

Convention Center Hotel Project Parameters Briefing

Briefing to the Economic
Development Committee
June 15, 2009



Purpose of Briefing

- Review key elements of the “deal structure” for the bond offering
- Assess recent efforts and results of the Business Inclusion Development program
- Establish required parameters for bond offering

Recent Marketing Results

	Meetings	Room Nights	Economic Impact
Tentative Bookings (May 08 to May 09)	13	360,000	\$530M
Definite Bookings (May 08 to May 09)	24	615,000	\$950M
Additional Bookings (Post Election)	12	205,000	\$300M

The CVB estimates Dallas has received approximately \$3 million dollars in media exposure related to the DCC Hotel

Key Structure Elements

- Developer Agreement
- Operator Agreement
- Diagram showing legal structure
- GMP
- Marketing Study

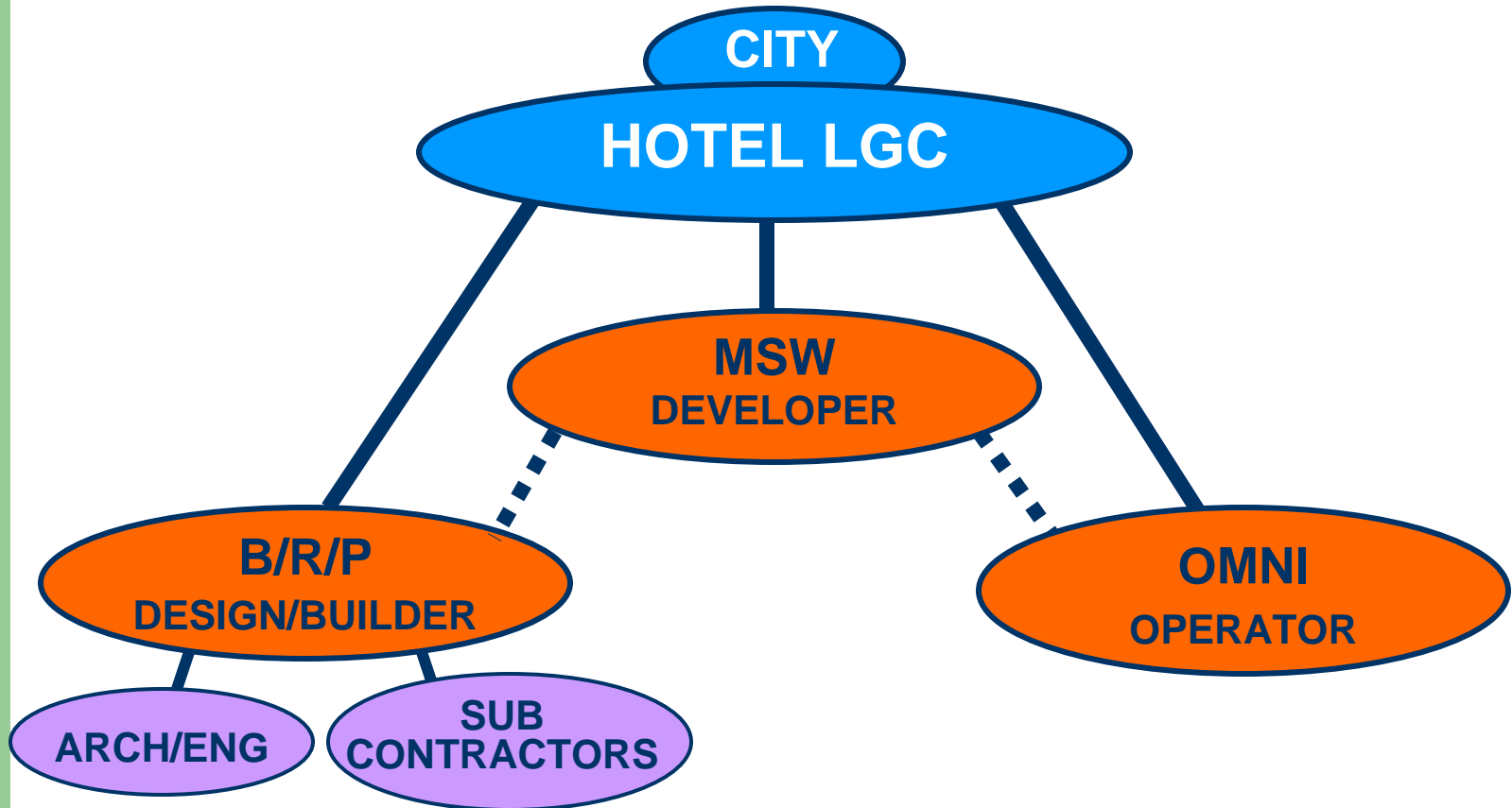
Developer's Agreement

- MSW will act on behalf of the City and the LGC as developer
- Provide the overall strategic guidance and direction with respect to the design, development and construction of the Project
- Supervise the day-to-day management, administration and accounting of all aspects relating to the Project, including all construction and operating activities;
- Maximize the value and potential profit of the Project while minimizing the risks
- Developer Fee 2.58%

Operator Agreement

- 15-Year Term
- Omni to provide \$6.0 million key money contribution thirty days prior to substantial completion
- Fixed management fee based on a pro-forma agreed upon by Omni and the City, with fees equal to 2.65% of projected total revenues
- 25% of the management fee shall be subordinated to the payment of debt service
- City has ability to terminate agreement for operator's failure to meet RevPAR performance tests or debt service coverage tests

Organization Chart



Guaranteed Maximum Price (GMP)

- The GMP is a contract whereby the contractor guarantees the maximum price that the City will pay for an agreed upon set of standards. (Omni Standards, 2005)
- Provides protection for the City by establishing a maximum upside price.
- Through process of project design and cost estimating we have achieved significant savings in scope changes and in price reductions in the market place

Guaranteed Maximum Price (GMP)	\$331,762,506
Owner's Contingency	<u>\$ 14,337,494</u>
Target Price:	\$346,100,000

VE Efforts Adding Value

November 2008: Scope Reduction

- Initial Pricing
- 1006 Rooms/68,000 sqft meeting space

\$371,353,679

January 2009: Further price reductions

- Value Engineering, Scope Refinements
- Fee Reductions
- 1006 Rooms/68,000 sqft meeting space

(\$24,298,525)
\$346,055,154

February 2009: Further Additions/Reductions

- Added Project Scope/Meeting Space (+15,000 sq ft)
- New Total
- Additional Scope Refinements
- Increased to 1016 rooms

\$10,400,000
\$356,455,154
(\$9,900,000)
\$346,555,154

VE Efforts Adding Value

March 2009: Further Additions/Reductions

- Reduce Fees/Best and Final Offer Pricing **\$346,555,154**
(\$17,430,247)
- Building/Project Enhancements \$ 7,215,054
- **New Price:** **\$336,339,961**

June 2009: Further Additions/Reductions

- Expense reductions/design/consultant fees/etc. **\$ (7,083,383)**
- Building/Project Enhancements \$ 2,505,928
- **New Price:** **\$ 331,762,506**

June 2009: Current Price

- 1016 Rooms/83,000 sqft meeting/ballrooms
- **Guaranteed Maximum Price (GMP)** **\$331,762,506**
- **Owner's Contingency** \$ 14,337,494
- **Hotel Development Budget:** **\$346,100,000**

Significant Project Cost Reductions

Over \$58 million in Project Cost Reductions

- Capitalizes on current status of construction industry
- Reduces fees and other costs
- Allows for key improvements to improve success of the project and additional contingencies to reduce risk

Market Study

- HVS Conclusions:
 - Omni
 - Adjusted various line items due to operating systems
 - Supported House Profit levels remains at the same level
 - Composite statement from major Omni properties reflects similar operating ratios
 - Marketplace
 - 4th Quarter 2008 – mid-2009 reflects strong correction period in industry RevPAR
 - Are most likely now skirting the bottom of the industry cycle
 - Stability forecast for industry by 2010, with recovery forecast for 2011 – 2014

Market Study

– Prospects

- Hotel will open during what is expected to be a strong recovery period in the industry; a well-timed opening vs. opening today
- Strong pre-bookings for the hotel, particularly in the first two years of operation, as well as the first quarter of operation (major conventions), and Omni Fort Worth initial indications (operator/regional comparable), taken into account and considered in forecasts for occupancy
- Stabilization moved from '15 to '16; giving the market 7 years to recover and the hotel 5 years to ramp up. A more conservative room rate position is forecast in initial operating years, due to expected ongoing recovery period of industry. This is balanced by a stabilized occupancy in year 5 of 69%, versus 68% in year 4; strong booking pace, a lower room rate position (\$204.80 vs \$209), and lower room count (1,000 vs. 1,200 in prior study) support the change.

BID Successes and More to Come

- In the past, diversity efforts have been principally focused on increasing MWBE participation through goal based programs and Good Faith efforts
- With the Hotel project, we are strengthening our role in building longer term MWBE business capacity
 - Build stronger firms with increased opportunity
 - Focus on improving firms' efficiency
 - Aid in development of strong business practices such as; accounting, estimating, safety, and cost control
 - Increase bonding and insurance limits
- These tools are being incorporated City-wide

BID Successes and More to Come

- The Hotel Project's diversity objectives include:
 - Meeting or exceeding utilization goals
 - Providing a foundation for sub-contactors to grow into large firms
 - Emphasizing developing firms' "business capability" to compliment outreach activities that make existing firms aware of opportunities

BID Successes and More to Come

- As part of City's commitment to increase MWBE contracting capacity, the design/build contract includes several new initiatives
 - Joint venture requirements
 - Strategic insurance program
 - Prompt pay initiative
 - Partnering with general contractor for on-site project management training
 - Providing flexibility on performance bonding for subs

BID Successes and More to Come

- Construction management contract includes a 30% MWBE utilization to meet the joint venture requirement
- Additionally, the project specific goal for design and construction has been set at 30%
 - Higher than BID program construction goal of 25% and A&E goal of 25.66%

BID Successes and More to Come

- Omni has committed to a 20% overall spending goal with MWBEs
- In addition, they have established a 25% local spend goal with MWBE companies
- Opportunities will continue to be available and outreach activities will continue throughout entire construction period

Committee Action

- Seek Committee's approval to recommend the **Parameter Bond Ordinance** that:
 - Sets parameters for the issuance of the Hotel Revenue Bonds
 - Authorizes the LGC to issue the Hotel Revenue Bonds, to negotiate and enter into the financing documents and related hotel operating, development and construction agreements
 - Authorizes the sale of the hotel site to the LGC and redemption of a portion of the City's Certificates of Obligation
 - Approves execution of the Economic Development Agreement (including the use of certain hotel occupancy and sales taxes generated at the Hotel and Appropriated Grant Payments as additional security for the Hotel Revenue Bonds), and the Continuing Disclosure Agreement
 - Approves the amendment of the LGC's Articles of Incorporation

Set Parameters

- Parameters would include:
 - Providing funds to construct at a minimum a four star 1,000 room hotel
 - Issuing bonds with an overall interest yield not to exceed 5.50% and not to produce net proceeds in excess of \$513,995,000
 - Hotel development GMP budget at or below \$346,100,000
 - Continuing BID plan implementation elements as presented in Developer/Operator agreements
 - Establishing various reserve accounts to be replenished by project cash flow, not by the General Fund

Parameters Rationale

- This approach would enable the City to:
 - Respond quickly to financial market conditions once parameters are satisfied
 - Proceed with sale during summer, if Council is not in session
- City has used parameters ordinance procedure in authorizing sale of bonds in the past
 - Recent Convention Center Refunding Bonds
 - 2003 Waterworks and Sewer System Refunding and Improvement Bonds
 - 2007 Waterworks and Sewer System Refunding Bonds
 - D/FW bond sales
 - Commercial paper issuance

Other Action

- Predevelopment services
 - Sept 2008, City appropriated \$400,000 for predevelopment services such as geotechnical services, surveying, environmental studies, etc
 - Funds need to be reallocated to enable the LGC to continue these efforts as well as pay for other predevelopment services such as legal

Next steps - Today

- Consider recommending the **Parameter Bond Ordinance** that:
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Next steps - Today

- Committee consider recommending the approval of a resolution to reallocate funds previously appropriated for certain predevelopment services by the City to the LGC for other predevelopment services

Next steps

- **June 19**
 - Council considers adopting the Parameters Bond Ordinance and approving the reallocation resolution
- **Subsequent steps**
 - Finalize documentation
 - Rating agency meetings
 - Bond insurer meetings
 - Receive ratings/insurance commitment
 - Sell bonds, at the point of receiving target finance terms, and commence construction

Questions
