

May 7, 2014

Ms. Arleen Pelster
Planning and Economic Development Director
City of Solvang
411 Second Street
Solvang, CA 93463

Email: arleenp@cityofsolvang.com



1020 N. Fairfax Street
Suite 320
Alexandria, VA 22314
Phone: (703) 838-9707
Fax: (703) 838-9712

Re: Proposed Conference Center, Solvang, CA

Dear Ms. Pelster:

In accordance with the defined scope of work, we have completed our analysis and research relative to the market and financial feasibility of a proposed stand-alone conference center to be located in Solvang, California.

Our conclusions are based upon our present knowledge and information with respect to economic and demographic data, the local meetings, convention, and lodging markets, and information compiled from a variety of interviews and comparable conference centers as of the completion of our fieldwork in March 2014 and subsequent research in March/April 2014.

Understanding the Engagement

As we understand, the *City of Solvang* has been evaluating the financial viability of repurposing an existing building or developing a new conference center in the city for some time now. In pursuit of this objective, the *City of Solvang* engaged REVPAR International to conduct a feasibility analysis of the project considering the following two options:

- Option 1: Conference Village Concept** – This concept would involve the adaptive re-use or retrofitting of an existing facility in the downtown area of Solvang for an alternative-style conference venue which would capitalize on Solvang’s charming and walkable Village area, including its existing lodging facilities, food and beverage outlets, and recreation and entertainment venues. This option would be pursued as a first phase as it does not involve expenditure of funds for new construction.
- Option 2: Construction and Operation of a New Conference and Meeting Facility** – This concept would involve construction of flexible meeting space for business purposes during the week and would be appropriate for multi-purpose uses at other times. The proposed facility would be sized to suit the demonstrated needs of the potential market and recommendations would be made for locations and features that would enhance the Village area and grow the local area’s economic capacity.

The ultimate goal according to representatives of the *City of Solvang*, the *Solvang Conference and Visitors Bureau* (SCVB), and *Visit the Santa Ynez Valley* (formerly the *Santa Ynez Valley Hotel Association*), is to attract a new target market of visitors to Solvang during the off-season, as well as mid-week from Sunday to Thursday. In other words, the objective is to provide an economic driver, i.e., a conference center/meeting venue, to expand the target market of potential visitors beyond the existing leisure-oriented guests and groups who already flock to the city on weekends and holidays to experience the Village and all it has to offer. By doing so, this will create new demand for the many lodging facilities, food and beverage outlets and retail stores during the week and/or off-peak periods.

In support of the above, the city proposed several sites within Solvang for consideration for adaptive re-use or new development as summarized in the following table.

Potential Sites Evaluated		
Site	Location	Adaptive Reuse or New Construction
1	Veteran's Hall/Lumber Yard – 1745 Mission Drive	Either
2	Union Bank – 1714 Mission Drive	Either
3	Rabobank Building – 1654 Copenhagen Drive	Adaptive Reuse
4	Solvang Village Square – 320 Alisal Road	Either

Our specific efforts were focused on evaluating each site and initially establishing whether the existing improvements could be adapted to the intended reuse as outlined above. If not, then we were to evaluate whether the existing structure could be razed to allow for the development of a new structure specific to Option 2 above to the extent that a stand-alone conference center would be market and financially feasible over the long term. As an addendum to our original proposal, we were asked to undertake sufficient research and analysis in the initial component of work to determine which of the two options above represented the most viable path. The ultimate goal, once the preferred option/development path(s) was identified, was to prepare financial proformas and, if appropriate, evaluate the potential return on the investment.

In the course of our research into the need for conference center space in the City, specific objectives to be achieved as part of this initial component(s) of the study included the following:

- A review and analysis of the local and regional area, as well as the local hotel/meetings market;
- Evaluation of the key sites offered for conference center development and establish a preferred site location;
- Estimate present and future supply and demand;
- Recommend a conference center facility profile including size, service level, management structure, quality level, and scope of support services and facilities;
- Speak to the importance of co-locating the conference center with hotel rooms;
- Prepare usage estimates by market segment for conference center;
- Prepare income and expense estimates (pro-forma operating statements) for the conference center;
- Prepare an IRR/ROI analysis (if appropriate); and
- Evaluate potential/recommended ownership options.

The following preliminary letter details our findings and conclusions in response to the foregoing objectives. The next step in the process, after you have reviewed this report, will be to schedule the on-site presentation to the *City of Solvang* and then decide the next steps.

Preliminary Conclusions

Based on our research and analysis, it is our opinion that neither the adaptive re-use of an existing building into conference center use (Option 1) nor the development of a new stand-alone conference center/meeting venue (Option 2) within the City of Solvang appears financially viable at this time. As detailed below, the estimated financial performance generates a breakeven financial proposition at the operating level at best and, thus, would not generate sufficient cash flow to cover the cost of renovation under Option 1 or redevelopment under Option 2, let alone provide an adequate return on investment (ROI) to attract private equity interest.

Specific to a stand-alone conference center in Solvang, the bulk of the potential demand that will be drawn to it includes weekend-oriented and/or price-sensitive social/leisure demand, primarily in the form of weddings, youth sports, community events, and tour bus functions. This is the same type of event activity that is booking *Veteran's Hall* presently. The more lucrative weekday-oriented corporate and government meetings and events, which generate both direct and indirect economic activity for area business through their retreats, meetings, and small conferences, are largely using comparable facilities/venues in more primary metropolitan and/or populated areas such as Santa Barbara and Monterey and/or venues that include both meeting space and hotel rooms under one roof. In the case of

the hotel conference centers, those that offer the added benefit of a national brand that provides reward points to meeting planners booking the facility and guests staying at the facility are more popular than independent stand-alone facilities. This is consistent with our comparable analysis of several stand-alone conference centers, as well as data published by the *International Association of Conference Centers* (IACC), which suggests that proximity to, or a location within, a major metropolitan area is *a critical factor in attracting sufficient levels of corporate demand* for the stand-alone conference center facility.

To underscore the challenges faced by stand-alone meeting venues, several of the comparable conference centers reviewed during our analysis rely on some form of municipal subsidy to remain financially viable over the long term. Also, much of the leisure-related demand that is anticipated to accrue to a retrofitted or newly developed conference center will still occur during the weekends and weekday evenings, which is contrary to one of the main objectives of the city pursuing this endeavor in the first place – to attract corporate-based demand during the weekday shoulder and off-peak periods when leisure activity to Solvang is low.

Regarding the potential sites, existing buildings occupy all four sites under consideration and, thus, individually have positive and negative aspects related to the two options under consideration. Meanwhile, our research indicates that most prospective users (corporate or leisure) require a high quality facility – unique in design for the leisure guest, and “state-of-the-art” and equipped with the latest technology for the corporate customer.

That being said, of the four sites, it is our opinion that Site 1 holds the most promise as a viable freestanding meeting facility under either Options 1 or 2.

While Sites 2 and 3 may be convertible into some type of conference center/meeting venue use (Option 1), their age, varying degrees of functional obsolescence (of the improvements), and lack of dedicated on-site parking, renders their utility and ultimate marketability for conference center use low. As vacant sites (Option 2), their small size would likewise prove very difficult, if not impossible, to accommodate both an appropriately sized building and parking. Thus, we did not consider these two sites any further in our analysis.

Site 4, the *Solvang Village Square*, while a decent candidate for adaptive re-use under Option 1, would need to contend with the negative aspect of other existing users (office tenants) surrounding it and shared parking. We are also uncertain as to whether the building can accommodate the minimum amount of meeting space required to make it worthwhile, along with the back-of-the-house support areas, including a kitchen. That being said, its proximity to quality lodging at the adjacent *Hotel Corque* is attractive. Thus, we ran preliminary financial estimates on this site under Option 1 as well. However, as expected, it does not appear to be financially viable either since the net income levels are too low to support the associated costs to renovate and convert the existing space, as well as any costs incurred to terminate or buy out the office leases. As for Option 2, we believe that the total cost to purchase only a portion of the property, raze it and redevelop it with a new structure would easily be higher than the associated net income it could generate and, thus, eliminated Option 2 from consideration on this site. Quite frankly, it would make more sense to try and purchase the *Hotel Corque* from the Chumash Indians once they complete their 250-room expansion at the casino resort.

“Hybrid” of Options 1 and 2

In light of the above, we are of the opinion that the best alternative is to develop a market and financial analysis of a “hybrid” of Options 1 and 2 at Site 1 - *Veteran’s Hall* since it offers the best visibility, access, lot size/development potential, and adequate parking of the four sites under review. And while we must contend with the fact that the current improvements are historic and cannot be razed, there is ample room to expand it and develop a new state-of-the-art annex to the historic structure that can be used to capture corporate business and higher end leisure events, while retaining the current historic structure and continually marketing to the more price sensitive leisure and SMERF events that are currently using it.

Just as important, the site is located next to a two acre lumberyard that could eventually be purchased and allow for the expansion of the operation to include guest rooms, more meeting space, and ample parking.

Thus, for purposes of this report, and based on the fact that the *City of Solvang* may want to consider some level of subsidy to promote and develop the conference center as an amenity for citizens/leisure guests and corporate partners, we developed our market and financial analysis assuming a hybrid operation of the existing *Veteran's Hall* with a new conference center adjacent to it. Combined, the thought is that a new facility would provide a unique juxtaposition to the existing historic structure, which would provide for a marketable, functional, and flexible meeting/event venue for both leisure and corporate users, with an expansive price point depending on the facility used and day of week requested.

Financial Performance Estimates

With the foregoing in mind, the following table summarizes the estimated number of events and corresponding attendees for the hybrid scenario introduced above. Separately, given the need to address the topic of co-locating the meeting space with hotel rooms, we also estimated the occupied room nights by segment that the proposed conference center in Solvang would be expected to generate in a stabilized year of operation. For purposes of our analysis, we have assumed that the hybrid facility would be open for business as of the 1st quarter of 2018; with stabilization to occur by the 3rd year of operation, or 2020.

Estimated Number of Events and Attendees by Segment for a Stabilized Year of Operation Proposed Conference Center, Solvang, CA						
Segment	Events		Attendees		Occupied Room Nights	
	# of Events	% of Total	# of Attendees	% of Total	Total ORN	% of Total
Leisure/SMERF	222	64%	13,305	76%	11,511	74%
Corporate	122	36%	4,285	24%	4,017	26%
Total	344	100%	17,590	100%	15,528	100%

Source: REVPAR International, Inc.

REVPAR International then prepared financial pro formas for the hybrid conference center/meeting venue as summarized in the following table.

Projected Operating Results 2018 – 2023 Proposed Conference Center, Solvang, CA					
Year	Estimated Attendees	Food and Beverage Revenue	Other Revenue ⁽²⁾	Total Revenue	NOI ⁽³⁾
Stabilized Year ⁽¹⁾	17,590	\$735,000	\$287,000	\$1,022,000	\$11,500
2018	14,072	\$662,000	\$258,000	\$920,000	(\$58,600)
2019	15,831	\$767,000	\$300,000	\$1,067,000	(\$23,000)
2020	17,590	\$878,000	\$343,000	\$1,221,000	\$13,400
2021	17,590	\$904,000	\$353,000	\$1,257,000	\$14,300
2022	17,590	\$931,000	\$364,000	\$1,295,000	\$13,100
2023	17,590	\$960,000	\$375,000	\$1,335,000	\$15,900
CAG ⁽⁴⁾	4.6%	7.7%	7.6%	7.7%	11.8%

Notes: ⁽¹⁾ Presented in 2014 dollars.
⁽²⁾ Other revenue is defined as banquet room rental, AV rental, and miscellaneous revenue.
⁽³⁾ Net Operating Income defined as income before debt, taxes, depreciation, and amortization.
⁽⁴⁾ Compound Annual Growth.

Source: REVPAR International, Inc.

As displayed, we believe that the facility will stabilize at roughly 17,590 attendees per year and generate total revenues in the amount of \$1,022,000 in current value (2014) dollars. This equates to roughly \$58 of revenue per person, on average, or roughly \$70 per square foot of dedicated meeting space. Furthermore, a larger number of both attendees and total revenue will accrue on the weekends versus the

weekday, which is counter to the original objectives of the study, but a result of the smaller market size, leisure-focused segmentation, and the distance from a significant base of corporate demand generators.

New Build Hotel and Conference Center Project

Since the above option does not produce a positive NOI and, thus, requires significant and/or ongoing subsidy to attract private equity, we went beyond the initial scope of our proposal to establish the financial viability of developing a combined hotel and conference center. The following table summarizes this second scenario compared to the hybrid freestanding scenario at *Veteran's Hall*.

Comparison to Alternative Recommendation Proposed Conference Center, Solvang, CA		
Facility Profile	Scenario 1 Free Standing Conference Center Veteran's Hall (Site 1)	Scenario 2 New Build Hotel and Conference Center Veteran's Hall (Site 1)
Total Meeting Space	14,500 square feet	12,000 square feet
Number of Guestrooms	None	120
Estimated Revenue	\$1,022,000	\$6,516,000
Estimated NOI	\$11,500	\$1,516,000
Assumed Capitalization Rate	10%	8%
Estimated "Going Concern" Value	Minimal	\$19.0 M
Estimated Development Costs	\$7,385,136	\$22.0 M - \$24.0 M
Difference	(\$7.2 M)	(\$3.0 to \$5.0 M)
Source: REVPAR International, Inc.		

As the foregoing illustrates, while a hotel and conference center generates significantly more revenue and income compared to a free standing conference center venue, it still falls well short on a "going concern" value compared to the estimated cost of development. Accordingly, neither scenario appears to be financially viable.

The balance of this letter provides more detail into our preliminary findings, rationale, and corresponding proforma estimates.

Area Review

Solvang is a beautiful, picturesque city nestled within the hills of Santa Ynez Valley in Coastal California. The area was founded by a group of Danish settlers in 1911 and was officially incorporated as a city in 1985.

The Valley, which includes Solvang, and the communities of Santa Ynez, Los Olivos, Los Alamos, Buellton, and Ballard, is home to roughly 20,000 residents. Other nearby cities just outside of the Valley include Lompoc, Santa Maria, and Goleta/Santa Barbara, where the larger base of commercial office, research and development, government, and industrial users are located. Solvang and the Santa Ynez Valley are part of Santa Barbara County, which also provides access to a long stretch of the Pacific Ocean coastline, offering access to several popular beaches.

The following table displays the population and employment trends for the Santa Barbara MSA, the State of California, and the United States as a whole.

Key Market Performance Indicators			
Year	Santa Barbara MSA	State of California	United States
Population Trends			
2002	402,529	34,916,495	287,726,647
2013	415,772	38,718,037	319,189,413
CAG ⁽¹⁾ 2002-2013	0.3%	0.9%	0.9%
2020 ⁽²⁾	431,655	41,581,321	341,343,887
CAG ⁽¹⁾ 2013-2020	0.5%	1.0%	1.0%
Employment Trends (000's)			
2002	248,825	19,660,373	166,633,078
2013	286,502	21,976,328	187,967,077
CAG ⁽¹⁾ 2002-2013	1.3%	1.0%	1.1%
2020 ⁽²⁾	306,658	23,692,820	203,624,919
CAG ⁽¹⁾ 2013-2020	1.0%	1.1%	1.1%
Notes: ⁽¹⁾ Compound Annual Growth.			
⁽²⁾ Projected.			
Source: Woods & Poole Economics, Inc.			

According to *Woods & Poole Economics, Inc.*, the population of the MSA, which includes the entirety of Santa Barbara County, as well as the City of Solvang, increased from roughly 403,000 in 2002 to 416,000 in 2013, representing an average annual growth rate of less than one percent. This growth rate is below the state and national growth rates; a function of the region's managed and controlled development, as well as higher real estate prices, and the impact of the national recession. Into the future, population growth in the MSA is projected to increase at a slightly faster pace, but still less than one percent compounded annually, and a slower rate than the state and nation as a whole. While the supply of undeveloped land in the MSA is still abundant, the lack of planned large-scale developments will keep downward pressure on future growth.

In terms of job growth, the area has fared much better compared to the state and nation during the same time frame. Although Solvang itself does not have any corporate office parks per se and does not support a sizeable corporate office space inventory, the region's largest employer, *Vandenberg Air Force Base*, is located just west of the city in Lompoc which influences both the local economy and demand for area lodging on several occasions throughout the year. To the southwest in Goleta/Santa Barbara, the presence of *University of California, Santa Barbara* (UCSB), as well as several influential corporate and government employers such as *Raytheon*, *Flir Thermal Imaging*, *Deckers Outdoor Corporation*, *Citrix Systems*, *Network Hardware Resale*, *ATK Space Systems*, and *Yardi Systems*, generate lodging and banquet/meeting demand throughout the year.

The closest commercial airport to Solvang is *Santa Barbara Municipal Airport* (SBA), located about 40 miles southeast in the city of Goleta. SBA provides direct service to Los Angeles, San Francisco, Seattle, Phoenix, and Denver. Current airlift is provided by *American*, *Horizon*, *Frontier*, *United*, and *U.S. Airways*. As the table to the right indicates, passenger counts at the airport have declined from a peak of 856,000 in 2006, to a low of 721,000 in 2011, before rebounding slightly to 730,000 in 2013. Since 1998, passenger movements at SBA have

Passenger Movements Santa Barbara Municipal Airport		
Year	Total	% Change
1998	823,160	--
1999	792,548	(3.7%)
2000	776,904	(2.0%)
2001	725,140	(6.7%)
2002	728,307	0.4%
2003	752,762	3.4%
2004	823,935	9.5%
2005	853,833	3.6%
2006	856,278	0.3%
2007	819,347	(4.3%)
2008	822,350	0.4%
2009	746,730	(9.2%)
2010	755,734	1.2%
2011	721,551	(4.5%)
2012	728,000	0.9%
2013	730,000	0.3%
CAGR ⁽¹⁾	(0.8%)	--
Note: ⁽¹⁾ Compound Annual Growth Rate		
Source: SBA Airport Administration		

declined by roughly 0.8 percent annually. The airport has struggled in recent years given the drive nature of the region and the struggling national economy. In 2011, a new, expanded \$63 million airport terminal opened adjacent to the old terminal, which should help to increase passenger movements over the long term.

Solvang is considered a “drive market,” with the vast majority of visitors – individuals and groups - originating from primary MSA markets in California including Los Angeles, Santa Barbara, and San Francisco. They typically arrive by car or bus via U.S. Route 101 (US-101), the primary north-south highway serving the region. Traffic counts along US-101 near Buellton average roughly 22,000 cars per day, which has held steady over the last three years. Comparatively, traffic counts on US-101 in Santa Barbara average roughly 125,000 cars per day; 500 percent higher than near Solvang.

Given its location among the Central Valley wine region, coupled with the unique Danish heritage that laid the foundation to citywide architectural design criteria of the same culture, leisure and recreational tourism plays a prominent economic role in the local market. Indeed, the hallmark of the city is its unique Danish architecture and walkable downtown area, characterized by numerous retail shops, cafes, and an array of dining establishments, including a growing number of wine tasting outlets in light of the area being a significant part of California wine country.

Leisure demand in the market is diverse, with many travelers participating in a range of activities during their visit, including shopping. Local wineries, golf courses, bike tours, horse farms, and mountains serve as the primary demand generators for visitors seeking outdoor recreation and relaxation, as well as for those seeking activities and adventure travel. Solvang also hosts a number of annual events including *Danish Days*, *Taste of Solvang*, *Julefest*, and *Greyhounds*, and several biking and athletic endurance events that generate high volumes of visitors to the area, particularly on the weekends.

The region boasts over 100 wineries, which generate significant demand for guided, and self-mapped tours through California’s famed wine country. Although wine tourism had been steadily growing in Santa Barbara County, it received a welcomed boost after the 2004 film *Sideways* debuted. *Sideways* was filmed in the area and generated significant publicity for Solvang and the surrounding areas from which the city continues to benefit. At present, there are roughly 23,000 acres of vineyards surrounding the Santa Ynez Valley, producing over one million cases of wine each year. Many wineries market themselves to garner a share of the event destination market. Such events are typically tied to upscale social events, particularly weddings, although there are corporate-related events and activities using these venues as well. In addition to hotels and bed and breakfasts, other prominent event venues in the area include the *Solvang Veteran’s Hall* and *Solvang Festival Theater*, both of which provide a range of production, special event, and small meeting spaces. Also, just to the east of Solvang is the *Chumash Indian Resort and Casino*, offering a 106-room hotel and a 280,000-square foot casino owned by the Chumash Indian tribe that serves as an entertainment hub for area residents and travelers alike.

While the City of Solvang does not record annual visitation statistics, in 2012, a study was commissioned that revealed roughly 1.5 million people visit the city annually and spent roughly \$98 million on lodging, food and beverage, and retail shopping, while overnight guests generated nearly \$3 million in transient occupancy tax (TOT) alone, as illustrated in the table to the right.

TOT is a good indicator of the economic impact derived from overnight guests, and has steadily increased over the last six years following the impact of the Great Recession. Thus, more leisure travel

Transient Occupancy Tax (2008-2013) City of Solvang			
Year	City-Wide Hotel Occupancy	Occupancy Tax	% Change YOY
2008	63%	\$2,418,395	0.4%
2009	62%	\$2,235,903	-7.5%
2010	62%	\$2,288,155	2.3%
2011	63%	\$2,508,448	9.6%
2012	66%	\$2,682,940	7.0%
2013	67%	\$2,998,807	11.7%
CAG ⁽¹⁾	1.2%	4.4%	--

Sources: City of Solvang; compiled by REVPAR International, Inc.

to the market, coupled with rising room rates, has benefited Solvang over the last several years, which is expected to continue into the near future, with other economic trends following suit.

Having said all that, the city of Santa Barbara remains the region's primary, upscale destination, known for its celebrity residents and historic downtown area that offers an abundance of shopping, dining, nightlife, and hotels, all situated within a short drive of the Santa Ynez Valley, Solvang, and the region's wine country. Indeed, Solvang and the surrounding areas typically benefit from the day-trippers that are using Santa Barbara as a hub and travelling to the outlying areas for work, entertainment, and or leisure excursions. In fact, of the 1.5 million visitors to Solvang in 2012, over 80 percent were considered "day trippers" who do not generate overnight lodging stays. Thus, the challenge for Solvang into the future is to convert those guests into overnight visitors in light of the fact that Santa Barbara continues to be viewed as the cultural, commercial, tourist and employment hub for the overall region, and serves as an upscale business market, comprised heavily of small-to-midsize users.

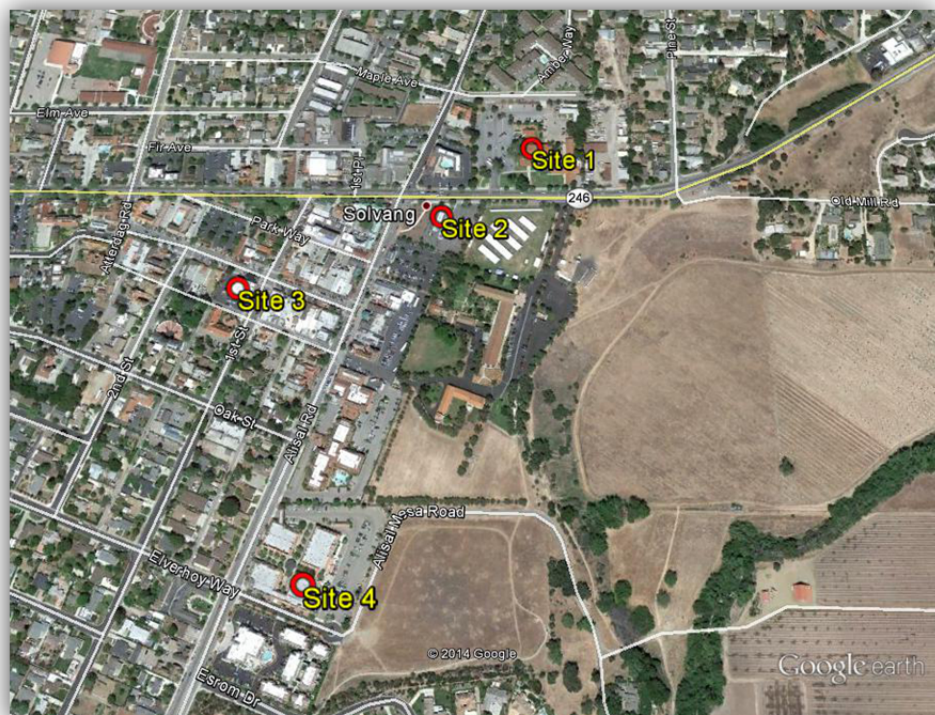
Overall, the Santa Barbara County regional economy has experienced continued growth since the national recession in terms of population and employment. However, Solvang has not grown as rapidly given its distance from a large population base and modest corporate presence, as well as the fact that it must rely heavily on tourism and leisure demand to its unique Danish Village and access to wine country. The proximity to cities such as Santa Barbara/Goleta, Lompoc, and San Luis Obispo provide access to a stable and growing base of corporate demand, but general growth trends within the city, as well as the Santa Ynez Valley are expected to be modest into the future.

Site Analysis

During the course of our fieldwork, REVPAR International was provided with four potential sites for adaptive reuse (Option 1) or new development (Option 2) of a stand-alone conference center. The sites vary dramatically in size, access, and visibility within the area, as well as the existence of current improvements on the sites. The table identifies each site, while the following pages provide specific detail as to the characteristics and (re) development potential of each site. The map to the right illustrates the location of each site within Solvang.

It should be noted that each site is within walking distance of the various retail shops, attractions, and restaurants that make up the "downtown" core or Village of Solvang.

Potential Sites Evaluated	
Site	Location
1	Veteran's Hall/Lumber Yard – 1745 Mission Drive
2	Union Bank Building – 1714 Mission Drive
3	Rabobank Building – 1654 Copenhagen Drive
4	Solvang Village Square – 320 Alisal Road



In order to determine which of the four sites represent the most viable option for the intended use, we prepared a site matrix that ranks each one against the others relative to those primary factors that typically are associated with successful conference center/meeting venue development and operations, where success is defined by top and bottom line performance success. Essentially, the matrix is used to objectively establish which of the four sites represent the best potential site for the intended use. Insight is gained by using the site matrix to establish parameters, assign a weight based on parameter importance, rank each site against each other, and add the scores (with the **lowest score** establishing the best site). Following is the site matrix, as well as a brief discussion of each site.

Site Matrix Proposed Conference Center, Solvang, CA									
Parameter	Rank (1)	Site 1		Site 2		Site 3		Site 4	
		Site Rank	Score	Site Rank	Score	Site Rank	Score	Site Rank	Score
Ease of Access	1	1.0	1.0	3.0	3.0	4.0	4.0	2.0	2.0
Proximity to Area Amenities	1	4.0	4.0	3.0	3.0	1.0	1.0	2.0	2.0
Proximity to Lodging Options	1	4.0	4.0	3.0	3.0	1.0	1.0	2.0	2.0
Ability for Future Expansion	1	1.5	1.5	3.5	3.5	3.5	3.5	1.5	1.5
Ability for Adaptive Re-Use of Existing Building	1	3.0	3.0	3.0	3.0	3.0	3.0	1.0	1.0
Ease of Overall Development	1	1.0	1.0	3.5	3.5	3.5	3.5	2.0	2.0
Proximity to Corporate Demand	2	2.5	5.0	2.5	5.0	2.5	5.0	2.5	5.0
Visibility within Immediate Area	2	1.5	3.0	1.5	3.0	4.0	8.0	3.0	6.0
Ambiance	2	2.0	4.0	3.0	6.0	1.0	2.0	4.0	8.0
Availability of Parking	2	1.0	2.0	3.5	7.0	3.5	7.0	2.0	4.0
Proximity to Future Growth	3	2.5	7.5	2.5	7.5	2.5	7.5	2.5	7.5
Proximity to Airport	3	2.5	7.5	2.5	7.5	2.5	7.5	2.5	7.5
Current Traffic Volume	3	1.5	4.5	1.5	4.5	4.0	12.0	3.0	9.0
Total			48.0		59.5		65.0		57.5
Note: (1) Importance Ranking: 1 - Most Important; 2 - Important; and 3 - Less Important									
Score Ranking: 1 - Best -- 3 - Worst; a score of 1.5 or 2.5, etc., indicates 2 sites are considered equal.									
THE LOWEST SCORE ESTABLISHES THE BEST SITE									

Site 1 – Veteran’s Hall/Lumber Yard

Site 1 is located on the north side of Mission Drive, proximate to the intersection of Mission and Alisal Road, across from the Old Mission Santa Ines, which was founded in 1804. Currently utilized as the location of the *Solvang Veteran’s Hall*, the *Solvang Library* and the *Solvang Police Station*, the site encompasses roughly 4.3 acres of total land area and is the largest of the four sites presented. In addition, there is a 1.8-acre lumberyard located east of the site, which could be added to the development envelope (for an unknown price) if warranted. We understand that it has been mentioned as being “available” for purchase. Its inclusion in the land mass brings the total acreage of the site to roughly 6.1 acres. The existing *Veteran’s Hall*, which is currently used by the community as a banquet/meeting and event center, offers roughly 6,000 square feet of space, and is a historic building. Thus, the structure must remain intact when considering any future (re) development scenario. The adjacent building, which houses the library and police station, can be razed; as can all structures at the adjacent lumberyard, for future



development. Of note, the sizeable footprint of this site, would allow potential developers to also consider co-locating a hotel adjacent to the conference center and *Veteran's Hall*, if desired.

Site 1 has excellent access and visibility for travelers along Mission Drive, and also has adequate parking. Its size and configuration allows for a variety of (re) development options. Moreover, the ability to integrate a new state-of-the-art meeting venue with the existing historic venue would allow for a unique juxtaposition of old and new world architecture, which could provide the necessary marketing “cache,” in addition to the Village, casino, wineries, etc., when marketing the facility to corporate end users who are looking for “unique” and “historic”, but also a professional venue. This would effectively represent a “hybrid” of Options 1 and 2, since the existing *Veteran's Hall* would need to be renovated/converted, and sit adjacent to a new build conference center.

Also, the site is currently owned by the City, which eliminates any land costs associated with that portion of the site. If there are any negatives associated with Site 1, we would cite its location being the furthest from the “downtown” core amenities; however, we view this as minor since the distance is close enough to not detract from its appeal to both corporate and leisure/social groups looking to book the venue.

Based on those factors deemed important to successful conference center/meeting venue use, Site 1 achieves a raw score of 48.0, ranking it 1st among the four in our site selection criteria.

Site 2 – Union Bank Building

Site 2 is located on the south side of Mission Drive, in the southeast quadrant of the intersection of Mission Drive and Alisal Road, adjacent to the Old Mission Santa Ines and across the street from *Veteran's Hall*. The site has excellent access and visibility from Mission Drive and measures about one acre in size. Most recently, the building on the site was used as a *Union Bank* branch. The small size of the site, coupled with the functional obsolescence of the current improvements, precludes it from being viable for adaptive re-use into a meeting venue in our opinion. Plus, there would not be sufficient space for adequate parking. As a result, we eliminated this site from further consideration for Option 1.



With respect to Option 2, the existing structure could be razed to make room for development of a new facility. However, given the small size of the site, coupled with architectural limitations, we are of the opinion that it probably could not accommodate both the necessary building facility and parking requirements to make it a viable contender without seeking additional land from the Old Mission next door, or leasing the corner lot, which we understand may be possible. Alternatively, guests would have to seek parking elsewhere and/or walk from their hotels/lodging establishments for any event and meeting being held there. As a result, many meeting planners would not consider it as a viable option, providing a significant challenge in marketing the space to corporate users.

Based on those factors deemed important to successful conference center development, Site 2 achieves a raw score of 59.5, ranking it 3rd of the four sites in our site selection criteria, and thus less desirable, if non-viable, for Options 1 or 2.

Site 3 – Rabobank Building

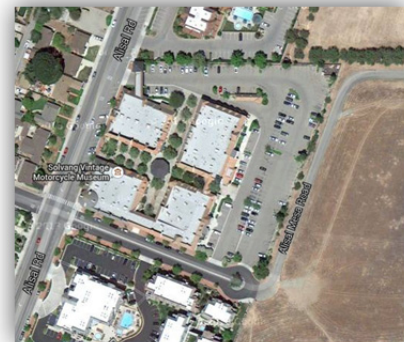
Site 3 is located along Copenhagen Drive, in the heart of “downtown” Solvang, surrounded by several restaurants and lodging facilities. Therefore, it provides the best proximity to the local demand generators and area amenities of all four sites. However, it is not located on a primary “gateway” thoroughfare, and thus has more difficult access and less visibility compared to the other sites under consideration. The existing building on the site is roughly 5,000 square feet in size and is of 1960’s design vintage. It was most recently used as a *Rabobank* branch. The site measures less than one-half acre in size. Generally, the size, configuration, functionality, and quality of the existing building preclude it from any viable adaptive re-use strategies, under Option 1 and therefore we eliminated it from consideration. Razing the existing structure and building new would make it viable for Option 2. But, similar to Site 2 above, we are of the opinion that the small size of the site (0.37 acres), coupled with the necessary setbacks and other limitations, would not accommodate both the necessary building facility and parking requirements to make it a viable contender without additional land. Alternatively, the facility could rely on the public parking lot located across Copenhagen Drive, as well as street parking. However, during the busy season, venue guests would have a difficult time finding parking and/or be forced to overflow onto the streets, or walk from their hotels for various events and meetings. As a result, many meeting planners would not consider it a viable option, particularly for corporate users.



Based on those factors deemed important to successful conference center development, Site 1 achieves a raw score of 65.0, ranking it 4th in our site selection criteria, and thus not a viable option for primary consideration under Options 1 and 2.

Site 4 – Solvang Village Square

Site 4 is located on the east side of Alisal Road, proximate to its intersection with Elverhoy Way, between the *Hotel Corque* and the *Wyndham Vacation Club*. Originally, the site was developed as an outlet mall during the real estate boom of the mid-2000s. The mall has since been converted to multiple uses including office space and the location of the *Motorcycle Museum*, which houses several vintage and early year model motorcycles. The museum currently occupies roughly 25 percent of the overall building, and the overall site encompasses roughly 3.9 acres of land, which is privately owned.



As a former retail outlet, it is not surprising that Site 4 has excellent access and visibility for travelers along Alisal Road, after turning left or right off of Mission Drive, and proceeding roughly a quarter of a mile to the site. It currently has adequate parking given the size of the site.

While the size of the site and the existing building are sufficient for either Options 1 or 2, we are unaware at this point of the terms of the leases with existing tenants and whether they can be terminated over the next few years. Certainly, converting the museum space, and possibly the building adjacent to it into conference/meeting space would be possible for short-term use; however, the presence of other businesses may detract from the ambiance and functionality of the museum space as conference/meeting space. In addition, guests would also have to compete for parking with the existing tenants. Conversely, its location between two sizeable hotel properties is highly advantageous and would provide for easy access to lodging for attendees. However, since this scenario requires the purchase of the site/land, which is

currently appraised by the County at roughly \$2.4 million or \$14.30 per square foot, we believe it will quickly prove to be financially non-viable.

Besides the associated land cost, if there are any negatives associated with Site 4, it would include its location just outside of the “downtown” core of amenities. However, similar to Site 1, the distance is not viewed as significantly detracting from its merits and marketability as a great location for a conference center/meeting venue.

Based on those factors deemed important to successful conference center development, Site 4 achieves a raw score of 57.5, ranking it 2nd in our site selection criteria.

Conclusion

Overall, Sites 1 and 4 are the most viable under either Options 1 or 2, with Site 1 ranking the highest under both options. Sites 2 and 3 both possess obstacles to successful conversion or redevelopment to conference center use and thus were excluded from primary consideration.

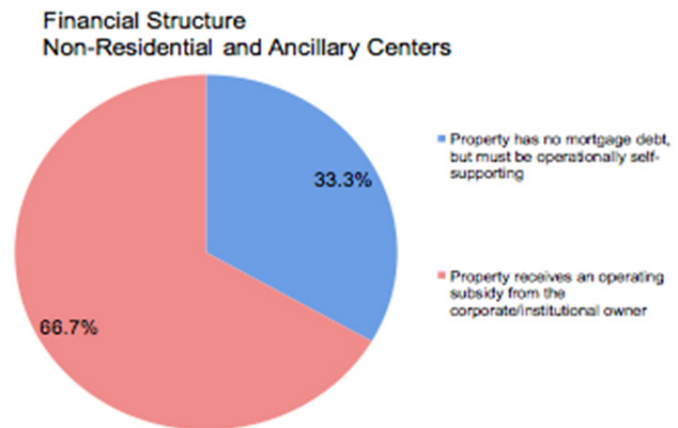
Based on the foregoing, we used Site 1, *Veteran’s Hall*, as the basis for generating our operating and financial estimates. The thought is that a new structure adjacent to the historic structure would provide a unique juxtaposition, which would provide for a marketable, functional, and flexible meeting/event venue for both leisure and corporate users, with an expansive price point depending on the facility used and day of week requested. In essence, this represents a “hybrid” of Options 1 and 2.

Conference Center Industry Overview

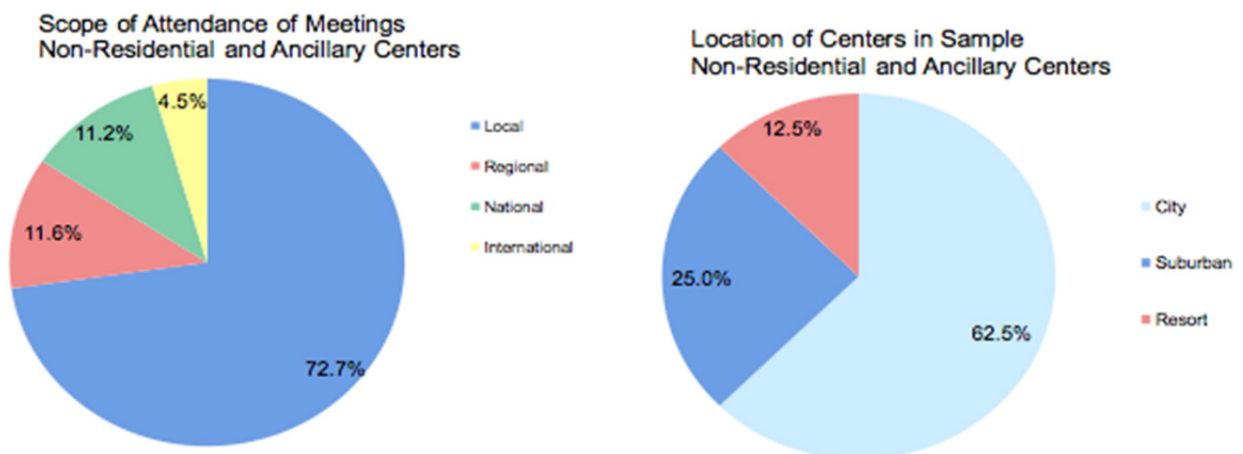
The conference center/meetings industry continues to improve in the aftermath of and rebound from the Great Recession, which began in 2008. Both demand and pricing factors have steadily increased since that time, with 2013 being one of the best in recent history. Corporate meetings and conferences are slowly approaching pre-recession levels, following leisure demand, which was the first to return and exceed pre-recession levels. The “AIG-effect,” as well as the ongoing Federal budgetary constraints that are forcing severe reductions, if not outright elimination of travel expenditures of all kinds, including meetings, are expected to continue to challenge government and corporate group demand, as well as the hospitality industry overall, for the next few years, but will likely return as well, once the effects of sequestration have abated. It is under this backdrop that we prepared our analysis.

The *International Association of Conference Centers* (IACC) publishes an annual report titled, *Trends in the Conference Center Industry*, which reports on the operating and financial performance for residential (with hotel rooms) and non-residential (no hotel rooms) conference centers across the U.S., that are IACC-approved facilities. Obtaining the IACC designation means that they meet a series of facility and management criteria set by the association, and that they have passed a lengthy audit process necessary to maintain that designation. While the majority of conference centers in the country are not IACC-approved, the overall trends provided in the report provide good insight into conference center industry’s operational and financial performance. For purposes of our analysis, we focused our review largely on *non-residential conference centers*, which typically offer a mix of meeting and ballrooms space (not exhibit space), and are typically utilized for small conferences (up to 250 people), meetings, weddings, and social events. These stand-alone or non-residential conference centers generate three main sources of revenue: food and beverage, room rental, and audio-visual rental. Conversely, residential conference centers have the added ability of generating guest room revenue, as well as other sources of incremental revenue. In general, meeting planners prefer to use a facility that offers both overnight accommodations and meeting/conference/banquet space under one roof, so that attendees do not have to leave the building to sleep and attend their meetings and events. Furthermore, attendees and meeting planners can take advantage of accruing brand loyalty points provided by nationally branded hotel and conference center properties.

According to the 2013 IACC report, the average non-residential conference center generated roughly \$1.8 million in revenues per year, while the average residential (hotel) conference center generated roughly \$7.4 million in food, beverage, and conference services revenue, exclusive of any rooms and other miscellaneous revenues. Thus, the comparison serves to underscore the increased potential of a co-located meeting venue and guest rooms operation. In many instances, non-residential conference centers require some form of owner-provided subsidy to continue to operate effectively. According to the graph to the right, roughly 2 out of 3 non-residential centers receive some form of a subsidy.



Additionally, most non-residential conference centers are located in larger cities, versus suburban or resort communities, as proximity to a large and varied base of non-residential (i.e., corporate and government) demand generators is important to providing a constant source of demand, and somewhat mitigates the risk of not having a co-located hotel. Many of these centers may be located adjacent to large corporate or university campuses, or even near large hotels that provide overflow demand to the smaller conference facilities. Indeed, as can be seen in the following graphs, not only are non-residential conference centers located primarily in cities, they also accommodate over 72 percent of their demand from local sources.



Given that Solvang (as a meeting destination) would likely be categorized as a suburban community, as previously introduced, it falls outside of the majority of conference center locations within the industry, which means that it will face certain headwinds to marketing the venue and capturing demand such as limited/challenged access to a varied demand generator base. Certainly, the presence in the Solvang Village, as well as the proximity to wine country, and the various outdoor recreational activities offered, will go a long way in mitigating a portion of these affects. Also, based on its appeal as a regional tourism destination and the ability to attract an international contingent will also be a benefit.

With the foregoing in mind, the following paragraphs detail our market research and demand estimates.

Market Research

In order to assess the existing and prospective demand for a conference center/meeting venue in Solvang, the REVPAR International team undertook various data collection efforts, research and interviews. A summary of each is provided in the following text and tables.

Corporate Demand Interviews

Given the need to gauge the propensity of corporate and/or commercial users (including government) to frequent a conference center/meeting venue if available in Solvang under either Option 1 or 2, we reached out to representatives or meeting planners from over 30 different companies. These companies were located in Goleta/Santa Barbara, Lompoc, San Luis Obispo, Thousand Oaks/Oxnard, and Bakersfield, which represent corporate/commercial markets from which the prospective conference center would expect to attract a sizeable amount of its demand base. We conducted these telephone interviews in order to quantify the level of demand that these corporate sector clients were generating, poll them as to their meeting requirements/needs, and establish whether or not they would consider meeting in Solvang at a stand-alone conference center (Options 1 or 2). The following are highlights of our findings from these interviews.

- Roughly half of the respondents characterized Solvang as being too far for either a day or overnight corporate meeting/conferences, while the other half mentioned that they would consider the location.
- Most of the respondents use their own in-house meeting facilities for some of their meetings and events.
- Ironically, many off-site corporate retreats/meetings have minimal need to actually meet for extended periods of time. They typically have a brief or short meeting, and then look to engage in some non-business related activity such as wine tours, golf, or outdoor recreation/team building exercise of some form.
- Location of the facility is the primary criteria for selecting a meeting location, with quality of facility and price mentioned as secondary considerations.
- Most meetings are small to medium in size - 10 to 50 attendees with a few at approximately 200 attendees.
- All planners prefer or require a contiguous facility for corporate meetings and conferences.
- All planners prefer or require a high quality facility, with flexible meeting space and breakout rooms, to include the latest technology.
- Day meeting packages are not purchased that often, as meeting planners want to maintain control over what services are purchased and utilized.
- The Solvang Danish Village, as well as the proximity to wine country, would be the main motivating factor in holding an event in the area.
- Rates paid for hotel rooms ranged from \$135 to \$200. Representatives from some of the Federal government contractors in the area indicated that they would only pay government per diem or less. The Federal per diem for the Santa Barbara market area for FY 2014 is seasonal, ranging from \$148 for all months of the year, except July and August when the per diem rate increases to \$193. A daily meals and entertainment budget of \$66 is also included, for a daily per diem total of \$214 to \$263.
- The length of stay ranged from one to three nights, with a few larger events reaching 4 to 5 nights.
- In addition to price, the respondents indicated that proximity to the base of business/office was an important condition for choosing a specific hotel/conference center.
- Continuing advancement in internet and video teleconferencing technology reduces need for “in person” meetings. We view this to mean that in-person meeting demand may grow at a lower rate than in the past.
- Presence of/proximity to a casino was not a motivating factor in bringing a meeting to Solvang.
- All of the respondents indicated that they typically require food and beverage service of some type for all meetings – internal or external.

- Roughly 75 percent of respondents indicated that they expect their demand for hotel rooms and meeting/conference facilities to increase over the next several years.

Perhaps one of the most important takeaways from our interviews and research was that, while the prospect of holding meetings in Solvang was of interest to many respondents, the corporate market indicated that any free-standing conference center/meeting venue based in Solvang would be challenged in the absence of co-located lodging. In addition, while many corporate group users/travelers liked the unique amenity base available in and around Solvang, the distance to the nearest commercial airport (SBA) and shorter length of business trips, make booking a hotel in Goleta/Santa Barbara or near their base of business more sensible.

Just as important, our demand interviews suggest that there is a meaningful “latent” factor associated with the development of a retrofitted (Option 1) or new (Option 2) conference center/meeting venue in the Solvang. Many of the respondents indicated that, if such a high quality facility was available, with the latest technology, they would consider hosting events that historically were held closer to their place of work. Thus, it is clear that the proposed conference center, under our primary recommendation, would compete strongly for corporate retreat and off-site meeting demand and have the potential to vie for some other area demand on the basis of its central location to the aforementioned surrounding markets, proximity to wine country, and unique destination; however, there remains certain headwinds to capturing the corporate group segment in Solvang.

Review of Area Hotels and Hotel/Conference Centers

The Santa Ynez Valley offers roughly 35 different lodging options, representing approximately 1,578 hotel rooms. Of that amount, 15 hotels and 740 rooms, or roughly half, are located within the City of Solvang, as shown in the table to the right.

With the assistance of the *Visit the Santa Ynez Valley*, we prepared and sent a survey (via email) to the entire lodging supply within the Santa Ynez Valley. (A copy of the survey is provided in the Addenda.) The survey was aimed at determining the size and scope of each hotel’s banquet and conference demand (if applicable). Of the 35 surveys distributed by the *Santa Ynez Hotel Association*, nine responses were received, equating to a response ratio of 26 percent. We then reached out to those specific hotels (via telephone) to follow-up on those responses in order to obtain the details of their individual operating performance. The information obtained from those interviews was then used to assist in developing a clearer picture of the current conference/group market in the Solvang area, which we summarize in the following paragraphs.

Solvang Hotel Supply	
Hotels	Number of Rooms
Alisal Guest Ranch	73
Hotel Corque	122
Hadsten House	71
Hamlet Motel	15
Holiday Inn Express	82
King Frederick Inn	46
Kronborg Inn	39
Mirabelle Inn	10
Petersen Village	40
Royal Copenhagen	48
Solvang Gardens	24
Solvang Inn and Cottages	44
Svendsgaards ABVI	48
Viking Motel	13
Wine Valley Inn	65
Total	740
Source: REVPAR International, Inc.	

The lodging market in the area is driven primarily by leisure transient and, to a lesser extent, SMERF (social, military, educational, religious, and fraternal) groups during the weekends and over the summer season, which is why so many small inns and hotels with little to no meeting space have proliferated over time in the market. Many of these facilities are booked solid on weekends during the peak season, and will accommodate weddings and tour bus blocks when they can. According to most hoteliers, the higher-priced transient guest is the priority booking, leaving several groups including youth sports, film industry groups, wine associations, etc., as a secondary source of demand. The amount of corporate and association group demand influencing the submarket is directly dependent upon the hotel types and whether they have any meaningful amount of meeting/banquet space, which is one of the reasons why the *Marriott*, which provides the most meeting space, accommodates much of this demand.

It should be noted that specific attention and evaluation was given to the three area hotels that offer the most meeting space including the *Alisal Guest Ranch* (5,000 square feet) and *Hotel Corque* (4,400 square feet) located in Solvang, and the *Marriott* (12,000 square feet) located three miles west of Solvang in Buellton. We also focused on the potential amount of lost business at each property as a result of insufficient or inadequate meeting facilities or guest rooms inventory to accommodate a particular event. This is especially important because it points towards a level of unmet demand that the market cannot service or retain due to inadequate or insufficient supply. Typically, the local CVB would maintain detailed information regarding such lost business and the reason for it, but since it does not track it, the hotels are the best indicator and can provide the best reasons.

The Alisal Guest Ranch is a 4-star, upper-upscale destination resort focused on leisure transient guests coming for golf or horseback riding vacations. Its meeting space attains roughly 60 percent usage levels, but is reserved during the busy summer season for overflow a la carte dining. The number of weddings using the facilities is minimal since the owners require guests to buy out the entire facility for a wedding event. As a result, the only conference center/banquet type demand that it is turning away into the market is wedding demand. Thus, most of our attention was directed at the other two properties, although we interviewed all three.

The Hotel Corque, which is owned by the *Chumash Indian Tribe*, is filling primarily with guests from the casino after the casino hotel is filled, and most often does not have enough guest room inventory left over to justify a dedicated sales effort on booking non-casino groups and conferences. In other words, it simply does not spend a lot of time selling the *Hotel Corque* meeting space to non-casino-related demand generators. To that end, they will at times offer free game play at the casino to attract transient guests to the hotel to fill empty rooms.

Although the *Marriott* offers the most meeting space in the area, it is predominantly focused on transient demand. Its group demand, which represents roughly 25 percent of its total accommodated room nights, is largely comprised of government, corporate, and association, which keep the *Marriott's* meeting space full roughly 35 to 40 percent of the time. This demand is attracted to the *Marriott* based on its affiliation and guest loyalty program. For the most part, the hotel avoids weddings because they are disruptive to other hotel guests and can be somewhat price sensitive. Also, it does not record a significant amount of lost business, because both the *Marriott* and the branded hotels to the north and south along the coast can accommodate much of the corporate/government group demand. In addition to the level of corporate demand, this also points to the importance of a hotel and conference center maintaining a national brand, as well as the attractiveness for meeting planners to have rooms and meeting space under one roof.

Based on these factors, and the fact that the *Marriott* is focused primarily on corporate and government groups, any conference center/meeting venue developed in Solvang would rely primarily on weddings and social events that occur on the weekends and evenings during the week. Indeed, many hotels pointed out that wedding groups could have receptions at the conference center, and stay at any of the area hotels, especially in the off-season, which could generate a valuable synergy between both entities; however, this type of demand would not be as desirable during the peak summer season, and may need to offer discounts to get weddings to book in the off-season, or during slower time periods. Unfortunately, this would basically represent an extension/augmentation of the current demand being accommodated at *Veteran's Hall*, and not fulfill the primary objectives of the City in wanting to develop a conference center in the first place. To be fair, the proposed conference center, under our primary recommendation, would attract new and possibly higher rated sources of both social and corporate demand. Having said that, it would still be heavily reliant on weddings and social events. Of note, many of the wineries in the area host weddings as well, but at high rental fees ranging from \$4,000 to \$12,000 per event. In all likelihood, the proposed Solvang conference center would not consistently compete at this level based on the anticipated offering and its more urban setting.

As part of our research, we also reviewed the operating performance of the 15 hotels located in Solvang, and compared it against the performance of North Santa Barbara County, as well as Santa Barbara County

overall. A summary of the recent historical performance of the defined sets is included in the following table.

Historical Operating Performance of the Lodging Supply by Area					
Fiscal Year ⁽¹⁾	Available Room Nights	Occupied Room Nights	Annual Occ %	Average Daily Rate	RevPAR
City of Solvang					
2012	270,100	178,561	66.1%	\$137.08	\$90.62
2013	270,100	180,467	66.8%	\$140.63	\$93.96
% Change	Flat	1.1%	--	2.6%	3.4%
Northern Santa Barbara County (includes Lompoc, Los Olivos, Solvang, Buellton, Santa Maria)					
2012	620,135	417,511	67.3%	\$114.88	\$77.31
2013	620,135	434,042	70.0%	\$116.53	\$81.57
% Change	Flat	4.0%	--	1.4%	5.5%
Santa Barbara County					
2012	1,977,570	1,410,568	71.3	\$175.46	\$125.15
2013	2,023,560	1,475,555	72.9	\$186.20	\$135.78
% Change	2.3%	4.6%	--	6.1%	8.5%
Notes: ⁽¹⁾ Fiscal Year represents performance from July through June.					
⁽²⁾ Compound Annual Growth.					
Source: REVPAR International, Inc.					

Overall, the defined set of hotels in Solvang achieved annual occupancy levels in the low to mid 60-percentile range for both 2012 and 2013, witnessing modest growth in demand. According to area hoteliers, the leisure market returned quickly to Solvang after the Great Recession, given its proximity to major markets and the leisure/drive nature of the destination. However, area hotels have not witnessed the same amount of growth as in other areas of the county. This is based on the fact that these other areas are not as reliant on one source of demand, and also because the corporate transient and group markets have started to return in earnest over the last few years. That said, hotels in Solvang and surrounding areas in the northern part of the county grew pricing in line with inflationary factors, while hotels further south in Santa Barbara and Goleta benefited from the higher priced corporate transient demand. This translated to higher RevPAR growth for these other areas compared to Solvang. It also points to the fact that these corporate demand generators may have a propensity to utilize the hotels closer to their base of operations, rather than traveling for destination meetings. Of note, the fact that the ADR is lower in the Northern County compared to Solvang points to the fact that associated rates in Lompoc are much lower than the rest of the area. This is due to a few reasons, including the poor quality of the lodging supply in Lompoc, which primarily accommodates price-sensitive leisure and corporate demand, both from a transient, as well as group perspective.

Future Lodging/Meeting Supply

During the course of our research and analysis, we identified several lodging projects planned or rumored for development within the Solvang area.

Initially, the *Marriott Hotel* has been evaluating a 53-room expansion for some time now; however, the project is on hold, but may gain momentum in the near future. The owner of the *Marriott* also considered developing a 200-room *SpringHill Suites* in the empty lot across the street from the *Marriott*, but eventually abandoned the project. It is now being evaluated as a *Hampton Inn and Suites* by a regional developer. At this point, the project would only include a nominal amount of meeting space if it proceeds as a *Hampton Inn and Suites*.

Separately, a 22-room *Solvang Suites* hotel has been approved by the *City of Solvang* within the downtown area, and is expected to be under construction in the near future. It is not expected to have significant meeting space.

Additionally, the Chumash Indians recently announced a 250-room expansion to the 106-room hotel at the casino; eventually bringing the total rooms count there to 356 rooms. This could serve to negatively

impact hotels in Solvang that are accommodating this demand during the week. Additionally, while no meeting space is planned as part of the expansion, the increase in guest room inventory may cause the *Hotel Corque* to more aggressively pursue group demand to fill vacant rooms at its hotel, especially if the transient demand for the casino does not increase in step with the expansion itself. This could be a benefit to the proposed conference center, under our primary recommendation, as new sources of group demand could generate meetings for the facility.

For the most part, these hotel expansions are expected to help any conference center developed within the City of Solvang, as they provide more rooms to accommodate group demand. However, an expansion of the *Marriott* could provide it the ability to go after larger and more diverse segments of groups, which could impact the performance of a stand-alone conference center in Solvang.

Review of Comparable Conference Centers and Meeting Venues

In an effort to further understand the operating dynamics that any stand-alone conference center would operate within the City of Solvang, REVPAR International concluded its primary market research effort by conducting a series of interviews with several comparable conference centers. The interviews were conducted with the goal of formulating a facility, operating, and pricing profile for the subject conference center in conjunction with our findings from the prior phases of research and interviews. They also provided insight into the food and beverage component of the groups/events market, as well as guidance on estimated revenues by metrics such as revenue per square foot of meeting space.

In total we reviewed the operating profile of over 15 conference centers and meeting venues, but concluded that only seven represented meaningful comparables to what is presently envisioned and appropriate for Solvang. A chart summarizing the most pertinent information of the comparable properties is provided on the following page, and a table presents the aggregated range of estimated operating performance for each facility. We also included information on the two largest, most comparable meeting facilities in the Solvang area: the *Hotel Corque* and the *Marriott*.

In general, we researched non-residential conference center facilities with 5,000 to 20,000 square feet of flexible meeting space in secondary or tertiary-sized markets, similar to that available within Solvang and the Santa Ynez Valley. Additionally, we searched for conference centers that were based outside a major metropolitan city, so that they were faced with similar challenges to Solvang in attracting and retaining attendees for a variety of meetings, based on the distance from that city. For purposes of our analysis, a metropolitan statistical area is defined as a particular area whereby the central core city of that market maintains a base population of 50,000 or greater. For example, Santa Barbara/Goleta has a base population of roughly 120,000 individuals, while Solvang (5,300 individuals) and the overall Santa Ynez Valley have a population of roughly 20,000. Thus, Solvang's distance to a major metropolitan city, Santa Barbara/Goleta, is roughly 40 miles. We researched and reviewed that same metric for each of the comparables.

While we did not uncover any conference center facilities that represented an exact comparable to the scenario currently presented in Solvang, we did uncover many facilities that provided similar aspects and ultimately a wealth of good data and information from which to guide our estimates.

Overview of Comparable Properties

Item	Non-Residential Conference Centers (Stand Alone Facilities)							Residential Conference Centers (Hotels)		Averages		
	Solvang Vets Hall	North Tahoe Events Center	Telluride Conference Center	Cocoanut Grove Conference Center	Fountains Wedding and Conference Center	Quadrus Conference Center	Taos Convention Center	Marriott Buellton	Hotel Corque	Averages of CC Only	Averages of Hotel and CC Only	Averages Combined
Location	Solvang, CA	Lake Tahoe, CA	Telluride, CO	Santa Cruz, CA	Ocean City, MD	Menlo Park, CA	Taos, NM	Buellton, CA	Solvang, CA			
Year Opened	~1950	1988	1999	~1910	2005	2002	1991	1986	1984			
Distance to Major Metro Area (miles)	40	75	325	30	130	35	70	45	40	101	43	88
Hotel Rooms	None	None	None	None	None	None	None	149	122	None	136	N/A
Provide F&B (Y/N)	N	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y
Outside Catering (Y/N)	Y	Y	N	N	N	N	Y	N	N	N	N	N
Total Meeting Space	6,000	8,000	13,000	20,000	9,000	5,000	17,000	12,000	4,400	11,143	8,200	10,640
# Meeting Rooms	3	8	7	5	6	6	9	10	3	6	7	7
Estimated Market Segmentation - Corporate	15%	20%	25%	15%	10%	60%	15%	55%	30%	23%	43%	27%
Estimated Market Segmentation - Leisure	85%	80%	75%	85%	90%	40%	85%	45%	70%	77%	58%	73%
Largest Meeting Room (Sq. Ft.)	3,408	4,838	6,069	6,482	6,076	2,000	7,200	4,900	3,675	5,153	4,288	4,961
Outdoor Meeting Space (Sq. Ft.)	1,300	3,000	9,000	Minimal	5,000	6,000	4,200	3,870	4,375	4,750	4,123	4,593

	Non-Residential Conference Centers (Stand Alone Facilities)		Residential Conference Centers (Hotels)		Averages of CC Only	Averages of Hotel and CC Only	Averages Combined
	Minimum	Maximum	Minimum	Maximum			
Total Sq. Ft./Meeting Room	833	4,000	1,200	1,467	1,773	1,262	1,588
Estimated Annual Events	65	325	125	250	135	188	147
Estimated Annual Attendees	5,000	20,000	7,500	20,000	11,000	13,750	11,611
Attendees/Event	22	200	60	80	81	73	79
Estimated Annual Banquet Revenue (\$)	\$30,000	\$1,500,000	\$750,000	\$1,750,000	\$665,000	\$1,250,000	\$795,000
Estimated Revenue/Sq. Ft. of Meeting Space	\$5.00	\$220.00	\$145.83	\$170.45	\$59.68	\$152.44	\$74.72

Generally, in reviewing the performance of each facility, we found that each one is essentially unique and functions according to the environment in which it operates. In other words, each conference center had a market aspect to it that caused its performance to differ from the next. Other site-specific characteristics included location within a leisure or resort-type market; similar levels of access and visibility; market mix of varying corporate and leisure components; and if possible, the municipality or city involved had some level of ownership interest, since the *City of Solvang* may end up being financially vested in the proposed conference center. Individually or collectively, these factors will dictate the various performance indicators of the operation.

Of note, none of the comparable facilities reviewed were IACC-certified. Although many conference centers, as well as hotel and conference centers that we have researched in the past, have mentioned that IACC-certification is not a prerequisite to booking conferences and meetings and maintaining a successful operation, it is a significant marketing tool and in some cases results in a tie-breaking competitive advantage over other non-IACC properties vying for the same business. From our experience, we are aware that there are many corporate meeting planners and groups across the country that, depending on the needs of the group and purpose of the meeting, will only look at IACC-certified facilities.

Overall, the information collected by the REVPAR team indicates that demand for the comparable conference centers would emanate from primarily leisure group (SMERF) sources including wedding demand. SMERF is an industry acronym that stands for Social, Military, Educational, Religious, and Fraternal, and generally refers to groups meeting for non-business purposes. The average market mix segment for all seven facilities is approximately 77 percent leisure-related and 23 percent corporate/government related demand, which coincides with many findings from our previous phases of analysis. On average, the comparable conference centers collectively offer roughly 11,000 square feet of flexible meeting space and accommodate roughly 135 annual events and 11,000 attendees on an annual basis.

We also uncovered that non-residential conference centers must deal with a host of challenges brought on by the lack of lodging/guestrooms co-located within the same facility. Also, in many instances, a hotel may carry with it a national brand that attracts meeting planners so that attendees can obtain rewards points. The national brand also has access to a national multi-level marketing network with which to promote the conference center alongside the hotel.

Initially, we reviewed the estimated performance of the *Solvang Veteran's Hall* based on information provided by the *Parks and Recreation Department*, which oversees the facility. *The Veteran's Hall* functions as a community civic center, hosting a range of primarily social events from yoga classes and birthday parties to weddings and large fundraisers. It averages roughly 300 to 350 events each year of varying size and scope, and generates roughly \$30,000 in annual revenue.

In the case of our comparables, both the *North Tahoe Events Center* (NTEC) and the *Telluride Conference Center* (TCC) are owned by their respective municipalities, due to their lower-than-expected operating performance, and must be subsidized to varying degrees (albeit small) throughout each year either through an infusion of economic development funds or TOT (transient occupancy tax). The TCC primarily accommodates weddings and social events, but also several concerts and community event performances throughout the year to attract local residents, as well visitors to the area. Although the TCC is proximate to several hotels in the area, it suffers from attracting significant commercial group demand and events given its distance from a major metropolitan area; although to be fair, it is over 300 miles from Denver.

The NTEC, which is located roughly 75 miles from Sacramento, relies heavily on wedding demand, with the majority of revenue coming from room rental income, as guests can choose to provide outside catering services at the venue. NTEC, which is highly seasonal, is challenged by not having proximity to a quality hotel supply, as well as not having other types of demand to fill its space.

Of note, we have also included the performance of the *Taos Convention Center*, located in a city with some similarities to Solvang in terms of size and character. The City of Taos, which owned and operated the center, recently had to close a sizeable component of the facility, reducing the amount of available meeting space from 17,000 to 3,000, for lack of demand and regional competition from hotels and conference centers. It issued an RFP to seek interest in re-developing and re-opening the facility, but little to no interest was uncovered.

On the other end of the operating performance spectrum are the *Quadrus Conference Center* and the *Cocoanut Grove Banquet and Conference Center*. The *Quadrus* is independently owned and operated, and based on its proximity to *Stanford University* and a base of venture capital firms in the area, maintains a constant source of business. To help drive more business, it developed a destination restaurant adjacent to the conference center, and also offers outside catering services to the corporate clientele in the area, which serves to expand its offerings and amenities beyond the traditional to further aid in its success.

The *Cocoanut Conference Center* in Santa Cruz is adjacent to a sizeable population base and provides for a unique, historic re-use of an existing building developed along the waterfront in 1910. The leisure-driven location, together with its large ballroom, makes it a very popular and sought-after venue for weddings, which comprise the majority of its annual revenues; a similar operating situation to that offered at the *Fountains Wedding and Conference Center* in Ocean City, Maryland.

With that said, the following bullets highlight some takeaways from our research:

- Revenue potential is limited without hotel rooms attached to the conference center, and in many cases the facility can be limited in accommodating meeting demand, based on the amount of available hotel rooms in the market.
- In a few instances, the conference center facilities required some form of subsidy to remain in operation, and in one case had to close a portion of its facilities due to lack of demand.
- In order to attract corporate demand, the facility had to be relatively easy to access, highly flexible with several breakout rooms, and be outfitted with the latest technology.
- Many facilities in more remote areas relied heavily on weekend leisure demand, and demand from the local market. Weekday evening demand was the second most popular time slot.
- Outdoor event space was important for a variety of social events throughout the year.

Our interviews and research of the comparable facilities should not be construed as providing definitive conclusions on how a prospective facility in Solvang would operate, but merely provide information and guidance on the positives and challenges of operating a non-residential stand-alone conference center in a secondary city outside a major metropolitan area. Indeed, many of the IACC-approved facilities are not only located in a major metropolitan city, they are located in close proximity to a dedicated ongoing stable source of demand such as a university or corporation. Fortunately, we have empirical data which suggests, based on the subject site's proximity to several cities within this part of the state, that companies would consider holding meetings and events at a high quality facility in Solvang, although they would prefer the facility also offer guestrooms.

Overall, we are of the opinion that a stand-alone conference center/meeting venue in Solvang will be heavily reliant on weddings and social events occurring primarily on the weekends and, to a lesser degree, on weekday evenings, with most of it originating from the local area. Unfortunately, this is in contrast to the original objective of attracting weekday, corporate driven demand. It will certainly accommodate a measure of this type of demand, but it will not be the main economic driver behind the conference center, and certainly not significant in revenue volume or attendees. Additionally, in some instances, it will rely on compression from the other hotels with meeting space in the area, essentially serving as an overflow or secondary option for potential higher-priced users. It was under these assumptions that we generated a facility profile, demand estimates and operating pro formas for the proposed conference center/meeting venue under Options 1 and 2.

Proposed Conference Center Facility Profile – Hybrid Scenario

Based on the primary market research as summarized in the previous sections, we prepared a facility profile for a stand-alone conference center within the City of Solvang, taking into account current and prospective growth trends in the area, as well as the expected type of demand to use the facility. The following table illustrates our recommendations for the proposed conference center as introduced in our hybrid scenario for Site 1, which is a combination of Options 1 and 2.

Facility Profile Proposed Conference Center, Solvang, CA						
Meeting Room	Size		Capacity			
	Square Feet	% of Total	Seated	Standing	Theater	Classroom
Ballroom A	2,000	14%	133	200	267	125
Ballroom B	2,000	14%	133	200	267	125
Ballroom C	1,000	7%	67	100	133	63
Total Ballroom	5,000	35%	300	500	650	310
Boardroom	500	3%	20	N/A	N/A	N/A
Pre-Function /Entry Foyer	1,500	10%	100	150	200	94
Conference Room A	250	2%	33	50	67	31
Conference Room B	250	2%	33	50	67	31
Conference Room C	250	2%	17	25	33	16
Conference Room D	250	2%	17	25	33	16
Total Conference Room	3,000	21%	100	150	200	94
Large Hall	3,400	23%	227	340	453	213
Legion Room	1,750	12%	117	175	233	109
Small Hall	750	5%	50	75	100	47
Total Veteran's Hall	5,900	40%	100	150	200	94
Computer Lab/Business Center	50	1%	2	N/A	N/A	N/A
Small Café/Kiosk	150	1%	15	N/A	N/A	N/A
Lounge	400	2%	50	75	N/A	N/A
Total Meeting Space	14,500	100%				

Source: REVPAR International, Inc.

The above facility profile represents a combined or “hybrid” representation of Options 1 and 2, and therefore includes a new build component, plus a renovated *Veteran's Hall* component, which are both represented in the above table. *The Veteran's Hall* space contains 5,900 square feet of space, while the remainder of the space would be housed in the new facility. The total facility would provide for 14,500 square feet of meeting space.

In any event, our research indicates that the new build portion of the facility should provide for a large ballroom (divisible by 3), executive boardroom, and sufficient breakout space (in this instance, four rooms), with most areas supported by a common pre-function space for guests to convene prior to the events. The divisibility of the ballroom and the conference room are key components to increasing utilization by enhancing flexibility for large groups as breakout space, as well as small groups who may just need one room.

The Veteran's Hall would need to be completely renovated, and outfitted (to the extent possible) with the latest technology in terms of audiovisual equipment to make it marketable to both corporate and leisure guests. It would need to provide for a seamless connection to the new facility as well, so guests could move freely between each building.

In addition, the facility should offer the following support services and amenities:

- Full-service catering kitchen with associated components in the new facility, while the small banquet kitchen in the *Veteran's Hall* would need to be renovated;

- A small business center, business services, AV equipment, telecommunications & teleconferencing capabilities, and wi-fi high speed internet access;
- Separate and secure parking that can accommodate all guests on peak use days;
- A small café and lounge capable of serving guests and attendees before, during, and after events; and
- An outdoor meeting/event space that takes advantage of the surrounding views and ambiance, possibly with a gazebo to attract outdoor wedding ceremonies for those guests that cannot afford the rental fees at the wineries.

Of note, through creative design, it may be possible to reduce the total amount of new space needed if we can expand the existing main hall of 3,400 square feet to a 5,000 square foot (divisible) ballroom. However, we are unsure of its viability given the structure's historic status. Thus, we suggest that our size recommendations be considered "order of magnitude" until such time that a proper review of design criteria can be evaluated.

In light of the above, we recommend that the conference center, under our primary recommendation, offer roughly 14,500± square feet of flexible meeting/banquet space (5,900 from the *Veteran's Hall*), with the latest technological advancements installed throughout the facility. The gross square footage of the building, which includes the back-of-the-house spaces such as the kitchen, mechanical rooms, administrative offices, public restrooms, etc., is typically 2.0 to 2.5 times the amount of dedicated meeting space. Thus, gross square feet of both buildings would be in the range of 29,000 to 36,000 square feet, dependent on design elements, how the *Veteran's Hall* is incorporated into the overall layout, and the size of the support areas.

Demand Estimates for Proposed Conference Center – Hybrid Scenario

Based on the forgoing, we prepared estimates of demand for the stand-alone conference center under our hybrid scenario through a zero-based build-up model. Our analysis includes a discussion of the anticipated principal market segments; corporate and leisure/SMERF demand, which are also detailed below. Our zero-based build-up model reviewed the demand contributions for each segment in a stabilized year in terms of the number of attendees and events. We have also (for purposes of discussion) included the expected hotel occupied room nights to be generated from the proposed conference center/meeting venue under this scenario. Our projections were estimated from reviewing a hypothetical schedule of conferences, weddings/social events, youth sports events, meetings, and trade shows that a conference center/meeting facility could realistically expect to capture in a stabilized year of operation. In preparing our estimates of demand and top-line revenues for the facility, we made the following assumptions:

- The city and/or owners of the meeting venue will place no usage constraints that will impede the facilities ability to effectively compete in the broader meeting and event marketplace.
- The collective meeting space and service areas will be contained in one integrated building, requiring a seamless connection to the existing *Veteran's Hall*, which would be fully renovated.
- The data collected from our demand and comparable interviews is an estimate and does not represent a statistically valid sample. Please view it as "order of magnitude" and suggestive, rather than definitive.
- A nationally recognized conference center operator would operate the facility in a competent, efficient and professional manner.

With that said, a detailed explanation of our anticipated market segments is included below.

Leisure/SMERF Segment

Leisure or SMERF demand includes individuals or groups participating in social, military, educational, recreational, religious, or fraternal activities. It also includes, but is not limited to, guests attending social functions such as weddings, community meetings/events, youth sporting events, tour bus groups, bar/bat

mitzvahs, or reunions. We have estimated this to be the largest of the two market segments under evaluation.

Based on our analysis of the existing and potential demand generators in the market area and of a hypothetical annual conference schedule, we estimate that the conference center group demand for this segment in a stabilized year will be approximately 222 events accommodating roughly 13,305 attendees. This represents roughly 64 percent of the events and 76 percent of the total attendance for the conference center and generates roughly 11,511 hotel room nights for the local market.

Corporate/Commercial Segment

Corporate meeting demand is primarily generated by groups of business travelers emanating from companies, associations, and government entities that have headquarters, regional offices, and/or training centers in the surrounding areas. It also consists of those guests who meet as a group to attend conferences, trade shows, and seminars. Demand in this segment typically occurs Sunday through Thursday. In the hotel industry, organizations generating a significant volume of room night and/or conference center demand typically receive discounted or high volume rates.

Based on our analysis of the existing and potential demand generators in the market area and of our hypothetical annual conference schedule we estimate that the group demand for this segment in a stabilized year will be approximately 122 events accommodating 4,285 attendees. This represents approximately 36 percent of the events and 24 percent of the total attendance for the conference center and generates roughly 4,017 hotel room nights for the local market.

Summary of Events and Attendees by Segment for a Stabilized Year of Operation

The following table summarizes the estimated number of events and corresponding attendees and occupied room nights by segment for the proposed conference center in Solvang for a stabilized year of operation. For purposes of our analysis, we assumed that the proposed facility would open in the 1st quarter of 2018 and stabilize in its 3rd year of operation or 2020.

Proposed Conference Center, Solvang, CA Summary of Events and Attendees by Segment for a Stabilized Year of Operation						
Segment	Events		Attendees		Occupied Room Nights	
	# of Events	% of Total	# of Attendees	% of Total	Total ORN	% of Total
Leisure/SMERF	222	64%	13,305	76%	11,511	74%
Corporate	122	36%	4,285	24%	4,017	26%
Total	344	100%	17,590	100%	15,528	100%

Source: REVPAR International, Inc.

As previously mentioned, our research indicates that a majority of the demand will come from weekends (Friday evening until Sunday) versus weekdays (Monday until Friday afternoon), which is counter to the original objectives of the study. As can be seen in the table to

the right, roughly 56 percent of attendees will accrue on the weekends, as well as 60 percent of the total revenue. We have assumed that just under half of the leisure/SMERF attendees will come from weddings. Based on our research, the facility should be able to accommodate approximately 48 to 52 weddings per year, with the remaining leisure demand coming from a variety of sources including youth sporting events, tour bus luncheons, reunions, parties, local social/entertainment events, etc.

Of note, in the course of our research, a local developer recently introduced the concept of a small to medium sized theatrical development, with the thought of attracting a regional following. Co-locating the theater within, or at least in close proximity to, the conference center could generate a measure of pre-

Proposed Conference Center Weekday versus Weekend Breakdown		
Period	% of Attendees	% of Revenue
Weekday	44%	40%
Weekend	56%	60%

Source: REVPAR International, Inc.

production dinners, actor training seminars, or cocktail receptions as well. However, we did not factor this into our estimates based on the preliminary nature of the project at this time.

In terms of corporate demand, our interviews would suggest the ability to attract some off site or corporate retreat demand from regional companies and government entities, as well as events from the wine industry or State associations; however, it is expected that this segment will be minimal in comparison to the leisure segment based on many of the factors previously introduced.

Overall, our demand estimates detail the projected amount of demand that the proposed facility, under our primary recommendation, can realistically expect to capture in a stabilized or representative year of operation. A facility such as this can expect to take about three years to stabilize as the conference center sales staff builds the pace of group business, the regional market and the conference industry become aware that the property is available, and the conference center overcomes the somewhat secondary nature of the site with respect to proximity to corporate demand generators.

Financial Estimates – Hybrid Scenario

In order to estimate the financial performance of the proposed conference center/meeting venue, as envisioned we reviewed industry data as provided in the 2013 *Conference Center Industry Trends Report* published by IACC. In order to provide a common basis for comparison, the IACC statements have been adjusted for inflation and are presented in 2014 value dollars. Our method is to estimate the annual operating results of the property in current value dollars, as if it were open and operating at a level considered representative of its long term potential. We then project performance for a future forecast period, in this case 6 years. Please note that the data represents a large sample of IACC-certified facilities, which may or may not be directly comparable to the one proposed for Solvang. As previously mentioned, they predominantly reside in major metropolitan areas, which provides for several demand sources, which increases their overall revenue potential beyond what we expect to achieve in Solvang. They do however provide good insight into various expense ratios and metrics. A financial summary of IACC-certified non-residential conference centers is provided in the *Addenda*.

In terms of financial performance, our methodology was to review comparable and market-based pricing in conjunction with our above demand estimates by day of week/time of day periods to establish the overall total sales. Food and beverage revenue was calculated based on a review of potential cover counts/attendees, average group size, and associated check averages for the meeting space and café/lounge by meal period. Other revenue includes revenue associated with banquet room rental, AV rental, miscellaneous revenue, and conference services.

Based on the foregoing assumptions, REVPAR International prepared estimated top line future operating performance proformas for the proposed conference center/meeting venue as summarized in the following table. As previously mentioned, for purposes of our analysis, we have determined the proposed conference center would open in the 1st quarter of 2018 and stabilize in its 3rd year of operation or 2020.

Projected Operating Results 2018 – 2023 ⁽¹⁾ Proposed Conference Center, Solvang, CA					
Year	Estimated Attendees	F&B Revenue	Other Revenue ⁽²⁾	Total Revenue	NOI ⁽⁴⁾
Stabilized Year	17,590	\$735,000	\$287,000	\$1,022,000	\$11,500
2018	14,072	\$662,000	\$258,000	\$920,000	(\$58,600)
2019	15,831	\$767,000	\$300,000	\$1,067,000	(\$23,000)
2020	17,590	\$878,000	\$343,000	\$1,221,000	\$13,400
2021	17,590	\$904,000	\$353,000	\$1,257,000	\$14,300
2022	17,590	\$931,000	\$364,000	\$1,295,000	\$13,100
2023	17,590	\$960,000	\$375,000	\$1,335,000	\$15,900
CAG ⁽³⁾	4.6%	7.7%	7.6%	7.7%	11.8%
Notes: ⁽¹⁾ Presented in 2014 dollars. ⁽²⁾ Other revenue is defined as banquet room rental, AV rental, and miscellaneous revenue. ⁽³⁾ Compound Annual Growth. ⁽⁴⁾ Net Operating Income defined as income before debt, taxes, depreciation, and amortization					
Source: REVPAR International, Inc.					

As displayed, we believe that the facility will stabilize at roughly 17,590 attendees per year generating total revenues in the amount of \$1,022,000 in current value (2014) dollars. This equates to roughly \$58 of revenue per person, on average or roughly \$70 per square foot of dedicated meeting space. At \$70 per square foot, this amounts to a \$10 per square foot, or 17 percent premium over the average of the seven comparable conference centers reviewed as part of our analysis.

Specific to revenue and operating expense line items, we made several key assumptions including:

- Estimated attendees were ramped up at 80 percent of stabilized potential in Year 1 and 90 percent of potential in Year 2, before stabilizing in Year 3.
- Food and beverage revenues, via our zero based build-up model, were estimated based on a combination of performance of the comparable conference centers, area hotels, as well as the market mix and average spend per guest. Locational factors for the City of Solvang were also considered.
- In terms of other operating revenue, we reviewed the comparable operating performance for room rental and A/V rental at other properties in terms of total revenue and revenue per square foot, and then applied those metrics in our estimates. Room rental rates considered comparable pricing, and applied a capture rate and room occupancy factor in the build up.
- We have adjusted our Year 1 and 2 expenses to account for certain inefficiencies as the property ramps up and matures. Labor, cost of goods, administrative and general, and sales and marketing were adjusted in the initial two years of operation.
- Food costs were estimated at 32 percent of total food sales, and beverage costs were estimated at 22 percent of total beverage sales.
- Labor expenses were calculated by estimating hours per shift/event and pay by position. Positions estimated included a General Manager, Catering Manager, Accountant/Bookkeeper, Banquet Servers/Set-Up, Kitchen Staff, Concierges, and A/V Technicians. A factor for payroll taxes and benefits was included as well.
- A base management fee of 3 percent was included to account for professional and competent management of the facility.
- A 4 percent reserve for replacement was included for future capital expenditures in the facility.

A complete financial pro-forma, including food, beverage, and other revenues, as well as a complete breakdown of expenses by line item is included in the *Addenda*.

Alternative Hotel and Conference Center Project

Since the above option does not produce a positive NOI, and thus require significant and/or ongoing subsidy to attract private equity, we went beyond the initial scope of our proposal to establish the

financial viability of developing a combined hotel and conference center. The following table summarizes this second scenario compared to the hybrid free-standing scenario at *Veteran's Hall*.

Comparison of Scenarios 1 and 2 Proposed Conference Center, Solvang, CA		
Facility Profile	Scenario 1 Free Standing Conference Center Veteran's Hall (Site 1)	Scenario 2 New Build Hotel and Conference Center Veteran's Hall (Site 1)
Total Meeting Space	14,500 square feet	12,000 square feet
Number of Guestrooms	None	120
Estimated Revenue	\$1,022,000	\$6,516,000
Estimated NOI	\$11,500	\$1,516,000
Assumed Capitalization Rate	10%	8%
Estimated "Going Concern" Value	Minimal	\$19.0 M
Estimated Development Costs	\$7,385,136 ⁽¹⁾	\$22.0 M - \$24.0 M ⁽¹⁾
Difference	(\$7.2 M)	(\$3.0 to \$5.0 M)
Note: ⁽¹⁾ Excludes any land costs. Source: REVPAR International, Inc.		

As the foregoing illustrates, while a hotel and conference center generates significantly more revenue and income compared to a free standing meeting venue, it still falls short on "going concern" value basis compared to its estimated cost of development. Accordingly, neither scenario appears to be financially viable.

Once you have had an opportunity to examine our conclusions, we would be pleased to arrange a meeting to discuss them should you need further interpretation or amplification of the findings. We stand ready to prepare the findings of our report for presentation to the *City of Solvang* at your convenience and approval.

Sincerely,
REVPAR International, Inc.



Richard E. Pastorino
Principal

ADDENDA

Dear Solvang Business Owner,

The City of Solvang's Economic Development Team has commissioned REVPAR International to undertake a feasibility study relative to a convention/conference center in the local area. To help REVPAR International understand and analyze the market's potential, would you please complete this brief survey and return it to REVPAR International, Inc. **by Friday, March 14, 2014** via email (info@revparintl.com) or fax (703-838-9712). Once we have had a chance to compile the data, we may call you to further understand your response and your facility. Please provide what information you can, and thank you for taking the time to review and complete the survey.

YOUR CONTACT INFORMATION:

1. Name	
2. Title	
3. Name of Hotel/Restaurant/Catering/Event Venue	
4. Telephone Number	
5. Email Address	
6. May we contact you regarding the survey?	<input type="checkbox"/> Yes <input type="checkbox"/> No

MEETING/SPECIAL EVENT DEMAND

1. Does your facility/venue accommodate banquet and/or catering demand?	<input type="checkbox"/> Yes. If yes, please proceed with the survey. <input type="checkbox"/> No. If no, thank you for your time, please feel free to call us to discuss the study.
2. What types of events are held at your facility? Please select all that are applicable.	<input type="checkbox"/> Weddings/Receptions <input type="checkbox"/> Corporate Meetings/Seminars <input type="checkbox"/> Reunions/Family Events <input type="checkbox"/> Government/Military Groups <input type="checkbox"/> Trade Shows <input type="checkbox"/> Sporting Events <input type="checkbox"/> Holiday Functions <input type="checkbox"/> Tour Bus Groups <input type="checkbox"/> State Associations <input type="checkbox"/> Speaking Engagements <input type="checkbox"/> Other _____
3. Do the events typically require overnight lodging (sleeping rooms) at area hotels?	<input type="checkbox"/> Yes <input type="checkbox"/> No
4. What types of on-site amenities are most requested by your clientele? Please select all that are applicable.	<input type="checkbox"/> Ballroom <input type="checkbox"/> Breakout Space <input type="checkbox"/> Business Center <input type="checkbox"/> Audio-Visual <input type="checkbox"/> Food Court/Restaurant <input type="checkbox"/> Boardroom <input type="checkbox"/> Coffee & Break Space <input type="checkbox"/> Free Parking <input type="checkbox"/> Other _____
5. How much meeting space in terms of square feet does your facility offer?	<input type="checkbox"/> 1-100 <input type="checkbox"/> 101-500 <input type="checkbox"/> 501-1,000 <input type="checkbox"/> 1,001-1,500 <input type="checkbox"/> 1,501-2,500 <input type="checkbox"/> 2,501-5,000 <input type="checkbox"/> 5,000-10,000 <input type="checkbox"/> 10,000+
6. How many meeting rooms does your facility offer?	<input type="checkbox"/> 1-2 <input type="checkbox"/> 3-5 <input type="checkbox"/> 6-8 <input type="checkbox"/> 7-10 <input type="checkbox"/> 10-15 <input type="checkbox"/> 15+
7. Does your facility provide tableside service, as well as food/beverage or is that the responsibility of the guest to handle?	<input type="checkbox"/> We provide <input type="checkbox"/> They provide
8. If there was a new conference facility in the City of Solvang, would it help you sell more/new business? Please mark all that apply.	<input type="checkbox"/> Yes If yes, please mark type below: <input type="checkbox"/> No <input type="checkbox"/> Meetings/Conventions <input type="checkbox"/> Catering <input type="checkbox"/> Lodging <input type="checkbox"/> Other
9. What are the main reasons a particular piece of business may be lost? Please select all that are applicable.	<input type="checkbox"/> Price <input type="checkbox"/> Availability of Meeting Space <input type="checkbox"/> Lack of Parking <input type="checkbox"/> Menu Options <input type="checkbox"/> Facility Functionality/Layout <input type="checkbox"/> Availability of Lodging <input type="checkbox"/> Other _____

Additional comments/issues/concerns:

Thank you for your participation in this brief survey.
Please return by Friday, March 14, 2014 to REVPAR International via:
Email: info@revparintl.com or Fax: 703-838-9712

Demand Estimates-Attendees for a Stabilized Year

Event Types: Trade Show(TS), Luncheons, (L), Corporate Meetings(CM), Regional Meeting (RM), National Meeting(NM), Corporate Retreat (CR), Youth Sports (YS), Wedding/Social Event(WS), Training (T)

Month	January		February		March		April		May		June		July		August		September		October		November		December		Total	
	Attendees	Type	Attendees	Type	Attendees	Type	Attendees	Type	Attendees	Type	Attendees	Type	Attendees	Type	Attendees	Type	Attendees	Type	Attendees	Type	Attendees	Type	Attendees	Type		
Day Period																										
Week 1	SMERF/Leisure	75	WS	35	WS	125	YS	75	L, WS	125	WS	75	RM, WS	75	WS	175	WS	175	YS	150	YS	75	WS	75	WS	1,235
	Corporate	75	CM	35	RM	125	RM	125	RM, T	125	NM, T	75	RM, T	75	TS	0	0	0	0	50	T, RM	75	T	0	0	760
Week 2																										
	SMERF/Leisure	50	WS	125	YS	150	WS	75	WS, L	100	WS	0	0	175	WS	175	YS, L	125	YS	0	WS	50	WS	75	WS	1,100
Corporate	50	NM, L	25	CM, RM	25	T, CM	75	T, RM	75	RM	75	T, RM	25	CR	0	0	75	T	150	T, RM	125	T, CM	25	CM	725	
Week 3	SMERF/Leisure	100	WS	75	YS	225	WS	175	RM, WS	25	WS	75	WS	175	YS	175	WS, YS	150	L, YS	0	0	25	WS	150	WS, L	1,350
	Corporate	50	RM, T	75	RM	0	0	125	NM	75	NM, T	150	RM, T	50	CM, CR	0	0	0	0	175	T, CM	0	0	0	0	700
Week 4																										
	SMERF/Leisure	25	WS	125	WS	175	YS	50	RM, WS	75	WS, T	150	WS	125	WS	200	WS	125	WS	150	WS	75	WS	50	WS	1,325
Corporate	0	0	0	0	75	CM	150	RM, T	75	NM	100	RM, T	25	CM	25	CR	50	T, RM	75	TS	100	CM	0	0	675	
Week 5																										
	SMERF/Leisure					125	RM					200	WS					150	WS					75	WS	550
Corporate					50	CR					0	0					0	0					0	0	50	
Monthly Total - Day Period																										
	425		495		1,075		850		675		900		725		750		850		750		525		450		8,470	
	5.0%		5.8%		12.7%		10.0%		8.0%		10.6%		8.6%		8.9%		10.0%		8.9%		6.2%		5.3%		100.0%	

Evening Period																										
Week 1	SMERF/Leisure	125	WS	150	WS	200	WS	220	WS	175	WS	200	WS	250	WS	200	WS	175	WS	150	WS, RM	50	RM	100	WS	1,995
	Corporate	0	0	0	0	125	NM	100	CR	0	0	25	RM	100	CM	0	0	0	0	0	0	0	0	0	0	350
Week 2	SMERF/Leisure	100	WS	75	YS	150	WS	0	0	150	WS	150	WS	225	WS	175	WS	125	WS	125	WS	50	YS	175	WS, L	1,500
	Corporate	0	0	0	0	25	RM	0	0	125	TS, CM	75	CR, RM	100	CM, T	0	0	0	0	50	T, CM	0	0	25	CM	400
Week 3	SMERF/Leisure	100	WS	125	T, L	75	WS	175	WS	175	RM, WS	200	WS	150	WS	225	WS	150	WS, RM	125	WS	175	WS	175	RM, WS	1,850
	Corporate	0	0	0	0	0	0	125	CM, T	75	RM	0	0	50	NM	75	T	0	0	0	0	75	RM	0	0	400
Week 4	SMERF/Leisure	175	WS	150	WS	50	YS	200	WS, L	175	WS	125	WS	150	WS	250	WS	250	WS	100	RM	125	0	75	WS	1,825
	Corporate	0	0	0	0	0	0	75	RM, CR	0	0	25	CM	50	CM, L	50	CM, RM	25	T, CM	0	0	0	0	0	0	225
Week 5	SMERF/Leisure					125	WS					150	WS					150	WS				150	WS	575	
	Corporate					0	0					0	0					0	0				0	0	0	
Monthly Total - Evening Period		500		500		750		895		875		950		1,075		975		875		550		475		700		9,120
		5.5%		5.5%		8.2%		9.8%		9.6%		10.4%		11.8%		10.7%		9.6%		6.0%		5.2%		7.7%		100.0%
Monthly Total - Overall		925		995		1,825		1,745		1,550		1,850		1,800		1,725		1,725		1,300		1,000		1,150		17,590
		5.3%		5.7%		10.4%		9.9%		8.8%		10.5%		10.2%		9.8%		9.8%		7.4%		5.7%		6.5%		100.00%

Totals	Total Attendees	%	Day	%	Evening	%
SMERF/Leisure	13,305	76%	5,560	42%	7,745	58%
Corporate	4,285	24%	2,910	68%	1,375	32%
Total	17,590	100%	8,470	48%	9,120	52%

Demand Estimates-Events for a Stabilized Year

Event Types: Trade Show(TS), Luncheons, (L), Corporate Meetings(CM), Regional Meeting (RM), National Meeting(NM), Corporate Retreat (CR), Youth Sports (YS), Wedding/Social Event(WS), Training (T)

	Month	January		February		March		April		May		June		July		August		September		October		November		December		Total	
	Events	Type	Events	Type	Events	Type	Events	Type	Events	Type	Events	Type	Events	Type	Events	Type	Events	Type	Events	Type	Events	Type	Events	Type			
Day Period																											
Week 1																											
SMERF/Leisure	1	WS	1	WS	2	YS	1	L, WS	2	WS	1	RM, WS	1	WS	3	WS	3	YS	3	YS	1	WS	1	WS	21		
	2	CM	1	RM	4	RM	4	RM, T	4	NM, T	2	RM, T	2	TS	0	0	0	0	1	T, RM	2	T	0	0	22		
Week 2																											
SMERF/Leisure	1	WS	2	YS	3	WS	1	WS, L	2	WS	0	0	3	WS	3	YS, L	2	YS	0	WS	1	WS	1	WS	18		
	1	NM, L	1	CM, RM	1	T, CM	2	T, RM	2	RM	2	T, RM	1	CR	0	0	2	T	4	T, RM	4	T, CM	1	CM	21		
Week 3																											
SMERF/Leisure	2	WS	1	YS	4	WS	3	RM, WS	0	WS	1	WS	3	YS	3	WS, YS	3	L, YS	0	0	0	WS	3	WS, L	23		
	1	RM, T	2	RM	0	0	4	NM	2	NM, T	4	RM, T	1	CM, CR	0	0	0	0	5	T, CM	0	0	0	0	20		
Week 4																											
SMERF/Leisure	0	WS	2	WS	3	YS	1	RM, WS	1	WS, T	3	WS	2	WS	3	WS	2	WS	3	WS	1	WS	1	WS	22		
	0	0	0	0	2	CM	4	RM, T	2	NM	3	RM, T	1	CM	1	CR	1	T, RM	2	TS	3	CM	0	0	19		
Week 5																											
SMERF/Leisure					2	RM					3	WS					3	WS					1	WS	9		
					1	CR					0	0					0	0					0	0	1		
Monthly Total - Day Period																											
%	9		10		21		20		15		20		14.16667		13		16		17.85714		12		8		176		
	5.2%		5.6%		12.1%		11.3%		8.8%		11.2%		8.1%		7.3%		8.9%		10.2%		7.0%		4.4%		100.0%		

Evening Period

Week 1		2	WS	3	WS	3	WS	4	WS	3	WS	3	WS	4	WS	3	WS	3	WS	3	WS, RM	1	RM	2	WS	33
SMERF/Leisure		0	0	0	0	4	NM	3	CR	0	0	1	RM	3	CM	0	0	0	0	0	0	0	0	0	0	10
Corporate																										
Week 2		2	WS	1	YS	3	WS	0	0	3	WS	3	WS	4	WS	3	WS	2	WS	2	WS	1	YS	3	WS, L	25
SMERF/Leisure		0	0	0	0	1	RM	0	0	4	TS, CM	2	CR, RM	3	CM, T	0	0	0	0	1	T, CM	0	0	1	CM	11
Corporate																										
Week 3		2	WS	2	T, L	1	WS	3	WS	3	RM, WS	3	WS	3	WS	4	WS	3	WS, RM	2	WS	3	WS	3	RM, WS	31
SMERF/Leisure		0	0	0	0	0	0	4	CM, T	2	RM	0	0	1	NM	2	T	0	0	0	0	2	RM	0	0	11
Corporate																										
Week 4		3	WS	3	WS	1	YS	3	WS, L	3	WS	2	WS	3	WS	4	WS	4	WS	2	RM	2	0	1	WS	30
SMERF/Leisure		0	0	0	0	0	0	2	RM, CR	0	0	1	CM	1	CM, L	1	CM, RM	1	T, CM	0	0	0	0	0	0	6
Corporate																										
Week 5						2	WS					3	WS					3	WS					3	WS	10
SMERF/Leisure		0				0						0	0					0	0					0	0	0
Corporate																										
Monthly Total - Evening Period		8		8		14		18		17		17		21		18		15		10		9		12		168
%		4.9%		4.9%		8.5%		11.0%		10.1%		10.3%		12.8%		10.5%		8.8%		5.8%		5.2%		7.1%		100.0%

Monthly Total - Overall		18		18		35		38		32		37		36		31		31		28		21		20		344
%		5.1%		5.3%		10.3%		11.1%		9.4%		10.8%		10.4%		8.9%		8.9%		8.0%		6.1%		5.7%		100.0%
Monthly Total - Overall Utilization Days		13		14		27		29		24		28		27		23		23		21		16		15		258

Totals				Day	%	Evening	%
SMERF/Leisure		222	64%	93	42%	129	58%
Corporate		122	36%	83	68%	39	32%
Total		344	100%	176	51%	168	49%

Demand Estimates-Room Nights for a Stabilized Year

Event Types: Trade Show(TS), Luncheons, (L), Corporate Meetings(CM), Regional Meeting (RM), National Meeting(NM), Corporate Retreat (CR), Youth Sports (YS), Wedding/Social Event(WS), Training (T)

Month	January		February		March		April		May		June		July		August		September		October		November		December		Total
	Room Nights	Type	Room Nights	Type	Room Nights	Type	Room Nights	Type	Room Nights	Type	Room Nights	Type	Room Nights	Type	Room Nights	Type	Room Nights	Type	Room Nights	Type	Room Nights	Type	Room Nights	Type	
Day Period																									
Week 1																									
SMERF/Leisure	66	WS	31	WS	109	YS	66	L, WS	109	WS	66	RM, WS	66	WS	153	WS	153	YS	131	YS	66	WS	66	WS	1,081
	Corporate	70	CM	33	RM	117	RM	117	RM, T	117	NM, T	70	RM, T	70	TS	0	0	0	0	47	T, RM	70	T	0	0
Week 2																									
SMERF/Leisure	44	WS	109	YS	131	WS	66	WS, L	88	WS	0	0	153	WS	153	YS, L	109	YS	0	WS	44	WS	66	WS	963
	Corporate	47	NM, L	23	CM, RM	23	T, CM	70	T, RM	70	RM	70	T, RM	23	CR	0	0	70	T	141	T, RM	117	T, CM	23	CM
Week 3																									
SMERF/Leisure	88	WS	66	YS	197	WS	153	RM, WS	22	WS	66	WS	153	YS	153	WS, YS	131	L, YS	0	0	22	WS	131	WS, L	1,181
	Corporate	47	RM, T	70	RM	0	0	117	NM	70	NM, T	141	RM, T	47	CM, CR	0	0	0	0	164	T, CM	0	0	0	0
Week 4																									
SMERF/Leisure	22	WS	109	WS	153	YS	44	RM, WS	66	WS, T	131	WS	109	WS	175	WS	109	WS	131	WS	66	WS	44	WS	1,159
	Corporate	0	0	0	0	70	CM	141	RM, T	70	NM	94	RM, T	23	CM	23	CR	47	T, RM	70	TS	94	CM	0	0
Week 5																									
SMERF/Leisure					109	RM					175	WS					131	WS					66	WS	481
					47	CR					0	0					0	0					0	0	47
Monthly Total - Day Period																									
%	383		442		958		773		613		813		645		658		752		684		478		395		7,593
	5.0%		5.8%		12.6%		10.2%		8.1%		10.7%		8.5%		8.7%		9.9%		9.0%		6.3%		5.2%		100.0%

Evening Period																									
Week 1																									
SMERF/Leisure	109	WS	131	WS	175	WS	193	WS	153	WS	175	WS	219	WS	175	WS	153	WS	131	WS, RM	44	RM	88	WS	1,746
	Corporate	0	0	0	0	117	NM	94	CR	0	0	23	RM	94	CM	0	0	0	0	0	0	0	0	0	328
Week 2																									
SMERF/Leisure	88	WS	66	YS	131	WS	0	0	131	WS	131	WS	197	WS	153	WS	109	WS	109	WS	44	YS	153	WS, L	1,313
	Corporate	0	0	0	0	23	RM	0	0	117	TS, CM	70	CR, RM	94	CM, T	0	0	0	0	47	T, CM	0	0	23	CM
Week 3																									
SMERF/Leisure	88	WS	109	T, L	66	WS	153	WS	153	RM, WS	175	WS	131	WS	197	WS	131	WS, RM	109	WS	153	WS	153	RM, WS	1,619
	Corporate	0	0	0	0	0	117	CM, T	70	RM	0	0	47	NM	70	T	0	0	0	0	70	RM	0	0	375
Week 4																									
SMERF/Leisure	153	WS	131	WS	44	YS	175	WS, L	153	WS	109	WS	131	WS	219	WS	219	WS	88	RM	109	0	66	WS	1,597
	Corporate	0	0	0	0	0	70	RM, CR	0	0	23	CM	47	CM, L	47	CM, RM	23	T, CM	0	0	0	0	0	0	211
Week 5																									
SMERF/Leisure					109	WS				131	WS						131	WS					0	WS	372
	Corporate				0	0				0	0						0	0					0	0	0
Monthly Total - Evening Period																									
%	438		438		666		802		778		839		959		861		767		484		420		483		7,935
	5.5%		5.5%		8.4%		10.1%		9.8%		10.6%		12.1%		10.9%		9.7%		6.1%		5.3%		6.1%		100.0%

Monthly Total - Overall																									
	820		879		1,623		1,575		1,391		1,652		1,605		1,519		1,519		1,169		898		878		15,528
%	5.3%		5.7%		10.5%		10.1%		9.0%		10.6%		10.3%		9.8%		9.8%		7.5%		5.8%		5.7%		100.00%

Totals				Day	%	Evening	%
SMERF/Leisure		11,511	74%	4,865	42%	6,646	58%
Corporate		4,017	26%	2,728	68%	1,289	32%
Total		15,528	100%	7,593	49%	7,935	51%

Stabilized Pro-Formas
Proposed Solvang Conference Center, Solvang, CA
(In current 2014 dollars)

	Amount	Ratio	Amount Per Square Foot	Amount Per Meeting Room
Revenues				
Food	\$588,263	57.5%	\$40.57	\$53,478
Beverage	\$147,066	14.4%	\$10.14	\$13,370
Other	\$287,085	28.1%	\$19.80	\$26,099
Total	\$1,022,414	100.0%	\$70.51	\$92,947
Cost of Goods Sold				
Food	\$188,200	32.0%	\$12.98	\$17,109
Beverage	\$35,300	24.0%	\$2.43	\$3,209
Total	\$223,500	21.9%	\$15.41	\$20,318
Gross Margin	\$798,914	78.1%	\$55.10	\$72,629
Labor Costs	\$511,200	50.0%	\$35.26	\$46,473
Variable Costs				
Administrative and General	\$71,600	7.0%	\$4.94	\$6,509
Marketing	\$30,700	3.0%	\$2.12	\$2,791
Property Operations and Maintenance	\$10,200	1.0%	\$0.70	\$927
Energy	\$30,700	3.0%	\$2.12	\$2,791
Total	\$143,200	14.0%	\$9.88	\$13,018
Income Before Fixed Costs	\$144,514	14.1%	\$9.97	\$13,138
Fixed Costs				
Real Estate and Property Taxes	\$44,744	4.4%	\$3.09	\$4,068
Base Management Fee	\$30,700	3.0%	\$2.12	\$2,791
Building and Contents Insurance	\$16,500	1.6%	\$1.14	\$1,500
Total	\$91,944	9.0%	\$6.34	\$8,359
Income Before Reserve	\$52,571	5.1%	\$3.63	\$4,779
Reserve for Replacement of FF&E	\$41,000	4.0%	\$2.83	\$3,727
Income Before Depreciation, Amortization, & Tax	\$11,571	1.1%	\$0.80	\$1,052

Note: (1) Net Operating Income defined as income before debt, taxes, depreciation and amortization.
Please note that columns may not add due to rounding.

Source: REVPAR International, Inc.

Projected Pro-Formas

Proposed Solvang Conference Center, Solvang, CA

Year:	Year 1 2018	Year 2 2019	Year 3 2020
Number of Square Feet:	14,500	14,500	14,500
Inflation	112.6%	115.9%	119.4%

	Amount	Ratio	Amount Per Square Foot	Amount Per Meeting Room		Amount	Ratio	Amount Per Square Foot	Amount Per Meeting Room		Amount	Ratio	Amount Per Square Foot	Amount Per Meeting Room
Revenues														
Food	\$530,000	57.6%	\$36.55	\$48,182		\$614,000	57.5%	\$42.34	\$55,818		\$702,000	57.5%	\$48.41	\$63,818
Beverage	\$132,000	14.3%	\$9.10	\$12,000		\$153,000	14.3%	\$10.55	\$13,909		\$176,000	14.4%	\$12.14	\$16,000
Other	\$258,000	28.0%	\$17.79	\$23,455		\$300,000	28.1%	\$20.69	\$27,273		\$343,000	28.1%	\$23.66	\$31,182
Total	\$920,000	100.0%	\$63.45	\$83,636		\$1,067,000	100.0%	\$73.59	\$97,000		\$1,221,000	100.0%	\$84.21	\$111,000
Cost of Goods Sold														
Food	\$180,000	34.0%	\$12.41	\$16,364		\$203,000	33.0%	\$14.00	\$18,455		\$225,000	32.0%	\$15.52	\$20,455
Beverage	\$33,000	25.0%	\$2.28	\$3,000		\$37,000	24.5%	\$2.55	\$3,364		\$42,000	24.0%	\$2.90	\$3,818
Total	\$213,000	23.2%	\$14.69	\$19,364		\$240,000	22.5%	\$16.55	\$21,818		\$267,000	21.9%	\$18.41	\$24,273
Gross Margin	\$707,000	76.8%	\$48.76	\$64,273		\$827,000	77.5%	\$57.03	\$75,182		\$954,000	78.1%	\$65.79	\$86,727
Labor Costs	\$488,000	53.0%	\$33.66	\$44,364		\$544,000	51.0%	\$37.52	\$49,455		\$611,000	50.0%	\$42.14	\$55,545
Variable Costs														
Administrative and General	\$74,000	8.0%	\$5.10	\$6,727		\$80,000	7.5%	\$5.52	\$7,273		\$85,000	7.0%	\$5.86	\$7,727
Marketing	\$37,000	4.0%	\$2.55	\$3,364		\$37,000	3.5%	\$2.55	\$3,364		\$37,000	3.0%	\$2.55	\$3,364
Property Operations and Maintenance	\$5,000	0.5%	\$0.34	\$455		\$11,000	1.0%	\$0.76	\$1,000		\$12,000	1.0%	\$0.83	\$1,091
Energy	\$28,000	3.0%	\$1.93	\$2,545		\$32,000	3.0%	\$2.21	\$2,909		\$37,000	3.0%	\$2.55	\$3,364
Total	\$144,000	15.7%	\$9.93	\$13,091		\$160,000	15.0%	\$11.03	\$14,545		\$171,000	14.0%	\$11.79	\$15,545
Income Before Fixed Costs	\$75,000	8.2%	\$5.17	\$6,818		\$123,000	11.5%	\$8.48	\$11,182		\$172,000	14.1%	\$11.86	\$15,636
Fixed Costs														
Real Estate and Property Taxes	\$50,000	5.4%	\$3.45	\$4,545		\$52,000	4.9%	\$3.59	\$4,727		\$53,000	4.3%	\$3.66	\$4,818
Base Management Fee	\$27,600	3.0%	\$1.90	\$2,509		\$32,000	3.0%	\$2.21	\$2,909		\$36,600	3.0%	\$2.52	\$3,327
Building and Contents Insurance	\$19,000	2.1%	\$1.31	\$1,727		\$19,000	1.8%	\$1.31	\$1,727		\$20,000	1.6%	\$1.38	\$1,818
Total	\$96,600	10.5%	\$6.66	\$8,782		\$103,000	9.7%	\$7.10	\$9,364		\$109,600	9.0%	\$7.56	\$9,964
Income Before Reserve	(\$21,600)	-2.3%	(\$1.49)	(\$1,964)		\$20,000	1.9%	\$1.38	\$1,818		\$62,400	5.1%	\$4.30	\$5,673
Reserve for Replacement of FF&E	\$37,000	4.0%	\$2.55	\$3,364		\$43,000	4.0%	\$2.97	\$3,909		\$49,000	4.0%	\$3.38	\$4,455
Income Before Depreciation, Amortization, & Taxes	(\$58,600)	-6.4%	(\$4.04)	(\$5,327)		(\$23,000)	-2.2%	(\$1.59)	(\$2,091)		\$13,400	1.1%	\$0.92	\$1,218

Note: (1) Net Operating Income defined as income before debt, taxes, depreciation and amortization.
Please note that columns may not add due to rounding.

Source: REVPAR International, Inc.

Projected Pro-Formas

Proposed Solvang Conference Center, Solvang, CA

Year:	Year 4 2021	Year 5 2022	Year 6 2023
Number of Square Feet:	14,500	14,500	14,500
Inflation	123.0%	126.7%	130.5%

	Amount	Ratio	Amount Per Square Foot	Amount Per Meeting Room		Amount	Ratio	Amount Per Square Foot	Amount Per Meeting Room		Amount	Ratio	Amount Per Square Foot	Amount Per Meeting Room
Revenues														
Food	\$723,000	57.5%	\$49.86	\$65,727		\$745,000	57.5%	\$51.38	\$67,727		\$768,000	59.3%	\$52.97	\$69,818
Beverage	\$181,000	14.4%	\$12.48	\$16,455		\$186,000	14.4%	\$12.83	\$16,909		\$192,000	14.8%	\$13.24	\$17,455
Other	\$353,000	28.1%	\$24.34	\$32,091		\$364,000	28.1%	\$25.10	\$33,091		\$375,000	28.1%	\$25.86	\$34,091
Total	\$1,257,000	100.0%	\$86.69	\$114,273		\$1,295,000	100.0%	\$89.31	\$117,727		\$1,335,000	103.1%	\$92.07	\$121,364
Cost of Goods Sold														
Food	\$231,000	32.0%	\$15.93	\$21,000		\$238,000	32.0%	\$16.41	\$21,636		\$246,000	32.0%	\$16.97	\$22,364
Beverage	\$43,000	24.0%	\$2.97	\$3,909		\$45,000	24.0%	\$3.10	\$4,091		\$46,000	24.0%	\$3.17	\$4,182
Total	\$274,000	21.8%	\$18.90	\$24,909		\$283,000	21.9%	\$19.52	\$25,727		\$292,000	21.9%	\$20.14	\$26,545
Gross Margin	\$983,000	78.2%	\$67.79	\$89,364		\$1,012,000	78.1%	\$69.79	\$92,000		\$1,043,000	78.1%	\$71.93	\$94,818
Labor Costs	\$629,000	50.0%	\$43.38	\$57,182		\$648,000	50.0%	\$44.69	\$58,909		\$668,000	50.0%	\$46.07	\$60,727
Variable Costs														
Administrative and General	\$88,000	7.0%	\$6.07	\$8,000		\$91,000	7.0%	\$6.28	\$8,273		\$93,000	7.0%	\$6.41	\$8,455
Marketing	\$38,000	3.0%	\$2.62	\$3,455		\$39,000	3.0%	\$2.69	\$3,545		\$40,000	3.0%	\$2.76	\$3,636
Property Operations and Maintenance	\$13,000	1.0%	\$0.90	\$1,182		\$13,000	1.0%	\$0.90	\$1,182		\$13,000	1.0%	\$0.90	\$1,182
Energy	\$38,000	3.0%	\$2.62	\$3,455		\$39,000	3.0%	\$2.69	\$3,545		\$40,000	3.0%	\$2.76	\$3,636
Total	\$177,000	14.1%	\$12.21	\$16,091		\$182,000	14.1%	\$12.55	\$16,545		\$186,000	13.9%	\$12.83	\$16,909
Income Before Fixed Costs	\$177,000	14.1%	\$12.21	\$16,091		\$182,000	14.1%	\$12.55	\$16,545		\$189,000	14.2%	\$13.03	\$17,182
Fixed Costs														
Real Estate and Property Taxes	\$55,000	4.4%	\$3.79	\$5,000		\$57,000	4.4%	\$3.93	\$5,182		\$58,000	4.3%	\$4.00	\$5,273
Base Management Fee	\$37,700	3.0%	\$2.60	\$3,427		\$38,900	3.0%	\$2.68	\$3,536		\$40,100	3.0%	\$2.77	\$3,645
Building and Contents Insurance	\$20,000	1.6%	\$1.38	\$1,818		\$21,000	1.6%	\$1.45	\$1,909		\$22,000	1.6%	\$1.52	\$2,000
Total	\$112,700	9.0%	\$7.77	\$10,245		\$116,900	9.0%	\$8.06	\$10,627		\$120,100	9.0%	\$8.28	\$10,918
Income Before Reserve	\$64,300	5.1%	\$4.43	\$5,845		\$65,100	5.0%	\$4.49	\$5,918		\$68,900	5.2%	\$4.75	\$6,264
Reserve for Replacement of FF&E	\$50,000	4.0%	\$3.45	\$4,545		\$52,000	4.0%	\$3.59	\$4,727		\$53,000	4.0%	\$3.66	\$4,818
Income Before Depreciation, Amortization, & Taxes	\$14,300	1.1%	\$0.99	\$1,300		\$13,100	1.0%	\$0.90	\$1,191		\$15,900	1.2%	\$1.10	\$1,445

Note: (1) Net Operating Income defined as income before debt, taxes, depreciation and amortization.
Please note that columns may not add due to rounding.

Source: REVPAR International, Inc.

IACC Financial Statements

Non-Residential Conference Centers

(In Current Value 2014 Dollars)

2007

2008

	Amount	Ratio	Amount Per Square Foot	Amount Per Meeting Room		Amount	Ratio	Amount Per Square Foot	Amount Per Meeting Room
Revenues									
Revenues	\$3,057,533	100.0%	\$258.83	\$235,195		\$2,097,151	100.0%	\$169.51	\$149,797
Total	\$3,057,533	100.0%	\$258.83	\$235,195		\$2,097,151	100.0%	\$169.51	\$149,797
Cost of Goods Sold									
Cost of Goods Sold	\$539,418	17.6%	\$45.66	\$41,494		\$466,324	22.2%	\$37.69	\$33,309
Total	\$539,418	17.6%	\$45.66	\$41,494		\$466,324	22.2%	\$37.69	\$33,309
Gross Margin	\$2,518,115	82.4%	\$213.16	\$193,701		\$1,630,827	77.8%	\$131.82	\$116,488
Labor Costs	\$946,584	31.0%	\$80.13	\$72,814		\$684,559	32.6%	\$55.33	\$48,897
Variable Costs									
Direct Operating Expenses	\$0	0.0%	\$0.00	\$0		\$0	0.0%	\$0.00	\$0
Administrative and General	\$132,657	4.3%	\$11.23	\$10,204		\$189,327	9.0%	\$15.30	\$13,523
Marketing	\$143,995	4.7%	\$12.19	\$11,077		\$113,986	5.4%	\$9.21	\$8,142
Property Operations and Maintenance	\$27,059	0.9%	\$2.29	\$2,081		\$44,250	2.1%	\$3.58	\$3,161
Energy	\$1,332	0.0%	\$0.11	\$102		\$68,267	3.3%	\$5.52	\$4,876
Total	\$305,044	10.0%	\$25.82	\$23,465		\$415,830	19.8%	\$33.61	\$29,702
Income Before Fixed Costs	\$1,266,487	41.4%	\$107.21	\$97,422		\$530,438	25.3%	\$42.87	\$37,888
Fixed Costs									
Real Estate and Property Taxes	\$2,570	0.1%	\$0.22	\$198		\$3,219	0.2%	\$0.26	\$230
Base Management Fee	\$91,726	3.0%	\$7.76	\$7,056		\$40,245	1.9%	\$3.25	\$2,875
Building and Contents Insurance	\$25,904	0.8%	\$2.19	\$1,993		\$31,731	1.5%	\$2.56	\$2,266
Other Fixed Charges	\$690,980	22.6%	\$58.49	\$53,152		\$319,593	15.2%	\$25.83	\$22,828
Total	\$811,181	26.5%	\$68.67	\$62,399		\$394,787	18.8%	\$31.91	\$28,199
Income Before Reserve	\$455,306	14.9%	\$38.54	\$35,024		\$135,652	6.5%	\$10.96	\$9,689
Reserve for Replacement of FF&E	\$0	0.0%	\$0.00	\$0		\$0	0.0%	\$0.00	\$0
Income Before Depreciation, Amortization, & Taxes	\$455,306	14.9%	\$38.54	\$35,024		\$135,652	6.5%	\$10.96	\$9,689
Number of Meeting Rooms	13					14			
Square Feet of Meeting Space	11,813					12,372			

IACC Financial Statements

Non-Residential Conference Centers

(In Current Value 2014 Dollars)

2010

2012

	Amount	Ratio	Amount Per Square Foot	Amount Per Meeting Room		Amount	Ratio	Amount Per Square Foot	Amount Per Meeting Room
Revenues									
Revenues	\$1,379,090	100.0%	\$81.29	\$91,939		\$1,873,488	100.0%	\$144.79	\$144,114
Total	\$1,379,090	100.0%	\$81.29	\$91,939		\$1,873,488	100.0%	\$144.79	\$144,114
Cost of Goods Sold									
Cost of Goods Sold	\$297,125	21.5%	\$17.51	\$19,808		\$428,030	22.8%	\$33.08	\$32,925
Total	\$297,125	21.5%	\$17.51	\$19,808		\$428,030	22.8%	\$33.08	\$32,925
Gross Margin	\$1,081,964	78.5%	\$63.77	\$72,131		\$1,445,458	77.2%	\$111.71	\$111,189
Labor Costs	\$516,780	37.5%	\$30.46	\$34,452		\$677,893	36.2%	\$52.39	\$52,146
Variable Costs									
Direct Operating Expenses	\$0	0.0%	\$0.00	\$0		\$0	0.0%	\$0.00	\$0
Administrative and General	\$110,315	8.0%	\$6.50	\$7,354		\$139,827	7.5%	\$10.81	\$10,756
Marketing	\$54,012	3.9%	\$3.18	\$3,601		\$57,708	3.1%	\$4.46	\$4,439
Property Operations and Maintenance	\$14,391	1.0%	\$0.85	\$959		\$18,694	1.0%	\$1.44	\$1,438
Energy	\$47,241	3.4%	\$2.78	\$3,149		\$57,375	3.1%	\$4.43	\$4,413
Total	\$225,959	16.4%	\$13.32	\$15,064		\$273,604	14.6%	\$21.15	\$21,046
Income Before Fixed Costs	\$339,226	24.6%	\$19.99	\$22,615		\$493,962	26.4%	\$38.18	\$37,997
Fixed Costs									
Real Estate and Property Taxes	\$3,887	0.3%	\$0.23	\$259		\$1,849	0.1%	\$0.14	\$142
Base Management Fee	\$28,570	2.1%	\$1.68	\$1,905		\$55,540	3.0%	\$4.29	\$4,272
Building and Contents Insurance	\$11,042	0.8%	\$0.65	\$736		\$22,607	1.2%	\$1.75	\$1,739
Other Fixed Charges	\$322,523	23.4%	\$19.01	\$21,502		\$274,355	14.6%	\$21.20	\$21,104
Total	\$366,021	26.5%	\$21.57	\$24,401		\$354,350	18.9%	\$27.39	\$27,258
Income Before Reserve	(\$26,795)	-1.9%	-\$1.58	-\$1,786		\$139,611	7.5%	\$10.79	\$10,739
Reserve for Replacement of FF&E	\$0	0.0%	\$0.00	\$0		\$0	0.0%	\$0.00	\$0
Income Before Depreciation, Amortization, & Taxes	(\$26,795)	-1.9%	(\$1.58)	(\$1,786)		\$139,611	7.5%	\$10.79	\$10,739
Number of Meeting Rooms	15					13			
Square Feet of Meeting Space	16,966					12,939			