THE CITY OF Fargo FAR MORE

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June 18, 2026

Fargo City Commission
225 Fourth Street North
Fargo, ND 58102

Re: Selection of First-Ranked Proposal for Convention Center

Dear Commissioners:

On November 5, 2024, voters approved amending the City's home rule charter to authorize a three percent (3%) lodging tax with the proceeds of the new lodging tax to be utilized for the costs associated with the construction of a conference center and for future capital improvements, maintenance, and operation of the conference center. The three percent lodging tax will have a term of twenty-five years once it is commenced.

The Board of City Commissioners thereafter created a Convention Center Committee (the "Committee") to create and manage a Request for Proposal process for the selection of a convention center project, subject to the approval of the City Commission. The Committee began meeting in February 2025 and continued its work through April 2026. At that time, the Committee ranked the final four proposals and provided its rankings and recommendations to the City Commission.

On April 27, 2026, the Committee's chairman presented the Committee's recommendations to the City Commission. The City Commission approved a motion directing City staff and the City Attorney's Office to begin a financial due diligence review of the two highest-ranked proposers—Brewhalla and Downtown/Civic—for purposes of evaluating a potential public-private partnership for the construction of a convention center. On May 21, 2026, the City Commission held a brown-bag meeting at which the City Attorney's Office provided an update and summary of the due diligence responses submitted by the two finalists, and the City Commission was provided an opportunity to ask questions of both finalists.

On May 26, 2026, the City Commission directed City staff to continue the due diligence process and engage Baker Tilly to perform an independent financial evaluation of the two finalist proposals and provide an update at the June 22, 2026, meeting. Following the May 26, 2026, meeting, City staff engaged Baker Tilly to conduct an independent financial evaluation of both projects. Baker Tilly completed its review and has now issued its report. Enclosed with this letter is Baker Tilly's report for your review.

The next step in this process is for the City Commission to select one of the two finalists as the first-ranked proposal and authorize City staff to begin negotiations with the selected proposer regarding a development agreement and related project documents. Selection as the first-ranked proposal does not constitute approval of a development agreement, approval of any public financing, approval of any tax increment financing structure, or authorization to commence construction. Rather, selection of a first-ranked proposal authorizes City staff to proceed with negotiations with the first ranked proposal toward a development agreement and continue any additional due diligence deemed necessary related to the first-ranked proposal.

Regardless of which proposal is selected as the first-ranked proposal, there remain numerous items that must be negotiated and evaluated as part of any potential development agreement. Any proposed development agreement, financing documents, tax increment financing proposals, lodging tax ordinances, or related agreements will be presented to the City Commission for consideration and approval at a future public meeting. If negotiations with the first-ranked proposer are unsuccessful or the City determines that proceeding with the first-ranked proposal is not feasible, the City may discontinue negotiations and begin negotiations with the other finalist.

Additionally, the City cannot begin collecting the three percent lodging tax until it approves amendments to the City's lodging tax ordinances for such purposes, including defining the start and end of the twenty-five-year term. City staff's goal is to have any development agreement and lodging tax ordinances approved this Fall. This would provide sufficient time to notify affected hotels and implement the new lodging tax rate for collection beginning January 1, 2027, ahead of anticipated construction in the spring of 2027.

The City Attorney's Office is presenting two suggested motions for the City Commission's consideration. The first suggested motion is to select either MBA Brewhalla or the EAPC Kilbourne Group/Downtown Civic proposal as the first-ranked proposal and to direct City staff to begin negotiations with the first-ranked proposer regarding a potential development agreement. If the City Commission approves a version of the first suggested motion, City staff is also recommending a second motion directing staff to begin the process of evaluating and identifying potential tax increment financing options for the first-ranked proposal and to report back to the City Commission with its recommendations. The purpose of the second motion is solely to authorize City staff to evaluate potential tax increment financing options and determine what actions would be necessary should the City Commission later decide to pursue such financing. Any actual approval of tax increment financing, public incentives, or related financing arrangements would require separate approval by the City Commission at a future public meeting.

SUGGESTED MOTION 1:

I move that the proposal of **[MBA Brewhalla]** or **[EAPC Kilbourne Group/Downtown Civic]** be deemed and accepted as the first-ranked proposal for the convention center project and the City immediately begin negotiations with the first-ranked proposer for a development agreement for the convention center and hotel project and further with respect to the commencement of collection of lodging taxes to fund the convention center project, I move the City Attorney's Office prepare the appropriate amendments to the City's lodging tax ordinances, including Article 3-14 of the Fargo Municipal Code, for such purposes.

SUGGESTED MOTION 2:

I move to approve in concept the use of tax increment financing funds for the convention center project and to direct City staff to identify the appropriate action to be taken by the City to authorize such use for the convention center project and to report back to the City Commission with staff's recommendations.

Sincerely,

Ian R. McLean
City Attorney

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June 18th, 2026

City of Fargo, North Dakota

Delivered electronically

RE: Financial Risk Analysis – RFP respondents Kilbourne Group and Brewhalla

City Commission and Staff,

This workpaper presents our initial review and comparison of the salient risks associated with the two developer proposals submitted for the Convention Center project by Brewhalla and Kilbourne Group (the "Applicant", "Applicants"). The analysis is intended to identify and highlight meaningful differentiating factors based on information provided by the respective developers and standardized, where possible, to the market, operational, and financial assumptions presented in the HVS report and industry/local understanding. This review is not intended to supplant, replace, or supersede the comprehensive due diligence necessary to determine ultimate project feasibility, sufficiency, or financial viability. Rather, it serves as a preliminary assessment of key considerations and potential risk areas to inform further diligence. In addition, this workpaper includes a high-level review of potential financing structures and funding options that may be available to support project implementation and long-term sustainability.

In the course of preparing this comparison Baker Tilly was sensitive to presenting each proposal in a way that is as mutually consistent as possible. i.e. "apples-to-apples". Importantly, each of the two proposals presents distinct projects and underlying assumptions. To compare each proposal side by side, would be to condense those factors in a way that would risk misrepresenting either proposal. For the purposes of this analysis, BTMA will consider two factors related to the potential financial impacts to the City of Fargo regarding:

1. Operations of the convention center.
2. Bond financing of the project.

Consistent with BTMA's expectations, and HVS's market study, both applicants submitted proposals with risk factors relevant to the above categories. The risk profile of each project primarily falls into either capital risk or operational risk, with contract risk, market risk and policy risk being downstream items that are ultimately complementary to capital and operational risk, but the mitigation of these downstream risks also aid in mitigating capital and operational risk.

Summary of Analysis

Methodology

BTMA ran pro-formas provided by each applicant as they are currently presented, using the assumptions of each applicant. In addition to the operational pro-forma, BTMA evaluated the bonding Capacity in comparison to operational shortfalls and surpluses, net lodging tax production, and other potential revenues.

Assumptions

BTMA's analysis considers a wide array of assumptions

- Project Basis assumptions: HVS provided a market study on April 25, 2025 (the "HVS Study"). For the purpose of this analysis, HVS's work is considered the baseline assumptions. As revenues, expenditures, and other factors are identified as "conservative," "aggressive," or "in line," with expectations, those references are to the work completed by HVS unless otherwise noted. In each of the applicants' submittals, each applicant attempted to provide proposals that closely reflected the work HVS provided.
- Proposal specific assumptions: Each applicant provided proposals, including forecasts of revenue, expenditures, construction costs, and sources of financing based on their professional experience.
    - BTMA does not adjust or alter assumptions for either proposal unless there is a compelling need to do so clearly identified. Assumptions presented by either applicant are assumed to be presented in good faith, and are taken "as-is."
    - BTMA is working from the assumption that both finalists' proposed projects that are in line with the expectations set forth in the RFP, and – if chosen – will deliver a project that meets the expectations of the City and it's stakeholders.
    - BTMA is assuming that the variations in operational direction are presented as the optional outcome for each facility, and are treated as functionally equivalent, including: variations in method for the booking of events, delivery of catering, and other operational factors.
- Lodging Tax Revenue Assumptions: as the City of Fargo's municipal advisor, BTMA will be proposing assumptions for the anticipated collection of new Lodging taxes for use in supporting the long-term financing and operations of the project. BMTA relied on City data of historic taxable activity in concert with information from the HVS Study. Important tax forecasting assumptions are as follows:

Lodging Tax Revenue Assumptions	
Assumption	**Value**
Lodging Tax Rate	3.000%
Lodging Tax First Collection Date	November 15, 2026
Taxable Activity – New and Existing (Monthly)	
Initial Taxable Activity ($)	*$ 9,242,498.19*
Initial Tax Receipts ($)	*$ 277,274.95*
Stabilized NEW Taxable Activity ($)	*$ 336,722.56*
Stabilized NEW Tax Receipts ($)	*$ 10,101.68*
Initial Fund Balance ($)	$0.00
Fund Balance Earnings (%)	2.000%

Lodging Tax Growth Assumptions			
Year			**Rate of Growth***
0	to	5	2.00%
5	to	10	2.00%
10	to	15	1.00%
15	to	20	1.00%
20	to	25	1.00%

*(HVS Study 10-year Compound Annual Growth Rate = 4.10%)

Assumptions (Continued…)

The forecast above represents a reasonable and appropriately conservative approach to forecast revenues for the newly established lodging tax and incorporates approximately 1,433 new room nights per month due to the projected convention center expansion.

- Financing Assumptions: as the City of Fargo's municipal advisor, BTMA will be proposing assumptions for long-term financing of the City's anticipated lodging tax bonds. Capacity for bonding is based on BTMA's work. Important financing assumptions are as follows:
  - Bonds are structured to utilize net revenues after operational shortfalls (to the extent indicated) and maintain awareness of the need for capital reserve commitments.

- Risk Evaluation: BTMA evaluates the financial risk of the proposed project across several categories. Baker Tilly's Analysis focuses primarily on risks associated with financial impacts to the City: Capital Risk, Contract Risk, and Operational Risk. There is limited exploration of Political Risk associated with a new TIF district. A full explanation of potential risks is shown in **Appendix A.**

Risk Type	Primary Impact	Relevance to Analysis
Capital Risk	Cost of capital, liquidity	Project Costs, Revenues, and Operating cost's impact on debt service coverage
Contract Risk	Delays & disputes	Financial implications of contract negotiation between interested parties related to proposed terms of the project
Operational	Ongoing profitability	Project Costs, Revenues, and Operating cost's impact on City finances
Risk Type	Primary Impact	Relevance to Analysis
Market	Pricing & demand	Addressed in the HVS Study.
Regulatory	Ability to build	Assumed policy compliance following final selection
Leasing/Sales	Revenue realization	Assumed that both applicant methodologies are sufficient, not in the scope of this analysis
Construction	Budget & timeline	*not in the scope of this analysis*
Environmental	Costs & liability	*not in the scope of this analysis*
*Political	Policy-driven changes	Only considered as an element of one of the proposals.
Exit/Liquidity	Final returns	Asset is assumed to be retained by the City and/or development group indefinitely, and City is assumed to have input on disposal
External	Unpredictable disruptions	Only considered as an element of one of the above categories.

Scenario Review

Financial operating analysis – Brewhalla

Overview – Brewhalla

The following table outlines the relevant points of the project with respect to Operating Revenue, Operating Expenses, Operating Risk to the City (City Subsidy), and Financing risk.

BREWHALLA CONVENTION CENTER – STANDARDIZED SCENARIO		
Scenario	**Description**	**Risks**
1. Operating Revenue	Operating revenues, as presented, are generally in line with what was initially contemplated by HVS. The applicant notes that revenues are conservative and based on professional experience.	The revenues as estimated do not present meaningful risk and are conceptually similar to the expectations set forth in the analysis prepared by HVS. There will always be some element of **Operational Risk.**
2. Operating Expense	Operating expenses, as presented, are meaningfully lower than what was contemplated by HVS, largely due to adjustments to the delivery of Catering services through contract catering with an established caterer, and subsequent cost of goods sold adjustments.	The expenses show a different delivery methodology than was assumed in the HVS Study, but do not present a risk outside of those associated with delivery preference for this service. Outsourced services have inherent **Contract Risk.**
3. Operating Risk – City Subsidy	The applicant's proposal does not show need for additional subsidy from the City, but is instead contemplating a modest net income from operations to either supplement financing costs, or be paid to the City.	The applicant has proposed a personal guarantee to subsidize any operational shortfalls in the convention center's operations, with ownership at ultimate risk. Personal Guarantees present **Contract Risk** and would be a topic of evaluation following final selection.
4. Financing Risk – Municipal Bonding	The applicant's proposal requires the establishment of a new TIF district to assist with gap financing of the project costs. *Note 1: the applicant's financing assumptions differ from BTMA, and anticipate greater production of bond proceeds.* *Note 2: the applicant has clarified that the project would meet the City's RFP Requirements regardless of TIF.*	BTMA's estimates show that Lodging Tax will not be sufficient to support financing for the project, as proposed, **(Capital Risk),** and additional strategies may be required to secure funding for a gap in capital. The applicant has proposed a personal guarantee to subsidize any tax revenue shortfalls for up to three years, contingent on adoption of a new TIF district, for the project with ownership at ultimate risk. Personal Guarantee's present **Contract Risk,** as well as **Political Risk,** and would be a topic of evaluation following final selection.

Analysis – Operational Outcomes

The following table outlines the salient risks to the project with respect to financial impact from operational and financial factors, including **Contract Risk**, **Capital Risk**, and **Operational Risk**.

BREWHALLA CONVENTION CENTER – STANDARDIZED SCENARIO	
Proposal Strengths	**Proposal Weaknesses**
Unconditional Personal Guarantee on operational shortfalls	Ultimate guarantee is contingent on final development agreement (**Contract Risk**)
Conditional (TIF) guarantee on tax revenue shortfalls	Ultimate broader guarantee is contingent on TIF District adoption, and final development agreement (**Political** and **Contract Risk**)
The Applicant proposes to deliver a project that meets City's expectations with or without TIF, with adjustments to desired project size in the absence of TIF.	BTMA's financing projections show a gap between bond production and total project cost. Capital reserve funding and desired project size dependent on new TIF. (**Political Risk**)
Operations are proposed to generate positive net revenue, rather than anticipated shortfalls.	Excess lodging tax would be required to support additional debt, or capital reserves, and would not be available for operations within the Tax revenue assumptions provided. (**Capital Risk**)
Mix of in-house, external, and contractual service delivery shows potential to capitalize on efficiencies.	Relationships with external organizations and contractors exposes the project to (**Contract Risk)**

Analysis – Financial SWOT Review

Consistent with the assumptions outlined above, Brewhalla's proposal anticipates delivering a project that meets or exceeds the City's desired outcome. The primary risks to the proposal are contractual, as the terms and conditions of Brewhalla's guarantee for operational and debt coverage are contingent upon the final development agreement; and in the case of the debt service pledge, contingent upon establishment of a new TIF district. Notably, the applicant has clarified that the project itself is not contingent upon establishment of a new TIF district.

BTMA's forecasted bond production, when utilizing debt service, fitted to the anticipated growth in revenues and show proceeds insufficient to support the full cost of the project. There is likely room to bridge this gap with a combination of development tools, and debt restructuring. However, these solutions would exhaust the anticipated capacity of the Lodging tax and likely require policy action to establish a new TIF district.

Conclusion – Brewhalla Scenario

Brewhalla's commitment to backstop any operational losses beyond the corporate entity that will operate the center, extending to ownership stakeholders and their personal wealth, mitigates concerns surrounding **Operational Risk**. All pledges and guarantees are subject to negotiation and final terms, and therefore **Contract Risk.** The project will likely have capital challenges in covering the debt service required to build the project, the pathway to overcoming those challenges involve combined **Capital** and **Political** risk. Despite all guarantees, the City is at ultimate risk for repayment of the bond financing.

Considerations around the capital risk of the proposal is further explored in the *Financing considerations Section.*

Financial operating analysis – Kilbourne Group

Overview – Kilbourne Group Control Scenario

The following table outlines the relevant points of the project with respect to Operating Revenue, Operating Expenses, Operating Risk to the City (City Subsidy), and Financing risk.

KILBOURNE GROUP CONVENTION CENTER – STANDARDIZED SCENARIO		
Scenario	**Description**	**Risks**
5. Operating Revenue	Operating revenues, as presented, are lower than what was initially contemplated by HVS. The applicant notes that revenues are conservative, and based on professional experience.	The revenues as estimated present meaningful risk and are conceptually consistent, albeit lower, than expectations set forth in the analysis prepared by HVS. There is anticipated **Operational Risk.**
6. Operating Expense	Operating expenses, as presented, are lower than what was contemplated by HVS. The proposal maintains the same general structure to what was proposed by HVS.	The structure proposed by HVS, and the applicant presents some level of **Operational Risk**, as service delivery is offered by in-house staff.
7. Operating Risk – City Subsidy	The applicant's proposal shows need for additional subsidy from the City – consistent with expectations established by HVS.	The applicant's proposal acknowledges the operational deficit. The lower project cost allows for some of the Lodging tax to be used to offset those losses. There is a confluence of **Operational** and **Capital Risk**, as Lodging tax revenues will be pledged first to the Bonds.
8. Financing Risk – Municipal Bonding	The applicant's proposal considers benefit from an existing TIF District as alternative funding means to certain aspects of the project and commensurate reserves.	BTMA's estimates show that Lodging Tax should be sufficient to support financing for the project, as proposed – Limiting **Capital Risk.**

Analysis – Operational Outcomes

The following table outlines the salient risks to the project with respect to financial impact from operational and financial factors, including **Contract Risk**, **Capital Risk**, and **Operational Risk**.

KILBOURNE GROUP CONVENTION CENTER – STANDARDIZED SCENARIO	
Proposal Strengths	Proposal Weaknesses
Financing structure should allow for excess Lodging tax Revenues to supplement operational deficits.	Proposal shows operational deficits, and clear **Operational Risk.** Anticipated deficit in the first year of stabilization is $160k.
Lodging Tax Revenues, according to BTMA estimates and in conjunction with the HVS Study, should support project financing.	Excess revenues would likely go to operational deficits once bond obligations were met.
Operations of all services in the center are managed by the applicant team, which allows for direct control of costs irrespective of external contracts.	Additional operational overhead adds to **Operational Risk**.
The project is within an existing TIF District, which can assist with costs identified by the applicant for site work and demolition costs.	Benefit to the project from the TIF district is limited by existing obligations of the district, and available revenue, access to additional resources is subject to **Capital Risk.**

Analysis – Financial SWOT Review

Consistent with the assumptions outlined above, Kilbourne Group' proposal anticipates delivering a project that meets the City's desired outcome. The primary risks to the proposal are **Operational**, as the applicant's proposal acknowledges anticipated operational shortfalls. External impacts to the Lodging tax could pass operational shortfalls onto the City.

BTMA's forecasted bond production, when utilizing debt service fitted to the anticipated growth in revenues, shows proceeds reasonably sufficient to support the cost of the project. Additional resources from the existing TIF could help mitigate any additional **Capital Risk**, however, TIF resources are limited by the existing obligations of the district.

Conclusion – Kilbourne Group Scenario

Kilbourne's proposal acknowledges and articulates the operational risks of the project in line with expectations outlined in the HVS Study. Knowledge of the operational risks to the project do not diffuse them, and operating the project without impact to the City's finances outside of the lodging tax remains a relevant **Operational Risk.** Despite a clear exploration of operational risk, the City is at ultimate risk for repayment of the bond financing and operational shortfalls.

Financing Considerations

Overview – Bond Financing

The decision to issue debt and extend the City's credit is one of the most significant financial policy choices a local government can make. When used prudently, debt financing allows the City to accelerate the delivery of important public infrastructure, economic development projects, and community investments that might otherwise be delayed for many years. At the same time, every financing represents a commitment of future financial resources and, therefore, requires a careful balancing of project objectives against the broader obligation to protect the City's long-term fiscal health. In evaluating any debt issuance, the City must consider not only the anticipated benefits of the project being financed, but also the potential impact on financial flexibility, capacity, budgetary priorities, and overall credit quality. Maintaining this balance is essential to ensuring that the City can meet current needs while preserving its ability to respond to future opportunities and challenges.

An important consideration in evaluating this financing is that the primary revenue source identified for debt repayment, the 3% hotel and lodging tax, is restricted in its permitted use and is closely tied to the purpose of the Convention Center itself. Unlike general fund revenues, which may be allocated across a broad range of municipal services and priorities, these tax revenues are generally dedicated to tourism-related, convention-related, or economic development purposes as authorized by statute or local ordinance. As a result, the revenue stream is not available to support the City's broader governmental operations and cannot readily be redirected to address other municipal needs, by design. While this restriction creates a logical nexus between the beneficiaries of the Convention Center and the revenues intended to support its financing, it also concentrates repayment risk within a single economic sector. The City's ability to generate sufficient revenues for debt service, and mitigate any potential use of its general fund, is therefore dependent upon the continued strength of the lodging and tourism market and the Convention Center's ability to contribute to and sustain visitor activity over the long term.

Annual Appropriation Bonds (Taxable)

The issuance of Taxable Annual Appropriation Bonds to finance the Convention Center creates a unique financing risk for the City because the bonds are secured by the City's annual appropriation covenant in addition to the dedicated hotel and lodging tax. While the City's intent may be to utilize hotel and lodging tax revenues as the primary source of repayment, bondholders generally rely on the City's legal obligation to consider and appropriate funds annually for debt service. If hotel and lodging tax collections are insufficient to meet debt service requirements, the City may face significant pressure to appropriate funds from other legally available sources, potentially including resources that would otherwise support general governmental operations.

Hotel and lodging tax revenues are inherently sensitive to economic cycles, tourism activity, convention attendance, and broader travel trends. Revenue performance may also be affected by competition from neighboring destinations, changes in consumer travel behavior, public health events, or economic recessions. Because convention center projects are often justified based on projected increases in visitor activity, there is a risk that actual hotel tax growth may not materialize at the levels anticipated when the bonds are issued. In such circumstances, the City could experience a revenue shortfall relative to debt service requirements, increasing the likelihood that additional appropriations would be required to maintain timely bond payments.

The use of hotel and lodging tax revenues in lieu of general fund support does not fully insulate the City's credit from project performance risk. Rating agencies and investors may evaluate the City's willingness and capacity to appropriate funds even if the pledged revenue source underperforms. A sustained decline in hotel tax collections could create budgetary stress and place elected officials in the position of choosing between appropriating alternative revenues for debt service or risking a non-appropriation event. While annual appropriation bonds do not constitute a general obligation debt pledge, a failure to appropriate funds could adversely affect the City's credit rating, its reputation in the capital markets, increase future borrowing costs, and potentially limit access to credit for future capital projects.

Additionally, because the bonds are presumed taxable and supported by an annual appropriation structure rather than solely a traditional dedicated revenue pledge, investors may require higher interest rates to compensate for the perceived appropriation and revenue risks. The City therefore assumes both repayment risk and market access risk. To mitigate these concerns, the City may wish to evaluate the establishment of debt service reserve funds, additional coverage requirements, and conservative revenue projections before issuing the bonds. The following is a summary of outcomes on bonding based on indicated variables from applicants (all amounts are estimates and are subject to change):

	HVS Study (Control)	Brewhalla	Kilbourne Group
Par Amount of Bonds	$43.005 Million	$47.765 Million	$45.370 Million
Deposit to Project Fund	$40.279 Million	$44.812 Million	$42.516 Million
Deposit to Reserve	$2.003 Million	$2.178 Million	$2.104 Million[iii]
Costs of Issuance[i]	$723 Thousand	$775 Thousand	$749 Thousand
Interest Rate[ii]	5.95%	5.95%	5.95%
Term	25 Years	25 Years	25 Years
Debt Service Coverage	~1.15x	~1.13x	~1.14x

i) Includes underwriter's discount, bond counsel, advisor, rating agency, registrar/paying agent

ii) Based on current market conditions at the time of this report assuming an 'A2' rating for Taxable Annual Appropriation Bonds

iii) The applicant provides an assumption that available TIF can be used to fund this amount, further consideration is needed as to the political desire, financial capacity, and legal ability to do so. Any use of TIF for this portion will move a like-kind amount to be available for project costs.

HVS Study – Comparative Control

The HVS study and commensurate outcomes derived by BTMA should serve as the controlling scenario for evaluating both the Brewhalla and Kilbourne Group proposals, because they provide a neutral, market-based baseline for demand, operations, and financing capacity. Rather than relying on either respondent's pro forma as the starting point, the City can use the HVS Study to hold the core assumptions constant and compare each proposal based on measurable variances.

In addition to the assumptions provided within the "Summary of Analysis – Assumptions" section of this document, BTMA relied on the operating deficit assumptions provided within the HVS Study for a controlling baseline of variance in the operating subsidy requirements of the City with an assumed $552k subsidy requirement in Year 1 and approximately $350k at stabilization. This amount is used as a net reduction in available revenues for the repayment of bonds and ultimately dictates a portion of the capacity outcome provided.

The indicated outcome above should be treated as the base case for variance analysis. Any improvement or shortfall in the Brewhalla or Kilbourne Group proposal should be identified as either a proposal-specific benefit, a transfer of risk, or a project outcome concern.

Brewhalla – Financing Considerations

The Brewhalla bond capacity outcome is primarily driven by redirecting a share of lodging tax revenue to debt service (with their assumption further including elevated tax revenue expectations), project support by TIF funding, developer operating guarantees, and a lower assumed borrowing cost. While the proposal indicates higher potential bond capacity, several of the underlying assumptions differ from our controlled capacity analysis and introduce market and capital risk. Key risks from these assumptions include:

Key Drivers	Considerations
Higher lodging tax base:	While we control in our analysis using the HVS Study's revenue expectations, complemented by our own derivation via City data, Brewhalla assumes approximately \$3.83 million of annual lodging tax revenue, compared with the City assumption of approximately \$3.60 million at stabilization. This assumption may provide higher financing capacity, but exposes the project to **Capital Risk** and **Market Risk** as compared to the HVS Study.
Removal of operating and reserve earmarks:	Brewhalla eliminates the City's assumed \$350,000 operating loss earmark and \$250,000 reserve/capital earmark, allowing the full projected lodging tax amount to support debt service. Further assurance of performance is provided via a proposed guarantee, <u>removing</u> some elements of **Capital Risk** and **Operating Risk**, with some consideration of that risk remaining relative to the strength of the guarantee.
Interest rate assumption:	Brewhalla assumes a 5.00% interest rate, compared with the current prevailing market of approximately 5.95%, which increases estimated borrowing capacity. Notably, we view this 5.00% interest rate assumption as inconsistent for a bond of this kind in the current market and have controlled this assumption by applying our own independent interest rates based on prevailing market conditions. The project maintains exposure to **Capital Risk** as is the case in any event, but is heightened by the aggressive interest rate assumption provided by Brewhalla.
Bond capacity:	Brewhalla, when applying their own assumptions, estimates bond capacity of approximately **\$58.5 million**, compared with BTMA's current estimate of approximately **\$47.8 million**. If incorporating the added tax generation assumed by Brewhalla, we estimate an approximately \$2.2 million benefit to the project in bond capacity. Much of this capacity variance is driven by their assumptions on additional revenue and lower-than-market interest rates, subjecting the project to **Capital Risk**.
TIF as risk support:	The proposal assumes a new TIF District would fund capital reserves, future improvements, and potentially early operating support, replacing amounts otherwise reserved from lodging taxes. This is not incorporated in our bond capacity review, but is considered for purposes of the overall review context. **See identified risks above.**

Key Drivers	Considerations
Project cost fit:	The proposed budget is sized at $58.5 million, including construction, soft costs, FF&E, operational startup costs, and contingency. This amount is in excess of available indicated debt capacity. This exposes the project to greater **Capital Risk**, not independent of the risks identified in the interest rate discussion and the bond capacity discussion.

Kilbourne Group – Financing Considerations

The Kilbourne Group bond capacity outcome is primarily driven by the lodging tax revenue forecast, assumed operating deficit support, reserve funding structure, and the proposed use of existing TIF resources for certain project costs. Overall, the proposal is generally aligned with the HVS baseline revenue framework, but several assumptions require further vetting, because they affect the timing, availability, and sufficiency of funds available to support both project delivery and ongoing operations and introduce operating risk substantively as well as capital risk. Key assumptions include:

Key Drivers	Considerations
Lodging tax revenue:	Kilbourne Group generally assumes the same tax revenue as provided in the HVS Study. Inherently, this contains **Market Risk**, but is not elevated relative to the controlling HVS Study.
Bond capacity:	Kilbourne Group's proposal contemplates a bonding need of approximately $41 million. This amount is generally consistent with available capacity projections, but relies on the presumption that other funds will be made available to fund reserves and costs of certain items of the project. **Capital Risk** exists within this assumption, but is viewed as consistent within the HVS Study baseline and is supported in our capacity analysis resulting in approximately $45.8 million.
Interest rate assumption:	Kilbourne Group's analysis assumes a 5.50% interest rate, which was generally consistent with the assumptions used at the time of the initial bond capacity analysis. For purposes of our capacity review, we do not rely on that static assumption; instead, we control for interest rates by applying our own current market-based assumptions to reflect prevailing financing conditions and capacity. The project maintains exposure to **Capital Risk** as is the case in any event.
Reserve fund:	A proposed $2 million City Convention Center Reserve Fund is intended to manage lodging tax underperformance, operating shortfalls, or capital needs without relying on the General Fund. Kilbourne Group proposes the use of the existing TIF District in support of this funding, but City projections do not support TIF revenue as being sufficient to make those funds immediately available. The assumption requires further vetting and exposes the project to **Policy Risk** and **Legal Risk**.

Key Drivers	Considerations
Operating subsidy:	The plan assumes operating support can be funded within the lodging tax framework, with projected subsidy declining from roughly $470,000 in Year 1 to about $149,000 in Year 5. The project is exposed to **Operating Risk** as a result of this condition.
TIF District Project Contribution:	Kilbourne Group proposes that the existing Riverfront TIF would be available to fund (approx. $2MM) certain eligible site development and adaptive reuse costs, including partial demolition, mechanical system upgrades, and site infrastructure improvements, thereby reducing the amount of bond proceeds needed for those project components, but exposes the project to **Policy Risk** and **Capital Risk**.

Conclusion – Financing Considerations

Regardless of the financing structure ultimately selected, the feasibility and affordability of the Convention Center financing will be heavily influenced by both the historical performance and future growth prospects of hotel and lodging tax revenues, as well as prevailing conditions in the municipal bond market. Historical tax collections provide an important benchmark for evaluating the stability/volatility, and resilience of the revenue stream through varying economic cycles, while future projections necessarily rely on assumptions regarding hotel occupancy, room rates, and broader economic conditions. At the same time, borrowing costs are subject to external market forces that are largely beyond the City's control, including changes in interest rates, investor demand for municipal securities, credit spreads, inflation expectations, and overall capital market conditions. Variations in either revenue performance or financing costs can materially affect debt capacity, annual debt service requirements, coverage levels, and the long-term financial viability of the project. Accordingly, any evaluation of financing should consider a range of revenue and interest rate scenarios to assess the resilience of the proposed structure under both expected and stressed conditions.

Conclusion

Conclusion – All Scenarios

Both applicants propose projects that meet the City's desired outcomes. While direct comparison of the qualitative elements of each proposal is not in the scope of this analysis, it is worth considering the community benefits of each proposal alongside the financial impact. Each proposal has strengths, weaknesses, and challenges that are emergent properties of the operational strategy, scope, and financing structure.

Conclusion - Considerations for final terms and Next Steps

Both proposals have elements of risk to the City, which is a feature of the convention center project that is both expected and unavoidable. **Capital** and **Operational Risk** are among the most salient, as the project is expected to be supported by the newly adopted 3% lodging tax. That tax is committed to the repayment of debt and subsidy of operations for the facility. Inherent in the greater risk profile is a combination of **Market**, **Contract** and **Political Risk**. Following the selection of the winning proposal each of the scenarios necessitates further due diligence and negotiation of contract terms that enshrine the commitments and protections of both the City and Developer – and in some cases of the School District and County Stakeholders.

- Context: both proposals were found to have met the criteria for consideration in alignment with the City's goals for the convention center. Broadly, projects of this kind have challenges consistent with the risk categories discussed in this analysis in most US markets.
- Non-financial factors: The proposals presented by the applicants are difficult to directly compare both financially and conceptually. Each one presents differing locations, service delivery models, and non-pecuniary impacts to the community. This analysis is limited to the financial impacts and risks of each project, and as both projects present risk profiles consistent with market expectations, non-financial factors carry considerable weight in the final decision.
- Community development / goals / non-financial outcomes: BTMA cannot replace the discernment of staff, stakeholders, and policymakers by making a holistic recommendation based on all factors. The needs of the community extend beyond bottom-line considerations. Both projects appear to be financially tenable despite the unique risk profile and challenges for each. It is incumbent upon city stakeholders and decision makers to weigh the risks against both financial and non-financial benefits of each project.

Conclusion – Scope (what this report is *not*)_

The conclusions of this report do not replace or supersede any complementary analysis completed to date. BTMA makes full disclosure that the information presented herein represents the greatest amount of insight available in the timeframe allowed. This report does not represent any of the following.

- Market Study: the HVS study evaluated the market for this project, and BTMA's analysis adopts the assumptions used by HVS.
- RFP Review: Baker Tilly Capital Advisors evaluated each of the four proposals and provided valuable insight on each. This analysis does not replace or supersede those conclusions.
- Basis of need ("But for"): The project is presumed to need public assistance, and the level of public assistance necessary is a topic of further due diligence that the City may undertake following selection of a proposal.
- Cost-Benefit Analysis: this study does not explore a counterfactual scenario without the project; this is a topic of further due diligence that the City may undertake following selection of a proposal.

Sincerely,

BAKER TILLY MUNICIPAL ADVISORS, LLC

Appendix A: Definition of Terms

Exploration of Project Risk:

1. Market Risk
Definition: The risk that market conditions change in a way that reduces demand or pricing.
Examples:

- Decline in property values or rental rates
- Oversupply of competing developments
- Economic downturn reducing buyer or tenant demand

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2. Financial / Capital Risk
Definition: Risks related to financing and capital structure.
Examples:

- Interest rate increases raising borrowing costs
- Inability to secure financing or refinancing
- Changes in loan terms or lender requirements
- Cash flow shortages during development

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3. Construction / Development Risk
Definition: Risks tied to the physical development process.
Examples:

- Cost overruns due to labor or material price increases
- Delays from weather, contractor issues, or supply chain problems
- Design errors or construction defects
- Contractor default

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4. Entitlement & Regulatory Risk
Definition: Risks associated with obtaining approvals and complying with laws.
Examples:

- Zoning changes or denial of permits
- Lengthy approval processes
- Environmental regulations or restrictions
- Community opposition ("NIMBY" risk)

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5. Leasing / Sales Risk (Absorption Risk)
Definition: The risk that units do not lease or sell as quickly as expected.
Examples:

- Slower-than-expected absorption rates
- Higher vacancy levels

- Need to lower rents or prices to attract tenants/buyers

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6. Operational Risk
Definition: Risks that arise after project completion during ongoing operations.
Examples:

- Higher-than-expected maintenance or operating costs
- Poor property management performance
- Tenant default or turnover issues

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7. Environmental Risk
Definition: Risks related to environmental conditions and liabilities.
Examples:

- Soil contamination or hazardous materials
- Flood risk or natural disasters
- Sustainability compliance requirements

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8. Legal Risk
Definition: Risks stemming from contracts, disputes, or legal compliance.
Examples:

- Construction disputes or lawsuits
- Title defects or ownership issues
- Contract enforcement problems

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9. Political / Policy Risk
Definition: Risks from government actions or policy changes.
Examples:

- Changes in tax policy (property tax, incentives)
- Rent control or zoning reforms
- Infrastructure or public investment decisions

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10. Exit / Liquidity Risk
Definition: Risk that the developer cannot sell or refinance the asset as planned.
Examples:

- Lack of buyers or investors at expected valuations
- Capital market tightening
- Reduced investor appetite for certain asset types

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11. Force Majeure / External Risks
Definition: Unpredictable, external shocks.
Examples:

- Natural disasters
- Pandemics
- Geopolitical events