiple user groups particularly in terms of move-in/move-out and overall circulation of patrons.

From a broader development perspective, integrating the BCC expansion with the existing facility structure as well as the proposed new arena will require detailed proactive and strategic planning to maximize operational opportunities and mitigate potential site planning and physical programmatic issues. Other convention centers have obtained direct input and guidance from customers, service contractors and other stakeholders during the planning process via focus groups.

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Financial Analysis

With respect to financial performance, it is important to understand that many similar convention centers realize an operating deficit or operate near break-even. However, one of the primary reasons for developing these types of facilities is the economic activity that they can generate in terms of spending, employment, earnings, as well as tax revenues to local and state governments. These facilities typically attract events that draw patrons from outside the immediate market area who spend money on hotels, restaurants and other related services. In many instances, these net new benefits can outweigh the operating costs. Consequently, when evaluating the merits of these types of projects, it is important to consider all aspects of the costs and benefits including operating requirements, debt service and economic/fiscal benefits. An order-of-magnitude estimate of the potential economic/fiscal benefits associated with an expansion of the BCC is provided later in this report.

Crossroads Consulting assisted the City and the MSA in developing a hypothetical, order-of-magnitude estimate of operating revenues and expenses before taxes, depreciation and debt service for the proposed expansion of the BCC for a stabilized year of operations. This analysis is also based on certain hypothetical assumptions pertaining to operations of the facility, usage levels and other related financial assumptions agreed to by the City and the MSA. The accompanying analysis was prepared for internal use by the City and the MSA for their consideration of plans for the proposed expansion and should not be used or relied upon for any other purpose including financing of the project.

The analysis performed was limited in nature and, as such, Crossroads Consulting does not express an opinion or any other form of assurance on the information presented in this report. As with all estimates of this type, we cannot guarantee the results nor is any warranty intended that they can be achieved. The estimates of revenues and expenses are based on the anticipated size, quality and efficiency of the expanded BCC. Since these estimates and assumptions are based on circumstances that have not yet transpired, they are subject to variation. Further, there will usually be differences between estimated and actual results because events and circumstances frequently do not occur as expected, and those differences may be material.

Historical BCC Financial Operations

Over the last six fiscal years, the operating loss at BCC has ranged from approximately \$4.4 million in FY 2006 to \$8.9 million in FY 2011. Operating revenues have averaged nearly \$10.2 million while expenses have averaged approximately \$16.8 million over the profiled six-year period. The expense coverage ratio has consistently trended downward since FY 2006.

Summary of Historical BCC Financial Operations							
Operating Revenues	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	Six-Year Average
Rental	\$5,411,000	\$5,188,000	\$5,630,000	\$5,512,000	\$5,338,000	\$5,130,000	\$5,368,000
Electric	1,935,000	2,104,000	2,103,000	1,783,000	1,273,000	1,039,000	1,706,000
Telecommunications & Business Center	113,000	86,000	71,000	46,000	170,000	386,000	145,000
Box Office	68,000	60,000	59,000	55,000	48,000	21,000	52,000
Audio	184,000	108,000	147,000	264,000	218,000	341,000	210,000
Miscellaneous	171,000	203,000	217,000	184,000	175,000	171,000	187,000
Food & Beverage Commission	2,837,000	2,569,000	3,179,000	2,651,000	1,622,000	2,114,000	2,495,000
Total	\$10,719,000	\$10,318,000	\$11,406,000	\$10,495,000	\$8,844,000	\$9,202,000	\$10,163,000
Operating Expenses	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	Six-Year Average
Salaries/Wages	\$6,014,000	\$6,347,000	\$6,886,000	\$7,067,000	\$6,712,000	\$6,203,000	\$6,538,000
Benefits	1,882,000	2,094,000	2,460,000	2,550,000	2,570,000	3,016,000	2,429,000
General Admin	100,000	110,000	123,000	112,000	99,000	137,000	114,000
Contract Services	712,000	732,000	907,000	1,229,000	1,208,000	1,329,000	1,020,000
Utilities	4,811,000	4,157,000	5,043,000	4,080,000	4,367,000	4,276,000	4,456,000
Repairs & Maintenance	0	0	0	0	0	0	0
Materials & Supplies	590,000	703,000	590,000	970,000	1,201,000	2,217,000	1,045,000
Marketing & Advertising	26,000	13,000	30,000	37,000	47,000	51,000	\$34,000
Worker's Compensation	307,000	396,000	448,000	479,000	479,000	297,000	401,000
Prior Year Expenditures	663,000	754,000	706,000	411,000	1,370,000	535,000	740,000
Total	\$15,105,000	\$15,306,000	\$17,193,000	\$16,935,000	\$18,053,000	\$18,061,000	\$16,776,000
Operating Revenues Over Operating Expenses Before Debt Service and Depreciation	(\$4,386,000)	(\$4,988,000)	(\$5,787,000)	(\$6,440,000)	(\$9,209,000)	(\$8,859,000)	(\$6,613,000)
Debt Coverage Ratio	71%	67%	66%	62%	49%	51%	61%

Note: Expense coverage ratio = operating revenues/operating expenses.

Source: BCC management.

The financial operations of an expanded BCC will be impacted by several factors including, but not limited to, its larger size in terms of gross square footage as well as its anticipated increase in event activity. For these and other reasons, it is difficult to make direct comparisons between historical facility operations and those estimated for an expanded BCC. Discussions were conducted with facility management to consider the impact an expansion would have on individual line items. Those discussions were the basis for various assumptions regarding the operations of an expanded BCC.

Estimate of Financial Operations

The table that follows compares the estimates of net operating revenues over net operating expenses *before* debt service and depreciation for a stabilized year of operations to the historical three-year average for the existing BCC. These estimates are based on historical operations and several hypothetical assumptions including recommended changes to the proposed building program, estimated utilization for an expanded/renovated facility, information on comparable facilities, as well as other primary and secondary sources including findings in the market analysis.

Comparison of Operating Revenues and Expenses - Historical Three-Year Average and Expanded BCC						
Category	Three-Year Average (FY 2009 - FY 2011)	Expanded BCC Range (Stabilized Year)		Incremental New Range (Stabilized Year)		
		Low	High	Low	High	
Operating Revenues	\$9,514,000	\$11,960,000	- \$13,120,000	\$2,446,000	-	\$3,606,000
Operating Expenses	17,683,000	21,590,000	- 23,375,000	3,907,000	-	5,692,000
Operating Revenues Over Operating Expenses Before Debt Service and Depreciation	(\$8,169,000)	(\$9,630,000)	- (\$10,255,000)	(\$1,461,000)	-	(\$2,086,000)
City Subsidy	\$2,723,000	\$3,210,000	- \$3,418,000	\$487,000	-	\$695,000
State Subsidy	\$5,445,000	\$6,420,000	- \$6,837,000	\$975,000	-	\$1,392,000

General Assumptions

Based on input from the client group, the following assumptions were used to develop estimates of event activity, financial operations and economic/fiscal impacts for the proposed expanded BCC.

- The recommended programmatic and physical improvements outlined earlier are developed.
- The facility continues to be managed by professional, experienced staff.
- An aggressive marketing approach is taken by Visit Baltimore and management at BCC, particularly in attracting convention/tradeshows business, corporate meetings and sporting events/competitions.
- A high level of quality customer service continues to be provided.
- The BCC operating subsidy continues to be funded in the same manner – one-third by the City and two-thirds by the State.
- Tax rates continue at their current rates.
- No other similar, competitive/comparable facilities are built or expanded in the region.
- Amounts are presented in current dollars and reflect a stabilized year of operations.

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

While tables in this section compare the historical three-year average amounts to the estimate of BCC financial operations with expansion, the description and related assumptions for each line item only relate to the estimated total operations.

Usage/Event Activity Assumptions

The financial and economic/fiscal impact analyses are based on several factors including a hypothetical estimate of utilization that was developed based on historical utilization at the BCC, research previously summarized in the market analysis including input from the client group, market characteristics, industry trends, input from potential demand generators, information on competitive/comparable facilities as well as other research.

Event activity at expanded facilities typically experiences a “ramp up” period to a stabilized level of activity which occurs for several reasons. For instance, some groups that book their event years in advance may not want to risk that a facility’s construction is delayed and not completed in time for their event. In addition, some groups may choose to let management “fine tune” its operations before meeting in the expanded facility. However, it is important to recognize that the overall utilization at any facility is typically dependent on a number of factors and is rarely consistent. As such, the estimated range of utilization shown in the table below represents a stabilized year of operations.

Comparison of BCC Event Activity - Historical Three-Year Average and Estimate for Expanded BCC						
Event Type	Three-Year Average (FY 2009 - FY 2011)	Expanded BCC Range (Stabilized Year)			Incremental New (Stabilized Year)	
		Low		High	Low	High
Events						
Conventions/Tradeshows	52	61	-	65	9	13
Meetings	61	80	-	85	19	24
Food Functions	4	8	-	12	4	8
Public Events	14	18	-	20	4	6
Sporting Events	7	10	-	12	3	5
Other	5	10	-	12	5	7
Total	143	187	-	206	44	63
Average Attendance						
Conventions/Tradeshows	4,700	5,200		5,200		
Meetings	1,000	1,000		1,000		
Food Functions	900	1,000		1,000		
Public Events	6,600	6,600		6,600		
Sporting Events	3,400	3,800		3,800		
Other	1,200	1,200		1,200		
Total Attendance						
Conventions/Tradeshows	244,900	317,200	-	338,000	72,300	93,100
Meetings	60,500	80,000	-	85,000	19,500	24,500
Food Functions	3,700	8,000	-	12,000	4,300	8,300
Public Events	92,200	118,800	-	132,000	26,600	39,800
Sporting Events	23,900	38,000	-	45,600	14,100	21,700
Other	5,900	12,000	-	14,400	6,100	8,500
Total	431,100	574,000	-	627,000	142,900	195,900

Net Operating Revenues

The following table shows the estimated net operating revenues for an expanded BCC in a stabilized year of operations:

Comparison of BCC Operating Revenues - Historical Three-Year Average and Estimate for Expanded BCC						
Revenue Category	Three-Year Average (FY 2009 - FY 2011)	Expanded BCC Range (Stabilized Year)		Incremental New		
		Low	High	Low	High	
Rental	\$5,327,000	\$6,650,000	\$7,250,000	\$1,323,000	\$1,923,000	
Electric	1,365,000	1,700,000	1,875,000	335,000	510,000	
Telecommunications & Business Center	201,000	250,000	275,000	49,000	74,000	
Audio	274,000	340,000	375,000	66,000	101,000	
Miscellaneous Event Services	218,000	220,000	245,000	2,000	27,000	
Food & Beverage Commission	2,129,000	2,800,000	3,100,000	671,000	971,000	
Total	\$9,514,000	\$11,960,000	\$13,120,000	\$2,446,000	\$3,606,000	

Net Operating Revenue Assumptions

Rental - Rental includes revenue from the rental of function space at the facility. Typically, convention centers charge different rate structures for various types of events such as conventions, tradeshows, consumer shows, and other events depending on the type of space utilized (i.e., exhibit halls and meeting rooms). Although BCC has published rental rates for various areas of the facility, effective rates realized are typically lower than published rates due to several factors including: some rates may be negotiated to attract quality, high-impact events; meeting rooms or other space may be complimentary in conjunction with rented space or food functions; move-in/move-out days are often priced at one-half the normal rate; and/or some facilities offer reduced rental rates to special groups such as local, non-profit, and charitable organizations. For purposes of this analysis, rental rate discounts similar to those used in existing BCC operations and commonly employed in the industry are assumed. Based on an estimated increase in facility function space and event activity building rental revenue is estimated to range from \$6.7 million to \$7.3 million.

Electric - This line item relates to income received from electrical service provided to exhibitors. Based on historical BCC operations and the estimated increase in event activity, electric revenue is estimated to range from \$1.7 million to \$1.9 million.

Telecommunications & Business Center – This line item entails voice and high speed data services including infrastructure design, installation, network configuration and management. In addition, fees for various business services such as printing, faxing, etc. are included. Revenues from these services are estimated to range from \$250,000 to \$275,000.

Audio – Included in this line item are fees for rental of various audio/visual equipment and services such as laptops, projectors, DVD player, flip chart, audio mixers, speakers, microphones and related services. Revenues from these services are estimated to range from \$340,000 to \$375,000.



Miscellaneous Event Services – includes equipment charges, change-over fees and other event related fees. Revenues from these services are estimated to range from \$220,000 to \$245,000.

Food & Beverage Commission – Food and beverage revenue is generated by sales from catering, concessions and vending. Currently, the BCC contracts with Centerplate for food and beverage services. According to management, BCC retains 25% of net food/beverage revenues up to \$7.5 million in gross sales and 27.5% of any incremental net revenues above \$7.5 million. The facility is in its second year of a seven-year term contract. As such, similar terms are assumed for an expanded BCC for purposes of this analysis. Based on historical data, the estimated event activity at an expanded BCC, net food and beverage revenue to the facility is estimated to range from \$2.8 million to \$3.1 million.

Net Operating Expenses

The table below presents the estimated net operating expenses for the proposed BCC expansion for a stabilized year of operations:

Comparison of BCC Operating Expenses - Historical Three-Year Average and Estimate for Expanded BCC							
Expense Category	Three-Year Average (FY 2009 - FY 2011)	Expanded BCC Range (Stabilized Year)			Incremental New		
		Low	High		Low	High	
Total Salaries	\$6,661,000	\$7,650,000	-	\$8,325,000	\$989,000	-	\$1,664,000
Other Personnel Costs	3,130,000	3,485,000	-	3,830,000	355,000	-	700,000
General Administrative	116,000	140,000	-	150,000	24,000	-	34,000
Contract Services	1,255,000	1,525,000	-	1,700,000	270,000	-	445,000
Utilities	4,241,000	5,900,000	-	6,200,000	1,659,000	-	1,959,000
Materials & Supplies	1,463,000	1,900,000	-	2,070,000	437,000	-	607,000
Marketing & Advertising	45,000	90,000	-	100,000	45,000	-	55,000
Prior Year Expenditures	772,000	900,000	-	1,000,000	128,000	-	228,000
Total	\$17,683,000	\$21,590,000	-	\$23,375,000	\$3,907,000	-	\$5,692,000

Net Operating Expenses – Summary of Significant Assumptions

Total Salaries - Although the staffing requirements and subsequent salaries and wages can represent a significant expense, permanent full-time staffing plans can vary based on a variety of factors. One factor relates to the management philosophy of maintaining event-related personnel as full-time or part-time staff. Another factor relates to the management and physical relationship the facility might have to other facilities. For example, the staffing plan for a stand-alone facility is different than for an entire complex that can share administrative costs among several venues. In addition, the extent that contracted services are used also impacts staffing at a facility. Total salaries are estimated to range from \$7.7 million to \$8.3 million.

Other Personnel Costs – This line item includes costs associated with personnel including health and retirement benefits as well as worker’s compensation. For purposes of this analysis, benefits are estimated to be 40% of salaries based on input from management and are estimated to range from \$3.5 million to \$3.8 million.



General Administrative – This line item, which includes general expenses used in the day-to-day management of the facility such as travel, communications, technology, postage, membership dues, is estimated based on historical operations to range from \$140,000 to \$150,000.

Contracted Services – Contracted services represent a variety of professional services which may include legal and/or accounting contracts, life safety systems, physical plant related, landscaping as well as other services that are not reimbursable and are borne by the facility. The BCC performs the majority of services in-house with the exception of audit, window cleaning, and various maintenance contracts. It is assumed that similar services will be contracted in the proposed expanded BCC and, as such, are estimated to range from \$1.5 million to \$1.7 million.

Utilities - Utilities generally represent one of the highest expense items for these convention centers and can vary depending upon the level of utilization, age of the building, shared spaces with other facilities and climate. For purposes of this analysis, it is assumed that the operating entity passes through to the user, to the extent possible, utility costs related to a particular event. In many facilities, these costs are handled as an expense that is fully or partially reimbursed by the event at a later date or, for civic uses, a utilities charge is assessed. The utility cost shown in this analysis represents the total non-reimbursable costs. Utility costs are estimated to range from \$5.9 million to \$6.2 million. It should be noted that actual utility expenses will depend on facility design and decisions concerning physical design/layout, energy systems and management.

Materials/Supplies – This line item includes various materials/supplies necessary for the operation of the proposed expanded facility such as electrical equipment, office and janitorial/building maintenance supplies and is estimated to range from \$1.9 million to \$2.1 million.

Marketing/Advertising – Expansion alone will not bring new events to the BCC. An aggressive marketing strategy will need to be undertaken to diversify and increase the event base, specifically as it relates to conventions/tradeshows, larger meetings and sporting competitions. Sales and marketing expenses for the facility relate to facility marketing. This line item is increased over historical amounts and is estimated to range from \$90,000 to \$100,000. This amount is intended to supplement marketing resources from other sources such as Visit Baltimore and the food/beverage provider for expenses associated with familiarization trips, tradeshow attendance, direct marketing efforts and other literature and advertising for the facility.

Prior Year Expenditures - According to management, prior year expenditures include encumbrances for expenses that bridge multiple years. These are operating expenses and can include materials/supplies, repairs and maintenance and/or contract services. This line item does not include capital improvements. Prior year expenditures are estimated to range from \$900,000 to \$1.0 million based on historical facility operations.

Reserve for Replacement Fund - The City and the MSA currently each allocate \$200,000 annually specifically designated as a reserve for capital improvements. The current agreement between the City and MSA sunsets in 2014. This fund is intended to cover extraordinary capital items such as mechanical and engineering repairs/replacement to the facility that are necessary for its long-term maintenance. In order to safeguard the public investment, the City and MSA should continue to fund a dedicated reserve for replacement fund with or without an expansion. As a point of reference, dedicating 5% of estimated operating revenues at an expanded BCC would result in a reserve for replacement fund of approximately \$598,000 to \$656,000 annually.

Ground Lease, Debt Service and Depreciation - This analysis does not estimate any operating expenses related to a ground lease payment, debt service or depreciation.

Summary

Based on market research, an expanded BCC is estimated host 17% to 25% more conventions/tradeshows and 31% to 44% more total events relative to the historical three-year average. Convention/tradeshow attendance is estimated to increase by 30% to 38% and total attendance by 33% to 45%.

Event Type	Incremental New Events	Incremental New Attendance
Conventions/tradeshows	9 - 13	72,300 – 93,100
Other events	35 - 50	70,600 – 102,800
Total	44 - 63	142,900 – 195,900

Operating revenues are estimated to increase by 26% to 38% relative to the historical three-year average whereas operating expenses are estimated to increase between 22% and 32%. The annual operating deficit for an expanded BCC is estimated to increase by \$1.5 million to \$2.1 million over the historical three-year average representing an increase of between 18% and 26% in the operating subsidy. An expanded BCC is estimated to cover approximately 55% of its operating expenses with its operating revenues which is relatively consistent with its historical three-year average but on the lower end of the range for profiled competitive/comparable centers.

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Economic & Fiscal Impact Analysis

One of the primary objectives of this study is to estimate the incremental new economic and fiscal impacts associated with expansion/renovation of the BCC to the local economy. The City and State would continue to benefit from the BCC's operations in a number of ways, including such tangible and intangible benefits as:

- Enhancing the area's image as a business, meetings and tourist destination
- Receiving increased State and regional exposure through destination marketing and visitation
- Providing a first-class venue for area residents and out-of-town visitors
- Increasing the overall quality of life and livability of the area
- Providing a catalyst for further development initiatives including private sector investment
- Maintaining and generating additional economic activity
- Maintaining and generating additional fiscal revenues for local and State governments

Each of these benefits is important in assessing the overall impact of an expanded BCC to the City. While the value of most of these benefits is difficult to measure, the estimated economic activity generated can be quantified. This analysis quantifies the direct, indirect and induced benefits associated with operations of an expanded BCC including the associated tax revenues. Although some of the estimated event activity is occurring at the existing BCC, an expanded facility will likely maintain and grow existing business as well as attract incremental new events that cannot currently be accommodated.

General Methodology Overview



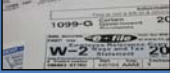

An assessment of the economic benefits that occur in the City of Baltimore (City) and the State as a result of the operations of an expanded BCC can be approached in several ways. The approach used in this analysis considers expenditures generated from facility operations from items such as personnel services, contractual services, general/administrative, materials and supplies, and capital expenditures as well as spending by attendees, sponsoring organizations/ event producers and exhibitors outside the facility on items such as lodging, restaurants, retail, entertainment and transportation as an initial measure of economic activity in the marketplace. Once the amount for direct spending is estimated, a calculated multiplier is applied to generate the indirect and induced effects. The sum of direct, indirect and induced effects equals total economic impact which is expressed in terms of spending (output), employment (jobs), and personal earnings.

This analysis also estimates the fiscal impacts generated from ongoing operations of an expanded BCC. The governmental entities considered in this fiscal analysis are the City of Baltimore and the State of Maryland. Revenues generated from the admissions and amusement tax, corporate income tax, hotel/motel tax, motor vehicle rental tax, parking tax, personal income tax as well as sales and use tax were estimated.

The number of events and attendance, event mix, origin of attendees, facility financial operations, industry trends, economic conditions, direct spending categories used, per person spending amounts, distribution of spending, multipliers, and specific taxes quantified are all variables that influence the economic and fiscal impact estimates. All amounts are presented in current dollars and rounded to the nearest thousand.



Estimate the Annual Economic and Fiscal Impacts Associated with the On-Going Operations of an Expanded Baltimore Convention Center

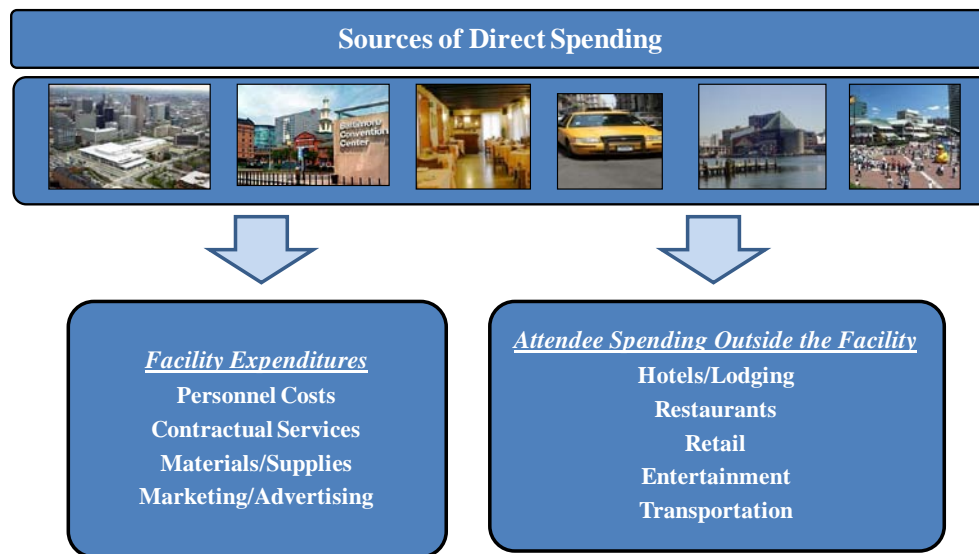
<p><u><i>Spending (Output)</i></u> Total direct, indirect, induced spending effects generated by an expanded BCC</p> 	<p><u><i>Employment (Jobs)</i></u> Number of full and part-time jobs supported by an expanded BCC</p> 	<p><u><i>Personal Earnings</i></u> Wages and salaries earned by employees of businesses associated with or impacted by an expanded BCC</p> 	<p><u><i>Tax Revenues (Fiscal)</i></u> Admissions and amusement tax Hotel/motel tax Income tax Motor vehicle tax Parking tax Sales and use tax</p> 
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Methodology – Economic Impact Analysis

Regional input-output models are typically used by economists as a tool to understand the flow of goods and services among regions and measure the complex interactions among them given an initial spending estimate.

Direct Spending

Estimating direct spending is the first step in calculating economic impact. Direct spending represents the initial change in spending that occurs as a direct result of operations of an expanded BCC. This spending occurs both inside and outside of the convention center. Direct spending related to BCC operations is generated from attendees, sponsoring organizations/event producers, exhibitors as well as from facility expenditures. Spending related to these categories was adjusted to reflect leakage (spending which occurs outside of the local economy) and displacement (spending which would have occurred elsewhere in the City/State without the presence of the expanded BCC).



Because all of this spending is not new to the local and State economies, adjustments are made to reflect only incremental direct spending.

Indirect and Induced Impacts

The economic activity generated by operations of an expanded BCC affects more than just the facility itself. In preparation for new spending in the economy, several other economic sectors are impacted and jobs are created. Indirect effects reflect the re-spending of the initial or direct expenditures or the business-to-business transactions required to satisfy the direct effect. Induced effects reflect changes in local spending on goods and services that result from income changes in the directly and indirectly affected industry sectors. The model generates estimates of these impacts through a series of relationships using local-level average wages, prices and transportation data, taking into account commute patterns and the relative interdependence of the economy on outside regions for goods and services.

Multiplier Effect

In an effort to quantify the inputs needed to produce the total output, economists have developed multiplier models. The estimation of multipliers relies on input-output models, a technique for quantifying interactions between firms, industries and social institutions within a local economy. This analysis uses IMPLAN software and databases which are developed under exclusive rights by the Minnesota IMPLAN Group, Inc. IMPLAN, which stands for *Impact Analysis for Planning*, is a computer software package that consists of procedures for estimating local input-output models and associated databases. The IMPLAN software package allows the estimation of the multiplier effects of changes in final demand for one industry on all other industries within a defined economic area. Its proprietary methodology includes a matrix of production and distribution data among all counties in the U.S. As such, the advantages of this model are that it is sensitive to both location and type of spending and has the ability to provide indirect/induced spending, employment and earnings information by specific industry category while taking into account the leakages associated with the purchase of certain goods and services outside the economy under consideration.

Once the direct spending amounts are assigned to a logical category, the IMPLAN model estimates the economic multiplier effects for each type of direct new spending attracted to or retained in the local area and the State resulting from operations of an expanded BCC.

For purposes of this analysis, the following industry multipliers were used:

Summary of Multipliers						
Category	City of Baltimore			State of Maryland		
	Spending	Employment*	Earnings	Spending	Employment*	Earnings
Hotels	1.5897	12.0	0.6102	1.7227	13.4	0.5931
Eating & Drinking Places	1.5343	17.8	0.5863	1.7035	21.2	0.6114
Retail Trade	1.4088	19.5	0.6739	1.5811	20.7	0.7502
Entertainment	1.7561	31.9	0.7158	1.8220	28.0	0.7632
Transportation	1.5708	11.8	0.6256	1.7274	13.6	0.6330
Business Services	1.4960	10.1	0.6074	1.6634	10.6	0.6235

Note: *Indicates the number of jobs per \$1 million in spending.

Source: IMPLAN.

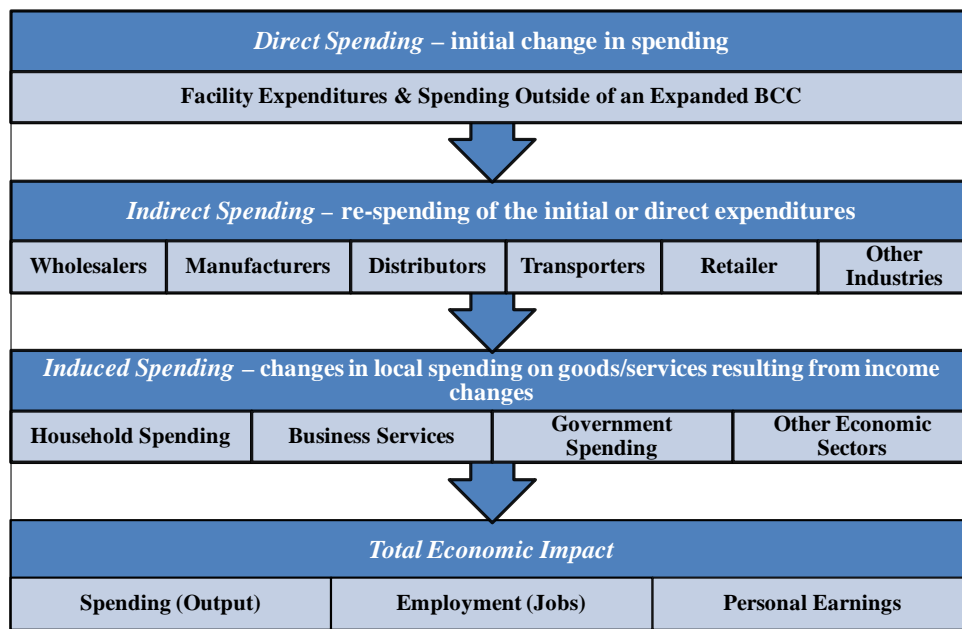
These multipliers reflect IMPLAN's latest available economic data reflecting 2009 transactions and the complex interactions among regions.

Total Economic Impact

The calculated multiplier effect is then added to the direct impact to quantify the total economic impact in terms of spending, employment and earnings which are defined as follows:

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

The following graphic illustrates the multiplier effects for calculating total economic impact.



Methodology - Fiscal Impact Analysis

The estimated spending generated by ongoing operations of an expanded BCC creates tax revenues for the City and the State. Experience in other markets suggests that while a significant portion of the direct spending likely occurs near the facility, additional spending occurs in other areas within the State, particularly spending on items such as business services and everyday living expense of residents. Major tax sources impacted by facility operations were identified and taxable amounts to apply to each respective tax rate were estimated. Although other taxes, such as property taxes, may also be positively impacted by ongoing operations of an expanded BCC, this analysis estimates revenues generated from the following taxes based on the direct and indirect/induced spending amounts previously defined:

City of Baltimore

- Admissions and Amusement Tax
- Hotel/Motel Tax
- Local Personal Income Tax
- Parking Tax

State of Maryland

- Corporate Income Tax
- Motor Vehicle Rental Tax
- Personal Income Tax
- Sales and Use Tax

Summary of Estimated Annual Incremental New Economic Benefits

The following table summarizes the estimated incremental new economic benefits from ongoing activities of an expanded BCC as measured by spending, jobs and earnings. As shown, the total annual incremental new spending (i.e., direct/indirect/induced) is estimated to range between \$214.4 million and \$284.6 million at the State level, of which between \$186.7 million and \$247.8 million is estimated to occur at the City level.

Comparison of Annual Economic Impacts Generated From BCC Operations - Low End						
Category	Three-Year Average (FY 2009 - FY 2011)		Expanded BCC (Stabilized Year)		Incremental New (Stabilized Year)	
	City of Baltimore	State of Maryland	City of Baltimore	State of Maryland	City of Baltimore	State of Maryland
Spending						
Direct Spending	\$367,784,000	- \$386,999,000	\$487,808,000	- \$513,010,000	\$120,024,000	- \$126,011,000
Indirect/Induced Spending	204,169,000	- 271,099,000	270,859,000	- 359,469,000	66,690,000	- 88,370,000
Total Spending	\$571,953,000	- \$658,098,000	\$758,667,000	- \$872,479,000	\$186,714,000	- \$214,381,000
Total Jobs	5,700	- 6,500	7,600	- 8,600	1,900	- 2,100
Total Earnings	\$229,002,000	- \$247,416,000	\$303,784,000	- \$328,054,000	\$74,782,000	- \$80,638,000

Comparison of Annual Economic Impacts Generated From BCC Operations - High End						
Category	Three-Year Average (FY 2009 - FY 2011)		Expanded BCC (Stabilized Year)		Incremental New (Stabilized Year)	
	City of Baltimore	State of Maryland	City of Baltimore	State of Maryland	City of Baltimore	State of Maryland
Spending						
Direct Spending	\$367,784,000	- \$386,999,000	\$527,055,000	- \$554,264,000	\$159,271,000	- \$167,265,000
Indirect/Induced Spending	204,169,000	- 271,099,000	292,678,000	- 388,396,000	88,509,000	- 117,297,000
Total Spending	\$571,953,000	- \$658,098,000	\$819,733,000	- \$942,660,000	\$247,780,000	- \$284,562,000
Total Jobs	5,700	- 6,500	8,200	- 9,300	2,500	- 2,800
Total Earnings	\$229,002,000	- \$247,416,000	\$328,246,000	- \$354,475,000	\$99,244,000	- \$107,059,000

The following section provides a detailed description of the assumptions used in this analysis.

Incremental New Direct Spending

As mentioned previously, the first step in calculating economic impact is estimating the direct spending. The benefits generated at the City and State levels result from the impact of incremental new direct spending both by attendees and activities that support events held at an expanded BCC. The primary types of spending quantified in this analysis include:

- Attendee spending outside the facility;
- Sponsoring organization/event producer spending outside the facility;
- Exhibitor spending outside the facility; and
- Budgetary spending by the BCC.

The spending amounts for each of these categories were based on data provided by several secondary sources including BCC management, Visit Baltimore, Maryland Office of Tourism Development as well as other industry resources such as DMAI.

Attendee Spending Outside the Facility

Estimated utilization at an expanded BCC was used to calculate attendee spending. Daily spending amounts were assigned to high impact attendees who stay overnight in a hotel and low impact attendees who likely originate from the area or only travel for the day. Data provided by Visit Baltimore was used to calculate the average length of stay by event type for attendees staying in hotels. Based on information from Visit Baltimore as well as other secondary research, average daily spending amounts were estimated for high impact attendees staying overnight in a hotel and for low impact attendees.

Sponsoring Organization/Event Producer & Exhibitor Spending Outside the Facility

Sponsoring organizations/event producers have substantial investments in the events that they host. These organizations purchase goods and services from either the BCC or from outside sources. In addition, exhibitors often spend money outside of the facility to entertain existing and potential clients. Items such as exhibit space and equipment rental are typically provided by the facility, which are reflected as revenues for the provider. Since this spending is reflected in the budgetary spending by an expanded BCC, these amounts are excluded from sponsoring organization/event producer and exhibitor spending to avoid double-counting. For purposes of this analysis and based on data from secondary sources such as DMAI, an average spending amount was applied to attendees at conventions/trade shows to reflect sponsoring organization/event producer spending and to attendees at conventions/trade shows/consumer shows to reflect exhibitor spending.

Budgetary Spending for the BCC

Budgetary spending refers to operating expenses generated by an expanded BCC. Regardless of the source or magnitude of the revenues the building takes in, this analysis focuses on the operating expenses occurring in the local and State economies. Estimated operating expenses from an expanded BCC for items such as salaries, wages and labor, other personnel costs, contractual services, materials/supplies, marketing/advertising, etc. were compared to the historical three-year average in order to calculate the incremental new budgetary spending.



Estimates were also made regarding the percentage of these expenditures that occurred in the local and State economies. For example, the local electric company typically provides utility services and the city or county provide water/sewer services, etc. In contrast, the percentage of living expenses for employees, which is spent in the area, may be relatively moderate. For example, after taking into account taxes and savings (an estimate of 30% to 40% might be reasonable), amounts which may leak outside of Maryland include home mortgage payments, car loan payments, insurance, travel spending, spending on higher education, mail-order purchases and other significant amounts.

Summary of Incremental New Direct Spending Inputs

Based on this information, the incremental new direct spending related to attendees, sponsoring organizations/event producers, exhibitors and budgetary spending at an expanded BCC is estimated to range between \$126.0 million to \$167.3 million annually at the State level, of which \$120.0 million to \$159.3 million is estimated to occur in the City. These incremental direct spending estimates were applied to the multipliers previously shown in order to calculate estimates for total spending, total jobs and total earnings.

Incremental New Indirect and Induced Impacts

The IMPLAN model is used to generate the indirect and induced impacts spawned from the estimated economic activities within the City and the State. The indirect impacts represent inter-industry trade from business to business. Likewise, the induced impacts represent the economic activity spurred by the household trade that occurs when employees make consumer purchases with their incomes. According to the IMPLAN model, incremental new direct spending spurred by ongoing operations of an expanded BCC is estimated to generate between \$88.4 million and \$117.3 million annually at the State level, of which between \$66.7 million and \$88.5 million is estimated to occur in the City.

Incremental New Total Spending

Outputs from the IMPLAN model indicate that total (i.e., direct, indirect and induced) incremental new spending from activity at an expanded BCC is estimated to range from \$214.4 million to \$284.6 million at the State level, of which between \$186.7 million and \$247.8 million is estimated to occur in the City.

Incremental New Total Jobs

Based on the IMPLAN model, which calculates the number of jobs per \$1.0 million in direct spending, the economic activity associated with the ongoing operations of an expanded BCC is estimated to generate a total of between 2,100 and 2,800 incremental new jobs at the State level, of which 1,900 to 2,500 total jobs are estimated to be at the City level. These jobs are created in many sectors of the economy, which both directly and indirectly support the increased level of business activity in the area on an annual basis.

Incremental New Total Earnings

Outputs from the IMPLAN model indicate that incremental new annual earnings generated from an expanded BCC are estimated to range from \$80.6 million to \$107.1 million at the State level of which between \$74.8 million and \$99.2 million are estimated to occur in the City.

Summary of Estimated Annual Incremental New Fiscal Impacts (Tax Revenues)

As shown in the table below, the incremental annual tax revenues related to ongoing operations of an expanded BCC are estimated to range from \$5.5 million to \$7.3 million at the City level and \$11.7 million to \$15.5 million at the State level. Approximately 68% of estimated incremental new tax revenues occur at the State level primarily driven by sales and use tax.

Comparison of Annual Fiscal Impacts Generated From BCC Operations							
Municipality/Tax	Three-Year Average (FY 2009 - FY 2011)	Expanded BCC Range (Stabilized Year)			Incremental New Range (Stabilized Year)		
		Low	High	Low	High		
City of Baltimore							
Hotel/Motel Tax	\$11,840,000	\$15,581,000	-	\$16,829,000	\$3,741,000	-	\$4,989,000
Local Personal Income Tax	2,405,000	3,190,000	-	3,447,000	785,000	-	1,042,000
Admissions & Amusement Tax	1,625,000	2,171,000	-	2,358,000	546,000	-	733,000
Parking Tax	1,046,000	1,432,000	-	1,556,000	386,000	-	510,000
Subtotal	\$16,916,000	\$22,374,000	-	\$24,190,000	\$5,458,000	-	\$7,274,000
State of Maryland							
Sales & Use Tax	\$24,749,000	\$32,788,000	-	\$35,450,000	\$8,039,000	-	\$10,701,000
Personal Income Tax	8,511,000	11,285,000	-	12,194,000	2,774,000	-	3,683,000
Corporate Income Tax	1,974,000	2,617,000	-	2,828,000	643,000	-	854,000
Motor Vehicle Rental Tax	635,000	869,000	-	944,000	234,000	-	309,000
Subtotal	\$35,869,000	\$47,559,000	-	\$51,416,000	\$11,690,000	-	\$15,547,000
GRAND TOTAL	\$52,785,000	\$69,933,000	-	\$75,606,000	\$17,148,000	-	\$22,821,000

The incremental new tax revenues estimated to be generated from operations of an expanded BCC compare favorably to the estimated City and State contributions towards the operating subsidy. However, a more detailed cost/benefit analysis should be completed that includes estimated debt service, a reserve for replacement fund and other related project costs.

The following outlines significant assumptions utilized in this analysis.



City of Baltimore Taxes

Hotel/Motel Tax – The City of Baltimore taxes the furnishings of lodging within the City. The hotel/motel tax does not include State sales tax. The hotel/motel tax rate of 9.5% was applied to 100% of the estimated direct hotel spending in the City.

Local Personal Income Tax – The City of Baltimore imposes a local personal income tax of 3.2% which is calculated as a percentage of taxable income. This rate became effective January 1, 2011 and is an increase to the previous rate of 3.05%. For purposes of this analysis and based on information provided by the Comptroller of Maryland, an effective tax rate of 2.10% was calculated based on the federal adjusted gross income and the total personal income tax paid to the City in 2009 (the most recent year for which data was available). This effective tax rate was applied to total earnings estimated to be generated by expanded BCC operations. Because local income tax is based on where you live, not where you work, this analysis assumed that approximately 50% of personal income taxes generated from expanded BCC operations occur in the City of Baltimore.

Admissions and Amusement Tax - The admissions and amusement tax is a local tax collected by the State Comptroller's Office for local municipalities. The entire amount of the tax collected, less administrative expenses, is returned to the municipalities and counties imposing the local tax. The tax is generally levied on the admission or amusement cost for activities such as movies, amusements, athletic events, concerts, golf and the sale of refreshments at a nightclub or other similar entertainment venue. The tax on admissions differs among local municipalities in Maryland. The City of Baltimore applies a 5% tax on movies on the historic register and single-screen movie theatres and a 10% tax on the admission or amusement cost for all other activities such as movies, athletic events, concerts and golf. If the gross receipts from the activity is also subject to the sales and use tax, the admissions and amusement tax is limited to 5%. For purposes of this analysis, the amusement and admissions tax was based on applying a 5% tax rate to 90% of the estimated direct entertainment spending in the City. In addition, this analysis utilizes an estimate of admissions revenue to consumer shows and sporting events based on historical operating data.

Parking Tax – The parking tax is a local tax collected by the State Comptroller's Office for local municipalities based on the gross amount paid for occupying a parking space. The parking tax rate of 20% was applied to a percentage of estimated direct transportation spending in the City.

State of Maryland Taxes

Combined, the sales and use tax, personal income tax, and corporate income tax generate the majority of the State's tax proceeds from all sources. Given the nature of many attendees at the BCC, motor vehicle rental tax is also estimated. While other taxes may be positively impacted by expanded BCC operations, they are not quantified in this analysis.



In general terms, all State tax proceeds are collected in the State's General Fund and then allocated to variety of program areas, such as education, transportation, public safety, and others. As such, individual revenue sources, such as sales and use tax, are not designated to fund specific programs. As a result of this process, municipalities and counties may benefit from a variety of State and locally administered programs. For purposes of this analysis, only collections have been quantified, without regard as to how these funds are ultimately spent through the individual State departments/funds.

The following describes the primary State-level taxes quantified in this analysis based on information obtained from the State of Maryland Comptroller.

Sales and Use Tax – The State of Maryland collects a sales and use tax from sales and leases of tangible personal property and services throughout the State. Sales and use tax is uniform throughout the State at 6.0%. This tax source is the State's second largest source of general fund revenue. The sales and use tax rate for the sale of alcoholic beverages was recently increased to 9.0%. However, for purposes of this analysis, the 6.0% tax rate was applied to estimated taxable direct and indirect/induced spending at the State level generated from expanded BCC operations which represents a conservative estimate relative to the sale of alcoholic beverages.

Personal Income Tax – The State of Maryland imposes a personal income tax assessed against personal income earned in the State. The State income tax is a graduated rate ranging from 2.0% to 6.25% of taxable income. Non-residents are subject to a special nonresident tax rate of 1.25% in addition to the State income tax rate. This tax source is the State's largest single source of general fund revenue. For purposes of this analysis and based on information provided by the Comptroller of Maryland, an effective tax rate of 3.44% was calculated based on the federal adjusted gross income and the total personal income tax paid to the State in 2009 (the most recent year for which data was available). This effective tax rate was applied to total State-level earnings estimated to be generated by expanded BCC operations.

Corporate Income Tax – A corporate income tax of 8.25% of corporate federal taxable income adjusted by State modifications is also levied by the State of Maryland on corporations. For purposes of this analysis and based on information provided by the Comptroller of Maryland, an effective tax rate of 0.30% was calculated based on the Gross State Product and the total corporate income tax paid to the State in 2010. This effective tax rate was applied to total State-level spending estimated to be generated by expanded BCC operations.

Motor Vehicle Rental Tax – The State imposes an 11.5% tax on short-term passenger car and recreational vehicle rentals. This tax rate was applied to a percentage of direct transportation spending in the State.

Potential Impact of Remaining Status Quo

Although the analysis in this report compares the historical three-year average for BCC operations to an estimate for an expanded BCC, market research suggests that remaining static will likely result in a decline of event activity over time. As a point of reference, hosting 15% less convention/tradeshows and meeting activity at the BCC is estimated to result in a decrease in total spending of approximately \$78.4 million in the State, of which approximately \$68.5 million would occur in the City.

Comparison of Economic Impacts Generated From BCC Operations - Status Quo Scenario						
Category	Three-Year Average (FY 2009 - FY 2011)		BCC Status Quo Scenario		Potential Incremental Change	
	City of Baltimore	State of Maryland	City of Baltimore	State of Maryland	City of Baltimore	State of Maryland
Spending						
Direct Spending	\$367,784,000	\$386,999,000	\$323,764,000	\$340,936,000	(\$44,020,000)	(\$46,063,000)
Indirect/Induced Spending	204,169,000	271,099,000	179,647,000	238,746,000	(24,522,000)	(32,353,000)
Total Spending	\$571,953,000	\$658,098,000	\$503,411,000	\$579,682,000	(\$68,542,000)	(\$78,416,000)
Total Jobs	5,700	6,500	5,000	5,700	(700)	(800)
Total Earnings	\$229,002,000	\$247,416,000	\$201,611,000	\$218,028,000	(\$27,391,000)	(\$29,388,000)

This potential decline in event activity is estimated to yield \$2.1 million and \$4.3 million in lost tax revenues to the City and State, respectively.

Comparison of Fiscal Impacts Generated From BCC Operations - Status Quo Scenario			
Municipality/Tax	Three-Year Average (FY 2009 - FY 2011)	BCC Status Quo Scenario	Potential Incremental Change
City of Baltimore			
Hotel/Motel Tax	\$11,840,000	\$10,375,000	(\$1,465,000)
Local Personal Income Tax	2,405,000	2,117,000	(288,000)
Admissions & Amusement Tax	1,625,000	1,440,000	(185,000)
Parking Tax	1,046,000	924,000	(122,000)
Subtotal	\$16,916,000	\$14,856,000	(\$2,060,000)
State of Maryland			
Sales & Use Tax	\$24,749,000	\$21,775,000	(\$2,974,000)
Personal Income Tax	8,511,000	7,500,000	(1,011,000)
Corporate Income Tax	1,974,000	1,739,000	(235,000)
Motor Vehicle Rental Tax	635,000	561,000	(74,000)
Subtotal	\$35,869,000	\$31,575,000	(\$4,294,000)
GRAND TOTAL	\$52,785,000	\$46,431,000	(\$6,354,000)

In addition, the incremental benefit of expansion will likely increase relative to the historical three-year average with time. The proposed private sector's development initiative also provides a unique opportunity to significantly change the BCC's surroundings and enhance the City's competitive position as a convention/meeting destination.

However, if the product and destination are not continually improved, reinventing the BCC's marketing strategy will become more critical in order to sustain similar occupancy levels. In addition, given the original BCC's age and normal wear/tear, consideration should be given to renovating the older portion of the center with or without any expansion to remain competitive over the long-term.

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Impact of Proposed Ancillary Development

Proposed New Hotel in Downtown Baltimore

Located at the corner of Charles and Conway Streets adjacent to the BCC, the existing 337-room Sheraton Inner Harbor is owned by Willard Hackerman who, as previously mentioned, has indicated a strong interest in funding construction of a new 500-room hotel to replace the existing Sheraton Inner Harbor which would be displaced by the proposed new arena.

As part of its market and economic analysis, Crossroads Consulting was asked to comment on the overall viability of the proposed new hotel and provide an order-of magnitude estimate of the potential economic and fiscal impacts associated with the project. Limited primary market research related to the proposed new hotel was conducted as part of this study effort including conversations with management at select Inner Harbor hotels, analysis of historical Baltimore and Inner Harbor hotel market statistics, and discussions with representatives of the proposed new hotel.

Market research suggests the new hotel, which is anticipated to be a higher-end property, could benefit Baltimore in a number of qualitative ways. These include enhancing the BCC operation by increasing its proximate room supply, diversifying downtown's hotel inventory and providing a key element in the overall public/private development initiative that can enhance the visitor experience.

Relative to quantitative economic benefits, the total annual incremental new spending (i.e., direct/indirect/induced) associated with corporate/leisure activity at the proposed new hotel is estimated to range from \$8.1 million to \$8.8 million. Incremental new impacts are based on the assumption that only 163 rooms are net new to the City's inventory and that all group-related business at the hotel is taken into account in the estimates of BCC economic/fiscal impacts. Using the same general methodology previously described the economic benefits as measured by spending, jobs and earnings are summarized in the following table along with major assumptions used in the calculation.

Summary of Incremental New Economic Impacts Generated From New Hotel (Non-BCC Business)			
Category	Range		
Spending			
Direct Spending	\$5,152,000	-	\$5,581,000
Indirect/Induced Spending	2,959,000	-	3,206,000
Total Spending	\$8,111,000	-	\$8,787,000
Total Jobs	80	-	90
Total Earnings	\$3,185,000	-	\$3,451,000

Major assumptions: The new hotel is built in downtown Baltimore adjacent to an expanded BCC.
 The new hotel is managed as a higher tier property by a first-class operator.
 No other similar hotel properties are constructed in the immediate market.
 163 incremental new rooms are added to the inventory.
 Average occupancy ranges from 60% to 65%.
 20% of incremental room nights are generated each by corporate and leisure business.
 Estimates of daily spending per room are derived from various industry resources.

As shown in the following table, corporate/leisure activity at the proposed new hotel is estimated to generate \$848,000 to \$919,000 in total incremental new fiscal benefits on an annual basis, of which \$343,000 to \$372,000 or 40% occurs at the City level. This analysis does not assume any potential tax incentives to the private hotel developer.

Summary of Incremental New Fiscal Impacts			
Generated From New Hotel (Non-BCC Business)			
Municipality/Tax	Range		
City of Baltimore			
Hotel/Motel Tax	\$247,000	-	\$268,000
Parking Tax	63,000	-	68,000
Local Personal Income Tax	33,000	-	36,000
Subtotal	<u>\$343,000</u>	-	<u>\$372,000</u>
State of Maryland			
Sales & Use Tax	\$353,000	-	\$382,000
Personal Income Tax	110,000	-	119,000
Corporate Income Tax	24,000	-	26,000
Motor Vehicle Rental Tax	18,000	-	20,000
Subtotal	<u>\$505,000</u>	-	<u>\$547,000</u>
GRAND TOTAL	\$848,000	-	\$919,000

The proposed net new increase in hotel rooms proximate to the BCC should benefit the City and the State in terms of both economic and fiscal benefits. The existing hotel supply should not be adversely affected by the relatively limited number of net new hotel rooms.

Proposed New Arena in Downtown Baltimore

Owned by the City and privately managed by SMG, the 1st Mariner Arena is Baltimore's largest indoor sports and entertainment facility. The facility is located proximate to the Inner Harbor and is easily accessible via Interstates 95, 83 and 395. In addition, the light rail and major bus lines stop alongside the facility.

The 1st Mariner Arena has 11,000 permanent seats on three levels in a horseshoe shape. The ice system was completely replaced in 1997. Concert or meeting capacity is 13,500 while the capacity for other shows and sporting events ranges from 11,000 to 14,000. The Arena can also be curtained down to a 5,000-person capacity with a portable center stage. There is an 850-car parking garage located adjacent to the facility.

Since its opening in 1962, the 1st Mariner Arena has hosted a wide range of sports and entertainment events including family shows, motor sports, concerts, closed circuit boxing, gymnastics, tennis, conventions, graduations, meetings and various other events. The facility is also home to the Major Indoor Soccer League's (MISL) Baltimore Blast. Given the longevity of the existing 1st Mariner Arena, Baltimore has an established base of arena-related business that compares well with peer communities and is achieved despite the age of the facility. According to management, the facility typically hosts 130 events that attract approximately 800,000 total attendees annually. For the second consecutive year, *Billboard Magazine's* year-end issue named 1st Mariner Arena the highest grossing among arenas seating between 10,000 and 15,000 people. Results were based on the number of tickets sold and gross revenue. This past year 1st Mariner Arena hosted concerts by Bob Segar and the Silver Bullet Band, Kanye West/Jay-Z, Chris Brown, "American Idols Live", Sade, Rihanna, New Kids on the Block/Backstreet Boys, Rush, Trans-Siberian Orchestra and Elton John as well as the Cirque du Soleil "Quidam".

While significant financial investments have been made to several public assembly facilities in downtown Baltimore including Oriole Park at Camden Yards, M&T Bank Stadium, the Hippodrome Theatre and the Hilton Baltimore, relatively limited funds have been invested in the 1st Mariner Arena since its construction.

Despite its relatively strong event mix, the 1st Mariner Arena is increasingly becoming functionally obsolete. City representatives have consistently stated that development of a new arena is a priority, particularly given the 1st Mariner Arena's age and location in the heart of downtown Baltimore. Previous studies consistently supported demand for a new arena in order to maintain, expand and diversify its market share.

As stated previously, the private sector has approached the City with an offer to construct and finance a new 18,500-seat arena in downtown Baltimore. As part of its market and economic analysis, Crossroads Consulting was asked to comment on the overall viability of the proposed new arena and provide an order-of magnitude estimate of the potential economic and fiscal impacts associated with the project.

Although limited primary market research related to the proposed new arena was conducted as part of this study effort, previous market research suggested demand for a new arena in order to maintain, expand and diversify its market share of concerts, family shows, entertainment acts and sporting events. As a point of reference, the Maryland Office of Sports Marketing indicated that a new arena in Baltimore could potentially attract the following events:

- Olympic qualifiers, national championships, international competitions among national teams
- NCAA activity including pre-season tournaments, conference championships
- Professional events involving gymnastics, boxing, wrestling, hockey, basketball, extreme sports
- Other youth and amateur competitions such as cheerleading, dance, martial arts, judo, karate

Qualitative benefits of a new arena include positively impacting the overall quality of life to area residents and businesses; providing community pride; offering a first-class community asset that hosts diverse events and benefits residents who do not necessarily attend sports/ entertainment events; receiving State and regional media exposure; and supporting other downtown development initiatives.

The current plan also provides synergies with other existing facilities, particularly the BCC. For instance, the arena could host various general sessions for conventions and the BCC could host various activities associated with sports/entertainment events held at the arena. The connectivity of the two venues in a downtown location proximate to hotels, restaurants, retail, etc. also places the market in a favorable competitive position to host large special events such as NCAA tournaments. As mentioned earlier, convention/meeting planners indicated that construction of the arena and new hotel fundamentally increased their perception of Baltimore’s attractiveness as a destination. Other benefits of the proposed site location include proximity to Inner Harbor and other urban attractions, no loss in arena-related event activity, and an opportunity to utilize the current site location as a potential catalyst for continued Westside development.

Relative to quantitative economic benefits, the ongoing operations of the proposed new arena are estimated to generate between \$48.1 million and \$50.3 million in total spending that support between 730 and 760 total jobs within the Baltimore metro area on an annual basis. Incremental new impacts shown below are based on an estimate of historical economic impacts generated by the 1st Mariner Arena during the last three fiscal years compared to those estimated for the proposed new arena. Using the same general economic and fiscal impact methodology previously described, the estimated total and incremental new economic benefits as measured by spending, jobs and earnings are summarized in the following table along with major assumptions used in the calculation.

Summary of Incremental New Economic Impacts							
Category	Existing 1st Mariner	Proposed New Downtown Arena			Incremental New Impacts		
	Three-Year Average	Range			Range		
Spending							
Direct	\$21,451,000	\$28,959,000	-	\$30,232,000	\$7,508,000	-	\$8,781,000
Indirect/Induced	14,329,000	19,186,000	-	20,019,000	4,857,000	-	5,690,000
Total	\$35,780,000	\$48,145,000	-	\$50,251,000	\$12,365,000	-	\$14,471,000
Total Jobs	550	730	-	760	180	-	210
Total Earnings	\$14,450,000	\$19,441,000	-	\$20,290,000	\$4,991,000	-	\$5,840,000

Major Assumptions: The new arena is built in downtown Baltimore adjacent to an expanded BCC.
The new arena is managed by a first-class operator with significant industry experience.
No other similar, competitive facilities are constructed in the immediate market.
Attendance reflects a 20% to 25% increase over the historical three-year average at 1st Mariner Arena.
Direct spending includes estimated gross arena operating revenues and attendee spending outside the facility.
No major sports tenant is assumed.

As shown in the following table, ongoing operations of the proposed new arena are estimated to generate between \$4.4 million and \$4.6 million in total fiscal benefits on an annual basis, of which between \$1.1 million and \$1.3 million is estimated to be incremental new.

Summary of Incremental New Fiscal Impacts						
Category	Existing 1st Mariner	Proposed New Downtown Arena			Incremental New Impacts	
	Three-Year Average	Range			Range	
City of Baltimore						
Admissions & Amusement Tax	\$1,362,000	\$1,770,000	-	\$1,844,000	\$408,000	\$482,000
Parking Tax	153,000	208,000	-	217,000	55,000	64,000
Local Personal Income Tax	152,000	204,000	-	213,000	52,000	61,000
Hotel/Motel Tax	112,000	152,000	-	158,000	40,000	46,000
Total	\$1,779,000	\$2,334,000	-	\$2,432,000	\$555,000	\$653,000
State of Maryland						
Sales & Use Tax	\$886,000	\$1,232,000	-	\$1,290,000	\$346,000	\$404,000
Personal Income Tax	497,000	669,000	-	698,000	172,000	201,000
Corporate Income Tax	107,000	144,000	-	151,000	37,000	44,000
Total	\$1,490,000	\$2,045,000	-	\$2,139,000	\$555,000	\$649,000
Grand Total	\$3,269,000	\$4,379,000	-	\$4,571,000	\$1,110,000	\$1,302,000

Note: This analysis assumes that all of the Admissions/Amusement Tax is retained by the City.

Based on the arena’s existing event activity, the potential incremental economic and fiscal impacts associated with ongoing operations of a new arena may be somewhat limited in the short-term. However, the 1st Mariner Arena’s age and increasing functional obsolescence will likely result in a decline in marketability and market share over time thus a new arena could yield higher incremental economic and fiscal impacts in the long-term.

Given the preliminary nature of the proposed new arena, this analysis represents a hypothetical, order of magnitude estimate that should be refined as decisions related to the building program, the broader development plan, and other operating characteristics continue to evolve. As such, significantly more research and analysis will need to be conducted prior to generating any financing plan.

The potential private sector investment in a new downtown arena presents a unique opportunity for the City to replace its existing aging asset, enhance the vibrancy of its downtown, create synergies with the BCC, and provide a first-class facility to better meet citizens’ sports, entertainment, cultural and civic needs.

Relative to financing, it is unusual for similarly sized arenas with no major professional sports tenant to be privately financed. Several larger facilities that host NBA and/or NHL teams such as the Verizon Center in Washington, D.C., the Staples Center in Los Angeles, and the Pepsi Center in Denver have been privately financed by the owner of the team and the venue. In these cases, municipalities may have contributed infrastructure improvements but the facility funding was predominately private. Other communities have recognized the value of utilizing public-private partnerships to facilitate arena construction. The Consol Energy Center in Pittsburgh, the Amway Center in Orlando, the AT&T Center in San Antonio and Conseco Fieldhouse in Indianapolis were funded through public/private partnerships. Both the City of Memphis and the State of Louisiana publicly funded arenas to attract professional sports teams – both of which host NBA teams.

As a point of reference, the following table summarizes the funding strategy utilized at similar sized arena projects without major professional sports tenant(s):

Facility	Location	Year Opened	Seating Capacity	Funding	Comments
Alltel Arena	Little Rock, AR	1999	18,000	100% public	Fully paid when it opened
Ford Center	Oklahoma City, OK	2002	18,000	100% public	NBA team relocated after construction
Jacksonville Veterans Memorial Arena	Jacksonville, FL	2003	15,000	100% public	Part of a \$2.2 billion broader Better Jacksonville plan
Sprint Center	Kansas City, MO	2007	18,000	Public/private partnership	AEG contributed \$54 million in capital
KFC Yum! Arena	Louisville, KY	2010	22,090	100% public	University of Louisville plays here
INTRUST Arena	Wichita, KS	2010	15,000	100% public	Significant naming rights deal

Sources: Primary and secondary research.

Irrespective of the ultimate funding strategy utilized, other communities have determined that the quantitative and qualitative benefits associated with new or renovated arenas outweigh the capital and operational costs. Understanding the cost/benefit of any new project individually as well as in relation to the broader development plan are important considerations. Furthermore, understanding the potential negative impacts of ceasing to operate an arena in a market is also important when assessing a project's viability.

Potential Next Steps

A market/economic analysis is an initial step in any planning process. Based on the existing site location constraints and the order of magnitude construction costs, integrating the BCC expansion with the existing facility structure as well as the proposed new arena will require detailed proactive and strategic planning to maximize operational opportunities and mitigate potential site planning and physical programmatic issues.

Based on market research and corresponding economic/fiscal benefits that could potentially be generated by this project, next steps may include:

- Secure funding to conduct more detailed site and architectural planning studies
- Outline the potential operating terms and structure of any public-private partnership
- Assess the physical programming issues associated with each individual element as well as the development project in aggregate
- Refine BCC expansion program options into a more detailed spatial program which maximizes marketability relative to competitive set, operational functionality, physical site constraints, and cost

- Address other expansion related issues such minimizing disruption to the existing BCC, assessing the impact to future bookings, addressing existing operational inefficiencies, sharing common spaces and major systems to realize ongoing operational efficiency
- Estimate construction and total project costs
- Develop a cost-benefit analysis including the estimated return on investment for potential funding partners
- Identify potential financing strategy