

# Memorandum



CITY OF DALLAS


DATE: June 13, 2008

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

SUBJECT: **Results of Convention Center Hotel RFP Process**

At the June 16, 2008 Economic Development Committee meeting, you will be briefed on the Results of the Convention Center Hotel RFP Process. A copy of the briefing is attached.

Should you have any questions, please contact me at (214) 670-3314.



A.C. Gonzalez  
Assistant City Manager

## Attachment

C: Honorable Mayor and Members of the City Council  
Mary K. Suhm, City Manager  
Deborah A. Watkins, City Secretary  
Tom Perkins, Jr., City Attorney  
Craig Kinton, City Auditor  
Judge Jay Robinson, Judiciary  
Ryan S. Evans, First Assistant City Manager  
David O. Brown, Interim Assistant City Manager  
Jill A. Jordan, P.E., Assistant City Manager  
Ramon F. Miguez, P.E., Assistant City Manager  
Dave Cook, Chief Financial Officer  
Jeanne Chipperfield, Interim Director, Office of Financial Services  
Karl Zavitkovsky, Director, Office of Economic Development  
Hammond Perot, Assistant Director, Office of Economic Development  
Helena Thompson, Assistant to the City Manager

# ***Results of Convention Center Hotel RFP Process***

Briefing to the Economic  
Development Committee  
June 16, 2008



# Purpose

- Give background of project to date
- Outline site selection decision
- Outline the developer selection process
- Recommend primary developer to begin negotiations
- Identify additional objectives to achieve for the project
- Receive feedback from the committee on evaluation and direction for next steps

# The Short Story

- The DCC hotel project is critical for the health of the City
  - The Dallas Convention Center is the largest capital plant investment the City owns - a billion dollar asset
  - The Hospitality industry (in 2005)
    - Supported 50,840 jobs
    - Had an economic impact of \$2.6 Billion
    - Generated local taxes of \$228 million
  - Helps to continue the renaissance of the downtown
    - Will help to provide a third anchor into the urban core
  - Over a 30 year period, staff estimates the project would
    - Generate \$2.5 Billion in economic activity
    - Produce 3,000 temporary and 800 permanent full time jobs

# The Short Story

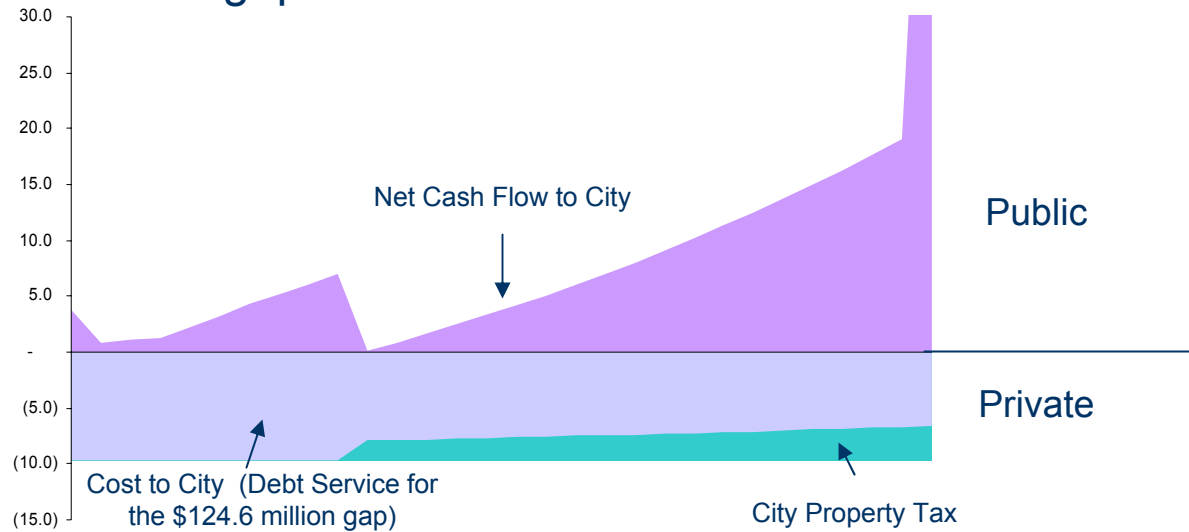
- The DCC hotel project is critical for the health of the Convention Center
  - From 2003 to 2007
    - Lost 68 meetings representing \$300 million in direct dollar spending
    - Lost opportunities of 80 city-wide meetings representing \$800 million dollars of direct spending
  - In the future, if a hotel is constructed
    - Could gain 1.724 million room nights over the next 15 years
      - Based on customer feedback
    - DCVB has committed that they can book 10 major city-wide convention events over the next 18 months
  - Without the Hotel, loss of convention business will likely continue

# The Short Story

- The project is viable
  - Excellent site
  - Quality developers to chose from
  - Building program consistent with goals of the City
  - Quality operators to chose from
  - Market study supports need and project feasibility
  - Hotel net income projected to be in excess of related costs
- Of the two basic approaches – public or private ownership, **public ownership**:
  - Is the least costly
    - Cost of equity
    - Cost of debt
  - Offers the opportunity for the City to avoid cash payments into the project and to build equity

# Public Ownership vs. Private Ownership

- Under Public ownership, the City will retain Net Cash Flow from the ownership of the Hotel
- Under the Private Ownership structure, the City will have to finance the \$124.6 million gap



- Occupancy Rates would have to decrease from 68% at stabilization to 49% for the City to match the Private Ownership alternative

# The Short Story

- Public ownership has been the approach of choice for all (but one) of the last major projects in the last seven years
  - Including DFW Grand Hyatt

# Publicly Owned Convention Center Hotels



**McCormick Place,  
Chicago**



**Austin Convention  
Center Hotel**



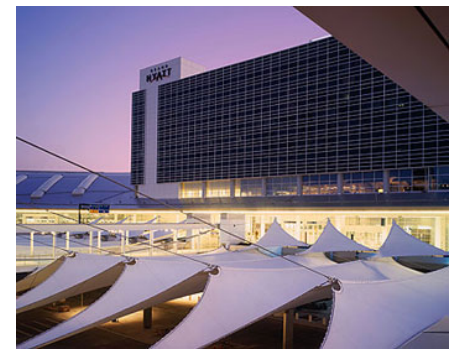
**Houston Convention  
Center Hotel**



**Denver Convention  
Center Hotel**



**Baltimore Convention  
Center Hotel**



**DFW Airport Grand  
Hyatt Hotel**

# Background

- Jan 11, 2008 – Briefed Economic Development Committee on case for a hotel on the Chavez site
- Feb 13, 2008 – City Council authorized Chavez purchase agreement and DCVB's payment of \$500k to secure Chavez option
- May 14, 2008 – Council authorized to proceed with COs, intent to purchase Chavez site, negotiate with developers and operators for publicly owned hotel on Chavez site
- May 21 – Council authorized sale of COs
- May 28 – Council authorized Chavez purchase

# Procurement Activities

- A Request for Qualifications was completed in March 2008
  - Six developers were invited to participate in the Request for Proposal process
    - Hines/ Garfield Traub
    - Hamilton Properties
    - Faulkner USA
    - Woodbine Development
    - Jones Lang LaSalle
    - Matthews Southwest
- The Economic Development Committee was briefed on the evaluation process and the weighted criteria for the RFP
- The RFP was sent to the qualified firms on March 5, 2008

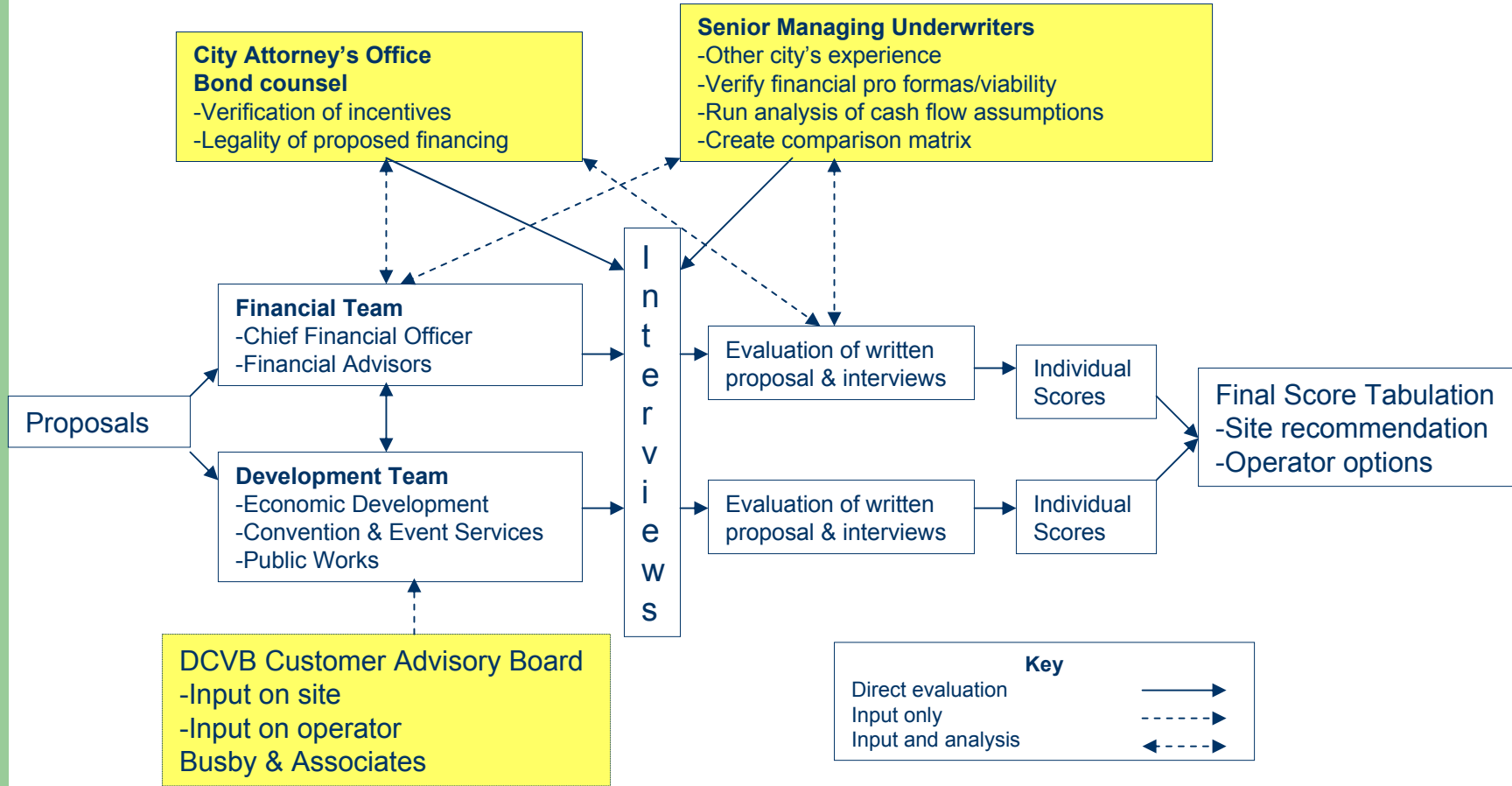
# Selection Process Overview

- Five developers submitted proposals
  - Hines declined to submit
- Staff evaluated the proposals and recommended continuing negotiations with 4 firms
  - Jones Lang LaSalle not invited for further negotiations
- Based on feedback from the Economic Development committee, staff focused on publicly owned hotel for next round of negotiations

# Selection Process Overview

- Invitation for Further Negotiation was issued in May 16, 2008 to gain further clarification of proposals:
  - Proposals on Chavez site
  - 1,200 rooms
  - Minimum of 720 parking spaces
  - Publicly owned hotel
  - Minimum of 100,000 square feet of meeting space
  - Established more specific requirements regarding joint venture with small business and MWBE utilization
- All four firms responded
  - Hamilton, however failed to submit a bid security and was not invited to continue

# Evaluation Process



# Evaluation Teams

- 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

# Evaluation Team Advisors

- 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)

# Consultant Support

- Senior Managing Underwriters
  - Citigroup Global Markets Inc.
  - UBS Securities, LLC
  - 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
- Busby & Associates – construction cost analysis

# Other Resources Available to the Evaluation Team

- 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

# Additional Input

- HVS Convention Center Hotel market update study was sent to all developers
- Selected underwriters along with City staff and financial advisors were also available to developers for questions regarding the project
- The DCVB Customer Advisory Board was asked specific questions regarding the project

# Financial Options - Background

- Two basic options explored: Private or Public Ownership
- Private Ownership and Financing
  - Hotel is privately owned
  - Private sector enters into development agreement with the City
  - Private sector enters into development, construction and management contracts with private partners, as applicable
  - Private sector arranges debt and equity for the project
  - Operator contributes “key money”
    - Upfront cash contribution by operator for right to brand and operate the hotel
  - City will have to fund identified financing gap
  - Possible share of net hotel cash flow with developer, if any available

# Financial Options - Background

- Public Ownership and Financing
  - Hotel owned by the City or a related government entity
  - City enters into contracts with the private sector for the development, construction and management of the hotel
  - Operator management agreement must be a Qualified Management Agreement (maximum 15-year term; fixed fees)
  - City arranges tax-exempt revenue bond financing for the project and identifies security for the bonds
  - City bears risk if project not successful, but receives all net Hotel income and residual value

# Financial Options – Background

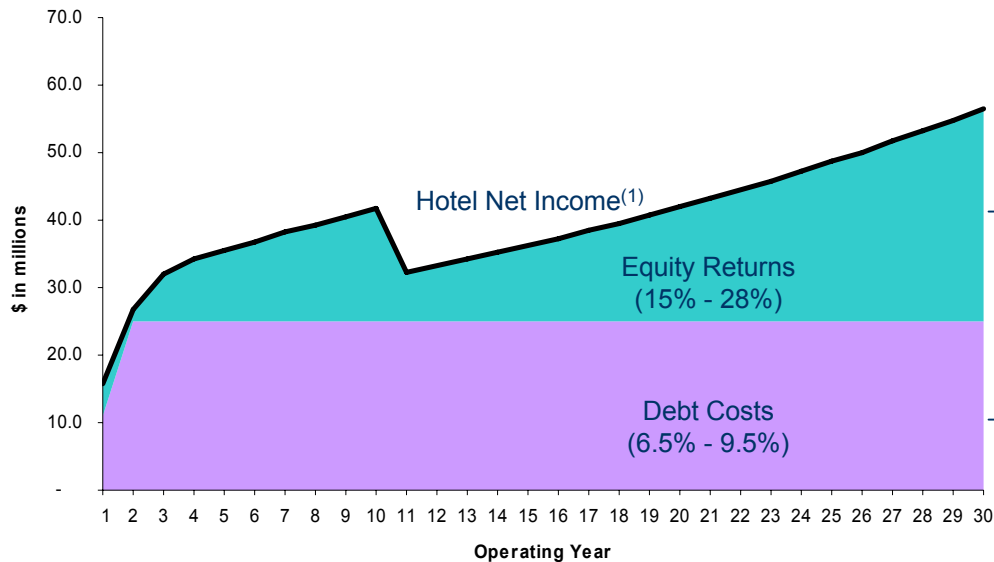
- Public ownership and Financing
  - Private sector participates in the project through:
    - Key money – Upfront cash contribution by operator for right to brand and operate the hotel
    - Junior bonds – issued by City financing entity and purchased by developer, operator, and/or construction firm
    - Letters of credit provided by operator in lieu of:
      - Cash funded debt reserves
      - Cash funded operating reserves
    - Subordinate management fees – a portion of the management fee paid only after debt service is covered
    - Debt service guarantees – a small portion of the debt service guaranteed to be paid by the operator

# Financial Options - Background

- Proposals were reviewed on the basis of both approaches and modified where assumptions were inconsistent with current practice/law
  - For comparison purposes proposals adjusted to use assumptions set by the HVS study
  - City clarified available sources of funds, i.e. State HOT tax and sales tax rebate available for project

# Private Ownership – Sources of Funds

- Private ownership requires a City upfront subsidy



Project Cost  
\$460.6 million

City Contribution  
\$124.6 million

Operator Contribution  
\$10.0 million

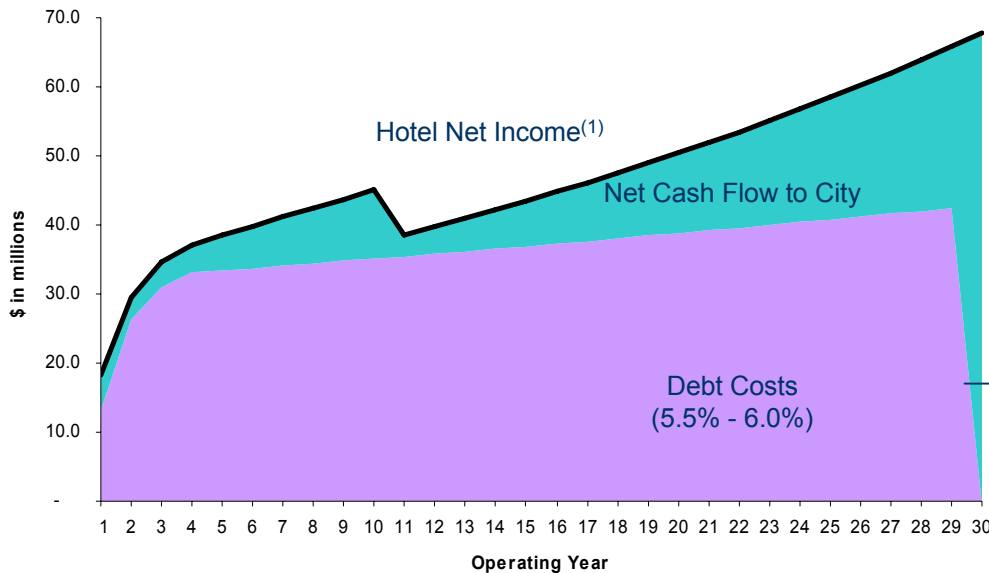
Equity Contribution  
\$48.0 million

Private Debt  
\$278.0 million

(1) Includes pledge of State HOT and Sales taxes and 1/3 property tax abatement for the first 10 years of operations

# Public Ownership – Sources of Funds

- Public ownership requires no upfront subsidy



Project Cost  
\$539.1 million

Operator Contribution  
\$10.0 million

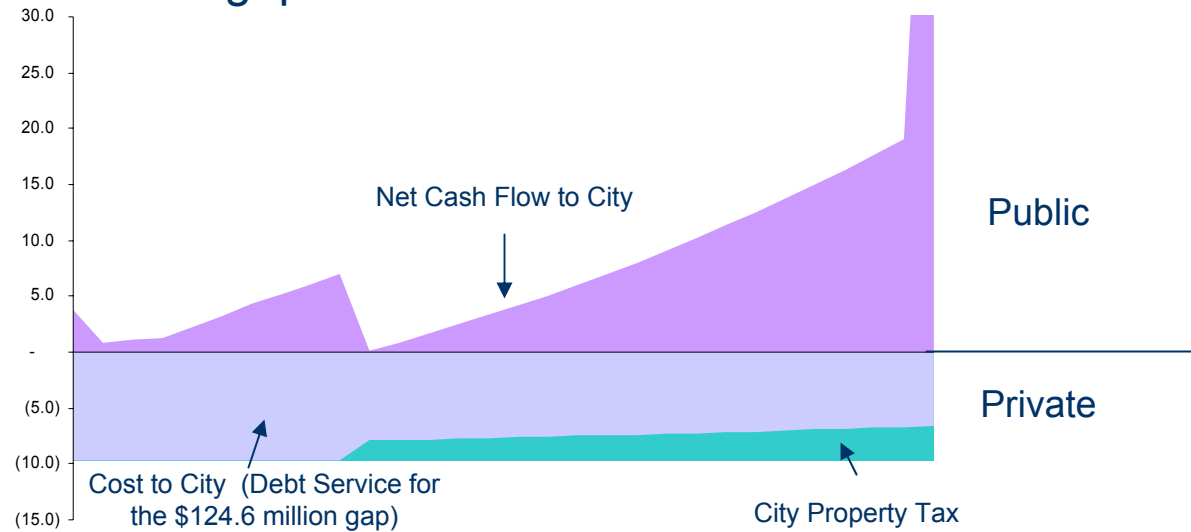
Junior Debt  
\$10.0 million

Senior Tax-Exempt Debt  
\$519.1 million

(1) Includes pledge of State HOT and Sales taxes for the first 10 years of operations and no property taxes on the project

# Public Ownership vs. Private Ownership

- Under Public ownership, the City will retain Net Cash Flow from the ownership of the Hotel
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- Occupancy Rates would have to decrease from 68% at stabilization to 49% for the City to match the Private Ownership alternative

# Private Ownership Findings

- Private ownership with equity investment would require 15-28% return for investors
- Private debt 150 to 300 basis points higher than tax-exempt debt
- Developers have requested pledge of site specific State sales and HOT taxes and property tax abatements. Certain developers have requested City sales and HOT taxes
- Other instruments, such as TIF and PID financing, were identified by one developer as a potential financing source
- Aside from incremental tax revenues (to the extent not requested by Developers), there is limited potential for equity returns to the City
- Financing gap would need to be filled by City with either an up-front cash contribution from other available city funds

# Public Ownership Findings

- Tax-exempt debt issued by City financing entity results in lowest funding cost
  - Rate of 5.5% - 6%, in current market
- Proposals were analyzed using site specific State sales and HOT taxes to increase Hotel operating cash flows
  - No property taxes were assumed due to City ownership of Hotel
- City would share in project risk, but could also benefit from equity upside upon possible future sale of the hotel

# Financial Options - Summary

- Summary of Private vs. Public Ownership

	Private	Public
<b>Benefits</b>	<ul style="list-style-type: none"><li>● Private sector ownership</li><li>● Private sector incentive participation</li><li>● Minimizes City risk profile</li></ul>	<ul style="list-style-type: none"><li>● Broad investor markets</li><li>● Lowest cost financing</li><li>● Minimal equity requirement</li><li>● Net hotel cash flow and residual value inures to City</li></ul>
<b>Considerations</b>	<ul style="list-style-type: none"><li>● Limited sources of debt capital</li><li>● Substantial equity requirement</li><li>● More costly financing</li><li>● City finances funding gap</li><li>● Limited potential for equity upside to City</li></ul>	<ul style="list-style-type: none"><li>● Management agreement is restricted by tax code</li><li>● Greater City risk profile</li></ul>

# Project Viability

- Analysis focused on whether revenues from project could support the financing of the hotel
  - 2004 HVS study projected occupancy and room rates
    - These projections were slightly more conservative than what the City actually experienced in 2005-2007
  - 2008 HVS study projections of occupancy and room rates were used for this analysis

# Project Viability

- All proposals confirm:
  - Equity is available
  - Private debt could be obtained
  - Tax exempt debt would be issued for the project by the City financing entity for the public ownership scenario
    - The debt would be secured by hotel net income, State HOT and sales tax rebates, and for a least a portion of the debt, some additional source of City revenues

# Project Viability

- Based on cash flow assumptions project is viable
  - Private ownership requires City upfront subsidy from available funds or separately secured debt financing
  - Public ownership projections show there is sufficient cash flow, would require no up front subsidy, but there is higher operating risk borne by the City

# Project Viability Observations

- Cost of capital ranges significantly
  - Equity requires highest rate of return
  - Private debt is more expensive than public debt
- Cash flow projections for private ownership would require additional up-front funding by City
  - Unclear what alternative City revenue pledge could cover gap
- Full public financing is lowest cost and can be supported by operating cash flow
  - DFW Airport, as an example, fully financed and owns the new Hyatt hotel
- Public ownership, while carrying more risk, is not only viable but most advantageous for project
  - City could benefit from positive cash flow
  - City would retain residual value of the hotel
  - Full public financing can be supported by operating cash flow given the lower cost of capital

# Viability Conclusions

- Based on proposals submitted:
  - The project is viable
  - Public participation in the project will be necessary regardless of the approach used
  - Private ownership will require the City to fund a significant portion of the project
    - Ongoing risks will be limited
    - Will require immediate and continuing payments from the other available funds

# Viability Conclusions (cont'd)

- Public ownership projected to show positive net cash flow to the City and equity based upon the proposals and stated assumptions
  - Most efficient way to finance
  - May require no payments from other available funds throughout project life
- Negotiations could yield additional benefits to the City such as
  - Operator investment in the project (“key” money)
  - Developer concessions and investment
  - Most favorable room block agreement

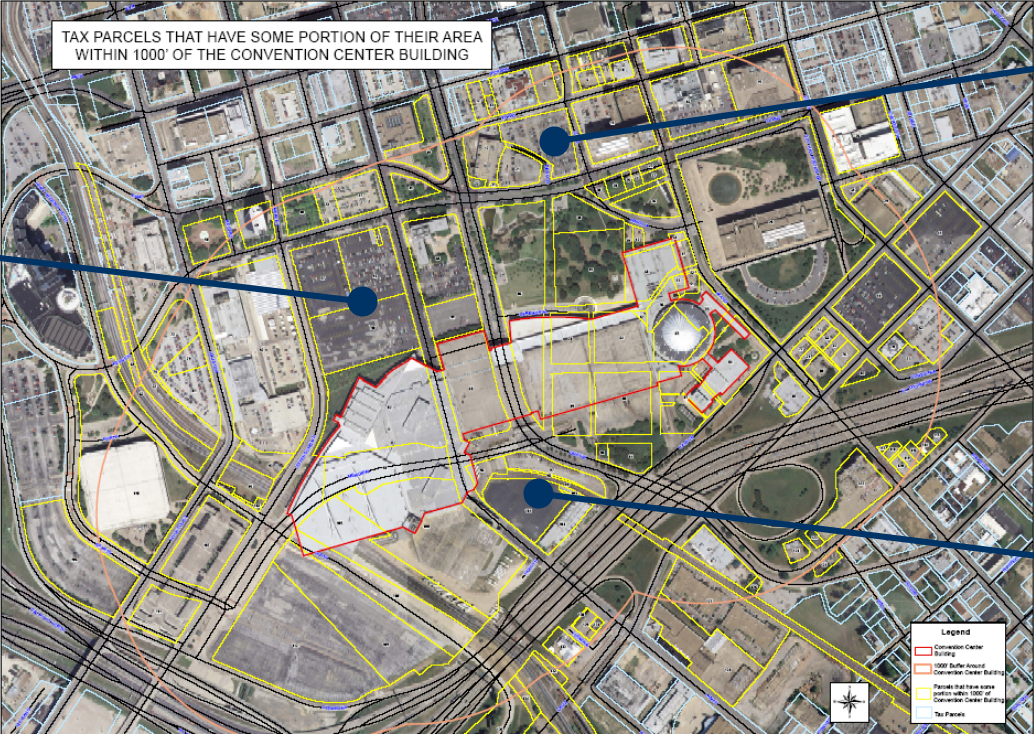
# Financing Action

- Based on the analysis, Economic Development Committee gave staff direction to proceed with securing a proposal for a publicly financed hotel
- All further solicitations for developers focused on a publicly financed project

# Site Selection

- In addition to City controlled site, evaluation process reviewed additional site proposals
- Proposers were allowed to identify alternate sites
- All alternative sites were evaluated along the same criteria as those on the Chavez site
- Cost of alternative sites needs to be evaluated on a cost/benefit basis, looking at trade-off of desirability versus economic concerns

# Site Locations



Chavez

Santa Fe

South Side

# Site Selection

- DCVB Customer Advisory Board was asked:
  - Of three possible sites for a convention center hotel, which site would you consider as your preferred location for a convention center hotel should the City Council approve this project?
- Chavez location:
  - Best location from standpoint of entrance and connectivity to Convention Center
  - Good connection to downtown
  - “Front Door” of the Convention Center
- Santa Fe location:
  - Santa Fe location connection to the Convention Center did not appear to offer an ideal point to enter the center
  - Also, the length of walk and If the connection was not environmentally controlled and enclosed, that would be problematic for their attendees and could therefore devalue the importance of this location

# Site Selection

- South side location:
  - The location, if chosen would require the loading docks to be screened
  - Considered by the group to work counter to their needs of improving hotel proximity to other properties
  - Location is viewed as remote to the center city and not connected to Downtown
  - Expressed some apprehension regarding the active use of the vertiport and a hotel in this location

# Site Selection Conclusions

- Alternative sites are somewhat less expensive, but
  - Given the reaction from the customer group, these could be the most costly, if they do not achieve the primary goal of helping to translate into increased Convention Center bookings
- The Chavez site, while expensive,
  - Generates the most positive view from the customer base
  - Cost differential is mitigated because:
    - The size of the property permits ancillary development, increasing success of project
  - Property configuration and minimal restraints will facilitate efficient design and construction

# Site Selection Action

- Recommendation was made to acquire Chavez Site for development for the Convention Center Hotel
- Dallas City Council approved issuance of Certificates of Obligation to be retired with revenue bonds issued in the future for the Hotel project

# Operator Selection

- The DCVB Customer Advisory Board was also asked if operators that were submitted made a difference:
  - Group felt Marriott offered the best in national sales organization, customer reward systems and customer service for guests
  - Omni is more of an unknown quantity experience, and only major Omni of more than 1,000 rooms - Atlanta
  - Consensus was the City would be better served with a Marriott or other major convention center headquarters hotel brand
- If hotel operated as no-franchise/ independent, would have to demonstrate ability to generate sales and activity to justify projected occupancy and higher room rates

# Operator Selection

- Based on direction from Economic Development Committee to pursue a publicly owned hotel, staff began separate process to solicit operator
- Staff began series of information gathering meetings with targeted operators to determine level of interest from other parties
- City Attorneys Office identified Jeffer, Mangels, Butler & Marmaro LLP for additional assistance
  - Have handled approximately 1,000 hotel operator negotiations for clients since 1981

# Operator Selection

- City is selecting Hotel Operator via separate process
- City will be issuing a RFP for the Operator week of June 16, 2008
- RFP will include GFE goals and a requirement of commitments for ongoing procurement and contracting activities at all levels of available scopes of services

# Additional Objectives

- Beyond the considerations for the hotel, we will need to explore more fully:
  - The opportunity to enhance meeting rooms space
  - How naming rights revenue could be used
  - How the creation of a TIF in the area may help the City achieve development goals
  - How the remaining Chavez land could be developed and used to create an additional benefit for the City
  - Opportunities for Convention Center Arena

# Next Steps

- Begin final negotiations for Memorandum of Understanding
- Continue process for hotel operator selection
- Special called Economic Development Committee meeting, June 19, 2008 to review Hotel outreach and MWBE/ SBE program activities
- August 2008, recommend selected operator
- September 2008, execute Memorandum of Understanding for 60-day negotiating period for final development agreement
  - If agreement is not reached with Primary selected developer within the 60-day period, negotiations with the next ranked developer will begin immediately
- November 2008, execute final development agreement
- Begin preconstruction activities