

Lake County Convention Center Evaluation of Development Proposals

May, 2025

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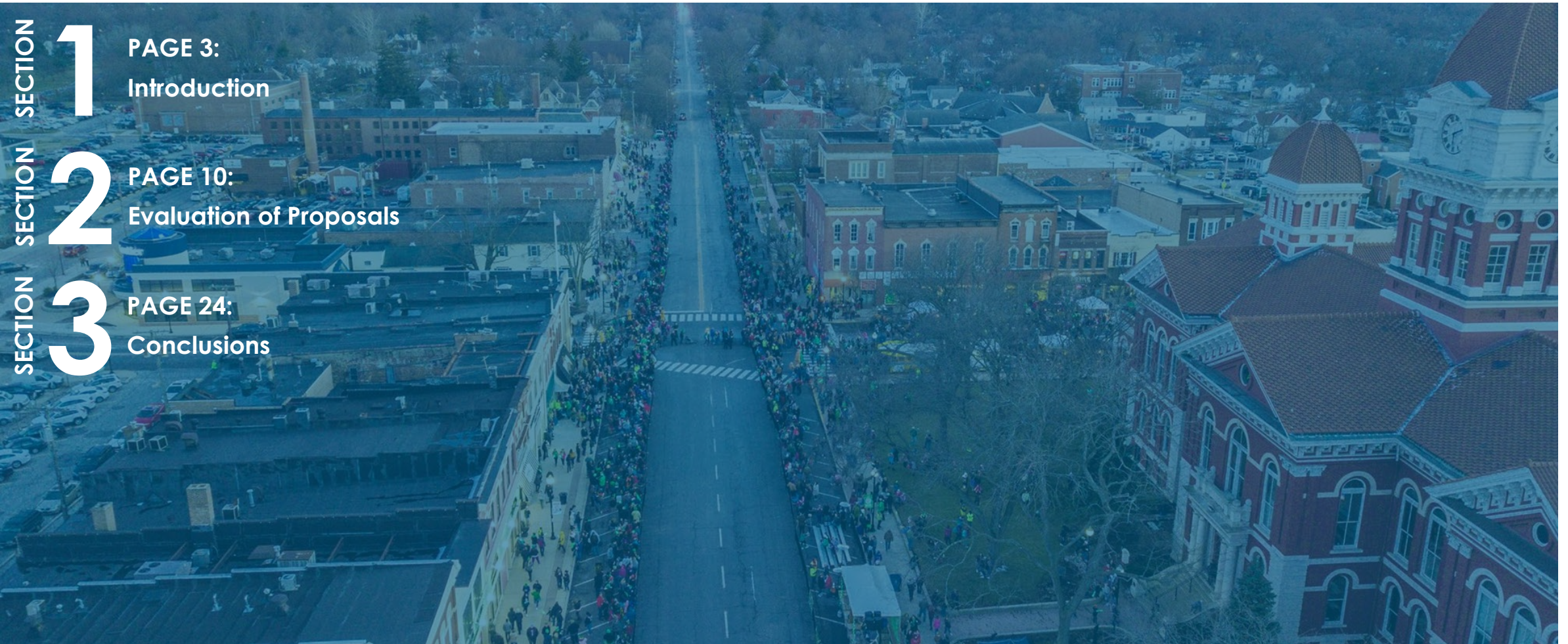
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| 1. Introduction

Transmittal Letter

Re: Lake County Convention Center – Evaluation of Development Proposals

Dear Lake County Commissioners,

C.H. Johnson Consulting, Inc. is pleased to submit this report to you regarding our evaluation of the proposals for the development of a convention center in Lake County, IN. Pursuant to our engagement, this report fulfills the scope of work outlined in the project proposal submitted by Johnson Consulting to the Lake County Commissioners (the “Client”) on March 11th, 2025.

Johnson Consulting has no responsibility to update this report for events, plan modifications, and circumstances occurring after the date of this report. The findings presented herein reflect analyses of primary and secondary sources of information. Johnson Consulting used sources deemed to be reliable but cannot guarantee their accuracy. Moreover, some of the estimates and analyses presented in this study are based on trends and assumptions, which can result in differences between projected results and actual results. Because events and circumstances frequently do not occur as expected, those differences may be material. This report is intended for the Client’s internal use and cannot be used for project underwriting purposes without Johnson Consulting’s written consent.

We have enjoyed serving you on this engagement and look forward to providing you with continuing service.

Sincerely,

C.H. Johnson Consulting, Inc.

C.H. Johnson Consulting, Inc.

Study Introduction

Johnson Consulting was retained by the Lake County Commissioners (the “Client”) to provide an independent review and evaluation of proposals received in response to the Client’s Request for Proposals and Qualifications (RFP/Q) for Development, Construction and Operations of a Lake County Indiana convention and event center.

Two (2) proposals were received by the Client from (listed in alphabetical order):

1. City of Gary/ Hard Rock/ AECOM
2. Garfield Public Private/ City of Hobart

Evaluation Criteria

RFP/Q Evaluation Criteria

As stated in the Client’s RFP/Q, the Lake County Commissioners are seeking “proposals for the development, operation, and an ownership share in a Lake County convention and event center from any entity qualified to fund and operate a convention and event center, including local political subdivisions.” The submittals are to be based on the *Lake County, IN Convention Center Market Study Update* (the “Updated Feasibility Study”) published by Johnson Consulting in March of 2024.

The RFP/Q required that submittals provide the following information:

1. “Any variance in the respondent’s proposal from what is described in the updated feasibility study related to a return on investment analysis, including anticipated income generated countywide, peripheral investment anticipated to result from the project, or anticipated gross retail tax revenue to be generated from the project shall be clearly highlighted in the response to this proposal.”
2. “The uses that the convention and event center will accommodate.”

Evaluation criteria continued on the next page

Evaluation Criteria

RFP/Q Evaluation Criteria (Cont.)

3. “Acknowledgment of ownership structure that includes shared ownership with the Lake County Convention Center Authority and utilization of revenues that can be made available by the Lake County Convention Center Authority.”
4. “An operating plan, including information concerning:
 - a) any third party entity expected to manage and operate the facility;
 - b) any professional experience with convention center operations;
 - c) any professional experience with facility management; and
 - d) any experience with efficiency programs used for managing operating costs and capital expenditures.”
5. “An anticipated operating budget for the facility, including the financing of any operational shortfall and pro forma operating statements for the first five (5) years of operations.”
6. “Any documents related to vendor agreements, leases, partnerships, and financing plans and commitments.”
7. “Any document related to existing real estate agreements, leases and or letters of intent.”
8. “Any proposed or available hotel accommodations that may be dedicated for the promotion and sales of the convention and event center, and not for promotional uses for any other associated facility.”
9. “Firms will be expected to comply State and Local law regarding WBE-MBE goals.”

Evaluation Criteria

Supplemental Follow-Up Questions

Additionally, the Lake County Commissioners followed up with three documents containing supplemental questions for the proposers to answer. The first document contained eight (8) questions, stated as follows:

1. "Indicate the financial structure of the proposed project including private activity bonds, redevelopment commission bonds, increment pledge or other funding. Provide a source and uses statement for the project. How will the project match be secured?"
2. "Please provide evidence of any matching funds indicated in your submittal. If matching funds require actions of lenders, third parties (private group(s) or Garfield) or approval of units of government, please include timeline and meeting schedules for any approvals."
3. "Please provide a detail of ownership of all project real estate. Additionally, if real estate has yet to be acquired for use, please include timeline and meeting schedules for any approvals."
4. "Provide legal structure of ownership group for any land, land development and vertical development made with public funds."
5. "Provide a listing of public organization, elected bodies that would be partners in financing this project."
6. "Please confirm that the [proposer] ("City of Gary-Hard Rock Casino" / "City of Hobart-Garfield Public Private") will not seek an increase to the Lake County Innkeeper's Tax for this project. If the project will require a pledge of existing or new Innkeeper's Tax, please indicate the amount of funding that would be required."
7. (For City of Gary/ Hard Rock/ AECOM) "In this submittal, the "Convention Center Hotel" is connected to the Casino as opposed to the Convention Center. Please provide rational for this as well as indicate any contemplated agreement between the hotel and convention center regarding availability, rooms, rates and other agreements."
7. (For Garfield Public Private/ City of Hobart) "Please describe in detail planned improvement to ingress and egress to the proposed location."

Evaluation Criteria

Supplemental Follow-Up Questions (Cont.)

8. "In this submittal, other development was indicated. What is the relationship of these proposed projects to the Convention Center and Hotel?" (For City of Gary/ Hard Rock/ AECOM) "Would funding for the "other development" impact funding for the core project of Convention Center and Hotel?"

The other two documents contained three (3) questions each. One was directed towards the City of Gary/ Hard Rock/ AECOM team, and its questions were as follows:

1. "In addition to the \$3.5M pledge of LDA funds, identify any additional source of funds which could be pledged to the payment of principal and interest on the anticipated convention center bonds, if required by bond purchasers. What impact, if any, will SB 1 have on such additional sources of funds?"
2. "Would Hard Rock Northern Indiana, LLC (or any affiliates thereof) be willing to privately finance, construct, operate and own a 50% share of the proposed convention center without any additional public funds, except for the \$100 million state funding match identified in IC 4-33-13-2.5(b)(2)?"
3. "Please provide, in as great a level of detail is available, the construction cost estimate documents for your proposed project."

The other document contained questions directed towards the Garfield Public Private/ City of Hobart team, as follows:

1. "Given Indiana Code 6-9-2-1.5(c) requires any increase in the Innkeeper's Tax to be deposited in the Lake County convention and event center reserve fund created under IC 36-7.5-7-10 and used for the purposes described therein, identify any additional source of funds which could be pledged to the payment of principal and interest on the anticipated convention center bonds. What impact, if any, will SB 1 have on such additional sources of funds?"
2. "Would Garfield Public/Private LLC (or any affiliates thereof) be willing to privately finance, construct, operate and own a 50% share of the proposed convention center without any additional public funds, except for the \$100 million state funding match identified in IC 4-33-13-2.5(b)(2)?"
3. "Please provide, in as great a level of detail is available, the construction cost estimate documents for your proposed project."

Process & Methodology

As an independent advisor to the Lake County Commissioners, Johnson Consulting has provided the following services:

1. Reviewed and summarized all proposals and associated documents received by the Client.
2. Helped facilitate and participated in interviews with both proposers.
3. Prepared a memorandum report providing an independent, third-party evaluation of the proposals, reflecting our local and industry knowledge.

This third-party evaluation is provided in the balance of this document, which is structured around the evaluation criteria stated in the Client's RFP/Q.



2. Evaluation of Proposals

RFP/Q Criteria

1. Identification of any variance from the Updated Feasibility Study related to ROI

The table on the right summarizes the key variances in ROI analysis between the proposals and the Updated Feasibility Study. The variances in stabilized (year 5) annual event, attendance, and net operating income projections are attributable largely to different business planning assumptions used by the proposers in developing their pro forma projections.

Each proposer is working with a private operator (Hard Rock in the case of the City of Gary/ Hard Rock/ AECOM proposal and ASM Global in the case of the Garfield Public Private/ City of Hobart proposal), and the projections included in the proposals were developed using those private operators' internal assumptions based on other, similar assets in their operating portfolios. Conversely, the projections included in the Updated Feasibility Study use more generalized assumptions based on a wide range of similar convention center case studies and on event planner outreach.

Given the strong reputations of both Hard Rock and ASM Global within the convention and events industry, and the breadth and depth of experience both of those firms bring to bear, Johnson Consulting is comfortable with these variances in ROI analysis.

Lake County Convention and Events Center Proposals Variances in ROI Analysis from Updated Feasibility Study			
Point of Variance	Updated Feasibility Study	City of Gary/ Hard Rock/ AECOM Proposal	Garfield Public Private/ City of Hobart Proposal
Stabilized (Y5) annual event projection	265	Not Provided	320
Stabilized (Y5) annual attendance projection	115,775	Not Provided	103,840
Stabilized (Y5) annual net operating income projection (\$000)	\$52	\$1,135	(\$305)
Stabilized (Y5) annual net operating income after capital reserve projection (\$000)	(\$186)	\$1,305	Not Provided
Stabilized (Y5) annual ancillary fiscal impacts projection (\$000)	\$3,523	\$11,144	Not Provided

Source: Proposals, Johnson Consulting

RFP/Q Criteria

2. Intended uses for the convention and event center

Both proposals state the intended uses of the convention and event center. The intended uses stated are consistent with typical convention and event center operations, as well as with the uses proposed by the Updated Feasibility Study.

3. Proposed ownership structure and Lake County Convention Center Authority (LCCCA) revenues utilization plan

The City of Gary/ Hard Rock/ AECOM proposal explicitly acknowledges a proposed ownership structure wherein the LCCCA, “shall have an equal ownership share in the convention center and that the Authority shall be solely responsible for administering any funds in the convention and event center reserve fund established pursuant to IC 36-7.5-7-10 (“Reserve Fund”).” The proposal further notes that “Respondent intends to work collaboratively with the Authority to ensure that use of the Reserve Fund remains limited and is focused at all times on the long-term success and stability of the project -- including maximizing benefits to surrounding communities and businesses. In further support of this core purpose, Respondent proposes that in any year where revenues from the convention center exceed operating costs, all such surplus should be deposited into the Reserve Fund.” Additionally, it proposes that the other co-owner of the convention and event center be the City of Gary.

The Garfield Public Private/ City of Hobart proposal does not explicitly acknowledge the shared ownership with the LCCCA, though it does note two possible ownership structures wherein a “public partner” owns the meeting spaces within the facility (excluding the hotel) as well as the land on which the facility sits, while a private entity would own the hotel component of the facility. Furthermore, the proposer, in its responses to the supplemental follow-up questions, proposes that the convention and event center as well as connected headquarters hotel be owned by a public entity, and that the assumption is that public entity will be the LCCCA. It also states that, if the Garfield Public Private/ City of Hobart proposal is selected, the City of Hobart will purchase the requisite property for the convention and event center and offer the property to the “Public Ownership Entity that is established to own the Convention and Connected Hotel facilities.” This “Public Ownership Entity” is assumed to be the LCCCA; however, no shared ownership structure is explicitly indicated.

RFP/Q Criteria

4. Operating plan detail

The City of Gary/ Hard Rock/ AECOM proposal would have Hard Rock operate the convention and event center, while the Garfield Public Private/ City of Hobart proposal would have the facility operated by ASM Global. Both of these companies have extensive experience in convention center operations, facility management, and cost & capital expenditure management, and are well regarded in the events and conventions industry.

5. Operating budget, pro forma, and coverage for any anticipated shortfall

The City of Gary/ Hard Rock/ AECOM proposal includes a 20-year pro forma statement of projected revenues and expenses for the proposed convention and event center. In this projection, only Year 1 of operations would have a negative net operating income, with the facility covering its own operating expenses with generated revenue in Year 2 of operations and beyond. The proposal does note that, “operational losses are possible, especially during stabilization” and that, “funds should be identified that could be made available in case LCCC revenues do not cover all expenses.” However, it does not identify the source of said funds. Note that in Johnson Consulting’s interview with the proposer, it was stated that Hard Rock would cover any operating shortfall. However, this is not stated in the initial proposal and has not be memorialized in any of the submitted materials.

The Garfield Public Private/ City of Hobart proposal includes a 30-year pro forma statement of projected revenues and expenses for the proposed convention and event center. In this projection, the convention and event center would incur an operating deficit in each year of its operations. The proposal does not explicitly identify a plan for covering any anticipated shortfall. Note that in Johnson Consulting’s interview with the proposer, it was clarified verbally that the hotel and convention and event center would be operated as a single entity, with profits from the hotel effectively subsidizing any annual shortfall incurred by the convention and event center. However, this is not stated in the initial proposal.

RFP/Q Criteria

6. Vendor agreements, leases, partnerships, and financing plans and commitments

The City of Gary/ Hard Rock/ AECOM proposal lists numerous local and national vendors with which Hard Rock has relationships, and which might provide service to the proposed convention center. Additionally, it indicates the proposed leaders of the design, construction, and operations teams for the project (including AECOM, AECOM Hunt, Robinson Engineering, and Hard Rock). The proposal includes a Memorandum of Understanding (MOU) between Hard Rock and the City of Gary wherein Hard Rock agrees to contribute \$1.5 million annually for 20 years to help meet the project match. No other formal documentation is provided regarding vendors or partnerships. Similarly, the Garfield Public Private/ City of Hobart proposal indicates the proposed leaders of the project's design, construction, and operations (including Garfield Public Private, DVG, Core, DLR Group, and Browning Day), but does not provide any formal documentation to this end.

7. Existing real estate agreements, leases, and/ or letters of intent

The City of Gary/ Hard Rock/ AECOM proposal includes a copy of the rezoning ordinance which established the Gary Casino Planned Unit Development district, as well as a map noting Hard Rock's real estate holdings adjacent to its casino. Additionally, the proposal notes plans for adjacent development (including two limited-service hotels) across 29th Avenue from the proposed convention and event center site.

The Garfield Public Private/ City of Hobart proposal provides a letter from Patriot Park, LLC, the current owner of the relevant land, stating its intention to, "enter into a Land Sale and Purchase Agreement with the appropriate purchaser of the land for the Lake County Convention Center and Headquarters Hotel project at an agreed upon price based on the market value of similar developed property in the I65 & US 30 corridor district." Further, the letter states that Patriot Park, LLC, will hold the land while the Lake County Commissioners are reviewing proposals.

RFP/Q Criteria

8. Hotel facilities dedicated to the convention and event center

The City of Gary/ Hard Rock/ AECOM proposal notes that a 300-key full-service “Hard Rock” branded hotel will be built to serve the proposed convention and event center. The proposal shows this hotel as being attached to the existing casino, but adjacent to the convention and event center; however, note that during Johnson Consulting’s interview with the proposer, it was verbally clarified that the hotel would be linked via sky bridge to the convention and event center. Additionally, City of Gary/ Hard Rock/ AECOM the proposal notes two new 200-key hotels planned for an adjacent mixed-use development, and states that, “the ownership group representing the Hard Rock Hotel and two properties proposed within the adjacent West End Development are committed to consistently offering available room blocks for groups booking the Lake County Convention Center.” This room block commitment was verbally affirmed during Johnson Consulting’s interview with the proposer; however, no documentation of said agreement has been submitted.

The Garfield Public Private/ City of Hobart proposal states a vision of, “an adjacent or attached approximately 200-250-room full-service hotel with meeting space and flexible, divisible ballroom space, a full-service restaurant and bar, “grab and go” market, fitness facilities, a business center, swimming pool, and other amenities consistent with a first class, upscale full-service convention center hotel.” During Johnson Consulting’s interview with the proposer, it was clarified that this hotel is planned to include 225 keys and be directly attached to the convention and event center, sharing utility systems and back-of-house spaces. The proposal itself does not mention any additional adjacent hotels, but the oral presentation given by the proposer to the County Commissioners does detail adjacent hotel options, including two 100-key limited service properties planned for the Patriot Park mixed-use development, as well as several other hotel properties within a 2-mile radius of the proposed site. No documentation of room block commitments for either the attached full-service hotel or the adjacent limited-service hotels has been provided by the proposer; however, the proposer did verbally commit during their interview with Johnson Consulting to the attached full-service hotel providing room blocks for the convention and event center.

9. WBE-MBE law compliance

The City of Gary/ Hard Rock/ AECOM proposal provides a specific plan on meeting this mandate, while the Garfield Public Private/ City of Hobart proposal does not address it.

Supplemental Follow-Up Questions – Set 1

1. “Indicate the financial structure of the proposed project including private activity bonds, redevelopment commission bonds, increment pledge or other funding. Provide a source and uses statement for the project. How will the project match be secured?”

The City of Gary/ Hard Rock/ AECOM response to this question indicates two financing scenarios which could be deployed to secure the project match. Each of these scenarios would see the project match secured and debt service covered by a combination of annual contributions by Hard Rock (\$1.5M per year in both scenarios) and from the City of Gary (\$5M per year in Scenario 1, \$3.7M per year in Scenario 2).

The primary difference between the two scenarios is the assumed interest rate for the bonds – Scenario 1 would see the bonds issued by the City of Gary at a 5 percent annual interest rate, while Scenario 2 would see the bonds issued by a State body (either the Regional Development Authority (RDA) or Indiana Finance Authority (IFA) were suggested), with Gary making transfers to cover the debt service, thereby securing more favorable financing conditions. Note that the proposer indicated conversations have been had with the RDA, but that no commitments have been made at this stage.

The Garfield Public Private/ City of Hobart response proposes using tax-exempt bonds issued by a public body to finance the project and secure the project match. However, it does not indicate the sources and uses for those bonds, though note that the proposer verbally indicated to Johnson Consulting that part of the debt service coverage could come from the combined net operating income generated by the hotel and convention center.

Lake County Convention and Events Center Proposals City of Gary/ Hard Rock/ AECOM Financing Scenarios		
	Scenario 1	Scenario 2
<i>Debt</i>		
Bond Amount	\$143,000,000	\$142,000,000
Interest Rate	5.00%	3.75%
Years	20	20
Annual Payment	(\$11,474,690)	(\$10,218,618)
<i>Sources of repayment</i>		
Local Contributions		
Hard Rock	\$1,500,000	\$1,500,000
LDA Funds	\$5,000,000	\$3,700,000
Total	\$6,500,000	\$5,200,000
State match	\$5,000,000	\$5,000,000
Total Repayment Sources	\$11,500,000	\$10,200,000

Source: City of Gary/ Hard Rock/ AECOM

Supplemental Follow-Up Questions – Set 1

2. “Please provide evidence of any matching funds indicated in your submittal. If matching funds require actions of lenders, third parties (private group(s) or Garfield) or approval of units of government, please include timeline and meeting schedules for any approvals.”

The City of Gary/ Hard Rock/ AECOM response proposes that the City of Gary’s contribution to the project match comes from Local Development Agreement (LDA), while Hard Rock’s contribution comes the Lakefront Fund (LF). The LDA funds come from a 3 percent tax on gross receipts from the Hard Rock casino, and are required to total a minimum of \$6.15M of annual collections, with Hard Rock contributing funds to cover any gap. These funds are currently pledged to covering the \$3.3M of annual debt service on the City of Gary’s Series 2019 bonds, though the other pledged source for that debt service – Local Income Tax (LIT) funds – has historically been more than able to cover that debt service, theoretically freeing up the LDA funds to be pledged elsewhere. However, the recently passed Indiana SB1 could make the annual availability of those LIT funds less reliable starting in 2027, meaning that the proposer will need to identify other funding sources, as is addressed in the second set of supplemental questions. The Lakefront Fund receives annual contributions from Hard Rock and is able to be used at Hard Rock’s discretion. As discussed previously, Hard Rock has signed an MOU committing to the proposed annual \$1.5M contribution.

The Garfield Public Private/ City of Hobart response indicates that, given the county-wide benefits the convention and event center would bring, the matching funds should be secured by raising Lake County’s Innkeeper’s Tax. It also indicates that, “dialogue with County Officials is essential to determine the optimal strategy and timeline for increasing the Innkeepers Tax in Lake County,” and that, “without that dialogue we cannot answer this question fully.”

Supplemental Follow-Up Questions – Set 1

3. “Please provide a detail of ownership of all project real estate. Additionally, if real estate has yet to be acquired for use, please include timeline and meeting schedules for any approvals.”

The City of Gary/ Hard Rock/ AECOM response indicates that all necessary real estate for the project is currently owned by Hard Rock.

The Garfield Public Private/ City of Hobart response indicates that all necessary real estate for the project is currently owned by Patriot Park, LLC. If this proposal is selected, the City of Hobart has agreed to buy the property (23.2 acres) from Patriot Park LLC at a fair market price determined by two appraisals. The City would then transfer the property to the “Public Ownership Entity” (i.e., the LCCCA).

4. “Provide legal structure of ownership group for any land, land development and vertical development made with public funds.”

The City of Gary/ Hard Rock/ AECOM response indicates that the land would be owned by Hard Rock and leased to the City of Gary on a long-term agreement at “fair market value.” The improvements (i.e., vertical development) on that land would be owned by the City of Gary and the LCCCA. Note that the proposer has not identified what that “fair market value” might be, or how the City of Gary would be funding that land lease. When Johnson Consulting asked about this point during our interview of the proposer, Hard Rock indicated that they wouldn’t allow disagreement around the land lease rate to prevent the project from moving forward.

The Garfield Public Private/ City of Hobart response indicates that all land and structures would be owned by the LCCCA.

5. “Provide a listing of public organization, elected bodies that would be partners in financing this project.”

The City of Gary/ Hard Rock/ AECOM response lists the City of Gary, the Northwest Indiana RDA, and the IFA, though notes that the IFA would only be involved if bonds were to be issued by the RDA. The Garfield Public Private/ City of Hobart response lists the Lake County Board of Commissioners, Lake County Council, LCCCA, City of Hobart Common Council, and City of Hobart Redevelopment Commission.

Supplemental Follow-Up Questions – Set 1

6. “Please confirm that the [proposer] will not seek an increase to the Lake County Innkeeper’s Tax for this project. If the project will require a pledge of existing or new Innkeeper’s Tax, please indicate the amount of funding that would be required.”

The City of Gary/ Hard Rock/ AECOM response confirms that it will not seek an increase to the Innkeeper’s Tax for the project.

The Garfield Public Private/ City of Hobart response indicates that the proposer *will* seek an increase to the Innkeeper’s tax, stating that, “It is our understanding that the legislative intent of Senate Enrolled Act 434 was that the increase in Lake County Innkeeper’s Tax would be a significant portion if not all of the local match.” However, it does not indicate the amount of funding that would be required.

7. (For City of Gary/ Hard Rock/ AECOM) “In this submittal, the “Convention Center Hotel” is connected to the Casino as opposed to the Convention Center. Please provide rational for this as well as indicate any contemplated agreement between the hotel and convention center regarding availability, rooms, rates and other agreements.”

The City of Gary/ Hard Rock/ AECOM response indicates that its proposal has been modified to include a bridge connecting the proposed Hard Rock hotel to the convention and event center as part of the project’s initial construction. It also indicates that the adjacent Hard Rock hotel will have dedicated room blocks for the convention and event center, which would not be available for other customers. This sentiment was reinforced verbally by the proposer during its interview with Johnson Consulting, though note that no such room block commitment has been memorialized.

7. (For Garfield Public Private/ City of Hobart) “Please describe in detail planned improvement to ingress and egress to the proposed location.”

The Garfield Public Private/ City of Hobart response indicates that improvements are planned along Mississippi Street to support increased volumes during events at the convention and event. Traffic control signals would be installed at the intersections with North and South Silverstone Parkway, along with new dedicated right and left turn deceleration lanes. At the US 30 intersection, additional southbound turn lanes—one for westbound right turns and another for eastbound left turns—would be constructed, along with corresponding signal head upgrades. Coordination with the Town of Merrillville is already underway to implement these enhancements, which are designed to manage peak event traffic efficiently.

Supplemental Follow-Up Questions – Set 1

8. “In this submittal, other development was indicated. What is the relationship of these proposed projects to the Convention Center and Hotel?” (For City of Gary/ Hard Rock/ AECOM) “Would funding for the “other development” impact funding for the core project of Convention Center and Hotel?”

The City of Gary/ Hard Rock/ AECOM response indicates that the other development would be additive to the vibrancy of the convention and event center’s environment, but would be built by a private developer and have no impact on the funding for either the convention and event center or adjacent Hard Rock hotel.

The Garfield Public Private/ City of Hobart response states that, “the Land Uses and Site Development Plan at Patriot Park is NOT contingent on the Convention Center.” However, it indicates that those adjacent land uses and amenities would be a valuable addition to the experience and marketability of the proposed convention and event center.

Supplemental Follow-Up Questions – Set 2 – City of Gary/ Hard Rock/ AECOM

1. “In addition to the \$3.5M pledge of LDA funds, identify any additional source of funds which could be pledged to the payment of principal and interest on the anticipated convention center bonds, if required by bond purchasers. What impact, if any, will SB 1 have on such additional sources of funds?”

The City of Gary/ Hard Rock/ AECOM response indicates that, if LDA funds are not available due to the impacts of SB 1, the City would be able to utilize wagering tax revenues to cover the debt service associated with the convention and event center. The response states that the City has received \$12.27M per annum of this wagering tax (which is collected by the Indiana Gaming Commission and distributed to relevant localities) each year since the Hard Rock Casino’s opening, which is the maximum it can receive. Additionally, the response states that the City would be willing to establish a structure wherein wagering tax revenues are set aside specifically for this debt service, and can only be used for other annual expenditures once the debt service has been covered. The response also notes that, should additionally security be necessary, Hard Rock is willing to commit to covering any shortfalls using dollars from the Lakefront Fund.

Note that the proposer has not submitted any documentation verifying the availability of the wagering tax revenues for this purpose, nor was Johnson Consulting able to independently obtain such documentation. Note also that Hard Rock’s commitment to covering any shortfalls has not been memorialized.

Supplemental Follow-Up Questions – Set 2 – City of Gary/ Hard Rock/ AECOM

2. “Would Hard Rock Northern Indiana, LLC (or any affiliates thereof) be willing to privately finance, construct, operate and own a 50% share of the proposed convention center without any additional public funds, except for the \$100 million state funding match identified in IC 4-33-13-2.5(b)(2)?”

The City of Gary/ Hard Rock/ AECOM response essentially indicates that Hard Rock is not willing to privately finance, construct, and/ or own a portion of the proposed convention and event center. However, it does note that Hard Rock has committed to operating said convention and event center, and would be participating in the project via a contribution of \$30M over 20 years.

3. “Please provide, in as great a level of detail is available, the construction cost estimate documents for your proposed project.”

The City of Gary/ Hard Rock/ AECOM response provided the requested estimated documents, which indicate a total cost of \$137.37M for the convention and event center, or \$947.37 per square foot of building space. This figure is in line with similar projects which Johnson Consulting has seen, though note that our firm does not offer expertise in the realm of construction cost estimation.

Supplemental Follow-Up Questions – Set 2 – Garfield Public Private/ City of Hobart

1. "Given Indiana Code 6-9-2-1.5(c) requires any increase in the Innkeeper's Tax to be deposited in the Lake County convention and event center reserve fund created under IC 36-7.5-7-10 and used for the purposes described therein, identify any additional source of funds which could be pledged to the payment of principal and interest on the anticipated convention center bonds. What impact, if any, will SB 1 have on such additional sources of funds?"

The Garfield Public Private/ City of Hobart response states that the City of Hobart could apply tax increment financing (TIF) dollars generated by the development of the Patriot Park area to cover debt service on the convention and events center. The response indicates that the development is expected to create \$330M in estimated incremental assessed property value, and that \$156M of incremental assessed property value would be sufficient to generate the \$5M per year required to achieve the project match. Additionally, the response suggests that a 1% local Food & Beverage Tax would be estimated to create \$870,000 in new revenue which could also be put towards debt service. The response does give a significant caveat that these financing sources are also under consideration for funding the youth sports fields proposed as part of the Patriot Park development.

Note that it is unclear what assumptions are being used to calculate the stated \$156M estimate, and the sources of that estimate and the Food & Beverage tax revenue estimate are not stated. Further, a local Food & Beverage tax is not currently in place, and the City would need to work through the State legislature to enable one; as a result, there is a risk that these funds would not be available in time to secure the project match.

2. "Would Garfield Public/Private LLC (or any affiliates thereof) be willing to privately finance, construct, operate and own a 50% share of the proposed convention center without any additional public funds, except for the \$100 million state funding match identified in IC 4-33-13-2.5(b)(2)?"

The Garfield Public Private/ City of Hobart response indicates that Garfield Public/Private LLC would not be willing to privately finance, operate, and/or own any part of the proposed convention and event center, but would be willing to consider an ownership role in the attached hotel given the correct financing and return conditions.

Supplemental Follow-Up Questions – Set 2 – Garfield Public Private/ City of Hobart

3. “Please provide, in as great a level of detail is available, the construction cost estimate documents for your proposed project.”

The Garfield Public Private/ City of Hobart response provided the requested estimate documents, which indicate a total cost of \$164.8M for the convention and event center and hotel combined. Of that, \$85.7M is estimated to go towards the hotel with the other \$79.1M going towards the convention and event space. Note that the Garfield Public Private/ City of Hobart proposal is for a combined convention center/ hotel, which would share some facilities such as kitchen and mechanical space.

With 149,000 SF of space within the building dedicated to the convention and event center (as is noted in the proposer’s response), that component of the building would be estimated to cost roughly \$531 per square foot to construct. Even accounting for synergies and economies of scale associated with combining the hotel and convention center structures as is proposed, this figure is significantly below the levels Johnson Consulting is seeing at other, comparable facilities.



| 3. Conclusions

Assessment and Recommendations

The two proposals offer visions for the contemplated convention and event center which, while each consistent with the program of spaces and demand strategy recommended by the Updated Feasibility Study, differ significantly in orientation and execution.

The City of Gary/ Hard Rock/ AECOM team is essentially proposing a stand-alone convention center with a connected hotel. The ownership and operating structure would see the City of Gary and the LCCCA co-own the convention and event center with Hard Rock operating the facility, and funding for the project match and any other debt service come from a combination of the City of Gary's tax revenues (LDA and/ or wagering tax) and Hard Rock's Lakefront Fund. The connected hotel would be entirely owned, operated, and financed by Hard Rock.

In contrast, the Garfield Public Private/ City of Hobart team is proposing a combined convention center/ hotel project, with one financing structure, owner, operator, and profit-and-loss statement. This proposal would have the LCCCA owning at least part of the project, possibly with another public entity as a partner – the details of this ownership structure (i.e., whether there would be another public entity serving as co-owner, and what that public entity would be) are unclear to Johnson Consulting based on the materials submitted. ASM Global would be retained to operate the facility, and the revenue and expenses of both the hotel and convention center would be combined into one operating statement. The funding for the project match and any other debt service would come from the facility's net operating income. Additionally, the team has proposed several sources of tax revenue which could be put towards the project's financing, including incremental revenue from the Lake County innkeeper's tax, TIF funds from the Patriot Park development, and a local food & beverage tax in Hobart.

Johnson Consulting sees several challenges associated with the Garfield Public Private/ City of Hobart proposal:

- The viability of the proposed site for convention and event uses is, per the Updated Feasibility Study, highly dependent on the full development of Patriot Park. If this development were to not occur as is currently planned, the Convention and Event Center could be left with little supporting infrastructure (i.e., walkable restaurants, retail, and entertainment). Large developments like Patriot Park often take years, if not decades, to fully materialize, if they materialize at all.
- The proposal envisions a combined convention center/ hotel, and it is unclear whether the State's matching funds can be applied to that type of project (or at least to the hotel component).

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- The proposer suggests various funding sources for the project, but each is questionable in terms of viability. The initial proposal was to increase in Lake County innkeeper's tax by five percentage points, and apply the increment to the project's financing. However, in addition to the County's demonstrated hesitance to raise this tax, those incremental collections, by statute, must be placed in a reserve fund rather than deployed for capital projects such as this one. Once informed of this, the proposer suggested TIF funds from the Patriot Park development and a local food & beverage tax in Hobart to finance the project. However, the bulk of that funding (the TIF funds) are heavily dependent on Patriot Park's development, and could be impacted by the recent passage of SB 1 by the State Legislature. Furthermore, as the proposer noted, those funds may be used to incentivize other development in Patriot Park, and thus may not be available for the convention and event center project.
- The construction cost estimate for the convention and event center component of the project, roughly \$531 per square foot for a total of \$79.1M, is much lower than recent comparable projects which Johnson Consulting has seen or worked on. Our firm does not provide expertise in construction cost estimation, but this estimate suggests a risk that either the project is not being accurately priced, or the quality level envisioned for the convention and event center is below competitive standards and would hamper the project's ability to attract business and generate economic impact. If the construction cost is ultimately significantly higher, financing challenges beyond those already identified could arise, putting the project in jeopardy.

Of the two options, we believe the City of Gary/ Hard Rock/ AECOM proposal better meets the criteria put forth in the Lake County Commissioners' RFP/Q. However, there are some items which it will be critical for the County Commissioners to more clearly define prior to entering into a development agreement with this proposer:

- The availability of the proposed funding sources from the City of Gary needs to be validated. SB 1 has the potential to limit the availability of LDA funds to be put towards the convention and event center project. The City indicated that it could instead commit a portion of its Wagering Tax funds to finance the project, but the City provided no documentation, and Johnson Consulting was not able to find any, demonstrating the annual amount of those funds which would be available and the current uses of those funds. Both the quantity of funds, and the viability of diverting them from their current uses, needs to be investigated and further defined.
- Similarly, Hard Rock stated both verbally and in the submitted materials that it would cover any financing shortfalls associated with the project. However, this has not been memorialized, and doing so will be critical to ensuring the availability of that coverage.

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- The two financing scenarios identified by the proposer assume fairly favorable interest rates for the relevant bonds. Further study needs to be done to validate these interest rates, and in particular that of Scenario 1 which assumes issuance by the City of Gary. Additionally, if the bonds are to be issued by the RDA/ IFA, an agreement to this end needs to be documented.
- The proposer indicates that the associated Hard Rock hotel would be built concurrently with the convention and event center, and that the property would have significant room block agreements with the convention and event center to ensure available room blocks for users of the facility. However, the development timeline and room block agreement have not been memorialized. The presence and availability of an on-site, full-service hotel will be critical to the convention and event center's success, and as such, these agreements must be a component of any larger development agreement with the proposer.
- Hard Rock's financial projections would see the convention and event center generating positive net operating income at stabilization, which is unusual for such facilities. This strong financial performance is primarily predicated on operating expense rates which Hard Rock claims it can achieve through the efficiencies and economies of scale present in its operations model. Further analysis of comparable Hard Rock operations should be done to validate this claim. Note that Johnson Consulting requested the requisite documentation to conduct this analysis, but has not yet received it. Note also that, during the proposer's interview with Johnson Consulting, Hard Rock verbally committed to covering any shortfall should the facility fail to achieve these financial projections, but that this commitment has not been memorialized.
- The proposal suggests that the land for the convention and event center would continue to be owned by Hard Rock but leased to the City of Gary/ LCCCA. However, the rate for that lease, as well as the funding source for covering it, have not yet been determined, and doing so will be critical to the project's viability.

Ultimately, it is Johnson Consulting's opinion that the City of Gary/ Hard Rock/ AECOM proposal is more thoroughly developed and viable from a financial and supporting infrastructure perspective, and would thus be more likely to be successfully developed and operated. As such, and assuming that the above items are satisfactorily addressed, we recommend that the Lake County Commissioners proceed with the City of Gary/ Hard Rock/ AECOM proposal.