ENVIRONMENTAL IMPACT REPORT
DOWNTOWN SPECIFIC PLAN NO. 5
Tom Livengood

Black Binder
Page 2.1 "Although the DTSP update does not propose a development threshold" market demand study indicates what potentiality could be developed.

White Binder
Page 11 "The build out summary presented in table 1 illustrates the maximum allowable new development potential within the Specific Plan that potentiality could occur over a twenty year period of time.

Which statement is correct? If there is no cap how can an EIR evaluate what the impacts will be?

General Questions
Are the boundaries and acreage the same for the revised plan as the existing plan?
What is the street boundary of the Cultural overlay

BLACK BINDER
2.1 Is Pacific City included in table 2.2.1 New Development Potential? If not what is statistics of Pacific city (residential units, square footage, hotel)?
Page 2.16 and 2.17—Is there a guarantee mitigation measurers can be implemented?.

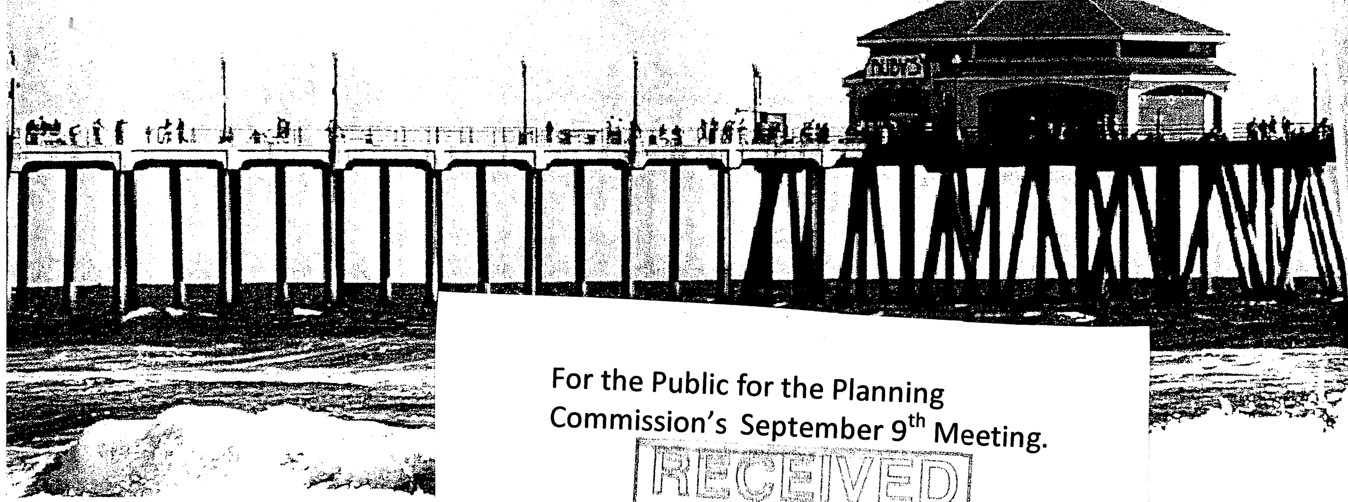
4.4 Describes residential areas. Does the Specific plan have conditions that reflect residential? Is commercial allowed in residential areas listed?
4.192 Sixth alignment, Main alternatives. Is alignment in or out of DTSP?
4.193 table 4.123.2 please explain mode shift
4.193 Table 4.12.2 How can peak hour total be 3? Total trip generation/net trip generation please explain.
4.213, 214 Cross walk proposals in DTSP?
4,223,4.224 Exhibit 4.12.10. "It is anticipated that approximately 300 to 400 additional off site parking spaces will be necessary to support the net new development expected in Downtown."
Where is parking proposed in the three areas? Area C 80 spaces in residential area and Main Area A Culture Center 161 spaces.

*REVIEW OF DISTRICTS 3.16 EXISTING/317 PROPOSED
Pages 4.1, 4.2,4.3,
*4.208 Street Scape
WITE BINDER
13 Negative declarations list fourteen potentially significant items. Is this an unusually high number?

*40 start of letters—Environmental Board page 12, second street 14 to 20, Pier Colony 21,
Second Street 23,24 history, 254, District 1, 26 and Richard Gray 28-33.
Questions on Environmental Board letter

* Discussion items

LATE COMMUNICATION SS#A-3 PC MEETING 9-09-09



PKF
Consulting

For the Public for the Planning
Commission's September 9th Meeting.

Proposed Cultural Center
HUNTINGTON BEACH, CA

Analysis of Potential Market Demand, Estimated Revenue and Economic Impact

Prepared for:
Mr. Stephen K. Bone
President and CEO
Huntington Beach Marketing & Visitors Bureau, Surf City USA®
301 Main Street, Suite 208
Huntington Beach, CA 92648-5171

May 2009

LATE COMMUNICATION SS#A-3 PC MEETING 9-09-09

PKF
Consulting
865 South Figueroa Street
Suite 3500
Los Angeles CA 90017

Telephone (213) 680-0900
Telefax (213) 623-8240
www.pkfc.com

May 1, 2009

Mr. Stephen K. Bone
President and CEO
Huntington Beach Marketing and Visitors Bureau - Surf City USA®
301 Main Street
Huntington Beach, CA 92648-5171

Re: ***Potential Market Demand, Estimated Revenues, and Economic Impact for a Proposed Cultural Center to be located in Huntington Beach, California***

Dear Mr. Bone:

Pursuant to your request, we have completed our preliminary study of the potential market demand and estimated revenues for a proposed Cultural Center aimed to incorporate the Southern California culture with art, music, clothing, education, and surfing lifestyle element. The proposed project is to be located at Sixth and Main Streets in Huntington Beach, California. As the central focal point of the Cultural Arts Overlay District, the proposed project will act as a tourist and community attraction, creating synergy with the adjacent Huntington Beach Art Center and other key facilities. The conclusions reached are based on our present knowledge of the local museum, tourism, and lodging market as of the completion of our fieldwork in April of 2009. The following report summarizes our findings and reflects the conclusion of our study and recommendations.

As in all studies of this type, the estimated results assume competent and efficient marketing and management, and presume no significant change in the local tourism and lodging market from that as set forth in this report. Since our estimates and recommendations of the proposed museum are based on comparable facilities and assumptions which are subject to uncertainty and variation, we do not represent them as results that will actually be achieved; however, our revenue projections have been conscientiously prepared on the basis of information obtained during the course of this assignment and in our capacity as professional analysts in both the tourism and lodging industries. The estimating operating results presented therein should be used to evaluate the overall feasibility of the project.

It is expressly understood that the scope of our study and report thereon do not include the possible impact of zoning or environmental regulations, licensing requirements or other restrictions concerning the project, except where such matters have been brought to our attention and are disclosed in the report. It is expected that the development of the project will adhere to all such legislative or other restrictions. This report is subject to the General Statement of Assumptions and Limiting Conditions presented in the Addenda.

It has been a pleasure to work with you on this most interesting assignment. If we can be of any further assistance in the interpretation of our findings, please feel free to contact us.

Sincerely,

PKF Consulting

By: Bruce Baltin
Senior Vice President

OVERVIEW OF THE STUDY

PKF Consulting has been retained by the Huntington Beach Marketing and Visitors Bureau to conduct a preliminary study of the potential market demand and estimated annual visitation levels and revenues for the proposed Cultural Center to be located in Huntington Beach, California. As a component of this report, we have provided facility recommendations concerning the proposed facility and developed estimated potential revenues for the project in a representative year of operation. Following this, we analyzed the project's potential economic impact for the City taking into account the historic and projected lodging market estimates over ten year period. Furthermore, we have estimated future TOT collections for the City on a calendar year basis as it relates to the proposed project and future hotel market development.

SCOPE AND METHODOLOGY

In conducting the study, we:

- Physically inspected the subject site as well as existing and planned surrounding developments;
- Assessed the impact of the proposed subject's accessibility, visibility, and location relative to demand generators and overall marketability;
- Evaluated the planned development scenario for the subject site and provided recommendations for the proposed subject's facilities and amenities;
- Researched and analyzed current economic and demographic trends in Orange County and the City of Huntington Beach to determine the impact on future tourism trends and lodging demand within the market;
- Researched and analyzed analogous developments in Southern California;
- Analyzed the current and future market demand for the Cultural Center in the local and regional market area;
- Developed a forecast of the likely visitation levels and revenues that the recommended Facility could reasonably achieve over its first five-years of operation; and,
- Prepared an estimate of the potential economic impact of the Cultural Center to the City of Huntington Beach based on its ability to stimulate tourism receipts and additional spending in the community.

Several sources were used in compiling the background information and preparing the analysis contained in this summary report. These resources included *Trends in the Hotel Industry*, published by PKF Consulting; data on the local market gathered through interviews with the local lodging properties, city personnel, the Chamber of Commerce, and members of the business community in the City of Huntington Beach; data provided by sources in non-profit organizations with which the comparable museums are affiliated; and economic data on the region from various local governmental and planning entities.

SUMMARY OF CONCLUSIONS

Based on the preceding work program and our foregoing analysis, we have made a determination of the market viability for the proposed subject. The results of our research and analysis are summarized in the following bullet points:

- The subject facility will be the anchor of Huntington Beach's Downtown Redevelopment Plan and central attraction for the City's *Cultural Arts Overlay District.*

- The proposed Cultural Center will incorporate a learning and entertainment environment highlighting the Southern California lifestyle, including art, music, clothing, literature, surfing, and other educational elements.

- Recommendation of a Cultural Center ranging from 40,000 to 50,000 square feet in size with the following space program considerations that would be included within the facility:

  - ✓ *Three to four stories in height (within a 45-foot height limit)*
  - ✓ *15,000 square feet of flexible rentable event space*
  - ✓ *1,500 square foot restaurant or café with veranda seating*
  - ✓ *Gift Shop*
  - ✓ *100 to 125-seat theater*
  - ✓ *Incorporation of an interactive Library component and Learning Center*
  - ✓ *A roof top terrace for events and a ground floor outdoor veranda area coordinated with the adjacent Art Center.*

- It is estimated that the annual attendance at the Center will reach 300,000 persons, capturing 10 to 15 percent of total occupied hotel room nights in a representative year.

- It is estimated that the subject will achieve approximately $4,460,000 in total earned income in a representative year of operation with an average admission price of $8.00 per visitor.

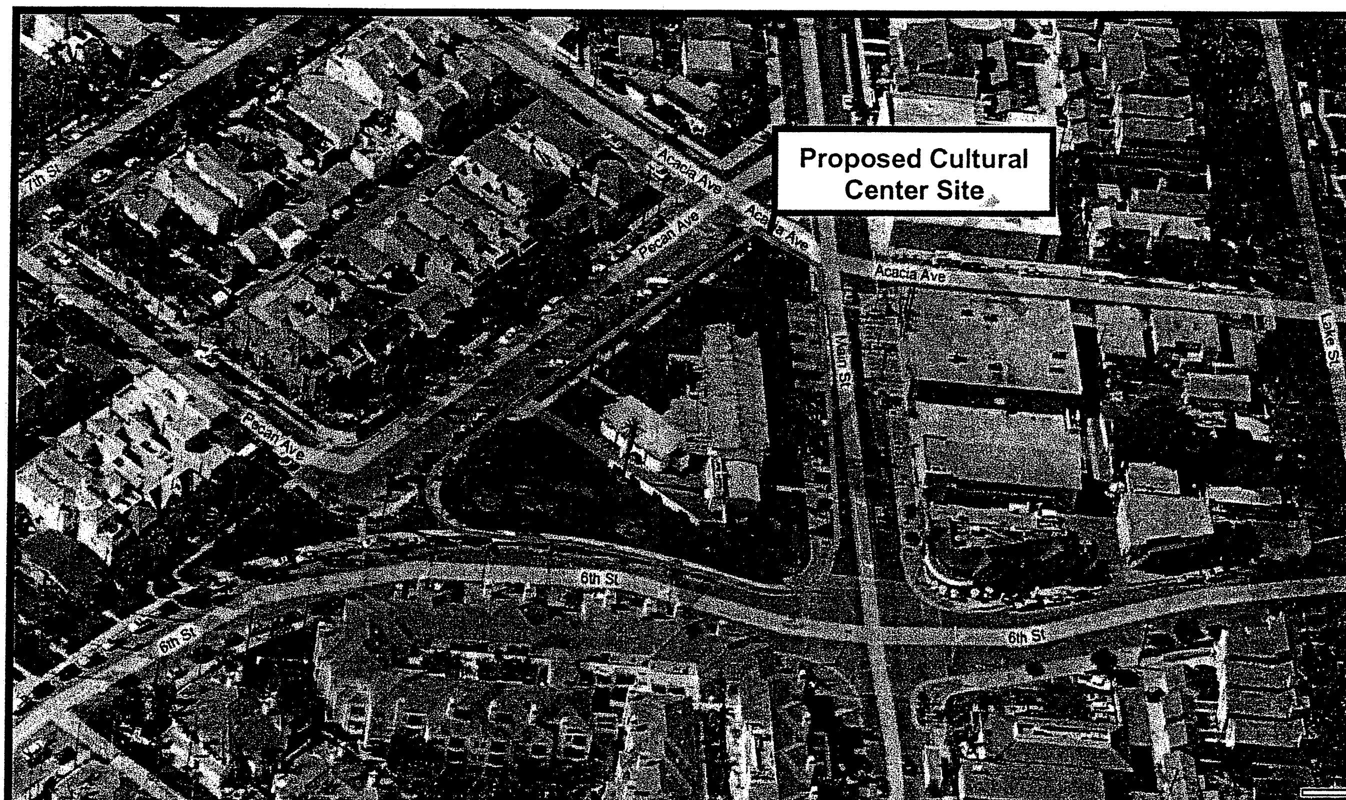
- The subject facility will provide guests with four to five hours of learning, cultural, and entertainment activities which will in turn increase the average length of stay for lodging guests in the City.
- Concurrent with new and future hotel development in the City and further redevelopment of the 'Downtown Specific Plan', the potential economic impact of annual TOT collections has been projected to experience growth over a ten year period.

SITE DESCRIPTION

The proposed subject site is located at the north end of Huntington Beach's 'Downtown Specific Plan' at the intersections of 6th and Main Streets. The overall project site is improved with a local library edifice, and is adjacent to an arts center with surrounding light residential and commercial uses. The Cultural Center site is proposed to be located within its triangular-shaped parcel and incorporate a library component as an extension to the project's educational research and archival capabilities. The overall site is also part of Huntington Beach's Cultural Arts Overlay district which has plans to promote continued enhancement of the cultural arts within the City by building on existing cultural facilities within downtown's specific plan as well as highlighting the nearby Art Center. The following are various proposed development standards that must be adhered to for any development planned to be located in the Cultural Arts Overlay District:

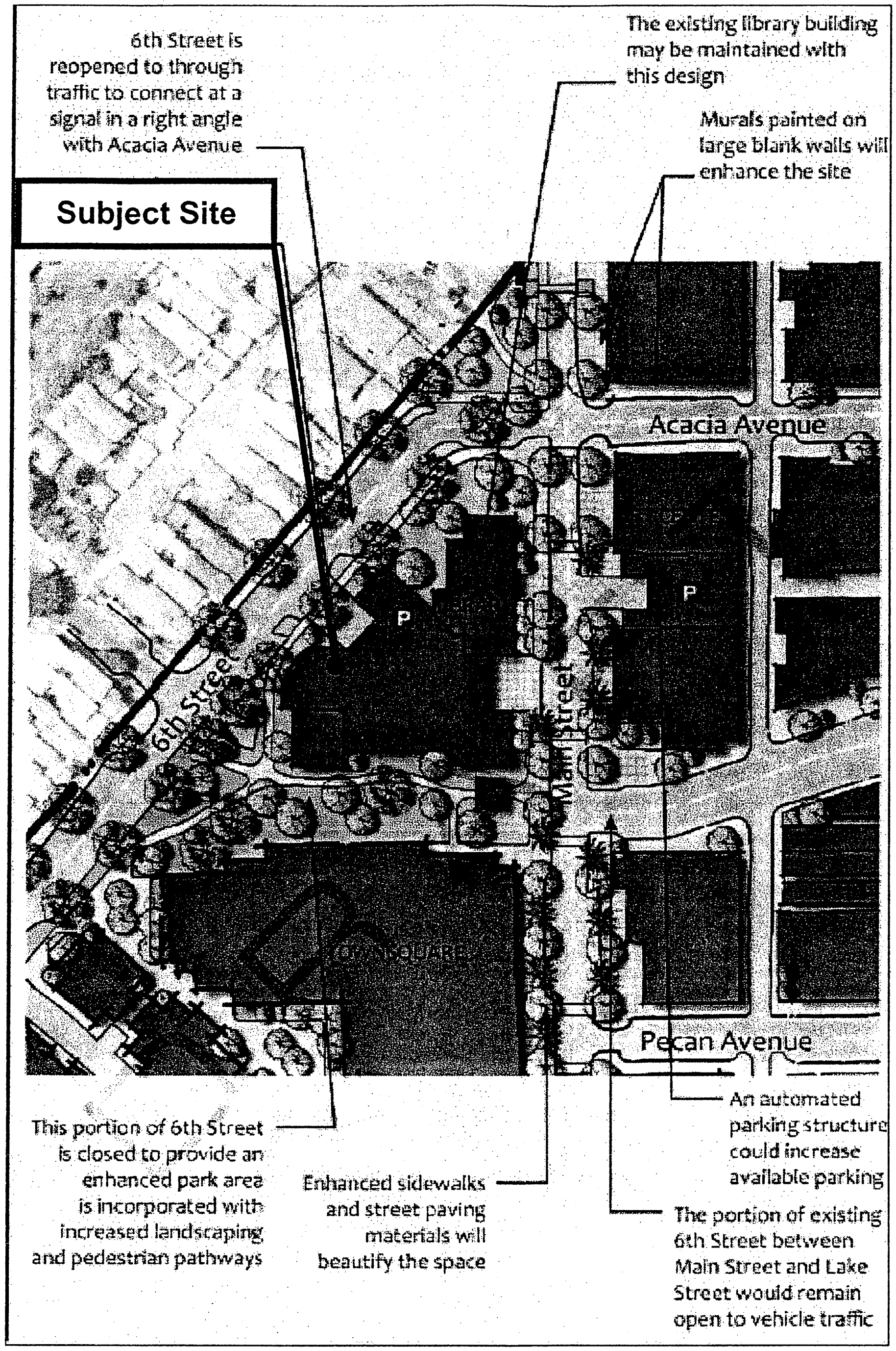
- *Maximum site coverage must be 60 percent of the net site area*
- *Maximum building height must be 45 feet*
- *A minimum of 30 percent of the net site area of the cultural arts overlay district must be preserved as public open space with 70 percent of that space landscaped with green area*
- *The open space must include a minimum of 1,000 square feet in area that will serve as the primary outdoor gathering space for the district and local patrons*
- *Public restrooms must be required in any new cultural arts facility constructed*

Presented on the following pages are maps depicting the subject site within the Cultural Arts Overlay District.



PKF
Consulting

Site Map



CULTURAL ARTS OVERLAY DISTRICT PLAN

PKF Consulting

Map of Local Area

Bordering the proposed project site are:

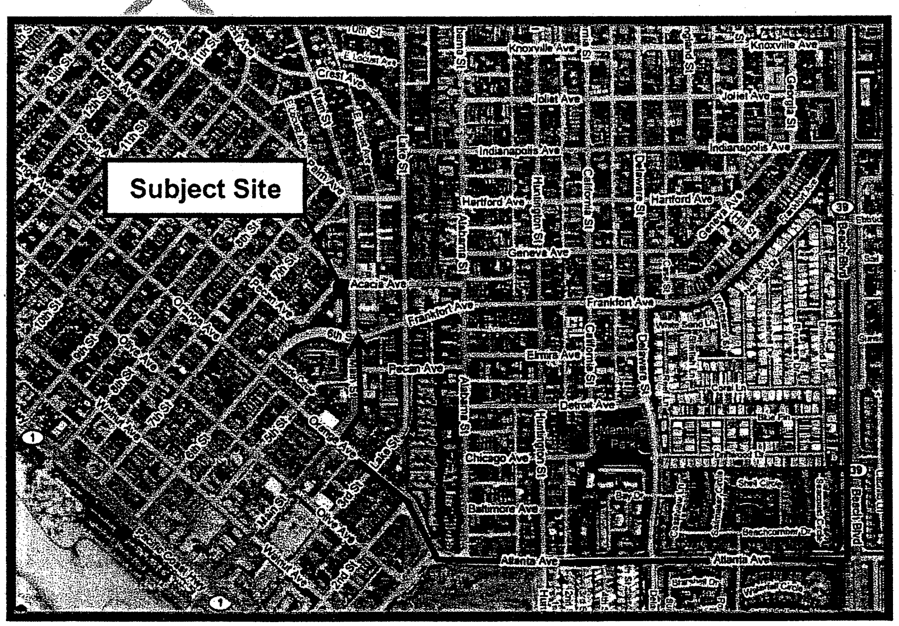
North: Retail shops and residential neighborhoods. Immediately north is a triangular intersection of Acacia Avenue, Pecan Avenue, and Main Street. Farther north of the site are City parks, the Bella Terra Shopping Center, and the Interstate 405.

South: South of the subject site is 6th Street and additional residential developments with retail strip malls. Just south of the subject site is Downtown Huntington Beach, the base of which is located at the intersection of Main Street and the Pacific Coast Highway. East and west of downtown are the 31-acre Pacific City project and The Strand development incorporating the new hotel project by Joie De Vivre. Further south is the Huntington State Beach and Pier.

East: Immediately east of the subject site is Main Street, followed by commercial and residential uses. Approximately one mile southeast is the Hilton Waterfront Beach Resort and Hyatt Regency Resort and Spa. Farther east are north-south running Beach Boulevard, the Cities of Costa Mesa and Newport Beach, and The John Wayne Airport.

West: West of the subject site is Pecan Avenue, 7th Street, and residential uses. Farther west and north is the Pacific Coast Highway, Bolsa Chica Ecological Reserve, and Seal Beach.

The City of Huntington Beach is located in north-western Orange County and is bordered by Seal Beach to the west, Westminster to the northwest, Fountain Valley to the northeast, and Costa Mesa and Newport Beach to the south and southeast. San Diego is located 95 miles to the southeast and Los Angeles is located 35 miles to the northwest.



Primary access to the site will be provided from automobiles and pedestrians. The site is currently accessible from Main Street for travelers heading north from Downtown Huntington Beach, the pier, or for motorists traveling north via the Pacific Coast Highway (PCH). Additionally, automobiles exiting the 405 may travel south via Beach Boulevard and turn right on Atlanta Avenue which merges into Orange Avenue and then reach the subject by turning right at Main Street. The subject site is centrally located to several freeways as presented below.

Proximity to Major Freeways

Freeway	Distance to (miles)
PCH (1)	0.3
Hwy 39	1.0
405	6.0
55	6.0
73	6.5
5	14.5

Air access is provided by John Wayne Orange County Airport and Los Angeles International Airport, which are located approximately 10 miles east and 35 miles northwest of the subject site, respectively. Additionally, the Long Beach Airport is situated approximately 15 miles northwest of the subject. Approximately 15 miles northeast is local train access to the area via the Santa Ana Train Station.

Due to the subject's triangular-shaped parcel and location on 6th and Main Street, the proposed Cultural Center will be highly visible to a large number of motorists and pedestrians. The surrounding buildings are primarily low rise structures, thus the proposed facility will have good visibility from immediate north and south bound thoroughfares, pending the construction height permitted. Additionally, the proposed facility will have fair visibility to visitors traveling east and west on Orange and Acacia Avenue.

Demand Generators

Huntington Beach, or "Surf City USA®", draws approximately 16 million beach-users annually, with many of those being surfers or water-enthusiasts. The City boasts an 8.5-mile stretch of accessible city and state beaches and offers a variety of cultural, recreational, and entertainment events each year such as:

- US Open of Surfing
- Surf City USA® Marathon
- 4th of July Parade and Beach Fireworks
- Annual Huntington Beach Kite Party
- Annual Fishing Championships
- Vans Pier Classic
- Wavecrest Woody Cruiser Meet
- Surf City USA® Paintball Open
- Taste of Huntington Beach

- ➢ Duck-A-Thon
- ➢ Concours d'Elegance Classic Car Show
- ➢ Boardfest – Coed Action Sports Youth Festival
- ➢ Surfboard on the Sand
- ➢ Blessing of the Waves – Celebrating Walking on Water
- ➢ Oktoberfest at Old World Village
- ➢ BB Jazz Festival
- ➢ Light a Light of Love Celebration – Pier Lighting Ceremony & Parade
- ➢ Harbour Boat Parade
- ➢ Beach Concerts
- ➢ TV, Movie, and Commercial Film Shoots

- As part of Huntington Beach's 'Downtown Specific Plan', the subject will be linked to an overall planned redevelopment effort to link the ocean activities to the commercial, retail, and residential sectors within downtown's core. These improvements will benefit visitors and residents with easy access to the Cultural Overlay District as it will become a strong pedestrian-oriented sector with cultural activities and an identity which builds from the ocean. We expect the subject will act as the anchoring demand generator for the City's redevelopment plans.

- The City of Huntington Beach boasts several waterfront hotels and resorts which provide over 600,000 available room nights annually. The Hyatt Huntington Beach Resort, Hilton's Waterfront Beach Resort, and the new Shorebreak Hotel attract large amounts of group and leisure business to the area.

- Large retail projects such as Bella Terra, Pacific City, Main Street, The Strand, and other destination outlets will continue to drive day-trip demand from surrounding regions and potentially impact visitation at the subject.

FACILITIES RECOMMENDATIONS

INTRODUCTION

The following analysis and recommendations describe the proposed program elements for the Cultural Center. These elements were developed following our discussions and input from the project's planning committee, interviews with key museum leaders, the Surfing Heritage Foundation, local tourism officials, and surveys of other museums in the California region.

The proposed Cultural Center is aimed to first and foremost enhance visitors' overall experience to the City of Huntington Beach and the redeveloped Cultural Overlay District.

In order to execute this objective, the Center plans to incorporate three main themes or concepts in the programming of the project. These are:

1. Provide an archive of local surfing history, resources, and environmental awareness, including art, music and clothing;

2. Offer an educational experience with interactive learning and entertainment, in addition to the library component; and,

3. House computer technology and state-of-the-art displays, rotating exhibits and event space

BASIS FOR RECOMMENDATIONS

To determine the subject's total gross square footage, appropriate mix of exhibit areas, amount of event space, number and level of food and beverage facilities, and other facility recommendations, we identified five comparable museums and facilities located in the greater Southern California area. We selected these five facilities based on market positioning, comparable facility attributes, and orientation. A breakdown of these comparable facilities is presented in the following table.

Proposed Huntington Beach Cultural Center – Comparable Facilities

Facility	Distance From Subject	Total Square Footage (SF)	Total Exhibit Area	Total Rentable Event Space	Food & Beverage	Gift Shop	Theater	Amenities/Special Attractions
Southern California								
Bowers Museum	18.3 mi	100,000	30,000 SF Gallery	15,000 SF (25-1,500 Guests)	Tangata Restaurant (160-seats)	Yes	500-seat	Cultural Festivals, Lectures, Films and Performances, and Special Member Events
Discovery Science Center	18.4 mi	59,000	120-Hands On Exhibits	Events for 80-1,500 Guests	Taco Bell/Pizza Hut Express	Yes	130-seat (4D Movies)	The Magical School Bus, Hot Air Balloon Race, Walkerville Weather Center, etc.
Grammy Museum (L.A. Live)	39.4 mi	30,000	4-Floors of Interactive Exhibits	Events for 50-500 Guests (14,000 SF Terrace)	N/A	Yes	200-seat	Interactive Music History Exhibits, Artifacts, and Memorabilia. Life of a Recording Artist, etc.
San Diego Hall of Champions (Sports Museum)	95.1 mi	68,000	3-Floors with 42 Sports Memorabilia	Five Spaces for 60-500 Guests	Time Out Café	Yes	Interactive Theater	Annual Sportsmen's Banquet, Incorporates High School to Pro Sports including Action Sports
Santa Barbara Museum of Natural History	134 mi	16,000	10 Exhibit Halls	Five Spaces for 20-150 Guests	N/A	Yes	Outdoor Amphitheater	Houses Gladwin Planetarium, Animal Exhibits, Historic and Cultural Halls, and Research Labs

Since there are no comparable surfing museums or cultural centers in the region which are analogous to the proposed project, we have not examined these facilities on a programming basis. Recommendations concerning facility programming for the subject have been based largely on our analysis of the aforementioned museums and regional facility surveys highlighted below.

Museums and cultural centers range widely in types of facilities offered, as well as in overall size. According to a recent survey prepared for the California Association of Museums, the interior space of state-wide museums ranges from 500 to almost 3.5 million square feet, with a median of 10,000 square feet.

Museum Square Footage				
	Sample Size	Min	Max	Median
Total Interior	119	500 SF	3,500,000 SF	10,000 SF
Total Exterior	96	0 SF	52,000,000 SF	9,600 SF
Source: CAM, Public Research Institute				

In addition, the survey highlights that many California museums have facilities in addition to exhibit space. A large majority of museums have stores or gift shops, meeting rooms and event space, educational classrooms, food and beverage outlets, and other rental facilities. The following tables represent the available museum facilities and the corresponding size ranges of a California sample.

Available Museum Facilities				
	Sample Size	Yes	No	Unsure
Museum Store	134	86%	14%	0%
Restaurant/Café	134	14%	86%	0%
Meeting Rooms	134	66%	33%	2%
Classroom	134	43%	57%	1%
Other Rental Facilities	134	67%	33%	0%
Size of Facilities				
	Sample Size	Min (SF)	Max (SF)	Median (SF)
Museum Store	101	0	5,700	300
Restaurant/Café	16	200	20,000	1,600
Meeting Rooms	73	50	50,000	800
Classroom	49	150	10,000	800
Other Rental Facilities	N/A	N/A	N/A	N/A
Source: CAM, Public Research Institute Survey				

The following provides a general scope of facilities that should be considered for the proposed Cultural Center to be located in Huntington Beach, California.

OVERALL QUALITY LEVEL

The subject will be superior to its direct competition of regional cultural centers. Additionally, the subject will be competing indirectly on the local and regional level with a number of high-quality, interactive museums and cultural centers. To appropriately position the subject within the competitive market, the facility's overall quality level should be at or above the comparable facilities.

Based on our analysis, we believe the total project should consist of approximately 40,000 to 50,000 square feet. We recommend that the subject should also offer food and beverage, event space, a theater, and flexible exhibit space along with circulation space and parking. With a recommended facility height of three-stories, an opportunity exists for a potential rooftop terrace as additional outdoor function space. The project should also incorporate green space and a ground floor outdoor veranda area for visitor and local resident use.

MAIN ATTRACTIONS & EXHIBITS

Legends/Pioneers of Surfing Culture & Industry

Similar to many sports throughout the U.S., surfing has a rich history of pioneers, legends, and personalities that have contributed significantly to its growth and evolution, not only as an action sport but as a culture. As a compliment to the Walk of Fame lining Huntington Beach sidewalks, this proposed cultural center should recognize inductees' important contributions to surfing and its evolution as a culture. We recommend colorful designed displays, utilizing a multimedia approach with TV's and artifacts giving vitality to the area. We estimate this area to utilize approximately 2,000 to 4,000 square feet of the proposed Center.

Marine Life and Environmental Display

According to the planning committee and advisors to the proposed project, incorporation of a large scale living display of marine life and local simulated wetlands has been considered. This exhibit area affords a unique educational opportunity for all ages, and should be a particular draw for community groups and schools within the City of Huntington Beach and surrounding areas. We recommend that all aspects of this display should be supported by multimedia TV's, touch-screen technology, aquariums for marine life, and interactive help guides. We estimate this portion of the Center to occupy approximately 4,000 to 6,000 square feet.

Learning Library, School Affiliations & Computer Support

In order to maintain flexibility with exhibits and displays, great emphasis should be placed on education and computer technology integration throughout the facility. With potential archives to be provided by collectors and other contributors, a new library will be incorporated as a state-of-the-art research center filled with compiled information formatted into digital libraries for use of the Center and other sister-surfing facilities in the region.

This hands-on, interactive learning library will also present in-reach and out-reach education programming to meet the needs of diverse audiences. Collaboration with local teachers and administrators to provide education programs that meet the K-12 education standards will benefit the project and should place a high value on experience-based learning. Additional partnerships with local colleges and universities should also be fostered to develop research opportunities, conferences and symposia as well as generate student volunteers and interns.

Opportunities for library-produced items, interactive CD-ROMS, and exclusive gift shop merchandise should create memorable souvenirs for visitors and act as an additional revenue source for the Center.

Educational Rooms & Theater

Comparable to the Discovery Science Center in Santa Ana and the Grammy Museum at L.A. Live, the subject should also extend an educational forum to all ages, comprised of an interactive classroom that may be integrated into the Center. This space would offer presentations encompassing natural sciences, athletics, community seminars, and current events, as well as a broad scope of historical and cultural topics. Such subject matter could range from "Surf City's" history and evolution, to the science behind ocean tides, waves, and weather patterns. The use of computers and digital video walls are envisioned to maximize functionality and visitor impact.

Based on comparable interactive museums in the region, we also recommend a state-of-the-art theater to be located inside the Cultural Center which would consist of approximately 100 to 125 seats. An array of surfing films, documentaries, and special features may be presented in this venue in an effort to extend visitation duration at the Center and to attract after-hour premiers and miscellaneous fundraising opportunities. Based on our conversations with other museums, this amenity proves to be a significant demand generator for younger visitors, families, and international travelers.

Other Exhibit Recommendations

Allowing the exhibits/attractions to remain interactive and fresh will aid to the longevity of the project and increase potential repeat visits for overnight visitors as well as intrigue Huntington Beach residents. Based on our conversations with local surfing experts and the project's planning patrons, we have recommended additional rotating or special exhibits and displays that the subject could offer:

	Huntington Beach Oriented	Southern California Oriented	Surfing / Beach Oriented
Other Exhibits & Galleries	History of Surf City USA®	Vintage Car Display	Physics of Surfing Interactive Lab
	Local Art and Photography Gallery	Conservation Exhibit and Symposia	Surfboard Shaper Display
	Bolsa Chica and Nature Exhibit	Skateboarding Culture Galley	Surfboard Maintenance & Repair Area
	Huntington Beach Kite Party – Interactive Exhibit	California Kids Science Fair Exhibit	Lifeguard Tribute Gallery/Skills Exhibit
	Local Heritage Gallery *(Highlighting Local Residents)*	Crops of California *(Farming History)*	History of Surf Wear, Music and Art
		Weather Station	Surf Simulator or Virtual Reality Ride
		Nautical-themed Gallery	DUKE's Life Journey Exhibit

Food and Beverage & Event Space

PKF Consulting recommends that the subject provide a small café or snack bar with outdoor veranda seating comprising 1,500 square feet. The Center should consider leasing this space to a recognized third-party food operator/restaurateur as well as have a partnered catering company to service all events, banquets, and meetings.

The majority of the aforementioned museum comparables offer rentable meeting and ***event space***. Events booked at such facilities consist of corporate meetings, civic receptions, fundraising galas, weddings, and other functions. We recommend that the proposed Cultural Center contain flexible programming in its exhibit areas and theater space in order to satisfy demand of this nature. Providing a rooftop terrace for outdoor receptions and off-site events for hotel groups will increase demand in the local area for overnight lodging accommodations. Not only will sufficient event space attract more groups to Huntington Beach as a destination, but it will also generate additional revenue for sustaining the project.

Facilities Conclusion

The comparable museums had a total square footage range of 16,000 to 100,000 square feet, with an average of 54,600 square feet. We are of the opinion that the subject center should range between 40,000 and 50,000 gross square feet in size and contain flexible exhibit space and a rooftop terrace for event bookings. Presented in the following table is an example of the potential allocation of space within an approximate 40,000 square foot template.

Proposed Surfing Cultural Center		
Interior Facility Program *(Not including Circulation, Parking or Rooftop Terrace)*	**Net SF**	**% Total SF**
Entrance/Admission Area	3,000	8%
Main Exhibit Areas (5-10)	18,000	45%
Theater (100-125 seats)	4,000	10%
Café (With Outdoor Seating)	1,500	4%
Catering Prep Kitchen	2,000	5%
Gift Shop	2,000	5%
Library Center	4,500	11%
Administration at Visitor's Center	3,000	8%
Other Facilities	2,000	5%
Total (Interior)	40,000	100%
Additional Recommended Notes:		
Rentable Event Space & Rooftop Terrace (Flexible)	up to 350 Guests	(15,000 SF)
Source: PKF Consulting		

The aforementioned facilities and amenities should be considered to optimize the market position and performance of the proposed facility. The subject will be the newest state-of-the-art museum/cultural center in Orange County, located in Huntington Beach's redevelopment area and proximate to regional demand generators, beachfront hotels, and popular tourist attractions. The recommended facilities would position the subject as an international cultural center that would successfully target the market demand segments.

AREA REVIEW

ORANGE COUNTY OVERVIEW

Orange County, which includes 34 incorporated cities and a number of unincorporated communities, had a July 2008 population of approximately 3.13 million people, and is third only to Los Angeles and San Diego in population for California counties. During the past 30 years, Orange County has evolved from an agricultural economy into a large commercial, industrial, and urban community. As a result of this growth, Orange County (the "County") has developed into a well-respected business, financial, and recreational center of California and the Western United States. The County has attracted both national and regional offices for a number of the nation's most successful electronics, computer, wholesale and retail firms.

Orange County is also home to the Disney Resort and Knott's Berry Farm theme parks, two of the nation's most popular recreational attractions. Additional activities in the County include beautiful beaches, numerous shopping venues, and the Anaheim Convention Center, together providing for a popular destination amongst international/domestic tourists and business travelers. Throughout periods of both economic growth and decline, these sources continue to be major drivers of tourism activity and, ultimately, hotel demand and sales tax revenues.

VISITATION

Tourist Visitation

In 2008, the county experienced challenges in annual tourism numbers due to economic adversity. Orange County is estimated to have finished 2008 with 43.8 million visitors, down from 44.3 million in 2007. For 2009, the county is bracing for a decline in visitation of 2.0 percent to 3.5 percent, according to preliminary data from San Diego-based CIC Research Inc. Regional spending, which was estimated to be down 1.0 percent in 2008 to $27.8 billion, is likely to drop again in 2009 to $27.1 billion. Anaheim typically draws more than one million conventioneers annually; however, many of its largest events are staged by associations whose members pay their own way to attend. Organizers are expecting additional challenges maintaining high attendance in 2009.

AREA ATTRACTIONS

Anaheim Resort Area

Located in the heart of Anaheim is the Disney Resort, which includes, as stated earlier, the original Disneyland Park, Disney's new California Adventure theme park, Downtown Disney and the Disneyland, Paradise Pier and Grand Californian Hotels. These facilities, along with the Anaheim Convention Center, represent the primary demand generators for hotels in the Orange County area.

Knott's Berry Farm

Also located in Orange County, Knott's Berry Farm is among the top twenty tourist attractions in the United States. Knott's Berry Farm is home to multiple record-breaking world-class thrill attractions. The theme park recently opened a new roller coaster, and plans to renovate and open new rides in the future to grow attendance at the park.

Cultural Arts

Orange County offers a variety of diverse cultural attractions ranging from the various theater, dance, museums, family arts activities, festivals to thriving artist colonies. There are more than 130 professional and community arts and cultural organizations, and thousands of artists in the Orange County area. Some of the various cultural offerings are discussed in greater detail in the following text.

Orange County Performing Arts Center

Located in Costa Mesa is the Orange County Performing Arts Center. Opened in 1986, the center offers Broadway, dance, pop, and jazz productions, as well as presentations from five regional groups. Over 650,000 guests per year visit the center and its 3,000-seat, opera-house style concert hall. This center is the primary performing venue for five of the County's largest performing arts groups, including the Pacific Symphony Orchestra, Opera Pacific, the Philharmonic Society of Orange County, and the Pacific Chorale.

The Orange County Performing Arts Center recently expanded its concert space. The Renee and Henry Segerstrom Concert Hall opened in September 2006. Located directly across the street from the existing Arts Center on Town Center Drive, between Bristol Avenue and Avenue of the Arts, this $200 million plus development includes a 2,000-seat concert hall, a 500-seat multi-purpose theater and an educational center.

Bowers Museum

The Bowers Museum displays fine art of indigenous peoples from the Americas, Pacific Rim, and Africa. The museum/gallery, located in Santa Ana, has both permanent exhibits as well as traveling special exhibits.

Nixon Library and Birthplace

Located in Yorba Linda, this privately funded, non-profit center was developed to educate the public about the life and times of President Richard M. Nixon as well as general history, government and public affairs. The center conducts public affairs programming along with conferences dedicated to the mission of the center featuring distinguished speakers. The nine-acre library and birthplace features the fully restored home in which the President was born, a 52,000 square foot museum, 22 galleries, a variety of theaters, the First Lady's garden, and memorial sites for the former President and Mrs. Nixon.

Other Cultural Offerings

Additional cultural venues in the Orange County area include the South Coast Repertory, the Theater District, Irvine Pageant of the Masters, and the San Juan Capistrano Multicultural Series. Other visual arts venues include the Costa Mesa Art League, Fullerton Museum Center, Irvine Fine Arts Center, the Irvine Museum, Laguna Art Museum, Orange County Center for Contemporary Art, the Orange County Museum of Art, and the Santa Ana Arts Complex. Additionally, Orange County is home to a number of cultural festivals including the Orange County Art and Jazz festival, the Baroque Music Festival, and other art fairs. Additionally, the Discovery Museum of Orange County, the Launch Pad-Discovery Science Center Preview Facility, and the Orange County Marine Institute offer attractions for families and children.

Shopping

Shopping areas in the Orange County area are highlighted by the South Coast Plaza, located in Costa Mesa, the Irvine Spectrum, which features 21 movie theaters including an IMAX theater; and Fashion Island in Newport Beach, which features major department stores (i.e. Bloomingdales, Neiman-Marcus, Macy's, etc.) and various dining and entertainment venues.

Newport Beach, Huntington Beach and Dana Point Attractions

Also located within Orange County are the cities of Newport Beach, Huntington Beach and Dana Point. Both Newport Beach and Dana Point offer a variety of activities including golf, sport fishing, sailing, whale watching, and cruises to the scenic island of Catalina, located approximately 20 miles off the mainland. Newport Beach is famous for not only its fishing off the pier, but the shopping and sightseeing both on Fashion Island and Balboa Island. Also near Newport Beach is the Upper Newport Bay Ecological Reserve, a 750-acre bird sanctuary offering walking tours. Huntington Beach is known for its Main Street District, which offers a variety of shopping and dining options. Huntington Beach also offers large, sandy beaches, which are popular for both residents and visitors to the city.

ORANGE COUNTY LODGING MARKET

The overall Orange County lodging market's occupancy is estimated to have finished at 71.2 percent in 2008, or a 1.8 percent decrease in occupied room nights over 2007. The decline in demand for hotel accommodations can be attributed to the economic slowdown in the county, due in part to the well publicized softening of the homebuilding and mortgage lending markets.

Regional airport statistics have shown a significant decrease this year as travel trends have been impacted, and the general consensus is that the economy will remain weak well into 2010. Average daily rate is estimated to increase 1.3 percent to post a 2008 average daily rate of $130.24. As a result of the decrease in occupied room nights coupled with moderate growth in average daily rate, RevPAR is estimated to decrease by 1.3 percent over 2007 to $92.73. It should be noted, however, that the hotel industry is cyclical like many others. Based on the current economic situation, we estimate that demand and revenues will begin to recover in late 2010 and 2011.

The historical and future estimated performance of the Orange County Lodging Market in presented in the following table.

Orange County
Historical Market Performance of the Competitive Supply

Year	Annual Supply	Percent Change	Occupied Rooms	Percent Change	Market Occupancy	Average Daily Rate	Percent Change	REVPAR	Percent Change
2003	16,777,955	N/A	11,152,441	N/A	66.5%	$ 97.52	N/A	$64.82	N/A
2004	17,192,230	2.5%	11,831,259	6.1%	68.8	100.67	3.2%	69.28	6.9%
2005	18,214,595	5.9	13,144,813	11.1	72.2	108.13	7.4	78.03	12.6
2006	18,976,715	4.2	13,749,314	4.6	72.5	117.87	9.0	85.40	9.4
2007	18,868,422	-0.6	13,785,866	0.3	73.1	128.57	9.1	93.94	10.0
2008 E	19,023,577	0.8	13,544,411	-1.8	71.2	130.24	1.3	92.73	-1.3
2009 F	19,324,787	1.6	13,513,329	-0.2	69.9	132.90	2.0	92.93	0.2
CAAG	2.4%		3.3%			5.3%		6.2%	

Source: PKF Consulting

HUNTINGTON BEACH - SURF CITY USA®

The proposed Cultural Center will be located in Huntington Beach, five blocks from the Pacific Ocean shore in northwestern Orange County. The city is surrounded by Westminster to the north, Fountain Valley to the northeast, Costa Mesa and Newport Beach to the east, and Seal Beach to the west. Long Beach is located approximately five miles to the northwest, Los Angeles is located 35 miles to the northwest and San Diego is 95 miles to the southeast.

Huntington Beach was incorporated in 1909. The city's early growth was influenced by the discovery of oil in 1920 and the construction of the Pacific Coast Highway in 1925. More recently, the establishment of the aerospace industry and other commercial, industrial, and residential development have enabled the city to grow to its current size of 28 square miles with a population of approximately 202,250 people. Huntington Beach, also known as "Surf City," has also become a popular tourism spot, with more than 16 million tourists visiting the City's beaches each year, including the state beaches.

ECONOMIC OVERVIEW

The following table illustrates the distribution of income levels for Huntington Beach. Nearly 35 percent of the households have an income in excess of $100,000, which demonstrates the affluence of the community.

Huntington Beach Household Income Levels	
Household Income Range	Percentage
$0-$14,999	5.6%
$15,000 - $24,999	5.9%
$25,000 - $34,999	6.9%
$35,000 - $49,999	11.9%
$50,000 - $74,999	19.3%
$75,000 - $99,000	15.7%
$100,000 +	34.9%
Source: Huntington Beach Chamber of Commerce	

Currently more than 60,000 people are employed by nearly 13,000 businesses in Huntington Beach. Businesses include hospitality, aerospace and high technology; petroleum and petroleum support; manufacturing; computer hardware and software; automobile services; and financial and business services. The following table outlines the region's major corporate employers and their representative employees.

Huntington Beach-Major Corporate Employers	
Corporation	Employees
The Boeing Company	7,000
Quicksilver	1,800
Cambro Manufacturing	750
Dynamic Cooking Systems	736
Verizon	736
Hyatt Regency Resort	670
Fisher & Paykel	654
Huntington Beach Hospital	602
C & D Aerospace	600
Rainbow Disposal	408
Home Depot USA	383
Triad Financial Corporation	348
Hilton Waterfront Beach Resort	300
Wal-Mart	296
Cleveland Golf	288
Toyota of Huntington Beach	248
Huntington Valley Healthcare	225
Source: Huntington Beach Business License Data 2008	

TOURISM

The central location of Huntington Beach provides easy access to many of Southern California's tourism attractions located in Los Angeles, Orange County, and even San Diego. The City draws more than 16 million visitors annually consisting of overnight and day-trippers from inland empire communities, and is frequented often from residents of Arizona, New Mexico, and Nevada due to the mild beach weather. The area's existing attractions, new hotels, and redevelopment areas are expected to continue to generate a significant volume of tourism to the area. In 2007, visitors spent $329 million in Huntington Beach.

Scenic Areas

Southern California and Orange County, in particular, are known for scenic coastlines, beaches, and parks, which have attracted numerous international and domestic visitors to the area. In particular, Huntington State Beach, the Bolsa Chica State Beach, and the city beaches located in Huntington Beach total 8.5 miles of wide, white-sand beaches attracting over 16 million visitors annually. Surrounded by Huntington Beach, Bolsa Chica reserve is situated in a restored salt marsh and attracts various migrating birds.

Huntington Beach Art Center (HBAC)

This Art Center presents a wide array of internationally and nationally recognized artists as well as regional and emerging artists. Through exhibitions, performances, film/video screenings, lectures, and children and adult educational programming, the HBAC advances the awareness of art in the community. The Art Center also hosts a performing arts series, Live at the Center, presenting jazz, blues, and classical music performances. The Art Center would be located directly across from the proposed *Cultural Center*, presenting a collaborative opportunity for the City's redevelopment initiatives; thus, providing a central locale for cultural enthusiasts to visit.

Recreation

In addition to the 8.5 miles of beaches surrounding the Huntington Beach area, it also has the 365-acre Huntington Central Park, which is the largest city-owned and operated regional park in Orange County. This park has an equestrian center, modern central library, adventure playground, two lakes, a nature center, two restaurants, a natural amphitheater, and bandstand. Moreover, the city's park system has 62 public parks, three miles of equestrian trails, playgrounds, a city gym with indoor pool, three community recreation centers, and a senior's recreation center.

Other Attractions

Huntington Beach's International Surfing Hall of Fame and Walk of Fame, are additional area attractions that chronicle the history of surfing, surf wear, and surf music. Downtown Huntington Beach appeals to people of all ages with the abundant shopping and dining options and the Farmer's Market on Main Street on Friday afternoons. Every summer, events such as the US Open of Surfing, Fourth of July Parade, the Kite Party, and Pro Beach Volleyball Tournaments, bring thousands of additional visitors to the City.

Attracting plenty of locals and visitors is the famous Huntington Beach pier. The 1,830-foot structure that began as a 1,000-foot wooden structure in 1904, has been rebuilt a handful of times after suffering severe damage from waves. It has become a popular spot to watch the sunsets, surfers, and simply enjoy the ocean scenery.

TRANSIENT OCCUPANCY TAX COLLECTIONS

The transient occupancy tax collected in Huntington Beach increased from $1,400,000 in the 1993/94 fiscal year to $6,688,000 in fiscal year 2007/08. This represents approximately 17 hotels within the City of Huntington Beach, totaling 1,865 rooms and a 11.8 percent compound annual growth rate. It should be noted that the Hyatt Huntington Beach opened in January 2003, therefore contributing greatly to the city's TOT collection. The current bed tax for the city is 11.0 percent. The following table summarizes the growth in transient occupancy tax revenues for the community of Huntington Beach.

Historical Transient Occupancy Tax (TOT) Collections

Fiscal Year	Revenues
1993/94	$1,400,000
1994/95	1,500,000
1995/96	1,671,000
1996/97	1,875,000
1997/98	2,020,000
1998/99	2,161,000
1999/00	2,160,000
2000/01	2,431,000
2001/02	2,140,000
2002/03	3,491,000
2003/04	4,590,000
2004/05	5,464,000
2005/06	5,592,000
2006/07	6,095,000
2007/08	6,688,000
CAAC	11.8%

Source: City of Huntington Beach

HUNTINGTON BEACH DEVELOPMENT PROJECTS

Currently, Huntington Beach is going through a metamorphosis in terms of development and we have determined the following projects to be of particular importance to the subject. This importance stems from their proximity to the subject and their overall impact on the region, as well as their potential to generate demand for the hotel.

Waterfront Residential Development

Located directly behind the Hyatt Resort and Spa, the Huntington Beach Redevelopment Agency partnered with William Lyon Homes and Christopher Homes to develop 78 paseo homes (Sea Cove) and 88 courtyard homes (Sea Colony), respectively, in an area that was formerly a beach maintenance facility and mobile park home.

Pacific City

Owned by Makar Properties, this 31-acre parcel fronts Pacific Coast Highway between First and Huntington Streets. Of the 31 acres, 21 acres are devoted to residential development, with 10 acres planned to have commercial developments including retail, entertainment, office and restaurants. This project is located to the southeast of the subject and was approved by the Huntington Beach City Council in 2004. Plans include 191,000 square feet of retail space, office, restaurants and entertainment, a new 250-room W Hotel by Starwood and approximately 516 residential condominiums and town homes.

The Strand Downtown Huntington Beach

In the opening process as this report is being written, the Strand in Downtown Huntington Beach along Pacific Coast Highway is an exciting new 3-acre project. The Strand features 102,000 square feet of retail, restaurants and entertainment, plus a 157 room Joie de Vivre boutique hotel which is planned to open in May 2009. This multi-use project, just one block west of Main Street, offers restaurants from sidewalk eateries to fine dining overlooking the Pacific Ocean, and national retail tenants that offer shopping opportunities to the Downtown area.

Bella Terra

Among the features of this $170 million development, is a one million square-foot, retail/entertainment/restaurant mall including an open-air entertainment courtyard, an outdoor amphitheater, six-story parking structure and an 80,000 square-foot (20-screen movie theater complex with stadium seating. Anchor tenants include Kohl's', Barnes and Noble, Burlington Coat Factory, and Mervyn's.

SeaCliff Shopping Center

Located approximately one mile from the subject, this 32-acre site is now complete with the redevelopment of the SeaCliff Village into a new community shopping center of approximately 250,000 square feet of retail space, including the development of an Albertson's, Sav-on, Staples, and an Orchards Supply. There will also be several additional smaller retail and restaurant establishments.

5-Points Plaza

The outdoor mall features ample parking and a convenient location three miles from the ocean on Beach Boulevard and Main at Ellis in Huntington Beach. Shopping attractions range from tenants such as Mikasa, Gap, Baby Gap, Chico's Loehman's, Trader Joes, Tilly's, Titanium Tickets, Omaha Steaks, Pier 1 Imports, and Bath and Body Works.

CONCLUSIONS

The proximity of Huntington Beach to other Southern California attractions, as well as its own beaches, climate and other cultural attractions make it a desirable place to visit. Additionally, the large amount of retail, entertainment and commercial development in the area bodes well for the future economic stability of the area over the long term.

MARKET ANALYSIS

SURFING HISTORY & CULTURE

The relationship between Southern California's geography and its post-World War II development generated cultural expressions not found in the rest of the country. Among the most interesting is the rise of California's "surf culture." California's geographical attributes facing the Pacific has given it an orientation uniquely responsive to the cultural nuances of the Pacific Rim. During the post-World War II period, surfers carved out a new cultural terrain on the beaches of Southern California; influenced by native Hawaiian culture, Southern California surfers fostered a distinctly "Californian" language, etiquette, music, clothing, and lifestyle. With favorable wave breaks, Huntington Beach quickly gained a solid surfing reputation as a tidal Mecca by surf-seekers around the globe.

In 1959, Huntington Beach held its first professional surfing event, followed by its first televised surf championship a few years later. Internationally, Huntington Beach is recognized as one of the most successful arenas for competitive surf events. From the moment the horn sounded commencing the 1982 Op Pro, the "Pier" was the most important surf venue in the world. By 1985 the surf industry in California was growing in popularity due to rising stars such as Tom Curren from Southern California. Curren found a nemesis, an Australian named Mark Occhilupo, who ended up beating the Californian in the famous Op Pro Finals of 1985 and 1986. Spectators arrived by the thousands to the Huntington Beach Pier and such contests would change the face of Surf City USA® forever. Over the decades, some of the most famous surfers have called Huntington Beach home; pioneers such as Corky Carroll, David Nuuhiwa, Herbie Fletcher, Chuck Dent, Brad Gerlach, Bruce Gabrielson, and the late Carl Hayward.

A recent SIMA (Surfing Industry Manufacturers Association) Study cites several factors contributing to the growth of the surf industry including the mainstream popularity of the surf lifestyle. Significant awareness from the XGames, FuelTV, and even network TV shows are all helping to make surfing part of popular culture, even in Middle America. Additionally, the surf movie 'Blue Crush' was an important vehicle in spurring modern popularity of women's surfing, which sees more and more female participants joining the sport each year.

Today, Huntington Beach's U.S. Open of Surfing accounts for nearly 60 percent of revenues generated from all annual surfing events. On average, approximately 250,000 people attend the contest and its associated expo each year.

NATIONAL MUSEUM TRENDS

Americans view museums as one of the most important resources for educating their children and as one of the most trustworthy sources of objective information. These flexible facilities have also emerged as prime event locations for numerous meetings, galas, weddings, and an off-site alternative for large hotel group functions throughout the country. U.S. museums annually spend more than $1 billion to provide over 18 million instructional hours in educational programming and exhibition each year. According to the American Association of Museums (AAM), the U.S. produces 2.3 million museum visits per day, adding up to approximately 865 million visits per year.

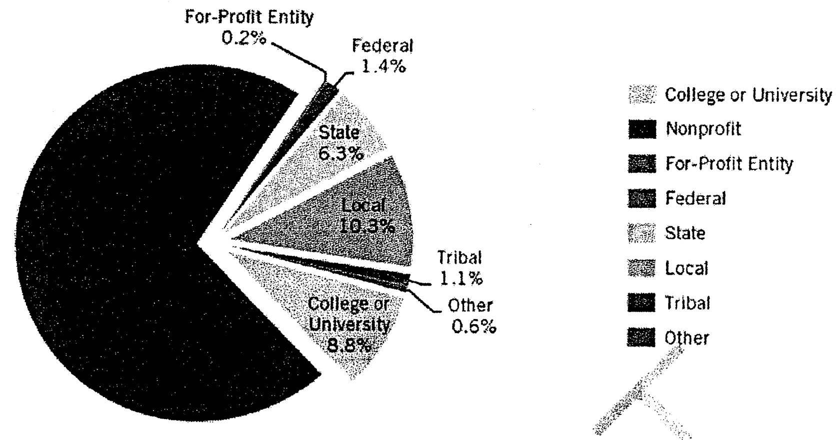
Cultural Centers and museums rank in the top three family vacation destinations according to the American Association of Museums (AAM). One-third of Americans say they visited a museum within the past six months. In addition, tourists who visit museums spend nearly twice as much on their travel as those who do not.

A recent survey performed by the AAM, found that the median annual attendance for different types of U.S. museums was as follows:

Arboretum/Botanic Garden	106,235
Art Museum	59,822
Children's/Youth Museum	78,500
General Museum	43,500
Historic House/Site	16,000
History Museum	10,750
Natural History/Anthropology	62,803
Nature Center	52,850
Science/Technology Museum	244,589
Specialized Museum	20,000
Zoo	440,502

According to The Museum Public Finance Survey, more than 70 percent of museums in the United States are private nonprofit entities; the rest are publicly owned and managed by various forms of government, including state departments of natural resources, departments of education, public universities, city and county governments.

Governance Structure of U.S. Museums



Source: Urban Institute analysis of IMLS Museum Public Finance Survey, 2008

Within the western region of the U.S. there is estimated to be more than 17,500 museums with more than 1,300 existing in the state of California alone. Presented in the following table is the estimated number of museums in the western region by state with its associated facilities per total population.

AAM Museum Region	State	Estimated Number of Museums	Population 2007	Museums per 100,000 Pop
Western Museums Association	Alaska	147	683,478	21.5
	Arizona	238	6,338,755	3.8
	California	1,344	36,553,215	3.7
	Hawaii	94	1,283,388	7.3
	Idaho	113	1,499,402	7.5
	Nevada	118	2,565,382	4.6
	Oregon	239	3,747,455	6.4
	Utah	172	2,645,330	6.5
	Washington	529	6,468,424	8.2
Region Total		2,994	61,784,829	4.8
Totals		17,744	301,621,157	5.9

Source: Museum estimates are based on a 2002 IMLS inventory. State population estimates are based on estimates provided by the Population Division, U.S. Census Bureau, December 27, 2007.

CALIFORNIA MUSEUM MARKET

California museums and cultural centers, as community-serving institutions, tend to reflect the broad canvas of the state's culture. Museums, small and large, range in disciplines from anthropology to history to biology to outer space. According to the California Association of Museums, more than one-third of state-wide museums and centers describe themselves as history-related. The following table lists the variations of museums in California proportionate to a survey of 133 facilities.

California Museum Classification	
Description	**Percent**
History Museum/Historical Center	32%
Art Museum	17%
Specialized Museum	11%
Historic Home/Site	9%
Other Museum Type	8%
Natural History/Anthropology	6%
Children's/Youth Museum	4%
Cultural-Specific/Tribal Museum	3%
General Museum	3%
Arboretum/Botanic Garden	2%
Aquarium	2%
Science/Technology Center	2%
Zoo	2%

Source: California Association of Museums (CAM)

Community Location

California's museums are fairly evenly distributed among communities of all sizes. Nearly one-third of museums are found in large and small populated areas. This data, according to CAM, suggests that communities of all sizes enjoy and support museums and cultural centers. Presented in the table below is the percentage of California museums located in various community populations.

Population of Community Where Institution Is Located	
Population	**Percent**
Less than 50,000	30%
51,000 to 100,000	15%
101,000 to 200,000	14%
201,000 to 250,000	3%
251,000 to 500,000	6%
Over 501,000	32%

Source: California Association of Museums (CAM)

Operating Hours

According to a recent survey prepared by the Public Research Institute, museums are open an average of 5.3 days per week, and an average of 6.2 hours per day. More than three quarters of California museums are open at least five days a week, while more than 20 percent remain open seven days a week. 63 percent of these museums are closed on Mondays. The following tables illustrate the number of days surveyed museums are open per week and on which days as well as average hours of operation in a calendar week.

Museum Number of Days Open Per Week	
	Percent
3 Days or fewer	9%
4 days	11%
5 Days	30%
6 Days	28%
7 Days	21%
Total	100%
Source: Public Research Institute 2006	

Open Museum Days of the Week		
	Open	Closed
Mondays	37%	63%
Tuesdays	70%	30%
Wednesdays	88%	12%
Thursdays	95%	6%
Fridays	95%	5%
Saturdays	93%	7%
Sundays	77%	23%
Source: Public Research Institute 2006		

Operating Hours Per Day of the Week	
	Average Operating Hours
Mondays	6.7
Tuesdays	6.4
Wednesdays	6.0
Thursdays	6.4
Fridays	6.0
Saturdays	5.9
Sundays	5.8
Source: Public Research Institute 2006	

Schoolchildren

According to the California Museums Association, nearly half of museums in the state engage in activities which are educational in nature, such as demonstrations, guided tours, lectures, research libraries, and workshops and classes. In addition, 96 percent of California museums serve schoolchildren ranging from six to over 100,000 children annually, resulting in a median of approximately 1,500 schoolchildren on-site each year.

Annual Attendance

Each year attendance or visitation at California museums varies widely, ranging from 100 persons to 4 million persons. According to the survey performed for CAM, the median attendance in fiscal year 2006 for a sample of 121 museums was 15,000 persons.

COMPETITVE SURFING MUSEUMS

Based on our market research of existing surfing museums in California, we determined that these facilities would be inferior to the proposed subject. The existing supply of surfing museums is currently located in Oceanside, San Clemente, Santa Cruz, Huntington Beach, and Santa Barbara, California. These facilities range from 1,000 to 8,000 square feet in size with estimated annual visitation equaling 8,000 to 35,000. The competitive facilities have been summarized in the following table.

Proposed Surfing Cultural Center

Name	Location	Year Opened	Total SF	Visiting Hours	Estimated Visitors Per Year	Admission Fee	Rentable Event Space (SF)	Key Exhibits
California Surf Museum	Oceanside, CA	1986/92	5,000 SF 2,500 (prior location)	10A-4P (Daily) 10A-8P (Thurs)	12,000	April 1st - admission: $3 general $1 students free: seniors, child under 12	TBD	Sidewalk Surfing
Existing Surfing Heritage Foundation	San Clemente, CA	Founded in 2001	8,000 SF	10A-5P (Mon-Fri) Weekends (Apt Only)	8,000	Board Room = $100/hr Showroom = $2,500/Day Guided Tour = $200 (25 p)	Boardroom - 15 Showroom - 120-200 Docent Guided Tours	100 yrs- of surfing history, boards, artifacts, journals, etc. (Special film releases)
Santa Cruz Surf Museum	Santa Cruz, CA	1986	less than 2,000 SF	July-Sep: Wed-Mon (10A-5P) Rest: Thur-Mon (12P-4P)	35,000	FREE	N/A	100-yrs of Surfing History
International Surfing Museum	Huntington Beach, CA	1987	less than 2,000	12P-5P (Mon-Fri) 11A-6P (Sat-Sun)	20,000	FREE	N/A	Surf Sounds (Music) Ukulele History Photo/Art Surf Toys
Santa Barbara Surfing Museum	Santa Barbara, CA	1992	less than 1,500	12P-5P (Sunday) School Tours by Appt	N/A	FREE	N/A	Surfing History

Additions to Supply

Currently, there are plans for a proposed surfing museum to be located in Dana Point at Sea Terrace Park. However, due to ongoing resistance from local residents and the project's tentative nature, we have not acknowledged this as future competition to the proposed project.

REGIONAL COMPETITVE MUSEUMS

In addition to the existing supply of surfing museums in California, we have also analyzed regional facilities which we believe will offer competition to the proposed Center due to their market orientation, positioning, and similar visitor profile.

Presented in the following table is a list of regional museums and facilities within a 150-mile radius of the subject property. Annual visitation to these museums ranged from 70,000 to 1.2 million persons in 2007.

Competitive Facilities Proximate to the Subject

Regional Museums	Location	Estimated Annual Attendance 2007
Aquarium of the Pacific	Long Beach, CA	1,200,000
Discovery Science Center	Santa Ana, CA	420,000
Birch Aquarium, Scripps Institute	La Jolla, CA	400,000
The Getty Museum	Los Angeles, CA	400,000
San Diego Natural History Museum	Balboa Park, CA	250,000
Laguna Art Museum	Laguna Beach, CA	200,000
Bowers Museum	Santa Ana, CA	150,000
Museum of Natural History	Santa Barbara, CA	120,000
San Diego Automotive Museum	Balboa Park, CA	94,000
Hall of Champions Sports Museum	Balboa Park, CA	75,000
Newport Beach Museum of Art	Newport Beach, CA	70,000
Ty Warner Sea Center	Santa Barbara, CA	70,000
Average Attendance *(Rounded)*		300,000
Source: PKF Consulting		

Estimated Attendance for the Proposed Surfing Cultural Center

For purposes of determining annual attendance or visitation, we have estimated the number of visitors the subject could attract in a representative year of operation. Based on our analysis, we are of the opinion that the proposed subject could achieve an annual visitation of 300,000 persons. This figure has been based on the abovementioned competitive facilities in the region as well as the key demand drivers and tourism trend-levels associated with the City of Huntington Beach and surrounding areas. The following analysis provides support for our derivation of estimated annual attendance for the subject in a representative year (Attendance figures do not include after-hour guests for events and other receptions at the Center).

Proposed Huntington Beach Cultural Center

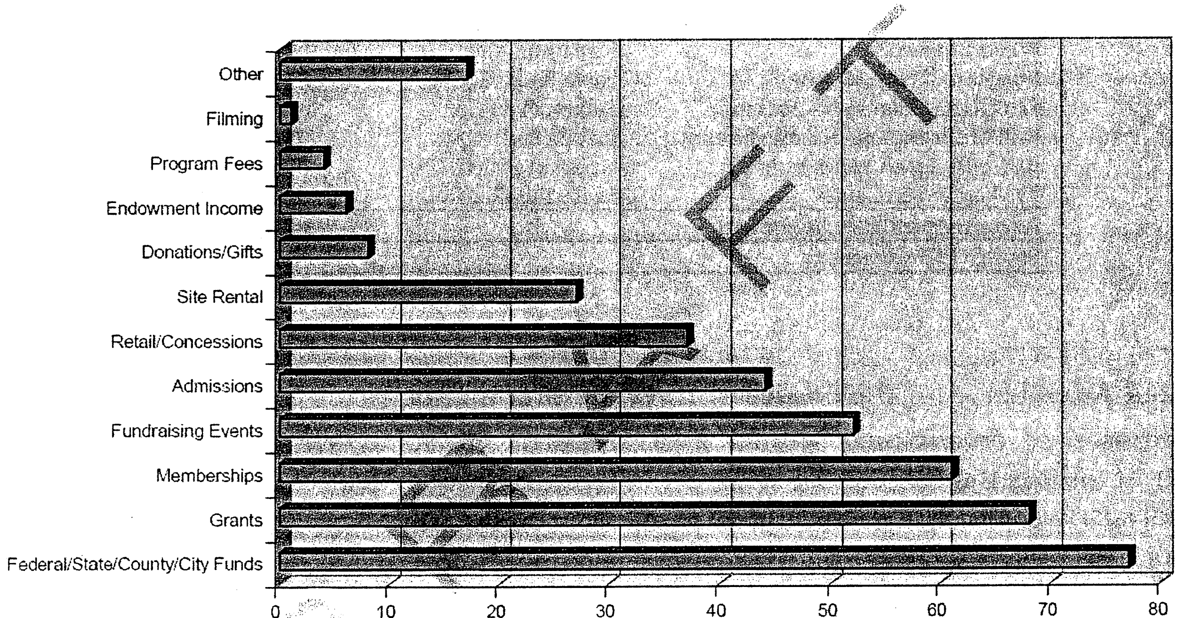
Derivation of Estimated Annual Attendance	Recorded Annual Figure	Cultural Center Capture Rate	Cultural Center Visitor Portion
Huntington Beach Visitation Levels			
Annual Day Visitors to City	13,000,000	1%	130,000
Occupied Hotel Room Nights (2008 Estimate)	430,000	15%	64,500
Residents of HB Residents	200,000	15%	30,000
Competitive Market Analysis			
Regional Museum Median Attendance (2007)	300,000	15%	60,000
Aggregate Competitive Surfing Museums' Attendance	75,000	20%	20,000
Total	**14,735,000**	**2%**	**304,500**
Source: PKF Consulting			

REPRESENTATIVE YEAR REVENUE ESTIMATE

Museum Revenue Sources

Attendance, membership levels, and external event income are typical indicators of the effectiveness of a museum or cultural center. However, these do not reveal the extent to which a facility's values and objectives are entirely served. More importantly, such a cultural facility should strive for a strong reputation, scholarship, collections care, or educational impact. Presented in the table below are the top income sources for museums based on a national survey performed by Orinda Group in 2007.

Top Sources of Income for Museums



Public and Government Funding

According to the Institute of Museum and Library Services, more than 70 percent of U.S. museums are private nonprofit entities; the rest are public-owned and managed by various forms of government including states, public universities, city, and county governments. For-profit entities are a very small part of the sector (less than one percent).

This diversity in the museum sector is also reflected in the variability of museum revenue streams. Museum Public Finance Survey respondents reported a mix of financial support, with institutions of all types reporting different combinations of revenue from earned income, private donations, government contributions, and institutional investments.

While the majority of museums in the sample reported receipt of public funds from at least one level of government - federal, state, or local - there was no consistent pattern of public support across the museum sector.

Although the subject will most likely consider the aforementioned sources of financing and funding support in order to cover its operating expenses, PKF Consulting has only examined the potential earned revenue streams for the subject in this preliminary study.

Similar to other museums/centers in the region, we believe that the subject's ***earned revenue*** will represent approximately 60 percent of its total annual income. The remaining 40 percent of annual income, or approximately $3,000,000 per year, will be categorized as ***support income***. Support income is typically generated from a facility's endowment, exhibit sponsors, and grants received from various foundations and governmental agencies.

Estimated Earned Revenue for the Subject

We have used information on the performance of four comparable facilities for the purpose of determining earned operating revenues for the subject in a representative year. This information is primarily obtained from 2007 Annual Reports and nonprofit 990 Tax Forms. The comparable facilities consist of four museums and aquariums located in Southern California and Seattle, Washington, which are considered similar to the subject due to their size, facilities, and positioning.

While only four comparable facilities have been included in our write-up of the estimated operating revenues, numerous sources were utilized in our analysis and to confirm the reasonableness of our estimates in a representative year.

Admissions Income is generally a museum's main revenue source as it is entirely visitor driven. More than one-third of museums (35 percent) have no admission charge in the U.S. Of those that do charge admission, over 97 percent offer special discounts and nearly 62 percent have free admission days. The comparables' annual admissions income ranged from $3.11 to $10.80 per admission with a weighted average of $8.67. From this analysis, and based on a 300,000 annual visitor projection, we estimate admissions income for the subject to be $8.00 per admission, or approximately $6,575 per day.

Admissions Income	Per Admission	Per Day
Comparables		
San Diego Natural History Museum	$5.18	$4,454
Aquarium of the Pacific	10.80	41,103
S.B. Museum of Natural History	3.11	1,585
Seattle Aquarium	7.64	16,980
Weighted Average	8.67	12,825
Subject Representative Year	$8.00	$6,575

Food & Beverage Revenue - Many museums with an annual attendance of fewer than 100,000 realize six-figure incomes in their food and beverage operations. Aside from the smaller café or museum snack bar, the two major income streams are event space rental fees and catering commissions. Often, other components of events, such as rented equipment, music, and flowers are also commissionable. Most facilities believe that working with an exclusive caterer or maintaining a very short list of approved caterers leads to the most effective stewardship of museum property. These relationships offer an incentive to local caterers to share revenue as well. It is our opinion that the subject will be able to generate significant event demand being that Huntington Beach has a limited amount of non-hotel function space. Based on the subject's proposed event space recommendation of 15,000 square feet and a catering commission rate of 10 percent, we have estimated revenues for food and beverage for the subject in the following breakdown:

Proposed Surfing Cultural Center

Food & Beverage Source	Total Space	Revenue/SF	Total
Cultural Center Café	1,500 SF	$150	$225,000
Event Space Rental	15,000 SF	$12	$180,000
Catering/Other Commission (10%)	–	–	$95,000
Total Revenue (Representative Year)			**$500,000**
Source: PKF Consulting			

Membership Income typically provides only 10 percent of a museum's total earned revenue. Such membership fees and donations assist the facility in supporting general operating costs of staffing, contract services, cost of goods sold, and other expenses. Generally, comparable facilities will solicit a range of membership categories with associated fees and benefit structure. We have provided a sample membership card with related benefits as an example below:

Sample Membership Rates & Benefits	
Basic Benefits Package: Free Unlimited Admission & 10% Discount on All Merchandise	
☐ **Individual $30** Basic Benefits Package. Plus two complimentary passes	☐ **Patron $100** Basic Benefits Package plus four complimentary passes with company name in quarterly museum newsletter
☐ **Family $75** Basic Benefits Package for all family members plus to complimentary passes	☐ **Life $400** Basic Benefits Package plus four complimentary passes with name engraved on museum donor plaque
☐ **Patron $100** Basic Benefits Package plus four complimentary passes	☐ **Legend $500 - $2,500 Annual Donation** Basic Benefits Package plus complimentary group tours and limited (one) use of museum small meetings facilities

The comparable facilities had membership income ranging from $1.12 to $2.38 per admission. We estimate the subject to generate approximately $1.50 per admission which is within the range of the comparables on a per admission basis and per day basis.

Membership Income		
	Per Admission	Per Day
Comparables		
San Diego Natural History Museum	$1.12	$966
Aquarium of the Pacific	2.29	8,718
S.B. Museum of Natural History	2.38	1,213
Seattle Aquarium	1.70	3,774
Weighted Average	1.98	2,934
Subject Representative Year	$1.50	$1,233

Gift Store Income is primarily an extension of the educational aspect of the museum or cultural center and can be a substantial source of earned income. Revenue is derived from sales of merchandise, sponsorship fees, and concessions. The comparable museums and aquariums had gift store income ranging from $0.24 to $3.24 per admission, or $539 to $11,124 per day. Based on this analysis and the proposed archival records to be sold at the subject, we estimate that income for the subject's gift store will be approximately $2.00 per admission, or $1,644 per day in a representative year of operation.

Gift Store Income		
	Per Admission	Per Day
Comparables		
San Diego Natural History Museum	$2.09	$1,802
Aquarium of the Pacific	2.92	11,124
S.B. Museum of Natural History	3.24	1,650
Seattle Aquarium	0.24	539
Weighted Average	2.04	3,023
Subject Representative Year	$2.00	$1,644

Educational Program Income is primarily fees received from educational institutions which visit and partner with the museum on an annual basis. These fees are subject but are not limited to schoolchildren tours, arts and craft areas, history and artifact loan kits, books and brochures, teacher training, and supplemental school curricula information. The comparable facilities had educational programs income range from $0.36 to $1.54 per admission. We estimate that the subject should be able to generate $0.80 per admission for educational programs, or approximately $658 per day in today's dollars.

Educational Programs Income		
	Per Admission	Per Day
Comparables		
San Diego Natural History Museum	$1.54	$1,321
Aquarium of the Pacific	0.96	3,653
S.B. Museum of Natural History	0.61	313
Seattle Aquarium	0.36	809
Weighted Average	0.82	1,219
Subject Representative Year	$0.80	$658

Fundraising Events Revenue includes museum efforts such as capital campaigns, corporate sponsorships, and donations and contributions. Generally, museums will hold large galas or auction events bi-annually to raise these funds. More recently, some museums have attempted more innovative forms of fundraising activities, such as Adopt-an-Artifact/ Exhibit, or Name-a-Species programs. Based on the comparables, we estimate the subject will achieve $0.40 per admission in fundraising events revenue, which equates to approximately $120,000 in a representative year.

Fundraising Events Revenue	Per Admission	Per Day
Comparables		
San Diego Natural History Museum	N/A	N/A
Aquarium of the Pacific	0.40	1,541
S.B. Museum of Natural History	1.13	575
Seattle Aquarium	0.24	534
Weighted Average	0.41	530
Subject Representative Year	$0.40	$329

Other Income at the subject facility pertains primarily to revenues from ticket sales from the screening theater which will consist of 100 to 125 seats. Additional miscellaneous revenues will come from sources such as parking, concessions, service charges, and equipment rentals. From this analysis, we estimate other income to be $0.40 per admission for the subject in a representative year of operation. This figure is within the range of the comparable facilities and results in other income revenue of $150,000 in today's dollars.

Other Income	Per Admission	Per Day
Comparables		
San Diego Natural History Museum	$1.45	$1,252
Aquarium of the Pacific	0.09	357
S.B. Museum of Natural History	0.88	447
Seattle Aquarium	0.24	539
Weighted Average	0.35	519
Subject Representative Year	$0.40	$329

Presented on the following page is the subject facility's total earned revenue estimated for a representative year of operation.

Proposed Huntington Beach
Cultural Center
Representative Year of Operation

	Stated in 2009 Dollars
Days:	365
Annual Attendance:	300,000
Average Admission Price:	$8.00

Operating Revenues	Amount	Ratio	Per Admission	Per Day
Admissions	$2,400,000	53.8%	$8.00	$6,575
Food & Beverage	500,000	11.2%	1.67	1,370
Memberships	450,000	10.1%	1.50	1,233
Gift Store	600,000	13.5%	2.00	1,644
Educational Programs	240,000	5.4%	0.80	658
Fundraising Events	120,000	2.7%	0.40	329
Other Income	150,000	3.4%	0.50	411
Total Operating Revenues	$4,460,000	100.0%	$14.87	$12,219

Median Income and Expenses

To check the reasonableness of our operating estimates for the subject, we have included a median operating income and expenditure table from a sample of more than 700 facilities ranging from museums and historical societies, to zoos and aquariums. According to the Museum Public Finance Survey, annual operating income for these facilities ranged from $230,000 to $5,861,302 with median expenditures ranging from $228,000 to $2,637,462.

U.S. Museum Sample: Median Income & Expenditures

Museum Type	Median Operating Income	Median Expenditures
Art Museums	$1,233,924	$1,270,000
Children's Museums	$1,154,321	$1,175,716
History Museums	$230,000	$228,000
Natural History and Natural Science Museums	$1,327,608	$1,210,410
Science and Technology Museums	$2,218,977	$2,637,462
Historical Societies	$153,630	$149,610
Arboretums and Botanical Gardens	$906,561	$975,319
Zoos, Aquariums and Zoological Societies	$5,861,302	$4,639,000
Hybrid and Other	$620,500	$589,903
Total		

Source: Urban Institute analysis, IMLS Museum Public Finance Survey, 2008.

ECONOMIC IMPACT

The fact that museums and cultural centers provide employment to nearly 60,000 individuals makes the museum industry a major factor in the economy of the state of California. On a local level, as the City of Huntington Beach embraces its cultural history and "Surf City" roots with the Cultural Center project, secondary effects such as an increase in day-trip visitor spending and extended lengths of stay for overnight hotel visitors are reasonable outcomes. Rather than focus on economic impacts which trace the estimated flow of money spent by visitors to the proposed Cultural Center, we have analyzed the local Huntington Beach hotel market and have evaluated total occupied rooms in the city based on an assumed opening date for the subject. Additionally, we have determined the Transient Occupancy Tax (TOT) levels as a result of average length of hotel stays increasing.

Projected Hotel Market Performance & TOT Impact

The proposed Surfing Cultural Center will be the newest attraction for both local residents and visitors of Huntington Beach. As such, we are of the opinion that an increase in total occupied rooms and average length of stay at the surrounding hotels will occur due to induced demand in the leisure travel segment. The following table represents the mix of demand in 2008 within the seventeen hotels which contribute TOT to the city.

Competitive Market
2008 Mix of Demand

Market Segment	Room Nights	Ratio
Leisure	219,200	50%
Commercial	90,900	21%
Group	126,700	29%
Total	437,000	100%

Source: PKF Consulting

In order for us to determine the increase in overnight visitors and average length of stay for the leisure segment, we analyzed the historical growth in supply and demand in the local lodging market. The primary market research we conducted involved interviewing representatives of key lodging properties in Huntington Beach. We discussed development patterns in the area with officials in the planning department and marketing efforts with representatives from the Marketing & Visitor's Bureau. Additionally, we interviewed and obtained data from officials at the city on historical transient occupancy tax receipts.

Hotel Visitor Extended Length of Stay

Through the combination of our aforementioned research, we have estimated the current average length of stay for overnight leisure visitors to be three days. This figure has been assumed according to our interviews with hotel management personnel at surrounding hotels. According to local city hotel operators, an overnight leisure guest will typically plan activities that will occupy four to five hours of his or her day. Just as the areas beaches, retail attractions, and community events now draw many of the leisure guests to

Huntington Beach, we believe that a proposed Cultural Center will offer tourists an additional "activity" day to their respective vacation itineraries resulting in increased room nights in nearby hotels. The Cultural Center will offer exciting interactive exhibits, special events, premiers, and a historical learning experience which should provide a four-hour learning and entertainment experience for visitors to the area. We believe the facility will also create additional awareness for international travelers who currently are displaced in other beach destinations such as San Diego or Newport Beach.

Our estimates of the local lodging market potential are based, in part, upon our recommendations concerning the economic environment and market positioning for future hotel development in the City, as well as the advent of the subject facility. Presented below are the following assumptions we have made in order to project future demand for lodging accommodations as well as TOT collections for the City of Huntington Beach:

- *The proposed Cultural Center will open in 2013*
- *The Shorebreak Hotel will open in mid-2009 with 157 guestrooms*
- *The W Hotel will enter the hotel market with 250 rooms in 2011*
- *We have induced 22,000 room nights into the leisure segment between 2013 and 2014, consistent with the subject's opening date (this equals approximately a 10 percent increase in total leisure-oriented occupied room nights)*

CONCLUSIONS RELATIVE TO TOT PROJECTIONS

While the Huntington Beach lodging market experienced a record high in 2007 and the first three quarters of 2008, the economic recession has negatively impacted the demand levels for leisure, commercial and group business in late 2008 and into 2009. We expect an absence of growth in the market in the short-term; however we anticipate these events to result in a recovery of demand growth over the long-term due to Huntington Beach's beachside positioning and redevelopment projects nearing completion. The extent to which the market is able to translate growth in demand to rate and occupancy growth depends primarily upon the recovery period for the economy, and more specifically the competitive advantage the city can create compared to other surrounding beach-oriented cities. The following tables summarize the historical and projected occupancy and ADR for the Huntington Beach lodging market, which would result from the specific supply and demand assumptions described herein. We have also presented the associated TOT revenue projections for this market on a calendar year basis.

Historical Market Performance of the Competitive Supply

Year	Annual Supply	Percent Change	Occupied Rooms	Percent Change	Market Occupancy	Average Daily Rate	Percent Change	REVPAR	Percent Change
2004	606,265	N/A	406,365	N/A	67.0%	$121.07	N/A	$81.15	N/A
2005	606,265	0.0%	433,978	6.8%	71.6%	129.32	6.8%	92.57	14.1%
2006	606,265	0.0%	433,452	-0.1%	71.5%	138.79	7.3%	99.23	7.2%
2007	606,265	0.0%	442,315	2.0%	73.0%	151.92	9.5%	110.84	11.7%
2008	606,265	0.0%	436,824	-1.2%	72.1%	151.12	-0.5%	108.89	-1.8%
CAAG	0.0%		1.8%			5.7%		7.6%	
2-08 ytd	101,105	N/A	70,979	N/A	70.2%	$144.56	N/A	$101.49	N/A
2-09 ytd	101,105	0.0%	57,742	-18.6%	57.1%	133.04	-8.0%	75.98	-25.1%

Source: PKF Consulting

Projected Market Performance of the Competitive Supply

Year	Annual Supply	Percent Change	Occupied Rooms	Percent Change	Market Occupancy	Average Daily Rate	Percent Change	REVPAR	Percent Change
2009	629,990	3.9%	406,600	-6.9%	65%	$147.00	-2.7%	$94.87	-12.9%
2010	663,570	5.3%	418,700	3.0%	63%	148.00	0.7%	93.39	-1.6%
2011	754,820	13.8%	449,300	7.3%	60%	151.00	2.0%	89.88	-3.8%
2012	754,820	0.0%	475,700	5.9%	63%	156.00	3.3%	98.31	9.4%
2013	754,820	0.0%	502,000	5.5%	67%	164.00	5.1%	109.07	10.9%
2014	754,820	0.0%	534,000	6.4%	71%	169.00	3.0%	119.56	9.6%
2015	754,820	0.0%	543,500	1.8%	72%	174.00	3.0%	125.29	4.8%
2016	754,820	0.0%	543,500	0.0%	72%	179.00	2.9%	128.89	2.9%
2017	754,820	0.0%	543,500	0.0%	72%	184.00	2.8%	132.49	2.8%
2018	754,820	0.0%	543,500	0.0%	72%	190.00	3.3%	136.81	3.3%
CAAG	2.0%		3.3%			2.9%		4.2%	

Source: PKF Consulting

Projected TOT Performance of Huntington Beach Market

Year	Annual Supply	Percent Change	Occupied Rooms	Percent Change	Market Occupancy	Average Daily Rate	Percent Change	TOT Revenue (98% of Room Revenue)	Percent Change
2008	***606,625***	***N/A***	***436,824***	***N/A***	***72%***	***$151.12***	***N/A***	***$6,601,395***	***N/A***
2009	629,990	3.9%	406,600	-6.9%	65%	$147.00	-2.7%	$5,977,020	-9.5%
2010	663,570	5.3%	418,700	3.0%	63%	$148.00	0.7%	$6,196,760	3.7%
2011	754,820	13.8%	449,300	7.3%	60%	$151.00	2.0%	$6,784,430	9.5%
2012	754,820	0.0%	475,400	5.9%	63%	$156.00	3.3%	$7,420,920	9.4%
2013	754,820	0.0%	502,000	5.5%	67%	$164.00	5.1%	$8,232,800	10.9%
2014	754,820	0.0%	534,000	6.4%	71%	$169.00	3.0%	$9,024,600	9.6%
2015	754,820	0.0%	543,500	1.8%	72%	$174.00	3.0%	$9,456,900	4.8%
2016	754,820	0.0%	543,500	0.0%	72%	$179.00	2.9%	$9,728,650	2.9%
2017	754,820	0.0%	543,500	0.0%	72%	$184.00	2.8%	$10,000,400	2.8%
2018	754,820	0.0%	543,500	0.0%	72%	$190.00	3.3%	$10,326,500	3.3%
CAAG	2.2%		2.2%			2.3%		4.6%	

Source: PKF Consulting