QUESTIONS AND TOPICS FOR PSP, LCCCA AND RACL

The Board of Commissioners for Lancaster County requests that Penn Square Partners ("PSP"), the Lancaster County Convention Center Authority ("LCCCA") and the Redevelopment Authority of the City of Lancaster ("RACL") – as a part of their presentation of information to the Commissioners regarding the TIF Act application for the combined convention center and hotel in downtown Lancaster – address the following questions and topics.

The Commissioners may ask additional questions and raise additional topics as they continue to analyze the TIF Act application and further information is provided to them. The Commissioners have a responsibility to protect the interests of Lancaster County taxpayers. In 2003, the County guaranteed one-half of a $40 million bond sale, which exposes taxpayers to a total potential liability in excess of $60 million.

Commissioner Shaub has not presented any of these questions. He believes the information he needs to evaluate the TIF Act application has either already been provided or will be provided in the upcoming presentation to the Commissioners.

1. Timing of the TIF Application and Supporting Information

- You explained that Interstate Hotels Group is working on updated financial projections for the Convention Center and Hotel. We assume this report will be a component of the "economic feasibility study" required by the TIF Act.

  Unfortunately, you do not expect to receive Interstate's report until the close of business on Friday, March 11. That means the County Commissioners, City Council and the School Board will receive the report just one business day – Monday, March 14 – before you expect the School Board to vote on the proposed TIF at its meeting March 15.

  Given the importance of the economic feasibility study to the consideration of this project by the Commissioners, City Council and the School Board, why is this information from Interstate being provided at such a late date?

- Why did you not initiate the TIF process in mid-December 2004, at the same time you decided to transfer ownership of the hotel property to RACL? Did you believe then that a for-profit hotel operation can avoid local real estate tax if the property is leased from RACL? What happened since mid-December 2004 to lead you to change your mind and propose the TIF?

2. 2003 County Guarantee of Financing

- Exhibit 7 of the Project Plan identifies $40 million from the 2003 Hotel Tax Revenue Bonds as part of the LCCCA's contribution toward funding of the Convention Center.

  However, according to the Closing Statement from the 2003 bond sale (Tab 1), only $31,649,932 from the $40 million bond sale was placed into the Construction Account generated by the bond sale, with the balance of the bond proceeds going to pay for closing costs and other accounts.

  Why does Exhibit 7 show that $40 million from the bond sale is available for project funding, if the Closing Statement from the bond sale says that only $31,649,932 is available in the Construction Account?

- Further, it appears that no money from the 2003 bond sale can be used directly to fund construction of the Convention Center.

  Section 5.02(c) of the Trust Indenture between LCCCA and Manufacturers and Traders Trust Company, dated December 15, 2003 (Tab 2), states that no construction funds from the bond sale may be disbursed until the initial $40 million bond is converted to $40 million in tax-exempt bonds. Only the proceeds from the tax-exempt bond sale will be available to fund construction costs.

  Thus, the funds to be used for construction of the Convention Center will come not from the proceeds of the initial 2003 bond sale, but rather from the proceeds of the subsequent tax-exempt bond sale.

  If the initial 2003 bond sale did not generate funds that could be used for construction of the Convention Center, why was it held?

- According to the Closing Statement from the 2003 bond sale (Tab 1), there were $423,674 in closing costs associated with that sale.

  Further, as reflected in both the Closing Statement (Tab 1) and Section 5.02(a) of the Trust Indenture (Tab 2), $2,000,000 from the 2003 bond sale was set aside to pay for closing costs that will be associated with the conversion of the 2003 bond sale to tax-exempt bonds, at the time funds are actually needed for construction of the Convention Center.

  Also, pursuant to Section 202(i) of the Trust Indenture (Tab 3), the amount of interest LCCCA is paying on the $40 million bond sale from 2003 exceeds by .55% the amount of interest LCCCA is receiving on investments of its proceeds from that bond sale. This "negative arbitrage" situation appears to create an overall cost to LCCCA of approximately $220,000 a year.

The $423,674 in closing costs associated with the 2003 bond sale (most of which will need to be repeated, and paid for out of the $2 million set aside for closing costs on the future tax-exempt bond sale), plus the $220,000 per year negative arbitrage costs associated with the 2003 bond sale (approximately $275,000 over 15 months since December 2003), total approximately $700,000 to date since the 2003 bond sale.

What was the purpose of spending this $700,000 in taxpayer money (plus additional interest at $220,000 per year until the tax-exempt bonds are sold), if the funds from the 2003 bond sale could not be used to fund construction of the Convention Center?

Why not wait until construction funds are actually needed, and then generate the funds necessary for construction of the Convention Center through a traditional tax-exempt bond sale?

- Why does PSP's website (Tab 4) say that the 2003 bond sale was to finance construction of the Convention Center, when the bond sale documents state that no money from that sale can be used for construction, and that funding of construction must await the sale of traditional tax-exempt bonds?

- Was the reason for the 2003 bond sale to create a $40 million borrowing vehicle to which the then-existing Board of Commissioners could adhere the County's guarantee (as they did by a 2-1 vote), which guarantee is then transferred under the documents to the tax-exempt bond when construction funds are actually needed, all as a means to preclude the Board of Commissioners at the time such funds are actually needed from voting on whether to have the County guarantee the $40 million borrowing?

  If so, were you aware it would cost $700,000 (and counting) of taxpayer money to accomplish the goal of avoiding such a vote by a future Board of Commissioners?

  If so, why was this justification not explained publicly at the time of the 2003 bond sale or at the time of the 2003 County guarantee? Why has the public explanation instead been that the 2003 bond sale will finance construction of the Convention Center, when the reality is such funds cannot be used for that purpose?

- Page 2 of the Guaranty Agreement entered by the County in December 2003 (Tab 5) provides that during the 40 year lifetime of the bond (unless it is refinanced earlier to tax-exempt bonds), the County will guarantee up to $1,506,960 per year. Multiplying 40 times that annual guarantee maximum amount equals $60,278,400. Are County taxpayers therefore exposed to a potential liability under the 2003 bond sale of $60,278,400?

3. **Interaction of Hotel, Convention Center and "Common Elements"**

- The cost allocation provided to the Commissioners on March 2, 2005 (Tab 6), states that the Convention Center will cost $68.7 million and the hotel will cost $60.3 million. How much of those costs cover the "common elements" to be shared by both facilities?

- What is the square footage allocation between the Convention Center, the hotel and the common elements?

- Please specify all arrangements or agreements between the Hotel (PSP) and Convention Center (LCCCA) regarding use of the common elements and of each other's facilities. If such details are not yet established, please identify whether such arrangements or agreements will be "arms length" transactions or some other kind of transactions.

- To the extent not already identified in the Project Plan, please identify (a) any payments made or anticipated to be made from LCCCA or RACL to PSP, and (b) any expenditures made by LCCCA or RACL that will benefit PSP or the hotel operation.

4. **Convention Center**

- Page 8 of the Project Plan identifies three "market feasibility studies" concerning the Convention Center (two by Pricewaterhouse Coopers LLC in 2000 and 2003, and one by C.H. Johnson in 2003), and one additional report concerning parking by Cagley & Harman in 2003.

  Given the changes in the convention industry since 2003, how much reliance do you believe the Commissioners, City Council and the School District should place on these reports?

- The initial Pricewaterhouse Coopers report from 2000 projected the market demand for a downtown Lancaster convention center based in large part on written surveys completed by state and regional associations.

  According to page 43 of the 2000 report (Tab 7), where an association responded to the survey indicating that it might "possibly" use a downtown Lancaster convention center, Pricewaterhouse Coopers characterized that response as indicating the association was a "likely" user of a Lancaster convention center. Then, in evaluating the market demand for the convention center, Pricewaterhouse Coopers relied heavily on such "likely" users of the proposed facility.

Are you concerned that by characterizing an association which indicated it would "possibly" use the convention center as a "likely" user of the convention center, Pricewaterhouse Coopers may have overestimated the market demand for the convention center?

Please provide copies of all completed surveys received by Pricewaterhouse Coopers in its 2000 evaluation of the market demand for a downtown Lancaster convention center.

- At page 31 of its 2003 report (Tab 8), Pricewaterhouse Coopers acknowledges that of the "likely" users of a downtown Lancaster convention center from its 2000 survey (including those who had indicated they might "possibly" use the facility), only about 80% would consider using the convention center.

  If only 80% of the former "likely" users from 2000 remained willing to consider using the facility in 2003, was that not an indication of decreased market interest in the downtown Lancaster convention center?

  Please provide copies of all completed surveys received by Pricewaterhouse Coopers in its 2003 evaluation of the continuing market demand for a downtown Lancaster convention center.

- The C.H. Johnson report from 2003 (Tab 9) provides absolutely no backup data or analysis to support its projected usage of the convention center and related financial assumptions concerning operation of the convention center.

  Did you receive any backup data or analysis to accompany this report? If so, please provide it.

5. <u>Hotel</u>

- Page 1 of the Project Plan describes the proposed hotel as a "full service" hotel. Previously, project consultants had described the facility as a "four-star hotel" (PricewaterhouseCoopers, Robert V. Canton, November 6, 2000) (Tab 10), and an "upscale, full-service hotel" (Ernst & Young, LLP, April 28, 1999) (Tab 11).

  Is the Marriot Hotel going to be designed and constructed to a "four-star" or "upscale" quality, so that it obtains a higher ranking in the hospitality industry than the five local "competitive" hotels identified in the 2005

Smith Travel Report (Willow Valley, Best Western Eden Resort, Holiday Inn Lancaster, Hampton Inn and Hilton Garden Inn)?

If not, what justifies your assumption that the Marriot Hotel will be able to charge the premiums in average daily hotel rate you have projected, as compared to the rates you have projected for the "competitive" hotels ($130.50 as opposed to $117.40 in 2007, and $142.50 as opposed to $125.75 in 2009)?

If not, what justifies your assumption that at these premium rates, the occupancy rate at the Marriot Hotel will equal the occupancy rate you project for the "competitive" hotels (68% by 2009)?

Does your analysis take into account that parking at the "competitive" hotels is free, and parking at the Marriot Hotel will be for a fee? Doesn't the existence of a parking fee at the Marriot increase the effective daily rate to patrons as compared to the daily rate at "competitive" hotels? Won't parking fee information be readily available and relied upon by convention planners and the traveling public?

What was the basis for selecting the five "competitive" hotels from among those in the Lancaster market? Why is the Lancaster Host not included in your "competitive" set of hotels?

- Pages 24-25 of the HVS Market Study issued in 2003 (Tab 12), provide that in projecting demand for the hotel, HVS relied upon a "recent" study commissioned by the LCCCA. However, the data relied upon is from the PricewaterhouseCoopers 2000 report, which was three years old at the time HVS relied upon such projections. In addition, the projections of PricewaterhouseCoopers (as stated above) relied upon its characterization of convention planners who might "possibly" use the downtown Lancaster convention center as "likely" users of the facility.

  Do you believe that such reliance on the 2000 PricewaterhouseCoopers study undermines the credibility of HVS's projection of hotel rooms attributable to Convention Center attendance?

- HVS projects that total attendance of 10,000 at conventions and trade shows hosted by the Convention Center will translate to 22,500 room nights at the hotel, that total attendance of 70,000 at consumer shows hosted by the Convention Center will translate to 18,750 room nights at the hotel, and that total attendance of 24,000 at other events hosted by the Convention Center will translate to 3,900 room nights at the hotel, for a total of 45,150 room nights at the hotel generated from the Convention Center.

Can you provide statistical data from other combined convention centers and hotels to support your projected ratios between uses of the proposed convention center and hotel room nights in Lancaster?

- Do you dispute Heywood Sanders' contention that currently in the industry, the trend is approximately a 1-to-1 ratio of convention and trade show attendance to room nights, and that the ratio of room nights being generated by consumer shows and other events is lower than your projections?

- Please provide a copy of the lease for the hotel (or the latest draft version of the proposed lease) between RACL and PSP that is referenced on page 1 of the Project Plan.

6. **Parking**

- Page 5 of the Project Plan states that the Lancaster City Parking Authority will lease a "portion" of the King Street garage to the LCCCA, and that LCCCA and the Parking Authority will build a new parking garage with 300 spaces to augment the King Street garage. What will be the cost to the LCCCA and the Parking Authority, respectively, for this new parking garage?

  How many spaces in the King Street garage will be leased to the LCCCA? The same number of new spaces being created in the new garage (300)?

- The 2003 Cagley & Harman report states at page I-2 (Tab 13) that the Convention Center will create a total parking demand of 1058 spaces. Taking into account some parking availability outside of a parking garage, the Cagley & Harman report concludes that the "parking structure servicing the LCCC should have a minimum capacity of 846 spaces."

  If there are only 300 spaces available for the Convention Center at the King Street garage, where are the additional 546 spaces that Cagley & Harman says are needed?

  Do you believe the parking plan identified at page 5 of the Project Plan reflects a feasible approach for the project?

- Who is paying for the improvements to the King Street garage identified on page 5 of the Project Plan, and at what cost?

- What is the projected parking cost for patrons of the Convention Center and the Marriot? As asked earlier, won't the existence of a parking fee impact the room rate and occupancy factors at the Marriot?

- Please provide copies of any agreements between the LCCCA and the Parking Authority.

7. Project Costs

- As required by the TIF Act, please provide a "detailed list" of all the estimated project costs that are shown on Exhibit 6 of the Project Plan. Also, please identify who prepared such detailed information, and when.

- Do your current cost projections take into consideration cost escalation likely to occur between now and the time contractors submit bids on the construction contracts? If the TIF is approved, when will bids be submitted?

- What happens to the project if the TIF is approved, but the construction bids exceed the construction budget? What is the specific impact under such circumstances to the County's 2003 guarantee?

- Regarding site acquisition costs of $5,290,000, who paid or owes this amount, to whom, and for what site? As part of this, please include any payments made or owed to PSP for the Convention Center site.

- Please provide the most recent detailed estimate of "hard costs" projected in the amount of $77,946,045, identifying when the estimate was prepared and by whom.

- Regarding furniture, fixtures and equipment costs of $14,421,000, please provide a detailed list identifying what items are to be purchased, by whom, at what projected cost, and who will retain ownership of such items.

- Regarding professional fees and soft costs of $14,980,000, please provide a detailed list identifying the nature of such costs and to whom they are to be paid.

- Please provide a detailed list of the projected financing costs of $11,768,844.

- What is the purpose of the "Reserve for Future Eligible Project Cost" account in the amount of $5,200,000?

8. Project Financing

- Regarding the three state grants RACL has secured in the aggregate amount of $7,250,000 (page 10 of the Project Plan), have any express limitations been imposed on the use of those funds. If so, what limitations have been imposed, by whom and through what written document? Please provide copies of any such documents.

- Has RACL received any of the funds from such grants? If so, how much and when was the money received? If not, what is the funding source from which RACL has loaned PSP $3.2 million, as indicated on page 10 of the Project Plan?

- With regard to the $3.2 million loan from RACL to PSP (page 10 of the Project Plan), please specify all uses of the loan proceeds and the amount of each use. What is the interest rate on the loan? Will the loan be repaid if the project does not go forward? Please provide a copy of the loan agreement.

- Please identify the additional $12 million state grant RACL intents to seek, referred on page 10 of the Project Plan. What verbal or written assurances have been made that such grant will be approved, and by whom? Please provide a copy of any written assurances.

- The annual state grant expected to support a $12 million bond offering over 20-years (page 10 of the Project Plan) is subject to review by DCED and the Pennsylvania Department of Revenue after three years. It will be renewed beyond three years only if you establish that the incremental sales, uses & occupancy and personnel income taxes generated by the project equal the amount of the grant paid during the first three years.

  As depicted in the March 2003 Financial Projections provided by PSP, the vast majority of the projected incremental taxes generated by the project come from sales and use tax paid at the Marriot Hotel. If the amount of such incremental taxes attributable to the sales and use paid at the Marriot are substantially lower because your projected premium hotel rates and your projected occupancy rate are not fulfilled, does that place at risk the receipt of the state grant for the final 17 years of the 20-year grant?

  If the state grant is terminated after 3 years because the projected sales and use taxes paid at the Marriot Hotel do not materialize, what is the amount of potential liability to the City of Lancaster, which must guarantee the bonds?

- Exhibit 7 of the Project Plan states that Penn Square Partners is contributing $35.3 million of "private sector" funding toward the project.

  However, this amount includes $10 million in TIF note payments, which is money that but for the TIF would be paid in real estate taxes to Lancaster County, the City of Lancaster and the School District of Lancaster. Because it is the three taxing authorities that would be agreeing to relinquish their right to $10 million in tax revenue, is it not more accurate to portray this $10 million as a public sector contribution by those three taxing authorities, rather than as a contribution by PSP?

- Does PSP or any of its affiliates intend to seek federal income tax credit for the $10 million in private investment? If so, and if such credit is provided, to what extent will that likely reduce the true cost of such investment?

- Is PSP's financial risk in this project limited to its $10 million investment? If not, please explain any other financial risk to PSP?

- Is PSP's $10 million contribution allocated to any specific purchase or cost?

- Has PSP, LCCCA or RACL received any written assurance from legal counsel that the $40 million bonds that ultimately will be issued to finance construction of the Convention Center will be entitled to tax-exempt status pursuant to the Internal Revenue Code provisions distinguishing between "governmental issues" and "private activity bonds"?

  Will the bonds be a governmental issue or a private activity bond?

  If the latter, will the bonds qualify for an exclusion of interest from federal income tax pursuant to Section 141 of the Internal Revenue Code?

  If the bonds do not qualify for tax-exempt status pursuant to the Internal Revenue Code, what would be the ramifications on the project? On the County's 2003 guarantee?

9. <u>Operating Costs and Income</u>

- Please provide detailed line item lists of all projected operating costs and income for both the convention center and hotel. Please identify who prepared the lists and when they were prepared.

10. <u>External Economic Impact</u>

- Page 2 of the Project Plan states that after construction is completed, the convention center and hotel will generate up to 250 full-time equivalent permanent jobs. In contrast, financial projection materials PSP provided the Commissioners dated March 2005 state that the convention center and hotel will generate 207 full-time equivalent permanent jobs. Which number should the Commissioners, City Council and the School Board rely upon in evaluating the external economic impact of the project?

- What is the projected hourly wage rate for the "service" positions anticipated for the hotel and convention center?

- The allocation of project costs provided on March 2, 2005 (Tab 6) allocates $60.3 million to the construction of the hotel. At page 2 of the Project Plan, you state that the assessed value of the hotel (which equates to fair market value) immediately upon completion of construction will be $28.3 million.

  What is the basis for your assertion that the fair market value of the hotel immediately upon construction will be less than half of the construction cost?

  Please provide a copy of any appraisal you have received from a Pennsylvania certified appraiser supporting this determination.

- Based on current real estate tax rates for Lancaster County, the City of Lancaster and the School District of Lancaster, the totals mills of 30.582 is allocated 9.69% to the County (2.962 mills), 25.08% to the City (7.67 mills) and 65.23% to the School District (19.950 mills).

  Given these percentages, why does PSP offer the City a larger amount of "PSP Priority" payments than it offers to the School District? (In the March 2005 financial projections provided by PSP, see the "Summary" page for the 20 year period.)

  Why does PSP offer no "PSP Priority" payments or "PSP Participation" payments to the County?

  Why are the PSP Priority payments and the PSP Participation payment not allocated among the three taxing authorities on a percentage basis that is consistent with their respective millage rates?

  Why is the City singled out for preferential treatment, and the County singled out to receive no additional payments whatsoever?

- Does Exhibit 5 of the Project Plan reflect that if PSP's projections prove accurate, the three taxing authorities over 20 years will have relinquished over $7 million in tax revenues ($19,059,700 minus $12,019,800 = $7,039,900), all of which will become profit to PSP?

11. <u>Miscellaneous</u>

- The Project Plan at page 1 identifies "Penn Square Partners" as a Pennsylvania limited partnership consisting of Penn Square General Corporation, Penn Square Limited, LLC, and Fulton Bank. There is no mention of Lancaster Newspapers, Inc., High Industries, Inc., or any of their affiliates.

Please identify the percentage ownership of Penn Square Partners, Penn Square General Corporation and Penn Square Limited, LLC.

- Page 3 of the Project Plan states that LCCCA will enter a purchase agreement with the condominium association for the Convention Center, but does not state that RACL will also enter a purchase agreement with the condominium association for the hotel. Will RACL do so? Please provide copies of all such purchase agreements to the Commissioners.

- Please provide copies of any agreements between the LCCCA and the Historic Preservation Trust regarding the proposed interpretive museum referenced at page 7 of the Project Plan.

- Although the TIF Act requires the host municipality (City of Lancaster) to sponsor the TIF, it does not require the School District and the County to opt into the TIF. That is, from a legal standpoint, the TIF program is permissible even if the School District or the County opts out of participating in the TIF. Taxing authorities that opt out of the TIF would levy real estate taxes based on future tax assessments, including any incremental assessments attributable to the project.

  Because the County's share of real estate taxes is relatively low (currently less than 10% of the combined millage of all three taxing authorities), does the economic feasibility of the project fail if only the County opts out of the TIF?

- What do you believe are the five most significant concerns and risks associated with this project?

- What do you believe are the five most significant benefits that can be achieved with this project?