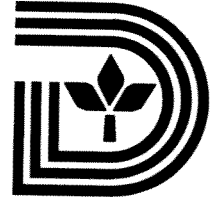


Memorandum



CITY OF DALLAS

DATE February 18, 2009

TO The Honorable Mayor and Members of the City Council

SUBJECT Convention Center Hotel Developer Agreement

Attached are the briefing materials on the Convention Center Hotel Developer 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'.

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

Convention Center Hotel Project Developer Agreement

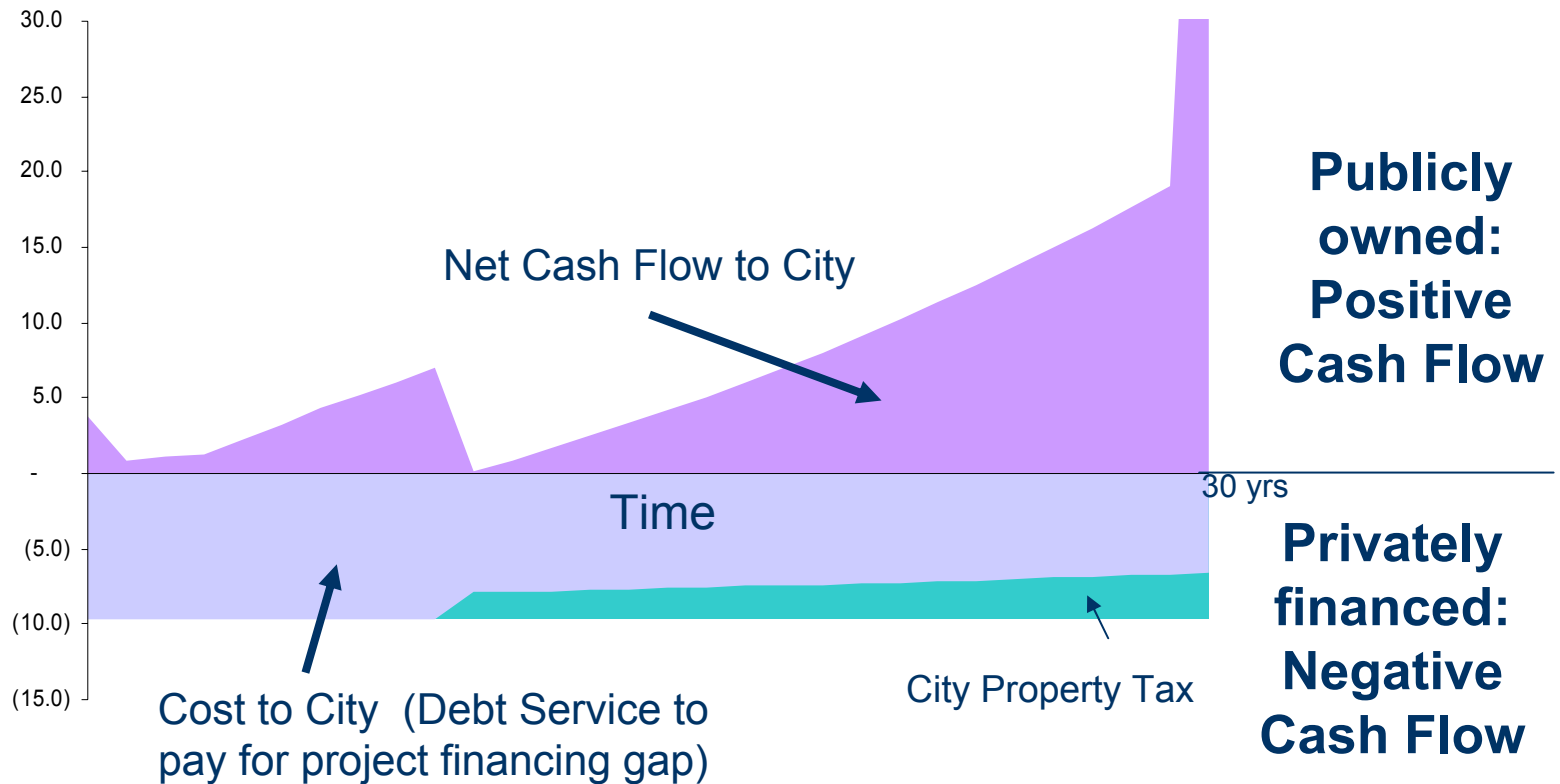
Briefing to the
Dallas City Council
February 18, 2009



Short Story

- Selected nationally recognized talent to assist
- Quantified and illustrated the need
 - Future 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**



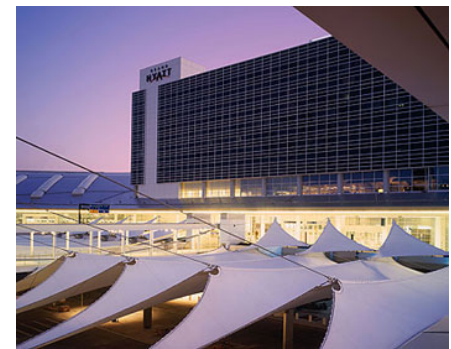
**Houston Convention
Center Hotel**



**Denver Convention
Center Hotel**



**Baltimore Convention
Center Hotel**



**DFW Airport Grand
Hyatt Hotel**

Short Story

- Identified a committed and skilled developer to initiate site planning
- 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, considering approving the DCC Hotel Developer Agreement, subject to financing requirements, which establishes:
 - A project budget to design, develop, construct, equip, furnish and complete the Convention Center Hotel Project
 - A guaranteed construction schedule
 - Project scope and quality

Short Story

- Project scope to include a four star 1,000 room hotel with 80,000 square feet of meeting room and function space and 720 structured parking spaces
 - Meeting a four star standard with Omni's program
 - 28 month construction schedule
- Guaranteed Maximum Price of \$346 M

Short Story

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

Short Story

- Next steps

- Authorize Hotel developer agreement with City Council (February 18, 2009)
- Authorize management agreement with Hotel operator (February 18, 2009)
- Authorize Local Government Corporation (LGC) to prepare a preliminary official statement for proposed Hotel bonds (March, 09)
- Authorize sale of bonds, at the point of receiving target finance terms, and commence construction (TBD)



Now, more details....

Purpose

- Review Development Agreement terms (DA) with Matthews Southwest (MSW)
- Update MWBE/SBE utilization strategies and Sustainability
- Review challenges and opportunities
- Report recommendation to the Committee

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 planners' 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
 - These pressures have eased considerably, but only recently
 - Additional amenities cost
 - Construction schedule length
- Unusually volatile capital markets

Project Development

- PDA established the Design Build approach
 - Completing Schematic Design phase
- City, MSW, and Omni have been 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, 80,000 sf of meeting room and function space (including senior and junior ballrooms), 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 enhanced

Developer Agreement

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

Project Budget/Fee

- Developer is to design, develop, construct, equip, furnish and complete project within a \$346,055,154 budget
- Features include:
 - 4 Star Quality amenities
 - 1,000 Rooms
 - 80,000 sf Meeting Room and Ball Room space
 - 720 structured parking
- Potential project enhancements priced
 - Totaling \$30M

Project Budget/Fee

- Developer fee is 2.58%
 - Reduced from 3.58%
- MSW will also be compensated for bringing additional ancillary development
 - 5% of revenues generated/collected for the City, or 3.5% of the development costs, up to a maximum of \$5 million

GMP

- Pricing process
 - Open book bids
- Additional opportunities for refinement
 - Completing Schematic Drawings stage
 - Incorporating and furthering Design Drawings efforts
 - Additional Value Engineering
 - HVAC possibility
 - Scope modifications
 - Operator involvement
- Opportunity to enhance the project with further scope refinements, pricing and/or outside investment

Incentives

- Early Completion Incentive:
 - Substantial completion before 28 months: the LGC, MSW and Contractor share equally in the Bond interest cost savings (not to exceed 60 days)
- Completion Within/Under Budget Incentive:
 - If Project completed within GMP and by original Completion Date remaining construction contingency funds up to the Budgeted Amount belongs to the MSW and Contractor
 - If Project completion is delayed, the LGC is entitled to remaining construction contingency funds to pay the LGC's bond interest costs. Any remaining construction contingency funds are handled as in proceeding sub bullet.

Incentives

- Owner Savings:
 - All savings from Hotel Project scope changes
 - All savings from the final Design/Build GMP Contract
 - All construction contingency funds in excess of the Budgeted Contingency Fund Amount

MSW 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 includes areas counties outside Dallas County, some non-Dallas County firms will count towards achievement towards goal
- 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

MSW BID and Outreach Activities

- MSW has completed the following outreach activities to date:
 - Attended events with Hispanic Contractors' 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

MSW BID and Outreach Activities

- MSW activities to be fully implemented by March 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

MSW 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

MSW BID and Outreach Activities

- Advertized 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

MSW 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
 - Uniform coverage for all contractors
 - 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
 - Safety program

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

Developer Agreement

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

Challenges and Opportunities

- Design Development is in early stages
 - Project scope refinements and value engineering still being pursued
 - Pricing alternatives being examined
- Development investment being pursued
 - Private sources
 - Federal funding or credit support
 - Could create additional funds to enhance project
- Bond markets currently in flux

Additional Areas of Focus

- City, MSW, and Omni plan to invest in an ancillary development project and are seeking additional investors
 - Restaurants
 - Entertainment
 - Retail
 - Residential
 - Cultural Amenities

Recommendations and Next Steps

- Economic Development committee recommendation for City Council action:
 - Approval of final Hotel developer agreement (February 18,2009)

Questions
