



# Convention Center Hotel Financings



CITY OF DALLAS

March 26, 2008

 First Southwest Company



# Objective



## Summary of Convention Center Hotel Financings given certain financial statements for the following:

- Austin Convention Center Enterprises, Inc.
- Houston Convention Center Hotel Corporation
- Metropolitan Pier and Exposition Authority (Chicago, IL)



# Convention Center Hotel Financings

## Austin Convention Center Hotel





# Austin Convention Center Hotel



## Project Description

- 800-room Hotel managed by Hilton Hotels Corporation
- Full service, first class, convention oriented upscale hotel including:
  - 800 Guest Rooms
  - Two full-service restaurants and lobby bar
  - 60,000 gross square feet of meeting space
  - 600-space underground parking garage

## Opening Date

- January 2004

## Key Participants

- Municipal Sponsor: City of Austin
- Issuer: Austin Convention Enterprises, Inc.
- Sole-Managing Underwriter: Piper Jaffray
- Hotel Manager: Hilton Hotels Corporation

# Case Study: Austin Convention Center Hotel – Financing Overview



- The financing structure included:
  - \$109.665 million in senior lien current interest bonds
  - \$134.95 million in subordinate lien bonds insured by ZC Specialty Insurance
  - \$20.50 million in third-tier subordinate manager and developer bonds
- City of Austin’s financial contribution was limited to \$15.0 million
  - No ongoing obligation
- Low reserve fund requirements as a result of non-conventional multi-line guarantor (ZC Specialty)
  - \$6.0 million Senior Debt Service Reserve Fund
  - \$2.0 million Subordinate Senior Debt Service Reserve Fund
  - \$1.25 million Operating Reserve Fund and Working Capital

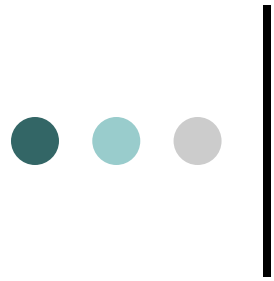
# Case Study: Austin Convention Center Hotel – 2006 Restructuring



- The capital structure included:
  - \$165.0 million in senior lien current interest bonds
    - “AAA” insured by XL Capital
    - Sold at a rate of 4.61% (TIC) and 5.09% (AIC)
  - \$95.2 million in subordinate lien bonds
    - Rated BB/Ba2
    - Sold at a rate of 5.33% (TIC) and 5.58% (AIC)
- The restructuring provided over \$90.0 million in present value benefits:
  - Rebate of \$24.0 million of the 2001 bond insurance premium
  - Elimination of substantial ongoing insurance premiums
  - Restructuring of subordinate obligations and hotel operator agreement
  - Generated substantial profits which are distributed to the City annually by eliminating the multi-line guarantor

# Case Study: Austin Convention Center Hotel – Performance

Total Bonds Outstanding:	\$ 268,439,470 (Series 2006 Refunding Bonds and Series 2001 Bonds)	
Other Sources:	City-wide HOT	
Management:	The Corporation entered into a 15 year hotel management agreement with Hilton Hotels Corporation.	
Primary Security Provisions:	1) Pledge of Net Revenues 2) Trust Estate per Indenture 3) Lockbox Fund 4) Debt Service reserve fund / surety	
Performance:	2006	2005
OPERATING REVENUE	\$ 56,069,784	\$ 49,862,413
OPERATING EXPENSES	51,443,743	45,154,199
Operating Income	\$ 4,626,041	\$ 4,708,214
NON-OPERATING REVENUE (EXPENSES)	(7,832,904)	(17,410,910)
Change in Net Assets	\$ (3,206,863)	\$ (12,702,696)
Fund equity (deficit) at beginning of period	(26,811,943)	(14,109,247)
FUND DEFICIT AT END OF PERIOD	\$ (30,018,806)	\$ (26,811,943)
Debt Structure:	Series 2006A Fixed Rate, Semi-annual interest ranging from 4.00 to 5.25% Revenue Refunding Bonds Series 2006B Fixed Rate, Semi-annual interest ranging from 5.75 to 6.00% 2nd Tier Revenue Refunding Bonds Series 2001C-1 Fixed Rate, Semi-annual interest at 9.75% 3rd Tier Revenue Bonds Series 2001C-2 Fixed Rate, Semi-annual interest at 9.75% 3rd Tier Revenue Bonds	
2006 Debt Service Coverage Ratio:	Cannot be determined.	



# Convention Center Hotel Financings

## Houston Convention Center Hotel





# Houston Convention Center Hotel



## Project Description

- Expansion of the City's existing convention facility to add 700,000 square feet
- 1,200 room convention center hotel with two-level sky-bridge
- 1,600 car parking garage to service the facilities
- Refunding of all outstanding fixed rate bonds and commercial paper

## Key Participants

- Municipal Sponsor: City of Houston
- Issuer: Convention and Entertainment Facilities Department
- Senior Managing Underwriter: UBS
- Hotel Manager: Hilton Hotels Corporation

# Case Study: Houston Convention Center Hotel – Financing Overview



- The financing structure included:
  - Total Bond Issuance: \$626,539,594
  - \$150.335 million Series 2001A Fixed Rate Bonds
  - \$326.205 million Series 2001B Fixed Rate Bonds
  - \$150.0 million Series 2001C Variable Rate Bonds – Auction Rate Securities
  - Moody's: "Aaa" (Underlying "A3")
  - S&P: "AAA" (Underlying "A-")
  - AMBAC insured (33.7 bps insurance premium)
- City of Houston provided general obligation pledge to the Hotel Bonds
- Occupancy level ranges from 60 – 68% annually.
- Currently, the City is considering an asset sale of the Hotel to private investors and adding an additional 800 rooms to the Hotel.

# Case Study: Houston Convention Center Hotel – Sources of Debt Service Payment



- 5.65% of the City of 7% Houston's Hotel Occupancy Tax
- Parking revenues of seven large parking facilities owned/operated by the City in the central business district.
- Several tax rebates generated in the hotel based on state law. This pledge is limited to the first 10 years of operation.
- Estimated Coverage: 1.40x except for construction period which has at least 2.0x
- Included as one of the revenue streams is a rebate of taxes generated by the Hotel. This rebate results from the Texas Legislature's passage of a law which permits a taxing unit to enter into an agreement with the owner of a qualified hotel project to refund, rebate, or pay certain taxes that are generated, paid or collected by that hotel during the first 10 years of its operation.
- It appears the Houston Convention Center Hotel is meeting its debt service coverage.

# Case Study: Houston Convention Center Hotel – Performance

Total Bonds Outstanding:	\$ 296,315,000 (Series 2001 HOT Bonds)	
Other Sources:	Bank of America line of credit.	
Management:	The Corporation entered into a 20 year hotel management agreement with Hilton Hotels Corporation. Ace Parking Management manages the parking garage.	
Primary Security Provisions:	1) Pledge of Net Revenues 2) City-wide HOT 3) General Obligation Pledge 4) Debt Service reserve fund / surety	
Performance:	2006	2005*
OPERATING REVENUE	\$ 73,738,205	\$ 62,507,210
OPERATING EXPENSES	<u>52,601,762</u>	<u>48,805,122</u>
Operating Income	\$ 21,136,443	\$ 13,702,088
NON-OPERATING REVENUE (EXPENSES)	<u>(4,270,835)</u>	<u>(4,836,017)</u>
Change in Net Assets	\$ 16,865,608	\$ 8,866,071
Distribution to the City under agreement	(6,760,484)	(6,760,484)
INCREASE IN NET DEFICIT	10,105,124	2,105,587
Fund equity (deficit) at beginning of period	<u>(11,544,214)</u>	<u>(13,649,801)</u>
FUND DEFICIT AT END OF PERIOD	<u>\$ (1,439,090)</u>	<u>\$ (11,544,214)</u>
Debt Structure:		
Series 2001B	Fixed Rate, Semi-annual interest ranging from 5.00 to 5.75%	HOT & Special Revenue Bonds
Series 2001C-1	Auction Rate Certificates, 7-day reset mode	HOT & Special Revenue Bonds
Series 2001C-2	Auction Rate Certificates, 7-day reset mode	HOT & Special Revenue Bonds
2006 Debt Service Coverage Ratio:		
Net Revenues	\$ 16,865,608	
Debt Service	14,092,891	
Coverage Ratio (x)	1.20x	

\* Unaudited.





# Convention Center Hotel Financings

Hyatt Regency at  
McCormick Place  
(Chicago, IL)



# McCormick Place Convention Center Hotel (Chicago, IL)



## Project Description

- 800-room convention center hotel managed by Hyatt Hotel Corporation

## Key Participants

- Municipal Sponsor: City of Chicago
- Issuer: Metropolitan Pier and Exposition Authority
- Senior Managing Underwriter: Citi
- Hotel Manager: Hyatt Hotel Corporation

# Case Study: McCormick Place Convention Center Hotel – Financing Overview



- McCormick Place Expansion Project financing structure included:
  - Total Debt Service Outstanding: \$2.584 billion
  - \$222.139 million Series 1992A Fixed Rate Bonds\*
  - \$115.266 million Series 1994A, B Fixed Rate Bonds\*
  - \$486.979 million Series 1996A Fixed Rate Refunding Bonds\*
  - \$131.155 million Series 1998A, B Fixed Rate Refunding Bonds
  - \$431.565 million Series 1999A, B, C, D Fixed Rate Bonds
  - \$1.162 billion Series 2002A, B, C Fixed Rate Bonds
  - \$35.145 million Series 2004A Fixed Rate Bonds
  - Moody's Underlying Rating "A1" with a Stable Outlook
- Metropolitan Pier and Exposition Authority owns Hyatt Regency McCormick Place.

\* A portion of these Bond issues are related to the Hotel Project.

# Case Study: McCormick Place Convention Center Hotel – Sources of Debt Service Payment



- The Project Bonds are serviced with the proceeds of four taxes collectively referred to as Authority taxes:
  - Restaurant Tax
  - Car Rental Tax
  - Hotel Tax
  - Airport Departure Tax
- The Authority is also authorized to receive certain surplus funds, if any, generated by the Illinois Sports Facilities Authority.
- In addition, the state of Illinois established and holds a reserve escrow account – \$2.293 million balance as of June 30, 2006 – to offset any shortfalls in the receipt of Authority taxes used to make debt service payments on the Expansion Project Bonds.
- An allocated portion of the state of Illinois sales tax is also available to service the Project Bonds in the event of shortfalls in Authority taxes.



# Case Study: McCormick Place Convention Center Hotel – Performance



Due to the fact that the Financial Statement that was provided contains consolidated balance sheets and statements of revenue and expenses, it is not possible to determine the operational performance of the Convention Center Hotel.