

HOTEL ROOM TAX REVENUE

JANNEY FIXED INCOME STRATEGY

MAR 3 2010

Underlying Ratings

- Moody's: Not rated
- Standard and Poor's: Not rated
- Fitch: Not rated

Security

- A majority share of revenues from the Allegheny County Hotel Room Excise Tax.
- The bonds are Ambac (Caa2/CC) insured.

Use of the Bonds

- The Bonds financed the construction of the David L. Lawrence Convention Center, which opened September 2003, in downtown Pittsburgh.

Issuer Description

- The bonds were originally sold by The Public Auditorium Authority of Pittsburgh and Allegheny County. The entity was created by the City of Pittsburgh and Allegheny County to construct, improve, maintain, finance and operate area auditoriums and exhibit halls. In November 1999 its name was changed to the Sports & Exhibition Authority. The Authority owns the David L. Lawrence Convention Center, Mellon Arena, PNC Park, Heinz Field, North Shore Riverfront Park and the North Shore Parking Garage.

TOM KOZLIK

Municipal Credit Analyst
215.665.4422
tkozlik@jmsonline.com

See page 5 for details on our ratings system and other important disclaimers.



Issuer: Pittsburgh and Allegheny County Public Auditorium Authority, Pennsylvania

HOTEL ROOM EXCISE TAX REVENUE BONDS**CREDIT STRENGTHS:**

- + Rising area hotel occupancy is forecast for 2010 through 2013 by PKF Hospitality Research.
- + Moderate average annual hotel room tax revenue increases of almost 4% a year since 2000.
- + Good historical debt service coverage between 1.68x and 2.16x.
- + The convention center financing is part of a \$1 billion plus economic development strategy supported by Pittsburgh, Allegheny County and the Commonwealth of Pennsylvania.

CREDIT WEAKNESSES

- Hotel room tax revenue, in general, is erratic and sensitive to business related travel, tourism and the demand of an area's key destinations.
- There is effectively no debt service reserve fund because the DSRF requirement is being satisfied with an Ambac (Caa2/CC) Surety Bond.
- Excess revenues not used for debt service are transferred outside of the Authority for other uses.
- The current economic environment is stressing all levels of government.

DISCUSSION:

When the Authority originally sold the bonds in 1999 a key security feature was the Ambac insurance policy, rated Aaa/AAA, especially because the bond issue did not include underlying ratings. The credit quality of Ambac has significantly deteriorated throughout the credit crisis. Ambac was downgraded to "Caa2," with a developing outlook, by Moody's Investor Service and to "CC" by Standard and Poor's, at the end of July 2009. With Ambac now rated below investment grade¹ it is even more imperative to consider the status of the underlying credit of the bonds issued to finance the convention center. Bondholder security is offered by revenues from the hotel room tax, a 7% tax on hotel room rates in Allegheny County. Our analysis focuses on hotel room tax revenues, historical debt service coverage, area travel and tourism industry trends, the debt service reserve fund and the local economy.

The Hotel Room Tax

The security for the bonds is a majority share of hotel room tax revenues (a small portion is rebated back to any municipality which has their own convention center facility). The hotel room tax is charged at a rate of 7% on approximately 15,700 hotel rooms in 140 hotels within the county. At this time only Monroeville is eligible to receive this reimbursement and the municipality has received approximately 2.35% of annual total hotel tax collections since 1999. If another municipality qualified to receive a similar payment, we would expect the amount of funds siphoned off would not considerably reduce funds to pay debt service. After deducting Monroeville's payment, remaining revenue is available to pay debt service. Revenue after paying debt service funds VisitPittsburgh, a Pittsburgh tourist organization, other tourism related activities and is not available for future debt service.

¹The bonds will not reflect the Ambac rating because the rating is below investment grade.

> Debt Service coverage ratios for the bonds have historically been good ...future debt service coverage may be lighter than the historical range but experience has shown that the revenue stream should be enough to pay expected debt service barring unforeseen events.

Revenues from the hotel room tax have remained at satisfactory levels over the past ten years, supported by rising hotel occupancy levels and increasing room rates. On average, hotel room tax revenues have grown almost 4% a year since 1999, with six up years and four years with lower revenue, including the period after September 11, and most recently 2009, when revenues fell 9.35%. We expect revenues to be between \$21 million and \$23 million in 2010, based on 0.06% - 3.00% occupancy increases as forecast by PKF Hospitality Research, a management consulting firm specializing in the hotel industry. Debt service coverage should be in the good range of 1.76 to 1.93 times, in 2010.

History of Hotel Tax Collections and Debt Service Coverage

Year	Total Hotel Tax Collections	Annual Change (%)	Rebate to Monroeville	Funds for Debt Service	Annual Total Debt Service	DS Coverage Ratio (x)
1999	\$15,446,287		\$362,988	\$15,083,299	\$6,996,685	2.16
2000	16,737,306	8.36%	393,327	16,343,979	8,285,000	1.97
2001	16,136,834	-3.59%	379,216	15,757,618	8,585,000	1.84
2002	15,917,614	-1.36%	374,064	15,543,550	8,890,000	1.75
2003	15,854,648	-0.40%	407,838	15,446,810	9,210,000	1.68
2004	17,029,095	7.41%	426,928	16,602,167	9,537,161	1.74
2005	17,872,014	4.95%	420,327	17,451,687	10,082,161	1.73
2006	20,187,903	12.96%	466,715	19,721,188	10,429,271	1.89
2007	22,727,293	12.58%	541,407	22,185,886	10,784,469	2.06
2008	24,599,806	8.24%	540,629	24,059,178	11,201,174	2.15
2009	22,300,784	-9.35%	486,404	21,814,380	11,549,956	1.89

Source: Allegheny County and Janney FIS.

Debt Service Coverage

Debt service coverage ratios for the bonds have historically been good, from 1.68x to 2.16x, and most recently 1.89x. Debt service requirements are scheduled to rise steadily to \$13.7 million a year by 2016 and remain at that level until 2027. After 2027, debt service requirements will decrease and range between \$11.4 million and \$12.7 million. In 2016, funds available for debt service would have to increase to approximately \$26 million in order to reach 1.89x coverage. While future debt service coverage may be lighter than the historical range, experience has shown that the revenue stream should be enough to sustain annual \$13.7 million debt service payments barring unforeseen events.

The Hotel Room Tax Base

The tax base is comprised of approximately 15,700 hotel rooms within 140 Allegheny County hotels, with the largest tax producer, Hilton Pittsburgh, having less than 5% of total rooms and the ten largest hotels accounting for less than 25% of total rooms. This diversification is adequate, with the recent sale of the Hilton diffusing a potentially negative situation.

10 Largest County Hotel Room Tax Producers In 2009

Rank	Hotel	# of Rooms	(%) of Total Rooms
1)	Hilton Pittsburgh	712	4.54%
2)	Omni William Penn Hotel	596	3.80%
3)	Pittsburgh Marriott City Center	402	2.56%
4)	Sheraton Station Square Hotel	399	2.54%
5)	Pittsburgh Airport Marriott	316	2.01%
6)	Doubletree Hotel and Suites	308	1.96%
7)	Renaissance Pittsburgh Hotel	300	1.91%
8)	Holiday Inn Select University Center	251	1.60%
9)	Spring Hill Suites North Shore	198	1.26%
10)	Residence Inn/Marriott (Oakland)	174	1.11%
	Total	3,656	23.29%

Source: Allegheny County, Pittsburgh Business Times; VisitPittsburgh, and Janney FIS.



> PKF Hospitality Research is forecasting that area occupancy should rise through 2013. Although occupancy fell in 2009, area hotel room occupancy has not decreased as much as other metropolitan areas.

Pittsburgh and Allegheny County Hotel Industry Review

The Allegheny County hotel industry is part of a competitive middle tier hotel market. Area hotel development and occupancy has been driven by the Pittsburgh and Allegheny County Regional Destination Financing Plan. In addition to the convention center (completed in September 2003), the plan included the construction of PNC Park, the home of the Pirates baseball team and Heinz Field, the new stadium facility for the Steelers football team. Total financing cost for the Plan has been over \$1 billion, which includes the bonds. The Plan, in addition to other economic development projects undertaken by Pittsburgh, Allegheny County and the Commonwealth of Pennsylvania, has made the downtown Pittsburgh area, especially the cultural and shopping districts, a destination for both local and out of town visitors. Convention center occupancy has been stable and was highlighted by Pittsburgh’s hosting of the G20 Summit in September 2009. Tourism was also boosted by championship football and hockey seasons in 2009. The recently completed \$780 million Rivers Casino and light rail expansion should also benefit the area. PKF Hospitality Research is forecasting that area occupancy should rise through 2013. Although hotel room occupancy fell in 2009, area hotel room occupancy has not decreased as much as other metropolitan areas and is forecast to rebound faster than most other locales.

Pittsburgh Region Hotel Industry Overview

Calendar Year	Occupancy	Ann Chg (%)	Average Daily	
			Rate	Ann Chg (%)
1999	63.7%	1.6%	\$73.11	2.1%
2000	63.6%	-0.2%	76.18	4.2%
2001	59.2%	-6.9%	74.53	-2.2%
2002	58.7%	-0.8%	73.56	-1.3%
2003	58.5%	-0.3%	73.63	0.1%
2004	60.7%	3.8%	76.24	3.5%
2005	61.2%	0.8%	79.73	4.6%
2006	61.0%	-0.3%	86.00	7.9%
2007	62.8%	3.0%	97.57	13.5%
2008	64.3%	2.4%	101.38	3.9%
2009	62.1%	-3.4%	98.99	-2.4%
2010 (Forecast)	62.5%	0.6%		
2011 (Forecast)	63.3%	1.3%		
2012 (Forecast)	65.2%	3.0%		
2013 (Forecast)	66.5%	2.0%		

Source: VisitPittsburgh, Smith Travel Research, PKF Hospitality Research, and Janney FIS.

Debt Service Reserve Fund and Additional Bonds Test

Most revenue bond issues include a debt service reserve fund, typically in an amount equal to maximum annual debt service. This cushion would be available to pay debt service if revenues were insufficient. DSRFs may be funded in different ways including:

- A portion of an issue’s bond proceeds which are invested in a highly rated investment
- A surety bond, or an insurance policy provided by a highly rated provider

No matter how it is funded, a DSRF offers bondholders additional protection during times when revenues might fall below debt service requirements. When revenues are derived from a narrow and sometimes volatile tax base, such as those from a hotel room tax, a DSRF is particularly important. The bonds’ DSRF requirement was met with an Ambac surety bond when the bonds were sold in 1999. Rated Aaa/AAA/AAA at that time, the insurers’ financial strength rating is now Caa2/CC. Currently, the debt service reserve offers bondholders effectively no security. In the short term, with tax revenues more than sufficient to meet debt service requirements, this deficient debt service reserve is not consequential, but in the event that a revenue decline was significant or sustained, the missing cushion would be impactful.

Another security feature of this issue is an additional bonds test, meaning that the issuer cannot issue additional bonds (except refunding bonds) unless revenues are projected to cover combined debt service of existing and new bonds at least 1.25x.

Local Credit Influences

Although hotel room tax revenues are the security for repayment of the bonds, the financial strength of the local area, in this case Allegheny County with a concentration of larger hotels in Pittsburgh, is also important to consider. Tax revenues are falling across the country and budgets continue to be strained. In anticipation of near term fiscal tensions, Moody's put all local governments on negative watch in April 2009.

Allegheny County, rated A3 (Positive)/A+ (Stable) is the second largest county in Pennsylvania by population with approximately 1.2 million people. Wealth and income levels are near national per capita levels and modest growth is expected in the county's tax base in the near to medium term. Moody's outlook for Allegheny County is positive, mostly based on the improvements in the county's financial status. Fiscal performance has leveled-off and management has put into place measures that should stabilize revenue performance. The county's largest employers were somewhat insulated from the financial and real estate fall-outs over the last few years because the area does not have a high concentration of those industries.

> *Hotel tax revenues are the security for the repayment of the bonds but local credit influences should also be considered.*

Largest Allegheny County Private Employers

Employer	Employees	Sector
Uni Pitt Health System	26,700	Health Care
West Penn Allegheny Health System	10,200	Health Care
University of Pittsburgh	10,100	Higher Ed
Giant Eagle, Inc.	9,600	Food Service
PNC Financial Group	6,900	Financial

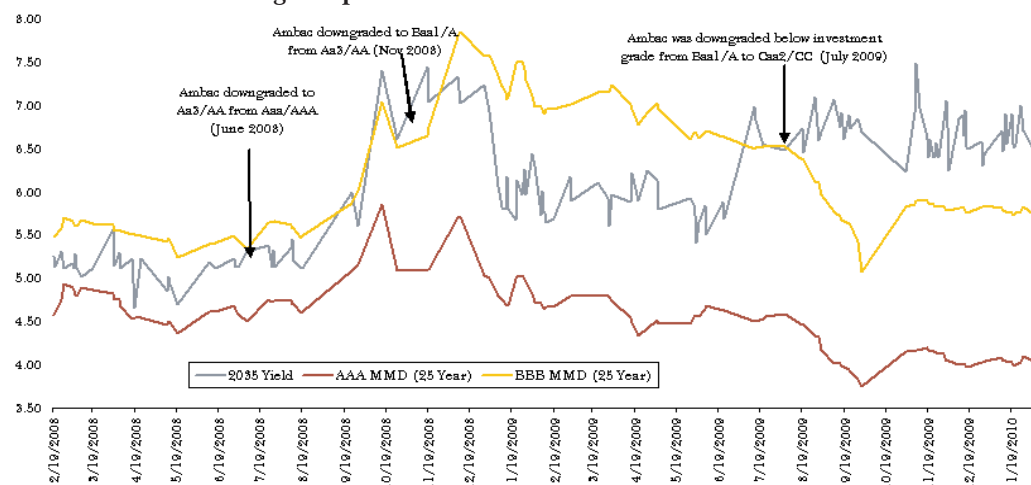
Source: Allegheny County Department of Economic Development and Janney FIS.

The City of Pittsburgh, rated Baa1 (Negative)/BBB (Stable) /BBB+, has a population of approximately 310,000 people, with average wealth levels. Although Pittsburgh was deemed a distressed municipality in late 2003 under Pennsylvania's Act 47, Pittsburgh's economy and finances have improved significantly over the recent past. Despite improvements, there are areas which are continuing to strain the city's finances such as lower revenue performance due to the economic downturn as well as unfunded pension obligations. The City's pension funding level was reported at a troubling 29% for 2008 according to a June 2009 Pew Charitable Trust report.

Bond Valuation

In the early months of 2008, yields on market trades of the 2035 term bond were between the 25 Year Municipal Market Data (MMD) AAA and BBB yields until Ambac was downgraded to Baa1/A in November 2008. Soon thereafter, the bonds traded just above the BBB benchmark but then settled back into a range just between the AAA and BBB benchmarks again.

The 2035 Bond is Trading 50 bps Wider than the BBB Benchmark



Source: Bloomberg, ThomsonReuters, and Janney FIS.



Ambac was once more downgraded in July 2009, this time below investment grade, and the 2035 bond has been trading at a wider spread to the BBB benchmark ever since. Most recently the spread was at almost 50 basis points to the BBB MMD Yield. This largely reflects the lack of an underlying rating on this issue.

Conclusion

Near and medium term factors stressing the bonds include the status of the DSRF and the current financial environment pressuring business and tourism activity and all levels of government. The historical level of hotel room tax revenue has been good while recent positive economic trends for Pittsburgh and Allegheny County should help maintain the issue's creditworthiness if the area is not deeply affected by negative factors stemming from the economic recession. Our key concern for the long term is the sustainability of hotel room tax revenues. A multi-year decrease in revenues would be alarming and increase focus on the weak DSRF, given Ambac's financial condition. Although the rating agencies did not assign a rating to this issue, we believe, these bonds to be of investment grade quality, largely due to good historical debt service coverage and the importance of this project as part of a larger overall economic development plan. Yields for the issues' 2035 bond have recently ranged about 50 basis points above the BBB benchmark. We believe these yields adequately reward investors who understand and can tolerate the risks as noted in this analysis.

> *We believe the Hotel Room Tax Revenue Bonds to be of investment grade quality, largely due to good historical debt service coverage and the importance of the project as part of a larger economic development plan.*

ANALYST CERTIFICATION

I, Tom Kozlik, the Primarily Responsible Analysts for this report, hereby certify that all of the views expressed in this report accurately reflect our personal views about any and all of the subject economies, indicators, sectors, industries, issuers, and securities. No part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

DEFINITION OF OUTLOOKS

Positive: Janney FIS believes there are apparent factors which point towards improving issuer or sector credit quality.

Stable: Janney FIS believes there are factors which point towards stable issuer or sector credit quality.

Cautious: Janney FIS believes there are factors which introduce the potential for declines in issuer or sector credit quality.

Negative: Janney FIS believes there are factors which point towards weakening in issuer or sector credit quality.

DEFINITION OF RATINGS

Overweight: Janney FIS expects the target asset class or sector to outperform the comparable benchmark (below) in its asset class in terms of total return

Marketweight: Janney FIS expects the target asset class or sector to perform in line with the comparable benchmark (below) in its asset class in terms of total return

Underweight: Janney FIS expects the target asset class or sector to underperform the comparable benchmark (below) in its asset class in terms of total return

BENCHMARKS

Asset Classes: Janney FIS ratings for domestic fixed income asset classes including Treasuries, Agencies, Mortgages, Investment Grade Credit, High Yield Credit, and Municipals employ the "Barclay's U.S. Aggregate Bond Market Index" as a benchmark.

Treasuries: Janney FIS ratings employ the "Barclay's U.S. Treasury Index" as a benchmark.

Agencies: Janney FIS ratings employ the "Barclay's U.S. Agency Index" as a benchmark.

Mortgages: Janney FIS ratings employ the "Barclay's U.S. MBS Index" as a benchmark.

Investment Grade Credit: Janney FIS ratings employ the "Barclay's U.S. Credit Index" as a benchmark.

High Yield Credit: Janney FIS ratings for employ the "Barclay's U.S. Corporate High Yield Index" as a benchmark.

Municipals: Janney FIS ratings employ the "Barclay's Municipal Bond Index" as a benchmark.

DISCLAIMER

Janney or its affiliates may from time to time have a proprietary position in the debt obligation of any issuer(s) mentioned in this report.

Unless otherwise noted, market data is from Bloomberg, Barclays, and Janney Fixed Income Strategy (Janney FIS).

This report is the intellectual property of Janney Montgomery Scott LLC (Janney) and may not be reproduced, distributed, or published by any person for any purpose without Janney's express prior written consent.

This report has been prepared by Janney and is to be used for informational purposes only. In no event should it be construed as a solicitation or offer to purchase or sell a security. The information presented herein is taken from sources believed to be reliable, but is not guaranteed by Janney as to accuracy or completeness. Any issue named or rates mentioned are used for illustrative purposes only, and may not represent the specific features or securities available at a given time. Preliminary Official Statements, Final Official Statements, or Prospectuses for any new issues mentioned herein are available upon request. The value of and income from investments may vary because of changes in interest rates, foreign exchange rates, securities prices, market indexes, as well as operational or financial conditions of issuers or other factors. Past performance is not necessarily a guide to future performance. Estimates of future performance are based on assumptions that may not be realized. We have no obligation to tell you when opinions or information contained in Janney FIS publications change.

Janney Fixed Income Strategy does not provide individually tailored investment advice and this document has been prepared without regard to the circumstances and objectives of those who receive it. The appropriateness of an investment or strategy will depend on an investor's circumstances and objectives. For investment advice specific to your individual situation, or for additional information on this or other topics, please contact your Janney Financial Consultant and/or your tax or legal advisor.

