Report on the Projections of Taxable Hotel and CCFD Revenues to be Used for the Expansion and Renovation of the San José Convention Center

February, 2011

Prepared for:

The City of San José

Prepared by:
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February 28, 2011

Ms. Julia H. Cooper
Assistant Director of Finance
City of San José - Finance
200 E Santa Clara Street
13th Floor
San José, CA 95113-1905

Re: Taxable Hotel Revenue Projections for San José, CA

Dear Ms. Cooper:

Pursuant to our agreement, we have completed our analysis of estimated taxable hotel revenues in the City of San José. The City has formed the Convention Center Facilities District (CCFD), in which a special tax will be levied on all hotels within the district, some or all of which will be used to repay the bonds issued for the renovation and expansion of the San José McEnery Convention Center (the SJCC). The SJCC will be renovated and expanded for a total cost of approximately $120 million over an approximately two year construction period. The financing for the project will be from bonds payable from the City's CCFD special tax revenues and additional revenues available from 1.5% of the City's 10.0% transient occupancy tax (TOT). At your request, we have prepared a projection of these CCFD special tax revenues for a 36-year period. Our analysis is based on fieldwork and research conducted in September 2010, with additional information updated through year-end 2010.

It has been a pleasure working with you and the rest of your staff on this project. I will look forward to discussing our findings with you after you have had the opportunity to review them.

Sincerely,

Anthony C. Dimond
Principal

TAXABLE HOTEL REVENUE PROJECTIONS FOR SAN JOSÉ, CA

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I. INTRODUCTION AND SUMMARY OF CONCLUSIONS

We have completed our projection of estimated taxable hotel revenues in the City of San José through Fiscal Year 2046. Our analysis has included detailed market research and analysis of trends in the local economy and the performance of the lodging market over the past twenty years. Specifically, we have taken the following key steps:

- Reviewed the historical performance of the San José lodging market;
- Reviewed historical attendance records of the SJCC;
- Interviewed operators of the major hotels in San José to determine their future performance forecasts;
- Researched economic indicators for the City and region;
- Reviewed advanced bookings of the SJCC;
- Reviewed public projections of growth in the national lodging market;
- Made projections of potential changes in the San José lodging market's supply and demand, as well as potential rate growth, and calculating the resulting taxable revenues ; and,
- Estimated the percentage of revenue attributable to the CCFD's Zone 1 & Zone 2, and applied the appropriate tax percentage.

Based on this research and analysis, the key conclusions include the following:

- The city's taxable hotel revenue was $186.0 million in Fiscal Year ended June 30, 2010 (FY 2010) the lowest level since FY 2005. The city's taxable hotel revenues peaked in FY 2001 at $255.4 million.

- Hotel market data for the calendar year 2010 indicates the beginning of a rebound with an increase in Revenue Per Available Room (RevPAR) to $62.92 for the San José citywide market, up 11.9% from $56.23 in 2009. The rebound is expected to continue, as lodging industry forecasts by five firms project RevPAR nationally to increase at rates ranging from 5.5% to 7.1% in 2011.

- The overall Compounded Annual Growth Rate (CAGR) for RevPAR from 1987 through 2010 has been 2.4%, growing from $36.56 to $62.92. The historical trends in the local lodging market indicates that the market reflects cyclical "boom or bust" activity levels. As an example, the 2010 RevPAR represents a -5.7% CAGR from the peak RevPAR of $112.88 achieved in 2000.

- After adjusting for fiscal year calculations, we have projected RevPAR to increase from $57.31 in FY 2010 to $100.43 in FY 2046, equating to a CAGR of 1.6% over the 36-year period.

- Taxable hotel revenues are projected to increase from $186.0 million in FY 2010 to $438.0 million in FY 2046, the last year of the projection period. While long-term growth is expected to continue to be cyclical, with peaks and troughs occurring over the 36-year period, the timing of such cycles are impossible to predict. We have therefore also presented our projections using a constant annual growth rate of 1.7% that results in the same total revenues over the projection period.

- The CCFD is comprised of hotel parcels in the district at the time it was created, and currently includes all hotels in San José. As new hotels are built over time, the new properties can be annexed into the CCFD if the owners elect to do so. It is possible that the owners of new hotels in the downtown, and larger full-service hotels in other parts of the city, would elect to join the CCFD in order to fully participate in the city's convention and tourism community. For the purpose of this analysis, however, we have assumed that no new supply will enter the CCFD and no currently existing hotels will discontinue operating as hotels. Therefore, throughout the projection period the CCFD Special Taxes are estimated based solely on the existing base of hotels in the city.

- In FY 2011, the first year of the projection period, the CCFD Special Tax Rate is 3.0% of Taxable Rent in Zone 2 and 4.0% in Zone 1. In FY 2012 and thereafter it will be 4.0% in both zones. In addition to the Base Rate, all the hotels are subject to an Additional Special Tax Rate ("Blinker Tax") of 1.0% of Taxable Rent. The Blinker Tax is only to be applied in years in which the City's Revenue Stabilization Reserve is less than required in the bond documents. Finally, the City has also dedicated 1.5% of Taxable Hotel Revenues, from the total 10.0% Transient Occupancy Tax (TOT) collected citywide, to convention and visitors bureau uses, and may appropriate these funds as needed for Convention Center debt payments.

- The CCFD generated revenues of $4.2 million in FY 2010, the first year of its enactment, and has had cumulative cash collections of approximately $7.1 million as of January 2011. The revenues are projected to increase to $6.9 million in FY 2011 as a result of both taxable hotel revenue growth and a higher tax rate in Zone 2. Over the 36-year projection period, CCFD revenues are projected to average $10.3 million annually excluding the 1.0% Blinker Tax and 1.5% from the City's TOT collections.

CCFD Financing Analysis
CCFD Revenue Stream - No New Supply Annexed - Constant Annual Growth

Fiscal Year Ending 30-Jun	City Total Taxable Revenues	CCFD Total Taxable Revenues	CCFD Revenue Zone 1	CCFD Revenue Zone 2	Total w/o Blinker	Blinker	Total with Blinker	City TOT 1.5% Portion	Total with City 1.5% TOT
Actual									
2010	$186,001,647	$186,001,647	$2,696,452	$1,510,395	$4,206,847	$1,860,016	$4,206,848	$2,790,025	$6,996,872
Projected									
2011	$190,810,203	$189,172,469	$3,026,759	$3,405,104	$6,431,864	$1,891,725	$8,323,589	$2,862,153	$11,185,742
2012	195,743,071	192,397,345	3,078,358	4,617,536	7,695,894	1,923,973	9,619,867	2,936,146	12,556,013
2013	200,803,464	195,677,196	3,130,835	4,696,253	7,827,088	1,956,772	9,783,860	3,012,052	12,795,912
2014	205,994,680	199,012,960	3,184,207	4,776,311	7,960,518	1,990,130	9,950,648	3,089,920	13,040,568
2015	211,320,101	202,405,589	3,238,489	4,857,734	8,096,224	2,024,056	10,120,279	3,169,802	13,290,081
2016	216,783,195	205,856,054	3,293,697	4,940,545	8,234,242	2,058,561	10,292,803	3,251,748	13,544,551
2017	222,387,523	209,365,340	3,349,845	5,024,768	8,374,614	2,093,653	10,468,267	3,335,813	13,804,080
2018	228,136,735	212,934,449	3,406,951	5,110,427	8,517,378	2,129,344	10,646,722	3,422,051	14,068,773
2019	234,034,577	216,564,402	3,465,030	5,197,546	8,662,576	2,165,644	10,828,220	3,510,519	14,338,739
2020	240,084,891	220,256,236	3,524,100	5,286,150	8,810,249	2,202,562	11,012,812	3,601,273	14,614,085
2021	246,291,619	224,011,006	3,584,176	5,376,264	8,960,440	2,240,110	11,200,550	3,694,374	14,894,925
2022	252,658,805	227,829,784	3,645,277	5,467,915	9,113,191	2,278,298	11,391,489	3,789,882	15,181,371
2023	259,190,597	231,713,662	3,707,419	5,561,128	9,268,546	2,317,137	11,585,683	3,887,859	15,473,542
2024	265,891,250	235,663,750	3,770,620	5,655,930	9,426,550	2,356,637	11,783,187	3,988,369	15,771,556
2025	272,765,131	239,681,176	3,834,899	5,752,348	9,587,247	2,396,812	11,984,059	4,091,477	16,075,536
2026	279,816,716	243,767,088	3,900,273	5,850,410	9,750,684	2,437,671	12,188,354	4,197,251	16,385,605
2027	287,050,600	247,922,653	3,966,762	5,950,144	9,916,906	2,479,227	12,396,133	4,305,759	16,701,892
2028	294,471,496	252,149,060	4,034,385	6,051,577	10,085,962	2,521,491	12,607,453	4,417,072	17,024,525
2029	302,084,239	256,447,516	4,103,160	6,154,740	10,257,901	2,564,475	12,822,376	4,531,264	17,353,639
2030	309,893,788	260,819,248	4,173,108	6,259,662	10,432,770	2,608,192	13,040,962	4,648,407	17,689,369
2031	317,905,232	265,265,507	4,244,248	6,366,372	10,610,620	2,652,655	13,263,275	4,768,578	18,031,854
2032	326,123,789	269,787,562	4,316,601	6,474,901	10,791,502	2,697,876	13,489,378	4,891,857	18,381,235
2033	334,554,814	274,386,706	4,390,187	6,585,281	10,975,468	2,743,867	13,719,335	5,018,322	18,737,658
2034	343,203,800	279,064,253	4,465,028	6,697,542	11,162,570	2,790,643	13,953,213	5,148,057	19,101,270
2035	352,076,381	283,821,539	4,541,145	6,811,717	11,352,862	2,838,215	14,191,077	5,281,146	19,472,223
2036	361,178,339	288,659,925	4,618,559	6,927,838	11,546,397	2,886,599	14,432,996	5,417,675	19,850,671
2037	370,515,602	293,580,791	4,697,293	7,045,939	11,743,232	2,935,808	14,679,040	5,557,734	20,236,774
2038	380,094,254	298,585,545	4,777,369	7,166,053	11,943,422	2,985,855	14,929,277	5,701,414	20,630,691
2039	389,920,536	303,675,616	4,858,810	7,288,215	12,147,025	3,036,756	15,183,781	5,848,808	21,032,589
2040	400,000,849	308,852,459	4,941,639	7,412,459	12,354,098	3,088,525	15,442,623	6,000,013	21,442,636
2041	410,341,760	314,117,554	5,025,881	7,538,821	12,564,702	3,141,176	15,705,878	6,155,126	21,861,004
2042	420,950,007	319,472,403	5,111,558	7,667,338	12,778,896	3,194,724	15,973,620	6,314,250	22,287,870
2043	431,832,501	324,918,539	5,198,697	7,798,045	12,996,742	3,249,185	16,245,927	6,477,488	22,723,414
2044	442,996,331	330,457,516	5,287,320	7,930,980	13,218,301	3,304,575	16,522,876	6,644,945	23,167,821
2045	454,448,771	336,090,918	5,377,455	8,066,182	13,443,637	3,360,909	16,804,546	6,816,732	23,621,277
2046	466,197,282	341,820,354	5,469,126	8,203,688	13,672,814	3,418,204	17,091,018	6,992,959	24,083,977

Source: *Horwath HTL*

Note: The Blinker and City TOT figures presented for 2010 are not actual collections but represent the potential revenue based on the Taxable Revenues and the applicable rates.

The analysis presented above is based on assumptions and projections we believe to be accurate as well as our analysis of current market conditions. Horwath Hospitality & Leisure LLC neither represents, warrants or guarantees the validity of the above projections.

In general, while the San José lodging market has experienced a strong downturn in recent years, the recovery has begun. With recovery in hotel demand and the added potential for increases in room rates, it is reasonable to expect that the City's taxable hotel revenues will continue to grow, albeit in a cyclical pattern, throughout the projection period. The following table presents the CCFD Revenue projections using a constant growth rate of 1.7% over the projection period.

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II. ECONOMIC CONDITIONS

A region's lodging market is driven by the forces that shape the overall regional economy. As such, the San José hotel market and projections of taxable hotel revenues depend largely on the economic conditions in San José and, to a broader extent, the Silicon Valley.

The Silicon Valley has long been known as the center of innovation in technology, and this has influenced development and growth throughout the San Francisco Bay Area, especially the South Bay and San José. Despite a sharp job loss in the tech sector during the current economic downturn, the fundamental driving force behind the region's economy remains the high technology sector. The confluence of a highly educated workforce, large innovative companies and universities and research facilities are expected to continue to propel the dynamic nature of the Silicon Valley economy.

Population

San José is the largest city in Northern California and the third largest in the state. San José is the county seat of Santa Clara County, and serves as the social and institutional hub of the South Bay. The California Department of Finance estimated the City's population at 1,023,083 as of January 1, 2010, or approximately 54% of the County total population of 1,880,876. The City's population has grown from 629,442 in 1980, for a CAGR of 1.6% over this 30-year period. The following table presents the growth in population since 1980.

City of San José
Historical Population Growth

Year	*Population*	*CAGR*
1980	629,442	-
1990	782,248	2.2%
2000	895,131	1.4%
2010	1,023,083	1.3%

Source: *US Census Bureau, CA Dept of Finance*

Income

Household income in the San José-Sunnyvale-Santa Clara Metropolitan Statistical Area (MSA) is the second highest in the country. The US Census Bureau estimated the median household income in 2009 to be $84,483, as compared to the national median of $50,221. The following table presents the top 10 metropolitan areas in terms of median household income.

Top 10 Median Household Income MSAs Minimum 65,000 People - 2009		
Rank	**Metropolitan Statistical Area**	**Median Household Income**
1	Washington-Arlington-Alexandria DC-VA	$85,168
2	San José-Sunnyvale-Santa Clara CA	84,483
3	Bridgeport-Stamford-Norwalk CT	79,063
4	San Francisco-Oakland-Fremont CA	73,825
5	Anchorage AK	72,712
6	Lexington Park MD	72,474
7	Oxnard-Thousand Oaks-Ventura CA	71,723
8	Trenton-Ewing NJ	71,650
9	Fairbanks, AK	70,610
10	Boston-Cambridge-Quincy MA-NH	69,934
	US Median	$50,221

Source: *US Census Bureau, 2009 American Community Survey*

Employment

The Silicon Valley has long been known as the center of innovation in technology, and this has not changed despite periodic downturns in the financial performance of the high-profile companies that lead the local economy. There are 16 companies headquartered in the Silicon Valley in the 2010 Fortune 500, ranked by revenues in the following table.

2010 Silicon Valley Fortune 500 Companies				
Company	**City**	**Revenues ($ millions)**	**Fortune 500 Rank**	**State Rank**
Hewlett-Packard	Palo Alto	114,552.0	10	2
Apple	Cupertino	36,537.0	56	6
Cisco Systems	San José	36,117.0	58	8
Intel	Santa Clara	35,127.0	62	10
Google	Mountain View	23,650.6	102	12
Oracle	Redwood City	23,252.0	105	13
Sun Microsystems	Santa Clara	11,449.0	204	22
eBay	San José	8,727.4	267	25
Synnex	Fremont	7,756.3	294	27
Yahoo	Sunnyvale	6,460.3	343	33
Symantec	Mountain View	6,149.9	353	35
Advanced Micro Devices	Sunnyvale	5,403.0	390	41
Sanmina-SCI	San José	5,177.5	405	44
Applied Materials	Santa Clara	5,013.6	421	47
Agilent Technologies	Santa Clara	4,481.0	461	50
Elecronic Arts	Redwood City	4,212.0	494	55

Source: *CNNMoney.com*

Over the past 20 years, employment in the San José-Sunnyvale-Santa Clara Metropolitan Statistical Area (MSA) has gone through a significant expansion and slump cycle. Starting with 837,261 employed people in 1990 according to the Bureau of Labor Statistics, the market slumped to 806,533 by 1992 before rebounding and growing steadily to a peak of 953,443 by 1999. Since that peak at the height of the dotcom bubble, employment shrank to 794,461 by 2004. While employment grew again to 844,623 by 2008, the loss of approximately 40,000 jobs in 2009 lowered employment to 802,858. As of December 2010 (preliminary statistics), employment was 801,355 with an unemployment rate of 10.7%, which is 1.6

percentage points below the overall state unemployment rate of 12.3%. Overall, total employment declined by -0.2 CAGR over the 20-year period. The following table presents the historical employment data from 1990 through June, 2010.

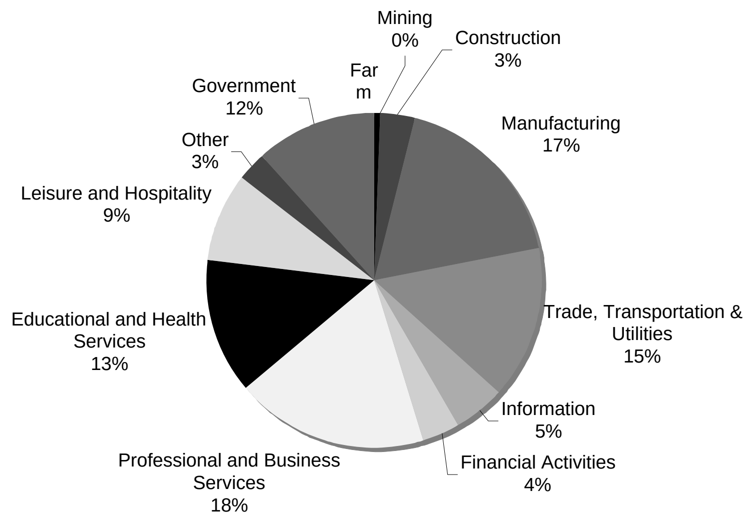
San Jose-Sunnyvale-Santa Clara MSA Employment

Year	Employment	Unemployment	Unemployment Rate
1990	837,261	36,456	4.2%
1991	810,550	51,670	6.0
1992	806,533	62,201	7.2
1993	806,977	62,715	7.2
1994	817,790	56,856	6.5
1995	838,174	45,420	5.1
1996	881,410	35,780	3.9
1997	924,443	31,619	3.3
1998	945,686	33,704	3.4
1999	953,443	31,446	3.2
2000	937,379	30,803	3.2
2001	917,565	49,397	5.1
2002	840,969	77,031	8.4
2003	802,306	73,521	8.4
2004	794,461	55,592	6.5
2005	795,811	45,694	5.4
2006	811,909	38,725	4.6
2007	831,313	41,358	4.7
2008	844,623	54,481	6.1
2009	802,858	99,981	11.1
December 2010 (P)	801,355	95,647	10.7

P = Prelminary
Source: *Bureau of Labor Statistics*

Manufacturing continues to represent a significant component of the area's workforce, with 18.1% of the total employment in the MSA. Professional and Business Services are the leading employment category with 18.7%, followed by Trade, Transportation & Utilities with 14.7%, Education & Health Services with 13.0%, and Government with 11.6% of the total. Leisure & Hospitality employment represents 8.7% of the total. The following chart shows the distribution of employment by category.

San Jose MSA
Employment Distribution - June



San Jose MSA is equivalent to Santa Clara and San Benito CountiesSource: California Employment Development Department

Real Estate Market

Development activity levels in San José have entered an extremely challenging period, with a much slower pace of construction that is likely to persist throughout the next five years. The current conditions are in sharp contrast to two readily-identifiable periods in the recent past:

- 1996-2001, an extremely strong seven-year stretch when annual construction valuation exceeded $1.4 billion (peaking at $2.1 billion in 2000); and,
- 2003-2008, a slower, steadier five-year period with annual construction valuation of around $900 million, during which time continued strength in residential activity to some extent offset slack in non-residential activity.

Construction activity fell drastically to $383.8 million in 2009, and is expected to range from approximately $500 to $600 million annually over the next five years, according to the City of San José Department of Planning, Building and Code Enforcement.

The commercial real estate markets will need this extended period of limited construction, as there is a substantial inventory of available space in both the office and industrial markets. Colliers International reports that there was positive net absorption of 187,197 square feet in the Silicon Valley office market in the second quarter of 2010, the first positive sign in five quarters, but then slid backwards again in the 3rd quarter with negative absorption of 690,104 square feet. This leaves the vacancy rate in the market at 25.7%, with approximately 15.7 million of the area's 61 million office square feet being vacant. San José's 23.8 million square feet of office space has a vacancy rate of 24.6%. In the R&D, Industrial and Warehouse markets, net absorption continues to trend in a negative direction, with 1.0 million square feet coming on the market in the 3rd quarter. With 253.3 million square feet of total space in the market, R&D space makes up over 60% of the inventory with 158.2 million square feet and has a vacancy rate of

20.5%, while Industrial and Warehouse space have lower vacancy rates of 11.5% and 9.8%, respectively. San José has approximately a third of the Silicon Valley market with 86.5 million square feet of R&D, Industrial and Warehouse space, with a vacancy rate of 18.4% overall, and 24.9% for the R&D space.

Airport

Norman Y. Mineta San José International Airport (SJC) is located approximately two miles north of downtown San José, making it one of the more convenient airports of any major city. The airport has recently undergone significant improvements. SJC's comprehensive $1.3 billion improvement program involves the modernization and replacement of the airport's terminal facilities, including the just finished construction of new Terminal B and Terminal B Concourse that replaces Terminal C. The program also includes complete transformation of the interior of Terminal A to provide more spacious waiting areas, new ticketing areas, and faster security check-in systems. The current program also includes a new 3,350-space rental car and public parking garage directly in front of Terminal B. Terminal B opened in June 2010, and the balance of the program, including new parking areas, is scheduled for completion by summer 2011.

Airport passenger statistics increased steadily from 7.3 million in FY 1994 to a peak of 13.9 million in FY 2001., Passenger traffic dropped -17.7% to 11.4 million in FY 2002 due to the effects of 9/11 and the bursting of the dotcom bubble. Passengers dropped again to 10.4 million in FY 2003, and remained relatively flat between 10.4 and 10.9 million through FY 2008. With the financial market crisis in 2008 and the subsequent recession, passenger traffic has decreased further to 8.8 million in FY 2009 and 8.2 million in FY 2010, which equates to 1995 levels. The following table presents historical airport traffic from FY 1994 through FY 2010.

SJC Historical Traffic

Fiscal Year Ending June 30	Enplanements & Deplanements	% Change
1994	7,339,142	-
1995	8,579,554	16.9%
1996	9,455,951	10.2
1997	10,249,904	8.4
1998	10,187,973	-0.6
1999	11,062,424	8.6
2000	12,211,816	10.4
2001	13,908,799	13.9
2002	11,441,656	-17.7
2003	10,405,208	-9.1
2004	10,567,399	1.6
2005	10,727,145	1.5
2006	10,851,853	1.2
2007	10,653,817	-1.8
2008	10,380,825	-2.6
2009	8,821,452	-15.0
2010	8,232,446	-6.7
June-Dec 2009-10	4,281,828	
June-Dec 2010-11	4,298,518	0.4

Source: *Norman Y. Mineta San José International Airport*

On a positive note, the airport has experienced a slight traffic increase of 0.4% for the first half of the current fiscal year, with increases in each month since September, indicating the downturn may have bottomed out. Load factors at the airport are over 90% for the major carriers, indicating they are operating at near capacity, so growth will only become significant as the airlines increase their routes. Southwest Airlines has announced six new flights from now through June, and Alaska/Horizon have increased their flights to Hawaii and added new service to Guadalajara, Mexico.

Downtown San José

Downtown San José serves as the cultural hub of the South Bay. In addition to the convention center, the downtown offers a variety of recreational and cultural venues that draw visitors from around the region, as outlined below.

- HP Pavilion, home of the San José Sharks NHL hockey team, also hosts concerts, performances such as Cirque du Soleil and Disney on Ice, and other major events.
- The Tech Museum offers interactive experiences providing insight into such areas as genetics, earth science, alternative energy, and microchips - the technology that has made Silicon Valley into the economic engine that it is.
- The San Jose Museum of Art features a contemporary West Coast collection, as well as hosting touring exhibits.
- Children's Musical Theater is one of the nation's largest youth musical theaters, and offers extensive training programs for youth in the community.
- The San José Center for Performing Arts is a 2,665-seat performance hall that features performances by Ballet San Jose as well as a variety of touring theater productions and other artists.
- The California Theater is a restored historic music hall that houses the San José Symphony and Opera San José, as well as other special events and performances.

- San Jose Repertory Theater, the home of the only fully professional theater company in the city.
- Institute for Contemporary Art presents challenging contemporary art in three galleries and features opening receptions, First Friday gallery walks, and after-dark programming.
- Located just outside of the downtown area, the Ice Center of San Jose features four full-szied hockey rinks and provides recreational ice activities including hockey, figure skating, speed skating and curling. The Ice Center hosts a variety of regional events and tournaments that attract participants from throughout the state.

All of these facilities and performing arts companies bring people into the downtown area throughout the year, and serve as amenities for both the local and regional community as well as visitors to the area. While San José is not noted as a major tourist destination, these activities generate some demand from attendees who choose to make an outing into a special occasion by staying in one of the city's hotels.

One potential new development is a new sports facility with stadiums for both the San Jose Earthquakes (soccer) and Oakland Athletics baseball team. Currently based in the Oakland Coliseum, the Athletics have been trying to get a new baseball park built for several years, and ownership is currently working with Major League Baseball to study the possibility of relocating to San José. While this is very preliminary, a downtown baseball stadium would generate significant activity for 81 games per year.

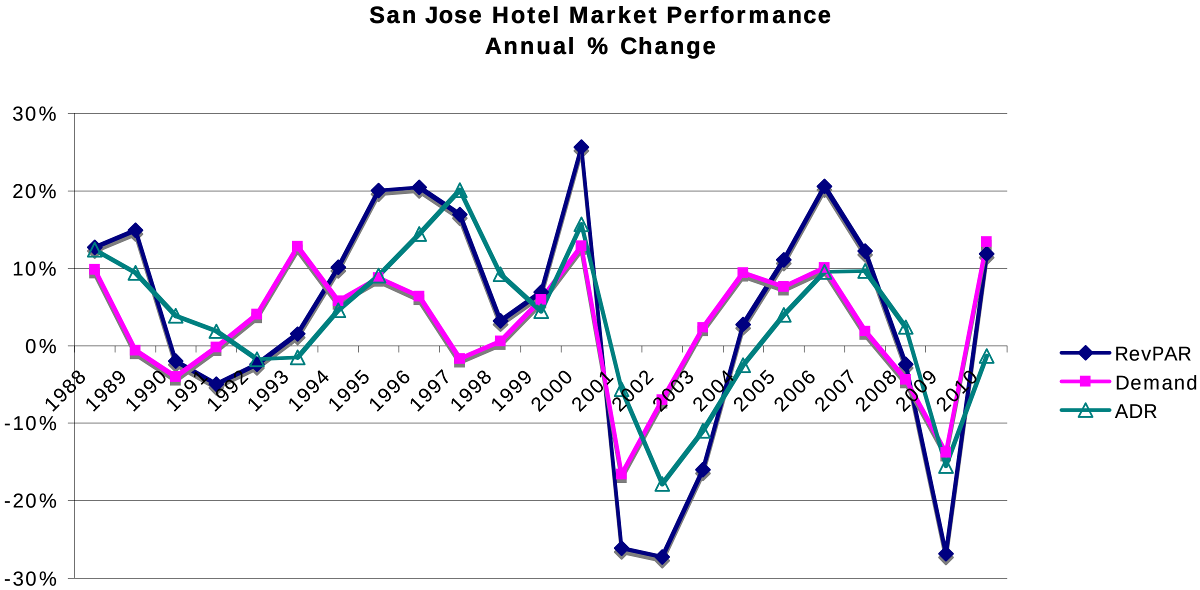
Recession Cycles

Since the end of World War II in 1945, there have been 10 economic cycles, with an average of 10 months of contraction from peak to trough, and an average of 57 months, or nearly five years, of expansion. Whereas the lengthy expansion period in the 1990s led some to believe that such economic cycles could be averted, there have been two strong downturns in the ensuing decade, the latest of which has fueled fears of a double-dip recession or a period of long stagnation or extremely slow growth. The following table presents a summary of the historic recession cycles.

U.S. Historical Economic Cycles			
Name	**Dates**	**Duration (months)**	**Time Since Previous Recession (Months)**
Recession of 1949	11/48 - 10/49	11	37
Recession of 1953	7/53 - 5/54	10	45
Recession of 1958	8/57 - 4/58	8	39
Recession of 1960-61	4/60 - 2/61	10	24
Recession of 1969-70	12/69 - 11/70	11	106
1973-75 Recession	11/73 - 3/75	16	36
1980 Recession	1/80 - 7/80	6	58
Early 1980s Recession	7/81 - 11/82	16	12
Early 1990s Recession	7/90 - 3/91	8	92
Early 2000s Recession	3/01 - 11/01	8	120
Great Recession	12/07 - 6/09	18	73
Source: *National Bureau of Economic Research*			

Historically, the San José lodging market has roughly mirrored the US economy in terms of cyclical performance. Since 1981, based on data from PKF Consulting, and since 1987 when STR data became available, the market has experienced growth cycles that have averaged approximately 5 years, while downturns have averaged approximately 2.5 years. The length of the hotel market downturns in comparison to a national recession points to lodging as a lagging indicator, rebounding only after the overall economy has had time to grow for an extended period.

The cyclical growth in the local lodging market reflects the "boom or bust" nature of the local economy. While the overall Compounded Annual Growth Rate (CAGR) for RevPAR from 1987 through 2009 has been a relatively moderate 2.0%, the actual yearly fluctuations tend to be much greater. Over the 22 years of the market data reported by STR, there have been 14 years with positive growth and in those years the average growth rate was 12.8%, while for the eight years in which the market RevPAR declined the average decrease 13.5%. The following chart shows the annual percentage change in hotel room nights occupied, average daily rate (ADR), and RevPAR from 1988 through 2009.



Source: *STR*

As can be seen from this chart, these measures of market performance have been volatile throughout the past two decades, although the trend over the long-term has been a gradual increase in all categories, as discussed in the following section.

National Lodging Market Forecast

As part of our research, we also evaluated projections being made for the lodging industry in general. Lodging industry forecasts by five firms indicate RevPAR nationally is projected to increase by 5.5% to 7.1% in 2011, as shown in the following table:

National Lodging Forecasts
Annual RevPAR Growth

Firm	*Projection Date*	*2011*
Morgan Stanley	6-14-10	7.0%
PKF Consulting (PKF)	1-7-11	6.3%
Smith Travel Research (STR)	1-7-11	5.5%
PriceWaterHouseCoopers (PWC)	8-30-10	6.7%
HVS	1-7-11	7.1%

These national projections are well below what San José experienced as the market recovered from the previous recession of 2001. As San José's economy is reliant in large part to a single sector, the high tech industry, it's fluctuations have tended to be somewhat more pronounced than for the country overall. Following the events of 9/11 and the dotcom crash, the San José market RevPAR declined -26.1% in 2001, -27.3% in 2002, and -16.0.8% in 2003. Following these declines, RevPAR was up a slight 2.8% in 2004, and then up 11.1%, 20.6%, and 12.2% in 2005 through 2007, as shown in the previous graph.

III. SAN JOSÉ LODGING MARKET

Overview

There are 77 hotels with a total of 8,892 guestrooms located within the City of San José, according to the City's parcel database. The lodging market in San José has been tracked by Smith Travel Research (STR) since 1987. STR's database is a nearly complete inventory of the City's properties, with a total census of 71 hotels with 8,606 rooms as of year-end 2010, and approximately 87% of the total rooms reporting to STR on a monthly basis. The following discussion pertains strictly to the STR data. The following table presents the calendar year historical operating performance for the citywide group of properties as reported by STR for the period from 1987 through 2010.

City of San José
Citywide Lodging Performance

Year	Annual Room Nights Available	Room Nights Occupied	Occupancy	Average Daily Rate	Revenue Per Available Room
1987	1,653,181	1,138,587	68.9%	$53.08	$36.56
1988	1,811,495	1,250,785	69.0	59.68	41.21
1989	1,713,666	1,242,981	72.5	65.30	47.37
1990	1,744,253	1,192,990	68.4	67.87	46.42
1991	1,866,205	1,190,268	63.8	69.15	44.11
1992	1,955,713	1,238,799	63.3	67.95	43.04
1993	2,140,426	1,397,614	65.3	66.90	43.69
1994	2,150,920	1,478,549	68.7	69.99	48.11
1995	2,127,010	1,608,914	75.6	76.35	57.75
1996	2,150,215	1,711,785	79.6	87.37	69.55
1997	2,170,020	1,682,653	77.5	104.92	81.35
1998	2,310,252	1,692,612	73.3	114.62	83.97
1999	2,392,307	1,794,445	75.0	119.75	89.82
2000	2,487,455	2,026,252	81.5	138.58	112.88
2001	2,651,664	1,690,428	63.7	130.81	83.39
2002	2,786,552	1,572,178	56.4	107.48	60.64
2003	3,020,488	1,609,163	53.3	95.64	50.95
2004	3,134,640	1,761,465	56.2	93.20	52.37
2005	3,159,075	1,896,218	60.0	96.93	58.18
2006	3,159,075	2,087,613	66.1	106.19	70.17
2007	3,145,500	2,126,912	67.6	116.48	78.76
2008	3,156,147	2,033,492	64.4	119.29	76.86
2009	3,141,555	1,753,324	55.8	100.75	56.23
2010	3,141,249	1,988,523	63.3	99.40	62.92
CAGR[1]	2.8%	2.5%		2.8%	2.4%

[1] Compounded Annual Growth Rate
Source: *STR*

By 2000, at the end of the high tech boom and dotcom bubble, the market had sustained several years of double-digit rate growth and RevPAR peaked at $112.88, which was nearly double the RevPAR achieved in 1995. With the addition of new supply, the economic downturn resulting from the bursting of the tech bubble, and the impact on travel following the events of 9/11, market demand dropped dramatically in

2001. The downturn continued through 2003, and RevPAR bottomed out at $50.95, less than half what it had been in 2000 and just slightly better than that achieved in 1994.

RevPAR steadily improved through 2007, but still had not returned to the 1997 level, indicating the continuing struggle the hotels in the market were facing despite a relatively robust economy. Then, beginning in the second half of 2008, the national economy suffered from the financial crisis and the local market was affected like most of the country with sharp drops in demand. Average Daily Rates (ADR) fell in concert with occupancy, and continued to fall through 2010.

The San José hotel market is beginning to recover from the downturn that began in late 2008. According to data from STR, demand in San José increased by 13.4% in calendar year 2010 versus the same period in 2009. And while the average daily rate (ADR) has continued to decline, by -1.3%, the increased demand and occupancy led to an overall gain in rooms revenue and revenue per available room (RevPAR) of 11.9% for the year. Furthermore, the increases have gained in the second half of the year, with RevPAR from July through December (equal to the first half of the City's fiscal year) growing by 12.5% over the prior year.

Interviews with managers of major hotels in the market indicate that the resurgence in individual business travelers has led the recovery. Group business has been slower to return but early indications are that it will follow suit beginning in 2011. Managers indicated expectations ranging from 3-12% growth in RevPAR in 2011, as the market continues to recover. Occupancy is expected to be the largest contributor to growth, although expectations are that rates have bottomed out and will begin to increase slightly in 2011. This is supported by the growth exhibited in the second half of 2010, as since May the market has had growth in ADR in every month except August. For these eight months from May through December, the average monthly growth in ADR was 2.9%.

Historical Supply Growth

As can be seen from the following table, there was fairly robust growth in hotel rooms supply from 1987 through 2004, after which it has mostly leveled off. Guestroom supply grew by 3.3% annually from 1991 - 1995, 3.7% from 1996 - 2000, 4.5% from 2001 - 2005, and decreased by -0.1% from 2006 - 2010. The following table presents the historical growth of the city's hotel supply.

City of San José
Highlights of Supply Growth

Year	# of Rooms Added	% Change in Supply	Hotels Opened
1988	434	9.6%	Fairmont (late 1987)
1991	334	7.0%	Courtyard SJ Airport, Holiday Inn Silicon Valley, Staybridge Suites
1992	246	4.8%	Homewood Suites
1993	506	9.4%	Hilton San José
1998	384	6.5%	Homestead, Residence Inn
2000	261	4.0%	Extended Stay Deluxe
2001	449	6.6%	3 Extended Stay Americas, Towne Place Suites, Moorpark Hotel
2002	369	5.1%	Hampton Inn & Suites, Comfort Suites, Fairmont Expansion
2003	641	8.4%	Marriott San José, Hotel Valencia

Note – Rooms added are adjusted for mid-year openings; SJCC opened in 1989
Source: *STR*

The two significant periods of growth in hotel supply were the early 1990s and the early 2000s, which were both periods that followed performance peaks. Given the lengthy lead-time for development projects, specifically for large full-service hotels, it is not uncommon for projects that are planned during boom periods to open during economic downturns, which further exacerbates market downturns. The market performance increased significantly between 1987 and 1989, before experiencing a downturn from 1990 through 1992. Throughout the remainder of the 1990s, the lodging market expanded significantly as the Silicon Valley led the way in technological innovation and the major tech companies in the region became some of the most powerful in the country.

The final big construction boom culminated with the opening of approximately 2,000 rooms between 2000 and 2004. Overall supply grew from 5,022 rooms in FY 1990 to its current 8,892 rooms in FY 2010, which equates to a CAGR of 2.9% room nights available over this 20-year period.

Hotel Stratification

There are three broad categories of hotels in the San José market: Convention Hotels, Branded Hotels, and Independent Hotels. Team San José (TSJ), which acts as the convention and visitors bureau for the city, tracks the performance of 14 major hotels within the city, referred to as the Convention Hotels. These 14 Convention Hotels represent a total of 4,409 guestrooms, or approximately 49.6% of the total lodging inventory of the city, and include both the major downtown hotels as well as larger hotels in other parts of the city that serve the convention market and also attract their own group business. The second sector is the Branded Hotels, which includes 32 hotels with 3,199 guestrooms, or 36.0% of the total citywide supply. These Branded Hotels are either affiliated with the major brands or an upscale marketing association such as Preferred Hotels, but have limited meeting space and cater primarily to transient travelers. The third category, the Independent Hotels, are generally smaller and older, and these properties do not contribute their data to STR. These Independent Hotels make up the smallest component of the market, with 31 properties comprising 1,284 guestrooms, or 14.4% of the total. A table in the Addenda presents a complete list of the city's hotels by category.

The Convention Hotels tend to achieve the highest average rates due to the high quality of their facilities, the level of services provided, and the strong brand affiliation of several of these hotels. The Branded properties, generally smaller and more moderately priced, achieve the highest occupancy level of the hotel categories. The Independent Hotels trail the market in both occupancy and RevPAR as their age and condition is generally poorer than the other hotels and they lack the reservations systems provided by the national chains. The following estimates of the 2010 performance for the three categories is extrapolated using the data provided by STR and TSJ.

San José Hotels
Performance by Category – Estimated 2010

Category	# of Rooms	Occupancy	Average Daily Rate	Revenue Per Available Room
Convention Hotels	4,409	59%	$117	$69
Branded Hotels	3,199	69	78	54
Independent Hotels	1,284	58	82	48

Source: *STR, TSJ, Horwath HTL*

Future Supply

Although this report assumes that no new hotels will join the CCFD, for the purpose of analyzing the potential revenues from the existing hotels in the CCFD it is necessary to evaluate the total citywide market and derive the resulting RevPAR. We have therefore reviewed the potential for new hotels to be opened within the city, regardless of their inclusion in the CCFD. Our projections further assume that no existing hotels in the CCFD will cease operating as hotel properties during the projection period.

One of the key factors leading to the recovery in lodging markets both nationally and in San José is the limited amount of new supply entering the market. In San José, there is one hotel currently under construction, which is the 160-room Hotel Sierra expected to open in March 2011 near the intersection Highway 237 and N. 1st Street in north San José. Beyond this, the lack of financing for real estate generally has limited any potential new developments, thus allowing the market to recover as the demand side improves.

While there will be limited additions to supply in the near term future, eventually the financial markets will return and new development projects will come to fruition. We have assumed that the two projects that are approved and awaiting financing (a Marriott Residence Inn/Fairfield Inn with 321 rooms located at N. 1st Street and Skyport in North San José, and the America Center project with 176 rooms located on Gold St. north of Highway 237 in the Alviso district) will be completed in 2013 and 2014, respectively. Beyond that, we have assumed approximately 400 rooms opening every five years, which results in an overall annual CAGR in supply of 0.8% for the 36-year period. The estimated CAGR for supply of 0.8% from FY 2010 through FY 2046 is well below the historical CAGR of 2.9% from FY 1990 through FY 2010. Our estimate of the potential future growth in supply is lower than the historical level due largely to the status of San José as a more mature market, where new real estate construction of all kinds is anticipated to occur at a slower pace than historically. Also, as a mature market San José now has a large base of hotel guestrooms, meaning future additions represent smaller percentage increases than historically.

As a mature market, there are greater limitations on the availability of land in San José suitable for new hotel development. Additions to supply can include expansion of existing properties (for example, the Holiday Inn has excess land and its owners have long discussed the possibility of expanding), demolishing older properties and replacing them with larger buildings, as well as new construction. Further, despite being a mature market, San José's *Envision 2040* planning document highlights several growth areas designed to accommodate new employment centers as well as housing, such as North San José, Downtown, and special plan areas such as Alviso and Rincon South. As these growth areas are expected to house concentrations of new office and commercial space, it is likely that much of the future hotel development will take place in these areas as well.

Demand Profile

In addition to the availability of the STR data, the data that TSJ tracks for the 14 Convention Hotels includes monthly performance in terms of occupancy and ADR, as well as their mix of group and transient business. Over the past four years, the mix of business coming from the group segment has decreased from approximately 45% of the total to approximately 34%, primarily as a result of the disproportionate impact the economic downturn has had on group demand. The following table presents the market mix for this sample of properties over the past four fiscal years.

GROUP vs. TRANSIENT SUMMARY BY FISCAL YEAR
14 SAN JOSÉ CONVENTION HOTELS

Fiscal Year	Group Rooms	Transient Rooms	Total Rooms	Group %	Transient %
2007	437,813	528,964	966,777	45.3%	54.7%
2008	428,700	575,603	1,004,303	42.7%	57.3%
2009	339,820	527,510	867,330	39.2%	60.8%
2010	305,290	586,240	891,530	34.2%	65.8%

Source: *Team San José*

This pattern is reflected in most markets nationally, as companies have tightened their group travel budgets in a reaction to the perceived excesses of corporate events, often referred to as the AIG effect. In San José, this trend has been exacerbated by the declining competitiveness of the SJCC, as discussed later in this report. Over these past four years, these properties have averaged approximately 40% group business and 60% transient travelers.

As these hotels represent the largest and most group oriented of the hotels in the city, these results somewhat overstate the group market for the city overall. Transient demand in the market is generated primarily by the many corporations in the city, which attract business travelers. As San José is not considered a tourist destination, only a small portion of transient demand is leisure related, with people visiting friends and relatives and attending special events in the area.

Group business in San José is a combination of associations holding meetings either at SJCC or the larger hotels that can accommodate them, corporate group meetings, and SMERF (Social, Military, Educational, Religious, and Fraternal) group meetings. Overall, based on the data for the 14 convention hotels and the lower level of group business attracted by the other categories of properties in the market, we estimate that the citywide market is currently made up of approximately 75% transient demand and 25% group demand.

Transient demand grows primarily as a result of business activity created by the local corporate demand generators. For example, the numerous high-tech companies in Silicon Valley draw a wide variety of types of travelers ranging from sales calls to financial advisors and corporate executives. In 2010, as the economy has begun to improve, commercial travelers have led the recovery of occupancy at the city's hotels and this business is expected to continue to grow as the economy strengthens further.

Group demand grows as a function of both the economic conditions in the local area and, in the case of national and regional associations, the wider region and nation. Attracting group demand is also more dependent upon the facilities able to accommodate the groups, as unlike corporate demand that needs to be close to the company being visited, meeting planners have a variety of locations they can choose from for their meetings. Group demand is expected to grow slowly until the completion of the SJCC expansion and renovation project, expected to be 2013.

Regional Lodging Market

The hotels in San José also compete with other hotels in the neighboring cities within the Silicon Valley for corporate transient demand and group business. Milpitas, Santa Clara, and Sunnyvale all have hotels that compete directly for some of the major corporate demand generators in the area, as do some of the smaller nearby communities such as Campbell and Los Gatos. The SJCC and large convention hotels also compete for major group business with regional convention centers such as Santa Clara, Phoenix, Portland, Reno, Sacramento and Seattle. TSJ has also reported increased competition from the large Las Vegas casino hotels, which have been discounting heavily to try to build business during the downturn.

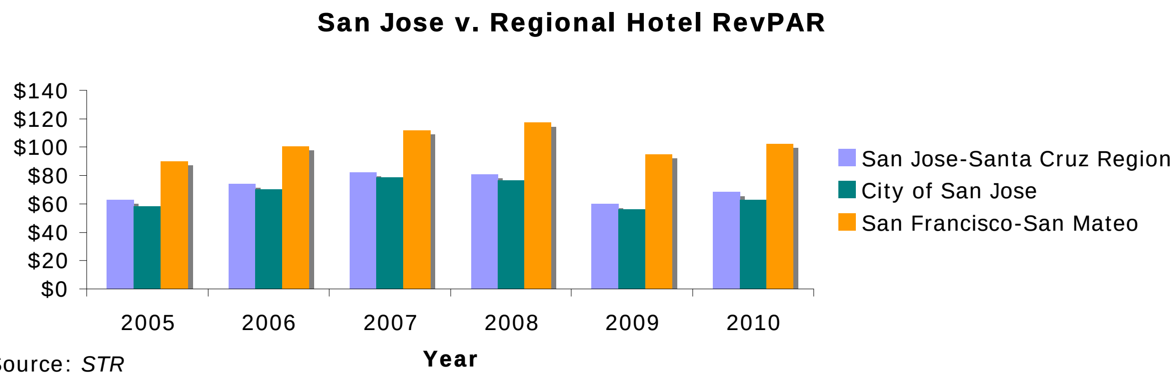
The regional market is tracked by STR as the San José-Santa Cruz region. In its sample, STR reports on 178 properties with a total of 22,966 guestrooms, or roughly 2.5 times the total guestroom census for the City of San José. The performance of this region as a whole, as well as the neighboring San Francisco-San Mateo region, is presented in the following table.

Regional Lodging Performance

	San José-Santa Cruz			**San Francisco-San Mateo**		
Year	**Occ. %**	**ADR**	**RevPAR**	**Occ. %**	**ADR**	**RevPAR**
2005	62.4%	$101.08	$63.04	71.6%	$125.60	$ 89.91
2006	67.1	110.61	74.24	72.9	137.91	100.57
2007	69.3	118.94	82.41	75.2	148.59	111.75
2008	65.3	123.85	80.86	75.0	156.34	117.28
2009	56.7	105.76	59.99	71.2	133.41	95.02
2010	64.5	105.10	68.42	75.2	135.97	102.31
CAGR[1]		0.8%	1.7%		1.6%	2.6%

[1] Compounded Annual Growth Rate
Source: *STR*

As can be seen by comparing this table to the STR data for the City of San José presented earlier, the overall region tends to perform slightly higher than the city in both occupancy level and ADRs, but overall mirrors the city hotel performance fairly closely. The slightly stronger performance is primarily a result of the hotels in cities such as Santa Clara, Sunnyvale, and Cupertino being located closer to the largest corporations in Silicon Valley such as Google, Intel, Apple, Yahoo!, and Advanced Micro Devices. The following chart presents a comparison of the RevPAR for the San José-Santa Cruz region and the City of San José. The hotels in the San Francisco-San Mateo market perform at a higher level than those in the South Bay, due largely to the ability of San Francisco hotels to attract the tourist market as well as business travelers and groups. Despite the variance in ADR and RevPAR, however, the pattern of growth and decline in the market over the past five years is very similar to that of San José, indicating that the city's hotels are subject to the same market forces as those in the region overall.


San Jose v. Regional Hotel RevPAR
$140
$120
$100
$80
$60
$40
$20
$0
2005
2006
2007
2008
2009
2010
Year
San Jose-Santa Cruz Region
City of San Jose
San Francisco-San Mateo

Source: *STR*

IV. SAN JOSÉ HISTORICAL TOT COLLECTIONS

Procedures

The Hotel Transient Occupancy Tax is covered in Title IV of San José Municipal Code, Chapter 4.72, 4.74 and 4.75. Transient Occupancy Tax (TOT) is tax collected by the operator of the hotel/motel from customers who occupy or stay for less than thirty (30) days. A hotel guest is exempt from paying the tax on the 31st day and thereafter. In addition, foreign diplomats and federal government employees on official business are also exempt from the TOT.

The Transient Occupancy Tax collected by the hotel operators is due to the City on or before the last day of each month for the preceding calendar month. For those whose annual tax debt to the City is less than $100,000, they may elect to pay the taxes due on a quarterly basis. The due date for quarterly return is the last day of the month following each calendar quarter.

A ten percent late charge is added after the original due date. An additional ten percent is added once the tax became delinquent for thirty days. In addition to the late charges, a daily interest of 0.0004931507 or 18% annually is charged. Furthermore, a 25% penalty can be levied for fraudulent activities related to non-compliance with the TOT ordinance.

Each month a hotel files a TOT Report with the City reporting their income and exemptions, complete with backup paperwork. City employees check the Report for any math error or other discrepancies, and if such is found it is flagged for follow up. The City also periodically audits hotel TOT payments, which have a statute of limitations of three years. If discrepancies are found between the originally reported amounts and the audits, and the hotel after being notified agrees with the revised amount, the hotel pays a restitution including penalties and interest. The CCFD Special Tax, which is discussed in detail later in this report, will be collected and monitored in the same manner, but with slightly different penalty provisions, and with the ultimate remedy of judicial foreclosure.

Collections

The City's TOT rate is 10.0% of Taxable Hotel Revenues (also referred to as rent), and has been the same rate for at least the past 20 years. The historical TOT collections for the City are presented in the following table:

City of San José Historical Transient Occupancy Tax Revenue			
Fiscal Year Ending June 30	**Taxable Hotel Revenue**	**TOT Revenue (10%)**	**Percent Change**
1990	$66,267,870	$6,626,787	-
1991	67,799,477	6,779,948	2.3%
1992	73,049,396	7,304,940	7.7
1993	78,076,149	7,807,615	6.9
1994	88,816,493	8,881,649	13.8
1995	97,198,923	9,719,892	9.4
1996	120,553,349	12,055,335	24.0
1997	147,031,794	14,703,179	22.0
1998	172,056,806	17,205,681	17.0
1999	185,488,980	18,548,898	7.8
2000	224,325,055	22,432,506	20.9
2001	255,415,480	25,541,548	13.9
2002	165,774,679	16,577,468	-35.1
2003	164,796,014	16,479,601	-0.6
2004	163,951,186	16,395,119	-0.5
2005	179,786,082	17,978,608	9.7
2006	211,536,136	21,153,614	17.7
2007	224,596,462	22,459,646	6.2
2008	267,250,158	26,725,016	19.0
2009	194,819,035	19,481,903	-27.1
2010	186,001,647	18,600,165	-4.5

Source: *City of* San José *Dept. of Finance*

The City's TOT revenues are a function of both the hotels' RevPAR and the changes in the supply of guestrooms. Thus even in years in which the RevPAR in the market declined, such as 1990-91, the added supply resulted in an increase in revenue.

Monthly TOT Revenues

Over the past five years, with fluctuations due to the economic downturn as well as seasonal patterns, the overall monthly TOT revenues have mostly remained within a range from approximately $1.3 million to $2.0 million. When totaled for the five-year period, every month except November and December have seen revenues average over $1.6 million, with December being the low month at $1.46 million and March the high month with an average of over $1.9 million. The following table and chart show the monthly revenues over the past five years.

City of San José
Monthly TOT Revenues

Month	*FY 2006*	*FY 2007*	*FY 2008*	*FY 2009*	*FY 2010*
Jul	$1,482,993	$1,604,490	$1,923,933	$1,922,891	$1,322,815
Aug	1,403,073	1,728,245	2,011,252	1,861,309	1,359,796
Sep	1,459,360	1,747,015	1,910,042	1,986,431	1,382,419
Oct	1,519,658	2,055,975	2,037,096	1,693,173	1,487,984
Nov	1,594,270	1,543,131	1,792,521	1,466,382	1,276,908
Dec	1,278,514	1,457,651	1,788,476	1,493,323	1,305,704
Jan	1,619,625	1,836,761	1,939,823	1,432,281	1,240,425
Feb	1,787,522	1,776,973	2,039,655	1,275,223	1,471,732
Mar	2,181,951	2,178,756	2,161,208	1,468,972	1,605,031
Apr	1,595,334	1,864,669	1,958,589	1,243,515	1,382,538
May	1,581,221	1,918,435	1,951,671	1,225,990	1,693,864
Jun	1,816,204	2,183,408	2,166,472	1,290,089	1,572,802
Year-end Reconciliation[1]	1,833,889	564,136	3,055,112	1,122,323	1,498,147
Annual	$21,153,614	$22,459,646	$26,735,016	$19,481,903	$18,600,165

[1] Year-end reconciliation include late payments, post-audit collections, and prior year adjustments.

Source: *City of San José Dept. of Finance*

As shown, the TOT revenues for FY 2010 were below the pace of FY 2009 until February, when the market began to pick up and the totals surpassed the prior year for the remaining months.

For the first five months of the current fiscal year (through November 2010), TOT revenues have increased substantially over the prior year, as would be expected based on the STR performance indicators. The following table presents the monthly and cumulative data compared with the prior year.

City of San José
Monthly TOT Revenues

Month	*1st Half FY 2010*	*1st Half FY 2010 Cumulative*	*1st Half FY 2011*	*First Half FY 2011 Cumulative*	*Percent Change - Month*	*Percent Change - Cumulative*
Jul	$1,322,815	$1,322,815	$1,520,359	$1,520,360	14.9%	14.9%
Aug	1,359,796	2,682,611	1,388,523	2,908,883	2.1	8.4
Sep	1,382,419	4,065,030	1,550,371	4,459,254	12.1	9.7
Oct	1,487,984	5,553,014	1,759,568	6,218,821	18.3	12.0
Nov	1,276,908	6,829,922	1,524,613	7,743,434	19.4	13.4

Source: *City of San José Dept. of Finance*

As shown, the cumulative revenue increase of 13.4% is very comparable to the 12,5% increase reported by STR for the second half of 2010.

<u>Top 10 Contribution</u>

The top 10 hotels in terms of Taxable Hotel Revenue are listed in alphabetical order as follows:

San José Top 10 TOT Contributors				
Hotel	**Number of Rooms**	**Meeting Space Sq. Ft.**	**Year Built**	Last Renovation
Courtyard by Marriott	150	1,250	1990	2004
Crowne Plaza	240	6,760	1974	2008
Doubletree Hotel	505	30,000	1982	2004
Fairfield Inn & Suites	186	1,810	1969	2000
Fairmont Hotel	805	66,800	1987	2008
Hotel Valencia Santana Row	213	3,804	2003	2008
San José Airport Garden Hotel[1]	512	27,800	1961	1998
SanJosé Hilton	355	7,621	1992	2002
San José Marriott	506	21,000	2003	2008
Wyndham Hotel	355	16,000	1974	2005
Total	3,827			

[1] Formerly Holiday Inn, converted as of end of October 2010
Source: *STR, Hotel Travel Index*

These 10 properties have a total of 3,827 rooms, comprising approximately 43% of the total rooms inventory in the city. The Fairmont with 805 rooms is the largest in the city, and the Doubletree and Marriott are both slightly over 500 rooms; together, these three hotels make up approximately 20% of the citywide total room inventory.

In terms of TOT revenue, these ten hotels represent slightly over half (58.7%) of the total collections for the City over the past five years. The revenue production slightly exceeds their relative percentage of the total rooms in the city because these hotels tend to be more upscale and therefore higher priced, and perform with a higher ADR and RevPAR than the market overall. Of the 10 hotels, the Marriott, Hilton, Fairmont and Crowne Plaza are situated in Zone 1 of the CCFD, while the rest are in Zone 2. For 2010, the top 10 contributors represented a slightly higher proportion than their 5-year average at 58.7%. For comparative purposes, we have also included the revenue totals for the ten next largest contributors, which comprise only approximately 16.3% of total citywide TOT revenues. As shown in the table below, after the top 10 hotels the contribution per property drops significantly. The remaining 25% of TOT revenue is contributed by the other 57 hotels in the city's inventory.

San José Top TOT Contributors Revenue Contribution Percentage		
	FY 2010	***% of Total***
Top 10 TOT Contributors	$10,917,273	58.7%
11-20 TOT Contributors	3,032,271	16.3
Remaining TOT Contributors	4,650,620	25.0
City Total	$18,600,165	100.0%

Source: *City of San Jose*

Reconciliation with STR Data

As mentioned above, the STR data for the city's hotels samples the majority of hotels in San José, but not all. For the most part, the hotels in the city that do not contribute to STRs database are small, older independent hotels. These hotels typically underperform the overall market, and therefore the STR figures are slightly inflated for the city overall. STR then extends its statistics calculated based on the survey respondents to the overall census of the citywide supply, thus inflating the total revenues. This was more evident in early years, when STR respondents tended to be the more upscale brands in the market; as STRs sample has broadened over the years, the statistics more closely matches the actual citywide performance. Furthermore, the STR data does not factor in any exemptions for long-term stays or government employees, which affects the Taxable Hotel Revenues but not the overall market.

The following table presents the original STR data used above but sorted for Fiscal Years, and compares it with the Taxable Revenue for the city. By factoring in the percentage of participation and making adjustments accordingly, an estimated total RevPAR for the city can be calculated. As can be seen, as the STR sample has covered a larger percentage of the citywide hotel rooms over time, growing from under 60% of the total in 1990 to nearly 90% for the past five years, the variance in revenues and RevPAR has narrowed.

City of San José
Reconciliation of STR Data and Taxable Hotel Revenue

Fiscal Year	STR Sample (%)	STR Occ. (%)	STR ADR ($)	STR RevPAR ($)	STR Revenue ($000)[1]	City Taxable Revenue ($000)	Var. fr STR (%)	City Occ. (%)	City ADR ($)	City RevPAR ($)
1990	56.7	71.9	66.43	47.77	81,158	66,268	-22.5	69.5	51.99	36.15
1991	59.5	64.5	68.63	44.28	80,588	67,799	-18.9	62.4	56.95	35.51
1992	63.5	64.2	69.36	44.51	84,265	73,049	-15.4	62.2	58.32	36.25
1993	70.9	64.3	67.19	43.23	89,064	78,076	-14.1	62.7	57.83	36.28
1994	73.4	66.8	68.60	45.86	98,766	88,816	-11.2	65.4	60.41	39.48
1995	72.5	72.2	72.43	52.33	111,659	97,199	-14.9	70.7	61.30	43.34
1996	72.6	78.4	81.06	63.54	136,126	120,553	-12.9	76.8	69.95	53.76
1997	71.8	77.8	96.76	75.27	162,319	147,032	-10.4	76.2	85.21	64.94
1998	73.0	75.7	110.99	83.97	186,017	172,057	-8.1	74.1	99.05	73.40
1999	75.7	74.2	116.70	86.57	205,475	185,489	-10.8	72.8	103.71	75.55
2000	76.0	78.5	126.95	99.64	242,529	224,325	-8.1	77.1	114.34	88.18
2001	75.6	75.2	144.84	108.90	280,315	255,415	-9.7	73.8	129.40	95.53
2002	78.8	58.3	112.29	65.42	177,434	165,775	-7.0	57.0	102.94	58.72
2003	83.5	54.7	100.33	54.92	157,579	164,796	4.4	53.7	102.01	54.80
2004	86.2	53.5	93.82	50.22	156,171	163,951	4.7	52.7	97.71	51.53
2005	85.5	58.0	94.81	54.97	173,665	179,786	3.4	57.1	96.79	55.31
2006	87.4	63.8	102.01	65.13	205,742	211,536	2.7	63.1	102.78	64.83
2007	88.7	67.0	111.08	74.39	233,995	224,596	-4.2	66.3	104.11	68.97
2008	87.3	66.7	119.63	79.84	252,232	267,250	5.6	66.0	124.44	82.11
2009	88.5	57.8	110.21	63.68	200,444	194,819	-2.9	57.1	104.95	59.89
2010	88.0	60.5	98.14	59.40	186,602	186,002	-0.3	59.8	95.86	57.31
CAGR						5.3%			3.1%	2.3%

[1] STR Revenue is based on data from sample contributors applied to the entire supply in the market.
Source: *STR, City of San José Dept. of Finance, Horwath HTL*

DRAFT

V. SJCC EXPANSION AND RENOVATION

The San José Convention Center opened in 1989, and, along with the new Fairmont Hotel, gave downtown San José the ability to market itself to associations and larger corporate groups that had previously not considered San José an option. With the new inventory of space and the burgeoning Silicon Valley high tech industry, San José was an obvious choice for a variety of technology conventions, trade shows, and other events. In 1993, the San José Hilton opened allowing for a bigger available downtown room block, and throughout the 1990s the downtown San José market, with the SJCC as a focus, was an inviting and successful convention destination.

In more recent years, however, the national convention market has become increasingly competitive as cities have added new convention centers and expanded existing facilities. Given the increasing competition, coupled with the eroding condition of the SJCC, the facility has had a more difficult time attracting the core association and corporate groups it needs to effectively serve the city's lodging market. The competitive weaknesses of the Facility have exacerbated the impact of the economic downturn on performance since 2008.

Convention Center attendance includes a variety of activities including meetings, conventions, consumer trade shows, banquets, and performances. Attendance at such events can be either completely housed at the Convention Center or spread across multiple venues. Total attendance grew from nearly 539,000 in FY 2005 to over 693,000 in FY 2008, before dropping down to 446,000 in FY 2010. The estimated economic impact of the Convention Center attendance has ranged from approximately $80 million to $105 million during this six-year period. The following table presents historical attendance figures and estimated economic impact since FY 2005.

San José Convention Center
Historical Attendance and Economic Impact

Fiscal Year Ending June 30	Total Attendance	Out of Town Attendance	Estimated Economic Impact
2005	538,881	88,174	$85,414,392
2006	479,488	92,786	106,518,871
2007	542,036	67,788	88,956,923
2008	693,510	75,199	98,535,127
2009	587,612	86,286	104,153,060
2010	446,069	58,240	78,714,542

Source: *Team San José*

Team San José is responsible for marketing San José as a destination, and books group business into the SJCC as well as for other venues within the city. In 2010, the SJCC is expected to generate approximately 120,000 room nights of group demand for the city's hotels, according to TSJ data. This represents approximately 65% of the total group room nights (180,000) generated by TSJ for the city overall, which represents approximately 10% of the city's overall rooms occupied. Room nights booked by TSJ grew from FY 2005 through FY 2007, before declining in FY 2008 and continuing to fall through FY 2010, as shown in the following table.

Team San José Historical Room Nights Generated			
Fiscal Year Ending June 30	**Room Nights – Total**	**Room Nights – Convention Center**	**Convention Center % of Total**
2005	164,731	114,877	69.7%
2006	201,618	131,086	65.0
2007	237,132	179,720	75.8
2008	222,091	172,637	77.7
2009	200,697	137,536	68.5
2010	182,452	120,501	66.0

Source: *Team San José*

Booking pace is a measure of future bookings, and can be measured against historical bookings for a comparable time period as well as budgets or targeted bookings. As of September 2010, advance bookings for 2011 for the SJCC are off the targeted pace by approximately 40,000 room nights, or 35%, as a result of the poor economic conditions in 2008-09 when the normal advance bookings for 2011 would have been made. The pace for 2012 is at approximately 80% of the targeted pace, increasing to 90% in 2013, indicating the advanced bookings are still below average but improving. Furthermore, tentative room nights appear to be fairly strong, although the ability to actually contract these room nights could be affected by the construction project. The table below presents the pace information for the period corresponding to the proposed construction project.

Team San José Advanced Bookings Pace			
	2011	2012	2013
Total Citywide			
Definite Room Nights	103,516	59,401	51,319
Pace Targets	130,538	79,389	54,556
Pace Percentage	79.3%	74.8%	94.1%
Tentative Room Nights	54,400	81,814	58,127
Convention Center			
Definite Room Nights	65,560	53,938	44,151
Pace Targets	103,142	67,716	48,704
Pace Percentage	63.6%	79.7%	90.7%
Tentative Room Nights	36,654	68,958	53,594

Source: *Team San José, TrendsAnalysisProjections LLC*

The SJCC competes with a number of convention centers in the western region. Team San José tracks its performance against a group of competitors through the TAP Peer Report, from TrendsAnalysisProjections LLC. The peer set selected by TSJ for the SJCC is comprised of Phoenix, Portland, Reno, Sacramento and Seattle. The TAP report measures the facility's definite bookings relative to its pace targets, and compares the performance across the peer set. The report also tracks conversion percentage, which is a measure of the facility's ability to capitalize on leads it gets for potential future business. The Pace Index and Conversion Index are benchmarks, with an index above 100 indicating performance above the competitive set, and below 100 indicating weaker performance. In the most recent report available, as of August 2010, SJCC was performing well below the peer set in most of the observable measures with a Pace Index of 82 in 2011, 76 in 2012, and 96 in 2013 and a Conversion Index of 92,80, and 112 for the same three years.

Team San José
TAP Peer Set Rankings

	2011	2012	2013
Pace Index	82	76	96
Pace Index Rank	6 of 6	6 of 6	4 of 6
Conversion Index	92	80	112
Conversion Index Rank	5 of 6	6 of 6	3 of 6

Source: *Team San José, TrendsAnalysisProjections LLC*

Another indication of the SJCCs challenges is the Lost Business report the TSJ maintains for the property. TSJ management has tracked nearly 200,000 room nights worth of business lost between 2006 and 2012 due to a combination of insufficient space and the condition/appropriateness of facilities. Groups that have been lost include corporate groups such as Adobe Systems (19,495 room nights), IBM (6,040), and Salesforce.com (19,360), while associations that have been lost include the Nano Science and Technology Institute (3,817), SPIE – an optics organization – (38,532), and the Solar Electric Power Association (3,339).

Renovation Needs

As the facility has become less competitive in the market, the SJCC renovation and expansion project has been under planning for several years, and the scope has evolved over that period. The project scope, as currently envisioned, calls for total spending to be no more than $120 million. The facilities renovation needs are spread over several categories, and have been known and planned for several years, but repairs have been deferred until the entire project can be undertaken. A property condition report conducted by Property Condition Assessments, LLC in 2007 highlighted approximately $16 million in repairs that were needed either immediately or by 2011. The major repairs noted included approximately $1.9 million for the building exterior, $1.8 million for roof repairs, $4.2 million for the interior including the acoustical wall systems, $4.3 million for the HVAC system, $0.4 million for plumbing, $0.8 million for electrical, $1.5 million for fire/life safety, $0.3 million for vertical transportation, and $0.6 million in food service equipment. Of these repairs, only a flat portion of the roof has been completed and the other items have continued to deteriorate as the repairs have been deferred.

In addition to renovating the existing facilities, the plan will add 35,000 square feet of new ballroom space and 25,000 square feet of additional breakout space. This addition of 60,000 square feet of new space will add approximately 30% to the existing base of 192,000 square feet.

The project is expected to take approximately two years to complete, beginning in January 2011. The construction, and more importantly the renovation, will disrupt business at the facility during this period. The development team of Hunt Construction Group and Populous has been selected but not yet contracted. We understand that the major components of the repairs will include the majority of the above items although the total scope is not finalized.

Based on previous estimates prepared by TSJ in conjunction with Strategic Advisory Group, and adjusted for the reduced scope of the project, we have estimated there will be approximately 20,000 room nights of demand lost in the market per year due to the convention center construction project. When the project is completed, we have assumed a 25,000-room-night increase in demand annually, which is roughly 20% of the current room nights generated by the convention center. Given that the addition will comprise approximately a 30% increase in space plus a renovation of the existing space, which is needed to prevent further losses in the market, this is considered to be a conservative estimate of the potential increase in convention center business. Should the convention center be successful in getting back to historical or greater levels of business, as the project is intended to achieve, this would result in stronger citywide hotel performance than estimated herein.

VI. CONVENTION CENTER FACILITIES DISTRICT

The City has created the Convention Center Facilities District (CCFD), in which a special tax will be levied on all hotel properties within the district. Some or all of the Special Tax revenues will be used to repay the bonds issued for the renovation and expansion of the San José Convention Center (the Facility).

The CCFD categorizes all hotels in the city as either in Zone 1 or Zone 2. Zone 1 hotels are those within a 2¼ mile radius of SJCC, and Zone 2 includes all other hotels. The Base Special Tax Rate (Base Rate) for the two Zones are presented in the following table:

Term	Zone 1 Base Special Tax Rate	Zone 2 Base Special Tax Rate
July 1, 2009 – December 31, 2009	4%	1%
January 1, 2010 – June 30, 2010	4%	2%
Fiscal Year 2010-2011	4%	3%
Fiscal Year 2011-2012 and thereafter	4%	4%

The CCFD Special Tax is collected and monitored in the same manner as the TOT, as discussed earlier. Any Operator who fails to remit the Special Tax levied within the time required shall be subject to a penalty of ten percent (10%) of the amount delinquent in addition to the delinquent Special Tax. Delinquent Special Taxes will incur an additional 1½% penalty (applied to the amount originally levied without compounding) on the first day of each month which is more than six months after the date when the delinquent Special Tax was levied.

The CCFD is comprised of hotel parcels in the district at the time it was created, and currently includes all hotels in San José. As new hotels are built over time, the new properties can be annexed into the CCFD if the owners elect to do so. It is possible that the owners of new hotels in the downtown, and larger full-service hotels in other parts of the city, would elect to join the CCFD in order to fully participate in the city's convention and tourism community. For the purpose of this analysis, however, we have assumed that no new supply will enter the CCFD and no currently existing hotels will discontinue operating as hotels. Therefore, throughout the projection period the CCFD Special Taxes are estimated based solely on the existing base of hotels in the city.

In addition to the Base Rate, all the hotels in both zones are subject to an Additional Special Tax Rate (Blinker Tax) of 1.0% of Rent. The Blinker Tax is only to be applied in years in which the City's Revenue Stabilization Reserve is less than the Revenue Stabilization Reserve Requirement specified in the bond documents.

Finally, the City may choose to appropriate all or a portion of the 1.5% of the total rent (or 15% of the 10.0% Transient Occupancy Tax collected citywide) that is currently allocated for marketing the city and Convention Center, to make the annual bond payments.

From July 2009 through January 2011, the City has collected approximately $7.1 million in CCFD Special Tax revenues. As discussed with the TOT reporting, the City conducts periodic audits of the reported income and can recover underreported income from prior periods. The CCFD Special Tax Revenues may be adjusted as a result of audits.

Of the total of 8,892 guestrooms located within the city, 28 properties with 3,157 rooms (35.5%) are located in Zone 1 of the CCFD, while Zone 2 contains 50 hotels with 5,735 rooms. The table in the Addenda showing all hotels in the City of San José also indicates which zone they are in.

VII. TAXABLE HOTEL REVENUE FORECAST

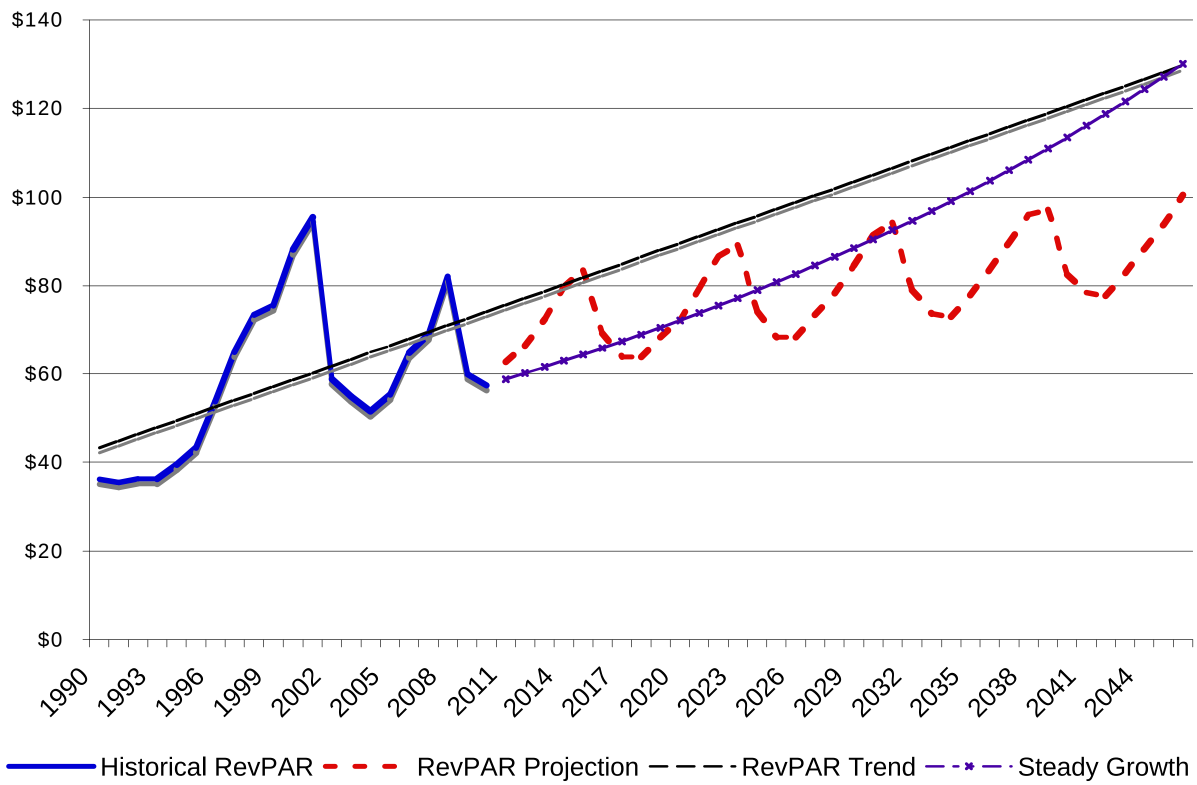
The city's taxable hotel revenues are a function of the projected occupancy percentage, ADR, and RevPAR coupled with the assumed increases in supply over the projection period. As noted previously, while the CCFD revenue projections assume that no new hotels will be annexed into the CCFD, the estimated new supply in the city is considered for its potential impact on the citywide market performance. Furthermore, the new supply does factor into the total citywide TOT revenues, which affects the potential 1.5% allocation to the project. While there will be limited additions to supply in the near term future, eventually the financial markets will return and new projects can get off the ground. We have assumed that the two projects that are approved and awaiting financing (a Marriott Residence Inn/Fairfield Inn with 321 rooms and the America Center project with 176 rooms) will be completed in 2013 and 2014, respectively. Beyond that, we have assumed approximately 400 rooms will open every five years during the projection period. This results in a CAGR for supply of 0.8% from 2010 through 2046, in comparison to a CAGR of 2.9% from 1990 through 2010. While we have included this new supply in our calculations used to derive the overall citywide RevPAR, the revenue from these new rooms has not been included in our estimates of CCFD revenue.

We have modeled our projections to reflect the cyclical nature of the boom and bust hotel market experienced over the past 20 years. We have assumed cycles with five years of growth, two years of downturn, and a flat year. We have also assumed that the cycles will moderate slightly as the market continues to mature, with both the growth periods and downturns exhibiting slightly lower rates of change. It should be noted that we are not economists and we are not projecting the specific timing of future economic recessions; rather, we are modeling long-term projections based on historical patterns in the market, which should average out in the long term.

Our projections of supply and demand indicate that over the projection period, supply growth will slightly outpace demand leading to lower occupancy levels over time. The estimated CAGR for supply is 0.8%, compared to 2.9% historically, and the estimated growth in demand is 0.7% as compared to 2.1% historically. Our estimate of overall growth in ADR is 1.7% annually, compared to 3.1% historically. The net result in RevPAR is a CAGR of 1.6% from FY 2010 through FY 2046, increasing from $57.31 to $100.43. This projection is significantly below the historical city RevPAR growth of 2.3% from 1990 through 2010, as shown previously. Over the projection period, the average annual growth in RevPAR during years of positive growth is 6.8%, while the average decline during downturns is -8.5%, although with growth cycles being longer than the downturns the net result is positive long-term growth. As RevPAR combines both occupancy and ADR, inflationary pressure is reflected as growth in average room rates over the period.

Recognizing that the revenues will escalate on a cyclical pattern but also that the timing of cycles is not predictable, we have compared our projections based on these cyclical assumptions with a trend line based on the historical data, as well as just using a flat growth rate of 2.3% mirroring historical performance over the 36-year period. As shown in the accompanying graph, the RevPAR projections fall consistently below the trend line as our growth projections are more conservative than the historical trend line would indicate. We believe this conservative projection is appropriate given the more recent trends in the market, and the general slower growth that occurs as a market matures.

Historical and Projected RevPAR



Overall, our projections for taxable hotel revenues show a CAGR of 1.6% from FY 2010 through FY 2046, as compared to 5.3% from 1990 through 2010. As noted above, the city's taxable hotel revenues peaked in FY 2001 at $255.4 million. Our projections show the city exceeding this peak in FY 2014 and FY 2015, before declining and then again surpassing the peak in FY 2020 through the remainder of the period. The following table presents our projections of future growth in supply, demand, RevPAR, and citywide taxable hotel revenues through FY 2046 using our assumption of cyclical growth patterns. In addition, as discussed previously, we have taken into account the assumption that none of the new supply in the market will be added to the CCFD, and therefore calculated the potential taxable revenue within the CCFD based on the existing base of supply and the projected RevPAR for the market overall.

San Jose Convention Center
Renovation/Expansion Analysis
Taxable Hotel Revenue Projections

	Fiscal Year Ending June 30,	Base Supply	Cumulative New Supply	Total Supply	Occupied Room Nights	Occupancy	Average Daily Rate	RevPAR	Annual % Change	Taxable Revenues (000)	Growth	CCFD Taxable Revenues (000)	% of Total City Revenue
Actual	2010	3,245,580		3,245,580	1,940,277	59.8%	$95.86	$57.31	-4.3%	$186,002	-4.5%	$186,002	100.0%
Projected	2011	3,245,580	24,333	3,269,913	2,095,001	64.1%	$97.78	62.65	9.3%	204,851	10.1%	203,326	99.3%
	2012	3,245,580	53,533	3,299,113	2,188,061	66.3%	$100.23	66.50	6.2%	219,299	7.1%	215,831	98.4%
	2013	3,245,580	116,983	3,362,563	2,251,675	67.0%	$108.24	72.50	9.0%	243,729	11.1%	235,305	96.5%
	2014	3,245,580	207,685	3,453,265	2,332,310	67.5%	$117.99	79.75	10.0%	275,178	12.9%	258,835	94.1%
	2015	3,245,580	239,805	3,485,385	2,393,757	68.7%	$121.52	83.46	4.7%	290,900	5.7%	270,886	93.1%
	2016	3,245,580	239,805	3,485,385	2,156,881	61.9%	$111.80	69.19	-17.1%	241,145	-17.1%	224,554	93.1%
	2017	3,245,580	239,805	3,485,385	2,071,606	59.4%	$107.33	63.79	-7.8%	222,347	-7.8%	207,049	93.1%
	2018	3,245,580	239,805	3,485,385	2,071,606	59.4%	$107.33	63.79	0.0%	222,347	0.0%	207,049	93.1%
	2019	3,245,580	312,805	3,558,385	2,225,101	62.5%	$109.48	68.46	7.3%	243,598	9.6%	222,184	91.2%
	2020	3,245,580	385,805	3,631,385	2,335,106	64.3%	$112.21	72.16	5.4%	262,032	7.6%	234,193	89.4%
	2021	3,245,580	385,805	3,631,385	2,392,859	65.9%	$120.63	79.49	10.2%	288,651	10.2%	257,984	89.4%
	2022	3,245,580	422,305	3,667,885	2,428,377	66.2%	$130.88	86.65	9.0%	317,835	10.1%	281,241	88.5%
	2023	3,245,580	458,805	3,704,385	2,464,427	66.5%	$134.16	89.25	3.0%	330,617	4.0%	289,669	87.6%
	2024	3,245,580	495,305	3,740,885	2,232,682	59.7%	$124.09	74.06	-17.0%	277,063	-16.2%	240,379	86.8%
	2025	3,245,580	531,805	3,777,385	2,155,413	57.1%	$119.75	68.33	-7.7%	258,113	-6.8%	221,774	85.9%
	2026	3,245,580	531,805	3,777,385	2,155,413	57.1%	$119.75	68.33	0.0%	258,113	0.0%	221,774	85.9%
	2027	3,245,580	568,305	3,813,885	2,293,890	60.1%	$122.15	73.47	7.5%	280,189	8.6%	238,438	85.1%
	2028	3,245,580	604,805	3,850,385	2,407,334	62.5%	$125.20	78.28	6.5%	301,397	7.6%	254,055	84.3%
	2029	3,245,580	641,305	3,886,885	2,454,981	63.2%	$133.96	84.61	8.1%	328,878	9.1%	274,616	83.5%
	2030	3,245,580	677,805	3,923,385	2,479,281	63.2%	$144.68	91.43	8.1%	358,704	9.1%	296,734	82.7%
	2031	3,245,580	677,805	3,923,385	2,503,824	63.8%	$147.57	94.18	3.0%	369,500	3.0%	305,665	82.7%
	2032	3,245,580	714,305	3,959,885	2,280,729	57.6%	$137.24	79.05	-16.1%	313,016	-15.3%	256,553	82.0%
	2033	3,245,580	750,805	3,996,385	2,213,058	55.4%	$133.13	73.72	-6.7%	294,617	-5.9%	239,267	81.2%
	2034	3,245,580	787,305	4,032,885	2,213,058	54.9%	$133.13	73.05	-0.9%	294,617	0.0%	237,101	80.5%
	2035	3,245,580	823,805	4,069,385	2,333,401	57.3%	$135.79	77.86	6.6%	316,851	7.5%	252,708	79.8%
	2036	3,245,580	823,805	4,069,385	2,448,821	60.2%	$139.18	83.76	7.6%	340,837	7.6%	271,838	79.8%
	2037	3,245,580	860,305	4,105,885	2,485,178	60.5%	$148.23	89.72	7.1%	368,380	8.1%	291,194	79.0%
	2038	3,245,580	896,805	4,142,385	2,497,479	60.3%	$159.35	96.07	7.1%	397,969	8.0%	311,811	78.4%
	2039	3,245,580	933,305	4,178,885	2,509,841	60.1%	$161.74	97.14	1.1%	405,938	2.0%	315,276	77.7%
	2040	3,245,580	969,805	4,215,385	2,298,630	54.5%	$151.23	82.46	-15.1%	347,611	-14.4%	267,639	77.0%
	2041	3,245,580	969,805	4,215,385	2,241,789	53.2%	$147.44	78.41	-4.9%	330,540	-4.9%	254,495	77.0%
	2042	3,245,580	1,006,305	4,251,885	2,241,789	52.7%	$147.44	77.74	-0.9%	330,540	0.0%	252,310	76.3%
	2043	3,245,580	1,042,805	4,288,385	2,363,713	55.1%	$150.39	82.90	6.6%	355,487	7.5%	269,044	75.7%
	2044	3,245,580	1,079,305	4,324,885	2,480,648	57.4%	$154.15	88.42	6.7%	382,401	7.6%	286,970	75.0%
	2045	3,245,580	1,115,805	4,361,385	2,505,205	57.4%	$163.40	93.86	6.2%	409,357	7.0%	304,628	74.4%
	2046	3,245,580	1,115,805	4,361,385	2,505,205	57.4%	$174.84	100.43	7.0%	438,012	7.0%	325,952	74.4%
	CAGR 1990 - 2010	2.9%		2.9%	2.1%		3.1%	2.3%		5.3%			
	CAGR 2010-2046	0.0%		0.8%	0.7%		1.7%	1.6%		2.4%		1.6%	84.8%

Sources: *City of San Jose, City of San Jose, STR, Horwath HTL*

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CCFD Revenue Projections

Taxable Hotel Room Revenues within the CCFD, as presented above, are our basis for estimating the CCFD revenues for the 36-year projection period. Our projections for the CCFD tax are based on our projections of total citywide RevPAR and the existing base of room supply within the CCFD. The hotels in Zone 1 represent approximately 35% of the city's current total hotel inventory (3,157 of 8,892), but based upon the first year of reporting for the CCFD these hotels receive approximately 40% of the city's total taxable hotel revenues. This differential is a result of the downtown hotels being generally more upscale and higher priced than the hotels in the outlying areas of the city.

We have therefore applied the different Zone tax rates, and these percentages of revenue for the first two years, when the Base Rates differ, and calculated the total CCFD revenue accordingly. We have also calculated the CCFD revenues from the Base Rate, Blinker Tax, and 1.5% from total citywide TOT separately, and provided various totals and subtotals. These projections are shown in the following table.

CCFD Financing Analysis
CCFD Revenue Stream - No New Supply Annexed - Cyclical Growth

Fiscal Year Ending 30-Jun	City Total Taxable Revenues	CCFD Total Taxable Revenues	CCFD Revenue Zone 1	CCFD Revenue Zone 2	Total w/o Blinker	Blinker	Total with Blinker	City TOT 1.5% Portion	Total with City 1.5% TOT
Actual									
2010	$186,001,647	$186,001,647	$2,696,452	$1,510,395	$4,206,847	$1,860,016	$6,066,863	$2,790,025	$8,856,888
Projected									
2011	$204,851,000	$203,326,000	$3,253,216	$3,659,868	$6,913,084	$2,033,260	$8,946,344	$3,072,765	$12,019,109
2012	219,299,000	215,831,000	3,453,296	5,179,944	8,633,240	2,158,310	10,791,550	3,289,485	14,081,035
2013	243,729,000	235,305,000	3,764,880	5,647,320	9,412,200	2,353,050	11,765,250	3,655,935	15,421,185
2014	275,178,000	258,835,000	4,141,360	6,212,040	10,353,400	2,588,350	12,941,750	4,127,670	17,069,420
2015	290,900,000	270,886,000	4,334,176	6,501,264	10,835,440	2,708,860	13,544,300	4,363,500	17,907,800
2016	241,145,000	224,554,000	3,592,864	5,389,296	8,982,160	2,245,540	11,227,700	3,617,175	14,844,875
2017	222,347,000	207,049,000	3,312,784	4,969,176	8,281,960	2,070,490	10,352,450	3,335,205	13,687,655
2018	222,347,000	207,049,000	3,312,784	4,969,176	8,281,960	2,070,490	10,352,450	3,335,205	13,687,655
2019	243,598,000	222,184,000	3,554,944	5,332,416	8,887,360	2,221,840	11,109,200	3,653,970	14,763,170
2020	262,032,000	234,193,000	3,747,088	5,620,632	9,367,720	2,341,930	11,709,650	3,930,480	15,640,130
2021	288,651,000	257,984,000	4,127,744	6,191,616	10,319,360	2,579,840	12,899,200	4,329,765	17,228,965
2022	317,835,000	281,241,000	4,499,856	6,749,784	11,249,640	2,812,410	14,062,050	4,767,525	18,829,575
2023	330,617,000	289,669,000	4,634,704	6,952,056	11,586,760	2,896,690	14,483,450	4,959,255	19,442,705
2024	277,063,000	240,379,000	3,846,064	5,769,096	9,615,160	2,403,790	12,018,950	4,155,945	16,174,895
2025	258,113,000	221,774,000	3,548,384	5,322,576	8,870,960	2,217,740	11,088,700	3,871,695	14,960,395
2026	258,113,000	221,774,000	3,548,384	5,322,576	8,870,960	2,217,740	11,088,700	3,871,695	14,960,395
2027	280,189,000	238,438,000	3,815,008	5,722,512	9,537,520	2,384,380	11,921,900	4,202,835	16,124,735
2028	301,397,000	254,055,000	4,064,880	6,097,320	10,162,200	2,540,550	12,702,750	4,520,955	17,223,705
2029	328,878,000	274,616,000	4,393,856	6,590,784	10,984,640	2,746,160	13,730,800	4,933,170	18,663,970
2030	358,704,000	296,734,000	4,747,744	7,121,616	11,869,360	2,967,340	14,836,700	5,380,560	20,217,260
2031	369,500,000	305,665,000	4,890,640	7,335,960	12,226,600	3,056,650	15,283,250	5,542,500	20,825,750
2032	313,016,000	256,553,000	4,104,848	6,157,272	10,262,120	2,565,530	12,827,650	4,695,240	17,522,890
2033	294,617,000	239,267,000	3,828,272	5,742,408	9,570,680	2,392,670	11,963,350	4,419,255	16,382,605
2034	294,617,000	237,101,000	3,793,616	5,690,424	9,484,040	2,371,010	11,855,050	4,419,255	16,274,305
2035	316,851,000	252,708,000	4,043,328	6,064,992	10,108,320	2,527,080	12,635,400	4,752,765	17,388,165
2036	340,837,000	271,838,000	4,349,408	6,524,112	10,873,520	2,718,380	13,591,900	5,112,555	18,704,455
2037	368,380,000	291,194,000	4,659,104	6,988,656	11,647,760	2,911,940	14,559,700	5,525,700	20,085,400
2038	397,969,000	311,811,000	4,988,976	7,483,464	12,472,440	3,118,110	15,590,550	5,969,535	21,560,085
2039	405,938,000	315,276,000	5,044,416	7,566,624	12,611,040	3,152,760	15,763,800	6,089,070	21,852,870
2040	347,611,000	267,639,000	4,282,224	6,423,336	10,705,560	2,676,390	13,381,950	5,214,165	18,596,115
2041	330,540,000	254,495,000	4,071,920	6,107,880	10,179,800	2,544,950	12,724,750	4,958,100	17,682,850
2042	330,540,000	252,310,000	4,036,960	6,055,440	10,092,400	2,523,100	12,615,500	4,958,100	17,573,600
2043	355,487,000	269,044,000	4,304,704	6,457,056	10,761,760	2,690,440	13,452,200	5,332,305	18,784,505
2044	382,401,000	286,970,000	4,591,520	6,887,280	11,478,800	2,869,700	14,348,500	5,736,015	20,084,515
2045	409,357,000	304,628,000	4,874,048	7,311,072	12,185,120	3,046,280	15,231,400	6,140,355	21,371,755
2046	438,012,000	325,952,000	5,215,232	7,822,848	13,038,080	3,259,520	16,297,600	6,570,180	22,867,780

Source: *Horwath HTL*

Note: The Blinker and City TOT figures presented for 2010 are not actual collections but represent the potential revenue based on the Taxable Revenues and the applicable rates.

The analysis presented above is based on assumptions and projections we believe to be accurate as well as our analysis of current market conditions. Horwath Hospitality & Leisure LLC neither represents, warrants or guarantees the validity of the above projections.

As shown, the base CCFD tax revenue is projected to grow from $4.2 million in FY 2010 to $6.9 million in FY 2011, due to a combination of the rate increase in Zone 2 and the increased performance in the market. By 2046, the final year of the projection period, base CCFD tax revenue is projected to increase to just over $13 million. The average annual CCFD revenue over the 36-year period is $10.3 million.

As discussed, we have estimated the performance of the market based on anticipated cyclical fluctiations in the economy, but we cannot predict the exact timing of such cycles. We have therefore calculated our projected total CCFD taxable hotel revenues on an annual average basis, which equates to $10.3 million over the 36-year period, and created a model which yields the same result for the overall term on a straight-line basis. The use of a 1.7% annual growth rate yields the same annual average CCFD revenues of $10.3 million over the length of the term, and also closely mirrors the CAGR for taxable hotel revenues within the CCFD through 2046 of 1.6%. This alternative calculation is presented in the following table.

CCFD Financing Analysis
CCFD Revenue Stream - No New Supply Annexed - Constant Annual Growth

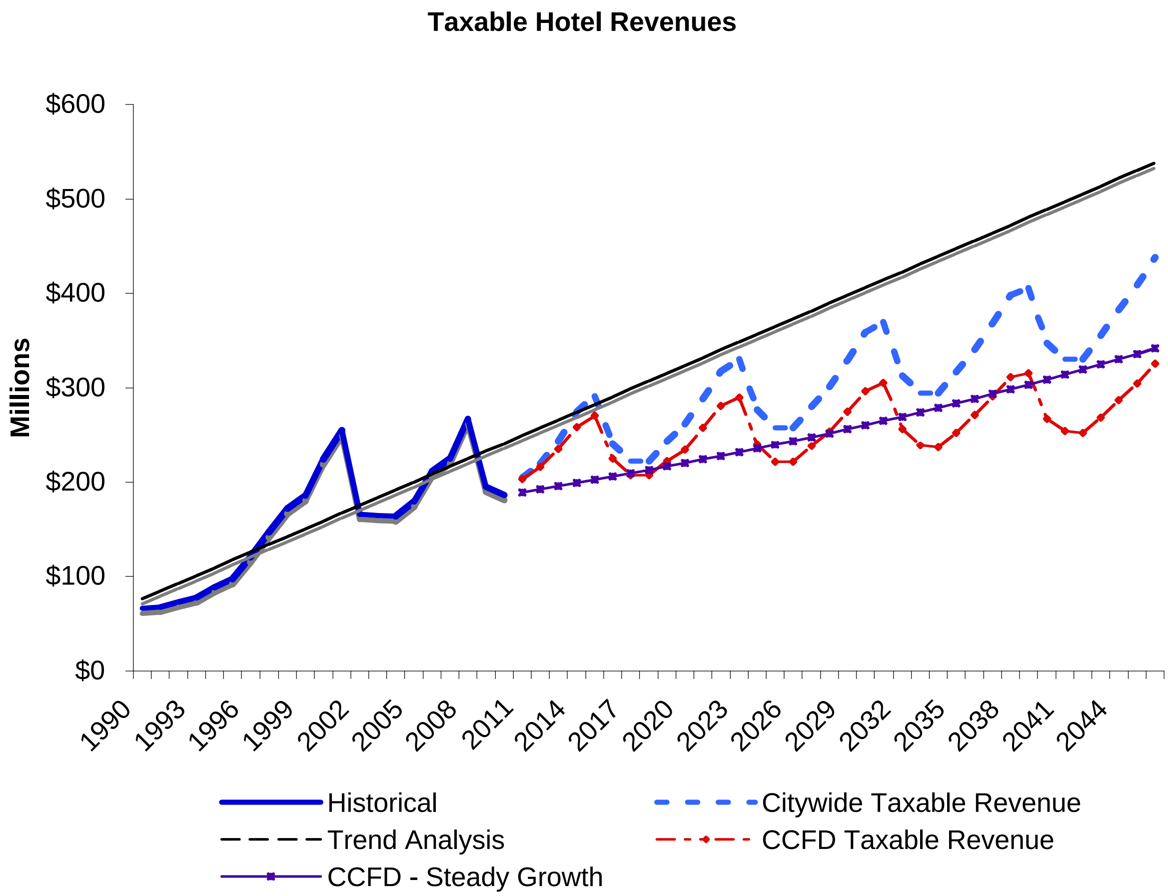
Fiscal Year Ending 30-Jun	City Total Taxable Revenues	CCFD Total Taxable Revenues	CCFD Revenue Zone 1	CCFD Revenue Zone 2	Total w/o Blinker	Blinker	Total with Blinker	City TOT 1.5% Portion	Total with City 1.5% TOT
Actual									
2010	$186,001,647	$186,001,647	$2,696,452	$1,510,395	$4,206,847	$1,860,016	$6,066,863	$2,790,025	$8,856,888
Projected									
2011	$190,810,203	$189,172,469	$3,026,759	$3,405,104	$6,431,864	$1,891,725	$8,323,589	$2,862,153	$11,185,742
2012	195,743,071	192,397,345	3,078,358	4,617,536	7,695,894	1,923,973	9,619,867	2,936,146	12,556,013
2013	200,803,464	195,677,196	3,130,835	4,696,253	7,827,088	1,956,772	9,783,860	3,012,052	12,795,912
2014	205,994,680	199,012,960	3,184,207	4,776,311	7,960,518	1,990,130	9,950,648	3,089,920	13,040,568
2015	211,320,101	202,405,589	3,238,489	4,857,734	8,096,224	2,024,056	10,120,279	3,169,802	13,290,081
2016	216,783,195	205,856,054	3,293,697	4,940,545	8,234,242	2,058,561	10,292,803	3,251,748	13,544,551
2017	222,387,523	209,365,340	3,349,845	5,024,768	8,374,614	2,093,653	10,468,267	3,335,813	13,804,080
2018	228,136,735	212,934,449	3,406,951	5,110,427	8,517,378	2,129,344	10,646,722	3,422,051	14,068,773
2019	234,034,577	216,564,402	3,465,030	5,197,546	8,662,576	2,165,644	10,828,220	3,510,519	14,338,739
2020	240,084,891	220,256,236	3,524,100	5,286,150	8,810,249	2,202,562	11,012,812	3,601,273	14,614,085
2021	246,291,619	224,011,006	3,584,176	5,376,264	8,960,440	2,240,110	11,200,550	3,694,374	14,894,925
2022	252,658,805	227,829,784	3,645,277	5,467,915	9,113,191	2,278,298	11,391,489	3,789,882	15,181,371
2023	259,190,597	231,713,662	3,707,419	5,561,128	9,268,546	2,317,137	11,585,683	3,887,859	15,473,542
2024	265,891,250	235,663,750	3,770,620	5,655,930	9,426,550	2,356,637	11,783,187	3,988,369	15,771,556
2025	272,765,131	239,681,176	3,834,899	5,752,348	9,587,247	2,396,812	11,984,059	4,091,477	16,075,536
2026	279,816,716	243,767,088	3,900,273	5,850,410	9,750,684	2,437,671	12,188,354	4,197,251	16,385,605
2027	287,050,600	247,922,653	3,966,762	5,950,144	9,916,906	2,479,227	12,396,133	4,305,759	16,701,892
2028	294,471,496	252,149,060	4,034,385	6,051,577	10,085,962	2,521,491	12,607,453	4,417,072	17,024,525
2029	302,084,239	256,447,516	4,103,160	6,154,740	10,257,901	2,564,475	12,822,376	4,531,264	17,353,639
2030	309,893,788	260,819,248	4,173,108	6,259,662	10,432,770	2,608,192	13,040,962	4,648,407	17,689,369
2031	317,905,232	265,265,507	4,244,248	6,366,372	10,610,620	2,652,655	13,263,275	4,768,578	18,031,854
2032	326,123,789	269,787,562	4,316,601	6,474,901	10,791,502	2,697,876	13,489,378	4,891,857	18,381,235
2033	334,554,814	274,386,706	4,390,187	6,585,281	10,975,468	2,743,867	13,719,335	5,018,322	18,737,658
2034	343,203,800	279,064,253	4,465,028	6,697,542	11,162,570	2,790,643	13,953,213	5,148,057	19,101,270
2035	352,076,381	283,821,539	4,541,145	6,811,717	11,352,862	2,838,215	14,191,077	5,281,146	19,472,223
2036	361,178,339	288,659,925	4,618,559	6,927,838	11,546,397	2,886,599	14,432,996	5,417,675	19,850,671
2037	370,515,602	293,580,791	4,697,293	7,045,939	11,743,232	2,935,808	14,679,040	5,557,734	20,236,774
2038	380,094,254	298,585,545	4,777,369	7,166,053	11,943,422	2,985,855	14,929,277	5,701,414	20,630,691
2039	389,920,536	303,675,616	4,858,810	7,288,215	12,147,025	3,036,756	15,183,781	5,848,808	21,032,589
2040	400,000,849	308,852,459	4,941,639	7,412,459	12,354,098	3,088,525	15,442,623	6,000,013	21,442,636
2041	410,341,760	314,117,554	5,025,881	7,538,821	12,564,702	3,141,176	15,705,878	6,155,126	21,861,004
2042	420,950,007	319,472,403	5,111,558	7,667,338	12,778,896	3,194,724	15,973,620	6,314,250	22,287,870
2043	431,832,501	324,918,539	5,198,697	7,798,045	12,996,742	3,249,185	16,245,927	6,477,488	22,723,414
2044	442,996,331	330,457,516	5,287,320	7,930,980	13,218,301	3,304,575	16,522,876	6,644,945	23,167,821
2045	454,448,771	336,090,918	5,377,455	8,066,182	13,443,637	3,360,909	16,804,546	6,816,732	23,621,277
2046	466,197,282	341,820,354	5,469,126	8,203,688	13,672,814	3,418,204	17,091,018	6,992,959	24,083,977

Source: *Horwath HTL*

Note: The Blinker and City TOT figures presented for 2010 are not actual collections but represent the potential revenue based on the Taxable Revenues and the applicable rates.

The analysis presented above is based on assumptions and projections we believe to be accurate as well as our analysis of current market conditions. Horwath Hospitality & Leisure LLC neither represents, warrants or guarantees the validity of the above projections.

While the cyclical nature of the national and regional economy indicates that such a straight-line model is unlikely to occur, it provides a useful comparison to our cyclical model. The graph below compares our projections of citywide and CCFD Taxable Hotel Revenues with the steady growth model, as well as the trend line based on the historical growth rates.



Taxable Hotel Revenues
Millions
$600
$500
$400
$300
$200
$100
$0
1990
1993
1996
1999
2002
2005
2008
2011
2014
2017
2020
2023
2026
2029
2032
2035
2038
2041
2044
Historical
Citywide Taxable Revenue
Trend Analysis
CCFD Taxable Revenue
CCFD - Steady Growth

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ADDENDA

ADDENDUM A

LIST OF SAN JOSÉ HOTELS BY CATEGORY

San José **HOTELS BY CATEGORY**

CONVENTION HOTELS	HOTEL NAME	# OF ROOMS	ZONE
	Clarion	192	2
	Crowne Plaza	240	1
	Dolce Hayes Mansion	214	2
	Doubletree	505	2
	Fairfield Inn & Suites	186	2
	Fairmont Hotel	805	1
	Four Points San José Downtown	86	1
	Hilton San José	355	1
	Hotel De Anza	100	1
	Marriott San José	506	1
	Radisson Plaza	183	2
	Sainte Claire	170	1
	San José Airport Garden Hotel	512	2
	Wyndham	355	2
	Sub-total Convention Hotels	4,409	
BRANDED HOTELS	Best Western Lanai Garden Inn & Suites	52	2
	Clarion Inn Silicon Valley	48	2
	Comfort Inn San José	46	1
	Comfort Suites San José Airport	51	2
	Courtyard San José Airport	151	2
	Days Inn San José Airport	62	2
	Days Inn San José Convention Center	34	2
	Extended Stay America San José Santa Clara	101	2
	Extended Stay America San José South	121	2
	Extended Stay Deluxe San José Downtown	138	2
	Extended Stay Deluxe San José South Edenvale	98	2
	Hampton Inn Suites San José	80	2
	Holiday Inn Express & Suites International Airport	126	2
	Holiday Inn Express San José Central City	57	2
	Holiday Inn San José Silicon Valley	210	2
	Homestead San José	152	2
	Homewood Suites San José Airport	140	2
	Howard Johnson Express San José	58	1
	Joie De Vivre Moorpark Hotel	80	2
	La Quinta Inn San José Airport	148	2
	Motel 6 San José Airport	63	1
	Motel 6 San José Airport	74	2
	Motel 6 San José South	202	2
	Preferred Hotel Valencia Santana Row	212	2
	Ramada Limited San José	71	1
	Residence Inn	80	2
	Residence Inn San José South	150	2
	Sleep Inn Silicon Valley	45	1
	Staybridge Suites San Jos	114	2
	Super 8 San José Airport Santa Clara	58	1
	TownePlace Suites San José Cupertino	101	2
	Vagabond Inn San José	76	2
	Sub-total Branded Hotels	3,199	

San José **HOTELS BY CATEGORY**
(CONTINUED)

INDEPENDENT HOTELS	***HOTEL NAME***	***# OF ROOMS***	***ZONE***
	Alameda Motel	20	1
	Americas Best Value Inn San José Convention Center	26	1
	Arena Hotel	90	1
	Best Western Airport Plaza	40	2
	Bristol Hotel	47	2
	California Motel	11	1
	Capitol Hill Inn	30	2
	Casalinda Motel	28	1
	Charles Motel	10	1
	City Center Motel	41	1
	Executive Inn	25	2
	Executive Inn Airport	57	2
	E-Z 8 San José #1	81	2
	E-Z 8 San José #2	89	2
	Flamingo Motor Lodge	24	1
	Fontaine Inn	54	2
	Hedding Inn	24	1
	Horizon Inn	41	2
	Mission Motel	7	2
	Palm Tree Inn Motel	26	2
	Red Roof Inn	76	2
	Regency Lodge	37	1
	Sands Motel	21	1
	Santa Clara Inn	55	2
	Three A Motel	25	1
	Townhouse Motel	40	1
	Travelers Rest Motel	22	1
	Valley Inn	26	2
	Valley Park Hotel	55	2
	White Way Motel	21	2
	Mother Olson Inn (13 ppties)	135	1
	Sub-total Independent Hotels	1,284	
	Total Hotels	8,892	