

October 26, 2017

Mr. Alex Smith
Real Estate Development Manager
City of Tempe
31 East Fifth Street
Tempe, Arizona 85281

RE: Analysis of Whether Omni Hotel and Conference Center
Development Likely to Generate More Benefit to the City of
Tempe than the Amount of Incentive Provided to the Developer

Dear Mr. Smith:

This letter summarizes the results of the analysis of whether the proposed development of the Omni Hotel and Conference Center described below is likely to generate more benefit for the City of Tempe than the amount of incentive provided to Omni Hotels and Resorts (“Omni”).

BACKGROUND

Omni proposes to develop a hotel and conference center consisting of approximately 330 hotel rooms and approximately 30,000 square feet of conference center space on the Arizona State University campus. An adjacent parking facility will be constructed by Arizona State University and up to 275 spaces in the parking facility will be allocated to parking for the Omni Hotel and Conference Center.

The City of Tempe has requested that Gruen Gruen + Associates (“GG+A”) render an independent opinion concerning the estimated value of the benefits the City can be expected to receive in comparison to the incentives that will be provided to Omni to bridge the feasibility gap associated with the proposed development.

To complete the analysis summarized in this letter, GG+A relied on a proforma and related information provided by Omni which GG+A found to be realistic based in part on comparisons with other proposed similar projects and review of industry and market data GG+A completed. GG+A also relied on applicable tax rates and tax source information provided by the City of Tempe.

SUMMARY OF TERMS OF AGREEMENT

In consideration for “Omni” covenanting to develop, operate, and maintain the Omni Hotel and Conference Center use for 60 years and to ground lease the currently vacant property from Arizona State University for a term of 60 years following construction completion and receipt of a certificate of occupancy¹, the City of Tempe will rebate 100 percent of transaction privilege tax and 100 percent of transient lodging tax (sometimes also referred to as “bed tax”) generated by the

¹ Omni has the right to purchase the property for a nominal amount at the expiration of the term of the ground lease.

operations of the Hotel and Conference Center for an initial period of 10 years. From years 11 through 30, the City of Tempe will rebate 90 percent of the transaction privilege tax and 90 percent of transient lodging tax. No taxes will be rebated after 30 years. To document their agreements regarding the project and incentives to be provided, including the conditions to be satisfied before such incentives become available, the City and Omni will enter into a development agreement, having a term of 60 years.

The City of Tempe imposes a transaction privilege tax on the gross income of construction contractors engaging in construction activities within the City. One hundred percent of these taxes will be rebated to Omni. The 0.6 percent transit and arts tax component of the 1.8 transaction privilege tax will not be subject to rebate.

We understand that the development agreement provides that Omni will also expend a minimum of \$400,000 per year for 60 years promoting tourism in Tempe. We understand that expenditures will be consistent with and augment the promotional and branding programs City of Tempe entities already devote to encouraging tourism. In addition, the use of the name “Omni Tempe Hotel” in the hotel’s promotional activities and a reference to Tempe will also be made in the promotion of the Conference Center. It is difficult to quantify the value such promotions will provide to Tempe so we have assumed that the benefits are equal to the costs (\$400,000 per year) incurred by Omni.

SOURCES AND ESTIMATE OF INCENTIVES PROVIDED TO OMNI

As described below, the incentives estimated to be provided to Omni are estimated to total \$52.3 million on a nominal (non-discounted to present value) basis over the first 30 years following substantial completion of the Omni Hotel and Conference Center of the 60 year term. The estimate includes the full rebate of transaction privilege tax on construction during an initial two year period.

Table 1: Estimated Value of Tax Rebates to Omni Over First 30 Years of 60 Year Term				
	Total Transaction Privilege Tax and Transient Lodging Tax ¹		Estimated Value of Taxes Rebated to Omni	
	Cumulative \$	Present Value ² \$	Cumulative \$	Present Value ² \$
Transaction privilege tax - construction	890,805	836,777	890,805	836,777
Transaction privilege tax – operations	14,115,965	6,868,325	13,037,683	6,427,906
Transient lodging tax	41,546,551	20,206,278	38,371,212	18,909,327
Total	56,553,321	27,911,380	52,299,700	26,174,010
¹ Transaction privilege tax of 1.2 percent and transient lodging tax of 5.0 percent of room revenues. Excludes the 0.6 percent transit and arts tax component of transaction privilege taxes. ² Present value estimates based on 4.0 percent annual discount rate over 32 year period (two year construction period plus 30 years of operations). The City issued General Obligation debt in 2016 (capital improvement serial bonds) through July 2036 with interest at 2.0 to 3.0 percent.				
Sources: City of Tempe; Omni; Gruen Gruen + Associates.				

The City of Tempe is estimated to rebate approximately \$891,000 in transaction privilege taxes on construction activity over a two year construction period. Under State law, this tax is calculated on the assumption that 65 percent of the total hard construction costs of a project are attributable to construction materials and 35 percent of the costs relate to labor services (the privilege tax calculated only applies to the 65 percent of the construction cost activity attributable to construction materials).² On a present value basis, assuming a 4.0 percent annual discount rate, construction taxes are estimated to generate about \$837,000 of direct benefit to Omni.

Total taxes subject to rebate over the initial 30 years of the 60 year term, including the transaction privilege taxes on construction activity, are estimated at \$52.3 million on a cumulative (nominal) basis. Discounting the stream of incentives to today’s dollars using a 4.0 percent discount rate, total taxes subject to rebate over the initial 30 years of the 60 year term are estimated at \$26.2 million on a present value basis.

SOURCES AND ESTIMATE OF DIRECT BENEFIT TO CITY OF TEMPE

As described below, the benefits estimated to accrue directly to the City of Tempe over a 60 year period (the duration of the restrictive use covenant and term of the agreement between Omni and

² <http://www.azleg.gov/ars/42/05075.htm>.

the City as well as the term of the agreement between Omni and Arizona State University) are estimated to total \$188.6 million on a cumulative undiscounted basis.

Table 2: Estimates of Benefits to City of Tempe Over 60 Years		
	Cumulative \$	Present Value ¹ \$
Transaction privilege tax - operations ²	35,559,768	5,639,162
Transit & arts tax	24,298,725	6,033,534
Transient lodging tax ²	104,716,837	16,606,274
Advertising/promotional benefit ³	24,000,000	8,366,675
Total Direct Benefit	188,575,331	36,645,645
¹ Present value estimates based on 4.0 percent annual discount rate. ² City retains 10 percent of tax from year 11 through the first 30 operating years; and retains 100 percent thereafter. ³ \$400,000 annually for duration of 60 years. Excluding the promotional contribution, the total direct benefits over 60 years following construction would total \$164.6 million on a nominal basis and \$28.3 million on a present value basis.		
Sources: City of Tempe; Omni; Gruen Gruen + Associates.		

The City of Tempe is estimated to receive approximately \$35.6 million in cumulative (undiscounted) transaction privilege tax revenues associated with the operations of the Omni Hotel and Conference Center. This estimate reflects the City retaining 10 percent of taxes in year 11 through the first 30 operating years (100 percent of the taxes will be rebated to Omni over the first 10 years following construction and 90 percent of such taxes thereafter) and 100 percent of such taxes from year 30 through year 60 following construction completion. On a present value basis, the City's share of the transaction privilege tax revenues is estimated to total \$5.6 million over 60 years following construction. The City will retain 100 percent of the 0.6 percent transit and arts tax revenues estimated to total \$24.3 million over 60 years on a cumulative basis and about \$6.0 million on a present value basis over 60 years.

Based on Omni's forecast of occupancy rates and average daily room rates, total transient lodging tax revenues (imposed on room revenues only) to the City of Tempe are estimated at \$104.72 million cumulatively over 60 years following construction.. The present value of transient lodging tax revenues to the City of Tempe over the 60 year period are estimated at \$16.6 million.

In addition to the direct tax revenue the development and operation of the Hotel and Conference Center will generate for the City of Tempe, under the agreement Omni will be required to expend a total of \$24 million over 60 years on promoting Tempe tourism. The present value of this benefit to the City of Tempe (assuming the benefit equals the cost to Omni) totals about \$8.4 million over 60 years.

The total direct benefit to the City of Tempe over 60 years from all sources of tax revenue and tourism promotion is estimated at \$188.6 million on a cumulative (undiscounted) basis and

approximately \$36.6 million on a present value basis. Direct benefits excluding tourism promotion total \$28.3 million over 60 years on a present value basis. To put the estimate in context, Tempe currently receives no taxes on the vacant, University-owned property.

ESTIMATE OF "NET" DIRECT BENEFIT TO CITY OF TEMPE AFTER PROVIDING FOR INCENTIVES TO OMNI

Table 3 summarizes the estimated net direct benefit to the City of Tempe over the duration of the 60-year term of the development agreement.

Table 3: Estimates of Net Direct Benefit to City of Tempe Over 60 Years		
	Cumulative \$	Present Value ¹ \$
Direct City of Tempe Benefits ²	188,575,331	36,645,645
Incentives to Omni ³	52,299,700	26,174,010
Net Direct Benefit to City of Tempe	136,275,632	10,471,636
¹ Present value estimates based on 4.0 percent annual discount rate. ² As summarized in Table 2. ³ As summarized in Table 1.		
Sources: City of Tempe; Omni; Gruen Gruen + Associates.		

The cumulative value of direct benefits to the City of Tempe is estimated to exceed the cumulative value of tax rebates (incentive) provided to Omni by approximately \$136.3 million on a nominal, undiscounted basis over the duration of the agreement. The value of direct benefits to the City exceeds the incentive provided to Omni by approximately \$10.5 million on a present value basis (assuming a 4.0 percent annual discount rate) over the two year construction period and 60 years following construction.

In addition to the direct benefits reviewed above, the proposed construction and operation of the development will also produce positive economic impacts and indirect tax (fiscal) benefits for the City, which are estimated and reviewed below.

ECONOMIC IMPACT AND INDIRECT TAX BENEFITS TO CITY OF TEMPE

This section presents an estimate of the economic impact that the proposed Omni Hotel and Conference Center is likely to have on the City of Tempe economy. The results of the economic impact analysis are also drawn upon to make an estimate of transaction privilege tax revenues that will indirectly flow to the City of Tempe treasury. The economic impacts estimated and presented in this section relate to:

- Construction of the development; and
- On-going operation of the hotel and conference center.

The project will generate economic impacts on the local economy from two separate sources. Initial one-time impacts will result from project construction activity and expenditures. Impacts related to construction are considered "one-time" temporary impacts on the local Tempe economy (that is, they only last for the duration of construction). Once completed and occupied, the operations of planned hotel and conference space will generate an "on-going" economic impact on the local economy as the hotel produces sales, pays wages to employees, and purchases goods and services from other businesses in the local economy.

The economic impact analysis is based on characteristics of the proposed development program and secondary data obtained from Minnesota Implan Group, Inc., a provider of custom input-output data for local economies.

Methodology and Types of Impacts Estimated

The economic impacts quantified below are presented in terms of:

- Employment (full- and part-time jobs);
- Labor income (wages, salaries and proprietor income); and
- Output (the value of goods and services produced or sold).

Development of the project will cause an economic impact beyond the direct expenditures associated with construction and the on-going activities. Secondary or "multiplier" effects result from increased production in industries affected by direct changes in local economic activity. These secondary impacts are referred to as indirect and induced effects.

Direct Economic Impacts

Direct impacts are the number of jobs, income, and output produced in industries directly affected by construction and the on-going operations/occupancy of the development. For the one-time construction expenditures, the direct impact is measured by the number of jobs, income, and output in the economic sectors directly related to the construction process. The direct impact can be quantified in terms of the total local expenditure to construct the development. Direct impacts attributable the occupancy and on-going operations of the hotel are estimated based upon expected operating performance.

Indirect Economic Impacts

Indirect impacts, sometimes referred to as "multiplier effects", relate to changes in the number of jobs, income, and output produced within a local economy, based on interdependencies among economic sectors. Businesses buy products and services from each other, creating indirect impacts on other businesses. In other words, a change in one industry or business "ripples" through other industries or businesses. In addition to these indirect or spillover effects, indirect impacts also include what is sometimes referred to as induced impacts, or the impacts of increased household spending. The one-time construction expenditures and the on-going operations of the hotel each generate different indirect impacts because of the specific interdependencies among different sectors of the local economy. For example, a portion of the wages paid to hotel workers (direct

employment) and a portion of the wages paid to employees of firms providing goods or services to the hotel (indirect employment) will then be spent locally to purchase goods and services (induced effect) in the local economy.

The magnitude of multipliers depend upon the extent to which businesses purchase their inputs from other businesses located in the same area, as contrasted with the purchase of inputs from businesses located outside the geographic area. Multipliers vary among industries and among regions. Larger and more diverse geographic areas will tend to have larger industry multipliers because of a greater likelihood of linkages within the area; in other words, an industry's inputs will be provided by other businesses within the same geographic area.

To estimate the indirect or multiplier impacts, we used IMPLAN Professional® (“IMPLAN”), a widely-used input-output modeling software for impact analysis. Input-output analysis is used to quantify the interactions between or trace the linkages of inter-industry purchases and sales within a given geographic area such as a county or region. Because IMPLAN data is unavailable by city or municipal boundary, the study area for the impact analysis is defined by four zip codes (85281, 85282, 85283, and 85284) which generally align to City of Tempe boundaries.

2016 Constant Dollars

The figures presented in this report are expressed in constant 2016 dollars. That is, the possible effects of inflation or deflation on future economic activities are not quantified.

Economic Impact on the City of Tempe

One-Time Construction Impact

According to Omni, general construction costs for the 330 hotel rooms and 30,000-square-foot conference center are estimated at about \$83 million (excluding land and soft costs). Expenditures related to Furniture, Fixtures and Equipment, which are unlikely to be produced/purchased locally within Tempe, are not included in the construction cost estimate. Construction will be completed over a two year period. Table 4 below summarizes the annual economic impact of construction activity on the Tempe economy over the two year period.

Table 4: Average Annual Impact of Construction on the Tempe Economy¹			
	Employment # Jobs	Income \$	Output \$
Direct	200.0	13,353,213	41,650,000
Indirect ²	97.1	5,617,743	15,826,123
Total	297.1	18,970,956	57,476,123
Multiplier	1.49	1.42	1.38
¹ Dollar figures are rounded.			
² Includes induced effects.			
Sources: Minnesota IMPLAN Group; Gruen Gruen + Associates.			

Construction of the hotel and conference center is forecast to support an average of 297 jobs per year in the City of Tempe, or approximately 600 job-years over the two year build-out period. Construction activity is forecast to directly support 200 jobs per year. The employment multiplier of 1.49 indicates that, for every 10 jobs directly associated with the construction process, an additional five jobs will be supported indirectly within Tempe. Approximately 97 annual jobs are forecast to be supported indirectly by construction expenditures.

The total annual labor income impact is estimated at nearly \$19.0 million or approximately \$64,000 per job. The income multiplier of 1.42 indicates that for every \$1 in wages paid to workers directly associated with the construction process, an additional \$0.42 in income will be generated elsewhere in the local economy. Total annual output is forecast to average \$57.5 million throughout the construction process. About \$0.40 of every dollar spent directly on construction will result in indirect economic activity in Tempe.

On-Going Impact of Operations

According to Omni, the hotel is projected to reach a stabilized occupancy rate of approximately 72 percent in its fourth year of operation. Total annual gross revenues, including food and beverage revenues, are estimated at \$27.9 million or \$85,000 per room at stabilization. Table 5 below summarizes the average annual economic impact of hotel operations on the Tempe economy at stabilization.

Table 5: Average Annual Impact of Hotel Operations on the Tempe Economy¹			
	Employment # Jobs	Income \$	Output \$
Direct	203.3	7,827,298	23,341,435
Indirect ²	57.5	2,857,394	8,732,033
Total	260.8	10,684,692	32,073,468
Multiplier	1.28	1.37	1.37
¹ Dollar figures are rounded. Direct revenue projection at stabilization is adjusted to current 2016 dollars.			
² Includes induced effects.			
Sources: Minnesota IMPLAN Group; Gruen Gruen + Associates.			

The hotel and conference center is estimated to support a total of 261 jobs within the City of Tempe at stabilization. Approximately 78 percent or 203 of these jobs are forecast to be supported directly on site. The employment multiplier of 1.28 indicates that approximately three jobs are forecast to be indirectly created for every 10 direct jobs on site. The total annual labor income impact is estimated at approximately \$10.7 million or about \$41,000 per job. Total annual output is estimated at approximately \$32.1 million. The output multiplier of 1.37 indicates that every \$10 of direct revenues produced by the on-site hotel will indirectly result in nearly \$4 of activity elsewhere in the Tempe economy.

Indirect City of Tempe Tax Revenues

Based on an estimate of indirect output generated by the on-going operations of the hotel and conference center, Table 6 below summarizes an estimate of indirect taxable sales supported within the City of Tempe by the proposed development. As income paid to employees is re-circulated throughout the local economy in the form of personal consumption expenditures, sales in sectors providing those goods and services increase indirectly. In addition to paying their employees, businesses also contribute indirectly to overall taxable sales through the purchase of goods and services from other sectors of the local economy. Estimates of indirect sales are presented only for activities which are subject to local transaction privilege tax.

Table 6: Estimate of Annual Indirect Taxable Sales Generated			
Activity	Annual Indirect Output \$	Margin ¹ %	Annual Indirect Taxable Sales \$
Retail Trade – Food	72,787	29.4	247,575
Retail Trade – Other	324,091	27.3	1,188,935
Restaurants	669,671	n/a	669,671
Contracting	257,367	n/a	257,367
Lodging	75,888	n/a	75,888
Amusement & Entertainment	58,838	n/a	58,838
Utilities & Telecommunications	520,705	n/a	520,705
Advertising	392,090	n/a	392,090
Transport (rail & air)	102,146	n/a	102,146
TOTAL	2,473,583		3,513,215
¹ Output in retail trade sectors is estimated in producer prices. Margins are applied to convert output to purchaser (i.e. consumer) prices.			
Sources: Minnesota Implan Group; Gruen Gruen + Associates.			

The largest indirect sales increases are estimated to occur in the Retail Trade and Restaurant sectors of the local economy; both of which are subject to transaction privilege tax. Indirect annual sales in these two sectors are estimated at approximately \$2.1 million. Indirect annual sales for other major taxable activities – including utilities and telecommunications, contracting, lodging, restaurants, advertising, amusement, and transportation – are estimated at an additional \$1.4 million.

Table 7 presents an estimate of the indirect tax revenues projected to result from the on-going operations of the Omni Hotel and Conference Center over a 60 year period.

Table 7: Estimate of Indirect City Tax Revenue Resulting from Operations of Hotel¹				
	Transaction Privilege Tax \$	Transit & Arts Tax \$	Transient Lodging Tax \$	Total \$
Annual	42,159	21,079	3,794	67,032
Cumulative, Years 3-60	2,445,198	1,222,599	220,075	3,887,872
Net Present Value²	945,599	472,799	85,107	1,503,505
¹ Based on local transaction privilege tax rate of 1.2 percent; transit and arts tax rate of additional 0.6 percent; and transient lodging tax rate of 5.0 percent.				
² Based on annual discount rate of 4.0 percent.				
Sources: Minnesota Implan Group; Gruen Gruen + Associates.				

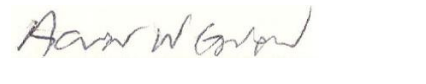
Annual indirect sales and lodging tax revenue resulting from on-going operations of the hotel and conference center are estimated at approximately \$67,000. Cumulative indirect sales and lodging tax revenues are estimated at approximately \$3.9 million over a 60 year operating period. Using an annual discount rate of 4.0 percent, the present value of indirect tax revenue is estimated at approximately \$1.5 million for the City of Tempe.

SUMMARY OF OPINION

It is the professional opinion of Gruen Gruen + Associates and the undersigned that the proposed tax incentive will directly raise more revenue and generate other fiscal and economic benefits than the amount of the incentive within the duration of the agreement.

Very truly yours,

Gruen Gruen + Associates LLC



Aaron N. Gruen
 Principal