

**Analysis of Constructive Re-Use of J. O Sundstrom Building
For a Conference and Meeting Facility
Lindsborg, Kansas**

**Prepared by JIM HEINICKE, LLC
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**Jim Heinicke, LLC
Pathways to Realistic Solutions**

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The City of Lindsborg wishes to determine the feasibility of rehabilitating the J. O. Sundstrom building into a conference facility. This building is located at 104 Main Street in the heart of downtown Lindsborg. Such a facility could be used to meet the needs of both the local community and statewide and regional groups. Local citizens could benefit by having space available for such uses as wedding receptions, family reunions and similar functions. Statewide and regional groups could take advantage of the Sundstrom building for organizational meetings, conferences, training sessions, and corporate retreats. This activity would attract visitors to Lindsborg with the consequent positive impact on tourism.

The City of Lindsborg acquired the Sundstrom Building in 2003, with hopes to attract redevelopment interest from the private sector. While it is an appealing historic structure, perhaps its 15,000 square foot size and substantial renovation costs have been a major limiting factor in attracting private capital. Despite being offered up to private sector development for several years, the building has not drawn any serious development proposals. Therefore, the City wishes to determine if it is reasonable to make constructive re-use of the building as a meeting or conference facility.

This requires analysis of the marketability of a conference center, evaluation of alternative methods of financing the rehabilitation of the structure, and analysis of the costs and revenue potentials of such an operation in that location.

THE J. O. SUNDSTROM BUILDING

The Sundstrom Building occupies a strategic location in downtown Lindsborg at the northeast corner of Main and Lincoln, arguably the city's primary intersection. The building is a two-story structure that has been divided into several storefronts in the past. The second floor was apartments and a retail establishment once occupied the basement. The Sundstrom Building has been placed on the State Register of Historic Places.

As a corner building, there is significant potential retail/commercial frontage available. This location also enhances the visibility of the structure and emphasizes its importance to the downtown area. This site has as much potential as any in downtown Lindsborg. The current vacant status does not positively impact the downtown community.

THE MARKET AREA

An analysis of the market for a conference center is dependent upon the supply of competitive meeting rooms in a reasonable driving radius and the demand for meetings and other events that could utilize such space. Of course, the layout of the building itself will impact capacity and provide both opportunities and limitations.

Demography and Economic Trends

Lindsborg is located just off Interstate 135 approximately midway between the regional centers of Salina and McPherson. Downtowns of both cities are approximately 20 miles and 30 minutes from Lindsborg along Interstate-135. For practical purposes, Lindsborg competes with both McPherson and Salina for meetings and conferences. Therefore, the market area for this analysis is McPherson and Saline Counties. For overnight stays, it is doubtful that travelers would stay more than one county away from Lindsborg.

Demand for conference facilities would logically grow with increases in population growth and economic activity. There are several measures to evaluate whether the market area is growing. Population itself, total employment, and number of businesses are all indicators. The table below presents historic trends in these indicators. The appendix includes annual figures for each indicator.

DEMOGRAPHIC AND ECONOMIC TRENDS SINCE 2000

	Population		Employment		Business Establishments	
	<u>2000</u>	<u>2008</u>	<u>2000</u>	<u>2008</u>	<u>2006</u>	<u>2006</u>
	Lindsborg	3,321	3,245			
Market Area	83,151	83,701	45,225	46,101	2,639	2,646

Population of Lindsborg was 3,245 in 2008, and has hovered consistently around this figure for several years. At last estimate in 2008, the McPherson/Saline two-county area was home to 83,701 people. Growth of the two-county could best be described as stable with slow growth since 2000. The combined market area population has grown by 550 people since 2000. This represents an increase of 0.7% over the eight-year period. During this same eight-year period, the State of Kansas grew 4.2%, significantly more than the market area. The area is growing, but less rapidly than Kansas in general.

Employment data since 2000 also shows stability. In the two-county area increased from 45,225 to 46,101 in 2008. This is an increase of 0.9% over a seven-year period. Employment has been growing faster than population, although recent upheavals in the economy may alter this trend in the short term.

The number of businesses in the area has also increased. There is a lag time in publication of this data, but recent trends show modest growth from 2000 through 2006. The number of business establishments in the market area grew from 2,639 to 2,646, an

increase of 0.3% during the period. Many of these businesses would be candidates for meetings, conferences, or retreats at the conference center.

All three trends indicate a slow, steady growth. Therefore, demand for meetings should likely also grow in a similar manner. Since a conference center would draw from various statewide organizations, stronger growth within the State would be a positive factor in the ability to obtain state and regional meetings.

General Appeal of the Area to Visitors

Meeting planners are free to choose locations for their meetings. One criterion by which planners identify certain targets for meetings is the attractiveness of the geographic location. They attempt to locate meetings where there are attractions of interest to their groups. Examples are identifiable tourist attractions, heritage tourism sites, dining options, architectural appearance, and many other factors too numerous to mention.

While these factors are widely varied, there is one statistical indicator which cuts across all the categories to provide a measure of tourism concentration in a particular area. Location quotients are indicators that illustrate the degree to which a particular industry is concentrated in one location in comparison to all others. In particular, there are location quotients for each Kansas county. These indicators are presented in a report entitled "Travel and Tourism Across Kansas". Using location quotients, Saline County ranks 19th of 105 Kansas counties, while McPherson ranks 28th. Consequently, these two areas have a tourism industry concentration to suggest a competitive advantage over the majority of Kansas counties. While the study does not delve into any specific reasons one community is more focused on tourism than another, it is a logical conclusion that there are factors which draw people to the market area. This is a positive contributor to the ability to market a conference facility and draw people to Lindsborg.

Lindsborg Meeting Facilities

Meetings, receptions and other gatherings in Lindsborg occur in several locations. First, it should be noted that the facilities of Bethany College were excluded from this analysis since they are primarily dedicated to college uses. While these facilities might be utilized occasionally, most of the year they are busy with education-related uses.

Locations for meetings in Lindsborg aside from Bethany College derive from bed and breakfast dining rooms with limited capacity, churches and public schools.

Swedish Country Inn Dining Room: This area can seat 20-30 people. It is part of the bed and breakfast operation, so it is not available during certain hours.

Seasons of the Fox Bed and Breakfast: This lodging facility has a small dining area, which could be used for small meetings of less than 20 persons.

Rosberg Bed and Breakfast: There is a meeting facility adjacent to Rosburg Bed and Breakfast that is listed as available for weddings, receptions, small business meetings, family gatherings, and other special occasions. However, that facility is not currently operational, and there is a realty “For Rent” sign in front of the building.

Vala Hala: A single, square-shaped room in a 3200 square foot metal building, this facility caters to reunions, receptions, auctions and dinners. There is a catering kitchen. Large groups are directed to rent tables, chairs and equipment elsewhere. There are no partitions or breakout rooms required by most conferences. Vala Hala operators indicate they have accommodated groups of up to 210 persons.

No doubt, various churches and school meetings rooms could be used as small meeting venues. However, both churches and schools have primary uses that will have priority over the receptions, meetings, and training sessions to be expected in a conference facility.

A typical conference would require one large space for the group as a whole to convene, plus breakout rooms, and facilities to enable a luncheon. There is no meeting facility in Lindsborg, outside Bethany College, which could accommodate even a small conference of 30 people in one location.

As a practical matter, an individual who desires to find a location for an event could choose to conduct a Google Search on the Internet. Such a search generates no available listings within Lindsborg for the following categories: meeting rooms, training facilities, wedding reception facilities, reception space, conference rooms, and conference facilities. Clearly, Lindsborg has no presence on the Internet for meetings and conferences.

Competing Facilities in the Market Area

The nearest facilities to Lindsborg for general meeting and conference space are Salina and McPherson. There are a substantial number of meeting places in both communities. Documents presenting an inventory of rooms from the McPherson Convention and Visitors Bureau indicate 35 meeting rooms available in that community, while the Salina Area Chamber of Commerce shows 48. Combined, that is a total of 83 rooms in those two markets.

The table below shows the distribution of meeting room size among those facilities. While there are only five facilities limited to groups up to 24 people, in reality the very small groups can meet in any number of places that do not appear in the inventory.

COMPETING FACILITIES IN MARKET AREA, 2010

Meeting Room Capacity	<u>McPherson</u>	<u>Salina</u>	<u>Market Area</u>	Percent <u>Total</u>
0-24	0	5	5	6.02%
25-49	4	3	7	8.43%
50-74	7	7	14	16.87%
75-99	2	5	7	8.43%
100-124	3	3	6	7.23%
125-149	0	3	3	3.61%
150 or more	<u>19</u>	<u>22</u>	<u>41</u>	<u>49.40%</u>
Total Meeting Rooms	35	48	83	100.00%

It should be noted that nearly half those meeting facilities are sized to accommodate groups of 150 or more people, and 60.2% of those facilities are sized to accommodate groups of 100 or more. There is significant competition for the larger groups. To attract large conferences of 100 or more, it appears that Lindsborg would have to differentiate its meeting space from the competition, perhaps by way of companion attractions in the community, availability of technology in meetings spaces, aesthetic appeal of the building, or other creative techniques.

DEMAND FOR EVENT SPACE

Demand for meeting space can be considered in two categories. First is meeting the local need for such events as wedding receptions, family reunions, class reunions, and other such activities. Small groups of less than 25 people could be accommodated in existing venues; however, there is no opportunity for larger groups. Such events must go to Salina, McPherson, or some other area. In that case, the economic benefits accrue to another community instead of Lindsborg. The second demand is from state and regional organizations.

State and Regional Demand

No data resource tracks meetings and conferences statewide. The City of Lindsborg has some limited data on local meetings and events. However, it is necessary to conduct primary research to obtain information on needs for facilities. In order to gain insights to the potential interest of state and regional groups to meet at a municipal conference facility in Lindsborg, an independent survey was conducted in November and December 2009. The survey sought to determine from respondents a variety of parameters, such as number of meetings, attendance, facility needs, lodging requirements, and amenities. In addition, respondents were asked to identify factors perceived as barriers to meeting in Lindsborg. The survey focused primarily on statewide associations and public agencies.

Due to budget constraints, the survey distribution was limited to 160 organizations. A strong response rate of 13.8% brought in 22 responses. Respondents conducted a total of 407 meetings annually. The number of meetings per organization ranged from just one to 90 meetings. Attendance ranged from 4 to 1,000 people. Total attendance over the course of a year from this sample ranges from 741 to 3,564 people. Number of days the meetings spanned ranged from one day to 4 days, with an average range of 1.25 to 2.05 days.

Number of meeting rooms required per conference ranged from one to 27 rooms. Sixty percent of the sample required the use of only one meeting room. Only five respondents indicated available space needs for fewer than 25 people.

Almost three-fourths of the respondents indicated a need for either kitchen facilities or catering. Thus, a conference facility would be required to meet this need in order to attract most meetings. Corollary to this, the facility would need to have enough space to process and feed attendees. Therefore, in addition to the meeting place, it will be necessary to have some type of food preparation area and limited kitchen facilities. In addition, if groups did not eat in breakout rooms, a dedicated dining area is required to accommodate a full group. This requires the facility to have both a large dining/assembly area plus enough space for breakout rooms.

It is important to note that only 4 respondents indicated a need for large exhibit space. Therefore, inclusion of large, open exhibition areas would appear to be unnecessary. The most common meeting room amenities requested by respondents were data projector/screen and audio amplification. However, one method of differentiating a meeting space is to incorporate the latest technology innovations into a “smart” meeting room.

Respondents were also asked about hotel or motel needs. Of particular interest, 40.9% of respondents indicated they preferred that a conference be wholly accommodated within a single lodging facility. Such preferences would mitigate against a decision to hold a conference in downtown Lindsborg; however, there is a bed and breakfast just a half block down the street. If the conference center worked in conjunction with the bed and breakfast, it might be able to present a self-contained image to meeting planners.

Lindsborg currently has an inventory of 80 rooms according to City tourism officials. Half of the sample indicated a need for 74 rooms or less. Almost two-thirds would utilize less than 100 rooms. No doubt some attendees at a statewide or regional conference will reside within commuting distance for most organizations. In addition, there are many spillover rooms in McPherson or Salina, although these may be 20-30 minutes away from downtown Lindsborg. A conference of over 100 is certainly not impossible, but as a rule it would be more difficult with Lindsborg’s lodging limitations.

OVERNIGHT LODGING IN LINDSBORG

<u>Lodging Facility</u>	<u>Rooms</u>
Coronado Motel	28
Rosberg Bed and Breakfast	5
Seasons of the Fox B&B	4
Swedish Country Inn	19
Viking Motel	<u>24</u>
Total Rooms	80

Respondents were asked a related question about how far they would expect to travel to their motel room. Only 9% indicated that it was necessary to have the lodging and meeting rooms at one site, but half of the sample did not respond to the question. It is therefore assumed that the 40.9% who prefer the single lodging/meeting site did not indicate how far away they would expect lodging. A conservative approach would be to assume that the 40.9% figure is accurate. Distance from downtown Lindsborg to motel facilities for the remainder of the sample is well within acceptable limits.

Perceived Barriers to Meeting in Lindsborg

Survey respondents were asked to identify perceived barriers to holding meetings or conferences in Lindsborg. The survey provided a list of seven potential barriers with space to write-in other responses. Potential concerns listed were available motel rooms, meeting room capacity, available entertainment, geographic location, exhibition space, dining options, and ground transportation. Only five respondents identified any barriers whatsoever. Three identified lack of meeting room capacity, while no other concern received more than two responses. Those identifying lack of meeting room capacity were those that hosted very large meetings of 100-1,000 people.

Perhaps the most positive of all responses was that almost all of the respondents (86.4%) indicated that they would consider Lindsborg as a meeting location.

While this is a small sample focused on statewide associations and public agencies, a total of 407 meetings from a limited sample of 22 respondents suggests significant potential for hosting meetings. The limiting factors will be available lodging and ability to actively market the center to public and private groups.

Current Meetings and Conferences Hosted in Lindsborg

Even with the limitations of motel rooms and meeting space, Lindsborg hosts a significant number of events that could utilize a municipal conference center. Again, this excludes events and facilities connected with Bethany College.

According to Lindsborg tourism officials, there have been 46 such events from July through December 2009. Data has only been collected over this seven-month period. This projects to an annualized total of 79 meetings per year. While these are all small groups, it does indicate that Lindsborg has been an attractive event location. Capacity to handle more, larger groups would enhance the number of prospective meetings in the community.

The Lindsborg meetings were divided into two categories: Local events and State/Regional meetings. Of the meeting hosted in Lindsborg, 54.3% were wedding receptions, family reunions, and similar events of local interest. The other 45.7% were meetings of state or regional organizations. These were almost entirely small meetings of less than 25 attendees.

Target Market Segments

Analysis of the demographic trends, survey results, inventory of facilities, and history of hosting meetings in Lindsborg yields four market segments upon which the City should focus its efforts. By focusing on specific target groups, the City can tailor its marketing and promotional efforts on those groups where success is most likely. Namely, these are:

- Small group functions with fewer than 25 people.
- Large local group functions for 25 or more people.
- Conferences focused on groups of 25 to 100 persons.
- Large state and regional day meetings for groups of 25 or more.

Demand for Small Group Functions with Fewer than 25 People

As noted above, Lindsborg has a track record of hosting small group meetings. Annual projection for these small events is that Lindsborg hosts 43 local and 36 small state or regional meetings each year without any conference facilities. With a conference center it is likely that the demands would increase. However, if the demand was constant and the new conference center captured half of these meetings, the demand for the conference center would be 40 meetings or events per year from this market segment.

Demand for Large Local Functions of 25 or More People

Providing facilities for larger local group events will enable the City to capture such events within the new conference center. There is no data regarding such events, but assuming large group local usage constitutes another 25% beyond local small group demand (43 uses currently), usage of the conference center by the large local event component would yield 11 uses per year from this market segment.

Demand for State and Regional Conferences of 25-99 People

Survey results and historical demand data for Lindsborg allow a projection of uses from this market segment. Demand for state and regional meetings of less than 25 people within the survey sample represented 16.7% of total meeting room needs. Currently, this translates to 36 meetings per year hosted by Lindsborg. Meeting room needs for 25-99 people represented 40.0% of total sample. Thus, by extension the expected demand for state and regional meetings in the 25-99 market segment would be 86 meetings per year.

The primary limitation for conference facility utilization in Lindsborg would appear to be the number of motel rooms. With only 80 local rooms and a sample which indicates that 40.9% of the organizations surveyed prefer a single meeting/lodging site, it would appear that Lindsborg should focus on conferences of 100 or less. In the survey sample, half the respondents needed more than 74 rooms. However, there are many options for them in the market area. There are 57 optional sites in Salina and McPherson for conferences requiring more than 74 rooms. It could be difficult to compete for these larger conferences with the limited motel rooms and less accessible geographic location.

Even if it were assumed that 40.9% of the conferences would not come to Lindsborg because the conference center is not co-located with a lodging facility, there would still be a demand for 51 uses in this category. This provides a reasonable range from which to project usage. It should be noted that there are lodging facilities within easy walking distance, less distance than is involved in many large conference facility parking lots. Therefore, the City has an opportunity to overcome this objection.

Demand for State and Regional Day Meetings for Groups of 100 or More People

There is no reason to expect that Lindsborg could not attract day meetings of groups larger than 100 people since those meetings are not fully dependent upon overnight rooms. A facility to accommodate large wedding receptions or day meetings is a definite possibility to consider. Such events would generate many more uses than a facility limited to 100 attendees. Limitations on the size of day meetings would depend upon the practicalities of the actual building layout. In order to provide a conservative projection, use of the facility for such purposes is estimated at one per quarter, or four per year.

Summary of Demand by Market Segment

In summary, these four market segments would generate 106-141 uses per year as shown below.

<u>Type of Event</u>	<u>Expected Demand</u>	
	Low Projection	High Projection
Market share of small local events	40	40
Large local events	11	11
Conferences	51	86
State/regional day meetings	<u>4</u>	<u>4</u>
Total uses of facility	106	141

Non-Market Factors in Utilization

Eventual usage will depend heavily upon non-market factors as well:

- Relative attractiveness of Lindsborg community to visitors.
- Maintaining quality-dining options within the City.
- Positioning Lindsborg within the market place by differentiating the Lindsborg experience relative to the competition.
- Quality and magnitude of marketing and booking efforts.

Meetings are often planned well ahead of the actual event. There is also a ramp up period for any new operation. Therefore, it is anticipated that there will be a period of time for meeting planners to “discover” Lindsborg. The 106 to 141 uses should be considered a target for a mature marketing program. Financial projections will assume a gradual growth towards this level of utilization.

POTENTIAL SUPPLEMENTAL USES OF THE SUNDSTROM BUILDING

The Sundstrom Building has 15,000 square feet of space available. However, this is far beyond the amount of space necessary to accommodate the meetings expected in Lindsborg, given the constraints identified above. However, there is nothing to preclude the possibility of a mixed use building which houses meeting space and other uses such as retail or office. If the full 15,000 square foot facility were converted to meeting space, much of it would sit idly much of the time.

While there was little interest in private acquisition and renovation of the entire Sundstrom Building for commercial purposes, it may be that there would interest in smaller, defined spaces adjacent to a conference center.

This building could be creatively divided into multiple independent spaces. Division of ownership is a key issue in taxation and organization, so the City is advised to consult a qualified tax attorney to assure it pursues the most advantageous ownership model. Removing the City from ownership of these private sector spaces would reduce concerns about the City competing with other downtown landlords and clarify property tax issues.

In a scenario with smaller spaces available for retail or office use, private interests would have less up-front investment to acquire, renovate and finish the smaller spaces within the Sundstrom Building. Lower operating costs, especially for utilities, would also be expected. Combined, these advantages make that space much more appealing to either an operator or investor than acquiring the entire 15,000 square foot facility. In addition, being located adjacent to a new conference center could be a substantial benefit for certain businesses.

From the City's current perspective as owner of the building, it should be noted that certain structural improvements are required to the building for any potential uses. By limiting the conference facility space, however, a portion of these structural costs might be passed along through a sale or lease of the remaining space. Further, internal renovation expenses for the smaller project would be reduced. Finished space costs of the private portion of the building would be passed on to future owners or renters of the property.

Further, there would be a positive economic impact beyond the City's fiscal savings. At least a portion of the space used by for-profit enterprises would be back on the property tax rolls. Retail space would contribute to local sales taxes as well. Any shops or offices would also represent local employment opportunities and payroll to be spent within the community.

CAPITAL COSTS OF A CONFERENCE FACILITY

The City of Lindsborg has provided estimated costs for renovation of the Sundstrom Building. This would include the costs of the structural renovation itself and related costs for architectural/engineering services, financing/legal fees, and equipment and furnishings. These estimates are used only for purposes of analyzing generalized costs of construction and renovation. Once a basic direction for use of the building is decided, it will be necessary to develop formal architectural plans and detailed construction costs.

Costs for finished space in the conference center is based upon an assumption that only the 9,000 square foot street level floor would be renovated. Approximately 4,640 square feet on the first floor would be converted to conference center space. For retail/office, preliminary layouts call three first floor retail/office spaces totaling 2300 square feet. A Tourist Information office could be incorporated into the first floor as well. This would enable a tourism director to be on site for sales and showing the facility as well as to manage events at the center. Total of all first floor space including common areas is

9,000 square feet. Second floor and basement space would remain unfinished at this point in time.

Equipment and furniture would include reception area furniture, tables, chairs, screens, and related items required for meeting spaces. Equipment would include an allowance for technology items demanded by conference planners, such as data projectors, sound system, Internet access, and related items. As technology becomes more prevalent, it will be necessary to offer amenities to meet expectations of meeting planners.

Uses of Funds

The City of Lindsborg provided the following estimate for total project costs for the renovation.

Building Renovation	\$ 1,125,000
Architectural/Engineering Services	112,500
Estimating Contingency @ 5%	56,250
Equipment and Furnishings	80,000
Financing/Legal Fees	<u>26,250</u>
Total Project Cost	\$ 1,400,000

FINANCING CAPITAL IMPROVEMENTS

Costs to the City of Lindsborg to create a conference center in the Sundstrom Building are substantial. There is not adequate cash on hand for such a venture. Consequently, the City would likely finance the asset through indebtedness over a period of 15-20 years. As a result, it will be necessary to identify a substantial revenue source to pay annual principal and interest payments to retire the debt.

The total project cost of \$1.4 million would require a substantial debt service payment. Therefore, it is desirable to reduce the total project cost as much as possible through external sources, thus reducing the burden of annual payments. This could be accomplished through dedicated sources such as grants and tax credits. Once external sources are identified, the City will still have to fund the bulk of the improvement costs through its general purpose indebtedness.

Sources of Capital Funding

There are two sources of funds to defray capital costs of the project. Any acquisition of funds to offset the total cost will reduce the City's burden of financing the project.

Grants: It may be possible to find foundation grants or utilize historic tax credits to some extent. Most foundation grants are limited to non-governmental efforts and can be unpredictable, so an adjustment in the ownership status of the conference center would

have to be considered if that avenue is pursued. On the other hand, this project would appear to be an excellent candidate for the Heritage Trust Fund program. Maximum grants from that program are \$90,000.

Tax Credits: State tax credits in Kansas are in flux at this time. Total tax credits have been capped statewide. However, there are currently hearings in place to consider reinstating the previous state tax credit law. While the results of this debate will need to be monitored by the City, there does remain the possibility of receiving a tax credit in the amount of 25% of eligible rehabilitation expenses. This is a very important source of revenue. If eligible renovation expenditures of \$1.2 million were incurred, there would be \$300,000 (25%) in tax credits potentially available. Although the City is not a taxable organization, these tax credits can be sold on the open market. There is usually a five to ten percent discount on the sale of tax credits. Therefore, the actual tax credit could account for as much as \$270,000 towards the project cost. The City should monitor this legislation.

Federal tax credits are available only to for-profit and certain public/private partnerships. Again, this is a technical legal topic that will require the City to consult with a qualified tax attorney.

Sale of Commercial Portions of the Sundstrom Building: If the building can be divided for ownership purposes, it is possible that the City could sell off commercial spaces within the building. Proceeds from the sale could be applied against the initial cost of the project. Another option would be to lease these spaces for retail or office uses. If leased monthly, then the revenues would accrue to operation of the facility instead of reduction of up front costs. For purposes of this analysis, it is assumed that monthly leases will be utilized.

If the spaces were rented to for-profit enterprises, discussions with local realtors suggest a rate of \$0.50 per square foot per month, or \$6.00 per year. In annual terms, a rent payment of approximately \$12,000 could be returned to the City through building space rental.

City Indebtedness: If the City can acquire Heritage Trust Fund grant of \$90,000 and \$270,000 in tax credits and, then the project costs could be reduced by \$360,000 from outside sources. In this scenario, the original \$1.4 million project cost would be reduced to \$1,040,000. The City would need to debt finance this expenditure.

The level of debt service will depend upon the type of financing sought. If the City pursues private sector businesses to fill commercial space in the building, then taxable municipal bonds would likely be the source of financing. If there is no private component, the City could issue tax-exempt bonds. Interest rate expected for the taxable bond would be in the range of 6.5%, while tax-exempt bonds would be in the 4.5% range.

An average annual debt service for this financing would be approximately:

	<u>Taxable Financing</u>	<u>Tax Exempt Financing</u>	<u>Savings</u>
Interest Rate	6.5%	4.5%	
Annual Payment	\$94,400	\$80,000	\$14,400

At first glance, the annual \$14,400 savings by using tax exempt financing would more than offset the \$12,000 rental income. Further, a property tax burden of \$4,300 would be incurred for the private uses. On the other hand, the community would benefit from the economic impacts of retail sales, new jobs, and general economic activity from those businesses occupying the building. Since property taxes on a public/private use building can be complicated, it is recommended that the City obtain a legal interpretation of how property taxes are applied before any final decisions are made. The Council faces an important policy decision whether to include a private sector component to this project.

Sources of Revenue to Pay Annual Debt Service

The City issues debt, then must make annual payments to retire that debt. The next question is what revenue stream the City will utilize to make these debt service payments. Most municipal revenue sources are either dedicated to specific purposes or too small to be of great value in debt retirement. For example, the City receives significant revenue from state gas taxes, but these must be used for street related expenses. Water and sewer revenues are supposed to be used to finance the operation and maintenance of those utilities. There are a few options open to the City.

Rental Income from Commercial Space: As indicated above, there is opportunity to lease approximately 2300 square feet. At \$6.00 per foot and 90% occupancy, this would generate about \$12,000 per year. While this will assist in making payments, it is only about thirteen percent of the needed \$94,400.

Transient Guest Tax: Hosting large meetings and conferences in Lindsborg should generate additional room nights at local lodging facilities. In turn, these additional room nights should increase revenues from the Transient Guest Tax. Revenue from this source was only \$17,632 in 2009. Therefore, an increase of 10% would provide about \$1,760 per year. These incremental increases will not substantially contribute to ability to pay debt service. Nevertheless, the City Council could consider the impact of an increase in the tax, either to assist in debt retirement or to generate higher operating revenue by promoting the facility.

Operations from Conference Center: Most conference centers outside large metropolitan areas are a breakeven proposition at best. It is not expected that the City will be able to depend on any regular cashflow from operation of the facility to assist with debt service payments. Cashflow from the conference center will be used to defray expenses of building maintenance, utilities, insurance and other costs associated with operation of the

facility. The advantage that accrues to the community is the influx of outside funds into the community associated with tourism and visitors.

If the facility is to be constructed without severely impacting other operations of the City, then another primary source of revenue must be identified. Local government has only two discretionary revenue options available that would generate sufficient funds to pay annual debt service for such a facility: property tax and local sales tax.

Property Tax: The expected debt service payment of \$94,400 would be the equivalent of about 4.6 mills at the current valuation of approximately \$20,273,265 of the City. Since the current levy is 37.5 mills, it is unlikely that this alternative would be acceptable to elected officials and citizens. The 4.6 mills would represent an increase of 12.4% over the current levy, unless other services are reduced proportionately. This represents a substantial tax increase upon the taxable property within Lindsborg.

Property tax revenues derive solely from property within the city, so property owners would carry the full burden of support. Further, a substantial amount of property value in Lindsborg is exempt from property tax. Therefore, the remaining property owners carry the extra burden of retiring the conference facility debt if property tax is used to pay the debt service.

Further, City staff has expressed concern about the long-term stability of the property tax and increasing reliance on property tax in the current economic environment. Adding a conference center dependent upon additional property tax streams would create a difficult circumstance.

Reinstatement of Sales Tax: The current one-half cent City sales tax is expiring in July. If reinstated, a portion of this sales tax could be dedicated to pay for capital costs. In that case, there would be no need to tap other current revenues to pay for renovations to the Sundstrom Building. City operations could continue in a manner desired by the City Council. The sales tax will require an election. Annual revenue from the one-half cent sales tax has grown to about \$150,000 per year.

Sales tax would enable a portion of the tax burden to be carried by people outside Lindsborg. Those who visit the community and make retail purchases would contribute to the sales tax, spreading the burden proportionately. In this sense, those who use the conference facility will help pay for it.

Further, since the sales tax otherwise expires, continuation of the tax would not be an additional burden to taxpayers. It would be a continuation of the existing tax instead of increasing property taxes.

There are additional factors that could serve to facilitate debt service. These would include:

- Incremental growth of sales tax revenues.
- Refinement of final project costs.
- Reductions in the scope of the project.

Since the one-half cent sales tax generates \$150,000 per year, this revenue alone would cover the \$80,000 to \$94,400 in annual debt service. The remainder could be used for other projects or uses favored by the City Council.

Whether property or sales taxes, the practical reality is that the primary source of funds for payment of debt service will be the City's general revenues.

OPERATION OF THE CONFERENCE CENTER

To determine the likelihood of the Conference Center being self-sustaining, it is necessary to construct a budget for the facility. This would include estimates of usage, fee revenue from that usage, and identification of operating costs. A pro forma of expected cashflows is then developed for the first three years of operation. Enclosed are two projected cashflow statements for the proposed conference center. One is the optimistic high estimate, while the other is a more pessimistic scenario. Assumptions used are shown in the same table.

Revenues from the conference center will include a variety of usage fees. It will be necessary for the City to develop policy setting specific prices for various services. The most obvious fee would be room rentals. However, fee options would include food and alcohol surcharges. Some facilities charge \$1.00 per person where a meal is catered and \$1.25 if both food and alcohol are available. Other facilities charge rental fees for use of tables, chairs, and electronic equipment. Basic room rents in other facilities vary from \$50 to \$300 depending upon size of room and how long it is rented.

The Lindsborg facility has the advantage of potential sale or lease of retail/office space within the building. If applied as space rental, this would generate \$6.00 per square foot. This revenue source is not available to many conference facilities and presents Lindsborg with a competitive advantage. This revenue could be applied to the conference center operations or to debt payments.

Costs of Operation

Operating costs include staffing, utilities, building maintenance and cleaning, supplies, and a few miscellaneous items. For staffing, it is assumed that the City will move the Tourism Director into the facility to manage and provide oversight of the facility. This position is already funded and has not been included in the facility operating cost. This

position is essential to the marketing and promotion of the conference center. Targeting organizations and booking specific meetings will be the responsibility of the Tourism Director.

Building maintenance and janitorial service will be an important element of both operations and operating costs. During meetings, there will often be immediate requests for assistance to perform minor tasks such as rearranging tables, dealing with electronic equipment, cleaning up a mess, and responding to other such spur of the moment demands. It will be necessary that meeting organizers have easily available access to a person who can address these tasks in an accommodating manner.

Supplies for janitorial and general operating functions will be another line item. Insurance will be required for the premises liability, physical property and other perils.

Utility operating costs will be based upon the size of the facility and efficiency of the lighting, heating, air conditioning and ventilation systems. Lindsborg might consider being environmentally conscious and making this a LEEDS facility. This would reduce long-term utility costs. Utility operating costs are estimated based upon experience in similar facilities. The analysis assumes that the City will provide the electrical, water and sewer services free of charge.

A key question is the application of property tax to the Sundstrom Building once it is renovated and divided. Assuming the for-profit portion is taxable, the City would attempt to place the burden on the rental spaces. If the entire building were to be judged taxable, it could result in a substantial annual cost of operation. At this point, there is no way of knowing what value the County Appraiser would assign to the Sundstrom Building. A legal opinion should be obtained to determine exactly how the property tax rules would be applied.

For purposes of this study, property taxes were applied at a level with the highest square foot values in downtown Lindsborg. That should be a reasonable expectation. If the entire private space were leased out and taxable, property taxes would be \$4,300 per year.

One caveat to this analysis is that there is no depreciation fund for future capital improvements to the facility. At some point in the future, there will be a need to replace a roof, air conditioning units, and other capital maintenance items. These replacement needs are not included in the projections. It should be several years before such major replacement is necessary. The lease or condominium agreements for private sector space in the building should be structured such that these parties share in capital maintenance.

Details of revenue and cost estimates for various line items under different scenarios are shown in the following cashflow projection tables.

SCENARIO A: HIGH PROJECTION

CASH FLOW PROJECTIONS	Year 1	Year 2	Year 3
Revenues			
Rentals			
Market share existing small groups	\$600	\$900	\$1,200
Large local groups	\$2,750	\$2,750	\$2,750
Conferences/Meetings 25-99	\$8,400	\$17,200	\$34,400
Large state/regional day meetings	\$0	\$500	\$1,000
Private sector lease space	\$4,554	\$9,246	\$12,420
Total Revenues	\$16,304	\$30,596	\$51,770
Expenditures			
Janitorial and operations staff	\$12,000	\$20,000	\$25,000
Insurance and bonds	\$4,000	\$4,100	\$4,200
Utilities	\$4,000	\$5,000	\$5,500
Property taxes on private uses	\$1,419	\$2,881	\$4,300
Maintenance equipment/facilities	\$3,000	\$2,500	\$2,500
Supplies and misc.	\$1,000	\$1,100	\$1,200
Total Expenditures	\$25,419	\$35,581	\$42,700
Surplus/(Deficit)	(\$9,115)	(\$4,985)	\$9,070

ASSUMPTIONS

Number of meetings/events			
Market share existing small groups	20	30	40
Large local groups	11	11	11
Conferences/Meetings 25-99	21	43	86
Large state/regional day meetings	0	2	4
Total Meetings/Events	52	86	141
Average revenue per meeting			
Market share existing small groups	\$30	\$30	\$30
Large local groups	\$250	\$250	\$250
Conferences/Meetings 25-99	\$400	\$400	\$400
Large state/regional day meetings	\$250	\$250	\$250
Annual private sector lease per sq. ft.	\$6.00	\$6.00	\$6.00
Private sector lease space sq. ft.	2,300	2,300	2,300
Occupancy rate private sector	33.0%	67.0%	90.0%

ECONOMIC IMPACT

Total meetings/events			
Conferences/Meetings 25-99	21	43	86
Large state/regional day meetings	0	2	4
Visitor per meeting/event			
Conferences/Meetings 25-99	60	60	60
Large state/regional day meetings	100	100	100
Expenditures per Visitor			
Conferences/Meetings 25-99 * 1.25	\$62.50	\$62.50	\$62.50
Large state/regional day meetings	\$50.00	\$50.00	\$50.00
Direct Annual Economic Impact	\$78,750	\$171,250	\$342,500

SCENARIO B: LOW PROJECTION

CASH FLOW PROJECTIONS	Year 1	Year 2	Year 3
Revenues			
Meeting/Event Rentals			
Market share existing small groups	\$600	\$900	\$1,200
Large local groups	\$2,750	\$2,750	\$2,750
Conferences/Meetings 25-99	\$6,000	\$12,000	\$20,400
Large state/regional day meetings	\$0	\$500	\$1,000
Private sector lease space	\$4,554	\$9,246	\$12,420
Total Revenues	\$13,904	\$25,396	\$37,770
Expenditures			
Janitorial and operations staff	\$12,000	\$17,500	\$20,000
Insurance and bonds	\$4,000	\$4,100	\$4,200
Utilities	\$4,000	\$4,500	\$5,000
Property taxes on private uses	\$1,419	\$2,881	\$4,300
Maintenance equipment/facilities	\$3,000	\$2,500	\$2,500
Supplies and misc.	\$1,000	\$1,100	\$1,200
Total Expenditures	\$25,419	\$32,581	\$37,200
Surplus/(Deficit)	(\$11,515)	(\$7,185)	\$570

ASSUMPTIONS

Number of meetings/events			
Market share existing small groups	20	30	40
Large local groups	11	11	11
Conferences/Meetings 25-99	15	30	51
Large state/regional day meetings	0	2	4
Total Meetings/Events	46	73	106
Average revenue per meeting			
Market share existing small groups	\$30	\$30	\$30
Large local groups	\$250	\$250	\$250
Conferences/Meetings 25-99	\$400	\$400	\$400
Large state/regional day meetings	\$250	\$250	\$250
Annual private sector lease per sq. ft.	\$6.00	\$6.00	\$6.00
Private sector lease space	\$2,300	\$2,300	\$2,300
Occupancy rate private sector	33.0%	67.0%	90.0%

ECONOMIC IMPACT

Total Meetings/Events			
Conferences/Meetings 25-99	15	30	51
Large state/regional day meetings	0	2	4
Visitors per meeting/event			
Conferences/Meetings 25-99	60	60	60
Large state/regional day meetings	100	100	100
Expenditures per Visitor			
Conferences/Meetings 25-99 * 1.25	\$62.50	\$62.50	\$62.50
Large state/regional day meetings	\$50.00	\$50.00	\$50.00
Direct Annual Economic Impact	\$56,250	\$122,500	\$211,250

ISSUES TO BE RESOLVED

There are three issues to be resolved before the City should move forward with any final decision.

- An architectural plan for the building and detailed estimate of probable costs should be obtained from an architect qualified in historic preservation.
- The City needs to determine if it wishes to pursue private sector uses in the building, thus increasing the available retail/office space downtown. This could be rental space owned by the City or space that is actually sold by the City to private interests.
- If the City wishes to pursue lease or sale of private space, then legal advice should be pursued on two issues. One issue is to verify the property tax liability of the Sundstrom Building to assure that property tax implications are properly considered. A related issue is to examine the most advantageous ownership model.

ECONOMIC IMPACT

Sophisticated economic impact analysis is well beyond the scope of this study. However, projecting the number of annual visitors to the conference center, then applying an average daily spending factor results in a rough approximation. This technique demonstrates annual economic impact under different scenarios. These impacts are shown with the cashflow projection tables. Estimates used for visitor spending per day are taken from other studies. For purposes of estimating economic impact on the Lindsborg conference center, an average of \$50 per day was selected. The average length of stay for conferences was identified in the survey as 1.25 days.

PER CAPITA VISITOR SPENDING

Source	Expenditures Per Day
Iowa Fast Facts	\$ 103.17
Lawrence, Ks.	
Overnight Visitors	\$ 74.62
Day-Trippers	\$ 31.91
Manhattan, Ks. Day Visitors	\$ 50.00
International Assn. CVBs	
Convention Delegates	\$ 266.00
Excluding Lodging	\$ 61.18

Economic impact will range from \$211,000 to \$342,000 per year at maturity of the conference center. Impacts are shown on the cashflow projections spreadsheets of the previous two pages.

CONCLUSIONS

- Lindsborg is already a popular destination for state and regional meetings, hosting an average of 36 such meetings per year. These meetings are almost entirely small groups of fewer than 25 people. Lindsborg should continue to pursue such meetings.
- Lindsborg has no conference facilities aside from Bethany College which would serve to host conferences of more than 25 people.
- Most of the meeting facilities in McPherson and Saline Counties are geared to groups of over 100 people. Lindsborg has only 80 lodging rooms, which limits its ability to compete for such large gatherings. Lindsborg conference marketing efforts should focus on groups of 25 to 100 people.
- In a survey of 160 organizations in Kansas, 86% of respondents indicated they would consider Lindsborg as a meeting place. It is projected that a range of 106 to 141 meetings or events could be held annually at a new Lindsborg conference center.
- Conversion of the Sundstrom Building into a conference center would cost approximately \$1.4 million. Grants and tax credit programs could provide as much as \$360,000 of these funds, reducing the net cost to \$1,040,000. This remainder would be financed by City debt.
- Debt service could be paid without further increasing the tax burden if the sales tax could be reinstated and partially dedicated to this project.
- The storefront spaces of the Sundstrom Building could be converted to retail/office uses providing a source of rental income.
- Conference center operations reach a breakeven point at 50 conferences/meetings per year from the key market segment: groups of 25-100 people.
- Economic impact of the conference center is estimated to be \$211,000 to \$342,000 per year.
- To be successful, it will be essential that the City markets the facilities aggressively and provides exceptional service to visitors.

**Analysis of Constructive Re-Use of J. O. Sundstrom Building
For a Conference and Meeting Facility
Lindsborg, Kansas**

APPENDIX

POPULATION TRENDS, 2000-2008

Year	Lindsborg	McPherson County	Saline County	Two-County Area
2000	3,321	29,554	53,597	83,151
2001		29,483	53,876	83,359
2002		29,219	54,014	83,233
2003	3,281	29,185	53,782	82,967
2004	3,283	29,199	53,881	83,080
2005	3,278	29,261	53,991	83,252
2006	3,251	29,054	54,201	83,255
2007	3,258	29,196	54,583	83,779
2008	3,245	29,044	54,657	83,701

Source: Kansas Statistical Abstract, 2009 U.S. Census

EMPLOYMENT, 2000-2008

Year	McPherson County	Saline County	Two-County Area
2000	15,355	29,870	45,225
2001	15,213	29,855	45,068
2002	15,706	29,989	45,695
2003	16,194	30,096	46,290
2004	17,008	30,600	47,608
2005	17,085	30,358	47,443
2006	17,276	30,539	47,815
2007	16,561	30,843	47,404
2008	16,246	29,855	46,101

Source: Kansas Statistical Abstract, 2009 U.S. Census

BUSINESS ESTABLISHMENTS, 2000-2006

Year	McPherson County	Saline County	Two-County Area
2000	940	1,699	2,639
2001	958	1,687	2,645
2002	952	1,700	2,652
2003	959	1,692	2,651
2004	936	1,692	2,628
2005	948	1,689	2,637
2006	948	1,698	2,646

Source: Kansas Statistical Abstract, 2009 U.S. Census: County Business Patterns

104 E. Lincoln
Lindsborg, KS 67456
(785) 227-3706
Tel. Fax: (888) 227-2227
visitlindsborg.com



November 12, 2009

Address Block

Välkommen!

The City of Lindsborg, *Little Sweden USA*, is interested in expanding its capacity to host meetings and conferences. Please help us determine what is needed to meet your needs. The attached questionnaire seeks information to help us identify how to best serve you.

Lindsborg is a community of 3,300 located twenty minutes south of Salina, or an hour north of Wichita. Known for Swedish traditions and festivals, it is also home to Bethany College, Birger Sandzen Memorial Art Gallery, and a number of gift shops, art studios and galleries. Our historic downtown is often active with tourists and visitors.

Please take a few moments to complete the one page survey and return it to us in the business reply envelope. If you wish to see the results of the survey, say so on the questionnaire. If someone else in the organization should have received this survey, please forward it the meetings planner for your organization.

Thank you very much for your participation. If you have questions, do not hesitate to call me at our toll-free number: 888-227-2227.

Thanks for your help,

Gary Shogren
Community Development Director

**MEETING AND CONFERENCE CENTER
UTILIZATION QUESTIONNAIRE FOR LINDSBORG, KANSAS**

Conference Size and Frequency

How many conferences or meetings per year does your organization conduct away from your offices: ____
What is the range of attendance? _____ to _____ attendees
How many days do these last? _____ to _____ days

=====

Meeting Room Needs and Requirements

Meeting rooms needed:
Number: _____ room(s) _____ room(s) _____ room(s) _____ room(s)
Number of attendees
to accommodate: _____
Set-up style (banquet,
classroom, etc.): _____

Range of meeting room sizes: _____ sq. ft. to _____ sq. ft.
How much exhibit space is required? _____ sq. ft.

Is on-site food preparation required: Yes _____; No _____
Is catering required: Yes _____; No _____

Describe telecommunications, audiovisual equipment and electrical service needed:

=====

Lodging Requirements

Overnight lodging requirements: _____ rooms
What is the maximum distance you would consider between meeting facility and lodging? ____ blocks
Do you require conference to be wholly accommodated within one lodging facility?
Yes: ____ No: ____

=====

Decision Factors

When was the last time your group met in Lindsborg? _____
If we could meet your needs, would your group seriously consider future meetings in Lindsborg?
Yes: ____ No: ____

If you would not consider meeting in Lindsborg, what concerns preclude meeting here?

Available motel rooms____	Meeting room capacity____	Available entertainment__
Geographic location____	Exhibition space____	Dining options____
Ground transportation____	Other (please describe):	

Thank you for your participation.

**LINDSBORG MEETING AND CONFERENCE FACILITY
SURVEY RESULTS**

Survey Parameters

Total unduplicated surveys (first round):	127
Total unduplicated surveys (second round):	33
Total unduplicated surveys:	160
Total surveys responses:	22
Response rate:	13.8%

Conference Size and Frequency

Number of meetings conducted per year

Range in number of meetings conducted annually by respondent:	1 to 90 meetings
Total meetings in sample:	407 meetings

Range of attendance

Range:	4 to 1,000 attendees
Combined sample:	741 to 3,564 attendees

Number of days meetings last

Range:	1 to 4 days
Average:	1.25 to 2.05 days

Facility Requirements

Respondents who require exhibit space	4	18.2%
Respondents who require a kitchen or catering	16	72.7%

Audiovisual needs

Projector and/or screen:	9	40.9%
Sound:	8	36.4%
Internet:	4	18.2%

Number of meeting rooms required

1	9
5	2
7	1
8	1
9	1
27	1

Number of people to be accommodated per room

0-25	5
0-49	6
50-99	6
100-149	3
150+	10

Lodging Requirements

Must conference be wholly accommodated within lodging facility?

Yes:	9	40.9%
No:	13	59.1%

Number of lodging rooms required per conference	Percent of		
	Total	Cumulative	
0-24:	8	36.4%	36.4%
25-49:	2	9.1%	45.5%
50-74:	1	4.5%	50.0%
75-99:	3	13.6%	63.6%
More than 100:	4	18.2%	81.8%
No Response:	4	18.2%	100.0%

Maximum acceptable distance from lodging to meeting place

Lodging/meeting rooms on one site:	2	9.1%
Within one block:	2	9.1%
2-12 blocks:	3	13.6%
More than one mile:	4	18.2%
No response:	11	50.0%

Decision Factors

Respondents which had met previously in Lindsborg	3	13.6%
Respondents which would consider Lindsborg	19	86.4%

Perceived barriers to meeting in Lindsborg

Available motel rooms:	2	9.1%
Meeting room capacity:	3	13.6%
Available entertainment:	1	4.5%
Geographic location:	2	9.1%
Exhibition space:	1	4.5%
Dining options:	2	9.1%
Ground transportation:	1	4.5%
Other:	0	0.0%