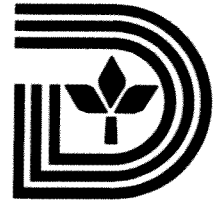


Memorandum



CITY OF DALLAS

DATE October 15, 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 Update

Attached are the briefing materials on the Convention Center Update to be presented to the Economic Development Committee on Thursday, October 16th, 2008.

Please contact me if you need additional information.

A handwritten signature in black ink, appearing to be 'A. Gonzalez', written over a circular stamp.

A. 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
Jeanne Chipperfield, Interim Budget Director, Office of Financial Services
Karl Zavitkovsky Director, Office of Economic Development
Hammond Perot, Assistant Director, Office of Economic Development
Helena Thompson-Stevens, Assistant to the City Manager

Status of Convention Center Hotel Project

Briefing to the Economic
Development Committee
October 16, 2008



Purpose

- Update on project development with Matthews Southwest (MSW)
- Update on hotel project scope
- Update hotel operator selection
- Update on MWBE/SBE utilization strategies
- Recommend approval of amendment to Pre-Development Agreement (PDA)
- Receive feedback from the Committee on progress and direction for next steps

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
- 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

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
 - Busby and Associates

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

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 Nights	Total Attendees	Economic Impact
International Trademark Association	Confirmed	2013	20,000	7,500	\$24M
Safari International	Pending Hotel Progress	2013 2015 2017	81,000 (total for three years)	5,000/yr	\$40M

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

Marketing Update

- However, need to note:
 - Customers with contingent bookings are monitoring the hotel progress
 - Customers will make their decisions based on the confidence they have that Dallas will be able to move forward with the project. These decisions:
 - Represent over 450,000 room nights, reflecting more than \$600M in economic to the City
 - Could have the impact of taking us out of the event planner's rotation for at least 3-5 years
 - Since bookings are being made now for 2012 and beyond, if these groups cancel, we would not have another opportunity for these groups until 2015, at a minimum

Project Development

- City and MSW received information from hotel operators as to building design, amenity priorities, and related contract terms
 - Today's focus is on the number of rooms
- Project scope may be further refined within the context of two key objectives
 - maintaining costs within budget
 - profitability consistent with current pro-forma

Project Development

- City created the Local Government Corporation (LGC), which has entered into the PDA, and will enter into the Developer Agreement with MSW
- LGC will issue the hotel revenue bonds to fund the Guaranteed Maximum Price Contract (GMP) and all other related project costs including refinancing Certificates of Obligation issued for the land purchase
- MSW agreed to developer fee of 3.58% of total project capped at \$15 million
 - 1% (up to \$3.87M) 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 additional ancillary development
 - 5% of revenues collected, or 3.5% of the development costs up to a maximum of \$5 million

Project Development

- The City and its financial team continue to:
 - Review pro-formas from HVS, MSW, and the hotel operators
 - HVS, the city's feasibility consultant, has been comparing all of the pro-formas and explaining any material differences
 - HVS's independent feasibility study will be part the offering document supporting the bond sale
 - Analyze the ability of these revenue projections to support different levels of construction budgets
 - Maintain the position of achieving the project within the established budget
 - Analyze pro-formas to insure the hotel's ability to be self supporting

Project Development

- Since last Committee briefing:
 - City and MSW have advanced the project's conceptual plan for the creation of an anchor district around the Convention Center
 - Developing a destination
 - Improving visitor/convention attendee experience and connection to center city
 - Strengthening the DCVB and Convention Center's marketing efforts to increase business and visitor expenditures

Project Scope

- Hotel configuration must generate sufficient revenues to support construction and operating costs
- Original HVS recommendation called for a 1,200 room hotel
- Dallas Convention and Visitors Bureau recommended at least 1,000 rooms
- Private Sector Committee echoed the 1,000 room minimum

Project Scope

- During operator selection process, both operators recommended a 1,000 room hotel
 - City asked both operators for 1,000, 1,100, and 1,200 room hotel pro-formas
 - City also asked HVS for additional pro-formas based on the same scenarios

Project Scope

- For both Operators, the 1,000 room hotel provided higher projected occupancy levels and RevPAR than their 1,200 room option
- Reasons include:
 - Fewer empty rooms on off-peak nights
 - Ability to maximize meeting space per room
 - Reduce need to discount room rates for off-peak nights
 - Increases spinoffs for current hotels
 - For new business booked because of the new hotel, this spinoff equals 400,000 room nights to existing hotels

Project Scope

- City team reviewed HVS pro-forma for 1,000 room hotel, and confirmed the project maintains financial feasibility at that level
- DCVB recommends a minimum of 1,000 room total with a minimum of 100,000 sq ft of meeting room space in order to meet the needs of our targeted clients
 - Key customer surveys support the DCVB recommendation
 - Room night bookings would be negatively impacted, if the above stated minimums were reduced

Project Scope

- Other factors to consider in a 1,000 room hotel:
 - Reduces construction cost
 - Shortens MSW construction schedule, resulting in lower capitalized interest requirement
 - Improves room to meeting space ratio
 - Increases room allocation to other downtown hotels during peak usage
 - Hotel profitability is reduced only marginally
- Of all three room scenarios, the 1,000 room hotel with 100,000 sq feet of meeting space is the best balance of operational, competitiveness, and cost considerations

Operator Selection

- Since last Committee briefing, the City and its consultants have been working towards finalizing terms of the Hotel Operating agreement
- Outside Counsel of Jeffer, Mangels, Butler & Marmaro LLP has been the primary lead in these negotiations

Operator Selection

- Both companies meet standards for being able to operate a four star convention center hotel
- City is focused on the following key terms:
 - Fees/costs for pre-opening and ongoing management
 - Operator investment
 - Performance termination triggers
 - Owner participation and approvals
 - Indemnification

Operator Selection

- City conducted interviews with both Omni and Marriott with follow up questions
- Both operators have been asked to review and comment on current conceptual design
 - Both operators emphasized importance of meeting space over signature design elements
 - Interior spaces in lobby, room amenities, and entertainment options for guests were also noted as important hotel features

Operator Selection

- Marriott's key strengths
 - Major operator of large hotels worldwide
 - Strong reservation system and marketing efforts
 - Strong brand identity
 - Well-developed group and individual customer base
 - Investment in project, key money in excess of minimum

Operator Selection

- Marriott's primary weaknesses include:
 - Large number of hotels managed may dilute focus
 - Significant cost for both for technical and pre-opening services
 - Higher cost of ongoing management fees
 - Construction requirements result in higher building costs

Operator Selection

- Omni's key strengths:
 - Reputation and demonstrated profitability in operating profitable hotels
 - Has committed dedicated sales force for Dallas Convention Center Hotel
 - Locally owned and operated
 - Ownership mentality
 - Lower fees
 - Well-developed customer base
 - Investment in project, key money in excess of minimum

Operator Selection

- Omni's primary weaknesses include:
 - Less experience in operating large hotels
 - Smaller national sales force
 - Less well established presence with convention type customer base

Operator Selection

- Other factors in the final selection include:
 - Commitment to MWBE and small local business goals
 - 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

Operator Recommendation

- While progress has been made since receipt of the proposals, city team is still working to enhance the operators' respective offers
- We are targeting making a hotel operator recommendation by October 20th

BID and Outreach Activities

- City and MSW have included in all agreements continued commitment for MWBE and local small business (MWBE/SBE) participation in the project
- Prior to execution of the final Development Agreement, City will develop project specific goals for the project
 - Local economic development opportunities
 - Availability determined for all sub-contracts

BID and Outreach Activities

- MSW has completed the following outreach activities to date:
 - Attended events with Hispanic Contractor's 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
 - Is coordinating a major kick-off event to increase awareness and distribute information for all MWBEs interested in working on project

BID and Outreach Activities

- City has:
 - Begun discussions with area banks to provide working fund for prompt-pay and mobilizations initiatives
 - 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

BID and Outreach Activities

- Begun the advertisement process in local minority press to increase awareness and information regarding opportunities on the project
- Leveraged the Community Outreach Liaison Program by including “Convention Center Hotel” informational areas at advocacy groups
- Been soliciting inclusion of information about the project in advocacy groups news letters and websites

BID and Outreach Activities

- Developed a report to track sub-contractor utilization from when the contract is awarded by the Council to project completion
- 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

Project Insurance

- City met with MSW and their construction management firm, (Balfour Beatty Inc.) to outline process for designing a project insurance program
- City will require a project controlled insurance program to make insurance coverage available to all contractors and consultants working on project
- Once schematic budget is developed, City's agent of record will provide analysis of required coverage

Insurance

- Coverage will include all liability for construction risk, liability, and workers compensation
- 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

Insurance

- Program will include
 - Administration of all facets of program including reporting, review of loss and cost projections, and review of premium costs
 - 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

Insurance

- Once coverage is established, both City and Balfour will solicit proposals from insurance carriers
- City will evaluate costs and determine which is more advantageous
- Coverage requirements will be optimized

Design

- MSW has been working with project architects to complete concept design of hotel
- Development will achieve LEED silver certification for the project

Design



Design Observations

- Hotel exterior geometry is set to:
 - Activate S. Lamar Street and provoke a sense of movement and animation along the site into the DCC
 - Show off activity through highly transparent public levels and layers
 - Welcome visitors into the hotel by emphasizing activities on the lower levels
 - Frame the view of the CBD thru the use of unique elevation design
 - Respond to the context, both in materiality and scale, to the DCC
 - Provide separation of the conventioner and guests checking into the hotel
- Hotel Interior geometry is set to:
 - Be open, spacious, allowing for lots of natural light, contemporary, sustainable and responsible, relaxed, sophisticated, welcoming, warm and fun
 - Provide an orientation to the outside from within the hotel through the transparency of major structural elements.

Design

- In the Pre-Development agreement, City Council authorized up to \$4 million for design work in order to have a GMP contract in December
 - MSW is sharing the expense with the City
 - MSW's share, up to \$2 million, will be reimbursed, if the project does not go forward
- The work included in Phase 1 design is for conceptual drawings and construction estimating

Design

- Additional funding will be required to have design team continue Phase 2 work through February 09
- This additional design work would include structural, mechanical, electrical, plumbing and other design services
- Completion of Phase 2 would position the City to begin construction by April 09
- The earlier construction can commence after bond sale, the less capitalized interest is needed (\$2.6 M/month)
- The anticipated costs for Phase 2 design work is \$4.6 M

Design

- Recommend PDA be amended to add Phase 2 design work and authorize additional payment
- City, through LGC, will reimburse actual expenses up to \$4M as they are incurred
 - Additional design expenses will be funded through Convention and Event Services
 - Any expenses beyond \$4M will be paid by MSW
- Capitalized interest is approx. \$2.6M per month

Design

- Full amount of additional design work 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 LGC for expenses incurred
 - If the project does not move forward for any reason other than MSW failure to perform, LGC will reimburse MSW for its expenses incurred

Challenges

- MSW and its construction firm still need to set construction price and schedule
 - Design concept needs to be completed
 - Market price of key materials such as steel and concrete make estimating difficult
 - However prices for these commodities appear to be decreasing
 - Construction schedule length has direct impact on capitalized interest requirements
- Bond markets currently in flux

Additional Areas of Focus

- City and MSW will continue to work on plan for ancillary development and seeking additional investment
 - Restaurants
 - Entertainment
 - Retail
 - Residential
 - Cultural Amenities

Sustainability

- City continues to participate in DART planning process for 2nd downtown light rail alignment
 - Appears that latest draft alignments all follow the more southern routes
- City and MSW are preparing for NCTCOG next call for projects and
 - Exploring the option of amending current project underway by MSW in Cedars area
 - Extending project to include existing Convention Center station
 - Also will look at potential new projects on north side and integration with new alignment

Next Steps

- Recommend approval of amendment to the PDA to continue Phase 2 design work
- Item scheduled for approval on October 22nd
- Bring operator selection recommendation to Eco committee October 20th
- Bring final Development Agreement and GMP contract to the Committee December 5th and Council for final review and approval December 10th