

HOUSTON FIRST: A NEW DAY FOR CONVENTIONS AND ENTERTAINMENT

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PROPOSAL

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- Proposed consolidation of:
 - City Convention & Entertainment Facilities Department
 - Houston Convention Center Hotel Corporation

BACKGROUND

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- Possible reorganization studied for more than 10 years
- Mayor's Committee on Marketing Efficiency spent much of 2009 finding new ways to maximize effectiveness of efforts to attract conventions and tourism via a possible consolidation of Convention, Entertainment & Facilities Department (CEFD), Greater Houston Convention and Visitors Bureau (GHCVB) and the Houston Convention Center Hotel Corp (HCCHC)
- Conversations continued into the Parker Administration specifically regarding a proposal to combine CEFD and HCCHC.

CONVENTION & ENTERTAINMENT FACILITIES OVERVIEW

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- An economic generator for conventions and tourism
- Manages 2.6 million square feet of world-class venues, plazas and green space:
 - George R. Brown Convention Center
 - Wortham Theater Center
 - Jones Hall for the Performing Arts
 - Miller Outdoor Theatre
 - Theater District parks and plazas
 - Talento Bilingue de Houston
 - Houston Center for the Arts
 - About 5,800 parking spaces
- 115 employees and 457 contract workers

Houston Convention Center Hotel Corporation

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- A non-profit, local government corporation (LGC) created in 2000 by City Council
- Formed to envision, fund, develop, build, operate and maintain a flagship convention headquarters hotel next to GRB, which was expanded at the same time
- Hilton Americas-Houston opened in 2003 at a cost of \$316 million.
- The Hotel supports GRB efforts to increase convention business and has been a catalyst for economic redevelopment on the east side of downtown.
- Governed by 9 member board, chaired by Ric Campo
- Subject to MWBE open meetings and open records acts
- Includes a requirement for good faith efforts to utilize City certified MWBE's.
- Can't issue debt or sell Hotel without City approval

HCCHC OVERVIEW (Cont)

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- Over 60% of hotel business is group based, bringing in convention attendees from all parts of the United States.
- Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) for 2011 is forecasted at \$29.4 million, or 3.3% higher than 2010
- Total revenues from Hotel Operations for March 2011 was a record for any single month since opening.
- Departmental profits for the month of March 2011 are 6.9% higher than March 2010.
- Forecasted occupancy for 2011 is up 5.3% over 2010 and booking pace in 2012 for group revenues is up 10% over last year.
- Renovating all 1200 guest rooms in 2011, funded from capital reserves.

CONSOLIDATION GOAL

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- Develop and implement a long-term strategic vision for the City's convention and theater products
- Ensure maintenance of all facilities for long-term
- General cost savings in a variety of means, such as accounting, audit and legal services
- Potentially improve the financial strength of the enterprise
- Create a single entity focused on long-term sustainability of the operation as a whole

PROPOSED STRUCTURE

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- Similar to action with Houston Zoo in 2002 except that in this case, HCCHC will pay rent to the City
- City will assign CEFD obligations and responsibilities (including debt) to HCCHC
- HCCHC will manage all CEFD assets
- City will enter into a 15-year lease agreement for all CEFD facilities with HCCHC, with a 15-year renewal option.

PROPOSED STRUCTURE (CONT)

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■ Value to City:

FY 2011

Miller Outdoor Theatre Operational Costs	\$ 1,200,000
TOTAL	\$ 1,200,000

FY 2012

Inducement Fee	\$ 8,620,000
Rent	1,380,000
Miller Outdoor Theatre Operational Costs	1,200,000
City Dates (in-kind contribution)	<u>330,000</u>
TOTAL	\$11,530,000

FY 2013-2026 (each year)

Rent*	\$ 1,380,000
Miller Outdoor Theatre Operational Costs	1,200,000
City Dates (in-kind contribution)	<u>330,000</u>
TOTAL	\$ 2,910,000

* Annually adjusted for CPI increases

PROPOSED FINANCIAL STRUCTURE

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- City will assign all current CEFD financial resources to support this work, except:
 - 19.3% of HOT gross receipts remain with City to fund arts contracts (unchanged from current situation)
 - \$420,000 for protocol services
 - \$425,000 to fund Greater Houston Partnership and Bay Area-Houston Economic Partnership
 - \$231,000 for event traffic control in the Convention District and miscellaneous administrative costs
- CEFD's role in regards to GHCVB will remain unchanged.
- Fee and lease payments will be funded by Hotel operations.

PROPOSED GOVERNANCE & EMPLOYEE STRUCTURE

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- Governance:
 - Mayor & City Council must approve the following:
 - Annual budget of HCCHC with regard to leased assets
 - Any new issuance of debt
 - Sale of any leased asset or the Hotel
 - Mayor will continue to appoint all 9 board members with City Council confirmation
 - HCCHC role will be broadened to form primary governing entity
 - HCCHC will be renamed Houston First Corporation
- Employees of CEFD will be transferred to HCCHC

CITY EMPLOYEE IMPACTS

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- Consolidation into the Corporation (LGC) will not result in layoffs or pay cuts to CEFD employees
- HOPE Union has been advised and issues will be discussed at the planned May 16 “Meet and Confer”
- Expect CEFD employees will be leased to the Corporation at the Corporation expense until such time as a benefit package is prepared and all employees are fully briefed (target date: October 1, 2011)
- Expect a benefit package built from current city benefits and comparable to the Zoo will be made available and paid by the Corporation
- Expect that Corporation employees will be offered a defined contribution pension plan similar to that used by the zoo
 - Transition processes similar to the Zoo will be put into place

NEXT STEPS

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- Council consideration of an ordinance that:
 - Amends HCCHC articles to change its name and reflect new role
 - Approves an interlocal agreement detailing financial, personnel and reporting requirements and amendment to Chapter 12
 - Approves a lease of facilities to HCCHC
- Consolidation would be effective on July 1, 2011

TIMELINE

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- May 9 – Fiscal Affairs Meeting
- May 18 – Council