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

<table>
<thead>
<tr>
<th></th>
<th>Meetings</th>
<th>Room Nights</th>
<th>Economic Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tentative Bookings</td>
<td>13</td>
<td>360,000</td>
<td>$530M</td>
</tr>
<tr>
<td>(May 08 to May 09)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Definite Bookings</td>
<td>24</td>
<td>615,000</td>
<td>$950M</td>
</tr>
<tr>
<td>(May 08 to May 09)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Additional Bookings</td>
<td>12</td>
<td>205,000</td>
<td>$300M</td>
</tr>
<tr>
<td>(Post Election)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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
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 $14,337,494
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) $10,400,000
- New Total $356,455,154
- Additional Scope Refinements ($9,900,000)
- Increased to 1016 rooms $346,555,154
## VE Efforts Adding Value

### March 2009: Further Additions/Reductions

- Reduce Fees/Best and Final Offer Pricing: $(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.
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:
  - 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
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
Conventional Center Hotel Project
Parameters Briefing
Appendix

Briefing to the Economic Development Committee
June 15, 2009
Outline

- Recap/update
  - Overall
  - Developer/construction
  - Operator

- Financial update

- Parameters

- Recommendation
Purpose

- Provide recap of important milestones
- Update key elements of DCC Hotel Project
- Provide information on the proposed issuance by the Dallas Convention Center Hotel Development Corporation of Hotel Revenue Bonds
- Provide rationale for setting of parameters for bond sale
- Seek Committee’s approval of recommendation of the adoption of the Parameters Ordinance
Overall Project Goals

- Increase the competitiveness of the Dallas Convention Center
- Enhance overall economic benefits generated by the Convention Center to the City of Dallas
- Further the City’s goals of improving in the areas of diversity and sustainability
- Achieve an overall project that can be constructed and operated within the projected revenues and construction budget
- Incorporate as many signature features in the basic hotel program as the budget will allow
Early Actions

- Selected nationally recognized talent to assist
- Quantified and illustrated the need
  - Future of the Convention Center
- Identified and purchased the best site
- Established hotel’s feasibility
  - Third party and operators’ market projections
- Determined the most cost effective financing
  - Public ownership
Public vs. Private Ownership
Difference: Cost of Capital

Net Cash Flow to City

Cost to City (Debt Service to pay for project financing gap)

City Property Tax

Publicly owned: Positive Cash Flow

Privately financed: Negative Cash Flow

Based on original 1,200 room hotel proposals
Cities Choosing Public Ownership

- McCormick Place, Chicago
- Austin Convention Center Hotel
- Houston Convention Center Hotel
- Denver Convention Center Hotel
- Baltimore Convention Center Hotel
- DFW Airport Grand Hyatt Hotel
Early Actions

- Identified a committed and skilled developer to initiate site planning
- Authorized up to $8.4M for design and other predevelopment activities
- Identified a nationally recognized hotel operator
- Established other City aspirations such as diversity and sustainability
- Created a conceptual design for the development
- Experienced surge in Dallas convention interest
Customer Reactions

- **Due to the City’s progress to construct the DCC Hotel**
  - 13 definite meetings, representing over 360,000 room nights and over $530 million dollars in economic impact, are now booked
  - 24 meetings, representing over 615,000 room nights and over $905 million in economic impact, have been tentatively booked

- **Just in the last month**
  - An additional 12 citywide meetings have been tentatively booked, representing over 205,000 room nights and over $300 million dollars in economic impact for the City
  - The CVB estimates Dallas has received approximately $3 million dollars in media exposure related to the DCC Hotel
Progress Contingent

- Convention interest contingent on Hotel progress and the customer’s confidence that Dallas will be able to move forward with the Hotel project
- If the Hotel does not proceed,
  - Could have the impact of taking us out of the event planners’ rotation for at least 3-5 years
  - Would not have another opportunity for these groups until 2015, at a minimum
North Aerial View
Other Views
City Team

● Financial Team
  - Chief Financial Officer
  - Financial Advisors
    ● First Southwest Company
    ● Estrada, Hinojosa
    ● Collected and reviewed information staff has gathered (and presented to Council) regarding how other cities have approached these transactions

● Project Scope/Development Team
  - Convention and Event Services
  - Office of Economic Development
  - Public Works and Transportation
    ● Rider Levett Bucknall LTD
City Team

- City Attorney’s Office
- Business Development and Procurement Services
- Office of Financial Services
- McCall, Parkhurst & Horton L.L.P. (Bond Counsel)
- Escamilla & Poneck, Inc. (Bond Counsel)
- Jeffer, Mangels, Butler & Marmaro LLP
  - Extensive experience in hotel operator contracts
  - Lead negotiator
City Team

- Senior Managing Underwriters
  - Citigroup Global Markets Inc.
  - Goldman Sachs
  - Siebert Brandford Shank & Co. LLC

Collectively have handled 14 convention hotel deals, total of 16 hotel deals, amounting to over $3.5 billion of investment
Other Advisors

- DCVB staff
- City Manager’s Private Sector Advisory Committee
- DCVB Customer Advisory Board
  - The DCVB Customer Advisory Board represents key city wide convention customer accounts, inclusive of state, regional and national groups
  - The DCVB Customer Advisory Board meets twice a year – spring and fall
    - 35 Key Customer Accounts attended spring meeting
    - 24 Key Customer Accounts attended the November Economic Development Committee meeting
Challenges

• In order to achieve an economically feasible GMP, we had to address:
  - Construction pricing
    • Key materials such as steel, concrete, and glass
    • These pressures have eased considerably, but only recently
  - Additional amenities cost
  - Construction schedule length

• Unusually volatile capital markets
  - Recently have been stabilizing and improving
Challenges

- As construction and financial trends have been changing, we have been adjusting strategies to make the most of the opportunity
  - Repricing of construction elements
  - Repositioning of developer/contractor arrangement
  - Evaluating new bonding/financing vehicles
    - Build America Bonds
      - Taxable bonds
      - US Treasury
      - provides a 35% interest subsidy to the issuer
  - Federal funding or credit support
  - Private sources
Recent Actions

Over the last three months, we have been:

- Substantially advancing design
- Continuing to enhance diversity program
- Prioritizing potential project enhancements
- Adjusting cost and role elements to enhance project value and define responsibilities
- Continuing ancillary development and sustainability planning
Recent Actions

- Enhancing site with utility adjustments and environmental mitigation
- Exploring additional financing sources and financing alternatives
- Monitoring financial markets
- Updating the financial pro-forma
- Preparing financing documents
Developer/Construction

- Predevelopment Agreement (PDA) established the Design/Build approach with MSW
  - Developer MSW contracted with Balfour Beatty, Russell, and Pegasus, a joint venture (BRP), as the design/builder

- City, MSW, Omni and BRP have been working collaboratively to further develop building design, amenity priorities, and related ancillary development opportunities consistent with the project development budget and scope
Developer/Construction - Scope

- Includes a four star 1,000 room hotel, 80,000 sf of meeting room and function space (including senior and junior ballrooms), and 720 structured parking spaces. This configuration:
  - Improves hotel efficiencies
  - Improves room to meeting space ratio
  - Increases room allocation to other downtown and Stemmons corridor hotels during peak usage
  - Enhances Hotel per room profitability
  - Consistent with Omni’s operating objectives
Developer/Construction – Modifying roles

● Overall Structure
  - MSW – the City’s developer, will act on behalf of LGC, to manage the project design and construction within budget and schedule requirements
  - BRP – the Design/Builder will contract directly with LGC to provide project design and construction on an at-risk basis, with a design/build guaranteed maximum price and schedule
Developer/Construction – Organization Chart
Developer/Construction – Agreements

- Developer and Design/Builder agreements include, as originally provided in the PDA:
  - Scope, quality and price of project
  - Developer services
  - Local Governmental Corporation (LGC) responsibilities
  - BID compliance
  - Construction schedule
  - GMP
Developer/Construction - Fee

- Developer fee is 2.58%
  - Reduced from 3.58%
  - Potential completion incentive

- MSW will also be compensated for bringing additional ancillary development
  - 5% of revenues generated/collected for the City, or 3.5% of the development costs, up to a maximum of $5 million
Developer/Construction - Guaranteed Maximum Price

- The GMP is a contract whereby the contractor guarantees the maximum price that the LGC will pay for an agreed upon project scope and set of standards (Omni Standards, 2005)
- Provides protection for the LGC by establishing a maximum price
- Through process of project design and competitive rebidding, we have achieved significant savings

| Guaranteed Maximum Price (GMP) | $331,762,506 |
| Owner’s Contingency | $14,337,494 |
| Hotel Development Budget: | $346,100,000 |
Developer/Construction - 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) $10,400,000
- New Total $356,455,154
- Additional Scope Refinements ($9,900,000)
- Increased to 1016 rooms $346,555,154
March 2009: Further Additions/Reductions $346,555,154
- Reduce Fees/Best and Final Offer Pricing ($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
Developer/Construction – Incentives

- Early Completion Incentive:
  - If substantial completion before the end of 28 months, the LGC, MSW and BRP share in the unexpended capitalized interest (not to exceed 60 days)
    - LGC 25%
    - MSW 25%
    - BRP 50%

- Sharing of Project Contingency Savings
  - Set in final GMP budget, then unspent amounts shared:
    - LGC 70%
    - BRP 30%
Developer/Construction – LD

- In the event Project not completed within 28 months, BRP to pay liquidated damages:
  - 29th month $12,500 daily
  - 30th month $17,500 daily
  - 31st month+ $20,000 daily
Developer/Construction – Risk and Opportunity Management

- Owner contingency:
  - Funded at $14.3M and may be increased with:
    - 70% of project contingency savings, if any
    - Savings, if any, from subsurface contingency
  - Used to provide protection against:
    - Project schedule delays
    - Force majeure
  - Used to provide flexibility to take advantage of opportunities:
    - Enhance ancillary development
    - Potential project enhancements such as more meeting space, aesthetic features, finish out specialty restaurant, etc.
  - Used for developer incentive based upon performance criteria including schedule and budget, not to exceed $2.1M
Developer/Construction - BID and Outreach Activities

- 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
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
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
Developer/Construction - BID and Outreach Activities

- 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%.
- Opportunities will continue to be available and outreach activities will continue throughout entire construction period.
As part of City’s commitment to increase MWBE contracting capacity, the design/build contract includes several new initiatives:

- These cooperative efforts to improve participating firms will have lasting effects beyond the current project.

Contract includes an 30% utilization via the joint venture requirement for construction management.

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%
Developer/Construction - BID and Outreach Activities

- Because the A&D study includes areas counties outside Dallas County, some non-Dallas County firms will count towards achievement towards goal.
- These goals cover all phases except utility work done by Oncor, performance bonding expense, building permits, and insurance costs.
- Commitment to achievement of goals is part of Development Agreement.
Developer/Construction - BID and Outreach Activities

- MSW has completed the following outreach activities to date:
  - Attended events with Hispanic Contractors’ Association, Women Business Council Southwest, DFW Minority Business Council and the Blue Book Showcase to provide information and recruit MWBE.
  - Completed numerous meetings with MWBE engineering firms to encourage submission as prime consultants in RFP issued for mechanical design work.
    - Included in RFP a goal that prime consultants maximize utilization of MWBEs.
  - Has kept regular communications with all local Chambers and advocacy groups to notify their members of upcoming opportunities.
  - Held major kick-off event to increase awareness and distribute information for all MWBEs interested in working on project.
Developer/Construction - BID and Outreach Activities

MSW activities to date:

- Website – providing project information, bid opportunities, M/WBE certification information and outreach events
- Utilization of on-line specifications and bidding information via ISQFT.com
- Plans made available for review at DFW Minority Business Council, Hispanic Contractors Association, Dallas Black Chamber of Commerce, and Greater Dallas Asian American Chamber of Commerce
Developer/Construction - BID and Outreach Activities

- Activities to be completed within 30 days of contract execution:
  - M/WBE Program plan – including program policies, community outreach plan and reporting procedures to be completed July 2009
  - Newsletter – electronic newsletter to advertise project information, opportunities and participation
  - Mentor Protégé Program – formal M/WBE mentor protégé program
  - Marketing Collateral – materials to market the project and bid opportunities on an ongoing basis
City held discussions with area banks to provide working fund for prompt-pay and mobilizations initiatives.

Letter delivered to Bank of America requesting creation of credit facility to ensure 15-day payment to sub contractors.

- Goal to reduce time delay for sub-contractors to receive payment for work completed.
- Initiatives also will help in achieving goal of increasing ability to obtain a bond by increasing credit worthiness and cash flow.
Developer/Construction - BID and Outreach Activities

- Advertized in local minority press to increase awareness and information regarding project opportunities
- Leveraged the Community Outreach Liaison Program by including “Convention Center Hotel” informational areas at advocacy groups
- City has held several workshops with participation by general contractor and developer for on-going opportunities
- Solicited inclusion of project information in advocacy groups newsletters and websites
- Developed a report to track sub-contractor utilization from when the contract is awarded by the Council to project completion
Developer/Construction - Bonding

- General Contractor will utilize Sub-Guard coverage
  - Will reduce bonding requirements of subs
  - Allows subs to complete larger portions of work adding to their work history
  - Ensure project components are completed timely
- Developed options to enhance the bonding feasibility of vendors indirectly by:
  - Ensuring prompt payment of vendors to increase available cash
  - Assisting vendors through the Surety program to improve and organize necessary documentation of credit worthiness
  - Created program for regular interaction between General Contractor project managers and subs for hands on exchange of knowledge and experience in managing daily operations
City has reviewed insurance requirements and determined a contractor controlled insurance program (CCIP) is best course

- Allows City to put cost control responsibility to contractor, and removes liability for claims or their impact
- Allows City to oversee insurance availability and removes barriers for small and MWBE firms

Once schematic budget is developed, City’s agent of record will provide analysis of required coverage

City and agent of record will review and approve coverage and carriers
Developer/Construction - Insurance

- Coverage will include all liability for construction risk, liability, and workers’ compensation
  - Eliminates requirement for subs to purchase required coverage
- Only carriers with strong financial capacity will be included
- All coverage will be purchased at beginning of project
- One carrier will provide uniform loss control and claims management
  - This handling of claims provides an unified defense resulting in lower claims costs
Developer/Construction - Insurance

- Program will include:
  - Administration of all facets of program including reporting, review of loss and cost projections, and review of premium costs
  - Uniform coverage for all contractors
  - Prompt payment for claims requirement
  - Workers’ compensation medical cost containment
  - Return-to-work programs
  - Comprehensive loss prevention and safety programs
  - Subcontractor enrollment process to ease administrative burden of contractors
  - Safety program
City continues to participate in DART planning process for 2\textsuperscript{nd} downtown light rail alignment
  - Appears that latest draft alignments all follow the more southern routes

City is participating in early efforts to plan for the development of a street car system in Downtown and areas immediately around the CBD
  - The Lamar Street thoroughfare appears to be an attractive candidate for inclusion in the plan
  - This rail development could greatly accelerate development potential around the Hotel and Convention Center
Developer/Construction - Sustainability

- Preparing to expand the scope of the current South Lamar Pedestrian Improvement project underway by MSW in Cedars area for current NCTCOG next call for projects
  - Extending project to include existing Convention Center station
  - Examining potential new projects on north side and integration with new alignment
City, MSW, and Omni are committed to invest in ancillary development projects and are seeking additional investors:

- Restaurants
- Entertainment
- Retail
- Residential
- Cultural Amenities
Operator

- Omni Hotel selected as Hotel operator
  - Operates 43 luxury hotels and resorts in North America
    - Operating convention hotels in Atlanta, San Diego, Orlando and Fort Worth
  - Owns most of the properties it manages
  - Is locally owned
  - Was ranked by J.D. Power and Associates Omni “Highest in Guest Satisfaction Among Upscale Hotel Chains” in 2006
  - Has global sales offices in Atlanta, Chicago, Dallas, Los Angeles, New York and Washington D.C.
Operator - Contract Terms

- Term – 15 years from hotel opening
- Pre opening responsibilities:
  - Providing technical services
  - Marketing and Sales
  - Hiring executive team
Operator - Contract Terms

- Operating responsibilities:
  - Operating a full service first class hotel
    - Consistent with approved hotel budget
    - Maximize financial return to the Owner
  - Hiring and managing all Hotel personnel
  - Marketing and Sales
  - Meeting MWBE/SBE Goals in operations
  - Purchasing of goods and services
  - Implementing room block agreement
  - Complying with all legal requirements
  - Maintenance and repairs of hotel
Operator - Organization Chart

- OMNI
- OPERATOR
- HOTEL LGC
- MSW
- DEVELOPER
- B/R/P
  DESIGN/BUILDER
- ARCH/ENG
- SUB CONTRACTORS
- OMNI
  OPERATOR
Operator - BID and Outreach Activities

- Omni has committed to a 20% overall spending goal with MWBEs
- In addition, they have established a 25% local spend goal with MWBE companies
- Commitment to develop written diversity program guidelines and creation of training materials for entire hotel system by Q3 2009
- Establishment of formal requirement of utilization goals in all national procurement contract to advance the use of MWBE sub-contractor and suppliers
Operator - BID and Outreach Activities

- Creating a mentor-protégé program in order to build the capacity of local vendors into national suppliers
- A Supplier Diversity Advisory Council will be created to further provide input on an ongoing basis
- Working with City and outside consultant to develop marketing materials to attract and interest MWBE vendors to become suppliers
Operator - BID and Outreach Activities

- Creation of vendor training program to educate and supply information regarding Omni’s procurement practices and procedures
- Developed a report to track all ongoing procurement utilization during all phases of the operator agreement
- All BID program requirements are included in exhibit to the Operator agreement and are enforceable
Operator - BID and Outreach Activities

- Also currently work with local colleges and high schools for diversity in employment opportunities
- Committed to develop ongoing supplier diversity program and continue utilization efforts for Dallas
Operator - BID and Outreach Activities

- January 15, 2009 - MWBE outside consultant to oversee diversity efforts additional staff hired to focus on Hispanic market
- February, 2009 - implemented out an online MWBE registration system
- March 10, 2009 - Dallas Fort Worth Minority Business Council HardHat Construction Expo. Omni Hotels was one of the signature sponsors for this event and held a booth exhibit to meet M/WBE contractors
- March 14, 2009 – Dallas Black Chamber of Commerce Board Retreat. Omni Hotels presented an overview of our company, business opportunities and plans for the Dallas Convention Center Hotel to the Board of Directors of the Dallas Black Chamber of Commerce
Operator - BID and Outreach Activities

- April 21, 2009 – held booth to meet candidates at the 2nd City of Dallas Community Job Fair sponsored by the Concord Church
- May 8, 2009 – Attended and help facilitate the Fort Worth Hispanic Chamber of Commerce 36th Annual Awards Gala.
- May 12, 2009 – Dallas Fort Worth Minority Business Council ACCESS Tradeshow. Omni Hotels participated in the ACCESS tradeshow and held a booth exhibit to meet minority vendors.
- June 25, 2009 - Coordinating a major event for MWBEs to train on doing business with Omni Hotels and our 3 Dallas/Fort Worth hotels (Mandalay, Park West and the Fort Worth Convention Center).
Operator - Other Benefits

Development on adjacent properties

- Through a Development Entity to be created, provide a $10M initial investment for ancillary development and/or land purchase, provided City invests certain assets into development. $10M of the investment funds can be used for the Hotel project.
Financial Update

- Update financial pro-forma
- Review/refresh financial structure
- Provide rationale for setting of financial parameters
- Define financial parameters
Financial Update - HVS Marketing Analysis Update

- Methodology
  - Reevaluated regional and national Comp set
  - Interviewed Omni and the CVB
    - To update operating revenue and cost projections
    - To understand recent marketplace reactions to the Hotel
  - Market data update - local market assessment including ADR/occupancy
  - Interviewed operators in other markets
  - Drew on HVS market expertise from similar national markets
  - Reviewed Smith Travel trends
  - Used data from HVS National trends presentations for 2009 prepared for nation and major markets
Financial Update - HVS Marketing Analysis Update

- Conclusions:
  - Omni
    - Adjusted various line items due to operating systems
    - Kept House Profit at the same level
    - Used composite statement from major Omni properties, which reflected 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
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.
Financial Update - Basic Structure

- LGC will issue Hotel Revenue Bonds to fund Hotel costs, various reserves, financing costs and purchase the Hotel site
- Bonds will be payable from Hotel Net Operating Revenues, certain City/State Hotel-related tax revenues and, if needed, appropriated grant payments from the City
- LGC and the City bear the risk if the project is not successful, but will receive all Hotel net cash flow and residual value
- City will use land purchase proceeds to redeem a like amount of outstanding Certificates of Obligation
Financial Update - Security for Hotel Revenue Bonds

- Hotel Revenue Bonds are limited obligations of the LGC
- Bonds are secured by and payable from:
  - Net Operating Revenues of the Hotel
  - Economic Development Agreement including the right to receive:
    - Certain Hotel-related tax revenues:
      - 6.00% State HOT (Years 1-10 only)
      - 6.25% State Sales Tax (Years 1-10 only)
      - 7.00% Local HOT
    - Appropriated Grant Payments from the City
- City grant payments are sought only after various fund accounts are exhausted including: the Senior Debt Service Reserve Fund, the Operating Expense Reserve Fund and the Surplus Revenue Fund
- The General Fund does not replenish any of the cited Reserve Funds if they are depleted to make debt service payments
Financial Update - Security for the Hotel Revenue Bonds

- **Senior Debt Service Reserve Fund**
  - Funded at closing (approximately $42,700,000)
  - If drawn, replenished from Hotel Net Operating Revenues and DCC Hotel-related tax revenues (not from Appropriated Grant Payments)

- **Operating Expense Reserve Fund**
  - Funded at closing and from Hotel Net Operating Revenues and DCC Hotel-related tax revenues up to its $10,000,000 requirement
  - Available for debt service, unbudgeted necessary expenses and certain repairs

- **Surplus Revenue Fund**
  - Net cash flow, after the deposit to various funds and accounts, will be deposited to the Surplus Revenue Fund
  - At year 10, there is projected to be a balance of approximately $40,000,000 in this fund

- **Other Indenture Funds and Accounts** funded with excess cash flow as shown on Flow of Funds
Financial Update - Flow of Funds

1. Hotel Gross Revenues
2. Hotel Lockbox Fund
3. Hotel Operating Costs
4. Revenue Fund
5. Property Tax Fund
6. Insurance Premium Fund
7. Senior FF&E Fund
8. Administrative Expense Fund
9. Senior Debt Service Fund
10. Senior Debt Service Reserve Fund
11. Operating Expense Reserve Fund
12. Manager Advance Repayment Fund / City Advance Repayment Fund
13. Subordinated Management Fee Fund
14. Subordinated FF&E Fund
15. Surplus Revenue Fund
16. Appropriated Grant Payments
17. Holding Account
### Financial Update - Sources of Funds for Debt Service Shortfalls

<table>
<thead>
<tr>
<th>Step</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>First</td>
<td>Amounts on deposit in the Surplus Revenue Fund</td>
</tr>
<tr>
<td>Second</td>
<td>Amounts on deposit in the Subordinated FF&amp;E Fund</td>
</tr>
<tr>
<td>Third</td>
<td>Amounts on deposit in the Subordinate Management Fee Fund</td>
</tr>
<tr>
<td>Fourth</td>
<td>Amounts on deposit in the City Advance Repayment Fund /</td>
</tr>
<tr>
<td></td>
<td>Amounts on deposit in the Manager Advance Repayment Fund</td>
</tr>
<tr>
<td>Fifth</td>
<td>Amounts on deposit in the Operating Expense Reserve Fund</td>
</tr>
<tr>
<td>Sixth</td>
<td>Amounts on deposit in Senior Debt Service Reserve Fund</td>
</tr>
<tr>
<td>Seventh</td>
<td>Appropriated Grant Payments</td>
</tr>
</tbody>
</table>
### Financial Update - Key Financing Assumptions

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hotel Development Budget</td>
<td>$346,100,000*</td>
</tr>
<tr>
<td>LGC Development Budget</td>
<td>$343,100,000</td>
</tr>
<tr>
<td>Pre-Opening Expenses</td>
<td>$4,500,000</td>
</tr>
<tr>
<td>Technical Services Fees</td>
<td>$350,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Description</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bond Offering Type</td>
<td>Fixed rate – 5.50%; inclusive of insurance</td>
</tr>
<tr>
<td>Bond Insurance</td>
<td>0.50% of total debt service up-front</td>
</tr>
<tr>
<td>Final Maturity Date</td>
<td>December 1, 2041</td>
</tr>
<tr>
<td>Amortization</td>
<td>Ascending debt service (~1% per year)</td>
</tr>
<tr>
<td>Construction Period</td>
<td>28 Months</td>
</tr>
<tr>
<td>Capitalized Interest Period</td>
<td>34 Months</td>
</tr>
<tr>
<td>Debt Service Reserve Fund</td>
<td>Maximum Annual Debt Service</td>
</tr>
</tbody>
</table>

* $3M From DCC
### Financial Update - Sources and Uses of Funds

#### Sources
<table>
<thead>
<tr>
<th>Source</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Senior Hotel Revenue Bonds</td>
<td>507,992,788</td>
</tr>
<tr>
<td>Key Money</td>
<td>6,000,000</td>
</tr>
<tr>
<td><strong>Total Sources</strong></td>
<td><strong>$ 513,992,788</strong></td>
</tr>
</tbody>
</table>

#### Uses
<table>
<thead>
<tr>
<th>Use</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land Acquisition Cost / Refinancing of CO’s</td>
<td>$ 30,280,000</td>
</tr>
<tr>
<td>Total Hotel Development Budget</td>
<td>346,100,000</td>
</tr>
<tr>
<td>Less: Non-LGC Financed Costs (DCC)</td>
<td>(3,000,000)</td>
</tr>
<tr>
<td>LGC Hotel Development Budget</td>
<td>343,100,000</td>
</tr>
<tr>
<td>Pre-Opening Expenses</td>
<td>4,500,000</td>
</tr>
<tr>
<td>Technical Services Fee</td>
<td>350,000</td>
</tr>
<tr>
<td>Less: Interest on Construction Fund</td>
<td>(878,533)</td>
</tr>
<tr>
<td>Net Deposit to Construction Fund</td>
<td>347,071,467</td>
</tr>
<tr>
<td>Deposit to Capitalized Interest Account</td>
<td>69,773,858</td>
</tr>
<tr>
<td>Deposit to Debt Service Reserve Fund</td>
<td>42,721,052</td>
</tr>
<tr>
<td>Deposit to Operating Expense Reserve Fund / Working Capital</td>
<td>6,000,000</td>
</tr>
<tr>
<td>Costs of Issuance / Bond Insurance Premium</td>
<td>18,146,411</td>
</tr>
<tr>
<td><strong>Total Uses</strong></td>
<td><strong>$ 513,992,788</strong></td>
</tr>
</tbody>
</table>
## Financial Update - Hotel Net Operating Income For Senior Net Debt Service

<table>
<thead>
<tr>
<th></th>
<th>Operating Year 1</th>
<th>Operating Year 2</th>
<th>Operating Year 3</th>
<th>Operating Year 4</th>
<th>Operating Year 5</th>
<th>Operating Year 10</th>
<th>Operating Year 20</th>
<th>Operating Year 30</th>
<th>Total/Average</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net Cash Flow</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Income</td>
<td>14,980,651</td>
<td>19,239,425</td>
<td>23,368,704</td>
<td>25,570,421</td>
<td>27,499,170</td>
<td>32,419,185</td>
<td>43,568,674</td>
<td>58,552,654</td>
<td>1,160,370,321</td>
</tr>
<tr>
<td>City Tax Revenues</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6.00% State HOT</td>
<td>2,113,860</td>
<td>2,501,820</td>
<td>2,832,720</td>
<td>3,049,920</td>
<td>3,203,100</td>
<td>3,713,280</td>
<td>-</td>
<td>-</td>
<td>31,217,220</td>
</tr>
<tr>
<td>6.25% State Sales Tax</td>
<td>1,584,774</td>
<td>1,825,865</td>
<td>1,975,015</td>
<td>2,106,559</td>
<td>2,217,810</td>
<td>2,626,057</td>
<td>-</td>
<td>-</td>
<td>22,058,133</td>
</tr>
<tr>
<td>7.00% Local HOT</td>
<td>2,466,170</td>
<td>2,918,790</td>
<td>3,304,840</td>
<td>3,558,240</td>
<td>3,736,950</td>
<td>4,332,160</td>
<td>5,822,061</td>
<td>7,824,363</td>
<td>156,319,054</td>
</tr>
<tr>
<td>Total City Tax Revenues</td>
<td>6,164,804</td>
<td>7,246,475</td>
<td>8,112,575</td>
<td>8,714,719</td>
<td>9,157,860</td>
<td>10,671,497</td>
<td>15,824,363</td>
<td>209,594,408</td>
<td></td>
</tr>
<tr>
<td>City Administrative Expenses</td>
<td>250,000</td>
<td>250,000</td>
<td>250,000</td>
<td>250,000</td>
<td>250,000</td>
<td>250,000</td>
<td>250,000</td>
<td>250,000</td>
<td>7,500,000</td>
</tr>
<tr>
<td><strong>Net Operating Income</strong></td>
<td>20,895,454</td>
<td>26,235,900</td>
<td>31,231,279</td>
<td>34,035,140</td>
<td>36,407,031</td>
<td>42,840,683</td>
<td>66,127,017</td>
<td>1,362,464,728</td>
<td></td>
</tr>
<tr>
<td>Senior Bonds Net Debt Service</td>
<td>12,425,470</td>
<td>24,850,940</td>
<td>29,580,940</td>
<td>32,240,940</td>
<td>32,560,940</td>
<td>34,224,182</td>
<td>37,799,168</td>
<td>(961,224)</td>
<td>1,017,755,024</td>
</tr>
<tr>
<td>Cash Flow After Debt Service</td>
<td>8,469,984</td>
<td>1,384,960</td>
<td>1,650,339</td>
<td>1,794,200</td>
<td>3,846,090</td>
<td>8,616,500</td>
<td>11,341,566</td>
<td>344,709,704</td>
<td></td>
</tr>
<tr>
<td>Amounts Transferred After Debt Service</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating Expense Reserve Fund</td>
<td>5,000,000</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>5,000,000</td>
<td></td>
</tr>
<tr>
<td>Manager Advance Repayment Fund</td>
<td>1,500,000</td>
<td>692,480</td>
<td>825,169</td>
<td>897,100</td>
<td>1,923,045</td>
<td>1,200,000</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>City Advance Repayment Fund</td>
<td>1,500,000</td>
<td>692,480</td>
<td>825,169</td>
<td>897,100</td>
<td>1,923,045</td>
<td>1,200,000</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Subordinated Management Fee Fund</td>
<td>393,818</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>675,382</td>
<td>907,657</td>
<td>1,219,815</td>
<td>24,368,111</td>
</tr>
<tr>
<td><strong>Net Cash Flow / Surplus Revenue Fund</strong></td>
<td>76,166</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>315,341,594</td>
<td></td>
</tr>
<tr>
<td><strong>Debt Service Coverage</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Operating Income</td>
<td>1.68</td>
<td>1.06</td>
<td>1.06</td>
<td>1.06</td>
<td>1.12</td>
<td>1.25</td>
<td>1.30</td>
<td>N/A</td>
<td>1.27</td>
</tr>
<tr>
<td><strong>Net Present Value: $90,096,624</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
# Financial Update - Summary of Risk Factors and Mitigants

<table>
<thead>
<tr>
<th>Risk</th>
<th>Risk Mitigant</th>
</tr>
</thead>
<tbody>
<tr>
<td>Construction</td>
<td>• Experienced Developer and Contractor</td>
</tr>
<tr>
<td></td>
<td>• Guaranteed Hotel Development Budget and Design/Build Guaranteed Maximum Price Contract</td>
</tr>
<tr>
<td></td>
<td>• Liquidated damages for delay</td>
</tr>
<tr>
<td></td>
<td>• Payment and performance bonds</td>
</tr>
<tr>
<td>Operating</td>
<td>• Experienced Operator</td>
</tr>
<tr>
<td></td>
<td>• Key Money investment</td>
</tr>
<tr>
<td></td>
<td>• Subordinated management fee</td>
</tr>
<tr>
<td></td>
<td>• Performance termination</td>
</tr>
<tr>
<td>Debt Service Coverage</td>
<td>• Average debt service coverage ratio of 1.27x</td>
</tr>
<tr>
<td></td>
<td>• Funded reserves utilized prior to Appropriated Grant Payments</td>
</tr>
<tr>
<td></td>
<td>• Zero net present value at 58% occupancy</td>
</tr>
<tr>
<td></td>
<td>• Zero net present value at 19.5% ADR reduction</td>
</tr>
</tbody>
</table>
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
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
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:

- 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
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
Recommendation

- Recommend approval of next steps
Questions