

Memorandum



CITY OF DALLAS

DATE January 28, 2022

TO Honorable Mayor and Members of the City Council

SUBJECT **Key Bailey Hutchison Convention Center Dallas (KBHCCD) Master Plan – Additional Questions**

Please find below responses to the questions forwarded to Convention and Event Services by the Mayor and City Council Office.

Question 1: Raising the hotel occupancy tax by two percentage points from 13% to 15% sounds like an easy method for raising \$1.9 billion over the next 30 years. How does the 15% rate, however, compare to the rate of the top 10 cities with which Dallas has to compete?

Dallas currently has one of the lowest rates in Texas. The Texas Local Government Code Chapter 334 (Brimer Bill) allows the City Council to issue a resolution requesting the State to allow Dallas to hold an election to increase that rate by 2% to 15%, bringing the City in alignment with other competitive Texas cities. This percentage increase also keeps the City in alignment with other non-Texas competitive cities, such as Nashville at 15.25% and Atlanta at 16.9% plus a \$5.00/night excise tax.

City	HOT	Venue Tax	County	Other	State	Total
Austin	9%	2%	0%		6%	17%
El Paso*	9%	2.5%			6%	17.5%
San Antonio	7%	2%	1.75%		6%	16.75%
Fort Worth**	9%			2%	6%	17%
Houston*	7%		2%	2.5%	6%	17.5%
Dallas*** (Current)	7%			2%	6%	15%
Dallas (Proposed)	9%	N/A	N/A	2%	6%	17%

Question 2: If Dallas needs to have an additional future bond issue for updating the proposed Convention Center, Omni Hotel, or other major projects within the next 30 years after the center is expanded, it might be difficult to raise the hotel occupancy tax above 15%.

This current Chapter 334 (Brimer Bill) election is important, not just in the fact that it allows for the expansion of the KBHCCD, but also because the legislation ties the project to Fair Park. The legislation allows for up to 20% of the collected tax from the 2% increase portion to be used for specific types of facilities at Fair Park, covering an array of venues that would effectively fulfill the City’s need for Chapter 334 for the next several decades.

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In the case of the Omni and the KBHCCD's future needs, other sources of funds are available for bond security. In the case of the KBHCCD, the City Council and State's recent approval of the Project Financing Zone which is estimated to garner up to \$2.2B from the State's portion of incremental hotel taxes (HOT, sales, and mixed beverage) will be used as bond security.

Question 3: Since the City still has outstanding debt of \$226 million on the existing Convention Center and up to \$400 million on the Omni Hotel, it is difficult to understand why we would incur an additional \$1.9 billion.

Investments are needed for the Convention Center and the immediate district to improve the facility and to spur economic growth downtown. Incurring bond debt on revenue generating assets like the Convention Center and the Omni Dallas Hotel (Omni) are sound investments that are safe because of their past, current, and future ability to cover debt requirements and operations independently without local taxpayer support from the City of Dallas.

The Convention Center has and continues to contribute to Downtown and the region's economic development by bringing hundreds of thousands of event attendees and visitors to Dallas. The money attendees spend in hotels, restaurants, and retail establishments supports local small business and thousands of jobs. Prior investments have helped keep the facility competitive in drawing convention business and these economic benefits. By designing an expanded facility that can host multiple simultaneous events and will attract additional shows, the Convention Center will generate greater and more consistent business for hotels, restaurants, and retail establishments.

With billions of dollars of development in the pipeline for Downtown Dallas, this plan provides a canvas for a new vibrant, green, walkable, district that will draw momentum to the southwestern corner of Downtown with a mixture of land uses that enhance the convention experience. The construction project itself will also have tremendous economic impact, including direct impacts to the construction industry, and indirect and induced impacts from the business and personal spending that will occur as the construction dollars circulate through the economy.

Question 4: Prior to the pandemic starting in 2020 have the Omni Hotel and the Convention Center been profitable? Have the profit and losses been available for the citizens to see? Will we be able to see numbers for 5 years of profits or losses prior to the pandemic?

The KBHCCD sits within the Convention and Event Services (CES) portfolio. CES is a self-supporting enterprise department using five categories of event revenues, mixed beverage taxes and hotel occupancy taxes (HOT). In February 2019, CES received City Council approval to enter into a management agreement with Spectra Venue Management for the convention center. Deliverables for that contract include implementing procedures and processes that maximize event revenues and reduce expenses for the Center. Presently, event revenues and mixed beverage taxes cover much of the center's expenses. HOT covers debt services, capital expenses and improvements, and any difference in operating expenses not covered by other revenues. Municipal budgets are typically designed where revenues cover expenses, so there are no profits in the traditional sense. The KBHCCD has been able to comfortably service its debt even through the pandemic and has not needed any assistance from the general fund. Information related to the overall portfolio budget is available at page 13 of the following link:

<https://dallascityhall.com/departments/budget/financialtransparency/DCH%20Documents/Budget%20Accountability%20Report/Budget%20Accountability%20Report%20-%20September%202021.pdf>

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The Omni Dallas Hotel is managed by the Dallas Convention Center Hotel Development Corporation (DCCHDC) which holds a public meeting quarterly wherein the Omni's financials are discussed and disclosed. The hotel has been able to maintain profitability, even during the pandemic, and is able to comfortably service its debt.

Question 5: If there were profits, how were they allocated? Were the profits used to pay down the bonds issued or did the city use the funds for covering other expenses?

The Convention and Event Services budget, as with other municipal department budgets, are designed for revenues to cover expenses. There are no profits in the traditional sense. The department is supported by five categories of event revenues, mixed beverage taxes and HOT. Presently, event revenues and mixed beverage taxes cover much of the center's expenses. HOT covers debt services, capital expenses and improvements, and any difference in operating expenses not covered by other revenues.

As outlined in an Ordinance 31554, HOT revenue is used to pay the KBHCCD debt service, to promote and to advertise our destination for tourism and meetings and to promote the City of Dallas Cultural Plan through the Office of Arts and Culture. It is important to note that HOT funds can only be used for very specific purposes that help promote tourism and convention hotel industries. The following projects may be funded with local HOT revenue:

- Constructing, improving, enlarging, equipping, repairing, operating and maintaining a convention center or visitor information center;
- Furnishing of facilities, personnel and materials for the registration of convention delegates or registrants;
- Advertising and conducting promotional programs to attract tourists and convention delegates or registrants;
- Encouragement, promotion, improvement and application of the arts;
- Historical restoration and preservation projects or advertising and conducting promotional programs to encourage tourists to visit preserved historic sites or museums;
- Expenses related to a sporting event in which a majority of participants are tourists;
- Enhancement and upgrading of existing sports facilities or fields;
- Constructing, improving, enlarging, equipping, repairing, operating and maintaining a coliseum or multiuse facility; and
- Signage directing public to sights and attractions that are visited by hotel guests.

Question 6: Since the Omni Hotel is connected to the existing Convention Center via a skybridge, this proximity was one of the big selling points when the Omni Hotel's bond issue was originally presented. If the Convention Center is moved to another location in the area and it is not a short walking distance from the Omni Hotel, a major convenience for hotel guests will be lost.

The concepts presented to the City Council include a connection the Omni Dallas Hotel as we recognize and understand its importance to clients wishing to use the KBHCCD. Additionally, the connection is required as part of the bond covenants established by the current outstanding bonds.

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Question 7: If another hotel is built closer to the convention center, what will happen to the competitiveness and profitability of the Omni Hotel?

Since its opening, the Omni Dallas Hotel (Omni) remains among the very top performing hotels in Dallas in terms of occupancy and average daily room rate. Additional large hotels built in the area around the expanded and renovated center are essential to maximizing its full potential to draw upscale conventions, sports, and business events to Dallas. Given that the Omni will remain connected to the center, their revenue will further increase.

Using Nashville as an example, the introduction of their new convention center in 2011 more than tripled the city's overall hotel tax collections over eight years.

Question 8: Finally, it is hard to believe that the present Convention Center could not have a major updating without spending \$1.9 billion. The Center has had updating over the years. In 2018 Dallas jumped two spots to number five in the nation for meetings and conventions making it the only Texas city in the top 10.

For the last five decades, the City of Dallas has followed a "Patch and Repair" process when dealing with updating the KBHCCD. Each time an addition has been made, no effort was done to go back and update and correct challenges and issues from previous additions. This has led to compounded deferred maintenance issues and the lack of building system integration that, at present, would not be resolved unless large amount of the current structure is demolished and reconstructed. This is the opportunity for Dallas to catch up and bring forward a futuristic facility that will meet all current industry standards.

The statistic cited for Dallas jumping to number five amongst our competitive set in 2018 refers to the number of overall bookings converted in Dallas through a third-party led source called CVENT, which includes but is not limited to group business placed at the KBHCC. This statistic refers to all business placed in Dallas at that time and is not specific to bookings in the convention center.

Question 9: What is the role of the Consulting firm WSP USA? Are they just designing the plan or constructing as well? Please provide details.

WSP, USA was engaged through a City Council approved contract to provide a four-part master plan including a KBHCCD Master Plan, Multimodal Station and Transportation Study, Area Plan and Financial Feasibility and Implementation for the area in the map below. The master plan process involved a rigorous analysis of numerous alternatives which ranged in scope and investment level. Several different configurations and locations were evaluated. The result of this analysis was the identification of four (4) alternatives for City review and ultimate selection of a preferred option, which ranged from patching and repairing the existing Convention Center to expanding the current center. The work for the full design and construction of the approved concept from the plan will be procured separately.

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Legend

- Area Plan
- Multimodal Station Feasibility and Transportation Study

If you have additional questions, or require further information, please contact me or Rosa Fleming, Director of CES.

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Assistant City Manager

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