



FEASIBILITY ANALYSIS OF A POTENTIAL EXPANSION OF THE LEXINGTON CONVENTION CENTER

Presented to the:
Lexington Convention &
Visitors Bureau

August 12, 2011





August 12, 2011

Mr. Jim Browder
President
Lexington Convention and Visitors Bureau
301 East Vine Street
Lexington, KY 40507

Dear Mr. Browder:

Conventions, Sports & Leisure International has completed the market and facility development feasibility study regarding convention and event facilities in Lexington. The research conducted as part of this study includes analysis of historical Lexington Convention Center (LCC) operations, extensive surveys of event planners, analysis of competitive destinations and facilities, analysis of industry trends that would impact the project and an overview of conditions in Lexington that could impact the viability of potential future facility development. The attached report presents our research, analysis and findings and is intended to assist the Lexington Convention and Visitors Bureau (LCVB) and other involved parties in evaluating various issues pertaining to potential convention facility development.

The analysis presented in this report is based on estimates, assumptions and other information developed from in-person interviews, industry research, surveys of potential facility users and analysis of competitive/comparable facilities and communities. The sources of information, the methods employed and the basis of significant estimates and assumptions are stated in this report. Some assumptions inevitably will not materialize and unanticipated events and circumstances may occur. Therefore, actual results achieved will vary from those described and the variations may be material.

We sincerely appreciate the assistance and cooperation we have been provided in the completion of this report and would be pleased to be of further assistance in the interpretation and application of our findings.

Very truly yours,

CSL International

- Table of Contents -

I.	Introduction.....	1
II.	Local Market Conditions Analysis.....	3
III.	Historical Lexington Convention Center Operations Analysis.....	10
IV.	Industry Characteristics and Trends Analysis	20
V.	Analysis of Competitive and Comparable Facilities and Markets.....	29
VI.	Market Demand Analysis	43
VII.	Market Supportable Building Program Analysis.....	64
VIII.	Analysis of Economic, Fiscal and Financial Operating Impacts	68

I. Introduction

Conventions, Sports & Leisure (CSL) has completed the market and facility development feasibility study regarding convention and event facilities in Lexington. This report outlines the key findings associated with the analysis of local market conditions, historical Lexington Convention Center (LCC) operations, industry trends and characteristics, competitive and comparable markets and facilities and convention center demand characteristics specific to the Lexington market.

The study process consisted of detailed research and analysis, including a thorough set of market-specific information derived from the following:

- Local market visits and site tours.
- In-person interviews/meetings with Lexington Convention and Visitors Bureau (LCVB), LCC management, Chamber of Commerce officials, business and community leaders, downtown organizations, government officials, City departments and related entities.
- Analysis of trends in the industry that may impact development of additional space in Lexington.
- Research and analysis of local market conditions and national and regional trends.
- Analysis of data from a total of 18 competitive and comparable facilities and markets.
- Analysis of LCC lost business records.
- Interviews with 43 current and past users of the LCC.
- Approximately 125 completed interviews with meeting planners of targeted national conventions, tradeshow, conferences and other events.

This report consists of the following primary analysis sections:

- *Local Market Conditions Analysis* – presents analysis of local attributes and hospitality infrastructure, focusing on event space, hotels, restaurants, entertainment and other such factors.
- *Historical Lexington Convention Center Analysis* – provides a review of utilization levels, events mix and related operational characteristics of the LCC. This detail is important in providing a basis from which to evaluate potential unmet demand for event space in the market.
- *Industry Characteristics and Trends Analysis* – offers considerable insight into recent trends in the industry that may impact development of additional space in Lexington.
- *Analysis of Competitive and Comparable Facilities and Markets* – provides a comparison of various physical characteristics and resources of competitive and comparable facilities and their host cities relative to the convention and visitor industry.
- *Market Demand Analysis* – provides the results of a detailed survey analysis of current and past LCC users and targeted national organization event planners that reflect the market potential for additional convention space in Lexington.

- *Market Supportable Building Program Analysis* – presents an analysis of the market supportable level of sellable space, by space component, as well as hotel and other requirements essential to accommodating the demand for potential convention, tradeshow, conference, banquet, meeting, public/consumer show and other events in Lexington.
- *Analysis of Economic, Fiscal and Financial Operating Impacts* – presents an analysis of the potential economic, fiscal (tax) and financial impacts of operating additional convention space in Lexington (associated with the market-supportable convention and event facility development scenario).

When evaluating the feasibility of developing additional convention space, communities throughout the country have differed in the specific criteria that best reflects the definition of “feasible” for their community. Facility criteria such as operating profit, room night generation, economic impact, spurring added downtown real estate development, and serving as a community gathering place have all been used as criteria, individually or in combination, by communities evaluating the merits of a project. The research data, information and analysis provided through this study is intended to allow the LCVB, City, and other community constituents to draw their own informed conclusions concerning the feasibility of additional convention space in Lexington.

II. Local Market Conditions Analysis

A community's hospitality infrastructure, in terms of entertainment, attractions, hotels, restaurants and other such factors, can contribute significantly to the success of a convention center. The marketability of such a facility increases when combined with a supporting visitor amenity infrastructure within close proximity. As such, CSL has conducted an analysis of these and other local market attributes as they relate to the downtown Lexington and surrounding area.

Local Market Attractions and Resources

Lexington is located at the crossroads of U.S. Interstates 75 and 64, approximately one hour east of Louisville, and one hour south of Cincinnati. Lexington's central location places it within 600 miles of 50 percent of the entire United States population.

Known as the "Thoroughbred City" and the "Horse Capital of the World", Lexington is located within Kentucky's Bluegrass region. In the 2010 United States Census, the city's population was approximately 295,800, and had an estimated metropolitan area population of 472,100 people.

Event planners will often focus on the visitor appeal of a destination when making site evaluations and selections. Highly desirable destinations from a visitor perspective may support higher event attendee levels leading to a more successful and profitable event. Today, the Lexington area's existing visitation is driven in part by a variety of historic attractions, horse/equestrian related events and tours, museums and other amenities (both natural and man-made) offered within the community. The top attractions and community resources in and around Lexington, as measured by the LCVB, are presented in Exhibit II-1.

Exhibit II-1 Primary Local and Regional Attractions

Local Attractions	Regional Attractions
Kentucky Horse Park	Kentucky Artisan Center
Rupp Arena	Shaker Village
Keeneland	Woodford Reserve
Lexington Legends	Buffalo Trace
Opera House	Kentucky History Center
Explorium	Ft. Harrod
The Thoroughbred Center	Ft. Boonesborough
Arts Place	Wild Turkey
Red Mile	Old State Capitol
American Saddle Horse Museum	Four Roses
Ashland, The Home of Henry Clay	White Hall
Mary Todd Lincoln House	
Headley Whitney Museum	
Waveland	
Hunt Morgan House	

Important among the Lexington area attractions are those that support the equestrian brand of the destination (Keeneland and Kentucky Horse Park, for example). In order to create a distinct,

unique and tangible advantage in terms of visitor appeal, further progress in leveraging the equestrian assets into a visitor experience will be important.

In addition, meeting planners place great emphasis on walkable convention, hotel and entertainment districts. In Lexington, the existing downtown hotels, the LCC and the nearby retail/restaurant inventory provides for an emerging district, and continued efforts in encouraging the creation of unique and authentic, walkable visitor assets near the LCC should be undertaken.

Corporate Base

The breadth and characteristics of the inventory of local corporations and employers can provide an indication of general potential for corporate meeting activity in a given market. Often, the major employers in a local market are an important source of facility usage with regard to corporate meetings, banquets and other similar uses, all of which are important to maintain the utilization and financial viability of a convention center. Exhibit II-2 outlines all public and private sector employers in Fayette County with 1,000 or more total full-time employees.

**Exhibit II-2
Primary Fayette County Employers**

Company	Description	Full-Time Employees
University of Kentucky	Higher Education	12,741
Lexington-Fayette Urban County Government	Local Government	4,057
Fayette County Public Schools	Local Education	3,558
Lexmark International Inc.	Global Headquarters	2,800
Baptist Healthcare System Inc.	Healthcare	2,496
St. Joseph Hospital	Healthcare	2,300
ACS, a Xerox Company	Outsourcing & Technical Support	2,100
Wal-Mart	Retail	2,027
Lockheed Martin	Contract Support Services	1,750
Kroger	Retail	1,665
Veterans Medical Center	Healthcare	1,500
Lexington Clinic	Healthcare	1,300
Amazon.com	Distribution	1,200
Trane Lexington	Manufacturing	1,000

Source: Commerce Lexington, 2011

The top 14 employers in Fayette County combine to provide a total of approximately 40,500 local jobs. With approximately 12,700 local employees, the University of Kentucky is by far the largest employer in Lexington. Together, Lexington-Fayette Urban County Government and Fayette County Public Schools employ an additional 7,600 individuals. In terms of private sector employers, Lexmark International Inc., with an estimated 2,800 local employees, is the largest. Other major private-sector employers include Baptist Healthcare System, Inc. (2,500 employees), St. Joseph Hospital (2,300 employees), ACS (2,100 employees), Wal-Mart (2,000 employees) and Lockheed Martin (1,750 employees).

Based on this cursory analysis, there appears to be a local concentration of health care and technology industries. With respect to convention facility planning, such industries along with potential University related use, could represent a potential market niche supportive of future expanded/improved convention center facility usage in Lexington. In addition, there are numerous large and mid-sized companies supporting the equestrian brand of the destination,

including veterinary/medicine, feed and feed supplements, horse farms, breeding, tack and equipment, research and related sectors.

Existing Hotel and Event Facility Inventory

The number of existing event facilities in the local market, as well as the supply and location of local hotel rooms, are important considerations with respect to the ability to attract and accommodate convention market potential and associated economic and fiscal impacts. The convention, conference and tradeshow market in any community cannot grow beyond the ability of its hotel base to accommodate out-of-town visitors. The hotel room inventory available for events held at the LCC will continue to influence the Center’s ability to attract events with significant room night generation.

Based on LCVB estimates, there are currently 66 hotels in Lexington that combine to offer a total of approximately 7,535 guestrooms. In the past year, one hotel has opened in Lexington: The Residence Inn Keeneland/Airport. This represents a wide range of hotel offerings throughout Lexington; however, only a small portion of these rooms (less than 800) are located within the downtown area, proximate to the LCC. As will be discussed later in this report, many national association convention, tradeshow and other event planners require a high percentage of rooms comprising their respective room blocks to be located proximate to the event facility.

From a meeting planner’s perspective, assembling a room block in as few properties as possible is important, and oftentimes planners will utilize no more than two to four properties. As such, the location of a market’s existing and planned inventory can be critical in successfully accommodating events with a non-local attendee base. We have examined downtown Lexington’s hotel and visitor amenity offerings from a location perspective, as presented in Exhibit II-3.

**Exhibit II-3
Primary Lexington Downtown Hotel Properties & Visitor Amenities**



As shown, there are currently three hotel properties located in downtown Lexington within approximately one half mile of the LCC. In all, there are 777 hotel rooms that could be considered to be within walking distance of the LCC. Attached to the LCC, the Hyatt Regency Lexington offers 366 total rooms. The Hilton Lexington/Downtown (adjacent to the LCC) incorporates 367 total guestrooms. Approximately four blocks from the LCC, the Gratz Park Inn offers 44 total rooms. It should also be noted that the planned downtown CentrePointe (JW Marriott) hotel property (to be located approximately two blocks from the LCC) has yet to break ground and the expected completion date is still undetermined.

Generally, hotel properties only have 70 to 80 percent of their rooms available at any given time to be utilized by large, city-wide events, making the committable number of rooms available to out-of-town attendees even less. As such, when larger, city-wide events are held in Lexington, attendees are forced to utilize hotel properties throughout the area, such as the Griffin Gate Marriott Resort, Crowne Plaza Lexington and the Embassy Suites. LCVB representatives have indicated that the typical room block that can be assembled downtown for large city-wide events is approximately 600 rooms. In some cases, as with the Alltech FEI World Equestrian Games, significantly larger blocks of rooms can be assembled using inventory throughout the market area.

As previously noted, the walkable area surrounding a convention center in terms of its hotel, restaurant and other visitor amenities and attractions has become an increasingly important factor in an event planner's site selection process. In the case of Lexington, the area surrounding the LCC encompasses an active convention, hotel, restaurant and entertainment district. In addition, there are vibrant close-in neighborhoods including South Hill, Western Suburb, Northside, Gratz Park, Constitution and Woodward Heights that support restaurant, retail and entertainment development and activity within and surrounding the downtown area. Any supportable future convention center development scenarios in Lexington will in some ways be shaped by these conditions.

As part of our local market research, we have also considered a review of the inventory in-house flat floor event space at area hotels. Exhibit II-4 presents a summary of the event space offerings throughout the Lexington metropolitan area, outlining the sellable space levels and the total number of sleeping rooms offered at each facility.

**Exhibit II-4
Primary Lexington Hotel and Event Facilities**

Facility	Exhibit Space	Meeting Space	Ballroom Space	Total Sellable Space	Largest Contiguous Space	Number of Hotel Rooms
Griffin Gate Marriott Resort	0	6,400	9,600	16,000	9,600	409
Crowne Plaza Lexington - The Campbell House	0	8,500	8,400	16,900	8,400	287
Embassy Suites	0	4,800	8,100	12,900	8,100	230
Hyatt Regency Lexington (1)	0	7,000	11,100	18,100	7,100	366
Hilton Lexington/Downtown	0	6,300	9,900	16,200	6,900	367
Holiday Inn North	0	4,100	5,100	9,200	5,100	302
Four Points Sheraton	0	2,400	4,700	7,100	4,700	174
Best Western Lexington Conference Center Hotel	0	4,700	0	4,700	3,400	151
Doubletree Guest Suites Lexington	0	4,600	0	4,600	2,400	155

(1) Attached to the LCC.

Note: Data sorted by largest contiguous space.

Source: CSL International, 2011

Presently, there are several event facilities in the Lexington metropolitan area that have the ability to accommodate various levels of conventions, meetings, banquets, food/beverage functions, public/consumer shows, conferences and other assembly events. These data can help assess the impact of the current hotel base on event market capture for the LCC and help to define the specific event market segments accommodated by the LCC versus existing area hotels.

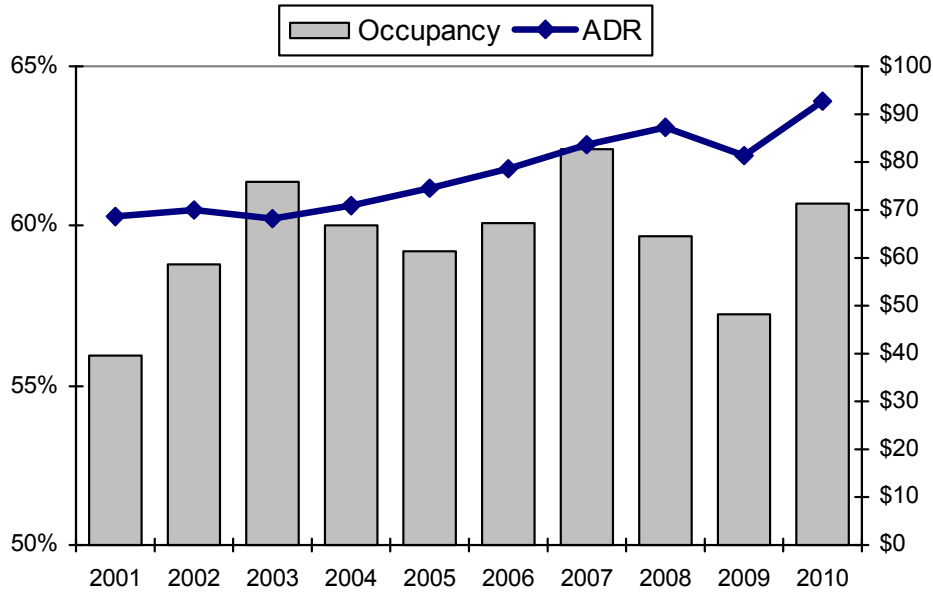
The Griffin Gate Marriott Resort, located on Newton Pike (three miles north of downtown), currently provides the largest number of guest rooms among all local properties, with 409. The hotel also offers the largest contiguous space outside of the LCC, with its 9,600-square foot Grand Ballroom. The Hyatt Regency Lexington offers the most total sellable space, with 18,100 square feet of space. The Crowne Plaza Lexington - The Campbell House, located on South Broadway Drive (approximately 1.5 miles from downtown), offers 287 guest rooms and approximately 16,900 square feet of space. This type of hotel capacity data helps define the market parameters under which convention facilities in Lexington should operate. Events that can be accommodated by privately operated hotels should not be the focus of a public convention center, while events too large for the existing base of hotel space represent a viable convention center target market.

The Hyatt Regency Lexington (attached to the LCC) offers 366 total guest rooms and more than 18,000 square feet of meeting space. The Hilton Lexington/Downtown (located across the street from the LCC) incorporates 367 total guest rooms and approximately 16,200 square feet of event space.

As presented above, there is a significant amount of cumulative flat floor event space (106,000 square feet of total sellable space) within these primary Lexington hotels; however, these facilities focus on the segment of the event market that has relatively limited space needs. On average, these facilities offer 11,700 square feet of total sellable space and 270 total guest rooms.

Our analysis of the local hotel market also includes a review of average daily hotel room rates, as well as average hotel occupancy in Lexington for the ten-year period spanning 2001 through 2010. These results are summarized in Exhibit II-5.

**Exhibit II-5
Summary of Lexington Hotel Occupancy and Average Daily Rate
(2001 - 2010)**



Source: Smith Travel Research, LCVB, 2011

Based on data provided by Smith Travel Research and the LCVB, both the average daily hotel room rate (ADR) and the average occupancy rate in Lexington have followed a pattern experienced in many markets nationwide, reflective of overall industry and economic conditions.

In 2010, the market experienced an 8.9 percent increase in room demand when compared to 2009. Room supply increased 1.9 percent in 2010, with a total increase in occupancy of 6.8 percent over 2009. Total occupancy for 2010 was 60.7 percent, up from 58.6 percent in 2009. Smith Travel Research reported an ADR of \$92.81 in 2010, an increase of 13.3 percent compared to 2009. A portion of the increase was a result of the 2010 Alltech FEI World Equestrian Games that were held at the Kentucky Horse Park in September and October, as well as a general improvement in the economy.

Air Access

We have also examined the level of air access into and out of Lexington. As will be further discussed in our Market Demand Analysis, the ability of non-local event attendees to fly directly to the host market for their event(s) is often a factor in an event planner's decision as to where to bring their rotating national functions.

Located approximately four miles west of downtown, Lexington's Blue Grass Airport recently underwent a \$60 million renovation project. Based on conversations with airport management, the facility provides service to approximately 17 non-stop destinations and accommodates approximately 85 flights daily from its two runways. Seven major airlines operate connection service at Blue Grass, including Airtran Airways, Allegiant Air, American Eagle Airlines, Continental Express, Delta Air Lines, United Express, and US Airways Express.

As will be discussed later, the overall lack of direct air service into and out of Lexington was noted as a concern among event planners and will be considered in our analysis of supportable building program options and associated event characteristics.

III. Historical Lexington Convention Center Operations Analysis

The purpose of this chapter is to inventory and analyze key elements of the historical operations of the Lexington Convention Center. Understanding utilization levels, event mix and other such characteristics of the facility is important to provide a basis from which to evaluate potential unmet demand for event space in the market. We begin with a review of LCC space offerings.

Introduction to LCC Space Offerings

The LCC originally opened in 1976. In 2003, the Lexington Center and the Commonwealth of Kentucky completed a \$50 million renovation and expansion of the Lexington Convention Center that included the addition of the Bluegrass Ballroom and the Thoroughbred meeting rooms. Currently, the LCC offers total 105,700 square feet of sellable space, summarized as follows:

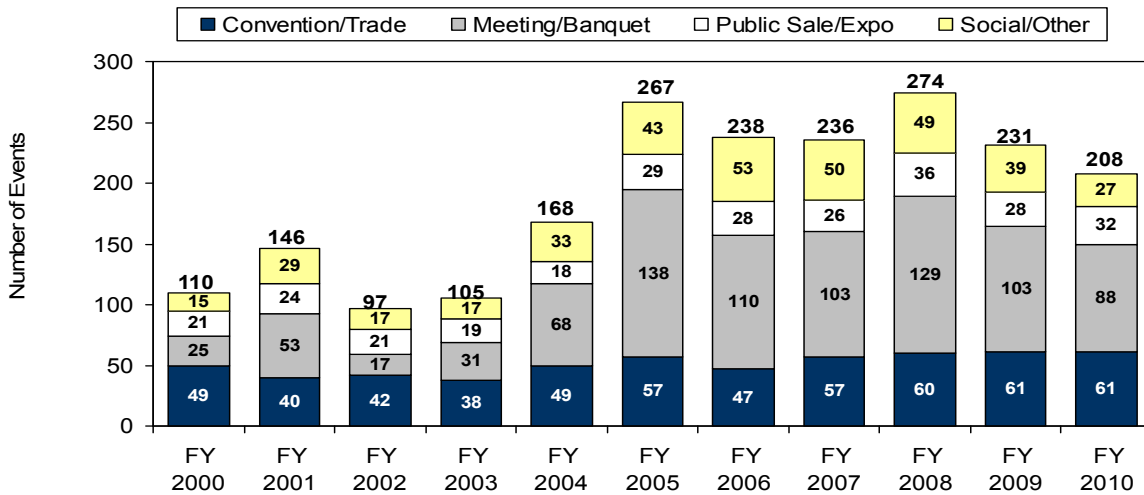
- Exhibit Space – 66,000 square feet of dedicated exhibit space in exhibit halls with 20 to 37 foot ceiling heights, and 6,500 in the Heritage Ballroom in which the ceiling height is 16 feet. The current industry standard for exhibit hall ceiling heights is 30 to 35 feet.
- Meeting Space – Up to 12 breakout meeting rooms combine to provide a total of approximately 16,100 square feet of space.
- Ballroom Space – Includes the 17,100-square foot Bluegrass Ballroom and the 6,500-square foot Heritage Ballroom.
- Rupp Arena – Provides 25,200 contiguous square feet of flat floor space, in addition to fixed seating for groups of 2,500 to 23,000. The flat floor space provided within Rupp Arena is not contiguous to any LCC event space.
- Parking – More than 2,700 on-site parking spaces.
- Shopping – Two levels of retail space and a food court.



Analysis of Historical LCC Operations

The LCC hosts a wide variety of both local and non-local events, including conventions, corporate meetings, consumer shows, food and beverage functions, tradeshows, community, government and other events. We begin with an overall summary of the total number of events hosted at the LCC for the 11-year period spanning fiscal years 2000 through 2010. Based on classifications provided by LCC management, data has been segmented into the following four event types: Convention/Trade, Meeting/Banquet, Public Sale/Expo, and Social/Other events. Data presented herein is inclusive of flat floor events held in Heritage Hall, Heritage Ballroom, Bluegrass Ballroom, various meeting rooms and Rupp Arena.

**Exhibit III-1
Total Number of Events at LCC (2000 – 2010)**



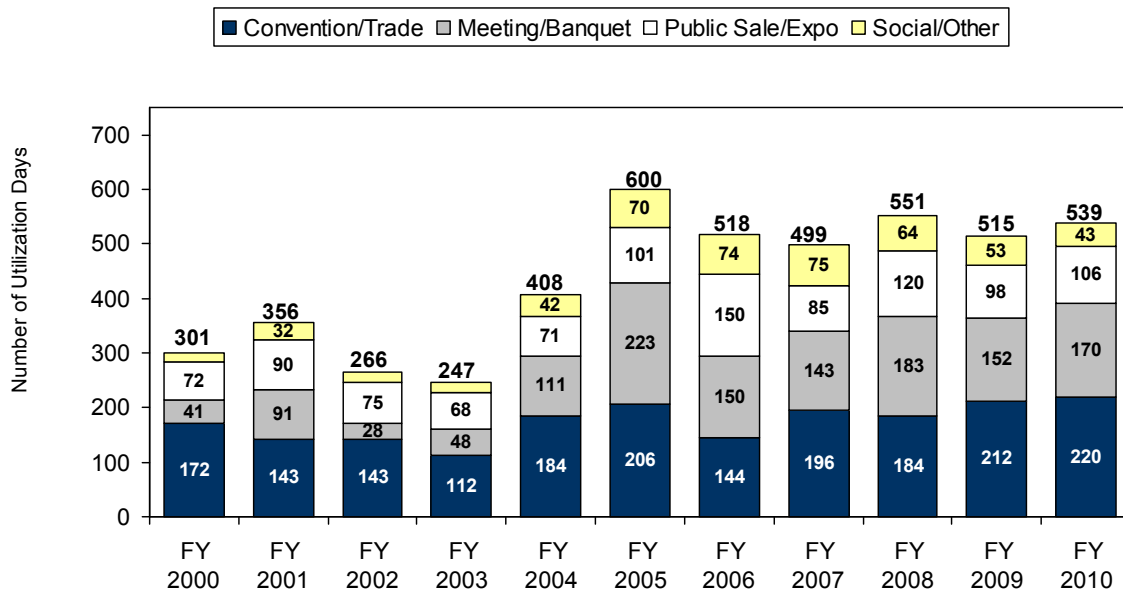
Notes: Event types are based on LCC classifications. Data does not include internal events.
Heritage Ballroom and Elkhorn were demolished in May 2001 as part of the renovation and reopened in March 2003. During that period, only Heritage Hall West, Center & East were available to sell.
Source: CSL International, facility management, 2011

Over the past 11 fiscal years, there has been a rise in events held at the LCC, from 110 events in fiscal year 2000 to 208 events in fiscal year 2010, peaking in fiscal year 2008 at 274 individual events. Prior to the Center's expansion, the relatively low number of events pre fiscal year 2004 can partially be explained by the demolition of Heritage Ballroom in 2001 and the reopening of the facility in March 2003. The addition of Bluegrass Ballroom and the renovation of Heritage Ballroom (completed in 2003) provided increased floor space and amenities that resulted in a pattern of increase in events of all types beginning in 2004.

Between fiscal years 2005 through 2010, the LCC has hosted an average of 242 annual events. However, since 2008, LCC has seen a decrease in the number of events hosted. The 2008 to 2010 trend follows a pattern similar to that experienced in many convention centers across the United States in light of the recent economic downturn and recovery process.

In an effort to characterize the overall event mix and utilization of the LCC, Exhibit III-2 presents the total number of utilization days (including move-in, event and move-out days) by event type for the same fiscal year 2000 through fiscal year 2010 time period.

**Exhibit III-2
Total Number of Utilization Days by Event Type
(2000 – 2010)**



Notes: Event types are based on LCC classifications. Data does not include internal events.
Source: CSL International, facility management, 2011

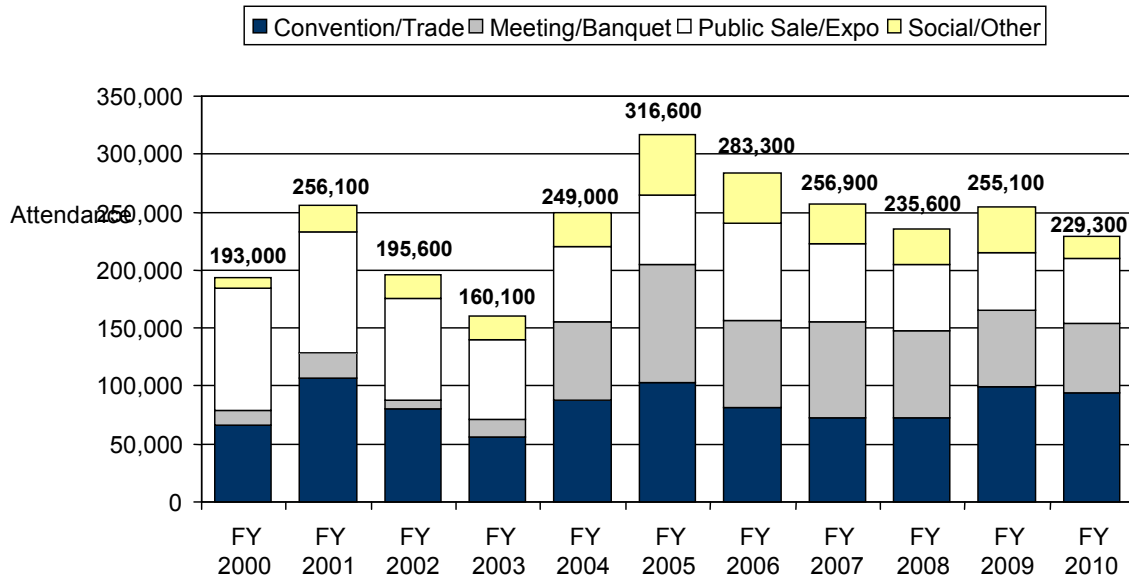
As shown, although the total number of events held at the LCC has decreased each of the past three years, this trend is not the case with utilization days, which increased by nearly five percent between fiscal years 2009 and 2010. Pre-expansion, the general trend of the LCC utilization was relatively consistent, ranging from 247 days to 356 days. Post expansion, the LCC saw a significant increase in the number of days that the facility was utilized, in comparison to fiscal years 2000 to 2003. In particular, utilization days more than doubled from 247 in fiscal year 2003, to 600, two years later in 2005. This is an indication that the expanded LCC attracted added multi-day events.

Over the past five years, the number of utilization days has ranged from approximately 500 to 550 annually. When considering the types of events generating the most LCC usage, it is important to note that convention and tradeshow event activity has increased over the past three fiscal years and now accounts for more than 40 percent of total LCC utilization. Given the propensity of these events to generate high volumes of room nights, this trend is indicative of the LCVB's increased attention toward securing economic impact-generating events.

Meetings and banquets have accounted for an average of 160 annual utilization days since 2006, fluctuating annual from 143 to 183 days over the past five years. The level of social and banquet event activity has decreased each of the past four years and is also perhaps representative of worsening economic conditions.

Exhibit III-3 outlines total attendance by event type for the same 11-year period among all events utilizing the LCC.

**Exhibit III-3
Total Attendance by Event Type (2000 – 2010)**



Notes : Event types are based on LCC classifications. Data does not include internal events.
 Data for 2005 and beyond does not include KSHAA basketball tournaments.
 Source : CSL International, facility management, 2011

Pre-expansion, the LCC experienced its greatest year of attendance in FY 2001 with 256,100 total event attendees. Similar to event and utilization day measures, in the post-expansion time frame, the LCC experienced significant increases in attendance; mainly due to the increased floor space and a new ability to host larger and simultaneous events. In the past three years, the LCC has seen a decline in overall attendees from an 11-year high of approximately 316,600 (in fiscal year 2005), to a low of 229,300 (in fiscal year 2010). This decrease of more than 87,000 attendees represents a nearly 28 percent decline in overall LCC attendance and is again reflective of overall industry conditions.

Attendance at convention and tradeshow events has attracted the largest portion of event attendance, comprising approximately 37 to 47 percent of LCC event attendees in recent years. Importantly, convention and tradeshow attendance has increased over the past three years. Annual attendance among meeting and banquet events has ranged from 58,000 to 65,000 in recent years, while public sales/expos have attracted between 45,000 to 56,000 attendees to the LCC annually.

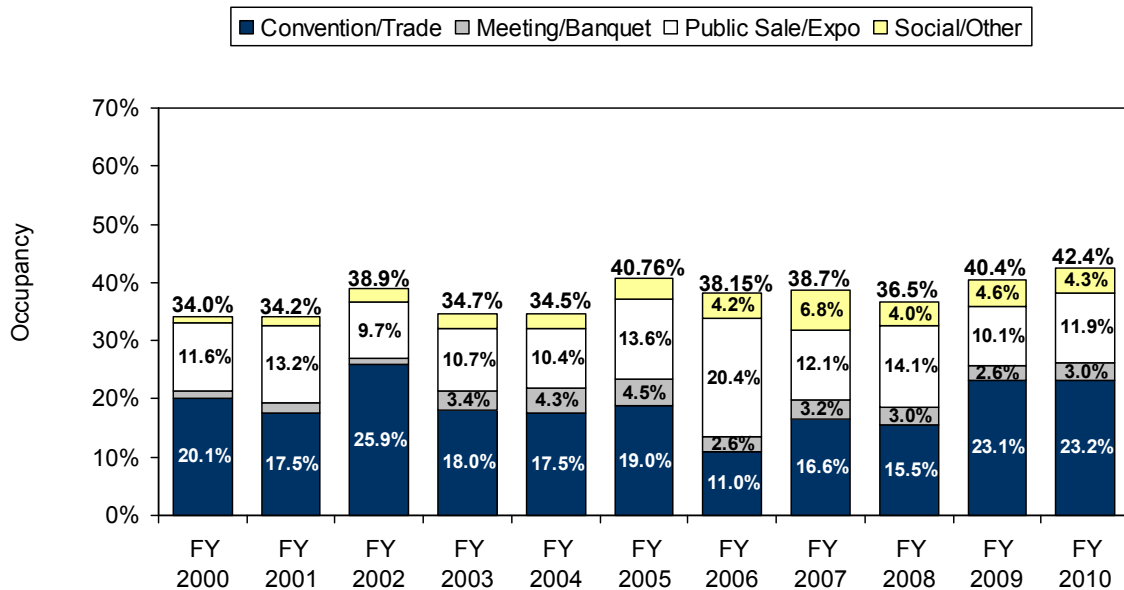
It is also important to measure convention center use from the perspective of square footage occupancy. Occupancy levels (measured by dividing the total amount of sold event space by the total amount of sellable space within the facility times 365), can indicate the degree to which usage of the facility has reached a maximum capacity. The occupancy of a facility is determined to be within a practical maximum capacity range when the actual occupied space in a facility

reaches a level of 70 percent of total sellable capacity. Above 90 percent occupancy, a facility has exceeded "practical maximum capacity" and may be turning away significant business.

These assumptions account for the reality that a portion of the facility's total capacity is unsellable due to holidays, maintenance days and inherent booking inefficiencies that result when events cannot be scheduled immediately back-to-back. Occupancy levels below 50 percent may indicate that a center has not attracted sufficient market share necessary to support space levels. However, it is important to assess the wide variety of factors impacting event demand before making a determination that a lack of event demand exists.

In order to identify the types of activities that are generating the most facility use, Exhibit III-4 presents a summary of exhibit space occupancy by event type for the 66,000-square foot Heritage Hall from fiscal years 2000 through 2010. It should be noted that space use within the adjacent Heritage Ballroom is not considered in this exhibit, and is presented separately on the following page.

**Exhibit III-4
Heritage Hall Occupancy by Event Type (FY 2000 – FY 2010)**



Notes: Event types are based on LCC classifications. Data does not include internal events.
Source: CSL International, facility management, 2011

As presented, Heritage Hall has been operating at a stable rate of occupancy for the past ten years, ranging from 36 to 42 percent each of the past six years. For the past ten fiscal years it has been operating at an average occupancy rate of 37.5 percent, with no fiscal year deviating from the average more than five percentage points. Heritage Hall recently experienced its greatest year of occupancy in fiscal year 2010, at more than 42 percent.

Convention and tradeshow event activity has generated the largest portion of exhibit space occupancy in recent years, increasing over the past three years and reaching an eight year high of 23.2 percentage points in fiscal year 2010. Public sales and expos have accounted for between 10 and 14 percentage points of occupancy over the past five years. Meetings,

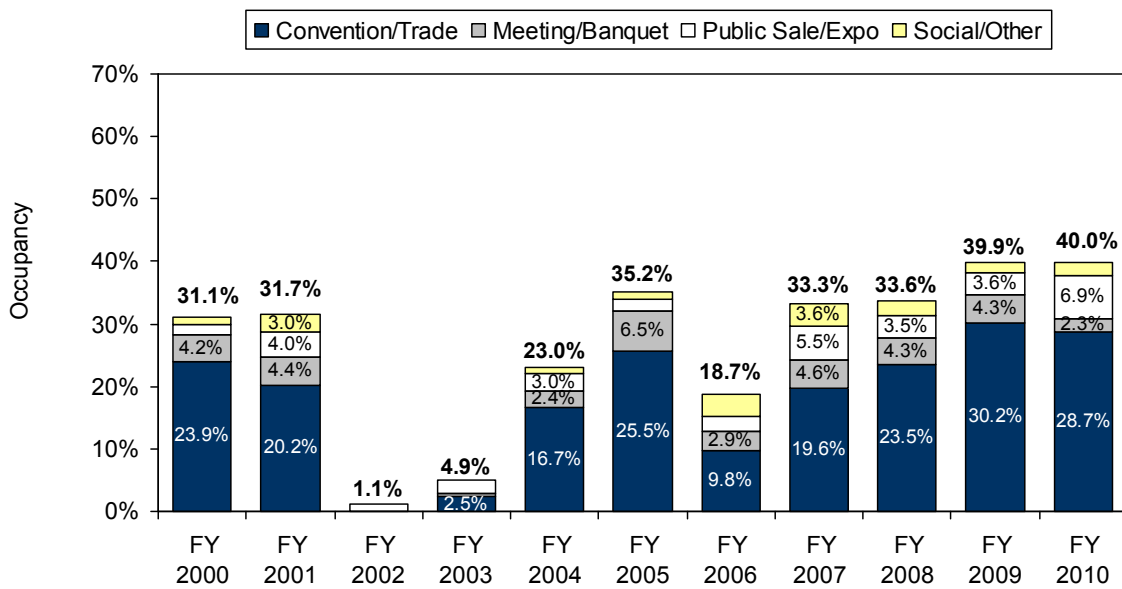


banquets, social and other events are not typically large users of exhibit space and have collectively represented seven to ten percentage points of hall occupancy in recent years.

Overall, the occupancy percentages for the LCC are below the desired target occupancy range. While not indicative of a full building, other factors may be limiting the ability of the LCC to accommodate multiple simultaneous events. Such issues will be further explored later in this report.

Exhibit III-5 presents a summary of the occupancy within the 6,500-square foot Heritage Ballroom for the same 11-year period.

**Exhibit III-5
Heritage Ballroom Occupancy by Event Type (FY 2000 – FY 2010)**

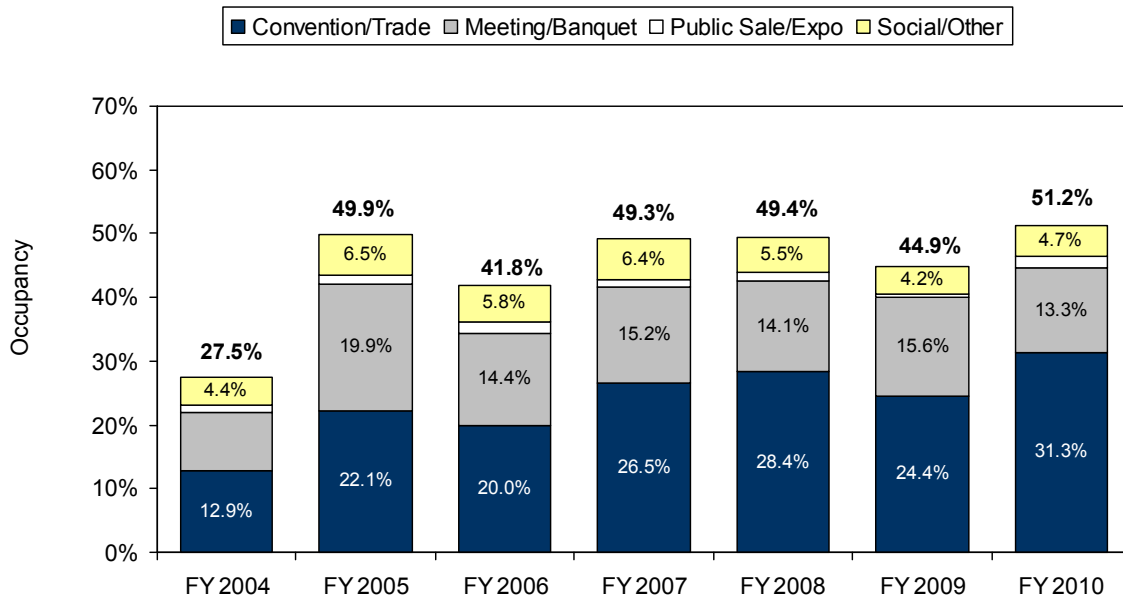


Notes: Event types are based on LCC classifications. Data does not include internal events.
Heritage Ballroom was demolished in May 2001 as part of the renovation and reopened in March 2003.
Source: CSL International, facility management, 2011

As noted above, in fiscal year 2001, Heritage Ballroom was demolished in order to renovate the facility. It reopened in fiscal year 2003. In the years prior to the renovation of the Heritage Ballroom (fiscal years 2000 and 2001), the average occupancy rate was 31.4 percent. Occupancy levels within Heritage Ballroom have increased each of the past five years and have averaged approximately 40 percent recently. Convention and tradeshow events have historically comprised the greatest portion of Heritage Ballroom usage—accounting for approximately three-fourths of all Heritage Ballroom space use in recent years.

Exhibit III-6 characterizes the occupancy of the LCC's 17,100-square foot Bluegrass Ballroom since its opening in fiscal year 2004.

**Exhibit III-6
Bluegrass Ballroom Occupancy by Event Type (FY 2004 – FY 2010)**



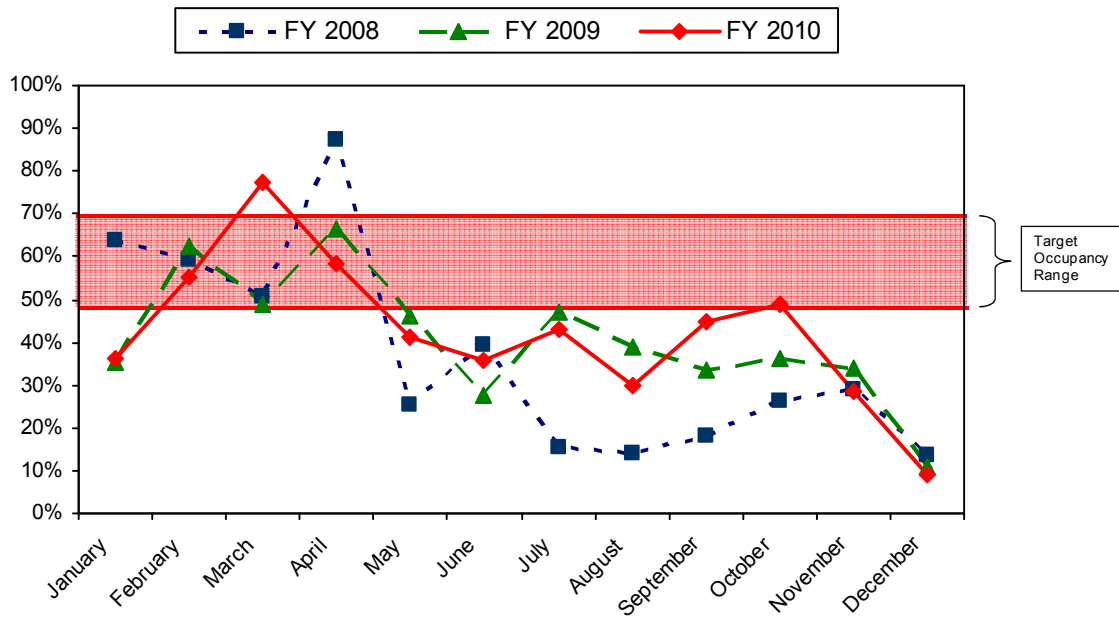
Notes: Event types are based on LCC classifications. Data does not include internal events.
Bluegrass Ballroom opened in May 2003.
Source: CSL International, facility management, 2011

As shown, the Bluegrass Ballroom has maintained a consistent pattern of occupancy, ranging between 40 and 50 percent (excluding the opening fiscal year of 2004). In years not affected by construction, Bluegrass Ballroom has been operating at an average occupancy rate of approximately 48 percent. As with other portions of the facility (Heritage Hall and Heritage Ballroom), the Bluegrass Ballroom experienced its highest rate of occupancy in fiscal year 2010, at 51.2 percent.

Convention and tradeshow events held in the Bluegrass Ballroom represented more than 31 percentage points of occupancy (or more than 60 percent of overall use) in fiscal year 2010. These higher-impact events often utilize ballroom space for general sessions and food and beverage functions. As will be noted later in this report, several current and past users of the LCC have expressed an interest in additional ballroom space.

The seasonality of demand can assist in understanding demand potential for multiple overlapping events. For example, heavy demand for a particular event type during historically busy periods at a center can indicate a “clustering” of demand, and highlight the need for a facility to be able to accommodate multiple overlapping events. Exhibit III-7 displays Heritage Hall occupancy on a monthly basis for the past three years.

**Exhibit III-7
Heritage Hall Occupancy by Month (2008 - 2010)**



Source: CSL International, facility management, 2011

As presented, the LCC’s Heritage Hall experiences seasonal demand for floor space that follows a similar pattern year after year. Heritage Hall operates in or above the target occupancy range for three to four months of the year, generally in the late winter and spring months. Based on conversations with LCC management, the reasons for the higher occupancy early in the year have to do with a number of large public sales and exhibits (i.e., Kentucky Sport, Boat and Recreation Show, Central Kentucky Home and Garden Show, Lexington RV Super Show, etc.).

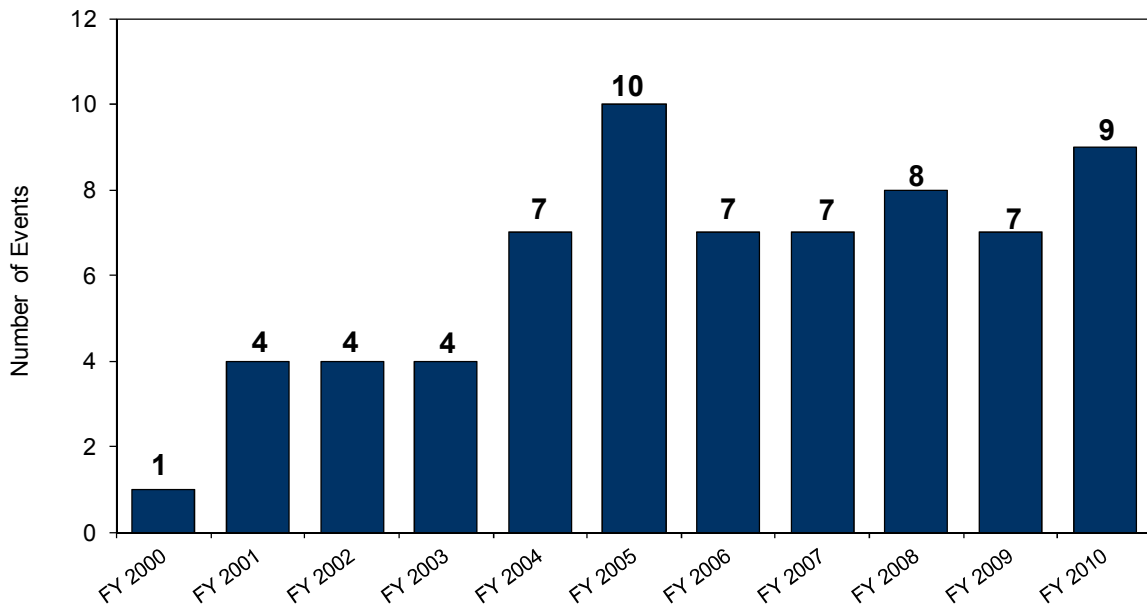
Overall, there is a downward trend in the occupancy rate as the year progresses. Occupancy between May and December ranges from 10 to 50 percent, with December typically being the slowest month (during which Heritage Hall occupancy is often between 10 and 15 percent).

Located adjacent to the LCC, Rupp Arena provides 25,200 square feet of flat floor space that is occasionally used in conjunction with the LCC to accommodate the space and/or fixed seating needs of certain large events, such as the following:

- Central Kentucky Home, Garden & Flower Show
- Children's Charity Fund of the Bluegrass
- International Lutheran Laymen's League
- Kentucky Association of Future Farmers of America
- Kentucky Sport, Boat and Recreation Show

Exhibit III-8 displays the total number of events that occupied both Rupp Arena floor space and LCC event space over the past 11 fiscal years.

Exhibit III-8
Number of Events Utilizing Both LCC and Rupp Arena
Floor Space (FY 2000 – FY 2010)



Source: CSL International, facility management, 2011

As presented, since 2004, Rupp Arena has displayed an upward trend in the number of LCC events utilizing its seating and/or floor space. The greatest number of events utilizing both LCC and Rupp Arena space took place in fiscal year 2005, with ten such events. Over the past 11 fiscal years, an average of 6.2 events utilized both facilities each year. This measure has increased to an average of eight events over the past three years.

Based on conversations with LCC management, there are two factors that might be affecting interest in Rupp Arena among planners of flat floor events. These include the fact that the University of Kentucky controls the facility's calendar until August of each year, when the basketball schedule is released. The uncertainty of the facility's availability deters many groups from considering its use. Additionally, high relative rental rates for the Arena may be impacting the overall interest in using the venue.

Conclusions

Event, event day and attendance data have remained fairly consistent at the LCC over the past several years, with modest increases in convention related activity over the past 24 months. Occupancy levels have also remained somewhat constant, however at levels that do not appear to indicate a shortage of facility space.

This raises the question as to whether or not the Lexington market itself is not able to support added convention demand in the near term, or whether there are other factors contributing to current occupancy levels. As noted previously in this report, the downtown Lexington area currently provides, and is positioned to improve upon a vibrant restaurant, retail and entertainment base. The city is geographically located proximate to a large segment of the U.S. population and provides convenient highway access. At the same time, the air access to Lexington is somewhat limited, and the LCC itself does not provide the space sufficient to accommodate many mid-sized convention and trade events.

In later sections of this report, we will explore these and other factors that will help in guide future recommendations as to any future market supportable LCC space additions.

IV. Industry Characteristics and Trends Analysis

The market success of a convention center can be partially attributed to the characteristics of the industry as a whole. In order to assess the current and future strength of the market with regard to Lexington, it is important to evaluate the industry nationwide.

Broad industry changes, characterized by retraction and expansion in convention and tradeshow demand have taken place within the industry during the past decade. After significant decreases in industry demand levels during the recent recession, demand for convention, tradeshow and related public assembly space has grown industry-wide over the past 12 to 18 months.

In this section, various industry supply and demand trends are evaluated, particularly those that may impact future development decisions regarding the Lexington convention product.

Introduction

As we enter the second half of 2011, nearly all indicators suggest that the national economy is struggling to recover from a significant recession. A large collection of data suggests that the health of the convention, tradeshow and meetings industry, like nearly all industries, has historically been and is currently linked to the strength and fluctuations of the overall U.S. economy. This "linkage" is a fundamental premise of any analysis of future convention and tradeshow industry performance. To address the question of future industry trends, we need to consider how the future landscape of convention industry will respond in these post recessionary times.

Over the past 20 years, there has been discussion within the industry regarding external threats to this linkage. Years ago, the advent of teleconferencing was seen as a force that would "de-link" convention and tradeshow industry growth from overall economic performance. Today, there is a shift toward a blend of technology and the traditional face-to-face meeting. In essence, the ability to electronically "import" a speaker or other program element into a general session can improve the overall experience of being at the event. Conversely, the ability to digitally record content at a physical event for current and/or future dissemination to off-site parties improves the value of the event itself for the show sponsor. The incorporation of the various technologies that support this phenomenon has resulted in what has been called the hybrid event.

In post recessionary times, with fundamental shifts taking place in how products and ideas are being marketed and disseminated domestically, there can be no certainty as to how the convention and tradeshow industry will perform going forward. We have assembled useful and credible research to provide insight into this question and in order to make intelligent assessments as to the role and magnitude of the convention and tradeshow industry within the economy over the next several years.

To supplement our research, we have also reviewed and summarized the findings of several industry sources that have recently released research and information with regard to the overall performance of the convention and visitor industry in the United States.

These sources include the following:

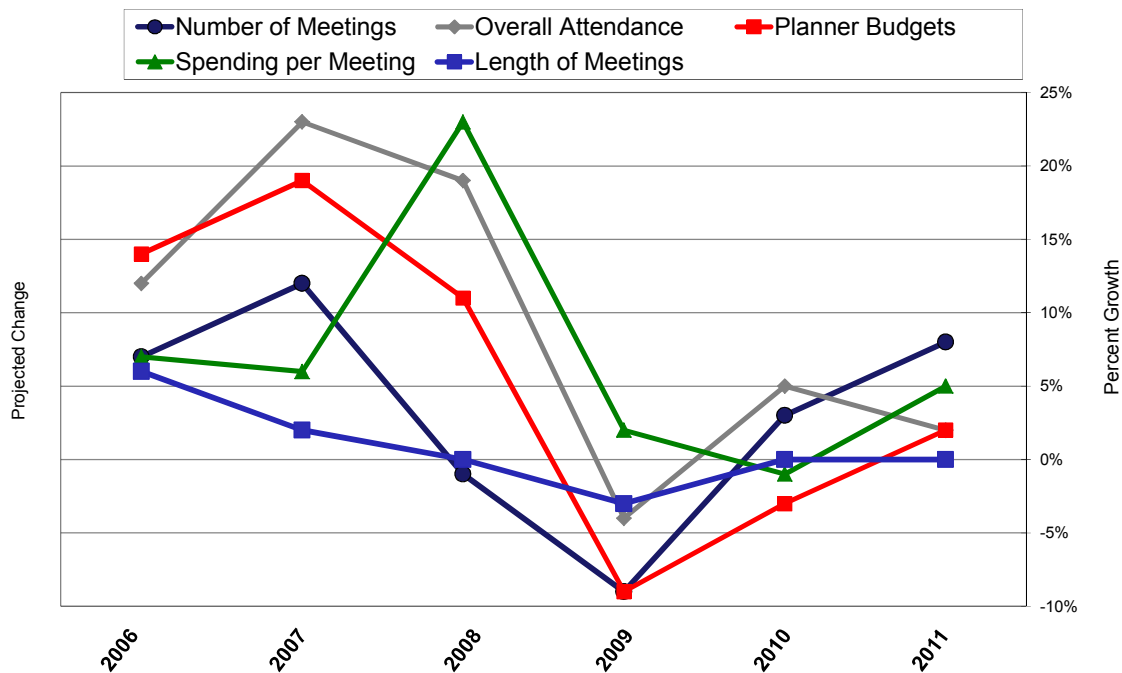
- Center for Exhibition Industry Research
- Colliers PKF Hospitality Research
- International Association of Conference Centers
- Meeting Professionals International
- PricewaterhouseCoopers
- Professional Convention Management Association
- Standard & Poor's
- U.S. Bureau of Economic Analysis

In February 2011, the Convention Industry Council released a study entitled "The Economic Significance of Meetings to the U.S. Economy". The report, prepared by PricewaterhouseCoopers, provides a statistical basis for defining the industry in terms of an economic component of the United States economy. Highlights of the report are presented below.

- In 2009, nearly 1.8 million meetings took place in the U.S. These meetings were attended by an estimated 205 million participants. Of these meeting participants, an estimated 52 percent attended corporate/business meetings, followed by 25 percent attending conventions/conferences/congresses.
- \$113 billion (or 43 percent) of the direct spending in the meetings industry is on travel and tourism commodities, such as lodging, food service and transportation.
- Of the \$708 billion in direct tourism output in the U.S. in 2009, \$113 billion (or 16 percent) is the result of the meetings industry.
- Total output for 2009 related to meetings activity is estimated at \$907 billion, while the total contribution to GDP is \$458 billion. Meetings activity supported 6.3 million jobs and generated \$271 billion in total labor income.
- The tax effects of the meetings were also significant in 2009, with \$64 billion in federal taxes generated by the industry, and an additional \$46 billion at the state and local level.
- According to the U.S. Bureau of Economic Analysis, the U.S. GDP totaled approximately \$14.1 trillion in 2009. The meetings industry directly contributed \$106 billion to this total.

Meeting Professionals International (MPI) is a world-wide organization comprised of variety of industry professionals. MPI conducts annual research as to the future of the meetings and event industry. The 20th annual "Future Watch 2011" was released in March 2011. Based on MPI research, the following exhibit presents a summary of year-to-year trends in meeting statistics for the six year-period spanning 2006 through 2011.

**Exhibit IV-1
Year-to-Year Trends in Meeting Statistics**



Source: Meeting Professionals International FutureWatch, 2011

The focus of this research has been on five important elements that can indicate the overall health of the industry. Over the past several years, survey respondents have provided feedback as to the projected change in the number of meetings, attendance, budgets, spending and length of their event(s). As presented, each of the identified metrics have shown growth in recent years, following sharp declines in 2008 and 2009. In particular, the number of meetings being planned by organizations increased by eight percent from 2010 to 2011, while the number of delegates per meeting increased by two percent. Average spending at meetings has increased approximately five percent over the past year.

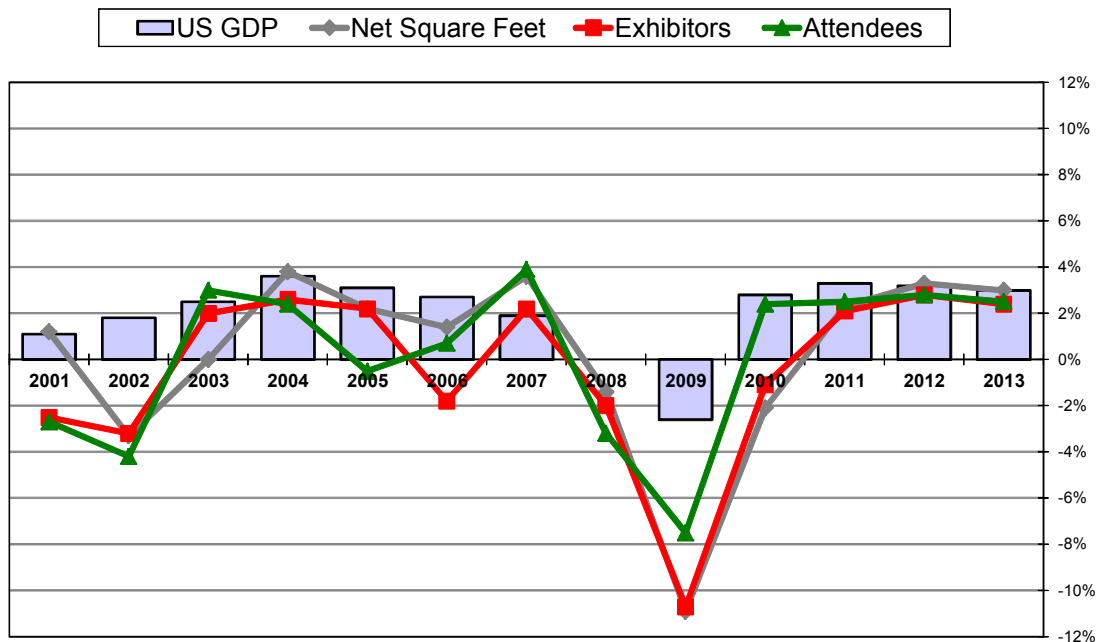
The Center for Exhibition Industry Research (CEIR) is a nonprofit organization whose mission is to advance the growth, awareness and value of exhibitions in the United States. The annual CEIR Index Report is developed to provide an objective measure of the annual performance of the exhibition industry. The CEIR Index Report measures year-over-year changes in four key metrics of industry performance:

- Net Square Feet of Exhibit Space Sold
- Professional Attendance
- Number of Exhibiting Companies
- Total Event Gross Revenue

The industry's performance within these four metrics was calculated from data provided from over 300 events. The 2011 CEIR Index Report displays and analyzes actual event-specific data from 2000 through 2010 and provides a forecast for 2011 to 2013.

We have prepared a summary of CEIR produced historical and projected performance among three of the four variables listed above, as compared to growth in the U.S. GDP, for the 13-year period spanning 2001 through 2013.

**Exhibit IV-2
Year-to-Year Trends in Meeting Statistics**



Source: Center for Exhibition Industry Research (CEIR), 2011; U.S. Government.

As shown, the overall exhibition industry as measured by the CEIR Index has experienced a substantial decline in overall performance, down in nearly all categories post 2007. The indices appear to have bottomed out in 2009, during which space use showed a 10.9 percent decline and the number of exhibitors fell by an estimated 10.7 percent when compared to 2008. The Great Recession ended in June 2009, and the recovery thus far has been somewhat unsteady. Event attendance increased by 2.4 percent in 2010. Attendance numbers are projected to increase in the next three years.

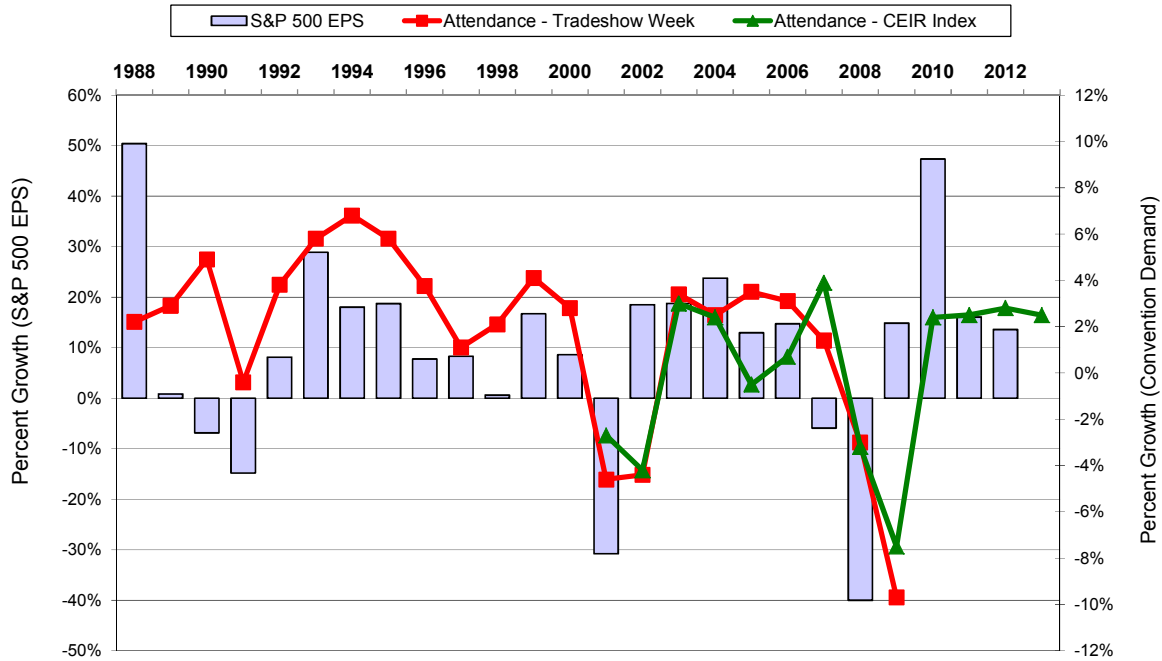
In 2010, net square feet of exhibit space measured by CEIR decreased 2.1 percent from 2009 (which is an improvement over 2009—during which square footage demand declined by approximately 11 percent. Along with the loss in square footage, the number of exhibitors decreased 1.1 percent. While the industry has still been in a period of decline, these declines are taking place at a much slower rate than in 2009.

It is believed that the worst of the economic downturn is behind the exhibition industry. The U.S. economy started to gain momentum in the fourth quarter of 2010 and although the current recovery is very unsteady, the next twelve months should see modest recovery in all metrics covered by the Index, consistent with a more stable, gradual improvement within the overall economy. As shown above, growth among the three Index variables is estimated at approximately two percent annually between 2011 and 2013, which follows a pattern similar to recent projections for the U.S. GDP.

As noted earlier, event attendance is an important indicator of the overall health of the exhibition industry. We have analyzed the relationship between the performance of the convention and tradeshow industry with the United States economy by focusing on overall event attendance levels (as measured by Tradeshow Week) and earnings per share data for the S&P 500 since 1988. Tradeshow Week is no longer being published as of 2009. We have therefore supplemented the data with attendance information provided by CEIR. We have also included projected data for 2011 and 2012 for the performance of the S&P 500, as well as projected data for 2011 through 2013 for event attendance (as measured by CEIR).

Exhibit IV-3 summarizes the data we have compiled, presented in terms of annual growth percentages (or declines) for the past 23 years, in addition to projected data for future years.

**Exhibit IV-3
Annual Changes to Convention & Tradeshow Attendance and S&P 500 EPS**



Sources: Tradeshow Week, 2010; Standard & Poor's, 2011; Center for Exhibition Industry Research (CEIR), 2011.

As indicated in Exhibit IV-3, in terms of event attendance, the convention and tradeshow industry experienced the worst of the economic downturn in 2009, with measures of attendance falling by between eight and ten percent over 2008 measures. The greatest decline in earnings per share data for the S&P 500 took place one year earlier, falling by an estimated ten percent in 2008. With respect to the linkage between the convention/tradeshow industry and the overall economy, this comparison further highlights the parallels between the two and is indicative of the phenomenon whereby exhibition industry performance tends to follow a similar, although a slightly lagging pattern to that of the U.S. economy.

Additional findings of the CIER reporting include the following:

- The exhibition industry could be directly impacted by local government expense reductions as state governments substantially reduce their funding to local governments. Almost all major exhibition centers are owned by municipalities. The result could be fewer facility upgrades and maintenance and decreased service levels, which could negatively impact the exhibitions being held in these venues.
- Moderate growth (of between one and two percent) annually is projected for the medical and health care sector through 2013, as this is one of the few industries that was not significantly impacted by the recession. Unlike nearly every other sector in the economy the number of jobs in the medical and health care industries did not decline during the recession.

- Exhibitions in the education and government services sectors have a more pessimistic outlook and are forecasted to contract in the short term. Governments at all levels and functions are facing freezes on training and travel funds, and government employment is likely to decrease in the coming years.

The Professional Convention Management Association (PCMA) conducts an annual meetings market survey with event planners nationwide in an effort to gauge their current perceptions of and outlook for the overall state of the convention and meeting industry. According to PCMA's 20th Annual Meetings Market Survey (released in March 2011):

- Forty-two percent of respondents reported that attendance at their largest 2010 meeting increased compared to 2009. In the previous study, only 16 percent reported an increase in attendance at their 2009 event compared to 2008. This reflects a strengthening of demand in the industry given that in the previous year's study, 48 percent of respondents reported that their attendance went down in 2009 compared to 2008.
- Most respondents are evenly split between those who expected 2011 attendance to increase and those who expected it to remain the same (46 percent each). Only eight percent experienced fewer attendees in 2010 than in 2009.

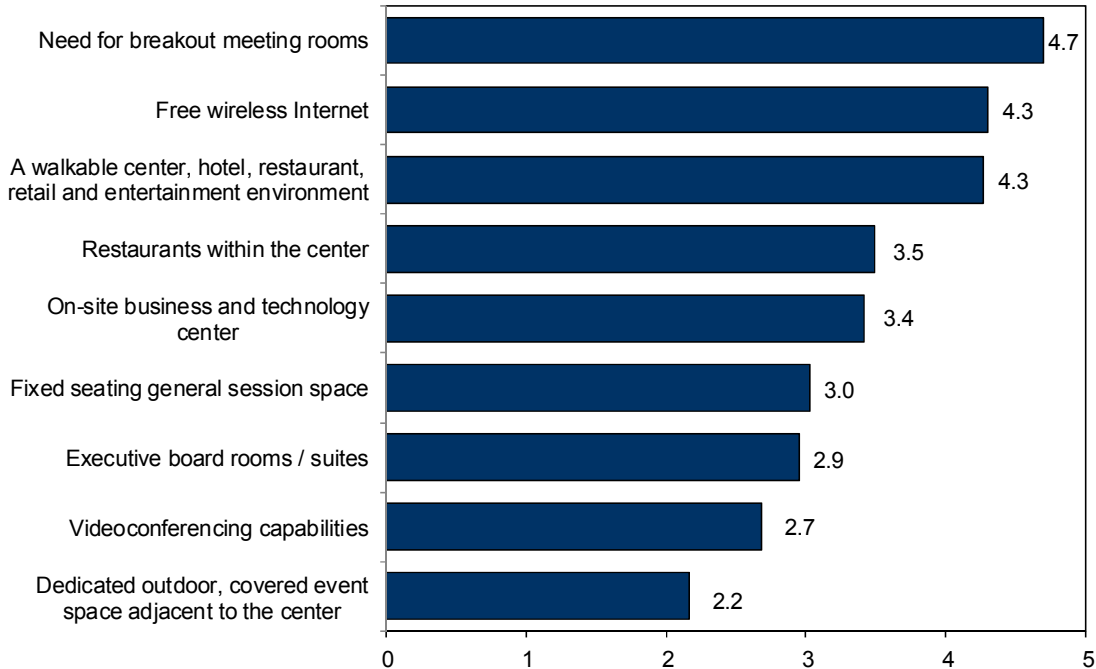
A study conducted by Colliers PKF Hospitality Research in late 2010 indicated some optimism among meeting planners with regard to the attendance and spending levels associated with their event(s). Findings of their independent research include the following:

- Approximately 37 percent of the planners believe attendance at their events will rise in 2011, while only six percent foresee a decline in attendance (down from 18 percent one year prior).
- Corporate and association budgets for meetings and exhibitions appear to be growing.
- More than 50 percent indicated that the economy is no longer affecting their destination and meeting venue choices;
- An estimated 30 percent stated they will not cut costs in 2011. However, approximately 53 percent expected to cost cuts in food and beverage, 34 percent expect to reduce the number of organized off-site events.

As part of our research with targeted national convention and tradeshow event planners (which will be discussed later in this report), survey respondents were asked to identify which of several convention center and destination features are expected to increase in importance in the future.

Results among 125 survey respondents are presented in the following exhibit.

Exhibit IV-4
Convention Center & Destination Features Expected to Increase in Importance in the Future - National Conventions and Tradeshows



Notes: Data represented includes all organizations interviewed
Ratings are based on a scale of one through five, with five being most important and one being least important.
Source: CSL Interviews, 2011

As presented above, the need for breakout meeting rooms was viewed as the most pressing need for hosting future events, with an average score of 4.7 (on a scale with 0 being the least important and "5" being the most). Following the breakout rooms in importance was the need for free wireless internet and more attractions within the walkable area surrounding the host facility. Interest in a walkable environment surrounding a center has increased significantly over the past five to ten years. As will be discussed throughout this report, Lexington may be positioned well to take advantage of this trend, given factors that include:

- The walkable environment surrounding the Center provides two large hotels and several restaurant and entertainment options.
- The vibrant neighborhoods surrounding the downtown area support an active, restaurant inventory.
- Current city-sponsored downtown destination planning will further the efforts to create a unique and authentic experience in downtown Lexington.
- If plans for the CentrePointe site move forward, this would represent a significant increase in downtown economic activity.

Other facility and market characteristics that event planners foresee increasing in importance in the future include the following (in order):

- restaurants within the center;
- on-site business and technology center;
- fixed seating general session space; and
- executive board rooms / suites.

In addition to the characteristics noted above, respondents were also asked to comment on any other convention center and destination features that they believe are expected to increase in importance in the future. Some of the comments collected in this process include the following:

- Cheaper fees for the convention center.
- Significant architecture.
- Working relationship with surrounding hotels.
- Easy access for attendance to bus stops and subway.
- Big theater to hold 800-1,000 people.
- Airport accessible to the entire world.
- A ballroom to seat 1,500 banquet style.
- Free Wi-Fi and cell phone service so can use 3g and 4g.
- Having connected hotels to the center.
- Proximity of meeting rooms to exhibit space.
- Quality of the food at the convention center.
- Free parking.
- At least a 30,000-square foot ballroom.
- A nice renovated center, kept up to date.
- Theater that seats 1,500 and hotel rooms.
- Space, activities, family centered activities, nightlife.
- Thick air walls that will move easy.

In the future, issues including the square footage and location of meeting space at the LCC, business and technology center offerings, the provision of executive boardrooms/suites and other characteristics should be considered in any future planning efforts for the facility.

V. Analysis of Competitive and Comparable Facilities and Markets

This chapter provides an analysis of various physical characteristics and resources of both competitive and comparable facilities and communities. The data help place the Lexington Convention Center product within a competitive and comparable market context with respect to facility space, hotel inventory and other related destination features.

The following section provides a review of various physical characteristics and resources of facilities and communities around the country that are competitive or comparable to Lexington. These data are used to understand how other similar markets are performing within current industry conditions, the level of space and hotel room inventory offered by competitors and other such characteristics. A number of characteristics are considered by association and corporate event planners in determining the ability of a community to attract convention, conference and tradeshow business. Some of the factors analyzed in this section include:

- Exhibit space
- Meeting/ballroom space
- Total sellable space
- Hotel room inventory
- Facility space ratios
- Air accessibility
- Hotel room tax rate
- Convention and Visitors Bureau Annual Budgets

Exhibit V-1 presents the 16 competitive and comparable markets and facilities analyzed in this chapter.

**Exhibit V-1
Competitive and Comparable Facilities and Markets**

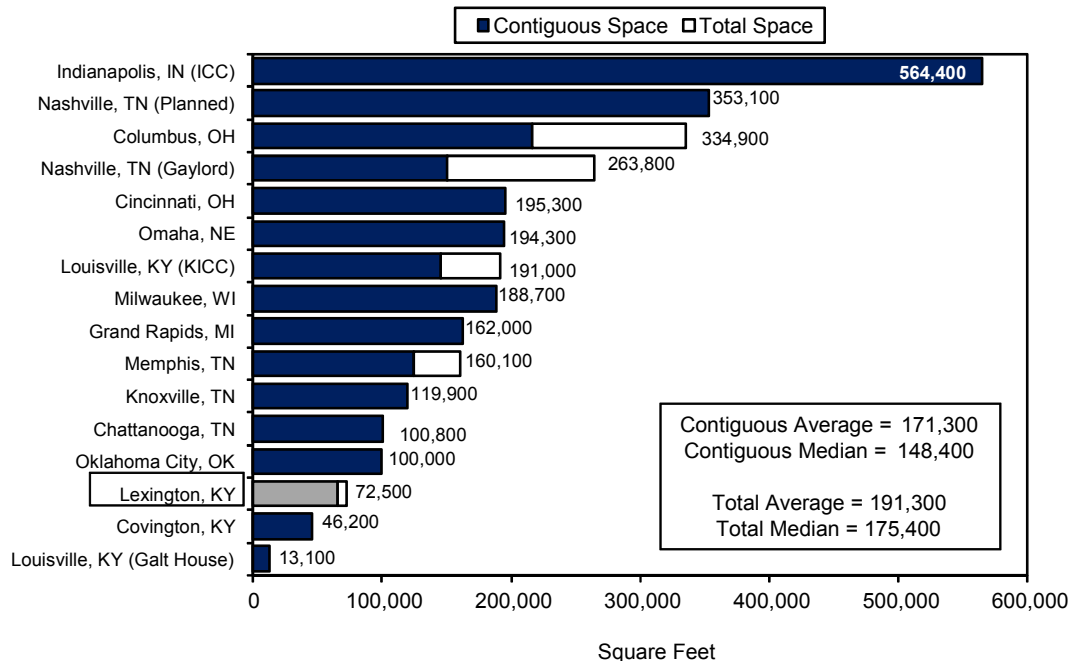
Facility	City, State
Chattanooga Convention Center	Chattanooga, TN
Cox Business Services Convention Center	Oklahoma City, OK
DeVos Place	Grand Rapids, MI
Duke Energy Center	Cincinnati, OH
Galt House Hotel	Louisville, KY
Gaylord Opryland Resort and Convention Center	Nashville, TN
Greater Columbus Convention Center	Columbus, OH
Indiana Convention Center	Indianapolis, IN
Kentucky International Convention Center	Louisville, KY
Knoxville Convention Center	Knoxville, TN
Memphis Cook Convention Center	Memphis, TN
Midwest Airlines Center	Milwaukee, WI
Music City Center (planned)	Nashville, TN
Northern Kentucky Convention Center	Covington, KY
Qwest Center Omaha	Omaha, NE
Sloan Convention Center	Bowling Green, KY

Exhibit Space

There are two types of exhibit space offered at the facilities reviewed: prime space and gross space. Prime space refers to the dedicated exhibition area, typically used by conventions and tradeshow for exhibits that is column-free or with minimal columns, has high ceilings (typically 35 feet in height), utility floor grids (supplying electricity, telecommunications, water, etc.), convenient accessibility to each hall for load-in/load-out and other such amenities. Gross space refers to the total area that can be used for exhibits and often includes surrounding areas such as lobbies and substandard space in terms of columns, ceiling heights and other characteristics.

Exhibit V-2 presents a comparison of prime exhibit space, highlighting the square footage of both contiguous and total exhibit space offerings within the competitive and comparable facilities presented on the previous page.

**Exhibit V-2
Comparison of Prime Exhibit Space
Competitive and Comparable Facilities**



Notes: Data for Lexington includes the 6,500 -square foot Heritage Ballroom.
The Sloan Convention Center does not currently offer exhibit space.
Source: Facility floor plans, management, and industry publications, 2011

In terms of both contiguous and total prime exhibit space offerings the recently-expanded Indiana Convention Center offers the largest single space of the facilities reviewed, with 564,400 square feet. On average, the largest contiguous exhibit space available among the competitive and comparable facilities reviewed is approximately 171,300 square feet, while the total available exhibit space averages approximately 191,300 square feet.

The 72,500 square feet available within Heritage Hall ranks in the lower quarter of the set of facilities analyzed in terms of both contiguous and total prime exhibit space. Only 66,000 of the 72,500 square feet is considered prime exhibit space, given that 6,500 square feet is located within the adjacent Heritage Ballroom. This space provides ceiling heights of 16 feet, with the remainder at 20 to 37 feet (current industry standard is 30 to 35 feet).

Within this facility set, several important facility or other visitor industry amenities are being planned or have recently been developed. These include the following:

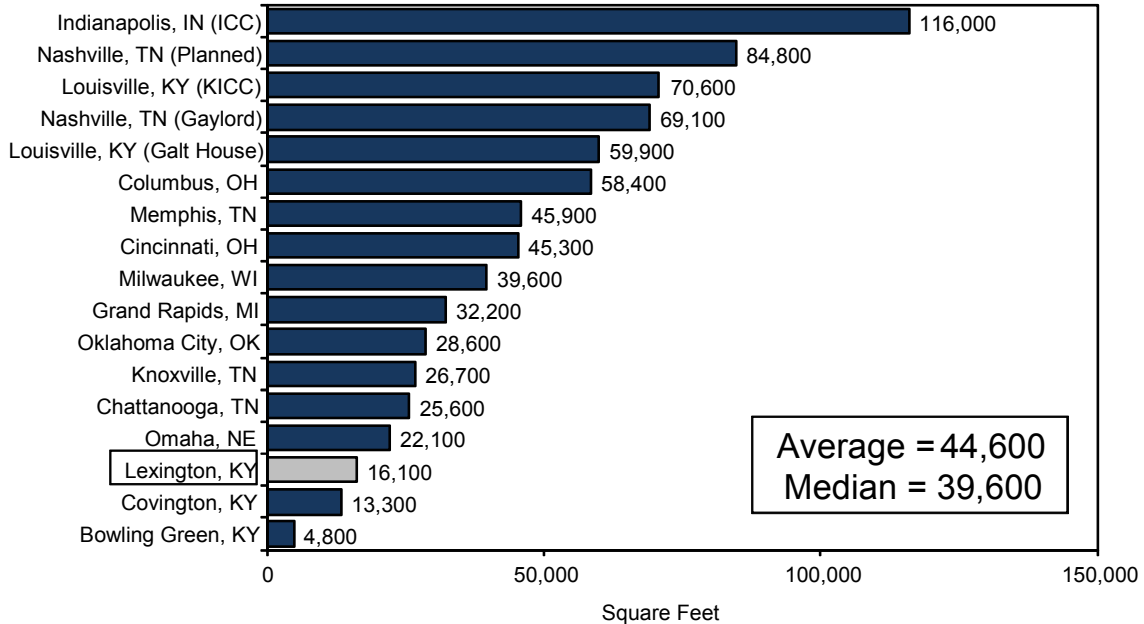
- Columbus: Recently opened the new 50,000-square foot Battelle Grand Ballroom. Construction is underway on a new 532-room headquarter hotel.
- Covington: Considering expansion options for the Northern Kentucky Convention Center.
- Indianapolis: Recently completed a major expansion of the Indiana Convention Center and the development of a 1,005-room JW Marriott headquarter hotel.
- Louisville: Considering options for a potential new headquarter hotel near the Kentucky Exposition Center.
- Memphis: Considering expansion options for the Memphis Cook Convention Center.
- Milwaukee: Considering expansion options for the Frontier Airlines Center.
- Nashville: Construction is underway on the new Music City Center, which will provide more than 513,000 square feet of sellable convention space. The facility will open in 2013.
- Oklahoma City: Recently approved funding for a new downtown convention center.

Meeting/Ballroom Space

Sufficient modern meeting and ballroom space is an important factor in attracting and accommodating events in the convention, conference and meeting event industry. Meeting space is typically highly flexible (sub-divisible) with high-end acoustics, event and presentation technology and separate service corridor access. Based on CSL research, event organizers view meeting/ballroom space as an increasingly important factor in their selection of host cities.

Exhibit V-3 compares the total square footage of dedicated meeting space offered at the competitive and comparable facilities.

**Exhibit V-3
Comparison of Meeting Space
Competitive and Comparable Facilities**



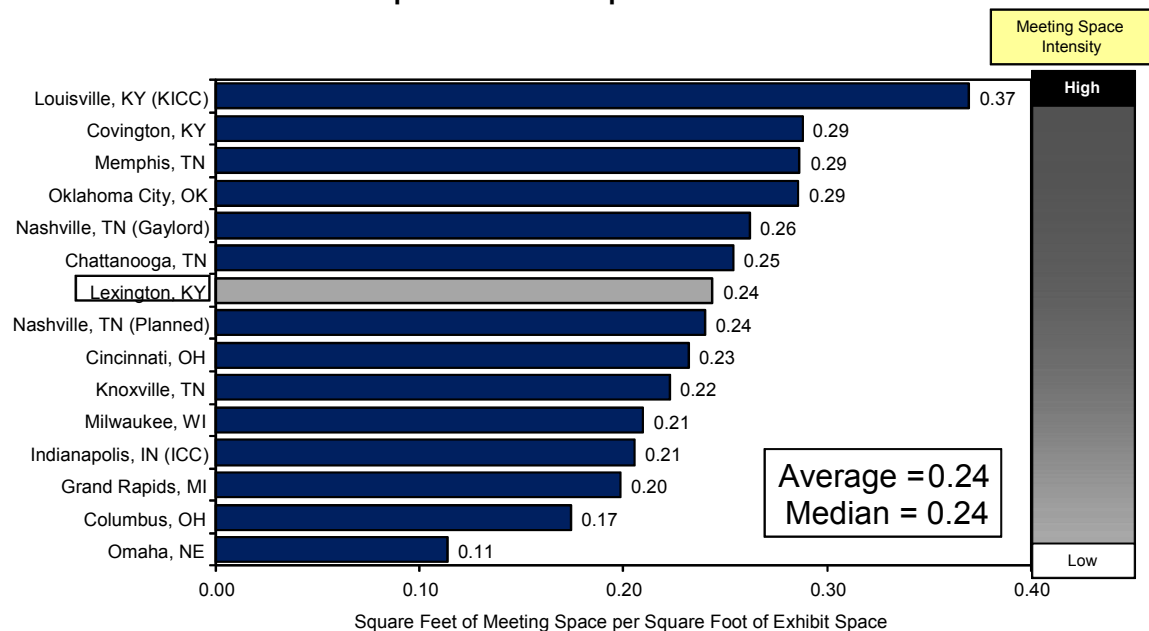
Source: Facility floor plans, management, and industry publications, 2011

The amount of meeting space is broadly distributed among the centers, ranging from a high approximately 116,000 square feet at the recently expanded Indiana Convention Center to 4,800 square feet at the Bowling Green’s Sloan Convention Center. On average, approximately 44,600 square feet of meeting space is available at the facilities analyzed. The 16,100 square feet of meeting space available at the LCC ranks near the bottom of the competitive set of facilities analyzed—ahead of Centers in Covington (which is currently considering an expansion that would likely add meeting room space) and Bowling Green.

The total number of breakout meeting rooms is another important characteristic of a facility’s meeting space package. If a facility has too few breakout rooms, its ability to market to a wide variety of events and host multiple events at the same time is severely handicapped. A review of the total number of breakout rooms within the competitive and comparable facilities indicates that the LCC, with 12 breakout meeting rooms, ranks well below both the average (33 breakout rooms) and the median (26 breakout rooms) of the facilities analyzed.

In an effort to better understand the relationship of a facility's relative supply of exhibit space we have calculated the ratio of meeting space to prime exhibit space. Exhibit V-4 presents a summary of this ratio for the competitive and comparable markets reviewed.

Exhibit V-4
Ratio of Meeting Space to Exhibit Space
Competitive and Comparable Facilities



(1) Includes space that is either planned or being developed.
 Source: Facility floor plans, management, and industry publications, 2011

A high level of meeting space intensity may be indicative of either a high supply of available meeting space within the facility or an undersupply of prime exhibit space. Conversely, a low level of meeting space intensity may point toward either a low level of meeting space supply or a relatively high level of exhibit space. The need for meeting space as part of most conventions and conferences has grown in past years. In particular, medical, pharmaceutical and technology-oriented events require large amounts of meeting space.

As shown, the average ratio for the set of competitive and comparable facilities is approximately 0.24 square feet of meeting space for every square foot of prime exhibit space. The Kentucky International Convention Center (in Louisville) has the highest level of meeting space intensity, with approximately 0.37 square feet of meeting space for every square foot of prime exhibit space, while the Qwest Center Omaha has the lowest level of meeting space intensity, offering just 0.11 square feet of meeting space for every square foot of exhibit space.

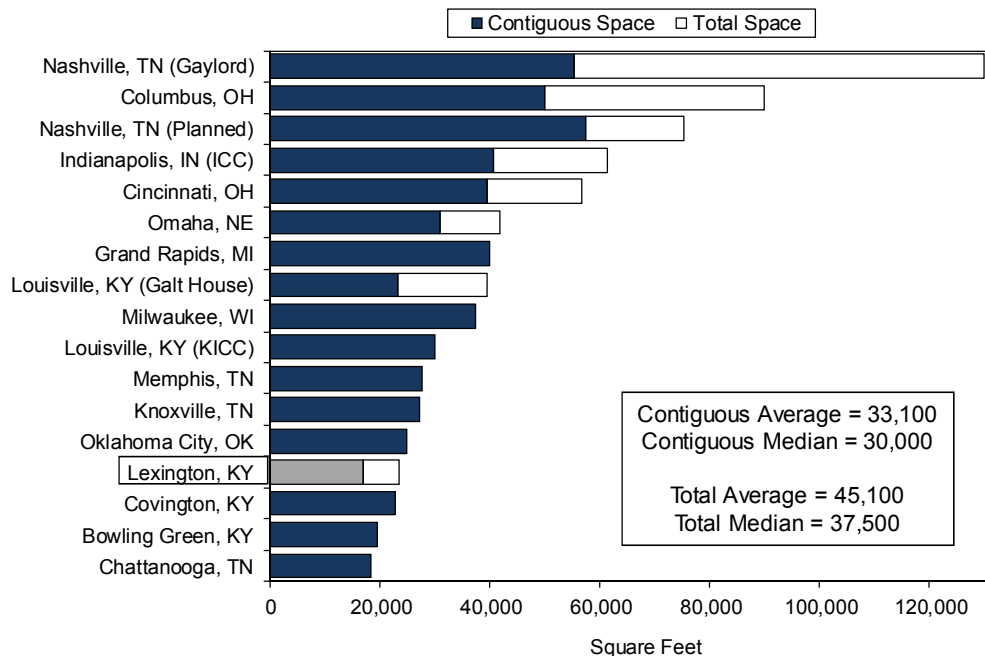
The LCC offers approximately 0.24 square feet of meeting space per square foot of prime exhibit space, which is consistent with both the average and median of the set of facilities analyzed. This only suggests that the relationship between LCC exhibit and meeting space is consistent with competitive and comparable markets, and does not reflect the nominal square footage of space. As discussed previously, LCC ranks near the bottom of the markets reviewed in terms of both meeting and exhibit space. Any future changes made to LCC exhibit space should include a corresponding change to the amount of available meeting room space.



Another important characteristic reviewed by event planners when selecting a facility is the amount of available ballroom space. This space can be used for general assemblies, product demonstrations, light exhibits and a variety of other uses. Recognizing this, planners have increasingly placed a premium on this type of space in selecting a host city. Ballroom space is also desirable in that it tends to keep delegates in the convention center during the event as a variety of different functions, such as meal functions, can be conducted under one roof. Further, adjacent hotel ballrooms may be occupied with unrelated events that may prevent their use by convention center events. In state-of-the-industry convention centers, ballroom space tends to provide a large contiguous open area, high ceilings (25 to 28 feet as opposed to 12 to 15 feet for meeting space) and a slightly higher level of finish, including a higher grade of lighting, floor covering and wall finish.

Exhibit V-5 compares both the total ballroom space and the largest amount of contiguous ballroom space offered within the competitive and comparable facilities.

**Exhibit V-5
Comparison of Ballroom Space
Competitive and Comparable Facilities**



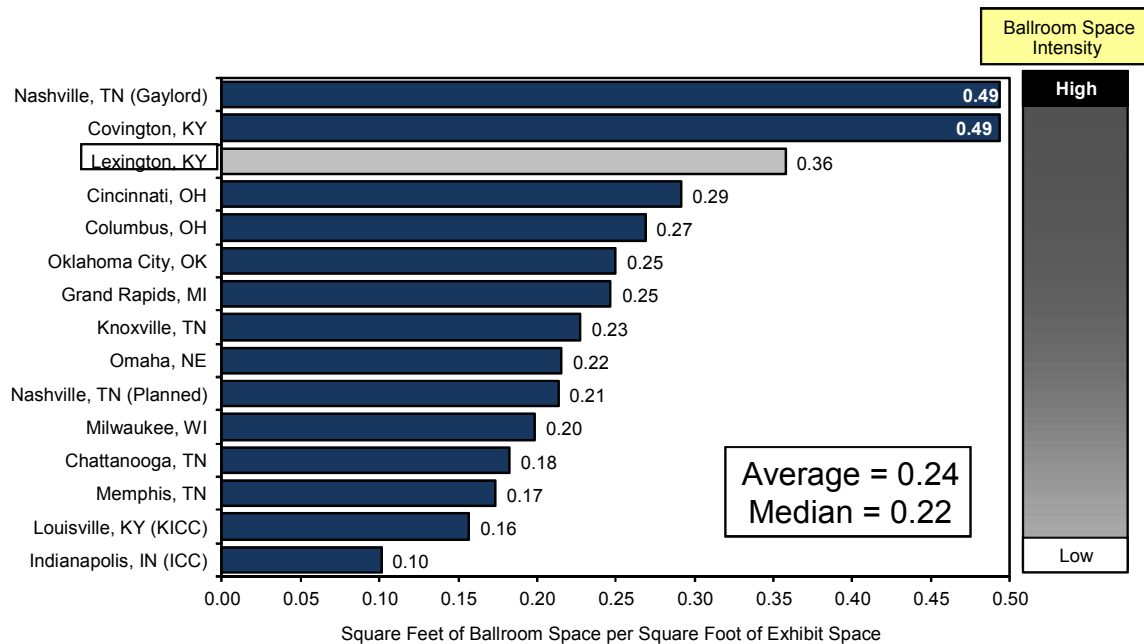
Note: The Kentucky Expo Center does not currently offer ballroom space.
Source: facility floor plans, management, and industry publications, 2011

The Gaylord Opryland Resort and Convention Center currently has the most total ballroom space (with 130,200 square feet). The largest contiguous ballroom (with approximately 57,500 square feet) will be part of the new Music City Center in Nashville, Tennessee. On average, the largest contiguous ballroom space available among the competitive and comparable facilities reviewed is 33,100 square feet, while the total available ballroom space averages 45,100 square feet.

The 17,100 square foot Bluegrass Ballroom at the LCC ranks last in the set of facilities analyzed in terms of contiguous ballroom space and in the lower quarter for total available ballroom space.

It is also useful to examine the relationship between a facility's ballroom space and exhibit space to ensure a proper proportion of available event space. Exhibit V-6 presents this ratio for each of the competitive and comparable facilities reviewed.

**Exhibit V-6
Ratio of Ballroom Space to Exhibit Space
Competitive and Comparable Facilities**



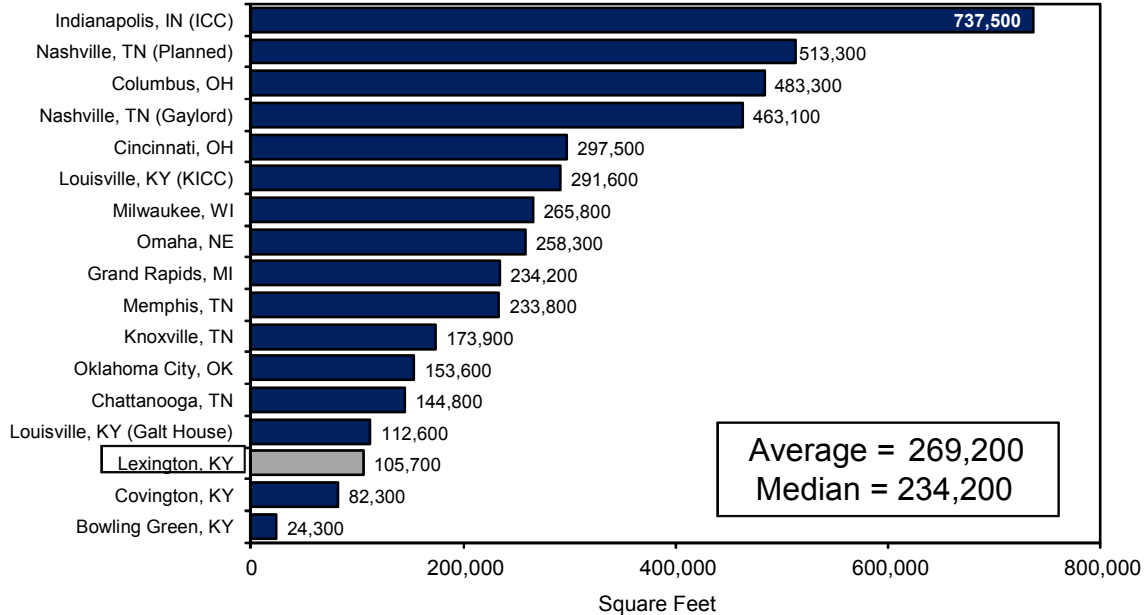
Note: The Kentucky Expo Center does not currently offer ballroom space.
Source: Facility floor plans, management, and industry publications, 2011

The average ratio of ballroom space to exhibit space for the set of competitive and comparable facilities is approximately 0.24 square feet of ballroom space for every square foot of exhibit space. The LCC currently offers approximately 0.36 square feet of ballroom space for every square foot of exhibit space, which ranks high among the facilities reviewed. The Gaylord Opryland Resort and Convention Center currently offers the highest level of ballroom space intensity, with a ratio of approximately 0.49. The Kentucky International Convention Center and the Indiana Convention Center currently offer the least ballroom space intensity, with approximately 0.16 and 0.10 square feet of ballroom space per square foot of exhibit space, respectively.

Total Sellable Space

Exhibit V-7 presents the rankings of all the competitive and comparable facilities analyzed in terms of total sellable space. This includes all available exhibition, meeting and ballroom space.

Exhibit V-7
Comparison of Total Sellable Space
Competitive and Comparable Facilities



Source: Facility floor plans, management, and industry publications, 2011

The amount of total sellable space offered at the competitive and comparable facilities reviewed varies widely, averaging 269,200 square feet. The Indiana Convention Center offers the most total sellable space, with 737,500 square feet. In contrast, Bowling Green's Sloan Center offers 24,300 total square feet of event space.

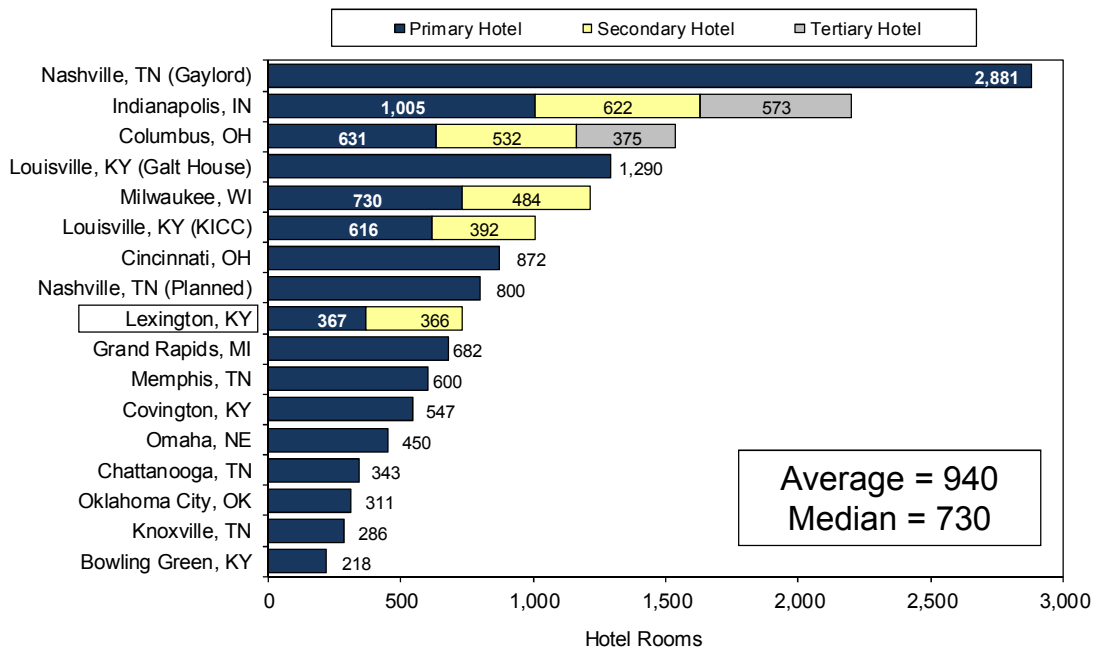
The 105,700 square feet of total sellable space available at the LCC ranks in the lower quarter of the set of facilities reviewed. In defining the amount of space currently offered at the LCC, it is useful to consider in the context of larger convention hotels in the region. For example, the Galt House Hotel (in Louisville) offers total sellable space that is comparable to the 105,700 square feet available at the LCC.

Hotel Guest Room Inventory

The availability of guest rooms to serve the requirements of the convention industry is a critical factor in the success of a public assembly facility. The inventory of guest rooms in a community is measured in many different ways, including the number of headquarters hotel rooms and the total rooms within one-half mile of the convention center.

Exhibit V-8 details the inventory of guest rooms at headquarters hotel properties serving each market's convention center. In some markets, more than one headquarters property is offered.

Exhibit V-8
Comparison of Rooms at Headquarters Hotels
Competitive and Comparable Markets



Notes:

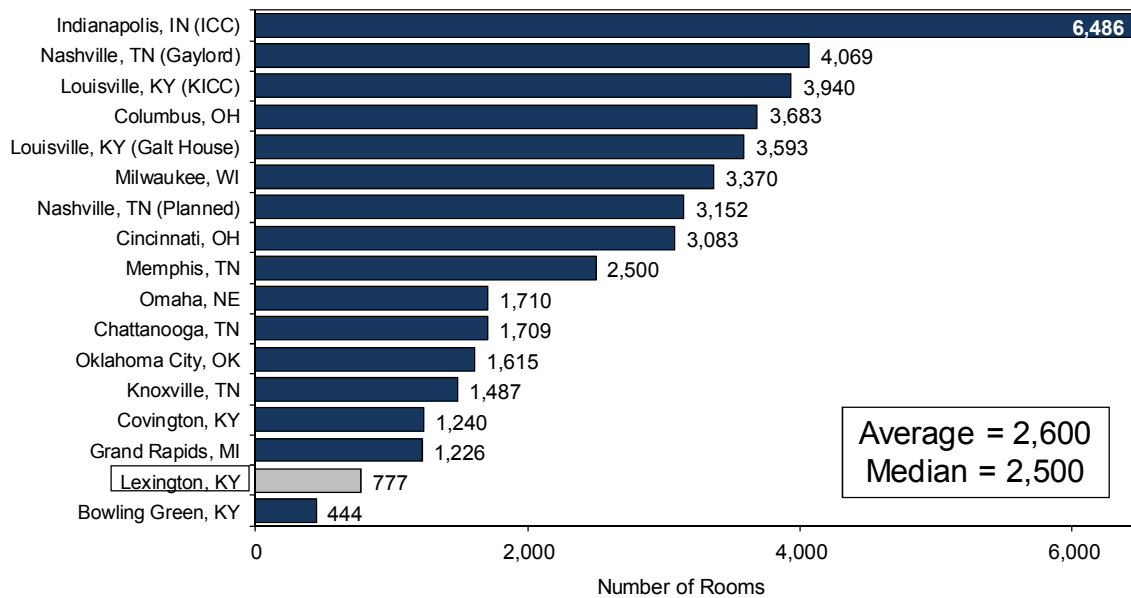
- (1) The JW Marriott Indianapolis offers 1,005 rooms. The Indianapolis Downtown Marriott offers 622 guest rooms. The Westin Indianapolis offers 573 guest rooms.
- (2) In Columbus, a new \$140 million, 532-room Hilton headquarter hotel will open adjacent to the Center in late 2012. The Hyatt Regency Columbus offers 631 guest rooms. The Crowne Plaza Downtown offers 375 guest rooms.
- (3) Milwaukee has two headquarter hotels; the Hilton Milwaukee City Center (730 guest rooms) and the Hyatt Regency Milwaukee (484 guest rooms)
- (4) Louisville has two headquarter hotels: the Louisville Marriott Downtown (616 guest rooms) and the Hyatt Regency Louisville (392 guest rooms)
- (5) Nashville is planning an 800-room headquarter hotel.
- (6) Lexington has two headquarters hotels: the Hyatt Regency Lexington (366 guest rooms) and the Hilton Lexington/Downtown (367 guest rooms).

The Gaylord Opryland Resort and Convention Center, with its primary focus on overnight stays, provides the most single property guest rooms, with an 2,881 total guest rooms. In terms of public convention centers, the hotel package available near the Indiana Convention Center ranks highest. In particular, the three headquarter hotels adjacent to the Center provide 2,200 total guest rooms; however, these are split between the Indianapolis Downtown Marriott (622 guest rooms), the Westin Indianapolis (573 guest rooms) and the JW Marriott Indianapolis, which opened in February 2011 with 1,005 rooms. The Sloan Convention Center in Bowling Green has the least number of headquarter hotel rooms, with 218 at the adjacent Holiday Inn University Plaza.

The headquarter hotel inventory available near the LCC falls near the midpoint of the competitive and comparable markets, with 733 guest rooms in total (367 located at the Hilton Lexington and 366 at the Hyatt Regency Lexington).

Based on conversations with CVB management in each market, we measured the inventory of guest rooms within one-half mile of the respective convention centers in competitive and comparable markets. This is an important analysis because event planners typically prefer to achieve their room block in hotel properties located within a relatively short distance to the event facility. Results are summarized in Exhibit V-9.

Exhibit V-9
Comparison of Hotel Rooms Within One-Half Mile of the Convention Center
Competitive and Comparable Markets



Source: Destination Marketing Association International CVB Organizational & Financial Profile, 2009; Convention and Visitors Bureaus, 2011.

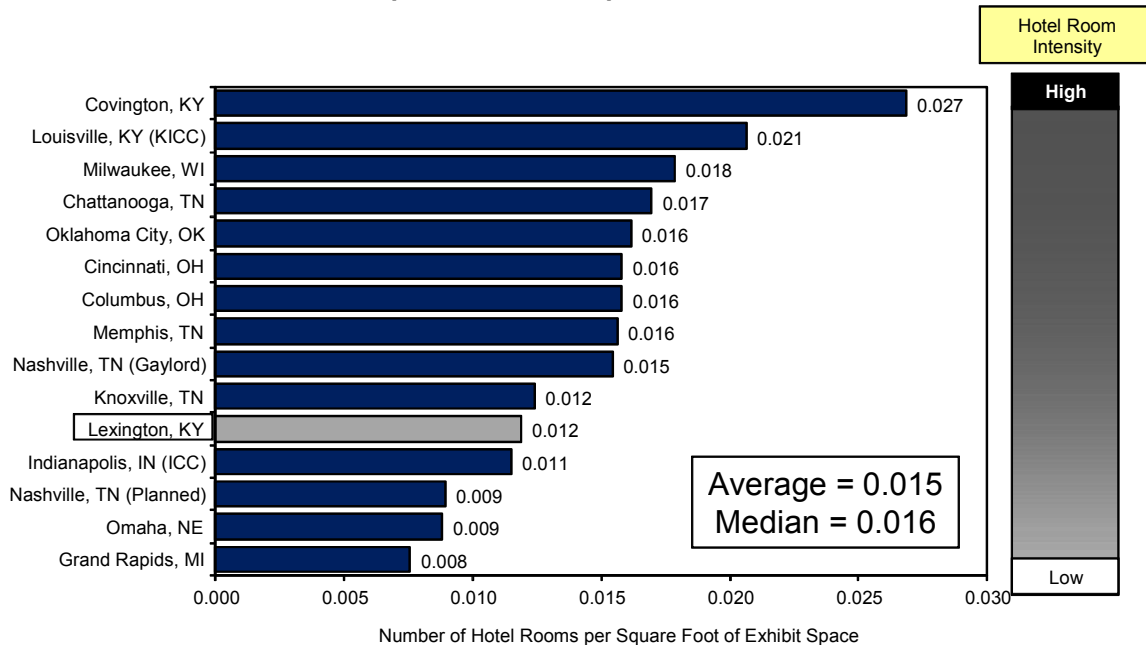
On average, there are approximately 2,600 total guest rooms within one-half mile of each market's primary convention facility. Indianapolis provides the largest inventory of guest rooms within one-half mile of the Indiana Convention Center, with nearly 6,500 total guest rooms. The hotel package available within downtown Louisville supporting the Kentucky International Convention Center ranks second among public facilities, incorporating more than 3,900 rooms.

There are 777 guest rooms within one-half mile of the LCC, which ranks 16th among the 17 competitive and comparable markets reviewed. There are currently three hotel properties located in downtown Lexington within approximately one-half mile of the LCC. Attached to the LCC, the Hyatt Regency Lexington offers 366 guest rooms. The Hilton Lexington/Downtown (adjacent to the LCC) offers 367 total guest rooms. Approximately four blocks from the LCC, the Gratz Park Inn offers 44 guest rooms. The planned downtown CentrePointe hotel property (to be located approximately two blocks from the LCC) has yet to break ground and the expected completion date is still undetermined.

The limited hotel rooms proximate to the LCC is considered a competitive disadvantage when compared to national and regional markets. Emphasizing this point is the fact that hotel properties will typically commit, on average, approximately 70 percent of their total inventory for non-local groups and events. Therefore, only 550 guest rooms within one-half mile of the LCC may be available for national or regional events. Based on conversations with CVB management, securing a hotel block larger than 600 rooms typically requires shuttling event attendees to larger hotel properties located several miles from downtown, such as the Griffin Gate Marriott Resort (with 409 total rooms) and the Crowne Plaza Lexington - The Campbell House (with 287 guest rooms).

It is also instructive to consider hotel inventory relative to sellable convention center space. Therefore, we have calculated the ratio of available hotel rooms within one-half mile of the convention center to the facility's available total sellable space. Exhibit V-10 presents this comparison of the competitive and comparable markets and facilities reviewed.

Exhibit V-10
Ratio of Hotel Rooms Within One-Half Mile of Convention Center to Prime Exhibit Space
Competitive and Comparable Facilities



Note: Nashville has been excluded due to lack of available hotel room data.
Source: Facility floor plans, management, and industry publications, 2011, Destination Marketing Association International C VB
Organizational & Financial Profile, 2009

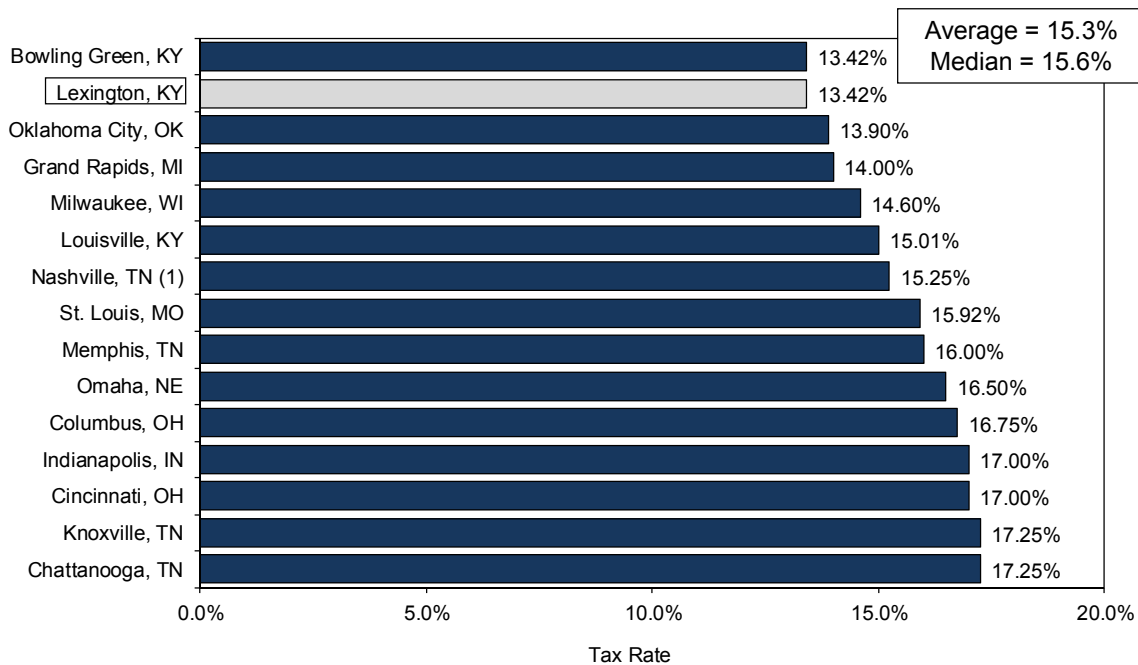


Lexington ranks near the midpoint in terms of its ratio of hotel rooms within one-half mile of the LCC to prime exhibit space. With 777 rooms within one-half mile of the LCC and 66,000 square feet of prime exhibit space, the market's ratio of 0.012 ranks similar to that of Knoxville and Indianapolis. Covington has the highest ratio at 0.027 hotel rooms within one-half mile of the convention center for every one square foot of exhibition space.

Hotel Room Tax Rate

In addition to hotel room availability, the total tax on hotel rooms can also be a factor considered by meeting and event planners when making site assessments. Locations with considerably higher room tax relative to other markets can, for some events, negatively impact the likelihood of the location being selected. Exhibit V-11 provides a summary of total hotel room tax rates among the competitive and comparable markets reviewed.

**Exhibit V-11
Comparison of Total Hotel Room Tax Rate
Regional Markets**



(1) Nashville hotels also collect a \$2.50 per night surcharge.

Source: Destination Marketing Association International CVB Organizational & Financial Profile, 2009; LCVB, CSL International, 2011

The total tax in Lexington (13.42 percent) is among lowest among the competitive and comparable markets, and is approximately 1.9 percentage points below the average hotel room tax rate of 15.3 percent among the competitive and comparable markets. Chattanooga, Tennessee has the highest total hotel room tax rate at 17.25 percent, 3.8 percentage points higher than Lexington's tax rate. Bowling Green also has the lowest hotel room tax rate with Lexington at 13.42 percent.

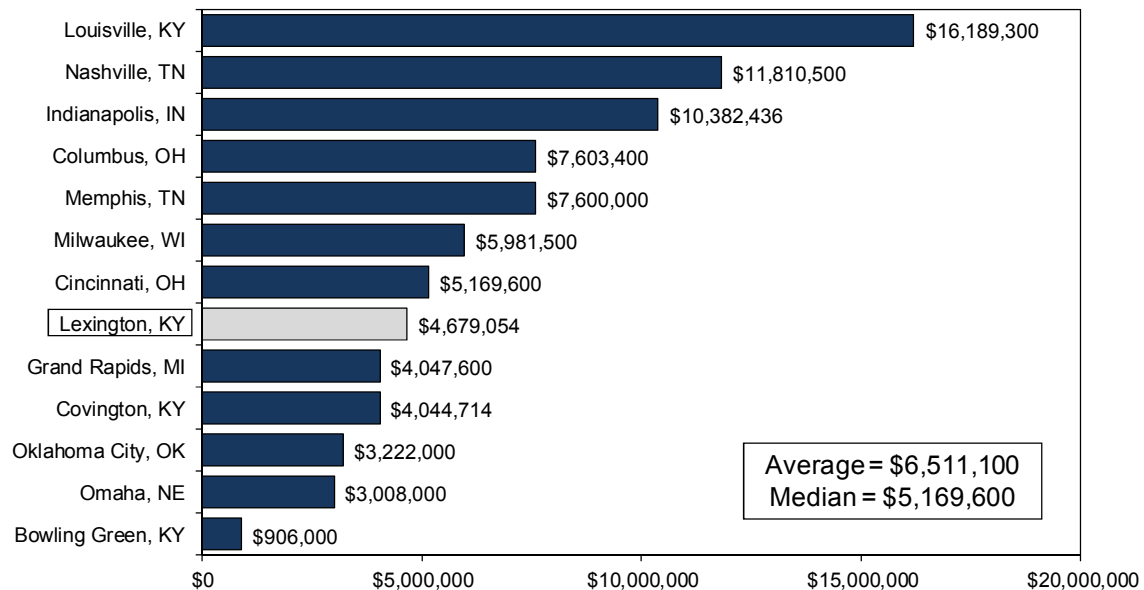
On a national basis, 15 percent was considered a "boundary" that few, if any, cities would cross. As shown above, this is no longer the case. The relatively low hotel tax rate in Lexington, particularly when combined with the moderate hotel room rates, suggests that the market enjoys

somewhat of a competitive advantage, and that capacity may exist for future modest rate increases to generate funds to support the convention and visitor industry.

Convention and Visitors Bureau Annual Budgets

Financial resources necessary to promote and sell a facility are another important element of a successful convention center. Many of the competitive and comparable markets utilize hotel room tax revenue to fund convention and visitors bureau and/or convention center operations. Exhibit V-12 below presents a summary of the annual convention and visitor bureau budgets for the competitive and comparable markets reviewed. The data presented was compiled in the 2009 Destination Marketing Association International CVB Organizational & Financial Profile and through conversations with CVB management.

**Exhibit V-12
Comparison of Convention and Visitors Bureau Annual Budgets
Competitive and Comparable Markets**



Note: Chattanooga and Knoxville have been excluded due to lack of available data.
Source: Destination Marketing Association International CVB Organizational & Financial Profile, 2009

As shown, at approximately \$4.7 million, the annual budget of the Lexington Convention and Visitors Bureau ranks slightly below the midpoint of competitive and comparable markets. The Louisville Convention and Visitors Bureau has the highest annual budget at approximately \$16.2 million per year. A considerable share of this budget is allocated to promoting the Kentucky Derby (and other large local events), as well as attracting large tradeshow events to its one million square foot Kentucky Exposition Center. The CVB in Bowling Green operates with the lowest annual budget, at approximately \$906,000 per year.



Summary

The ratio of meeting and ballroom to exhibit space at the LCC is comparable to industry standards. However, the exhibit, meeting and ballroom space in the LCC is low relative to the competitive and comparable markets reviewed. From a hotel room perspective, the supply of convention quality hotel inventory near the Center is limited, any increase in total sellable space would likely require a commensurate increase in hotel room supply to accommodate new and larger groups that could utilize additional convention space in Lexington.

VI. Market Demand Analysis

Convention centers typically host events that vary widely in space needs, attendance levels and hotel room requirements. The size, type and flexibility of the space within many centers can accommodate small meetings and banquets, as well as mid-sized conventions and tradeshow. To form a basis for the market demand analysis, detailed surveys were completed with meeting planners from various market segments that represent the potential event market for an expanded LCC. These data provide a basis for evaluating event potential in the Lexington market, as well as the facility and amenity characteristics necessary to accommodate potential events. Additionally, we have examined lost business records of events that at one point indicated a potential interest in Lexington for a future event, but could not be accommodated for one or more reasons.

Our research was conducted to evaluate facility and community amenity requirements, hotel requirements, current perceptions of Lexington as an event destination and opinions as to the future of the industry overall.

Summary of Participating Survey Respondents

Telephone and Internet-based surveys were completed with representatives of the following types of organizations:

- Targeted national convention and tradeshow event planners – National associations are membership-based organizations that typically have annual conventions that rotate among various cities throughout the United States. These events frequently generate significant levels of non-local attendees and often have sizable requirements in terms of both event space and hotel needs.
- Current and past users of LCC event space – We have surveyed event planners with a history of hosting events in Lexington. Given their familiarity with the market, they provide valuable insight with regard to a variety of event types.

Analysis of Targeted National Convention and Tradeshow Market Demand

The survey sample of national conventions and tradeshow events was selected from information in the empowerMINT database maintained by Destination Marketing Association International (DMAI). In addition to national associations, this database is comprised of SMERF (social, military, educational, religious and fraternal) and corporate event contacts. The database encompasses a majority of national convention and tradeshow events; however, new association events may enter the market and added private sector events will be planned on short notice, and these events may not be included in the database.

National associations are membership-based organizations that typically have annual conventions that rotate to various cities throughout the United States. Corporations also often sponsor major convention or trade events, while SMERF groups also represent significant producers of rotating event activity. For purposes of this analysis it is assumed that established data sources reflect approximately 60 to 70 percent of the actual event population.

The sources used to evaluate and quantify the population of events are widely used within the industry and have been used for numerous similar consulting studies throughout the country. The surveys were conducted to assess the likelihood that event planners would hold a future event in Lexington and to gather information on the characteristics of individual events. In an effort to “frame” the market appropriate to Lexington, we have worked with LCVB leadership to query the empowerMINT database and directed the survey effort toward groups meeting the following conditions:

- events that have been held recently (2009 through 2011);
- events historically using convention centers;
- events occupying 2,000 and less peak rooms; and
- events requiring 10,000 to 200,000 gross square feet of exhibit space.

Exhibit VI-1 presents a table of 125 national organizations that were interviewed as part of our research.

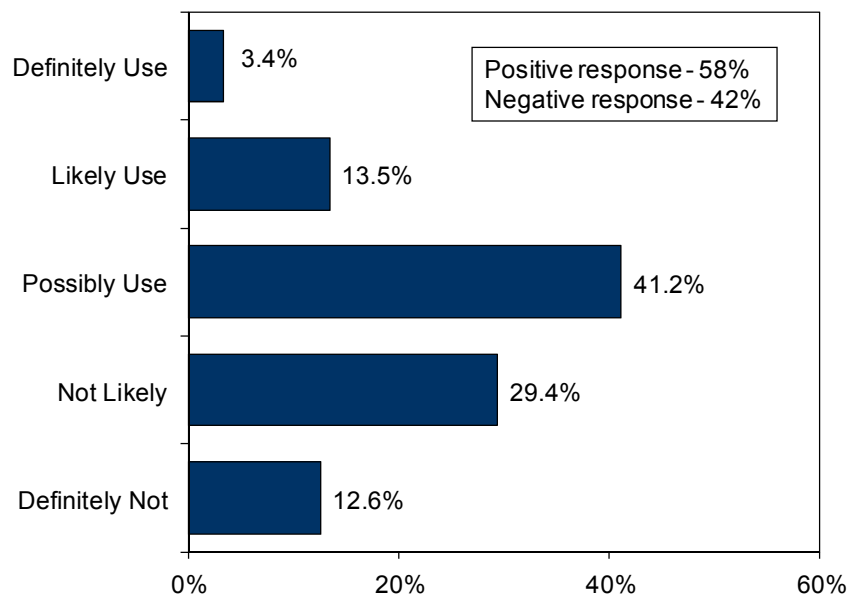
Exhibit VI-1 Participating National Conventions and Tradeshow

Academyhealth	Conference for the Advancement of Mathematics Teachers	National Business Aviation Association, Inc.
Advanstar Communications, Inc.	Drug Abuse Resistance Education	National Center for State Courts
All Baby and Child, Inc.	Drug Policy Alliance	National Council for the Social Studies
Allied Building Stores, Inc.	Electric Utilities Environmental Association	National Council of La Raza
American Academy of Cosmetic Dentistry	Electrical Apparatus Service Association	National Council of Teachers of English
American Academy of Hospice and Palliative Medicine	Enap Incorporated	National Council of Teachers of Mathematics
American Association of Bovine Practitioners	Federation of Animal Science Societies	National Council on Education/Ceramic Arts
American Association of Clinical Endocrinologists	Forging Industry Association	National Defense Industrial Association
American Association of Immunologists	Genetics Policy Institute	National Institute of Governmental Purchasing
American Association of Law Libraries	Gospel Music Workshop of America	National Institute on Drug Abuse
American Association of Meat Processors	Greenleaf Center for Servant Leadership	National Sheriffs Association
American Baptist Association	Health Physics Society	National Staff Development Council
American Chemical Society - Rubber Division	Healthcare Financial Management Association	National Wrestling Coaches Association
American Correctional Food Service Association	Hearing Loss Association of America	Orders & Medals Society of America
American Culinary Federation	House Hasson Hardware	Organization of Black Aerospace Professionals
American Fisheries Society	Institute of Electrical & Electronics Engineers - International Test Conference	Painting and Decorating Contractors of America
American Institute of Aeronautics and Astronautics	Institute of Electrical & Electronics Engineers - Photovoltaic Specialists	Paralyzed Veterans of America
American Mosquito Control Association	Imprinted Sportswear Show	Parent Resources Institute for Drug Education
American Organization of Nurse Executives	Independent Community Bankers of America	Pennwell
American Physical therapy Association	Inet Interactive	Pheasants Forever
American Phytopathological Society	Institute for Operations Research & Management Sciences	Poultry Science Association
American Quilter's Society	International Association of Fish & Wildlife Agency	Precast/Prestressed Concrete Institute
American Sewing Guild	International Atherosclerosis Society	Professional Photographers of America, Inc
American Society for Healthcare Engineering	International Db2 Users Group	Religious Conference Management Association
American Society for Laser Medicine and Surgery	International Foodservice Distributors Association	SAE International
Army and Air force Exchange Service	International Harvesters Collectors Club	Society for Information Display
Assemblies of God	International Reading Association	Society for the Advancement of Material and Process Engineering
Associated Wholesale Grocers	Leadership Team Development	Society of Architectural Historians
Association for Healthcare Resource and Materials	Lifeway Christian Resources	Specialty Graphic Imaging Association
Association for Psychological Science	Massachusetts Mutual Life Insurance Company	Student American Veterinary Medical Association
Association of Clinical Research Professionals	MD Publications	Students In Free Enterprise
Association of Latino Professionals in Finance & Accounting	Music Teachers National Association	Technical Association of the Pulp and Paper Industry
Association of Science-Technology Centers	National Academic Advising Association	Tekakwitha Conference
Association of Zoos and Aquariums	National Association of Broadcasters	Unitarian Universalist Association
Benevolent and Protective Order of Elks of the USA	National Association of Collegiate Directors/Athletics	United Church of Christ
Best Western International Inc	National Association of Directors of Nursing Administrators	United Pentecostal Church International
Case Management Society of America	National Association of Free Will Baptists	Water Environment Federation
Catholic Knights Insurance Society	National Association of Watch and Clock Collectors	Women's Baptist Home and Foreign Missionary of North America
Club Industry East	National Auctioneers Association	Woodmen of the World Life Insurance Society
		Youth Specialties

Interest in Using the Lexington Convention Center

Following several introductory questions, national organization event planners were asked to indicate the likelihood of their organization using LCC facilities in the future, assuming the facility and community met the needs of their event(s) in terms of space availability, hotel requirements, etc.. Respondents were given various options of indicating interest in holding a future event at the LCC from “definitely” to “definitely not” hold an event. Interviews with national organization representatives indicated varying levels of response rates depending on the type of event. Responses related to targeted national organizations surveyed are presented in Exhibit VI-2.

Exhibit VI-2
Likelihood of Using an Expanded/Improved LCC
National Conventions and Tradeshow



Note: Data represented includes all organizations interviewed.
Source: CSL Interviews, 2011

Based on these survey results, the positive response percentage (“definitely use”, “likely use” and “possibly use”) by national conventions and tradeshow approximates 58 percent. A significant percentage of this positive interest (41.2 percent) is considered “tentative” interest (i.e. those that indicated “possibly” hold an event at LCC, rather than “likely” or “definitely”). Conversely, 42 percent of all respondents indicated a lack of interest in utilizing the LCC as a host facility for their future event(s).

Based on survey results, some of the events most likely to utilize an expanded/improved LCC include the following:

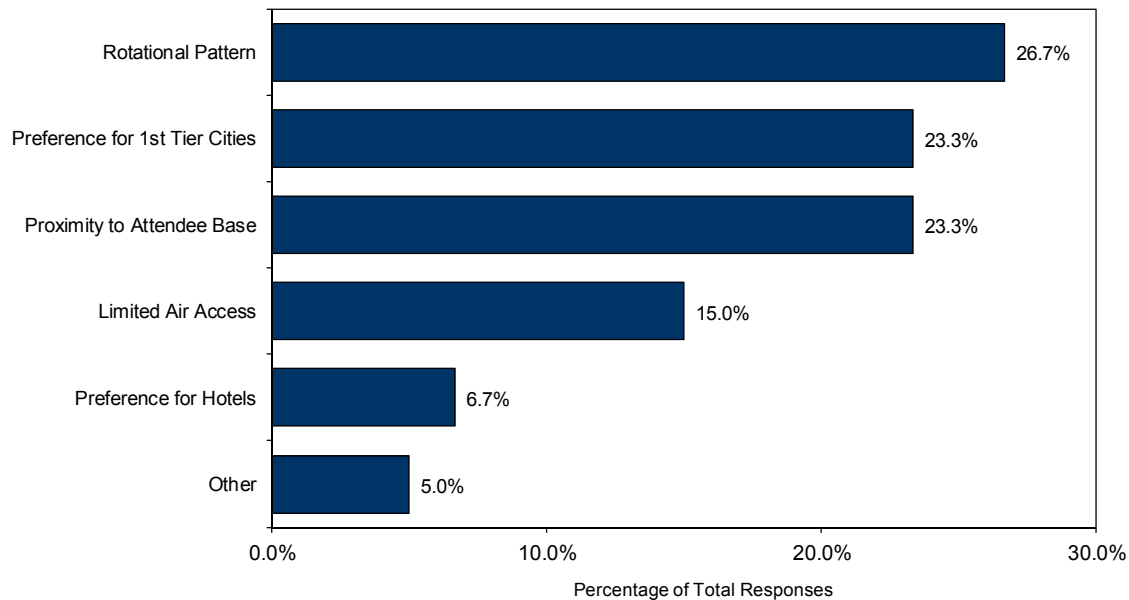
- American Chemical Society
- Army and Air force Exchange Service
- Federation of Animal Science Societies
- Health Physics Society
- Music Teachers National Association
- National Auctioneers Association
- National Council of Teachers of English
- National Council of Teachers of Mathematics
- National Council on Education/Ceramic Arts
- National Institute of Governmental Purchasing
- Painting and Decorating Contractors of America
- Paralyzed Veterans of America
- Parent Resources Institute for Drug Education
- Pennwell
- Precast/Prestressed Concrete Institute
- Society for the Advancement of Material and Process Engineering
- Society of Architectural Historians
- Women's Baptist Home and Foreign Missionary of North America
- Woodmen of The World Life Insurance Society
- Youth Specialties

Of all respondents, 11 percent had hosted an event in Lexington in the past. When considering only positive respondents, an estimated 16 percent had utilized Lexington facilities for their event(s). The five percent increase among positive respondents indicates that those that have brought an event to Lexington in the past are somewhat more likely to return in the future.

Based on a review of recent historical LCC event data, the facility has hosted approximately 14 national convention and tradeshow events each year—representing 22 percent of all LCC convention and tradeshow activity. The response levels generated as part of the survey appear to reflect a lack of exposure for Lexington to the national meeting planner community. This is expected given the fact that the LCC can only accommodate a relatively small share of the national event market, and very few resources have been expended in marketing to these larger events. The question to be addressed is whether or not the Lexington market can increase penetration into the rotating convention market with an improved product. Factors such as a relative lack of hotel room supply and limited air access, balanced by a desirable geographic location, highway access and an emerging downtown, will impact the answer to this question.

To further examine the meeting planner perception of Lexington, respondents indicating that they would either “not likely” or “definitely not” utilize LCC facilities, assuming it met the needs of their group, were asked to identify specific reasons for their overall lack of interest. Exhibit VI-3 outlines the primary reasons for a lack of interest in the market.

**Exhibit VI-3
Reasons for Lack of Future Interest in Utilizing LCC Facilities
National Conventions and Tradeshows**



Notes: Data represented includes all organizations without a potential interest in an expanded or improved LCC.
Other responses included concerns related to size constraints and rental rates for the LCC.
Source: CSL Interviews, 2011

As shown, the most frequently response to a lack of interest in utilizing LCC facilities have to do with the organization’s preference for different geographic locations, either through a fixed rotational pattern that does not include Lexington or a preference for only hosting their event(s) in first tier markets (such as Las Vegas, Orlando, New Orleans, etc.). In particular, approximately 27 percent of the respondents stated that the location did not fit into their event’s rotational pattern. More than 23 percent cited that the LCC location was not attractive because of the preference for first tier cities and the proximity to the attendance base. Limited air access was cited by 15 percent of the planners as a reason for not considering the LCC.

Others responded that their events did not need the expansive space of a convention center and prefer hotel space for their events (which are often willing to provide complimentary event space in exchange for the significant room blocks associated with these events).

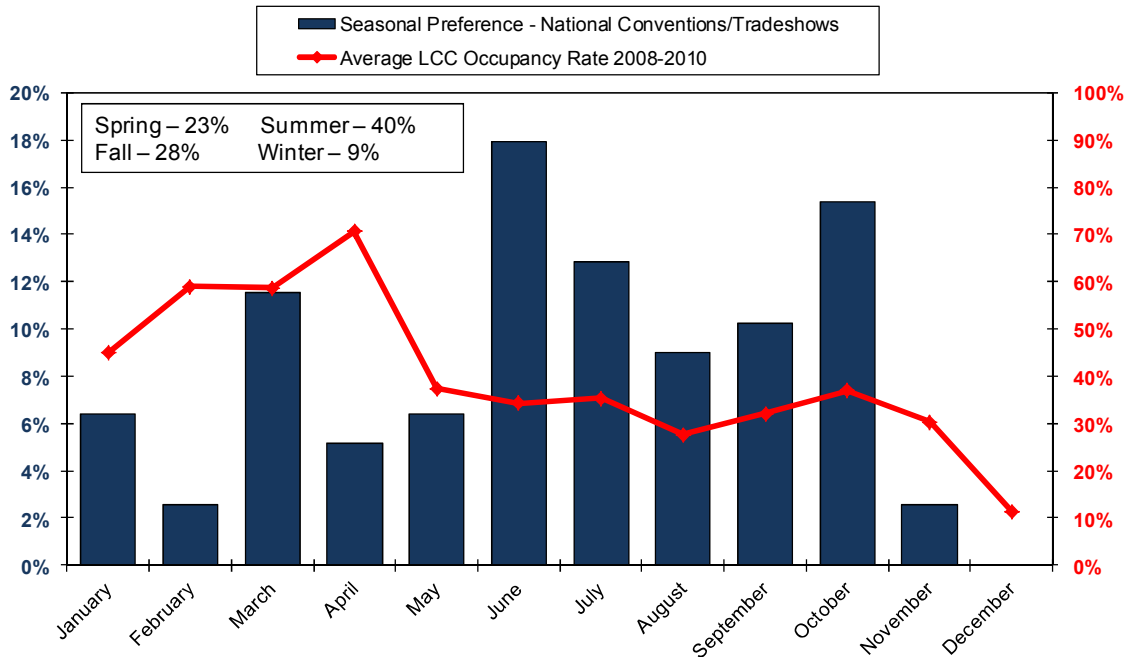
Specific responses of from event planners not considering Lexington as a destination for their event included:

- We are primarily looking at tier one cities.
- We want to stay under one roof like a hotel. We do not pay for meeting rooms, so when we stay at hotel we get them complementary.
- There is no market for me in Lexington, Kentucky.
- We predominantly meet on the west coast.
- We have done Louisville and that's as far east as we will go.
- The location; we have a set rotation where we like to go to certain cities and Lexington is not in that rotation.
- At this time we don't use convention centers and tend to use the top tier 1 cities.
- There are not enough airlifts directly in the Lexington airport from major airports. There is not a straight flight into Lexington.
- We have people coming in and out from the United States, plus we have people that come internationally, so we look at places with big airports.
- The density of our members is very low in that area. We look at where our membership percentages fall and then we select destinations within those areas.

Seasonal Preference

Rotating national events typically have specific preferences and/or requirements with regard to the months in which their event(s) occur. Likewise, associations typically have a rotational policy that allows the event to return to a specific location only after a certain period of time. Exhibit VI-4 on the following page presents the seasonality patterns, by month, for those national organization events that represent the primary event market demand for Lexington. For purposes of comparison, we have also presented the average occupancy rate for Heritage Hall at the LCC, by month, from 2008 through 2010.

**Exhibit VI-4
Seasonal Preference and Average Heritage Hall Occupancy Rate
National Conventions and Tradeshows**



Note: Data represented includes all organizations with a potential interest in an expanded or improved LCC.
Source: CSL Interviews, 2011

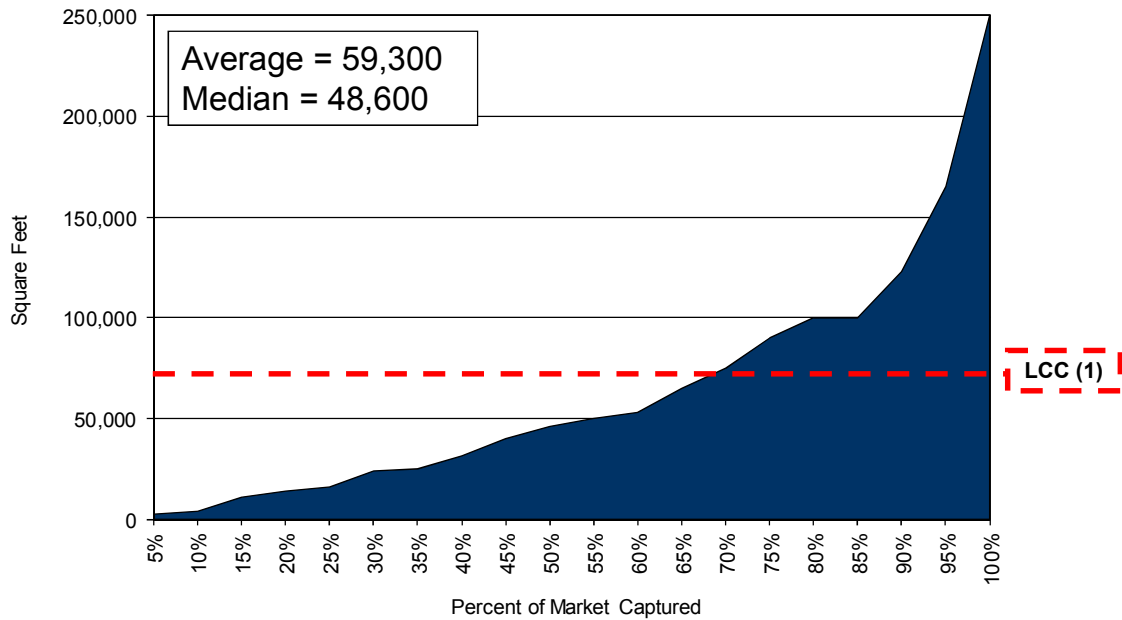
The seasonality of demand can assist in understanding demand potential for multiple overlapping events. For example, heavy demand for a particular event type during historically busy periods can indicate a “clustering” of demand, and highlight the need for a center to be able to accommodate multiple overlapping events. As presented above, seasonal preference among national groups with an interest in LCC follow a pattern somewhat counter to industry standards, specifically with regard to stronger demand in summer months.

National convention and tradeshow event demand peaks in June at approximately 18 percent, with December, November and February generating the lowest demand. LCC occupancy rates do not correlate with demand among the targeted national organizations, with noticeable slower periods in June through October. Overall, these patterns indicate that some level of LCC available capacity may correlate well with the demand from potential national convention and tradeshow events.

Event Space Requirements

In order to approximate event space requirements of the national event market specific to Lexington, event planners with a potential interest in the market were asked to estimate the average amount of exhibit, meeting and ballroom space required for their event(s). Responses for exhibit space square footage needs among the targeted set of planners are outlined in Exhibit VI-5.

**Exhibit VI-5
Summary of Exhibit Space Demand
National Conventions and Tradeshows**



Note: Data represented includes all organizations with a potential interest in an expanded/improved LCC.
 (1) Represents the amount of contiguous space available at the LCC.
 Source: CSL Interviews, 2011

As presented, the average amount of exhibit space needed among interested organizations is 59,300 prime square feet. With approximately 66,000 square feet of contiguous prime exhibit space, the LCC currently satisfies approximately 60 to 65 percent of the potential market for national convention and tradeshow events specific to Lexington.

A facility should be sized to accommodate approximately 90 percent of potential demand. This sizing level allows for accommodating multiple overlapping events, and allows for future growth in space needs. In fact, the majority of event usage would be of a size that allows for multiple overlapping events to take place at the facility, which would in turn allow for a more consistent daily distribution of room night generation. At a 90 percent capture, approximately 125,000 square feet of exhibit space is needed given survey-based demand estimates. An exhibit hall of 100,000 square feet would accommodate approximately 85 percent of the potential national event market. Further industry growth and growth in specialized industry segments, such as biosciences/medical (particularly given the University's current significant expansion in these areas) should be considered when sizing any new facility development.

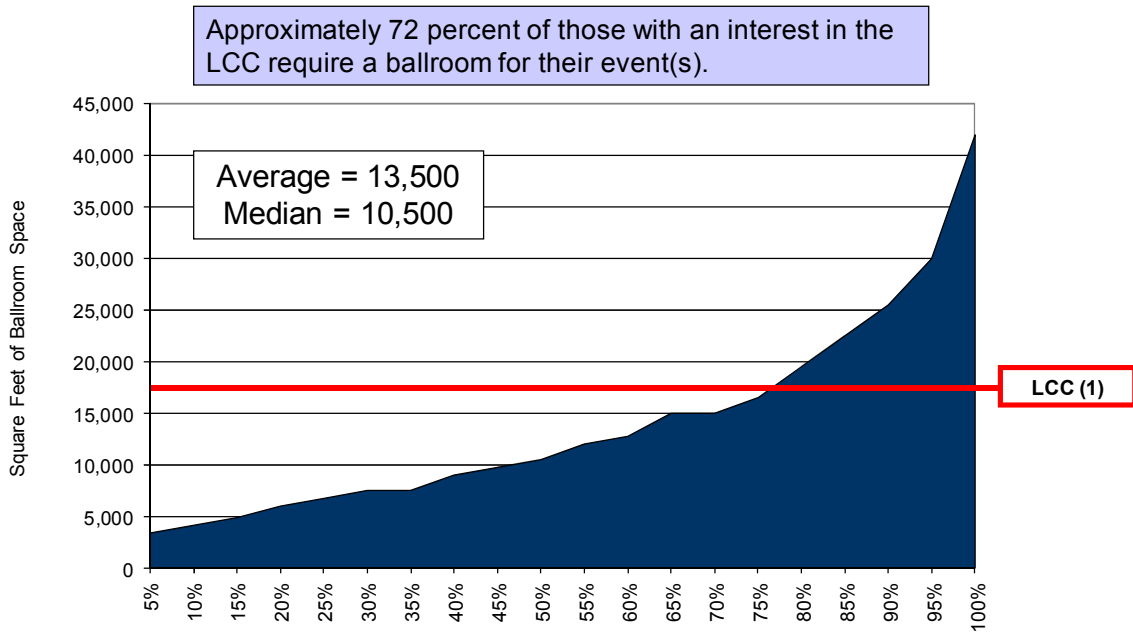
There are diminishing marginal returns as the amount of exhibit space is increased beyond a 125,000-square foot threshold. For example, 250,000 total square feet of exhibit space adds only ten percentage points of capture when compared to what could be accommodated with 125,000 square feet.

Another fundamental component of a complete convention center is its available breakout meeting space. Because meeting room space can be used for different purposes, actual square footage requirements can vary considerably. Our research into the convention facility needs of event planners interested in hosting an event in Lexington indicate a somewhat higher than average need for meeting space. Should future investment be made in added LCC event space, we suggest that ratios of meeting to exhibit space be increased from the current 0.24 to a targeted ratio of 0.28.

This recommendation does not take into consideration the event planner concerns with regard to the layout and configuration of LCC meeting space. Such issues tend to reduce the ability of meeting space to accommodate event demand and will be further explored in our analysis of current and past LCC users.

Exhibit VI-6 presents a summary of estimated ballroom space demand among the same set of national organizations.

**Exhibit VI-6
Summary of Ballroom Space Demand
National Organizations**



Note: Data represented includes all organizations with a potential interest in an expanded or improved LCC.
(1) Represents the largest contiguous ballroom at the LCC.
Source: CSL Interviews, 2011

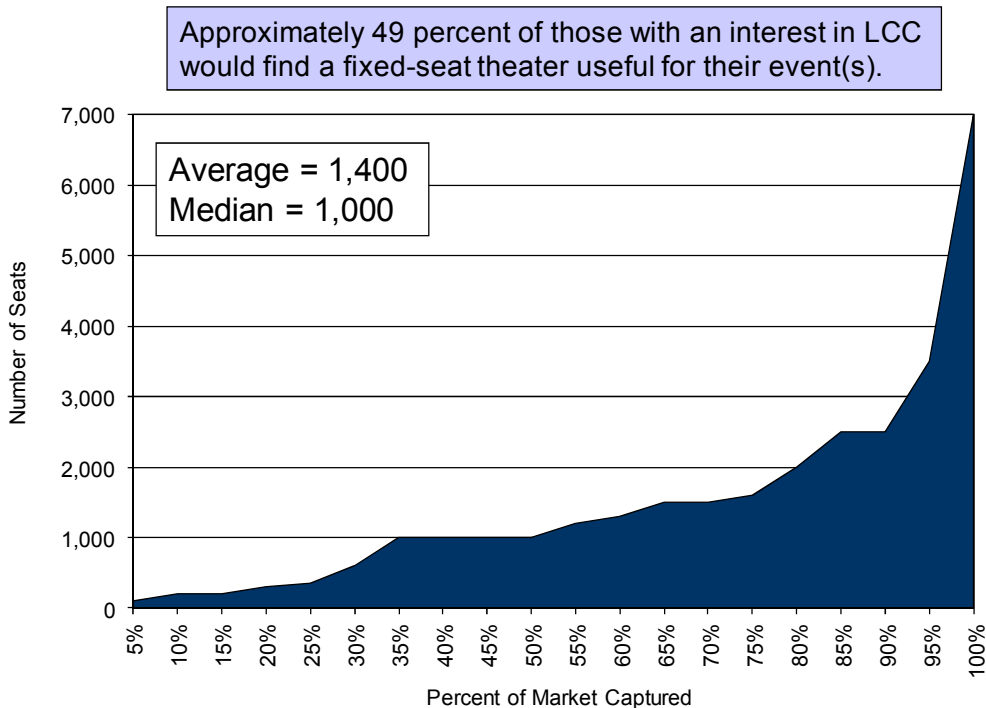
As discussed earlier, the LCC incorporates two ballrooms—the 17,100 square foot Bluegrass Ballroom and 6,500 square foot Heritage Ballroom (which also often serves as exhibit space, given its adjacency to Heritage Hall). With 17,100 square feet of contiguous space, the LCC currently satisfies 75 percent of the current market demand for ballroom space within this market

segment. To satisfy 90 percent of their current ballroom space demand, the LCC would need 25,000 square feet—a 46 percent increase over current offerings. With 72 percent of LCC users requiring ballroom space, it is an important component of any convention facility.

The current LCC does not provide any fixed seating space; however, as will be discussed, Rupp Arena is occasionally utilized to accommodate the flat floor and/or fixed seating needs of certain large events. As the future of Rupp Arena continues to be evaluated, one proposed redevelopment plan would include a new fixed-seat theater venue providing approximately 2,500 seats. The envisioned facility would be capable of hosting a wide variety of event types (i.e., concerts, theatrical performances, Broadway shows, University events and performances, general sessions, etc.). Based on conversations with LCVB management, the addition of such space could potentially free up the LCC’s ballrooms to accommodate the space needs of existing or new events.

In an effort to gauge convention industry demand for such space in Lexington, we have asked planners of targeted nationally-rotating events whether or not they would have an interest in such space. If a positive interest was recorded, we followed up by asking their specific seating requirements. Exhibit VI-7 presents a summary of fixed seating demand among national organizations.

**Exhibit VI-7
Summary of Fixed-Seat Theater Demand
National Conventions and Tradeshows**



Note: Data represented includes all organizations with a potential interest in an expanded or improved LCC.
Source: CSL Interviews, 2011

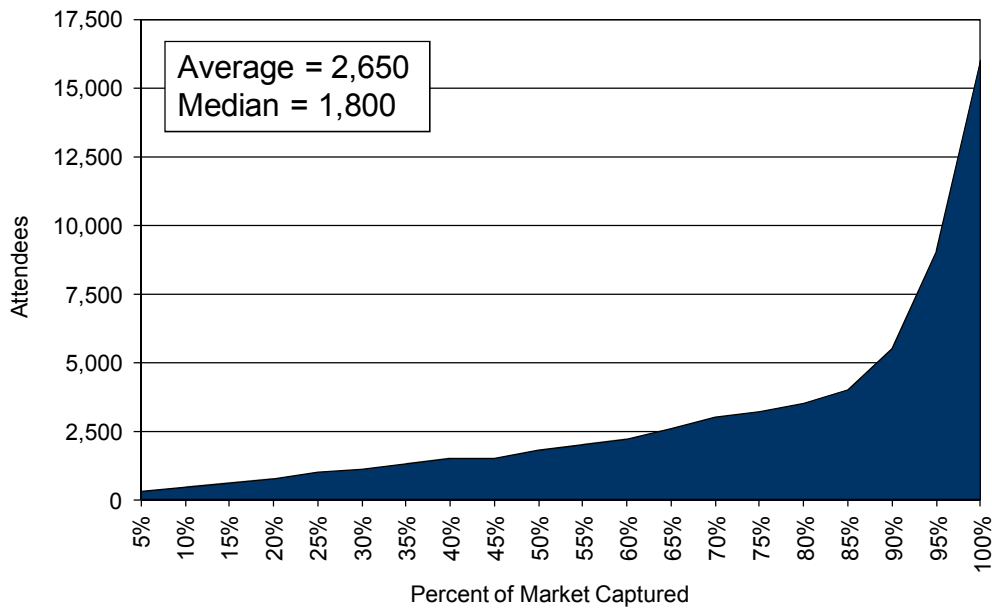
As presented, nearly half of the organizations surveyed indicated that such space would be useful to their event(s). The average number of seats required is 1,400. With 2,500 seats, the LCC would be able to accommodate approximately 90 percent of this market. As noted by event planners, it will be important for any potential fixed-seat venue in Lexington to provide the ability

to “curtain down” or down-size in such a way that the capacity levels seem appropriate (i.e., not having 2,000 empty seats visible for a 500 person event).

Average Delegate Attendance

National convention and tradeshow event planners were asked to estimate the average total delegate attendance levels for their events. The responses exclude spouses and guests, and are summarized in Exhibit VI-8.

**Exhibit VI-8
Summary of Total Attendance
National Conventions and Tradeshows**



Note: Data represented includes all organizations with a potential interest in an expanded or improved LCC.
Average and median calculations are based on non-exhibitor attendance only
Source: CSL Interviews, 2011

As shown, the average national convention and tradeshow event with a positive interest in the LCC attracts 2,650 delegates. Approximately 50 percent of the potential national organization market for the LCC consists of events with 1,800 or fewer total attendees. Likewise, approximately 90 percent of the potential national convention and tradeshow market consists of events attracting fewer than 5,500 total attendees.

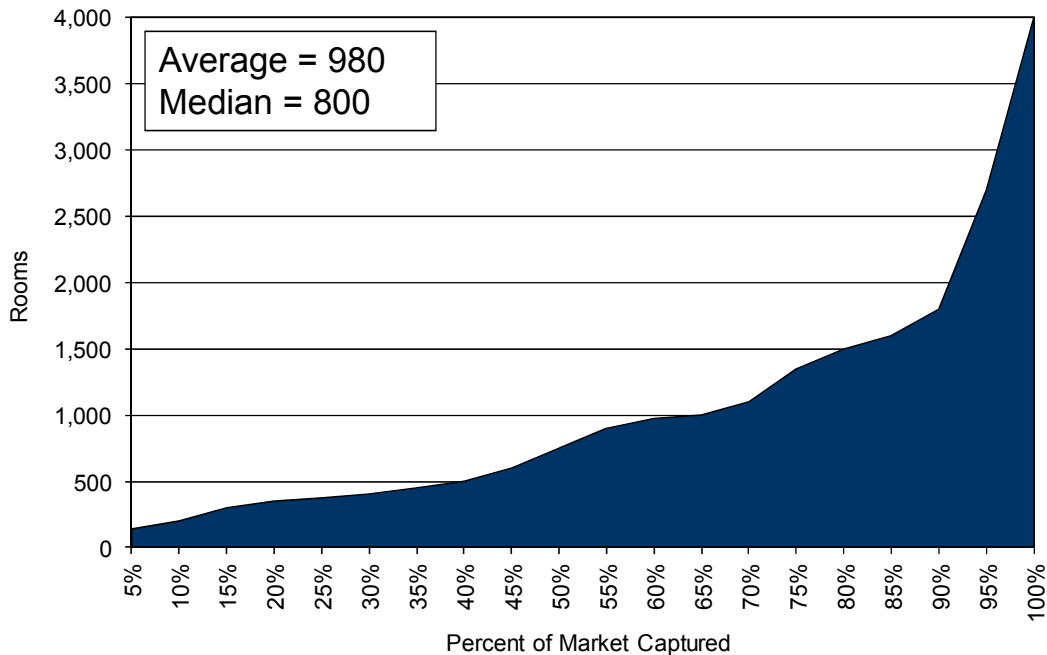
In recent years, the LCC has accommodated an average of approximately 14 national events annually. The average attendance level among these events is 2,300. Such data with regard to attendance levels will be an important factor in determining the amount of economic impact potentially generated by an expanded or improved LCC.

Hotel Guest Room Demand

The number of attendees at an event influences the number of guest rooms occupied. One of the most important aspects in attracting non-local conventions, tradeshows, conferences, meetings and other related events is the availability of committable, convention-quality guest rooms. "Convention-quality" is a term that varies by particular community and type of group considered; however, the term generally represents full-service, upscale properties carrying the flag of a respected national brand.

The market share captured in any community cannot expand beyond what the area hotels can accommodate. Exhibit VI-9 presents a summary of peak night guest room demand associated with the potential national convention and tradeshow market for the LCC.

Exhibit VI-9
Summary of Peak Night Hotel Guest Room Demand
National Conventions and Tradeshows



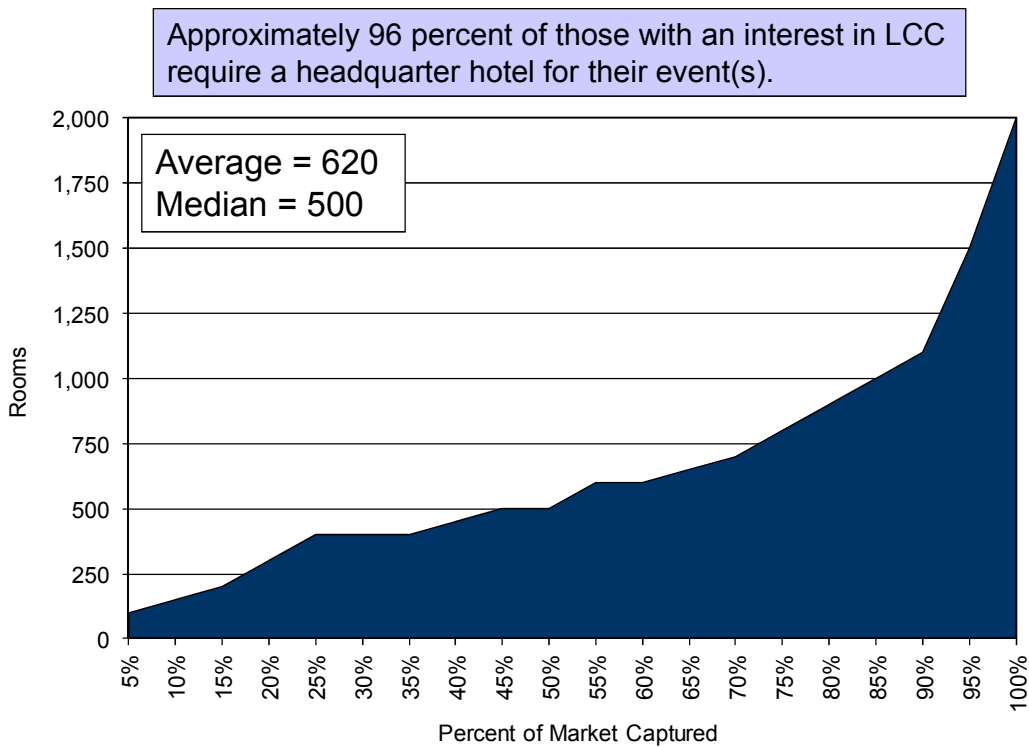
Note: Data represented includes all organizations with a potential interest in an expanded or improved LCC.
Source: CSL Interviews, 2011

As shown above, the average national convention or tradeshow event with a potential interest in rotating future events to the LCC requires a room block of 980 peak night guest rooms. As noted earlier in this report, there is a total capacity of 777 guest rooms within walking distance of the LCC. Of this inventory, based on conversations with LCVB management, approximately 600 rooms are committable into a single room block downtown. Assembling a greater room block requires shuttling to a number of properties located on the periphery of downtown. Based on our research, this downtown room supply is able to accommodate up to 45 percent of this market. When adding outlying properties, room blocks as high as 2,000 have been assembled in Lexington; however; this is not a highly marketable room block solution for most event planners.

As discussed earlier, the lack of hotel inventory proximate to the LCC will continue to negatively impact the LCC’s ability to successfully attract and retain events within this segment. Additional hotel inventory near the LCC will be needed to attract desirable levels of convention, tradeshow and meeting event potential unique to Lexington.

Many event planners have particular preferences with regard to the number and size of hotel properties utilized to accommodate their guestroom needs. As such, another measure of hotel demand is to evaluate the preferred room block available at headquarter hotel properties. Exhibit VI-10 presents a summary of the preferred room block available at an adjacent headquarter hotel property among the targeted set of national organization event planners.

**Exhibit VI-10
Preferred Room Block at a Headquarter Hotel
National Conventions and Tradeshows**



Note: Data represented includes all organizations with a potential interest in an expanded or improved LCC.
Source: CSL Interviews, 2011

An estimated 96 percent of this potential event market require a headquarter hotel in their determination as to where to host their event(s). In a sense, the LCC provides two headquarter hotel properties; the 366 room Hyatt Regency Lexington attached to the LCC and the 367 room Hilton Lexington/Downtown (adjacent to the LCC). Combined, these properties are able to provide a room block that would satisfy approximately 60 percent of the potential market. Achieving an 85 to 90 percent capture rate would require an additional 400 to 500 committable hotel rooms.

In an effort to collect open-ended feedback with regard to current perceptions of Lexington's position in the convention and tradeshow industry, national event planners were asked to provide comments on their impressions of the market. Responses included, but were not limited to the following:

- Lexington as a whole has lack of hotel rooms attached or in close walking distance.
- I actually don't know. I have never been there.
- It has good potential. It has moderate climates and it's easily accessible.
- It is an enjoyable city, it offered a number of things to do and see, it had a variety of attractions.
- It's a nice clean city.
- It's a safe, drivable location with a positive image.
- Kentucky is beautiful. There are horses, the country side, and the greenery.
- The pricing is good, easy accessibility to drive to good, and the airfare is good.
- There are not enough flights in or hotels.
- Too small: It's just never going to be big enough for us.

Additionally, we asked event planners to provide recommendations that they felt should be considered in the planning process with regard to a potential expansion or improvement project for the LCC. A sample of comments collected is presented below.

- Clear and visible signage.
- Various size meeting rooms. The rooms are either big or small; nothing in between.
- I would recommend bringing in meeting planners to give their input on how the space should be configured.
- Make sure the headquarter hotel has suites, that's very important to us.
- Make the Center walkable. New Orleans is not walkable because it's long and narrow.
- The meetings need to be in close proximity to the exhibit hall.
- The number of breakouts is always the main issue. Having a large number of smaller breakout rooms is crucial.
- The only issue was that there was not enough exhibit space so we stopped looking at Lexington.

Analysis of Current and Past LCC Users

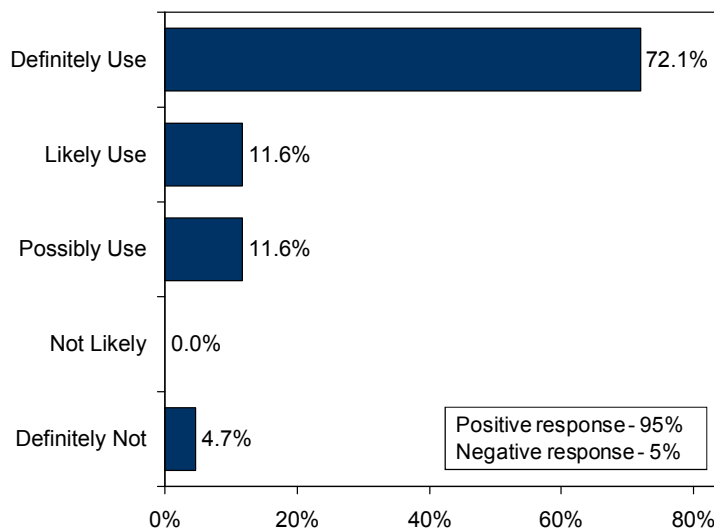
In an effort to obtain useful feedback from event planners most familiar with the Lexington market and its convention and visitor industry package, a sample of current and past users of the LCC were contacted via e-mail and asked to comment on various facility aspects and the LCC convention package as a whole. A total of 43 responses were collected from the following organizations:

Exhibit VI-11 Current and Past LCC Users Surveyed

Alltech	Kentucky Cattlemen's Association
American Bonanza Society	Kentucky Chamber of Commerce
American Farriers Association	Kentucky Coalition of Nurse Practitioners/Nurse Midwives
Automotive Recyclers Association	Kentucky Future Farmers of America
BBB Central Kentucky Home, Garden and flower Show	Kentucky High School Athletic Association
Bluegrass Auto Expo	Kentucky Housing Corporation
Collaborative Center for Literacy Development	Kentucky Pest Control Educational Fund
Commerce Lexington	Kentucky Science Teachers Association
Contemporary Longrifle Association	KY/TN Section of American Water Works Association
DanceMasters of the Bluegrass, Chapter *40	Laurel Grocery Company
Four Seasons Sales & Service	Lexmark
Global Connections	Mathematical Association of America
Gray Construction	Mid America Conference on Hearing
Green River Firefighters Association	Mitch's Meetings Management, Inc.
Home Builders Association of Lexington	Pea Pickers
Homeland Security Conference Kentucky State Fire School	Penton Media/Coal Prep Show
Horse Capital Productions, LLC	Student Technology Leadership Program
JAMfest Events	The Association for Driver Rehabilitation Specialists
Kentucky Association Future Farmers of America	United States Equestrian Federation
Kentucky Bar Association	WKYT-TV
Kentucky Blasting conference	

Respondents were first asked to indicate the likelihood of their organization returning to the LCC. Responses are summarized in Exhibit VI-12.

Exhibit VI-12 Likelihood of Using the LCC in the Future - Current and Past Users



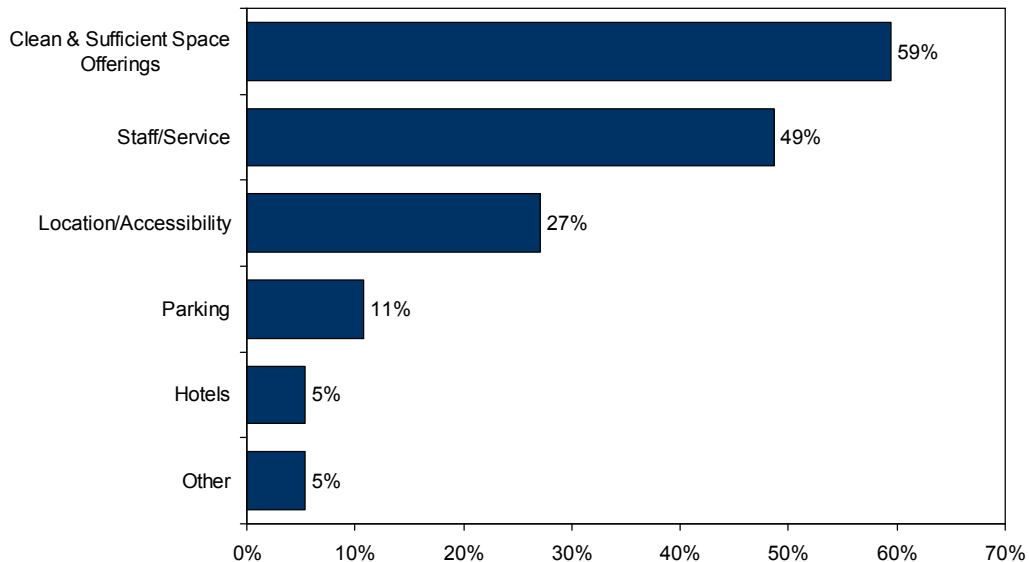
Note: Data represented includes all organizations interviewed.
Source: CSL Interviews, 2011

Approximately 95 percent of current and past users of LCC indicated that they would “definitely”, “likely” or “possibly” consider returning to the facility with their event(s). The majority of demand could be characterized as relatively strong, with 84 percent of respondents indicated that they will “likely” use or “definitely” use LCC facilities in the future. The high overall interest among current and past users of the LCC indicates a high level of satisfaction with the Lexington convention product.

Strengths of the LCC and Lexington

Survey respondents were asked to provide open-ended, comments with regard to the strengths of the LCC as a host facility for their event(s). Exhibit VI-13 presents a summary of some of the more frequently cited strengths of the facility.

**Exhibit VI-13
Strengths of LCC as a Host Facility
Current & Past Users**



Notes: Data represented includes all organizations interviewed. Values add to more than 100 percent as some organizations listed more than one strength. “Other” includes issues related to dock space and food and retail offerings within the LCC.
Source: CSL Interviews, 2011

In general, the LCC was praised for being well-managed/operated, providing a clean and modern facility and being highly accessible. As shown, the provision of a clean facility and sufficient space offerings ranks as the LCC’s greatest advantage, with 59 percent of users citing these aspects as strengths. The facility’s staff and service levels were also noted as a positive aspect of doing business at the LCC. Among the least ranked strengths were the availability of hotels and parking surrounding the LCC.

Some of the specific comments noted relative to the positive aspects of doing business at the LCC include the following:

- Clean, lots of space for our group.
- Very attractive and accommodating.
- Flexible and attractive space, excellent staff, central location and connected to a hotel.
- The LCC, CVB and the hotels work together each year to enable us to bring our Conference and our attendees back to Lexington.
- Great staff! Always eager to meet our needs.
- Space is flexible and hotels are good to work with.
- Our attendees appreciate the ease to find the facility and parking once they get here.
- The space has a great flow and is very attractive.
- With shopping and a food court included, it's nice for attendees.
- The space is beautiful, not a typical sterile, cookie cutter type of venue.

Event Space Demand

A series of open-ended questions were posed in which event planners were asked to comment on various aspects of the LCC including the current levels of exhibit, meeting and ballroom space, and limitations to registration, circulation and other LCC areas. Comments were also solicited regarding weaknesses and/or recommendations specific to the LCC or the Lexington convention and visitor industry market as a whole.

Based on survey results, 27 percent of respondents expressed a desire for additional space. Some respondents indicated a need for better access to parking, more ballroom and exhibit hall space and additional breakout meeting rooms. Sample comments collected among those wanting more space include:

- Bigger Ballroom, more exhibit hall space.
- Easier access to parking!
- It would be nice to have an entrance that gives direct access to Rupp Arena from the West parking lot (Cox Street).
- Need more space with high floor load capacity to display equipment.
- We use some additional meeting space in the Hyatt and Hilton.
- We really need a larger space with the same amenities as the Bluegrass Ballroom (carpet, decor, etc.).
- Our show could be larger with more floor space.
- Additional breakout meeting space would be nice.
- More exhibit space on the second floor could be helpful.
- Dedicated outdoor, covered event space adjacent to the center.
- Need more meeting rooms that seat 50 - 100 people in classroom setting.

Current and past LCC events indicating a need for additional event space included the following:

- Alltech
- BBB Central Kentucky Home, Garden and Flower Show
- Bluegrass Auto Expo
- Green River Firefighters Association
- Homeland Security Conference Kentucky State Fire School
- Kentucky Bar Association
- Kentucky Chamber of Commerce
- Mathematical Association of America
- Pea Pickers
- Penton Media/Coal Prep Show
- Student Technology Leadership Program

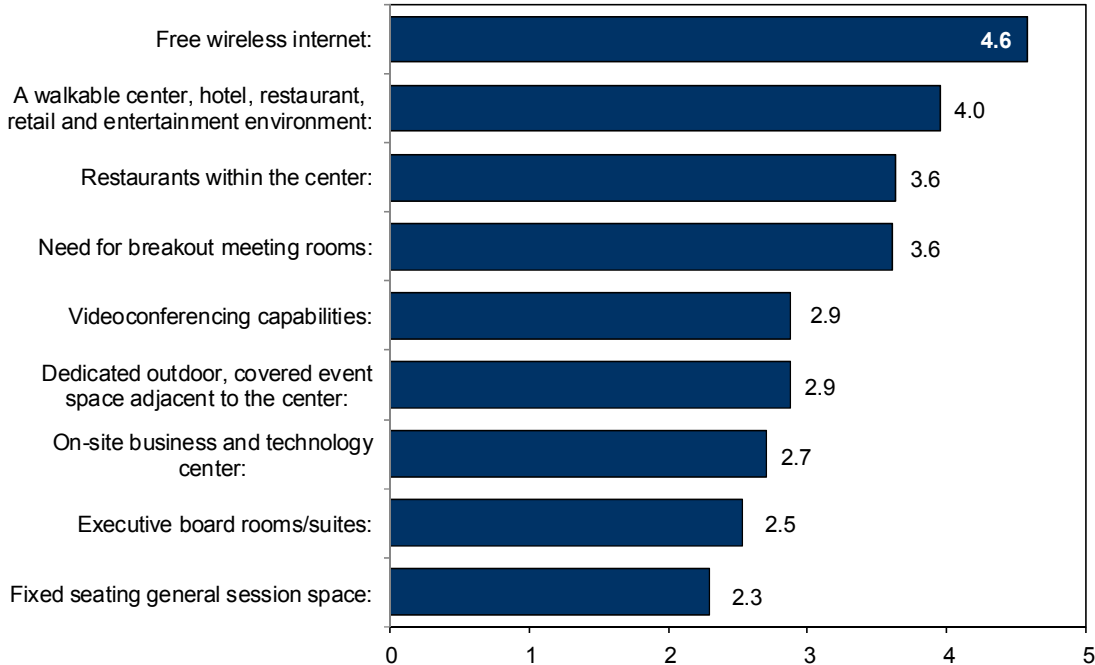
Registration, Circulation and Other Space Demand

Seventy percent of event planners contacted indicated an overall satisfaction with regard to the existing levels and configuration of registration or circulation space at the LCC. Suggestions as to how this space could be improved included the following:

- More space in the same area/level at Heritage Hall so all of the meetings could be in same area.
- Registration space near the high street lobby.
- If we were to move one of our larger conferences to LCC we would need the space to be more accessible (we do not want to have to move all over the building to have breakout rooms) and would need to have the same upscale feel throughout the space.
- Back of the house access to the Bluegrass Ballroom is a problem for the caterer.
- Poor accessibility from Pre-function (Atrium) area north hallway to tile corridor.
- The network causes us issues.
- We have to fit the facility, the facility sometimes isn't very flexible.
- We use adjoining space in the Hyatt Regency.

To properly assess the future importance of specific features in the convention industry, participants were asked to rank the importance of these features on a scale of 1 to 5 (one being the least important and five being the most important). Exhibit VI-14 compiles their responses in terms of an average overall score among all organizations with a potential future interest in returning to the LCC.

Exhibit VI-14
Convention Center & Destination Features Expected to Increase
in Importance in the Future - Current and Past Users



Note: Ratings are based on a scale of one through five, with five being most important and one being least important.
Source: CSL Interviews, 2011

Free wireless internet ranks the highest among the features listed, with an average ranking of 4.6. Ranking second and third among those interviewed are a need for walkable amenities and dining within the location, respectively.

Event planners were also asked to provide open-ended feedback pertaining to recommendations or suggestions that would enable the LCC or Lexington to better serve their event(s) in the future. A summary of comments collected among all respondents is presented below.

- They have zero flexibility in room rental rates.
- A/V prices will have to improve!!
- Airport is limited.
- Stronger airport within the area.
- An expansion of the exhibit area is needed.
- Better restaurants that stay open later during events.
- Being able to use any caterer, as opposed to being locked into the Hyatt.
- I think a nice restaurant in the Center would be great.
- I think more restaurants/shopping and places for our group to enjoy close to the center.

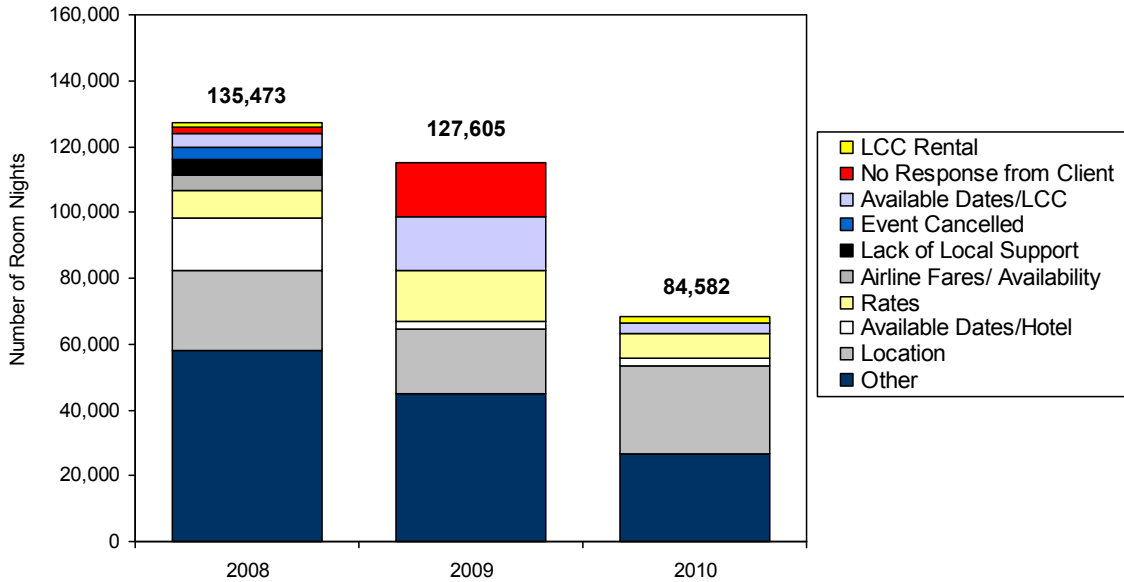
- I would be nice to have a larger selection of restaurants w/in the center at varying price points, not just fast food.
- It would be nice for the food court to extend its hours into the evening so we didn't lose our attendees to our restaurants off site.
- The fast food shops in the center do not seem to have very convenient hours for our attendees.
- The restaurants in the food court need to be open later during our event.
- Just to keep upgrading in order to compete with other facilities.
- Keep the parking across the street. It is a big asset.
- Parking is an issue when we are using heritage hall side and there is an event in Rupp Arena at the same time.
- The pricing on the Convention Center is not always competitive to other convention centers that are nearby.
- We need to keep lots of parking. This is one of the big draws for our group.
- Use of wireless and free use of audiovisual equipment would be very helpful to us as a nonprofit organization.
- We could use a few more sleeping rooms attached to the Center.
- We have breakout meetings at the Hyatt due to our program requiring all the space at LCC.

Lost Business Analysis

Another method of evaluating the demand for event space is to review Convention and Visitors Bureau data regarding events that indicated an interest in the particular community for a future convention or tradeshow but could not be accommodated for one or more of a variety of reasons.

Representatives from organizations that indicated a potential interest in Lexington for a future show but could not be accommodated were surveyed by the LCVB regarding their reasons for not choosing Lexington. Based on our review of these data, Exhibit VI-15 presents a summary of lost event business (in terms of total room nights) by year, by reason for the LCC between 2008 and 2010.

**Exhibit VI-15
Summary of LCVB Lost Business (2008-2010)**



Source: LCVB, 2011

Between 2008 and 2010 the LCVB has tracked events that represented a total of approximately 350,000 room nights that could not be accommodated in Lexington. This should not be interpreted as events that would have rotated to Lexington if suitable facility, hotel and other visitor amenity conditions were available. Rather, this data reflects organizations that expressed an interest in Lexington at one point during their event planning process but ultimately selected another destination. The relatively large number of events choosing destinations other than Lexington between 2008 and 2010, coupled with low occupancy rates, may be an indication that there are serious concerns regarding the convention offerings within Lexington.

As shown, Lexington’s location, the rates charged for facility and hotel room rental, and date availability (at both the LCC and local hotels) were the most frequently cited reason by event planners for not bringing their event to Lexington. Other issues, such as a lack of direct air access, lacking local support and an overall lack of activities and entertainment were also mentioned.

It is interesting to note that the percentage of event planners citing insufficient exhibit/meeting space or a lack of available dates at the LCC were each less than five percent of the total responses given.

VII. Market Supportable Building Program Analysis

Based on the analysis of local market conditions, industry trends and characteristics, competitive and comparable facilities and markets, and market demand characteristics unique to Lexington, an evaluation of the supportable facility program components was performed relative to a proposed expansion of the Lexington Convention Center.

The estimated market-supportable convention facility program is tied closely to the unique characteristics of the Lexington market, as well as the current and potential future hotel inventory and other visitor amenities in the area. The resulting market-supportable building program focuses on the levels of exhibit, meeting, ballroom and fixed-seating space that would be necessary to accommodate potential convention, conference, banquet, meeting, tradeshow, public/consumer show and other event demand for a potential expansion of the LCC.

Support areas, such as lobby, circulation, storage, office and other areas are not specifically itemized within this analysis; however, based on state-of-the-industry facility development standards, such spaces normally require square footage equal to or slightly greater than the total amount of sellable square footage incorporated in the building.

Summary of Findings

Based on the analysis presented herein, there are several key findings that should be considered as the building program parameters are developed. These include the following:

- In addition to the LCC, there are several event facilities in Lexington that have the ability to accommodate flat floor events. For example, the Griffin Gate Marriott Resort (three miles north of downtown) provides the largest number of hotel rooms among all local properties, with 409. The hotel also offers the largest contiguous space (excluding the LCC), with its 9,600-square foot Grand Ballroom. The Hyatt Regency Lexington (attached to the LCC) offers the most total sellable space, with approximately 18,100 square feet of space. Events that can be accommodated by privately operated hotels should not be the focus of a public convention center, while events too large for the existing base of hotel space represent a viable convention center target market.
- Between fiscal years 2005 through 2010, the LCC has hosted an average of 242 annual events. It is important to note that convention and tradeshow event activity has increased over the past three fiscal years and now accounts for more than 40 percent of total LCC utilization. With the propensity of these events to generate high volumes of room nights, this trend is indicative of the LCVB's increased attention toward securing economic impact generating events.
- Occupancy levels within all LCC spaces have increased between fiscal years 2008 and 2010, likely a result in part of the efforts on behalf of the LCVB to attract high-impact convention and tradeshow events. However, existing use of the LCC exhibit space is low compared to desired occupancy levels. Historically, exhibit space occupancy levels at the LCC have remained fairly constant, generally ranging from between 36 and 42 percent in recent years.
- Heritage Hall operates within or above the target convention center occupancy range for three to four months of the year, generally in the late winter and spring months. Based on conversations with facility management, the reasons for the higher occupancy early in the year have to do with a number of large public sales and exhibits (i.e., Kentucky Sport, Boat

and Recreation Show, Central Kentucky Home and Garden Show, Lexington RV Super Show, etc.). Seasonality patterns for the potential convention event market specific to Lexington show fairly significant demand during the lower utilization periods for the LCC. This indicates that some portion of available LCC capacity may correlate well with the demand from potential national convention and tradeshow events.

- The 72,500 square feet available within Heritage Hall at the LCC ranks in the lower quarter of the set of facilities analyzed in terms of both contiguous and total available exhibit space. Further, 66,000 of the 72,500 square feet at the LCC could be considered prime exhibit space, given that 6,500 square feet are located within the Heritage Ballroom. The combined exhibit, meeting and ballroom space within the LCC ranks 15th among the 17 facilities reviewed for this analysis.
- There are 777 hotel rooms within one-half mile of the LCC, which ranks 16th among the 17 competitive and comparable set of markets reviewed. There are currently three hotel properties (providing 777 rooms) located in downtown Lexington within approximately one half mile of the LCC.
- The recent economic recession has had a significant negative impact on overall national convention and tradeshow demand. Over the past 12 to 18 months, a pattern of increased demand appears to be emerging. Studies conducted by CSL and many other industry researchers indicate that the linkage between the convention and tradeshow industry and the overall economy will continue to be strong, and that economic improvement will drive a rebound in demand for facility space. It will likely take several years for demand levels to regain industry highs recorded prior to the recession.
- Surveys of 125 national event planners indicated a moderately strong interest in hosting a future event at the LCC. However, the response levels generated as part of our survey appear to reflect a lack of exposure for Lexington to the national meeting planner community. This is expected given the fact that the LCC can only accommodate a relatively small share of the national event market, and very few resources have been expended in marketing to larger events.
- With 66,000 square feet of dedicated contiguous exhibit space, the LCC currently accommodates approximately 60 to 65 percent of the potential market for national convention and tradeshow events. Approximately 125,000 square feet of exhibit space would be needed to meet the needs of 90 percent of this market, while a 100,000 square foot exhibit hall would accommodate approximately 85 percent of the potential event market. There appear to be diminishing marginal market capture increases as the amount of exhibit space is increased beyond the 125,000 square foot threshold. For example, 250,000 total square feet of exhibit space adds only ten percentage points of capture.
- The average national convention or tradeshow event with a potential interest in rotating future events to the LCC requires a room block of approximately 1,000 peak night hotel rooms. Based on conversations with LCVB management, it is estimated that the typical large city-wide event room block available in the downtown area approximates 600, although blocks as high as 2,000 could be achieved using numerous properties throughout the area. In order to accommodate 85 to 90 percent of the potential event market for Lexington, an additional 400 to 500 committable hotel rooms would be required near the LCC.
- Interviews with 43 current and past users of the LCC indicated a very strong likelihood of returning to the LCC for a future event. Based on survey results, 27 percent of respondents expressed a desire for additional space. Some respondents indicated a need for better access to parking, more ballroom and exhibit hall space and additional breakout meeting rooms.

Future LCC Program Considerations

Given these and other research results, the question to be addressed is whether or not the Lexington market can increase penetration into the rotating convention market with an improved product. The existing LCC exhibit space operates at occupancy levels that do not appear to indicate a significant shortage of space, and at the same time much of the meeting planner community has only a vague understanding of Lexington as a convention destination.

Factors such as a relative lack of hotel room supply, limited air access and limited convention space, balanced by a desirable geographic location, highway access, and an emerging downtown, will impact the discussion as to future market supportable LCC event space.

Having carefully reviewed the existing and potential future local visitor industry conditions, and considering competitive influences, industry trends and past LCC performance measures, it does not appear that a major expansion of exhibit space is warranted at this time. Such an expansion could be defined as targeting a building size common in communities such as Louisville, Milwaukee, Grand Rapids and others that offer nearly 200,000 square feet of exhibit space. However, a more modest program of space that results in approximately 100,000 to 125,000 square feet of exhibit space could provide opportunities to increase market capture by 25 to 30 percentage points, while still representing a relatively small center.

To be successful, any addition of space will need to be paired with an additional downtown hotel suitable to accommodate convention attendees. Such a property should contain at least 400 rooms and be located within walking distance of the LCC. In addition, it will be important to continue planning and development of walking districts in the vicinity of the LCC to address emerging trends in the industry that favor communities that offer vibrant, unique and authentic urban experiences for event attendees.

A fundamental goal of any future LCC design and configuration should be to create a project that is highly unique and at the same time reflective of the future of the convention industry. Significant discussion is taking place nationally as to how convention centers interact with downtown areas, with emphasis on integrating the building components more effectively into the street grid and surrounding parcels. A future LCC development project offers an opportunity to avoid "doing more of the same" with respect to the convention center building type. In effect, such a project should seek to reinvent the internal configuration and use of space (perhaps moving out much of the retail space), and to better integrate with the surrounding parcels and properties.

Even with these destination improvements and project goals, significant investment in the LCC cannot be considered to be risk free. Aggressive marketing and destination branding, first-class operations, enhancement to the visitor industry product and strengthening of the destination brand will all be required to successfully leverage future LCC investments.

LCC Enhancement Program Elements

Incorporating the considerations presented above, as well as the results of the full study, we have developed the following program elements for future investment in the LCC. The convention center program components analyzed include exhibit space, meeting space and ballroom space. Hotel inventory requirements supportive of the LCC are also described, and the implications of an integrated 2,500 seat performing arts theater are discussed.

The following elements highlight the building program features that could be considered for enhancement to the LCC.

- 100,000 to 125,000 square feet of contiguous exhibit space. This represents an addition of between 34,000 and 59,000 square feet of space.
- Meeting space reflective of a 0.28 meeting to exhibit space ratio, increased from the current 0.24 LCC ratio. This would result in total meeting space of between 28,000 and 35,000 square feet, increased from the current 16,100 square feet of LCC meeting space.
- Consideration should be given to eliminating the retail and food court space within the LCC complex to allow for the most functional LCC expansion possible. This would “push out” demand and associated pedestrian traffic for restaurant and retail to surrounding establishments in the downtown area.
- The existing LCC ballroom space is sufficient to accommodate future event demand.

The development of this space within the confines of the existing LCC complex will be challenging from an architectural and engineering perspective. Highly experienced, nationally recognized convention center architects should be retained to evaluate options for expanding the LCC space in a manner that addresses event planner requirements.

It is important to reiterate the need for additional hotel inventory to support any investment in LCC space. Our research suggests that added room inventory of at least 400 rooms located proximate to the LCC would be important to achieving increased market capture for the LCC.

The current LCC does not provide fixed-seating space; however, as discussed earlier, Rupp Arena is frequently utilized to accommodate the flat floor and/or fixed seating needs of certain large events. As the future of Rupp Arena continues to be evaluated, one proposed redevelopment plan would include a new fixed seat theater venue providing approximately 2,500 seats. The envisioned facility would be capable of hosting a variety of event types (i.e., concerts, theatrical performances, Broadway shows, University events and performances, general sessions, etc.). Based on conversations with LCVB management, the addition of such space could potentially free up the LCC’s ballrooms to accommodate the space needs of existing or new events. We have also spoken with individuals in the local arts community who have expressed a desire for and an ability to fill new performing arts space in Lexington.

We do not view the fixed-seating component as critical to the success of the convention industry in Lexington; however, it may represent a competitive advantage when competing for large conventions and general sessions, and may serve some segment of the performing arts and other entertainment needs of the community. It should be noted that we have not conducted a market analysis of the performing arts facility needs in Lexington as part of this study.

VIII. Analysis of Economic, Fiscal and Financial Operating Impacts

The purpose of this chapter is to provide an analysis of the potential economic and financial operating impacts that could be generated by attracting events associated with enhancements to the LCC program of space and associated hospitality improvements. The evaluation of the economic benefits generated by such a project is a primary component in the project decision making process. The following key issues are addressed in this chapter:

- Economic and Fiscal Impact Concepts
- Convention Center Economic Impacts
- Non-Quantifiable Impacts
- Estimated Future Convention Center Financial Operations

The annual operations of a convention center provide significant benefits to an area. Economic impacts are conveyed through measures of direct spending, total economic impact, personal earnings and employment. These specific terms are defined later in this chapter.

The economic and fiscal (tax) impact analyses contained in this chapter assume the identified development programs presented in the previous section and an emphasis on attracting events to an expanded LCC that will serve to maximize out-of-town attendees to the community.

Economic and Fiscal Impact Concepts

The impact of a convention center is maximized when out-of-town attendees spend money in a community while attending a facility event. This spending by out-of-town attendees represents new money to the community hosting the event. This new money then creates multiplier effects as the initial spending is circulated throughout the local economy.

The characteristics of these effects are generally discussed in terms of their direct, indirect and induced effects on the area economy. These terms are further defined as:

- Direct effects consist primarily of initial purchases made by delegates or attendees at an event from out-of-town. This spending typically takes place in local hotels, restaurants, retail establishments and other such businesses. As an example, direct spending occurs when an out-of-town event attendee makes expenditures in a local hotel for overnight accommodations.
- Indirect effects consist of the re-spending of the initial or direct expenditures. An example of indirect spending is when hotel management makes purchases for materials and labor to support operations. This spending can continue as employees of the hotel make purchases throughout the local economy.
- Induced effects consist of the positive changes in employment, earnings and tax collections generated by changes in population associated with the direct and indirect expenditures.

The re-spending of dollars in an economy is estimated by utilizing economic multipliers and applying them to the amount of direct, or initial spending. The “multiplier” effect is estimated in this analysis using a regional economic forecasting model provided by the IMPLAN Group, Inc., a private economic modeling company. The IMPLAN system utilizes an input-output matrix with specific data for multipliers based on regional business patterns from across the country. Financial information for the matrix of multipliers is collected from various sources that include, but are not limited to, the U.S. Department of Labor, as well as state sales and tax reports. The system utilizes this data to determine the economic independence of specific geographic regions, as well as the interdependence which exists between industries in those regions. The systems provide total economic impact, personal earnings and employment data for approximately 440 industry segments.

For purposes of this analysis, results of the economic impact analyses are measured in terms of the following categories:

- Total Economic Impact represents the total direct, indirect and induced spending effects generated by the project. This calculation measures the total dollar change in output that occurs in the local economy for each dollar of output delivered to final demand.
- Salaries/Wages represent the wages and salaries earned by employees of businesses associated with or impacted by the project. In other words, the multiplier measures the total dollar change in earnings of households employed by the affected industries for each additional dollar of output delivered to final demand.
- Employment represents the number of full and part-time jobs. The employment multiplier measures the total change in the number of jobs in the local economy for each additional \$1.0 million of economic impact delivered to final demand.

The initial spending of new dollars into an economy begins a series in which the dollars are cycled through the economy. The re-spending of the dollars is estimated by utilizing the economic multipliers discussed above and applying them to the amount of direct, or initial, spending. The multiplier illustrates that spending in a defined economy will lead to additional spending until that dollar has completed its cycle through leakage. Leakage represents the portion of a dollar spent in areas outside the designated economy, such as the taxes paid on purchases of goods and services.

Convention Center Economic Impacts

One of the primary sources of direct spending related to convention center activity involves attracting event attendees from outside the local area to make purchases in area hotels, restaurants, retail entertainment and other visitor industry establishments. Events attracting attendance largely from the Lexington area, including many public/consumer shows, meetings, conferences, banquets, family shows and other such local events generally represent a displacement of spending. Most of these local attendees would likely have made expenditures within the local area in some other manner had the event not been held. In contrast, attendance among convention and tradeshow events is often non-local in nature, resulting in a greater propensity to generate significant levels of economic impact on the host community.

The analysis of direct spending related to convention center activity begins with estimating the number of event attendees that could be attracted to the facility. As such, we have developed estimates as to potential future event and attendance characteristics for the LCC. These estimates are based on the event, attendance and event day information related to historical LCC event characteristics, operations of competitive and comparable convention centers and our market demand analysis.

Exhibit VIII-1 highlights the number of events, total event days and out-of-town delegate days for events currently utilizing the LCC, and events that could potentially utilize an expanded LCC assuming the program and hotel elements presented in this report. Data for the LCC are presented in terms of a two-year average of historical operations spanning fiscal years 2009 and 2010. Estimates for expanded LCC assume additional hotel inventory is developed downtown and represent a stabilized year of operations (assumed to be year five).

**Exhibit VIII-1
Summary of Historical and Estimated Future LCC Event Characteristics**

	Existing Center (1)	Expanded Center
Number of Events:		
Convention/Trade		
Local	10	12
State	25	25
Regional	8	11
National	15	18
Other	4	6
Meeting/Banquet	96	125
Public Sale/Expo	30	31
Social/Other	32	42
Total	219	270
Total Delegate Days		
Convention/Trade		
Local	5,340	6,720
State	45,423	45,625
Regional	10,385	15,400
National	34,012	45,000
Other	1,751	3,000
Meeting/Banquet	62,476	87,500
Public Sale/Expo	53,060	55,800
Social/Other	29,766	42,000
Total	242,212	301,045
Out-of-Town Delegate Days		
Convention/Trade		
Local	599	672
State	28,135	27,375
Regional	5,753	8,470
National	30,536	40,500
Other	899	1,500
Meeting/Banquet	25,901	35,000
Public Sale/Expo	20,417	20,925
Social/Other	10,754	14,700
Total	122,995	149,142

(1) Data represent a 2-year average of LCC operations (spanning fiscal years 2009 - 2010).

Notes: Estimates are based on CSL assumptions and projections.

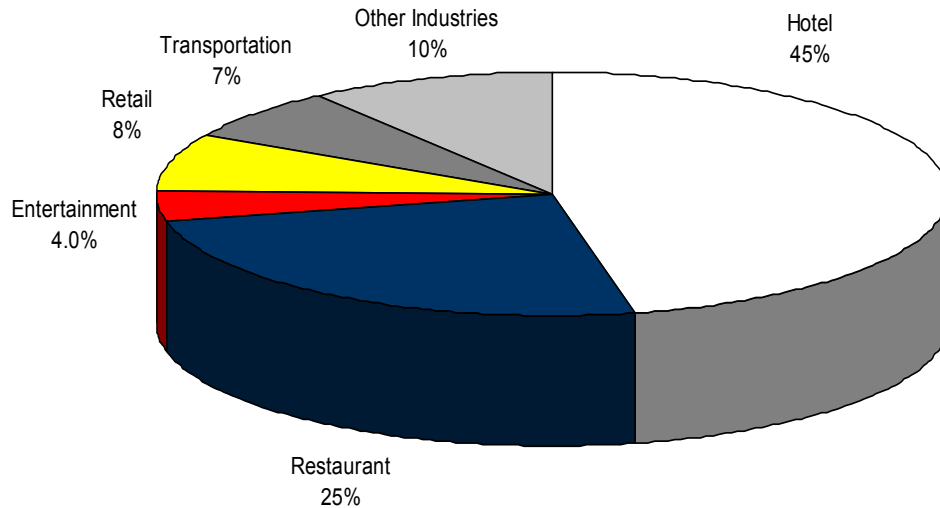
Future estimates reflect a stabilized year of operations.

Source: CSL International; LCC, 2011

The LCC has hosted an average of 219 total events over the past two fiscal years. This activity has generated an estimated 123,000 out-of-town delegate days to the LCC annually. An expanded LCC and associated hotel supply could potentially increase the market's ability to capture a larger base of conventions, tradeshow and other such events with significant out-of-town attendance. The number of out-of-town delegate days under the identified building program levels could reach nearly approximately 149,000 in a stabilized year of operations, representing an increase of 21 percent over current LCC out-of-town delegate day levels. This non-local attendance provides the basis for added hotel room night generation. This analysis assumes the development the previously identified building program, in addition to a new hotel near the LCC, as described previously in this report.

Exhibit VIII-2 presents the direct spending associated with the existing LCC, as well as that which could be expected from the target program levels for an expanded facility.

**Exhibit VIII-2
Breakdown of Estimated Annual Direct Spending
(Upon Stabilization of Operations in 2011 Dollars)**



Estimated Direct Spending:	
Existing LCC	\$28,864,000
Expanded LCC	\$37,064,000

As presented in the exhibit, the estimated total annual direct spending associated with the existing LCC is approximately \$28.9 million, taking place in hotel, restaurant, retail and other visitor industries. For purposes of comparison, the estimated total annual direct spending associated with an enhanced LCC and hospitality program approximates \$37.1 million in a stabilized year of operations (in 2011 dollars). These dollars are distributed throughout the economy through a number of sectors, the largest of which is hotel accommodations, comprising an estimated 45 percent of total direct spending. Direct spending on restaurants accounts for 25 percent of total direct spending. The remaining 30 percent is spread across such sectors as entertainment, retail, auto rental, local transit and other industries.

As the direct spending flows throughout the local and state economy, additional rounds of spending, employment and earnings are generated. The total impact generated is estimated by applying specific industry multipliers to the initial expenditure to account for the total economic impact of the re-spending activity. The application of the multipliers involves calculating the product of the estimated amount of direct spending and the multiplier.

The multipliers used in this economic impact analysis as generated by the IMPLAN economic analysis system specifically for the Lexington area are presented below in Exhibit VIII-3.

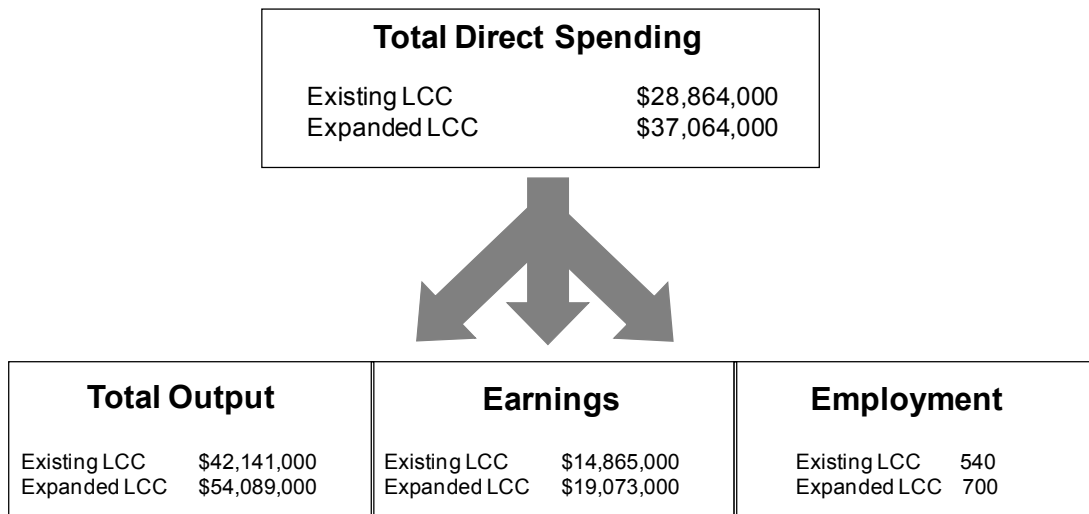
**Exhibit VIII-3
Economic Impact Multipliers for Lexington**

Industry	Output	Employment	Earnings
Hotel	1.476	14.484	0.472
Restaurant	1.453	21.988	0.510
Entertainment	1.446	18.525	0.588
Retail	1.380	23.790	0.648
Auto Rental	1.484	25.618	0.672
Other Local Transit	1.484	25.618	0.672
Other Industries	1.452	23.260	0.489

Note: Employment multiplier is applied to direct spending divided by 1,000,000.
Source: Minnesota IMPLAN Group, 2011

The total estimated direct expenditures generate effects on the economy that extend beyond the initial expenditures. Exhibit VIII-4 summarizes the overall economic effects associated with the existing LCC, as well as those that could be expected given the potential event activity assumed with an enhanced facility, based on the application of the IMPLAN multipliers.

**Exhibit VIII-4
Estimated Annual Economic Impacts Upon
Stabilization of Operations (in 2011 Dollars)**



As outlined in the exhibit, the estimated level of total annual economic impact (total direct and secondary spending) at an enhanced LCC is estimated to total slightly more than \$54 million under the recommended building program, compared to approximately \$42 million for the existing LCC. The premium in economic impact associated with additional convention space and hotel inventory is largely attributed to the ability to attract a greater number and proportion of convention and tradeshow events with significant out-of-town attendance.

Total salaries and wages associated with an expanded LCC are estimated at approximately \$19 million annually, while full and part-time employment levels supported by LCC operations could approach 700 total primary and secondary positions. As shown, the enhanced LCC program result in increases in impact above levels currently generated by the LCC, largely due to the limited ability of the existing facility and hotel inventory to generate significant levels of conventions and tradeshow events with out-of-town attendance.

Non-Quantifiable Impacts

Attendees of convention center events can significantly benefit numerous industries and enhance economic activity throughout the entire community. Primary visitor industries, including hotels, restaurants, retail establishments, local transportation and related industries can benefit directly from a convention center. Indirect effects can benefit various support industries including the wholesale, distribution, manufacturing and other industries.

In addition to the more quantifiable benefits of potential additions to the market's convention space offerings, certain benefits cannot easily be quantified. These qualitative benefits for the area could include:

- Enhanced economic growth and ancillary private sector development spurred by the operations and activities associated with the facility. For example, a convention center can represent a component of economic support for hotel and restaurant development in areas surrounding the center. These hotel and restaurant businesses can pay significant property and sales tax.
- The attendees drawn to the downtown area can help support past and potential future investment in the development of the downtown area, creating a more desirable destination for both visitors and residents.
- Support tax collection levels on a visitor spending base, thereby reducing the need for added taxes on local residents.
- Broader level of exposure of the area to corporate and association business executives. In some cases, a convention center can be used to attract events that tie into the targeted industries for economic growth in a community. As events in these sectors are held in a community, business leaders are exposed to the opportunities for business relocation and other initiatives.
- Diversified, consumer-oriented activities for families in the local area attending Center events. Both a center and the surrounding entertainment amenities can offer a desirable location for hosting local events. The LCC currently hosts a significant number of locally oriented events, and a larger LCC and surrounding entertainment options can further benefit local residents.

Estimated Future Convention Center Financial Operations

Based on our market, program and event analysis findings, an analysis of the estimated financial operating characteristics of potential convention center enhancement in Lexington was also conducted. The analysis considers revenues and expenses generated through the operation of the facility itself, and does not consider various non-operating aspects, such as parking or convention marketing. We begin with a summary of recent financial operating characteristics of the LCC.

Exhibit VIII-5 outlines operating revenues and expenses for the three-year period spanning fiscal years 2008 through 2010.

Exhibit VIII-5 Summary of Historical LCC Financial Operations

	FY 2008	FY 2009	FY 2010
Operating Revenues:			
Building rent	\$1,264,507	\$1,249,609	\$1,338,366
Equip. rental & services:			
Equipment	823,279	827,527	919,814
Ancillary	212,319	157,944	157,845
Drayage	4,412	1,300	4,219
Other	10,523	40,787	8,043
Box office services	4,045	4,110	4,699
Concessions	346,831	263,329	308,921
Commissions	5,195	12,288	4,175
Ticket bond fee	12,909	15,552	11,202
Total Operating Revenues	\$2,684,020	\$2,572,447	\$2,757,283
Operating Expenses:			
Equipment rental & service costs	\$138,257	\$103,165	\$88,425
Cost of food & beverage	70,667	33,663	96,811
Miscellaneous income costs	276	21,624	59,789
Contract labor	7,588	16,641	10,536
Utilities	604,254	663,573	598,417
Repairs and parts	793	0	983
Operating supplies	185	305	610
Indirect costs:			
Executive	289,289	275,760	280,447
Human Resources	46,749	48,585	46,183
Business Affairs	127,228	135,260	132,028
Arena Management	19,636	22,392	23,616
Convention Sales	362,845	364,178	385,245
Facilities Services	578,443	556,368	608,050
Security	78,482	67,623	68,938
Facilities Administration	93,018	111,866	108,696
Information Services	49,984	50,154	35,215
Engineering	305,975	309,408	340,229
Technical Services	95,437	88,422	97,678
Special projects	27,633	29,256	33,769
Box Office	34,782	134,776	128,872
Concessions	103,990	15,917	126,244
Lexpo	344,829	384,884	439,720
Total Operating Expenses	\$3,380,341	\$3,433,821	\$3,710,500
Net Income (loss)	-\$696,321	-\$861,374	-\$953,217

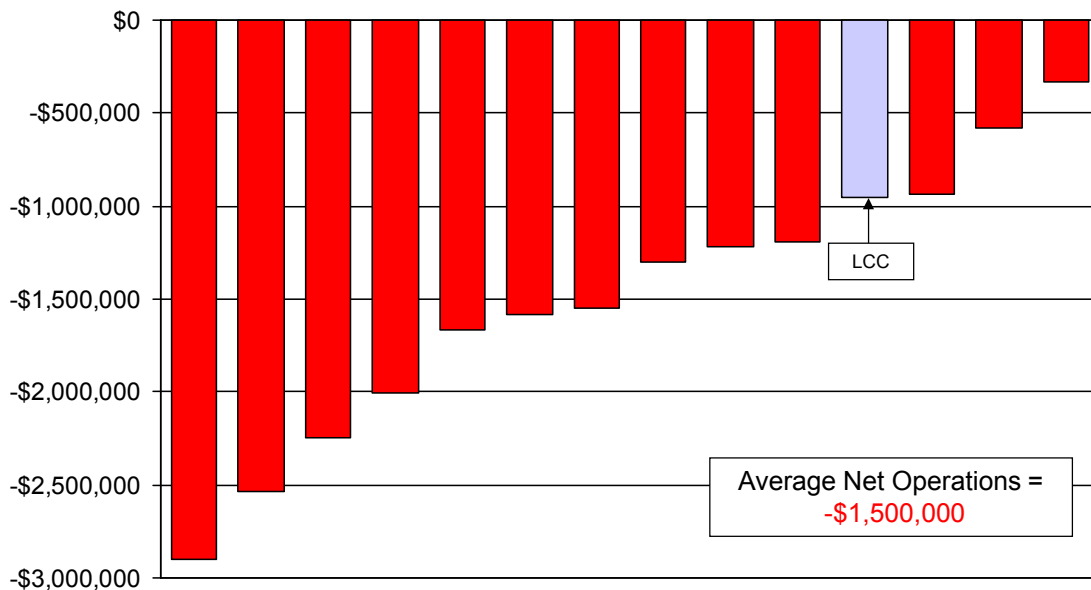
As presented, the total net loss incurred by LCC operations has increased each of the past three fiscal years, from \$696,000 (in fiscal year 2008) to an estimated \$953,000 in fiscal year 2010, respectively. It is important to note that there are many shared costs between LCC and Rupp Arena facilities; however, the figures presented on the previous page provide a basis for which to compare the facility's operations with that of similar venues nationwide, as well as an indication as to how an expanded LCC could perform financially.

Regardless of potential future convention facility development in Lexington, public subsidies will continue to be necessary in order to operate the LCC into the foreseeable future. For purposes of comparing historical LCC operating subsidies with other national convention centers, we have collected and reviewed recent year financial operating statements for mid-sized market convention centers. Markets considered in this analysis include the following:

- Covington, KY
- Jackson, MS
- Knoxville, TN
- Little Rock, AR
- Louisville, KY
- Memphis, TN
- Palm Springs, CA
- Providence, RI
- Santa Clara, CA
- Savannah, GA
- Shreveport, LA
- St. Paul, MN
- Tulsa, OK

Exhibit VIII-6 presents a summary of net financial operations for the convention centers within the cities listed above.

**Exhibit VIII-6
Summary of Net Financial Operations –
Competitive & Comparable Convention Centers**



Note: F&B revenue is presented in terms of net proceeds to the facility. Non operating revenues such as parking are not considered in this analysis.

Source: CSL, facility management, 2011

As presented above, convention centers in mid-sized markets (similar to Lexington) typically operate at an average annual loss of approximately \$1.5 million, with some facilities experiencing annual operating losses of nearly \$3 million. Communities are often willing to subsidize the operations of such facilities in exchange for the new spending that takes place as a result of drawing thousands of out-of-town event attendees to the area and other resulting economic impacts. Ranging from approximately \$700,000 to \$950,000 in recent years, the operating subsidy at the LCC is comparatively low when considering the markets reviewed.

Applying various elements of past facility operations, competitive and comparable facility operations, event demand characteristics, industry trends, facility pricing, cost structures, assumed development scenarios and related elements, we recommend planning for operating subsidies for an enhanced LCC in the range of \$1.25 million to \$1.5 million. If a new theater is developed and jointly operated with the LCC, it would be prudent to assume an additional \$250,000 in operating subsidy.