

Metropolitan Government of Nashville and Davidson County – Internal Audit



Advisory Services Related to the Need for Expansion of the Nashville Convention Center or Construction of a Proposed New Convention Center

Final Report – November 2004

Table of Contents

1	Report Letter	1
2	Introduction & Executive Summary	4
3	Industry Trend Overview	29
4	Nashville Market Overview	54
5	Nashville Convention Center Utilization Analysis	74
6	Competitive/Comparable Market Analysis	105
7	Meeting Planner Surveys	129
8	Summary of Market Findings	151
9	Programming & Site Planning Issues	169
10	Financial Analysis	187



November 16, 2004

Ms. Kim McDoniel
Metropolitan Government of Nashville and Davidson County
Internal Audit Section
222 Third Avenue North, Suite 401
Nashville, Tennessee 37201

Dear Ms. McDoniel:

Per our agreement, we have completed our market, site and financial analysis related to the assessment of demand for additional convention space in downtown Nashville, Tennessee. The report presented herein includes the summary of findings and principal conclusions from our research.

The accompanying analysis was prepared for internal use by the Metropolitan Government of Nashville and Davidson County (Metro) for its consideration of plans for additional convention space. Notwithstanding these limitations, it is understood that this document is subject to public information laws and, as such, can be made available to the public. Neither this report, nor any portion thereof, may be used for any other purpose without the prior written consent of KPMG.

The findings contained in the report reflect analysis of primary and secondary sources of information including, but not limited to, that obtained from Metro as well as management at the Nashville Convention Center and the Nashville Convention and Visitors Bureau. We have utilized sources that are deemed to be reliable but cannot guarantee their accuracy. KPMG did not independently verify the assumptions and data that were provided. Moreover, estimates and analysis regarding the project are based on trends and assumptions and, therefore, there will usually be differences between the estimated and actual results because events and circumstances frequently do not occur as expected, and those differences may be material. In accordance with the terms of our engagement, the accompanying study is restricted to internal use and may not be relied upon by any third party for any purpose including financing of the project. We have no obligation, unless subsequently engaged, to update this report or revise this analysis as presented due to events or conditions occurring after the date of this report.

Because the procedures we performed do not constitute an examination of prospective financial statements in accordance with standards established by the American Institute of Certified Public Accountants (AICPA), 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.

We have enjoyed working on this engagement and our relationship with Metro and look forward to providing you with continued service.

Sincerely,

KPMG LLP

Table of Contents

1	Report Letter	1
2	Introduction & Executive Summary	4
3	Industry Trend Overview	29
4	Nashville Market Overview	54
5	Nashville Convention Center Utilization Analysis	74
6	Competitive/Comparable Market Analysis	105
7	Meeting Planner Surveys	129
8	Summary of Market Findings	151
9	Programming & Site Planning Issues	169
10	Financial Analysis	187

Introduction

Located in downtown, the Nashville Convention Center (NCC) is owned and operated by Metropolitan Government of Nashville and Davidson County (Metro). Created in June of 1985, the Metro Convention Center Commission (MCCC) is the governing body responsible for managing, operating and promoting the NCC. The facility originally opened in 1987 and currently offers the following components:

- Three exhibit halls totaling approximately 118,675 square feet (SF) of contiguous space;
- A 10,920 SF ballroom; and
- 24 breakout rooms which total approximately 20,000 SF of meeting space.

The NCC is connected via a climate-controlled underground walkway to the Gaylord Entertainment Center (GEC) The GEC's main bowl features approximately 43,000 square feet of exhibit space. The seating capacity at the facility is approximately 20,000 for concerts. The concourses can also be utilized as exhibit space for events. The GEC also offers approximately 6,000 square feet of meeting rooms.

In addition, the adjoining 673-room Renaissance Nashville Hotel provides an additional 17,880 SF ballroom and 25 breakout rooms which total 11,740 SF of meeting space. The sales staff at the hotel and the NCC frequently interact to jointly market and sell the space and services offered at both facilities. Due to the competitive environment of the meeting's industry, many customers of the Renaissance Nashville Hotel frequently request complimentary or greatly reduced prices for rental of the exhibition space. The NCC is often times unable to accommodate this request. Consequently, the Renaissance Nashville Hotel will rent exhibit space and/or ancillary services at the NCC on behalf of its customers. As a result, the Renaissance Nashville Hotel has become the largest customer of the NCC. Due to the volume of business generated by the Renaissance Nashville Hotel, this relationship has a positive impact in terms of both event activity and financial performance for the NCC.

Introduction (cont'd)

Metro is currently exploring the need for additional convention center space in Nashville either through expansion of the existing NCC or development of a new convention center in order to better meet the long term needs and objectives of the market. In keeping with the NCC's mission to generate economic impact, a goal of adding more convention space would be to attract incremental new business to Nashville that cannot currently be accommodated.

It is important to understand that the Nashville market is unique in that there are two convention centers. The 2,881-room Gaylord Opryland Resort and Convention Center (Opryland Hotel) is privately owned and operated and serves as the primary convention facility in Nashville in terms of exhibit space. The Opryland Hotel offers approximately 289,000 square feet of exhibit space and nearly 182,500 square feet of meeting/ballroom space. The NCC serves as the secondary convention facility based on the total amount of exhibit space. Depending on the type of event and the group's requirements, these two facilities can compete for event activity. However, in many cases, groups prefer either to meet in a downtown facility or in a suburban property. The Opryland Hotel is an important factor to consider when evaluating the existing and future need for additional convention center space in Nashville.

Various studies have been commissioned in recent years related to the operational performance of the existing facility and the long-term needs of convention quality space in the market. The results of these previous study efforts are summarized on the pages that follow.

Introduction (cont'd)

Analysis of the Long-Term Convention Facility Needs of the Nashville, TN Market – 2001

The MCCC engaged Convention, Sports & Leisure International (CSL) to analyze the long-term convention facility needs of the Nashville market. The study addressed the market, building program, financial, economic and site issues related to the future development of convention center space. The study stated that over the next 10 years, the Nashville market, in general, appears to have potential to support up to 400,000 SF of exhibit space given certain facility features including 100,000 SF of meeting space and a 40,000 SF ballroom. In addition, a large headquarters hotel would need to be developed for any major convention center project. A larger convention center in Nashville was estimated to generate approximately \$323 million in total economic impact. The study also provided a review of convention center services as well as potential funding alternatives for development of any new space in Nashville.

Nashville Convention Center Analysis of Funding Alternatives – 2001

The MCCC engaged KPMG LLP's Economic Consulting Services, which is a separate division from the Convention, Sports & Entertainment Practice hired to conduct the analysis herein, to analyze potential revenue available to fund the construction of a new convention center in Nashville. The objectives of this analysis were to ascertain funding structures used in similar projects and prepare estimates of potential revenues that could be generated by implementing these funding structures in Nashville. It is important to recognize that given the timing of the study and the historical tax collections used to develop various assumptions, any potential impact of 9/11 was not accounted for in this analysis. The study estimated potential revenue streams from several possible sources including an additional hotel tax, step-up bed tax, restaurant tax, auto rental tax and tourism development zone sales tax rebates. Single revenue sources were estimated to range from \$400,000 to \$10.0 million per year. Estimates were based on a variety of assumptions and historical tax and sales data presented in the report.

Introduction (cont'd)

Performance Audit of the NCC & the Nashville CVB – 2003

The Internal Audit Section of the Finance Department of Metro retained KPMG to conduct a performance audit of several of its public assembly facilities including the Gaylord Entertainment Center (GEC), the Nashville Municipal Auditorium and the NCC. Also, due to the significant interaction between the Nashville CVB and Metro's public assembly facilities, the Nashville CVB was also included in the analysis. The focus of the study was on benchmarking individual performances of both the NCC and Nashville CVB in key areas as well as their interaction with one another, particularly with respect to marketing efforts.

Although no analysis was conducted relative to the operational or financial viability of a new or expanded convention center during this performance audit, several observations were outlined for consideration when evaluating the merits of expansion or construction of a new convention center in Nashville. Some of these included the need to ensure any additional convention space in Nashville would generate incremental new events to the market. Furthermore, it was mentioned that the site for any new space would be a critical factor in terms of configuration and marketability. Finally, it was recommended that a cost/benefit analysis be performed in order to gain a thorough understanding of the estimated return on investment for an expanded or new convention center.

Expanding Nashville's Convention Opportunities – May 2004

The Greater Nashville Hotel & Lodging Association, the leader of The Coalition of Convention Excellence (The Coalition), submitted a Use Plan for the Thermal Site in May of 2004. The Coalition is an ad hoc entity formed by parties that individually passed a resolution. The groups represented in the Coalition include the Greater Nashville Hotel & Lodging Association and Metropolitan Tourism & Convention Commission, among others. The study found that the Thermal Plant site location would be ideal for a new convention center given its location along the Cumberland River and proximity to the heart of the entertainment district. (It should be noted, however, that results of a recent task force have apparently dismissed the Thermal Plant site for development of a potential convention center.)

Introduction (cont'd)

A number of downtown initiatives and other new developments have focused on revitalizing downtown Nashville over the past few years and others are planned or currently underway. The following is a brief description of some of these projects:

- The \$29 million construction of the Gateway Bridge was completed in May of 2004, connecting East Nashville to downtown. The bridge stretches from Shelby Avenue on the east bank of the Cumberland River to downtown at First Avenue. Mayor Bill Purcell called the bridge “a new front door to the City of Nashville.”
- Construction of the Schermerhorn Symphony Center began in December of 2003 with an opening date scheduled for September of 2006. This 1,900-seat center will allow Nashville to gain more performing arts business, as the Tennessee Performing Arts Center currently does not have enough open dates to accommodate all of the performing arts groups.
- Numerous residential developments are planned for the downtown area, including the Gulch, Rolling Mill Hill and the Viridian. These developments will help enhance Nashville’s downtown into a more vibrant area.
- A wide variety of proposals were made in June of 2004 for the Thermal site development. These proposals included a \$78.5 million stadium for the AAA Nashville Sounds, a 500-room Peabody Hotel with 50,000 square feet of meeting space, residential developments, and a new 400,000 SF convention center.

Based on a variety of factors, KPMG LLP, in conjunction with HOK Venue, was retained to perform advisory services to assist Metro in its evaluation of the merits of expanding the existing NCC or constructing a new convention center in downtown to better meet the long-term needs of the community. The first phase of work focused on the market analysis. Based on this findings in this phase of the work, Metro authorized the project team to proceed the second phase of work which assessed various site and financial implications associated with expansion or new construction including identifying potential expansion options and preparing estimates of conceptual construction costs for each potential development option, operating revenues and expenses, economic/fiscal benefits and potential funding sources.

Objectives of This Study Effort Are to Assist Metro in Assessing the Following

- How may the current business climate and trends in the industry, including historical and projected supply of convention center space, impact the potential expansion of the NCC or construction of a new facility?
- Does market demand appear strong enough to support expansion of the existing NCC or construction of a new convention center?
- Which target markets and current users are not currently being accommodated by the existing facilities in the market (i.e. NCC and Opryland Hotel) and would expansion or new construction address their needs?
- If Metro ascertains that additional convention center space appears warranted by demand, what are the future building components needed to address users' requirements? Will current convention infrastructure elements (i.e. headquarters hotel, number of downtown properties, parking) affect the facility's market penetration? What changes may need to be made?
- If market demand does not appear to warrant expansion of the existing NCC or construction of a new facility, what other improvements or enhancements can be considered in order to increase the facility's competitiveness?
- What are potential sites for an expanded NCC or new convention center?

Objectives of This Study Effort Are to Assist Metro in Assessing the Following (cont'd)

- Based on Metro's decision related to a new or expanded convention facility, what would be the operating characteristics including estimated utilization and potential financial operations?
- What would be the estimated incremental economic impact associated with the potential expansion of the NCC or construction of a new convention center?
- What are the potential costs and benefits associated with the project?
- What are potential funding sources to finance expansion or new construction?

Specific Research Tasks Conducted in This Analysis Include, But Are Not Limited To, the Following

Market Analysis

- Reviewed the previous studies summarized earlier in the report;
- Conducted interviews/work sessions with representatives of Metro, the Nashville CVB, the MCC, the NCC, the Opryland Hotel and other key stakeholders in the community to understand their perspective on a variety of issues including the relative strengths and weaknesses of NCC and the supporting infrastructure (i.e. hotel supply) as well as the market's ability to adequately address the convention and meetings market in the future;
- Summarized trends in the convention, tradeshow and meetings industry that may affect this project;
- Assessed community attributes and meetings infrastructure;
- Surveyed local hoteliers;
- Analyzed historical, current and future meeting activity at NCC;
- Analyzed convention facilities and destination attributes in competitive markets;
- Surveyed meeting planners that represented existing and potential users of NCC;
- Summarized findings relative to the market demand assessment for expansion of the existing NCC or construction of a new convention center.

Specific Research Tasks Conducted in This Analysis Include, But Are Not Limited To, the Following (cont'd)

Facility and Financial Analysis

- Developed more detailed building program based on market analysis findings which will include any required infrastructure elements such as additional hotel rooms, transportation, ingress/egress, etc.;
- Developed potential expansion alternatives;
- Prepared preliminary construction cost estimates for each expansion alternative and provide a comparison to a new convention center irrespective of site;
- Assisted management in preparing an estimate of operating revenues and expenses as well as economic/fiscal impacts associated with the project;
- Identified potential funding sources; and
- Prepared a preliminary cost/benefit analysis for the project.

Executive Summary

Market Analysis

Research conducted in the market analysis includes an overview of industry trends and market characteristics; an analysis of historical utilization, lost business and future bookings at the NCC; a comparison of convention facility and destination attributes for competitive/comparable markets; input from various stakeholders including facility management, hoteliers, the CVB, area business organizations, as well as meeting planners. Based on this research, there are several factors that indicate the need for additional convention space either through expansion of the NCC or development of a new convention center in downtown Nashville from a market demand perspective.

- The existing NCC is highly occupied and convention/tradeshows activity remained relatively consistent during the last several fiscal years when many facilities experienced a decline in this business segment.
- Nashville is a popular destination for national conventions and tradeshows.
- Demand for exhibit space is projected by industry sources to continue to grow in the future.
- Lost business reports of the CVB indicate that Nashville is currently losing business because of facility-related limitations such as space and date availability. This point was reiterated by management at both the NCC and Renaissance Nashville Hotel.
- Competitive/comparable destinations host conventions/tradeshows that attract twice the attendance of those held at the NCC.
- According to input from industry representatives and the results of user surveys, groups typically prefer either a downtown location or an all-inclusive suburban property for their meetings. This suggests that the NCC and the Opryland Hotel provide Nashville the opportunity to attract two distinct potential market segments.
- Approximately 80% of user survey respondents do not currently consider Nashville a potential location for their event given its existing supply of space, which includes both the NCC and the Opryland Hotel, and infrastructure elements. Over 75% of these groups, however, would consider Nashville if a) the NCC was expanded contiguously or b) a new center with a headquarters hotel was developed in downtown.

Executive Summary (cont'd)

Several industry sources note that the convention and meeting industry is recovering from the cyclic downturn and will continue to rebound as the economic outlook improves. The downward pressure on rental rates as well as competition from hotel properties and first-tier convention centers are likely to decrease as the economy improves and demand increases. This is supported by industry data indicating meeting planners are predicting greater use of convention centers and higher growth in meeting budgets.

It should also be noted that the NCC was able to sustain an increase in meeting space rental rates in late 2001. While this rate increase may have contributed to the decline in the number of meetings that the NCC hosted in subsequent years, the NCC's event activity from conventions, tradeshow and other events remained relatively consistent over the last few years. Further, the NCC maintained high occupancy rates over the last several years despite industry-wide competition from hotel properties and the existence of the Opryland Hotel in its immediate market. Given this historical performance during economically challenging times and the potential for an economic rebound in the convention/tradeshow industry, the NCC seems well-positioned to withstand some downward pressure on rental rates.

In summary, research suggests that Nashville has the opportunity to increase its base of conventions and meetings business by hosting more similar sized groups simultaneously as well as larger groups that cannot currently be accommodated by offering more convention space in downtown.

Although a market demand analysis for a new hotel was not conducted as part of this study effort, the supply of convention quality hotels downtown would need to be augmented to support any additional convention space. This will be particularly important in order to attract larger, national conventions and tradeshow given meeting planners' high ranking of this characteristic and the package offered at other competitive facilities.

According to meeting planners, the proximity and availability of hotel rooms are critical site selection criteria. On average, the Renaissance Nashville Hotel and Hilton Suites combined provide approximately 900 committable rooms. Given other properties in the committable block proximate to the NCC, the need for additional hotel rooms may not be as immediate for expansion relative to development of a new center, depending on the site selection.

Executive Summary (cont'd)

Some larger groups requiring greater than 1,000 committable rooms for the headquarter property(s) may find Nashville less attractive unless additional convention quality rooms are developed in the future. Surveys indicated that approximately 42% of groups were not adverse to the use of a shuttle service. However, long-term planning for the development of additional convention quality hotel rooms proximate to the NCC would build on one of its most marketable aspects.

Building Program Recommendations

In order for downtown Nashville to enhance its competitiveness with other facilities in the region and better address the long-term convention and meeting needs of the market, an expanded or new facility with additional exhibit and meeting space, as well as a dedicated ballroom is recommended. The facility should offer contiguous exhibit space and the meeting and ballroom space should be divisible in order to offer groups the most flexibility. Appropriate prefunction and registration areas should be provided so that the facility can comfortably host simultaneous events. In addition, modern amenities such as high-tech capabilities should be instituted. Based on the market demand assessment as well as other research, the preliminary building recommendations are as follows:

Component	Square Footage of Space		
	Existing Facility	Preliminary Recommendation	
		Expanded or New Facility	
Exhibit Hall (SF)	118,700	250,000 - 300,000	
Ballroom (SF)	10,900	40,000 - 50,000	
Meeting Space (SF)	19,800	60,000 - 70,000	
Total Function Space	149,400	350,000 - 420,000	
Ratio of Meeting/Ballroom Space to Exhibit Space	26%	40%	40%

Note: The above square footage amounts do not represent any support space such as prefunction and registration areas, circulation space, storage and restrooms.

Executive Summary (cont'd)

Site Analysis

The findings in the market analysis indicated that there was sufficient market support to proceed with the analysis of the site and financial issues associated with the potential development of additional convention space in downtown Nashville. HOK Venue developed four potential expansion options of the NCC along with a conceptual cost estimate for each alternative. In addition, HOK Venue developed a preliminary development scenario and cost estimate associated with a new convention center in downtown. It should be noted that the new convention center scenario did not take into account a specific site.

This site analysis was conceptual in nature and did not address every aspect of the expansion scenarios. In each case, however, the following criteria were considered:

- Contiguous exhibit space at the same elevation as the current NCC exhibit hall
- A strategy for how the new and existing exhibit halls would be serviced by trucks
- No permanent closing or relocation of existing streets
- No demolition of adjacent historic structures

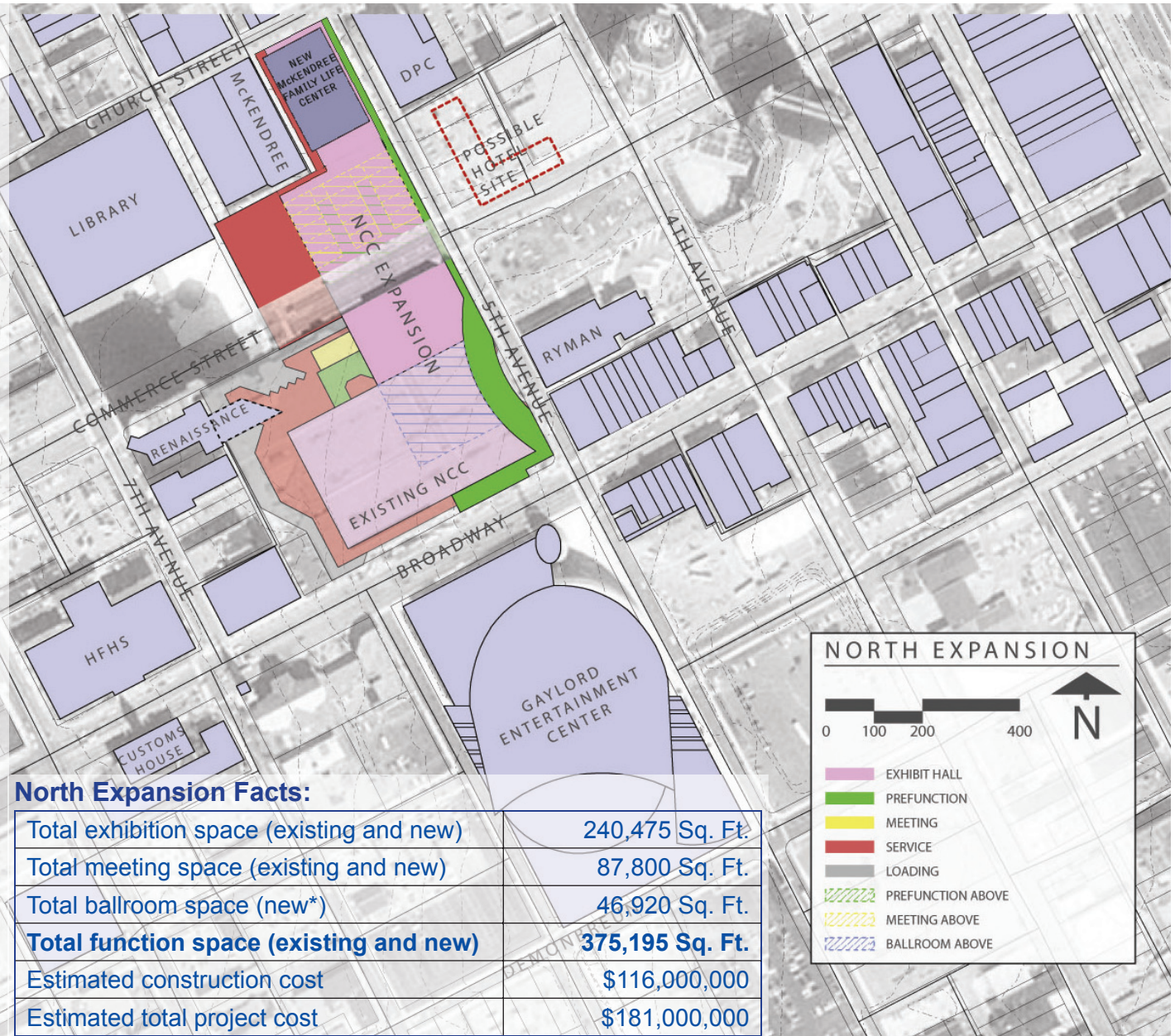
Of the five options analyzed, three options appear to have high overall marketability: North Expansion, South Expansion and a new facility. This was based on a number of factors including marketability (amount and layout of space), land acquisition and/or potential to remove existing buildings and cost. Illustrations for the two potential expansion scenarios and potential sites for a new convention center downtown (based on a previous study) are shown on the pages that follow.

North Expansion Option

This option reorients the existing exhibit space toward the east. Loading and service for exhibits would continue to come from the west, but with the service entrance at Broadway converted to a two-way drive. The exhibition hall expands at its current floor elevation to the north under Commerce Street, continuing north to the back of historic McKendree United Methodist Church.

A new building on the north side of Commerce contains two levels of parking above the exhibit hall, and two levels of meeting room space above that. A new ballroom is located on top of the existing building with major prefunction space oriented toward Ryman Auditorium and the Strip. To support this new ballroom, additional columns would likely be required in the existing exhibit hall, but these columns would not affect the marketability of the space, which already has columns in it.

This option requires the relocation of the McKendree Family Life Center to Church Street on top of exhibit space. The Church of Christ building on 5th Avenue is also relocated. The cost of these relocations is included in the total project cost estimate.



North Expansion Facts:

Total exhibition space (existing and new)	240,475 Sq. Ft.
Total meeting space (existing and new)	87,800 Sq. Ft.
Total ballroom space (new*)	46,920 Sq. Ft.
Total function space (existing and new)	375,195 Sq. Ft.
Estimated construction cost	\$116,000,000
Estimated total project cost	\$181,000,000

*Renaissance Hotel ballroom not included

South Expansion Option

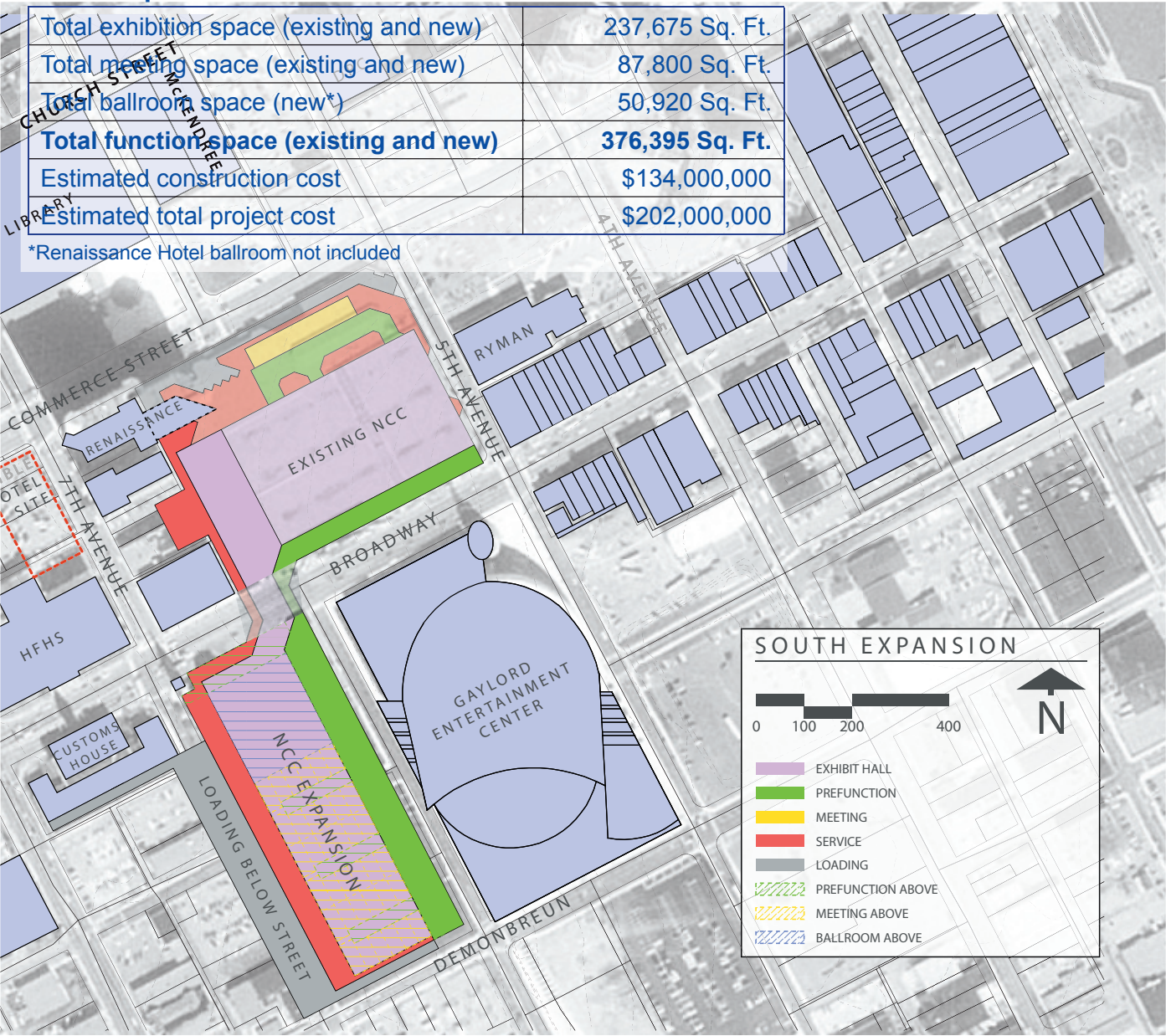
The largest footprint of all the expansion options expands the convention center to the south, adjacent to the Gaylord Entertainment Center. This option reorients the existing exhibit hall prefunction to the south, facing Broadway. The expansion passes under Broadway at the same floor elevation as existing exhibit space. Two levels of parking can fit in the structure above the new exhibit hall, which is mostly below grade. Atop the new exhibit hall, a ballroom and meeting room level orient toward Broadway and the GEC. Access to loading is by ramps at the south and west ends of the site which drop down to exhibit hall level. New retail space fronts Broadway.

This option requires the relocation of First Baptist Church, although it preserves the site's historic steeple. The cost for new facilities for FBC is included in the project cost estimate along with the cost of acquiring the land. A potential conflict with an existing utility tunnel under Broadway may add to the complexity of this option.

South Expansion Facts:

Total exhibition space (existing and new)	237,675 Sq. Ft.
Total meeting space (existing and new)	87,800 Sq. Ft.
Total ballroom space (new*)	50,920 Sq. Ft.
Total function space (existing and new)	376,395 Sq. Ft.
Estimated construction cost	\$134,000,000
Estimated total project cost	\$202,000,000

*Renaissance Hotel ballroom not included



New Convention Center Option

This option is not depicted in diagram form, although several possible sites were identified in HOK Venue's 2001 charrette for the Nashville Convention Center. A diagram illustrating possible site locations from that charrette is included here for reference, although it should be noted that the facility under consideration at that time was considerably larger than the facility discussed in this report.

Assuming a relatively unencumbered site, it is possible to build a new center to the exact parameters outlined in the market demand study. For costing purposes, HOK Venue assumed a midpoint of the range of space that was recommended.

Even on a relatively unconstrained site, it will probably be necessary to locate the ballroom and meeting room functions on a different level than the exhibit hall. This is not unusual, as few cities have blocks large enough to accommodate all function space on one level.

A new building scenario also raises the question of what to do with the existing Nashville Convention Center. Two of the most likely scenarios include the following:

- Continue to operate the current facility for consumer shows, community, social and fraternal functions that do not generate significant hotel room utilization in the city. Charge rents appropriate to operate the facility at a break-even level.
- Reach an agreement with the Renaissance Hotel to sell a portion of the existing building to the hotel in support of its meeting functions. Demolish the remainder of the existing NCC and redevelop the site for housing or other market-supportable uses, taking into account the growing historical significance of the Ryman Auditorium across 5th Avenue.



During HOK Venue's 2001 charrette for the Nashville Convention Center, a number of possible sites were analyzed for a much larger building program than the current recommendation. For this analysis, no specific site was identified.

New Building Facts:

Total exhibition space (new)	275,000 Sq. Ft.
Total meeting space (new)	65,000 Sq. Ft.
Total ballroom space (new)	45,000 Sq. Ft.
Total function space (new)	385,000 Sq. Ft.
Estimated construction cost	\$198,000,000
Estimated total project cost	\$299,000,000

Executive Summary (cont'd)

All three of these options increase the exhibit and meeting/ballroom space to accommodate additional demand for convention space downtown and provide future expansion potential. Although the exhibit square footage shown below for both of the expansion options is slightly less than the recommended square footage, HOK Venue indicates that both of these options have the potential to achieve the stated targets by minor design adjustments to the concept plans. The table below summarizes the estimated total exhibit hall square footage, principal advantages and disadvantages/challenges and the conceptual cost estimate associated with each of the options with high marketability.

Concept	Total Exhibit Square Footage	Principal Advantages	Principal Disadvantages/Challenges	Conceptual Cost Estimate
North Expansion	240,475 SF	Simplest exhibit hall geometry; reorients complex toward Ryman Auditorium	Requires relocation of McKendree Family Life Center and Central Church of Christ; additional columns in existing exhibit hall a minor issue	\$181 million
South Expansion	237,675 SF	Reorients center towards Broadway; clear direction for future expansion	Requires relocation of First Baptist Church facility, preservation of historic bell tower; irregular shape of exhibit hall; may conflict with utility tunnel under Broadway	\$202 million
New Building (unspecified site)	275,000 SF	Best meets function space targets; optimized layout possible given appropriate site	Cost; potentially moves NCC away from existing core of supporting infrastructure; creates issue of disposition of existing NCC facility	\$299 million

Note: The estimated construction cost for the new convention center scenario does not include any cost that might be incurred related to disposition of the existing NCC.

Based on results of the market, site and cost analysis, several observations can be made regarding the proposed development options. All other things being equal, a new facility developed near the existing infrastructure downtown would be the most marketable option. Developing a new center would likely allow for construction of the full recommended building program and a contiguous, divisible exhibition hall. Further, a new building avoids the issues some centers have faced after expansion in terms of selling the “old” portion of the building versus the “new” portion. However, while the additional infrastructure requirements and ultimate development cost of a new center are dependent on the chosen site, this option is the most costly.

Executive Summary (cont'd)

It appears that expanding the NCC is a more economical approach to meeting the demand for additional convention space in Nashville. This is due to a number of factors including estimated development cost, the need to acquire less land relative to a new facility and the proximity to existing supporting infrastructure (i.e. headquarters hotel). While the market analysis did indicate that the hotel supply proximate to an expanded NCC would likely need to be augmented in the long-term in order to better accommodate larger and/or simultaneous events, this additional hotel requirement would likely be less in comparison to a new facility depending on the site selected.

Although the North expansion would require the relocation of the Central Church of Christ and the McKendree Family Life Center, this option appears to best meet the needs of the market among the expansion options presented. This is based on the fact that it provides the greatest expansion of exhibition space and the simplest geometric exhibit hall. Expansion to the North would allow Nashville to capitalize on additional demand from both similarly sized and larger groups while the other three expansion scenarios may be more limited in their ability to accommodate events requiring greater than 120,000 SF of exhibit space.

Further, this option allows for a possible future expansion in a contiguous fashion either to the South or the Northeast. In addition, this option is less costly than two of the other scenarios and does not require the relocation of surrounding historic facilities. Relative to the new center option, the North expansion takes advantage of existing infrastructure surrounding the NCC and maintains a major generator of the critical mass of visitors that make up the NCC/GEC/Ryman district of downtown Nashville. If Metro and other appropriate entities are able to develop a funding strategy, this option appears to meet the majority of objectives from a market standpoint as well as the long-term goal of the NCC to generate economic impact for the Nashville area.

The South option allows for development of almost as much exhibit space as the North. In addition, this option also provides a potential future expansion alternative continuing southward in a contiguous fashion. Primary challenges of this scenario include relocation of the First Baptist Church, an irregular shaped exhibit hall and a potential conflict with an existing utility tunnel under Broadway. Relative to the North option, the South is more costly.

Executive Summary (cont'd)

Financial Analysis

Based on the recommended building program, utilization at an expanded or new convention center is estimated to range from 220 to 263 events that generate between 451,000 and 594,400 in total attendance annually during the first five years of operation. It is important to note that these estimates are based on the assumption that the facility offers meeting/event planners the high-quality space they require and is located at a site which is deemed attractive for their event and adjacent to a headquarters hotel.

Assuming the proposed new facility opens in July of 2007, an operating deficit ranging from approximately \$2.6 million to \$3.0 million annually (in inflated dollars) is estimated for the first five years of operation. It is important to read the accompanying summary of significant assumptions in Section 10 of this report which provides further detail regarding the financial estimate.

With respect to financial performance, it is important to understand that the vast majority of stand-alone convention centers typically realize an operating deficit. However, one of the primary reasons convention center facilities are developed is because of the economic impacts that the project can generate in terms of spending, employment and tax revenues for the local and state governments. One objective of the facility is to attract events that draw patrons from outside of the immediate market area who spend money on hotels, restaurants and other similar services.

Total spending generated from the on-going operations of an expanded or new convention center is estimated to range from \$386.7 million to \$547.6 million annually (in inflated dollars) in Davidson County during the first five years of operation. Economic benefits are currently resulting from the existing operations of the NCC, however, the incremental benefits from additional space are estimated to range from \$99.0 to \$223.5 million annually (in inflated dollars) during the first five years of operations.

It is also estimated that the economic activity associated with an expanded or new convention center could generate approximately 5,300 to 7,500 total jobs in Davidson County during the first five years of operation, of which approximately 1,200 to 2,900 are estimated to be incremental new full-time equivalent jobs that would occur in many sectors of the economy which would both directly and indirectly support the increased level of business activity in the area.

Executive Summary (cont'd)

Tax revenues from the on-going operations of an expanded or new convention center and attendee spending generated to Davidson County and the State of Tennessee are estimated to range from approximately \$28.0 million to \$39.4 million annually (in inflated dollars) over the first five years of operation.

The debt for the existing general obligation bonds for the NCC is set to retire in FY 2008. Based on information and assumptions provided by Metro, its financial advisors Public Financial Management and other research, the estimated funding needs over a 20-year period (including existing and future debt service requirements as well as the estimated operating deficit before depreciation) range from approximately \$18 million to \$19 million annually for the North Expansion; \$19 million to \$21 million annually for the South Expansion and \$28 million to \$29 million annually for a new facility.

Based on preliminary analysis, it is estimated that the existing 2% hotel/motel tax dedicated to the NCC could potentially generate between \$7.0 million and \$9.8 million (in inflated dollars) annually over the 20-year period, which is not adequate to cover the funding requirements for any of the three potential development scenarios under consideration. Consequently, additional funding sources would be required. Based on previous analysis, hypothetical additional funding sources may include development of a tourism development zone that can generate sales tax rebates; a one point increase in the hotel/motel tax; the addition of a ½ point restaurant tax on City establishments and/or a one point increase in the car rental tax.

Based on various assumptions including historical tax collections, the following table summarizes the estimated amount that could potentially be generated by each of these hypothetical additional funding sources if they were enacted.

Potential Additional Funding Sources	Estimated Amount
1% Hotel/Motel Tax	\$3.5 million to \$4.9 million annually
0.5% Restaurant Tax (Nashville only)	\$4.5 million to \$5.8 million annually
1% Car Rental Tax	\$700,000 to \$800,000 annually
Tourism Development Zone Sales Tax Rebate	\$2.0 million annually

Note: For purposes of this analysis, Nashville is defined as what the Tennessee Department of Revenue refers to as the "old City of Nashville" which is larger than downtown.

Executive Summary (cont'd)

Historical experience in Memphis, Chattanooga and Knoxville indicates that the tourism development zone sales tax rebate is a volatile revenue source that can fluctuate widely from year to year for a variety of reasons including certain adjustments made by the State on an annual basis. For instance, Chattanooga has received rebates ranging from \$600,000 to \$1.0 million in its first three years; Knoxville has received between \$900,000 and \$1.3 million in its first two years; and Memphis has received between \$3.4 million and \$7.6 million in its first three years. However, for purposes of this analysis, a fixed annual estimate is assumed. While multiple cities have instituted these tourism development zones in recent years, there is not enough historical data to make accurate future projections. It is also important to note that the State limits its sales tax rebate to a maximum of 50% of the debt service annually. Should Metro choose to pursue a tourism development zone, additional research would need to be completed in order to more accurately estimate revenues that may be generated by this source in Nashville.

Based on various assumptions outlined in Section 10 of this report, the following summarizes the ability of the existing and additional tax sources to meet the funding requirements for each of the three development options. It is important to recognize that this is a hypothetical, order-of-magnitude estimate and significantly more research and analysis will need to be conducted prior to generating any financing plan.

North Expansion Option

- Estimated total annual funding requirement – \$17.6 million to \$19.3 million
- Estimated funding shortfall after existing sources - \$9.5 million to \$11.9 million
- Estimated funding shortfall after existing and hypothetical additional sources – \$1.2 million in FY 2008
- Estimated funding surplus– \$201,000 in FY 2009 to \$4.0 million in FY 2027
- It may be possible to sunset a portion of the taxes after a period of time. Alternatively, the excess could be earmarked for marketing/operations of the facility and/or future capital needs.

Executive Summary (cont'd)

South Expansion Option

- Estimated total annual funding requirement – \$19.4 million to \$21.1 million
- Estimated funding shortfall after existing sources - \$11.3 million to \$13.7 million
- Estimated funding shortfall after existing and hypothetical additional sources – \$3.0 million in FY 2008 decreasing to \$152,000 in FY 2016
- Estimated funding surplus – \$61,000 in FY 2017 to \$2.2 million in FY 2027
- As with the North expansion option, it may be possible to sunset a portion of the taxes after a period of time or earmark any excess funds for marketing/operations of the facility and/or future capital needs.

New Convention Center Option

- Estimated total annual funding requirement – \$27.5 million to \$29.2 million
- Estimated funding shortfall after existing sources - \$19.4 million to \$21.8 million
- Estimated funding shortfall after existing and hypothetical additional sources – \$11.1 million in FY 2008 decreasing to \$5.9 million in FY 2027
- Under the assumptions made for this analysis, the aggregate revenues estimated to be generated from both the existing and hypothetical additional funding sources would not be sufficient enough to cover the debt service and operating deficit of a new facility.

Executive Summary (cont'd)

The table below provides a comparison of the estimated conceptual construction cost, total annual funding requirements and shortfall characteristics for each of the three potential development options under consideration.

Category	North Expansion	South Expansion	New Convention Center
Conceptual Construction Cost	\$181 million	\$202 million	\$299 million
Total Annual Funding Requirements	\$17.6 million to \$19.3 million	\$19.4 million to \$21.1 million	\$27.5 million to \$29.2 million
Number of Years of Funding Shortfall ¹	1	9	20
Range of Annual Funding Shortfall ¹	\$1.2 million	\$152,000 to \$3.0 million	\$5.9 million to \$11.1 million
Magnitude of Aggregate Funding Shortfall ¹	\$1.2 million	\$9.7 million	\$160.1 million

Note: ¹ Assumes use of both existing and hypothetical additional funding sources.

The estimated construction cost for the new convention center scenario does not include any cost that might be incurred related to disposition of the existing NCC.

The graphic on the next page summarizes the potential next steps for the three most marketable development scenarios if Metro decides to further pursue an initiative to develop additional convention space downtown.

Potential Next Steps

Should Metro Choose to Pursue the Project Further

North Expansion

- Establish Tourism Development Zone
- Enact Additional Funding Sources
- Conduct a More Detailed Site Analysis Assessment and Cost Estimate

South Expansion

- Establish Tourism Development Zone
- Enact Additional Funding Sources
- Identify Other Necessary Funding Sources
- Conduct a More Detailed Site Analysis Assessment and Cost Estimate

Construct New Center

- Establish Tourism Development Zone
- Enact Additional Funding Sources
- Identify Other Necessary Funding Sources
- Proceed With Site Selection Process
- Assess the Potential Impact to the Existing NCC
- Assess the Potential Impact to the Renaissance Hotel (depending on site selection)
- Pursue New Hotel Property
 - Issue RFQ/RFI to Test Interest by Hotel Developers

Table of Contents

1	Report Letter	1
2	Introduction & Executive Summary	4
3	Industry Trend Overview	29
4	Nashville Market Overview	54
5	Nashville Convention Center Utilization Analysis	74
6	Competitive/Comparable Market Analysis	105
7	Meeting Planner Surveys	129
8	Summary of Market Findings	151
9	Programming & Site Planning Issues	169
10	Financial Analysis	187

Industry Trend Overview

In order to gain an understanding of the historical and future changes taking place in the supply of and demand for convention center space, various industry trends were analyzed. This analysis is based on information provided by secondary sources such as convention bureau research files, industry publications including *Meetings & Conventions*, *Tradeshow Week*, *Major Exhibit Hall Directory*, and the International Association of Convention & Visitors Bureaus (IACVB). This information provides illustrative examples of trends occurring in the U.S. tradeshow, convention and meetings marketplace. Industry trends are important for Metro to consider as it explores the merits of expanding the NCC or developing a new convention center in the future.

The events of September 11, 2001, the War on Iraq and the War on Afghanistan have had a significant impact on the economy, including the convention and meetings business. Despite the economic changes that have occurred over the last several years, certain geographic areas and market segments have, and are continuing to, rebound.

The meetings industry has developed over time to encompass a diverse group of events ranging from large conventions and tradeshows to small meetings and conferences. The pages that follow outline various supply and demand trends in the overall industry. Supply of exhibition and meeting space at both convention centers and hotels is presented followed by a description of demand by event type (tradeshows, conventions and meetings).

The Industry is Comprised of Several Types of Events with Varying Space Requirements

Event Type	Event Definition	Space Requirements	Attendee Origin	Example
Conventions	Private groups or associations meeting to exchange ideas. Trending toward using more exhibits.	Exhibit, meeting rooms, and ballroom	Out-of-town	Middle Tennessee Realtors' Convention
Conferences/meetings	Small private groups meeting to exchange ideas or to conduct training sessions.	Small, high quality meeting space and ballroom	Out-of-town and local	Medical seminar, corporate meetings
Assemblies	Large groups that are usually social, fraternal or religious in nature.	Arena, stadium and exhibit	Out-of-town; Some local	Southern Baptist Convention
Tradeshows	Private groups or associations meeting to buy and sell products.	Exhibit and some meeting	Out-of-town; Some local	NAMM
Special high impact events	Entertainment-oriented events that bring in significant out-of-town attendees.	Exhibit, ballroom and some assembly seating	Out-of-town	Music Festival
Consumer shows	Public exhibitions to market goods and services to local residents.	Exhibit	Primarily local	Home & Garden Show
Other local events	Public events needing large indoor area such as an exhibit floor, assembly/riser seating and/or meeting space.	Exhibit, assembly seating and meeting	Primarily local	Festivals, dances, civic clubs

The Meetings Market is Comprised of Over One Million Events Annually

As previously discussed, the meetings market is comprised of several event types. Although estimates differ as to the total number of meetings in the United States, the following table provides an order of magnitude estimate of the market's overall size.

Type of Event	Number of Events	Average	
		Net Square Feet	Attendance
Conventions	12,223	n/a	1,017
Association Meetings	155,625	n/a	102
Corporate Meetings	890,994	n/a	63
Tradeshows	2,485	112,989	7,379
Consumer Shows	1,003	106,202	34,160
Combination Trade & Consumer Shows	1,290	108,291	11,981

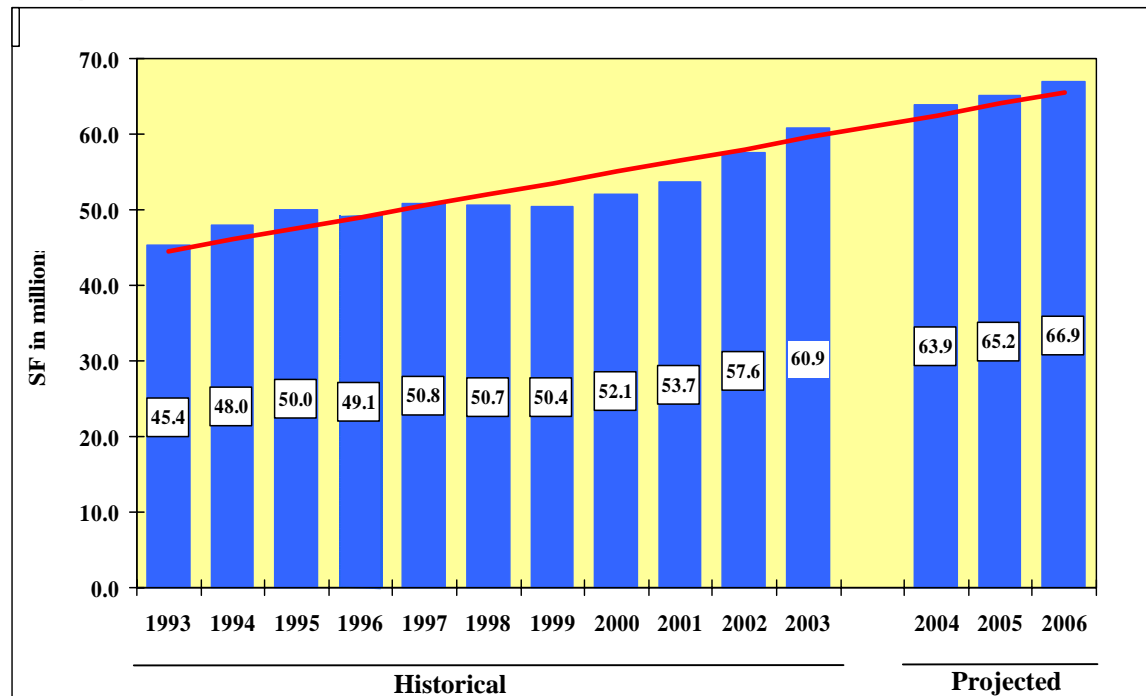
Note: n/a denotes information not available.

Sources: 2004 Tradeshow Week Data Book; 2004 Meetings Market.

Large conventions typically meet in convention centers. Other association meetings utilize both convention centers and hotels with meeting space. The majority of corporate meetings typically meet in hotels. Trade and consumer shows typically meet in convention centers or other exhibition facilities, such as fairgrounds buildings.

The total number of events has grown by nearly 8% since 1998 which is primarily driven by a 76% increase in the number of consumer shows. In addition, conventions, tradeshows and corporate meetings grew in number by 8%, 11% and 14%, respectively, between 1998 and 2004. However, the number of association meetings decreased by 18% during the same period.

Growth in the Supply of Exhibition Space in the U.S. Is Projected to Slow Over the Next Three Years

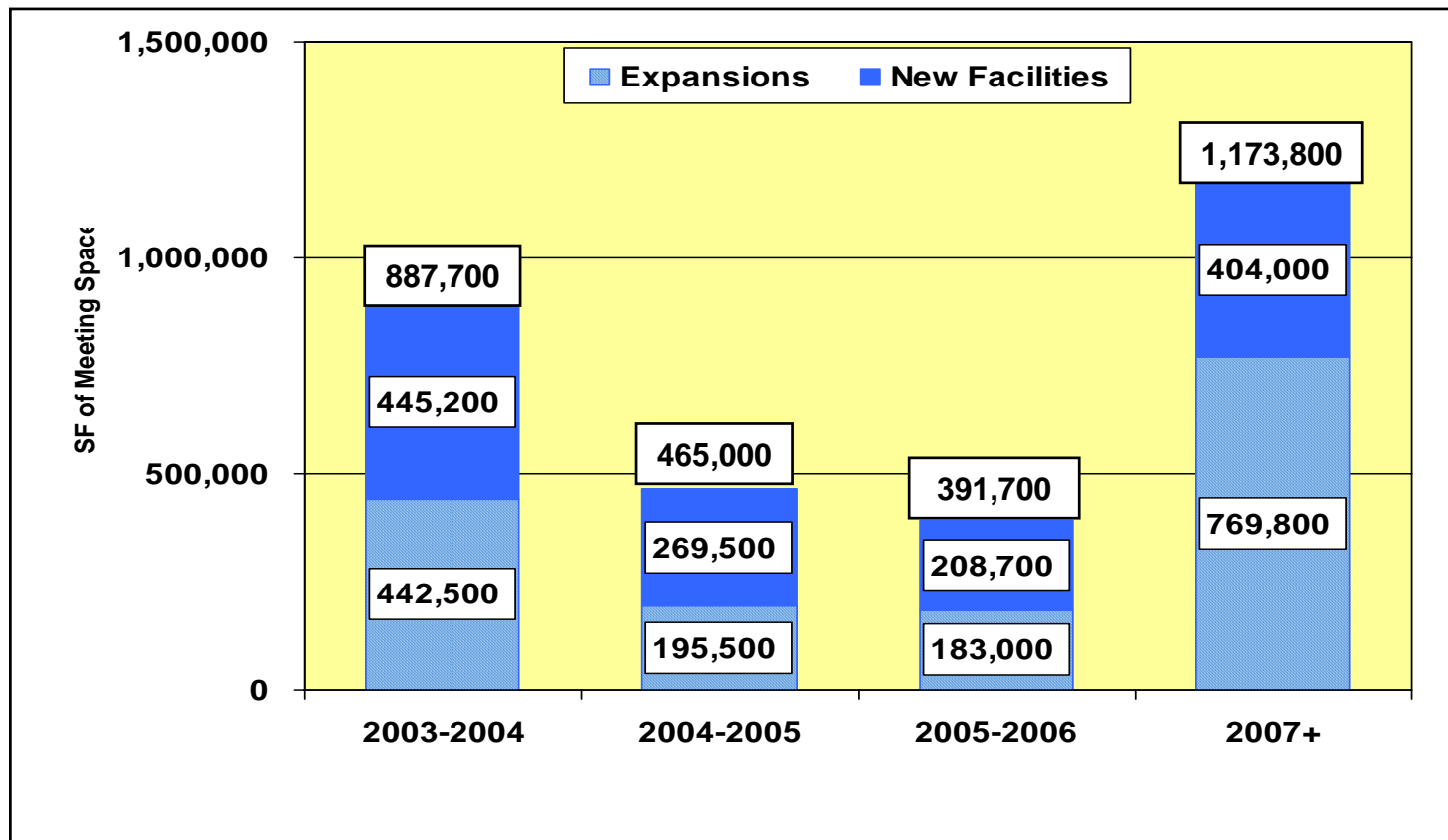


Source: *Major Exhibit Hall Directory*.

Despite the current economic conditions and recent world events, new convention centers and expansions of existing facilities continue to emerge, many of which were underway prior to these events. The historical average annual growth rate of exhibit space since 2000 has been approximately 5%, fueled by both expansions and new facilities in second and third tier markets, as well as exhibit space increases in major markets. Although the supply of exhibit space continues to grow, the rate of this growth has started to slow down. As a point of reference, there was a 6% increase in gross exhibit space between 2002 and 2003. According to *Major Exhibit Hall Directory*, projected growth of supply is expected to slow to 2% during 2005 and 3% in 2006. This is due, in part, to the limited availability of funds for these projects. A number of projects for new or expanded facilities have been put on hold temporarily with some on hold indefinitely. The majority of the projected future increase of exhibit space is from expansion of existing facilities rather than construction of new facilities.

The Amount of Meeting Space Is Projected to Continue to Increase in the Future

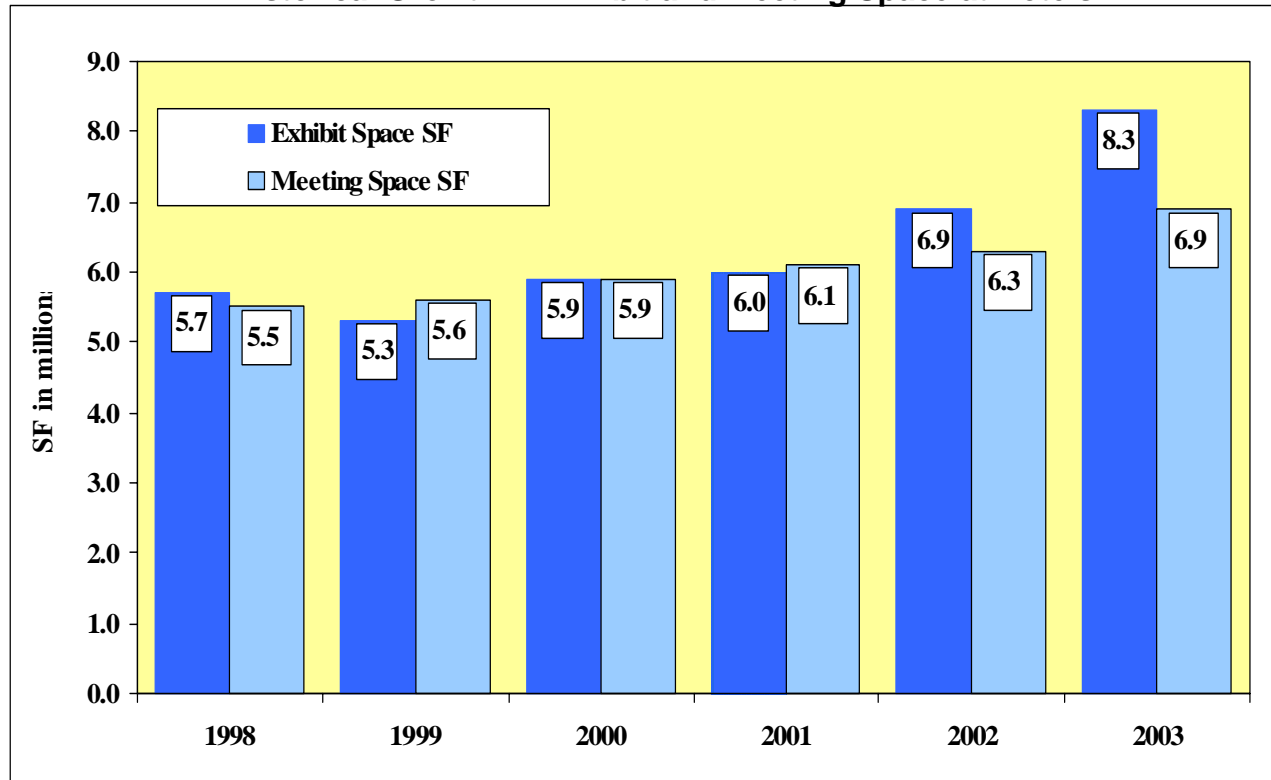
Most of the projected increase in meeting space in 2003-2004 as well as 2007 and beyond is from expansion of existing facilities rather than construction of new facilities. The planned increase in meeting space is in part due to the increase in demand for meeting breakout rooms required by meeting planners.



Source: 2003 Major Exhibit Hall Directory.

Hotels are Increasingly Offering Exhibit Space Making Them Direct Competitors with Convention Centers

Historical Growth in Exhibit and Meeting Space at Hotels



Source: *Major Exhibit Hall Directory*.

An increasing number of hotels are building exhibit space. According to *Tradeshow Week*, there are approximately 75-80 hotels in North America that now offer 25,000 SF or more of prime exhibit space. As shown previously, traditional exhibition/convention facilities have experienced an average annual growth rate of 5% since 2000. In comparison, exhibit space at hotels has experienced an annual growth rate of nearly 12% over the same time period. Consequently, a growing number of hotels are able to directly compete with exhibition/convention facilities.

Hotels are Increasingly Offering Exhibit Space Making Them Direct Competitors with Convention Centers (cont'd)

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. exhibit, eat and sleep) 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.

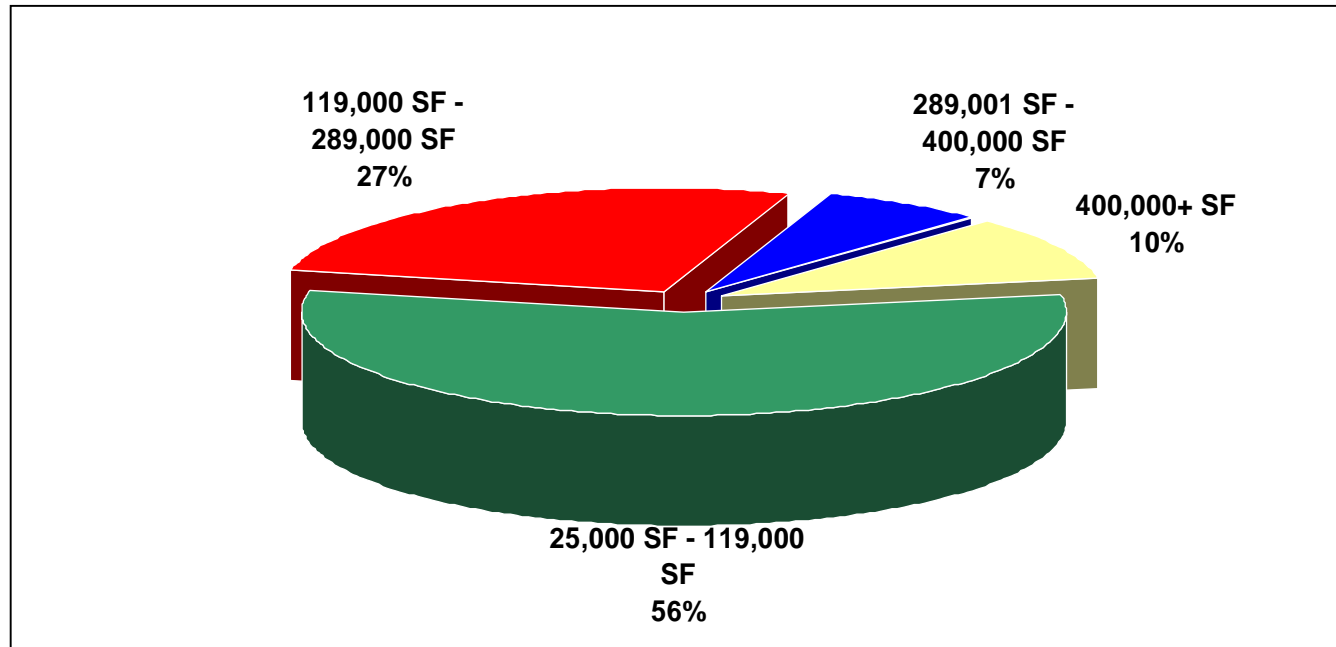
Among hotels that offer exhibit space, one anomaly is the Mandalay Bay Resort & Casino in Las Vegas which opened in January 2003. With 935,000 SF of exhibit space, it has the greatest amount of exhibit space offered by any one hotel in the U.S.

Further, three of the next largest hotel/convention facilities are run by Gaylord Hotels: Gaylord Opryland in Nashville, Gaylord Palms in Kissimmee (outside of Orlando) which opened in February 2002 and Gaylord Texan in Grapevine, Texas which opened in April 2004. Gaylord Hotels is a business of Gaylord Entertainment's Hospitality and Attractions Group. These newer developments are important for several reasons. First, private sector development suggests that there is strong potential 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 Gaylord Texan is open, Gaylord Hotels is in a strong competitive position to geographically route groups for several years within their own hotel/convention properties.

Given Its Existing Convention Facilities, Nashville Potentially Competes with Approximately 83% of the Exhibition Facilities in the U.S.

The ability of a convention center and/or hotel to accommodate an event's needs in terms of the amount and configuration of exhibit and meeting/ballroom space is important. The NCC currently offers approximately 119,000 SF of exhibit space and Opryland Hotel has 289,000 SF of exhibit space. Based on information from the *2003 Major Exhibit Hall Directory*, approximately 56% of facilities in the U.S. can accommodate events requiring between 25,000 and 119,000 square feet of exhibition space. In addition, larger facilities can subdivide their space in order to compete with smaller facilities. This is discussed in more detail in the competitive market analysis section of this report.

Distribution of U.S. Exhibition Facilities by Size



Source: *2003 Major Exhibit Hall Directory*.

Many First-Tier Markets Now Competing with Second-Tier Markets for Convention and Meetings Business

Traditionally, convention and tradeshow destinations have been defined as first-, second- and third-tier cities. Though there is not a standard industry-wide list, there are commonly agreed-upon criteria that make up first-tier destinations. Based on various industry sources including *Tradeshow Week* and KPMG research, the following characteristics are utilized to determine a destination's status:

- Total number of business-to-business tradeshows and conventions hosted annually
- Total exhibit space supply
- Number of *Tradeshow Week 200* bookings (largest tradeshows in the country based on exhibit space needs)
- Event bookings outlook
- Market population
- Market hotel room supply

Based on these criteria, Nashville is a second-tier destination. Other generally recognized second-tier destinations include: Columbus, Ohio; Kansas City, Missouri; Louisville, Kentucky and Minneapolis, Minnesota. Examples of first-tier destinations include: Atlanta, Georgia; Chicago, Illinois; Dallas, Texas and Orlando, Florida.

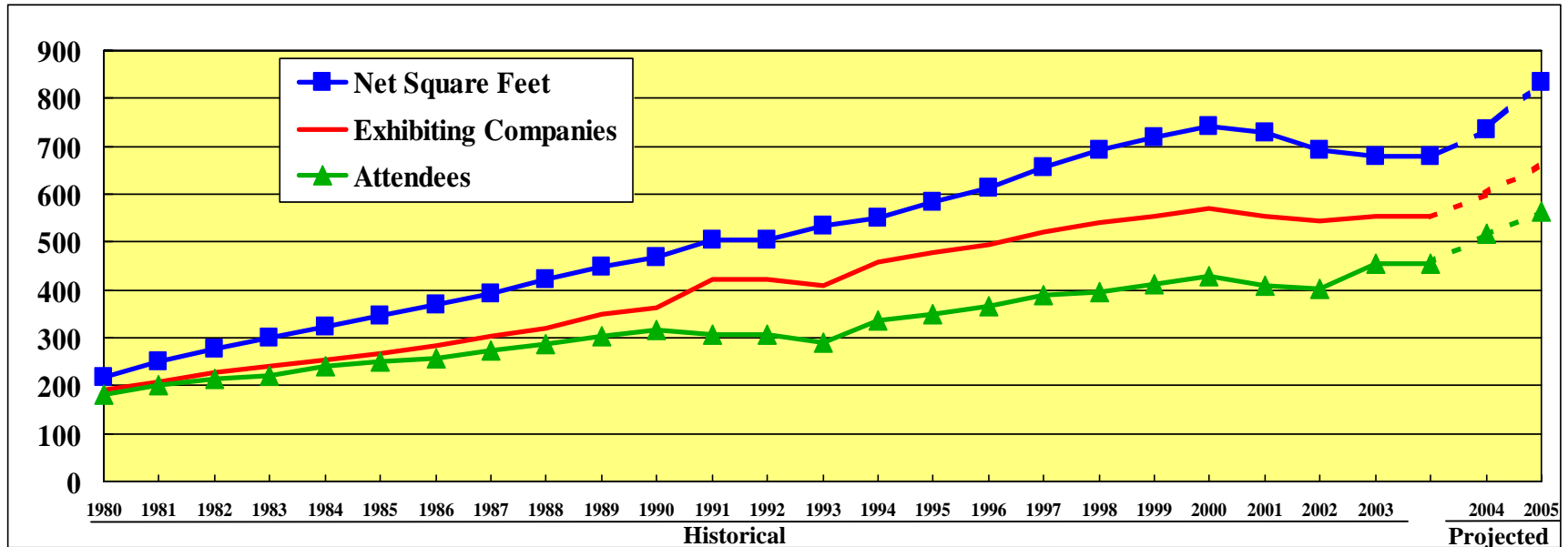
Many First-Tier Markets Now Competing with Second-Tier Markets for Convention and Meetings Business (cont'd)

Historically, convention centers primarily competed with other similarly-sized convention centers in comparable destinations. This is no longer the case in many instances. As the effects of September 11, 2001, and recent economic conditions have impacted the convention and meetings industry, the largest convention centers in the Country are no longer just competing for a relatively small percentage of the overall convention and tradeshow business. Instead, they are also targeting smaller groups in order to increase occupancy and maximize economic impact.

In addition, many convention centers located in first-tier cities are increasingly offering financial concessions and other incentives to meeting planners in order to attract business. As meeting planners are also being constrained with limited budgets during these economically challenging times, they are taking advantage of these financial packages. This affordability allows groups that could not otherwise consider first-tier cities to meet there. In addition, some meeting planners are able to secure multi-year agreements at current discounted rates. Consequently, first-tier cities are directly competing with second-tier cities on a more frequent basis, making it even more competitive for convention facilities. However based in industry sources, this trend is likely to diminish as the economy and convention/tradeshow business rebound.

Industry trends also indicate that the number of local and regional meetings have increased due to concerns about traveling. Likewise, many international events and attendance have been negatively impacted by the War on Iraq, the War in Afghanistan and the events of September 11, 2001. While this is the case nationwide, analysis of Nashville's historical utilization suggests that it has been able to maintain its base of national business even during recent economic conditions.

While There Has Been a Decline in Net SF of Exhibit Space Required for Tradeshows In Recent Years, Projections Suggest That Demand Will Begin to Rebound in 2004



Notes: Due to the effect of a change in methodology employed by *Tradeshow Week* from 1991 to 1992, zero growth was assumed for 1992.

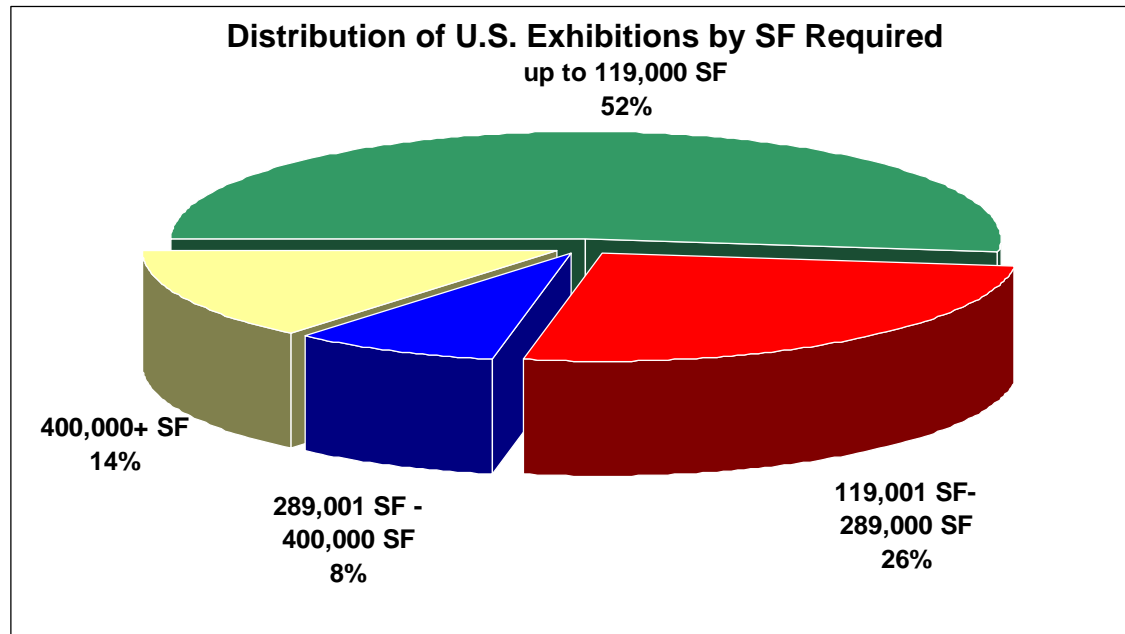
Data for 2003 is preliminary. Data for 2004-2005 is projected by *Tradeshow Week* based on their *Executive Outlook Survey*.

Source: *Tradeshow Week*.

Due to its successful nature as an efficient marketplace, positive growth occurred in the tradeshow industry over the last two decades through 2000. Beginning in 2001, however, the industry experienced a decline due to the economic climate. According to *Tradeshow Week's* preliminary data, growth in net square feet of exhibit space began in the last quarter of 2003. Projections for 2004 and 2005 prepared by *Tradeshow Week* indicate a return to pre-2001 levels of space and attendance by 2004 with continued growth forecasted through 2005.

The NCC Can Accommodate Approximately 52% of the Exposition Market Based on Exhibit Space Needs Alone

The following graph illustrates the distribution of U.S. expositions by size. Expositions are defined by Tradeshow Week as tradeshows, consumer shows and combination (trade and consumer) shows. On average, the existing NCC can accommodate approximately 52% of the exposition market and the Opryland Hotel can host 78% of this market. It is important to note that this breakdown is solely based on the required square footage of exhibit space and no other meeting planners' requirements such as contiguous and/or column-free exhibit space, meeting/ballroom space, hotel supply and location, etc. These groups typically prefer column-free, contiguous exhibit space in order to maximize booth rental fees and allow for more efficient event move-in and move-out. In addition, many events are held in the same location each year and do not rotate. Given the amount of contiguous space at the Opryland Hotel and management's market focus towards national conventions and meetings, this facility would not likely be a preferred venue to host tradeshows.

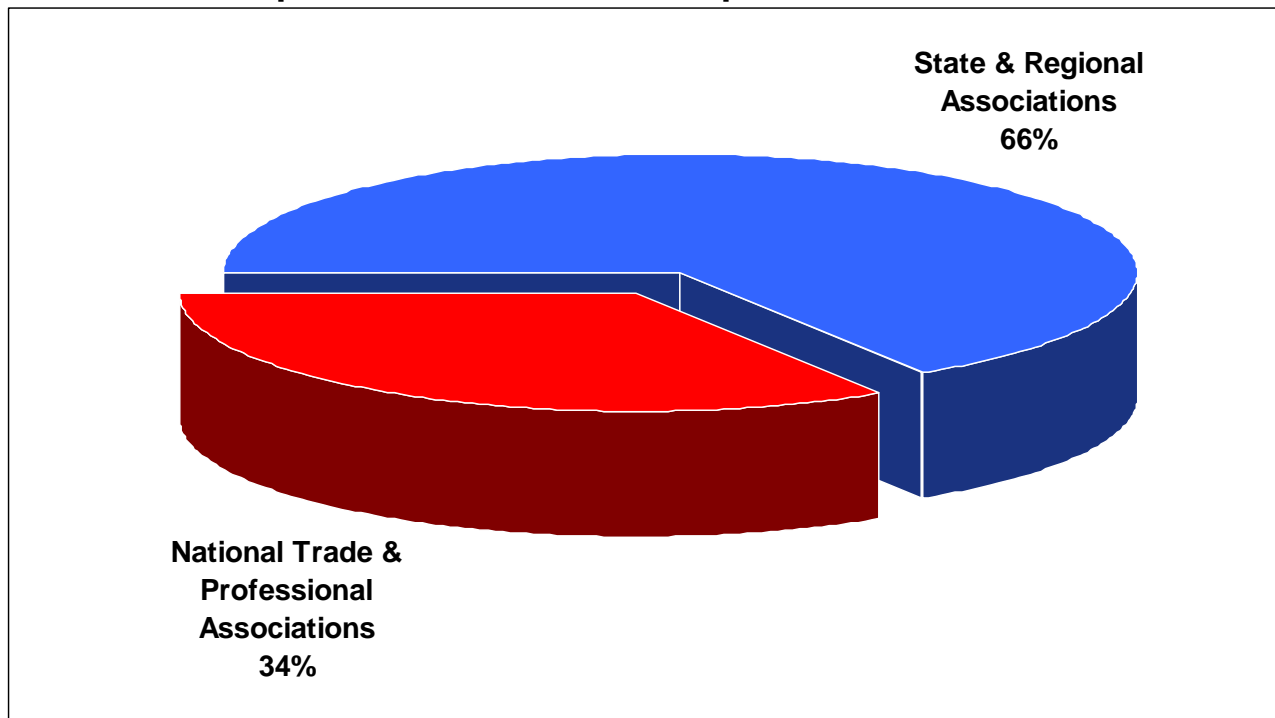


Source: 2004 *Tradeshow Week Databook*.

Tennessee is Headquarters to 250 Associations

According to the *2004 State & Regional Associations of the U.S.* and *2004 National Trade and Professional Associations of the U.S.*, there are 250 associations headquartered in Tennessee, of which 165 or 66% are State/Regional Associations. These groups represent a target market within the State and region for annual conventions, tradeshow and smaller division meetings. Although these groups represent a target market for the NCC, there are a number of facilities in the State and region, including the Opryland Hotel, which make it a very competitive market.

Scope of Associations Headquartered in Tennessee



Sources: *2004 State and Regional Associations of the U.S.*
2004 National Trade and Professional Associations of the U.S.

Based Solely on Gross Exhibit Space Needs, the Majority (92%) of Events Hosted in Tennessee Required Less Than 151,000 Square Feet

As illustrated previously, the U.S. meetings market is estimated to be comprised of over one million events annually, the vast majority of which are small corporate and association meetings. Although the majority of conventions and tradeshows require exhibit space, many meetings which represent a large segment of the overall market, do not typically require exhibit space.

Based on data provided by the International Association of Convention and Visitor Bureaus (IACVB), the distribution of conventions and meetings by exhibit space required held in Tennessee is similar to that of all events held in the Southeast and the U.S. overall. Nearly 50% of events did not require exhibit space and approximately 5% of events required greater than 250,999 SF of exhibit space. Although a relatively small percentage of the overall number of events that rotate in the U.S. require greater than 250,999 SF of exhibit space, which is larger than what Nashville can currently accommodate at either the NCC or the Opryland Hotel, they account for a total of over 500 events which represents a significant potential demand source.

Given its configuration of space and corporate strategy, the Opryland Hotel tends to market to events requiring 150,000 SF of exhibit space or less. Based on this market strategy, there are a total of over 1,100 events nationwide requiring greater than 150,999 SF that Nashville's existing facilities do not currently focus on attracting.

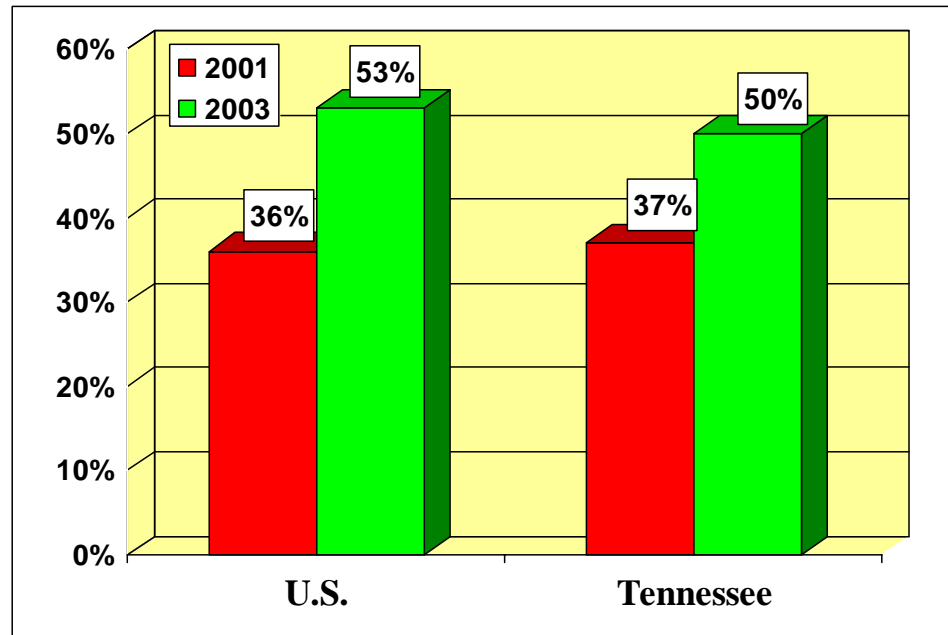
Number of Conventions & Meetings that Can Meet Anywhere in the United States														
Location:		USA	DC	VA	MD	GA	FL	TN	NC	KY	AL	SC	AR	MS
Meetings held in the state by gross square feet of exhibit space required	No Exhibit Space	5,158	760	636	242	122	140	96	72	66	41	29	13	11
	1 - 50,999	3,009	406	379	160	84	87	54	44	37	20	16	8	8
	51,000 - 100,999	992	134	159	49	25	20	16	13	9	3	5	3	3
	101,000 - 150,999	605	79	114	40	13	5	12	6	6	2	2	0	0
	151,000 - 200,999	372	50	78	30	13	3	6	4	3	0	0	2	0
	201,000 - 250,999	209	30	39	12	7	4	3	1	1	2	0	2	0
	251,000 - 300,999	177	27	35	10	1	1	3	2	1	0	0	0	0
301,000+	359	49	59	14	13	8	3	4	1	1	1	2	0	
Total by State		10,881	1,535	1,499	557	278	268	193	146	124	69	53	30	22

Source: IACVB

Although the Number of Conventions & Meetings Declined Between 2001 and 2003, The Percentage of Events Requiring Exhibit Space Increased

Based on data provided by the IACVB, the number of conventions and meetings hosted in Tennessee decreased from 398 in 2001 to 193 in 2003, which was primarily attributable to the loss of 155 events that did not require exhibit space. This decrease in events that did not require exhibit space is consistent with overall industry trends as well as information provided by local Nashville representatives indicating that many smaller, corporate meetings have been retained in-house over the last two years due to tighter budgets.

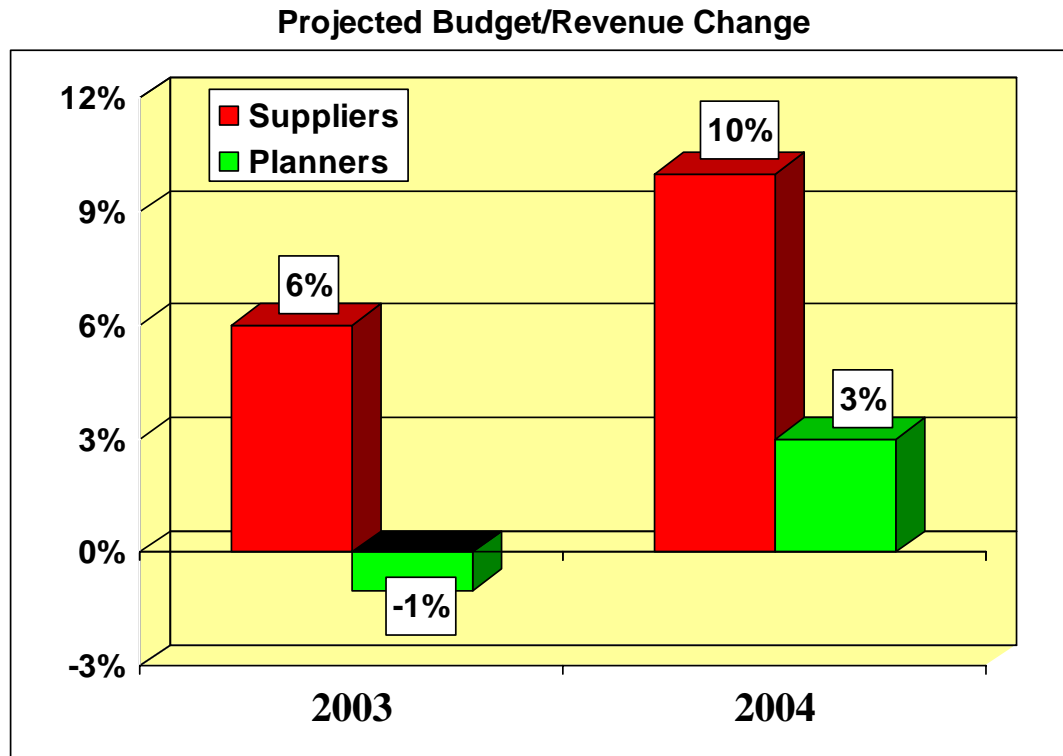
Percent of Conventions & Meetings Requiring Exhibit Space



Source: IACVB

Meeting Planners and Suppliers of Space Project Better Growth in 2004

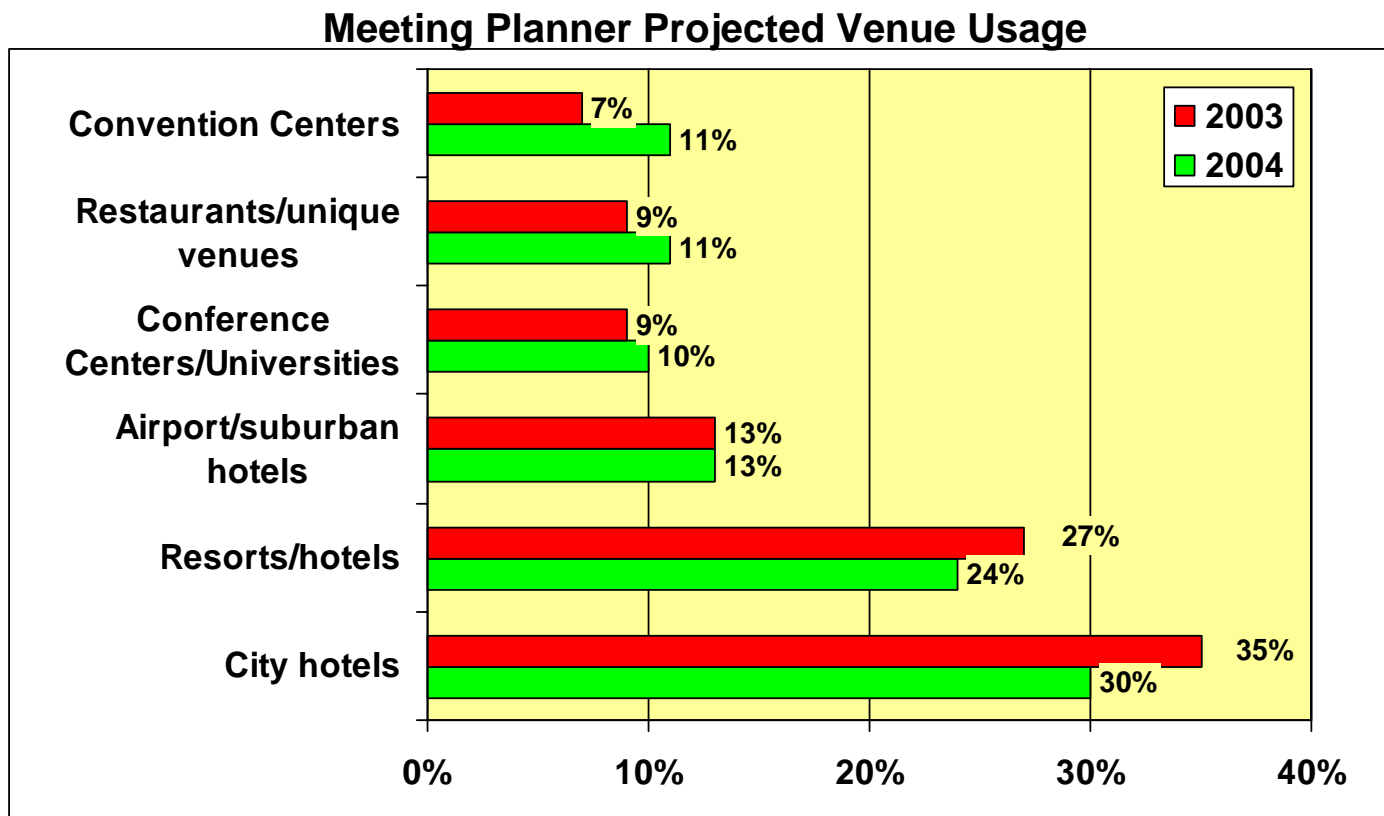
Meeting Professionals International (MPI) conducts an annual survey (*Future Watch*) to gather key facts and comment on meeting industry trends. The following graph illustrates that 2004 is projected to bring greater growth in budgets for planners and revenues for suppliers of meeting space based on this survey. It should be noted that in both 2003 and 2004, there is a significant gap between suppliers and planners. *Future Watch* results indicate suppliers are projecting bigger increases in revenues than what planners are projecting for their budgets. This is indicative of the continued trend in recent years with suppliers trying to budget for better economic times but planners remaining cautious about spending, albeit more optimistic than last year.



Sources: *Future Watch 2004*, Meeting Professionals International.

Meeting Planners Project Greater Use of Convention Centers

Future Watch results indicate that U.S. meeting planners project a four point increase in the percent of events using convention centers in 2004. The following graph illustrates this increase is matched with a projected decline in the number of meetings hosted in resorts/hotels and city hotels. This may be indicative of a future upturn in larger meeting business and overall travel.



Source: *Future Watch 2004*, Meeting Professionals International.

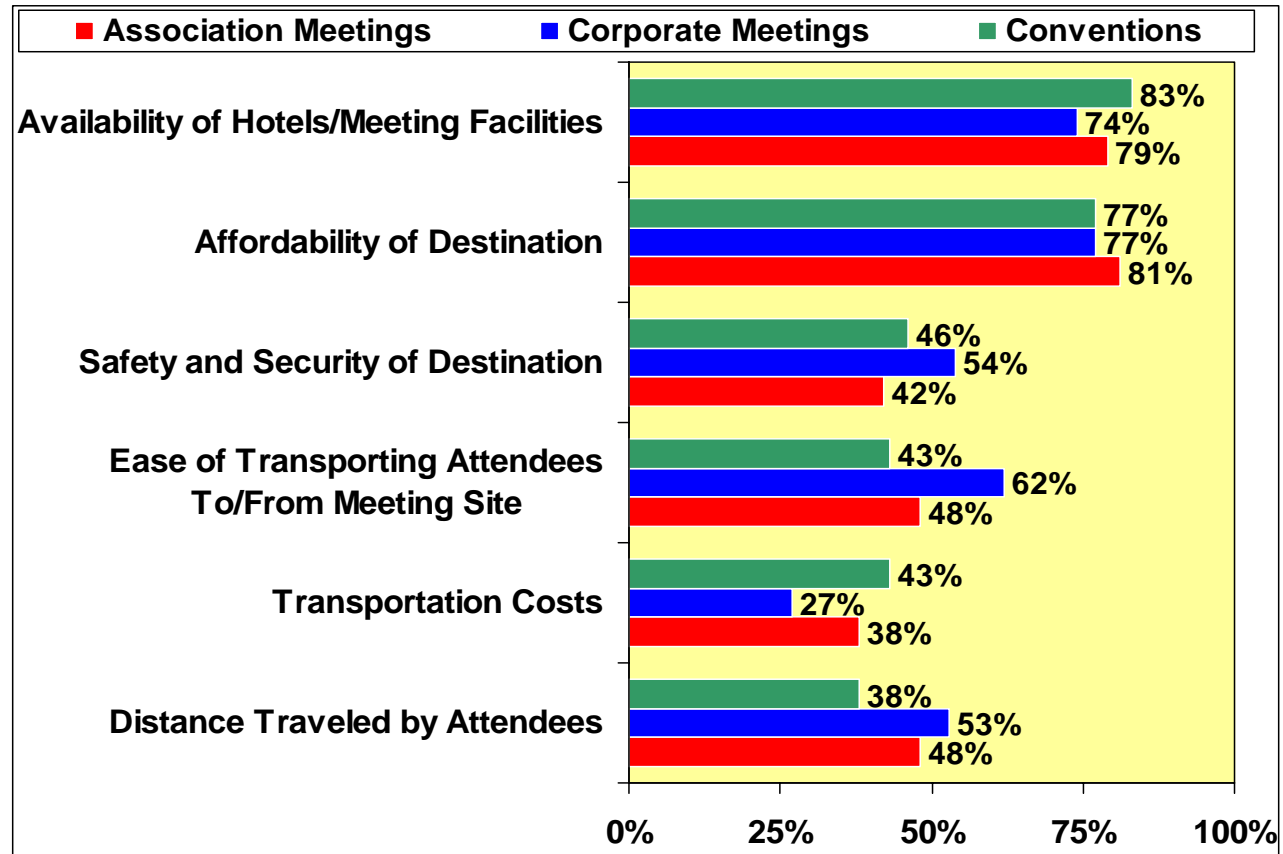
Meeting Planners Consider Many Factors When Choosing a Destination in Which to Host Their Event

Meetings & Conventions publishes a biennial summary of planners' responses to a survey which attempts to determine the most important site selection factor for meetings and conventions.

The results of the most recent survey indicated that the availability of hotels/meeting facilities; affordability of the destination; and safety and security of a destination are key site selection criteria for convention meeting planners.

These criteria shift somewhat by event type. For instance, affordability was considered the most important by both association and corporate meeting planners followed by availability of hotels/meeting facilities. In addition, ease of transporting attendees to and from the meeting site was more important than safety and security of the destination.

Meeting Planners' Site Selection Criteria



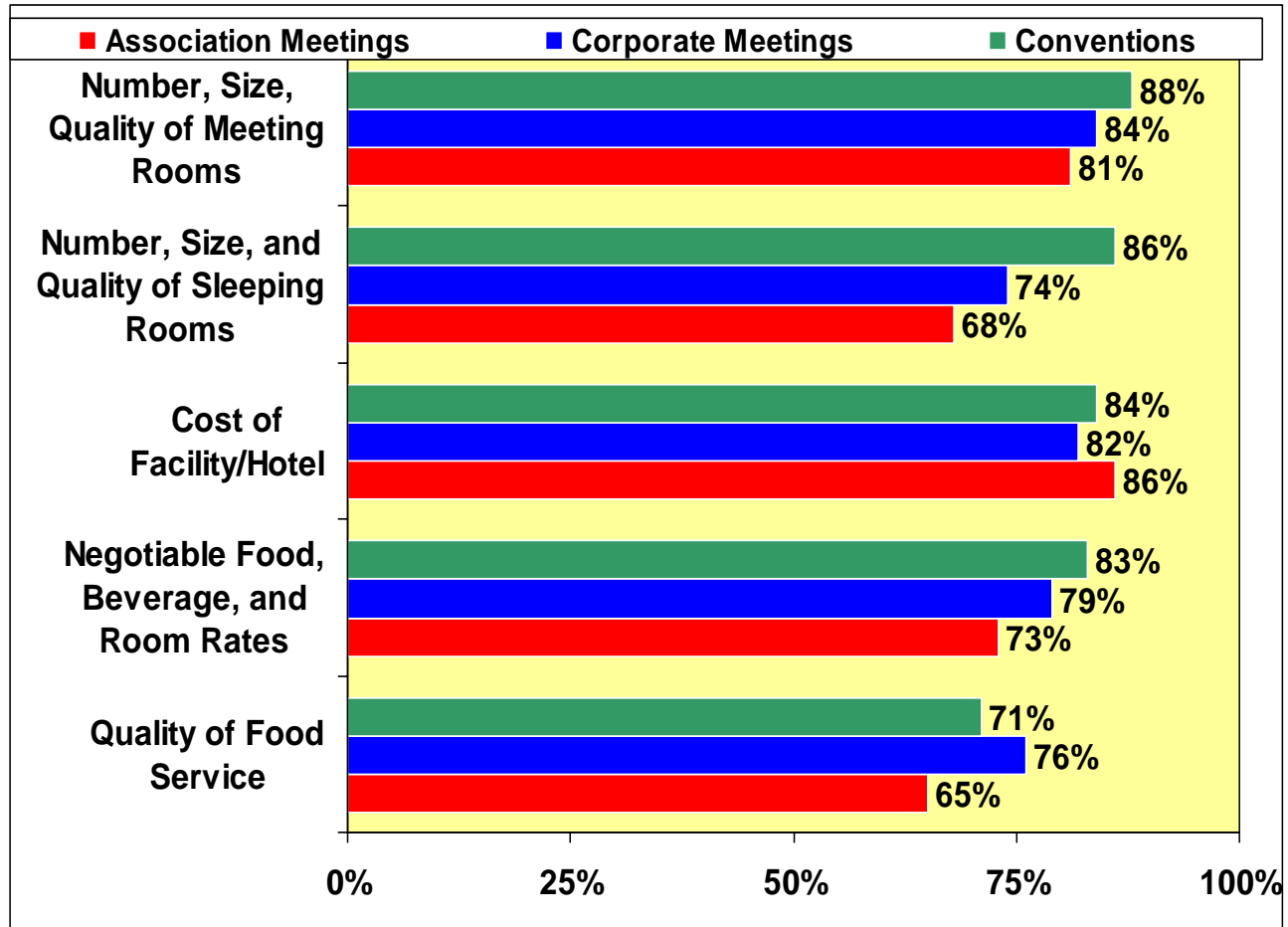
Source: 2004 Meetings Market.

In Addition to Site Selection Criteria, Meeting Planners Consider Various Factors When Choosing a Facility in Which to Host Their Event

The number, size and quality of meeting rooms; the number, size and quality of sleeping rooms; cost of the facility; negotiable food, beverage and room rates; as well as quality of food service were the five most important factors in the selection of a facility according to convention meeting planners.

As with site selection criteria, the importance varies somewhat by event type. For example, cost of a facility/hotel and negotiable rates are more important for corporate and association meeting planners than the number of sleeping rooms.

Meeting Planners' Facility Selection Criteria



Source: 2004 Meetings Market.

Organizations Are Instituting Standardized Meeting Planning

According to MPI's 2004 *Future Watch*, approximately 80% of respondents indicate some level of organization-wide meetings management practices. Many have implemented standard policies and procedures. Further, more planners are instituting preferred supplier programs for meetings. This is another advantage for major hotel properties with significant exhibit space that offer facilities in multiple cities. These types of meeting venues have the advantage of negotiating multi-year contracts with organizations that will allow them to streamline their planning across cities. Such standardization will further decrease the amount of time necessary to plan meetings.

Trends Related to Technology and the Internet

In the past, the demand for technological capabilities primarily came from technology-related events. Now, the demand for a networking infrastructure is required by groups of all industries and sizes. As the technologies of wireless data, Internet and phone services become more widely used, they are naturally integrated into both event planning and the events themselves. Therefore, facilities that offer these high-tech services have a competitive advantage over those that do not and, as a result, can experience higher demand.

In order to stay competitive, convention centers are now offering a wide array of technological services including high-speed wireless data and Internet networks, Gigabit Ethernet, high-speed WAN, LAN connectivity, Fiber Optics Network, wireless phone service, video teleconferencing, voice-over IP, interactive kiosks, web-casting from the show floor as well as satellite downlink and uplink capabilities.

As mentioned previously, meeting planners have been faced with tighter budgets and are therefore seeking facilities that offer the best rates and financial incentives. With the increased use and reliance of the Internet, many meeting planners go on-line to make rate and space comparisons among convention facilities. In addition, the emerging reliance on the use of technology in meeting planning is requiring less lead time for each event necessitating more efficient operations on the part of planners and facilities alike. Nashville's CVB does offer the ability to submit an RFP for a conventions/meetings package on-line.

Room blocks, a common measurement for groups, are no longer as accurate because the ability to book rooms economically and/or easier on-line has changed the landscape of the industry. Several meeting planners commented that even in instances where their event's attendance may have increased, the room block has decreased due to the number of discounted travel website bookings. Meeting planners stressed that estimating room block size has become one of their biggest challenges due to attrition fees. Therefore, they are constantly seeking hotels offering packages without attrition clauses. According to *Tradeshow Week*, some groups may move to "blockless" event planning, leaving attendees to book their own hotel rooms.

Industry Overview Summary

- Recent world events have had a significant impact on the economy including the convention and meetings business.
- The industry is comprised of several event types with varying space requirements. Although estimates differ, the overall meetings market is comprised of over one million events annually.
- While new facilities continue to be built and expansions of existing centers and hotels are planned or underway, growth of exhibit space has begun to slow. Traditional exhibition/convention facilities have experienced an average annual growth rate of 5% since 2000 and are anticipated to experience 2% to 3% growth over the next two years.
- The competitive market for convention centers has changed over the last several years. Competitors not only include other similar sized facilities but first-tier convention facilities and hotels offering significant exhibit, meeting and/or ballroom space. Many of these competitors offer advantages to meeting planners such as financial concessions and other incentives in order to attract business. In addition, some meeting planners are able to secure multi-year agreements at current discounted rates. If demand improves as projected by industry sources, first-tier markets will likely resume focusing more of their marketing efforts on larger events and decrease financial incentive offerings to obtain smaller group business.
- Given its current facilities, Nashville potentially competes with approximately 83% of the exhibition facilities in the U.S. which can accommodate events requiring between 25,000 and 289,000 gross square feet of exhibition space.
- While there has been a decline in the net SF of exhibit space required for tradeshow in recent years, *Tradeshow Week* projects that tradeshow demand will begin to rebound over the next two years with preliminary fourth-quarter 2003 estimates indicating the first increase in net square feet of exhibit space since the first quarter of 2001.

Industry Overview Summary (cont'd)

- Over the last several years, various private hotel developers including Gaylord Hotels, have made significant financial investments in the addition of exhibition space in order to increase market share. This development suggests that there is strong potential 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.
- Based on the *2004 Tradeshow Week Databook*, the NCC can currently accommodate approximately 52% of the exposition market given its current amount of exhibition space alone. However, the supporting infrastructure (i.e. hotel rooms within walking distance, nearby parking) may be a limiting factor in attracting some of these groups. In addition, some events do not rotate among cities.
- Tennessee is home to 250 associations that represent a target market for annual conventions, tradeshows and smaller division meetings. However, this is a very competitive target market given the number of facilities in the State and region.
- According to recent information provided by the IACVB, approximately 97% of the conventions and meetings held in Tennessee can be accommodated by the existing facilities in Nashville. Although a relatively small percentage (5%) of the total number of events that rotate in the U.S. require greater than 250,000 SF of exhibit space, they accounted for more than 500 events in aggregate which represents a significant potential demand source for any additional space in the market. In addition, an increasing percentage of events are requiring exhibit space.
- Recently, some associations within similar industries have started to combine their tradeshows. As these tradeshows merge and grow in attendance, they now require a greater amount of exhibit space. Also, in some instances, the associations themselves rather than just their tradeshows have merged.
- Meeting planners project better growth in budgets for 2004 and increased use of convention centers. These trends are indicative of a potential improvement in the overall convention/meetings market.

Industry Overview Summary (cont'd)

- Meeting planners consider many factors when selecting a facility and destination to host their event. Factors that are considered a priority during the selection process are as follows:
 - Destination selection: availability of hotels/meeting facilities; affordability of a destination; safety and security of destination; and ease of transporting attendees to/from the meeting site.
 - Facility selection: number, size, and quality of meeting rooms; number, size, and quality of sleeping rooms; cost of facility/hotel; negotiable food, beverage and room rates; and the quality of food service.
- Standardized meeting management practices are increasingly being instituted by organizations. This coupled with the reliance on technology will serve to decrease the time necessary to plan events.
- Room blocks are not as accurate a measurement for groups because attendees can book rooms economically and/or easier on-line. This has changed the landscape of the industry. Due to this change, meeting planners are being faced with the challenges of estimating room block sizes, which if overestimated, can result in large attrition fees. Consequently, an increasing number of meeting planners are seeking hotel packages that do not contain attrition clauses. According to *Tradeshow Week*, some groups may move to “blockless” event planning, leaving attendees to book their own rooms.
- The demand for a networking infrastructure is required by groups of all industries and sizes. It will be necessary to ensure that any expanded or new convention space offer capability in this area in order to maintain and enhance its competitiveness particularly given the level of technological capabilities available at other facilities.
- The increasing use of technology in meeting planning is allowing for less lead time and requires greater flexibility on the part of the venue to accommodate each organization. This trend may place privately owned facilities such as hotels and conference centers at a competitive advantage over public facilities that require more response time in bidding for events.

Table of Contents

1	Report Letter	1
2	Introduction & Executive Summary	4
3	Industry Trend Overview	29
4	Nashville Market Overview	54
5	Nashville Convention Center Utilization Analysis	74
6	Competitive/Comparable Market Analysis	105
7	Meeting Planner Surveys	129
8	Summary of Market Findings	151
9	Programming & Site Planning Issues	169
10	Financial Analysis	187

Nashville Market Overview

Several key characteristics of a destination are viewed by meeting planners and event producers as critical to the success of their event and, therefore, are important selection criteria when choosing a meeting location. The availability of hotels/meeting facilities to accommodate and service the needs of conventions and tradeshows is an important factor for many groups. Other important criteria involve market attributes such as affordability, safety, hotel room supply within walking distance, accessibility, destination appeal including weather and the type and number of restaurants, retail establishments and attractions proximate to the event site.

The importance that meeting planners place on these factors differs depending on the type of event. A growing trend for both professional and trade associations is the preference of having a significant number of convention quality hotel rooms proximate to the convention center. As the meetings industry becomes more competitive with cities continuing to build convention facilities and expand existing centers, destination characteristics such as hotel supply and accessibility will continue to be important to the success of convention centers.

This section of the report provides an overview of the Nashville marketplace in terms of these factors as well as other select market characteristics such as demographics and economic data and information regarding the local employment base.

The Nashville MSA and Each of its Counties Have Experienced Population Growth Over the Last Five Years

With a population of approximately 1.3 million, the Nashville Metropolitan Statistical Area (MSA) ranks 48th among MSAs in the U.S. An area can qualify as an MSA if it contains a city with a population of at least 50,000 or if it contains an “urbanized” area of at least 50,000 and a total metropolitan area population greater than 100,000. The Nashville MSA, which includes Cheatham, Davidson, Dickson, Robertson, Rutherford, Sumner, Williamson and Wilson Counties has experienced strong growth in the past five years. The MSA is expected to experience a 6.4% increase in population over the next five years. While the Nashville MSA has experienced growth over the last five years, Rutherford and Williamson Counties have experienced significant increases in population of over 20% each. In 2003, Davidson County accounted for approximately 45% of the total MSA population. The City of Nashville, which represents nearly all of Davidson County’s population, has experienced an increase of nearly 7% over the last five years.

Area	Population			Projected Population	
	1998	2003	% Change	2008	% Change
Nashville MSA	1,147,600	1,281,000	11.6%	1,363,400	6.4%
Davidson County	540,100	575,400	6.5%	585,400	1.7%
City of Nashville	516,000	550,900	6.8%	n/a	n/a
Rutherford County	162,900	197,300	21.1%	222,500	12.8%
Williamson County	112,100	137,500	22.7%	155,400	13.0%
Sumner County	123,400	136,200	10.4%	145,700	7.0%
Wilson County	82,100	94,200	14.7%	102,800	9.1%
Robertson County	51,300	58,000	13.1%	63,700	9.8%
Dickson County	40,700	44,800	10.1%	47,500	6.0%
Cheatham County	35,000	37,600	7.4%	40,400	7.4%

Note: n/a denotes information not available.

Source: Sales & Marketing Management Survey of Buying Power, 1998 and 2003

The Median Effective Buying Income for the Nashville MSA Has Experienced More Than 6% Growth Over the Last Five Years

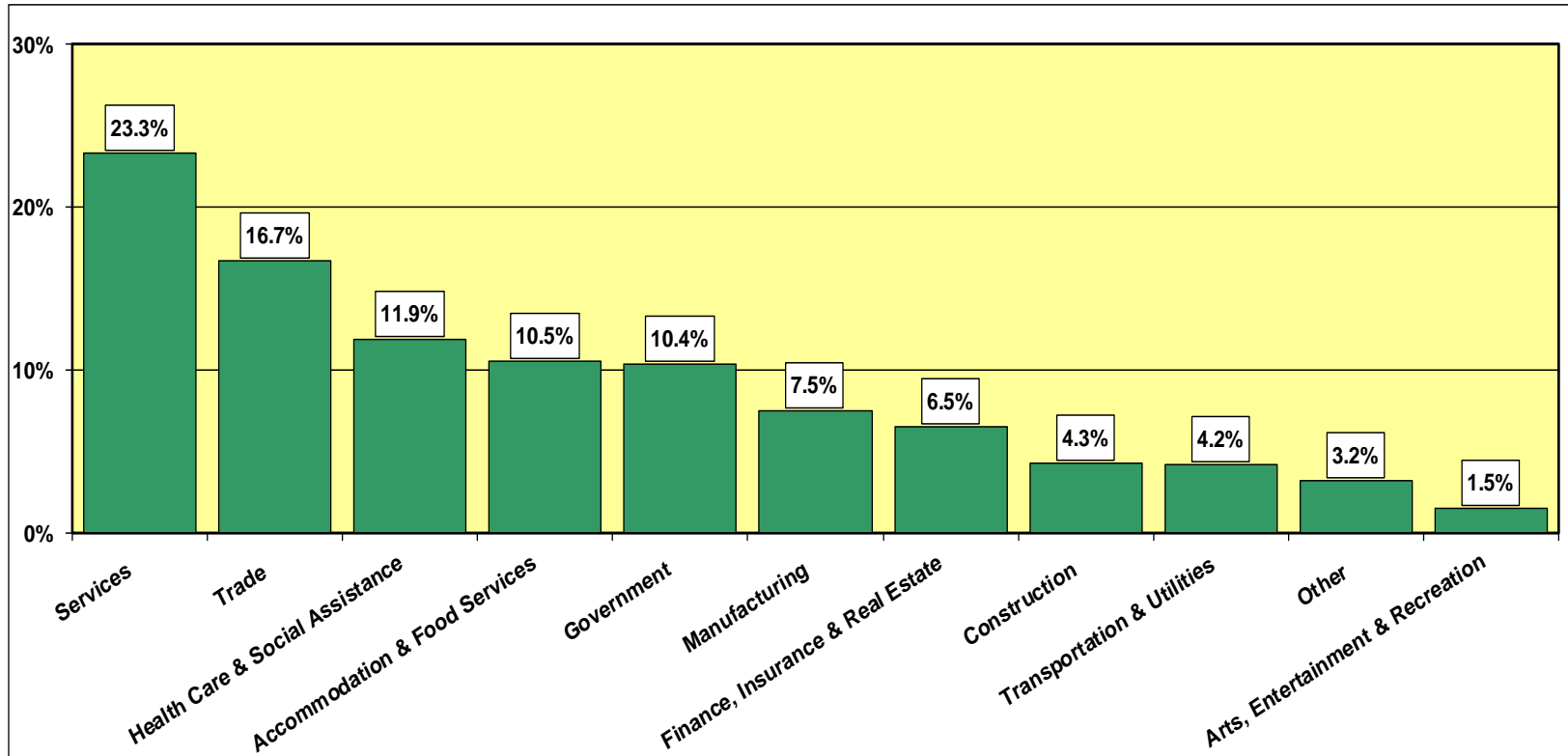
Income offers a broad measurement of spending potential for a specific population because it indicates the general ability of individual households to spend money on certain events that may be held at a convention facility. Effective buying income (EBI) represents “disposable” or “after-tax” income. The table below illustrates the median household EBI for the Nashville MSA, the counties within the MSA and the City of Nashville. As shown, the 2003 median household EBI for the MSA was \$42,100 which is 6.3% higher than the 1998 figure. In addition, all of the counties within the MSA also experienced growth over the last five years. The City of Nashville, however, experienced a slight decline in median household EBI during that same time period.

Area	Median Household EBI		
	1998	2003	% Change
Nashville MSA	\$39,600	\$42,100	6.3%
Williamson County	\$59,400	\$63,700	7.2%
Wilson County	\$43,900	\$46,300	5.5%
Cheatham County	\$37,200	\$43,300	16.4%
Rutherford County	\$37,300	\$43,200	15.8%
Sumner County	\$40,900	\$43,100	5.4%
Robertson County	\$36,100	\$41,400	14.7%
Davidson County	\$38,000	\$38,100	0.3%
City of Nashville	\$37,600	\$37,500	-0.3%
Dickson County	\$29,500	\$36,900	25.1%

Note: Sorted by 2003 median household EBI by county.

Source: Sales & Marketing Management Survey of Buying Power, 1998 and 2003.

Services, Trade and Health Care/Social Assistance Comprise the Majority of Employment in Davidson County



Source: U.S. Department of Labor Statistics.

The employment sector is a consideration when targeting various local and regional 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 Nashville. Trade and health care sectors are also natural target markets for conventions, tradeshow and meetings in Nashville.

The Leading Industrial Classification of Tradeshows is the Medical and Health Care Industry

The table shown to the right ranks the industries by the total number of tradeshows scheduled for 2004.

As shown previously, the five largest employment sectors in Davidson County according to the U.S. Bureau of Labor Statistics are:

- Services
- Retail/wholesale trade
- Health care/social assistance
- Accommodation and food services
- Government

Rank	Classification	Total Number of Shows
1	Medical & Health Care	538
2	Home Furnishings & Interior Design	482
3	Sporting Goods & Recreation	379
4	Apparel	313
5	Building & Construction	308
6	Computers & Computer Applications	303
7	Landscape & Garden Supplies	298
8	Education	272
9	Gifts	241
10	Associations	208
Total		3,342

Source: 2004 Tradeshow Week Data Book.

This provides further support that the largest employment sectors can be a potential target market in Nashville for exhibitions and industry tradeshows.

Nashville's Ability As a Destination to Meet the Needs of Meeting Planners Is Important to Its Future Marketability

Conventions and meeting planners prefer to exhibit, eat, and meet in the same location. As a result, most successful convention facilities have a headquarters hotel either connected or within walking distance that allows the attendees to move freely between meetings and can decrease the cost of hosting the event if a shuttle service is not required. Typically meeting planners also prefer facilities that are within walking distance to leisure activities such as restaurants and shopping.

The Nashville market is unique in that it has two convention centers, both with headquarter hotels. The 2,881-room Opryland Hotel offers approximately 289,000 square feet of exhibit space and nearly 182,500 square feet of meeting/ballroom space. The NCC has approximately 119,000 square feet of exhibit space and nearly 31,000 square feet of meeting/ballroom space. The NCC is connected to the 673-room Renaissance Nashville Hotel which offers nearly 30,000 SF of meeting/ballroom space

As previously discussed in the industry overview section, *Meetings & Conventions* publishes a biennial summary of planners' responses to a survey which attempts to determine the most important site selection factors for meetings and conventions. Based on the results of the most recent survey, meeting planners identified the most important site selection factors as:

- Availability of hotels/meeting facilities;
- Affordability of destination;
- Safety and security of destination;
- Ease of transporting attendees to/from meeting site; and
- Distance traveled by attendees.

The importance of these factors along with the market's overall destination appeal and attractiveness to attendees was also reiterated in our interviews with meeting planners and other stakeholders. The pages that follow will discuss how Nashville meets these criteria. In addition, comparisons to competitive markets are presented later in this report.

Nine Hotels in Downtown Nashville Offer More Than 2,600 Rooms Combined

Assuming that a convention center meets the needs of the group, its supporting infrastructure for delegates, particularly the number of hotels within walking distance, is important. Hotel inventory is particularly important for regional and national events. Many meeting planners consider the need for a convention quality headquarters hotel property connected or adjacent to the convention facility as a necessity in attracting their event.

There are over 2,600 rooms in downtown, all of which are considered to be within walking distance to the convention center. The 673-room Renaissance Hotel is connected to the NCC and serves as its headquarters hotel. It should be noted that meeting planners typically prefer full-service hotels for their delegates. The Renaissance, Sheraton, Doubletree, Hilton and Hermitage offer a total of 1,940 full-service hotel rooms to meet the needs of such meeting planners.

Properties	Number of Rooms
Renaissance Nashville Hotel	673
Sheraton Nashville Downtown	476
Doubletree Hotel - Nashville	338
Hilton Suites - Nashville	330
Holiday Inn Express - Downtown	287
Courtyard by Marriott - Downtown	192
Union Station Hotel	125
Hermitage Hotel - Nashville	123
Best Western - Downtown/Convention Center	100
Total	2,644

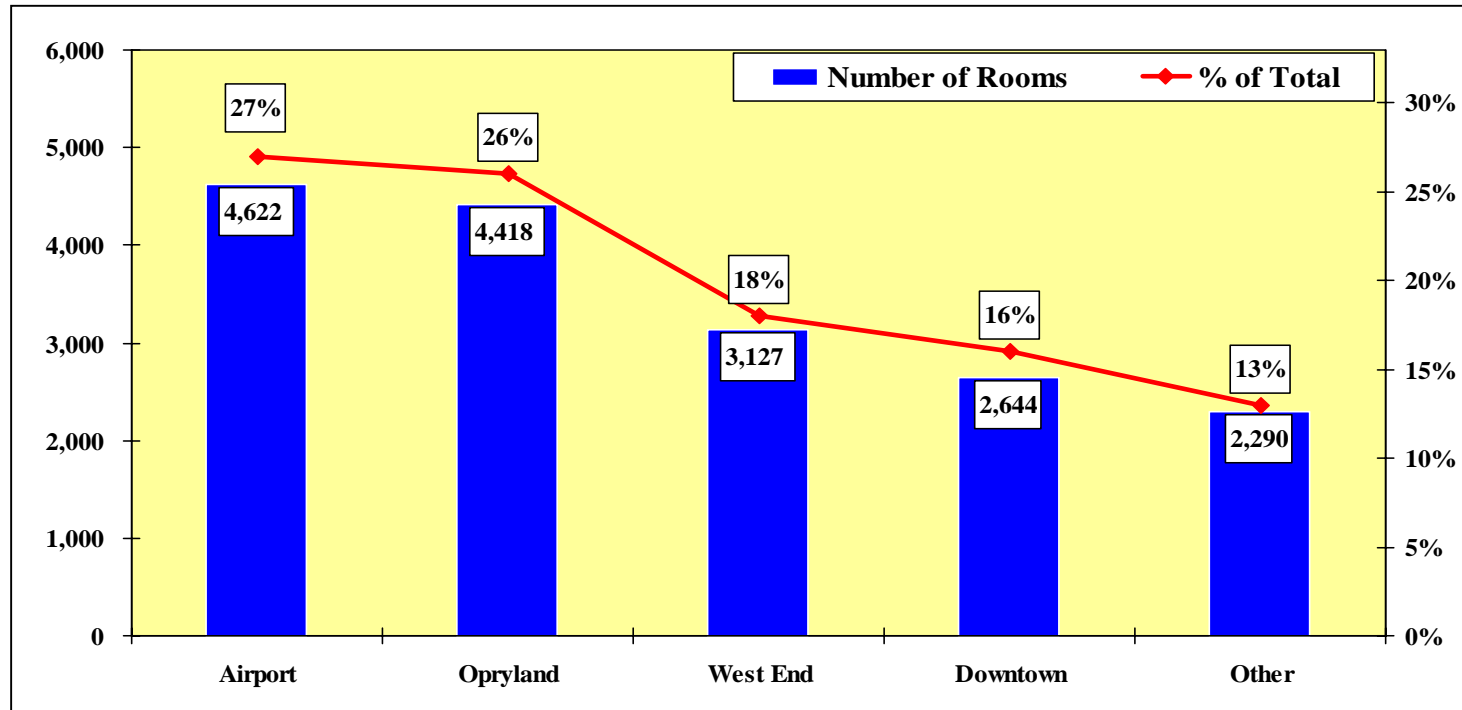
Note: Sorted in descending order by number of rooms.

Source: Hotel management.

Davidson County Offers More Than 17,000 Hotel Rooms for Citywide Conventions

In addition to the hotel properties in downtown, there are numerous other hotels in the Nashville market available for Citywide convention activity. The graph below illustrates the number of hotel rooms by geographic area.

Davidson County Distribution of Hotel Rooms



Note: Includes hotels with a minimum of 75 rooms.
Source: Nashville CVB.

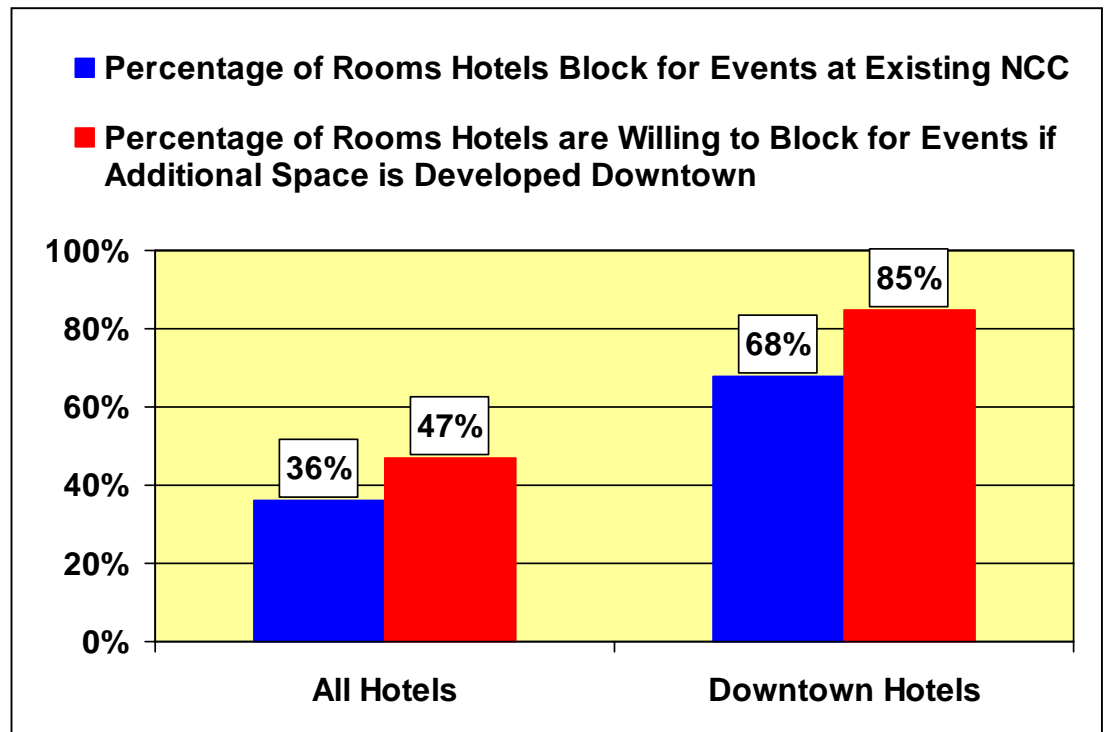
Area Hotels Indicated a Willingness to Increase Committable Room Blocks If Additional Convention Space is Developed in Downtown

In addition to supply of hotel rooms, it is important to understand the availability of committable room blocks at hotels within walking distance and in the overall market. By offering hotel packages with significant committable room blocks in addition to group rates for convention business, a convention center can enhance its competitiveness.

Representatives at Nashville area hotels were surveyed in order to gain an understanding of their operations and to gauge their commitment to the convention center project. Only properties with greater than 100 sleeping rooms were surveyed.

The graph to the right shows the percentages of committable rooms to total sleeping room inventory of all hotels surveyed and then for just the downtown properties.

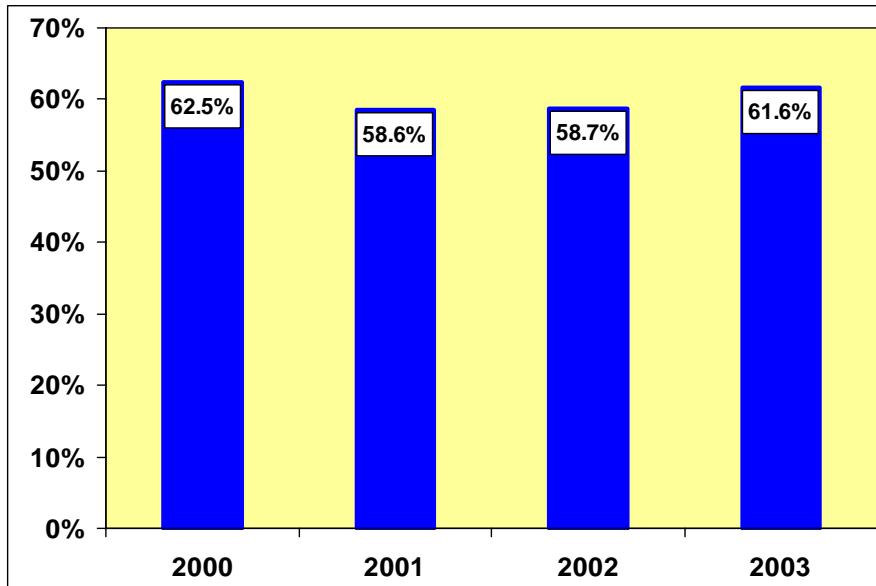
Area hotel management showed interest in increasing their committable room blocks should additional convention center space be pursued downtown, irrespective of whether it is through an expansion of the existing NCC or development of a new convention facility.



Hotel Occupancy and Average Daily Rates for Hotels In Davidson County Remained Relatively Consistent Over the Last Four Years

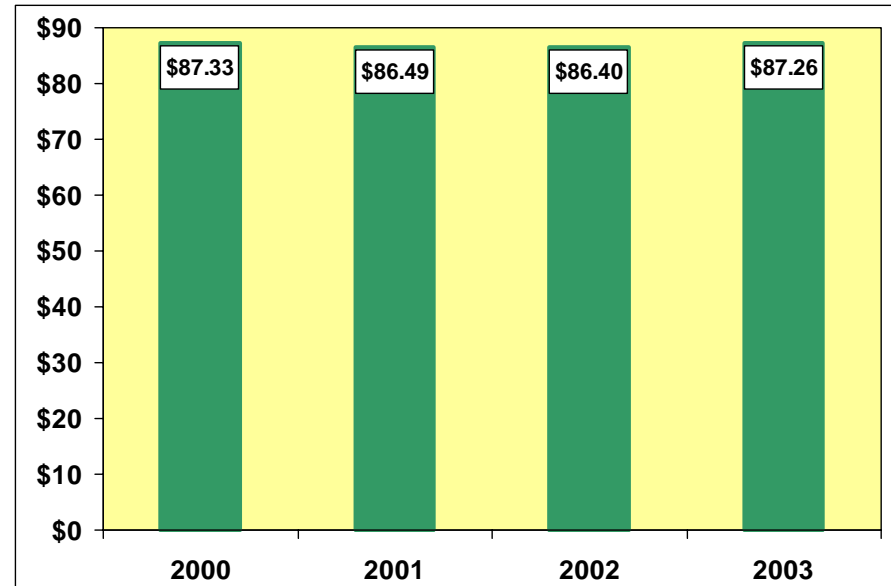
The overall occupancy and ADR for hotels in Davidson County experienced a slight decrease during 2000 and 2001 which is primarily due to the events of September 11, 2001, the downturn of the economy and other recent world events. As the economy and meetings industry continues its recovery, both the occupancy and ADR in Nashville increased in 2003.

Occupancy



Source: Nashville CVB.

Average Daily Rate



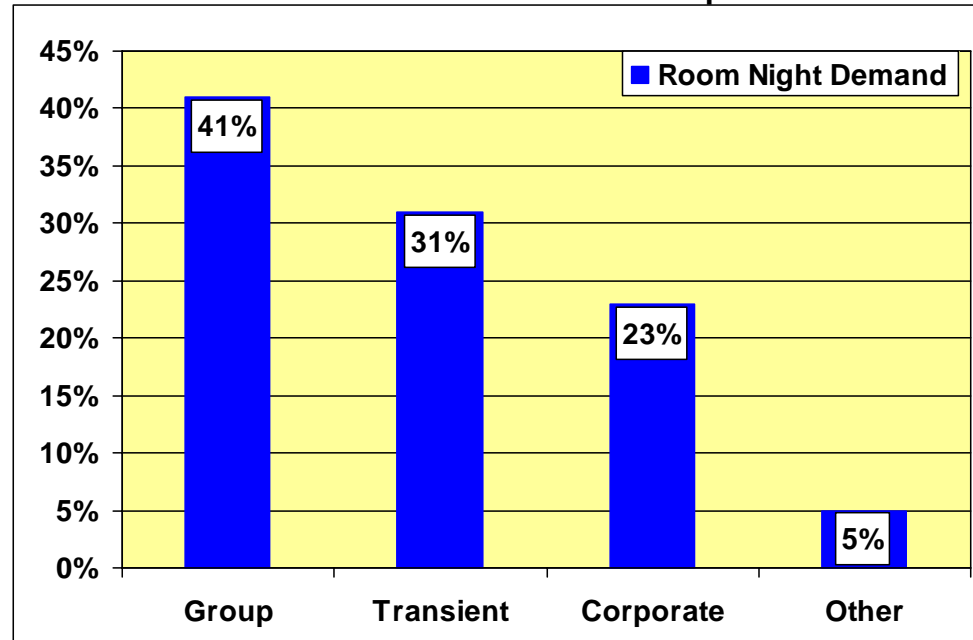
Source: Nashville CVB.

The Larger Hotels in Nashville Have Higher Occupancy and ADR

Representatives at Nashville area hotels with greater than 100 sleeping rooms were surveyed. Of those responses received, the overall average occupancy rate for these larger area hotels is approximately 70% with the Spring and Fall months being the busiest times of the year. The average daily rate (ADR) is approximately \$110 for all respondents and \$117 for downtown property respondents. The average percent of hotel business attributable to the NCC for all respondents is approximately 17%. This percentage increases to approximately 27% when analyzing only downtown hotel property respondents. As one would expect, full-service hotels in closest proximity to the NCC indicated that the facility generates over 50% of their demand. It is important to note these figures can change in any given year based on a variety of factors. However, based on the historical event activity at the NCC including the average size group for convention and tradeshow activity, these percentages appear reasonable since many groups do not likely generate a significant number of rooms outside of the downtown.

The graph to the right provides a breakdown of room night demand from the survey responses. As shown, group business represents the largest source of room night demand followed by transient and corporate business. Please note that not all hotels used the category “Other.”

Distribution of Demand - All Responses



Nashville is an Affordable Destination

Affordability is another key criteria in a meeting planner's decision. Airfare and hotels typically represent the two largest expenditures for delegates.

Based on information from the *2003 Corporate Travel Index*, the following table summarizes the estimated costs for car rental, food and hotels for Nashville as well as the rank of 100 competitive markets with one being the most expensive. It should be noted that these figures are for corporate travelers who are usually less price sensitive and typically incur higher costs than leisure travelers or conventioners. Nashville ranks among the highest for average daily car rental costs. Conversely, it ranks among the lower half of destinations in terms of average food costs.

Average Travel Costs for Nashville		
Category	Expenditure	Rank
Average Car Rental Costs	\$49.75	3
Average Food Costs	\$63.34	59
Average Hotel Costs	\$139.38	21
Total Costs	\$252.47	25

Source: *2003 Corporate Travel Index*.

Perception of Safety and Security of a Destination is Important

Safety and security of the destination ranked as the third most important criteria for meeting planners in the *Meetings Market* survey. This factor has become even more important since the events of September 11, 2001, and recent world events. Event producers as well as attendees have become more concerned with security and want to feel assured that appropriate security measures are being taken.

The existing NCC is proximate to several hotels making it relatively easy for attendees to move from place to place. Safety or security concerns were not mentioned by meeting planners as an issue in Nashville during the survey effort. However, it will be necessary to keep the perceived and actual safety of delegates in mind when planning any expanded or new space. The presence of a core of activity such as hotels, entertainment venues, restaurants and the convention center can add to a feeling of safety and vibrancy in a city. Alternatively, the lack of such synergy can create a perception of danger regardless of reality.

Transportation of Delegates is Important

Once delegates are in a city, the ease of transporting delegates between the convention center and hotels as well as to area retail, restaurant, entertainment and attractions becomes an important factor. The size of the group and the number of hotels within walking distance typically dictate whether groups need to offer shuttle service, which is an additional cost for a meeting planner and can be a competitive disadvantage for a market, if required. In most instances, meeting planners will try to have the destination (either through the CVB, the hotels and/or the facility) pay for some or all of these additional transportation costs as part of the overall financial package with the group.

Currently, Nashville offers public transportation via the Metropolitan Transit Authority bus system that is available to visitors. This system has an extensive route throughout the City with many stops downtown including the NCC and area hotels. Hours of operation are 5:15 AM to 12:15 AM Monday through Friday. Hours are limited on the weekends. This service is available to convention groups but specific routes cannot be arranged for events. In addition, Gray Line Tours operates a trolley system of sightseeing tours throughout Nashville.

While the existing NCC has several hotels within walking distance, it will be important to take area transportation into consideration should an expanded or new center be pursued. If larger groups can be accommodated by the facility, it will be necessary to address their transportation needs on a larger scale as well. The ability to move convention delegates quickly and safely between the center, hotels and area attractions is important to meeting planners and could provide an advantage over other destinations.

Nashville International Airport Has Over Four Million Enplanements Annually

Accessibility via air and highway are important factors to event and meeting planners. Air access is considered to be an important factor in terms of attracting regional and national conventions and meetings business. Nashville is primarily serviced by the Nashville International Airport which offers the following carriers: AirCanada (Jazz); American Airlines; American Eagle; Atlantic Coast; Atlantic Southeast; Continental Airlines; Continental Airlines Express; Corporate Airlines; Delta Airlines; Delta Airlines Express; Frontier Airlines; Northwest Airlines; Skyway Airlines; SkyWest; Southwest Airlines; United Express Airlines; US Airways; and US Airways Express. Offering discount carriers, such as Southwest Airlines, can be an advantage for many groups, particularly those that are cost conscious.

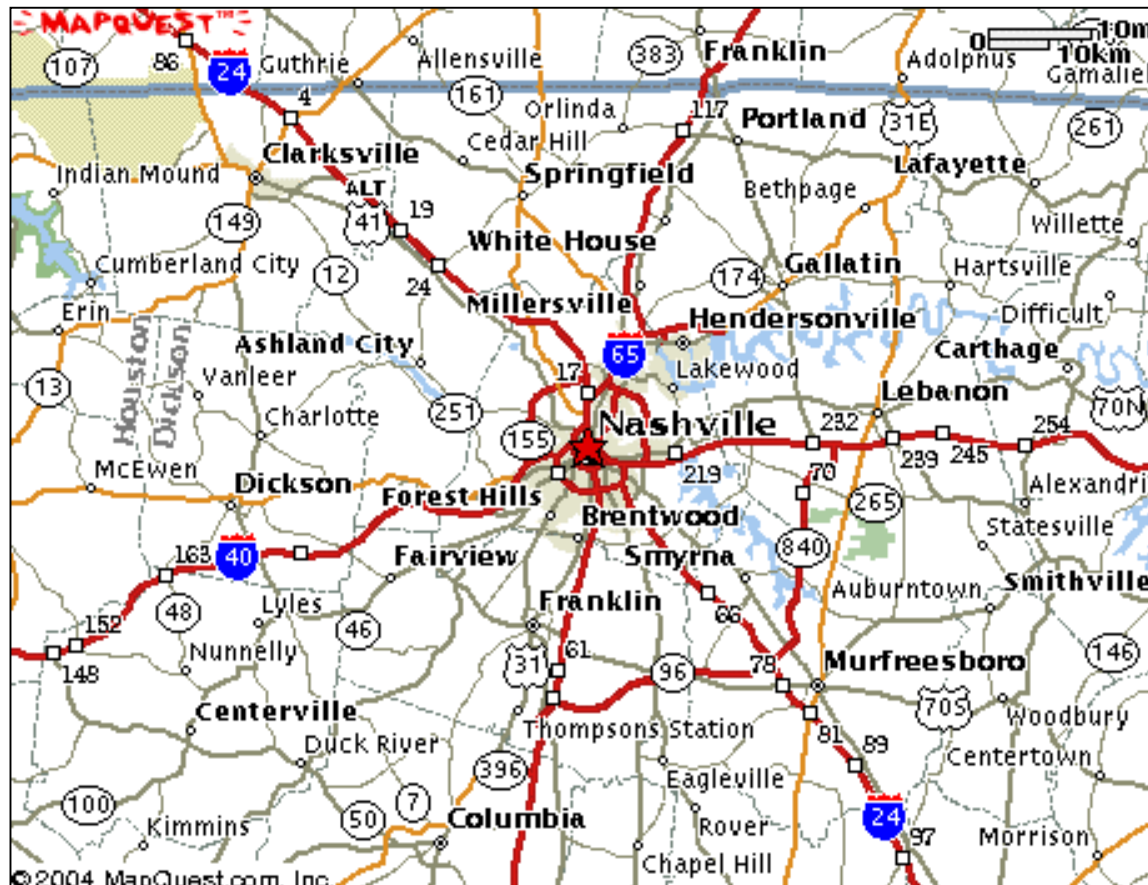
With over four million enplanements, the Nashville International Airport ranked 43rd out of 419 primary airports in the U.S. in 2002. Enplanements are defined by the Federal Aviation Administration (FAA) as domestic, territorial and international revenue passengers who board an aircraft in scheduled and non-scheduled service of aircraft. The following table illustrates that the number of enplanements at the Nashville International Airport experienced a steady increase until 2001, which was negatively impacted by the events of September 11th.

Nashville International Airport			
Year	Rank	Passenger Enplanements	Percentage Change
1998	42	3,916,316	4.1%
1999	43	4,207,731	7.4%
2000	42	4,479,909	6.5%
2001	42	4,209,465	-6.0%
2002	43	4,009,959	-4.7%

Source: Federal Aviation Administration.

Nashville Offers Favorable Highway Access

Highway access can be an important factor to some meeting planners, particularly for events that generate a significant amount of delegates and/or exhibitors who drive to the destination. As shown in the map below, Nashville offers favorable highway access via Interstate 24, Interstate 40 and Interstate 65.



Nashville, Also Known As “Music City”, Offers Varied Attractions

When delegates are not attending event-related functions, the available entertainment options are another factor that meeting planners consider when selecting a destination for their event. Nashville offers several attractions in the area including, but not limited to, the following:

- The Country Music Hall of Fame and Museum
- The Grand Ole Opry
- The Frist Center for the Visual Arts
- The Ryman Auditorium
- The Hermitage: Home of President Andrew Jackson
- The Belmont Mansion
- The Tennessee State Capitol
- The Belle Meade Plantation
- General Jackson Showboat
- The Tennessee Performing Arts Center
- Adventure Science Center
- Nashville Zoo
- Wildhorse Saloon

In addition, the convention center is proximate to a number of other attractions within the market such as the NFL Tennessee Titans, who play at The Coliseum, and the NHL Nashville Predators, who play at the Gaylord Entertainment Center. There are also several places for delegates to shop and dine throughout the downtown area, many of which are located within walking distance to the convention center.

Market Overview Summary

- Population and income have been increasing in the Nashville MSA and are projected to experience continued growth in the near future.
- Many of the largest employers in the Nashville area are in the government, education or health care sectors, making these natural target markets for convention and meetings business in Nashville.
- Meeting planners also consider many factors when selecting a destination to host their event, such as availability of hotels/meeting facilities; affordability of a destination; safety and security of the destination; and ease of transporting attendees to/from the meeting site.
- Currently, Nashville offers over 2,600 hotel rooms downtown, all of which are considered within walking distance to the convention center. The 673-room Renaissance Hotel is connected to the NCC and serves as its headquarters hotel.
- Davidson County offers more than 17,000 hotel rooms for Citywide conventions. With 2,881 rooms, Opryland is the largest hotel.
- Area hotels, particularly those in downtown, indicated a willingness to increase their committable room blocks should additional convention space be developed in downtown Nashville.
- Hotel occupancy and ADR has remained relatively consistent over the last four years with a slight increase in 2003 as the travel and meetings industries continue to rebound after recent world events and the downturn of the economy.

Market Overview Summary (cont'd)

- The overall affordability of Nashville in terms of air access, hotel rooms, dining and entertainment makes it appealing to many meeting planners.
- The presence of a core of activity such as hotels, entertainment venues, restaurants and the convention center can add to a feeling of safety and vibrancy in a city. Alternatively, the lack of such synergy can create a perception of danger regardless of reality making a destination less appealing. This is an issue that Nashville will need to continue to address in the future.
- If larger groups can be accommodated by an expanded or new facility, it will be necessary to address their transportation needs on a larger scale as well. The ability to move convention delegates quickly and safely between the center, hotels and area attractions is important to meeting planners and could provide an advantage over other destinations.
- Nashville's central location within the Country makes it accessible for drive-in attendees and exhibitors.
- Nashville offers a variety of attractions to visitors.

Table of Contents

1	Report Letter	1
2	Introduction & Executive Summary	4
3	Industry Trend Overview	29
4	Nashville Market Overview	54
5	Nashville Convention Center Utilization Analysis	74
6	Competitive/Comparable Market Analysis	105
7	Meeting Planner Surveys	129
8	Summary of Market Findings	151
9	Programming & Site Planning Issues	169
10	Financial Analysis	187

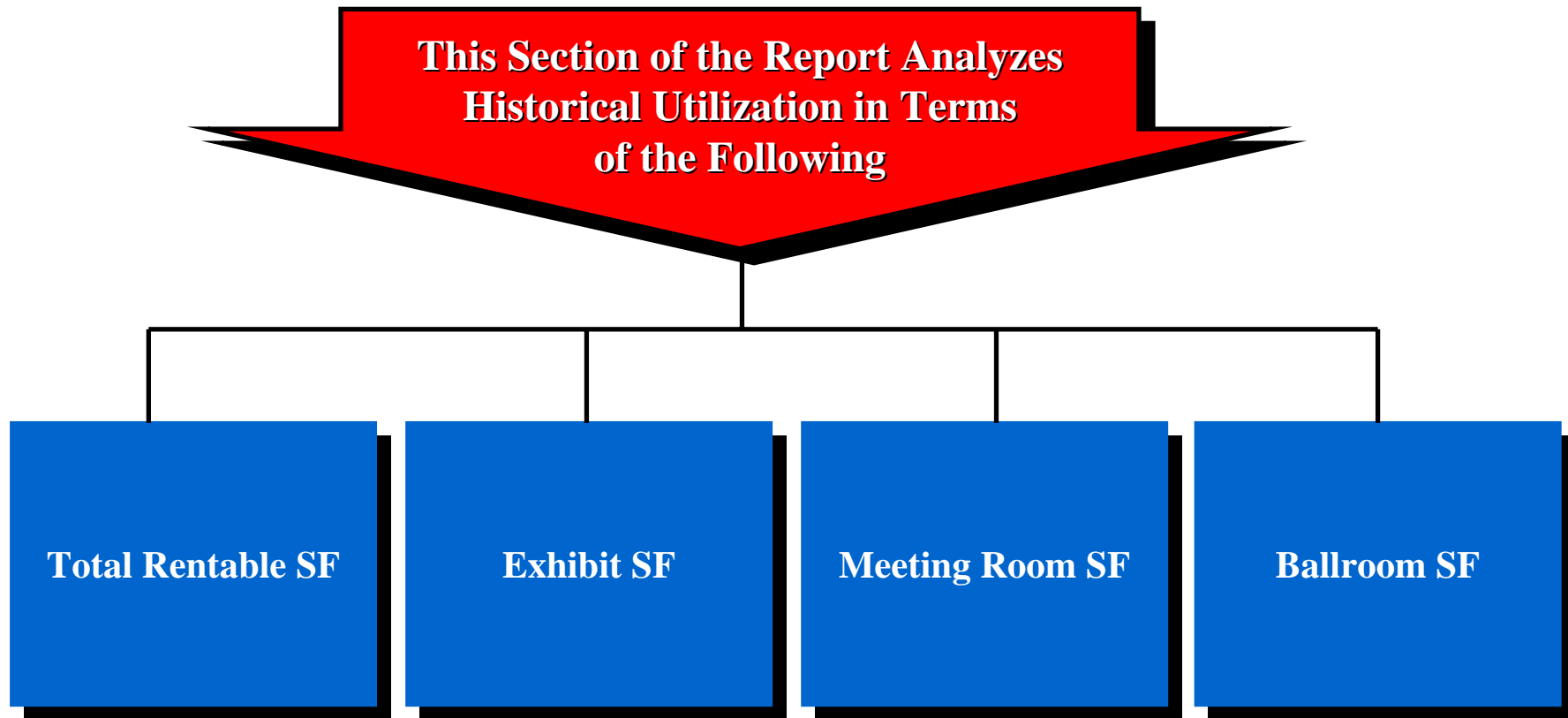
Overview of Utilization at the NCC

In order to gain an understanding of the types of events that the NCC has held as well as general event attributes, the facility's event calendar was analyzed for FY 2001 through FY 2003. This section of the report includes a summary of the number of events and attendance held at the facility by year. In addition, scope, seasonality, occupancy levels, as well as the amount and type utilized are analyzed.

It is important to understand that some events at the NCC also utilized the meeting and ballroom space at the attached Renaissance Hotel. The NCC, however, does not control these spaces. Consequently, usage of those rooms is not included in this analysis.

This section of the report also analyzes future bookings and lost business reports. Future bookings are an indicator of a center's demand. It is important to understand the reasons for lost business particularly as they relate to space limitations and/or date conflicts in order to assist Metro in assessing the potential demand for additional space in downtown.

One Factor in Assessing the Need for Any Additional Space in Downtown Nashville Is Understanding the Amount and Type of Space That Has Historically Been Utilized at the NCC



Currently, the NCC Offers the Following Components

- Exhibit space
 - The facility offers three halls on the second level totaling 118,675 contiguous SF:
 - East Hall – 39,950 SF
 - Center Hall – 38,775 SF
 - West Hall – 39,950 SF

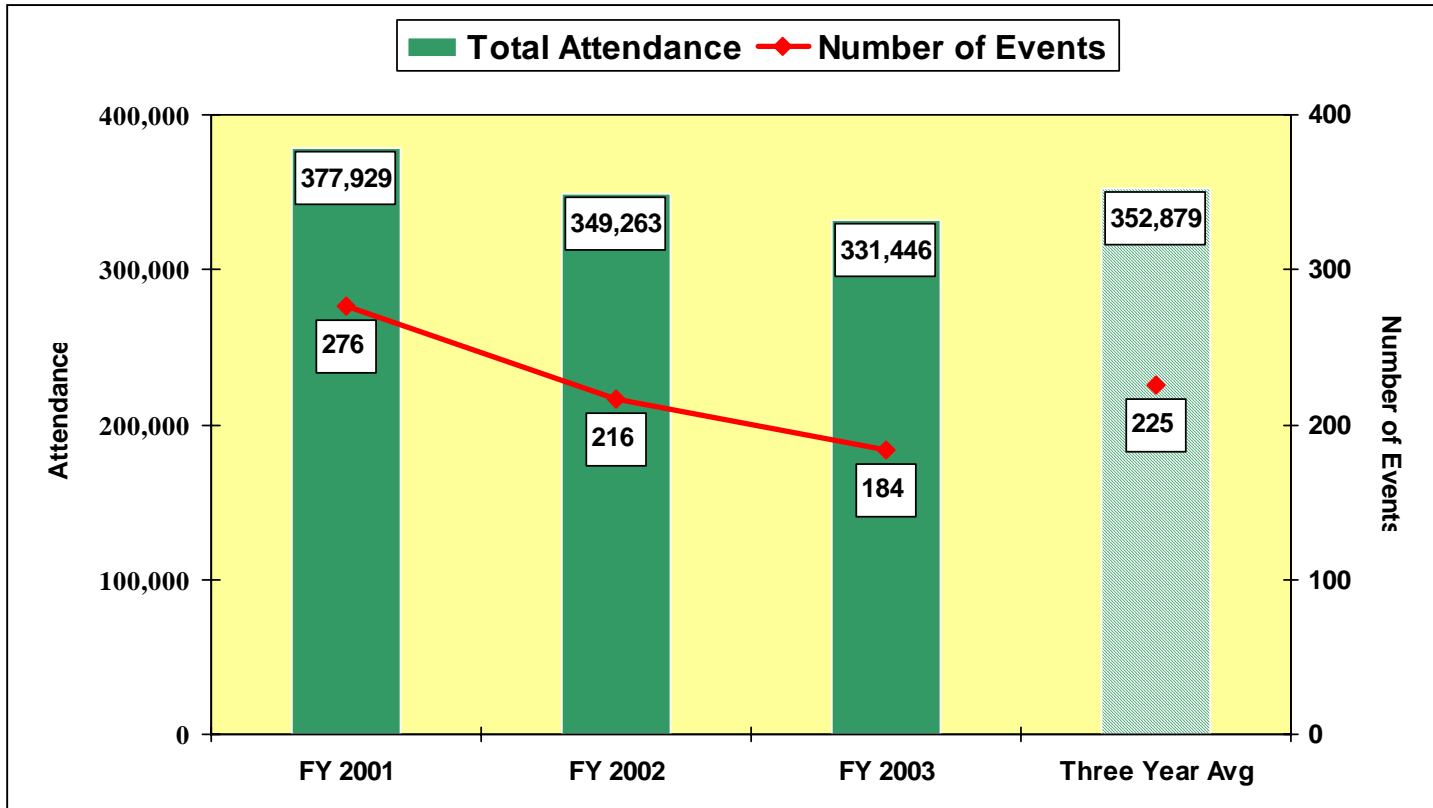
- Meeting room space
 - There are 24 divisible meeting rooms totaling approximately 20,000 SF of space:
 - 12 rooms are located on level one
 - 12 rooms are located on level two
 - The attached Renaissance Hotel also offers an additional 25 meeting rooms providing another 11,700 SF of meeting space

- Ballroom space
 - The facility offers the Mezzanine Ballroom – 10,920 SF
 - The attached Renaissance Hotel also offers a 17,877 SF Grand Ballroom.

As mentioned previously, since the NCC does not control the meeting and ballroom space offered at the Renaissance Hotel, usage of those rooms is not included in this analysis.

Overall, Event Activity at the NCC Has Been Decreasing Since FY 2001

Both the number of events and total attendance at the NCC decreased the last three fiscal years. The decrease in total number of events was primarily attributable to a large decline in the number of meetings held at the NCC. Event activity is discussed in greater detail on the pages that follow.



Sources: NCC; KPMG analysis.

The Following Shows Historical Utilization at the NCC by Event Type for the Last Three Fiscal Years

Fiscal Year Ended June 30, 2001					
Event Type	Number of Events	Event Days	Move-in/out Days	Total Attendance	Average Attendance Per Event
Public Shows	15	39	38	131,124	8,742
Conventions	33	108	41	85,100	2,579
Tradeshows	31	89	94	72,345	2,334
Meetings	161	291	25	42,750	266
Other Events	10	15	14	33,100	3,310
Banquets	26	31	2	13,510	520
TOTAL	276	573	214	377,929	

Fiscal Year Ended June 30, 2002					
Event Type	Number of Events	Event Days	Move-in/out Days	Total Attendance	Average Attendance Per Event
Public Shows	14	38	33	146,609	10,472
Conventions	25	86	48	71,990	2,880
Tradeshows	32	87	85	68,723	2,148
Meetings	115	212	30	36,383	316
Other Events	11	16	7	16,613	1,510
Banquets	19	21	1	8,945	471
TOTAL	216	460	204	349,263	

Fiscal Year Ended June 30, 2003					
Event Type	Number of Events	Event Days	Move-in/out Days	Total Attendance	Average Attendance Per Event
Public Shows	9	28	23	110,517	12,280
Conventions	28	97	58	79,750	2,848
Tradeshows	33	98	101	90,294	2,736
Meetings	93	134	16	20,611	222
Other Events	5	8	3	22,928	4,586
Banquets	16	17	7	7,346	459
TOTAL	184	382	208	331,446	

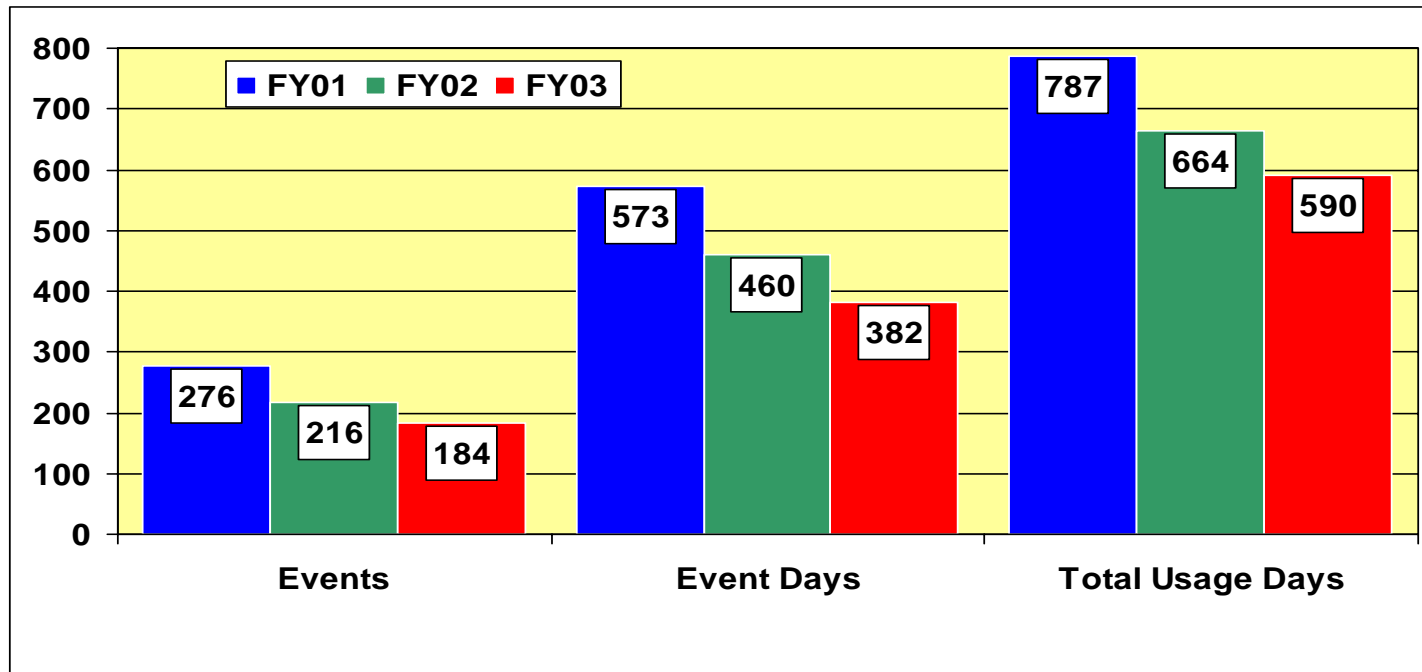
Three-Year Average (FY 2001 - FY 2003)					
Event Type	Number of Events	Event Days	Move-in/out Days	Total Attendance	Average Attendance Per Event
Public Shows	13	35	31	129,417	10,217
Conventions	29	97	49	78,947	2,754
Tradeshows	32	91	93	77,121	2,410
Meetings	123	212	24	33,248	270
Other Events	9	13	8	24,214	2,794
Banquets	20	23	3	9,934	489
TOTAL	225	472	209	352,879	

Note: Sorted in descending order by total attendance for three-year average.

Sources: NCC; KPMG analysis.

As shown above, meetings/seminars experienced the largest decrease in activity at the NCC. According to NCC management, a number of factors contributed to this decline including: 1) a significant rental rate increase was instituted just prior to September 11, 2001; 2) the downturn of the economy; 3) more corporate businesses now retain meetings in-house; and 4) hotels more aggressively sought to maintain meetings in their own properties. Meetings are typically not large economic-impact generators and, as such, this decline is not necessarily a negative indicator of performance. Perhaps more importantly, the NCC maintained a relatively high number of conventions and tradeshows during a period when many centers experienced significant declines in activity which suggests the popularity of the NCC as a facility and/or Nashville as a destination.

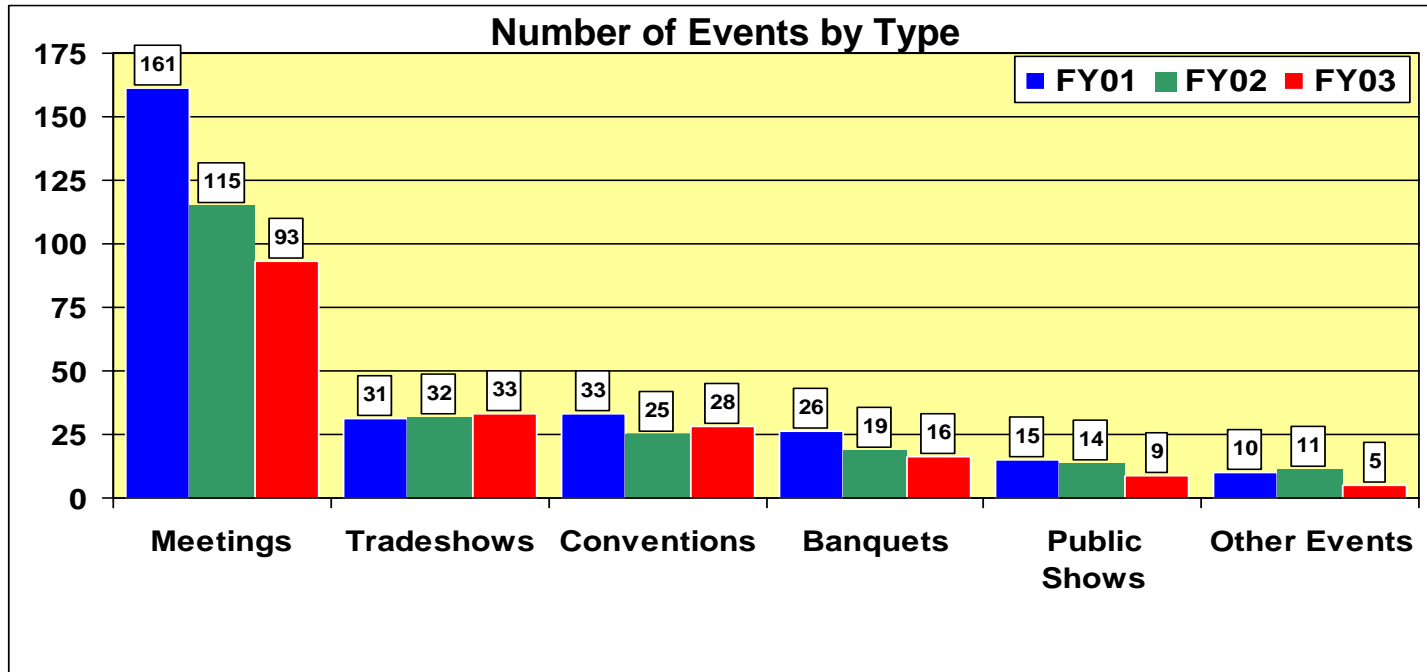
Because of the Decrease in the Number of Events, Total Event Days and Total Usage Days Also Experienced a Decline



Sources: NCC; KPMG analysis.

Total usage days are defined as event days and move-in/move-out days. The decrease in these three categories is likely due to the decline in the number of meetings hosted at the NCC as well as the events of September 11, 2001.

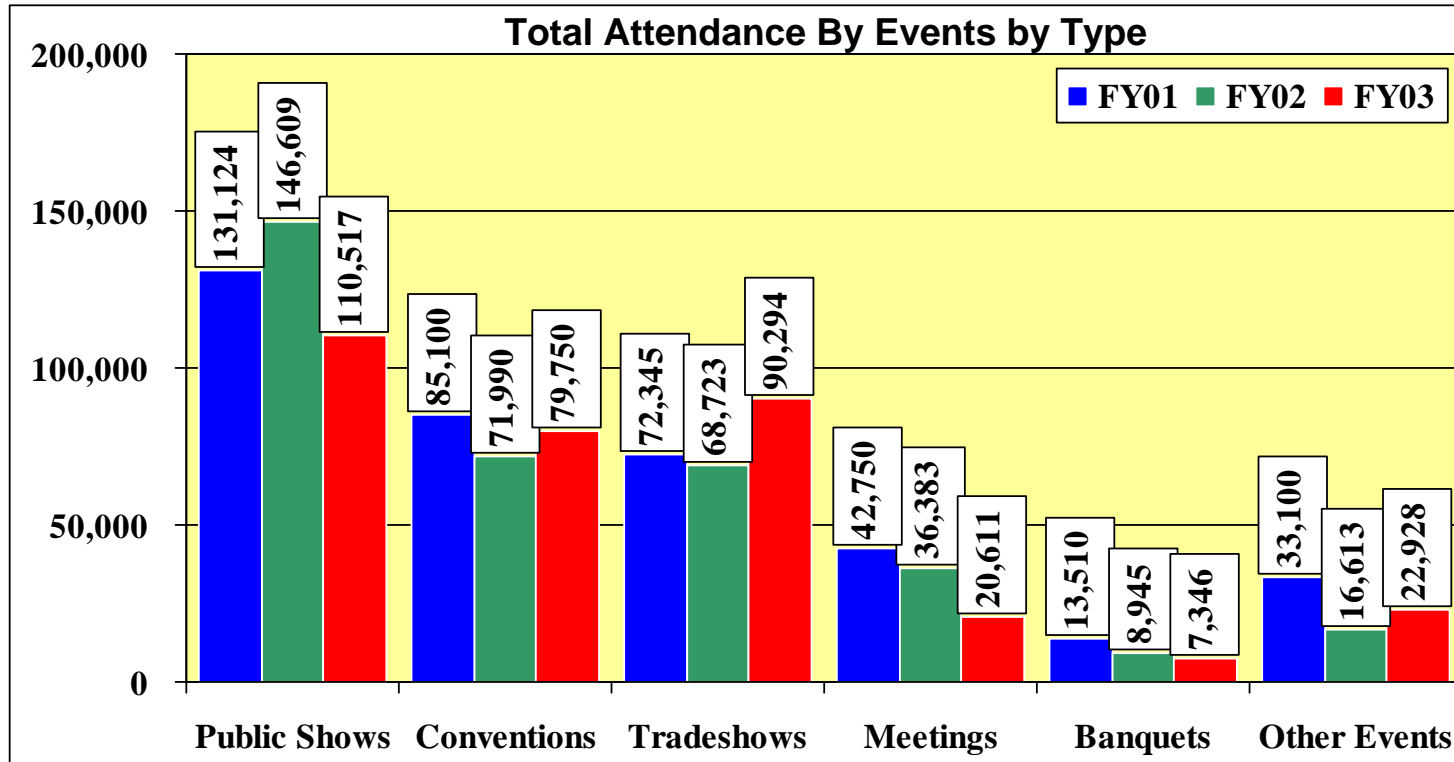
Tradeshows Were the Only Event Type to Experience an Increase in Events Between FY 2001 and FY 2003



Sources: NCC; KPMG analysis.

Although the number of tradeshows gradually increased over the last three fiscal years, the remaining event types all experienced a decrease between FY 2001 and FY 2003. The number of conventions held at the NCC has remained relatively consistent over the last three fiscal years, with a high of 33 in FY 2001 and a low of 25 in FY 2002. The number of meetings decreased by approximately 42% from 161 in FY 2001 to 93 in FY 2003.

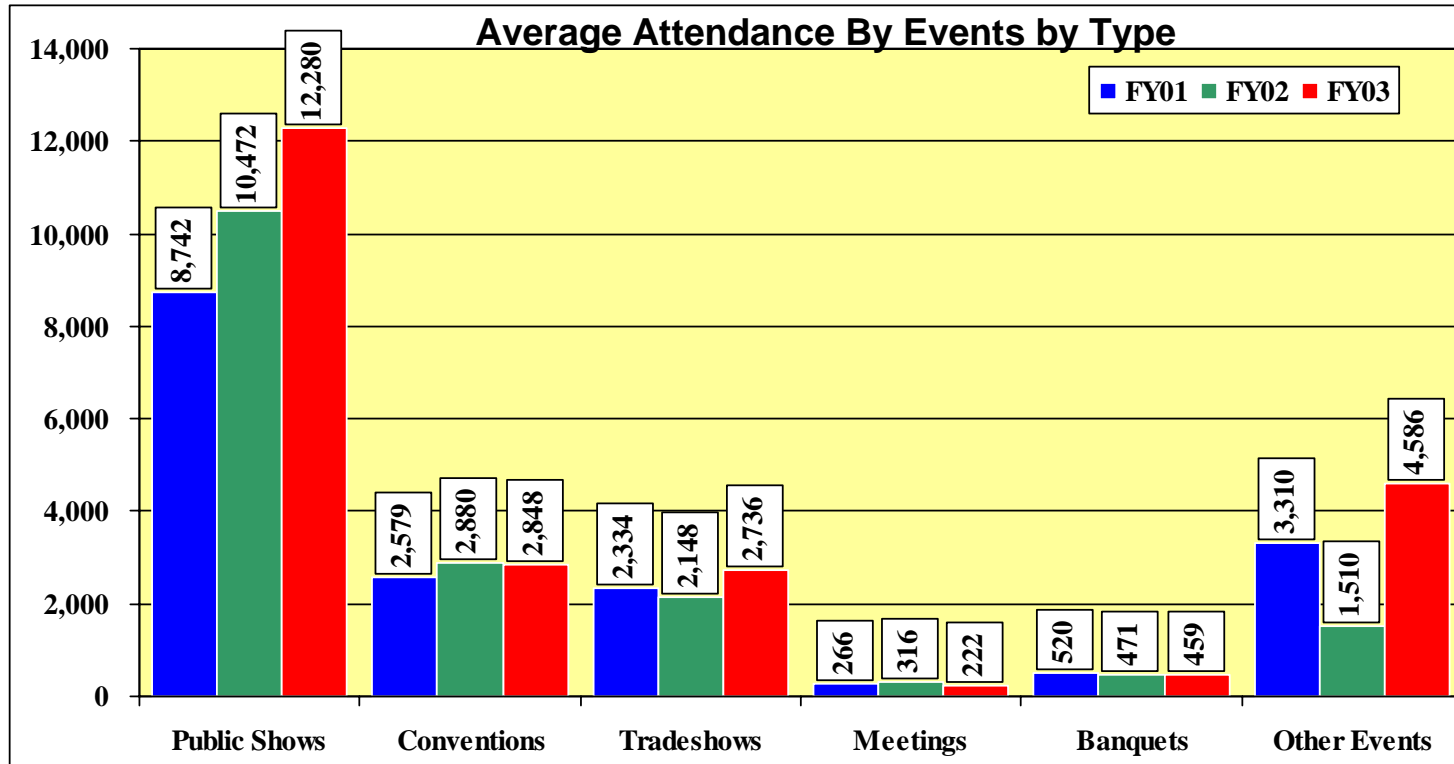
Public Shows Have Historically Accounted for the Largest Percentage of Total Attendance at the NCC



Sources: NCC; KPMG analysis.

Conventions represented between 21% and 24% of total attendance at the NCC while tradeshows accounted for between 19% and 27% during the last three fiscal years. The National Association of Music Merchants (NAMM) has consistently been the largest tradeshow held at the NCC, representing between 24% and 31% of total tradeshow attendance over the last three fiscal years. Although meetings comprised a large percentage of total events, they accounted for a relatively small percentage of total attendance at the NCC.

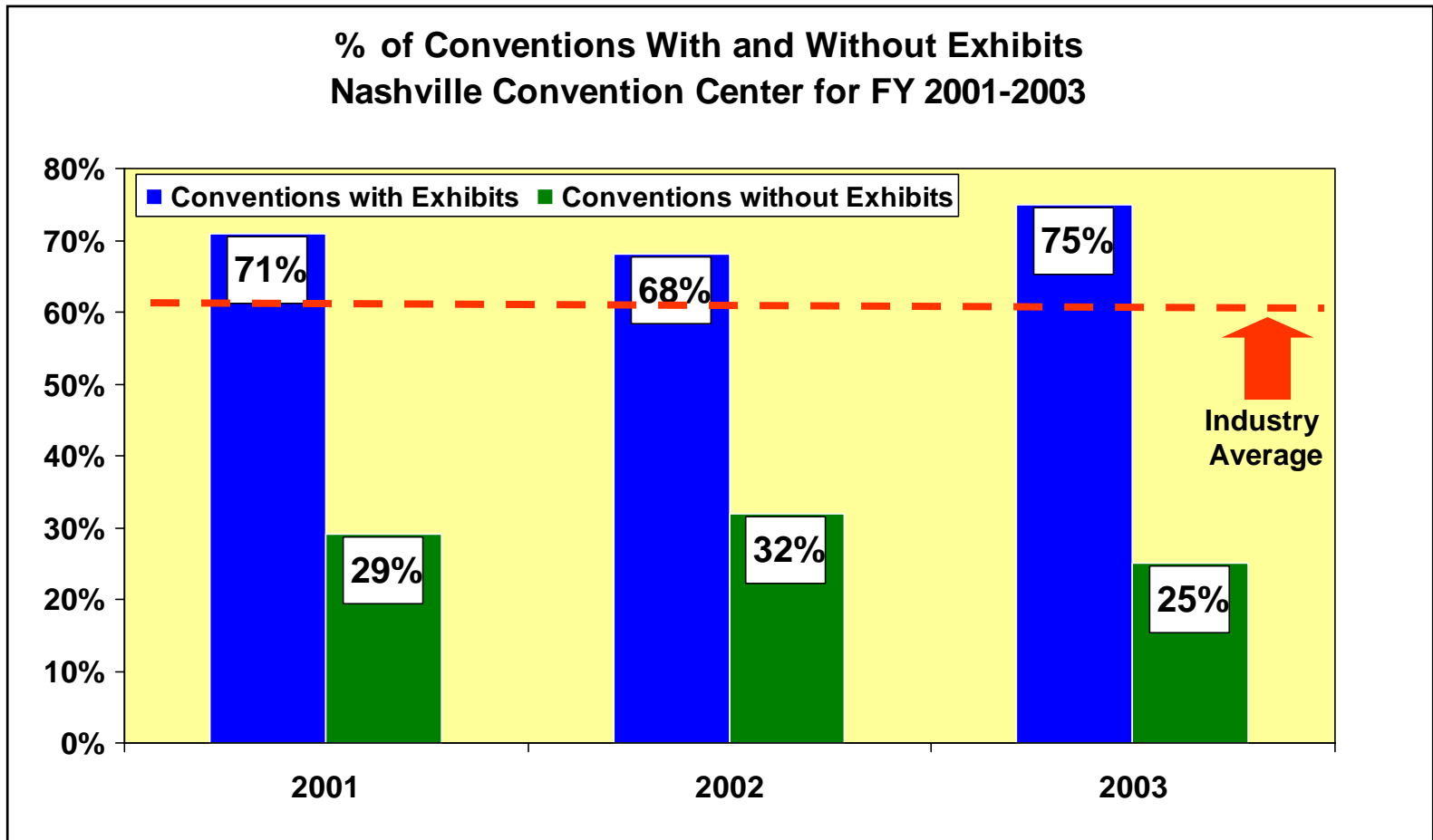
Average Attendance Increased Between FY 2001 and FY 2003 for Public Shows, Conventions, Tradeshows and Other Events



Sources: NCC; KPMG analysis.

Average attendance at public shows experienced the greatest increase, approximately 40%, between FY 2001 and FY 2003. The average attendance at “other events” rose by 39% while conventions and tradeshows increased by 10% and 17%, respectively, during that same time period.

A Growing Percentage of Conventions Include Exhibits at the NCC

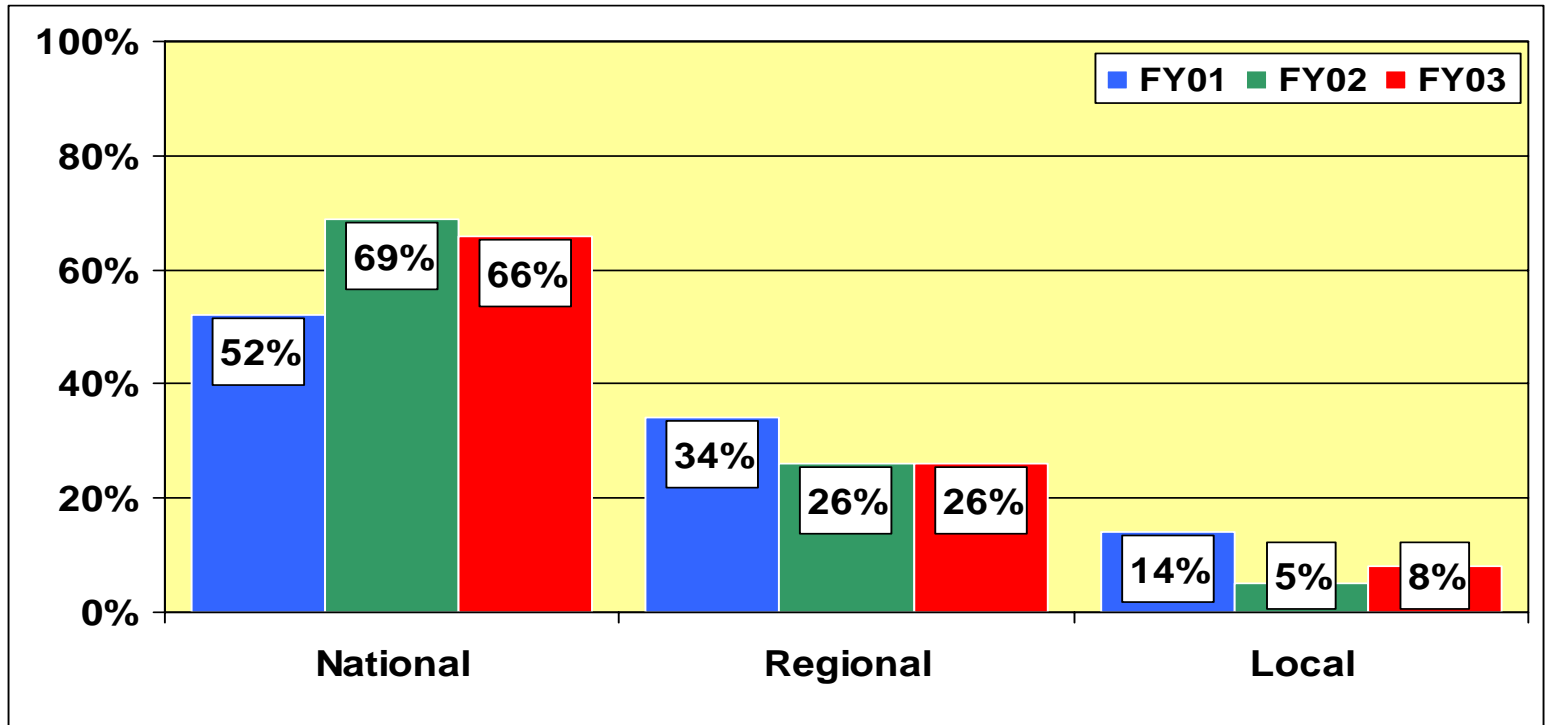


Sources: NCC, KPMG analysis.

Based on information from *Meetings Market*, the percentage of overall conventions with exhibits hosted industry-wide remained constant from 1998 to 2002 at 62%. However, this ratio has increased at the NCC over the last three fiscal years from approximately 71% in FY 2001 to 75% in FY 2003.

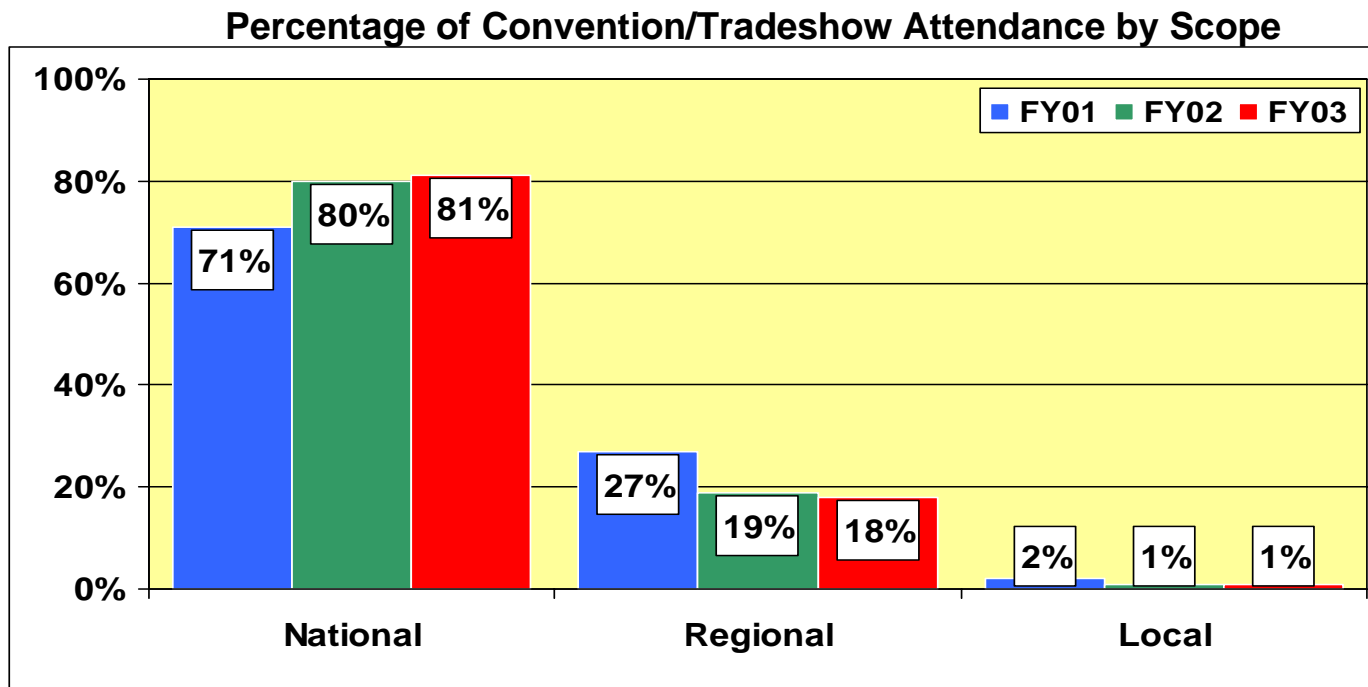
The Majority of Conventions and Tradeshows Hosted at the NCC Have Been National in Scope

Percentage of Convention/Tradeshow Events by Scope



Sources: NCC; KPMG analysis.

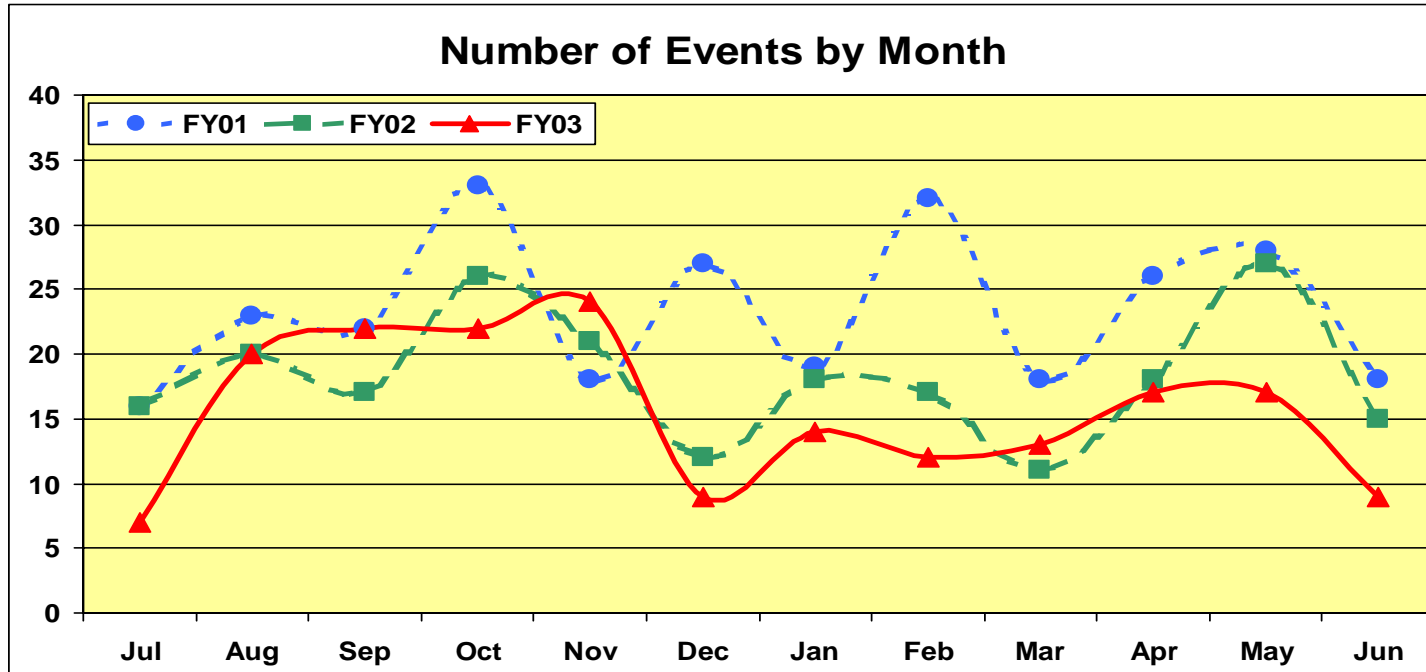
An Increasing Percentage of Attendance at Conventions and Tradeshows Is National in Scope



Sources: NCC; KPMG analysis.

As mentioned in the Industry Trend Overview section of the report, economic conditions have caused many events to regionalize in response to a nationwide decline in travel and concerns for safety. However, an analysis of Nashville's utilization over the last three years suggests that this trend did not impact the NCC. As the number of national conventions and tradeshows has increased since FY 2001 so has attendance. This is a positive attribute for the NCC because national conventions and tradeshows generally have the most attendees and generate higher economic impact. In addition, national events are the primary target market for the Opryland Hotel suggesting that both facilities have been successful in this niche.

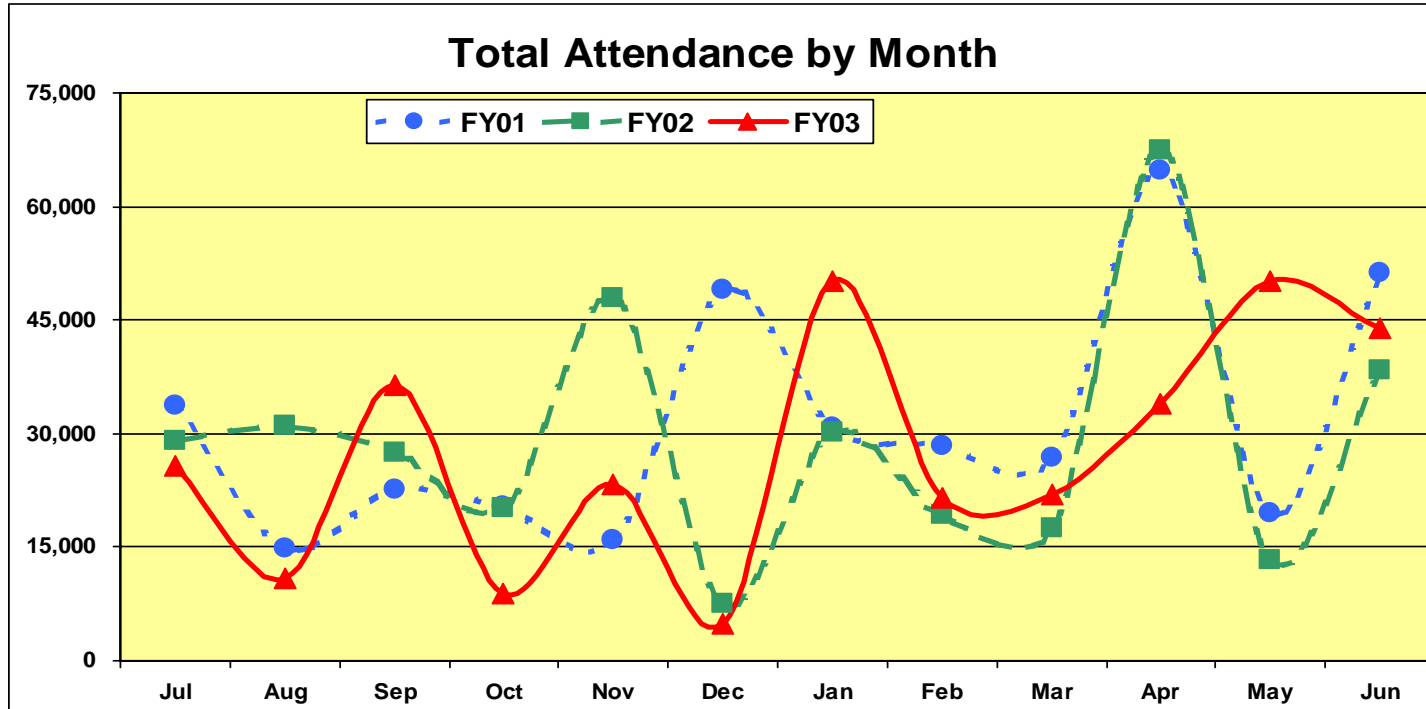
Historically, the NCC Has Hosted the Most Events During May and October With Winter Being Slowest



Sources: NCC; KPMG analysis.

The majority of events held at the NCC were hosted in the Spring and Fall during the last several fiscal years. This pattern is consistent with the utilization of other convention centers nationwide where Spring and Fall are most popular for hosting annual conventions and tradeshow. The winter is the slowest time period for the NCC, which may be partially attributed to the cold weather associated with Nashville during the winter months.

Historically, Total Attendance at the NCC Has Been Higher During the Spring Months

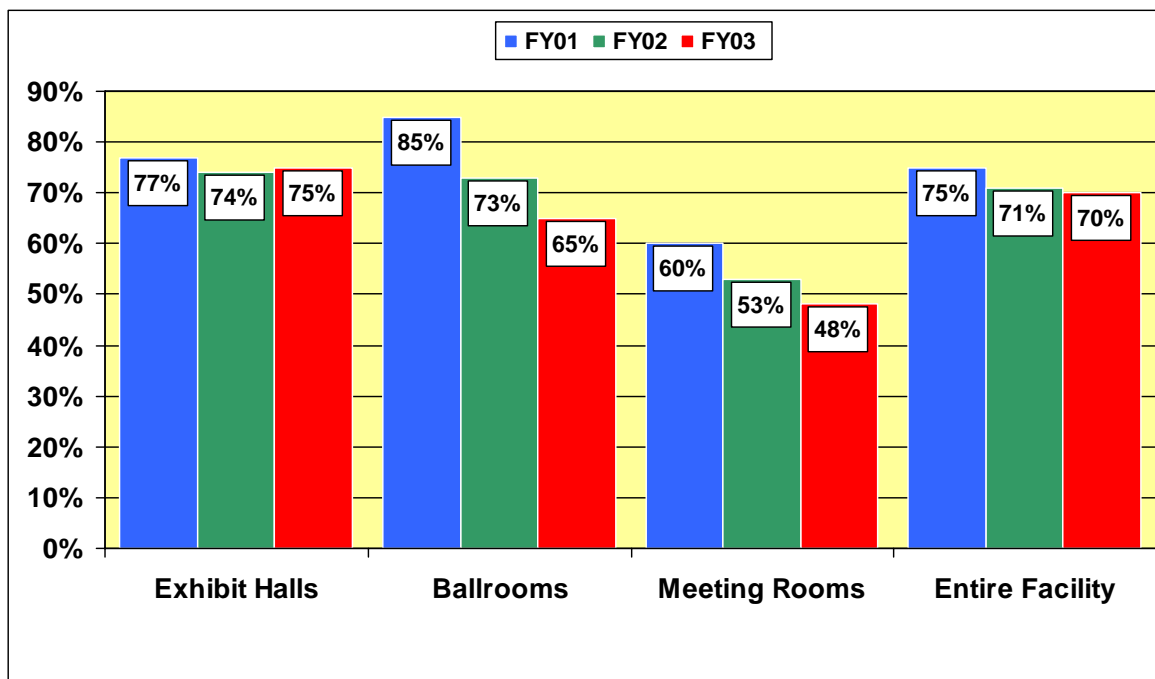


Sources: NCC; KPMG analysis.

In terms of attendance, April and June have historically been the most popular months at the NCC. This is primarily due to the fact that several public shows and conventions were hosted during these months which typically attract a large number of attendees.

Although the Overall Occupancy Rate at the NCC Decreased From 75% in FY 2001 to 70% in FY 2003, It is Still High

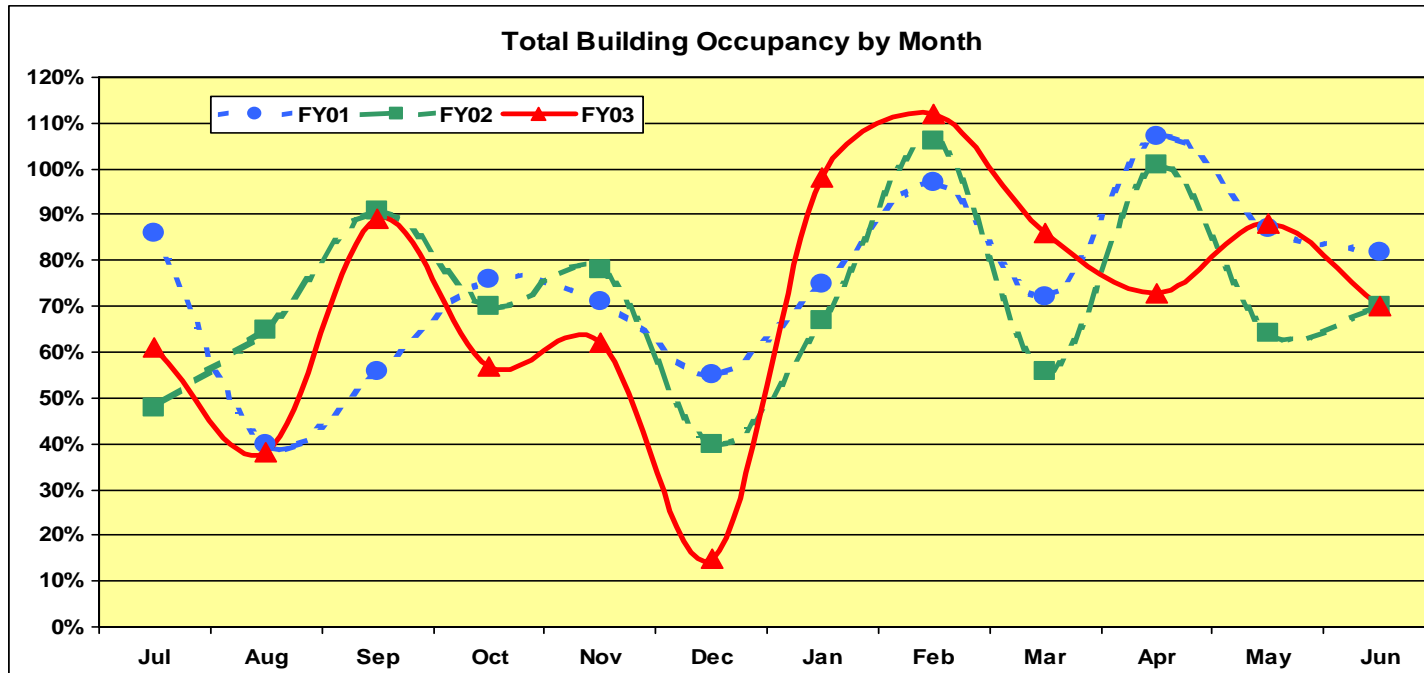
There are several methods of calculating convention center occupancy. Some facilities utilize a measurement of total days used divided by the days available, others account for only event days. For purposes of this analysis, occupancy is calculated based on the total square foot days utilized divided by the total square foot days available. This method accounts for the amount of space used by each event. Based on this calculation, the facility achieved 75% occupancy in FY 2001, 71% in FY 2002 and 70% in FY 2003. This occupancy may differ from that calculated by NCC management due to a difference in methodology. The NCC typically calculates occupancy based on total days utilized.



Sources: NCC; KPMG analysis.

It is generally considered that a convention center with occupancy levels of 65% to 70% is operating at its practical maximum. The NCC has been operating at practical maximum over the past three fiscal years. The slight decline over the three-year period may be attributable to the events of September 11, 2001 and other recent world events. It should be noted that this occupancy calculation does not include the meeting and ballroom space located at the Renaissance Hotel used by groups that met at NCC.

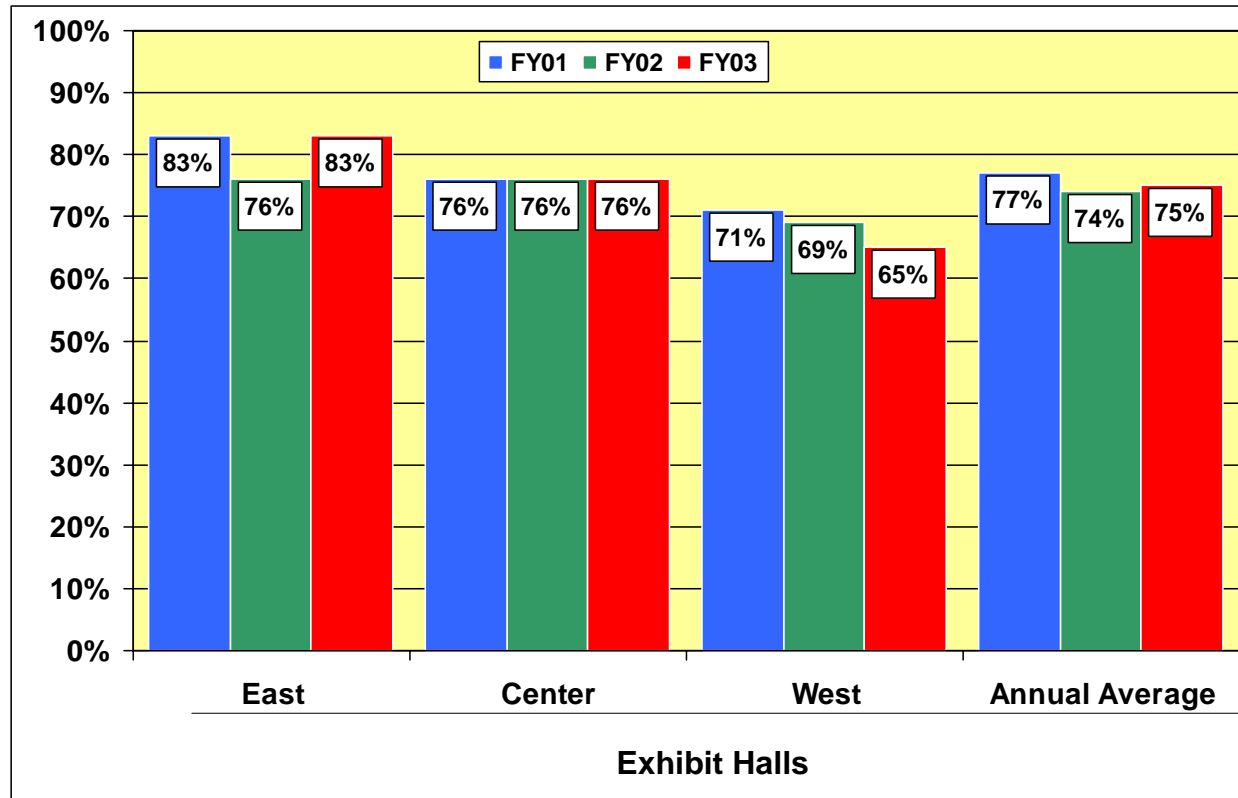
Historically, the NCC Has Experienced the Highest Occupancy Levels During Spring and Summer Months



Sources: NCC; KPMG analysis.

Several months show occupancy of greater than 100% which can occur for several reasons. For example, the occupancy exceeded 100% in February of FY 2003 due to the fact that the Rural Electric Expo moved in on February 25, 2003 and is, therefore, counted as a February event. It did not actually open until March 1, however, and occupied most of the building for 10 total usage days. April is another example, it included several large conventions and tradeshow that occupied the building for most of the month. NAMM's summer session historically occurred during the month of July and occupied the building for most of that time.

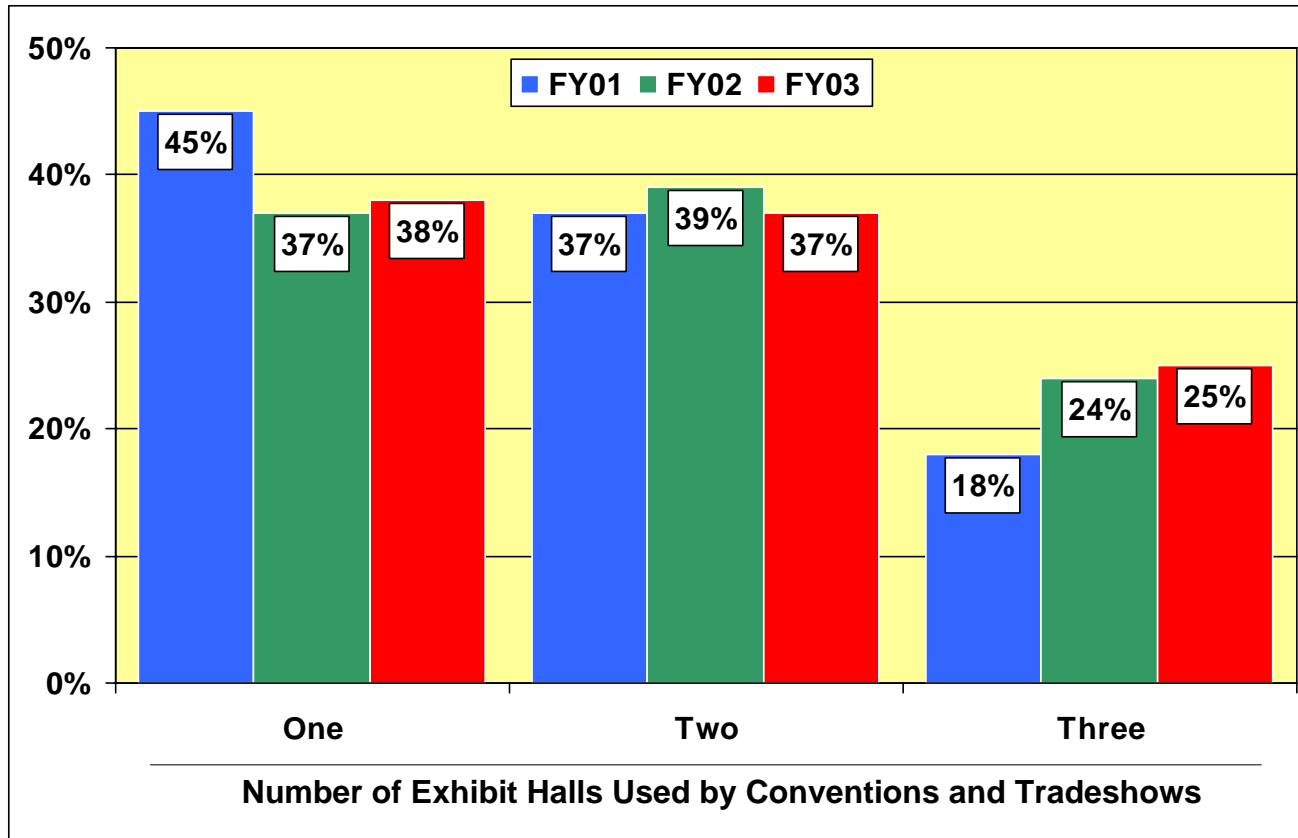
In Aggregate, Occupancy of the NCC's Exhibit Halls Has Ranged Between 74% and 77% Over the Last Three Fiscal Years



Sources: NCC; KPMG analysis.

Historically, the East Hall has realized the highest occupancy of the three exhibit halls. The Center Hall has maintained a 76% occupancy over the past three years and the West Hall has been declining in occupancy from a high of 71% in FY 2001 to a low 65% in FY 2003.

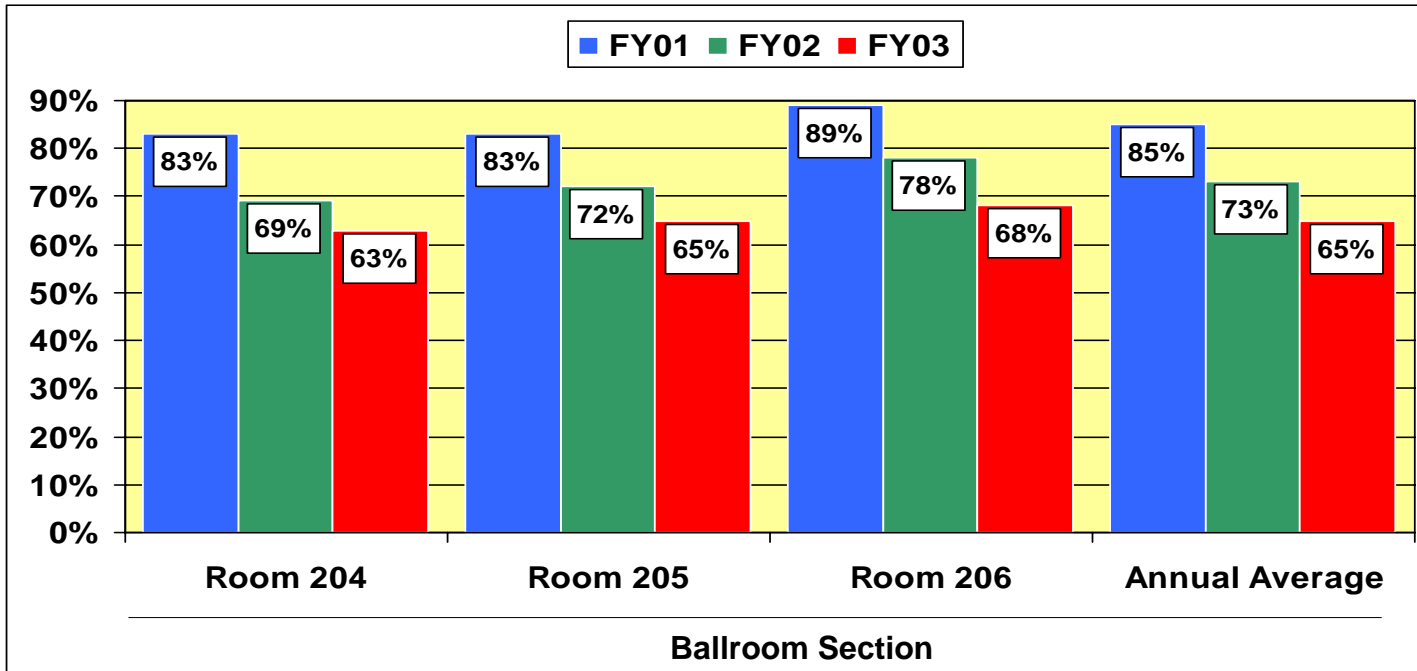
Approximately One-Fourth of Conventions and Tradeshow at the NCC Utilized All Three Exhibit Halls in FY 2002 and FY 2003



Sources: NCC; KPMG analysis.

Although, there has been an increase in the percentage of conventions and trade shows that utilized all three exhibit halls at the NCC, the majority of the conventions and trade shows only utilized one or two exhibit hall components over the last three years. This suggests that a portion of existing users of the NCC could experience growth in terms of exhibit space and still be accommodated by its current exhibit space.

Occupancy of the NCC's Ballroom Has Steadily Decreased Over the Last Three Fiscal Years

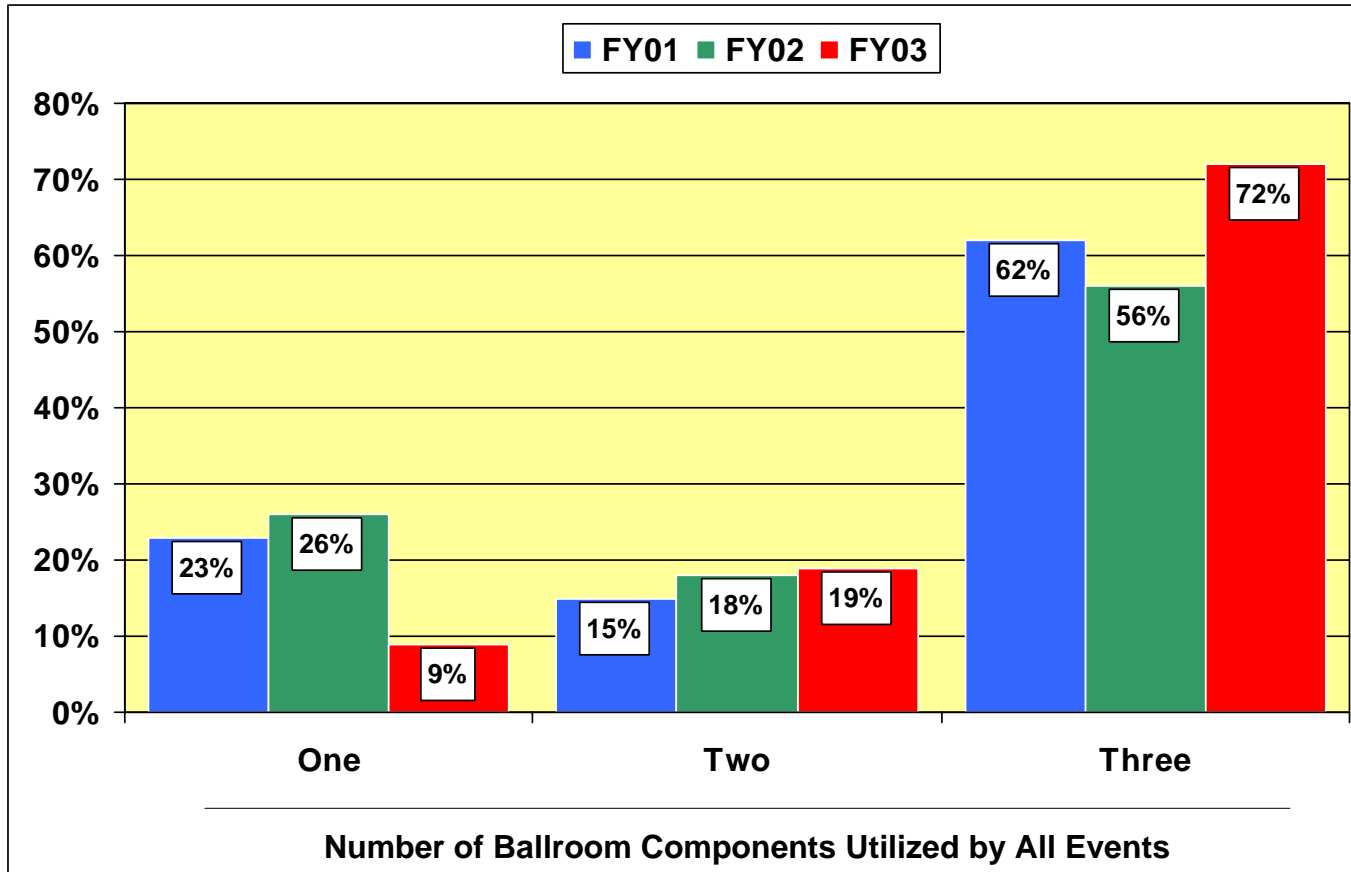


Sources: NCC; KPMG analysis.

As shown above, occupancy of each component of the ballroom has decreased over the past three fiscal years. Although the occupancy for each section of the ballroom decreased, it should be noted that all three sections operated at or near practical maximum. As mentioned previously, an occupancy level of 65% to 70% is considered practical maximum for a convention center.

The decreasing usage of the ballroom located at the NCC may be partially attributable to the decline in the number of meetings and banquets held at the facility, among other factors.

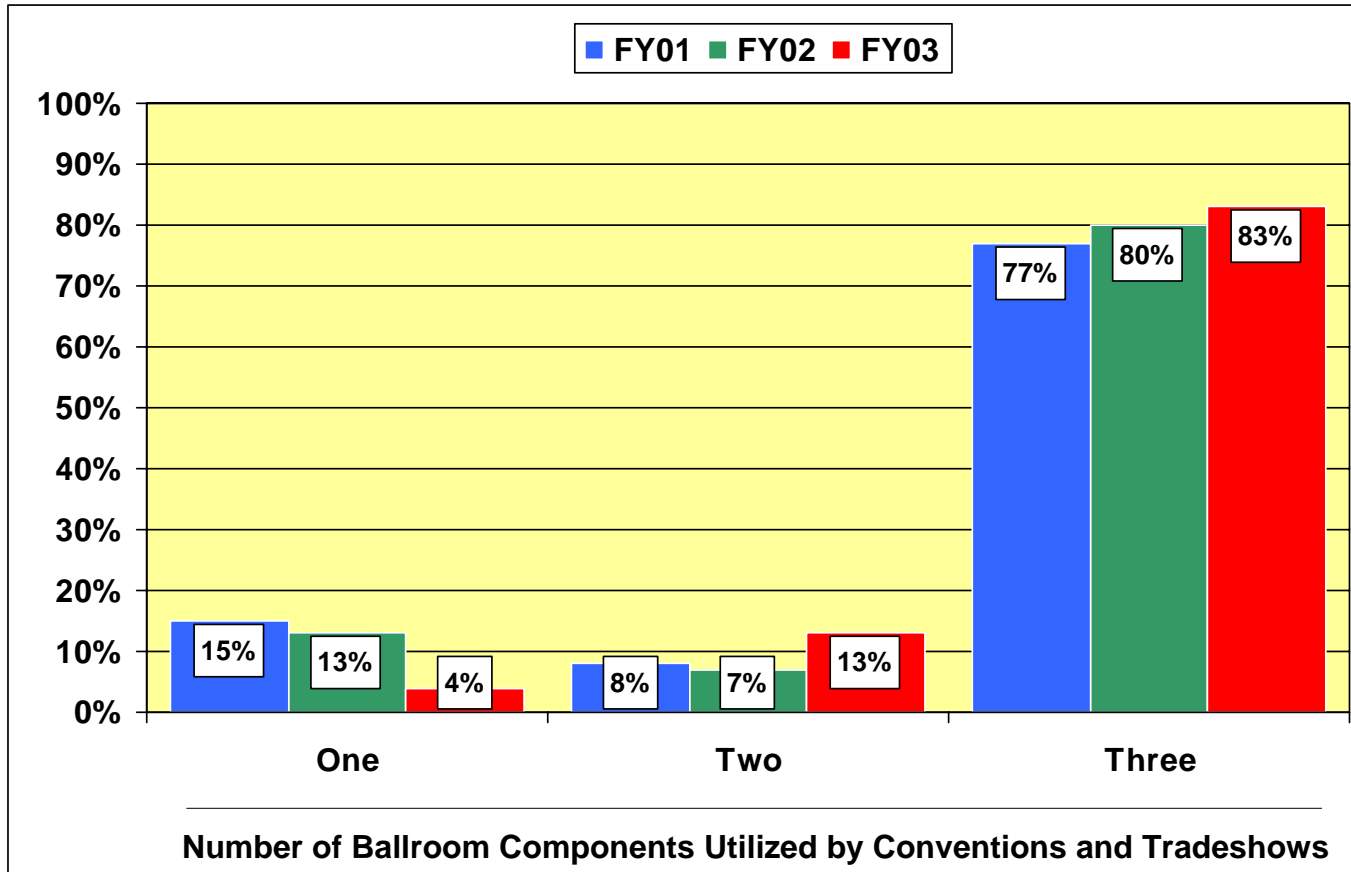
The Majority of Events Held at the NCC are Utilizing All Three Sections of the Ballroom



Sources: NCC; KPMG analysis.

Although the occupancy of the NCC's ballroom has declined over the last three years, 16 percentage points more of the events hosted in FY 2003 used all three sections of the ballroom than in FY 2002.

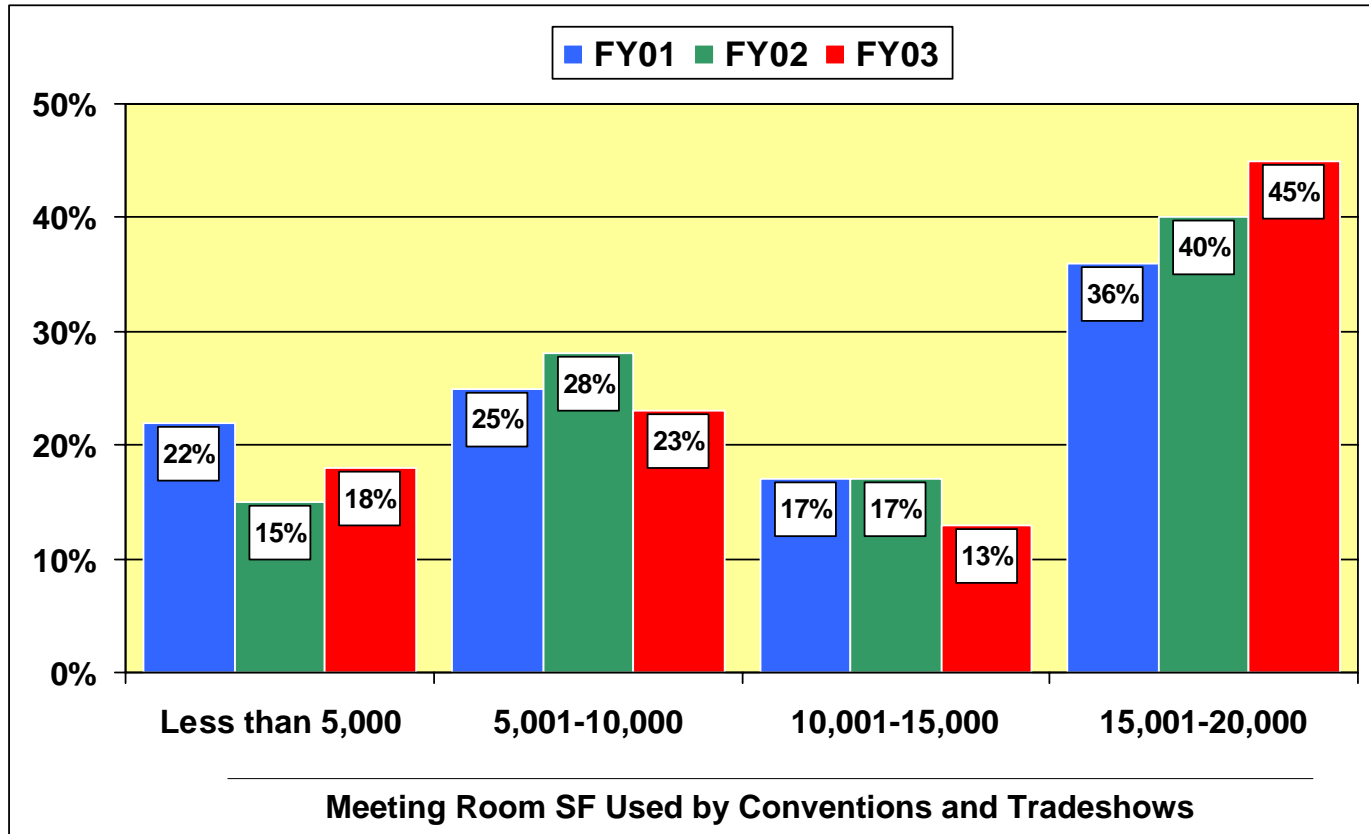
The Majority of Conventions and Tradeshow Held at the NCC are Using the Entire Ballroom



Sources: NCC; KPMG analysis.

An increasing percentage of conventions/tradeshow held at the NCC are utilizing all three components of the ballroom. In addition, many conventions and tradeshow use the ballroom at the Renaissance Hotel which is not reflected in this analysis.

An Increasing Percentage of Conventions and Tradeshow are Requiring More Meeting Space



Sources: NCC; KPMG analysis.

In FY 2003, 45% of the conventions/tradeshow that used meeting rooms required between 15,000 SF and 20,000 SF of space. In addition, some NCC users are utilize the meeting space offered at the Renaissance Hotel in order to accommodate their needs. The use of this space is not included in this analysis.

Summary of Key Points Regarding Historical Utilization at the NCC

- An analysis of historical event activity suggests that the NCC was less impacted by the economic downturn over the last few years than many other convention centers, particularly in terms of convention and tradeshow activity.
- Although the total number of events has decreased, the number of national conventions/tradeshows held at the NCC has increased from 33 in FY 2001 to 40 in FY 2003. Attendance at these types of events has also increased over that same period, ranging from approximately 112,200 in FY 2001 to approximately 136,900 in FY 2003.
- Average attendance at public shows, conventions, tradeshows and other events increased between FY 2001 and FY 2003.
- The vast majority of conventions and tradeshows hosted at the NCC are national in scope. Attendees at these types of events are more likely to utilize hotel rooms and spend more per capita during their stay than other event types.
- A growing number of conventions at the NCC have exhibits as part of their event.
- Occupancy by month indicates that the spring and summer months are the busiest at the NCC which is consistent with other convention centers around the Country.
- It is generally considered that a convention center with occupancy levels of 65% to 70% is operating at practical maximum. Although, the NCC's overall occupancy rate has decreased from 75% in FY 2001 to 70% in FY 2003, it is still considered to be operating at practical maximum.

Summary of Key Points Regarding Historical Utilization at the NCC (cont'd)

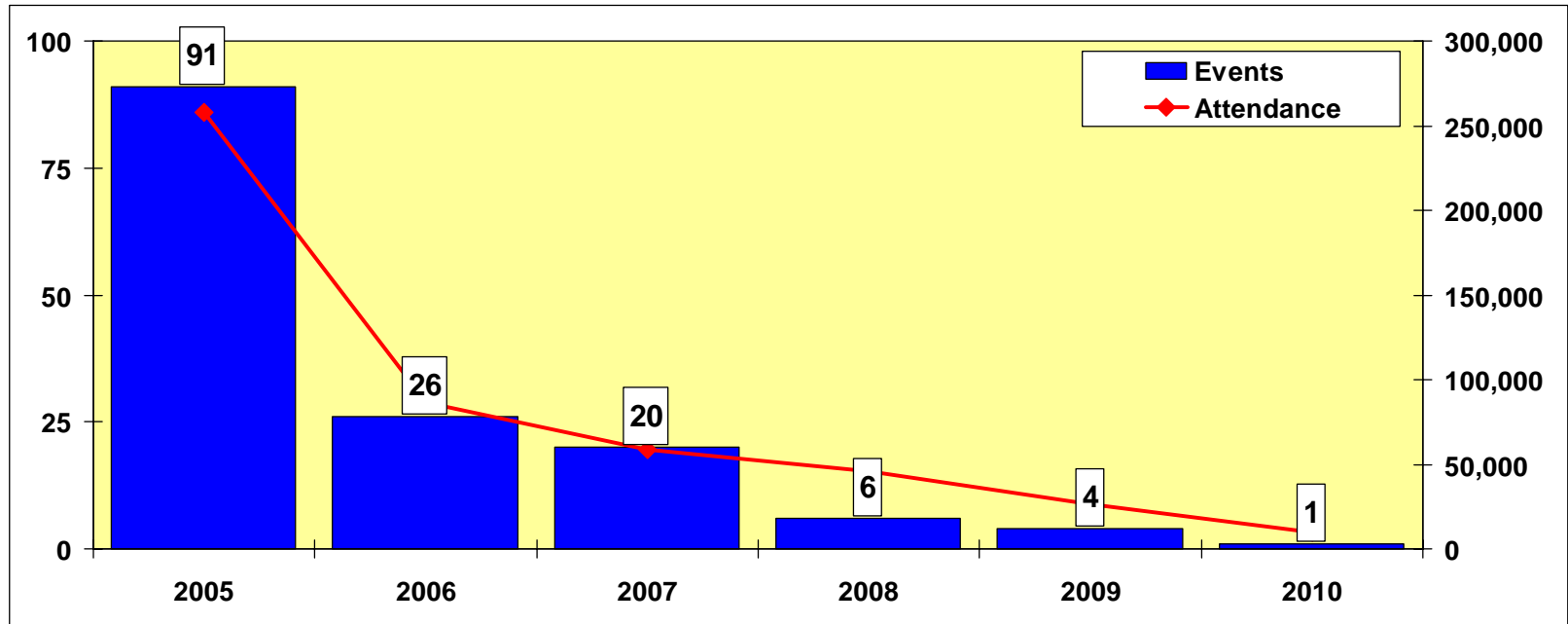
- Overall occupancy of exhibit halls has remained relatively constant over the last three fiscal years.
- Over the last two fiscal years, the same percentage, approximately 37% to 39%, of conventions and tradeshows held at the NCC utilized one or two exhibit halls compared to 25% that required all three exhibit halls for their event.
- Although the overall occupancy of the ballroom has steadily decreased over the last three years, a growing number of conventions and tradeshows held at the NCC are requiring all three sections of the ballroom. In addition, many events use the ballroom at the attached Renaissance Hotel.
- Although the overall occupancy of meeting rooms has decreased from 60% in FY 2001 to 48% in FY 2003, an increasing number of conventions/tradeshows have required more meeting space.
- The following summarizes the average square footage used by conventions and tradeshows that utilized exhibit space from FY 2001 through FY 2003. On average, conventions and tradeshows are using almost 60% of the available exhibit space at the NCC which suggests that a portion of existing users of the NCC could experience growth in terms of exhibit space and still be accommodated by its current exhibit space.

Conventions	FY 2001	FY 2002	FY 2003	Average
Exhibit SF	67,269	74,301	69,661	70,400
Ballroom SF	7,895	7,790	8,689	8,100
Meeting SF	11,017	12,992	13,416	12,500
Total	86,181	95,083	91,766	91,000

Tradeshows	FY 2001	FY 2002	FY 2003	Average
Exhibit SF	69,609	73,660	76,565	73,300
Ballroom SF	7,848	7,483	7,024	7,500
Meeting SF	10,559	10,848	11,403	10,900
Total	88,016	91,991	94,992	91,700

- It should be noted that some conventions and tradeshows may have utilized additional meeting and/or ballroom space offered at the Renaissance Nashville Hotel. However, this usage is not reflected in the average SF figures shown above.

An Analysis of Future Bookings Indicates That Approximately 148 Events Have Been Contracted at the NCC Between FY 2005 and FY 2010



Note: The year represents when the event will occur, not the year that the booking occurred. Based on information received from management, there are no future bookings in FY2011-FY2013 although there is one event booked in FY 2014.

Sources: Facility management.

Most conventions/tradeshows are booked many 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 NCC indicate that occupancy is likely to remain relatively strong over the next few years. However, management at the NCC indicated that it has noticed a shift to less national business in future bookings which is partially attributable to the amount of exhibit space currently offered.

A Variety of Reasons Were Given for the Loss of Events

The Nashville CVB maintains lost business reports for events that considered hosting their event in Nashville at one or more venues including the NCC, the Opryland Hotel and other area hotels. Events that were lost include groups that had previously met in Nashville as well as those considering the City for the first time.

The page that follows summarizes the lost business for groups that contacted the CVB in FY 2003 and FY 2004 to book their event. These events represent potential future bookings for up to ten years in advance. According to the Nashville CVB, the following factors must be considered when analyzing this data:

- These groups represent only those events that achieved *lead* status. Lead status is defined as groups whose needs are potentially met by current facilities and, therefore, the business is referred out to area hotels and meeting venues for bidding. This is differentiated from *prospectus* status, which are those groups who may have considered Nashville but no leads are sent to area venues. Over 80% of prospective groups have been contacted by the CVB through their sales efforts.
- Those groups needing significantly more exhibit, meeting and/or ballroom space than either the NCC or Opryland Hotel can provide are not included in the table that follows. Because these groups cannot be accommodated in Nashville's existing facilities, these groups are not considered potential business and therefore are not considered lost business.

A Variety of Reasons Were Given for the Loss of Events (cont'd)

As shown in the following table, eighty-seven (87) events were lost due to facility-related reasons over the two-year period analyzed. These events represent a total of nearly 245,000 attendees and 337,000 hotel room nights. Facility-related reasons include date availability, exhibit size (only those slightly larger than what could be accommodated by the NCC or Opryland Hotel), meeting breakout space and general session size. It should be noted that the "Available Dates" category includes events that meet in hotel properties. Approximately 57 of the 68 events citing date availability as the reason for not booking their event are groups that were considering the NCC, Opryland Hotel or both.

Lost Business Summary for FY 2003 and FY 2004												
Reason for lost business	Number of Events				Event Attendance				Requested Hotel Rooms			
	FY 2003	FY 2004	Total	% of Total	FY 2003	FY 2004	Total	% of Total	FY 2003	FY 2004	Total	% of Total
Politics	57	54	111	15%	64,247	57,550	121,797	13%	147,741	118,032	265,773	17%
Geographic Location	100	61	161	22%	117,873	42,892	160,765	17%	152,624	89,711	242,335	16%
Rates (facility and/or hotels)	45	34	79	11%	71,865	59,855	131,720	14%	116,885	86,274	203,159	13%
Available Dates ^	29	39	68	9%	76,050	90,045	166,095	18%	72,075	127,879	199,954	13%
Perception	35	24	59	8%	33,092	42,715	75,807	8%	82,283	84,464	166,747	11%
Exhibit Size ^	3	6	9	1%	21,800	26,000	47,800	5%	30,845	45,615	76,460	5%
Lack of Local Support	22	14	36	5%	16,805	15,935	32,740	3%	46,322	25,892	72,214	5%
Meeting Cancelled	25	30	55	8%	35,365	15,257	50,622	5%	40,131	18,134	58,265	4%
No Response from Client	21	15	36	5%	25,853	12,315	38,168	4%	28,940	16,789	45,729	3%
Hotel Package	11	5	16	2%	15,425	4,250	19,675	2%	29,820	8,809	38,629	3%
Inadequate Breakout Space ^	6	2	8	1%	12,000	3,700	15,700	2%	25,797	11,225	37,022	2%
Air Service	6	7	13	2%	8,800	1,860	10,660	1%	19,921	5,515	25,436	2%
General Session Size ^	-	2	2	0%	-	15,300	15,300	2%	-	23,296	23,296	2%
Other	30	41	71	10%	18,887	36,704	55,591	6%	32,420	50,031	82,451	5%
TOTAL	390	334	724	100%	518,062	424,378	942,440	100%	825,804	711,666	1,537,470	100%
^ Facility related reasons	38	49	87	12%	109,850	135,045	244,895	26%	128,717	208,015	336,732	22%

Note: These events include only those that could potentially fit in the existing space offered at area venues. Groups demanding significantly larger function space are not considered as potential business and, therefore, are not considered lost by the CVB.

Source: Nashville CVB.

Summary of Key Points Obtained From Analysis of the Lost Business Reports

- The reasons that resulted in the greatest estimated number of lost hotel room nights were politics, geographic location, hotel and/or function space rates and available dates. Politics are defined as “the association Board voted against Nashville for internal group political reasons.”
- Facility related reasons include available dates, exhibit size, inadequate breakout space, and general session size. In aggregate, these amounted to 12% of events lost, 26% of attendance lost and 22% of hotel rooms lost.
- Only nine events cited inadequate exhibit space as the reason for not coming to Nashville over the two year period analyzed. However, in aggregate, these events represented approximately 166,000 attendees and nearly 200,000 room nights. Again, it should be noted that only those groups that could potentially be accommodated by Nashville’s currently supply of exhibit space are included in this table.

In addition to the lost business reports, the Nashville CVB has identified nearly 160 events in aggregate over the past several years that were lost while in *prospectus* status for the following reasons: too large for NCC, too big for Nashville either at NCC or Opryland Hotel, and would not consider Opryland Hotel. Reasons may include amount, location and/or configuration of function space. As mentioned previously, over 80% of these events were contacted by the CVB through their sales efforts. According to the CVB, these events represent another potential demand source with a variety of space needs that cannot currently be accommodated in Nashville.

One major event that Nashville lost due to size was NAMM. This event requires over 200,000 SF of exhibit space, attracts over 20,000 attendees and generates nearly 10,000 room nights. This event is not included in the above table due to the fact that Nashville does not currently offer a venue that could accommodate their needs. While the Opryland Hotel does offer sufficient exhibit space to meet their needs, NAMM’s Board chose to leave Nashville for other destinations with downtown facilities that can accommodate their space requirements.

In addition, management at the Renaissance Nashville Hotel, which is one of the NCC’s largest customers, mentioned that it has noticed an increasing amount of lost business opportunities at the NCC due to the lack of space and date availability.

In General, the Opryland Hotel Focuses on Attracting Groups that Require Large Room Blocks

In terms of amount of exhibit space, the Opryland Hotel is Nashville's primary convention facility. The facility offers approximately 289,000 SF of exhibit space with columns; five ballrooms totaling over 124,400 SF; and 57 breakout rooms totaling over 58,100 SF of meeting space. According to facility management, the Opryland Hotel operates at approximately 70% occupancy which is a decrease over previous years.

Both the NCC and Opryland Hotel have been successful in hosting national association business which suggests strong market appeal of Nashville in this niche. Although the two facilities sometimes compete for events, in many instances some groups prefer to meet only in downtown convention facilities that offer a variety of restaurants, hotels, shopping and entertainment within walking distance. By contrast, other groups prefer to meet in suburban locations that offer a self-contained facility where they can eat, meet and sleep all under the same roof. This concept was supported by information from stakeholders and conversations with representatives of groups such as Meeting Professionals International (MPI), American Society for Association Executives (ASAE), and Hospital Corporation of America (HCA), among others. With both the NCC and the Opryland Hotel, Nashville as a destination offers both options to potential groups.

The maximum amount of contiguous exhibit space at the Opryland Hotel is the Ryman C which offers approximately 150,700 SF. Based on information provided by facility management, the property focuses its marketing efforts on groups that require between 100,000 SF and 150,000 SF of exhibit space rather than on groups that would require the entire complex. Groups that require more than 150,000 SF of exhibit space tend to require a greater number of move-in/move-out days which do not generate a significant number of room nights. In addition, events requiring significant exhibit space do not necessarily equate to occupying a large number of hotel rooms. Both of these characteristics could negatively impact the number of rooms generated and thereby the hotel's overall occupancy levels. Consequently, the Opryland Hotel focuses on groups that require large room blocks. Approximately 70% to 75% of total room nights at the Opryland Hotel are attributable to exhibit hall usage.

Opryland Hotel's Marketing Strategy is Consistent With That for All Gaylord Hotel Properties

Gaylord Hotels currently has the following three properties in the United States:

- Gaylord Opryland in Nashville, Tennessee – which offers 289,000 SF of exhibit space
- Gaylord Palms in Kissimmee, Florida – which offers 179,000 SF of exhibit space
- Gaylord Texan in Grapevine, Texas – which offers 179,000 SF of exhibit space

In addition, Gaylord Hotels has plans to grow a planned network of eight to ten world-class, purpose-built properties nationwide including a proposed facility outside of Washington, D.C. in Prince George County, Maryland.

The marketing strategy used by Gaylord Hotel properties focuses on targeting efforts to groups requiring 600 or more peak room nights. According to various research, although this segment comprises less than 10% of the total number of annual group meetings, it accounts for approximately 63% of total annual group room nights. This target market segment typically requires large blocks of rooms and meeting space and books at least two to four years in advance. In many cases, these groups will sign contracts with damages for their required capacity and provide for average daily rate increases. In addition, the majority of these groups rotate their meeting site.

Approximately 80% of the business generated at these properties is from conventions and meetings of trade associations, corporations, government groups and non-profit organizations. Gaylord Hotels' strategy is to provide a quality product, excellent customer service and "one-stop shopping" for a multi-day event with the objective of getting customers to agree to multi-year, multi-property, rotational bookings among its properties. Geographically, its existing properties appear well-positioned to achieve this goal.

This target market segment of 600+ peak room nights is supplemented with smaller groups and leisure travelers to increase occupancy and related revenues.

Table of Contents

1	Report Letter	1
2	Introduction & Executive Summary	4
3	Industry Trend Overview	29
4	Nashville Market Overview	54
5	Nashville Convention Center Utilization Analysis	74
6	Competitive/Comparable Market Analysis	105
7	Meeting Planner Surveys	129
8	Summary of Market Findings	151
9	Programming & Site Planning Issues	169
10	Financial Analysis	187

The NCC Operates in a Competitive Regional and National Market

In order to gain an understanding of the market within which an expanded NCC or new convention facility in downtown would operate, competitive and comparable facilities and destinations are analyzed. As mentioned previously, the Opryland Hotel serves as the primary convention facility in terms of exhibit size and the NCC serves as the secondary convention facility in the Nashville market. Several attributes of the regional and national competitive/comparable supply of exhibition, meeting and ballroom space are profiled in terms of specific building and destination attributes. These convention centers are then compared to the NCC and Opryland and Nashville's destination attributes in order to gain an understanding of the competitive environment in which an expanded or new facility would operate. For purposes of this analysis the competitive/comparable set selected was based on a variety of factors including the amount of exhibit space offered, population, and information in lost business reports including input from the NCC and the CVB. This analysis will assist Metro in assessing Nashville's position relative to other State and regional convention/tradeshow markets as it explores the need for expanded or new convention space in downtown.

The Following Markets Were Identified as the Competitive/Comparable Set

As mentioned previously, first-tier destinations are generally defined as those in large markets with significant hotel supply that host a number of the largest exhibit events in the country. Historically, these destinations competed with a limited number of large facilities in similarly-sized destinations. As noted earlier, however, the recent changes in the economy and other factors have caused these venues to focus on attracting more mid-sized events in order to fill their calendar. As such, second-tier destinations, such as Nashville, found themselves competing with some first-tier destinations. This trend is likely to diminish as the economy and convention/tradeshows business rebound. Several first-tier venues to which Nashville has lost business in recent years are profiled in this section in order to understand the nature of these centers and the market characteristics they offer. Thereafter, the competitive/comparable analysis is limited to those centers in second-tier and third-tier destinations.

First-Tier Destinations

- Atlanta, Georgia
- Dallas, Texas
- New Orleans, Louisiana
- Orlando, Florida

Comparable Destinations Based on Market Population

- Grand Rapids, Michigan
- Hartford, Connecticut
- Salt Lake City, Utah

Competitive Destinations Based on Geographic Location and/or Lost Business Reports

- Austin, Texas
- Charlotte, North Carolina
- Columbus, Ohio
- Indianapolis, Indiana
- Kansas City, Missouri
- Memphis, Tennessee
- Milwaukee, Wisconsin
- Minneapolis, Minnesota
- San Antonio, Texas
- St. Louis, Missouri

Facility Characteristics of the NCC and Opryland Hotel Are Compared to Primary Convention/Meeting Facilities in the Competitive Set

Analysis of the Competitive Market

**Characteristics of
Competitive Convention
Facilities**

**Characteristics of
Competitive
Destinations**

Attributes of the Profiled First-Tier Facilities

Profiled first-tier facility building programs are presented in the table below. As shown, these centers offer significantly more exhibit, meeting and ballroom space than currently offered at the NCC. The table on the following page presents a more detailed analysis of each facility's exhibit space.

Facility	Location	Existing Square Feet				Largest Dedicated Ballroom	# of Fully Divided Meeting Rooms	Ratio of BR/MR space to Exhibit Space
		Exhibit	Meeting	Ballroom	Total Function			
Orange County Convention Center	Orlando, FL	2,049,700	479,200	62,200	2,591,100	62,200	235	26%
Georgia World Congress Center	Atlanta, GA	1,366,000	259,700	58,700	1,684,400	33,000	105	23%
Ernest N. Morial Convention Center	New Orleans, LA	1,068,500	227,900	66,900	1,363,300	36,400	140	28%
Dallas Convention Center	Dallas, TX	724,500	98,800	46,100	869,400	27,000	87	20%
Average of First-Tier Facilities		1,302,200	266,400	58,500	1,627,100	39,700	142	24%
Gaylord Opryland Resort and Convention Center	Nashville, TN	289,000	58,100	124,400	471,500	55,300	57	63%
Nashville Convention Center¹	Nashville, TN	118,700	20,000	28,800	167,500	17,900	24	41%

Notes: Sorted in descending order by exhibit space.

¹ Includes the Renaissance Hotel ballroom, but does not include the meeting space offered at the hotel. Rooms 204-206 at the NCC represent a 10,900 SF ballroom and are not included in the number of fully divided meeting rooms.
SF is rounded to nearest hundred.

Source: Individual Facilities.

Breakdown of Exhibit Space at the Profiled First-Tier Convention Centers

Orange County Convention Center		Georgia World Congress Center		Ernest N. Morial Convention Center		Dallas Convention Center	
Component	SF	Component	SF	Component	SF	Component	SF
Hall A	367,200	Hall A	340,000	Hall A	102,910	Hall A-F	724,526
A1	91,800	A-1	149,000	Hall B	119,489	Hall A	100,155
A2	91,800	A-2	86,000	B-1	53,232	Hall B	100,155
A3	91,800	A-3	105,000	B-2	66,257	Hall C	103,940
A4	91,800	Hall B	607,500	Hall C	104,862	Hall D	113,238
Hall B	275,400	B-1	89,500	Hall D	103,365	Hall E	104,038
B1	91,800	B-2	96,000	Hall E	127,634	Hall F	203,000
B2	45,900	B-3	121,500	Hall F	126,887		
B3	45,900	B-4	149,500	Hall G	91,451		
B4	91,800	B-5	151,000	Hall H	109,200		
Hall C	108,000	Hall C	418,500	Hall I	92,359		
Hall D1	49,468	C-1	106,500	I-1	50,400		
Hall D2	106,190	C-2	106,000	I-2	41,959		
Hall E1	78,600	C-3	106,000	Hall J	91,080		
Hall E2	66,000	C-4	100,000				
Hall F	48,600						
North Complex	475,141						
North Complex A1	92,466						
North Complex A2	195,029						
North Complex B	187,646						
South Complex	475,141						
South Complex A1	92,466						
South Complex A2	195,029						
South Complex B	187,646						
Average SF per Hall	205,000	455,300		106,900		724,500	
Average SF per Section	102,500	113,800		89,100		120,800	

Source: Individual facility floorplans.

Although these four facilities offer significantly more exhibit space in aggregate than the facilities in Nashville, each of these convention centers offers a number of halls that are similar in size to that available at the NCC and Opryland Hotel.

Consequently, events choosing between Nashville and these facilities would typically only utilize one of the individual exhibit hall sections at these larger facilities rather than the entire center. This is one of the reasons larger facilities are capable of competing with the same type and size groups as more moderately-sized convention centers such as the NCC.

Profile of Facility Attributes for the Competitive/Comparable Set

Facility	Location	Existing Square Feet				Largest Dedicated Ballroom	# of Fully Divided Meeting Rooms	Ratio of BR/MR space to Exhibit Space
		Exhibit	Meeting	Ballroom	Total Function			
America's Center/Cervantes Convention Center ¹	St. Louis, MO	503,000	148,600	28,400	680,000	28,400	106	35%
Minneapolis Convention Center	Minneapolis, MN	475,200	95,400	27,500	598,100	27,500	87	26%
Henry B. Gonzalez Convention Center	San Antonio, TX	418,900	91,200	90,100	600,200	39,800	56	43%
Indiana Convention Center & RCA Dome	Indianapolis, IN	400,000	67,500	63,900	531,400	33,300	48	33%
Kansas City Convention Center	Kansas City, MO	388,800	110,600	23,900	523,300	23,900	50	35%
Salt Palace Convention Center	Salt Lake City, UT	364,500	52,000	45,000	461,500	45,000	43	27%
Greater Columbus Convention Center	Columbus, OH	336,000	56,200	39,700	431,900	25,000	59	29%
Gaylord Opryland Resort & Convention Center	Nashville, TN	289,000	58,100	124,400	471,500	55,300	57	63%
Charlotte Convention Center	Charlotte, NC	280,000	57,300	35,000	372,300	35,000	46	33%
Austin Convention Center	Austin, TX	246,100	59,900	66,700	372,700	43,300	53	51%
Midwest Airlines Center	Milwaukee, WI	188,700	39,400	37,500	265,600	37,500	28	41%
Memphis Cook Convention Center	Memphis, TN	160,100	44,100	27,800	232,000	27,800	25	45%
DeVos Place	Grand Rapids, MI	158,600	22,900	39,300	220,800	39,300	24	39%
Connecticut Convention Center ²	Hartford, CT	145,000	21,800	40,000	206,800	40,000	14	43%
Nashville Convention Center ³	Nashville, TN	118,700	20,000	28,800	167,500	17,900	24	41%
Average Excluding Nashville Venues		312,700	66,700	43,400	422,800	34,300	49	37%

Notes: Sorted in descending order by exhibit space.

¹ Includes the Edward Jones Dome floor for exhibit space and the St. Louis Executive Conference Center as meeting space.

² Scheduled to open in 2005.

³ Includes the Renaissance Hotel ballroom, but does not include the meeting space offered at the hotel. Rooms 204-206 at the NCC represent a 10,900 SF ballroom and are not included in the number of fully divided meeting rooms.

SF is rounded to nearest hundred.

Source: Individual Facilities.

Nashville Offers Less Exhibit Space Than Other Competitive/Comparable Destinations with Multiple Centers

While Nashville is the smallest profiled market with multiple facilities, in terms of MSA population, it offers a similar amount of hotel rooms. In addition, it offers a larger amount of meeting/ballroom space than several other markets which is positively influenced by the 182,500 SF located at the Opryland Hotel.

Size of Primary Convention Facilities Located in Competitive/Comparable Set's Marketplace

Location	Convention Facility(s)	MSA Population	MSA Hotel Supply	Exhibit Space	Meeting/ Ballroom Space	Total Function Space	Largest Contiguous Exhibit Space
Cities with Multiple Convention Facilities							
Minneapolis, MN	Minneapolis Convention Center			475,200	122,900	598,100	376,200
St. Paul, MN	RiverCentre			100,300	55,200	155,500	64,300
Total - Minneapolis/St. Paul, MN		3,069,300	34,900	575,500	178,100	753,600	
Kansas City, MO	Kansas City Convention Center			388,800	134,500	523,300	388,800
Kansas City, MO	American Royal Center			324,700	-	324,700	142,700
Total - Kansas City, MO		1,821,200	29,100	713,500	134,500	848,000	
Charlotte, NC	Charlotte Convention Center			280,000	92,300	372,300	280,000
Charlotte, NC	Charlotte Merchandise Mart			224,000	15,000	239,000	104,000
Total - Charlotte, NC		1,599,800	30,100	504,000	107,300	611,300	
Columbus, OH	Greater Columbus Convention Center			336,000	95,900	431,900	336,000
Columbus, OH	Franklin County Veterans Memorial			110,000	8,500	118,500	65,000
Total - Columbus, OH		1,597,300	24,800	446,000	104,400	550,400	
Salt Lake City, UT	Salt Palace Convention Center			364,500	97,000	461,500	364,500
Sandy, UT	South Towne Exposition Center			243,000	15,000	258,000	243,000
Total - Salt Lake City, UT		1,385,500	19,300	607,500	112,000	719,500	
Nashville, TN	Nashville Convention Center			118,700	48,800	167,500	118,700
Nashville, TN	Gaylord Opryland			289,000	182,500	471,500	150,700
Total - Nashville, TN		1,281,000	32,900	407,700	231,300	639,000	

Notes: NCC includes Renaissance ballroom space but not meeting space.

This list does not include fairgrounds or meeting hotels with exhibit space.

Contiguous exhibit space is defined as exhibit space that is adjacent and no permanent structure divide the space.

Source: Individual facility management.

The Opryland Hotel Offers 4,800 On-Site Parking Spaces Compared to Approximately 1,000 at the NCC

Facility	Location	Parking Spaces	
		On-Site	Within Walking Distance
Gaylord Opryland Resort and Convention Center	Nashville, TN	4,800	4,800
Connecticut Convention Center	Hartford, CT	3,000	4,000
Greater Columbus Convention Center	Columbus, OH	3,000	10,000
Indiana Convention Center & RCA Dome	Indianapolis, IN	2,300	33,000
Austin Convention Center	Austin, TX	1,200	1,400
Salt Palace Convention Center	Salt Lake City, UT	1,200	4,000
Memphis Cook Convention Center	Memphis, TN	1,100	7,000
Nashville Convention Center	Nashville, TN	1,000	6,000
Kansas City Convention Center	Kansas City, MO	1,000	4,000
Minneapolis Convention Center	Minneapolis, MN	900	10,000
America's Center/Cervantes Convention Center	St. Louis, MO	900	5,000
DeVos Place	Grand Rapids, MI	700	2,000
Charlotte Convention Center	Charlotte, NC	330	7,500
Henry B. Gonzalez Convention Center	San Antonio, TX	300	3,000
Midwest Airlines Center	Milwaukee, WI	190	14,000
Average Excluding Nashville Facilities		1,200	8,100
Median Excluding Nashville Facilities		1,000	5,000

Note: Sorted in descending order by parking spaces on-site.

The number of parking spaces in Indianapolis skews the average, consequently the median is also shown.

Sources: 2003 Major Exhibit Hall Directory; Individual facilities.

Summary of Key Points Related to Existing Space Offered at the Competitive/Comparable Facilities

- The NCC and the Opryland Hotel offer less exhibit space than the average of the profiled facilities. The profiled facilities in the competitive/comparable set offer an average of approximately 313,000 SF of exhibit space; 66,700 SF of meeting space; and 43,400 SF of ballroom space. The NCC is the smallest facility among the profiled competitive/comparable centers in terms of exhibit and total function square footage of space.
- In the convention center industry as a whole, facilities are offering an increasing ratio of meeting/ballroom space to exhibit space to accommodate growing demand of upscale, high-tech meeting and banquet facilities. The NCC, including the ballroom at the Renaissance Hotel, currently has a slightly higher ratio (41%) than the average at profiled convention centers (37%). This ratio can be a competitive advantage in marketing to meeting-intensive groups such as medical professional associations.
- The average number of divisible meeting rooms for all of the profiled competitive/comparable facilities is 49 which is positively impacted by the relatively high number of rooms at the America's Center/Cervantes Convention Center (106) and the Minneapolis Convention Center (87). The average is twice the number offered at the NCC (24) but similar to the combined amount of meeting rooms offered by the NCC and the Renaissance Hotel (49).
- Several of the profiled convention centers in the competitive/comparable set have recently completed an expansion. In addition, several of the facilities are currently undergoing expansion including the Kansas City Convention Center and the Midwest Airlines Center. The new Connecticut Convention Center in Hartford is scheduled to open in the Summer of 2005.
- Several other competitive/comparable destinations offer multiple exhibit venues including Minneapolis-St. Paul, Kansas City, Charlotte, Columbus and Salt Lake City.
- The competitive/comparable set of convention centers offers a median of 1,000 on-site parking spaces and 5,000 parking spaces within walking distance compared to 1,000 and 6,000, respectively, at the NCC.

An Analysis of Utilization Indicates That the NCC Hosted More Conventions/Tradeshows Than The Average for Various Facilities in the Competitive/Comparable Set

Facility	Nashville Convention Center	America's Center	Indiana Convention Center & RCA Dome	Kansas City Convention Center	Salt Palace Convention Center	Greater Columbus Convention Center	Charlotte Convention Center	Midwest Airlines Center	Average of Comparables
Location	Nashville, TN	St. Louis, MO	Indianapolis, IN	Kansas City, MO	Salt Lake City, UT	Columbus, OH	Charlotte, NC	Milwaukee, WI	
Building Program									
Exhibit Space (SF)	118,700	503,000	400,000	388,800	364,500	336,000	280,000	188,700	351,600
Meeting/Ballroom Space (SF)	48,800	177,000	67,500	134,500	97,000	95,900	92,300	76,900	105,900
Breakout Rooms	24	106	48	50	43	59	46	28	54
Number of Events									
Conventions/Tradeshows	61	28	100	40	30	75	39	42	51
Public Shows	9	29	21	17	N/A	13	20	14	19
Banquets & Receptions	16	40	N/A	103	N/A	45	N/A	62	63
Meetings/Seminars	93	14	212	77	309	182	N/A	49	141
Other Events	5	8	N/A	39	N/A	23	144	9	45
Total	184	119	333	276	339	338	203	176	255
Total Attendance									
Conventions/Tradeshows	170,044	436,859	425,800	179,133	318,494	487,970	301,381	131,050	325,812
Public Shows	110,517	450,690	142,500	335,348	N/A	238,721	129,275	290,900	264,572
Banquets & Receptions	7,346	25,243	N/A	29,046	N/A	61,578	N/A	43,855	39,931
Meetings/Seminars	20,611	43,417	143,800	67,843	206,767	193,944	N/A	23,770	113,257
Other Events	22,928	12,480	N/A	90,231	N/A	139,586	92,665	17,804	70,553
Total	331,446	968,689	712,100	701,601	525,261	1,121,799	523,321	507,379	722,879
Conventions/Tradeshows % of Total Attendance	51%	45%	60%	26%	61%	43%	58%	26%	45%
Average Attendance									
Conventions/Tradeshows	2,788	15,602	4,258	4,478	10,616	6,506	7,728	3,120	7,500
Public Shows	12,280	15,541	6,786	19,726	N/A	18,363	6,464	20,779	14,600
Banquets & Receptions	459	631	N/A	282	N/A	1,368	N/A	707	700
Meetings/Seminars	222	3,101	678	881	669	1,066	N/A	485	1,100
Other Events	4,586	1,560	N/A	2,314	N/A	6,069	644	1,978	2,500

Sources: Individual facilities; KPMG LLP research.

An Analysis of Utilization Indicates That the NCC Hosted More Conventions/Tradeshows Than The Average for Various Facilities in the Competitive/Comparable Set (cont'd)

- During FY 2003, the NCC hosted less total events than the average of the profiled facilities which was primarily due to hosting less banquets/receptions and “other” event activity.
- On average, the NCC hosted 20% more conventions and tradeshows than the competitive/comparable set. This is particularly positive given the presence of Opryland Hotel in the Nashville market. However, the average convention/tradeshow at the NCC during FY 2003 attracted approximately 2,800 attendees whereas profiled facilities averaged 7,500 in attendance.
- Convention/tradeshow activity accounted for 51% of the total attendance at the NCC which was higher than the competitive facilities in St. Louis, Columbus, Kansas City and Milwaukee.
- The number of public shows and associated attendees at the NCC was less than at the profiled facilities. This is likely due, in part, to the relatively small size of the NCC’s exhibit hall.
- The NCC hosted significantly fewer banquets/receptions than the average of those centers profiled. This is likely due to the limited dedicated ballroom space at the NCC and the presence of the ballroom at the Renaissance Nashville Hotel. While these events do not typically generate significant economic impact, they can represent a significant revenue source due to their typical food and beverage requirements.
- On average, the NCC attracted less meeting/seminar activity, both in terms of number of events and attendance, as profiled facilities.

Key Market Attributes for the Competitive Destinations Were Analyzed

Analysis of the Competitive Market

**Characteristics of
Competitive Convention
Facilities**

**Characteristics of
Competitive
Destinations**

When Selecting a Location for Their Event, Meeting Planners Place Emphasis on Destination Attributes

Meetings & Conventions publishes a biennial summary of planners' responses to a survey which attempts to determine the most important site selection factors for meetings and conventions. Based on the results of the most recent survey, meeting planners identified the most important site selection factors as:

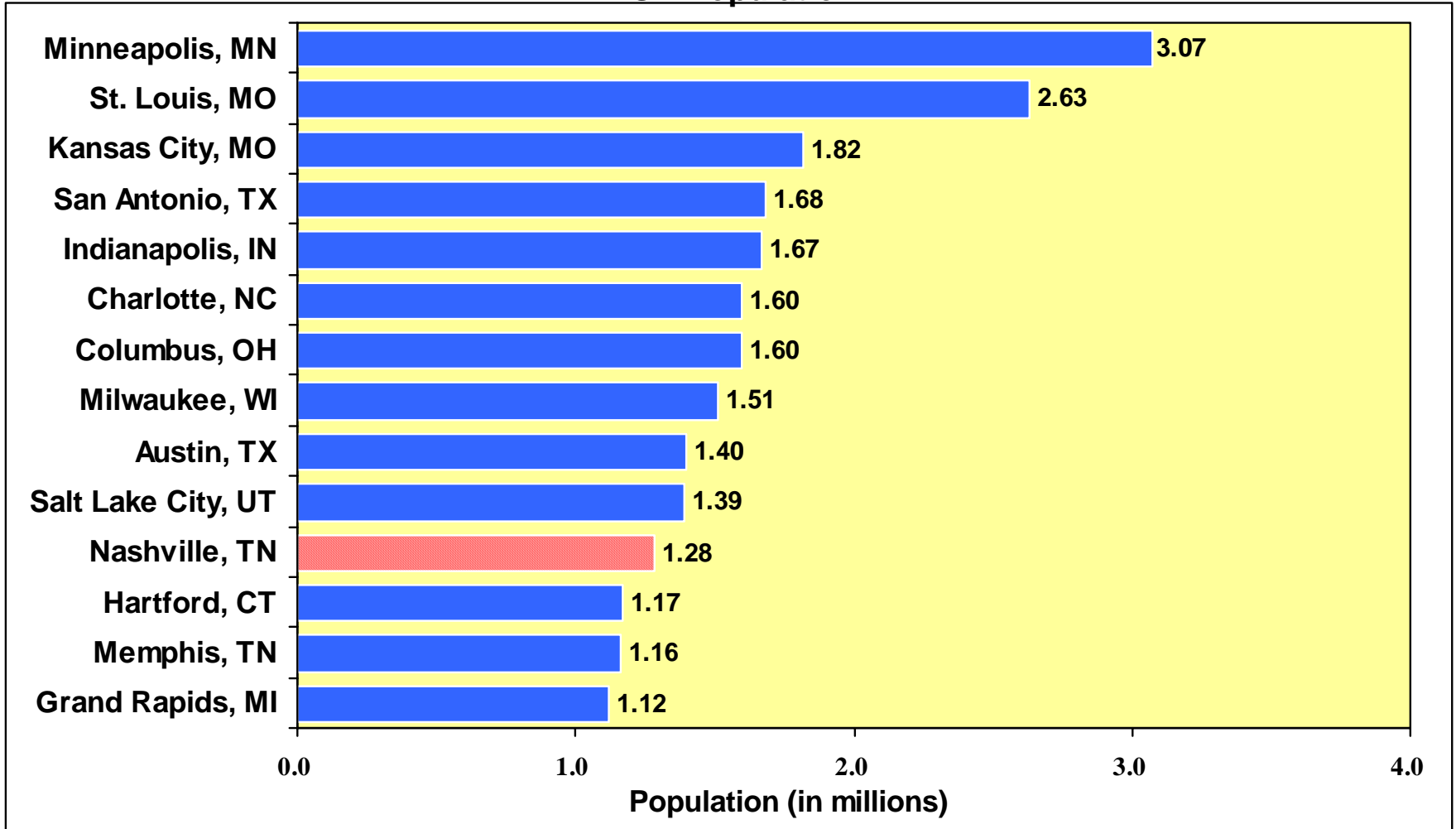
- Hotels
 - Number of rooms within walking distance to the facility
 - Total room inventory
 - Cost
- Affordability
- Accessibility to/from destination
- Transportation within destination
- Destination appeal

Some measurements used to assess a city's destination appeal include, but are not limited to, the Metropolitan Statistical Area (MSA) population, hotel room supply, hotel occupancy rate, total tax on hotel rooms, average daily travel costs, distance to airport, number of enplanements and direct flights at the airport, as well as safety.

The importance of these factors along with the market's overall destination appeal and attractiveness to attendees was also reiterated in our interviews with meeting planners and other stakeholders. The pages that follow compare these attributes for Nashville to the markets in the competitive/comparable set.

The Nashville MSA is Smaller than the Majority of Competitive/Comparable Destinations in Terms of Population

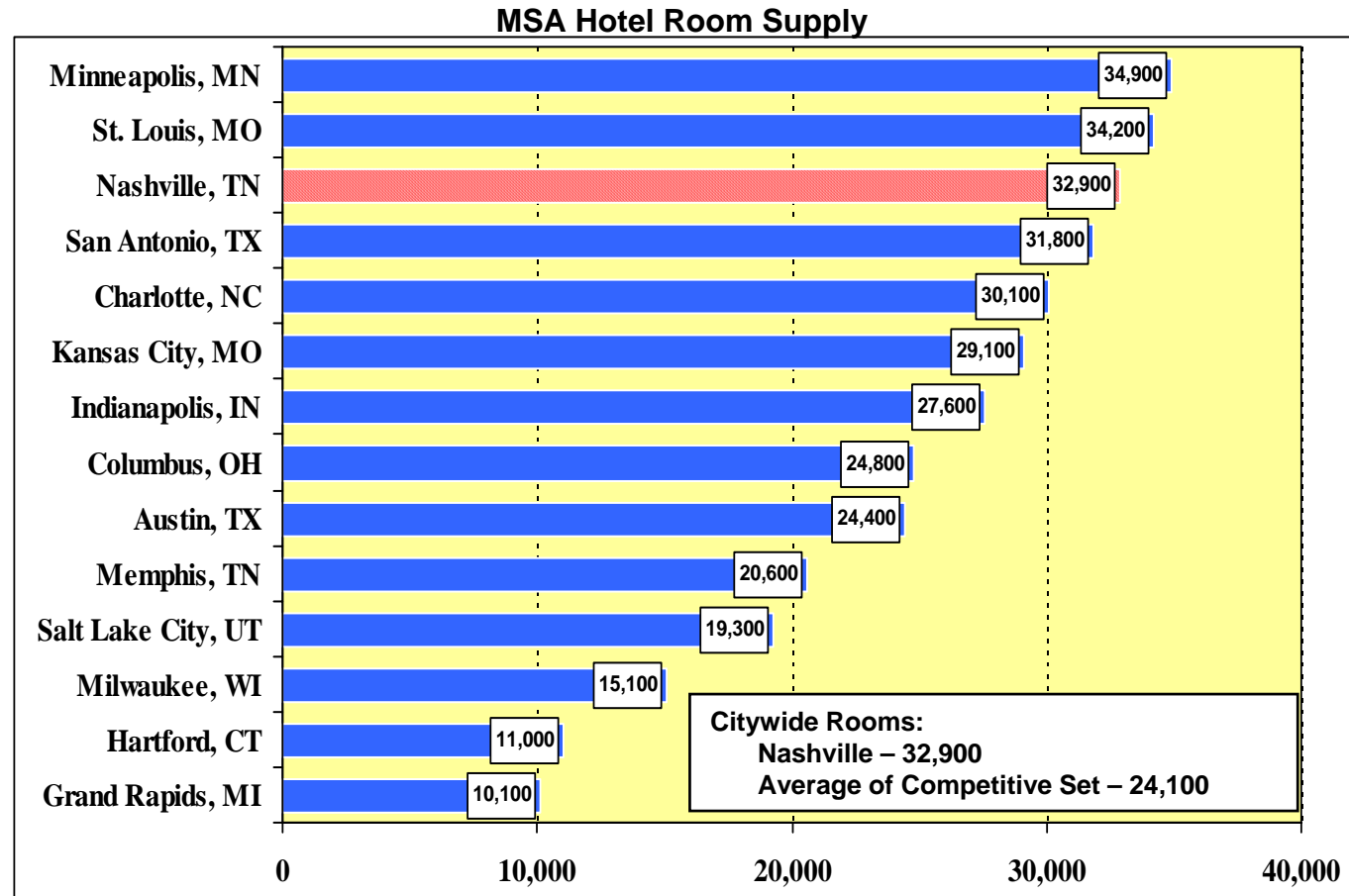
MSA Population



Note: Sorted in descending order by MSA population.
Source: 2003 Sales & Marketing Management.

Nashville Offers More Hotel Rooms Than the Average MSA Profiled

On average, Nashville offers approximately 27% more rooms in the MSA than the competitive/comparable set. Nashville offers approximately 32,900 rooms for Citywide events compared to an average of 24,100 for the competitive/comparable set.

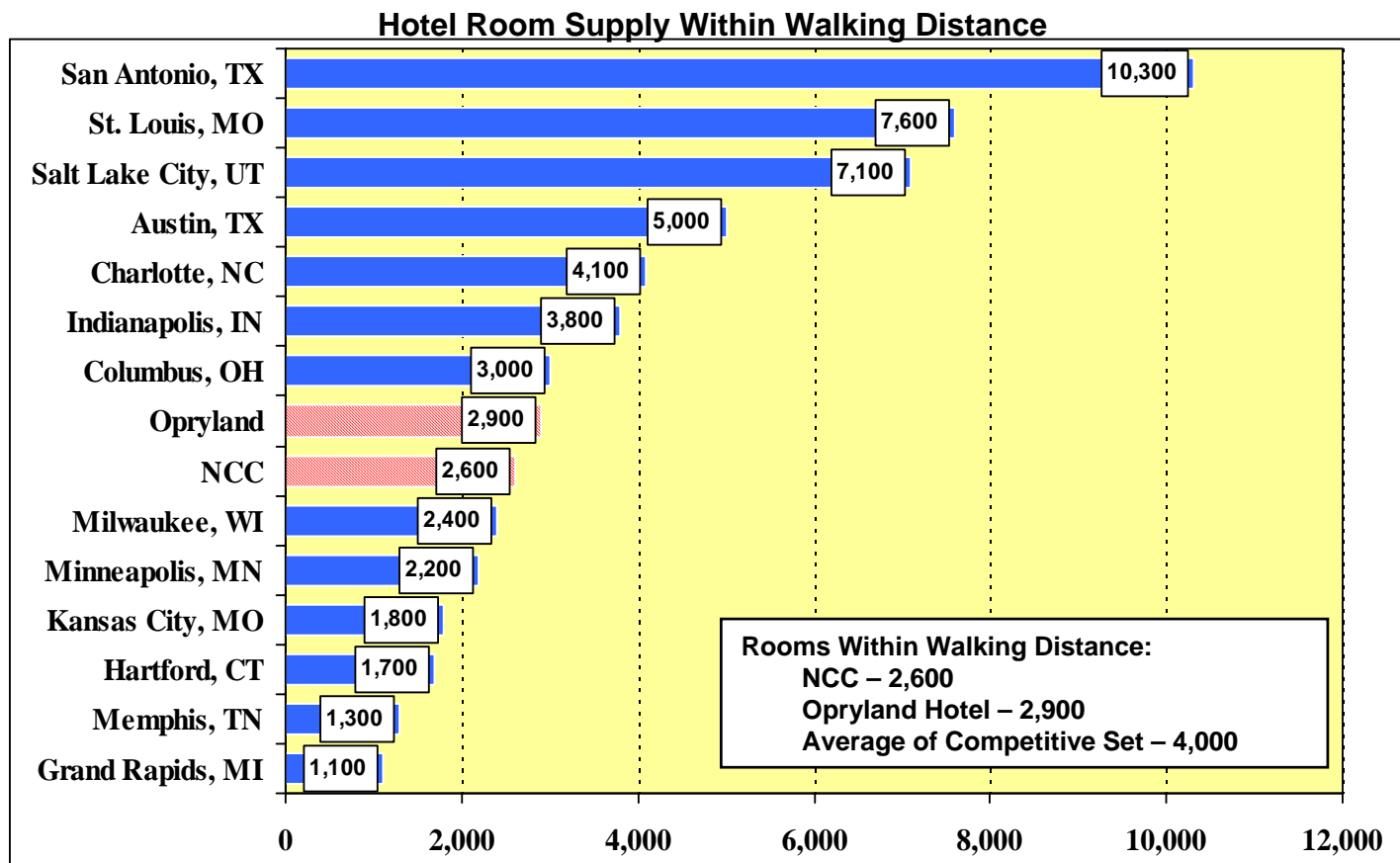


Note: Sorted in descending order by number of rooms within the market.

Source: Smith Travel Research.

Both the NCC and the Opryland Hotel Offer Fewer Hotel Rooms Within Walking Distance Than the Average of the Competitive/Comparable Set

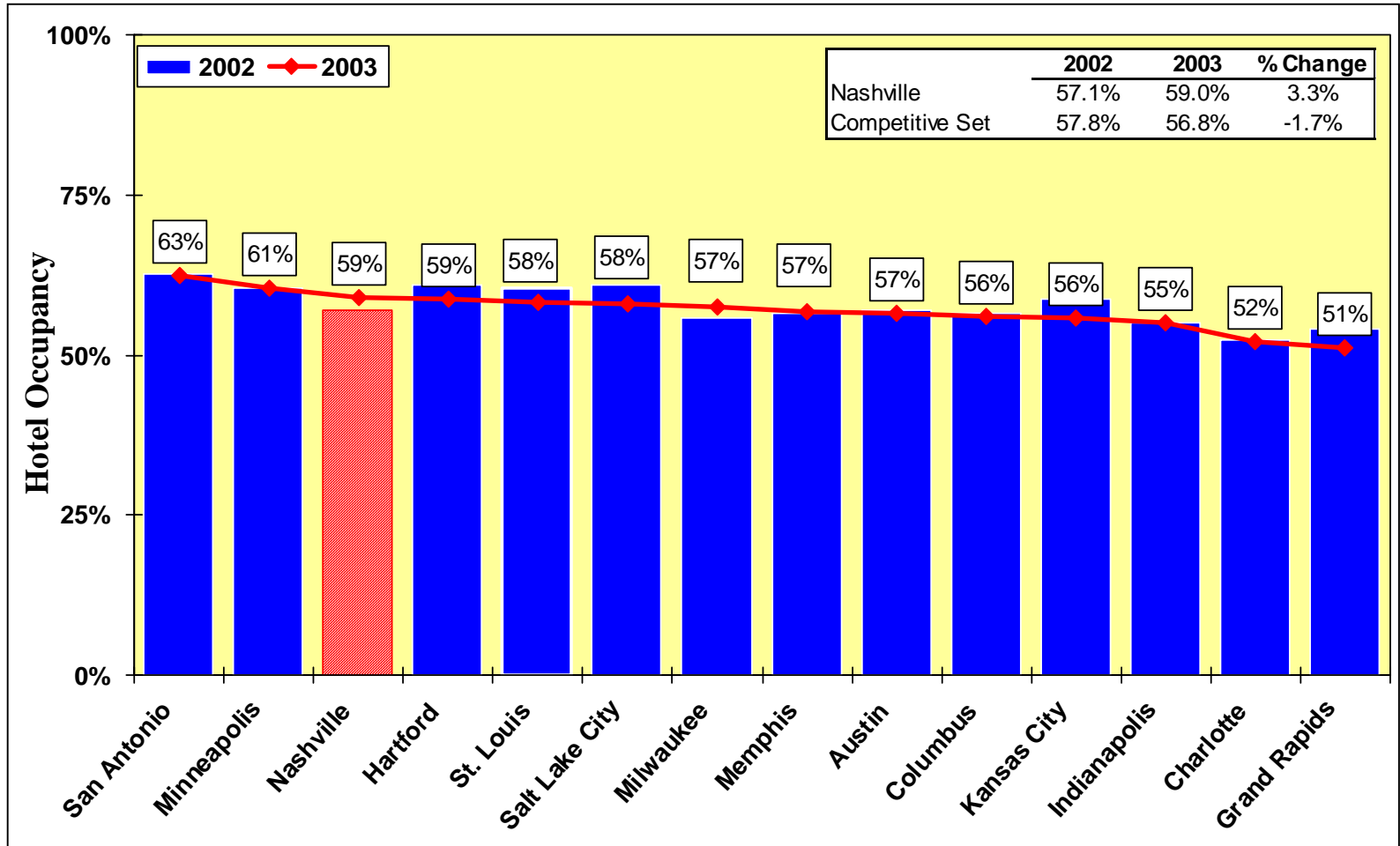
As discussed earlier, meeting planners consider the number of hotel rooms within walking distance of the facility a priority in their destination selection. Both the NCC and Opryland Hotel offer more hotels rooms within walking distance than several destinations with larger convention centers such as Minneapolis and Kansas City.



Notes: Sorted in descending order by number of rooms within walking distance of the primary convention center in the market, with the exception of Nashville which includes both the NCC and Opryland Hotel.
 Number of hotel rooms are rounded.

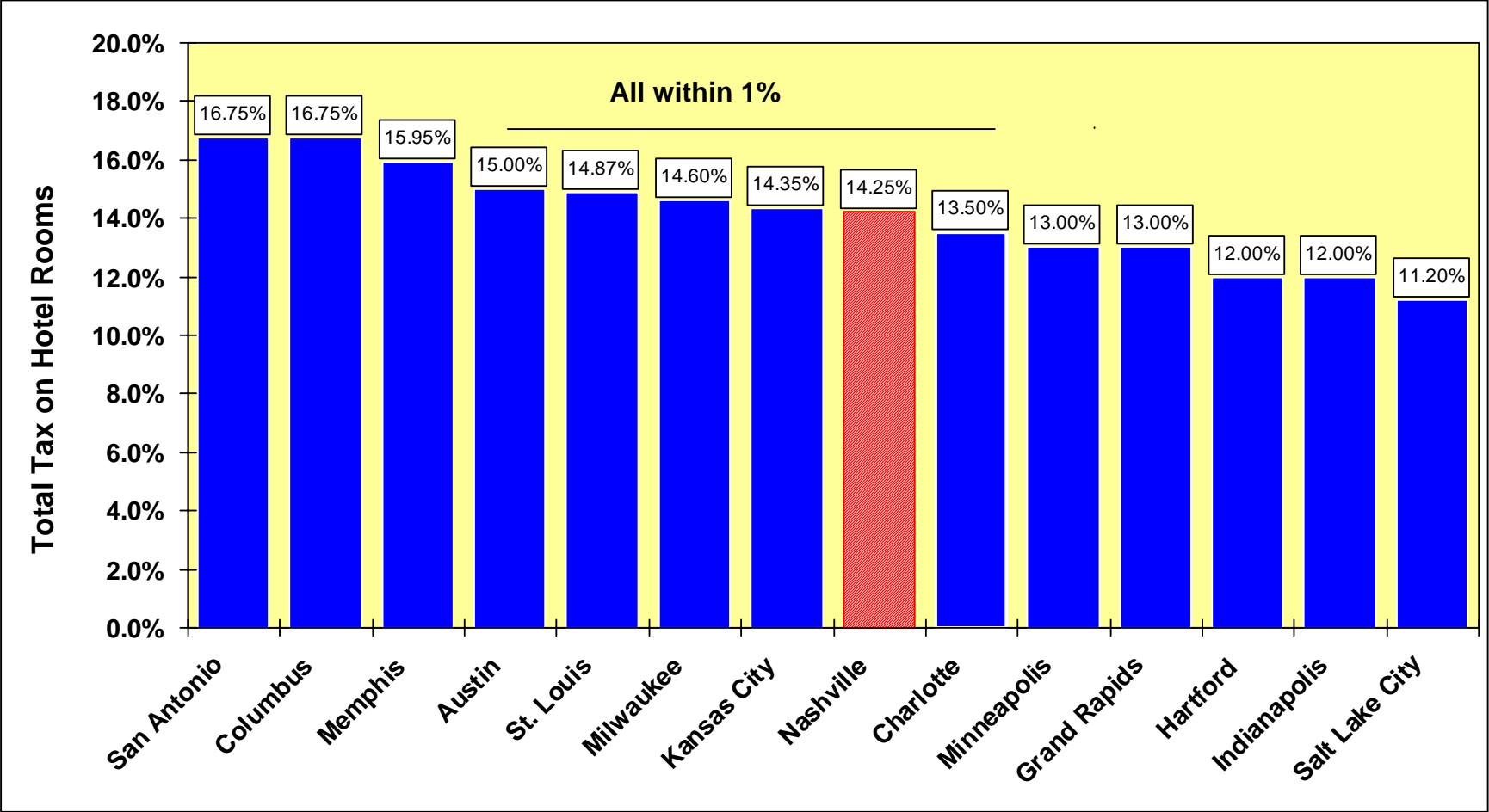
Sources: Individual CVBs; facility management.

Nashville Was Among the Highest in the Competitive/Comparable Set in Terms of Hotel Occupancy Rates for Each of the Last Two Years



Note: Sorted in descending order by 2003 occupancy.
 Source: Smith Travel Research.

Nashville's Total Tax on Hotel Rooms is Consistent With the Average (14.1%) of the Competitive/Comparable Set



Note: Sorted in descending order.
 Sources: 2004 Salt Lake City CVB Survey; Individual CVBs.

Nashville's Daily Travel Costs are Slightly Higher Than the Average of the Competitive/Comparable Set

Another measure of affordability which is an important destination attribute for meeting planners is average daily travel costs. The following table outlines estimated costs for food, car rental, and hotel rooms for each competitive/comparable market. It should be noted that these figures are for corporate travelers who are usually less price sensitive and typically incur higher costs than leisure travelers or conventioners. However, these statistics provide a useful measure for comparison. As shown, Nashville ranks above the average for the competitive/comparable set. This is primarily due to the fact that the average rental car costs in Nashville are 31% higher than the profiled set and average hotel costs are 16% higher. Average food costs in Nashville are below that of the competitive/comparable set.

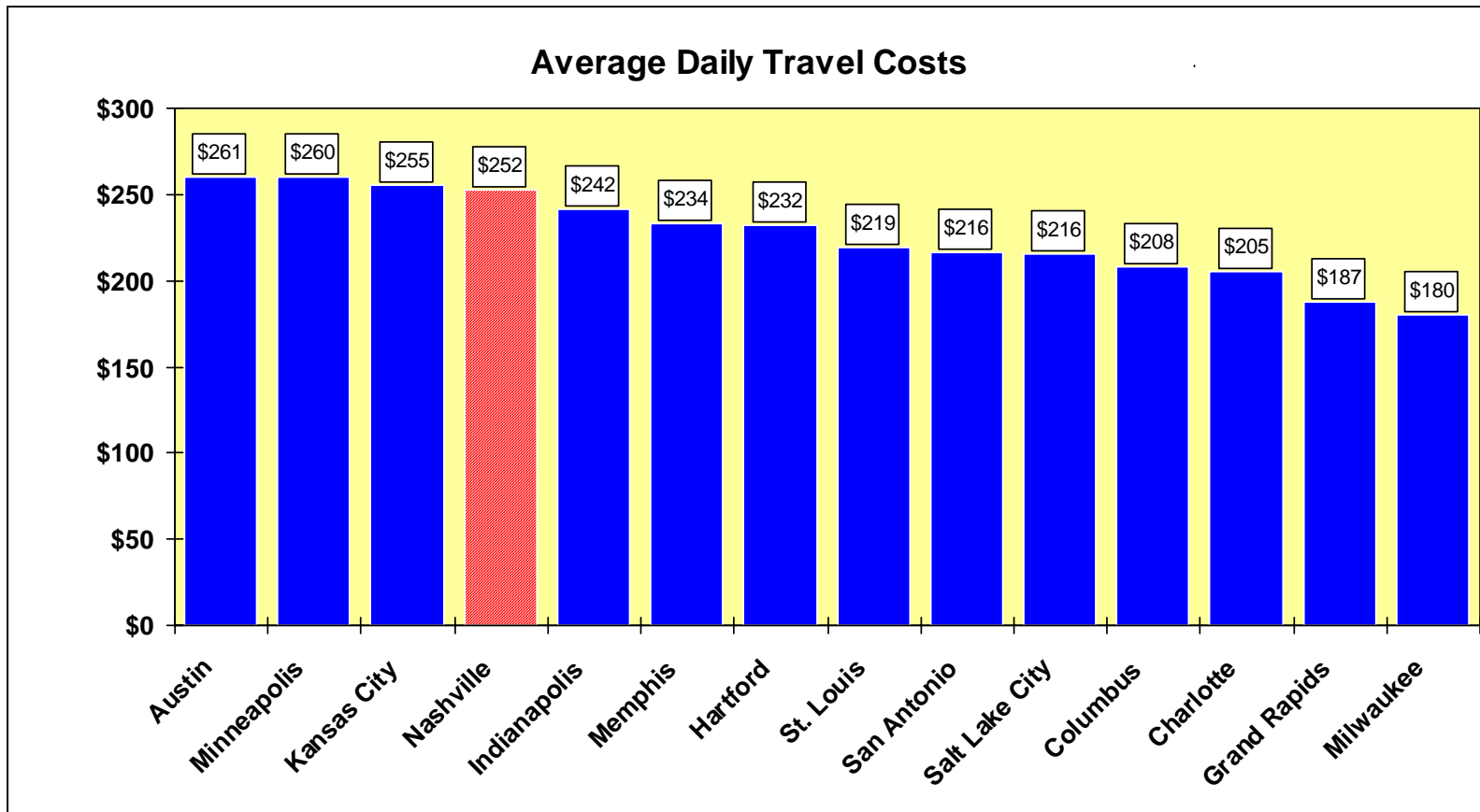
Market	2003 Average Food Costs	2003 Average Rental Car Costs	2003 Average Hotel Costs	2003 Average Daily Costs
Austin, TX	\$77.29	\$42.45	\$140.78	\$260.52
Minneapolis, MN	\$76.16	\$41.54	\$142.08	\$259.78
Kansas City, MO	\$68.69	\$39.80	\$147.00	\$255.49
Nashville, TN	\$63.34	\$49.75	\$139.38	\$252.47
Indianapolis, IN	\$77.18	\$37.15	\$127.27	\$241.60
Memphis, TN	\$63.95	\$43.59	\$126.00	\$233.54
Hartford, CT	\$63.52	\$38.86	\$129.54	\$231.92
St. Louis, MO	\$68.01	\$38.09	\$113.00	\$219.10
San Antonio, TX	\$62.43	\$32.69	\$121.20	\$216.32
Salt Lake City, UT	\$62.22	\$39.29	\$114.00	\$215.51
Columbus, OH	\$63.16	\$31.51	\$113.25	\$207.92
Charlotte, NC	\$67.54	\$35.64	\$102.09	\$205.27
Grand Rapids, MI	\$52.73	\$35.47	\$99.19	\$187.39
Milwaukee, WI	\$57.66	\$36.46	\$85.64	\$179.76
Average (Excluding Nashville)	\$66.20	\$37.89	\$120.08	\$224.16

Note: Sorted in descending order by total cost.

Source: 2003 Corporate Travel Index.

Nashville's Daily Travel Costs are Slightly Higher Than the Average of the Competitive/Comparable Set (cont'd)

Average daily travel costs including food, rental car and hotel costs are illustrated in the following graph. As shown, Nashville ranks among the higher cost cities in the competitive/comparable set. As previously stated, this is driven primarily by relatively higher rental car and hotel costs.



Note: Sorted in descending order.
Source: 2003 Corporate Travel Index.

Nashville's Air Access is Less Than the Average of Profiled Destinations

An additional destination attribute that is important to meeting planners is accessibility. In terms of air accessibility, the number of enplanements and direct flights are typically indicators for comparison. Although the Nashville International Airport experienced less enplanements than the average for the profiled markets, it was busier than several competitive markets including Indianapolis, Columbus, San Antonio and Austin. The ability for convention attendees to arrive at the destination via direct flight (making no connections) can be a significant advantage for major markets such as Minneapolis, Charlotte and Salt Lake City which all serve as major airline hubs.

Airport	Serving	Miles from Airport	CY 2001 Number of Enplanements	CY 2002 Number of Enplanements	% Change	Number of Direct Flights
Minneapolis-St. Paul International	Minneapolis, MN	14	15,852,433	15,544,039	-1.9%	700
Lambert-St. Louis International	St. Louis, MO	13	13,264,751	12,474,566	-6.0%	360
Charlotte/Douglas International	Charlotte, NC	7	11,548,952	11,743,157	1.7%	500
Salt Lake International	Salt Lake City, UT	7	8,951,776	8,997,942	0.5%	417
Memphis International	Memphis, TN	12	5,560,524	5,231,998	-5.9%	282
Kansas City International	Kansas City, MO	20	5,614,347	5,161,518	-8.1%	220
Nashville International	Nashville, TN	10	4,209,465	4,009,959	-4.7%	227
Indianapolis International	Indianapolis, IN	9	3,595,425	3,411,978	-5.1%	232
Port Columbus International	Columbus, OH	7	3,296,013	3,283,639	-0.4%	165
San Antonio International	San Antonio, TX	9	3,313,545	3,224,764	-2.7%	188
Bradley International	Hartford, CT	12	3,416,243	3,221,081	-5.7%	175
Austin - Bergstrom International	Austin, TX	8	3,428,202	3,186,381	-7.1%	192
General Mitchell International	Milwaukee, WI	8	2,825,473	2,779,198	-1.6%	238
Gerald R. Ford International	Grand Rapids, MI	15	906,768	960,482	5.9%	85
Average (excluding Nashville)		11	6,274,958	6,093,903	-2.8%	289

Note: Sorted in descending order by number of enplanements in CY 2002.

Sources: FAA DOT/TSCAS AIS Database, OAG Guide June 2004.

Nashville's CVB Has A Higher Budget than the Average of the Profiled Set

A CVB's budget may be considered a comparative measure of the ability of a city to market itself through travel and promotion, advertising, tradeshow, and other mediums.

The table to the right illustrates the range of budgets for CVBs in the competitive/comparable set. As shown, the budget for the Nashville CVB (\$8,366,000) is higher than the average of the profiled destinations (\$7,058,000).

When reviewing the aggregate marketing efforts of Nashville, the marketing budget and efforts of the Opryland Hotel should also be considered. Based on some estimates, this amount may exceed \$20 million per year. This augments Nashville's overall destination marketing package.

Location	2003 CVB Budget
San Antonio, TX	\$14,338,000
St. Louis, MO	\$10,867,000
Salt Lake City, UT	\$9,841,000
Indianapolis, IN	\$9,300,000
Nashville, TN	\$8,366,000
Minneapolis, MN	\$8,300,000
Columbus, OH	\$6,470,000
Memphis, TN	\$6,000,000
Milwaukee, WI	\$5,743,000
Austin, TX	\$5,592,000
Charlotte, NC	\$5,100,000
Kansas City, MO	\$5,000,000
Grand Rapids, MI	\$2,803,000
Hartford, CT	\$2,400,000
Average (Excluding Nashville)	\$7,058,000

Note: Sorted in descending order by budget.

Sources: 2004 Chicago Report; 2004 Salt Lake City Report; Individual CVBs.

Summary of Key Points Related to Destination Attributes of the Competitive/Comparable Markets

- In terms of population, Nashville has one of the smaller markets compared to the profiled set.
- Nashville compares favorably with the profiled markets in terms of hotel room supply in the MSA, offering more rooms than many of the competitive/comparable destinations. Further, Nashville offers a greater number of hotel rooms within walking distance than several markets with larger centers.
- Nashville experienced a 3.3% increase in hotel occupancy rates from 2002 to 2003, while the average of the competitive/comparable set decreased by 1.7%.
- Comparisons of average travel costs indicate that Nashville is slightly more expensive than several markets in the competitive/comparable set based on a survey of corporate travelers. This is partially due to the relatively high cost for car rentals in Nashville. As meeting planners are becoming increasingly cost conscious in these economic times, affordability is becoming an important factor in meeting planners' considerations for destination selection.
- Although many of the profiled cities have more active airports experiencing a greater number of passenger enplanements and direct flights, Nashville International Airport has been consistently ranked among the top fifty airports in the United States. In addition, the airport recently welcomed new aviation partner Frontier Airlines in June of 2004. Frontier will provide two daily, non-stop flights to Denver and continuing flights to 19 western destinations. Nashville ranks below the average of competitive/comparable cities in terms of direct flights which may be a disadvantage in terms of attracting certain larger, national conventions and tradeshows to the NCC.
- The budget of the Nashville CVB is higher than the average budget of the competitive/comparable CVBs, making it competitive dollar for dollar against the other profiled destinations.

Table of Contents

1	Report Letter	1
2	Introduction & Executive Summary	4
3	Industry Trend Overview	29
4	Nashville Market Overview	54
5	Nashville Convention Center Utilization Analysis	74
6	Competitive/Comparable Market Analysis	105
7	Meeting Planner Surveys	129
8	Summary of Market Findings	151
9	Programming & Site Planning Issues	169
10	Financial Analysis	187

Overview of the User Input Process

Representatives of State, regional, national and international associations as well as other special events were surveyed in order to assess their future needs at the NCC and their reasons for choosing (or not choosing) Nashville as a meetings destination. Survey participants were selected based on the future opportunities report provided by the Nashville CVB, lost business reports from the NCC, CVB and Renaissance Nashville Hotel, the *Tradeshow Week Databook* as well as the *State & Regional Associations* and *National Trade & Professional Associations* publications.

Surveys were conducted by telephone with existing users of the NCC as well as potential users of an expanded or new convention facility. The primary purpose of the survey process was to understand how the existing NCC 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.

Over 250 groups were contacted of which more than 70 meeting planners and event producers responded to the survey effort. Some survey responses were excluded in our analysis due to the limited exhibit space requirements of the group. The surveys sought to understand their perspective of the strengths and weaknesses of the NCC as well as its ability to address the Nashville market in the future. Consequently, this analysis summarizes input received from these groups.

This section of the report presents a summary of the findings from this analysis including facility-specific and destination-related requirements.

Overview of the User Input Process (cont'd)

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, Nashville and the NCC meet these objectives;
- facility requirements that will be necessary to service their long-term growth expectations; and
- the likelihood of choosing the NCC as a facility for their event given the existing building program as compared to an expanded or new facility with or without additional hotels developed within walking distance of the facility.

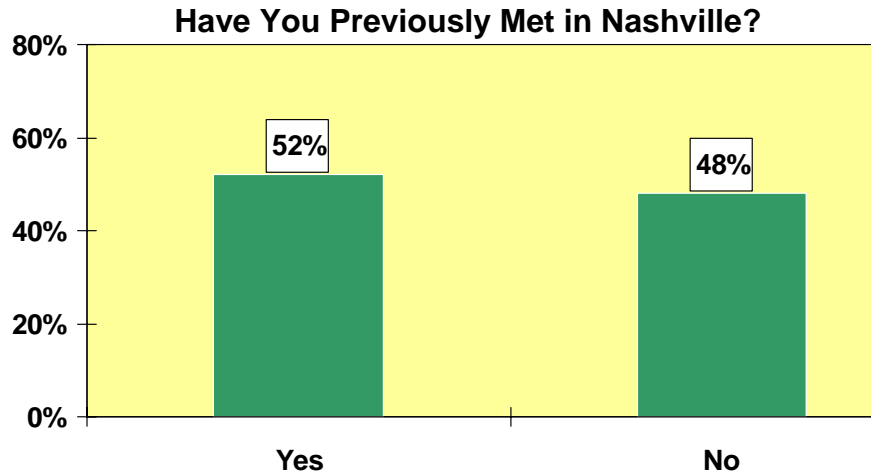
The pages which follow summarize the results of the survey effort.

The Surveys Obtained Input on the Following

- Event-related information including scope, rotational pattern, seasonality of event, attendance, event length, and location where group has met in the last three years
- Convention space requirements including amount of exhibit, meeting and ballroom SF, requirement for contiguous exhibit space, maximum number of meeting rooms required, largest banquet space required, and general session needs
- Hotel needs including required peak room block, total room nights generated, required number of hotel rooms within walking distance, type of property required (i.e. full service), willingness to use multiple hotels to house delegates, and the maximum rate attendees would be willing to pay for a full service property located near an expanded or new facility
- Attributes considered to be crucial in a meeting planner's decision to meet in Nashville
- Factors that influence a meeting planner's decision to return to Nashville
- Likelihood of hosting their event at the NCC in the future under the following scenarios:
 - No change to the existing NCC
 - Expansion of the existing NCC on one level versus vertically
 - New convention center with and without a new headquarters hotel
- Other comments from meeting planners on Nashville as a destination and how well the existing NCC meets their group's needs

Analysis of Survey Responses

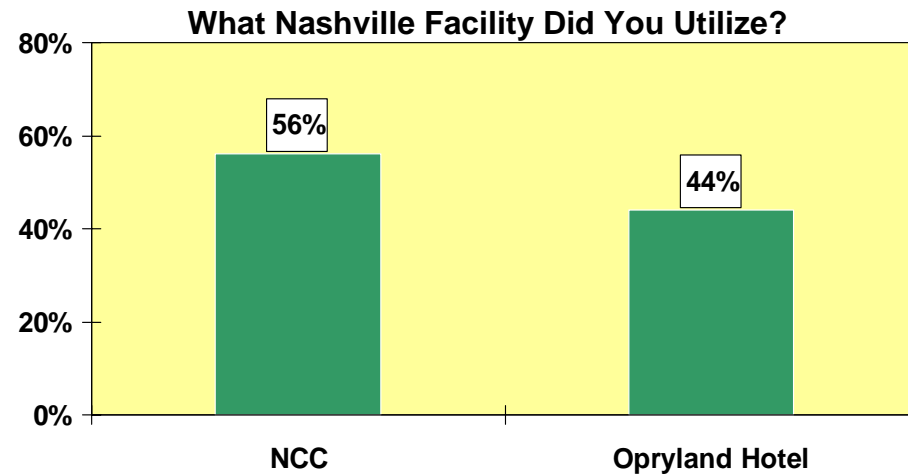
Approximately 52% of survey respondents had previously met in Nashville.



For people who have met in Nashville, the major reasons given for returning were:

- Convenient location
- Proximity to hotels
- Affordability

Of the respondents who had met in Nashville, approximately 56% had met at the NCC and 44% had met at the Opryland Hotel.



By contrast, the reasons not to return to Nashville included the following:

- Delegates not interested in Nashville
- Inadequate date/space availability
- Size of facility
- Configuration of space
- Inadequate hotel rooms

Analysis of Survey Responses (cont'd)

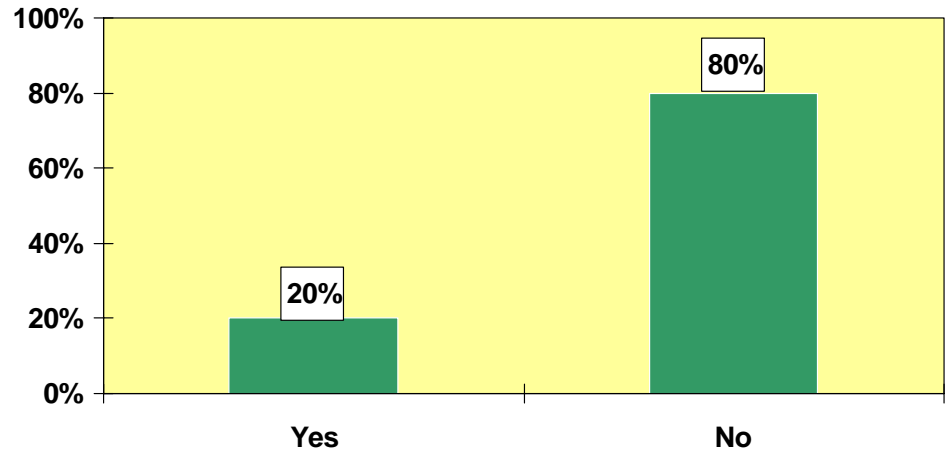
Given its current convention facilities and destination characteristics, approximately 80% of the survey respondents did not consider Nashville a potential destination for their event. Reasons cited include:

- NCC function space too small
- Downtown preferred over Opryland Hotel
- Require more contiguous exhibit space
- Require column-free exhibit space
- Limited hotel supply

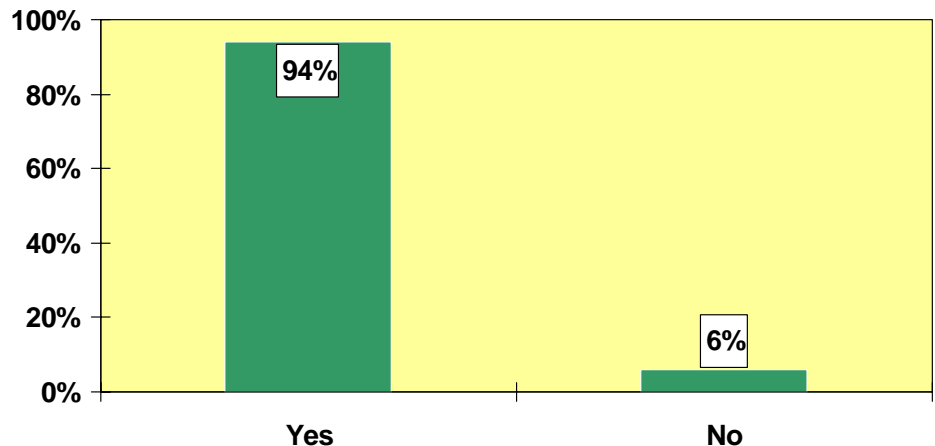
Because these groups represent incremental new business, they are further analyzed later in this section.

Approximately 94% of the groups surveyed rotate locations of their event(s). The majority typically follow a pattern and rotate to different regions according to their membership base.

Is Nashville a Potential Destination for Your Event Given Its Existing Facilities and Destination Characteristics?

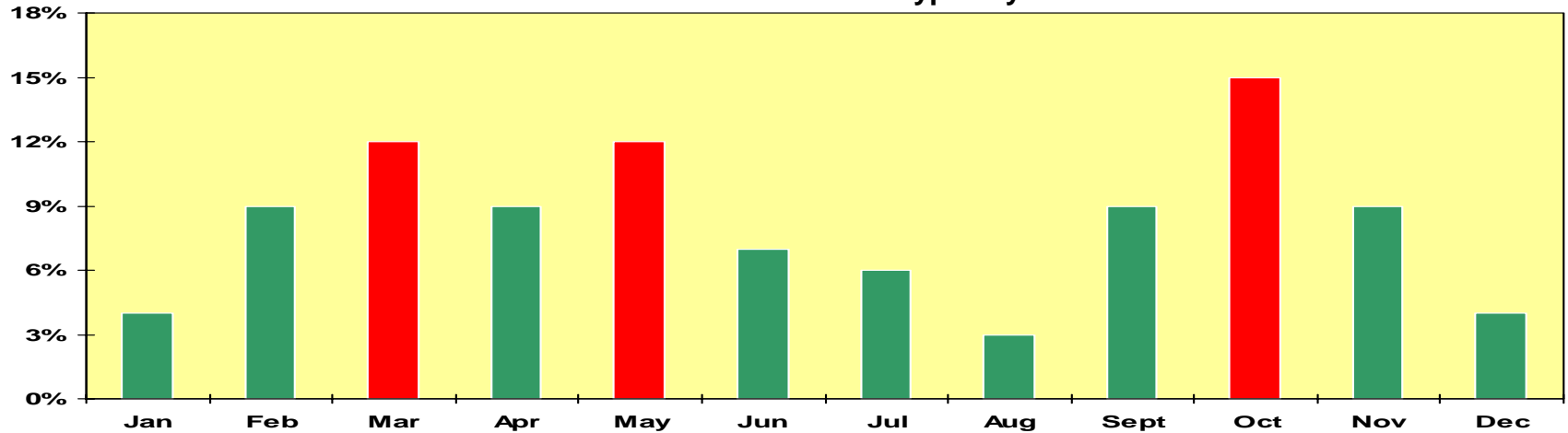


Does Your Convention Have a Rotational Pattern?



Analysis of Survey Responses (cont'd)

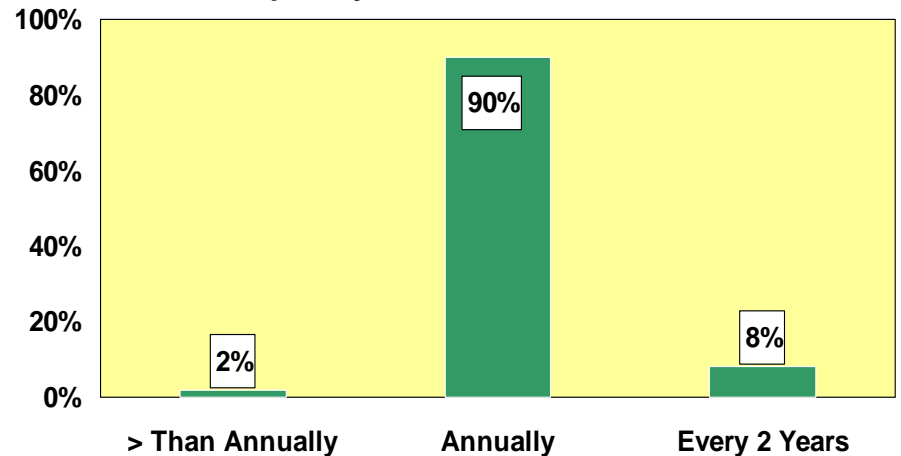
Month That Your Convention is Typically Held



March, May and October are typically the busiest months for conventions. These responses are in line with industry data indicating Spring and Fall are the most popular seasons for convention activity.

The vast majority of groups (90%) hold their event(s) once a year.

Frequency of Your Convention

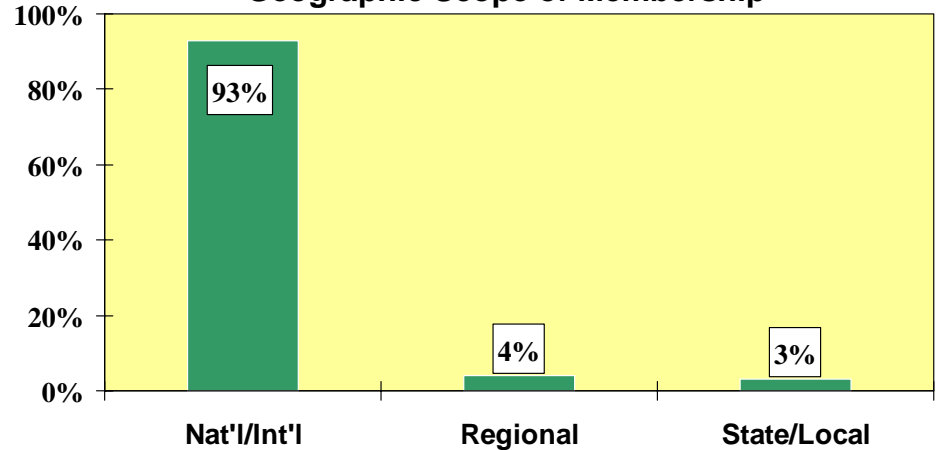


Analysis of Survey Responses (cont'd)

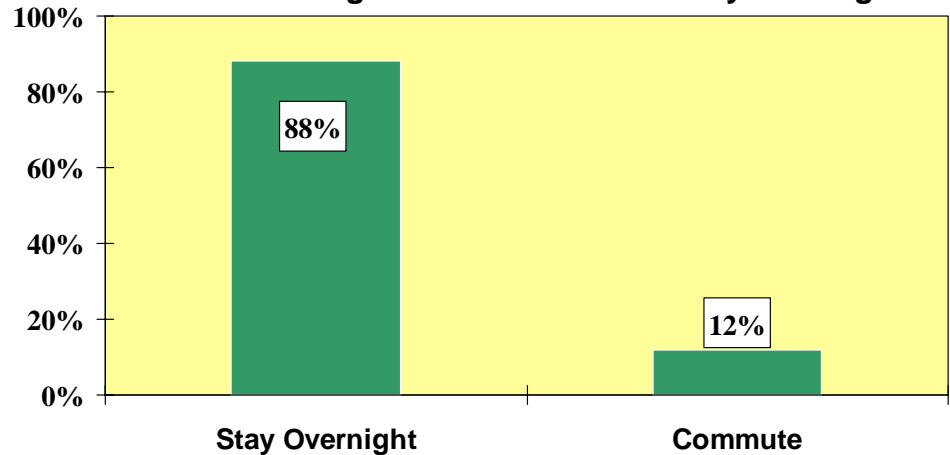
The vast majority of survey respondents (93%) represented events with a national/international membership base.

Survey respondents indicated that 88% of their delegates stay overnight making hotel supply an important issue.

Geographic Scope of Membership



What Percentage of Your Attendees Stay Overnight?

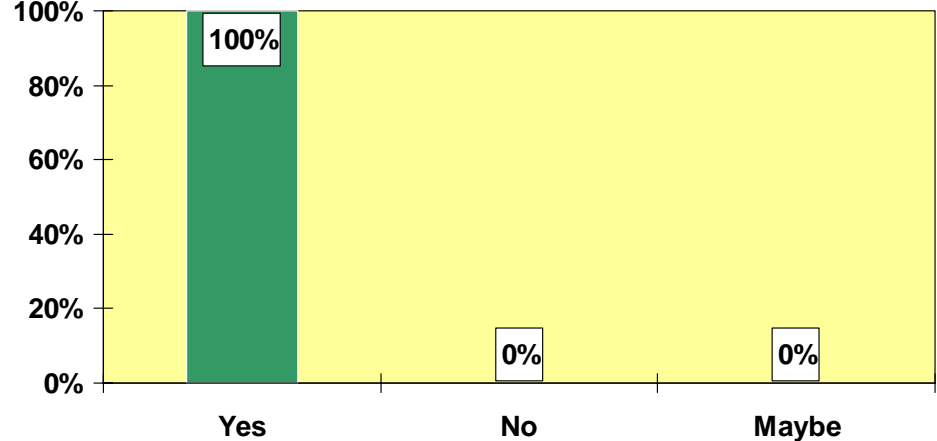


Analysis of Survey Responses (cont'd)

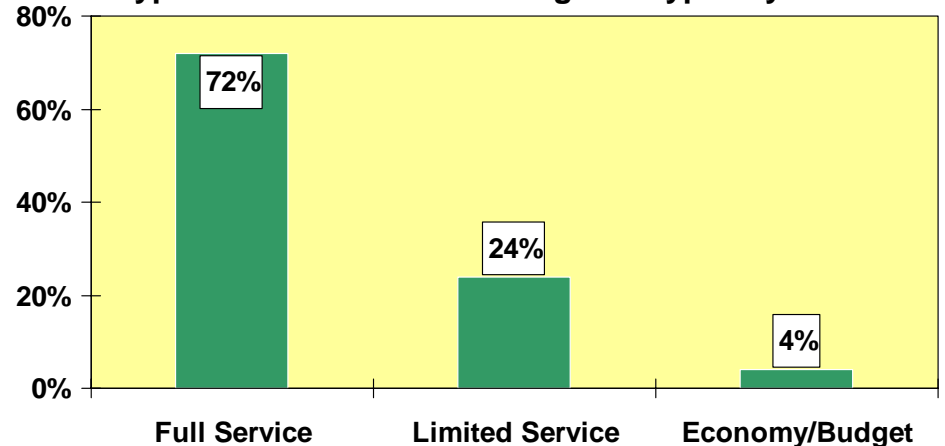
All of the survey respondents indicated that they would consider using multiple hotels to house their delegates. This is a positive attribute for groups wanting to meet in Nashville given its existing distribution of hotel supply.

The majority (72%) of meeting planners who responded to the survey indicated that their groups typically utilize full-service hotel properties. In addition, approximately 24% of delegates use limited service properties.

Would You Consider Using Multiple Hotels?



Type of Hotel That Your Delegates Typically Utilize



Analysis of Survey Responses (cont'd)

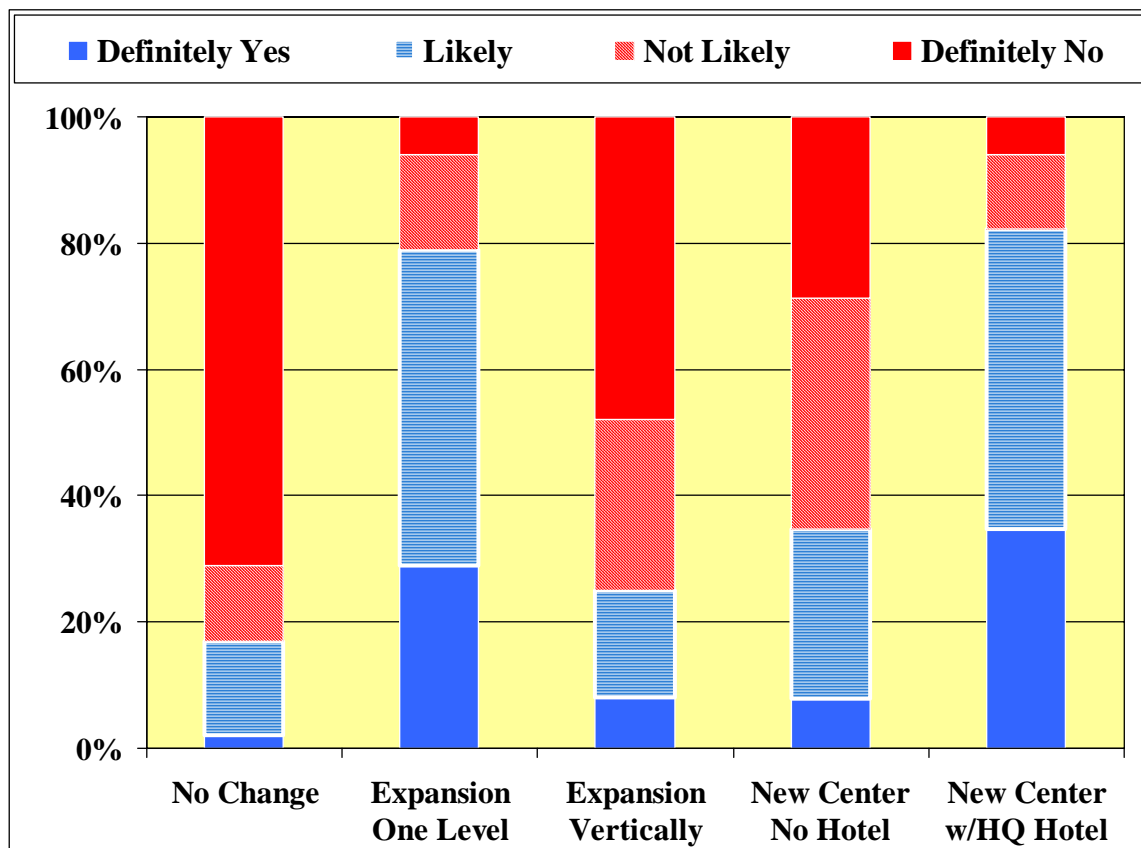
Survey respondents were asked *if they would consider* hosting their event in Nashville in the future under a variety of scenarios.

Of the development options under consideration, survey respondents indicated the most interest in meeting in Nashville at a new facility that would be built in conjunction with a new headquarters hotel.

Similar interest was shown for an expansion of the existing NCC on one level.

The least interest was expressed for no change to the existing NCC, a vertical expansion of the NCC or construction of a new facility with no headquarters hotel.

Summary of All Survey Responses

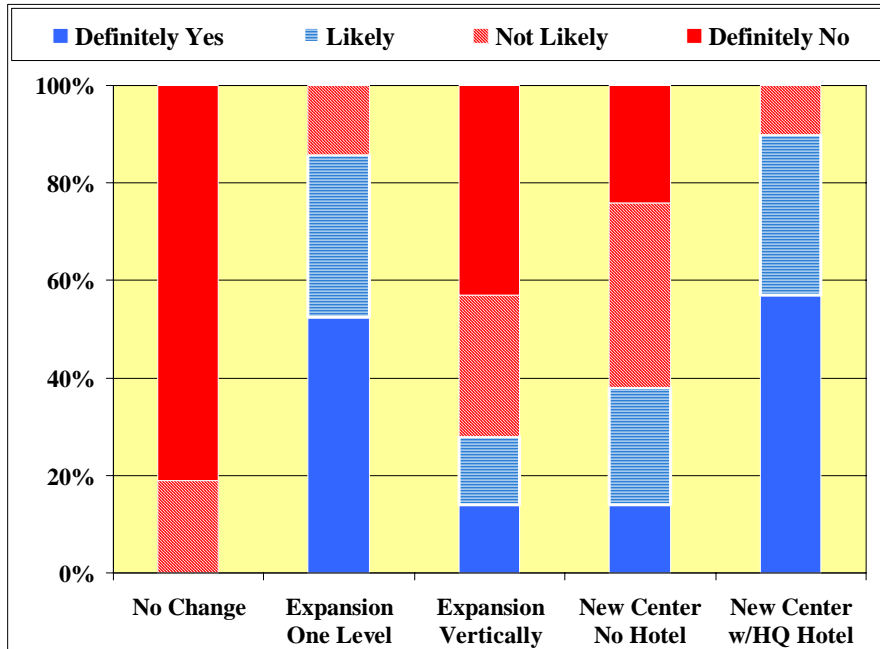


Note: The sum of "Not Likely" and "Definitely No" responses under the No Change scenario does not equate to 80% found earlier due to the fact that some respondents did not answer both questions.

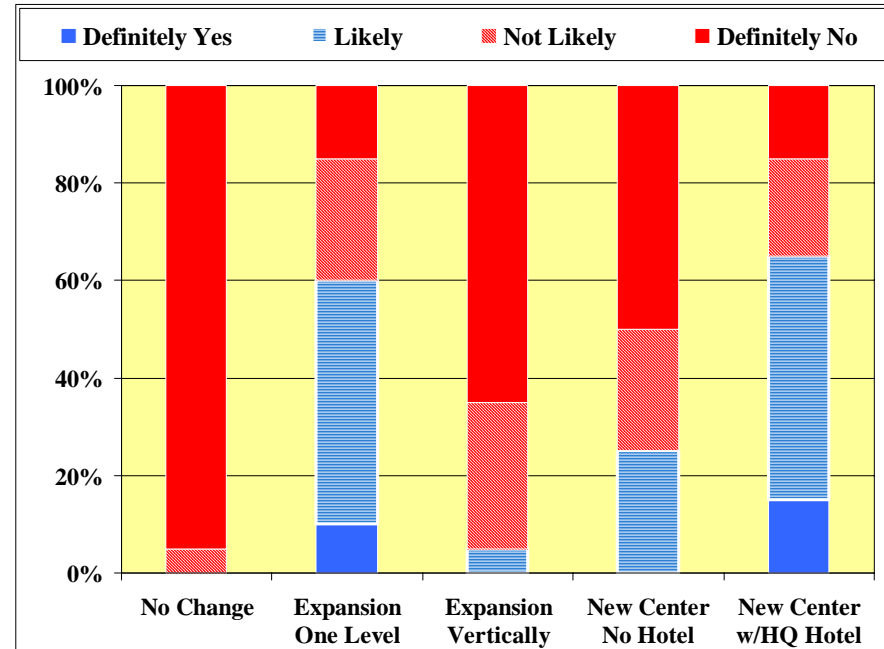
Analysis of Survey Responses (cont'd)

Survey respondents who indicated that Nashville was not a potential destination for their event given its existing facilities and destination characteristics were further analyzed in order to gain an understanding of their needs since these groups represent potential incremental business to Nashville. The graphs below delineate responses for these groups by those that have previously met in Nashville compared to those that have not. Over 80% of respondents who have previously met in Nashville indicated an interest in returning should the NCC be expanded on one level or a new center be developed downtown in conjunction with a headquarters hotel. Approximately 60% of respondents who had not previously met in Nashville responded “Likely” or “Definitely Yes” to either a contiguous expansion of the NCC or a new center downtown with a headquarters hotel. In both groups, the least interest was indicated for a vertical expansion scenario.

Groups Indicating That Nashville Is Not Currently A Potential Destination But Have Previously Met There



Groups Indicating That Nashville Is Not Currently A Potential Destination And Have Not Met There Before



Analysis of Survey Responses (cont'd)

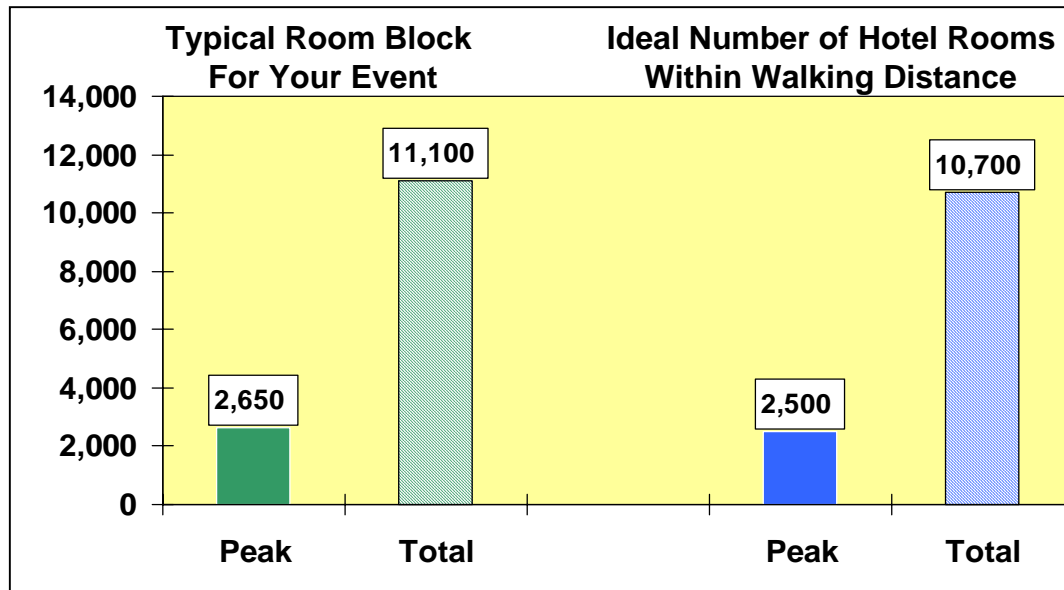
Those respondents illustrated on the previous page who would not consider meeting in Nashville even with an expansion or a new convention center downtown provided reasons for their responses. Each of these factors are considered unchangeable and are outlined below:

- Only meet in first-tier cities
- Lack of membership base in Nashville area
- Not a destination of choice for attendees
- Size of destination
- Limited air access

Analysis of Survey Responses (cont'd)

As discussed previously, hotel rooms are an important destination characteristic to most meeting planners. Survey respondents were asked to provide an estimate of the typical room block associated with their event. The graph below summarizes the responses from those groups that expressed some level of interest in meeting in Nashville under one or more potential development scenario.

Summary of Responses for All Groups Expressing Some Level of Interest In Meeting in Nashville



As shown, meeting planners prefer the majority of rooms within walking distance of the convention center. Nashville currently offers approximately 2,600 total hotel rooms within walking distance to the NCC, over 17,000 rooms in Davidson County and 32,900 rooms in the MSA.

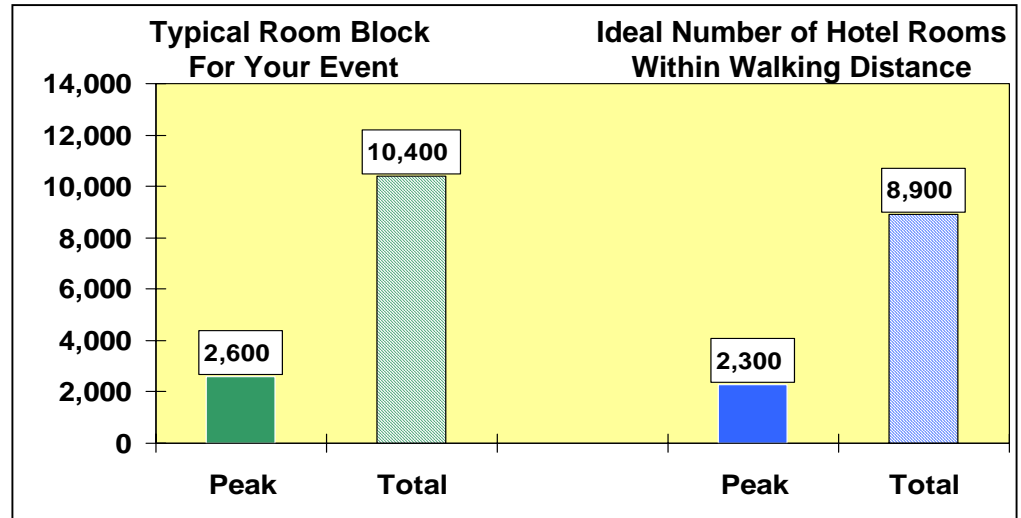
Analysis of Survey Responses (cont'd)

Of the potential incremental business responses interested in meeting in Nashville under one or more scenarios, the average room block typically needed by meeting planners is 2,600 for those who have met in Nashville and 4,600 for those groups who have not.

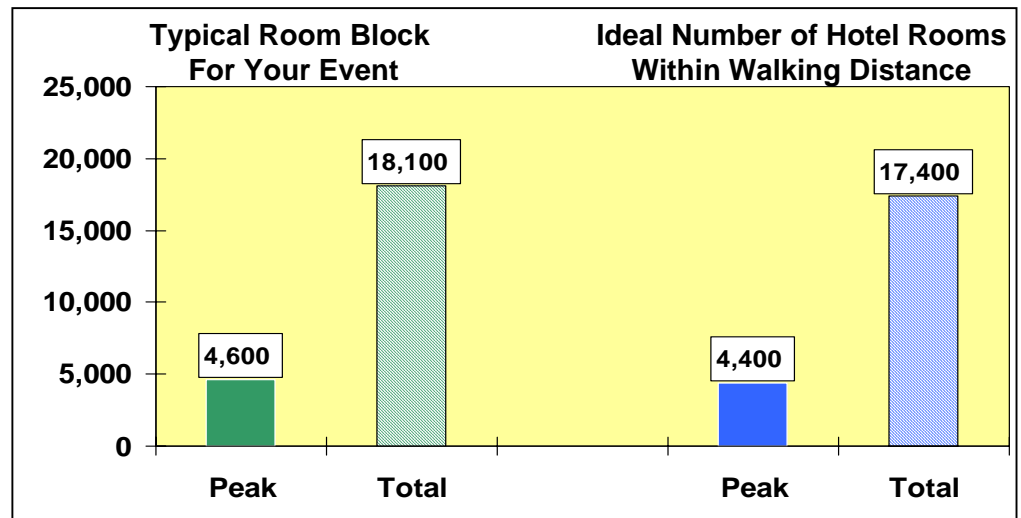
According to a survey of area hoteliers, downtown properties indicated a willingness to commit approximately 1,800 rooms for events given the NCC's current size. Local hotel representatives also indicated that this room block could be increased by 24% to approximately 2,300 rooms should an expanded or new center be developed.

Consequently, it appears that additional hotel rooms would need to be developed within walking distance of an expanded NCC or an appropriate number of hotel rooms would need to be located proximate to any new convention center based on input from meeting planners.

Groups Indicating That Nashville Is Not Currently A Potential Destination But Have Previously Met There



Groups Indicating That Nashville Is Not Currently A Potential Destination And Have Not Met There Before



Analysis of Survey Responses (cont'd)

The table below illustrates the average space needs for 1) all groups that expressed an interest in hosting their event in Nashville under one or more scenarios 2) groups that expressed an interest in hosting their event in Nashville under one or more scenarios that do not currently consider Nashville a destination with its current facilities and destination attributes. All survey respondents indicated that contiguous exhibit space was important in their decision-making which will be an important factor in assessing the potential sites for any future expansion.

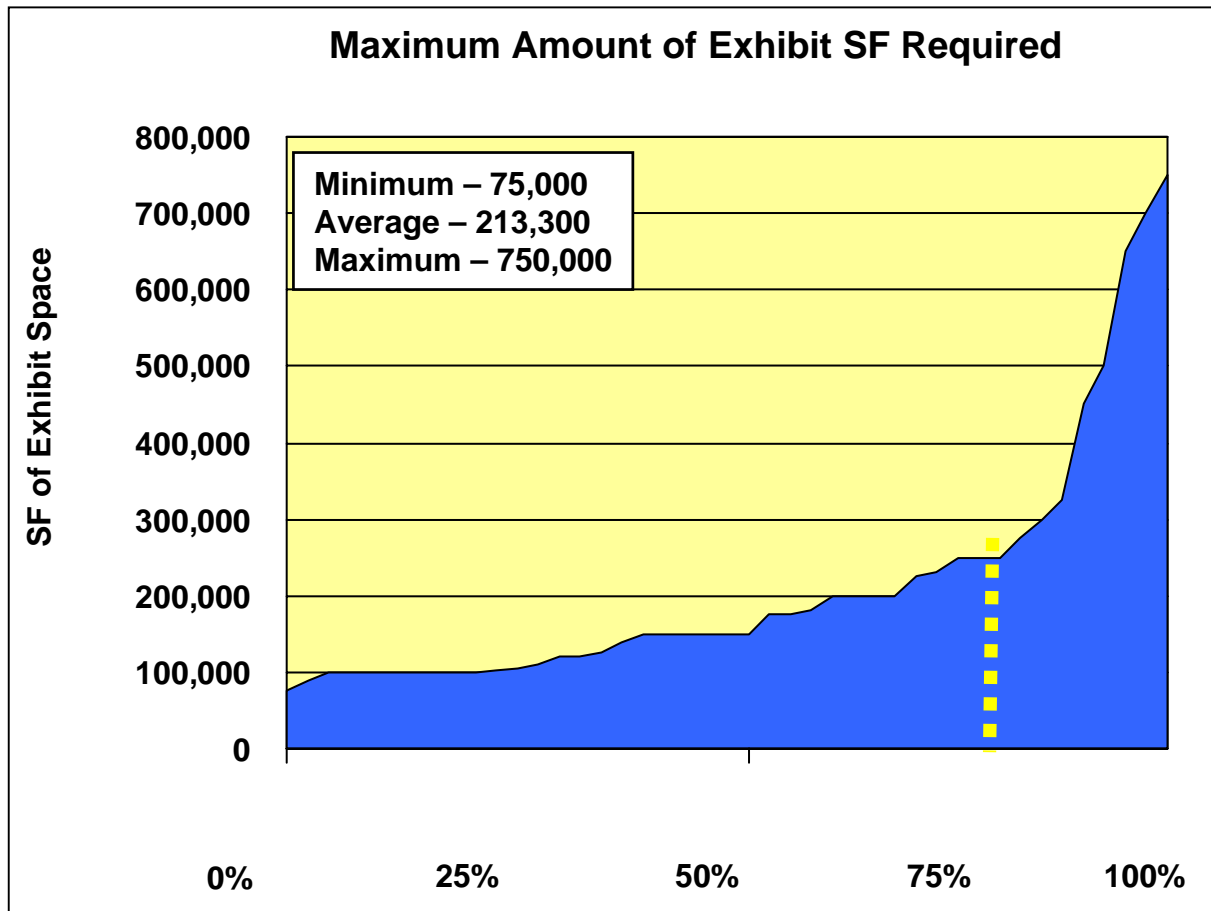
Average attendance at these events is more than three times the average convention/tradeshows hosted at the NCC in FY 2003. The overall average exhibit space needs of interested groups is nearly twice that currently offered by the NCC.

Meeting Characteristics for Groups Interested in Meeting at NCC Under One or More Scenarios (Including Status Quo)			
	All Respondents	Respondents Who Do Not Currently Consider Nashville A Destination That Have	
		Previously Met in Nashville	Never Met in Nashville
Average Attendance (including delegates, spouses, exhibitors)	9,000	8,400	10,400
Average Contiguous Exhibit SF	213,300	183,200	326,500
Average Ballroom SF	31,200	32,100	36,700
Average Seating Capacity for Largest Banquet	1,400	1,500	1,700
Average Meeting SF	51,400	49,100	69,200
Average Number of Breakout Rooms Needed Simultaneously	24	23	33
Average Event Length			
Event Days	5	5	5
Move In/Out Days	4	4	5
Total Use Days	9	9	10

The next several pages illustrate the space needs of all groups who expressed some level of interest in coming to Nashville under one or more potential development scenarios (not just potential incremental).

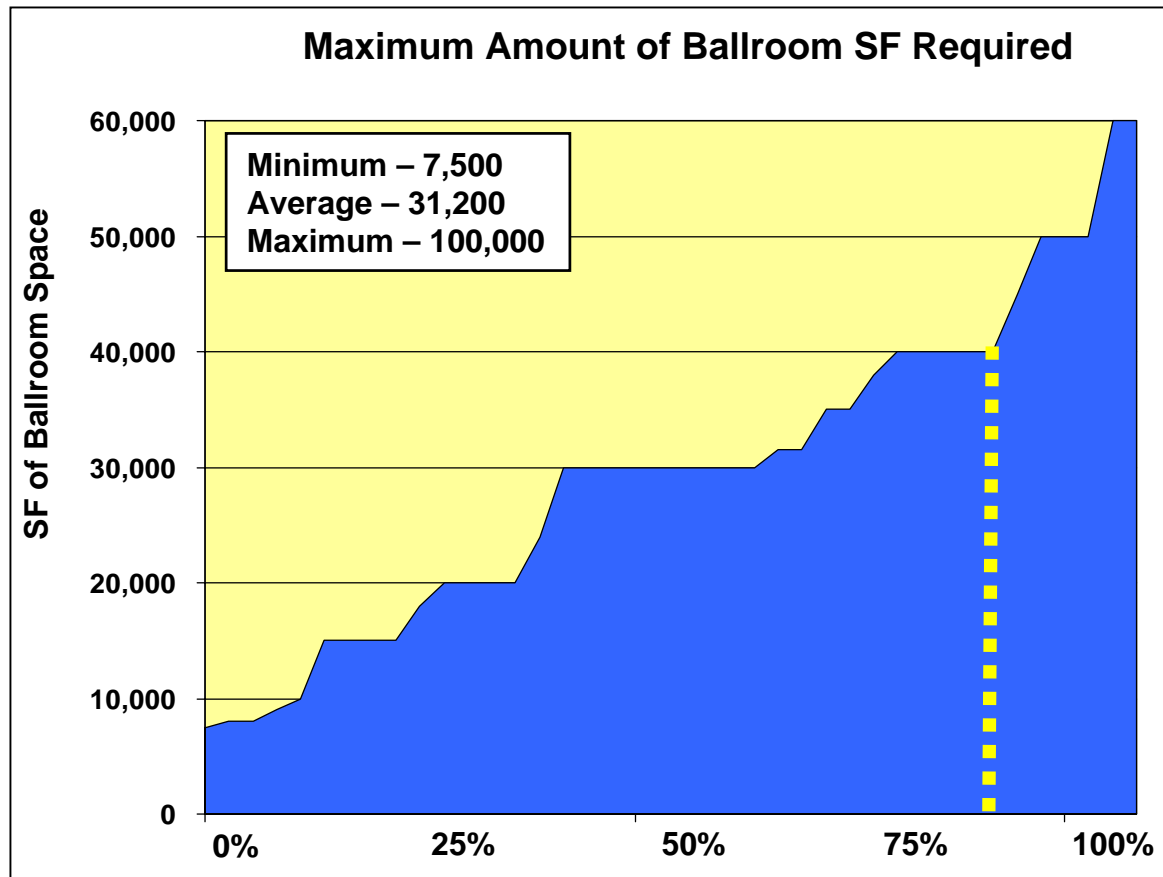
Analysis of Survey Responses (cont'd)

Eighty-one percent (81%) of survey respondents interested in hosting their event in Nashville that require exhibit space could be accommodated with a total of 250,000 SF of exhibit space. Most respondents provided a range of square footage needs. For the remainder of the space needs analysis, the maximum amount required is presented.



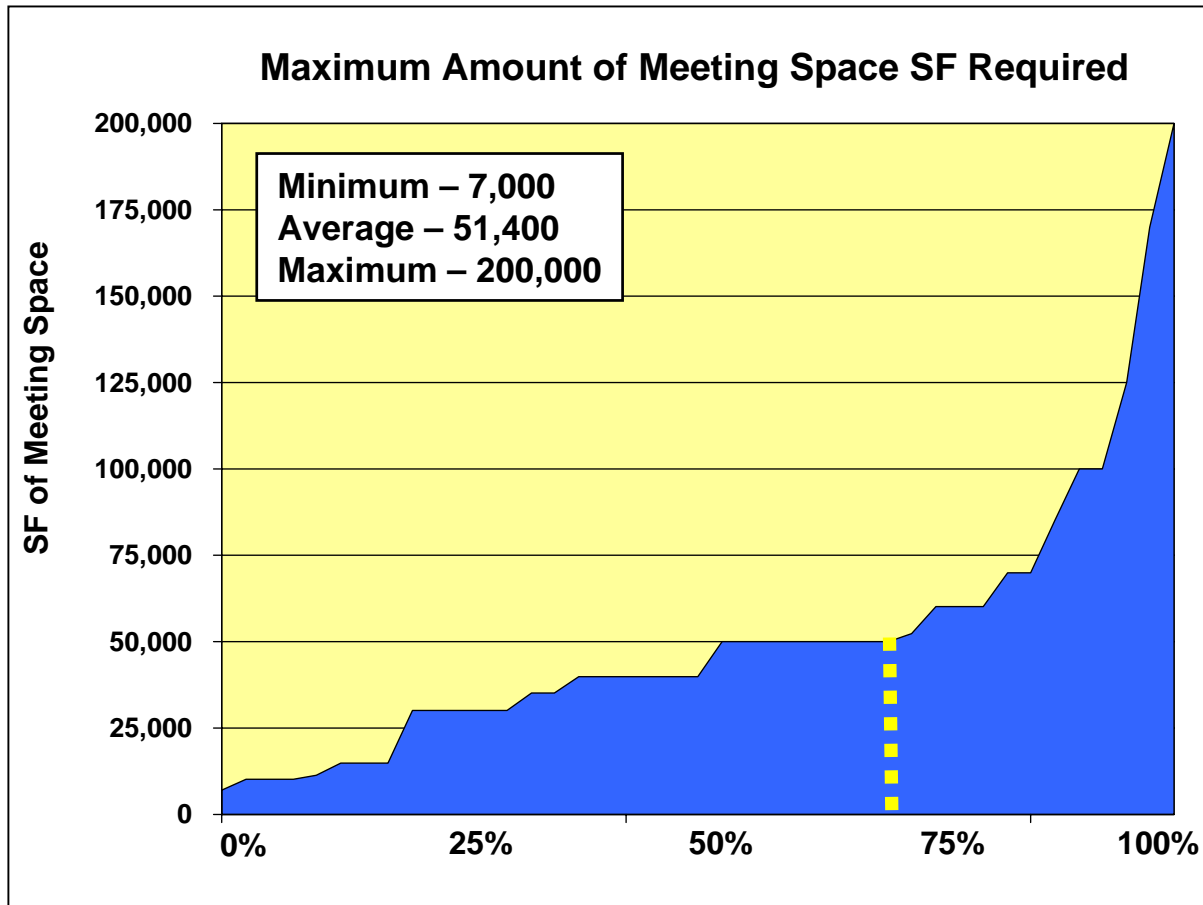
Analysis of Survey Responses (cont'd)

The NCC currently offers a 10,920 SF ballroom and the Renaissance Nashville Hotel has a 17,880 SF ballroom. In addition, the Opryland Hotel contains approximately 124,400 of ballroom space including the 55,300 SF Delta ballroom. Eighty-five percent (85%) of survey respondents interested in hosting an event in Nashville who use ballroom space could be accommodated by a 40,000 SF ballroom.



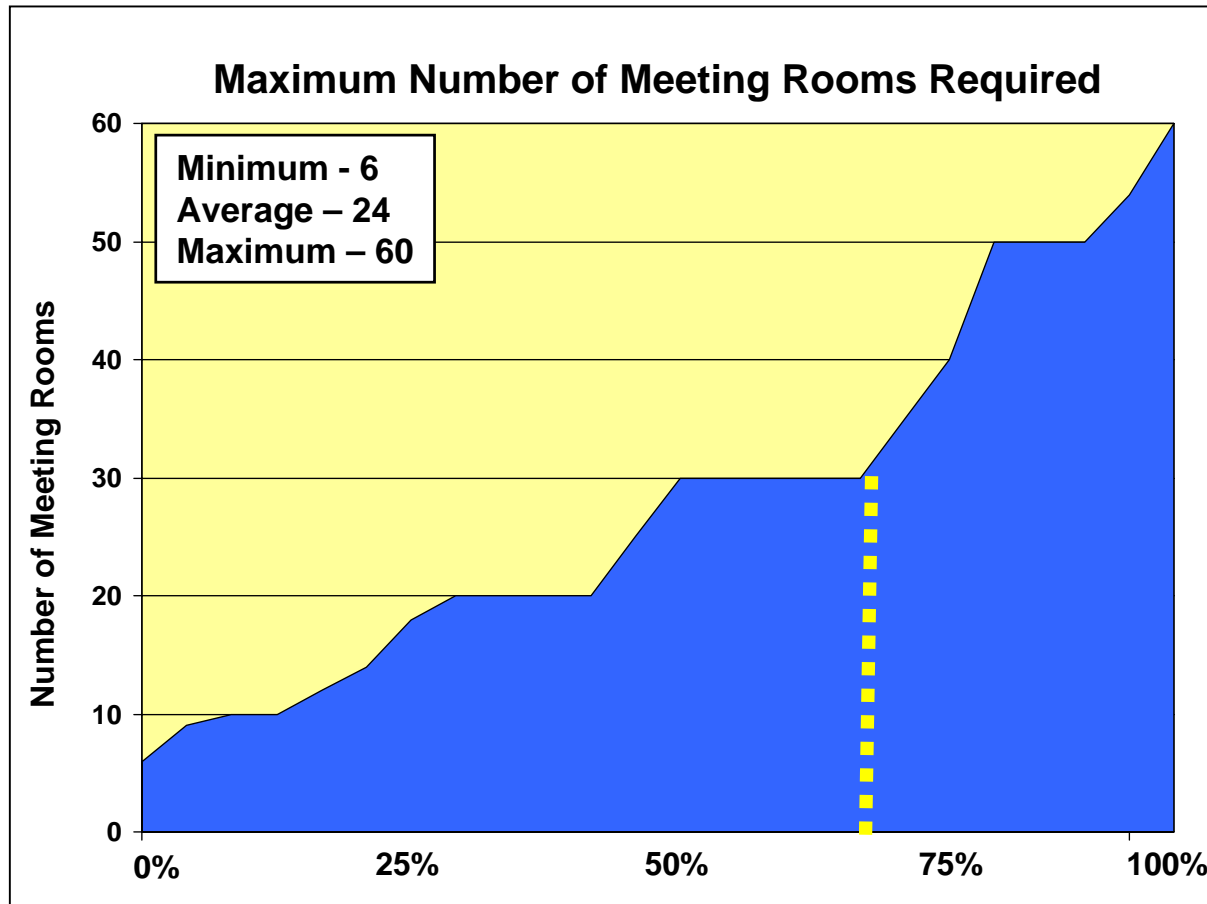
Analysis of Survey Responses (cont'd)

Of the groups interested in hosting an event in Nashville, 71% require 50,000 SF or less of meeting space. NCC currently offers approximately 20,000 SF of meeting space. In addition, the Opryland Hotel has approximately 58,100 SF of meeting space.



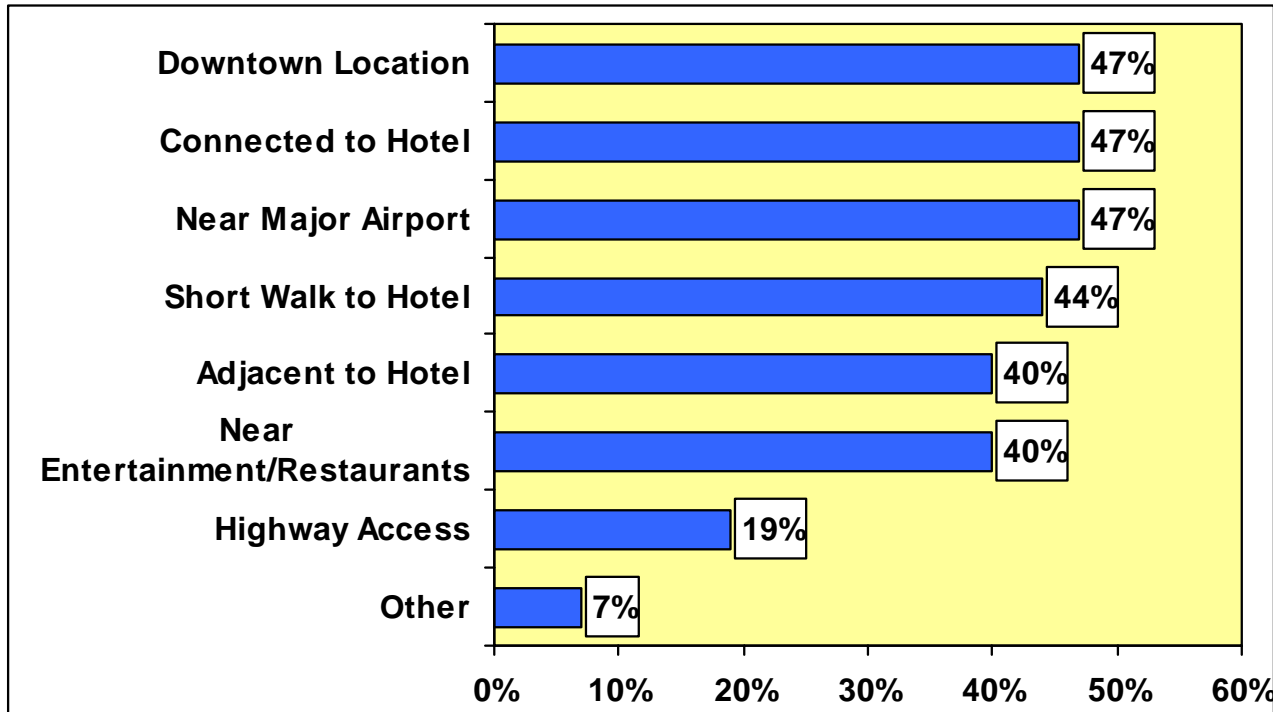
Analysis of Survey Responses (cont'd)

Of the survey respondents interested in hosting an event in Nashville, 71% require 30 meeting rooms or less. The NCC currently offers 24 rooms and the adjacent Renaissance Nashville Hotel has 25 meeting rooms totaling 11,740 SF. In addition, the Opryland Hotel has 57 meeting rooms (excluding the ballrooms).



Analysis of Survey Responses (cont'd)

Meeting planners interested in hosting their event in Nashville under one or more scenarios identified certain attributes to be **crucial** in their site selection. The following graph shows the percentage of times that each attribute was ranked among the top two most important criteria by survey respondents. Being in a downtown location, air access and connected to the hotel were the most commonly cited criteria by potential users.



Note: The "Other" category included various responses such as price/value and hotel packages.

Analysis of Survey Responses (cont'd)

The following summarizes input from meeting planners regarding the strengths and weaknesses of Nashville as a destination and/or the NCC as a convention facility. Three of the most commonly cited weaknesses are considered changeable factors.

Strengths of the Destination and the NCC

- Location
- Affordability
- Space and layout of the convention center
- Area attractions
- Ease of access
- Proximity to membership base

Weaknesses of the Destination and the NCC

- Limited hotel supply proximate to convention center
- Lack of entertainment/restaurants in downtown area
- Inadequate convention space
- Not a destination of choice for attendees

Summary of Survey Responses

The majority (80%) of survey respondents do not consider Nashville as a potential destination within their rotational pattern given the existing facility and hotel package. While some of these groups' size requirements are small enough to be accommodated by either the NCC or Opryland Hotel, in many instances groups are not able to book their event due to date availability, configuration of space and/or location of venue. The geographic scope of event attendees responding is primarily national/international who prefer using full service hotel properties.

Meeting planners consider the location of hotel supply an important decision-making criteria. The average number of peak room nights needed by survey respondents is approximately 2,650 rooms, of which 2,500 rooms should ideally be located within walking distance. Although some survey respondents indicated that using multiple hotel properties may be a competitive disadvantage, all indicated that they would consider multiple hotels to house their delegates.

Survey responses indicated the most interest in hosting their event at a new facility if it was built in conjunction with a new headquarters hotel. However, there was not a significant difference in the interest levels between this scenario and expansion on one level. Contiguous exhibit space was considered critical to 100% of the survey respondents indicating that a vertical expansion would be less preferred.

The following is a summary of the percent of all respondents interested in hosting their event in Nashville under one or more scenarios that could potentially be accommodated in the convention space as specified:

- 81% could be accommodated with 250,000 SF or less of exhibit space
- 85% could be accommodated with a 40,000 SF ballroom
- 71% could be accommodated with 50,000 SF or less of meeting space
- 71% could be accommodated with 30 meeting breakout rooms

Table of Contents

1	Report Letter	1
2	Introduction & Executive Summary	4
3	Industry Trend Overview	29
4	Nashville Market Overview	54
5	Nashville Convention Center Utilization Analysis	74
6	Competitive/Comparable Market Analysis	105
7	Meeting Planner Surveys	129
8	Summary of Market Findings	151
9	Programming & Site Planning Issues	169
10	Financial Analysis	187

Summary of Market Findings

The primary objectives of the market demand assessment are to assist Metro in assessing the following:

- How the current business climate and trends in the industry, including historical and projected supply of convention center space, may impact the potential expansion of the NCC or construction of a new facility;
- Whether market demand appears strong enough to support expansion of the existing NCC or construction of a new convention center;
- Which target markets and current users are not currently being accommodated by the existing facilities in the market, specifically the NCC and Opryland Hotel, and whether expansion or new construction would address their needs; and
- If additional convention center space appears warranted by demand, what are the future building components and infrastructure elements (i.e. headquarters hotel, number of downtown properties, parking) that are needed to address users' requirements.

The analysis presented in the previous five sections of the report including an overview of trends in the industry, an overview of market characteristics, an analysis of historical utilization for the NCC, an analysis of lost business and future bookings, a comparison of convention facility and destination attributes for competitive/comparable markets, input from various stakeholders including facility management, hoteliers, the CVB, area business organizations, as well as meeting planners, revealed several findings that support the need for additional convention space either through the expansion of the NCC or development of a new convention center in downtown Nashville from a market demand perspective. However, this research also highlighted several market factors that should be considered in conjunction with any plans for additional convention space.

Summary of Market Findings (cont'd)

The following factors, which were discussed in more detail earlier in this report, suggest that there is market demand for additional convention space in Nashville that cannot currently be accommodated by the existing facilities.

- The existing NCC is highly occupied and maintained practical maximum occupancy throughout the last three fiscal years at a time when many other centers experienced a decline in convention/tradeshows activity due to recent world events and changes in the economy.
- Nashville is a popular destination for national conventions and tradeshows.
- Demand for exhibit space is projected by industry sources to continue to grow in the future.
- Lost business reports of the CVB indicate Nashville is currently losing business because of facility-related limitations such as space and date availability. This point was reiterated by management at both the NCC and Renaissance Nashville Hotel.
- Competitive/comparable destinations host conventions/tradeshows that are twice the size of those held at the NCC.
- According to input from industry representatives and the results of user surveys, groups typically prefer either a downtown center or an all-inclusive suburban property for their meetings. This suggests that the NCC and the Opryland Hotel provide Nashville the opportunity to attract two distinct potential market segments.
- Approximately 80% of user survey respondents do not currently consider Nashville a potential location for their event given its existing supply of space, which includes both the NCC and the Opryland Hotel, and infrastructure elements. Over 75% of these groups, however, would consider Nashville if a) the NCC was expanded contiguously or b) a new center with a headquarters hotel was developed.
- In summary, research indicates Nashville has the opportunity to increase its base of conventions and meeting business by hosting more similar sized groups simultaneously as well as larger groups that cannot currently be accommodated by offering more convention space in downtown.

Summary of Market Findings (cont'd)

Results of the market demand assessment indicated several factors that Metro should consider in its planning efforts related to additional convention space in Nashville which are summarized below:

- Industry trends indicate that the convention and meetings industry is becoming even more competitive as hotel companies, including Gaylord and Mandalay Bay, continue to make major investments to expand their exhibit space and convention hotel properties.
- Another concern in the industry is the oversupply of convention space through expansion and new construction. Industry sources indicate that the increase in supply of space coupled with the decrease in demand over the last several years has put downward pressure on rental rates at convention centers of varying sizes.
- The decrease in demand for convention space, which is primarily attributable to economic conditions, has put first-tier cities and privately-owned hotels in competition with second-tier convention centers for business in recent years. This is supported by user survey results wherein many users indicating interest in meeting at a new or expanded NCC have held past events in first-tier cities.
- Based on input from meeting planners, additional infrastructure requirements will likely be required in order to consistently attract larger, national conventions and tradeshow. Specific factors mentioned include an increase in hotel supply proximate to an expanded NCC or a new convention center, improved air access in terms of the number of direct flights, and more retail/restaurant/entertainment options downtown. Although air access was mentioned as a disadvantage factor by some meeting planners, both the NCC and the Opryland Hotel have been successful in attracting national events. In addition, the Nashville International Airport compared favorably with other competitive destinations in terms of enplanements. However, the overall air accessibility, particularly in terms of direct flights, could potentially be more of an issue for attracting significantly larger, national groups with any additional convention space.
- Any expanded or new convention space in downtown Nashville could encounter competition from the Opryland Hotel should this privately owned property choose to alter its size and configuration, business plan and/or marketing strategy.

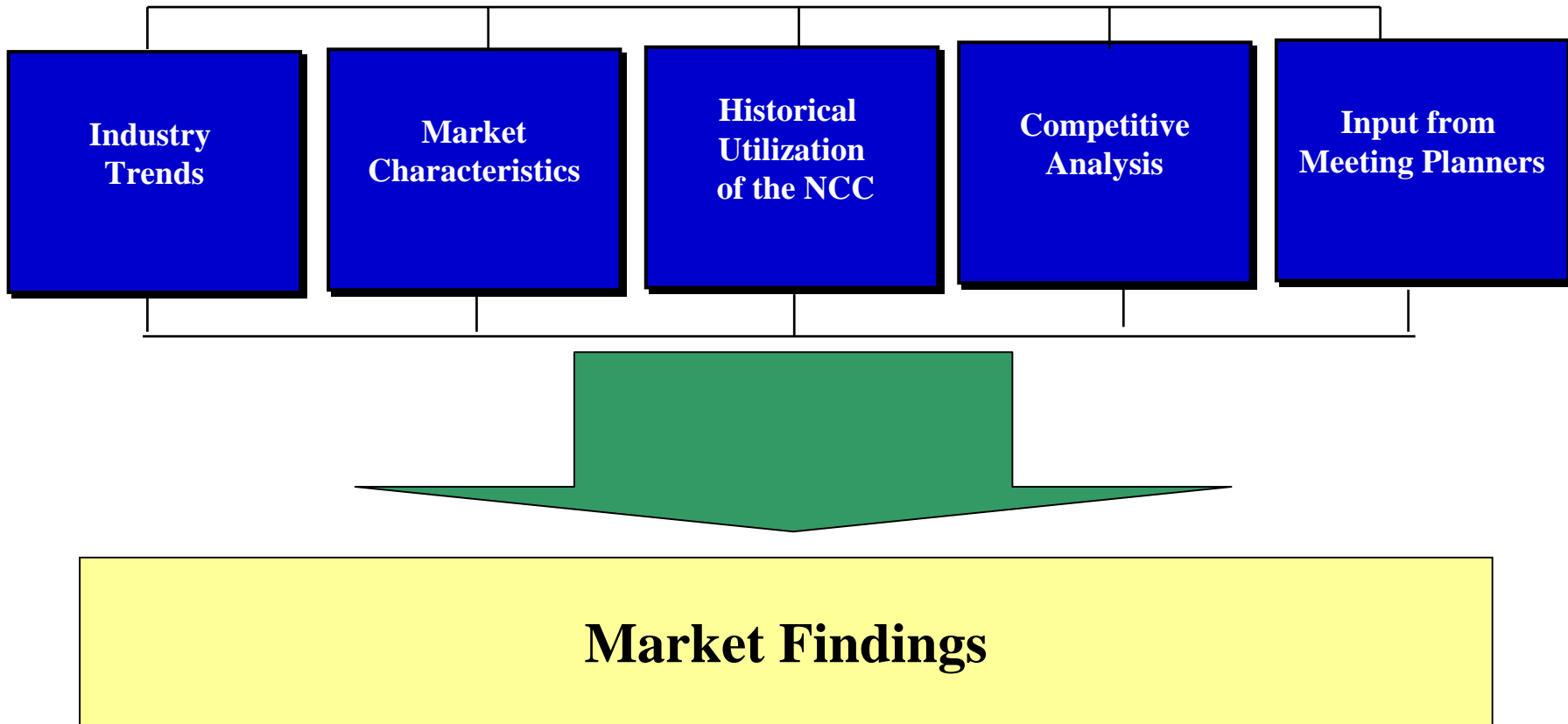
Summary of Market Findings (cont'd)

Several industry sources note that the convention and meeting industry is recovering from the cyclic downturn and will continue to rebound as the economic outlook improves. The downward pressure on rental rates as well as competition from hotel properties and first-tier convention centers are likely to decrease as the economy improves and demand increases. This is supported by industry data indicating meeting planners are predicting greater use of convention centers and higher growth in meeting budgets.

It should also be noted that the NCC was able to sustain an increase in meeting space rental rates in late 2001. While this rate increase may have contributed to the decline in the number of meetings the NCC hosted in subsequent years, the level of event activity at the NCC generated from conventions, tradeshow and other events remained relatively consistent over the last few fiscal years. Further, the NCC maintained high occupancy rates over the last several years despite industry-wide competition from hotel properties and the existence of the Opryland Hotel in its immediate market. Given this historical performance during economically challenging times and the potential for an economic rebound in the convention/tradeshow industry, the NCC seems well-positioned to withstand some downward pressure on rental rates.

Based on several factors including, but not limited to, industry trends, the comparative analysis and input from meeting planners, any expanded or new convention space would need to be developed in conjunction with additional hotel supply proximate to the facility. This will be particularly important in order to attract larger, national conventions and tradeshow given meeting planners' high ranking of this characteristic and the package offered at other competitive facilities. Other elements such as air access, retail, entertainment and restaurants would likely be positively impacted by the increased demand from more simultaneous and larger events hosted downtown. This increase in demand could be one factor in attracting new businesses. Any new development in these industries would also improve the quality of life for residents as well as visitors.

Several Factors Impact the Potential Market Demand For An Expanded NCC or A New Downtown Convention Center



Summary of Market Findings (cont'd)

Industry Trends

The recent world events of September 11, 2001, the War on Iraq, the War in Afghanistan, and the SARS epidemic have had a significant impact on the overall economy including the convention and meetings business. For instance, many groups are more cost-conscious than in the past and some people are still reluctant to travel. Although the landscape of the competitive market is changing, the convention and meetings industry is still vital and projected to continue to experience future growth. Regional and national competitors to the NCC are continuing to upgrade and expand their facilities although the projected rate of growth in supply is anticipated to slow.

As discussed earlier, competition for the NCC includes similarly-sized convention centers as well as larger convention centers in first-tier cities and hotels that offer significant exhibit, meeting and/or ballroom space such as the Opryland Hotel. In addition to favorable destination attributes, many of these facilities are able to offer a more competitive package in terms of financial incentives to meeting planners. The recent increases in the supply of exhibit, meeting and ballroom space at convention centers and hotels, coupled with the decline in demand, has put downward pressure on rental rates. In recent years, some centers have highly discounted or eliminated space rental in order to attract some groups. As mentioned previously, however, the NCC has maintained high occupancy and even instituted space rate increases during the last several years. This suggests strong demand for convention space in Nashville. In addition, industry data suggests the downward pressure on rental rates may begin to shift as meeting planners are predicting greater use of convention centers and higher growth in meeting budgets. These trends indicate that supply growth is leveling off and demand is beginning to rebound.

The increasing use of technology and standardized practices in meeting planning is allowing for less lead time and requires greater flexibility on the part of the venue to accommodate each organization. This trend will require publicly owned facilities to institute less bureaucratic processes for bidding on meetings in order to increase competitiveness with privately owned facilities such as hotels and conference centers.

Summary of Market Findings (cont'd)

Market Characteristics

Population and income of the Nashville MSA have experienced growth over the last five years and are projected to continue over the next five years. Most common employment sectors in Nashville include services, trade and health care. These represent natural target markets for the NCC. Five of Nashville's top 25 employers, in terms of number of full-time equivalents (FTEs), are in the health care field. This industry is the largest in terms of meetings and has withstood the effects of September 11, 2001 and the U.S. recession better than many other industries. According to meeting industry representatives, healthcare is projected to experience the greatest growth in terms of professional and trade events. These groups are likely to meet at professional and trade events to market their products, host seminars on the latest research and exchange ideas. In addition, medical groups such as doctors' and nurses' associations and pharmaceutical companies are typically less price-sensitive in terms of space and hotel room rates. Thus, these groups typically present greater potential financial return to the City in terms of operating revenues and economic and fiscal impacts.

Davidson County has more than 17,000 hotel rooms, of which approximately 2,600 are located in downtown Nashville. However, with any additional convention space in the market, certain infrastructure improvements will be necessary including, but not limited to, more convention quality hotel rooms and high-end restaurants. This is consistent with the findings of the user survey analysis as well as comments from local hoteliers and representatives in Nashville.

The overall affordability of Nashville, its central location within the Country and its varied attractions make Nashville an attractive destination to meeting planners. Nashville's image as the "Music City" has become branded in the travel industry. This, along with consistent marketing by area hotels, the NCC, Opryland Hotel and the Nashville CVB has led to greater national exposure.

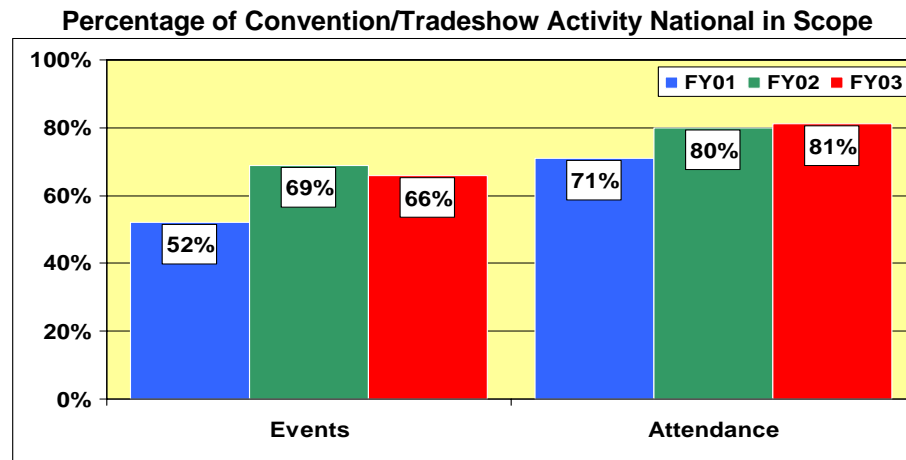
Summary of Market Findings (cont'd)

Historical Utilization

Nashville has been successful in attracting events to downtown. The NCC hosts a variety of events, averaging 225 events and 353,000 in attendance annually over the past three fiscal years. Despite the recent world events and changes in the economy, the NCC is operating at 70% occupancy, which is considered to be at practical maximum capacity. This is particularly strong given the presence of the Opryland Hotel.

An increasing percentage of conventions at the NCC are including exhibits as part of their event. In aggregate, occupancy of the NCC's exhibit halls has ranged between 74% and 77% over the last three fiscal years. Although the majority of conventions and tradeshows have utilized one to two exhibit halls, a growing percentage of these events over the last two years have required all three exhibit halls. The vast majority (83%) of conventions and tradeshows are using all three sections of the ballroom. In addition, a growing percentage of conventions and tradeshows are requiring nearly all of the NCC's meeting space.

In addition, an increasing percentage of conventions and tradeshows are national in scope which suggests that Nashville's reputation on a national level is increasing.



Summary of Market Findings (cont'd)

Historical Utilization (cont'd)

An analysis of historical event activity suggests that Nashville has been able to withstand the economic downturn and other world events better than some markets which could be attributable to its accessibility, affordability, and destination appeal along with the marketing efforts of the CVB and other entities. Although both existing and potential users indicated interest in meeting in Nashville, the following summarizes constraints of the NCC and the market identified by survey respondents as well as from lost business reports:

- Limited Date Availability
- Lack of Exhibit Space
- Inadequate Breakout Space
- Limited Hotel Supply Proximate to the Center
- Lack of Entertainment/Restaurants Downtown
- Not a Destination of Choice for Attendees

As shown, several of these are changeable factors that could be positively impacted through various development initiatives which could benefit both residents and out-of-town delegates. Facility-related reasons represented 12% of lost business in terms of events, 26% of attendance and 22% of room nights. These events represented approximately 245,000 attendees and 337,000 room nights which represents significant potential lost economic impact to the community.

In addition to the lost business reports, the Nashville CVB has identified nearly 160 events in aggregate over the past several years that were lost while in *prospectus* status for the following reasons: too large for NCC, too big for Nashville either at NCC or Opryland Hotel, and would not consider Opryland Hotel. Reasons may include amount, location and/or configuration of function space. These events represent another potential demand source with a variety of space needs that cannot currently be accommodated in Nashville.

Management at both the NCC and the Renaissance Nashville Hotel, which is one of the NCC's largest customers, noted an increasing amount of lost business opportunities at the NCC due to the lack of space and date availability.

The NCC currently has 148 events booked for 2005 through 2010. However, management at the NCC indicated that it has noticed a shift to less national business in future bookings which is partially attributable to the amount of exhibit space currently offered.

Summary of Market Findings (cont'd)

Impact of the Opryland Hotel

With approximately 289,000 SF of exhibit space and 182,500 SF of meeting/ballroom space, the Opryland Hotel is Nashville's primary convention facility in terms of space. Both the NCC and Opryland Hotel have been successful in hosting national association business which suggests strong market appeal of Nashville in this niche.

Although the two facilities occasionally compete for events, in many instances, some groups prefer to meet either in a downtown convention facility with an adjacent hotel that offers a variety of restaurants, hotels, shopping and entertainment within walking distance or in a suburban location that offers a self-contained facility where they can eat, meet and sleep under the same roof.

Based on information provided by facility management, the Opryland Hotel focuses its marketing efforts on groups that require between 100,000 SF and 150,000 SF of exhibit space rather than on groups that would utilize the entire complex. Groups that require more than 150,000 SF of exhibit space tend to require a greater number of move-in/move-out days which do not generate a large number of room nights. In addition, events requiring significant exhibit space do not necessarily equate to occupying a large number of hotel rooms. Approximately 70% to 75% of total room nights at the Opryland Hotel are attributable to exhibit hall usage.

In addition to the Opryland Hotel in Nashville, Gaylord Hotels also owns and operates the Gaylord Palms in Kissimmee, Florida and the newly opened Gaylord Texan in Grapevine, Texas. Both of these facilities offer approximately 179,000 SF of exhibit space along with additional meeting/ballroom and pre-function space. Gaylord Hotels also has plans to increase by eight to ten world-class, purpose-built properties nationwide including a proposed facility outside of Washington, D.C. in Prince George's County, Maryland.

The marketing strategy used by Gaylord Hotel properties focuses on targeting efforts to groups requiring 600 or more peak room nights. This target market segment typically requires large blocks of rooms and meeting space and books at least two to four years in advance. In many cases, these groups will sign contracts with damages for their required capacity and provide for average daily rate increases. In addition, the majority of these groups rotate their meeting site. Gaylord Hotels' strategy is to provide a quality product, excellent customer service and "one-stop shopping" for a multi-day event with the objective of getting customers to agree to multi-year, multi-property, rotational bookings among its properties.

Summary of Market Findings (cont'd)

Competitive/Comparable Market Analysis

Historically first-tier destinations, generally defined as those in large markets with significant hotel supply that host some of the largest exhibit events in the country, competed with a limited number of large facilities in similarly-sized destinations. However, recent changes in the economy and other factors have caused these venues to focus on attracting more mid-sized events in order to fill their calendar. As such, second-tier destinations, such as Nashville, find themselves competing with some first-tier destinations such as Atlanta, Dallas, New Orleans and Orlando as well as other comparable second-tier destinations. In the future, this trend is likely to diminish as the economy and convention/tradeshows business rebound.

The NCC and the Opryland Hotel both offer less exhibit space than the average of the profiled facilities which is 313,000 SF. Several smaller destinations in terms of population, including Grand Rapids, Memphis and Hartford, have or will have larger convention centers than the NCC which is the smallest facility among the profiled competitive/comparable centers. Both NCC and the Opryland Hotel have a higher ratio of meeting/ballroom space to exhibit space than the profiled facilities.

In addition, Nashville is in a unique competitive position given the presence of both the NCC and the privately-owned and operated Opryland Hotel with its first-class hotel, resort and amenities package. Several other competitive/comparable destinations offer multiple exhibit venues including Minneapolis-St. Paul, Kansas City, Charlotte, Columbus and Salt Lake City. However, most of these facilities are publicly owned.

On average, the NCC hosted 20% more conventions and tradeshows than a sample of the competitive/comparable set which is particularly positive given the presence of Opryland Hotel in the Nashville market. However, on average, conventions/tradeshows at the NCC attracted significantly fewer attendees than at the profiled centers. This could be due, in part, to both facility space limitations as well as destination attributes including limited hotel supply relative to other competitive destinations.

The Nashville CVB's budget (\$8.37 million) is higher than the average of the profiled set (\$7.06 million). It is also important to recognize that the Opryland Hotel spends significant dollars to market its property and Nashville.

Summary of Market Findings (cont'd)

Input from Meeting Planners

According to survey responses, there appears to be additional demand for convention space in Nashville that cannot currently be accommodated by the NCC and Opryland Hotel. While some of these groups' size requirements are small enough to be accommodated by either the NCC or Opryland Hotel, in many instances groups are not able to book their event due to date availability. Both the NCC and Opryland Hotel host a significant amount of national business indicating that Nashville is a popular market for this niche.

Of the survey respondents who had met in Nashville, 56% had met at the NCC and 44% had met at the Opryland Hotel. The majority (80%) of survey respondents do not consider Nashville as a potential destination within their rotational pattern given its existing facilities and destination package. Reasons given included the amount, location and configuration of space as well as hotel supply. In theory, these groups represent potential incremental business to Nashville.

March, May and October are the most popular months for annual conventions. The geographic scope of event attendees is primarily national/international who prefer using full service hotel properties. Although some survey respondents indicated that using multiple hotel properties could be a potential disadvantage, all indicated that they would consider multiple hotels to house their delegates.

Survey responses indicated the most interest in hosting their event at a new facility if it was built in conjunction with a new headquarters hotel. However, there was not a significant difference in the interest levels between this scenario and expansion of the NCC on one level. Contiguous exhibit space was considered critical to 100% of the survey respondents indicating that a vertical expansion would be less preferred. In addition, many survey respondents indicated a preference for a downtown facility rather than a suburban location such as the Opryland Hotel. However, meeting planners indicated that additional retail, restaurants and entertainment options downtown as well as improved air access in terms of direct flights will likely be required to support any significant expansion or construction of new convention space.

Summary of Market Findings (cont'd)

Input from Meeting Planners (cont'd)

Meeting planners consider the proximity of hotel supply an important decision-making criteria. Of the survey respondents interested in meeting in Nashville under one or more potential development scenarios, the average peak room block typically required by meeting planners was 2,650, of which approximately 2,500 would ideally be located within walking distance.

The following summarizes the space requirements of groups that expressed an interest in coming to Nashville under one of more of the potential development scenarios:

- 81% could be accommodated with 250,000 SF or less of exhibit space
- 85% could be accommodated with a 40,000 SF ballroom
- 71% could be accommodated with 50,000 SF or less of meeting space
- 71% could be accommodated with 30 meeting breakout rooms

In addition, the average attendance for survey respondents including delegates, spouses and exhibitors was 9,000, which is significantly higher than what the NCC has hosted.

Summary of Market Findings (cont'd)

Input from Meeting Planners (cont'd)

The majority of weaknesses mentioned by survey respondents were destination-related as opposed to facility-related. Perception of Nashville (specifically among those individuals who had not previously visited), lack of downtown retail, entertainment and restaurants as well as limited number of hotel rooms proximate to the convention center were the most frequently cited weaknesses. Facility-related weaknesses mentioned in the survey include amount and configuration of space and contiguous space as well as date availability. Other cities where survey respondents have previously met included New Orleans, Orlando, San Diego and San Francisco which are all first-tier markets as well as San Antonio, Baltimore and Kansas City which are second-tier cities.

As discussed previously, many of these destinations offer larger convention centers, more hotel rooms, retail, restaurants and entertainment options proximate to the facility, better air access and first-tier market drawing power which gives them an advantage over Nashville particularly in context of the NCC. Both the NCC and the Opryland Hotel offer headquarter hotels which is likely an advantage over other destinations. However, with any additional space, survey respondents indicated that an appropriate number of convention quality hotel rooms and restaurants would be required in order to make Nashville more attractive, particularly to some high-end professional associations. This is consistent with input from local stakeholders and representatives of national organizations representing meeting planners.

As a point of reference, the Renaissance Nashville Hotel offers nearly 700 rooms. However, survey respondents who expressed an interest in Nashville under one or more scenarios indicated that they needed an average of approximately 900 to 1,000 committable rooms in the headquarters hotel property. The available number of committable hotel rooms within walking distance will need to be considered with any expanded or new space.

Summary of Market Findings (cont'd)

Preliminary Building Program Recommendations

As discussed previously, it appears that there are groups interested in meeting in Nashville that are currently not able to be accommodated by existing facilities in the market. As a point of reference, potential business for additional space could come from a variety of sources. For instance, the CVB has identified numerous groups that could potentially meet in Nashville if more convention space is available.

Information from the IACVB indicates that there are approximately 1,360 conventions and meetings in the U.S. that require between 101,000 SF and 301,000 SF that rotate throughout the country, many of which rotate in the region. In addition, an expanded or new facility offering 300,000 SF could accommodate the exhibit space needs of 86% of the survey respondents who expressed an interest in hosting their event in Nashville. These groups are a sample of a much larger potential market of conventions and tradeshow.

Based on data from *Tradeshow Week*, the existing NCC can accommodate approximately 52% of the exposition market and the Opryland Hotel can host 78% of this market. It is important to note that this breakdown is solely based on the required square footage of exhibit space and no other meeting planners' requirements such as contiguous and/or column-free exhibit space, meeting/ballroom space, hotel supply and venue location, etc. In addition, many events remain in the same geographic location and do not rotate among cities. Given the amount of contiguous space at the Opryland Hotel and management's market focus towards national conventions and meetings, this facility would not likely be a preferred venue to host tradeshow.

If additional convention space is not developed in Nashville either through expansion of the existing NCC or construction of a new facility, it is likely that the City will experience a shift in market share in the long-term. While the NCC would likely be able to replace events that leave downtown because of space and/or date requirements, the replacement event activity would likely consist of more State association business, which typically consists of a large drive-in attendee base, and public/consumer shows, which can be more favorable to the bottom-line but generate less room nights and associated economic and fiscal impacts. In order for Nashville to retain its existing base of business and grow its market share, particularly in the regional and national convention/tradeshow market, additional exhibit, meeting and ballroom space appears warranted based on the market analysis research.

Summary of Market Findings (cont'd)

Preliminary Building Program Recommendations (cont'd)

Based on the market analysis, the preliminary building program recommendations for an expanded or new convention center in downtown Nashville are as follows:

Component	Square Footage of Space		
	Existing Facility	Preliminary Space Recommendations	
Exhibit Hall (SF)	118,700	250,000 -	300,000
Ballroom (SF) ¹	10,900	40,000 -	50,000
Meeting Space (SF)	19,800	60,000 -	70,000
Total Function Space	149,400	350,000 -	420,000
Ratio of Meeting/Ballroom Space to Exhibit Space	26%	40%	40%

Note: ¹ Ballroom space excludes Renaissance Hotel Ballroom.

It should be noted that these square footage amounts do not represent any support space such as prefunction and registration areas, circulation space, storage and restrooms. The exhibit space should have at least 30-foot ceiling height, be column-free and contiguous in order to increase competitiveness and better meet users' needs. The meeting and ballroom space should be column-free and divisible in order to offer groups maximum flexibility. In addition, modern amenities such as high-tech capabilities for meeting planners and users should be instituted to increase the facility's marketability.

Further, it is important to understand that the building size alone will not attract new and larger events to the market. There needs to be sufficient surrounding infrastructure in order to support the facility (i.e. hotel rooms, restaurants, retail, entertainment, etc.). In recent years, the number of restaurants within downtown Nashville has been declining. Survey respondents indicated that an appropriate number of committable hotel rooms would need to be within walking distance to support any expanded or new convention center.

In evaluating the merits of adding convention space in downtown, Metro needs to assess what its overall investment may be for both the expanded or new convention center as well as the related infrastructure relative to its anticipated rate of return.

Summary of Market Findings (cont'd)

Based on the findings of the market analysis, Metro ascertained that there is sufficient market support to further analyze the financial implications associated with the potential development of additional convention space in downtown Nashville and authorized KPMG and HOK to perform additional analyses related to the following:

- Develop a more detailed building program;
- Develop potential expansion alternatives;
- Prepare preliminary construction cost estimates for each expansion alternative and provide a comparison to a new convention center irrespective of site;
- Assist management in preparing an estimate of operating revenues and expenses as well as economic/fiscal impacts associated with the project;
- Identify potential funding sources; and
- Prepare a preliminary cost/benefit analysis for the project.

Table of Contents

1	Report Letter	1
2	Introduction & Executive Summary	4
3	Industry Trend Overview	29
4	Nashville Market Overview	54
5	Nashville Convention Center Utilization Analysis	74
6	Competitive/Comparable Market Analysis	105
7	Meeting Planner Surveys	129
8	Summary of Market Findings	151
9	Programming & Site Planning Issues	169
10	Financial Analysis	187

Programming & Site Planning Issues

Introduction

As part of this study, HOK Venue worked to develop a series of options for the possible expansion of the Nashville Convention Center. These options are illustrated in this section, along with a conceptual cost estimate for each option's construction and total project cost. To be thorough, this study examined four expansion scenarios, each with particular advantages and disadvantages. Although all four expansion scenarios are possible, not all four are equally desirable.

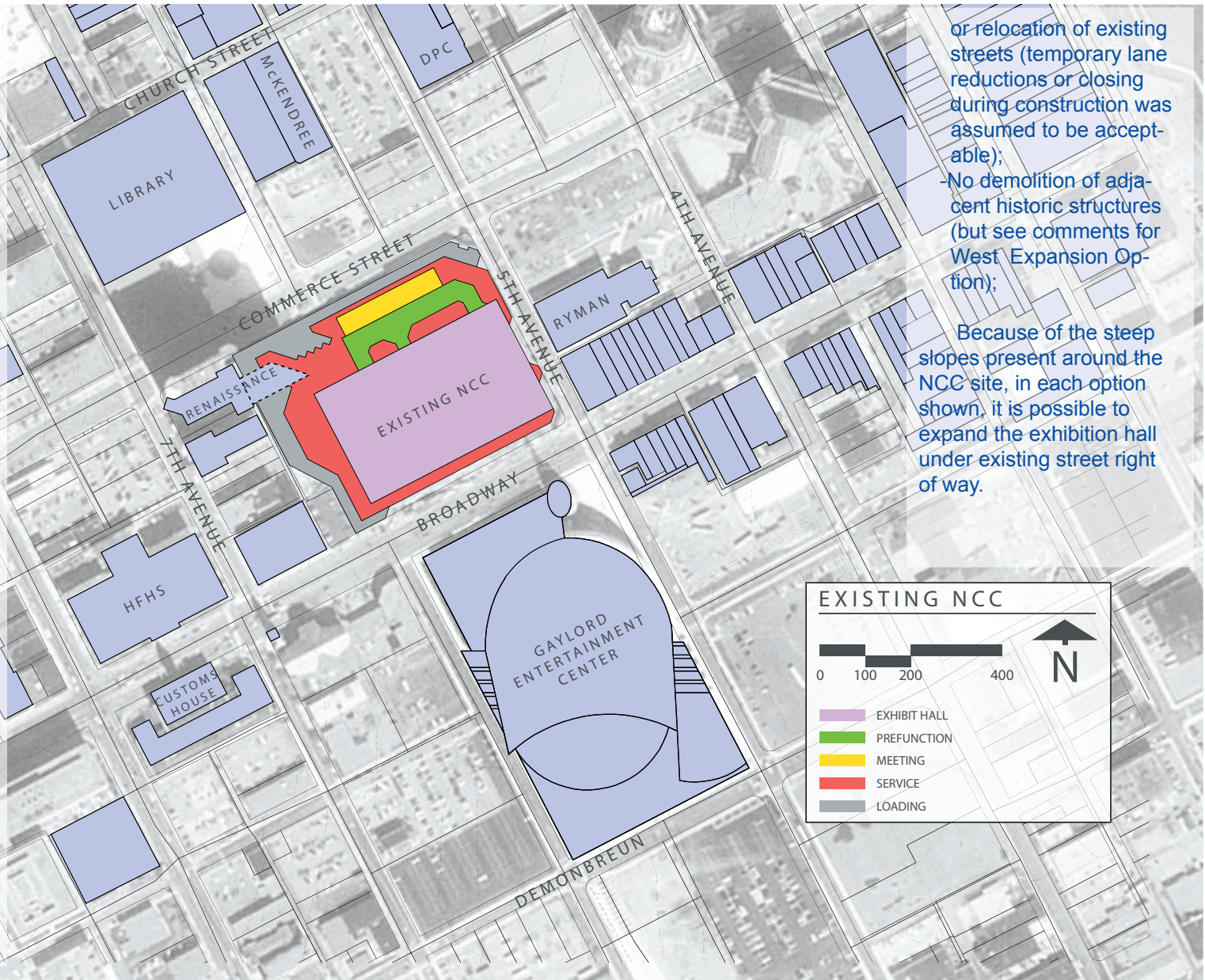
This study is conceptual in nature and does not address every aspect of the expansion scenarios. In each case, however, the following goals have been respected:

- Contiguous exhibit space at the same elevation as the current NCC exhibit hall;
- A strategy for how the new and existing exhibit halls would be serviced by trucks;
- No permanent closing

or relocation of existing streets (temporary lane reductions or closing during construction was assumed to be acceptable);

-No demolition of adjacent historic structures (but see comments for West Expansion Option);

Because of the steep slopes present around the NCC site, in each option shown, it is possible to expand the exhibition hall under existing street right of way.



NCC Expansion Options

The table below summarizes the total function space resulting from various expansion options. Of the building expansion options studied, the north and south expansion options have the potential to achieve the stated targets for total function area in the bottom left table. This could be accomplished by minor design adjustments to the concept plans. The other two expansion options provide from 84 to 88 percent of the lower threshold recommendation for exhibit hall

Space & Cost Summary

space. All the expansion options meet or exceed the recommendation for total ballroom and meeting room space.

The build new option (table at lower right), which does not relate to a specific site, has the potential to meet recommended space targets at either the high or low end, but at a significantly higher cost than any of the NCC expansion options.

NCC Expansion Options Component	Northeast Expansion		North Expansion		West Expansion		South Expansion	
	New Sq. Ft.	Total Sq. Ft.	New Sq. Ft.	Total Sq. Ft.	New Sq. Ft.	Total Sq. Ft.	New Sq. Ft.	Total Sq. Ft.
Exhibition	94,500	213,175	138,000	240,475 ²	100,000	218,675	119,000	237,675
Ballroom ¹	36,750	47,670	36,000	46,920	35,000	45,920	40,000	50,920
Meeting Room	50,000	69,800	68,000	87,800	62,000	81,800	68,000	87,800
Total Function Space¹	181,250	330,645	242,000	375,195	197,000	346,395	227,000	376,395
Total Project Cost	\$155,000,000		\$181,000,000		\$207,000,000		\$202,000,000	
Total Cost per Sq. Ft.	\$451		\$443		\$446		\$454	
<i>Ratio of Meeting/ Ballroom Space to Exhibit Space</i>			55%		56%		58%	

¹ Not including Renaissance Hotel ballroom

² Total is less than sum of existing and new due to new prefuction areas in existing building.

Market-driven Function Space Recommendations

Component	Square Footage of Space			
	Existing Facility	Preliminary Space Recommendation		
Exhibition	118,675	250,000	-	300,000
Ballroom ¹	10,920	40,000	-	50,000
Meeting Room	19,800	60,000	-	70,000
Total Function Space¹	149,395	350,000	-	420,000
<i>Ratio of Meeting/ Ballroom Space to Exhibit Space</i>	25%			

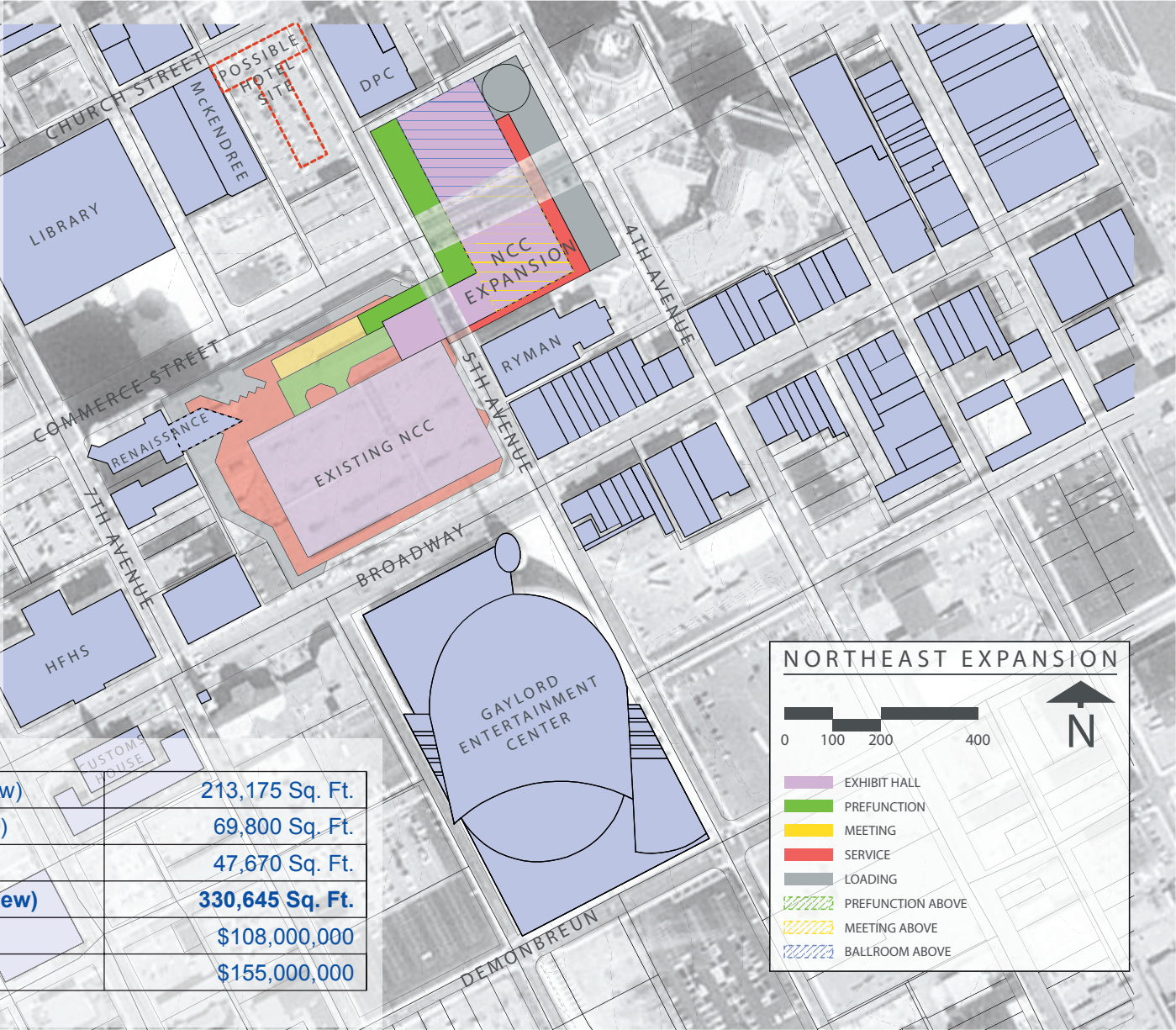
¹ Not including Renaissance Hotel ballroom

Build New Scenario (undetermined site)

Component	New Building	
	Midpoint of space recom.	
	New Sq. Ft.	Total Sq. Ft.
Exhibition	275,000	275,000
Ballroom	45,000	45,000
Meeting Room	65,000	65,000
Total Function Space	385,000	385,000
Project Cost	\$299,000,000	
Total Cost/SF	\$389	
<i>Ratio of Meeting/ Ballroom Space to Exhibit Space</i>	40%	

Northeast Expansion Option

This option takes advantage of existing vacant land to the east and north of the current Nashville Convention Center. An underground connection below 5th Avenue provides contiguous exhibit space that flows east and then north at the same elevation as the existing exhibit halls. Prefunction space follows the same pattern. Loading for the expansion uses a ramp from Fourth Avenue to bring trucks down to exhibit hall level. Two new buildings are created above grade, with two levels of parking, and retail shops at street level. The north building contains new ballroom space and the south building new meeting room space. These buildings can be connected at the ballroom level by means of skybridges if desired.



Northeast Expansion Facts:

Total exhibition space (existing and new)	213,175 Sq. Ft.
Total meeting space (existing and new)	69,800 Sq. Ft.
Total ballroom space (new*)	47,670 Sq. Ft.
Total function space (existing and new)	330,645 Sq. Ft.
Estimated construction cost	\$108,000,000
Estimated total project cost	\$155,000,000

*Renaissance Hotel ballroom not included

NORTHEAST EXPANSION

0 100 200 400

N

- EXHIBIT HALL
- PREFUNCTION
- MEETING
- SERVICE
- LOADING
- PREFUNCTION ABOVE
- MEETING ABOVE
- BALLROOM ABOVE

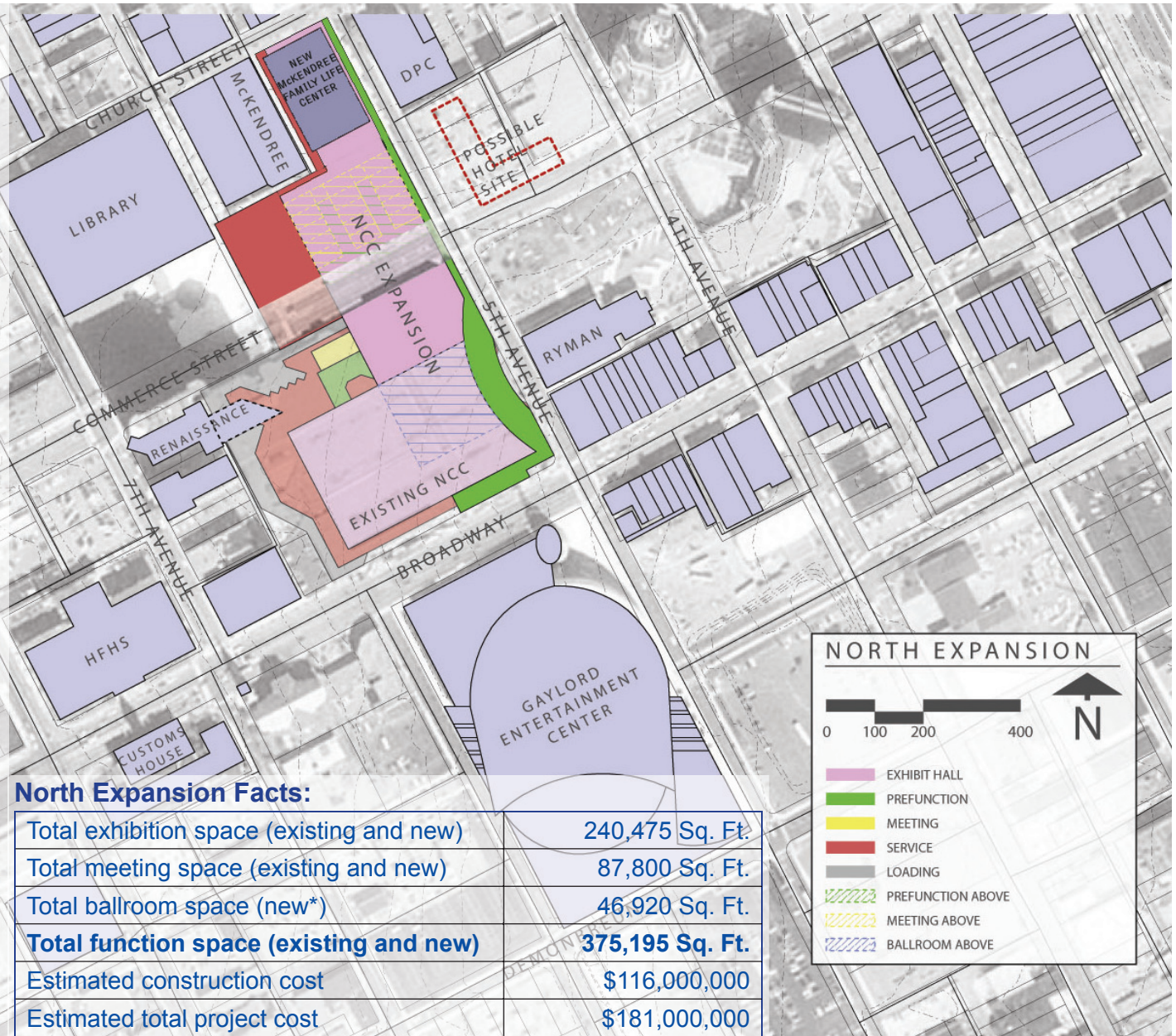
I.	Site Costs							
	Land Acquisition	123,500	SF @	\$50	/SF		\$6,175,000	
	Relocation Costs						\$2,500,000	allowance
	Hazardous Materials Abatement						\$2,000,000	allowance
	Utility Relocations						\$2,500,000	allowance
	Demolition/Site Clearing	123,500	SF @	\$5	/SF		\$617,500	
	Subtotal Site Costs						\$13,792,500	
II.	Construction Costs							
	New Construction	344,000	SF @	\$220	/SF =		\$75,680,000	
	Supported Exterior Slab (loading)	45,000	SF @	\$25	/SF =		\$1,125,000	
	Modifications to Existing Center	189,675	SF @	\$75	/SF =		\$14,225,625	
	Subtotal Construction Costs						\$91,030,625	
III.	Ancillary Construction							
	Public Areas/Streetscape						\$2,000,000	allowance
	Link to Headquarters Hotel	-	LF @	\$1,000	/LF		\$-	Not Included
	Street Retail Shell Space	42,000	SF @	\$110	/SF		\$4,620,000	allowance
	Parking Structure	738	PS @	\$12,500	/PS =		\$9,230,769	in building
	Other Site Development						\$1,000,000	allowance
	Subtotal Ancillary Construction						\$16,850,769	
IV.	Other Project Costs							
	Furnishings, Fixtures, Equipment	9.5%	of	91,030,625	=		\$8,647,909	
	Testing & Inspection	0.8%	of	91,030,625	=		\$682,730	
	Design, Engineering, other Fees	10.0%	of	99,678,534	=		\$9,967,853	
	Subtotal Other Costs	20.3%					\$19,298,493	
V.	Contingency							
	Project Subtotal						\$140,972,387	
	Project Contingency	10%					\$14,097,239	
	Project Summary							
I.	Site Costs						\$13,792,500	
II.	Construction Costs						\$91,030,625	
III.	Ancillary Construction						\$16,850,769	
IV.	Other Project Costs						\$19,298,493	
V.	Contingency						\$14,097,239	
	Total Project Cost		Northeast				\$155,069,625	
	<i>Project Cost per SF of New Space</i>						<i>\$450.78</i>	

North Expansion Option

This option reorients the existing exhibit space toward the east. Loading and service for exhibits would continue to come from the west, but with the service entrance at Broadway converted to a two-way drive. The exhibition hall expands at its current floor elevation to the north under Commerce Street, continuing north to the back of historic McKendree United Methodist Church.

A new building on the north side of Commerce contains two levels of parking above the exhibit hall, and two levels of meeting room space above that. A new ballroom is located on top of the existing building with major prefunction space oriented toward Ryman Auditorium and the Strip. To support this new ballroom, additional columns would likely be required in the existing exhibit hall, but these columns would not affect the marketability of the space, which already has columns in it.

This option requires the relocation of the McKendree Family Life Center to Church Street on top of exhibit space. The Central Church of Christ building on 5th Avenue is also relocated. The cost of these relocations is included in the total project cost estimate.



North Expansion Facts:

Total exhibition space (existing and new)	240,475 Sq. Ft.
Total meeting space (existing and new)	87,800 Sq. Ft.
Total ballroom space (new*)	46,920 Sq. Ft.
Total function space (existing and new)	375,195 Sq. Ft.
Estimated construction cost	\$116,000,000
Estimated total project cost	\$181,000,000

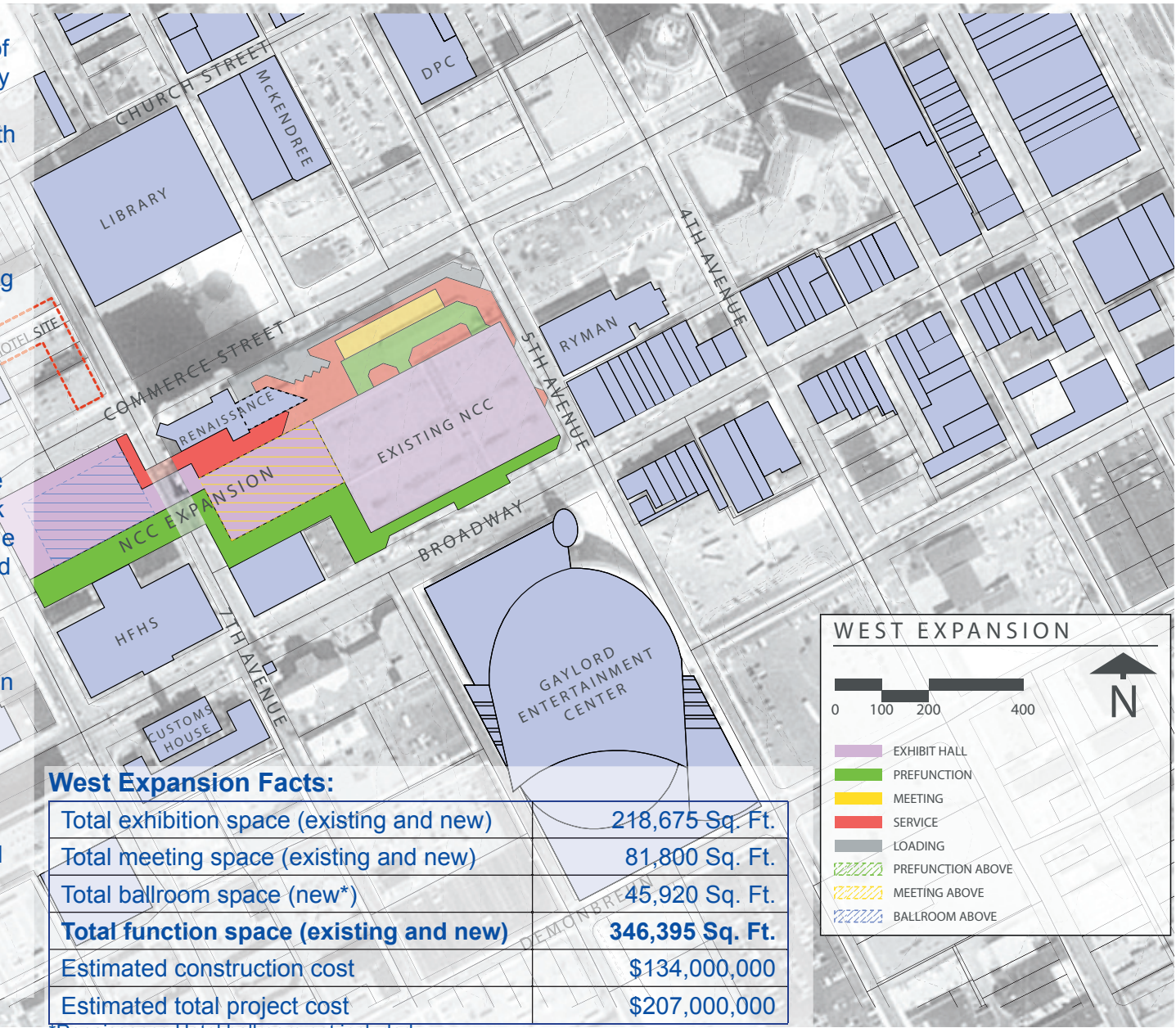
*Renaissance Hotel ballroom not included

I. Site Costs							
Land Acquisition	114,300	SF @	\$50	/SF =	\$5,715,000		
Relocation Costs	136,000	SF @	\$110	/SF =	\$14,960,000	average	
Hazardous Materials Abatement					\$2,000,000	allowance	
Utility Relocations					\$2,500,000	allowance	
Demolition/Site Clearing	114,300	SF @	\$10	/SF =	\$1,143,000		
Subtotal Site Costs					\$26,318,000		
II. Construction Costs							
New Construction	408,550	SF @	\$220	/SF =	\$89,881,000		
Supported Exterior Slab (loading)	54,000	SF @	\$25	/SF =	\$1,350,000		
Modifications to Existing Center	189,675	SF @	\$75	/SF =	\$14,225,625		
Subtotal Construction Costs					\$105,456,625		
III. Ancillary Construction							
Public Areas/Streetscape					\$2,000,000	allowance	
Link to Headquarters Hotel	-	LF @	\$1,000	/LF =	\$-	Not Included	
Street Retail Shell Space	20,400	SF @	\$110	/SF =	\$2,244,000	allowance	
Parking Structure	418	PS @	\$12,500	/PS =	\$5,230,769	in building	
Other Site Development					\$1,000,000	allowance	
Subtotal Ancillary Construction					\$10,474,769		
IV. Other Project Costs							
Furnishings, Fixtures, Equipment	9.5%	of	105,456,625	=	\$10,018,379		
Testing & Inspection	0.8%	of	105,456,625	=	\$790,925		
Design, Engineering, other Fees	10.0%	of	115,475,004	=	\$11,547,500		
Subtotal Other Costs	20.3%				\$22,356,805		
V. Contingency							
Project Subtotal					\$164,606,169		
Project Contingency	10%				\$16,460,620		
Project Summary							
I. Site Costs					\$26,318,000		
II. Construction Costs					\$105,456,625		
III. Ancillary Construction					\$10,474,769		
IV. Other Project Costs					\$22,356,805		
V. Contingency					\$16,460,620		
Total Project Cost	North				\$181,066,819		
<i>Project Cost per SF of New Space</i>					<i>\$443.19</i>		

West Expansion Option

This option takes advantage of mostly undeveloped space directly west of the current Renaissance Hotel. The project crosses Seventh Avenue below grade with new exhibition space at the same level as existing. Exhibit halls are serviced from the north using the existing north ramp. A new building rises to the north of Hume-Fog High School with retail facing Commerce street, two levels of parking above the below-grade exhibit hall, and a new ballroom facing Commerce Street. New meeting rooms are created on the infill building that fills out the block currently occupied by the NCC, the Renaissance Hotel, and the Grand Masonic Lodge.

This option requires the demolition of the James Robertson Hotel (currently an apartment building) west of the Convention Center. This property is listed on the National Register for its Art Deco architecture, although it appears to be of less architectural significance than other nearby structures such as the Masonic Lodge, Hume-Fog High School, and the Customs House.



West Expansion Facts:

Total exhibition space (existing and new)	218,675 Sq. Ft.
Total meeting space (existing and new)	81,800 Sq. Ft.
Total ballroom space (new*)	45,920 Sq. Ft.
Total function space (existing and new)	346,395 Sq. Ft.
Estimated construction cost	\$134,000,000
Estimated total project cost	\$207,000,000

*Renaissance Hotel ballroom not included

I. Site Costs							
Land Acquisition	105,100	SF @	\$50	/SF =	\$5,255,000		
Relocation Costs	149,160	SF @	\$125	/SF =	\$18,645,000	allowance	
Hazardous Materials Abatement					\$2,000,000	allowance	
Utility Relocations					\$2,500,000	allowance	
Demolition/Site Clearing	105,100	SF @	\$5	/SF =	\$525,500		
Subtotal Site Costs					\$28,925,500		
II. Construction Costs							
New Construction	463,000	SF @	\$220	/SF =	\$101,860,000		
Supported Exterior Slab (loading)	4,200	SF @	\$25	/SF =	\$105,000		
Modifications to Existing Center	189,675	SF @	\$75	/SF =	\$14,225,625		
Subtotal Construction Costs					\$116,190,625		
III. Ancillary Construction							
Public Areas/Streetscape					\$2,000,000	allowance	
Link to Headquarters Hotel	-	LF @	\$1,000	/LF =	\$-	Not Included	
Street Retail Shell Space	43,200	SF @	\$110	/SF =	\$4,752,000		
Parking Structure	825	PS @	\$12,500	/PS =	\$10,307,692	in building	
Other Site Development					\$1,000,000	allowance	
Subtotal Ancillary Construction					\$18,059,692		
IV. Other Project Costs							
Furnishings, Fixtures, Equipment	9.5%	of	116,190,625	=	\$11,038,109		
Testing & Inspection	0.8%	of	116,190,625	=	\$871,430		
Design, Engineering, other Fees	10.0%	of		=	\$12,722,873		
Subtotal Other Costs	20.3%				\$24,632,413		
V. Contingency							
Project Subtotal					\$187,808,230		
Project Contingency	10%				\$18,780,823		
Project Summary							
I. Site Costs					\$28,925,500		
II. Construction Costs					\$116,190,625		
III. Ancillary Construction					\$18,059,692		
IV. Other Project Costs					\$24,632,413		
V. Contingency					\$18,780,823		
Total Project Cost	West				\$206,589,053		
<i>Project Cost per SF of New Space</i>					<i>\$446.20</i>		

South Expansion Option

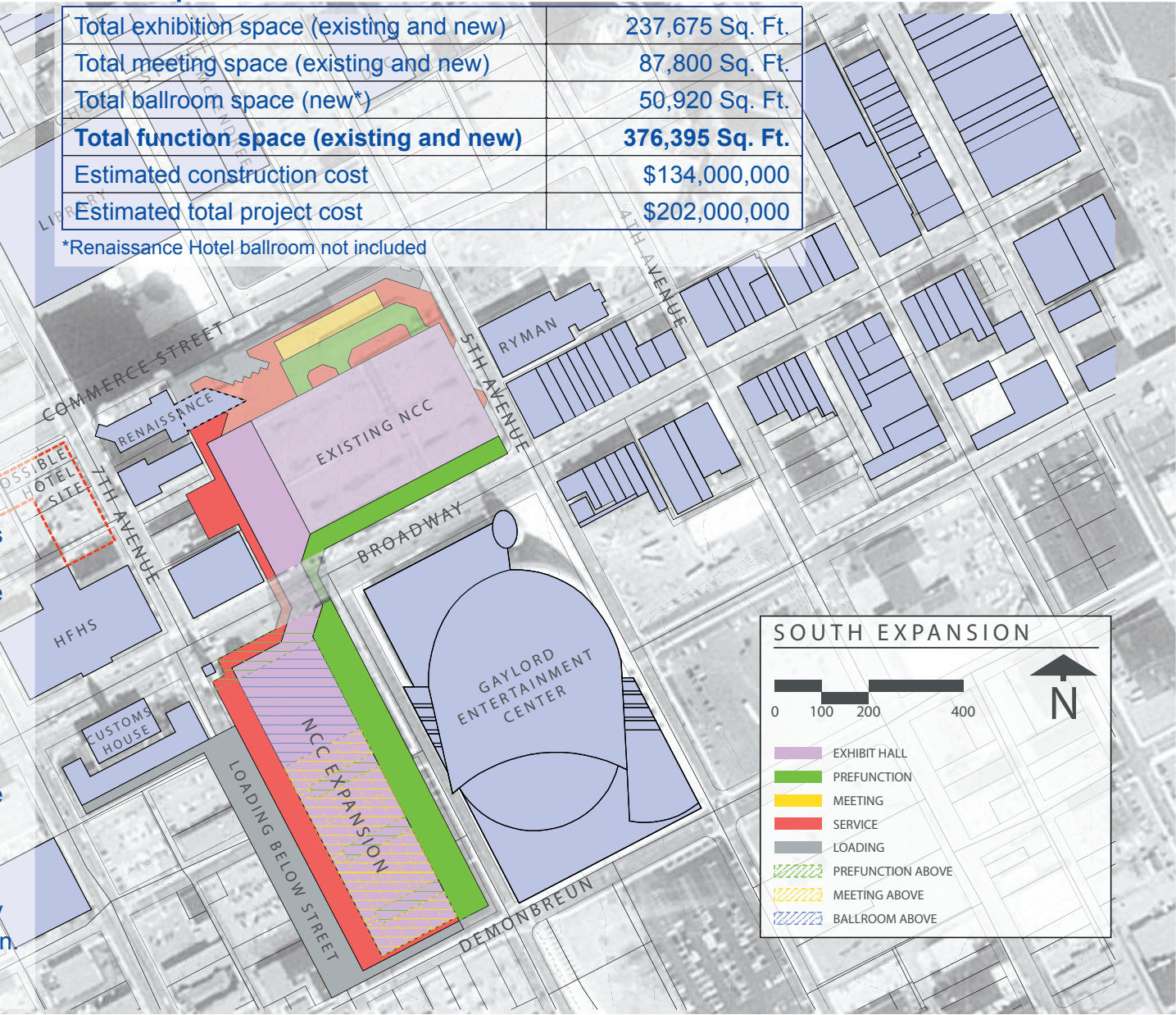
The largest footprint of all the expansion options expands the convention center to the south, adjacent to the Gaylord Entertainment Center. This option reorients the existing exhibit hall prefunction to the south, facing Broadway. The expansion passes under Broadway at the same floor elevation as existing exhibit space. Two levels of parking can fit in the structure above the new exhibit hall, which is mostly below grade. Atop the new exhibit hall, a ballroom and meeting room level orient toward Broadway and the GEC. Access to loading is by ramps at the south and west ends of the site which drop down to exhibit hall level. New retail space fronts Broadway.

This option requires the relocation of First Baptist Church, although it preserves the site's historic steeple. The cost for new facilities for FBC is included in the project cost estimate along with the cost of acquiring the land. A potential conflict with an existing utility tunnel under Broadway may add to the complexity of this option.

South Expansion Facts:

Total exhibition space (existing and new)	237,675 Sq. Ft.
Total meeting space (existing and new)	87,800 Sq. Ft.
Total ballroom space (new*)	50,920 Sq. Ft.
Total function space (existing and new)	376,395 Sq. Ft.
Estimated construction cost	\$134,000,000
Estimated total project cost	\$202,000,000

*Renaissance Hotel ballroom not included



I.	Site Costs						
	Land Acquisition	216,000	SF @	\$30	/SF		\$6,480,000
	Relocation Costs	65,000	SF @	\$200	/SF		\$13,000,000 allowance
	Hazardous Materials Abatement						\$2,000,000 allowance
	Utility Relocations						\$2,500,000 allowance
	Demolition/Site Clearing	216,000	SF @	\$5	/SF		\$1,080,000
	Subtotal Site Costs						\$25,060,000
II.	Construction Costs						
	New Construction	444,000	SF @	\$220	/SF =		\$97,680,000
	Supported Exterior Slab (loading)	56,250	SF @	\$25	/SF =		\$1,406,250
	Modifications to Existing Center	189,675	SF @	\$75	/SF =		\$14,225,625
	Subtotal Construction Costs						\$113,311,875
III.	Ancillary Construction						
	Public Areas/Streetscape						\$2,000,000 allowance
	Link to Headquarters Hotel	-	LF @	\$1,000	/LF =		\$- Not Included
	Street Retail Shell Space	13,200	SF @	\$110	/SF =		\$1,452,000 allowance
	Parking Structure	1,329	PS @	\$12,500	/PS =		\$16,615,385 in building
	Other Site Development						\$1,000,000 allowance
	Subtotal Ancillary Construction						\$21,067,385
IV.	Other Project Costs						
	Furnishings, Fixtures, Equipment	9.5%	of				\$10,764,628
	Testing & Inspection	0.8%	of				\$849,839
	Design, Engineering, other Fees	10.0%	of				\$12,407,650
	Subtotal Other Costs	20.3%					\$24,022,118
V.	Contingency						
	Project Subtotal						\$183,461,377
	Project Contingency	10%					\$18,346,138
	Project Summary						
I.	Site Costs						\$25,060,000
II.	Construction Costs						\$113,311,875
III.	Ancillary Construction						\$21,067,385
IV.	Other Project Costs						\$24,022,118
V.	Contingency						\$18,346,138
	Total Project Cost	South					\$201,807,515
	<i>Project Cost per SF of New Space</i>						<i>\$454.52</i>

New Convention Center Option

This option is not depicted in diagram form, although several possible sites were identified in HOK Venue's 2001 charrette for the Nashville Convention Center. A diagram illustrating possible site locations from that charrette is included here for reference, although it should be noted that the facility under consideration at that time was considerably larger than the facility discussed in this report.

Assuming a relatively unencumbered site, it is possible to build a new center to the exact parameters outlined in the market demand study. For costing purposes, HOK Venue assumed a midpoint of the range of space that was recommended.

Even on a relatively unconstrained site, it will probably be necessary to locate the ballroom and meeting room functions on a different level than the exhibit hall. This is not unusual, as few cities have blocks large enough to accommodate all function space on one level.

A new building scenario also raises the question of what to do with the existing Nashville Convention Center. Two of the most likely scenarios include the following:

- Continue to operate the current facility for consumer shows, community, social and fraternal functions that do not generate significant hotel room utilization in the city. Charge rents appropriate to operate the facility at a break-even level.
- Reach an agreement with the Renaissance Hotel to sell a portion of the existing building to the hotel in support of its meeting functions. Demolish the remainder of the existing NCC and redevelop the site for housing or other market-supportable uses, taking into account the growing historical significance of the Ryman Auditorium across 5th Avenue.



During HOK Venue's 2001 charrette for the Nashville Convention Center, a number of possible sites were analyzed for a much larger building program than the current recommendation. For this analysis, no specific site was identified.

New Building Facts:

Total exhibition space (new)	275,000 Sq. Ft.
Total meeting space (new)	65,000 Sq. Ft.
Total ballroom space (new)	45,000 Sq. Ft.
Total function space (new)	385,000 Sq. Ft.
Estimated construction cost	\$198,000,000
Estimated total project cost	\$299,000,000

I. Site Costs							
Land Acquisition	481,250	SF @	\$30	/SF	=	\$14,437,500	
Relocation Costs	150,000	SF @	\$110	/SF	=	\$16,500,000	allowance
Hazardous Materials Abatement						\$2,000,000	allowance
Utility Relocations						\$2,500,000	allowance
Demolition/Site Clearing	481,250	SF @	\$5	/SF	=	\$2,406,250	
Subtotal Site Costs						\$37,843,750	
II. Construction Costs							
New Construction	770,000	SF @	\$220	/SF	=	\$169,400,000	
Supported Exterior Slab (loading)	77,000	SF @	\$25	/SF	=	\$1,925,000	
Modifications to Existing Center	-	SF @	\$75	/SF	=	\$-	no changes
Subtotal Construction Costs						\$171,325,000	
III. Ancillary Construction							
Public Areas/Streetscape						\$2,500,000	allowance
Link to Headquarters Hotel	-	LF @	\$1,000	/LF	=	\$-	Not Included
Street Retail Shell Space	77,000	SF @	\$110	/SF	=	\$8,470,000	allowance
Parking Structure	1,185	PS @	\$12,500	/PS	=	\$14,807,692	
Other Site Development						\$1,000,000	allowance
Subtotal Ancillary Construction						\$26,777,692	
IV. Other Project Costs							
Furnishings, Fixtures, Equipment	9.5%	of			=	\$16,275,875	
Testing & Inspection	0.8%	of			=	\$1,284,938	
Design, Engineering, other Fees	10.0%	of			=	\$18,760,088	
Subtotal Other Costs	20.3%					\$36,320,900	
V. Contingency							
Project Subtotal						\$272,267,342	
Project Contingency	10%					\$27,226,734	
Project Summary							
I. Site Costs						\$37,843,750	
II. Construction Costs						\$171,325,000	
III. Ancillary Construction						\$26,777,692	
IV. Other Project Costs						\$36,320,900	
V. Contingency						\$27,226,734	
Total Project Cost		New				\$299,494,077	
<i>Project Cost per SF of New Space</i>						\$388.95	

Site Options & Cost Summary

NCC Expansion Options Summary Table

CONCEPT	Meets Exhibit Space Target	Meets Meeting/Ballroom Space Target	Principal Advantages	Principal Disadvantages/Challenges	Future Expansion Potential	Conceptual Cost Estimate	Overall Attractiveness/Desirability
Northeast Expansion	No	Yes	Lowest cost; does not require removal/replacement of significant buildings	Irregular shape of exhibit hall; potential conflict with office tower proposed for lot north of Ryman Auditorium	Low	\$155,000,000	Low
North Expansion	Yes	Yes	Simplest exhibit hall shape; reorients complex toward Ryman Auditorium	Requires relocation of McKendree Family Life Center and Church of Christ; additional columns in existing exhibit hall a minor issue	Moderate	\$181,000,000	High
West Expansion	No	Yes	Reinforces Commerce Street as primary convention entrance	Requires removal of National Register building; residential relocation; irregular shape of exhibit hall	Low	\$207,000,000	Low
South Expansion	Yes	Yes	Reorients convention center towards Broadway; clear direction for future expansion	Requires relocation of First Baptist Church facility, preservation of historic bell tower; irregular shape of exhibit hall; may conflict with utility tunnel under Broadway	Good	\$202,000,000	High
New Building (unspecified site)	Yes	Yes	Best meets function space targets; optimized layout possible given appropriate site	Cost; moves NCC out of downtown core; creates issue of disposition of current NCC facility	Good	\$299,000,000	High

The table above summarizes the results of HOK Venue's site options portion of this study. Of the expansion options studied, the north and south expansion options have the potential, with minor adjustments, to achieve the stated targets for exhibit and total function area for the Nashville Convention Center. However, the other two expansion options provide from 84 to 88 percent of the lower threshold recommendation for exhibit hall space. All

the expansion options meet or exceed the recommendation for total ballroom and meeting room space.

The build new option, which does not relate to a specific site, can potentially meet recommended space targets at either the high or low end, but at a substantially higher cost than any of the expansion options. This option would also most likely relocate the convention center farther from the downtown core.

Expansion to the North or South Provides Viable Alternatives to Construction of a New Center Downtown

Based on results of the market, site and cost analysis, several observations can be made regarding the proposed development options. All other things being equal, a new facility developed near the existing infrastructure downtown would be the most marketable option. Developing a new center would likely allow for construction of the full recommended building program and a contiguous, divisible exhibition hall. Further, a new building avoids the issues some centers have faced after expansion in terms of selling the “old” portion of the building versus the “new” portion. However, while the additional infrastructure requirements and ultimate development cost of a new center are dependent on the chosen site, this option is the most costly.

It appears that expanding the NCC is a more economical approach to meeting the demand for additional convention space in downtown Nashville. This is due to a number of factors including estimated development cost, the need to acquire less land relative to a new facility and the proximity to existing supporting infrastructure (i.e. headquarters hotel). While the market analysis did indicate that the hotel supply proximate to an expanded NCC would likely need to be augmented in the long-term in order to better accommodate larger and/or simultaneous events, this additional hotel requirement would likely be less in comparison to a new facility. Of course, this would ultimately depend on the potential site for a new center and its proximity to existing convention quality hotel rooms. According to user survey responses from groups interested in meeting in Nashville, the ideal number of committable hotel rooms in the headquarters property ranges from 900 to 1,000 rooms. Based on conversations with management of the Renaissance Hotel, a maximum of 600 rooms, on average, would be committable for NCC business with an expanded facility. An additional 300 committable rooms would also be available at the Hilton Suites. Given other properties in this committable block proximate to the NCC, the need for additional hotel rooms does not appear to be as immediate for either of the expansion scenarios relative to a new center. Some larger groups requiring greater than 1,000 committable rooms for the headquarter property(s) may find Nashville less attractive unless additional rooms are developed. Surveys indicated that approximately 42% of groups were not adverse to the use of a shuttle service. However, long-term planning for the development of additional convention quality hotel rooms proximate to the NCC would build on one of its most marketable aspects. A hotel market demand assessment was not done as part of this study. It is recommended that additional analysis related to a new hotel be conducted.

Expansion to the North or South Provides Viable Alternatives to Construction of a New Center Downtown (cont'd)

The expansion options presented represent several alternatives to increase the amount of convention space in downtown Nashville. While none of the scenarios are estimated to achieve the full amount of the recommended exhibit space, they increase the exhibit space to a total of 213,200 SF to 240,500 SF. The market analysis suggests that there is demand to support the addition of such space. Based on user survey results from groups interested in meeting in Nashville under one or more scenarios, the Northeast and West options could accommodate approximately 70% of users, the South and North options could accommodate 74% and the new center could accommodate 84%. Further, all expansion options achieve the recommended amount of meeting/ballroom space. There are particular benefits and constraints associated with each scenario that should be considered in light of various marketability, site and cost criteria.

Although the North expansion would require the relocation of the Central Church of Christ and the McKendree Family Life Center, this option appears to best meet the needs of the market among the expansion options presented. This is based on the fact that it provides the greatest expansion of exhibition space. Further, this option allows for a possible future expansion in a contiguous fashion either to the South or the Northeast. In addition, this option is less costly than two of the other scenarios and does not require the relocation of surrounding historic facilities. Relative to the new center option, the North expansion takes advantage of existing infrastructure surrounding the NCC and maintains a major generator of the critical mass of visitors that make up the NCC/GEC/Ryman district of downtown Nashville. If Metro and other appropriate entities are able to develop a funding strategy, this option appears to meet the majority of objectives from a market standpoint as well as the long-term goal of the NCC to generate economic impact for the Nashville area.

Expansion to the North or South Provides Viable Alternatives to Construction of a New Center Downtown (cont'd)

The South option allows for development of almost as much exhibit space as the North. Further, this option also provides a potential future expansion alternative continuing southward in a contiguous fashion. Primary challenges of this scenario include relocation of the First Baptist Church and an irregular shaped exhibit hall. Relative to the North option, the South is more costly as well.

It is important to recognize that the North, South and West expansion options require relocation of existing facilities in order to accommodate expansion of the NCC. The Northeast expansion option would require use of the parking lot north of the Ryman Auditorium which may pose a potential conflict with a proposed office tower project.

For purposes of this analysis, contiguous exhibition space is characterized by three factors:

- All exhibition space on same floor elevation
- Not required to exit exhibit space to enter additional exhibition space
- Prefunction and service connections are also continuous

Although the exhibition space of each expansion option will be technically contiguous, the geometry of the North option seems to provide the most marketable exhibit hall since the other three scenarios require a less than optimal geometry of the resulting halls. Several groups that are constrained by the amount of space offered at the existing NCC indicated a strong desire to meet in downtown Nashville if additional space was developed. In addition, all users indicated a desire for contiguous exhibit space. The North expansion appears to be better suited to accommodate these users.

Expansion to the North or South Provides Viable Alternatives to Construction of a New Center Downtown (cont'd)

The geometry of the exhibit space may limit the marketability of the Northeast, West and South options to some groups requiring greater than approximately 120,000 contiguous SF. It should be noted that findings from the market analysis suggest there is additional demand for these sized groups who want to meet in downtown Nashville and cannot currently be accommodated by the NCC due to date availability. While the configuration of these three expansion alternatives may limit the NCC's ability to accommodate some larger conventions requiring the entire exhibition square footage, it will make the facility conducive to hosting multiple, simultaneous events of 120,000 SF. The advantage of hosting simultaneous events is that one group can be moving in while another is moving out, thereby limiting the roller coaster impact to supporting businesses caused by larger events requiring long move in/out time. Marketing to simultaneous events of this size also allows Nashville to focus on groups which are more in line with its existing air access and supporting infrastructure. In summary, expansion to the North would allow Nashville to capitalize on additional demand from both similarly sized and larger groups while the other three scenarios may be more limited in their ability to accommodate events requiring greater than 120,000 SF of exhibit space.

Table of Contents

1	Report Letter	1
2	Introduction & Executive Summary	4
3	Industry Trend Overview	29
4	Nashville Market Overview	54
5	Nashville Convention Center Utilization Analysis	74
6	Competitive/Comparable Market Analysis	105
7	Meeting Planner Surveys	129
8	Summary of Market Findings	151
9	Programming & Site Planning Issues	169
10	Financial Analysis	187

Financial Analysis

In addition to various market factors, Metro should also consider various financial factors as it considers the merits of developing additional convention space in downtown Nashville. With respect to financial performance, it is important to understand that the vast majority of stand-alone convention centers typically realize an operating deficit. However, one of the primary reasons that convention centers are developed is because of the economic impacts that the project can generate in terms of spending, employment and tax revenues to local and state governments. One objective of a convention center is typically to attract events that draw patrons from outside of the immediate market area who spend money on hotels, restaurants and other related services. An order-of-magnitude estimate of the potential economic benefits associated with development of any additional convention space is provided later in this section of the report.

This section of the report includes several financial analyses that should be considered in conjunction with the findings of the market analysis for any future planning purposes. These financial elements include:

- Estimate of financial operations for a new or expanded NCC.
- Estimate of the on-going economic and fiscal benefits generated by operations of the existing NCC as well as any potential new development.
- Analysis of existing and potential funding sources.

Financial Analysis (cont'd)

Based on the preliminary physical programming and cost estimates that HOK prepared for both expansion and new construction options, historical usage and financial operating data at the NCC, information from comparable/competitive convention centers as well as other primary and secondary sources including the findings in the market analysis, KPMG assisted the client group in preparing a hypothetical, order-of-magnitude estimate of operating revenues and expenses as well as economic impact for development of additional convention space in downtown Nashville.

The Estimate of Operating Revenues Over Operating Expenditures Before Depreciation and Debt Service discussed in this section is expressed in current (adjusted for inflation) dollars for years 2008 through 2012. The financial analysis assumes that any new convention space will be built in downtown Nashville proximate to the existing core of hotel rooms. This estimate is also based on certain hypothetical assumptions pertaining to operations of an expanded or new center, attendance levels and other related financial assumptions agreed to by the client group. As this analysis represents a net revenue and expenses assessment, it is subject to change depending on further refinements regarding operating strategies.

The procedures performed were limited in nature and do not constitute an audit, examination, compilation or review of historical or estimated financial information in accordance with standards established by the AICPA and, therefore, we do 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 size, quality and efficiency of the proposed expanded or new center. 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. Accordingly, we cannot provide any assurance that the estimates will be representative of the results that may actually be achieved. The accompanying analysis is prepared for internal use by Metro for its consideration of plans for expansion of the NCC or development of a new convention center in downtown Nashville and should not be used for any other purpose including financing of the project.

Estimate of Financial Operations

The table below summarizes the historical financial operations for the NCC for FY 2002 and FY 2003. The historical financial information was provided by management and served as a baseline for the estimate of financial operations for an expanded or new convention center that is also presented.

Nashville Convention Center Expanded or New Convention Center in Nashville Estimate of Excess (Deficiency) of Operating Revenues Over Operating Expenditures - Current Dollars (Inflated)							
	Historical Financial Operations		Estimate of Financial Operations				
	FY 2002	FY 2003	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Operating Revenues							
Building Rental	\$1,929,000	\$1,808,000	\$3,286,000	\$3,653,000	\$4,142,000	\$4,267,000	\$4,395,000
Food & Beverage (net)	577,000	697,000	1,395,000	1,653,000	1,888,000	1,945,000	2,003,000
Event Services	1,010,000	1,101,000	1,641,000	1,825,000	2,069,000	2,132,000	2,196,000
Equipment Rental	261,000	251,000	447,000	497,000	565,000	582,000	599,000
Other	114,000	104,000	149,000	166,000	189,000	194,000	200,000
Total Operating Revenues	3,891,000	3,961,000	6,918,000	7,794,000	8,853,000	9,120,000	9,393,000
Operating Expenditures							
Salaries & Wages	1,734,000	1,791,000	3,131,000	3,223,000	3,409,000	3,512,000	3,617,000
Benefits	392,000	428,000	783,000	806,000	852,000	878,000	904,000
Materials & Supplies	155,000	207,000	373,000	415,000	470,000	485,000	499,000
Repairs & Maintenance	320,000	325,000	597,000	664,000	752,000	775,000	798,000
Contract Services	532,000	584,000	1,034,000	1,064,000	1,125,000	1,159,000	1,194,000
Administrative & General	76,000	94,000	149,000	166,000	189,000	194,000	200,000
Sales & Marketing	325,000	279,000	563,000	580,000	597,000	615,000	634,000
Utilities	1,008,000	933,000	2,237,000	2,488,000	2,821,000	2,906,000	2,994,000
Insurance	86,000	92,000	234,000	246,000	257,000	264,000	272,000
Other	367,000	386,000	671,000	610,000	709,000	731,000	753,000
Total Operating Expenditures	4,995,000	5,119,000	9,772,000	10,262,000	11,181,000	11,519,000	11,865,000
Excess (Deficiency) of Operating Revenues Over Operating Expenditures Before Reserve for Replacement, Depreciation & Debt Service	(1,104,000)	(1,158,000)	(2,854,000)	(2,468,000)	(2,328,000)	(2,399,000)	(2,472,000)
Reserve for Replacement Fund	0	0	138,000	156,000	266,000	274,000	282,000
Excess (Deficiency) of Operating Revenues Over Operating Expenditures Before Depreciation & Debt Service	(\$1,104,000)	(\$1,158,000)	(\$2,992,000)	(\$2,624,000)	(\$2,594,000)	(\$2,673,000)	(\$2,754,000)

Note: Slight differences in historical operations due to rounding.
See accompanying summary of significant assumptions on the pages that follow.

Summary of Significant Assumptions

A. General Assumptions

Key hypothetical assumptions used in this analysis include the following:

- Assumes the building program previously discussed.
- Assumes an expanded or new facility opens July 1, 2007.
- It is assumed that any expansion of the NCC is built adjacent to the current location and that the existing NCC will continue to operate during the construction of any expanded or new space. It is assumed that the total exhibit space is contiguous.
- Although no site has been selected for either an expanded or new convention center at the time of this report, it is assumed that the site will be adequate in terms of visibility, ingress and egress, hotel accommodations, parking, safety and other similar issues.
- An adequate number of convention quality hotel rooms proximate to the existing NCC or a new center are developed in conjunction with any added space.
- The economy continues to rebound and the impact of war and terrorism decreases.
- An aggressive marketing approach, particularly in attracting conventions and tradeshow, is assumed by both management at an expanded or new facility and the Nashville CVB.
- The financial estimate in this analysis excludes certain non-operating revenues (i.e. hotel/motel tax receipts, etc.) and non-operating expenses (i.e. amortization, and depreciation, etc.). The financial estimate is presented for the first five years of operation subsequent to the completion of expanded or new space.
- The financial estimate is rounded to the nearest thousand and is expressed in current (adjusted for inflation) dollars.

Summary of Significant Assumptions (cont'd)

A. General Assumptions (cont'd)

- To safeguard the public investment, Metro should allow for an annual payment that is specifically designated as a reserve for replacements and repairs. This fund is intended to cover any extraordinary annual/future capital repairs, improvements or expansion to the facility.
- For purposes of this analysis, it is assumed that an expanded or new convention center is tax exempt. This analysis does not assume a ground lease payment for use of the property.

B. Utilization

The hypothetical, order-of-magnitude estimate of operating revenues and expenditures is based on several factors including the hypothetical estimate of utilization in the table that follows. This estimate of utilization is based on historical usage of the NCC, lost business reports, findings from meeting planner surveys, data from various comparable and competitive facilities, information provided by our client group as well as other research.

It is important to understand that the development of any new or expanded space will likely take several years to complete. In addition, event activity at expanded or new convention centers 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 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. For purposes of this analysis, it is assumed that the third year achieves stabilized operations.

These estimates are based on the assumption that the facility offers meeting/event planners the high-quality space they require and is located at a site which is deemed attractive for their event.

Summary of Significant Assumptions (cont'd)

C. Utilization (cont'd)

Estimated utilization presented in the following table is based on historical utilization of the NCC, results of the user survey, analysis of lost business and actual event activity at comparable centers. The primary goals of an expanded or new convention center should be to attract larger conventions and tradeshow that will utilize more function space and demand greater room night blocks as well as better accommodate simultaneous events similar in size to those currently hosted at the NCC. These goals are taken into account in the estimate of utilization.

Number of Events	Actual	Estimated for Expanded or New Convention Center In Nashville				
	FY 2003	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Conventions/Tradeshows	61	60	64	70	70	70
Consumer/Public Shows	9	14	16	18	18	18
Banquets/Receptions	16	30	35	40	40	40
Other Events	5	6	8	10	10	10
Meetings/Seminars	93	110	115	125	125	125
TOTAL	184	220	238	263	263	263
Average Attendance	FY 2003	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Conventions/Tradeshows	2,800	3,500	3,750	3,750	3,750	3,750
Consumer/Public Shows	12,300	12,000	12,500	13,000	13,000	13,000
Banquets/Receptions	500	600	600	600	600	600
Other Events	4,600	2,700	2,700	2,700	2,700	2,700
Meetings/Seminars	200	350	375	375	375	375
Total Attendance	FY 2003	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Conventions/Tradeshows	170,000	210,000	240,000	262,500	262,500	262,500
Consumer/Public Shows	110,500	168,000	200,000	234,000	234,000	234,000
Banquets/Receptions	7,300	18,000	21,000	24,000	24,000	24,000
Other Events	22,900	16,200	21,600	27,000	27,000	27,000
Meetings/Seminars	20,600	38,500	43,125	46,875	46,875	46,875
TOTAL	331,400	450,700	525,725	594,375	594,375	594,375

Summary of Significant Assumptions (cont'd)

D. Operating Revenues

1. **Building Rental Revenue** – Building rental includes revenue from the rental of the exhibit halls and ballroom/meeting room space. Typically, convention centers charge different rate structures for various types of events such as conventions, tradeshow, consumer shows, and other events depending on the type of space utilized (i.e. exhibit halls and meeting rooms). Although published rental rates are generally based on a per space basis (i.e. Exhibit Hall A, Exhibit Hall B, Meeting Room 1, etc.), these amounts have been converted to a per square foot rate for purposes of this analysis. Analysis of rental rates at comparable facilities indicates that the cost per square foot is typically higher for ballroom/meeting space than for exhibit space. However, effective rates are lower than published rates for several reasons 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
- Some facilities offer reduced rental rates to special groups such as local, non-profit, and charitable organizations.

Summary of Significant Assumptions (cont'd)

The term square foot day is used throughout this analysis. A square foot day is defined as one square foot of exhibit, meeting or ballroom space per event day. Therefore, square foot days utilized would equal the total space rented for a particular event multiplied by the number of days rented. For example, if an event rents a 1,000 square foot meeting room for two days, the total square foot days utilized would be 2,000. Subsequently, total square foot days available would equal the total square feet available in the convention center multiplied by the number of available days per year, typically 365.

Based on an analysis of existing rental rates charged at the NCC as well as information from comparable and competitive convention centers, an effective rental rate is assumed in this analysis. Building rental revenue is calculated by multiplying the effective square foot rate by the total square foot days utilized based on the estimated number of events and average square feet utilized.

Based on these assumptions, building rental revenue is estimated to range from approximately \$3.3 million to \$4.4 million per year (in inflated dollars) over the five-year period.

- 2. Food & Beverage Revenue (Net)** – It is assumed that an expanded or new facility will continue to contract with Volume Services, Inc. or a similarly qualified third party food service provider. Based on information provided by facility management, the current food and beverage contract agreement distributes 92.5% of profit to Metro and 7.5% to Volume Services.

Summary of Significant Assumptions (cont'd)

Food and beverage sales are calculated on a per capita basis based on historical operations as well as information on comparable and competitive facilities. Based on historical NCC food and beverage data, it is assumed the expanded or new center will receive 25% of the gross food and beverage sales which reflects an overall effective rate. Based on these assumptions as well as the estimated utilization, net food and beverage revenue to the facility is estimated to range from \$1.4 million to \$2.0 million per year (in inflated dollars) over the five-year period.

3. **Event Services Revenue** – Event services revenue relates to fees charged for services provided to exhibitors and other users. Such services include fees related to labor reimbursements, telephone and electrical hook-ups and other types of services. Based on historical operations as well as information from comparable and competitive facilities, event services revenue is assumed to vary with occupancy and is estimated to range from approximately \$1.6 million to \$2.2 million per year (in inflated dollars) over the five-year period.
4. **Equipment Rental Revenue** – Equipment rental includes charges for the rental of facility equipment such as tables and chairs, audio/visual equipment, etc. Based on historical operations as well as information on comparable and competitive facilities, event services revenue is assumed to vary with occupancy and is estimated to range from approximately \$447,000 to \$599,000 per year (in inflated dollars) over the five-year period.
5. **Other Revenue** – Other revenue includes items such as advertising and business center operations. Based on historical operations as well as information on comparable and competitive facilities, other revenues are estimated to range from \$149,000 to \$200,000 per year (in inflated dollars) over the five-year period.

Summary of Significant Assumptions (cont'd)

E. Operating Expenses

1. **Salaries and Wages** - Although the staffing requirements and subsequent salaries and wages can represent a significant expense for a convention center, an analysis of comparable facilities throughout the country indicates that the permanent full-time staffing plans can vary greatly. This variance in staffing levels is generally attributed to four major factors. The first relates to the management philosophy of maintaining event-related personnel as full-time or part-time staff. The second major factor relates to the management and physical relationship the facility might have to other public facilities. For example, the staffing for a stand-alone convention center is different than for a multi-purpose convention/arena complex. The third major influence to the staffing plan and management is the union atmosphere, including current contract agreements and strength of the management's bargaining position in labor negotiations. Finally, the last determinant of staffing requirements is the extent that contract services are utilized.

Based on historical NCC staffing levels as well as a review of comparable and competitive facilities, it is assumed that the facility will have a full-time staffing plan of 86 full-time equivalent employees in fiscal year 2008 increasing to 92 full-time equivalent employees by fiscal years 2010 and remaining at that number through 2012. Given this level of staffing and historical NCC salaries by position, salaries and wages associated with an expanded or new center are estimated to range from approximately \$3.1 million to \$3.6 million annually (in inflated dollars) over the five-year period.

Summary of Significant Assumptions (cont'd)

2. **Benefits** – Based on historical operations and those of comparable centers, a benefits package of 25% of salaries and wages is assumed for this analysis.
3. **Materials & Supplies** – Various materials and supplies which may be necessary for the day-to-day operation of an expanded or new NCC will be accumulated and stored at the facility for future use. These supplies include items such as administrative supplies, electrical equipment, and maintenance/janitorial supplies. These expenses will vary based on utilization. Based on historical operations as well as data from comparable and competitive facilities, the expense for materials and supplies is estimated to range from approximately \$373,000 to \$499,000 per year (in inflated dollars) over the five-year period.
4. **Repairs & Maintenance** - This line item includes various expenses that will be incurred related to building, equipment and ground maintenance. This expense also varies based on utilization. Based on historical operations as well as data from comparable and competitive facilities, these expenses are estimated to range from approximately \$597,000 and \$798,000 per year (in inflated dollars) over the five-year period.
5. **Contract Services** - Contract services generally include the cost of event labor, cleaning and other vendor services associated with various events which is not charged back to the user and is consequently borne by the facility. Currently, the NCC contracts for various services including legal, janitorial and pest control. Based on historical operations as well as data from comparable and competitive facilities, this expense item is estimated to range from approximately \$1.0 million to \$1.2 million per year (in inflated dollars) over the five-year period.

Summary of Significant Assumptions (cont'd)

6. **Administrative and General** – These expenses are related to miscellaneous line items such as travel and entertainment, postage, dues, memberships, subscriptions and general administrative costs. For purposes of this analysis, administrative and general expenses are estimated to range from approximately \$149,000 to \$200,000 per year (in inflated dollars) over the five-year period.

7. **Sales & Marketing** - Providing an expanded or new NCC alone will not bring new events to the facility. An aggressive marketing effort needs to be undertaken to enable the facility to capture its potential demand. The Nashville CVB and other marketing agencies will need to work diligently to solicit events, particularly conventions and tradeshow, in order to minimize the marketing dollars spent by the facility. Sales and marketing expenses for the facility relate to both event promotion and facility marketing. This expense is estimated to range from \$563,000 to \$634,000 (in inflated dollars) for the five-year period. Again this amount is intended to supplement area-wide marketing agencies such as the Nashville CVB for advertising and should be expended for familiarization trips, tradeshow attendance, direct marketing efforts and other literature and advertising expenditures for the facility. It should be recognized that significant destination marketing will also need to occur at the Nashville CVB and other visitor/tourism agencies.

Summary of Significant Assumptions (cont'd)

- 8. Utilities** - Utilities generally represent one of the highest expense items for convention center operations. In order to most efficiently operate a center, it is imperative that management passes through to the user, to the extent possible, utility costs related to a particular event. Utility expenses are partially variable depending upon the level of utilization. In many facilities, these costs are handled as an expense that is reimbursed or partially reimbursed by the tenant at a later date or, for civic users, a utilization charge is assessed. For purposes of this analysis, it is assumed that the utility cost shown represents the total non-reimbursable costs, net of any pass-through arrangements. The utility costs used for this analysis are estimated to range from approximately \$2.2 million to \$3.0 million per year (in inflated dollars) over the five-year period. These estimates are based upon historical operations and information on comparable and competitive facilities. It should also be noted that actual utility expenses will also depend on facility design, decisions concerning energy systems and management.
- 9. Insurance** - Experiences of comparable facilities were reviewed in determining the assumption for annual insurance expense. Because of the differences in utilization and facility size, insurance expenses can vary greatly between facilities. Particularly for publicly run facilities, the actual insurance expense is sometimes understated since these premiums are usually paid from a central account of the governmental entity and are not reflected in the financial statements of the individual facilities. For purposes of this analysis, a formula provided by individuals in the insurance industry that is based on the annual attendance at the facility and an order of magnitude estimated cost of the facility has been utilized. Preliminary construction cost information provided by HOK was also used for purposes of this analysis. Given these assumptions, the general liability and property damage insurance expense for the facility is estimated to range from approximately \$234,000 to \$272,000 per year (in inflated dollars) over the five-year period.

Summary of Significant Assumptions (cont'd)

10. **Other Expenses** - Other expenses include miscellaneous costs not reflected in other categories such as non-reimbursable event-related items. For purposes of this analysis other expenses are assumed to range from approximately \$671,000 to \$753,000 per year (in inflated dollars) over the five-year period.
11. **Reserve for Replacement Fund** - To safeguard the public investment, Metro should allow for an annual payment that is specifically designated as a reserve for replacements and repairs. This fund is intended to cover any extraordinary annual/future capital repairs, improvements or expansion to the facility. For purposes of this analysis, the reserve for replacement fund is estimated to range from 2% of operating revenues in FY 2008 and FY 2009 and 3% in FY 2010 and beyond.
12. **Taxes, Ground Lease and Depreciation** - For purposes of this analysis, it is assumed that the NCC is tax exempt. This analysis does not assume a ground lease payment for use of the property. Debt service estimates are presented in the funding analysis at the end of this section of the report.

Economic/Fiscal Impact Analysis

This section of the report provides an estimate of the economic and fiscal benefits that might accrue to Davidson County as a result of operations of an expanded or new convention center. The local area would benefit from the facility's operations in a number of ways, including such tangible and intangible benefits as:

- Enhancing the Nashville area's image as a business, meetings and tourist destination;
- Receiving increased regional and national exposure through destination marketing and visitation;
- Providing a larger, first-class meeting venue for area residents;
- Providing a potential catalyst for further development initiatives in the area;
- Generating enhanced fiscal revenues; and
- Generating additional economic activity in the local area.

Each of these benefits is important in assessing the impacts of any potential additional space to the local area. While the value of most of these benefits is difficult to measure, the economic activity generated in the region can be quantified. This analysis estimates the direct and induced/indirect benefits associated with the operations of an expanded or new convention center at the County level as well as the associated tax revenues during the first five years of operations.

Estimates are based on utilization for the first five years of operation. Conventions and tradeshow typically book at least 12 to 18 months prior to their event. In some cases, these groups are reluctant to book during the first or second year following the opening of an expanded or new facility due to the fact that construction timelines are not always predictable. Thus, the first two years of operations may not be representative of typical operations.

Methodology

An assessment of the economic benefits that could potentially accrue to Davidson County as a result of the first five years of operation of an expanded or new convention center in downtown can be approached in several ways. One approach, which is frequently used in the industry, considers the expense side of the center's on-going operations as well as attendee, exhibitor, association and show producer spending for documentation of the initial direct impacts to a community. In this approach, all expenses generated by facility operations such as salaries and wages, contract services, repairs and maintenance, administrative, marketing/promotions, utilities, insurance, etc. are used as an initial measure of economic activity within the marketplace. Once this amount for direct spending is estimated, a multiplier is applied to generate the total (direct and indirect/induced) spending, earnings and employment associated with the project. This "multiplier" effect is estimated in this analysis using a regional economic forecasting model provided by the Minnesota IMPLAN Group, Inc.

The economic activity directly generated during the first five years of operation of an expanded or new center and the spending of its users affects more than just the facility and immediately surrounding restaurants and businesses. As this money ripples through the economy, several other economic sectors are impacted and jobs are created. For example, when the caterer at an expanded or new convention center purchases food for an event, everyone from the wholesaler to the farmer that produced the food is impacted. In addition, the local government entities that tax these economic transactions are also impacted. The specific aggregate industries used in this analysis are:

- hotel/entertainment;
- eating and drinking places;
- transportation;
- retail trade; and
- business services.

Methodology (cont'd)

The three categories of measurement used to assess the economic impact of a project are spending, earnings and employment which are defined below.

- **Total spending (output)** represents the total direct and indirect/induced spending effects generated by the project. This calculation measures the total dollar change in the spending (output) that occurs in the local economy for each dollar of output delivered to final demand.
- **Personal earnings** represent salaries and wages earned by employees of businesses associated with or impacted by the project. 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.
- **Employment** represents the number of full- and part-time jobs supported by the project. 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.

As part of this analysis, fiscal benefits or tax revenue impacts that might result from the first five years of operation of an expanded or new center are estimated. Estimated revenues generated from sales & use tax, Hotel/motel tax and car rental tax are calculated. All amounts depicted in this report are presented in current (adjusted for inflation) dollars unless otherwise noted.

Summary of Estimated Economic Benefits from On-Going Operations

The table below summarizes the estimated annually recurring impacts to Davidson County from the on-going operations of an expanded or new center in terms of spending, employment and earnings and is followed by a discussion of each component.

Includes Benefits From Existing NCC and New Space	Estimated Total Economic Benefits to Davidson County from Operations of An Expanded or New Convention Center (annually recurring)				
	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Total Economic Benefits:					
Direct Spending	\$236,298,000	\$278,310,000	\$315,367,000	\$324,824,000	\$334,568,000
Induced/Indirect Spending	\$150,438,000	\$177,192,000	\$200,764,000	\$206,784,000	\$212,988,000
Total Spending	\$386,736,000	\$455,502,000	\$516,131,000	\$531,608,000	\$547,556,000
Total Employment (number of FTE jobs)	5,300	6,200	7,100	7,300	7,500
Total Earnings	\$182,244,000	\$214,662,000	\$243,328,000	\$250,625,000	\$258,144,000

Because an expanded or new convention center should provide the ability to attract both similarly sized events as well as larger groups requiring more function space, any new development is estimated to increase the associated economic impact. The table below presents the estimated incremental impact of an expanded or new center.

Additional Benefits From New Space	Estimated Incremental Benefits				
	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Total Economic Benefits:					
Direct Spending	\$60,889,000	\$97,604,000	\$129,213,000	\$133,070,000	\$137,063,000
Induced/Indirect Spending	\$38,072,000	\$61,433,000	\$81,514,000	\$83,947,000	\$86,467,000
Total Spending	\$98,961,000	\$159,037,000	\$210,727,000	\$217,017,000	\$223,530,000
Total Employment (number of FTE jobs)	1,200	2,000	2,800	2,900	2,900
Total Earnings	\$48,728,000	\$77,114,000	\$101,633,000	\$104,668,000	\$107,809,000

Notes:

Amounts are presented in current (inflated) dollars.

FTE denotes full-time equivalent employees.

Estimated Economic Benefits from On-Going Operations

Direct Spending

The first step in calculating economic impact is estimating the direct spending. The benefits generated at the County level result from the impact of direct spending by attendees, associations and exhibitors that support events held at an expanded or new convention center. Direct spending impacts from operations are annually recurring in nature and are estimated for the first five years of operation. The primary types of spending quantified in this analysis include:

- Convention center attendee spending;
- Association spending;
- Exhibitor spending; and
- Budgetary spending by the proposed expanded or new NCC.

Estimated Economic Benefits from On-Going Operations (cont'd)

Attendee Spending

Per capita attendee spending amounts are estimated based on the *2002 Convention Income Survey Update* conducted by the International Association of Convention and Visitors Bureaus (IACVB) which reflects the spending patterns of thousands of convention and meeting delegates from a broad base of meeting types. Based on the estimated mix of local/state and regional/national event business at an expanded or new center, different spending attributes are used for each event type based on the *2002 IACVB Convention Income Survey Update* and assuming a 3.0% annual inflation rate.

An attendee day is defined as total attendance multiplied by the event length for conventions, tradeshow and meetings. For example, a three-day convention with 600 delegates equates to 1,800 attendee days. This is to reflect that the same delegates return to the event each of the three days. Conversely, attendee days for public shows and other events are assumed to be the same as total attendance since they generally attend only once during the event. For purposes of this analysis, it is assumed that 20% of convention/tradeshow attendees would be accompanied by their spouse. IACVB delegate spending estimates are discounted for spousal spending to avoid double counting for expenses such as hotel rooms.

Based on historical NCC data, estimated events were analyzed to separate regional/national event attendees from those within the State/local community. The IACVB Convention Income Survey provides spending estimates for these categories which is applicable to overnight attendees. KPMG defines these overnight attendees as high-impact. Adjustments are made to the IACVB overnight spending estimates to account for low-impact spending. Further, low-impact spending is typically generated by local patrons at consumer shows, civic events and meetings. It is assumed that all regional/national event attendees are high-impact.

Estimated Economic Benefits from On-Going Operations (cont'd)

Attendee Spending (cont'd)

The following chart presents the spending characteristics per delegate day for delegates at all event types:

Per Day Spending	State/Local		Regional/ National
	High Impact	Low Impact	High Impact
Delegate	\$257	\$56	\$310
Spouses	\$119	n/a	\$119

Note: These figures are presented in 2008 dollars.
Source: IACVB.

Association Spending

Sponsoring organizations have substantial investments in the events that they host. These organizations purchase goods and services from either the convention center, food and beverage contractor and/or from outside sources. Such items as exhibit space and equipment rental are typically provided by the convention center so these amounts are excluded from association spending to avoid double counting. Estimated association spending amounts are provided by the IACVB Convention Income Survey and are based on spending per attendee day. The total number of attendee days generated by conventions and tradeshow (typical association-related events) is applied to the KPMG-adjusted IACVB estimate of association sending. Per day association spending is estimated to be \$18 for State/local events and \$19 for regional/national events by IACVB.

Estimated Economic Benefits from On-Going Operations (cont'd)

Exhibitor Spending

The IACVB Convention Income Survey also provides spending estimates for exhibitors per attendee day. Adjustments to these estimates are made to avoid double counting similar to association spending. Thus, the total number of attendee days generated by exhibit events (consumer shows, conventions and tradeshow) is applied to the KPMG-adjusted IACVB estimate of exhibitor spending.

Based on conversations with IACVB representatives, exhibitor spending at State/local events is typically higher than those at regional/national events due to the fact that these exhibitors are more likely from the local area. Thus, they tend to spend a greater portion of their exhibit-related expenses within their own community. Conversely, exhibitors attending regional/national events are likely to spend a greater portion of their expenses in their home-community as opposed to the event location. Per day exhibitor spending is estimated to be \$106 for State/local events and \$67 for regional/national events by IACVB.

Estimated Economic Benefits from On-Going Operations (cont'd)

Budgetary Spending for an Expanded or New Convention Center

Budgetary spending refers to the “expense side” generated by an expanded or new convention center. Regardless of the source or magnitude of the revenues that the building produces, this analysis focuses on the operating expenditures occurring in the Davidson County economy. With this approach, only amounts that are actually expended are captured as economic impact.

Estimates are also made regarding the percentage of direct expenditures that occur in the local economy. For example, a portion of delegates may be required to stay in hotels outside of Davidson County and will, therefore, spend a portion of the estimated direct spending outside the economy. In addition, it is important to take into account taxes and savings (an estimate of 20% to 40%), which may leak outside of the region such as home mortgage payments, car loan payments, insurance, travel spending, spending on higher education and mail-order purchases.

Summary of Direct Spending

The table below summarizes the estimated breakdown of direct spending assumed to be spent within the local economy related to convention center attendees, associations, exhibitors and budgetary spending:

Category	FY 2008	FY 2009	FY 2010	FY 2011	FY2012
Attendee Spending	\$167,430,000	\$197,306,000	\$223,065,000	\$229,751,000	\$236,642,000
Association & Exhibitor Spending	62,962,000	74,728,000	85,392,000	87,955,000	90,594,000
Convention Center Budgetary Spending	5,906,000	6,276,000	6,910,000	7,119,000	7,333,000
Total	\$236,298,000	\$278,310,000	\$315,367,000	\$324,825,000	\$334,569,000

Note: Amounts are rounded to the nearest thousand.

Estimated Economic Benefits from On-Going Operations (cont'd)

Multipliers

As a final step, each of the spending amounts described previously are assigned to a logical category to be used as inputs into the economic multiplier model. Relevant multipliers for each category are presented in the following table for Davidson County.

Davidson County Multipliers			
Category	Spending	Employment*	Earnings
Hotels/Entertainment	1.64	26.3	0.7527
Eating & Drinking Places	1.67	27.0	0.7080
Retail Trade	1.63	23.3	0.7168
Transportation	1.76	13.6	0.5580
Business Services	1.59	16.8	0.8841

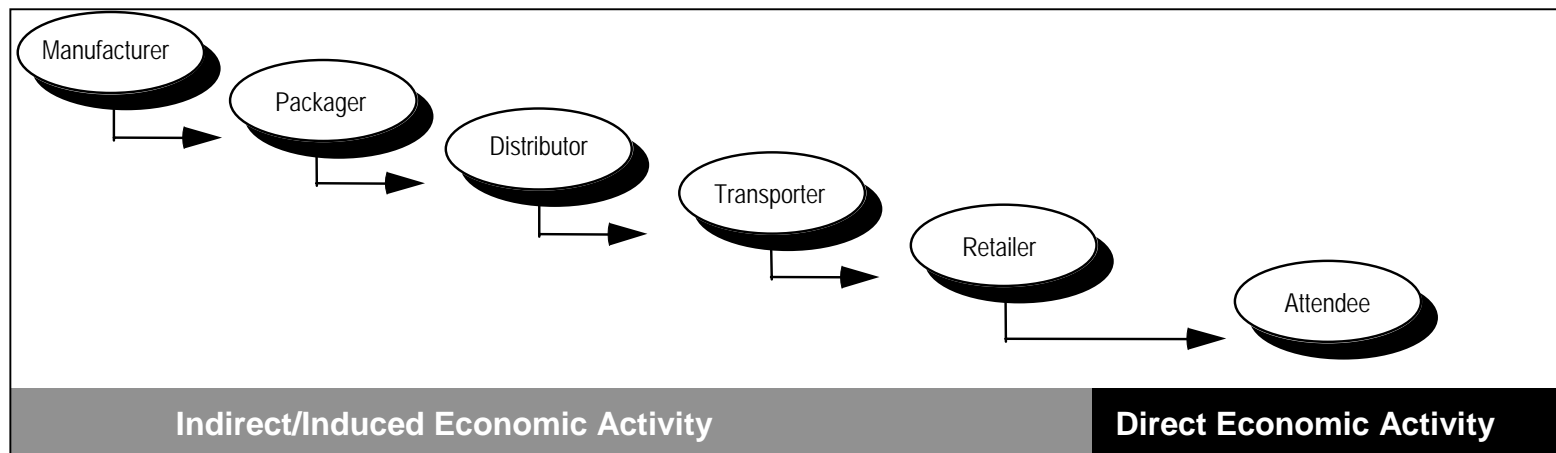
Note: * FTEs per \$1.0 million of direct spending.

Source: Minnesota IMPLAN Group, Inc.

Estimated Economic Benefits from On-Going Operations (cont'd)

Indirect/Induced Spending

The economic activity generated through the on-going operations of a new or expanded NCC affects more than just the facility. In preparation for new spending in the economy, several other economic sectors are impacted and jobs are created. It is a common misconception to assume that the indirect/induced spending occurs subsequent to the purchase of the good as an “after effect.” To further illustrate this point, consider that raw materials are purchased, labor is hired, goods are produced, transported and marketed to retailers before the attendee spending takes place. To yield direct spending, several intermediary levels of spending must occur first.



Estimated Economic Benefits from On-Going Operations (cont'd)

In an effort to quantify the inputs needed to produce the direct output, economists have developed multiplier models. This “multiplier” effect is estimated in this analysis using a regional economic forecasting model provided by Minnesota IMPLAN Group, Inc., a private economic modeling company. The format and data is based on similar models developed and maintained by the U.S. Department of Commerce, Bureau of Economic Analysis. One of the major advantages of this type of model is that it is sensitive to both location and type of spending, and has the ability to provide induced spending, employment and earnings information by industry category based on direct spending inputs.

The direct spending amounts estimated for the operations of an expanded or new NCC are applied to the multipliers in order to calculate estimates of total spending, total employment (jobs), and total earnings which are summarized below.

Total Spending

The direct spending amounts generated by a new or expanded NCC are applied to multipliers to generate estimates of total spending. Outputs from the model indicate that total spending in the Davidson County from annual facility operations is estimated to range from approximately \$386.7 million to \$547.6 million during the first five years of operation. Therefore, the direct spending in Davidson County is estimate to induce an additional \$150.4 million to \$213.0 million annually in economic activity.

Estimated Economic Benefits from On-Going Operations (cont'd)

Employment

Based on the IMPLAN model, which calculates the number of jobs per \$1.0 million in spending, it is estimated that the economic activity associated with a new or expanded NCC could generate approximately 5,300 to 7,500 total jobs in Davidson County during the first five years of operation. These jobs would be created in many sectors of the economy, which would both directly and indirectly support the increased level of business activity in the area.

Earnings

Estimates generated by the IMPLAN model indicate that total earnings are estimated to range from approximately \$182.2 million to \$258.1 million in Davidson County during the first five years of operation. Over the five-year period, the average salary (earnings) for the jobs created in Davidson County would be approximately \$34,400 based on the model.

Summary of Fiscal Impacts Associated With On-Going Operations

The estimated direct and indirect/induced spending generated by the first five years of operation of an expanded or new convention center create tax revenues for Davidson County. Direct and indirect/induced spending estimates discussed previously are used to calculate tax benefits associated with an expanded or new convention center's first five years of operation.

This analysis estimates the tax revenues generated from the following major taxes:

Davidson County

- Local Option Sales Tax
- Hotel/Motel Tax
- Rental Car Tax

State of Tennessee

- Sales Tax

Other taxes at the local and State level may also be impacted by an expanded or new convention center but were not included in this analysis. Potential new tax revenue sources are further analyzed in the funding section of this report.

Summary of Fiscal Impacts Associated With On-Going Operations (cont'd)

The following table summarizes the estimated tax revenue impacts generated from the first five years of operation at an expanded or new convention center. These taxes are based on the current tax structure within Davidson County. Each tax is further described on the pages that follow. As a point of reference, it is estimated that the NCC operations generated approximately \$19.2 million in FY 2003.

Includes Benefits From Existing NCC and New Space	Estimated Tax Revenues from an Expanded or New Convention Center				
	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Davidson County					
Local Option Sales Tax	\$5,464,000	\$6,430,000	\$7,272,000	\$7,490,000	\$7,714,000
Hotel/Motel Tax	5,001,000	5,878,000	6,619,000	6,817,000	7,022,000
Rental Car Tax	499,000	590,000	673,000	693,000	713,000
State of Tennessee					
State Sales Tax	17,001,000	20,006,000	22,623,000	23,301,000	24,000,000
TOTAL	\$27,965,000	\$32,904,000	\$37,187,000	\$38,301,000	\$39,449,000

Notes: Amounts are presented in current (inflated) dollars.

Amounts reflect total benefits and are not incremental.

Summary of Fiscal Impacts Associated With On-Going Operations (cont'd)

Local Taxes

Local Option Sales Tax – The City of Nashville levies a sales tax on the gross receipts of all retail sales, leases and rentals of most goods, as well as taxable services. The general tax rate is 2.25% in Nashville. It is assumed that only a portion of direct and indirect spending are taxable. As such, this discounted spending is multiplied by the 2.25% local option sales tax rate for purposes of this analysis.

Hotel Tax – Davidson County imposes a tax on hotels and motels located within the County at a rate of 5.0%. Proceeds are distributed as follows:

- 40% direct promotion of tourism – currently dedicated to Nashville CVB operations
- 20% tourist-related activities – to the extent necessary, this portion can be used to subsidize NCC debt service and/or operations
- 20% constructing, financing and operation of NCC – dedicated to NCC operations subsidy
- 20% Metro Government general fund – currently dedicated to Gaylord Entertainment Center debt service

For purposes of this analysis, the 5.0% hotel tax is applied to 100% of direct and 50% of induced hotel spending.

Summary of Fiscal Impacts Associated With On-Going Operations (cont'd)

Local Taxes (cont'd)

Rental Car Tax – The State of Tennessee imposes a 3% surcharge on the rental of all private passenger automobiles for a period of less than 31 days. There is also a concession recovery fee of 9.25% on each auto rental in addition to the 9.25% state and local option sales taxes. Based on this, the 12.25% tax rate is applied to 75% of direct transportation spending.

State Taxes

State Sales Tax – The State of Tennessee levies a 7.0% sales tax on the gross receipts of all retail sales, leases and rentals of most goods, as well as taxable services. It is assumed that only a portion of direct and indirect spending are taxable. As such, this discounted spending is multiplied by the 7.0% state sales tax rate for purposes of this analysis.

Convention Center Funding and Financing Options

The question then becomes, “If the community chooses to pursue the development of an expanded or new convention center, how can it be financed?” It is our understanding that Metro’s objective for funding for any additional convention center development be limited to existing revenue sources. Historically, Metro has designated approximately \$6.0 million per year for NCC debt service and operations.

This section of the report presents a description of traditional funding sources and a listing of comparable facility financing. Finally, debt service estimates for expansion and new development scenarios are compared to both existing funding sources as well as several potential new revenue sources. These estimates are based on several assumptions outlined in this section.

Public assembly facilities such as convention centers have been traditionally financed with a variety of public and private funds. However, the primary source of underwriting for debt service on construction of these facilities is still derived from public avenues.

Throughout the United States, convention centers have used a variety of financing techniques and sources of funding to construct their facilities. A summary of traditional funding sources, financing techniques and methods used to fund other convention center projects are presented on the pages that follow. Although the various alternatives presented in this report represent the most commonly used forms of financing, not all of them are appropriate for Metro with respect to an expanded or new convention center. City, County and State laws, fiscal sources and debt issuance capacity of governmental entities for bonding purposes all influence the ability to use any one of these funding sources or financing instruments.

- A. Funding Sources** - For purposes of this discussion, we distinguish between a funding source and a financing instrument. Funding sources can usually be defined as one of two types: one-time and recurring. The most common one-time source of funding is a grant or cash contribution. However, the majority of funding sources are recurring in nature and include, but are not limited to, the following:

Convention Center Funding and Financing Options (cont'd)

- Surplus revenue or designated facility revenues
- Hotel/motel tax
- Food and beverage tax
- Special taxes (i.e. admission or ticket tax)
- Community development tax
- Ad valorem tax
- Sales tax
- State and local appropriations
- Governmental grants
- Occupation tax

These funding sources represent the most common means of funding construction for new or expanded convention centers. Traditionally, these sources are paid into a fund account or are in some way dedicated or committed to the retirement of annual debt incurred through a particular financing medium.

A portion of the sources outlined above represent fiscal sources that are under the control of local and/or state government. Typically, joint financing plans that have local and state government involvement result in public assembly facilities owned and operated by the local governmental entity. Most convention centers developed by local governments rely on fiscal sources such as sales or gross receipts tax, hotel tax, food and beverage tax or various redevelopment awards. Increasingly, local governments are able to capitalize on special funding from State Legislatures (changes in taxes imposed or amounts on existing taxes) to assist in their convention center projects. In addition, one-time grants by State governments for special projects are sometimes provided.

Convention Center Funding and Financing Options (cont'd)

Additionally, the funding for a portion of the construction costs could be addressed by a variety of non-government sources, particularly revenues derived from naming rights. However, it should be recognized that naming rights are strongly market driven and their viability in the Nashville market would need to be tested through an extensive pre-development marketing initiative. The number of corporate headquarters located in the market can represent an opportunity to solicit capital participation in this project. The civic orientation of the facility, potential physical visibility of the facility, as well as goodwill and advertising value of the facility could generate some participation in capital funding either on a one time up-front basis or on an annual recurring basis. Although naming rights deals have historically been applied only to arenas and stadiums, there have been recent naming rights deals for convention centers as well. Examples include the following:

- Midwest Wireless Communications Center in Mankato, WI - \$9.5 million for 15 years
- Midwest Express Center in Milwaukee, WI - \$9.25 million for 15 years
- Alliant Energy Center in Madison, WI – \$6.3 million for 20 years
- Touchstone Energy Place in St. Paul, MN - \$2.35 million for 10 years
- Qwest Center in Omaha, NE - \$14 million for 15 years

For an up-front fee or annual payment over a period of time, a corporation could negotiate for a number of items including name of the facility and advertising preferences. In addition, the goodwill and recognition of any capital donation might be enhanced by matching the gift to an actual component of the facility development effort. For instance, the acquisition of the property. In this manner, the negotiated amount relates directly to a stated need of the facility's funding.

Convention Center Funding and Financing Options (cont'd)

B. Financing Instruments -This section presents a summary of traditional financing instruments. These financing instruments may or may not be applicable to financing the proposed NCC expansion or development of a new center.

1. General Obligation Bond - Historically, the majority of convention centers have been financed by general obligation bonds issued by City, County or State governments. Since the tax base and taxing authority of the government are pledged to the repayment of the bonds, these bonds have the lowest interest rate of all forms of bond financing. Interest rates do vary, depending on existing bond indebtedness. General obligation bonds issued by the City, County or by some State governments have to be coordinated with other government financing plans and typically require voter approval through a public referendum.
2. Revenue Bond - Revenue bonds are secured by one or more defined revenue sources. Most public assembly revenue bonds are based on a pledge of a dedicated revenue source, such as a tourist development tax (hotel tax), admission tax, food and beverage tax, general sales tax or other special assessments. The use of special purpose tax levies represents a means by which capital costs may be linked with recurring benefits and is typically directed at those sectors of the local economy which directly benefit from the facility.

One of the primary advantages of revenue bonds is that the issue need only pledge specific revenues and not the full faith and credit of the issuer. However, because of this, revenue bonds require a higher interest rate than general obligation bonds.

Convention Center Funding and Financing Options (cont'd)

3. Tax Increment Bond – Tax increment or tax allocation bonds are secured by a pledge of net increases in property or sales taxes resulting from the development of an area within a defined redevelopment district. The success of this type of financing is dependent upon a redevelopment district being established and a strong market driven redevelopment atmosphere that would provide a constant source of new privately owned and financed projects within the district. This technique can be particularly useful in addressing infrastructure improvements needed for the construction or expansion of convention centers in urban settings.

4. Certificates of Participation - Certificates of Participation (COPs) are used to fund the construction of convention centers throughout the United States. This financing method, unlike general obligation or revenue bonds, does not legally pledge government money to pay the annual debt service. Under this method, COP holders are repaid through an annual lease appropriation by the sponsoring government agency. Because this agency does not commit the taxpayers over a long term, funds can be obtained without voter approval. Further, COPs are not subject to many other statutory requirements applicable to bonds, including interest rate limitations, election requirements, competitive sales requirements, semi-annual or fixed-rate interest payment requirements. Consequently, a government agency can react quickly to favorable financial market conditions and structure a deal in a timely manner.

On the other hand, because no funds are legally pledged, COPs carry a higher interest cost due to added risk. A COP holder's only recourse upon default is the value of the asset (i.e. the facility).

Convention Center Funding and Financing Options (cont'd)

5. Taxable Versus Non-Taxable Debt – While it is premature to determine whether the debt issuance will be taxable or non-taxable in nature, it is important to recognize that the structuring of certain contractual agreements can impact its tax status.

As a point of reference, the tables that follow illustrate the various financing and funding sources used by convention centers. According to this sample of data, the most common financing instrument and funding source used for convention centers was revenue bonds (62%) and hotel tax (84%).

Convention Center Funding and Financing Options (cont'd)

Facility	Financing Instrument			Funding Source							
	Certs. of Part.	General Oblig.	Revenue	Hotel	Sales	Meals	Liquor	Rental Car	Amuse.	Gen. Fund	Other Public Sources
Albert B. Sabin Convention Center											
Albuquerque Convention Center											
Arlington Convention Center (expansion)											
Austin Convention Center											
Baltimore Convention Center											
Boston Convention & Exhibition Center											
Century II Convention Center & Hyatt Regency											
Cobb Galleria Centre (original construction)											
Colorado Convention Center											
Ernest N. Morial Convention Center											
Georgia World Congress Center											
Gwinnett Civic & Cultural Center											
Long Beach Convention Center											
Memphis Cook Convention Center											
Meydenbauer Center											
Minneapolis Convention Center											
Mobile Convention Center											
Nashville Convention Center											
New Charlotte Convention Center											
Ocean Center											
Ontario Convention Center											
OnCenter Convention Center											
OnCenter War Memorial Arena											
Orange County Convention Center											
Palm Beach County Convention Center											
Phoenix Civic Plaza											
Rhode Island Convention Center											
Sacramento Community Convention Center											
San Diego Convention Center											
San Jose McEnery Convention Center											
Salt Palace Convention Center											
Sioux Falls Convention Center											
Spokane Center											
Statehouse Convention Center											
Washington Convention Center											
Washington State Convention & Trade Center											
Vancouver Trade & Convention Centre											
Total	4	8	23	31	5	8	5	4	1	5	11
Percentage	11%	22%	62%	84%	14%	22%	14%	11%	3%	14%	30%

Sources: Individual facility and CVB management; City, County and State representatives; KPMG LLP research.

Convention Center Funding and Financing Options (cont'd)

Albert B. Sabin Convention Center (Cincinnati) is undergoing expansion that will add 60,000 square feet of rentable space. Total construction cost is estimated at \$160 million and is being financed by revenue bonds funded by both City and County hotel/motel tax receipts. The expansion is expected to be complete by 2006.

Boston Convention & Exhibition Center is one of the newest convention centers in the country. Opened in June 2004, the facility offers over 1.6 million total square feet. Total site preparation, construction and infrastructure costs reached nearly \$850 million. Financing for this large-scale project is shared by both the State and City. The City issued special obligation bonds repaid by various taxes on business entities within a special Convention Center Financing District immediately surrounding the facility. The majority of the State's financing is also provided by special obligation bonds with additional financing from the General Fund.

Ernest N. Morial Convention Center (New Orleans) has recently put its plans for expansion on hold in order to study the merits of developing a new NFL stadium in conjunction with expanding the convention center. The preliminary plans for expansion included the addition of a total of 1.5 million square feet with 524,000 in exhibit space. Total construction cost is estimated to be approximately \$546 million financed primarily by Orleans Parish-issued revenue bonds. These will be repaid by an additional 1.0% hotel/motel tax and 0.25% food/beverage tax in Orleans Parish. In addition, the State pledged \$100 million.

Convention Center Funding and Financing Options (cont'd)

Georgia World Congress Center (Atlanta) completed its Phase IV expansion in 2003. Construction costs totaled \$250 million and added 1.4 million total square feet. The State financed construction through its General Fund via general obligation bonds.

Orange County Convention Center (Orlando) completed its Phase V expansion in 2003. Construction costs totaled approximately \$748 million and added 2.8 million total square feet including 1 million square feet of exhibit space. The County financed construction through cash reserves and revenue bonds, no General Fund revenues were used. The bonds are backed by the tourist development tax.

Palm Beach County Convention Center (FL) opened in January 2004. Construction of this new convention center was financed by Palm Beach County via revenue bonds. These are funded by a County hotel/motel tax which covers construction, furnishings and operations. Total construction cost is estimated to total \$168 million.

Washington D.C. Convention Center opened in early 2003. Total construction cost was approximately \$525 million. Total construction was funded by the Washington Convention Center Authority (a division of the District government) revenue bond issue. These bonds are repaid through hotel/motel, food/beverage, alcoholic beverage and rental car tax revenues. This bond issue includes funds for construction, as well as deposits to operating, marketing and renewal/replacement reserves.

Preliminary Funding Alternatives for Expanded or New Convention Space

KPMG worked with Metro's financial advisors to obtain estimated annual debt service figures for the two preferred expansion scenarios (North and South) and one new development scenario (non-site specific). Debt service estimates are based on the preliminary cost figures developed by HOK and presented previously, as well as certain information provided by Metro and Public Financial Management (PFM) who are the financial advisors for Metro.

Operating deficit estimates and debt service estimates were then compared to existing funding sources which consists of 2.0 points of the hotel/motel tax that is currently dedicated to NCC operations and debt service. The outstanding bonds for the existing NCC will be retired in November of 2007 (FY 2008). This comparison indicated a shortfall in all three scenarios. In addition, KPMG worked with representatives of Metro to prepare an estimate of the potential revenue that could be generated from several additional funding sources that were identified in previous study efforts including the following:

- a 1.0 point increase in the hotel/motel tax
- the addition of a 0.5% restaurant tax on City eating/drinking establishments
- a 1.0 point increase in the rental car tax
- the development of a Tourism Development Zone

It should be noted that the estimated tax revenues presented here represent those that could be generated from the operations of all businesses, not just as a result of the operations from an expanded or new convention center. Thus the figures presented here should be distinguished from the estimated fiscal impact of NCC operations presented earlier.

A summary of the estimated operating deficit and debt service as compared to existing and potential funding sources for the three most marketable scenarios are presented on the pages that follow.

Preliminary Funding Alternatives

North Expansion Scenario (\$181 million)

Estimate for North Expansion Scenario	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Estimated Operating Deficit										
Before Debt Service & Depreciation	(\$2,992,000)	(\$2,624,000)	(\$2,594,000)	(\$2,673,000)	(\$2,754,000)	(\$2,837,000)	(\$2,922,000)	(\$3,009,000)	(\$3,100,000)	(\$3,193,000)
Debt Service										
Existing 1993 GO Bonds	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Existing 1997 GO Bonds	(\$870,000)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Estimate for North Expansion Scenario	(\$15,050,000)	(\$15,049,000)	(\$15,047,000)	(\$15,047,000)	(\$15,049,000)	(\$15,047,000)	(\$15,048,000)	(\$15,051,000)	(\$15,051,000)	(\$15,047,000)
Funding Needs	(\$18,912,000)	(\$17,673,000)	(\$17,641,000)	(\$17,720,000)	(\$17,803,000)	(\$17,884,000)	(\$17,970,000)	(\$18,060,000)	(\$18,151,000)	(\$18,240,000)
Current Dedicated Funding Sources										
Existing 2% Hotel/Motel Tax	\$6,978,000	\$7,048,000	\$7,154,000	\$7,262,000	\$7,370,000	\$7,480,000	\$7,594,000	\$7,746,000	\$7,900,000	\$8,058,000
Funding Surplus (Shortfall)										
After Existing Funding Sources	(\$11,934,000)	(\$10,625,000)	(\$10,487,000)	(\$10,458,000)	(\$10,433,000)	(\$10,404,000)	(\$10,376,000)	(\$10,314,000)	(\$10,251,000)	(\$10,182,000)
Potential Additional Funding Sources										
1% Hotel/Motel Tax	\$3,489,000	\$3,524,000	\$3,577,000	\$3,631,000	\$3,685,000	\$3,740,000	\$3,797,000	\$3,873,000	\$3,950,000	\$4,029,000
0.5% Restaurant Tax - City	\$4,509,000	\$4,599,000	\$4,686,000	\$4,771,000	\$4,852,000	\$4,929,000	\$5,003,000	\$5,073,000	\$5,139,000	\$5,201,000
1% Car Rental Tax	\$696,000	\$703,000	\$710,000	\$717,000	\$724,000	\$731,000	\$739,000	\$746,000	\$754,000	\$761,000
Tourism Development Zone Sales Tax Rebate	\$2,000,000	\$2,000,000	\$2,000,000	\$2,000,000	\$2,000,000	\$2,000,000	\$2,000,000	\$2,000,000	\$2,000,000	\$2,000,000
Total Additional Funding Sources	\$10,694,000	\$10,826,000	\$10,973,000	\$11,119,000	\$11,261,000	\$11,400,000	\$11,539,000	\$11,692,000	\$11,843,000	\$11,991,000
Funding Surplus (Shortfall)										
After Existing & Additional Funding Sources	(\$1,240,000)	\$201,000	\$486,000	\$661,000	\$828,000	\$996,000	\$1,163,000	\$1,378,000	\$1,592,000	\$1,809,000

Estimate for North Expansion Scenario	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Estimated Operating Deficit										
Before Debt Service & Depreciation	(\$3,288,000)	(\$3,387,000)	(\$3,489,000)	(\$3,593,000)	(\$3,701,000)	(\$3,812,000)	(\$3,927,000)	(\$4,044,000)	(\$4,166,000)	(\$4,291,000)
Debt Service										
Existing 1993 GO Bonds	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Existing 1997 GO Bonds	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Estimate for North Expansion Scenario	(\$15,051,000)	(\$15,049,000)	(\$15,050,000)	(\$15,051,000)	(\$15,051,000)	(\$15,049,000)	(\$15,047,000)	(\$15,049,000)	(\$15,047,000)	(\$15,049,000)
Funding Needs	(\$18,339,000)	(\$18,436,000)	(\$18,539,000)	(\$18,644,000)	(\$18,752,000)	(\$18,861,000)	(\$18,974,000)	(\$19,093,000)	(\$19,213,000)	(\$19,340,000)
Current Dedicated Funding Sources										
Existing 2% Hotel/Motel Tax	\$8,220,000	\$8,384,000	\$8,552,000	\$8,722,000	\$8,896,000	\$9,074,000	\$9,256,000	\$9,442,000	\$9,630,000	\$9,822,000
Funding Surplus (Shortfall)										
After Existing Funding Sources	(\$10,119,000)	(\$10,052,000)	(\$9,987,000)	(\$9,922,000)	(\$9,856,000)	(\$9,787,000)	(\$9,718,000)	(\$9,651,000)	(\$9,583,000)	(\$9,518,000)
Potential Additional Funding Sources										
1% Hotel/Motel Tax	\$4,110,000	\$4,192,000	\$4,276,000	\$4,361,000	\$4,448,000	\$4,537,000	\$4,628,000	\$4,721,000	\$4,815,000	\$4,911,000
0.5% Restaurant Tax - City	\$5,258,000	\$5,311,000	\$5,364,000	\$5,418,000	\$5,472,000	\$5,527,000	\$5,582,000	\$5,638,000	\$5,694,000	\$5,751,000
1% Car Rental Tax	\$789,000	\$776,000	\$784,000	\$792,000	\$800,000	\$808,000	\$816,000	\$824,000	\$832,000	\$841,000
Tourism Development Zone Sales Tax Rebate	\$2,000,000	\$2,000,000	\$2,000,000	\$2,000,000	\$2,000,000	\$2,000,000	\$2,000,000	\$2,000,000	\$2,000,000	\$2,000,000
Total Additional Funding Sources	\$12,137,000	\$12,279,000	\$12,424,000	\$12,571,000	\$12,720,000	\$12,872,000	\$13,026,000	\$13,183,000	\$13,341,000	\$13,503,000
Funding Surplus (Shortfall)										
After Existing & Additional Funding Sources	\$2,018,000	\$2,227,000	\$2,437,000	\$2,649,000	\$2,864,000	\$3,085,000	\$3,308,000	\$3,532,000	\$3,758,000	\$3,985,000

Note: See accompanying summary of significant assumptions.

Preliminary Funding Alternatives

New Convention Center (\$299 million)

Estimate for New Construction	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Estimated Operating Deficit										
Before Debt Service & Depreciation	(\$2,992,000)	(\$2,624,000)	(\$2,594,000)	(\$2,673,000)	(\$2,754,000)	(\$2,837,000)	(\$2,922,000)	(\$3,009,000)	(\$3,100,000)	(\$3,193,000)
Debt Service										
Existing 1993 GO Bonds	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Existing 1997 GO Bonds	(\$870,000)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Estimate for New Construction	(\$24,944,000)	(\$24,942,000)	(\$24,942,000)	(\$24,941,000)	(\$24,946,000)	(\$24,946,000)	(\$24,942,000)	(\$24,941,000)	(\$24,941,000)	(\$24,941,000)
Funding Needs	(\$28,806,000)	(\$27,566,000)	(\$27,536,000)	(\$27,614,000)	(\$27,700,000)	(\$27,783,000)	(\$27,864,000)	(\$27,950,000)	(\$28,041,000)	(\$28,134,000)
Current Dedicated Funding Sources										
Existing 2% Hotel/Motel Tax	\$6,978,000	\$7,048,000	\$7,154,000	\$7,262,000	\$7,370,000	\$7,480,000	\$7,594,000	\$7,746,000	\$7,900,000	\$8,058,000
Funding Surplus (Shortfall)										
After Existing Funding Sources	(\$21,828,000)	(\$20,518,000)	(\$20,382,000)	(\$20,352,000)	(\$20,330,000)	(\$20,303,000)	(\$20,270,000)	(\$20,204,000)	(\$20,141,000)	(\$20,076,000)
Potential Additional Funding Sources										
1% Hotel/Motel Tax	\$3,489,000	\$3,524,000	\$3,577,000	\$3,631,000	\$3,685,000	\$3,740,000	\$3,797,000	\$3,873,000	\$3,950,000	\$4,029,000
0.5% Restaurant Tax - City	\$4,509,000	\$4,599,000	\$4,686,000	\$4,771,000	\$4,852,000	\$4,929,000	\$5,003,000	\$5,073,000	\$5,139,000	\$5,201,000
1% Car Rental Tax	\$696,000	\$703,000	\$710,000	\$717,000	\$724,000	\$731,000	\$739,000	\$746,000	\$754,000	\$761,000
Tourism Development Zone Sales Tax Rebate	\$2,000,000	\$2,000,000	\$2,000,000	\$2,000,000	\$2,000,000	\$2,000,000	\$2,000,000	\$2,000,000	\$2,000,000	\$2,000,000
Total Additional Funding Sources	\$10,694,000	\$10,826,000	\$10,973,000	\$11,119,000	\$11,261,000	\$11,400,000	\$11,539,000	\$11,692,000	\$11,843,000	\$11,991,000
Funding Surplus (Shortfall)										
After Existing & Additional Funding Sources	(\$11,134,000)	(\$9,692,000)	(\$9,409,000)	(\$9,233,000)	(\$9,069,000)	(\$8,903,000)	(\$8,731,000)	(\$8,512,000)	(\$8,298,000)	(\$8,085,000)
Estimate for New Construction	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Estimated Operating Deficit										
Before Debt Service & Depreciation	(\$3,288,000)	(\$3,387,000)	(\$3,489,000)	(\$3,593,000)	(\$3,701,000)	(\$3,812,000)	(\$3,927,000)	(\$4,044,000)	(\$4,166,000)	(\$4,291,000)
Debt Service										
Existing 1993 GO Bonds	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Existing 1997 GO Bonds	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Estimate for New Construction	(\$24,941,000)	(\$24,945,000)	(\$24,942,000)	(\$24,945,000)	(\$24,943,000)	(\$24,945,000)	(\$24,943,000)	(\$24,942,000)	(\$24,946,000)	(\$24,944,000)
Funding Needs	(\$28,229,000)	(\$28,332,000)	(\$28,431,000)	(\$28,538,000)	(\$28,644,000)	(\$28,757,000)	(\$28,870,000)	(\$28,986,000)	(\$29,112,000)	(\$29,235,000)
Current Dedicated Funding Sources										
Existing 2% Hotel/Motel Tax	\$8,220,000	\$8,384,000	\$8,552,000	\$8,722,000	\$8,896,000	\$9,074,000	\$9,256,000	\$9,442,000	\$9,630,000	\$9,822,000
Funding Surplus (Shortfall)										
After Existing Funding Sources	(\$20,009,000)	(\$19,948,000)	(\$19,879,000)	(\$19,816,000)	(\$19,748,000)	(\$19,683,000)	(\$19,614,000)	(\$19,544,000)	(\$19,482,000)	(\$19,413,000)
Potential Additional Funding Sources										
1% Hotel/Motel Tax	\$4,110,000	\$4,192,000	\$4,276,000	\$4,361,000	\$4,448,000	\$4,537,000	\$4,628,000	\$4,721,000	\$4,815,000	\$4,911,000
0.5% Restaurant Tax - City	\$5,258,000	\$5,311,000	\$5,364,000	\$5,418,000	\$5,472,000	\$5,527,000	\$5,582,000	\$5,638,000	\$5,694,000	\$5,751,000
1% Car Rental Tax	\$769,000	\$776,000	\$784,000	\$792,000	\$800,000	\$808,000	\$816,000	\$824,000	\$832,000	\$841,000
Tourism Development Zone Sales Tax Rebate	\$2,000,000	\$2,000,000	\$2,000,000	\$2,000,000	\$2,000,000	\$2,000,000	\$2,000,000	\$2,000,000	\$2,000,000	\$2,000,000
Total Additional Funding Sources	\$12,137,000	\$12,279,000	\$12,424,000	\$12,571,000	\$12,720,000	\$12,872,000	\$13,026,000	\$13,183,000	\$13,341,000	\$13,503,000
Funding Surplus (Shortfall)										
After Existing & Additional Funding Sources	(\$7,872,000)	(\$7,669,000)	(\$7,455,000)	(\$7,245,000)	(\$7,028,000)	(\$6,811,000)	(\$6,588,000)	(\$6,361,000)	(\$6,141,000)	(\$5,910,000)

Note: See accompanying summary of significant assumptions.

Preliminary Funding Alternatives for Expanded or New Space

Summary of Significant Assumptions

Significant assumptions/limiting conditions used in this analysis include the following:

- Preliminary construction costs outlined in Section 9 of this Report.
- Utilization and financial operating assumptions shown earlier in this section.
- Operating deficit beyond 2012 assumes a 3.0% increase per year based on estimated inflation.
- Debt service assumptions provided by Public Financial Management (rate and term); Metro (type of financing - general obligation bonds); and HOK Venue (preliminary project cost).
- Estimated growth rates in hotel/motel and car rental tax collections based on historical collections.
- Estimated growth in restaurant sales based on historical figures. For purposes of this analysis, City is what the Tennessee Department of Revenue refers to as “old City of Nashville” which is larger than the downtown.
- Estimated growth in sales tax collections within a potential Tourism Development Zone based on previous analysis as well as experience of other similarly financed projects in Memphis, Chattanooga and Knoxville.
 - ✓ Historical experience in Memphis, Chattanooga and Knoxville suggest that this is a variable revenue source due to several factors including certain adjustments made by the State on an annual basis. As such, this revenue stream can fluctuate widely from year to year. However, for purposes of this analysis, a fixed annual estimate is assumed.
 - ✓ While multiple cities have instituted these zones in recent years, there is not enough historical data to make accurate projections.
 - ✓ The State limits its sales tax rebate to a maximum of 50% of the debt service annually.

Preliminary Funding Alternatives for Expanded or New Space

Summary of Significant Assumptions (cont'd)

- The analysis presented in this report relies on factual and financial information provided by a variety of sources including, but not limited to, the NCC, the Nashville CVB, Metro, and the Tennessee Department of Revenue. While KPMG believes that the information used in this report is accurate, KPMG has not independently verified the information and does not warrant its accuracy. Any changes in this information could change the results of this analysis.
- These estimates are merely suggestive and do not take into account the various economic variables that could impact the information provided to us by the entities listed above and thereby the resulting estimates.
- In several cases, KPMG analyzed the historical trend in tax collections and used such trends to prepare preliminary estimates of future tax collections. This analysis is meant to provide an understanding of the potential revenue that could be generated from various taxes. It does not provide accurate projections of future collections.

Preliminary Funding Alternatives for Expanded or New Space

Summary of Funding Requirements

As shown in the previous tables, the existing two points of the hotel/motel tax dedicated to the NCC are insufficient to cover the debt service and operating deficit for any of the three development scenarios under consideration. However, the gap in funding varies based on the specific development option.

Based on various assumptions including historical tax collections, the following table summarizes the estimated amount that could potentially be generated by each of these hypothetical additional funding sources if they were enacted.

Potential Additional Funding Sources	Estimated Amount
1% Hotel/Motel Tax	\$3.5 million to \$4.9 million annually
0.5% Restaurant Tax (Nashville only)	\$4.5 million to \$5.8 million annually
1% Car Rental Tax	\$700,000 to \$800,000 annually
Tourism Development Zone Sales Tax Rebate	\$2.0 million annually

It is important to recognize that this is a hypothetical, order of magnitude estimate and significantly more research and analysis will need to be conducted prior to generating any financing plan.

Based on these and other assumptions described earlier, the following summarizes the ability of the existing and additional tax sources to meet the funding requirements for each of the three development options.

Preliminary Funding Alternatives for Expanded or New Space

Summary of Funding Requirements (cont'd)

North Expansion Option

- Estimated total annual funding requirement – \$17.6 million to \$19.3 million
- Estimated funding shortfall after existing sources - \$9.5 million to \$11.9 million
- Estimated funding shortfall after existing and hypothetical additional sources – \$1.2 million in FY 2008
- Estimated funding surplus– \$201,000 in FY 2009 to \$4.0 million in FY 2027
- It may be possible to sunset a portion of the taxes after a period of time. Alternatively, the excess could be earmarked for marketing/operations of the facility and/or future capital needs.

South Expansion Option

- Estimated total annual funding requirement – \$19.4 million to \$21.1 million
- Estimated funding shortfall after existing sources - \$11.3 million to \$13.7 million
- Estimated funding shortfall after existing and hypothetical additional sources – \$3.0 million in FY 2008 decreasing to \$152,000 in FY 2016
- Estimated funding surplus – \$61,000 in FY 2017 to \$2.2 million in FY 2027
- As with the North expansion option, it may be possible to sunset a portion of the taxes after a period of time or earmark any excess funds for marketing/operations of the facility and/or future capital needs.

Preliminary Funding Alternatives for Expanded or New Space

Summary of Funding Requirements (cont'd)

New Convention Center Option

- Estimated total annual funding requirement – \$27.5 million to \$29.2 million
- Estimated funding shortfall after existing sources - \$19.4 million to \$21.8 million
- Estimated funding shortfall after existing and hypothetical additional sources – \$11.1 million in FY 2008 decreasing to \$5.9 million in FY 2027
- Under the assumptions made for this analysis, the aggregate revenues estimated to be generated from both the existing and hypothetical additional funding sources would not be sufficient enough to cover the debt service and operating deficit of a new facility.

The table below provides a comparison of the estimated conceptual construction cost, total annual funding requirements and shortfall characteristics for each of the three potential development options under consideration.

Category	North Expansion	South Expansion	New Convention Center
Conceptual Construction Cost	\$181 million	\$202 million	\$299 million
Total Annual Funding Requirements	\$17.6 million to \$19.3 million	\$19.4 million to \$21.1 million	\$27.5 million to \$29.2 million
Number of Years of Funding Shortfall ¹	1	9	20
Range of Annual Funding Shortfall ¹	\$1.2 million	\$152,000 to \$3.0 million	\$5.9 million to \$11.1 million
Magnitude of Aggregate Funding Shortfall ¹	\$1.2 million	\$9.7 million	\$160.1 million

Note: ¹ Assumes use of both existing and hypothetical additional funding sources.

The estimated construction cost for the new convention center scenario does not include any cost that might be incurred related to disposition of the existing NCC.

Potential Next Steps

Should Metro Choose to Pursue the Project Further

North Expansion

- Establish Tourism Development Zone
- Enact Additional Funding Sources
- Conduct a More Detailed Site Analysis Assessment and Cost Estimate

South Expansion

- Establish Tourism Development Zone
- Enact Additional Funding Sources
- Identify Other Necessary Funding Sources
- Conduct a More Detailed Site Analysis Assessment and Cost Estimate

Construct New Center

- Establish Tourism Development Zone
- Enact Additional Funding Sources
- Identify Other Necessary Funding Sources
- Proceed With Site Selection Process
- Assess the Potential Impact to the Existing NCC
- Assess the Potential Impact to the Renaissance Hotel (depending on site selection)
- Pursue New Hotel Property
 - Issue RFQ/RFI to Test Interest by Hotel Developers

Metropolitan Government of Nashville and Davidson County – Internal Audit



Advisory Services Related to the Need for Expansion of the Nashville Convention Center or Construction of a Proposed New Convention Center

Presentation – November 2004

Presentation Overview

- Background
- Market Analysis
- Site Planning Analysis
- Funding Analysis
- Potential Next Steps

Various Studies Have Been Commissioned in Recent Years Related to the Operational Performance of the Existing Facility and the Long-Term Needs of Convention Quality Space in the Market

Analysis of the Long-Term Convention Facility Needs of the Nashville, TN Market – 2001

- Convention, Sports & Leisure International (CSL) addressed the market, building program, financial, economic and site issues
- Long-term potential to support up to 400,000 SF of exhibit space with 100,000 SF of meeting space and a 40,000 SF ballroom
- A large headquarters hotel would need to be developed for any major convention center project

Nashville Convention Center Analysis of Funding Alternatives – 2001

- KPMG LLP's Economic Consulting Services analyzed potential revenue available to fund the construction of a new convention center in Nashville
- Summarized funding structures used in similar projects
- Prepared estimates of potential revenues that could be generated by implementing these funding structures in Nashville

Various Studies Have Been Commissioned in Recent Years Related to the Operational Performance of the Existing Facility and the Long-Term Needs of Convention Quality Space in the Market (cont'd)

Performance Audit of the NCC & the Nashville CVB – 2003

- KPMG conducted a performance audit of several of its public assembly facilities including the NCC and the Nashville CVB
- Benchmarked individual performances of both the NCC and Nashville CVB in key areas as well as their interaction with one another, particularly with respect to marketing efforts

Expanding Nashville's Convention Opportunities – May 2004

- The Coalition of Convention Excellence conducted a study on the Thermal Plant site for a convention center location
- Found to be ideal site for a new center given its location along the Cumberland River and proximity to the entertainment district
- Results of a recent Metro Council task force did not recommend the Thermal Plant site for development of a potential convention center

Objectives of This Study Effort Are to Assist Metro in Assessing the Following

- How may the current business climate and trends in the industry impact the potential expansion of the NCC or construction of a new facility?
- Does market demand appear strong enough to support expansion of the existing NCC or construction of a new convention center?
 - What are the future building components needed to address users' requirements?
 - Will current infrastructure elements affect the facility's market penetration?
- Can the existing NCC be expanded?
- What would the operating characteristics, including estimated utilization and potential financial operations, be for a new or expanded convention facility?
- What would be the estimated incremental economic impact associated with an expansion or new development?
- What are the potential costs and benefits associated with the project?
- What are potential funding sources to finance expansion or new construction?

Specific Research Tasks Conducted in This Analysis Include, But Are Not Limited To, the Following

Market Analysis

- Reviewed the previous studies summarized earlier in the report;
- Conducted interviews/work sessions with representatives of: Metro, Nashville CVB, MCC, NCC, Opryland Hotel, and other key stakeholders in the community
- Summarized trends in the convention, tradeshow and meetings industry that may affect this project;
- Assessed community attributes and meetings infrastructure;
- Surveyed local hoteliers;
- Analyzed historical, current and future meeting activity at NCC;
- Analyzed convention facilities and destination attributes in competitive markets;
- Surveyed meeting planners that represented existing and potential users of NCC;
- Summarized findings relative to the market demand assessment for expansion of the existing NCC or construction of a new convention center.

Specific Research Tasks Conducted in This Analysis Include, But Are Not Limited To, the Following (cont'd)

Facility and Financial Analysis

- Developed a detailed building program based on market analysis findings which includes any required infrastructure elements (hotel rooms, transportation, ingress/egress, etc.);
- Developed potential expansion alternatives;
- Prepared preliminary construction cost estimates for each expansion alternative and provide a comparison to a new convention center irrespective of site;
- Assisted management in preparing an estimate of operating revenues and expenses as well as economic/fiscal impacts associated with the project;
- Identified potential funding sources; and
- Prepared a preliminary cost/benefit analysis for the project.

Several Market Factors Suggest the Need for Additional Convention Space Either Through Expansion or Construction of a New Convention Center in Downtown Nashville

- The existing NCC is highly occupied and convention/tradeshows activity remained relatively consistent during the last several fiscal years when many facilities experienced a decline in this business segment.
- Nashville is a popular destination for national conventions and tradeshows.
- Demand for exhibit space is projected by industry sources to continue to grow in the future.
- Lost business reports of the CVB indicate that Nashville is currently losing business because of facility-related limitations such as space and date availability - This point was reiterated by management at both the NCC and Renaissance Nashville Hotel.
- Competitive/comparable destinations host conventions/tradeshows that attract twice the attendance of those held at the NCC.
- Approximately 80% of user survey respondents do not currently consider Nashville a potential location for their event given its existing supply of space, which includes both the NCC and the Opryland Hotel, and infrastructure elements. Over 75% of these groups, however, would consider Nashville if a) the NCC was expanded contiguously or b) a new center with a headquarters hotel was developed in downtown.

The Market Analysis Also Indicated Several Challenges That Need to Be Considered

- Increased supply of convention space through expansion and new construction in recent years
- Downward pressure on rental rates in some convention centers due to increased supply in space and recent economic downturn
- Economic conditions in recent years have put first-tier cities and privately owned hotels in competition with second-tier convention centers
- Based on input from meeting planners, additional infrastructure requirements would enhance Nashville's marketability to consistently attract larger, national conventions and tradeshow:
 - Increased hotel supply proximate to any expanded or new center downtown
 - Improved air access – specifically, increase in direct flights
 - Increased supply of restaurants/entertainment establishments proximate to center

The NCC and Opryland Hotel Provide Nashville the Opportunity to Attract Two Distinct Potential Market Segments

- In terms of function space available, the Opryland Hotel is Nashville's primary convention facility
 - 289,000 SF of exhibit space (151,000 SF contiguous)
 - Exhibit space has columns
 - 182,500 SF of meeting/ballroom space
- Both the NCC and Opryland Hotel have been successful in hosting national association business which suggests strong market appeal of Nashville in this niche
- Multiple sources suggest that there are two distinct demand segments - downtown vs. all-inclusive suburban location
 - User survey results
 - Lost business reports
 - Industry representatives (e.g., ASAE, MPI)
- Lost business reports indicate there is a market segment that would fit within Opryland's current exhibit space but will not consider this venue, for example:
 - American Academy of Physician's Assistants
 - Retail Tobacco Dealers of America
 - NAMM – International Music Products Association

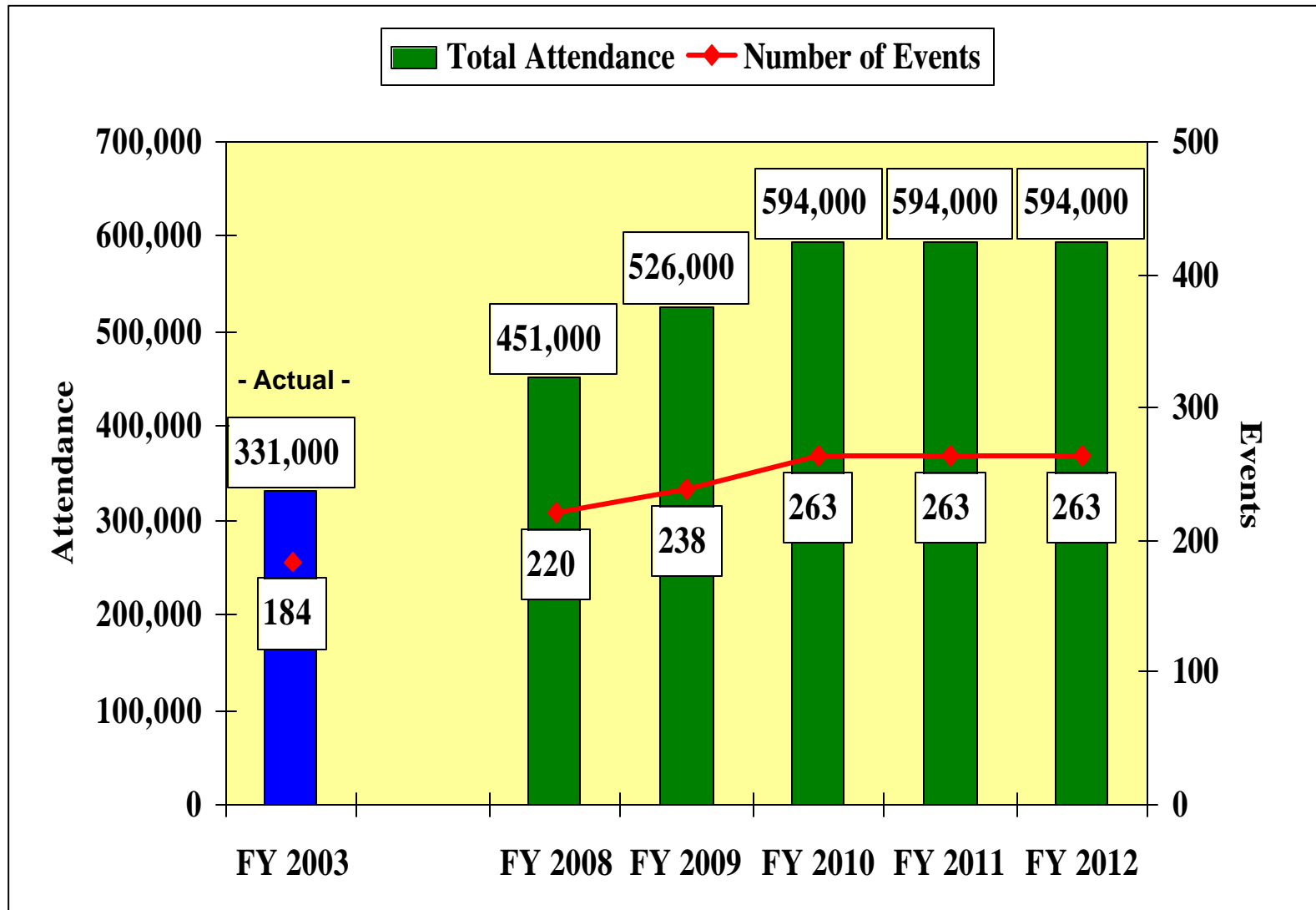
Potential Market Demand Exists for Nashville by Offering More Convention Space Downtown

- Would enhance Nashville’s competitiveness with other facilities in the region
- Would better address the long-term convention and meeting needs of the market – more similar sized simultaneous events and larger events
- The facility should offer contiguous exhibit space and the meeting/ballroom space should be divisible
- Appropriate prefunction and registration areas should be provided
- Modern amenities such as high-tech capabilities should be instituted

Component	Square Footage of Space		
	Existing Facility	Recommendation Expanded or New Facility	
Exhibit Hall (SF)	118,700	250,000	- 300,000
Ballroom (SF) ¹	10,900	40,000	- 50,000
Meeting Space (SF)	19,800	60,000	- 70,000
Total Function Space¹	149,400	350,000	- 420,000
Number of Breakout Rooms	24		
Ratio of Meeting/Ballroom Space to Exhibit Space	26%	40%	40%

Note: The above square footage amounts do not represent any support space such as prefunction and registration areas, circulation space, storage and restrooms.

Estimate of Utilization for Expanded or New Convention Center



Estimate of Incremental Economic Benefits From On-Going Operations of Expanded or New Convention Center

Additional Benefits From New Space	Estimated Incremental Benefits to Davidson County from Operations of An Expanded or New Convention Center (annually recurring)				
	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Total Economic Benefits:					
Direct Spending	\$60,889,000	\$97,604,000	\$129,213,000	\$133,070,000	\$137,063,000
Induced/Indirect Spending	\$38,072,000	\$61,433,000	\$81,514,000	\$83,947,000	\$86,467,000
Total Spending	\$98,961,000	\$159,037,000	\$210,727,000	\$217,017,000	\$223,530,000
Total Employment (number of FTE jobs)	1,200	2,000	2,800	2,900	2,900
Total Earnings	\$48,728,000	\$77,114,000	\$101,633,000	\$104,668,000	\$107,809,000

Notes:

Amounts are presented in current (inflated) dollars.
FTE denotes full-time equivalent employees.

Site Analysis Objectives

- Develop a more detailed building program given market-driven recommendations
- Develop potential expansion alternatives
- Prepare preliminary construction cost estimates for each expansion alternative
- Compare expansion development scenarios to a new convention center irrespective of site

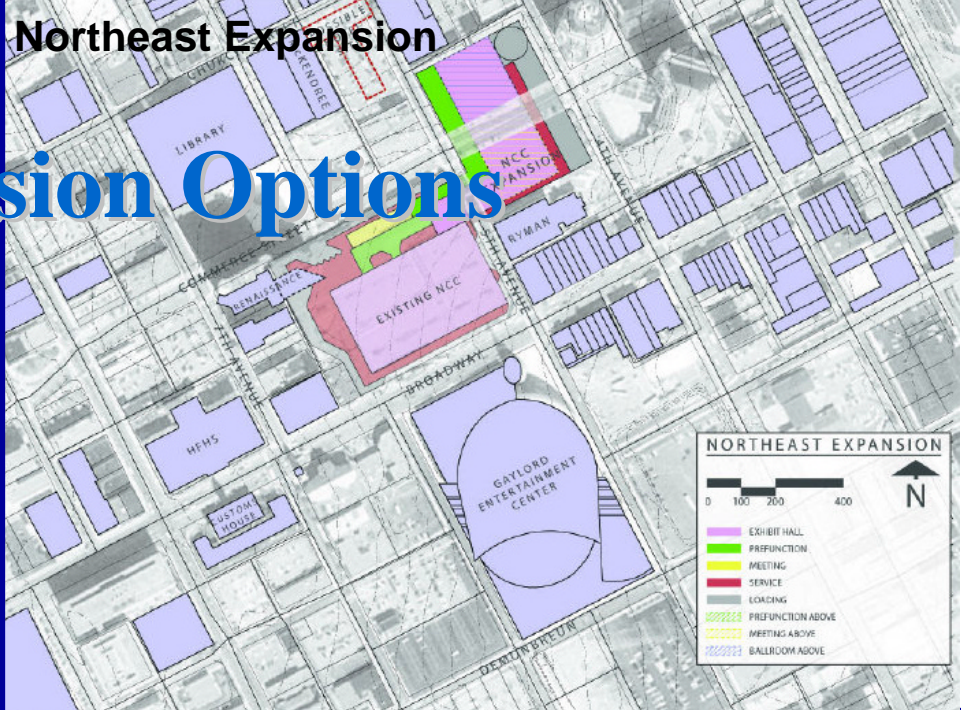
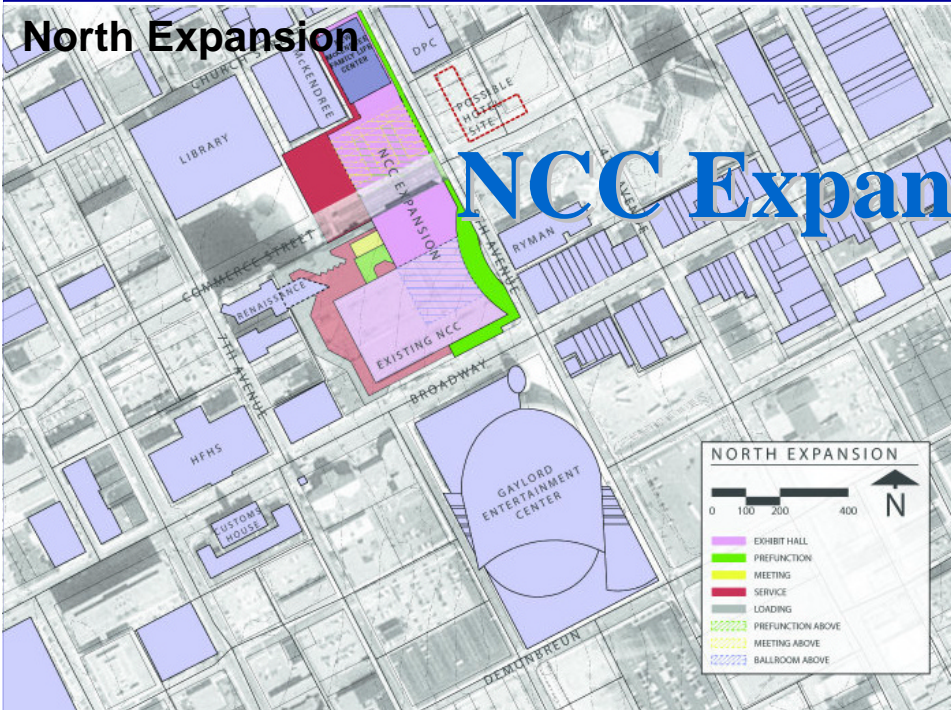
Expansion Parameters

- Study all possible directions
- Space targets per market demand study
- Contiguous exhibit hall space:
 - Same elevation as existing
 - Not required to exit exhibit space to enter additional exhibit hall(s)
 - Prefunction and service connections are continuous
- Strategy for how new and existing exhibit halls would be serviced by trucks
- Able to continue operations of NCC during construction
- No permanent street closures
- Avoid removal of historic/major structures
 - For example, Ryman Auditorium or Renaissance Nashville Hotel

North Expansion

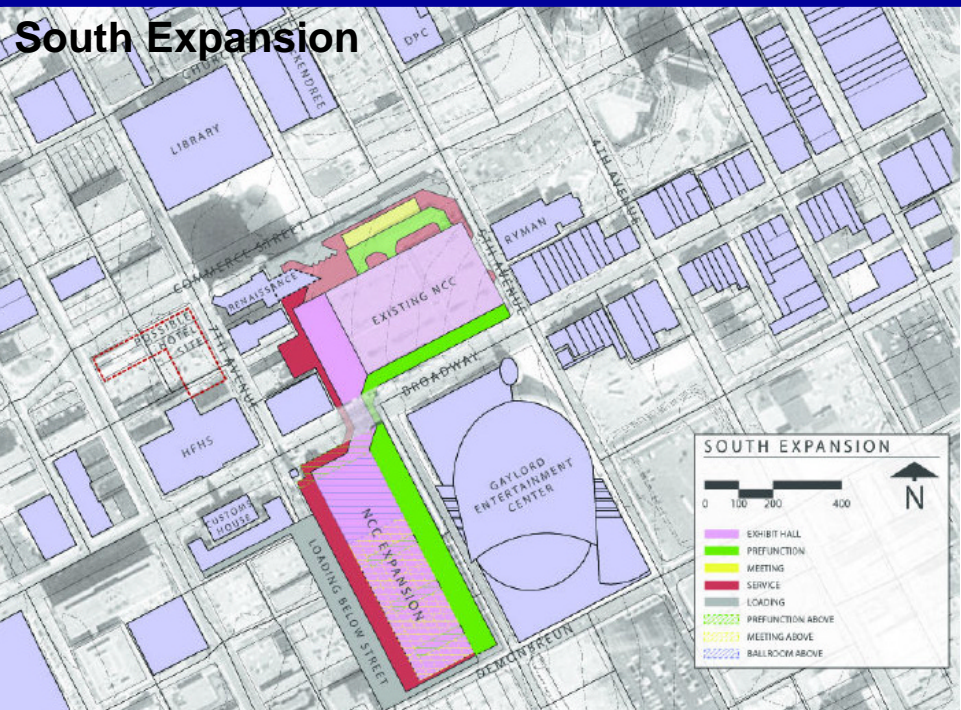
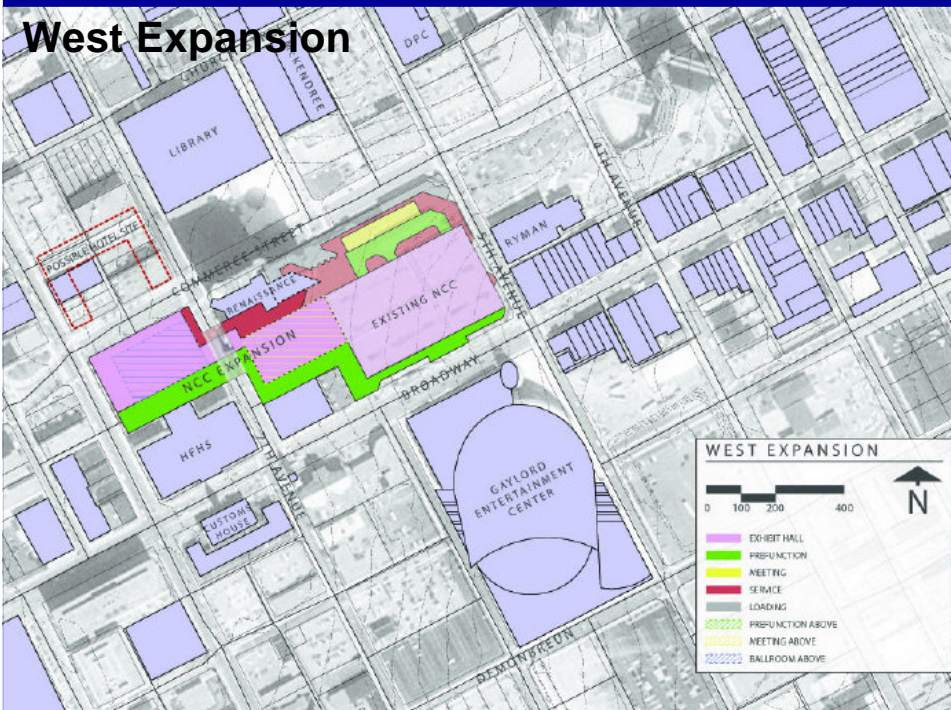
Northeast Expansion

NCC Expansion Options



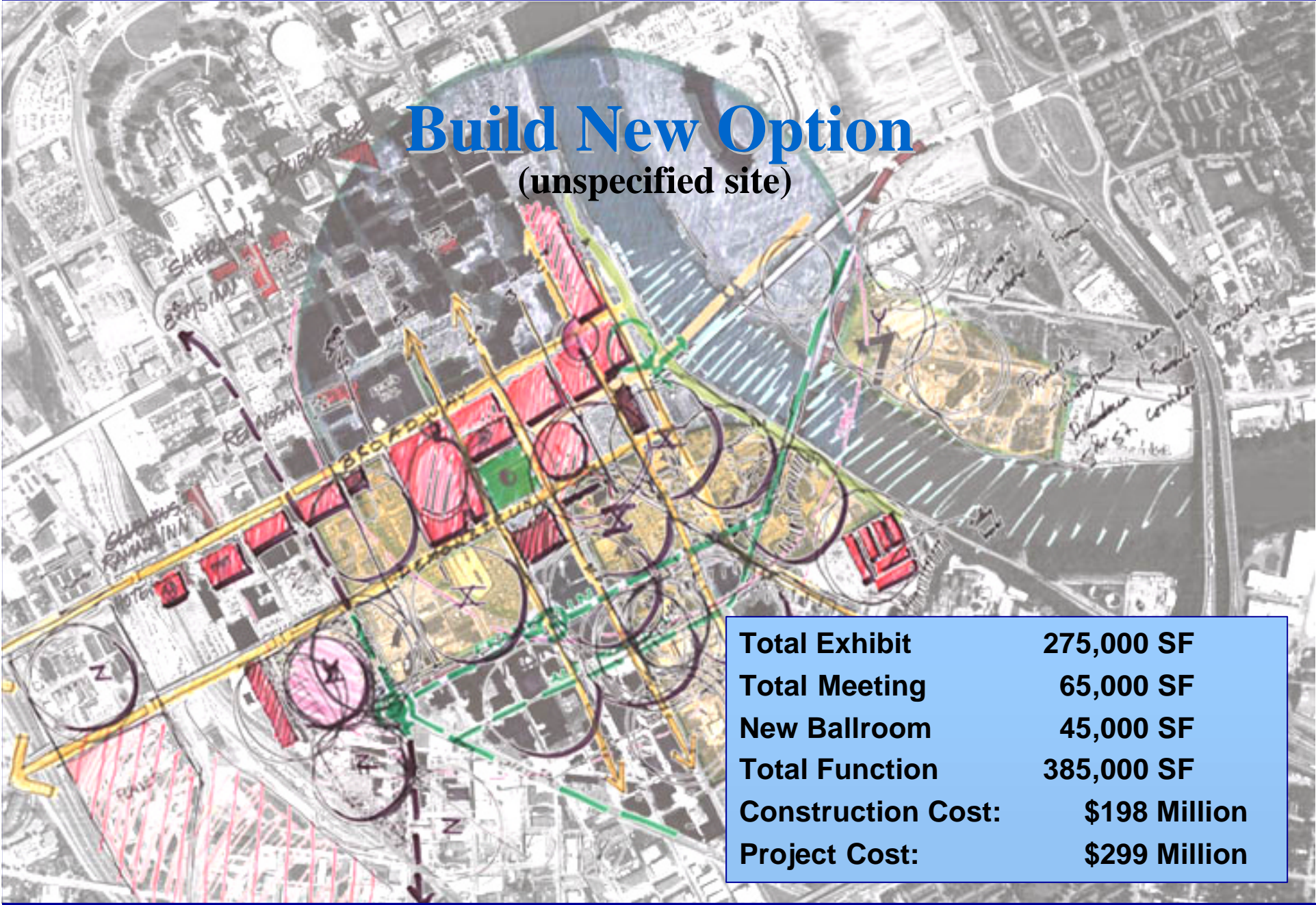
West Expansion

South Expansion



Build New Option

(unspecified site)



Total Exhibit	275,000 SF
Total Meeting	65,000 SF
New Ballroom	45,000 SF
Total Function	385,000 SF
Construction Cost:	\$198 Million
Project Cost:	\$299 Million

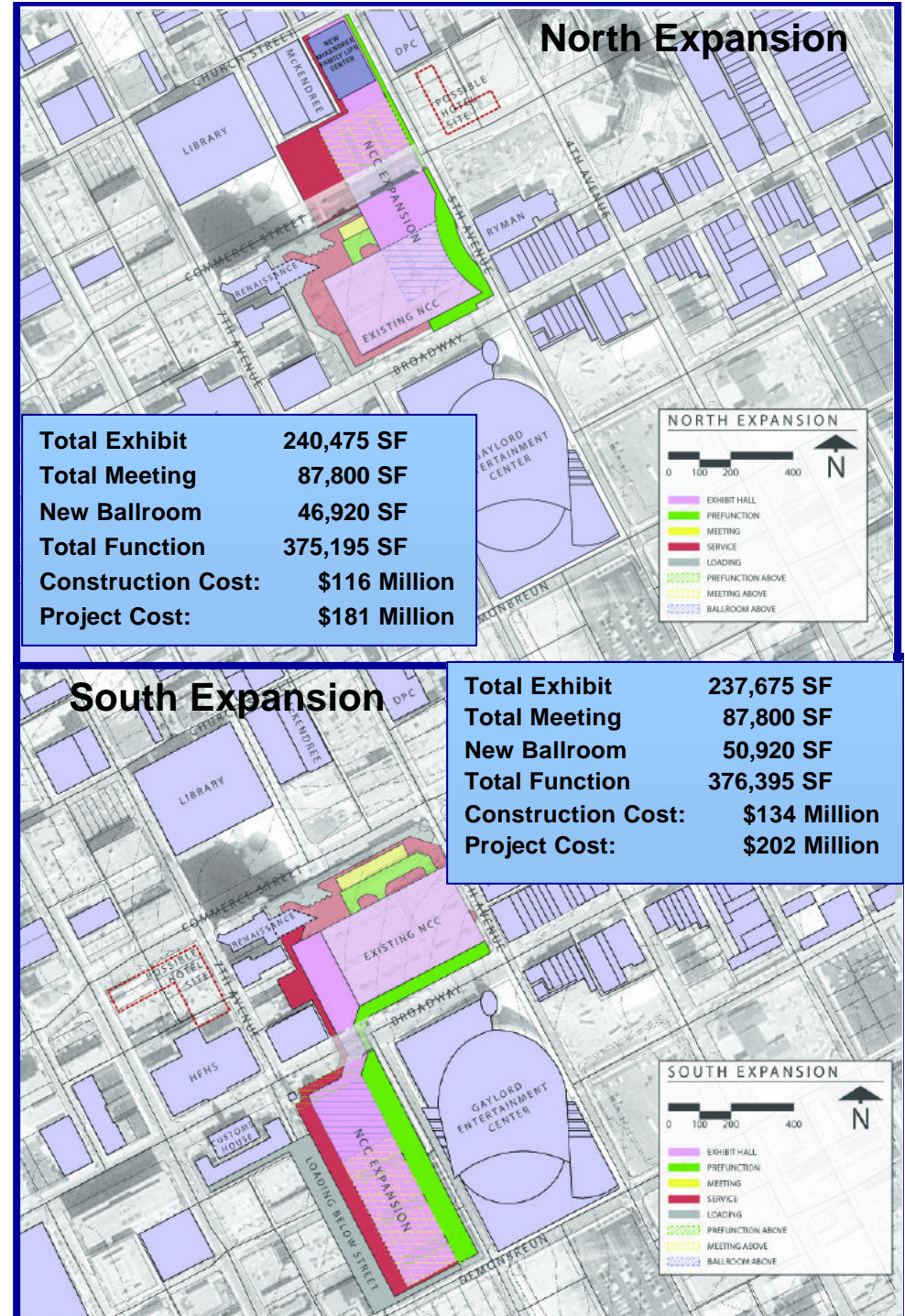
Expansion to the North or South Provides Alternatives to Construction of a New Center Downtown

CONCEPT	Meets Exhibit Target	Meets Meeting/ Ballroom	Principal Advantages	Principal Disadvantages /Challenges	Expand Potential	Concept Cost (mil) Estimate	Overall Attractive/ Desirable
Expand Northeast	NO	YES	Lowest cost; No major buildings removed	Exhibit hall shape; Potential conflict with proposed office tower	LOW	\$155	LOW
Expand North	YES	YES	Amount and layout of exhibit space; Orientation of public space; Lowest cost/SF	Requires relocation of McKendree Family Life Center and Central Church of Christ	MED	\$181	HIGH
Expand West	NO	YES	Reinforce Commerce Street as convention address	Removes National Register residential building; Exhibit hall shape	LOW	\$207	LOW
Expand South	YES	YES	Orients toward Broadway; Clear direction for future growth	Relocates First Baptist Church; Utility tunnel; Exhibit hall shape	GOOD	\$202	HIGH
Build New	YES	YES	Function space target; Optimized layout; Future expansion	Most expensive; Location away from entertainment core; Existing building use	GOOD	\$299	HIGH

Summary

Of the expansion options studied, the **north** and **south** expansion options have the potential, with minor adjustments, to achieve the stated targets for exhibit and total function area for the Nashville Convention Center. All the expansion options meet or exceed the recommendation for total ballroom and meeting room space.

The build new option, which does not relate to a specific site, can potentially meet recommended space targets at either the high or low end, but at a substantially higher cost than any of the expansion options. This option would also most likely relocate the convention center farther from the downtown core.



Summary of Existing & Potential Hypothetical Funding Sources

- The existing two points of the hotel/motel tax dedicated to the NCC are insufficient to cover debt service and operating deficit for North, South or New options
- The gap in funding varies based on the specific development option
- Potential hypothetical funding sources were estimated based on:
 - Historical hotel/motel and car rental tax collections
 - Estimated growth in restaurant sales based on historical figures
 - Estimated growth in sales tax collections within a potential Tourism Development Zone (previous analysis and similar experience in other TN cities)
 - For purposes of this analysis, a fixed annual estimate is assumed for the TDZ, however, experience in other cities suggests the TDZ is a variable revenue source and can fluctuate widely from year to year
 - It is important to recognize that this is a hypothetical, order of magnitude estimate and significantly more research and analysis will need to be conducted prior to generating any financing plan.

Summary of Existing & Potential Hypothetical Funding Sources (cont'd)

Funding Sources	Estimated Annual Amount
<i>Existing</i>	
2% Hotel/Motel Tax	\$7.0 million to \$9.8 million
<i>Hypothetical</i>	
1% Hotel/Motel Tax	\$3.5 million to \$4.9 million
0.5% Restaurant Tax	\$4.5 million to \$5.8 million
1% Car Rental Tax	\$700,000 to \$800,000
Tourism Development Zone Sales Tax Rebate	\$2.0 million
Existing & Potential Sources Combined	\$17.7 million to \$23.3 million

Ability of Existing and Potential Hypothetical Funding Sources to Meet Funding Requirements

Category	North Expansion	South Expansion	New Convention Center
Conceptual Construction Cost	\$181 million	\$202 million	\$299 million ¹
Total Annual Funding Requirements ²	\$17.6 million to \$19.3 million	\$19.4 million to \$21.1 million	\$27.5 million to \$29.2 million
Number of Years of Funding Shortfall ³	1	9	20
Range of Annual Funding Shortfall ³	\$1.2 million	\$152,000 to \$3.0 million	\$5.9 million to \$11.1 million
Magnitude of Aggregate Funding Shortfall ⁴	\$1.2 million	\$9.7 million	\$160.1 million

Notes:

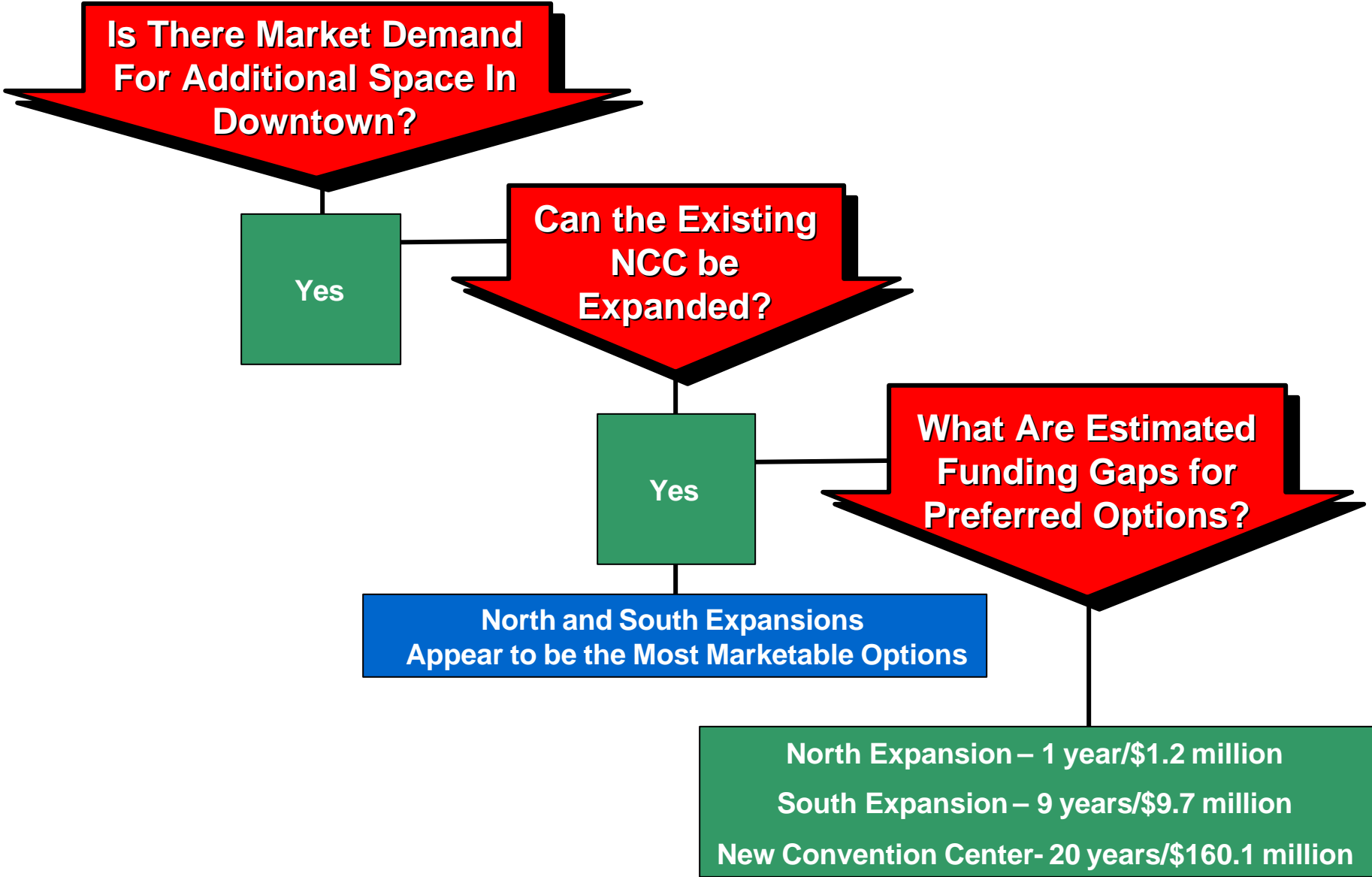
¹ The estimated construction cost for the new convention center scenario does not include any cost that might be incurred related to disposition of the existing NCC.

² Funding requirements include estimated operating deficit and debt service as well as existing debt for first year (will retire in FY 2008).

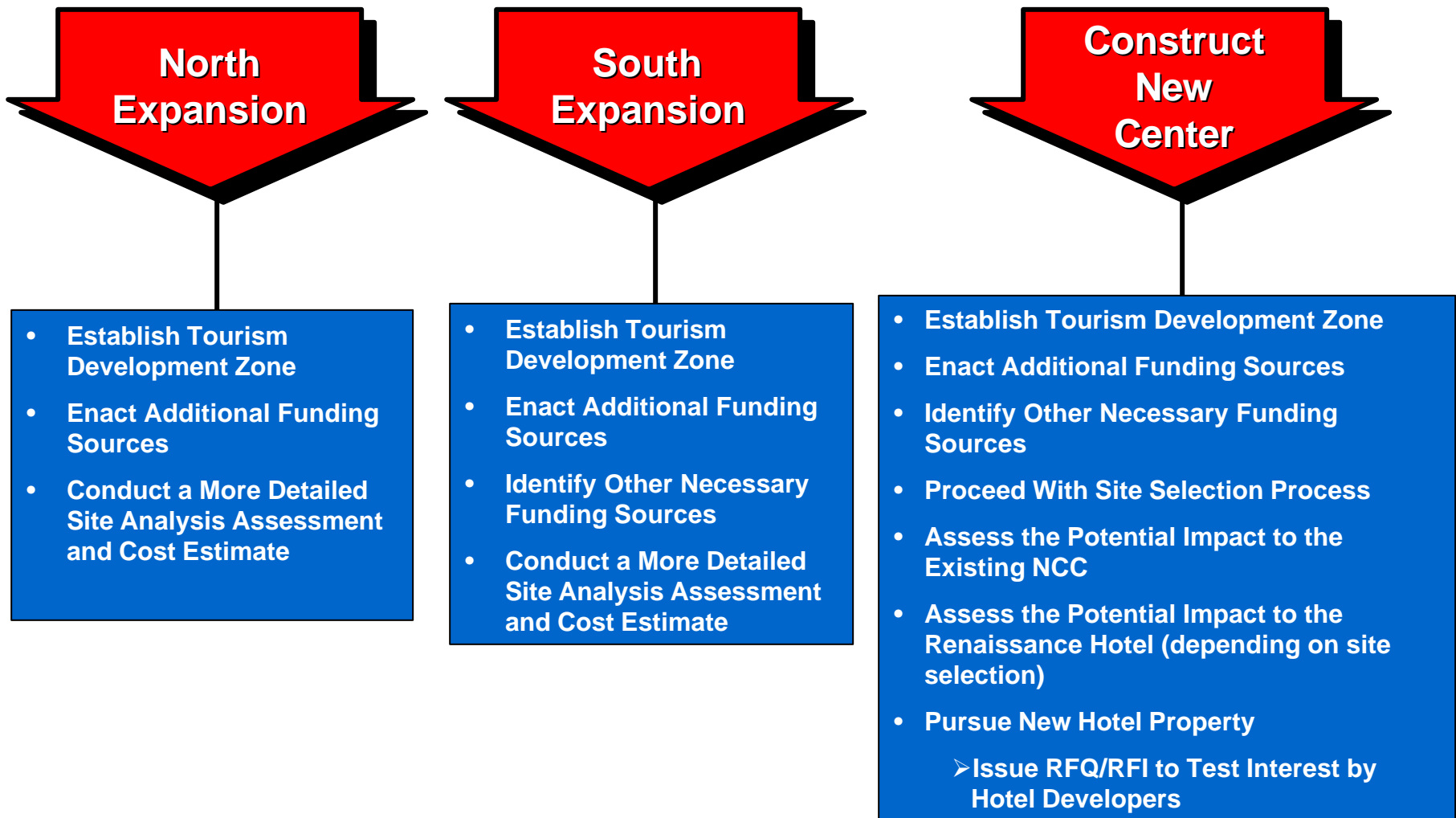
³ Assumes use of both existing and hypothetical additional funding sources.

⁴ Magnitude of aggregate funding reflects shortfall until first year that surplus is realized.

Project Summary



Potential Next Steps For Three Most Marketable Options Should Metro Choose to Pursue the Project Further





Full Report Can Be Found At

http://www.nashville.gov/finance/Internal_Audit/InternalAudit_home.htm