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Information Submitted by Stephanie Licht
775-884-4727

REGARDING PROPOSED ROOM TAX AND THE EFFECT ON RURAL NEVADA ECONOMY:

Annette Kerr, CEO of McClaskey Properties, an entity of 5 properties representing 40% of the rooms in Elko Nevada, as well as the Casino Express Airline, provided the following information:

- Over the past 20 months the United States has experienced "9/11", a severe economic downturn, a war and SARS – taken singly, any one of these events negatively impacts traveler psychology, but when **added together**, **PLUS** the loss of jobs **PLUS** the decrease in discretionary disposable income, if they travel AT ALL, people are looking for the very best deal, at the very best price very close to home.

- The tourist industry worldwide today offers a tremendous number of options. If guests are asked to pay taxes in addition to those they are all ready paying they won't come to the far-flung corners of the state.

- In the 1940's, 50's and 60's Nevada had the greatest lock on "adult entertainment" and the least restrictive marriage and divorce laws in the US. Today, marriage and divorce laws have been relaxed across the country, and 48 of 50 states now have some form of gaming. Considering a satellite light map of the United States, and the fact that the **only** people who **HAVE** to come to Nevada are employees of BLM and USFS, it is tough these days to get tourists to come to Las Vegas and Reno, much less rural communities.

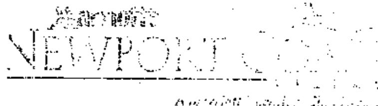
- Recently the Salt Lake Tribune discussed the economic hardship in which the top 5 airlines are finding themselves. Casino Express can scarcely be considered in this category, and yet is facing all the same increases in excise taxes, insurance fees, security fees, passenger facility charges, sales tax, jet fuel increases and surcharges – all these additional costs affect passenger and guest choices, even with inexpensive fares – and without Casino Express the tourist economy of Elko drastically suffers.

- Red Lion is part of a system of corporate owned hotel chains. Many of these corporations are considering dropping properties from their membership due to low occupancy. This means NO out of town advertising, NO national advertising, DISCONTINUED access to a centralized 1-800- reservation service, DISCONTINUED listing on corporate websites. If a property is not listed how are potential tourists going to know the property exists?

- Additional room taxes would have a multi-phase effect. The break-even costs to maintain insurance, maids, security, cleaning supplies, energy costs, etc. are $25 per room. In Elko there is currently a rate war – rooms going for $39 in 2002 are now $32 in 2003. McClaskey feels it would not be able to pass this fee through and would have to absorb any additional room tax charge to stay competitive and keep the guests coming – even with low or no cost air fares. At the Red Lion alone, with 223 rooms, at an occupancy rate of 95% due to bringing in tourists on Casino Express, a $3 room tax paid to the state would take $400K out of the local Elko economy. In March 2003 Elko occupancy rates were 89-90%; then there was a rise in gas prices; the occupancy rates in April 2003 were 79%.... Even with Casino Express guests.

In consideration of this information we respectfully oppose any additional state levied room tax proposal.

ASSEMBLY COMMITTEE ON TAXATION 6 pages
DATE: 5/9/03 ROOM: 3142 EXHIBIT D
SUBMITTED BY: Stephanie Licht



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Trends & Stats

Upper-upscale's performance well off its highest point in 2001

Most analysis of industry segments tends to focus on the performance of that segment compared with an easily defined previous time period. Typically, the comparison looks at previous-year performance using year-to-date, three-months-ending or 12-months-ending periods.

Taking a slightly different approach to analyzing the performance of upper-upscale chains, this focus is on the current levels of key performance indicators against the most recent peak in this segment's performance.

The first step is to define the most recent segment performance peak. For upper-upscale chains and for each of the key performance measures (occupancy, average daily room rate and revenue per available room), the highest level of performance occurred in the first quarter of 2001. Depending on the measure, the month of the peak varied with occupancy peaking several months before the ADR.

At first glance, an analysis of upper-upscale chains' supply and demand fundamentals reveals some curious results when compared with the 12-months-previous results. Since the peak, this segment experienced a slowdown in the rate of room-supply growth while experiencing similar room-demand growth.

This type of analysis ignores the trauma that transpired during the year between the performance peak and current results. For that reason, during the current environment, it might be more beneficial to take a longer view to put current performance into a more clear perspective.

The chart presenting occupancy, ADR and RevPAR performance reveals a much different story. Looking at these measures as 12-month moving averages, it's clear that current industry performance is well off from the peak reached about two years ago. In fact, RevPAR declined more than 15 percent since the peak, despite some recent recovery.

During the period leading up to the high point of performance, upper-upscale chains reaped the benefits of a strong business- and leisure-demand-growth environment. Since that time, there's been a marked slowdown by both demand groups with business demand (group and transient) declining at a much faster rate. Interestingly, the mix changed to the point that, for this segment, occupancy is higher during weekends than weekdays.

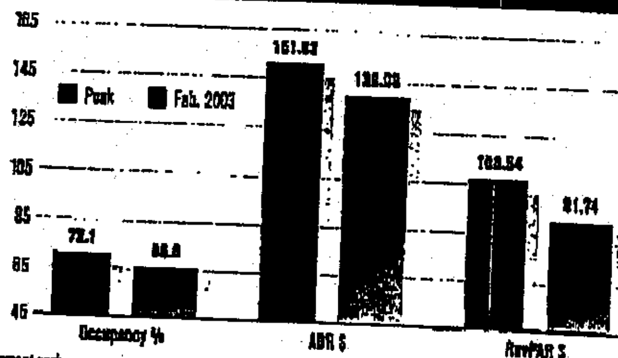
Reflecting the nature of pricing in the present lodging environment, ADRs declined at a greater rate during the week than on weekends. This probably reflects the industry's desire to try and attract additional demand. Research conducted at the Center for Hospitality Research at Cornell University will reveal that while many operators view room rate discounting as a necessary evil, it seems to shift demand among competitors rather than generate the needed demand growth that would begin to change industry fortunes.

During the segment's peak performance period, daily RevPAR exceeded $100 for five of seven nights, with two days topping $120. Currently, all seven nights are below the $100 threshold. This severe decline in room revenue resulted in a decline of the share of room revenue garnered by this segment, despite an increase of the supply share and a stable demand share.

hmm@advanstar.com

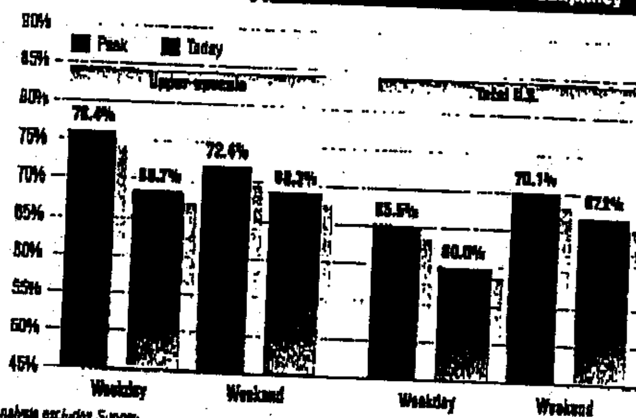
Mark V. Lomanno is president of Hendersonville, Tenn.-based Smith Travel Research.

Upper-upscale chains' key performance indicators*



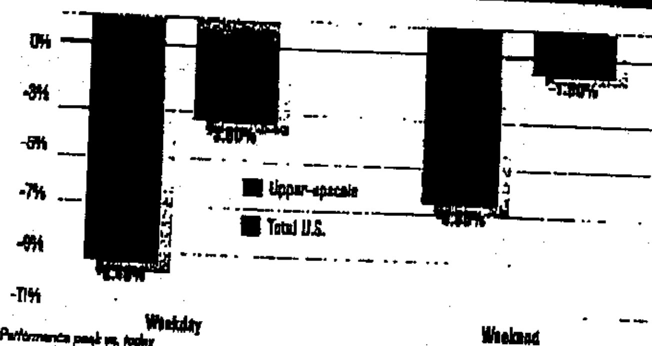
*Segment performance peaks for each measure occurred in different months in 2001

Upper-upscale chains vs. all hotels weekday vs. weekend occupancy*



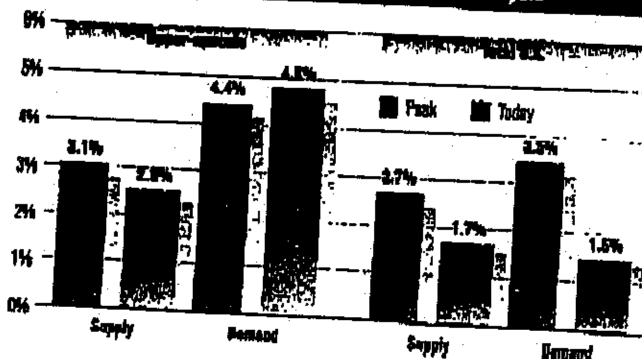
*Analysis excludes Sunday

Upper-upscale chains vs. all hotels weekday vs. weekend ADR decline*

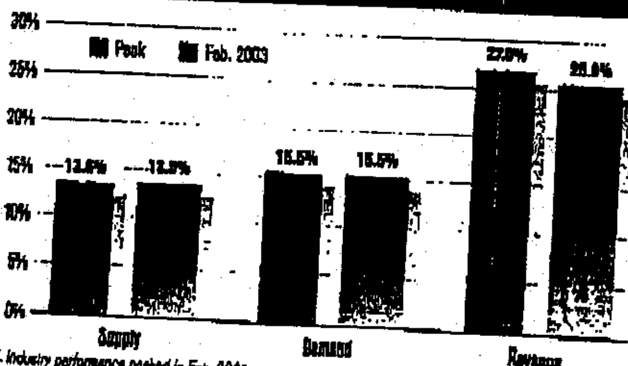


*Performance peak vs. today

Upper-upscale chains vs. all hotels supply/demand analysis



Upper-upscale chains' share analysis*



*U.S. industry performance peaked in Feb. 2001

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D4of6

lead projected grow[illegible]

By Jeff Higley
EDITOR-IN-CHIEF

NATIONAL REPORT—Despite a sluggish economy that has produced a tough operating environment for the lodging industry, hotel guestroom supply could grow more tha[n] 7 percent if the current active-developme[nt] pipeline reaches fruition.

With Smith Travel Research reportin[g] more than 320,000 guestroo[ms] in th[e] pipeline—in construction, the fi[nal] plan[ning] or the planning stages—the [overal]l

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Building momentum

The following brands have the most guestrooms [illegible]

Brand	[illegible]
[illegible] by Marriott	[illegible]
[illegible] Inn Express	95,979
[illegible] Hilton Garden Inn	21,170
4 Marriott	116,220
5 Residence Inn by Marriott	49,263
6 Wingate Inn	11,418
7 Hampton Inn	106,308
8 Hilton	81,794
9 Hampton Inn & Suites	14,902
10 Westin	30,303

Source[illegible]

Lease structure, economy could spur more defaults

By Bruce Adams
SENIOR EDITOR

NATIONAL REPORT—Wyndham International's default on $3.6 million in rent it owes to Hospitality Properties Trust was the first of what could be more if the hotel business doesn't improve soon, analysts said.

HPT, a real-estate investment trust, owns 27 hotels that it leases to Wyndham in two leases. One lease is for 15 Summerfield Suites by Wyndham hotels for about $2.1 million per month, and the other is for 12 Wyndham hotels for about $1.5 million per month, according to Jeff Donnelly, a REIT analyst for Wachovia Securities. In 2002, the 27 hotels generated cash flow sufficient to pay only 74 percent of the annual lease obligation, he said.

"Fixed-lease payments transfer the ownership risk to the lessee of the hotel," Donnelly said. "If earnings fall 40 percent, they still have to pay the fixed-lease cost. When that happens, the company has to pull money from somewhere else to make the fixed payment. Sometimes it can get so painful that they are better off just to walk away from the lease."

The fixed-lease payment, also called a triple net lease, is uncommon in the hotel industry. But HPT has nine such leases that

Please turn to page 27

Starwood begins franc[hising] The Luxury Collection

By Jeff Higley
EDITOR-IN-CHIEF

Tomb
STARWOOD

WHITE PLAINS, N.Y.—There's a new member of the franchise family at Starwood Hotels & Resorts Worldwide, and company officials are intrigued by the possibilities that franchising The Luxury Collection brings to all of Starwood's products—particularly to its guest-loyalty program.

"Distribution to the continued success of Starwood Preferred Guest [loyalty program] [con]sideration in eve[ry]

Please

Choice unveils Clarion brand e[xtension]

By Jeff Higley
EDITOR-IN-CHIEF

Clario[n]
Colle[ction]
By Choice

SILVER SPRING, MD.—Choice Hotels International launched a brand extension for its Clarion product that it believes will help attract unique hotels that can garner an average daily rate of at least $90.

The Clarion Collection by Choice Hotels has two properties in its portfolio, and the plan is to add as many as 20 more during the next 18 months, according to Ron Burgett, v.p. fran[chise] ment-economy br[ands]

Clarion, which [illegible] ties open, posted a [illegible] of about $85 in 20[illegible]

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D 5 of 6

Lease structure, defaults

Continued from page 1

govern several hundred hotels, according to Donnelly.

"Six of those leases now generate less than the cost of the rent, so this could happen again," he said. "All of the leases were originally structured to pay 120 percent to 130 percent of the lease."

As part of that original structure, anything more than 100 percent was to be Wyndham's profit. But those leases were structured before the recession and decline in business travel—events that struck a one-two punch to hotels' profitability.

Hersha Hospitality Trust holds leases that are similar to HPT's, but executives there aren't worried their lessees might default.

"When you lease, you want to make sure the lessee is financially strong, and ours are," said Ashish Parikh, Hersha's chief financial officer. "A good portion of our leases are to Hersha Hospitality Management, which is privately owned by groups of partners who also own a large portion of the Hersha REIT."

Most REITs abandoned the triple net leasing structure in favor of the taxable REIT subsidiary structure after the REIT Modernization Act went into effect in January 2001.

"Our leases are structured more for the owner retaining risks and rewards of the properties," said Randy Churchey, president and c.e.o. of RFS Hotel Investors. "The HPT lease wants to minimize the variation in cash flow they receive from the lessee. With triple net leases, the lessee takes most all the risk of operating the properties."

"It would be very difficult and unusual for us to modify terms while the rent is being held ransom. If withholding the rent is a negotiations ploy, it was ill-conceived."

—JOHN MURRAY

Bob Boykin, c.e.o. of Boykin Lodging Co., another REIT that doesn't operate via triple net leases, agreed with Churchey.

"HPT tries to minimize their downside risk by limiting their upside potential," Boykin said. "They want a more predictable income stream. We take more downside risk and get more upside potential."

The triple net lease is effective at minimizing risk to the REIT,

Churchey
RFS HOTEL INVESTORS

Boykin
BOYKIN LODGING CO

according to Tom Corcoran, president and c.e.o. of FelCor Lodging Trust.

"Most big REITs have suspended [or cut] their dividends, but HPT has continued to pay them," Corcoran said. "HPT was the healthiest hotel REIT because they had the least risk at the bottom line. Their stock took a hit because they are only as good as their tenants."

Wachovia, which maintains an investment banking relationship with HPT, downgraded HPT stock to underperform from outperform following Wyndham's default.

HPT's reaction

John Murray, president of HPT, said Wyndham's default won't have a material impact on the company's income because it has $33.3 million in deposits from Wyndham. But Donnelly said those deposits provide little true security for HPT.

"These are not a source of cash held in escrow for the benefit of the landlord," Donnelly said. "They are deferred payments to the tenant dating back to the original purchase of the properties. In the event of default, this future liability for HPT is forgiven, but it is not true cash in the cigar box."

Despite this, HPT isn't in any liquidity trouble, Donnelly said, and another analyst agreed with him.

"The key for a REIT is to maintain its dividend payments and maintain its balance sheet, and HPT is meeting those requirements," said Rod Petrik, managing director and lodging analyst for Legg Mason. "This has been a revealing event for HPT because of the nature of the security deposits. But HPT is still financially sound. This event was disappointing but not decapitating to them."

Murray said HPT called Wyndham the day after Wyndham failed to make its $3.6 million payment to HPT.

"[Wyndham] said it was not an oversight," Murray said. "They chose not to pay."

Wyndham's only comment was a written statement saying the company's liquidity remains strong at about $272 million, an increase from $256 million on Dec. 31, 2002.

"The two Wyndham subsidiaries' actions with regard to approximately $3.6 million in rent to HPT were purely commercial decisions of the two subsidiaries and not related to Wyndham's overall liquidity," said Rick Smith, executive v.p. and c.f.o. of Wyndham, in the statement.

Murray said Wyndham's response is a tactic to seek changes in the lease terms.

"They are trying to negotiate amendments to their credit facilities," he said. "They may have some cash, as they said, but they may have a lot of different draws on that cash. It would be very difficult and unusual for us to modify terms while the rent is being held ransom. If withholding the rent is a negotiations ploy, it was ill-conceived."

Rebranding

If payments aren't made, HPT will consider rebranding the 27 hotels, Murray said.

"We have seen interest from other parties to take over operations of these hotels," Murray said. "If we decide to go that route, we will be able to find other managers."

Petrik said there would be considerable interest in the properties if HPT decides to rebrand them.

"Summerfield Suites are pretty good boxes, and a lot of other companies would like to rebrand them," he said. "Companies focusing on brand conversions could easily convert them to Residence Inns or Homewood Suites by Hilton. Hilton [Hotels Corp.] and Marriott [International] have said they are focused on growing through rebranding."

Bryan Maher, director, senior lodging and gaming at Credit Lyonnais Securities, said Wyndham appears to be playing a dangerous game.

"If this is a negotiating tactic, it may backfire," Maher said. "HPT could pull the flag from those 27 hotels."

Boykin said rebranding might not be in HPT's best interest.

"HPT will have to work it out with Wyndham," he said. "Playing hardball and rebranding is an option, but that is a very serious road to walk. Everybody is watching how they handle this. When other companies look to do business with HPT, will they want to expose themselves to that type of risk?"

If HPT rebrands the properties and draws up new leases, they aren't likely to earn as much money as the current Wyndham leases.

"The Wyndham leases were done when the economy was stronger and earnings were stronger," Corcoran said. "HPT may not get as much if they release the hotels."

Donnelly said HPT should rebrand the properties if Wyndham refuses to honor the lease.

"Wyndham didn't say they can't pay, they said they won't pay," he said. "HPT's reaction to that should be far more heavy-handed. I think they will find new folks to manage and rebrand. They almost have to in order to send a message to their other tenants that defaulting is not the way to try to renegotiate your lease."

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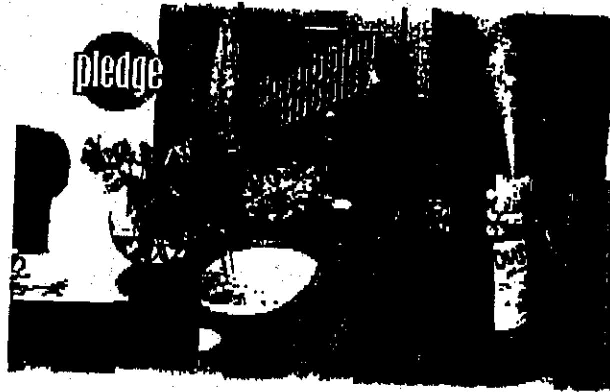

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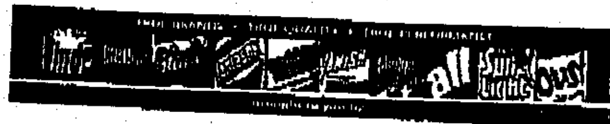

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