

Convention Center Hotel Project Parameters Briefing

Briefing to the Economic
Development Committee
June 15, 2009



Purpose of Briefing

- Review key elements of the “deal structure” for the bond offering
- Assess recent efforts and results of the Business Inclusion Development program
- Establish required parameters for bond offering

Recent Marketing Results

	Meetings	Room Nights	Economic Impact
Tentative Bookings (May 08 to May 09)	13	360,000	\$530M
Definite Bookings (May 08 to May 09)	24	615,000	\$950M
Additional Bookings (Post Election)	12	205,000	\$300M

The CVB estimates Dallas has received approximately \$3 million dollars in media exposure related to the DCC Hotel

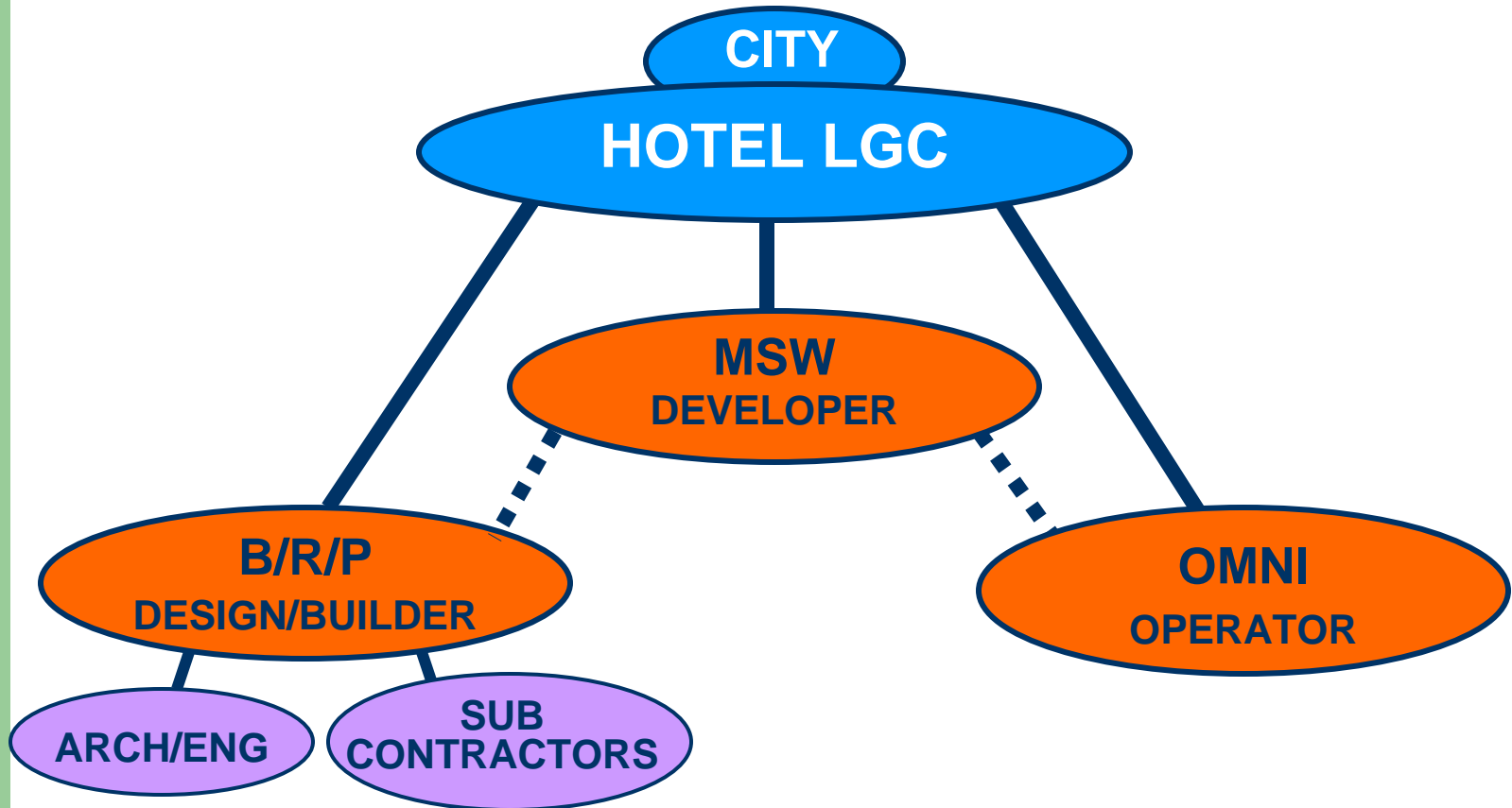
Key Structure Elements

- Developer Agreement
- Operator Agreement
- Diagram showing legal structure
- GMP
- Marketing Study

Operator Agreement

- 15-Year Term
- Omni to provide \$6.0 million key money contribution thirty days prior to substantial completion
- Fixed management fee based on a pro-forma agreed upon by Omni and the City, with fees equal to 2.65% of projected total revenues
- 25% of the management fee shall be subordinated to the payment of debt service
- City has ability to terminate agreement for operator's failure to meet RevPAR performance tests or debt service coverage tests

Organization Chart



Guaranteed Maximum Price (GMP)

- The GMP is a contract whereby the contractor guarantees the maximum price that the City will pay for an agreed upon set of standards. (Omni Standards, 2005)
- Provides protection for the City by establishing a maximum upside price.
- Through process of project design and cost estimating we have achieved significant savings in scope changes and in price reductions in the market place

Guaranteed Maximum Price (GMP)	\$331,762,506
Owner's Contingency	<u>\$ 14,337,494</u>
Target Price:	\$346,100,000

VE Efforts Adding Value

November 2008: Scope Reduction

- Initial Pricing
- 1006 Rooms/68,000 sqft meeting space

\$371,353,679

January 2009: Further price reductions

- Value Engineering, Scope Refinements
- Fee Reductions
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\$346,055,154

February 2009: Further Additions/Reductions

- Added Project Scope/Meeting Space (+15,000 sq ft)
- New Total
- Additional Scope Refinements
- Increased to 1016 rooms

\$10,400,000
\$356,455,154
(\$9,900,000)
\$346,555,154

VE Efforts Adding Value

March 2009: Further Additions/Reductions

- Reduce Fees/Best and Final Offer Pricing **\$346,555,154**
 - Building/Project Enhancements **(\$17,430,247)**
 - **New Price:** **\$ 7,215,054**
- \$336,339,961**

June 2009: Further Additions/Reductions

- Expense reductions/design/consultant fees/etc. **\$ (7,083,383)**
- Building/Project Enhancements **\$ 2,505,928**
- **New Price:** **\$ 331,762,506**

June 2009: Current Price

- 1016 Rooms/83,000 sqft meeting/ballrooms
- **Guaranteed Maximum Price (GMP)** **\$331,762,506**
- **Owner's Contingency** **\$ 14,337,494**
- **Hotel Development Budget:** **\$346,100,000**

Significant Project Cost Reductions

Over \$58 million in Project Cost Reductions

- Capitalizes on current status of construction industry
- Reduces fees and other costs
- Allows for key improvements to improve success of the project and additional contingencies to reduce risk

Market Study

- HVS Conclusions:
 - Omni
 - Adjusted various line items due to operating systems
 - Supported House Profit levels remains at the same level
 - Composite statement from major Omni properties reflects similar operating ratios
 - Marketplace
 - 4th Quarter 2008 – mid-2009 reflects strong correction period in industry RevPAR
 - Are most likely now skirting the bottom of the industry cycle
 - Stability forecast for industry by 2010, with recovery forecast for 2011 – 2014

Market Study

– Prospects

- Hotel will open during what is expected to be a strong recovery period in the industry; a well-timed opening vs. opening today
- Strong pre-bookings for the hotel, particularly in the first two years of operation, as well as the first quarter of operation (major conventions), and Omni Fort Worth initial indications (operator/regional comparable), taken into account and considered in forecasts for occupancy
- Stabilization moved from '15 to '16; giving the market 7 years to recover and the hotel 5 years to ramp up. A more conservative room rate position is forecast in initial operating years, due to expected ongoing recovery period of industry. This is balanced by a stabilized occupancy in year 5 of 69%, versus 68% in year 4; strong booking pace, a lower room rate position (\$204.80 vs \$209), and lower room count (1,000 vs. 1,200 in prior study) support the change.

BID Successes and More to Come

- In the past, diversity efforts have been principally focused on increasing MWBE participation through goal based programs and Good Faith efforts
- With the Hotel project, we are strengthening our role in building longer term MWBE business capacity
 - Build stronger firms with increased opportunity
 - Focus on improving firms' efficiency
 - Aid in development of strong business practices such as; accounting, estimating, safety, and cost control
 - Increase bonding and insurance limits
- These tools are being incorporated City-wide

BID Successes and More to Come

- The Hotel Project's diversity objectives include:
 - Meeting or exceeding utilization goals
 - Providing a foundation for sub-contactors to grow into large firms
 - Emphasizing developing firms' "business capability" to compliment outreach activities that make existing firms aware of opportunities

BID Successes and More to Come

- As part of City's commitment to increase MWBE contracting capacity, the design/build contract includes several new initiatives
 - Joint venture requirements
 - Strategic insurance program
 - Prompt pay initiative
 - Partnering with general contractor for on-site project management training
 - Providing flexibility on performance bonding for subs

BID Successes and More to Come

- Construction management contract includes a 30% MWBE utilization to meet the joint venture requirement
- Additionally, the 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%

BID Successes and More to Come

- Omni has committed to a 20% overall spending goal with MWBEs
- In addition, they have established a 25% local spend goal with MWBE companies
- Opportunities will continue to be available and outreach activities will continue throughout entire construction period

Committee Action

- Seek Committee's approval to recommend the **Parameter Bond Ordinance** that:
 - Sets parameters for the issuance of the Hotel Revenue Bonds
 - Authorizes the LGC to issue the Hotel Revenue Bonds, to negotiate and enter into the financing documents and related hotel operating, development and construction agreements
 - Authorizes the sale of the hotel site to the LGC and redemption of a portion of the City's Certificates of Obligation
 - Approves execution of the Economic Development Agreement (including the use of certain hotel occupancy and sales taxes generated at the Hotel and Appropriated Grant Payments as additional security for the Hotel Revenue Bonds), and the Continuing Disclosure Agreement
 - Approves the amendment of the LGC's Articles of Incorporation

Set Parameters

- Parameters would include:
 - Providing funds to construct at a minimum a four star 1,000 room hotel
 - Issuing bonds with an overall interest yield not to exceed 5.50% and not to produce net proceeds in excess of \$513,995,000
 - Hotel development GMP budget at or below \$346,100,000
 - Continuing BID plan implementation elements as presented in Developer/Operator agreements
 - Establishing various reserve accounts to be replenished by project cash flow, not by the General Fund

Parameters Rationale

- This approach would enable the City to:
 - Respond quickly to financial market conditions once parameters are satisfied
 - Proceed with sale during summer, if Council is not in session
- City has used parameters ordinance procedure in authorizing sale of bonds in the past
 - Recent Convention Center Refunding Bonds
 - 2003 Waterworks and Sewer System Refunding and Improvement Bonds
 - 2007 Waterworks and Sewer System Refunding Bonds
 - D/FW bond sales
 - Commercial paper issuance

Other Action

- Predevelopment services
 - Sept 2008, City appropriated \$400,000 for predevelopment services such as geotechnical services, surveying, environmental studies, etc
 - Funds need to be reallocated to enable the LGC to continue these efforts as well as pay for other predevelopment services such as legal

Next steps - Today

- Consider recommending the **Parameter Bond Ordinance** that:
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Next steps - Today

- Committee consider recommending the approval of a resolution to reallocate funds previously appropriated for certain predevelopment services by the City to the LGC for other predevelopment services

Next steps

- **June 19**
 - Council considers adopting the Parameters Bond Ordinance and approving the reallocation resolution
- **Subsequent steps**
 - Finalize documentation
 - Rating agency meetings
 - Bond insurer meetings
 - Receive ratings/insurance commitment
 - Sell bonds, at the point of receiving target finance terms, and commence construction

Questions

Convention Center Hotel Project Parameters Briefing Appendix

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Outline

- Recap/update
 - Overall
 - Developer/construction
 - Operator
- Financial update
- Parameters
- Recommendation

Purpose

- Provide recap of important milestones
- Update key elements of DCC Hotel Project
- Provide information on the proposed issuance by the Dallas Convention Center Hotel Development Corporation of Hotel Revenue Bonds
- Provide rationale for setting of parameters for bond sale
- Seek Committee's approval of recommendation of the adoption of the Parameters Ordinance

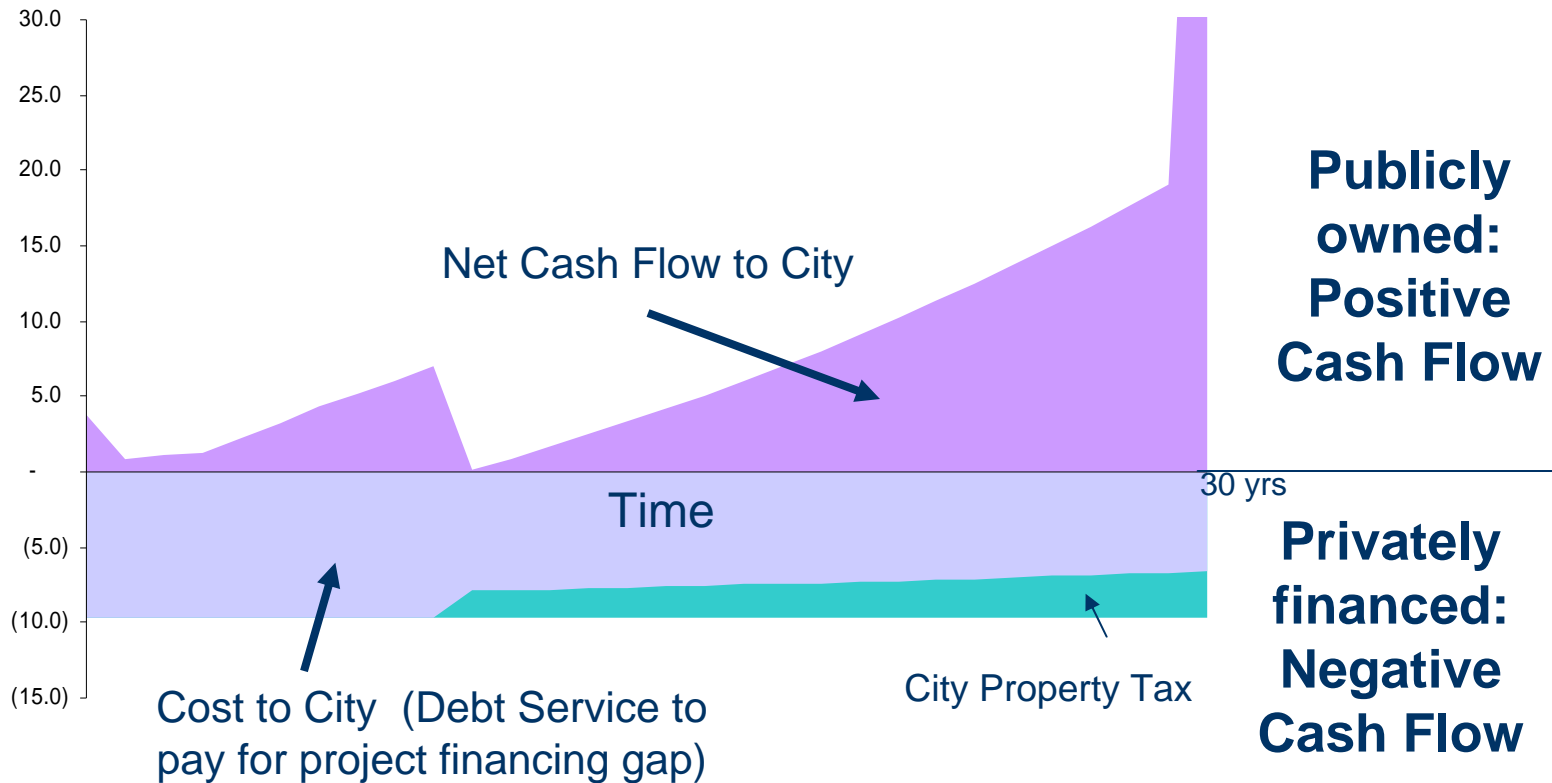
Overall Project Goals

- Increase the competitiveness of the Dallas Convention Center
- Enhance overall economic benefits generated by the Convention Center to the City of Dallas
- Further the City's goals of improving in the areas of diversity and sustainability
- 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

Early Actions

- 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**



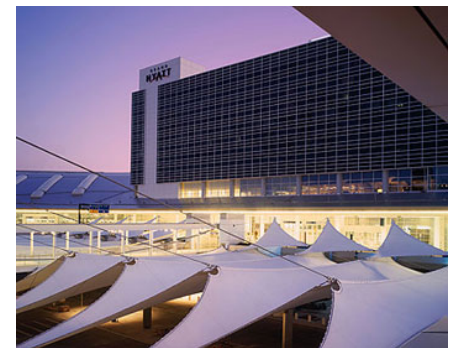
**Houston Convention
Center Hotel**



**Denver Convention
Center Hotel**



**Baltimore Convention
Center Hotel**



**DFW Airport Grand
Hyatt Hotel**

Early Actions

- Identified a committed and skilled developer to initiate site planning
- Authorized up to \$ 8.4M 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

Customer Reactions

- **Due to the City's progress to construct the DCC Hotel**
 - 13 definite meetings, representing over 360,000 room nights and over \$530 million dollars in economic impact, are now booked
 - 24 meetings, representing over 615,000 room nights and over \$905 million in economic impact, have been tentatively booked
- **Just in the last month**
 - An additional 12 citywide meetings have been tentatively booked, representing over 205,000 room nights and over \$300 million dollars in economic impact for the City
 - The CVB estimates Dallas has received approximately \$3 million dollars in media exposure related to the DCC Hotel

Progress Contingent

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

North Aerial View



North Street View

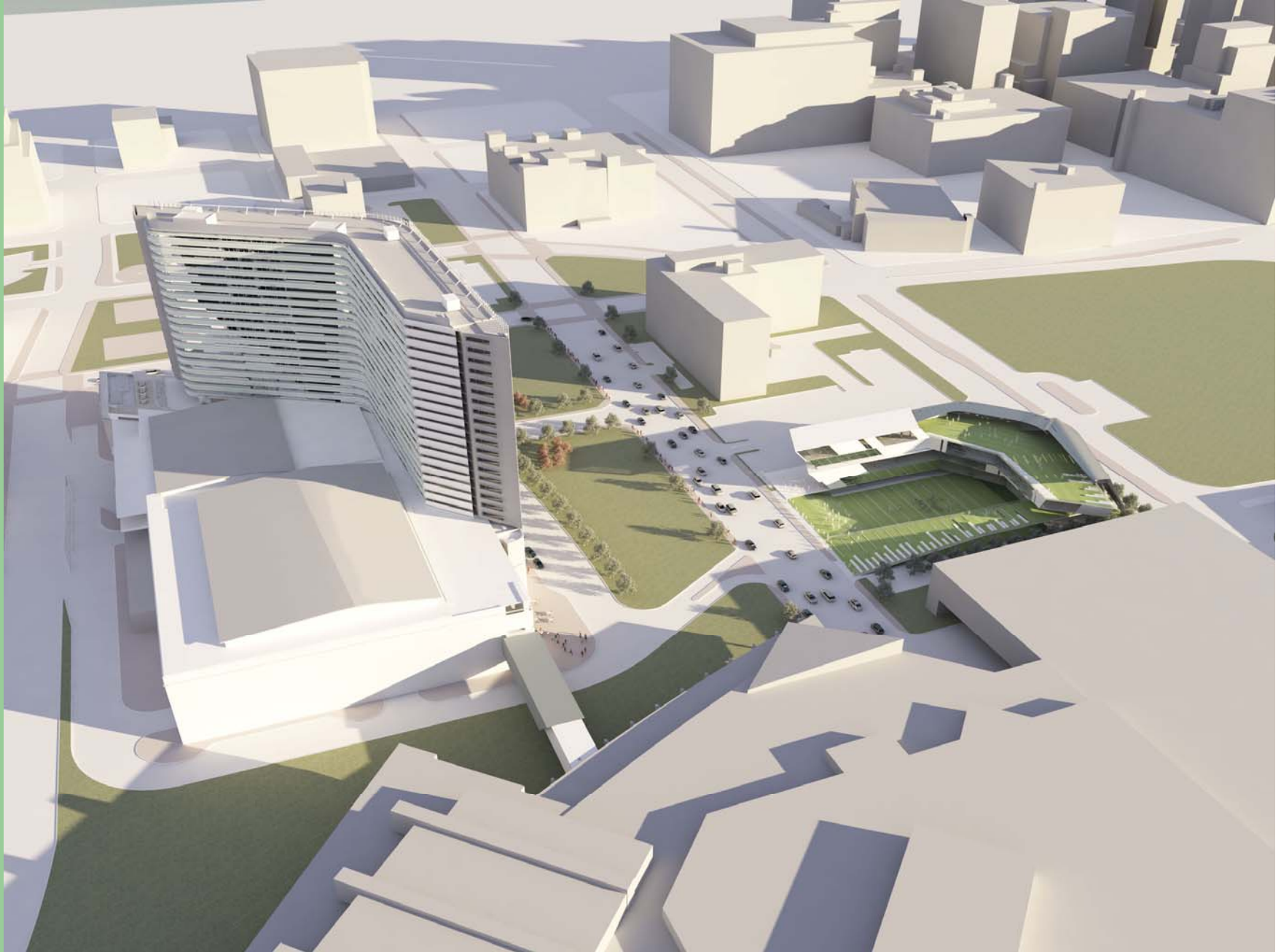


Other Views











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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
 - Lead negotiator

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

Challenges

- In order to achieve an economically feasible GMP, we had to address:
 - Construction pricing
 - Key materials such as steel, concrete, and glass
 - These pressures have eased considerably, but only recently
 - Additional amenities cost
 - Construction schedule length
- Unusually volatile capital markets
 - Recently have been stabilizing and improving

Challenges

- As construction and financial trends have been changing, we have been adjusting strategies to make the most of the opportunity
 - Repricing of construction elements
 - Repositioning of developer/contractor arrangement
 - Evaluating new bonding/financing vehicles
 - Build America Bonds
 - Taxable bonds
 - US Treasury
 - provides a 35% interest subsidy to the issuer
 - Federal funding or credit support
 - Private sources

Recent Actions

- Over the last three months, we have been:
 - Substantially advancing design
 - Continuing to enhance diversity program
 - Prioritizing potential project enhancements
 - Adjusting cost and role elements to enhance project value and define responsibilities
 - Continuing ancillary development and sustainability planning

Recent Actions

- Enhancing site with utility adjustments and environmental mitigation
- Exploring additional financing sources and financing alternatives
- Monitoring financial markets
- Updating the financial pro-forma
- Preparing financing documents

Developer/Construction

- Predevelopment Agreement (PDA) established the Design/Build approach with MSW
 - Developer MSW contracted with Balfour Beatty, Russell, and Pegasus, a joint venture (BRP), as the design/builder
- City, MSW, Omni and BRP have been working collaboratively to further develop building design, amenity priorities, and related ancillary development opportunities consistent with the project development budget and scope

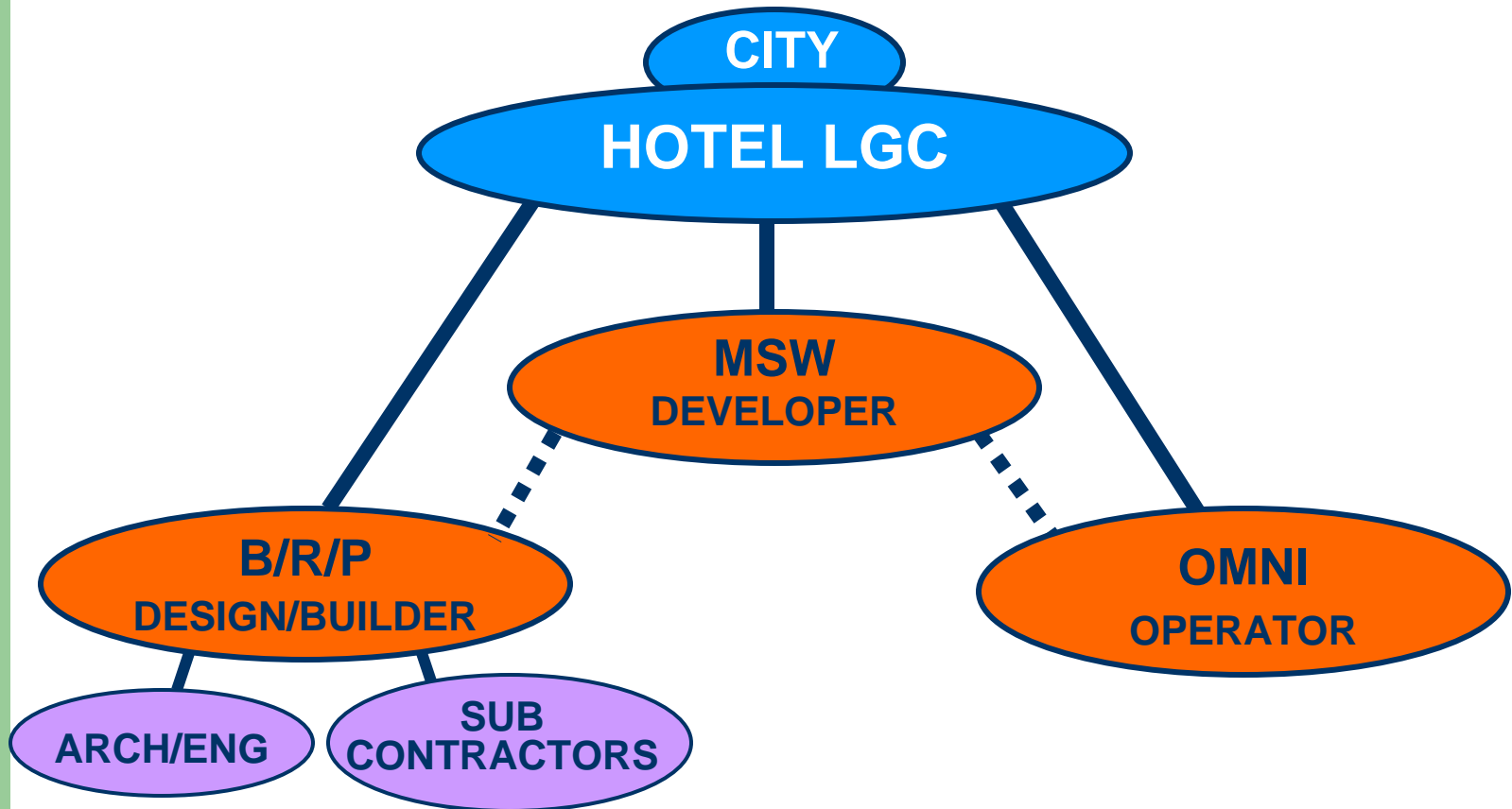
Developer/Construction - Scope

- 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
 - Enhances Hotel per room profitability
 - Consistent with Omni's operating objectives

Developer/Construction – Modifying roles

- Overall Structure
 - MSW – the City’s developer, will act on behalf of LGC, to manage the project design and construction within budget and schedule requirements
 - BRP – the Design/Builder will contract directly with LGC to provide project design and construction on an at-risk basis, with a design/build guaranteed maximum price and schedule

Developer/Construction – Organization Chart



Developer/Construction – Agreements

- Developer and Design/Builder agreements include, as originally provided in the PDA:
 - Scope, quality and price of project
 - Developer services
 - Local Governmental Corporation (LGC) responsibilities
 - BID compliance
 - Construction schedule
 - GMP

Developer/Construction - Fee

- Developer fee is 2.58%
 - Reduced from 3.58%
 - Potential completion incentive
- 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

Developer/Construction - Guaranteed Maximum Price

- The **GMP** is a contract whereby the contractor guarantees the maximum price that the **LGC** will pay for an agreed upon project scope and set of standards (Omni Standards, 2005)
- Provides protection for the **LGC** by establishing a maximum price
- Through process of project design and competitive rebidding, we have achieved significant savings

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Owner's Contingency	<u>\$ 14,337,494</u>
Hotel Development Budget:	\$346,100,000

Developer/Construction - VE Efforts Adding Value

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Developer/Construction – Incentives

- Early Completion Incentive:
 - If substantial completion before the end of 28 months, the LGC, MSW and BRP share in the unexpended capitalized interest (not to exceed 60 days)
 - LGC 25%
 - MSW 25%
 - BRP 50%
- Sharing of Project Contingency Savings
 - Set in final GMP budget, then unspent amounts shared:
 - LGC 70%
 - BRP 30%

Developer/Construction – LD

- In the event Project not completed within 28 months, BRP to pay liquidated damages:
 - 29th month \$12,500 daily
 - 30th month \$17,500 daily
 - 31st month+ \$20,000 daily

Developer/Construction – Risk and Opportunity Management

- Owner contingency:
 - Funded at \$14.3M and may be increased with:
 - 70% of project contingency savings, if any
 - Savings, if any, from subsurface contingency
 - Used to provide protection against:
 - Project schedule delays
 - Force majeure
 - Used to provide flexibility to take advantage of opportunities:
 - Enhance ancillary development
 - Potential project enhancements such as more meeting space, aesthetic features, finish out specialty restaurant, etc.
 - Used for developer incentive based upon performance criteria including schedule and budget, not to exceed \$2.1M

Developer/Construction - BID and Outreach Activities

- In the past, diversity efforts have been principally focused on increasing MWBE participation through goal based programs and Good Faith efforts
- With the Hotel project, we are strengthening our role in building longer term MWBE business capacity
 - Build stronger firms with increased opportunity
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 - Aid in development of strong business practices such as; accounting, estimating, safety, and cost control
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 - Meeting or exceeding utilization goals
 - Providing a foundation for sub-contactors to grow into large firms
 - Emphasizing developing firms' "business capability" to compliment outreach activities that make existing firms aware of opportunities

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- As part of City's commitment to increase MWBE contracting capacity, the design/build contract includes several new initiatives
 - Joint venture requirements
 - Strategic insurance program
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- Additionally, the 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%
- Opportunities will continue to be available and outreach activities will continue throughout entire construction period

Developer/Construction - BID and Outreach Activities

- As part of City's commitment to increase MWBE contracting capacity, the design/build contract includes several new initiatives
 - These cooperative efforts to improve participating firms will have lasting effects beyond the current project
- Contract includes an 30% utilization via the joint venture requirement for construction management
- Additionally, the 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%

Developer/Construction - BID and Outreach Activities

- Because the A&D 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

Developer/Construction - 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
 - Held major kick-off event to increase awareness and distribute information for all MWBEs interested in working on project

Developer/Construction - BID and Outreach Activities

- MSW activities to date:
 - Website – providing project information, bid opportunities, M/WBE certification information and outreach events
 - Utilization of on-line specifications and bidding information via ISQFT.com
 - Plans made available for review at DFW Minority Business Council, Hispanic Contractors Association, Dallas Black Chamber of Commerce, and Greater Dallas Asian American Chamber of Commerce

Developer/Construction - BID and Outreach Activities

- Activities to be completed within 30 days of contract execution:
 - M/WBE Program plan – including program policies, community outreach plan and reporting procedures to be completed July 2009
 - 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

Developer/Construction - BID and Outreach Activities

- City held discussions with area banks to provide working fund for prompt-pay and mobilizations initiatives
- Letter delivered to Bank of America requesting creation of credit facility to ensure 15-day payment to sub contractors
 - 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

Developer/Construction - 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
- City has held several workshops with participation by general contractor and developer for on-going opportunities
- Solicited inclusion of project information in advocacy groups newsletters and websites
- Developed a report to track sub-contractor utilization from when the contract is awarded by the Council to project completion

Developer/Construction - Bonding

- General Contractor will utilize Sub-Guard coverage
 - Will reduce bonding requirements of subs
 - Allows subs to complete larger portions of work adding to their work history
 - Ensure project components are completed timely
- 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
 - Created program for regular interaction between General Contractor project managers and subs for hands on exchange of knowledge and experience in managing daily operations

Developer/Construction - 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 and agent of record will review and approve coverage and carriers

Developer/Construction - Insurance

- Coverage will include all liability for construction risk, liability, and workers' compensation
 - Eliminates requirement for subs to purchase required coverage
- 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

Developer/Construction - 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

Developer/Construction - 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 is participating in early efforts to plan for the development of a street car system in Downtown and areas immediately around the CBD
 - The Lamar Street thoroughfare appears to be an attractive candidate for inclusion in the plan
 - This rail development could greatly accelerate development potential around the Hotel and Convention Center

Developer/Construction - Sustainability

- Preparing to expand the scope of the current South Lamar Pedestrian Improvement project underway by MSW in Cedars area for current NCTCOG next call for projects
 - Extending project to include existing Convention Center station
 - Examining potential new projects on north side and integration with new alignment

Developer/Construction – Ancillary Development

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

Operator

- Omni Hotel selected as Hotel operator
 - Operates 43 luxury hotels and resorts in North America
 - Operating convention hotels in Atlanta, San Diego, Orlando and Fort Worth
 - Owns most of the properties it manages
 - Is locally owned
 - Was ranked by J.D. Power and Associates Omni “Highest in Guest Satisfaction Among Upscale Hotel Chains” in 2006
 - Has global sales offices in Atlanta, Chicago, Dallas, Los Angeles, New York and Washington D.C.

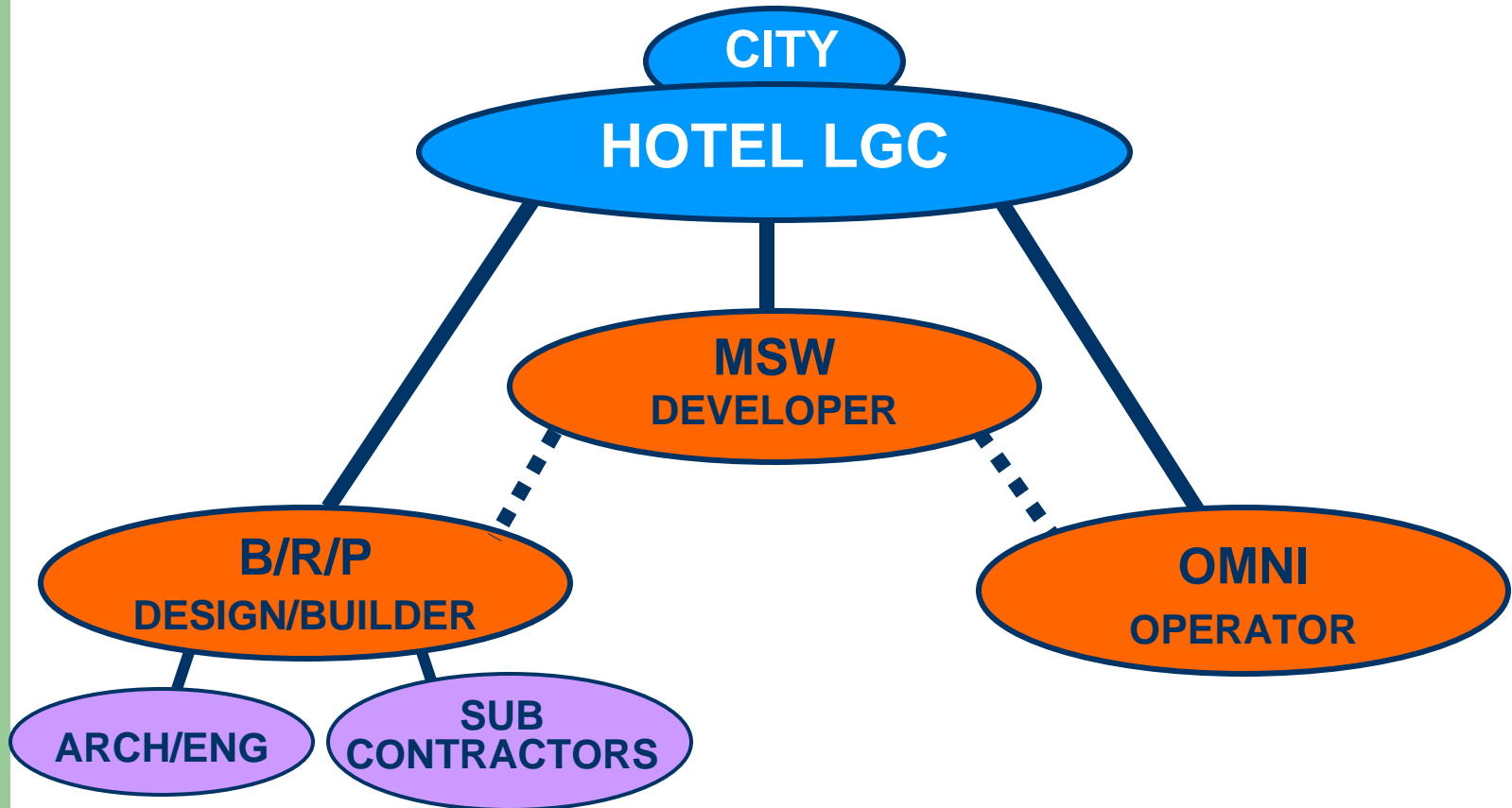
Operator - Contract Terms

- Term – 15 years from hotel opening
- Pre opening responsibilities:
 - Providing technical services
 - Marketing and Sales
 - Hiring executive team

Operator - Contract Terms

- Operating responsibilities:
 - Operating a full service first class hotel
 - Consistent with approved hotel budget
 - Maximize financial return to the Owner
 - Hiring and managing all Hotel personnel
 - Marketing and Sales
 - Meeting MWBE/SBE Goals in operations
 - Purchasing of goods and services
 - Implementing room block agreement
 - Complying with all legal requirements
 - Maintenance and repairs of hotel

Operator - Organization Chart



Operator - BID and Outreach Activities

- Omni has committed to a 20% overall spending goal with MWBEs
- In addition, they have established a 25% local spend goal with MWBE companies
- Commitment to develop written diversity program guidelines and creation of training materials for entire hotel system by Q3 2009
- Establishment of formal requirement of utilization goals in all national procurement contract to advance the use of MWBE sub-contractor and suppliers

Operator - BID and Outreach Activities

- Creating a mentor-protégé program in order to build the capacity of local vendors into national suppliers
- A Supplier Diversity Advisory Council will be created to further provide input on an ongoing basis
- Working with City and outside consultant to develop marketing materials to attract and interest MWBE vendors to become suppliers

Operator - BID and Outreach Activities

- Creation of vendor training program to educate and supply information regarding Omni's procurement practices and procedures
- Developed a report to track all ongoing procurement utilization during all phases of the operator agreement
- All BID program requirements are included in exhibit to the Operator agreement and are enforceable

Operator - BID and Outreach Activities

- Also currently work with local colleges and high schools for diversity in employment opportunities
- Committed to develop ongoing supplier diversity program and continue utilization efforts for Dallas

Operator - BID and Outreach Activities

- January 15, 2009 - MWBE outside consultant to oversee diversity efforts additional staff hired to focus on Hispanic market
- February, 2009 -implemented out an online MWBE registration system
- March 10, 2009 - Dallas Fort Worth Minority Business Council HardHat Construction Expo. Omni Hotels was one of the signature sponsors for this event and held a booth exhibit to meet M/WBE contractors
- March 14, 2009 – Dallas Black Chamber of Commerce Board Retreat. Omni Hotels presented an overview of our company, business opportunities and plans for the Dallas Convention Center Hotel to the Board of Directors of the Dallas Black Chamber of Commerce

Operator - BID and Outreach Activities

- April 21, 2009 – held booth to meet candidates at the 2nd City of Dallas Community Job Fair sponsored by the Concord Church
- May 8, 2009 – Attended and help facilitate the Fort Worth Hispanic Chamber of Commerce 36th Annual Awards Gala.
- May 12, 2009 – Dallas Fort Worth Minority Business Council ACCESS Tradeshow. Omni Hotels participated in the ACCESS tradeshow and held a booth exhibit to meet minority vendors.
- June 25, 2009 - Coordinating a major event for MWBEs to train on doing business with Omni Hotels and our 3 Dallas/Fort Worth hotels (Mandalay, Park West and the Fort Worth Convention Center).

Operator - Other Benefits

Development on adjacent properties

- Through a Development Entity to be created, provide a \$10M initial investment for ancillary development and/or land purchase, provided City invests certain assets into development. \$10M of the investment funds can be used for the Hotel project.

Financial Update

- Update financial pro-forma
- Review/refresh financial structure
- Provide rationale for setting of financial parameters
- Define financial parameters

Financial Update - HVS Marketing Analysis Update

- Methodology
 - Reevaluated regional and national Comp set
 - Interviewed Omni and the CVB
 - To update operating revenue and cost projections
 - To understand recent marketplace reactions to the Hotel
 - Market data update - local market assessment including ADR/occupancy
 - Interviewed operators in other markets
 - Drew on HVS market expertise from similar national markets
 - Reviewed Smith Travel trends
 - Used data from HVS National trends presentations for 2009 prepared for nation and major markets

Financial Update - HVS Marketing Analysis Update

- Conclusions:
 - Omni
 - Adjusted various line items due to operating systems
 - Kept House Profit at the same level
 - Used composite statement from major Omni properties, which reflected similar operating ratios
 - Marketplace
 - 4th Quarter 2008 – mid-2009 reflects strong correction period in industry RevPAR
 - Are most likely now skirting the bottom of the industry cycle
 - Stability forecast for industry by 2010, with recovery forecast for 2011 – 2014

Financial Update - HVS Marketing Analysis Update

– Prospects

- Hotel will open during what is expected to be a strong recovery period in the industry; a well-timed opening vs. opening today
- Strong pre-bookings for the hotel, particularly in the first two years of operation, as well as the first quarter of operation (major conventions), and Omni Fort Worth initial indications (operator/regional comparable), taken into account and considered in forecasts for occupancy
- Stabilization moved from '15 to '16; giving the market 7 years to recover and the hotel 5 years to ramp up. A more conservative room rate position is forecast in initial operating years, due to expected ongoing recovery period of industry. This is balanced by a stabilized occupancy in year 5 of 69%, versus 68% in year 4; strong booking pace, a lower room rate position (\$204.80 vs \$209), and lower room count (1,000 vs. 1,200 in prior study) support the change.

Financial Update - Basic Structure

- LGC will issue Hotel Revenue Bonds to fund Hotel costs, various reserves, financing costs and purchase the Hotel site
- Bonds will be payable from Hotel Net Operating Revenues, certain City/State Hotel-related tax revenues and, if needed, appropriated grant payments from the City
- LGC and the City bear the risk if the project is not successful, but will receive all Hotel net cash flow and residual value
- City will use land purchase proceeds to redeem a like amount of outstanding Certificates of Obligation

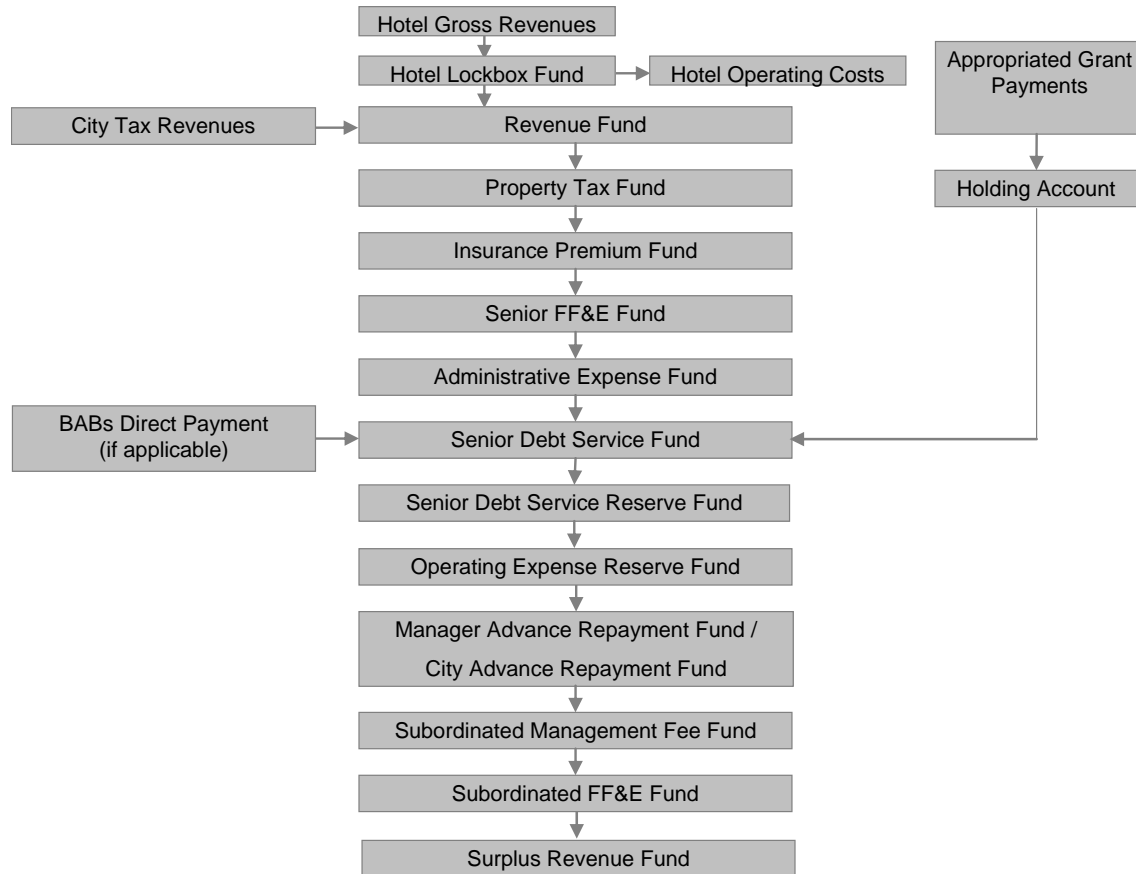
Financial Update - Security for Hotel Revenue Bonds

- Hotel Revenue Bonds are limited obligations of the LGC
- Bonds are secured by and payable from:
 - Net Operating Revenues of the Hotel
 - Economic Development Agreement including the right to receive:
 - Certain Hotel-related tax revenues:
 - 6.00% State HOT (Years 1-10 only)
 - 6.25% State Sales Tax (Years 1- 10 only)
 - 7.00% Local HOT
 - Appropriated Grant Payments from the City
- City grant payments are sought only after various fund accounts are exhausted including: the Senior Debt Service Reserve Fund, the Operating Expense Reserve Fund and the Surplus Revenue Fund
- The General Fund does not replenish any of the cited Reserve Funds if they are depleted to make debt service payments

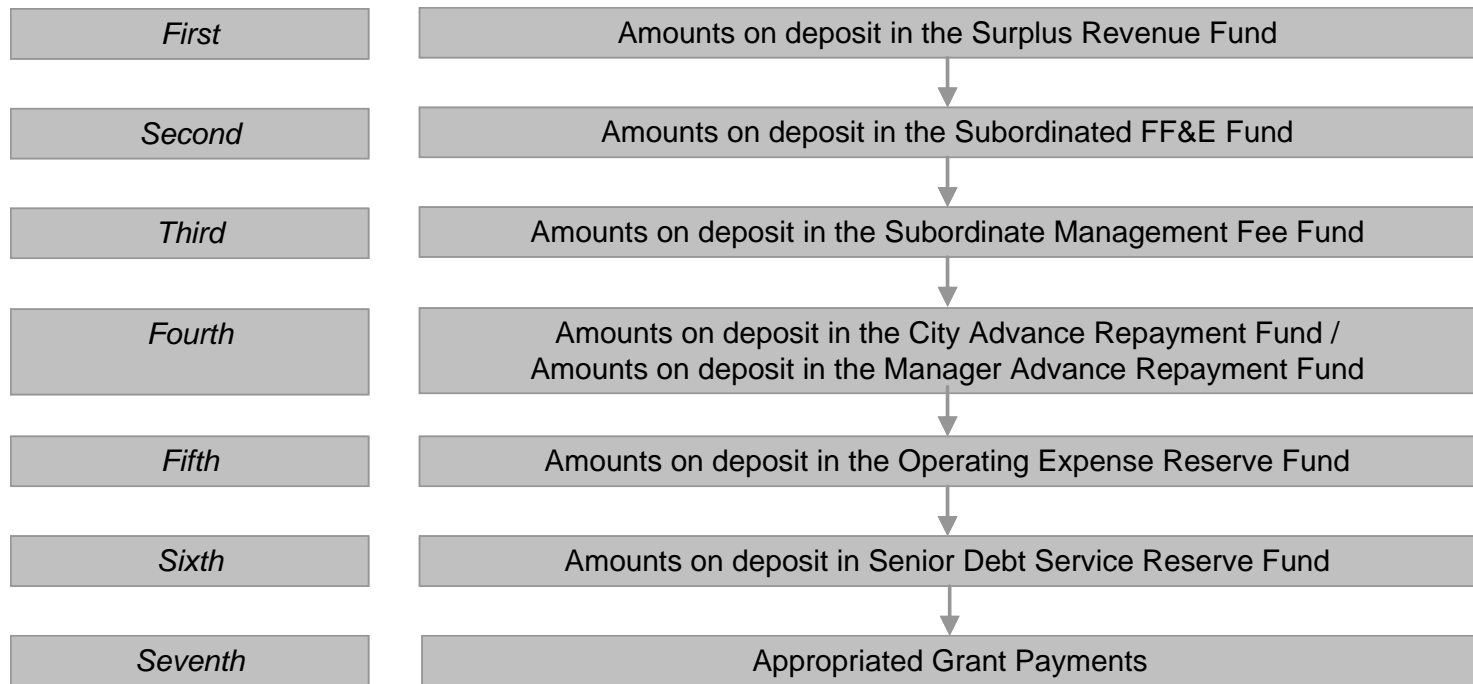
Financial Update - Security for the Hotel Revenue Bonds

- **Senior Debt Service Reserve Fund**
 - Funded at closing (approximately \$42,700,000)
 - If drawn, replenished from Hotel Net Operating Revenues and DCC Hotel-related tax revenues (not from Appropriated Grant Payments)
- **Operating Expense Reserve Fund**
 - Funded at closing and from Hotel Net Operating Revenues and DCC Hotel-related tax revenues up to its \$10,000,000 requirement
 - Available for debt service, unbudgeted necessary expenses and certain repairs
- **Surplus Revenue Fund**
 - Net cash flow, after the deposit to various funds and accounts, will be deposited to the Surplus Revenue Fund
 - At year 10, there is projected to be a balance of approximately \$40,000,000 in this fund
- **Other Indenture Funds and Accounts** funded with excess cash flow as shown on Flow of Funds

Financial Update - Flow of Funds



Financial Update - Sources of Funds for Debt Service Shortfalls



Financial Update - Key Financing Assumptions

Hotel Development Budget	\$346,100,000*
LGC Development Budget	\$343,100,000
Pre-Opening Expenses	\$4,500,000
Technical Services Fees	\$350,000
Bond Offering Type	Fixed rate – 5.50%; inclusive of insurance
Bond Insurance	0.50% of total debt service up-front
Final Maturity Date	December 1, 2041
Amortization	Ascending debt service (~1% per year)
Construction Period	28 Months
Capitalized Interest Period	34 Months
Debt Service Reserve Fund	Maximum Annual Debt Service

* \$3M From DCC

Financial Update - Sources and Uses of Funds

Sources

Senior Hotel Revenue Bonds	507,992,788
Key Money	6,000,000
Total Sources	\$ 513,992,788

Uses

Land Acquisition Cost / Refinancing of CO's	\$ 30,280,000
Total Hotel Development Budget	346,100,000
Less: Non-LGC Financed Costs (DCC)	<u>(3,000,000)</u>
LGC Hotel Development Budget	343,100,000
Pre-Opening Expenses	4,500,000
Technical Services Fee	350,000
Less: Interest on Construction Fund	<u>(878,533)</u>
Net Deposit to Construction Fund	347,071,467
Deposit to Capitalized Interest Account	69,773,858
Deposit to Debt Service Reserve Fund	42,721,052
Deposit to Operating Expense Reserve Fund / Working Capital	6,000,000
Costs of Issuance / Bond Insurance Premium	18,146,411
Total Uses	\$ 513,992,788

Financial Update - Hotel Net Operating Income For Senior Net Debt Service

	Operating Year 1	Operating Year 2	Operating Year 3	Operating Year 4	Operating Year 5	Operating Year 10	Operating Year 20	Operating Year 30	Total/Average
Net Cash Flow									
Net Income	14,980,651	19,239,425	23,368,704	25,570,421	27,499,170	32,419,185	43,568,674	58,552,654	1,160,370,321
City Tax Revenues									
6.00% State HOT	2,113,860	2,501,820	2,832,720	3,049,920	3,203,100	3,713,280	-	-	31,217,220
6.25% State Sales Tax	1,584,774	1,825,865	1,975,015	2,106,559	2,217,810	2,626,057	-	-	22,058,133
7.00% Local HOT	2,466,170	2,918,790	3,304,840	3,558,240	3,736,950	4,332,160	5,822,061	7,824,363	156,319,054
Total City Tax Revenues	6,164,804	7,246,475	8,112,575	8,714,719	9,157,860	10,671,497	5,822,061	7,824,363	209,594,408
City Administrative Expenses	250,000	250,000	250,000	250,000	250,000	250,000	250,000	250,000	7,500,000
Net Operating Income	20,895,454	26,235,900	31,231,279	34,035,140	36,407,031	42,840,683	49,140,735	66,127,017	1,362,464,728
Senior Bonds Net Debt Service	12,425,470	24,850,940	29,580,940	32,240,940	32,560,940	34,224,182	37,799,168	(961,224)	1,017,755,024
Cash Flow After Debt Service	8,469,984	1,384,960	1,650,339	1,794,200	3,846,090	8,616,500	11,341,566	67,088,241	344,709,704
Amounts Transferred After Debt Service									
Operating Expense Reserve Fund	5,000,000	-	-	-	-	-	-	-	5,000,000
Manager Advance Repayment Fund	1,500,000	692,480	825,169	897,100	1,923,045	(1,200,000)	-	-	-
City Advance Repayment Fund	1,500,000	692,480	825,169	897,100	1,923,045	(1,200,000)	-	-	-
Subordinated Management Fee Fund	393,818	-	-	-	-	675,382	907,657	1,219,815	24,368,111
Net Cash Flow / Surplus Revenue Fund	76,166	-	-	-	-	10,341,118	10,433,909	65,868,426	315,341,594
Debt Service Coverage									
Net Operating Income	1.68	1.06	1.06	1.06	1.12	1.25	1.30	N/A	1.27
Net Present Value: \$90,096,624									

Financial Update - Summary of Risk Factors and Mitigants

Risk	Risk Mitigant
Construction	<ul style="list-style-type: none"> ● Experienced Developer and Contractor ● Guaranteed Hotel Development Budget and Design/Build Guaranteed Maximum Price Contract ● Liquidated damages for delay ● Payment and performance bonds
Operating	<ul style="list-style-type: none"> ● Experienced Operator ● Key Money investment ● Subordinated management fee ● Performance termination
Debt Service Coverage	<ul style="list-style-type: none"> ● Average debt service coverage ratio of 1.27x ● Funded reserves utilized prior to Appropriated Grant Payments ● Zero net present value at 58% occupancy ● Zero net present value at 19.5% ADR reduction

Parameters - Rationale

- This approach would enable the City to:
 - Respond quickly to financial market conditions once parameters are satisfied
 - Proceed with sale during summer, if Council is not in session
- City has used parameters ordinance procedure in authorizing sale of bonds in the past
 - Recent Convention Center Refunding Bonds
 - 2003 Waterworks and Sewer System Refunding and Improvement Bonds
 - 2007 Waterworks and Sewer System Refunding Bonds
 - D/FW bond sales
 - Commercial paper issuance

Parameters -

- Parameters would include:
 - Providing funds to construct at a minimum a four star 1,000 room hotel
 - Issuing bonds with an overall interest yield not to exceed 5.50% and not to produce net proceeds in excess of \$513,995,000
 - Hotel development GMP budget at or below \$346,100,000
 - Continuing BID plan implementation elements as presented in Developer/Operator agreements
 - Establishing various reserve accounts to be replenished by project cash flow, not by the General Fund

Other Action

- Predevelopment services
 - Sept 2008, City appropriated \$400,000 for predevelopment services such as geotechnical services, surveying, environmental studies, etc
 - Funds need to be reallocated to enable the LGC to continue these efforts as well as pay for other predevelopment services such as legal

Next steps - Today

- Consider recommending the **Parameter Bond Ordinance** that:
 - Sets parameters for the issuance of the Hotel Revenue Bonds
 - Authorizes the LGC to issue the Hotel Revenue Bonds, to negotiate and enter into the financing documents and related hotel operating, development and construction agreements
 - Authorizes the sale of the hotel site to the LGC and redemption of a portion of the City's Certificates of Obligation
 - Approves execution of the Economic Development Agreement (including the use of certain hotel occupancy and sales taxes generated at the Hotel and Appropriated Grant Payments as additional security for the Hotel Revenue Bonds), and the Continuing Disclosure Agreement
 - Approves the amendment of the LGC's Articles of Incorporation

Next steps - Today

- Committee consider recommending the approval of a resolution to reallocate funds previously appropriated for certain predevelopment services by the City to the LGC for other predevelopment services

Next steps

- **June 19**
 - Council considers adopting the Parameters Bond Ordinance and approving the reallocation resolution
- **Subsequent steps**
 - Finalize documentation
 - Rating agency meetings
 - Bond insurer meetings
 - Receive ratings/insurance commitment
 - Sell bonds, at the point of receiving target finance terms, and commence construction

Recommendation

- Recommend approval of next steps

Questions
