

Memorandum



CITY OF DALLAS

DATE February 18, 2009

TO The Honorable Mayor and Members of the City Council

SUBJECT Convention Center Hotel Operator Agreement

Attached are the briefing materials on the Convention Center Hotel Operator Agreement as presented to the City Council on Wednesday, February 18, 2009.

Please contact me if you need additional information.

A handwritten signature in black ink, appearing to read 'A.C. Gonzalez', written over a circular stamp or seal.

A.C. Gonzalez
Assistant City Manager

C: Mary K. Suhm, City Manager
Deborah Watkins, City Secretary
Tom Perkins, City Attorney
Craig Kinton, City Auditor
Judge C. Victor Lander, Judiciary
Ryan S. Evans, First Assistant City Manager
Forest Turner, Interim Assistant City Manager
Ramon Miguez, P.E., Assistant City Manager
Jill A. Jordan, P.E., Assistant City Manager
Jeanne Chipperfield, Interim Director, Office of Financial Services
Dave Cook, Chief Financial Officer
Karl Zavitkovsky, Director, Office of Economic Development
Hammond Perot, Assistant Director, Office of Economic Development
Frank Poe, Director, Convention & Event Services
Helena Stevens-Thompson, Assistant to the City Manager

Dallas Convention Center Hotel Operating Agreement

Briefing to City Council
February 18, 2009



Background

- Over the last two months, City staff and consultants have negotiated with Omni to deliver the Hotel Operating Agreement substantially consistent with the key term sheet elements presented to the Economic Development committee

Omni Hotels

- Operates 39 luxury hotels and resorts in North America
 - Operating convention hotels in Atlanta, San Diego, Orlando and Fort Worth
- Primarily owner of properties it manages
- Local ownership
- *In 2006, J.D. Power and Associates* ranked Omni “Highest in Guest Satisfaction Among Upscale Hotel Chains”
- Global sales offices in Atlanta, Chicago, Dallas, Los Angeles, New York and Washington D.C.

Omni Contract Terms

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

Omni 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

Omni Financial Terms

- Key Money investment - \$6 M
 - Previously proposed \$10M
 - Amortizes years 6 -10 (was: years 11-15)
 - Unamortized amount repaid on termination for any reason, subordinated to debt and reserve commitments after year 4
- Management fee – 2.65%
 - 0.65% subordinated
 - Previously proposed 3% (0.75% subordinated)
- Pre-opening expense - \$4.5M
 - Was a range of \$4 to 5M
- Technical services fee - \$350k

Omni Financial Terms

- Centralized service fees will be a set amount equal to 3.8% of projected expenses included in the City's pro forma of annual gross room revenues for the first five years, then adjusted by CPI
- Working Capital requirement - \$1.0 M

Omni Contract Terms

- LGC has right to terminate Omni on sale of hotel after 7 years upon payment of termination fee
- Performance test – two consecutive years of failure to reach revenues per room equal to 80% of the hotel competitive set or failure to achieve net cash flow equal to debt service (can advance to cure shortfalls)
- LGC not required to replace FF&E due to brand standard changes until earlier of 5 years or end of useful life of existing FF&E
- LGC has discretionary approval rights over capital expenditures
- No LGC approval rights over hotel executive staff or third party leased areas – Omni fully responsible

Omni Contract Terms

- Omni will indemnify LGC and City for Omni's gross negligence or willful misconduct
- LGC will indemnify Omni for LGC gross negligence or willful misconduct
- LGC may terminate Management Agreement, if Hotel casualty loss would exceed 10% of replacement value to repair
- No other Omni hotel over 500 rooms within 2 miles, no exceptions

OMNI 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 FQ 2009
- Establishment of formal requirement of utilization goals in all national procurement contract to advance the use of MWBE sub-contractor and suppliers

OMNI 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

OMNI 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

Omni Diversity

- 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

Other Safeguards

- Safeguards
 - Performance Test
 - Hotel Consultant
 - To assist LGC for marketing , budget, and operations questions
 - LGC review and approval of budgets
 - Requirements for maintaining insurance at specified levels
 - Annual audits
 - Operating and FF&E reserves

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.

Recommendation

- Approval of Hotel operating agreement with Omni

End

