



# **Convention Center Headquarters Hotel**

City Council

July 18, 2017

# Convention Center Headquarters Hotel

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- **Purpose of the Project**

- The primary purpose of the project is to develop a premier convention center hotel that will create economic and public benefits for Oklahoma City by:
  - Attracting additional convention, tradeshow, public exposition, and other events that require large quantities of hotel room bookings and stays
  - Generating increased tourism to OKC
  - Providing job creation and increased employment opportunities
  - Enhancing and fostering greater utilization of the Convention Center

# Review of process to date

Date	Action
January 2015	City Council authorization to launch procurement for convention center hotel developer <ul style="list-style-type: none"> <li>- PFM engaged to advise on procurement process</li> <li>- Selection committee formed to make recommendation</li> <li>- RFP issued</li> </ul>
March 2015	Qualified 4 firms based on past experience, team, financial capability and general approach
	Procurement on hold due to change in site location
January 2016	Solicitation of input from meeting planners
May 2016	Meetings with shortlisted developers
June 2016	Requested additional information from developers <ul style="list-style-type: none"> <li>- Required submission of brand, operator, concept design, schedule, plan of finance, pro forma and term sheet comments</li> </ul>
August 2016	<ul style="list-style-type: none"> <li>- Two responses submitted (Matthews dropped out due to other project commitments)               <ul style="list-style-type: none"> <li>• Mortenson / Marcus teamed together</li> <li>• Omni</li> </ul> </li> </ul>
September 2016	Selection committee met with developers
September 2016	City Council authorized City Manager and Executive Director of the Oklahoma City Urban Renewal Authority to enter into exclusive negotiations with Omni Hotels
Sept 2016 - Present	Negotiations with Omni Hotels for the development of a convention center hotel

# Selection of Omni Hotels

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- Omni Hotels was selected as the developer of the convention center headquarters hotel with a unanimous vote of the selection committee, based on the following key factors:
  - \$150.1 million developer contribution
  - Private partner with substantial balance sheet eliminates financing contingencies
  - Certainty of ownership and long-term commitment
  - Significant experience in operating four-diamond and highly successful convention center hotels
  - Entrepreneurial organization and distinctive concepts

# Omni- Early concept



# Summary of Omni proposal

<b>Brand</b>	Omni
<b>Operator</b>	Omni
<b>Ownership</b>	Omni
<b>Contractor</b>	Brasfield & Gorrie
<b>Finance</b>	None (Equity)
<b>Architect</b>	HKS
<b>Number of rooms</b>	600
<b>Ballroom / meeting (sellable)</b>	50,112
<b>Restaurants, food and beverage</b>	16,525 (6 outlets)
<b>Total GSF</b>	570,607

- Thomas Hazinski – HVS
  - Market & Impact study Results

# Redevelopment Agreement

- **Parties**

- Omni OKC, LLC, an Oklahoma limited liability company owned by Omni Hotels Corporation
- The City of Oklahoma City, the Oklahoma City Urban Renewal Authority and the Oklahoma City Economic Development Trust

- **Related Agreements**

- Economic Development Agreement
- Parking Easement
- Room Block Agreement (between Omni, the Oklahoma City Convention and Visitors Bureau and SMG, the operator of the Convention Center)

- **Term of the Agreement**

- The term will begin on the date the Redevelopment Agreement is executed by the City and continue for 45 years after issuance of the hotel's certificate of occupancy



# Redevelopment Agreement

- **Closing and Land Sale**

- A closing will take place, and Omni will purchase the land on the later of the date that agreed-to conditions precedent are met or 12 months after the Redevelopment Agreement is executed

- **Conditions Precedent that the City must satisfy before closing**

- **City Project funding**

- The City must provide evidence that the “City Projects” (the MAPS 3 Park, the Convention Center, and the Streetcar) are fully funded and subject to executed construction contracts and that the City owns land on which a parking garage will be built adjacent to the hotel

- **City Projects Preliminary Project Development Schedules**

- The City must provide periodic updates

- **Funding Plan implementation**

- The City must take the necessary steps to execute the funding plan for the Public Contribution

# Redevelopment Agreement

- **Conditions Precedent that Omni must satisfy before closing**
  - **Preliminary Project Development Schedule**
    - Omni must provide periodic updates. The Target Substantial Completion Date cannot be changed without the City's consent.
  - **Development approvals**
    - Omni must obtain all necessary permits, municipal approvals, etc, related to construction.
  - **Conceptual Plans**
    - At its expense, Omni must prepare conceptual plans for review and consent by the City as to certain approval items (exterior elevations, site plans, floor plans, etc.).
  - **Hotel Plans**
    - At its expense, Omni must prepare schematic design documents and specification, design development, and construction documents that must be approved by the City if they materially deviate from the Conceptual Plans. Any subsequent changes to the Approval Items must be approved by the City.
  - **Preliminary Project Budget**
    - Omni must notify the Public Representatives of any changes in the development costs.
  - **Evidence of project financing**
    - Omni must submit evidence of its equity capital and commitments to finance construction.

# Redevelopment Agreement

- **Omni's right to postpone Closing**

- Before Closing, Omni will have the opportunity to review the status of construction of the City Projects and the parking garage. In the event of the following, Omni may notify the City, and closing will then be delayed until such time as the situation warranting postponement is rectified to Omni's reasonable satisfaction:
  - Any of the City Projects are then no longer funded, or
  - Any of the scopes for City Projects then materially deviate from the conceptual plans, or
  - Construction of the City Projects is then so materially behind schedule that it could be reasonably anticipated that any of the projects would not be completed,
  - and in all three cases, Omni reasonably believes that such occurrence will materially and adversely impact the Hotel.

# Redevelopment Agreement

- **Omni's obligations regarding construction**
  - The parties intend for completion to coincide with completion of the Convention Center and a parking garage
  - Omni's Preliminary Project Development Schedule calls for construction to begin 6 months after closing and for construction to last 30 months
  - Omni may delay construction if the development of the Convention Center or garage fall behind schedule
  - Omni is not obligated to open the Hotel until the Convention Center and a garage are operational (however, Omni may elect to open if the City provides temporary parking for up to six months)
  - At closing and until the hotel opens, Omni Hotels Corporation will provide a Completion and Performance Guaranty pursuant to which timely completion of the Hotel and all of Omni's costs associated with construction of the Hotel will be guaranteed

# Redevelopment Agreement

- **The City's obligations as to the City Projects**
  - The City must ensure continuous operation of the new Convention Center as the City's primary convention center, maintained to the same standard it is built to and to a standard of quality consistent with comparable convention centers
  - The hotel must be designated as Oklahoma City's "convention center hotel"
  - Once construction is underway, the Convention Center must stay substantially in compliance with its schedule, and Omni may delay construction if it falls behind schedule
  - The City must provide evidence that funds for the City Projects are held in a segregated MAPS 3 Project account
  - The City Projects Conceptual Plans have been provided to Omni. The City Projects as developed may not materially deviate from those plans

# Redevelopment Agreement

- **Omni's obligations regarding Hotel operations**
  - Keep the hotel open continually
  - Meet the minimum operating standards for Four-Diamond Hotels and Omni's brand standards
  - Materially comply with the Room Block Agreement
  - Reconstruct the hotel if it, or any part of it, is damaged or destroyed
  - Use the property only as a hotel as required by the Redevelopment Agreement for the first to occur of:
    - 45 years after the certificate of occupancy; or
    - The date the new Convention Center is no longer used as the City's main convention center

# Redevelopment Agreement

- **Parking for the hotel**

- The City is responsible for causing the construction and operation of a parking garage adjacent to the Hotel at a mutually agreeable location.
- The City and Omni will enter into a Parking Easement that will allow Omni the use of 450 dedicated parking spaces.
- Omni will pay market rate for its spaces to the garage owner (which may be the City or a third party).
- Omni will not be obligated to open and operate the hotel until the garage is operational for its intended purposes. Omni can choose to open based on an agreement that the City will provide substitute parking arrangements.
- The City and Omni will have reciprocal rights to access each other's parking spaces, if available, for overflow parking if necessary.
- The City will be obligated to cause the reconstruction of the garage if it is ever destroyed .

# Redevelopment Agreement

- **Default and termination**

- Prior to Closing, the parties have the right to terminate the Agreement if the other party does not fulfill its obligations, primarily consisting of satisfying the Conditions Precedent to Closing
- If any Condition Precedent within the City's control is not satisfied within the one-year period or if the City wrongly refuses to close the sale, Omni has the right to terminate the agreement. Omni would then be entitled to reimbursement of its actual out-of-pocket costs related to due diligence, design, legal, development, and documentation of the project up to \$1,250,000
- Omni may also terminate prior to Closing if it reasonably determines that the project is not economically feasible. In that case, Omni is not entitled to have its development costs reimbursed.
- After Closing, if Omni defaults in its performance (as by failing to materially comply with its obligations, abandoning the project, having solvency issues, etc.) the City may so notify Omni. In such case, Omni will have the opportunity to cure that default. If not cured, Omni will have incurred an "Event of Default" in which case the municipal entities may enforce the Guaranty and require assignment of the project contracts to OCURA (if the Event of Default occurs before construction is complete), and in all cases, seek compensation for damages.



# Redevelopment Agreement

- **Restrictions on other properties**

- **The Cox Convention Center Site**

- The existing Cox Convention Center site will be subject to a restrictive covenant of record that:
      - The site may not be used as the main convention center effective one year after the hotel is issued its certificate of occupancy
      - The City may not permit another hotel on the site for ten years
      - The City may not permit a hotel with more than 200 guest rooms on the site for 20 years
      - The City may not designate another hotel as the City’s “convention center hotel” for 45 years
      - Omni has a right of first negotiation to develop a hotel on the site

- **The “No Subsidy Zone”**

- For 15 years after a certificate of occupancy is issued for the Hotel, public contribution or subsidy will be prohibited for a hotel within the “no-subsidy zone”, generally bounded by Dean A. McGee to the north, Joe Carter Avenue and Russell M Perry Avenue to the east, I-40 to the south, and Lee Avenue to the west
    - The First National Center is carved out of the No Subsidy Zone

- **South Harvey Avenue**

- The City must, to the extent it can, preserve pedestrian access between the Myriad Botanical Gardens and the Park

# No-Subsidy Zone



# Context for public participation - national

Project	Year Completed	Rooms	Cost (\$M)	Public participation (\$M)	Public participation %
OKC (Omni)	planned 2020	600	\$235	\$85	36%
Portland Metro Hyatt Regency <sup>1</sup>	planned 2019	600	\$230	\$74	32%
Kansas City Hyatt <sup>2</sup>	planned 2019	800	\$307	\$156	51%
Omni Louisville <sup>3</sup>	planned 2018	612	\$226	\$107	47%
Omni Nashville <sup>4</sup>	2013	800	\$247	\$150	61%
Omni Fort Worth <sup>5</sup>	2009	614	\$128	\$49	38%

1. Includes \$9 million land cost, does not include \$26 million adjacent public parking garage that will lease 375 spaces to hotel
2. Excludes \$4.5 million value of City land contribution
3. Project cost for hotel and 20,000 sf grocery space only (excludes 225 condos, public parking structure and land)
4. Excludes \$26 million land cost and related public contribution; includes Omni's 640-space below-grade parking structure
5. Excludes 89 condos and public parking garage

# Context for public participation - Oklahoma

Project	Year Completed	Rooms	Cost (\$M)	Public participation (\$M)	Public participation %
OKC (Omni)	planned 2020	600	\$235	\$85	36%
Edmond	Late 2017	158	\$37	\$8.8	24%
Midwest City	2004	152	\$16	\$16	100%
Lawton	2014	162	\$23	\$5.3	23%

# Redevelopment Agreement

- **The Public Contribution - \$85,400,000**
  - The Public Contribution will be the first monies paid for construction
  - At closing and until the hotel opens, Omni Hotels Corporation will provide a Completion and Performance Guaranty pursuant to which timely completion of the Hotel and all of Omni's costs associated with construction of the Hotel will be guaranteed
  - Funds making up the Public Contribution must be held in a segregated construction fund by a trustee bank and disbursed pursuant to an agreed upon draw schedule between Omni and the City

# Redevelopment Agreement

- **Payments from Omni**
  - **Land payments**
    - Omni will pay \$200,000 annually (escalating by CPI) for 25 years commencing the fifth year after completion of the hotel
  - **Minimum tax payment**
    - Because tax-increment financing will be used to help fund the Public Contribution, Omni will make a minimum tax payment of \$1,400,000 for 30 years or until termination of the tax-increment financing district
  - **Hotel Percentage Payments**
    - For 25 years from the fifth year after occupancy, Omni will pay a percentage payment of 10% of Net Operating Income in excess of \$20,000,000 (escalating by CPI), subject to a cap of \$15,000,000 in the aggregate

# Funding plan

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- **Public Participation Financing**
  - OCEDT will issue revenue bonds to fund the contribution
  - Anticipated repayment of 25 years
  - The financing will be backed by a moral obligation from the City
  - The revenue sources in the funding plan would be used to repay the bonds

# Funding plan

- **Goals of the funding plan**
  - Maximize the sources of revenue generated by the hotel
  - Provide multiple sources of funding to match cash flows with debt service requirements and minimize risk to City operating funds
  - Use available revenues from other successful projects
  - Establish a revenue stabilization fund to further offset risk
    - Excess revenues, if any, will flow into the revenue stabilization fund
    - These funds will be used to cover any shortfalls or to pay down debt



# Potential funding sources – Estimated Amounts

## Present Value of Projected Cash Flows

<b>Hotel Generated Sources:</b>	<b>Low Success</b>	<b>Medium Success</b>	<b>High Success</b>
Hotel Property Tax TIF	16,600,000	16,600,000	23,800,000
Hotel Sales Tax TIF	9,400,000	10,800,000	13,900,000
Hotel Occupancy Tax TIF	5,300,000	6,000,000	7,900,000
State Leverage Act Funds (Sales, Hotel Tax)	13,700,000	15,300,000	16,300,000
Land Payment	1,800,000	1,900,000	2,100,000
<b>Other Existing Sources:</b>			
Skirvin Lease and Mortgage	10,600,000	11,300,000	14,400,000
TIF #2	16,600,000	28,800,000	28,800,000
Core to Shore TIF A	3,600,000	5,100,000	6,500,000
TIF #8	9,900,000	15,800,000	15,800,000
Bass Pro Lease	2,300,000	3,800,000	4,600,000
<b>Total</b>	<b>\$89,800,000</b>	<b>\$115,400,000</b>	<b>\$134,100,000</b>

# Next Steps - Funding Plan Implementation

## Next Six Months

- Amend Downtown/MAPS project plan
- Initiate start of Core to Shore TIF A (July 2018)
- Obtain TIF Budget Allocation (TIF 2, 8, Core to Shore TIF A)
- OCEDT/City Council Economic Development Agreement with Omni
- Amend various agreements
  - Bass Pro between OCURA and City of Oklahoma City
  - Skirvin lease and loan between OCRA and City of Oklahoma City

## Summer 2018

- OCEDT Bond Issue
  - Underwriting Team under contract
    - POS development
    - Rating presentations
    - Feasibility study
  - OCEDT Resolution authorizing debt issuance
  - City Council approval of debt

# In Summary

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- Omni Hotels has a proven track record and will make a significant private investment in Oklahoma City.
- The development of a convention center hotel will have significant economic impact, creating jobs, new investment and new tourism expenditures in our local economy.
- Over a ten year period, it is estimated that the economic impact of the convention center with a convention center hotel will be over \$1.3 billion in new spending.
- The Funding Plan is conservative and designed to limit risk.
- The public participation is largely funded by revenues generated by the hotel and does not increase taxes.

# Recommendation

- Approve Omni Hotel Funding Plan
- Direct staff to initiate necessary amendments to Downtown/MAPS Project Plan and Core to Shore Project Plan
- Direct City Manager to take administrative actions to implement Omni Hotel Funding Plan
- Request OCURA to take all necessary actions to implement Omni Hotel Funding Plan
- Request OCEDT to take all necessary actions to implement Omni Hotel Funding Plan
- Approve Redevelopment Agreement with Omni OKC, LLC.