MIAMIBEACH

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OFFICE OF THE CITY MANAGER

MEMO TO COMMISSION

TO: Mayor Dan Gelber and Members of the City Commission

FROM: Jimmy L. Morales, City Manager

DATE: May 16, 2018

SUBJECT: **RFP 2018-238-KB FOR THE DEVELOPMENT OF A CONVENTION CENTER HOTEL ADJACENT TO THE MIAMI BEACH CONVENTION CENTER**

ADMINISTRATION RECOMMENDATION

Adopt the Resolution to issue a request for proposal for the development of a convention center hotel adjacent to the Miami Beach Convention Center.

BACKGROUND

In 2015, the City issued an RFP for the development of an 800-room convention headquarter hotel on the 2.55 acre site defined below as the “Original Hotel Site”. The City selected a developer, negotiated and finalized a comprehensive lease agreement, and held a referendum in the March 2016 election, seeking 60% approval from the voters to proceed with the lease of the land. Approximately 54% of the voters approved the lease, and the project could not proceed.

On June 1, 2017, the Mayor’s Ad Hoc Blue Ribbon Panel on the Convention Hotel (the “Panel”) presented its report to the City Commission. The key recommendations included: 1) It is critical to the City and the Miami Beach Convention Center that the construction of a Convention Center Hotel be pursued; 2) The Convention Center Hotel should guarantee that at least 80% of its rooms be available for convention center events; 3) No gambling of any kind should be allowed at the hotel or on the site; and 4) If the Jackie Gleason Theater site is utilized, it is critical that a new state-of-the-art Jackie Gleason Theater (“Gleason”) be constructed that is of similar size and function. Other recommendations included the number of rooms to be between 800 to 1,000; a building height of no more than 185 feet; best efforts to engage a world-class architect; maximize vehicle access points; and provide sufficient parking required by the City Code.

On February 14, 2018, the City Commission directed staff to present options for a new RFP to develop a convention center hotel and to consider the following sites:

- Original Hotel Site - the same 2.55-acre site from the 2015 RFP, which is currently a parking lot, and is adjacent to the MBCC.
- Expanded Hotel Site – this site would include the Original Hotel Site, and the property that is currently occupied by the Gleason Theater, an additional 3.84 acres.
- 17th Street Garage Site – The 3.15 acre site of the current City parking garage.

Subsequently, on April 2, 2018 the City received an unsolicited proposal from Matthews Southwest Hospitality ("MSW") and Preston Hollow Capital ("PHC") to design, build, operate and maintain a convention center hotel with a Phase 1 553-room hotel on the Original Hotel Site, and a Phase II expansion of the hotel to 1,000± rooms once the Expanded Hotel Site becomes available. Under this proposal, the hotel would be owned by the City, developed by MSW under a development/management agreement and financed with tax-exempt bonds purchased by PHC, with no recourse to the City beyond the net operating income of the hotel. The hotel is proposed to be operated by a third-party hotel management company (Hilton, Hyatt, Marriott, etc.) for the term of the bonds. Once the bonds are repaid, the City would own the hotel and can continue to operate the hotel or sell it to a third-party. Since the hotel site would be City-owned and would not involve a lease or sale of land, there is no referendum requirement for this proposal. Instead, pursuant to Section 1.03(f) of the City Charter, the project would require approval by 4/7 of the Planning Board and 6/7 of the City Commission. The proposal is included in Exhibit 1.

NEED FOR A CONVENTION CENTER HOTEL

The City of Miami Beach has been engaged in a public construction project that includes a complete renovation and expansion of the Convention Center, with construction anticipated to be completed this fall. This state-of-the-art building will enable our region to compete for world-class events and meetings.

An adjacent convention center hotel is the next step in creating a highly competitive convention destination. The hotel will have a dramatic impact on the ability to book conventions and events that generate hotel room nights and spending throughout the city. The following summarizes the key impacts:

- ***Competitive Landscape*** – Out of the 30 top U.S. convention destinations, Miami Beach is one of four that currently does not have a headquarter hotel attached or adjacent to its convention center. The other three cities include: Ft. Lauderdale, which is in the process of developing a hotel; Los Angeles, which is also in the process of developing a hotel;

and New York, which does not need a headquarter hotel in view of the significant hotel inventory in the nearby Broadway District. With the addition of the convention hotel for the MBCC, Miami Beach will be truly competitive as a convention destination.

- ***Client Demands*** – The City and the Greater Miami Convention and Visitors Bureau (GMCVB) have reached out to the Convention Center's target market and continue to receive feedback that many convention planners will only consider Miami Beach for their event if there is an attached hotel. With a hotel, the City will finally have an opportunity to book these events. Art Basel has also expressed strong support for the hotel.

- ***Center Bookings*** – Case studies in other destinations that have expanded/renovated their convention center, and developed a convention hotel, have shown material increases in convention bookings. Average convention room night impact increased 42%. The City and GMCVB are working through booking goals for the Convention Center and are working toward increasing convention bookings from approximately 5 annually to 20 to 25 annually, not including Art Basel.

- ***Area Hotel Impact*** – City staff has studied the impact on existing hotels when a new convention hotel opens. In cities where new convention hotels have been developed, hotel room night demand exceeded the increase in room night supply within 1 to 3 years.

- ***Room Rate Driver*** - City staff has analyzed the times of year when Miami Beach realizes its highest hotel rates. Other than New Year's Eve and large sporting events, many of the high rate periods coincide with convention center events. More conventions booked means more high-rate periods, which means more hotel revenues, equating to more tax revenues that support City services.

- ***Traffic*** –The convention hotel is critical to change the Convention Center's booking mix from "drive-in" consumer and trade shows to "fly-in" conferences and conventions. This should reduce the traffic impact of the convention center by cutting down the number of daily trips.

- ***Contractual Room Block*** – One of the challenges with booking the Convention Center is that the City has no room block agreements with any hotels in the area, including large-scale hotels capable of providing large enough group room blocks to support convention events. Room commitments are critical to attracting premier conventions. Any hotel developed on City land will require a Room Block Agreement, requiring the Hotel to commit 80% of its rooms to Citywide events that are to occur at least 30 months in the future and, among other things, include price protection to ensure a fair rate is offered. This is a game changer for Miami Beach.

- ***Tax Impact*** – The Hotel will pay hotel, resort and property taxes that go to the City. The 2015 hotel proposal (800 rooms) was estimated to create City taxes totaling $151 million net present value ("NPV") over 30 years. These funds support both the Convention Center itself, and a number of other projects within the City. Public schools would have received an additional $40 million NPV from the Hotel, and the County an additional $87 million NPV.

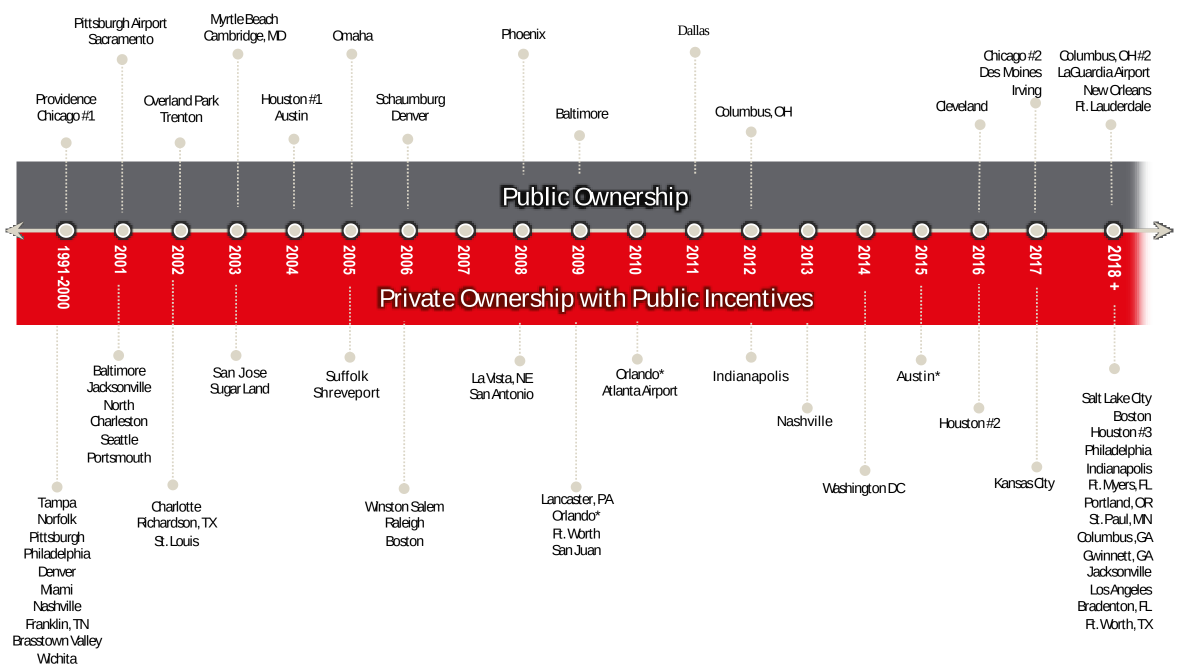
- ***Increased Dedicated County Funding*** – Miami-Dade County is contractually obligated to increase its Convention Development Tax funding to the City of Miami Beach by up to $1.5 million annually through 2044 – ***only if a convention hotel is developed***. This totals over $30 million more to the City.

- ***Art in Public Places*** – The hotel will contribute 1.5% of the construction costs to the City's Art in Public Places fund, which may be used for Art in Public Places projects throughout the City.

The advantages of developing the proposed convention hotel are substantial and complement the City's investment in the MBCC Renovation and Expansion Project. I truly believe that our investment in the Convention Center, coupled with a new convention hotel, will catapult Miami Beach into a leadership position in the convention market. Failure to build an adjacent headquarter hotel will diminish the return on our investment in the Convention Center. While an 800-1,000 room hotel maximizes impact, even a minimum of 500 rooms in a Phase 1 would be impactful.

HOTEL DEVELOPMENT APPROACHES
Convention center hotels are typically developed under public-private partnerships due to the need for subsidies to support the high cost of building the meeting space program elements within the hotel. In general, the public entity provides 30-50% of project costs through project rebates, abatements, land contribution, grants, and other forms of public financing support. Only destinations like Las Vegas, with its gambling revenue support, Orlando, with its theme park support, and Miami Beach, with its international destination appeal, can develop convention hotels without public subsidies.

Convention hotels are developed either by 1) a private developer model, through a lease or sale of property, with private debt and equity (and public subsidies); or 2) a publicly owned and financed model, with a public-private partnership for a developer to develop and operate the hotel. Below is a table of the recent convention center hotel projects and the model used for development.



In Miami Beach, under the private developer model, the City would lease the hotel site to a private developer, who would raise private capital to develop the hotel, and hire a third-party management company to manage the hotel. This model was utilized in the 2015 hotel proposal. Under Section 1.03(b)(3) of the City Charter, a lease longer than 10 years of land adjacent to the Convention Center would require approval by 60% of the voters voting in a City-wide referendum.

Many cities across the country utilize various versions of publicly owned development models for their convention center hotel projects. Broward County, Florida is currently in the process of utilizing a publicly-owned approach for its convention center hotel. Most cities provide credit enhancement to realize the lowest cost of capital, and in turn use hotel profits to fund other economic development projects. For example, Houston publicly financed a 1,200-room Hilton that opened in 2004. Profits from the Houston Hilton funded the subsidies required to develop a second privately financed 1,000 room Marriott that opened in 2016, and funded the convention center's renovation and expansion that was completed in 2016.

The table in Exhibit 2 provides a summary of the key elements of each approach.

Given the nature of how hotels are developed across the United States, **I am recommending that the City issue the attached RFP that enables bidders to propose either public or private financing approach.** This will open up the opportunities to all types of responses and enable the City to assess the merits of both approaches. In both cases, the RFP will be clear that there will not be any public subsidy or guarantees for the hotel in Miami Beach.

SITE ANALYSIS
As mentioned above, the City Commission directed staff to present the options for the convention hotel to be developed considering the following sites:

- Original Hotel Site - the same 2.55-acre site that was offered in the 2015 RFP.
- Expanded Hotel Site – includes the site that is currently occupied by the Gleason Theater.
- 17^{th} Street Garage Site – The site of the current City parking garage.

Original Hotel Site
The majority of the Original Hotel Site is a surface parking lot and is ready for development. The site also includes the building at 555 17^{th} Street, and the annex of the Gleason Theater building. During the 2015 process, an amendment to the Live Nation Management Agreement was negotiated and approved with Live Nation Worldwide, Inc., to provide for the Gleason Annex as part of the hotel footprint and minimize any impacts to Fillmore Live Nation operations.

As discussed at various meetings of the Mayor's Ad Hoc Blue Ribbon Panel on the Convention Hotel, many believe the primary reason the 2015 referendum did not pass was due to the size, mass and height of the 2015 proposed 800-room hotel. Therefore, **it is recommended to limit the height of the hotel to 185 feet** per the recommendation of the Mayor's Blue Ribbon Panel. Massing studies have indicated this could limit the number of rooms to approximately 550± rooms. Parking of 0.4 spaces per room is currently required by the City's Land Development Regulations. Room count could increase if adjacent parking is utilized and the City Code is changed to reduce the on-site parking requirement.

The RFP includes an option for proposers to submit proposals for either a lease of the Original Hotel Site, or a P3/Management Agreement for the Original Hotel Site. Under both models, no public subsidies or credit enhancements will be provided for the Hotel.

Expanded Hotel Site
Combining the Original Hotel Site with the Expanded Hotel Site provides an ideal site to develop a convention center hotel. The 6.4-acre site could accommodate both the hotel and a reconstructed Gleason Theater, a recommendation from the Mayor's Blue Ribbon Panel on

Convention Hotel. There are several challenges with utilizing the Gleason site immediately for hotel development, including:

- **The Gleason is currently operated by Live Nation pursuant to a Management Agreement that expires August 31, 2022, requiring a buy out to be negotiated prior to leasing the site to a hotel developer**.
- It will be very challenging to design the ballroom required under hotel brand standards for a 1,000-room hotel, and leave the existing Gleason in its current location.
- The Gleason is in need of as much as $50 million in renovations if it is determined to stay in its current location.
- Reconstructing a new 2,460 seat theater costs $50,000 to over $100,000 per seat or $120 million to $240 million. By way of comparison, the recently constructed 2,400-seat Disney Theater in downtown Orlando cost $102,000 per seat excluding land costs. The Disney Theater is a modern version of the Gleason, an amplified theater targeting commercial acts in music, comedy and Broadway theater. The South Dade Cultural Center, with just 960 seats, was completed in 2011, and cost approximately $50 million.

The City does not currently have the resources available to publicly fund a new theater, so the only way to utilize the Expanded Hotel Site is if the hotel developer funds the project. Consequently, any proposal utilizing this larger site will need to provide a private funding plan for reconstruction of the Theater. This is very challenging.

The proposed RFP includes a potential option for a long-term lease of the Expanded Hotel Site. The RFP requests that proposers identify any financial commitments or guarantees that may be required for the renovation or replacement of the Gleason Theater. The City has not included a Management/P3 Option for the Expanded Hotel Site because, pursuant to Section 287.055 of the Florida Statutes, the City would need to identify a “design criteria professional” (“DCP”) to prepare a “design criteria package” for the Theater. The City does not have the requisite architectural/engineering expertise in-house for development of a DCP for a performing arts center. If this is an option the City Commission desires to pursue, the process of engaging a design firm would take 4-6 months, with additional time required for the firm to then prepare a DCP.

17th Street Garage Site – It has been recognized in the City’s long-term capital plan that the 17th Street Garage is reaching the end of its useful life, and redevelopment of the site could include a hotel. Based on evaluation of the 17th street garage, **the Administration does not recommend the 17th Street Garage site as part of this RFP at this time**. First, a hotel project at the 17th Street garage would displace the 1,460 parking spaces currently used for Lincoln Road and the Convention Center District. For the City to take so many parking spaces offline, even for a temporary construction period, may prove problematic. Second, the 17th Street Garage is part of the City’s Parking System and subject to the bond covenants and limitations related to the City’s Parking Revenue Bonds. The bond covenants require that the City’s Parking System rate consultant (Walker Consultants) provide an opinion, that any proposed disposition will not have a material adverse effect on the net revenues of the Parking System. Further, the covenants generally require proceeds of any disposition to be applied for debt service or defeasance of bonds. Given the size of the 17th Street Garage, removing the garage from the City’s parking system in accordance with bond covenant requirements will prove challenging. The 17th Street Garage generates approximately $2.1 million in net revenues. Third, even if the foregoing could somehow be accomplished, the potential loss of revenue associated with taking 1,460 parking spaces offline would require the City to reprioritize previously appropriated capital projects, depleting Parking System surplus fund balances, and reducing (or eliminating) contributions to the General Fund or transportation in order to meet debt service and other obligations of the Parking Enterprise Fund. Due to declining revenues in the Parking Fund, the Administration is already recommending reductions in the transfers to the General Fund. The loss of these revenues will put further pressure on the Parking Fund

UNSOLICITED PROPOSAL
As noted above, on April 2, 2018, the City received an unsolicited proposal from Matthews Southwest Hospitality ("MSW") and Preston Hollow Capital ("PHC") to design, build, operate and maintain a convention headquarter hotel

The City Commission has the ability to either (1) accept the unsolicited proposal and initiate the process for soliciting alternative proposals under Florida Statute 255.065; (2) reject the unsolicited proposal as moot, as a P3/Management option is provided under the proposed RFP; or (3) decline to proceed with any RFP option that includes a City-owned hotel model. Since the City wants to assess all possible options, I recommend the City Commission reject the unsolicited proposal and utilize the new RFP process that will enable bidders to submit a proposal for a P3/Management option as part of the process.

TIMELINE
The threshold question in this process is the timing of any required or desired referendum. The advantage of a November 2018 referendum is higher turnout, which means the largest number of Miami Beach voters will get to weigh in on the question. The challenge is that the County's deadline to place a question on the November 2018 ballot is August 7, 2018. That provides approximately 12 weeks for bidders to respond to the RFP, for the City to assess and select proposals, negotiate agreements, approve the agreements, and have two readings for the ballot questions.

Based on the current City Commission calendar, a schedule targeting November, 2018 would require the City Commission to schedule two additional special City Commission meetings, one in early July, 2018, and one prior to August 7, 2018. In addition, a November, 2018 target date would require the RFP to be limited to proposals for the Original Hotel Site, as there are too many additional issues to take into account and negotiate with regard to any lease for the Expanded Hotel Site. One of the challenges related to executing a referendum is adherence to the Third District Court of Appeal's September 20, 2013 ruling in Let Miami Beach Decide v. City of Miami Beach, Florida. The Court held that to approve a lease under the City Charter, the voters must be given notice of the material terms of the lease they are being asked to approve. For this reason, prior to the March 15, 2016 referendum, the City and Portman Holdings fully negotiated the terms of the proposed Hotel lease, so that voters would have the opportunity to review the material terms of the lease in advance of the referendum. Accordingly, to the extent the City Commission desires to pursue any option that requires a referendum, the material terms of any new agreement must be negotiated, finalized and approved by the City Commission prior to adoption of the Resolution calling for a referendum.

With respect to a Development/Management Agreement for a City-owned hotel, pursuant to Section 1.03(f) of the City Charter, a management agreement having a term of ten years or longer for the management, operation or use of City-owned property or City-owned facility, shall require approval by a 4/7ths vote of the members of the City's Planning Board, and a 6/7ths vote of the City Commission. At the City Commission's sole option and discretion, the City Commission may require, as a condition of its approval of the agreements for a Development/Management Agreement structure, for the agreement to be contingent upon approval by a majority of the voters voting thereon in a non-binding (i.e., straw ballot) City-wide referendum. If the City Commission desired to hold such a straw ballot referendum, the Development/Management Agreement would need to be finalized prior to adoption of the

Resolution calling for a referendum. As there is much to negotiate with respect to a publicly-owned structure, a November, 2018 target for a straw ballot measure is not possible.

Options for timelines for the RFP is as follows:

	November Referendum*	**Private Approach**	**Public Approach**
Issuance of RFP	May 2018	May 2018	Same as Private
Pre-proposal Meeting	June 2018	June 2018	Same as Private
Proposal Questions Due	June 2018	July 2018	Same as Private
Proposals Due	June 2018	July 2018	Same as Private
Analysis/interview/recommendation	June 2018	August 2018	Same as Private
Commission Selection Approval	July 2018*****	September 2018	Same as Private
Contract Negotiation	July 2018	October 2018	January 2019
Finance Committee Recommendation	July 2018	October 2018	January 2019
Planning Board Recommendation	July 2018	November 2018	February 2019
City Commission Approval (1st Reading)	July 2018	December 2018	Bonds TBD
City Commission Approval (2st Reading)	August 2018*****	January 2019	Bonds TBD
Ballot Question Approved	August 2018	February 2019	N/A
Referendum	November 2018	May 2019	N/A

*If the City Commission decides that it wants to pursue a November 2018 referendum, two Special Commission meetings, one in July and one in August, would be required with emergency referrals to Finance Committee and Planning Board.

SUMMARY OF REQUEST FOR PROPOSAL

Based on the foregoing, the City seeks proposals for separate, alternative options for the Hotel Project, namely:

Option A, for a Development and Ground Lease ("Lease") of the Original Hotel Site, for the Developer to develop, design, construct, finance, operate and maintain the Hotel Project; or

Option B, for a City-owned Hotel Project at the Original Hotel Site, with the site to remain owned by the City, and Developer to develop, design, construct, finance, operate, and maintain the Hotel Project on the City's behalf pursuant to appropriate agreements (collectively, the "P3/Management Agreement"), with all financing at the Developer's sole risk on a non-recourse basis; or

Option C, for a Lease of the approximately 6.4 acre Expanded Hotel Site, which includes the area identified under the Original Hotel Site, as well as the area where the Gleason Theater is currently located. The project under Option C must include, as part of the Hotel Project, either the renovation of the Gleason Theater, or the construction of a new performing arts center with approximately 2,460 seats (the equivalent of the current number of seats at the Gleason Theater). Under this Option C, the City will consider proposals that include the management and operation of the Jackie Gleason Theater (or the replacement theater) following the expiration of the City's current Management Agreement, as amended, with Live Nation Worldwide, Inc. ("Live Nation"). Unless otherwise mutually agreed to with Live Nation, the Lease under this Option C shall be effective following the expiration of the Live Nation agreement on August 31, 2022, and no construction or renovation work may take place at the Gleason Theater except as provided in the City's agreement with Live Nation, as amended.

The RFP provides the following proposed Evaluation Criteria:

	Maximum Points
Proposer Qualifications	15
Design Team Qualifications	10
Financial Plan & Terms and Preliminary Budget	35
Programing	15
Conceptual Design and Resiliency	25
TOTAL	**100**

RECOMMENDATION

I recommend the City Commission approve and authorize the Administration to issue the attached Request for Proposal seeking to develop a convention hotel under a site lease or P3 structure, with options for development on the Original Hotel Site or the Expanded Hotel Site, provided any Expanded Hotel Site proposal includes a viable plan to finance a renovation or reconstruction of the Jackie Gleason Theater. If the City Commission desires to target a November, 2018 referendum, I recommend the City Commission approve the issuance of the RFP, to proceed with Option A – a lease of the Original Hotel Site, with a modified timeline.

Exhibits:

Exhibit 1 Matthews Southwest/Preston Hollow Capital Unsolicited Proposal
Exhibit 2 Public versus Private Ownership/Development Comparison
Exhibit 3 Draft Request for Proposal including Ground Lease Template

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