

Memorandum



CITY OF DALLAS

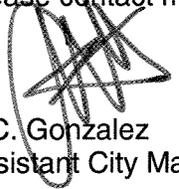
DATE August 13, 2008

TO Members of the Economic Development Committee:
Ron Natinsky (Chair), Tennell Atkins (Vice Chair), Dwaine Caraway, Jerry R. Allen, Sheffie Kadane, Mitchell Rasansky, Linda Koop, and Steve Salazar

SUBJECT Convention Center Hotel MOU

Attached are the briefing materials on the Convention Center Hotel Memorandum of Understanding to be presented to the Economic Development Committee on Friday, August 15, 2008.

Please contact me if you need additional information.


A.C. Gonzalez
Assistant City Manager

C: Honorable Mayor and Members of the City Council
Mary K. Suhm, City Manager
Deborah A. Watkins, City Secretary
Thomas P. Perkins, Jr., City Attorney
Craig D. Kinton, City Auditor
Judge Jay E. Robinson
Ryan S. Evans, First Assistant City Manager
Chief David Brown, Interim Assistant City Manager
Jill A. Jordan, P.E., Assistant City Manager
Ramon F. Miguez, P.E., Assistant City Manager
David K. Cook, Chief Financial Officer
Theresa O'Donnell, Director of Development Services
Helena Thompson-Stevens, Assistant to the City Manager

Status of Convention Center Hotel Project

Briefing to the Economic
Development Committee
August 15, 2008



Purpose

- Bring Committee up to date on negotiations with Matthews Southwest (MSW)
- Update Good Faith Effort and contractor development initiatives
- Describe sustainability efforts
- Explain future private sector and customer group involvement
- Outline the operator selection process
- Bring Committee up to date on Convention Center debt restructuring
- Receive feedback from the committee on evaluation and direction for next steps

Dallas Convention & Visitors Bureau Reports:

Record-breaking 26 key customer visits in June 2008 shows an increase of more than 136% over the same period in 2007 (11 visits).

	Status	Year(s)	Total Rooms	Total Attendees	Economic Impact
International Trademark Association	Confirmed	2013	16,000	7,500	\$24M
Safari International	Pending Hotel Progress	2013 2015 2017	27,000	27,000	\$40M

Numerous organizations and trade magazines monitoring our progress including American Heart Association, National Association of Realtors, Successful Meetings, and Trade Show Weekly.

Downtown Momentum

- Other downtown related actions
 - Relocation of AT&T
 - Relocation of Tenet
 - Residential and retail completions
 - Reunion Tower renovation
 - Union Station renovation
 - Urban Market coming into its own
 - Arts District Projects
 - DART: CBD construction and expansion plans
 - Trinity River investments growing

Negotiations Background

- The City selected MSW based on strength and creativity of their proposal
- This included:
 - Strength of development team
 - Submittal of alternative iconic designs
 - Vision for ancillary development
 - Enhanced MWBE and SBE participations

Negotiations Background

- The goal is to incorporate as many features as possible from the MSW proposal to enhance the basic hotel program
- This goal is to be achieved within the budget set by the projected revenues

Why Strive For More?

- To become a market differentiator in the convention industry
- To support the creation of an anchor district around the Dallas Convention Center (DCC)
 - Developing a destination
 - Improving visitor/convention attendee experience and connection to center city
 - Assist DCVB and Convention Center marketing efforts and increase business and visitor expenditures

Why Strive For More?

- To incite development momentum in SW quadrant of downtown affecting
 - Adjacent properties
 - Reunion Arena Area
 - Connection to Trinity
 - South along Lamar to Cedars
- To leverage for a larger reward and impact from our investment

Developer Negotiations

- City staff and MSW negotiations have included:
 - Underwriters
 - Financial Advisors
 - Bond Counsel
 - Construction Consultant

Developer Negotiations

- Involves a three stage process*
 - Memorandum of Understanding (MOU), clarifies roles and responsibilities and sets timetable for decision of basic program direction
 - Pre-development Agreement, outlines all of the major objectives and key points including payment of pre-development expenses
 - Developer Agreement, a contract for development services, complete with a Guaranteed Maximum Price (GMP)

Developer Negotiations

- Inherent in this process is the need for flexibility with regard to the ultimate design and components of the project

Proposed MOU

- Sets out City's goal, if achievable, to have an iconic, exciting and vibrant DCC Hotel achieving standards of design exemplified by Foster + Partners' portfolio of notable architectural buildings within budget
- City commits to:
 - Create a Local Government Corporation (the “LGC”)
 - Assist in process to refine scope and budget
 - Engage in consultants services to perform soils and geotechnical investigations on the site which are necessary regardless of whomever is selected to develop the project
 - Furtherance of the June 2008 Council action
 - Cost not to exceed \$400,000

Proposed MOU

- MSW commits to:
 - Assist in process to refine scope and budget
 - Deliver to the City a proposed Project concept plan regarding Hotel and non-Hotel development on the Site
 - Provide any required architectural and construction estimating services (estimate is in excess of \$500,000)
 - Negotiate with other parties to provide funding of pre-development activities and related capital expenditures

Proposed MOU

- Both agree to:
 - Continue the development of the various programs related to joint ventures with local SBEs and the City's Good Faith Effort Plan
 - Prepare a pre-development agreement to:
 - Further define the Hotel and the parties' responsibilities
 - Define the specific development process to be followed by MSW and the City
 - Be considered for Council action on September 10, 2008
 - Prepare a Developer Agreement to:
 - Include a GMP for Hotel
 - Provide construction schedule and financing plan
 - Schedule the ancillary development plan Be considered for Council action on December 10, 2008

Operator Selection

- City issued the Request for Proposals for a hotel operator
 - Due August 13, 2008
- City retained legal assistance of the firm Jeffer, Mangels, Butler & Marmaro LLP to:
 - Refine RFP and selection criteria
 - Review operator proposals
 - Assist in negotiations for operator agreement
 - Assist in development of the final contract
- City received input from the private sector advisory committee in development of the RFP
- City will include MSW input during City's review of the submitted proposals

Operator Selection

- Selection Criteria includes:
 - Experience in operating similar properties
 - Client references
 - Sales force and marketing plans
 - Financial capability
 - Fees
 - Team composition and commitment for on-going utilization of MWBE and SBE's including joint venture opportunities
 - Ability to demonstrate capacity, knowledge, and experience to meet revenue and expense projections
 - Willingness to amend brand standards to comply with unique features of iconic building program without additional costs

Operator Selection

- Key factors in the proposals will include:
 - Marketing budget and commitment/ experience in selling city-wide convention business
 - Pre-opening services and technical assistance during design of the Hotel
 - Brand standards and operating plan
 - Working capital and FF&E reserves to insure quality of hotel does not diminish over term of agreement

Operator Selection

- After selection, City will develop an Agreement outlining Operator responsibilities including:
 - “Key Money” investment
 - Fees, including portion that will be paid only after debt service is covered by revenues
 - Requirements for re-investment into the property
 - Establishment of an asset manager to oversee and protect the City’s investment in the Hotel

Operator Selection

- Included in the agreement will be a “Room Block” agreement, which allows the Convention Center staff and DCVB to reserve rooms to attract and book of large conventions

GFE and Outreach Activities

- First-ever joint venture requirements resulted in proposed joint ventures for construction management and design
 - This will promote the development and increase capacity of local MWBE and SBE firms
 - Planned team under consideration include joint venture for the design and construction management
 - Overall, 16 MWBE & SBEs are listed as part of the MSW team
 - **More opportunities will be available as the project moves forward**

GFE and Outreach Activities

- Prior to execution of the development agreement, City will develop project specific goals for the project
 - Local economic development opportunities
 - Availability determined for all sub-components
- City has already conducted 6 events to promote project and recruit firms for participation with additional events planned

GFE and Outreach Activities

- Mobilization program being developed to work with financial institutions to make bridge financing available to contractors to cover start-up costs. Meetings have included
 - Industry and banking representatives
 - Non-traditional lenders
 - In-house staff (with extensive banking experience)
- Have identified banks owned by MWBEs, to be a potential lender(s) for the DCCH mobilization program

GFE and Outreach Activities

- City is working with its insurance consultant to develop a project controlled insurance program (PCIP)
 - Will lower overall costs of covering the project throughout the construction
 - Will provide umbrella coverage for contractors and subs
- City is working with MSW and the general contractor to address issues regarding performance bonding
 - Will allow greater flexibility for subs
 - Will insure bonding covers all aspects of project

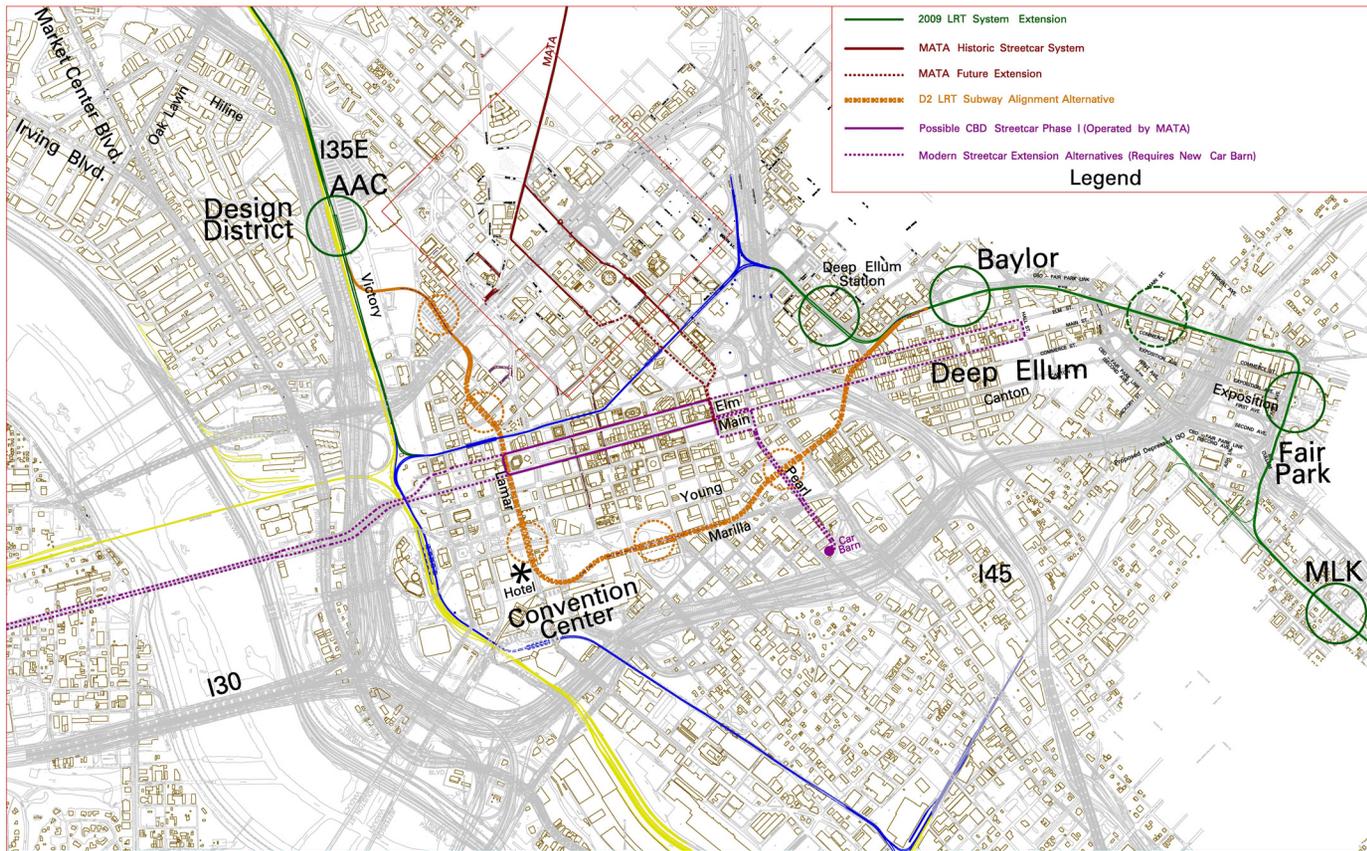
GFE and Outreach Activities

- City is selecting Hotel Operator via separate process
- RFP includes the following requirements to ensure M/WBE and SBE participation:
 - Composition of Team and joint ventures with local SBEs and participation of MWBEs
 - The City of Dallas will expect the operator to establish joint ventures or similar partnership arrangements with local SBEs and MWBEs for components of Hotel operations
 - These joint ventures are intended to promote increased capacity for local SBEs & MWBEs and must include meaningful participation on the part of the joint venture partner

Sustainability

- MSW has committed to, and has experience in, sustainable development in Dallas
- City is working closely with DART on the new downtown rail alignment and its potential to serve the Convention Center Hotel project
 - This issue is time sensitive
- City is preparing for the next call for sustainability projects from NCTCOG to apply for grant funds to enhance pedestrian/transportation connections with Downtown

Sustainability



Private Sector Involvement

- City Manager Private Sector Advisory Committee will continue its consultative support role to city staff in such areas as:
 - Operator selection
 - Ancillary development
 - Project design
- The City Manager Private Sector Advisory Committee will continue to meet periodically through December 2008
- The DCVB and DCC customer advisory committee (key customer groups) will continue to be available to city staff as needed for consultation in such areas as:
 - Hotel operator experience
 - Project marketing and customer outreach
 - Site development – the customer experience

DCC Debt Restructuring Update

- On February 13, 2008, City Council authorized contract with HVS Convention, Sports & Entertainment Facilities Consulting (HVS) to conduct a Financial Feasibility Study (FFS) for potential restructuring of the DCC debt
- Restructuring of the debt could address the following:
 - Current debt service coverage ratio as stipulated in DCC bond covenants which require a 1.25 times coverage
 - Provide an opportunity to lessen general fund support of DCC
 - Generate funds to support capital requirements for DCC
- The FFS will provide a comprehensive analysis of the DCC performance, historical and future

DCC Debt Restructuring Update

- Components of the FFS will include:
 - Financial forecast involving an analysis and projection for all operating and non-operating revenues and expenses
 - Future market segments evaluating: conventions, trade shows, consumer shows, corporate users, and public events
 - Data from current and prospective meeting planners will be incorporated
- City's Financial Advisors believe restructuring may provide between \$20.0M - \$30.0M
- HVS has compiled the required data and has submitted an initial draft report
- Presentation of the report to the committee is scheduled for October 2008

Next Steps

- August 20, 2008, establish the LGC
- August 20, 2008, approve Memorandum of Understanding
- September 10, 2008, approve Pre-development agreement
- September 2008, recommend selected operator
- December 10, 2008, approve final development agreement
- January 2009, sell Revenue Bonds