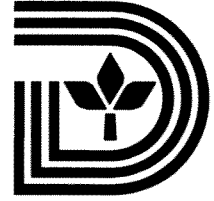


Memorandum



CITY OF DALLAS

DATE December 5th, 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 Hotel Guaranteed Maximum Price

Attached are the briefing materials on the Convention Center Hotel Guaranteed Maximum Price to be presented to the Economic Development Committee on Friday, December 5th, 2008.

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 mark.

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, Judiciary
Ryan S. Evans, First Assistant City Manager
Forest Turner, 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 Stevens-Thompson, Assistant to the City Manager

Status of Convention Center Hotel Project

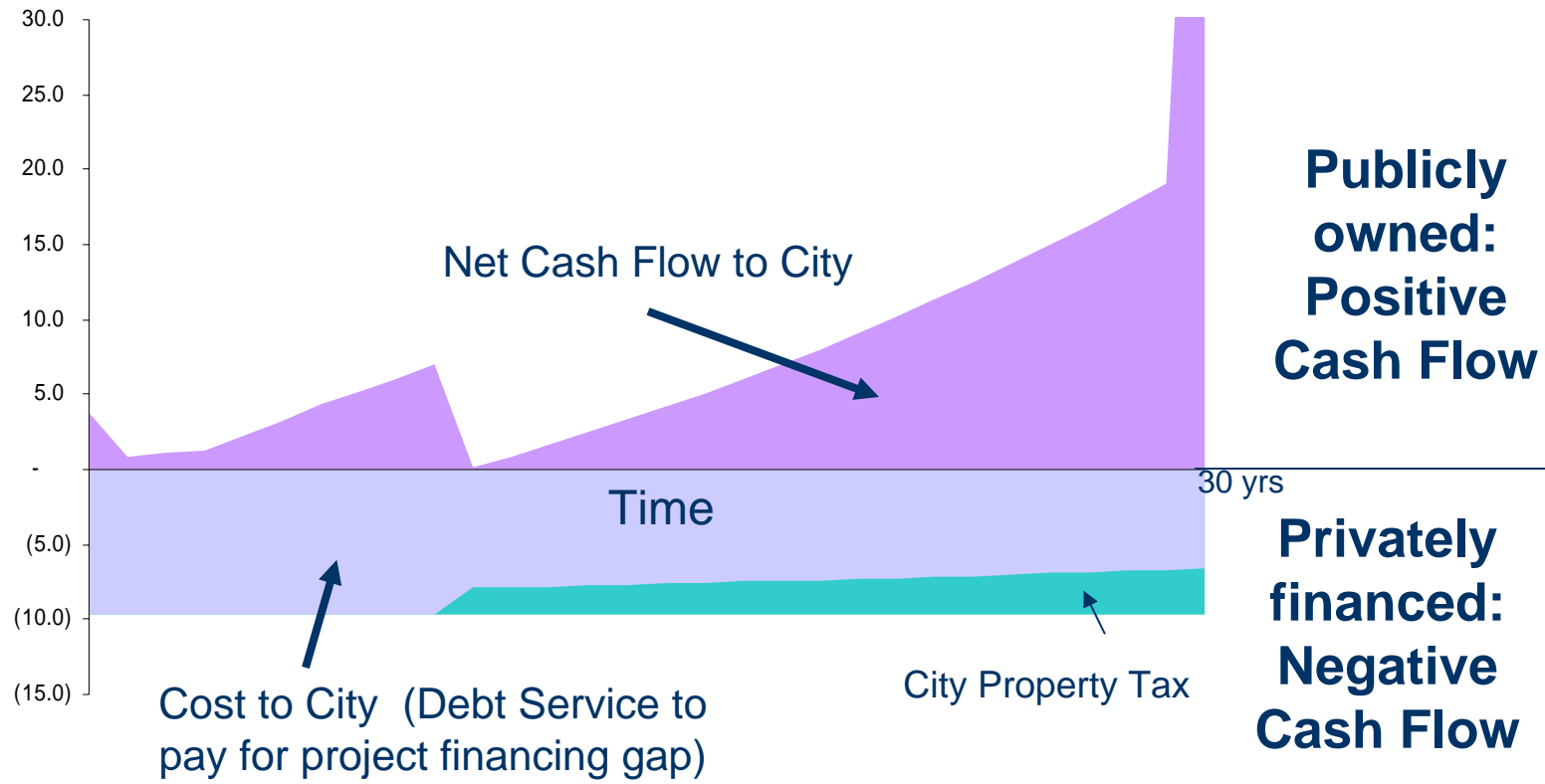
Briefing to the Economic
Development Committee
December 5, 2008



Short Story

- Selected nationally recognized talent to assist
- Quantified and illustrated the need
 - Survival of the Convention Center
- Identified and purchased the best site
- Established hotel's feasibility
 - Third party and operators' market projections
- Determined the most cost effective financing
 - Public ownership

Public vs. Private Ownership Difference: Cost of Capital



Cities Choosing Public Ownership



**McCormick Place,
Chicago**



**Austin Convention
Center Hotel**



**Houston Convention
Center Hotel**



**Denver Convention
Center Hotel**



**Baltimore Convention
Center Hotel**



**DFW Airport Grand
Hyatt Hotel**

Short Story

- Selected a committed and skilled developer
- Authorized up to \$ 8M for design and other predevelopment activities
- Identified a nationally recognized hotel operator
- Established other City aspirations such as diversity and sustainability
- Created a conceptual design for the development
- Experienced surge in Dallas convention interest

Concept Drawings



Short Story

- Now, consider authorizing City Manager to finalize documentation of the Hotel developer agreement, subject to financing requirements, which establishes:
 - A guaranteed maximum price
 - A guaranteed construction schedule
 - Project scope and quality

Short Story

- Project scope to include a 1,000 room four star hotel with 100,000 square feet of meeting room and function space and 720 parking spaces
 - Meeting a four star+ standard with Omni's program
 - 28-30 month construction schedule
- Guaranteed Maximum Price of \$356 M

Short Story

- In anticipation of improvements in the financial markets, we will be:
 - Finalizing developer agreement
 - Completing schematic design
 - Initiating design development phase
 - Exploring additional financing sources
 - Continuing to enhance diversity program implementation
 - Reviewing project enhancements
 - Continuing ancillary development and sustainability planning

Short Story

- Next steps

- Amend the predevelopment agreement to extend deadlines for execution of the developer agreement and GMP (Dec 10, 08)
- Authorize City Manager to finalize documentation of the Hotel developer agreement (Dec 10, 08)
- Authorize management agreement with Hotel operator (Jan 14, 09)
- Finalize Hotel developer agreement with City Council (Jan 09)
- Authorize Local Government Corporation (LGC) to prepare a preliminary official statement for proposed Hotel bonds (Jan 14, 09)
- Authorize sale of bonds, at the point of receiving target finance terms, and commence construction (TBD)



More details...

Purpose

- Review project background
- Review Development Agreement terms (DA) with Matthews Southwest (MSW)
- Update MWBE/SBE utilization strategies and Sustainability
- Update hotel operator contract negotiations
- Review challenges and opportunities
- 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 Company
 - 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
 - Rider Levett Bucknall LTD

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 attended spring meeting
 - 24 Key Customer Accounts attended the November Economic Development Committee meeting

Major Customers Following Hotel Progress

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 Room 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.

Major Customers Following Hotel Progress

- Convention interest contingent on Hotel progress and the customer's confidence that Dallas will be able to move forward with the Hotel project

What's At Stake

- Represents an immediate impact of over 450,000 room nights, reflecting more than \$600M in economic impact to the City
- If the Hotel does not proceed,
 - Could have the impact of taking us out of the event planner's rotation for at least 3-5 years
 - Would not have another opportunity for these groups until 2015, at a minimum

Challenges

- In order to achieve the GMP, we had to address:
 - Construction pricing
 - Key materials such as steel, concrete, and glass
 - Sub contractor availability
 - Signature features cost
 - Construction schedule length
- Unusually volatile capital markets

Project Development

- PDA established the Design Build approach
 - Currently at Schematic Design phase
- City, MSW, and Omni will be working collaboratively to further develop building design, amenity priorities, and related ancillary development opportunities consistent with GMP and project scope
- Next phase is Design Development

Project Scope

- Includes a four star+ 1,000 room hotel, 100,000 sf of meeting room and function space (including a 50,000 square foot ballroom), and 720 structured parking spaces. This configuration:
 - Improves hotel efficiencies
 - Improves room to meeting space ratio
 - Increases room allocation to other downtown and Stemmons corridor hotels during peak usage
 - Hotel profitability per room is reduced only marginally

Developer Agreement

- Consistent with parameters included in the Predevelopment Agreement, formalizes:
 - Scope, quality and price of project
 - Developer Responsibilities
 - BID compliance
 - Construction Schedule

Developer Agreement

- Other legal requirements
 - Bonding and insurance requirements
 - Termination provisions
 - Remedies
 - Liquidated Damages
 - Approvals
 - Defaults
 - Indemnification
- Subject to financing

GMP

- Development GMP no higher than \$356 M
- Features include:
 - 4 Star+ Quality amenities
 - 1,000 Rooms
 - 100,000 sf Meeting Room and Ball Room space
 - 720 structured parking
- Potential project enhancements priced
 - Totaling \$30M

GMP

- Pricing process
 - Open book bids
- Additional opportunities for refinement
 - Currently at Schematic Drawings stage
 - Additional Value Engineering
 - HVAC possibility
 - Scope modifications
 - Operator involvement
- Opportunity to enhance the project with further scope refinements and/or outside investment

BID and Outreach Activities

- All MSW agreements state continued commitment for MWBE and local small business (MWBE/SBE) participation in the project
- MSW has complied with inclusion goals throughout pre-development work
- City has completed project specific goal setting
 - Assisted by DFW Airport staff
 - Completed availability study and identified scopes of work that have capable MWBE firms

BID and Outreach Activities

- Project specific goal for design and construction has been set at 30%
 - Higher than BID program construction goal of 25% and A&E goal of 25.66%
- Because study areas include counties outside Dallas County, some non-Dallas County firms will count towards achievement of goals
- These goals cover all phases except utility work done by Oncor, performance bonding expense, building permits, and insurance costs
- Commitment to achievement of goals is part of Development Agreement

BID and Outreach Activities

- Each contractor package will be identified as a separate unit with the main contractor listed as the “Package Prime”
 - Only first tier subs and suppliers will be counted towards the goal
 - Eliminating second and third tier subs will increase significant participation and prevent the Construction Manager from getting credit for small downstream participation
 - Increases proximity of participating subs to upper levels of the project management

BID and Outreach Activities

- MSW will report monthly the amount spent with MWBE firms by package
- Prior to notice to proceed, City will receive sub intent forms signed by both Package Primes and sub contractors listed verifying type and value of work to be performed
- Current utilization is an estimated 29%
 - Although much of the work has identified MWBE participation, many packages have not been finalized and remain unidentified

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

- MSW activities to be fully implemented by February 2009:
 - M/WBE Program plan – including program policies, community outreach plan and reporting procedures
 - Website – providing project information, bid opportunities, M/WBE certification information and outreach events
 - Newsletter – electronic newsletter to advertise project information, opportunities and participation
 - Mentor Protégé Program – formal M/WBE mentor protégé program
 - Marketing Collateral – materials to market the project and bid opportunities on an ongoing basis

BID and Outreach Activities

- City has begun discussions with area banks for them to provide working fund for prompt-pay and mobilization 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

- Advertised in local minority press to increase awareness and information regarding project opportunities
- Leveraged the Community Outreach Liaison Program by including “Convention Center Hotel” informational areas at advocacy groups
- Solicited inclusion of project information 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 has reviewed insurance requirements and determined a contractor controlled insurance program (CCIP) is best course
 - Allows City to put cost control responsibility to contractor, and removes liability for claims or their impact
 - Allows City to oversee insurance availability and removes barriers for small and MWBE firms
- Once schematic budget is developed, City's agent of record will provide analysis of required coverage
- City, along with agent of record will review and approve coverage and carriers

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

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
 - Examining potential new projects on north side and integration with new alignment

Operator Agreement

- Since last Committee briefing, the City and its consultants are finalizing terms with Omni
- Outside Counsel of Jeffer, Mangels, Butler & Marmaro LLP has been the primary lead in these negotiations

Operator Agreement

- Basic terms are being captured into the contract document:
 - Fees/costs for pre-opening and ongoing management
 - Operator investment
 - Performance termination triggers
 - Owner participation and approvals
 - Indemnification
 - Etc.

Operator Agreement

- Other facets are being strengthened including:
 - Commitment to MWBE and small local business goals
 - Marketing budget plan to sell city-wide convention business
 - Pre-opening services and technical assistance during design of the Hotel
 - Brand standards and operating plan
 - Commitment to development of ancillary property

Operator Agreement

- We are targeting bringing the operator agreement January 14, 2009

Challenges and Opportunities

- Design Development is next design focus
 - Opportunities
- Development investment being pursued
 - Private sources
 - Federal Stimulus candidate
 - Could create additional funds to enhance project
- Project scope refinements and value engineering still being pursued
- Bond markets currently in flux

Additional Areas of Focus

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

Recommendations and Next Steps

- Economic Development committee recommendation for City Council action of:
 - An amendment to the predevelopment agreement to extend deadlines for execution of the developer agreement and GMP (Dec 10, 08)
 - A resolution authorizing City Manager to finalize documentation of the Hotel developer agreement (Dec 10, 08)
 - Considering final Hotel developer agreement to City Council (Jan 09)

Questions

