GM Proving Grounds:
Review of DMB Fiscal Benefits Analysis

October 28, 2008

Prepared For:
The City of Mesa

Prepared By:
Ernst &Young LLP
Transaction Real Estate Advisory Services

Two North Central Avenue, Suite 2300
Phoenix, Arizona 85004

Table of Contents

Ernst & Young LLP
Ernst & Young Tower
One Renaissance Square
2 North Central Avenue, Suite 2300
Phoenix, Arizona 85004

Tel: +1 602 322 3000
www.ey.com

Mr. Scot Rigby
Acting Project Manager
City of Mesa
20 E. Main Street, Suite 750
P.O. Box 1466
Mesa, AZ 85211

October 28, 2008

Dear Mr. Rigby

In accordance with our engagement letter dated April 11, 2008, the Ernst & Young LLP (EY) Transaction Real Estate Advisory Services practice ("TRE") has performed certain real estate procedures to analyze the Phoenix-Mesa hotel and convention market, City of Mesa ("City" or "Client") fiscal benefits, and proposed incentives to the Developer for a proposed 1,500 room convention hotel including 640,000 SF (gross) of convention space, and a 500 room destination resort hotel on a portion of the current General Motors Proving Grounds ("Subject"). The property is located South of Elliot Road and North of Pecos Road, between South Ellsworth Road to the West and South Signal Buttes Road to the East, in Mesa, Arizona.

This report is intended solely for the use of City of Mesa and should not be used by those who did not participate in formulating the procedures. Fieldwork and analysis were completed on May 29, 2008.

We have based our estimates and assumptions on information provided by the City, the Developer, and other sources developed from our research and knowledge of the market. The sources of information and bases of the estimates and assumptions are stated in the report.

Neither our report, nor its contents, nor any of our work were intended to be included and, therefore, may not be referred to or quoted in whole or in part, in any registration statement, prospectus, public filing, private offering memorandum, loan agreement or other agreement or document without our prior written approval, which will require that we perform additional procedures, nor can it be used for any purpose other than as expressly stated in this report.

We appreciate the opportunity to provide advisory services to the City of Mesa and look forward to continuing our working relationship. If you have any questions regarding the report, please call Steve Klett at (602) 322-3637.

Sincerely,

Ernst & Young LLP

The advisory services and report prepared by EY will be subject to the following considerations and limiting conditions. The analysis and recommendation will be based on prospective information and project data provided by the Client and its advisors. We will simply evaluate the information provided and advise the Client of our findings. In addition, the Client recognizes that:

Site-Specific Conditions:

- For any land uses proposed or analyzed, EY does not represent that the land use will be a conforming use or that the zoning can be changed to an appropriate zoning code for that use.

- EY has not reviewed any environmental reports on the subject property and has not factored into its analysis any potential adverse impact or limitations pertaining to environmental issues or the costs of any related remedial efforts.

- The analysis utilized current and planned hotel and convention center data based on published documents and interviews with the officials at the City of Mesa and the Developer.

- The analysis does not estimate building permit fees, impact fees, or other planning/design fees generated by the project.

- Our analysis assumes that General Motors will vacate the premises as indicated and that development can start as planned.

- According to the Elliott D. Pollack & Company - Economic & Fiscal Impact Mesa Proving Grounds Urban Core, the actual hotel and resort developers for the proposed project have not yet been finalized. The assumptions and results indicated do not reflect specific project details, but rather show the estimated impacts of similar style resort hotels which would be expected for the proposed development area.

General Conditions:

- It is our understanding that this advisory report is for your project due diligence procedures. While we realize the engagement is subject to public disclosure laws, neither our report, nor its contents, nor any of our work were intended to be included and, therefore, may not be referred to or quoted in whole or in part, in any registration statement, prospectus, public filing, private offering memorandum, loan agreement or other agreement or document without our prior written approval, which may require that we perform additional procedures, nor can it be used for any purpose other than as expressly stated in this report.

- The report is intended for your internal use and due diligence only. We are acting as part of the Client's overall due diligence team.

- Estimates of future events described in the report will represent general expectancy concerning such events as of the reporting date. Since our estimates are based on assumptions which are inherently subject to uncertainty and variation depending upon evolving events, we do not represent them as results that will be actually achieved. Some assumptions inevitably will not materialize and unanticipated events and circumstances may occur; therefore, the actual results achieved may vary materially from the estimated results.

- EY is not obligated to update the due diligence report for events subsequent to the date of our report. All services subsequent to delivery of the report, including meetings, testimony or deposition in court or before any governmental agency, will be provided at our standard billing rates plus any expenses.

- Except as specifically stated to the contrary, the advisory report will not give consideration to the following matters to the extent they exist: (i) matters of a legal nature, including issues of legal title and compliance with federal, state and local laws and ordinances; and (ii) environmental and engineering issues, and the costs associated with their correction. The user of the advisory report will be responsible for making his/her own determination about the impact, if any, of these matters, reported.

- The reported advisory observation(s) will represent the considered judgment of the identified advisors based on the facts, analyses and methodologies described in the report. Our workpapers will be available for your review.

- All direct and indirect written information supplied by the City of Mesa, their agents and assigns, concerning the proposed development is assumed to be true, accurate and complete; additionally, information identified as supplied or prepared by others is believed to be reliable. However, no responsibility for the accuracy of such information is assumed.

- This report is intended to be read and used as a whole and not in parts.

- None of the contents of this report shall be disseminated to the public through advertising media, news media, sales media, Security Exchange Commission, or any other public means of communication without the prior written consent and approval of EY except as required by public disclosure laws.

- With respect to our analyses, our work did not include an analysis of the potential impact of any unexpected rise or decline in local or general financial markets or economic conditions or technological changes.

- EY's liability to the City of Mesa, regardless of whether such liability is based on breach of contract, tort, strict liability, breach of warrants, failure of essential purpose or otherwise, under this Agreement or with respect to the services shall be limited to the amount actually paid by the City of Mesa to EY under this Agreement. If EY is working on a multi-phase engagement for the City, EY's liability shall be limited to the amount paid to EY for the particular phase that gives rise to the liability.

EXECUTIVE SUMMARY

EY completed an analysis of a 1,500 room convention hotel including 640,000 gross square feet of convention space (320,000 SF rentable), and a 500 room resort hotel, located on a portion of the current General Motors Proving Grounds in Mesa, Arizona. The purpose of the analysis was to estimate the following:

- Fiscal benefits to the City
- Incentives requested by the Developer
- A gap analysis of the proposed project
- Market research on other convention hotel incentive packages in the U.S.

We utilized market based assumptions, in conjunction with some of the assumptions provided by the Developer in our analysis. A summary of our findings is detailed below.

City Fiscal Benefits

The following tables indicate the fiscal benefits to the City of Mesa over 30- and 50-year periods (total inflated dollars and discounted dollars).

The City of Mesa imposes a privilege tax (TPT) on the gross receipts from various types of business activities. Privilege Tax is passed on to the business customers as "sales tax." In addition to the TPT tax, the City also collects a Transient Occupancy Tax (TOT or bed tax) on hotels.

The City also collects a Use Tax which is imposed on items acquired from a retailer which are then stored or used in the City. Purchases which would have been taxable retail sales but have so far escaped the tax, may be subject to use tax, for example items purchased "out-of-state. In this analysis, it is assumed that the hotel Furniture Fixtures & Equipment is acquired out-of-Mesa and subsequently the associated FF&E cost is subject to the City use tax.

The City of Mesa imposes a privilege tax on the gross income from the business upon every construction contractor engaging or continuing in the business activity of construction contracting within the City. The tax is calculated by State law under the assumption that 65% of the total construction cost of the Subject and its land improvements are related to construction materials with the remaining 35% allocated to labor. The privilege tax (sales tax) only applies to the 65% which is considered to be the cost of construction materials. The sales tax on construction materials is a one-time collection by the governmental entity. Construction taxes will occur over the construction period. As this is prior to the date of opening, we rolled the construction taxes forward to 2012. Therefore the taxes are not discounted.

According to the City of Mesa (Tax and Licensing), Construction Tax, Use Tax, and TPT also include a Quality of Life component which is earmarked to fund various public safety, recreation, cultural, and transportation activities. The Quality of Life component is currently 0.55% of the total tax rate for the various applicable taxes.

The following table details the various tax rates applicable to the taxes discussed above.

Item	**Total Tax**
Construction Tax (one time tax - 65% of total cost)	1.75%
Use Tax FF&E (one time tax)	1.75%
Transaction Privilege Tax	1.75%
Transient Occupancy Tax (bed tax)	3.00%

Arizona law does not permit property tax abatements; however, as an alternative, cities are allowed to provide relief from ad valorem property taxes in certain areas with a Government Property Lease Excise Tax (GPLET). GPLET is a program that eliminates the real property tax obligation for a developer, replacing it with a predetermined excise tax that is dependent on the type of use

For the GPLET calculation, our analysis included the assumption that the development site is located within, and would qualify under the classification "Slum or Blighted Area" (outside a CBD). The GPLET calculation under the Slum or Blight classification includes a tax rate reduction of 20% of the GPLET rate within the first 10 years following the certificate of occupancy, resulting in an 80% tax rate basis. From the 10^{th} year and forward the tax rate basis for an improvement in a Slum or Blighted area is 100%, however this rate is also reduced 20% every 10 years (see GPLET section in body of report). The City receives 7% of the GPLET generated. A discount rate of 12% was utilized for the City benefits.

As detailed in the section Developer Benefits, the developer has requested incentives in the form of 3% and 2% of the Bed Tax for the Convention Hotel and the Resort Hotel, respectively, for a total of 30 years. In addition, the developer also requested GPLET payment for 50 years. Using the assumptions outlined above, the two hotel projects generate taxes over 30 years and 50 years, as detailed in the following tables. These tables identify the net tax benefit to the City of Mesa, after subtracting the developer incentives.

Convention Hotel

1,500 Room Convention Hotel	Total Taxes Generated by the Proposed Project Net of Developer Incentives			
City of Mesa Inflows	**30 Years NPV CF**	**30 Years Total CF**	**50 Years NPV CF**	**50 Years Total CF**
Construction Tax (less 0.55% - T/QOL)	$4,802,157	$4,802,157	$4,802,157	$4,802,157
Transportation/Quality of Life Tax - Construction	$2,200,989	$2,200,989	$2,200,989	$2,200,989
Use Tax FF&E (less 0.55% - T/QOL)	$540,000	$540,000	$540,000	$540,000
Transportation/Quality of Life Tax - Use Tax	$247,500	$247,500	$247,500	$247,500
Transaction Privilege Tax (less 0.55% - T/QOL)	$26,944,231	$125,997,739	$28,884,237	$298,937,347
Transportation/Quality of Life Tax - Sales Tax	$12,349,439	$57,748,964	$13,238,609	$137,012,951
Transient Occupancy Tax (bed tax)	$0	$0	$2,239,930	$199,675,869
GPLET Lease Payment (7% to City.)	$661,457	$2,268,000	$670,355	$2,856,000
Total Tax Payments to the City	**$47,745,772**	**$193,805,348**	**$52,823,776**	**$646,272,812**

Pilot Program City of Mesa Inflows	30 Years NPV CF	30 Years Total CF	50 Years NPV CF	50 Years Total CF
Potential Property Tax to the City	$2,944,183	$12,712,580	$3,104,456	$26,504,149

Resort Hotel

500 Room Resort Hotel	Total Taxes Generated by the Proposed Project Net of Developer Incentives			
City of Mesa Inflows	**30 Years NPV CF**	**30 Years Total CF**	**50 Years NPV CF**	**50 Years Total CF**
Construction Tax (less 0.55% - T/QOL)	$982,800	$982,800	$982,800	$982,800
Transportation/Quality of Life Tax - Construction	$450,450	$450,450	$450,450	$450,450
Use Tax FF&E (less 0.55% - T/QOL)	$195,000	$195,000	$195,000	$195,000
Transportation/Quality of Life Tax - Use Tax	$89,375	$89,375	$89,375	$89,375
Transaction Privilege Tax (less 0.55% - T/QOL)	$7,420,295	$35,084,862	$7,962,461	$83,415,566
Transportation/Quality of Life Tax - Sales Tax	$3,400,969	$16,080,562	$3,649,461	$38,232,134
Transient Occupancy Tax (bed tax)	$3,021,522	$14,286,450	$3,683,826	$73,326,798
GPLET Lease Payment (7% to City.)	$413,411	$1,417,500	$418,972	$1,785,000
Total Tax Payments to the City	**$15,973,821**	**$68,586,998**	**$17,432,345**	**$198,477,123**

Pilot Program City of Mesa Inflows	30 Years NPV CF	30 Years Total CF	50 Years NPV CF	50 Years Total CF
Potential Property Tax to the City	$729,378	$3,271,075	$774,961	$7,263,302

Developer Benefits

Based on the Developer's draft Memorandum of Understanding with the City which we utilized, we analyzed the following project incentives:

- GPLET over 50-years
- Transient Occupancy Tax (TOT or Bed Tax) for 30 years
  - 3% for convention hotel
  - 2% for resort hotel

The benefits to the Developer are summarized below. We utilized a 12.0% discount rate for the Developer Incentive calculations. The following tables detail the developer incentives for GPLET over 50 years, and TOT over 30 years.

1,500 Room - Convention Hotel			
Time Period	**GPLET Benefit**	**TOT Benefit***	**Total Developer Incentive**
30 Yr. Undiscounted	$284,927,186	$145,476,841	$430,404,027
30 Yr. NPV	**$64,042,323**	**$31,109,777**	**$95,152,101**
50 Yr. Undiscounted	$620,787,730	$145,476,841	$766,264,571
50 Yr. NPV	**$67,915,908**	**$31,109,777**	**$99,025,685**

* TOT benefits for 30 years

500 - Resort Hotel			
Time Period	**GPLET Benefit**	**TOT Benefit***	**Total Developer Incentive**
30 Yr. Undiscounted	$61,401,483	$28,572,899	$89,974,382
30 Yr. NPV	**$12,300,629**	**$6,043,043**	**$18,343,672**
50 Yr. Undiscounted	$155,804,135	$28,572,899	$184,377,034
50 Yr. NPV	**$13,358,997**	**$6,043,043**	**$19,402,041**

* TOT benefits for 30 years

Developer Investment Analysis

The net present value of the Convention and Resort hotel project was determined using the EY adjusted construction and revenue assumptions. Operating expenses were based on information obtained from STR Host Report, based on a competitive set of hotels, similar to the Subject.

EY estimated the Net Present Value of the project for the developer. We utilized the assumptions as detailed in this report related to construction cost, revenue, and expenses. Real estate values are calculated prior to debt service and income taxes.

The following table details the Net Present Value of the cash flows associated with the different scenarios. A negative net present value indicates a developer short-fall.

Net Present Value of Estimated Cash Flows		
Property	**Low**	**High**
Convention Hotel	($177,433,668)	($82,978,776)
Resort Hotel	($29,772,301)	($4,164,193)

Market Information on Incentives

It is often the case that occupancy levels and room rates generated by convention hotels do not support the construction costs of these facilities. As such, local governments across the U.S. have stepped in to make up the gap by providing incentives in the form of property tax abatements, sales and occupancy tax abatements, contributed land, tax deferrals, tax increment financing (TIF's), or outright public financing. The incentives provided by the local governments to cover funding gaps are supported by the long-term benefits that development brings to areas. In the past 15 years, about 20 major convention hotels have opened or are planned in cities across the U.S. Of those, only three – all of which were located in New York City – were entirely privately financed. Following the events of 2001, every new downtown convention hotel being developed was financed with tax-exempt bonds. The Subject hotel is seeking public incentives, but is being constructed with private financing and equity.

We identified numerous projects with incentives ranging from $50 to $150 million across the U.S. We also detailed incentives received by Gaylord related to their recent/planned developments. These incentive packages consist predominantly of tax-exempt revenue bonds where a special taxation authority is created to pay off the bonds.

Per the engagement letter, TRE completed the following procedures and prepared a report summarizing our findings.

Phase I- A/B Market Analysis

1. Met with the DMB and City of Mesa representatives to gain an understanding of the project and review the project plan and fiscal impact analysis
2. Read, analyzed and commented on information provided by DMB and the market study completed by a third party (Pollack) regarding assumptions and demand analysis. The following documents were provided by DMB
    a. DMB excel model labeled – "Urban Core PADA Wkst V5"
    b. Elliot D. Pollack & Company ("Pollack") – "Economic and Fiscal Impact Mesa Proving Grounds Urban Core Mesa, Arizona", dated March 2008.
3. Extracted Key Assumptions from cash flow models and third party reports including but not limited to:
    a. Construction Costs
    b. Occupancy Rates
    c. Average Daily Rates (ADR)
    d. Other Taxable Income
    e. Tax Rates
    f. Assessed Value Estimates
    g. GPLET Estimates
    h. Discount Rates
    i. Growth Rates
4. Tested key assumptions in relation to Gaylord operating results and DMB's Resort Hotel projected operating results
    a. Obtained operating results for other Gaylord properties and other destination resorts (as available from public sources or provide by Gaylord).
    b. Obtained operating results for other comparable conference and destination resort hotels from Smith Travel Research (Host Reports)
5. For Convention Hotel, completed an analysis of convention space to lodging room ratio for other Gaylord properties as well as for other 750+ room convention hotels in the Western US.

Phase II Fiscal Benefits and Incentive Analysis

1. EY utilized the fiscal impact model already created by DMB. EY randomly math checked the model and verified that the methodology of the cash flow analysis was appropriate and made any necessary modifications to the model and changes to assumptions
2. Calculated fiscal benefits to City of Mesa for 30 to 50 year periods (discounted and undiscounted):
   a. Sales taxes
   b. Bed taxes
   c. GPLET
   d. Potential property taxes to be generated for Mesa under a Pilot program
3. Calculated proposed fiscal benefits to developer (1,500 room property only) over 25 to 50 year periods (discounted and undiscounted):
   e. Bed tax incentive
   f. GPLET incentive
4. Worked with the developer to determine appropriate development costs for the project, tested the developer's estimates with available market information
5. Prepared a comparison of the anticipated development costs and net revenues of the project (at a high level) in order to calculate a funding deficit (if any) for the developer. Items to be analyzed may include:
   a. Base construction costs, interior build-out costs, site improvements, FF&E, management fees, contingencies, developer's profit
   b. Revenues, operating expenses, replacement reserve, property taxes, management fees and capitalization and discount rates
6. Researched and analyzed (through public information) funding subsidies provided to major U.S. convention hotels and large destination resorts, over the past 7 years
   a. Researched if the requested incentives for these types of projects (1,500 room convention hotels and 500 room resort hotels) are supported by the market information
7. Issued a draft report of our findings for review by the City
8. Completed a Final Report of Findings

It should be noted that EY did not complete market feasibility studies for the proposed project, but tested the Pollack, DMB and Gaylord assumptions and obtained information supporting the taxable revenue assumptions, development costs, occupancy, and cap and discount rates.

Site Overview

A 3,200-acre portion of the General Motors Proving Grounds was purchased by DMB Associates, a Scottsdale-based developer in late 2006. The neighborhood is currently undergoing significant transformation as the City of Mesa seeks to make the immediate area a hub of commerce and transportation. The adjacent Williams Gateway Airport is currently serving the regional air travel market, with flights going to secondary airports around the western and central United States. Arizona State University's Polytechnic campus which serves nearly 9,000 students is located just east of the Williams Gateway Airport. While the Subject neighborhood already has a residential foundation, Mesa city planners envision a dynamic, mixed-use hub centered about the Polytechnic University and airport providing a sizeable employment base. It is anticipated that this will all be serviced by an up and coming hospitality industry. Retail offerings will complement the development. The intent is to align the synergies of the various components to create an urban core in what was previously a sprawling suburban area.

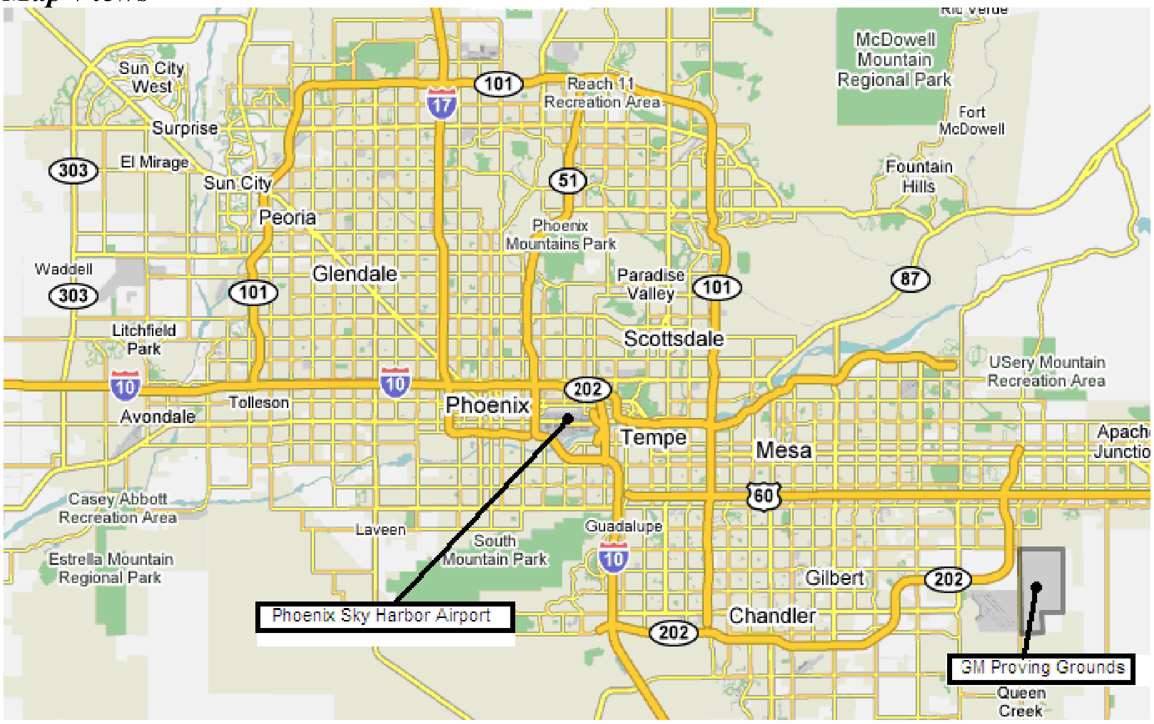
Proposed Project Overview

The proposed development will be made-up of office space, a convention center/convention hotel, several smaller "boutique" and business hotels, and recreational activities. Located on 195 acres, the urban core project plan calls for up to 1 million gross square feet of convention center space (500,000 net usable SF), 4,000 hotel rooms, one million square feet of office space, and an adjacent 18-hole golf course. The focus of our report will be the 1,500 room convention hotel and convention center, and the 500 room destination resort hotel.

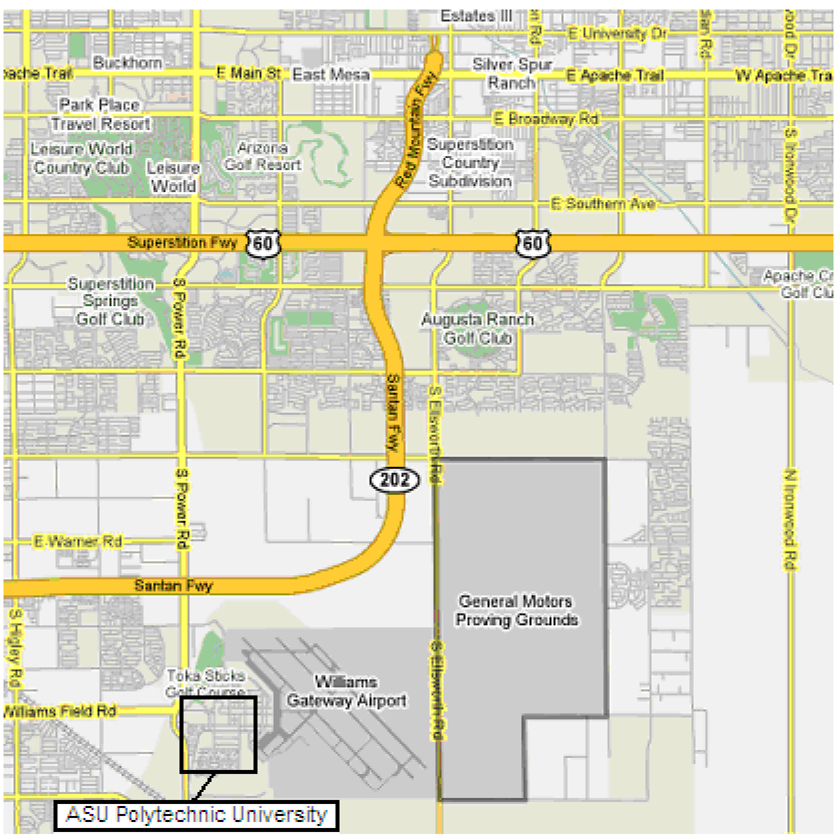
- Convention Center/Convention Hotel: It is our understanding that the City of Mesa is currently in talks with Gaylord Entertainment's hospitality group to build and operate a signature convention/hotel facility as a focal point of the urban core. Plans currently call for 320,000 square feet of usable exhibition/meeting space (640,000 SF Gross) and 1,500 hotel rooms in the initial phase.

- The destination Resort Hotel will contain 500 rooms and draw upon the Valley's existing strengths as a destination resort market.

Map Views



GM Proving Grounds as set in the Phoenix MSA



GM Proving Grounds Detail

Access & Visibility

The Subject site is located on the Loop-202 which is a regional freeway. The northeast quadrant of the loop was recently completed and connects east Mesa to the Phoenix metropolitan statistical area ("MSA") freeway transportation network. The Subject is accessed from this cross-town arterial loop by the Elliot Road exit. Elliot Road bounds the north side of the property, Pecos Road the south, with Ellsworth Road and Signal Butte making up the western and eastern boundaries respectively. Developers cite the excellent views of the nearby Superstition Mountains as one of the reasons for the substantial development planned or underway in this largely undeveloped area of east Mesa.

The Subject site is located the following distances from major metropolitan landmarks.

Location	Distance (miles)
Downtown Mesa	12.1
Downtown Phoenix	26.7
Arizona State University - Tempe	18.1
Scottsdale/Camelback	19.7
Scottsdale/Lincoln	20.8
Mill Avenue	18.3
Phoenix Sky Harbor Airport	22.2
Gateway Airport	3.1

Note: Distance is measured by the shortest distance

SWOT Analysis

A SWOT Analysis (Strengths, Weaknesses, Opportunities, Threats) of the former GM Proving Grounds and surrounding neighborhood provides a general summary of the area and pros and cons of the site and proposed development. Our findings are summarized below:

Strengths	Weaknesses
• Subject is located on a major arterial road (Elliot Road) just south of the recently completed Loop 202 freeway • Good visibility from arterial road • Subject is located in what is planned to be an urban core complete with retail, restaurants, office space, hotels, and a regional airport • Mesa has shown strong population and job growth rates over the past four decades • General trade area is growing and experiencing strong demographics • "Greenfield" site presents abundant development opportunities • Views of near-by Superstition Mountains • Gaylord is a strong operator, known to generate is own demand and has several successful projects in the past	• The area is relatively isolated from the rest of the MSA; it is at the far eastern "edge" of Mesa and the MSA • Proposed development is considered pioneering, especially with the availability of vacant land for development adjacent to more established neighborhoods • Phoenix Sky Harbor Airport is 28 miles from the Subject, which adds a logistical concern for meeting and event planners • The adjacent Gateway airport is extremely limited in its current service and available destinations • Distance from current night-time activities, restaurants, and shopping
Opportunities	**Threats**
• "Greenfield" site presents abundant development and theming opportunities • The Subject is located in an area with additional sites planned for development which could result in synergies driving demand for the Subject • Subject is located on one of the few (if any) remaining tracts of land of this size in the MSA suitable for major resort development • The adjacent regional airport has the potential to reshape the area as a commercial hub in the East Valley while making it more convenient for visitors to the Subject	• City of Phoenix Convention Center • More established Scottsdale resort core • Development of more centrally located sites in the MSA • Further expansion of existing large resorts • Credit crisis and housing slump has hit all development projects with less available financing at higher cost, which has caused many projects to be delayed or cancelled.

Phoenix MSA

The significant growth that the Phoenix MSA has experienced over the past five decades made it the fifth largest city in the nation and created numerous market opportunities. In Maricopa County, which encompasses the majority of the Phoenix MSA, 696,000 residents were added in the 6 years since the 2000 Census, making it the fastest growing county in the country on a percentage basis. The current metropolitan population is an estimated 4.2 million. Since 1970, the population in Phoenix has increased at a compound annual rate of 4.2% per year, the number one growth rate in the nation.

Census reports predict that Phoenix will continue on its current growth trajectory, hitting 4.7 million inhabitants within the next five years, or about 100,000 residents per year. This is down slightly from the pace of 137,000 new residents per year since 2000, though the Census has historically underestimated Phoenix growth.

Phoenix makes up roughly 2/3 of the state's overall population. The low cost of living, low tax burden and the pro-business atmosphere of Phoenix have all been contributing factors in bringing industries to the Valley. With current unemployment levels at 2.8%, job growth has climbed by around 6% year over year for the past 3 years. Most of this growth came from the technology and service sectors (see above), but as the Baby Boomer generation retires and makes their way to the Sunbelt, healthcare will play an increasingly important role in the Phoenix economy. The nearly $1 billion in healthcare construction that is planned for all of 2007 in the Phoenix MSA attests to the growing demand in this industry.

As Phoenix grows, a wide variety of jobs will be created to support the vast infrastructure necessary for a large metropolitan area. Job creation is one of the highest in the nation and forecasters predict a continuance of this growth rate (this equates to 2.6 million new jobs in the next 30 years).

Mesa

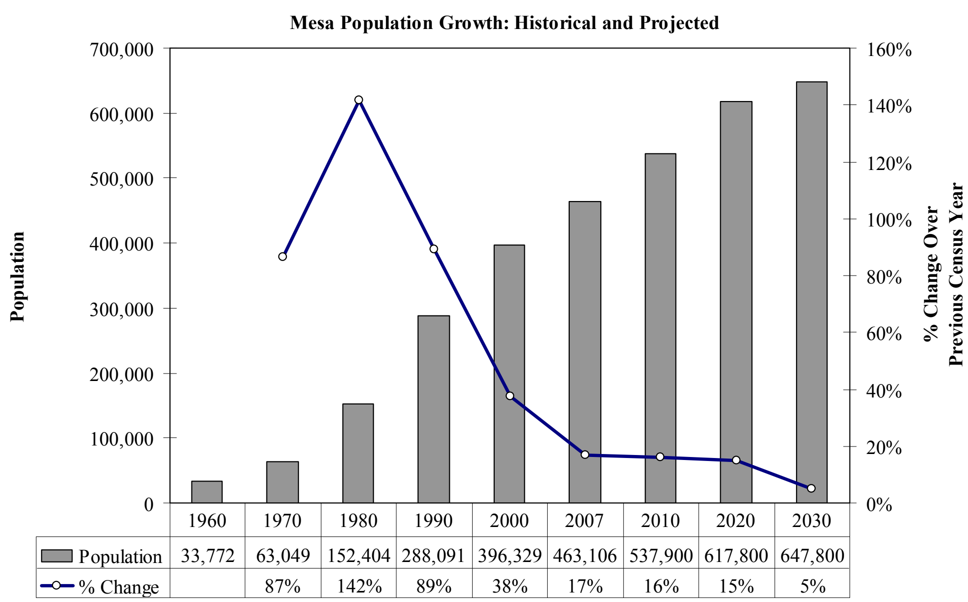
Located in the Southeast Valley of the greater MSA, the city of Mesa boasts vigorous economic growth, a strong demographic base, and a population of 463,106. Mesa has been among the fastest growing major cities over the past three decades. Mesa has traditionally been classified as a bedroom community with a significant portion of its population commuting to other parts of the MSA to work (residents of Mesa commute an average of 26 minutes).

A populace with higher than average levels of education — roughly 59% of residents have some college or higher — has helped spur income growth. Coupled with strong income growth, a low cost of living has pushed Mesa to 14th in the country for total effective buying income. The following chart shows the City's median household income in comparison to other areas.

Area	Median Household	# of Households
Mesa	$40,646	161,900
Phoenix-Mesa Metro	$42,458	1,361,800
Maricopa County	$42,836	1,287,800
Arizona	$39,094	2,145,100
United States	$39,324	111,007,700

Source: City of Mesa 2005 Data

As the Phoenix MSA has expanded over the past several decades, cities on its periphery have been the main beneficiaries of its population growth. Offering suburban master planned communities and convenient access to shopping and entertainment, Mesa offered an appealing and affordable alternative to people working in Phoenix and other Valley cities. As such, Mesa's growth (see chart below) has tracked the Phoenix MSA's growth rate. In the decade of the 1980's, Mesa grew by 89% (from 152,404 to 288,091) making it the fastest growing city (with a population over 100,000) in the country. Growth will begin to slow as Mesa runs out of developable land over the next three decades.



Economic Overview

Mesa has maintained a vibrant workforce over the past several decades. Initially, as a bedroom community to the larger Phoenix, its labor force was utilized mainly in other parts of the Valley. As the local economy has evolved, companies have begun locating in Mesa to take advantage of a low cost of doing business, skilled workforce, and a stable economy. Management and professional jobs make up the bulk of Mesa employment followed by other white collar professions (see below).

2007 - Employment by Sector	
Management, professional and related	31.7%
Sales and office	30.4%
Service	14.2%
Construction, extraction and maintenance	11.7%
Production, transportation and materials moving	11.8%

Source: Mesa Chamber of Commerce

Unemployment has remained remarkably low at 2.9%, even lower than the Phoenix MSA average of 3.25% (June 2008). A variety of small and mid-cap companies allow for structural employment flexibility; economic downturns tend to affect fewer people in Mesa because the workforce isn't dependent on one monolithic company or industry. Further, a young and growing workforce (nearly 70% of the workforce is under 45 years old) continues to draw employers to the city.

Top Public Employers - Mesa	
Employer	**Employees**
Banner Health System	6,600
The Boeing Company	4,700
Empire Southwest Machinery	1,000
TRW	800
AMPAM Riggs Plumbing	650
Mesa Fully Formed	600

Source: Mesa Chamber of Commerce

Air Lift

The Subject site is within close proximity to two airports, Gateway and Sky Harbor Airport.

Phoenix-Mesa Gateway Airport

Located adjacent to the Subject site, the Phoenix-Mesa Gateway Airport was developed on the former Williams Air Force Base as a regional reliever airport. Currently, two airlines (Allegiant Air and Vision Airlines) offer regional service to roughly 20 secondary markets around the central and western United States. Currently, the airport's Terminal 1 serves around 200,000 people annually. By 2020, with the planned opening of Terminal 2, the Airport projects an average passenger load of two million.

Additionally, the USAF-built runways can handle any size of airplane (in 2003, the world's largest aircraft delivered a cargo load to the airport). As such, it has become a valuable resource for local companies needing transport resources. Thirty such companies, including Boeing, which conducted flight tests of its new 777 there, have made the Gateway Airport their home. Embry-Riddle and Chandler-Gilbert Community

College offer a variety of aircraft-based polytechnic classes, while Arizona State University offers its unique Airline Management degree program from the Airport grounds. A highlight of the airport's history was George W. Bush's 2001 arrival to Phoenix via the Gateway Airport.

Phoenix Sky Harbor Airport

Sky Harbor is one of the world's ten busiest airports by flights, Sky Harbor Airport grown to be the region's transportation hub. Twenty airlines operating out of three terminals serve over 85 direct domestic destinations and 16 direct international destinations. On a typical day, over 1,200 aircraft will arrive and depart, carrying over 100,000 passengers and 800 tons of air cargo. The chart below illustrates the consistent growth in passenger count over the past eight years:

Year	Total Passengers	% Change
2000	36,044,571	NAV
2001	35,438,181	-1.7%
2002	35,547,432	0.3%
2003	37,423,596	5.3%
2004	39,504,898	5.6%
2005	41,215,342	4.3%
2006	41,436,498	0.5%
2007	42,184,174	1.8%
2008 (May)	17,492,145	NAV

Source: Sky Harbor Airport

With a slowing economy passenger traffic is off about 1.7% compared to the same period in 2007, a rare decline for the airport on a year over year basis. Phoenix Sky Harbor, which is located roughly 30 miles from the subject site, carries a tremendous load in terms of passenger and freight traffic. Consequently, lines have grown for passengers, and delays are more prevalent due to sheer flight volume. Mesa's Gateway Airport is poised to provide relief for Sky Harbor as it continues its expansion. Further bolstering Gateway Airport's potential is the large built-in population base in the East Valley which would welcome a closer, more convenient air travel option over the next decade.

Mesa Tourism and Hospitality

With 320 sunny days a year and proximity to Tonto National Forest and other recreational areas, Mesa has been striving to gain a foothold in the Arizona hospitality industry by differentiating itself from its neighbors. Resort meccas like Scottsdale, Paradise Valley, and Tucson have long dominated the Arizona market. Currently, Mesa has 60 hotel properties containing 5,000 rooms. The city's hospitality industry provides more than 12,000 jobs. Also, more than 40 golf courses are located within the city.

A thriving arts and culture scene, recently boosted by the opening of the 2,400-seat Mesa Arts Center, has been growing steadily over the years. Such offerings as a symphony, various regional theaters, and a burgeoning art gallery market have added to Mesa's appeal as a regional and national destination for tourists and meeting planners alike. In addition, the City of Mesa is home to the MLB Chicago Cubs spring training facility, Hohokam Stadium, which for the month of March draws people from across the nation. Hohokam has been a top draw in the Cactus League for the past several years. In 2008, it set a spring training attendance record of 181,280 fans. Tickets and concessions combined to bring in a record $5.6 million. It is significant that 57% of attendees are not from Arizona. The fiscal impact of these seasonal visitors, 67% of who say Spring Training games are their main reason for visiting Arizona, is significant. The following table illustrates the growth in attendance over the past several years:

Spring Training Team *Location*	**2003 Attendance**	**2003 % of Total**	**2007 Attendance**	**2007 % of Total**
Chicago Cubs *HoHoKam Stadium, Mesa*	133,223	12.5%	175,891	14.4%
San Francisco Giants *Scottsdale Stadium*	133,249	12.5%	148,988	12.2%
Seattle Mariners *Peoria Sports Complex*	101,376	9.5%	126,137	10.4%
Los Angeles Angels *Tempe Diablo Stadium*	96,024	9.0%	105,869	8.7%
San Diego Padres *Peoria Sports Complex*	88,709	8.3%	100,061	8.2%
Oakland Athletics *Phoenix Municipal Stadium*	82,137	7.7%	96,058	7.9%
Arizona Diamondbacks *Tucson Electric Park*	101,768	9.6%	94,291	7.7%
Texas Rangers *Surprise Recreation Campus*	80,081	7.5%	86,864	7.1%
Chicago White Sox *Tucson Electric Park*	72,863	6.8%	86,397	7.1%
Kansas City Royals *Surprise Recreation Campus*	50,070	4.7%	78,747	6.5%
Milwaukee Brewers *Maryvale Baseball Park, Phoenix*	60,571	5.7%	61,888	5.1%
Colorado Rockies *Hi Corbett Field, Tucson*	65,310	6.1%	57,359	4.7%
Totals	1,065,381	100.0%	1,218,550	100.0%

National Convention Center/Convention Hotel Market

One casualty of the nationwide slowdown in the hospitality industry following the events of 2001 was the convention industry. A shallow recession forced companies to cut back, while general travel to metropolitan hubs waned. Consequently, the convention center industry has been struggling to regain lost footing. Recent industry reports, however, point toward a trend of general recovery. Nearly 60% of all convention centers (and their accompanying hotels) are at or above 2000 occupancy levels; many of the first-tier centers are at or approaching capacity (i.e. Las Vegas, Orlando, San Diego).

Second and third tier cities with fewer and smaller venues are benefiting from the growth in the convention industry. As smaller events are priced out of the first tier markets, secondary and tertiary markets stand to gain. The Mesa market is underserved for convention hotels and appears poised to take advantage of market conditions. Phoenix is already a significant draw for larger conventions (the expanded convention center downtown will be among the twenty largest centers in the country when complete in late 2008). The Subject project will be able to tap into Phoenix's status as a resort destination to attract second and third tier-sized convention groups.

Recent industry reports indicate that the convention center market is "mature", noting that many markets are exhibiting symptoms of supply saturation. The Mesa market, however, is generally believed to be underserved. A growing business and employment base and the overall economic trends of the city have boosted demand for such facilities.

Assumptions Analysis

Overview

Based on our procedures completed we analyzed various assumptions used by the developer in their fiscal impact calculation, and compared these assumptions with market information. The information provided was either included in the Developer's fiscal impact cash flow, and/or the fiscal impact study "Economic and Fiscal Impact Mesa Proving Ground Urban Core Mesa, Arizona, March 2008, conducted for the Developer by Elliot D. Pollack & Company. The following section details our analysis related to the various assumptions for each of the proposed hotel developments.

1,500 Room Convention Hotel

Construction Cost Assumptions

According to information provided by Gaylord, the total construction cost for the convention center and the hotel is estimated at $800 million ± 10%. The cost for the hotel was initially estimated at about 60% to 65% of the total construction cost, with the remainder consisting of the cost for the convention center. Additional information was provided indicating a cost of $365 million to $400 million for the convention center, leaving $400 million to $435 million for the hotel. These costs are all-in costs.

EY estimated the following costs factoring in estimates for the Subject, comparable projects and component costs provided by the developer.

EY Construction Cost Breakdown	**Cost**	**Cost/SF**	**Cost/Room**
Hotel Construction Costs	**$362,500,000**	**$363**	**$241,667**
FF&E	$45,000,000	$45	$30,000
Total Investment Hotel (excluding land)	**$407,500,000**	**$408**	**$271,667**
Convention Center - Construction Cost	$365,000,000	$570	$243,333
Total Investment (excluding land)	**$772,500,000**	**$978**	**$515,000**
Land Cost	$52,500,000	$53	$35,000
Total Investment	**$825,000,000**	**$1,030**	**$550,000**
Total Investment w/o Convention Center	**$460,000,000**	**$460**	**$306,667**

We obtained the following comparable construction cost estimates from R.S. Means database of recent major hotel construction projects. All of the projects include various amounts of meeting and banquet space. We also included published information on the most recent Gaylord construction projects.

Construction Costs for Major Convention Hotels					
Property	Location	Opening Year	Rooms	Cost	Cost/Room
Baltimore Hilton	Baltimore, MD	2008	756	$ 300,000,000	$ 396,825
JW Marriott/Ritz Carlton	Los Angeles, CA	2010	1,000	$ 400,000,000	$ 400,000
Hilton Hotel	Broward County, FL	2012	1,000	$ 440,000,000	$ 440,000
Marriott Hotel	Washington D.C.	2011	1,150	$ 540,000,000	$ 469,565
Dallas Convention Hotel	Dallas, TX	2011	1,200	$ 500,000,000	$ 416,667
Gaylord Chula Vista	Chula Vista, CA	2012	1,500	$ 650,000,000	$ 433,333
Gaylord Texan	Dallas, TX	2004	1,500	$ 515,000,000	$ 343,333
Gaylord Palms	Orlando, FL	2002	1,400	$ 450,000,000	$ 321,429
Averages:			1,188	$ 474,375,000	$ 402,644

Source: Published Articles (Costs included meeting/banquet space)

It should be noted that it is difficult to segregate meeting/banquet space costs from those of the hotel as a whole. Hotels of this size tend to have meeting/banquet space as an amenity for attracting guests. This space is built into the hotel for convenience and the costs are spread project-wide. Consequently, the numbers cited above include meeting and banquet space in the total and per room costs. The Gaylord Chula Vista project is a 2006 figure and would probably be higher today. The Texan costs would be at least 25% higher today ($645 million) and the Palms would be 35% higher ($608 million).

Convention Center

A study of convention centers around the country indicated the following actual costs for recently built convention centers:

Major Convention Center Costs			
	Total Square Feet	Cost/SF	Date Open
Lancaster County	217,290	$412	2008
Phoenix	1,920,000	$312	2008
Denver	1,100,000	$282	2007
Raleigh	500,000	$430	2008
Nashville	1,200,000	$495	Under Construction

The developers all-in cost estimates range from $365 million to $400 million, or $570/SF to $640/SF. These figures are higher than the range of information obtained from facilities under construction across the U.S. The difference in cost is attributed to the quality of the facilities and the finishes of the Subject compared to these other more generic convention facilities. Also, the timing of construction and inflation impact the estimated construction costs.

Revenue Assumptions

The information provided by the Developer included revenue assumptions for the proposed hotel operation as well as retail revenue, or other revenue (“Other Revenue”). The Other Revenue line item consists of revenue from Banquet F&B, Restaurant F&B, Convention Services, Retail, Spa Services, Parking/Transportation, Telephone, Attrition/Cancellation Fees, and Other.

To evaluate the Subject projected ADR, Occupancy, and Other Revenue, we obtained a Smith Travel Research Trend Report, which included the following hotels. We avoided Las Vegas and Orlando hotels, which have developed their own unique markets.

Smith Travel Research Trend Report - Major Convention Hotels

Hotel	City	State
Gaylord Entertainment Palms Resort Convention Center	Kissimmee	FL
Gaylord Entertainment Texan Resort & Convention Ctr	Grapevine	TX
Marriott San Antonio Rivercenter	San Antonio	TX
Hyatt Regency Denver Convention Ctr	Denver	CO
Marriott JW Desert Ridge Resort & Spa	Phoenix	AZ
Hyatt Manchester Grand San Diego	San Diego	CA

The following table details the occupancy, ADR, and RevPAR for the hotels indicated in the preceding table.

Comparable Convention Hotels

	2006	2007	2008 (YTD)
Occupancy	74%	76%	75%
ADR	$182	$187	$184
RevPAR	$135	$142	$139

Source: Smith Travel Research

The following table details average occupancy and ADR at other Gaylord Convention Hotels (excluding National D.C.).

Property	Location	# Rooms	Convention SF (Net)	Avg. Occ. 2007	Avg. Occ. Q1 2008	ADR 2007	ADR Q1 2008
Opryland	Nashville, TN	2,882	600,000	80.2%	76.0%	$152	$157
Palms	Orlando, FL	1,406	400,000	77.1%	84.4%	$181	$205
Texan	Dallas, TX	1,511	400,000	74.9%	76.2%	$173	$184

Source: Gaylord 10K, and 10Q

<u>Convention Hotel Operating Assumptions</u>

We also obtained a Smith Travel Research Host Report that details the financial operating statements for selected hotels in order to estimate potential expense items at the Subject Convention Hotel. This information will be included later in the report. The hotels included in the Host Report are as follows:

Smith Travel Research Host Report - Convention Hotels		
Hotel	**City**	**State**
Sheraton Hotel Dallas	Dallas	TX
Marriott San Antonio Rivercenter	San Antonio	TX
Marriott JW Desert Springs Resort &	Palm Desert	CA
Marriott Orlando World Center Resor	Orlando	FL
Marriott San Diego Hotel & Marina	San Diego	CA
Sheraton Hotel Denver	Denver	CO
Buena Vista Palace	Lake Buena Vista	FL
Hyatt Manchester Grand San Diego	San Diego	CA
Sheraton Hotel Walt Disney World Do	Lake Buena Vista	FL
Marriott JW Desert Ridge Resort & S	Phoenix	AZ
Hyatt Regency Denver Convention Ctr	Denver	CO

Based on the information included in the Developer's analysis, EY TRE reviewed the following hotel operating assumptions and compared them to market information.

Occupancy

According to the Developer, Gaylord Hotels utilizes their network of convention bookings at their other hotels and establishes pre-bookings in order to open their new convention hotels near, if not at stabilization. The assumed occupancy of the subject hotel at opening is 75%, which is similar to the opening occupancy of other Gaylord Convention Hotels. In 2007, the Gaylord hotels experienced occupancies of 75% to 80% at operating properties.

According to our conversation with Gaylord Entertainment, the recently opened, 2,000 room, Gaylord National Resort and Convention Center in Washington DC, opened in April 2008 with occupancy over 75%. The hotel booked over 1 million room nights prior to opening.

In addition to the occupancy and ADR information for the Gaylord hotels, we also obtained an STR Trend Report for other large group resort hotels in the Phoenix MSA. This STR survey (discussed earlier in this section) showed an average occupancy of 76% for the most current 12 months.

Based on this information we assumed a stabilized occupancy of 76%.

Average Daily Rate (ADR)

The Developer estimated an Average Daily Rate for the Conference Hotel of $230 in 2012. In order to compare the Developer projected ADR to current market rates we deflated the 2012 ADR by an annual rate of 3.0% to $204 in 2007 dollars. Korpacz Real Estate Investor Survey indicated ADR growth rates for National Full-Service hotels for the next year ranging from 3% to 8%, with the majority of the survey responses between 3% and 5%. We selected a slightly more conservative long-term rate.

Gaylord's average ADR for its properties nationwide was $169 in 2007 and was highest at $181 at the Gaylord Palms. The ADR for resort hotel properties in Arizona (detailed later in this section) averaged $210 in 2007. The Host report properties indicated an ADR of $210 in 2007.

EY estimated an ADR of $204 in 2007 dollars. Based on an inflation rate of 3.0% per year (from 2007 to 2012) an ADR of $236 in 2012 (future) dollars is indicated.

Other Revenue Assumptions

The Elliot D. Pollack study and the Developer's cash flows, indicate Annual taxable Retail Revenues (Other Revenue) of $122.3 million in 2012. This amount was based on Other Revenue of $163 million for a 2,000 room convention hotel adjusted to a 1,500 room convention hotel (75% of total).

We were not provided information that specifically details the break-down of this revenue. However, the Developer provided a preliminary projection (2011) listing a break-down of Other Revenues in an amount similar to the $122.3 million as indicated by the Elliot D. Pollack study. The Gaylord projection is as follows:

Item	Revenues	2011 Amount/Occ. Room Night	Deflated to 2007
F&B Banquets	$72,015,000	$175	$159
F&B Outlets	$28,761,000	$70	$63
Convention Services	$7,333,000	$18	$16
Retail Shops	$3,216,000	$8	$7
Parking/Transportation	$5,631,000	$14	$12
Telephone	$1,009,000	$2	$2
Attrition/Cancelations	$500,000	$1	$1
Other	$9,517,000	$23	$21
Total Other Revenue	**$127,982,000**	**$312**	**$282**

Source: 2011 projections obtained from DMB.

The amount per occupied room is based on 1,500 rooms. The revenue from Spa operations was excluded since it will result in minimal taxable revenue to the City. Other Revenues are expected to grow at a rate of 3.0% per year (from 2007 to 2012), which appears reasonable based on long-term inflation of 2% - 3% per year.

We obtained information related to Other Revenue from other comparable convention hotels as indicated at the beginning of this section. The information obtained from the STR report indicates year-end 2007 amounts as follows.

STR - Amount per Occ. Room Night	
Item	**STR Report (2007)**
Food & Beverage	$115
Other Food & Beverage	$16
Telecommunications	$3
Other Operated Departments	$19
Rentals & Other Income	$5
Cancellation Fee	$3
Total Other Revenue	**$162**

Source: Smith Travel Research

EY also obtained other revenues at other Gaylord hotels over the past three years from published 10-K information. These figures are summarized below:

Gaylord Hotels - Other RevPAR			
	2005	**2006**	**2007**
Opryland	$128	$155	$164
Texan	$183	$200	$220
Palms	$196	$209	$215

Source: 2007 10K Filing

Based on the information discussed above, we estimated the Other Revenue at $237/room (2007 dollars).

500 Room Resort Hotel

<u>Construction Cost Assumptions</u>

According to information provided by the Developer, total construction costs (including soft cost and FF&E) for the 500 room (625,000 SF) resort hotel are estimated at $250,000/room, or $125 million. The soft costs were estimated at $30,000 per room and FF&E at $32,500/room, resulting in the breakdown as indicated in the table below.

Construction Cost Breakdown	Cost	Cost/SF	Cost/Room
Hotel Hard Cost	$93,750,000	$150	$187,500
Hotel Soft Cost	$15,000,000	$24	$30,000
FF&E	$16,250,000	$26	$32,500
Total Direct Project Cost	**$125,000,000**	**$200**	**$250,000**

After discussions with the developer it was determined that the cost figures did not include all of the required cost items, and the hotel construction cost appeared low based on our experience, and on the construction cost obtained for similar projects completed.

It should be noted that the golf course development, and related construction cost is the responsibility of the developer, and subsequently is not included in the construction cost break down below. The following table details our estimates of the construction costs for the resort hotel (excluding golf course).

EY Construction Cost Breakdown	Cost	Cost/SF	Cost/Room
Soft Costs (12% of Hotel Const. Cost)	$13,500,000	$22	$27,000
Hotel Construction Cost (500 Rooms)	$112,500,000	$180	$225,000
Construction Interest	$13,875,000	$22	$27,750
Entrepreneurial Incentive	$11,590,000	$19	$23,180
Pre-Opening Costs	$5,000,000	$8	$10,000
Hotel Construction Costs	**$156,465,000**	**$250**	**$312,930**
FF&E	$16,250,000	$26	$32,500
Totall Investment Hotel (excl. land)	**$172,715,000**	**$276**	**$345,430**
Land Cost	$22,500,000	$36	$45,000
Total Investment	**$195,215,000**	**$312**	**$390,430**

The construction costs indicated in the preceding table were based on the following assumptions.

• Soft Cost	Based on Developer's projection
• Hard Construction Cost	Based on Developer's projection (60% of the cost estimated to develop the 1,000 room hotel)
• Land Cost	Estimated by EY
• Construction Interest	8.0%/yr for 3 years. Based on hotel construction cost (monthly draw)
• Entrepreneurial Incentive	Estimated at $11.6 million (8% of total investment)
• Pre-Opening Costs	EY estimate
• FF&E	Based on Developer's projection

EY obtained the following information from R.S. Means' database of recent hotel construction projects. These projects exclude entrepreneurial profit and land costs.

RS Means - Comparable Properties Construction Costs							
Property	**Location**	**Date**	**Rooms**	**Sq. Feet**	**Cost**	**Cost/Room**	**Cost/SF**
Gaylord National	Washington D.C.	4/5/2007	1,500	2,150,000	$400,000,000	$266,667	$186
Hilton Convention Center Hotel	San Diego, CA	2/21/2007	1,200	1,040,299	$285,000,000	$237,500	$274
Hilton Orlando Convention Center Hotel	Orlando, FL	2/16/2007	1,400	1,100,000	$225,000,000	$160,714	$205
LA Convention Center Hotel	Los Angeles, CA	7/17/2007	1,225	2,000,000	$540,000,000	$440,816	$270
Pinnacle Casino Hotel	St. Louis, MO	3/23/2007	1,200	1,300,000	$258,000,000	$215,000	$198
Towers on Capitol Mall	Sacramento, CA	1/12/2007	1,030	2,000,000	$400,000,000	$388,350	$200
Averages:			**1,259**	**1,598,383**	**$351,333,333**	**$284,841**	**$222**

Source: RS Means (Costs include meeting/banquet space)

Based on the above information, we utilized a construction cost of $250/SF, or $313,000/room, excluding land and FF&E.

Revenue Assumptions

The information provided by the Developer included revenue assumptions for the hotel operation as well as retail revenue, or other revenue ("Other Revenue"). The Other Revenue line item consists of revenue from Banquet F&B, Restaurant F&B, Convention Services, Retail, Spa Services, Parking/Transportation, Telephone, Attrition/Cancellation Fees, and Other.

To evaluate the Subject projected ADR and Occupancy, we obtained a Smith Travel Research Trend Report, which included the following hotels:

Smith Travel Research Trend Report - Resort Hotels		
Hotel	**City**	**State**
Hilton Pointe Squaw Peak Resort	Phoenix	AZ
Marriott JW Desert Ridge Resort & Spa	Phoenix	AZ
Sheraton Hotel Wild Horse Pass	Chandler	AZ
Marriott JW Camelback Inn Resort & Spa	Scottsdale	AZ
Westin Kierland Resort & Spa	Scottsdale	AZ
Hyatt Regency @ Gainey Ranch	Scottsdale	AZ
Luxury Collection The Wigwam Resort	Litchfield Park	AZ

These hotels provided the following aggregate information.

Comparable Resort Hotels							
	2002	**2003**	**2004**	**2005**	**2006**	**2007**	**2008 (YTD)**
Occupancy	59%	65%	71%	74%	72%	71%	76%
ADR	$176	$163	$173	$183	$199	$208	$277
RevPAR	$104	$106	$123	$136	$144	$146	$212

Source: Smith Travel Research

EY also obtained a Smith Travel Research Host Report that details the financial operating statements for selected hotels in order to estimate potential expense items at the Subject Resort Hotel. The hotels included in the Host Report are as follows:

Smith Travel Research Host Report - Resort Hotels

Hotel	City	State
Hilton Pointe Squaw Peak Resort	Phoenix	AZ
Luxury Collection The Wigwam Resort	Litchfield Park	AZ
Hyatt Regency @ Gainey Ranch	Scottsdale	AZ
Fairmont Scottsdale	Scottsdale	AZ
Westin Kierland Resort & Spa	Scottsdale	AZ
Sheraton Hotel Wild Horse Pass	Chandler	AZ

Hotel Operating Assumptions

Based on the information included in the Developer's analysis, EY TRE reviewed the following hotel operating assumptions and compared them to market information.

Occupancy

According to the Developer's cash flow, the hotel is estimated to have a stabilized occupancy of 74% in the first year of operation.

We obtained information on occupancy for other large resort hotels in the Phoenix MSA. Occupancy averaged 71.0% for the comparable set of properties in 2007 and 72.4% in 2006.

Our research and discussions with industry insiders indicates that when a Gaylord property enters a market, it brings a significant amount of demand for other hotels; there are strong synergies in the surrounding hospitality market. Anecdotally, they point out that people going to conferences often bring family members/friends who normally do not stay at the convention hotel. Additionally, meeting planners, convention overflow, and support staff tend not to stay at the convention hotel. This drives demand to nearby hospitality centers.

Based on the information above we assumed occupancy rates of 65% in year one, 70% in year two and a stabilized occupancy of 74% in year three and forward.

Average Daily Rate (ADR)

The Developer estimated an Average Daily Rate for the Resort Hotel of $215 in 2012. In order to compare the Developer projected ADR to current market rates we deflated the 2012 ADR by an annual rate of 3.0%. The deflated ADR is estimated at $185 in 2007 dollars.

EY obtained an STR Trend report detailing ADR information from other comparable resort hotels in the Phoenix area. ADR averaged $210/room for the most recent 12-month period.

In estimating an ADR for the Subject hotel we estimated the current ADR at $185, same as the Developer. We selected an inflation rate of 3.0% per year (from 2007 to 2012), resulting in an ADR of $215 in 2012 (future) dollars.

Other Revenue Assumptions

The Elliot D. Pollack study, and the Developer's cash flow, indicates Annual taxable Retail Revenues (Other Revenue) at $7 million (in year 2012). We spoke to Elliott D. Pollack & Company and were informed that the breakdown of the $7 million was as follows:

Item	Revenues	2011Amount/ Occ. Room Night	Deflated to 2007
Total F&B	$5,922,000	$44	$39
Telecomunications	$141,000	$1	$1
Other	$987,000	$7	$6
Total Other Revenue	**$7,050,000**	**$52**	**$46**

Source: Elliot D. Pollack and Company

The dollar per occupied room per day is based on 500 rooms, 365 days and occupancy of 74%. Other Revenues are expected to grow at a rate of 3.0% per year (from 2007 to 2012), which appears reasonable based on inflation of 2% - 3% per year. However, the above deflated Other Revenue amount per occupied room of $46 appears extremely low.

To further support the Other Revenue amount for the resort hotel, we obtained information from other comparable resort hotels as indicated at the beginning of this section. The information obtained from the STR report indicates year-end 2007 amounts. We also obtained operating projections from the Developer.

The information provided by the Developer indicated a stabilized operating statement (inflated) as of 2014. In order to compare the information provided by STR for the competitive set, with the Developer's information, the amount was deflated by 3.0% per year (2014 to 2007). The following tables detail the information.

STR - Amount per Occ. Room Night	
Item	**STR Report (2007)**
Food & Beverage	$171
Other Food & Beverage	$19
Telecommunications	$5
Other Operated Departments	$46
Rentals & Other Income	$13
Cancellation Fee	$3
Total Other Revenue	**$256**

Source: Smith Travel Research

Developer Estimates for a Proposed Resort Hotel in Mesa		
Item	**Amount/Occ. Room Night (2014)**	**Deflated to 2007**
Total F&B	$198	$161
Telecomunications	$6	$5
Health Club & Spa	$25	$20
Other	$18	$15
Total Other Revenue	**$247**	**$201**

Source: DMB (proposed resort hotel in Mesa)

As stated earlier, the Other Revenue amount of $46 per occupied room per the Pollack study appears extremely low. Based on the additional support obtained from STR and the Developer, the Other Revenue amount for resort hotels ranged from $200 to $256 per occupied room (2007 dollars).

EY estimated other taxable revenues of $194 per occupied room in 2007 dollars, which was inflated 3.0% per year to 2012 ($225).

Overall Assumptions

Discount Rates

Discount rates are utilized to convert future income streams to present values. The assumed discount rates were determined by analyzing published industry data for existing stabilized commercial properties. Both the *IRR Viewpoint 2007* and the *Q1 2007 Korpacz Investor Survey* indicated the following discount rates:

Discount Rate - Stabilized Properties			
Source	**Property Type**	**Range**	**Average**
Korpacz (Q1 2008)	Full Service Hotels	9.25% - 14.0%	10.8%
	Luxury	8.0% - 13.0%	10.6%
RERC (Q1 2008)	Full Service Hotels	n/a	9.3%

Discount rates for proposed developments are higher than what is indicated in the preceding table for already built operating properties. There is risk inherent in future projections and discount rates for proposed projects include premiums for:

Construction Risk – There could be cost overruns or unanticipated spikes in material or labor costs

Financial Risk – Mortgage rates or investment return requirements could increase or permanent financing could be difficult to obtain

Market Risk – Hotel ADR or occupancy estimates might not be achieved or expenses could be higher than forecast

A 200 basis point premium is generally reasonable to account for these risks in a normal market. This would indicate adjusted discount rates of 11% to 13%.

Given the proposed nature of this project, a 12% discount rate for the developer cash flows is considered market supported. Typically, the discount rate applied to the City cash flow is less due to the lower cost of capital and the lower return requirements (due to lower borrowing capacity and no profit requirements of a municipality). However, for this analysis, in order to be able to compare the City's cash flow on equal terms with the developers, the City requested we use a discount rate of 12% for the City as well.

Capitalization Rate

In order to calculate returns to the Developer, it is necessary to assume a sale of the property upon stabilization. Future income streams are converted into a reversion value using an income capitalization rate. We assumed a residual capitalization rate of 9.0% based on the following published industry data for existing operating properties. We added a premium for the proposed nature of the Subject and applied a discount for the anticipated overall high quality and investment grade of the Subject asset. We also considered public incentives which further mitigate risk.

Residual Capitalization Rate - Stabilized Properties			
Source	**Property Type**	**Range**	**Average**
Korpacz (Q1 2008)	Full Service Hotels	6.0% - 11.0%	9.1%
	Luxury	5.0% - 11.0%	8.7%
RERC (Q1 2008)	Full Service Hotels	n/a	8.2%

Developer Investment Analysis

The net present value of the Convention and Resort hotel project was determined using the EY adjusted construction and revenue assumptions. Operating expenses were based on information obtained from STR Host Report, based on a competitive set of hotels, similar to the Subject. EY selected a range of Operating Expenses at 2.5% above and below a base case scenario. The cash flow assumed a sale of the hotel in year 10, based on year 11 projected NOI.

Construction costs incurred over the construction period were carried forward and included in the first year of the cash flow (2012). FF&E was also allocated to the project in the first year of operation. The various expense categories were based on ratios of revenue as reported by the STR Host reports for similar hotels. The various expenses consist of the following categories:

• Departmental Expenses:	Rooms, Food & Beverage, Telecommunication, Other
• Undistributed Operating Expenses:	Admin. & General, Sales and Marketing, Utilities, Repair & Maintenance, Franchise Fees
• Management Fees:	Management company fee
• Property Taxes:	Real Property Taxes
• Insurance:	Property Insurance
• Replacement Reserve:	Reserve for short lived capital assets.

The following table includes Gaylord operating expense ratios for three of their operating properties in 2007.

Gaylord Operating Expense Ratios			
	Opryland	Palms	Texan
Operating Expenses*	60%	57%	58%
Sales, General & Admin.	15%	18%	13%
Operating Expense Ratio	75%	75%	71%

Source: 2007 10K Filing * Includes fixed expenses

Real estate values are calculated prior to debt service and income taxes. The STR figures are based on the HOST reports detailed earlier in the report. The Gaylord figures were not available in the following standard reporting format. More weight was applied to the Gaylord operating ratio figures overall. The Developer did not provide operating expenses to EY for analysis for the proposed hotels.

Operating expenses for the proposed hotels are estimated as follows:

Percent of Revenue								
	Convention Hotel				Resort Hotel			
Item	**STR Report**	**Base**	**Scenario 1**	**Scenario 2**	**STR Report**	**Base**	**Scenario 1**	**Scenario 2**
Departemental Expenses	40.7%	45.0%	43.9%	46.1%	46.4%	45.0%	43.9%	46.1%
Undistributed Operating Expenses	18.1%	20.0%	19.5%	20.5%	21.1%	21.0%	20.5%	21.5%
Management Fee	3.7%	3.5%	3.4%	3.6%	2.8%	3.0%	2.9%	3.1%
Property Taxes	1.0%	3.1%	3.0%	3.2%	1.0%	3.5%	3.4%	3.6%
Insurance	1.1%	1.1%	1.1%	1.1%	0.8%	1.0%	1.0%	1.0%
Replacement Reserves	3.0%	3.0%	2.9%	3.1%	3.0%	3.0%	2.9%	3.1%
Total Expenses	**67.6%**	**75.7%**	**73.8%**	**77.6%**	**75.1%**	**76.5%**	**74.6%**	**78.4%**

Based on the assumptions described above, operating expenses for the proposed convention hotel are estimated by EY as a percentage of total revenues, and range from 73.8% to 77.6%. Figures for the resort hotel range from 74.6% to 78.4%.

The following table details the Net Present Value of the cash flows associated with the different scenarios. A negative net present value indicates a developer short-fall.

Net Present Value of Estimated Cash Flows		
Property	**Low**	**High**
Convention Hotel	($177,433,668)	($82,978,776)
Resort Hotel	($29,772,301)	($4,164,193)

1,500 Room Convention Hotel

Scenario 1 (Base less 2.5%)	2.5%	Construction Period	Yr. 2012										
Developer Deficit (No Incentives)		**CP 1 CP 2 CP 3**	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**
Total Construction Cost			$780,007,810	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Total FF&E Cost			$45,000,000	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Room Revenue			$98,199,600	$103,109,580	$108,265,059	$111,513,011	$114,858,401	$118,304,153	$121,853,278	$125,508,876	$129,274,142	$133,152,367	$137,146,938
Other Revenue			$114,427,500	$120,148,875	$126,156,319	$129,941,008	$133,839,239	$137,854,416	$141,990,048	$146,249,750	$150,637,242	$155,156,359	$159,811,050
Total Revenue			**$212,627,100**	**$223,258,455**	**$234,421,378**	**$241,454,019**	**$248,697,640**	**$256,158,569**	**$263,843,326**	**$271,758,626**	**$279,911,384**	**$288,308,726**	**$296,957,988**
Departmental Expenses	43.9%		$93,290,140	$97,954,647	$102,852,379	$105,937,951	$109,116,089	$112,389,572	$115,761,259	$119,234,097	$122,811,120	$126,495,454	$130,290,317
Undistributed Operating Expenses	19.5%		$41,462,285	$43,535,399	$45,712,169	$47,083,534	$48,496,040	$49,950,921	$51,449,449	$52,992,932	$54,582,720	$56,220,202	$57,906,808
Management Fee	3.4%		$7,255,900	$7,618,695	$7,999,630	$8,239,618	$8,486,807	$8,741,411	$9,003,653	$9,273,763	$9,551,976	$9,838,535	$10,133,691
Property Taxes	3.0%		$6,426,654	$6,747,987	$7,085,386	$7,297,948	$7,516,886	$7,742,393	$7,974,665	$8,213,904	$8,460,322	$8,714,131	$8,975,555
Insurance	1.1%		$2,280,426	$2,394,447	$2,514,169	$2,589,594	$2,667,282	$2,747,301	$2,829,720	$2,914,611	$3,002,050	$3,092,111	$3,184,874
Replacement Reserves	2.9%		$6,219,343	$6,530,310	$6,856,825	$7,062,530	$7,274,406	$7,492,638	$7,717,417	$7,948,940	$8,187,408	$8,433,030	$8,686,021
Total Expenses	**73.8%**		**$156,934,747**	**$164,781,484**	**$173,020,558**	**$178,211,175**	**$183,557,510**	**$189,064,236**	**$194,736,163**	**$200,578,248**	**$206,595,595**	**$212,793,463**	**$219,177,267**
NOI (EBITDA)			**$55,692,353**	**$58,476,971**	**$61,400,819**	**$63,242,844**	**$65,140,129**	**$67,094,333**	**$69,107,163**	**$71,180,378**	**$73,315,789**	**$75,515,263**	**$77,780,721**
Reversion	8.5%											$915,067,305	
Sales Cost	1.0%											$9,150,673	
Net Cash Flow			**-$769,315,457**	**$58,476,971**	**$61,400,819**	**$63,242,844**	**$65,140,129**	**$67,094,333**	**$69,107,163**	**$71,180,378**	**$73,315,789**	**$981,431,895**	
NPV	12.0%		**($82,978,776)**										

Scenario 2 (Base plus 2.5%)	2.5%	Construction Period	Yr. 2012										
Developer Deficit (No Incentives)		**CP 1 CP 2 CP 3**	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**
Total Construction Cost			$780,007,810	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Total FF&E Cost			$45,000,000	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Room Revenue			$98,199,600	$103,109,580	$108,265,059	$111,513,011	$114,858,401	$118,304,153	$121,853,278	$125,508,876	$129,274,142	$133,152,367	$137,146,938
Other Revenue			$114,427,500	$120,148,875	$126,156,319	$129,941,008	$133,839,239	$137,854,416	$141,990,048	$146,249,750	$150,637,242	$155,156,359	$159,811,050
Total Revenue			**$212,627,100**	**$223,258,455**	**$234,421,378**	**$241,454,019**	**$248,697,640**	**$256,158,569**	**$263,843,326**	**$271,758,626**	**$279,911,384**	**$288,308,726**	**$296,957,988**
Departmental Expenses	46.1%		$98,074,250	$102,977,962	$108,126,860	$111,370,666	$114,711,786	$118,153,140	$121,697,734	$125,348,666	$129,109,126	$132,982,400	$136,971,872
Undistributed Operating Expenses	20.5%		$43,588,556	$45,767,983	$48,056,382	$49,498,074	$50,983,016	$52,512,507	$54,087,882	$55,710,518	$57,381,834	$59,103,289	$60,876,387
Management Fee	3.6%		$7,627,997	$8,009,397	$8,409,867	$8,662,163	$8,922,028	$9,189,689	$9,465,379	$9,749,341	$10,041,821	$10,343,076	$10,653,368
Property Taxes	3.2%		$6,756,226	$7,094,037	$7,448,739	$7,672,201	$7,902,368	$8,139,439	$8,383,622	$8,635,130	$8,894,184	$9,161,010	$9,435,840
Insurance	1.1%		$2,397,371	$2,517,239	$2,643,101	$2,722,394	$2,804,066	$2,888,188	$2,974,833	$3,064,079	$3,156,001	$3,250,681	$3,348,201
Replacement Reserves	3.1%		$6,538,283	$6,865,197	$7,208,457	$7,424,711	$7,647,452	$7,876,876	$8,113,182	$8,356,578	$8,607,275	$8,865,493	$9,131,458
Total Expenses	**77.6%**		**$164,982,683**	**$173,231,817**	**$181,893,408**	**$187,350,210**	**$192,970,716**	**$198,759,838**	**$204,722,633**	**$210,864,312**	**$217,190,241**	**$223,705,948**	**$230,417,127**
NOI (EBITDA)			**$47,644,417**	**$50,026,638**	**$52,527,970**	**$54,103,809**	**$55,726,924**	**$57,398,731**	**$59,120,693**	**$60,894,314**	**$62,721,143**	**$64,602,778**	**$66,540,861**
Reversion	8.5%											$782,833,660	
Sales Cost	1.0%											$7,828,337	
Net Cash Flow			**-$777,363,393**	**$50,026,638**	**$52,527,970**	**$54,103,809**	**$55,726,924**	**$57,398,731**	**$59,120,693**	**$60,894,314**	**$62,721,143**	**$839,608,101**	
NPV	12.0%		**($177,433,668)**										

500 Room Resort Hotel

Scenario 1 (Base less 2.5%)	2.5%	Construction Period			Yr. 2012										
Developer Deficit (No Incentives)		**CP 1**	**CP 2**	**CP 3**	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**
Total Construction Cost					$178,965,000	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Total FF&E Cost					$16,250,000	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Room Revenue					$25,504,375	$28,839,563	$32,011,914	$32,972,272	$33,961,440	$34,980,283	$36,029,692	$37,110,582	$38,223,900	$39,370,617	$40,551,735
Other Revenue					$26,690,625	$30,180,938	$33,500,841	$34,505,866	$35,541,042	$36,607,273	$37,705,491	$38,836,656	$40,001,756	$41,201,808	$42,437,863
Total Revenue					**$52,195,000**	**$59,020,500**	**$65,512,755**	**$67,478,138**	**$69,502,482**	**$71,587,556**	**$73,735,183**	**$75,947,238**	**$78,225,656**	**$80,572,425**	**$82,989,598**
Departemental Expenses	43.9%				$22,900,556	$25,895,244	$28,743,721	$29,606,033	$30,494,214	$31,409,040	$32,351,312	$33,321,851	$34,321,506	$35,351,152	$36,411,686
Undistributed Operating Expenses	20.5%				$10,686,926	$12,084,447	$13,413,737	$13,816,149	$14,230,633	$14,657,552	$15,097,279	$15,550,197	$16,016,703	$16,497,204	$16,992,120
Management Fee	2.9%				$1,526,704	$1,726,350	$1,916,248	$1,973,736	$2,032,948	$2,093,936	$2,156,754	$2,221,457	$2,288,100	$2,356,743	$2,427,446
Property Taxes	3.4%				$1,781,154	$2,014,075	$2,235,623	$2,302,691	$2,371,772	$2,442,925	$2,516,213	$2,591,700	$2,669,450	$2,749,534	$2,832,020
Insurance	1.0%				$508,901	$575,450	$638,749	$657,912	$677,649	$697,979	$718,918	$740,486	$762,700	$785,581	$809,149
Replacement Reserves	2.9%				$1,526,704	$1,726,350	$1,916,248	$1,973,736	$2,032,948	$2,093,936	$2,156,754	$2,221,457	$2,288,100	$2,356,743	$2,427,446
Total Expenses	**74.6%**				**$38,930,946**	**$44,021,915**	**$48,864,326**	**$50,330,256**	**$51,840,164**	**$53,395,369**	**$54,997,230**	**$56,647,146**	**$58,346,561**	**$60,096,958**	**$61,899,866**
NOI (EBITDA)					**$13,264,054**	**$14,998,585**	**$16,648,429**	**$17,147,882**	**$17,662,318**	**$18,192,188**	**$18,737,953**	**$19,300,092**	**$19,879,095**	**$20,475,468**	**$21,089,732**
Reversion	9.0%													$234,330,351	
Sales Cost	1.5%													$3,514,955	
Net Cash Flow					**-$181,950,946**	**$14,998,585**	**$16,648,429**	**$17,147,882**	**$17,662,318**	**$18,192,188**	**$18,737,953**	**$19,300,092**	**$19,879,095**	**$251,290,863**	
NPV	12.0%				**($4,164,193)**										

Scenario 2 (Base plus 2.5%)	2.5%	Construction Period			Yr. 2012										
Developer Deficit (No Incentives)		**CP 1**	**CP 2**	**CP 3**	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**
Total Construction Cost					$178,965,000	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Total FF&E Cost					$16,250,000	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Room Revenue					$25,504,375	$28,839,563	$32,011,914	$32,972,272	$33,961,440	$34,980,283	$36,029,692	$37,110,582	$38,223,900	$39,370,617	$40,551,735
Other Revenue					$26,690,625	$30,180,938	$33,500,841	$34,505,866	$35,541,042	$36,607,273	$37,705,491	$38,836,656	$40,001,756	$41,201,808	$42,437,863
Total Revenue					**$52,195,000**	**$59,020,500**	**$65,512,755**	**$67,478,138**	**$69,502,482**	**$71,587,556**	**$73,735,183**	**$75,947,238**	**$78,225,656**	**$80,572,425**	**$82,989,598**
Departemental Expenses	46.1%				$24,074,944	$27,223,206	$30,217,758	$31,124,291	$32,058,020	$33,019,760	$34,010,353	$35,030,664	$36,081,584	$37,164,031	$38,278,952
Undistributed Operating Expenses	21.5%				$11,234,974	$12,704,163	$14,101,621	$14,524,669	$14,960,409	$15,409,221	$15,871,498	$16,347,643	$16,838,072	$17,343,215	$17,863,511
Management Fee	3.1%				$1,604,996	$1,814,880	$2,014,517	$2,074,953	$2,137,201	$2,201,317	$2,267,357	$2,335,378	$2,405,439	$2,477,602	$2,551,930
Property Taxes	3.6%				$1,872,496	$2,117,360	$2,350,270	$2,420,778	$2,493,402	$2,568,204	$2,645,250	$2,724,607	$2,806,345	$2,890,536	$2,977,252
Insurance	1.0%				$534,999	$604,960	$671,506	$691,651	$712,400	$733,772	$755,786	$778,459	$801,813	$825,867	$850,643
Replacement Reserves	3.1%				$1,604,996	$1,814,880	$2,014,517	$2,074,953	$2,137,201	$2,201,317	$2,267,357	$2,335,378	$2,405,439	$2,477,602	$2,551,930
Total Expenses	**78.4%**				**$40,927,404**	**$46,279,450**	**$51,370,189**	**$52,911,295**	**$54,498,634**	**$56,133,593**	**$57,817,600**	**$59,552,128**	**$61,338,692**	**$63,178,853**	**$65,074,219**
NOI (EBITDA)					**$11,267,596**	**$12,741,050**	**$14,142,566**	**$14,566,843**	**$15,003,848**	**$15,453,964**	**$15,917,583**	**$16,395,110**	**$16,886,963**	**$17,393,572**	**$17,915,379**
Reversion	9.0%													$199,059,772	
Sales Cost	1.5%													$2,985,897	
Net Cash Flow					**-$183,947,404**	**$12,741,050**	**$14,142,566**	**$14,566,843**	**$15,003,848**	**$15,453,964**	**$15,917,583**	**$16,395,110**	**$16,886,963**	**$213,467,448**	
NPV	12.0%				**($29,772,301)**										

Overview

The Developer cash flow model estimates the taxes generated by the proposed convention hotel and resort hotel for the City of Mesa. Sources of tax revenues for Mesa include:

- Transaction Privilege Tax (TPT)
- Transient Occupancy Tax (TOT)
- Use Tax (FF&E)
- Privilege Tax on Construction Materials
- GPLET
- Potential Property Taxes (under proposed Pilot Program)

Each of the above listed taxes and the estimates for calculating them are described in the following paragraphs.

City Imposed Taxes

Transaction Privilege Tax (TPT or Sales Tax)

The City of Mesa imposes a privilege (sales) tax on the gross receipts from various types of business activities. Privilege Tax is passed on to the business customers as "sales tax." The City of Mesa Privilege Tax consists of various components as described in the following table.

City of Mesa Transaction Privilege Tax (TPT)	
Component	**% Tax**
General Fund	1.20%
Transportation	0.30%
Quality of Life	0.25%
Total Transaction Privilege Tax	**1.75%**

Source: City of Mesa

According to the City of Mesa (Tax and Licensing) the Quality of Life component of the TPT is earmarked to fund various public safety, recreation, cultural, and transportation activities; the transportation tax is earmarked for ongoing street maintenance and street (re) construction projects. These are considered dedicated taxes and cannot be pledged for other uses. According to the City, there is currently no "Sunset" time related to the Quality of Life and Transportation taxes, and are therefore considered to be in effect throughout the analysis period. The Quality of Life and Transportation taxes also apply to TPT related to Construction Materials, and to Use Tax applied to Furniture Fixtures & Equipment (FF&E).

Transaction Privilege Tax (Sales Tax) is imposed on the following revenue items associated with the proposed hotel developments.

City of Mesa Transaction Privilege Tax (TPT)	
Taxable Item	**% Tax**
Hotel Room Revenue	1.75%
Hotel Retail/F&B Revenue	1.75%

Source: City of Mesa

Transient Occupancy Tax (TOT)

In addition to the TPT tax applied to the hotel revenues as described above, the City of Mesa collects a Transient Occupancy Tax on hotels. This tax is imposed on the occupancy of space or use of furnishings or other services or accommodations in a hotel, motel, or any other structure intended for occupancy by transients for dwelling, lodging, or sleeping purposes for a period of 30 consecutive days or less.

City of Mesa Transient Occupancy Tax (TOT)	
Taxable Item	**% Tax**
Hotel Room Revenue	3.0%

Source: City of Mesa

The transient occupancy tax rate is 3.0% of the total amount charged for occupancy of space including the use of furnishings (room revenue). This tax is assessed in addition to the 1.75% Transaction Privilege Tax.

Use Tax

The City also collects a 1.75% Use Tax which is imposed on items acquired from a retailer which are then stored or used in the City. Use tax is imposed on items for which a 1.75% Transaction Privilege Tax has not already been charged, when the items were acquired.

City of Mesa Use Tax	
Taxable Item	**% Tax**
Furniture Fixtures & Equipment	1.75%

Source: City of Mesa

The TPT is considered a tax paid by the seller on items sold, but Use Tax is usually paid by the purchaser. Purchases which would have been taxable retail sales but have so far escaped the tax, may be subject to use tax, for example items purchased "out-of-state. In this analysis, it is assumed that the hotel Furniture Fixtures & Equipment is acquired out-of-Mesa and subsequently the associated FF&E cost is subject to the City use tax. According to the City of Mesa, the Use Tax also has a Quality of Life component included in the imposed tax rate.

Privilege Tax on Construction Materials

The City of Mesa imposes a 1.75% privilege tax on the gross income from the business upon every construction contractor engaging or continuing in the business activity of construction contracting within the City.

The tax is calculated by State law under the assumption that 65% of the total construction cost of the Subject and its land improvements are related to construction materials with the remaining 35% allocated to labor. The privilege tax (sales tax) only applies to the 65% which is considered to be the cost of construction materials. The sales tax on construction materials is a one-time collection by the governmental entity.

The privilege tax on construction materials is as follows:

Construction Materials - TPT	
Taxable Item	**% Tax**
City of Mesa	1.75%

Source: City of Mesa

According to the City of Mesa, the TPT on construction materials also has a Quality of Life component included in the imposed tax rate. Construction taxes will occur over the construction period. As this is prior to the date of opening, we rolled the construction taxes forward to 2012. Therefore the taxes are not discounted.

Sales Tax Summary

The following table details the tax benefits the City will capture as a result of the proposed convention hotel and resort hotel development, in 2008 dollars, over 30- and 50-year periods, and discounted at 12%. These amounts are gross taxes, prior to deduction of developer incentives.

Convention Hotel Estimated Taxes (Sales Tax, Bed Tax, Construction and Use Tax)				
	NPV	**Total**	**NPV**	**Total**
Tax	**30-Years**	**30-Years**	**50-Years**	**50-Years**
Transaction Privilege Tax (Sales Tax)	$39,293,670	$183,746,702	$42,122,846	$435,950,298
Transient Occupancy Tax (Bed Tax)	$31,109,777	$145,476,841	$33,349,707	$345,152,710
Construction Tax	$7,000,871	$7,000,871	$7,000,871	$7,000,871
Use Tax	$864,362	$864,362	$864,362	$864,362
Total	**$78,268,680**	**$337,088,776**	**$83,337,786**	**$788,968,240**

Resort Hotel Estimated Taxes (Sales Tax, Bed Tax, Construction and Use Tax)				
Tax	**NPV 30-Years**	**Total 30-Years**	**NPV 50-Years**	**Total 50-Years**
Transaction Privilege Tax (Sales Tax)	$10,821,264	$51,165,424	$11,611,922	$121,647,700
Transient Occupancy Tax (Bed Tax)	$9,064,565	$42,859,349	$9,726,870	$101,899,697
Construction Tax	$1,433,250	$1,433,250		
Use Tax	$284,375	$284,375		
Total	**$21,603,454**	**$95,742,398**		

Detailed annual estimates over 25 to 50-year periods can be found in the Exhibits at the end of the report.

Government Property Lease Excise Tax (GPLET)

Arizona law does not permit property tax abatements; however, as an alternative, cities are allowed to provide relief from ad valorem property taxes in certain areas with a Government Property Lease Excise Tax (GPLET). GPLET is a program that eliminates the real property tax obligation for a developer, replacing it with a predetermined excise tax that is dependent on the type of use. The excise tax is reduced 20% every ten years, starting when the certificate of occupancy is obtained, for the duration of the agreement with the City. As the rate drops to 80% for years 11 – 20, the rate is essentially 80% for the first 20 years. In addition, a property located in a “slum and blight area”, and located outside a single Central Business District, is eligible for a tax rate reduction of 20% of the GPLET rate within the first 10 years following the certificate of occupancy, resulting in a 80% tax rate basis (instead of 150% without the designation). The GPLET is generally considered a benefit to the developer. Cities receive 7% of GPLET funds.

A summary of GPLET abatements by property designation is listed below:

Location	Percent of Tax Rate Applicable	Duration of Special Treatment
Single central business district in a slum or blighted area	0% - 8yrs 100% - up to 10yrs 20% decrease every 10 yrs	First 8 years
Slum or blighted area (not CBD) where property values increase by at least 100%	80%	First 10 years
Outside slum or blighted area and leased after 6/30/1996	150%	Permanent

Local municipalities have utilized the GPLET to draw large employers, specialized developments, tourist draws, and redevelopment in the past decade. Examples include Tempe’s Hayden Ferry Lakeside (mixed use development) and Tempe Marketplace (retail) and Chandler's Intel Corporation (manufacturing facilities). Phoenix has been one of the more active proponents of the GPLET, actively promoting redevelopment of the Central Business District with such projects as the Collier Center, Phelps Dodge Tower, and CityScape, a mixed-use development currently under construction as well as City North in the northern suburbs of the city.

The City of Mesa currently does not impose property taxes. However, a pilot program has been discussed, addressing the possibility of implementation of property taxes in the future. Based on this information, an analysis was completed for the proposed hotel development calculating the GPLET benefit to the City in lieu of a property tax. An analysis was also conducted to estimate the GPLET benefit to the Developer in comparison to regular property taxes.

The use of GPLET requires the "straw" transfer of title for the building and leasehold improvements to the City of Mesa, and would require a lease agreement between the City and Developer. GPLET rates for relevant property types are as follows:

Use	GPLET Rate	Basis of Tax
Office with 1 floor above ground	$1.00/SF	Gross building space
Office with 2-7 floors above ground	$1.25/SF	Gross building space
Office with 8 or more floors above ground	$1.75/SF	Gross building space
Retail	$1.50/SF	Retail building space
Hotel/Motel	$1.50/SF	Building space
Warehouse/Industrial	$.75/SF	Building space
Residential Rental	$.50/SF	Building space
Parking	$100.00 each	Parking space
All Other	$1.00/SF	Building space

Source: ARS 42-6208

It should be noted that public spaces engaging in "convention activities" are exempted from the GPLET per Arizona Revised Statute 42-6208 – "Exempt Government Property Improvements" – which stipulates exempt properties by use. The Developer noted this in their cash flow model by not including any GPLET for the convention center space

Based on the above indicated GPLET rates, the City collects monies received from GPLET and distributes the tax as follows:

Local Government	Percent Distribution
County	13%
City or Town	7%
Community College	7%
K-12 School District(s)	73%

Source: ARS 42-6208

If an entity is not applicable, the proceeds are split proportionally among the other entities. In the Elliot D. Pollack analysis, the City is expected to receive 7.0% of the total GPLET distribution.

The GPLET, as noted above decreases by 20% every 10 years and excise rates are currently fixed.

Age	Percent of Tax Rate Applicable
Less than 10 years	100%
10 to 20 years	80%
20 to 30 years	60%
30 to 40 years	40%
40 to 50 years	20%
Over 50 years	0%

Based on discussions with the City of Mesa, the Subject property is considered to be located within a "Slum or Blighted" area. The Subject site is located in a Slum or Blighted area (outside CBD) and, would obtain a tax rate reduction of 20% of the GPLET rate during the first 10 years following the certificate of occupancy. The base GPLET rate for the convention and resort hotels is $1.50/SF of building area. The base rates are currently fixed for the duration of the GPLET period, but the applicable percentage tax rate is decreasing as indicated in the schedule above.

The following table details GPLET amounts received by the City over 30- and 50-year periods for each of the proposed projects, discounted at 12%.

GPLET				
Tax	NPV 30-Years	Total 30-Years	NPV 50-Years	Total 50-Years
GPLET Convention Hotel	$661,457	$2,268,000	$670,355	$2,856,000
GPLET Resort Hotel	$413,411	$1,417,500	$418,972	$1,785,000
Total	**$1,074,868**	**$3,685,500**	**$1,089,326**	**$4,641,000**

Potential Property Taxes (under proposed Pilot Program)

Currently, the City of Mesa does not charge property taxes, but property taxes are still imposed on a State/County level. However, meetings have been held at the City discussing the possibility of implementing a city property tax. A pilot program has been discussed in which City property taxes could be imposed at a rate of 0.3% of assessed value.

The following details the assumptions made and used by the Developer in their model to calculate the total ad valorem (property) tax. Based on this information, the potential property taxes generated for the City of Mesa under a Pilot program were estimated.

The state of Arizona requires that all properties have a full cash value and a limited cash value estimated on a yearly basis and then adjusted by a ratio to derive the assessed value. The full cash value is determined by the county assessor using standard appraisal methods and is typically 75% to 80% of market value. The limited cash value - which is often equal to, but cannot exceed the full cash value - is driven by a statutory formula limiting future growth. The assessed value is then determined by using specific percentages set by the State Legislature based on the property type.

In order to estimate the subjects assessed values and subsequently the property tax amount, the Developer made the following assumptions regarding the 2008 Full Cash Value for the two hotels and the convention center.

Subject Estimated Full Cash Values & Construction Cost

Item	Convention Hotel FCV/Room	Total FCV Convention Hotel	Convention Center FCV/SF	Total FCV Convention Center	Total FCV/Room - Hotel and C.C.	Resort Hotel FCV/Room	Total FCV Resort Hotel
2008 Full Cash Value (FCV)	$200,000	$300,000,000	$285	$182,500,000	**$321,667**	$225,000	$112,500,000
Annual Rate of FCV Growth	2%	2%	2%	2%	2%	2%	2%
Estimated Construction Cost	$258,770	$388,155,380	$570	$365,000,000	**$502,104**	$334,750	$167,375,000
FCV as percent of Estimated Cost	77%	77%	50%	50%	64%	67%	67%

Based on the estimated construction cost for the Subject hotels and convention center, the Full Cash Value in relationship to the estimated construction cost for the convention hotel and the resort hotel is at 77% and 67%, respectively. This amount seems to be inline with the typical assessment to FCV ratio of approximately 70% to 80% for Maricopa County. The Full Cash Value in relationship to the estimated construction cost for the convention center is at 50%, well below the typical ratio, but convention centers typically lose money and it is difficult to estimate a market value for them.

We research and contacted various conference and resort hotels in the Phoenix MSA to gain an understanding of the assessed Full Cash Value for these hotels and to use as an additional measure of reasonableness of the assumed FCV in the Developer's model. The following details our findings.

Full Cash Value of Comparable Properties					
Property Name	Year Built	FCV - 2008	FCV/Room	FCV - 2009	FCV/Room
Hyatt Regency at Gainey Ranch	1985	$97,135,384	$198,235	$121,686,800	$248,340
Phoenician	1983	$163,261,052	$252,335	$165,826,851	$256,301
Westin Kierland	2002	$166,743,096	$227,791	$239,722,900	$327,490
Averages			**$226,121**		**$277,377**

Source: Maricopa County Assessor

FCV includes land and improvements

The Full Cash Value for the hotels in our sample range from $198,235/room to $252,335/room for 2008. All of these hotels include significant meeting and banquet space and it is not possible to break those figures out of the assessed values. This range supports the estimated FCV for the subject hotels.

Arizona employs a dual tax structure comprising of a primary and secondary tax rate. The primary tax rate is applied to the limited cash value and the secondary tax rate is applied to the full cash value. The primary tax rate accounts for the maintenance and operations of the state, county, city, school districts, and community colleges. The secondary tax rate pays for redemption charges on any bonded indebtedness, amounts levied by voter overrides, and assessments levied by special districts.

The Full Cash Value (FCV) and the Limited Property Value (LPV) were estimated at the year of opening and inflated. Changes to the county property tax policies would impact these estimates. Since this is a new development, the Full Cash Value and the Limited Property Value are expected to be the same. The assessed values for FCV and LPV were then estimated based on a statutory commercial assessment ratio of 20% for the FCV and LPV. These assessed values were then multiplied by the various tax rates (Primary and Secondary) to estimate the tax revenues.

The Subject property is located in the City of Mesa. According to the Maricopa County 2007 tax rates, the primary tax rate is 5.11%, the secondary tax rate is 2.33%, and there is also a Special District tax of 0.05% totaling 7.49%.

As mentioned above, City of Mesa currently does not charge property taxes on real estate located within the City. However, we have been asked to estimate the amount of City property taxes that would potentially be collected under the proposed Pilot program, if it was implemented. Based on discussions with the City of Mesa, we were informed that the proposed City property tax under the Pilot program could be as high as 0.3% starting in 2012. The following tables show the amount of City property tax that would potentially be collected under the Pilot program. The Net Present Value was determined using a 12% discount rate in 2012.

Convention Hotel Pilot Prop. Tax			
NPV 30-Years	**Total 30-Years**	**NPV 50-Years**	**Total 50-Years**
$2,943,573	$12,709,945	$3,103,813	$26,498,656

Resort Hotel Pilot Prop. Tax			
NPV 30-Years	**Total 30-Years**	**NPV 50-Years**	**Total 50-Years**
$729,378	$3,271,075	$774,961	$7,263,302

Benefits to the City of Mesa

As detailed in the following section (Developer's Benefits), the developer has requested incentives in the form of 3% and 2% of the Bed Tax for the Convention Hotel and the Resort Hotel, respectively, for a total of 30 years. In addition, the developer also requested GPLET payment for 50 years. Using the assumptions outlined above, the two hotel projects generate taxes over 30 years and 50 years, as detailed in the following tables. These tables identify the net tax benefit to the City of Mesa, after subtracting the proposed developer incentives.

<u>Convention Hotel</u>

The table below details the tax cash flows for the convention hotel, discounted and undiscounted over 30 and 50 years, including the proposed Pilot Tax, and the GPLET.

1,500 Room Convention Hotel	**Total Taxes Generated by the Proposed Project Net of Developer Incentives**			
City of Mesa Inflows	**30 Years NPV CF**	**30 Years Total CF**	**50 Years NPV CF**	**50 Years Total CF**
Construction Tax (less 0.55% - T/QOL)	$4,802,157	$4,802,157	$4,802,157	$4,802,157
Transportation/Quality of Life Tax - Construction	$2,200,989	$2,200,989	$2,200,989	$2,200,989
Use Tax FF&E (less 0.55% - T/QOL)	$540,000	$540,000	$540,000	$540,000
Transportation/Quality of Life Tax - Use Tax	$247,500	$247,500	$247,500	$247,500
Transaction Privilege Tax (less 0.55% - T/QOL)	$26,944,231	$125,997,739	$28,884,237	$298,937,347
Transportation/Quality of Life Tax - Sales Tax	$12,349,439	$57,748,964	$13,238,609	$137,012,951
Transient Occupancy Tax (bed tax)	$0	$0	$2,239,930	$199,675,869
GPLET Lease Payment (7% to City.)	$661,457	$2,268,000	$670,355	$2,856,000
Total Tax Payments to the City	**$47,745,772**	**$193,805,348**	**$52,823,776**	**$646,272,812**

Pilot Program City of Mesa Inflows	**30 Years NPV CF**	**30 Years Total CF**	**50 Years NPV CF**	**50 Years Total CF**
Potential Property Tax to the City	$2,944,183	$12,712,580	$3,104,456	$26,504,149

<u>Resort Hotel</u>

The table below details the tax cash flows for the resort hotel, discounted and undiscounted over 30 and 50 years, including the proposed Pilot Tax, and the GPLET.

500 Room Resort Hotel	**Total Taxes Generated by the Proposed Project Net of Developer Incentives**			
City of Mesa Inflows	**30 Years NPV CF**	**30 Years Total CF**	**50 Years NPV CF**	**50 Years Total CF**
Construction Tax (less 0.55% - T/QOL)	$982,800	$982,800	$982,800	$982,800
Transportation/Quality of Life Tax - Construction	$450,450	$450,450	$450,450	$450,450
Use Tax FF&E (less 0.55% - T/QOL)	$195,000	$195,000	$195,000	$195,000
Transportation/Quality of Life Tax - Use Tax	$89,375	$89,375	$89,375	$89,375
Transaction Privilege Tax (less 0.55% - T/QOL)	$7,420,295	$35,084,862	$7,962,461	$83,415,566
Transportation/Quality of Life Tax - Sales Tax	$3,400,969	$16,080,562	$3,649,461	$38,232,134
Transient Occupancy Tax (bed tax)	$3,021,522	$14,286,450	$3,683,826	$73,326,798
GPLET Lease Payment (7% to City.)	$413,411	$1,417,500	$418,972	$1,785,000
Total Tax Payments to the City	**$15,973,821**	**$68,586,998**	**$17,432,345**	**$198,477,123**

Pilot Program City of Mesa Inflows	**30 Years NPV CF**	**30 Years Total CF**	**50 Years NPV CF**	**50 Years Total CF**
Potential Property Tax to the City	$729,378	$3,271,075	$774,961	$7,263,302

Overview

The following analyzes the incentives the Developer has requested for the Subject project. These will then be compared to the Developer's shortfall to determine if there are sufficient incentives to fund the shortfall.

The developer requested the following incentives:

1. Transient Occupancy Tax (TOT or Bed Tax) for 30 years
    a. 3% Convention Hotel
    b. 2% Resort Hotel
2. GPLET for 50 years

Transfer Occupancy Tax

The Developer has requested a benefit from Transient Occupancy Tax (Bed Tax). The transient occupancy tax rate is 3.0% of the total amount charged for occupancy of space including the use of furnishings (room revenue). This tax is assessed above and beyond the 1.75% Transaction Privilege Tax. According to the City of Mesa, the TOT does not have a Quality of Life component included in the imposed tax rate. The incentive under negotiation with the developer consists of 3% TOT for the convention hotel and 2% of the TOT related to the resort hotel for 30 years.

The following tables show the estimated TOT tax associated with the proposed project over a 30-year time frame (discounted and undiscounted)

Developer Estimated Incentive Transient Occupancy Tax - 30-yrs		
Tax	**NPV @ 12%**	**Total**
Property Type	**30-Years**	**30-Years**
Transient Occupancy Tax (Convention)	$31,109,777	$145,476,841
Transient Occupancy Tax (Resort)	$6,043,043	$28,572,899

GPLET

The Developer has requested a benefit from ad valorem property tax relief via a Government Property Lease Excise Tax (GPLET). To determine the benefit of the GPLET, the ad valorem property taxes that the Developer would have to pay in the absence of the GPLET need to be estimated. To derive the estimated ad valorem property tax for the Subject project, EY calculated the annual property tax liability based on an estimated assessed value and corresponding tax rate and used comparable property tax levies. See the GPLET analysis in the previous section.

The difference between the ad valorem property taxes and the GPLET, discounted to the present value, is the developer's incentive. A discount rate of 12.0% was used.

We estimated the developer incentive both with and without the inclusion of the City of Mesa proposed property tax Pilot program. The following tables show the estimated GPLET incentive associated with the proposed project over a 30- and 50-year time frame (discounted and undiscounted)

Convention Hotel - Developer Estimated Incentive GPLET for 30- & 50-yrs				
	NPV @ 12%	**Total**	**NPV @ 12%**	**Total**
Item	**30-Years**	**30-Years**	**50-Years**	**50-Years**
GPLET (excl. Pilot Tax)	$64,027,092	$284,861,418	$67,899,848	$620,650,613
Pilot Tax	$2,943,573	$12,709,945	$3,103,813	$26,498,656

Resort Hotel - Developer Estimated Incentive GPLET for 30- & 50-yrs				
	NPV @ 12%	**Total**	**NPV @ 12%**	**Total**
Item	**30-Years**	**30-Years**	**50-Years**	**50-Years**
GPLET (excl. Pilot Tax)	$12,300,629	$61,401,483	$13,358,997	$155,804,135
Pilot Tax	$729,378	$3,271,075	$774,961	$7,263,302

Total Benefits to the Developer

Based on the assumptions outlined herein, the Developer's total benefit from the TOT, and GPLET, over 30- and 50-years (assuming TOT tax incentives for 30 years and GPLET for 50 years), are listed in the tables below.

1,500 Room - Convention Hotel			
Time Period	**GPLET Benefit**	**TOT Benefit***	**Total Developer Incentive**
30 Yr. Undiscounted	$284,927,186	$145,476,841	$430,404,027
30 Yr. NPV	**$64,042,323**	**$31,109,777**	**$95,152,101**
50 Yr. Undiscounted	$620,787,730	$145,476,841	$766,264,571
50 Yr. NPV	**$67,915,908**	**$31,109,777**	**$99,025,685**

* TOT benefits for 30 years

500 - Resort Hotel			
Time Period	**GPLET Benefit**	**TOT Benefit***	**Total Developer Incentive**
30 Yr. Undiscounted	$61,401,483	$28,572,899	$89,974,382
30 Yr. NPV	**$12,300,629**	**$6,043,043**	**$18,343,672**
50 Yr. Undiscounted	$155,804,135	$28,572,899	$184,377,034
50 Yr. NPV	**$13,358,997**	**$6,043,043**	**$19,402,041**

* TOT benefits for 30 years

National Overview of Incentives for Convention Hotels

It is often the case that occupancy levels and room rates generated by convention hotels do not support the construction costs of these facilities. As such, local governments across the U.S. have stepped in to make up the gap by providing incentives in the form of property tax abatements, sales and occupancy tax abatements, contributed land, tax deferrals, tax increment financing (TIF's), or outright public financing. The incentives provided by the local governments to cover funding gaps are supported by the long-term benefits that development brings to areas. In the past 15 years, major convention hotels have opened or are planned in cities across the U.S. Of those, only three – all of which were located in New York City – were entirely privately financed. Following the events of 2001, every new downtown convention hotel being developed was financed with tax-exempt bonds.

Convention hotels receiving either public financing (using tax exempt bonds) or public support (tax incentives/abatements, provided land, etc.) are summarized below:

Convention Hotels Receiving Public Incentives

Hotel Name	Location	# of Rooms	Year Built	Type of Support
Dallas Convention Hotel	Dallas, TX	1,000	2011	Public Financing
Hilton Hotel	Baltimore, MD	756	2008	Public Financing
Hilton Hotel	Broward County, FL	1,000	2012	Public Financing
Gaylord Resort	Chula Vista, CA	1,500	2012	Public Incentive
Los Angeles JW Marriott	Los Angeles, CA	1,000	2012	Public Incentive
Gaylord National	Washington D.C.	2,000	2008	Public Financing
Opryland Resort Expansion	Nashville, TN	400	2010	Public Financing
Gaylord Texan	Dallas, TX	500	2010	Public Incentive
Sheraton Phoenix	Phoenix, AZ	1,000	2008	Public Financing
Hyatt Regency Downtown	Denver, CO	1,100	2005	Public Financing
Austin Hilton	Austin, TX	800	2004	Public Financing
Hilton Americas - Houston	Houston, TX	1,200	2003	Public Financing
St. Louis Renaissance	St. Louis, MO	1,100	2003	Public Financing
Charlotte Westin	Charlotte, NC	700	2003	Public Incentives
Adam's Mark Hotel	Jacksonville, FL	966	2001	Public Incentives
Baltimore Marriott	Baltimore, MD	750	2001	Public Incentives
Chicago Hyatt Downtown	Chicago, IL	800	1998	Public Incentives
Rosen Centre Hotel	Orlando, FL	1,408	1995	Public Incentives
Philadelphia Marriott	Philadelphia, PA	1,408	1995	Public Incentives

Source: Smith Travel Research and Published Articles

The Subject hotel is seeking public incentives, but is being constructed with private financing and equity. Measuring the value of public financing is difficult, but in many cases the hotels would not have been built without such financing as private dollars were not willing to invest in the projects.

It is difficult to set a benchmark for comparison of project incentives. Each project is unique due to a number of factors including the political make-up of a city government, various local and state laws governing incentive programs using public funds, economic characteristics of the market, and development agreements. For example, a hotel's financing may be tied to an attached convention center and as such is difficult to disaggregate. Further, incentives may also be intangible or difficult to quantify (in the case of public financing, but no direct incentives per say). Tax incentives are often quoted on a present value format which is contingent on hotel performance over the long run.

- The proposed Los Angeles' headquarters convention hotel includes tax incentives worth a present value of about $68 million, plus $16 million in below market financing and roadway improvements. The 1,000 room Marriott and Ritz Carlton hotels will open in 2010/2011. Over the course of the 25-year discounting period, the amount of public support including financing (in the form of tax abatements) could total more than $290 million.

- The Denver City Council approved the Denver Convention Center Hotel Authority's issuance of $367 million in tax exempt revenue bonds to attract developer for their downtown convention hotel, a 1,100 room Hyatt. This includes $23 million to purchase the land and $89 million in reserves. This bond issuance took place prior to the hotel's groundbreaking.

- In Kansas City, the developer of a $300 million, 1,000-room convention hotel is expected to receive $50 to $75 million in incentives from the City. These numbers are preliminary and according to city officials, no final developer has been selected.

- The Municipalities of Dallas, Phoenix, Denver, Houston, Austin, Broward County, and Baltimore all recently announced new convention hotels to be constructed and paid for with public bonds.

It should be noted, all of these subsidies are for convention hotels only. The convention space was built separately from this space using public financing. The Subject project will include the convention center space with the hotel rooms.

Previous Gaylord Subsidies

The following table details incentives received by Gaylord related to their developments. These incentive packages consist predominantly of tax-exempt revenue bonds where a special taxation authority is created to pay off the bonds. As such, it appears that these amounts are quoted in net present value terms.

Gaylord Incentives

Project	Incentive ($M)	Rooms
Gaylord Chula Vista	$130	1,500
Gaylord National	$145	2,000
Gaylord Opryland Expansion	$80	500
Gaylord Texan Expansion	$35	500

Source: Published Articles

Gaylord National

Gaylord Entertainment received a variety of incentives for their developments around the country. The most recent of these developments is Gaylord's National Harbor development on the outskirts of Washington D.C. which contains 450,000 SF (usable) of convention space and 2,000 rooms. For this development, Prince George's County Council authorized the creation of a special convention center tax district which gives Gaylord taxing authority above and beyond the local taxes. These special taxes are passed through to the customers and used to pay back taxable revenue bonds which are issued to fund the development.

Initially, Gaylord, in July 2006, issued $95 million in special obligation/taxable revenue bonds. An expansion of the project (500 rooms and 50,000 SF of meeting space) was financed by an additional $50 million bond issue. The bonds for the National Harbor development will be repaid through a variety of taxes levied by Gaylord:

- Property Tax Increment – Convention Center District property tax increment revenue is pledged to secure Convention Center Bonds (TIF can be used as the convention center is considered a public good)
- Hotel Tax (5%) – Collected from Gaylord hotels in Convention Center District
- Special Hotel Rental Tax (5%) – Collected from Gaylord hotels in Convention Center District
- Gaylord has the right to levy additional "special taxes" if the above taxes are not sufficient to cover the debt service

Gaylord Opryland

Similarly, a $320 million expansion of Gaylord's Opryland Resort and Convention Center in Nashville, which includes a 400-room stand-alone hotel and 400,000 SF of meeting space, was partially funded in February 2007 by the issuance of $80 million in tax-exempt revenue bonds. The bonds will be paid off with future tax revenue generated by the expansion.

Gaylord Texan

A recently announced $315 million expansion at the Gaylord Texan will add 500 guest rooms, 200,000 SF of meeting space and other amenities. In September of 2007, the local municipality of Grapevine included $35 million of incentives in the project, including tax rebates and grants.

Gaylord Chula Vista

Gaylord's newest project is a 1,500 room hotel containing 400,000 SF of meeting space in Chula Vista, CA (San Diego). The first phase had a 2006 budget of $650 million. The total 2,000 room hotel and 600,000 SF of meeting space is budgeted at $1 billion. The project includes a $130 million subsidy for the convention center. This subsidy will be paid for with revenue bonds which will be paid back by the city's occupancy tax, TIF and the Port's rental revenue. The project includes an additional $178 million in public infrastructure for roads and utilities to make the site suitable for development. Gaylord is backing the bonds if the tax revenues fall short.

Conclusion

All major US convention hotels constructed in the U.S. over the past 15 years (excluding three in NYC) have included public financing or incentives. The projects we have examined included incentives of $50 million to $150 million and many were financed with public financing. The Subject incentive package (as analyzed earlier) is within this range and the facility will be financed with private funds or revenue bonds from the project. No public guarantees are part of the Subject's proposed financing package.

Convention Space per Hotel Room

A unique trait of Gaylord Hotels is their ability to maintain high occupancy levels by rotating existing convention groups through their regional network of convention hotels. Groups that need regional diversity are able to move from region to region each year to accommodate their various convention delegates.

It should be noted that each of Gaylord's existing properties are in areas where there is a destination (i.e. Orlando's tourist attractions) or an existing need for convention space (i.e. Washington D.C. – a city with high conference demand). Mesa fits both of these categories as it is located in one of the world's premier resort destinations and is in the heart of one of the country's fastest growing cities. In addition, it fits the Gaylord's need for a convention hotel in the southwest region of the country.

Convention Center Space per Hotel Room

Typically, convention hotels contain 100 to 200 square feet of meeting/exhibition space for each hotel room. As seen below, other Gaylord hotels around the country average about 240 SF/Room. A study of comparable properties of various brands across the country indicated a range of 60 SF/Room to 238 SF/Room with an average of 141 SF/Room. The availability of proximate convention centers impacts the square footage of meeting space at these hotels.

Convention Hotel Brand	Location	Meeting Space (SF)	# of Hotel Rooms	Sq. Ft. of CC Space per Room
Subject	Mesa, AZ	320,000	1,500	213
Gaylord Texan	Dallas/Ft. Worth, TX	400,000	1,511	265
Gaylord Palms	Orlando, FL	400,000	1,406	284
Gaylord Opryland	Nashville, TN	600,000	2,881	208
Gaylord National	Washington D.C.	470,000	2,000	235
Averages		**438,000**	**1,860**	**241**
Marriott JW Desert Ridge Resort & Spa	Phoenix, AZ	200,000	950	211
Hyatt Manchester Grand San Diego	San Diego, CA	125,000	1,625	77
Marriott San Diego Hotel & Marina	San Diego, CA	110,000	1,362	81
Marriott JW Desert Springs Resort	Palm Desert, CA	210,000	884	238
Sheraton Hotel Denver	Denver, CO	133,000	1,317	101
Marriott Orlando World Center Resort	Orlando, FL	450,000	2,000	225
Sheraton Hotel Walt Disney World	Lake Buena Vista, FL	320,000	1,509	212
Buena Vista Palace	Lake Buena Vista, FL	90,000	1,014	89
Sheraton Hotel Dallas	Dallas, TX	220,000	1,840	120
Marriott San Antonio Rivercenter	San Antonio, TX	60,000	1,001	60
Averages		**191,800**	**1,350**	**141**

The table above illustrates the ratio of convention center space per hotel room in Gaylord's existing properties and comparable properties across the U.S. The Subject property contains 320,000 SF of usable meeting space, or 213 SF of convention space per hotel room. Other Gaylord properties range from 208 to 284 SF per room. Based on our research, the Subject's ratio of convention space per room is in line with other Gaylord properties and slightly higher than other major group hotels in the U.S. The ratio at 1,500 rooms appears to be market supported.

Hypothetical Development Scenario II

- 1,200 Room Convention Hotel
- 490 Room Resort Hotel

Hypothetical Development Scenario II

In addition to our original fiscal benefit analysis of a 1,500 room Convention Hotel and a 500 room Resort Hotel as detailed previously in this report, we were asked by the City of Mesa to perform a similar analysis with a 1,200-room Convention Hotel, 490-room Resort Hotel (the minimum project sizes negotiated in the Pre-Annexation Development Agreement). Our analysis and projections are based on the same analysis period of 50 years, with tax revenues to the City of Mesa starting in 2012 and extending until 2061. The assumptions and methodologies used in estimating the tax impact are shown in the following sections. It should be noted that the assumptions were generally the same for both the 1,500/500 and the 1,200/490 room Convention/Resort development, unless otherwise noted. This addendum (Hypothetical Development Scenario II) is based on the information obtained previously from the body of this report, as well as additional assumptions as detailed in this addendum.

Methodology

In determining the fiscal benefits to the City of Mesa, we projected a cash flow of project revenue and the associated taxes that would go to the City of Mesa from this revenue stream. We first looked at the sales taxes derived from construction costs.

In addition to the sales tax from construction, we also analyzed the tax revenues that would be generated by the operation of the proposed hotels. Tax revenues were calculated over a 50 year period. The following paragraphs details our assumptions and methodology employed in this Sales Tax Summary analysis.

For a more thorough explanation of the assumption used in this analysis, attention should be given to previous sections of the body of this report. The previous sections will include a more detailed explanation of the various assumptions used by the developer in their fiscal impact calculation, as well as the EY TRE assumptions and supporting market information. The information provided was either included in the Developer's fiscal impact cash flow, and/or the fiscal impact study "Economic and Fiscal Impact Mesa Proving Ground Urban Core Mesa, Arizona, March 2008, conducted for the Developer by Elliot D. Pollack & Company.

Sales Tax from Construction and Use Tax

The City of Mesa imposes a 1.75% privilege tax on the gross income from the business upon every construction contractor engaging or continuing in the business activity of construction contracting within the City. The City also collects a 1.75% Use Tax which is imposed on items acquired from a retailer which are then stored or used in the City.

For the analysis of the 1,200 room Convention Hotel and the 490 room Resort Hotel, Ernst & Young was not provided with updated cost figures from the developer. As such we made our own assumptions regarding the change in fixed hard costs associated with the smaller hotels based on the initial cost provided for the 1,500 room Convention Hotel and 500 room Resort Hotel.

Even-though the Convention Hotel decreased by 20%, and the Resort Hotel by 2%, based on the amount of hotel rooms, the costs associated with the construction of the hotel would not decrease by the same ratio. We assumed that all of the common areas, etc., would still be constructed to the same specification under a 1,200/490 room hotel development, as with a 1,500/500 room hotel development. Further, FF&E cost for a 1,200/490 room hotel development would also decrease less than the 20% and 2% decrease in hotel rooms due to the fact that common areas, etc., would still be furnished and equipped similarly as originally planned. However, to account for some savings associated with the lower amount of hotel rooms, we assumed that fixed costs such as construction cost and FF&E would decrease by 80% of the overall decrease of 20% and 2%, or effectively a decrease of 16% for the Convention Hotel and 1.6% for the Resort Hotel. The following construction cost assumptions were utilized by EY TRE in our analysis:

Construction Cost Assumptions - Convention Hotel		
	1,500 Rooms	**1,200 Rooms**
Total Construction Cost	$460,079,919	$387,823,132
Construction Cost Less Land	$407,579,919	$345,823,132

Construction Cost Assumptions - Resort Hotel		
	500 Rooms	**490 Rooms**
Total Construction Cost	$195,215,000	$192,087,960
Construction Cost Less Land	$172,715,000	$170,037,960

Convention Center construction costs are assumed to remain the same as originally projected ($365 million) since no change is planned to the convention space under this scenario.

The following table details the tax benefits the City will capture as a result of the proposed convention hotel and resort hotel development related to Construction and Use Tax. The amounts are rolled up to the year of completion and are assumed to be a one time collection (in 2008 dollars).

Construction and Use Tax - 1,200 Room Convention Hotel				
	1,500 Rooms		1,200 Rooms	
Tax Item	**NPV**	**Total**	**NPV**	**Total**
Construction Tax	$4,802,157	$4,802,157	$4,489,332	$4,489,332
Transportation/Quality of Life Tax - Construction	$2,200,989	$2,200,989	$2,057,610	$2,057,610
Use Tax	$540,000	$540,000	$453,600	$453,600
Transportation/Quality of Life Tax - Use Tax	$247,500	$247,500	$207,900	$207,900
Total	**$7,790,646**	**$7,790,646**	**$7,208,442**	**$7,208,442**

Construction and Use Tax - 490 Room Resort Hotel				
	500 Rooms		490 Rooms	
Tax Item	**NPV**	**Total**	**NPV**	**Total**
Construction Tax	$982,800	$982,800	$967,075	$967,075
Transportation/Quality of Life Tax - Construction	$450,450	$450,450	$443,243	$443,243
Use Tax	$195,000	$195,000	$191,880	$191,880
Transportation/Quality of Life Tax - Use Tax	$89,375	$89,375	$87,945	$87,945
Total	**$1,717,625**	**$1,717,625**	**$1,690,143**	**$1,690,143**

Retail Sales and Bed Taxes

As described previously in this report, the City of Mesa imposes a Transaction Privilege Tax (sales tax) of 1.75% on the gross receipts from various types of business activities, and a 3% Transient Occupancy Tax (bed tax) on hotels.

The following table details the Retail Sales and Bed Taxes generated by the proposed project over 50-years, including the Transportation/Quality of Life Tax. The taxes indicated in the tables below are gross amount, prior to deduction of the developer incentives.

1,200 Room Convention Hotel Retail Sales and Bed Tax - Over 50 Years				
	1,500 Rooms		1,200 Rooms	
Tax Item	NPV	Total	NPV	Total
Transaction Privilege Tax (less 0.55% - T/QOL)	$28,884,237	$298,937,347	$23,107,390	$239,149,878
Transportation/Quality of Life Tax - Sales Tax	$13,238,609	$137,012,951	$10,590,887	$109,610,361
Transient Occupancy Tax (bed tax)	$33,349,707	$345,152,710	$26,679,765	$276,122,168
Total Retail Sales and Bed Taxes	**$75,472,553**	**$781,103,008**	**$60,378,042**	**$624,882,406**

490 Room Resort Hotel Retail Sales and Bed Tax - Over 50 Years				
	500 Rooms		490 Rooms	
Tax Item	NPV	Total	NPV	Total
Transaction Privilege Tax (less 0.55% - T/QOL)	$7,962,461	$83,415,566	$7,803,211	$81,747,255
Transportation/Quality of Life Tax - Sales Tax	$3,649,461	$38,232,134	$3,576,472	$37,467,492
Transient Occupancy Tax (bed tax)	$9,726,870	$101,899,697	$9,532,332	$99,861,703
Total Retail Sales and Bed Taxes	**$21,338,791**	**$223,547,397**	**$20,912,015**	**$219,076,450**

City Fiscal Benefits

As detailed previously in this report, the developer has requested incentives in the form of 3% and 2% of the Bed Tax for the Convention Hotel and the Resort Hotel, respectively, for a total of 30 years. In addition, the developer also requested GPLET payment for 50 years. The following tables identify the net tax benefit to the City of Mesa over a 50-year period, after subtracting the developer incentives, for the construction of a 1,500 room Convention Hotel and a 500 room Resort Hotel, or a 1,200 room Convention Hotel and a 490 room Resort Hotel.

Convention Hotel Total Taxes Generated - Over 50 Years Net of Developer Incentives				
	1,500 Rooms		**1,200 Rooms**	
Tax Item	**NPV**	**Total**	**NPV**	**Total**
Construction Tax (less 0.55% - T/QOL)	$4,802,157	$4,802,157	$4,489,332	$4,489,332
Transportation/Quality of Life Tax - Construction	$2,200,989	$2,200,989	$2,057,610	$2,057,610
Use Tax FF&E (less 0.55% - T/QOL)	$540,000	$540,000	$453,600	$453,600
Transportation/Quality of Life Tax - Use Tax	$247,500	$247,500	$207,900	$207,900
Transaction Privilege Tax (less 0.55% - T/QOL)	$28,884,237	$298,937,347	$23,107,390	$239,149,878
Transportation/Quality of Life Tax - Sales Tax	$13,238,609	$137,012,951	$10,590,887	$109,610,361
Transient Occupancy Tax (bed tax)	$2,239,930	$199,675,869	$1,791,944	$159,740,695
GPLET Lease Payment (7% to City)	$670,355	$2,856,000	$563,098	$2,399,040
Total Retail Sales and Bed Taxes	**$52,823,776**	**$646,272,812**	**$43,261,761**	**$518,108,416**

Resort Hotel Total Taxes Generated - Over 50 Years Net of Developer Incentives				
	500 Rooms		**490 Rooms**	
Tax Item	**NPV**	**Total**	**NPV**	**Total**
Construction Tax (less 0.55% - T/QOL)	$982,800	$982,800	$967,075	$967,075
Transportation/Quality of Life Tax - Construction	$450,450	$450,450	$443,243	$443,243
Use Tax FF&E (less 0.55% - T/QOL)	$195,000	$195,000	$191,880	$191,880
Transportation/Quality of Life Tax - Use Tax	$89,375	$89,375	$87,945	$87,945
Transaction Privilege Tax (less 0.55% - T/QOL)	$7,962,461	$83,415,566	$7,803,211	$81,747,255
Transportation/Quality of Life Tax - Sales Tax	$3,649,461	$38,232,134	$3,576,472	$37,467,492
Transient Occupancy Tax (bed tax)	$3,683,826	$73,326,798	$3,610,150	$71,860,262
GPLET Lease Payment (7% to City)	$418,972	$1,785,000	$412,268	$1,756,440
Total Retail Sales and Bed Taxes	**$17,432,345**	**$198,477,123**	**$17,092,244**	**$194,521,591**

	1,500/500 Rooms		**1,200/490 Rooms**	
Total Convention and Resort Hotel Taxes Net of Developer Incentives	**$70,256,121**	**$844,749,936**	**$60,354,005**	**$712,630,007**

Developer Fiscal Benefits

As previously explained in this report, the Developer has requested a benefit from Transient Occupancy Tax (Bed Tax). The incentive under negotiation with the developer consists of 3% TOT for the convention hotel and 2% of the TOT related to the resort hotel for 30 years, and GPLET payments for 50 years.

The table on the following page shows the Transient Occupancy Tax (Bed Tax) revenues over a 50-year period utilized as an incentive by the City (under the Pre-Annexation Development Agreement), including those derived from both the 1,500/500 room Convention/Resort Hotel, and the 1,200/490 room Convention/Resort Hotel. In addition, the table also shows the GPLET benefit to the developer compared to an estimated property tax liability.

Developer Benefits - TOT Taxes and GPLET Benefit over 50 Years

	1,500 Rooms		1,200 Rooms	
Property	**NPV**	**Total**	**NPV**	**Total**
Convention Hotel (3% of TOT)	$33,349,707	$345,152,710	$26,679,765	$276,122,168
GPLET Benefit - Convention Hotel	$67,915,908	$620,787,730	$59,811,786	$545,045,753

	500 Rooms		490 Rooms	
Property	**NPV**	**Total**	**NPV**	**Total**
Resort Hotel (2% of TOT)	$6,484,580	$67,933,131	$6,354,888	$66,574,469
GPLET Benefit - Resort Hotel	$13,358,997	$155,804,135	$13,067,876	$152,586,052

Total Developer Benefits	**$121,109,192**	**$1,189,677,706**	**$105,914,316**	**$1,040,328,442**

EXHIBITS

City Benefits – Convention Hotel – 1,500 Rooms

City of Mesa Benefits - Net of Developer Incentives

Convention Hotel **City of Mesa Inflows - All Taxes**	**25 Years NPV CF**	**25 Years Total CF**	**30 Years NPV CF**	**30 Years Total CF**	**35 Years NPV CF**	**35 Years Total CF**	**40 Years NPV CF**	**40 Years Total CF**	**45 Years NPV CF**	**45 Years Total CF**	**50 Years NPV CF**	**50 Years Total CF**
Construction Tax (less 0.55% - T/QOL)	$4,802,157	$4,802,157	$4,802,157	$4,802,157	$4,802,157	$4,802,157	$4,802,157	$4,802,157	$4,802,157	$4,802,157	$4,802,157	$4,802,157
Transportation/Quality of Life Tax - Construction	$2,200,989	$2,200,989	$2,200,989	$2,200,989	$2,200,989	$2,200,989	$2,200,989	$2,200,989	$2,200,989	$2,200,989	$2,200,989	$2,200,989
Use Tax FF&E (less 0.55% - T/QOL)	$540,000	$540,000	$540,000	$540,000	$540,000	$540,000	$540,000	$540,000	$540,000	$540,000	$540,000	$540,000
Transportation/Quality of Life Tax - Use Tax	$247,500	$247,500	$247,500	$247,500	$247,500	$247,500	$247,500	$247,500	$247,500	$247,500	$247,500	$247,500
Transaction Privilege Tax (less 0.55% - T/QOL)	$25,702,529	$96,522,423	$26,944,231	$125,997,739	$27,761,026	$160,167,708	$28,298,317	$199,780,067	$28,651,749	$245,701,648	$28,884,237	$298,937,347
Transportation/Quality of Life Tax - Sales Tax	$11,780,326	$44,239,444	$12,349,439	$57,748,964	$12,723,804	$73,410,199	$12,970,062	$91,565,864	$13,132,052	$112,613,256	$13,238,609	$137,012,951
Transient Occupancy Tax (bed tax)	$0	$0	$0	$0	$943,071	$39,452,606	$1,563,427	$85,188,990	$1,971,499	$138,209,994	$2,239,930	$199,675,869
GPLET Lease Payment (7% to City)	$648,799	$1,974,000	$661,457	$2,268,000	$666,510	$2,478,000	$669,152	$2,667,000	$669,966	$2,772,000	$670,355	$2,856,000
Total Tax Payments to the City	**$45,922,299**	**$150,526,513**	**$47,745,772**	**$193,805,348**	**$49,885,058**	**$283,299,159**	**$51,291,604**	**$386,992,567**	**$52,215,911**	**$507,087,543**	**$52,823,776**	**$646,272,812**

Pilot Program **City of Mesa Inflows**	**25 Years NPV CF**	**25 Years Total CF**	**30 Years NPV CF**	**30 Years Total CF**	**35 Years NPV CF**	**35 Years Total CF**	**40 Years NPV CF**	**40 Years Total CF**	**45 Years NPV CF**	**45 Years Total CF**	**50 Years NPV CF**	**50 Years Total CF**
Potential Property Tax to the City	$2,831,226	$10,037,146	$2,944,183	$12,712,580	$3,014,948	$15,666,475	$3,059,282	$18,927,814	$3,087,056	$22,528,595	$3,104,456	$26,504,149

Note: TOT as incentive for developer only for 30 years

City Benefits – Resort Hotel – 500 Rooms

City of Mesa Benefits - Net of Developer Incentives

Resort Hotel **City of Mesa Inflows - All Taxes**	**25 Years NPV CF**	**25 Years Total CF**	**30 Years NPV CF**	**30 Years Total CF**	**35 Years NPV CF**	**35 Years Total CF**	**40 Years NPV CF**	**40 Years Total CF**	**45 Years NPV CF**	**45 Years Total CF**	**50 Years NPV CF**	**50 Years Total CF**
Construction Tax (less 0.55% - T/QOL)	$982,800	$982,800	$982,800	$982,800	$982,800	$982,800	$982,800	$982,800	$982,800	$982,800	$982,800	$982,800
Transportation/Quality of Life Tax - Construction	$450,450	$450,450	$450,450	$450,450	$450,450	$450,450	$450,450	$450,450	$450,450	$450,450	$450,450	$450,450
Use Tax FF&E (less 0.55% - T/QOL)	$195,000	$195,000	$195,000	$195,000	$195,000	$195,000	$195,000	$195,000	$195,000	$195,000	$195,000	$195,000
Transportation/Quality of Life Tax - Use Tax	$89,375	$89,375	$89,375	$89,375	$89,375	$89,375	$89,375	$89,375	$89,375	$89,375	$89,375	$89,375
Transaction Privilege Tax (less 0.55% - T/QOL)	$7,073,282	$26,847,520	$7,420,295	$35,084,862	$7,648,562	$44,634,199	$7,798,716	$55,704,499	$7,897,488	$68,538,010	$7,962,461	$83,415,566
Transportation/Quality of Life Tax - Sales Tax	$3,241,921	$12,305,113	$3,400,969	$16,080,562	$3,505,591	$20,457,341	$3,574,412	$25,531,229	$3,619,682	$31,413,254	$3,649,461	$38,232,134
Transient Occupancy Tax (bed tax)	$2,880,219	$10,932,229	$3,021,522	$14,286,450	$3,300,370	$25,951,833	$3,483,797	$39,475,210	$3,604,456	$55,152,510	$3,683,826	$73,326,798
GPLET Lease Payment (7% to City)	$405,499	$1,233,750	$413,411	$1,417,500	$416,569	$1,548,750	$418,220	$1,666,875	$418,729	$1,732,500	$418,972	$1,785,000
Total Tax Payments to the City	**$15,318,546**	**$53,036,237**	**$15,973,821**	**$68,586,998**	**$16,588,716**	**$94,309,749**	**$16,992,770**	**$124,095,437**	**$17,257,980**	**$158,553,899**	**$17,432,345**	**$198,477,123**

Pilot Program **City of Mesa Inflows**	**25 Years NPV CF**	**25 Years Total CF**	**30 Years NPV CF**	**30 Years Total CF**	**35 Years NPV CF**	**35 Years Total CF**	**40 Years NPV CF**	**40 Years Total CF**	**45 Years NPV CF**	**45 Years Total CF**	**50 Years NPV CF**	**50 Years Total CF**
Potential Property Tax to the City	$698,757	$2,545,005	$729,378	$3,271,075	$749,036	$4,092,556	$761,657	$5,021,987	$769,759	$6,073,553	$774,961	$7,263,302

Note: TOT as incentive for developer only for 30 years

City Benefits – Convention Hotel – 1,200 Rooms

City of Mesa Benefits - Net of Developer Incentives

Convention Hotel City of Mesa Inflows - All Taxes	25 Years NPV CF	25 Years Total CF	30 Years NPV CF	30 Years Total CF	35 Years NPV CF	35 Years Total CF	40 Years NPV CF	40 Years Total CF	45 Years NPV CF	45 Years Total CF	50 Years NPV CF	50 Years Total CF
Construction Tax (less 0.55% - T/QOL)	$4,489,332	$4,489,332	$4,489,332	$4,489,332	$4,489,332	$4,489,332	$4,489,332	$4,489,332	$4,489,332	$4,489,332	$4,489,332	$4,489,332
Transportation/Quality of Life Tax - Construction	$2,057,610	$2,057,610	$2,057,610	$2,057,610	$2,057,610	$2,057,610	$2,057,610	$2,057,610	$2,057,610	$2,057,610	$2,057,610	$2,057,610
Use Tax FF&E (less 0.55% - T/QOL)	$453,600	$453,600	$453,600	$453,600	$453,600	$453,600	$453,600	$453,600	$453,600	$453,600	$453,600	$453,600
Transportation/Quality of Life Tax - Use Tax	$207,900	$207,900	$207,900	$207,900	$207,900	$207,900	$207,900	$207,900	$207,900	$207,900	$207,900	$207,900
Transaction Privilege Tax (less 0.55% - T/QOL)	$20,562,023	$77,217,939	$21,555,385	$100,798,191	$22,208,821	$128,134,166	$22,638,654	$159,824,054	$22,921,399	$196,561,319	$23,107,390	$239,149,878
Transportation/Quality of Life Tax - Sales Tax	$9,424,260	$35,391,555	$9,879,551	$46,199,171	$10,179,043	$58,728,160	$10,376,050	$73,252,691	$10,505,641	$90,090,604	$10,590,887	$109,610,361
Transient Occupancy Tax (bed tax)	$0	$0	$0	$0	$754,457	$31,562,085	$1,250,741	$68,151,192	$1,577,199	$110,567,995	$1,791,944	$159,740,695
GPLET Lease Payment (7% to City)	$544,991	$1,658,160	$555,624	$1,905,120	$559,869	$2,081,520	$562,088	$2,240,280	$562,771	$2,328,480	$563,098	$2,399,040
Total Tax Payments to the City	**$37,739,717**	**$121,476,096**	**$39,199,002**	**$156,110,924**	**$40,910,632**	**$227,714,373**	**$42,035,975**	**$310,676,659**	**$42,775,453**	**$406,756,841**	**$43,261,761**	**$518,108,416**

Pilot Program City of Mesa Inflows	25 Years NPV CF	25 Years Total CF	30 Years NPV CF	30 Years Total CF	35 Years NPV CF	35 Years Total CF	40 Years NPV CF	40 Years Total CF	45 Years NPV CF	45 Years Total CF	50 Years NPV CF	50 Years Total CF
Potential Property Tax to the City	$2,479,157	$8,789,004	$2,578,067	$11,131,741	$2,640,032	$13,718,312	$2,678,853	$16,574,096	$2,703,173	$19,727,112	$2,718,410	$23,208,296

Note: TOT as incentive for developer only for 30 years

City Benefits – Resort Hotel – 490 Rooms

City of Mesa Benefits - Net of Developer Incentives

Resort Hotel City of Mesa Inflows - All Taxes	25 Years NPV CF	25 Years Total CF	30 Years NPV CF	30 Years Total CF	35 Years NPV CF	35 Years Total CF	40 Years NPV CF	40 Years Total CF	45 Years NPV CF	45 Years Total CF	50 Years NPV CF	50 Years Total CF
Construction Tax (less 0.55% - T/QOL)	$967,075	$967,075	$967,075	$967,075	$967,075	$967,075	$967,075	$967,075	$967,075	$967,075	$967,075	$967,075
Transportation/Quality of Life Tax - Construction	$443,243	$443,243	$443,243	$443,243	$443,243	$443,243	$443,243	$443,243	$443,243	$443,243	$443,243	$443,243
Use Tax FF&E (less 0.55% - T/QOL)	$191,880	$191,880	$191,880	$191,880	$191,880	$191,880	$191,880	$191,880	$191,880	$191,880	$191,880	$191,880
Transportation/Quality of Life Tax - Use Tax	$87,945	$87,945	$87,945	$87,945	$87,945	$87,945	$87,945	$87,945	$87,945	$87,945	$87,945	$87,945
Transaction Privilege Tax (less 0.55% - T/QOL)	$6,931,816	$26,310,569	$7,271,889	$34,383,165	$7,495,590	$43,741,515	$7,642,742	$54,590,409	$7,739,538	$67,167,249	$7,803,211	$81,747,255
Transportation/Quality of Life Tax - Sales Tax	$3,177,082	$12,059,011	$3,332,949	$15,758,951	$3,435,479	$20,048,195	$3,502,923	$25,020,604	$3,547,288	$30,784,989	$3,576,472	$37,467,492
Transient Occupancy Tax (bed tax)	$2,822,615	$10,713,584	$2,961,091	$14,000,721	$3,234,363	$25,432,797	$3,414,121	$38,685,706	$3,532,367	$54,049,460	$3,610,150	$71,860,262
GPLET Lease Payment (7% to City)	$399,011	$1,214,010	$406,796	$1,394,820	$409,904	$1,523,970	$411,529	$1,640,205	$412,029	$1,704,780	$412,268	$1,756,440
Total Tax Payments to the City	**$15,020,668**	**$51,987,318**	**$15,662,869**	**$67,227,799**	**$16,265,479**	**$92,436,620**	**$16,661,458**	**$121,627,067**	**$16,921,366**	**$155,396,622**	**$17,092,244**	**$194,521,591**

Pilot Program City of Mesa Inflows	25 Years NPV CF	25 Years Total CF	30 Years NPV CF	30 Years Total CF	35 Years NPV CF	35 Years Total CF	40 Years NPV CF	40 Years Total CF	45 Years NPV CF	45 Years Total CF	50 Years NPV CF	50 Years Total CF
Potential Property Tax to the City	$684,782	$2,494,105	$714,791	$3,205,653	$734,056	$4,010,705	$746,424	$4,921,547	$754,364	$5,952,082	$759,461	$7,118,036

Note: TOT as incentive for developer only for 30 years