

Memorandum



CITY OF DALLAS

DATE September 4, 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 Pre-development Agreement

Attached are the briefing materials on the Convention Center Pre-development Agreement to be presented to the Economic Development Committee on Friday, September 5, 2008.

Please contact me if you need additional information.

A handwritten signature in black ink, appearing to read 'A.C. Gonzalez'.

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 C. Victor Lander
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
September 5, 2008



Purpose

- Bring Committee up to date on negotiations with Matthews Southwest (MSW)
- Outline terms of Pre-Development Agreement
- Update Committee on the operator selection process
- Update on MWBE utilization strategies
- Receive feedback from the committee on progress and direction for next steps

Overall Goals

- Increase the competitiveness of the Dallas Convention Center and
- Increase overall economic benefit to the City of Dallas
- Achieve an overall project that can be constructed and operated within the projected revenues and construction budget
 - Execute a Development Agreement and Guaranteed Maximum Price contract for a Convention Center Hotel
- Incorporate as many signature features in the basic hotel program as the budget will allow

City Team

- Financial Team

- Chief Financial Officer
- Financial Advisors
 - First Southwest Corp
 - 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

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

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 were present for the spring meeting

Background

- Since last Committee Briefing:
 - City and MSW have advanced the project beyond Memorandum of Understanding (MOU) to further define the creation of an anchor district around the Convention Center
 - Developing a destination
 - Improving visitor/convention attendee experience and connection to center city
 - Assisting DCVB and Convention Center's marketing efforts to increase business and visitors

Background

- City and MSW have received information from hotel operators as to their priorities in building design and related amenities
- As additional information is developed, project scope will be refined further
 - maintaining costs within budget
 - profitability consistent with current pro forma

Project Budget

- As briefed earlier, a Convention Center hotel is economically viable based on revenue and expense projections
 - City has determined the initial Hotel Development Budget based on that analysis
- City is striving to create a hotel project with signature features, which will add to overall cost
 - However, these additional costs will require additional investment and/or partnering

Project Budget

- The City and its financial team are:
 - Reviewing pro formas from HVS, MSW, and the hotel operators
 - HVS will compare all of the pro formas and explain any material differences
 - Analyzing the ability of these revenue projections to support different levels of construction budgets
 - Maintaining the position of achieving the project within the established budget
- The financing will be based on a fully vetted HVS pro forma of the selected hotel program and operator

Hotel Capacity

- Hotel configuration must generate sufficient profitability to support construction and operating costs
- Operators are suggesting alternatives ranging from 1,000 to 1,200 rooms
- HVS will also create projections based on different number of rooms
 - Base case is 1,200 rooms
 - Based on feedback from operators, 1,200 may not be optimum number
- Staff will consider +/- 200 rooms of base

Project Scope

- Staff will analyze and adjust project scope and return with update of optimum mix of rooms, meeting space, and design features to be briefed to the Economic Development Committee on Oct 16, 2008
- Input will be solicited from:
 - Private Sector Committee
 - Operators
 - Underwriters
 - Financial Advisors
 - Outside legal counsel
 - Customer Advisory Board
 - MSW

Pre-Development Agreement (PDA)

- Outlines all of the major objectives and key points, including payment of pre-development expenses
- Directs MSW to continue to develop concept design and creation of construction documents
- Reserves City's right to revise project scope
- Establishes deadline of December 10 for authorizing execution of developer agreement, including GMP construction contract

Pre-Development Agreement

- PDA will be entered into by the City, the City's Local Government Corporation (LGC) and MSW
- The LGC will issue the hotel revenue bonds to fund the Guaranteed Maximum Price Contract and all other related project costs
- MSW will receive a developer fee of 3.58% of total project capped at \$15 million
 - 1% (\$4.3M) of that fee will be subordinated, i.e. to be paid after bond debt service and reserve requirements are met
- MSW will also be compensated if they succeed in bringing ancillary development on City property proximate to the Hotel
 - 5% of revenues collected, or 3.5% of the development costs up to a maximum of \$5 million

Pre-Development Agreement

- Developer, GMP, and other agreements entered into by MSW for the Hotel development will contain standard City provisions similar to other City capital construction projects, including
 - Insurance, immunity, and indemnity provisions
 - City's right to review, approve and audit during all phases of design
 - Construction Bonding
 - No arbitration provisions
- MSW will deliver project on schedule and within budget

Pre-Development Agreement

- MSW will provide, by June 30, 2009, a concept plan and preliminary budget for ancillary development

Pre-Development Agreement

- Development will achieve LEED silver certification for the Hotel project
- MSW will comply with all applicable BID requirements set for the project
- MSW will comply with all applicable OSHA, ADA, minimum wage standards, and building codes
- City will waive and expedite, to the extent possible, permit fees, platting and zoning fees, building inspection fees, and public works inspection fees

Pre-Development Agreement

- Payment of pre-development expenses includes expenses for concept design needed for GMP development (to Oct 15th)
- Planned amounts include construction manager, architect, consultants and legal, to be shared between MSW and the City/LGC
 - Estimated at \$4 million
- City will provide economic development grant to LGC to pay City's portion of pre-development expenses; City/LGC will reimburse 50% of actual expenses as they are incurred, up to \$2 million
 - Predevelopment expenses will be funded through Convention and Event Services

Pre-Development Agreement

- Full amount to be reimbursed from hotel revenue bonds to both Convention Center and to MSW
 - If MSW cannot deliver the GMP contract and final development agreement by the deadline, MSW will reimburse the City for pre-development payments made to MSW
 - If the project does not move forward for any reason other than MSW failure to perform, City/LGC will reimburse MSW for its eligible pre-development expenses incurred, with maximum City exposure of \$4 million (which includes prior payments made)

Challenges

- MSW and its construction firm still need to set construction price and schedule
 - Design concept needs to be completed
 - Ongoing inflation in key materials such as steel and concrete make estimating difficult
 - Construction schedule length has direct impact on capitalized interest requirements
 - Additional funding will be required to have architects continue their work through November, December and January to expedite construction drawings

Additional Areas of Focus

- City and MSW will continue to work on plan for ancillary development and seeking additional investment
 - Restaurants
 - Entertainment
 - Retail
 - Residential
- Sustainability opportunities
 - D2 Study

Operator Selection

- City conducted interviews with both Omni and Marriott
 - Were given a number of questions to clarify
- Both operators have been asked to review and comment on current conceptual design
 - Emphasized importance of meeting space over signature design elements
 - Pointed out importance of interior design, room features and ancillary attractions

Operator Selection

- Key factors in the final selection 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
 - Required fees and subordinated portion of fees
 - Investment in hotel
 - Commitment to BID initiatives

Operator Selection

- City is beginning to negotiate agreement terms
- Outside Counsel of Jeffer, Mangels, Butler & Marmaro LLP to aid in these negotiations
- City will make selection based on best mix of financial commitment, operational experience, terms, and sales and marketing abilities

BID and Outreach Activities

- City has included in all agreements with MSW continued commitment for participation in the project
- Prior to execution of the final development agreement, City will develop project specific goals
 - Local economic development opportunities
 - Availability determined for all sub-components

BID and Outreach Activities

- Key components of the outreach and utilization strategies include, but will not be limited to:
 - Mobilization program for start up capital
 - Outreach events and workshops
 - Partnering with business organizations to recruit and prepare MWBE for project opportunities
 - Strengthening the joint ventures
 - Quarterly reports of utilization
 - Establish website with subcontracting opportunities, bid process and contract requirements, and information on the project
 - Advertisement in local publications and informational public meetings for subcontracts
 - Prompt pay oversight of general contract to ensure subs receive timely payment for work completed

Next Steps

- Recommend approval of the pre-development agreement to begin necessary design work
 - Cost sharing with MSW
 - Authorize expenditure of up to \$4.4 M
- Complete and present project scope analysis by mid-October
 - Will include final HVS analysis of projections for various scenarios
 - Get update from underwriters as to financial viability and potential financing structure of hotel revenue bonds
 - Consider additional funding for A/E expenses for schematic design
- Bring final Development Agreement, including GMP construction contract, to Eco Committee December 5th and Council for final review and approval December 10th