

Business Development Fund

Raleigh Convention Center

Discussion Document

The following individuals have reviewed and provided recommendations for the preparation of this document.

Mr. David Cooke, Wake County Manager;
Mr. Russell Allen, Raleigh City Manager;
Mr. Roger Krupa, Director, Raleigh Convention Center;
Ms. Laurie Okum, Director of Sales, Raleigh Convention Center;
Mr. Doyle Parrish, President, Summit Hospitality Group, member HANC;
Mr. Jay Mahan, President, Davidson & Jones Hotels, member HANC;
Mr. Ed Book, General Manager, Marriott Hotel Crabtree and Chairman-elect, GRCVB Board of Directors;
Mr. Russ Smith, General Manager, Embassy Suites Cary and current Chairman, GRCVB Board of Directors;
Mr. Dave Heint, President and CEO, GRCVB;
Mr. Loren Gold, Director of Sales, GRCVB.

This document was independently prepared by Hobbs and Company, LLC, Raleigh, NC at the request of Hospitality Alliance of North Carolina (HANC) members with corporate offices in Raleigh. The content is solely the responsibility of Hobbs and Company, LLC.

CONVENTION CENTER BUSINESS DEVELOPMENT FUND

DISCUSSION DOCUMENT

October 2006 (Last Updated November 7, 2006)

This document is intended to facilitate meaningful discussion regarding the funding and administration of a dedicated *BUSINESS DEVELOPMENT FUND* to further assure the economic success of the new *RALEIGH CONVENTION CENTER*.

NEED FOR A BUSINESS DEVELOPMENT FUND

The decision to go forward with construction of the Raleigh Convention Center was made based on a Marketing Study (March, 2003) and Business Plan (June 2004) prepared by HVS International.

In the post 9/11 time frame when these reports were being prepared, the dynamics of the meeting and convention economy were undergoing a dramatic change. The long-term effect on the convention center sector could not have been predicted.

In an effort to preserve the meeting and conventions economy, meeting planners began demanding unprecedented economic concessions from convention centers. The individuals responsible for selling convention center services, in the same sense of preserving the public investment in these facilities in the urgency of the prevailing economic climate, acceded to those demands. By their collective actions, the economics of convention centers have been altered for the foreseeable future.

Convention planners now enter negotiations with a convention center with the preamble that the host city will be willing to offer free or substantially reduced facility rental. Parking concessions are a given. Transportation to and from the convention center, where necessary to accommodate the group, is an expense subsidized by the hosting City.

Raleigh officials don't have to look far to verify the existence of these new realities. The City of Charlotte in 2005 and 2006 set aside a total of \$1.5 million in local funds to subsidize the demands of convention planners just for the next 24-months. A similar fund has been in place in Greensboro for several years.

Advance bookings for the new RCC are on track to meet the projections established in the 2004 HVC business model.

However, ten of the fourteen convention groups that have signed definite commitments through 2011 for the new facility have demanded and received concessions for either facility rental or transportation, or both. In each case, the dollar amount of concession is small compared to the group's projected economic impact, but cumulatively the dollar amounts become substantial.

Currently, the concessions will be "funded" by lower than projected revenues for the RCC or increased operating expenses. Ultimately, they are likely to result in higher than projected operating losses for the RCC.

Sales opportunities have been identified that will likely allow the RCC to substantially exceed the number of bookings and revenues initially projected by HVS. But only if action is taken quickly to close on contracts currently pending.

Virtually all of the groups require some form of price concession by the RCC or expenditures to underwrite ancillary services such as transportation or parking.

Individuals responsible for securing bookings of the RCC cannot and should not be expected to make the decision to continue granting price concessions in order to secure bookings at the risk of being held responsible for increased operating deficits.

Private sector hospitality industry professionals from Wake County who have supported the effort to develop the RCC project are now recommending the City and County immediately move to establish a Convention Center Development Fund similar to the program outlined below.

The establishment of such a Fund from tax revenues already collected by the County's hospitality industry is crucial in order to maximize the economic impact the facility will bring to Raleigh and Wake County. General fund revenues should not be considered for this purpose.

Equally important is the positive public perception the facility will enjoy when the facility's economic impact for Raleigh and Wake County exceeds original projections.

OVERVIEW: Convention Center Business Development Fund

1. Fund contributions would begin fiscal year 2008-2009.
2. Fund contributions would end fiscal year 2014-2015 (Seven Years).
3. Minimum Annual Fund Contribution: \$350,000.
Recommended Annual Fund Contribution: \$500,000.
4. County remits funds to GRCVB quarterly.
5. Fund contributions would be non-reverting subject to maximum fund balance set forth in items 7. and 8. below.
6. Interest earned on fund balance accrues to the fund.
7. Uncommitted fund balance at the end of a fiscal year shall not exceed \$500,000.
8. Uncommitted fund balance at fiscal year-end of more than \$500,000 reverts to unencumbered Interlocal convention center funds.
9. GRCVB is trustee for funds.

10. GRCVB is not entitled to reimbursement for any expenses incurred as trustee.
11. GRCVB establishes separate depository and accounts.
12. GRCVB, in cooperation with RCC, shall develop a grant application document incorporating such information and approvals necessary to confirm the proposed Grantee meets the required minimum qualifications established in the Interlocal Agreement.
13. Meeting the minimum qualifications is not intended in any way to automatically qualify a convention or event to receive funding. The GRCVB Board will be required to consider other subjective and objective factors including the timing of the event in relationship to other events and activities scheduled, the available hotel inventory to accommodate the group, and other similar factors that may mitigate the true economic impact of the group or convention.
14. GRCVB shall report quarterly to the finance officers and manager of the City and County detailing all fund activity.
15. Direct payments are prohibited from the Business Development Fund to the organization sponsoring or otherwise booking a convention. GRCVB shall disburse funds, upon presentation of an invoice, to the actual service provider.
16. Recognizing that the County and City may be presented with extraordinary opportunities to host conventions or exhibitions that may require commitments exceeding the resources available from the Business Development Fund, the GRCVB may, upon majority vote of the Board, petition Wake County and the City of Raleigh for additional funding specific to a stated event.
17. The GRCVB shall prepare and present an economic impact projection for each application based on current Destination Marketing Association International statistics, a generally accepted national standard for estimating the economic impact of meetings and conventions.

DEFINITIONS:

Convention Center Business Development Fund: A fund established by Wake County and the City of Raleigh through the “Interlocal Agreement Between Wake County and the City of Raleigh Relating to the Room Occupancy Tax and Prepared Food and Beverage Tax Revenues” to fund grants on behalf of major convention and meeting

groups (the Grantee) utilizing the Raleigh Convention Center for the benefit of the Wake County economy.

ADR: Average Daily Rate. The Average Daily Rate for all lodging establishments in Wake County as reported by *Smith Travel Research*.

Application Date. The “Application Date” shall be the date when the final required signature noted in 1. and 2. of the Application and Approval Process noted below is obtained.

Grantee: A foreign or domestic for-profit or non-profit corporation, or an agency of the state or federal government.

Use Of Funds: Funds provided through a Convention Center Business Development Fund grant shall be used only for the following purposes:

1. Facilities Rental- Publicly Owned Facilities
2. Parking- Publicly Owned Facilities
3. Group Transportation
4. Exhibit Costs- Publicly Owned Facilities
5. Enhanced Security
6. Enhanced Ambassador Program Services
7. Signature Raleigh Event: A unique regional or national convention, trade show or similar event developed jointly by the Greater Raleigh Convention & Visitors Bureau and the Raleigh Convention Center to showcase the business and economic environment of Raleigh, Wake County, and surrounding areas.

APPLICATION AND APPROVAL PROCESS:

1. The Director of Sales (DOS) from either the GRCVB or the Raleigh Convention Center shall initiate a Grant Application on behalf of a named corporate entity, nonprofit corporation, or government agency that would be the beneficiary of the grant. The DOS shall research and document as necessary all information required to establish that the group meets or exceeds the Minimum Qualifications to be eligible for funding.

2. Individuals currently holding the positions identified below shall sign the application stating they have reviewed the Grant Application, and based on information provided, acknowledge the Grantee meets the minimum criteria.
 - a. The Chief Executive Officer of the Greater Raleigh Convention and Visitors Bureau.
 - b. The Chief Executive Officer of the Raleigh Convention Center.
 - c. The Raleigh City Manager
 - d. The Wake County Manager
3. Upon completion of the application as outlined above, the application shall be presented to the Board of Directors of the Greater Raleigh Convention & Visitors Bureau at its next regularly scheduled meeting.
4. A unanimous vote approving the Application by the GRCVB Board present at that meeting shall cause the funds to be committed from the Convention Center Business Development Fund for the year in which the event shall occur. A vote to oppose the Application by a majority of those present shall cause the Application to be rejected.
5. When an application does not receive a unanimous vote at its first presentation to the GRCVB Board but is not rejected, the Application shall be presented again at the next regularly scheduled meeting of the Board. The application must receive the support of at least a majority of the voting members present.
6. For grants totaling \$100,000 or less, the vote by the Board of Directors of the Greater Raleigh Convention & Visitors Bureau is final. Approval of the grant shall cause the funds to be committed from the Convention Center Business Development Fund.
7. Any grant exceeding \$100,000 approved by the GRCVB Board of Directors shall also require approval, by majority vote, of the Raleigh City Council and the Wake County Commissioners within thirty days of the date approved by the GRCVB Board. The failure of either the County or the City to approve the Application within the 30-day period shall cause the Application to be disapproved.

PROTOCOL: MINIMUM QUALIFICATIONS

Minimum Required Criteria for approving a grant shall be one of the following.

Prepared by:

Hospitality Alliance of North Carolina
Hobbs and Company, LLC, Raleigh, NC 919-821-7125

1. Projected average daily rate for group room nights blocked shall be:
 - a. Within twelve months: 120% of the ADR for all hotels in Wake County for the 12-month period preceding the date of application.
 - b. Within twenty-four months: 125% of the ADR for all hotels in Wake County for the 12-month period preceding the date of application.
 - c. Within thirty-six months: 130% of the ADR for all hotels in Wake County for the 12-month period preceding the date of application.
2. Minimum of 1200 room nights projected verified by group's history.
Peak room night minimum of 500.

OR

1. Projected average daily rate for group room nights blocked shall be:
 - a. Within twelve months: 100% of the ADR for all hotels in Wake County for the 12-month period preceding the date of application.
 - b. Within twenty-four months: 105% of the ADR for all hotels in Wake County for the 12-month period preceding the date of application.
 - c. Within thirty-six months: 110% of the ADR for all hotels in Wake County for the 12-month period preceding the date of application.
2. Minimum of 2500 room nights projected verified by group's history. Peak room night minimum of 700.

OR

A Group seeks to book the Raleigh Convention Center for one or more events per year in at least three of the succeeding six-year period:

1. Projected average daily rate for group room nights blocked shall be:
 - a. Within twelve months: 100% of the ADR for all hotels in Wake County for the 12-month period preceding the date of application.
 - b. Within twenty-four months: 105% of the ADR for all hotels in Wake County for the 12-month period preceding the date of application.
 - c. Within thirty-six months: 110% of the ADR for all hotels in Wake County for the 12-month period preceding the date of application.
2. Minimum of 1000 room nights per event projected verified by group's history.
Peak room night minimum of 350.

SOURCE OF FUNDS

Funding would be from the growth in available revenues from the 85% of uncommitted Interlocal revenues already dedicated to the convention center project by an amendment to the current Interlocal Agreement.

If the projected growth of Interlocal revenues is not sufficient to adequately support the Fund, Interlocal revenues not currently committed should be used to establish the Fund.

INTERLOCAL AGREEMENT BETWEEN WAKE COUNTY AND THE CITY OF RALEIGH RELATING TO ROOM OCCUPANCY AND PREPARED FOOD AND BEVERAGE TAX REVENUES

Eighth Amendment

January 20, 2004

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3. A. *"The RCC Project shall be funded by dedication of eighty-five percent (85%) of all not previously committed undesignated Interlocal Agreement proceeds for the project as of January 20, 2004." "The amounts distributed to the City may vary from those shown on column "C" of Attachment A, but in all cases shall equal to eighty-five percent (85%) of all not previously committed undesignated Interlocal Agreement proceeds."*

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3. E. (iv) (b) The City may use funds in this fund for:

"Partial offset of operating expenses of the convention center, including but not limited to, marketing expenses and establishment of capital reserves;

Tenth Amendment

Sept. 19, 2005

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3. Paragraph 11.6 E.(iv)(d) as found in the Eighth Amendment to the Revised Agreement is amended to read as follows:

"The City may utilize or accrue for use in later fiscal years the actual dollar amount shown on column "N" of Attachment A for expenses authorized by subsection E. (iv) (b). The City may also utilize up to one million dollars (\$1,000,000.00) additional per year for those purposes, said funds to be taken from the project fund balance shown as column "Q" on Attachment A. In the event the City elects to utilize any fund balance for purposes authorized by subsection E.(iv)(b), for each one dollar utilized by the City there shall be distributed to the County an additional two dollars to be used by the County according to the provisions of paragraph 11.2 authorized by the Second Amendment to this Agreement , dated May 1, 1997 (supplemental distribution).

Second Amendment

May 1, 1997

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11.2 *Beginning in Fiscal Year 2000-01, the sum of One Million Dollars (\$1,000,000) shall annually be distributed to each of the City and County. The County and City may, in their sole and independent discretion, use those funds for any of the purposes enumerated in the Enabling Acts. Distributions under this paragraph shall be made prior to applying revenues from the room occupancy tax to arena debt unless otherwise agreed to by the City and County.*

SL 95-548 Wake County

Use provisions for occupancy taxes:

The city may use the first six hundred eighty thousand dollars (\$680,000) of the net proceeds of the taxes levied under this act to fund the acquisition, construction, financing, debt servicing, maintenance, or operation of convention centers, civic centers, performing arts centers, coliseums, auditoriums, and museums; to provide off-street parking facilities for use in conjunction with such facilities; and to fund visitor-related programs and activities, including cultural programs, events or festivals, and convention and visitor programs and activities of the Greater Raleigh Convention and Visitor Bureau.

The city shall use any additional net tax proceeds received only for (i) the acquisition, construction, renovation, financing, debt service, maintenance, and operation of expansions and additions to the Raleigh Civic Center Complex or similar facilities, and (ii) the construction of sports, cultural, and arts facilities, including a coliseum to be built in conjunction with North Carolina State University at Raleigh, a performing arts theater, a visual arts program, and a children's museum. Any funds not spent in a fiscal year may be held in one or more reserve accounts by the city for future use in the range of activities allowed by this subsection. The city may make expenditures pursuant to this subdivision b. only after the city and county have agreed on the amount and purpose of the expenditure. The county's approval of an expenditure must be evidenced by a resolution adopted by the board of commissioners.

Wake County may expend these proceeds only for the Raleigh Civic Center Complex or similar facilities or for construction of sports, cultural, and arts facilities, including a coliseum to be built in conjunction with North Carolina State University at Raleigh, a performing arts theater, a visual arts program, and a children's museum. Any funds not spent in a fiscal year may be held in reserve accounts by the county for future use in the range of activities allowed by this subsection. The county may make expenditures pursuant to this subdivision only after the city and county have agreed on the amount and purpose of the expenditure. The city's approval of an expenditure must be evidenced by a resolution adopted by the city council.

Use Provisions for Prepared Food & Beverage Tax

The city may use the first six hundred eighty thousand dollars (\$680,000) of the net proceeds of the taxes levied under this act to fund the acquisition, construction, financing, debt servicing, renovation, maintenance, or operation of convention centers, civic centers, performing arts centers, coliseums, auditoriums, and museums; to provide off-street parking facilities for use in conjunction with such facilities; and to fund visitor-related programs and activities, including cultural programs, events or festivals, and convention and visitor programs and activities of the Convention and Visitor Bureau.

The city shall use any additional net tax proceeds received only for (i) the acquisition, construction, renovation, financing, debt service, maintenance, and operation of expansions and additions to the Raleigh Civic Center Complex, and (ii) the construction of sports, cultural, and arts facilities, including a coliseum to be built in conjunction with North Carolina State University at Raleigh, a performing arts theater, a visual arts program, and a children's museum. Any funds not spent in a fiscal year may be held in one or more reserve accounts by the city for future use in the range of activities allowed by this subsection. The city may make expenditures pursuant to this subdivision b. only after the city and county have agreed on the amount and purpose of the expenditure. The county's approval of an expenditure must be evidenced by a resolution adopted by the board of commissioners.

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