

# Austin Convention Enterprises

City Council Audit & Finance  
Committee Briefing  
*August 2023*





# Purpose & Function

Created by the City in 2000 to support the promotion and development of convention and tourism business within the City.

## Resolution 000629-21

economic development objectives of the City, to-wit, the promotion and development of convention and tourism business within the City. The City Council hereby finds that,

ACE's function in that purpose is to build and provide for the operation of a hotel & parking garage

## Articles of Incorporation

of Article IV of these Articles of Incorporation, is to purchase, own, acquire, construct, equip, encumber, lease and sell, and provide for the operation of, a hotel, parking garage, and related facilities to be located across from the Austin Convention Center (the "Project") and to do all



Hilton

# Structure

- ACE is a Texas Non-profit Public Facilities Corporation
  - Board of Directors appointed by the City Council
- Hotel Operator
  - 20-year agreement with the Hilton to run the hotel operations, renewed in late 2020
- Bond Trustee
  - US Bank holds the funds generated by the hotel
- Condominium Association (ACCA)
  - The building also contains a small amount of office/retail (Chamber of Commerce) and the 555 Residences. ACE represents 75% of ACCA



# Hilton Governance

- **Bond Indenture**
  - Refinanced bonds and amended indenture approved by the City Council in 2017
  - Requires extensive reserve funds for operating, debt payments, and capital projects
  - Amended in April 2021 to accept PPP funds and address short-term admin reserves risk
- **Hotel Operating Agreement**
  - Daily hotel operations are handled by the Hilton team
  - Indenture requires an outside “Asset Manager” to monitor hotel operations for ACE
  - City Council passed a resolution in support of the renewed agreement in December 2020
- **Condominium Regime**
  - Responsible for the maintenance of “common elements”



# Hilton Highlights

Prior to the pandemic, ACE generated significant revenues – building an extra 13M in reserve and transferring back to the city 6M since 2017 (2 million dollars in January 2018, 2019, and 2020).

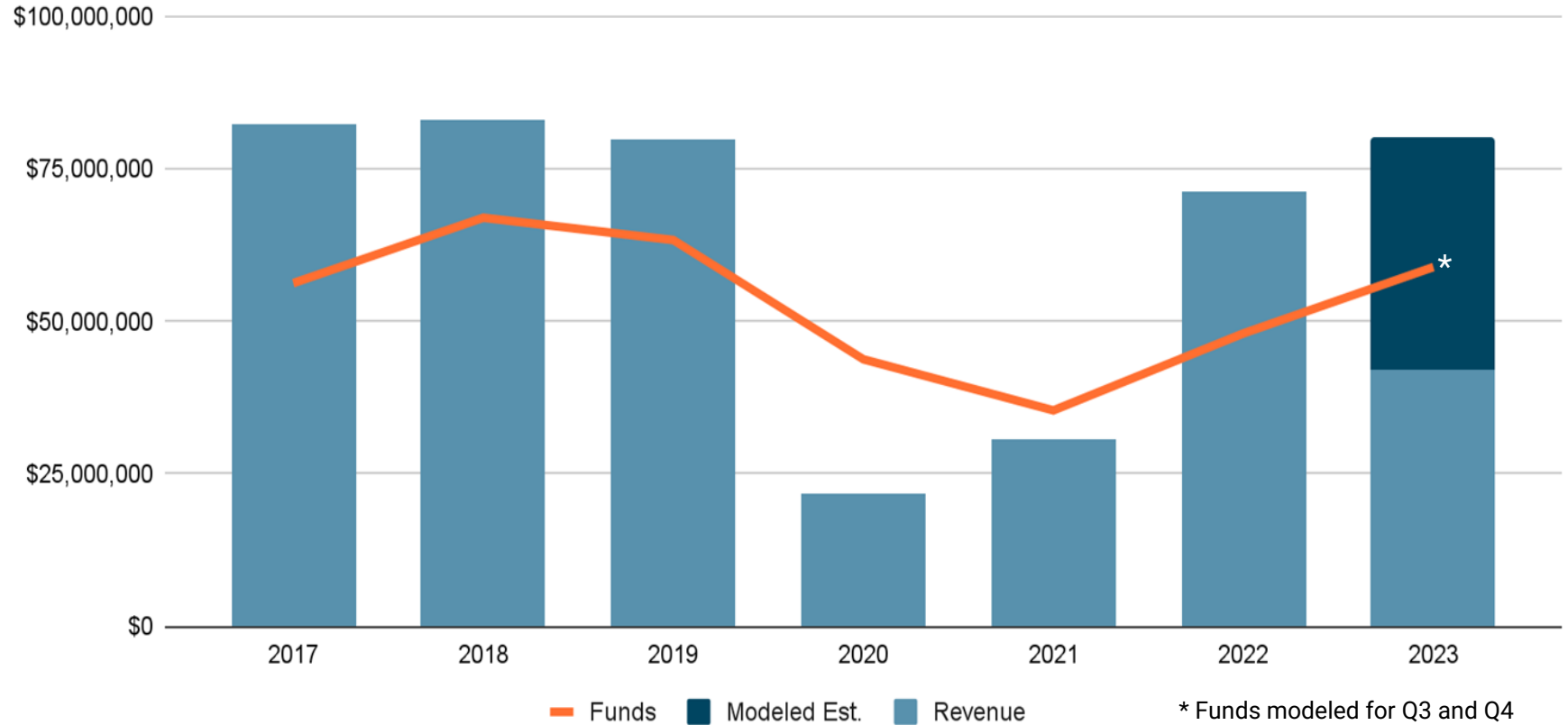
PPP loan of \$2.175 million was forgiven by SBA in December 2021.

UNITE HERE Local 23 certified as the union for the majority of hotel employees on July 15, 2022. CBA approved by Hilton in 2023 raises wage floor to \$20/hr.

Extensive info and Council communications posted to the ACE website.



# Historical Revenues & Funds





# Center Expansion Impact

Bond Indenture section 9.02(n) states that it is an Event of Default:

(n) if the City closes the facilities currently constituting the Austin Convention Center or changes the use of such facilities to a use other than as the City's Convention Center and a Hotel Consultant forecasts that such closure or change will have a material adverse effect on the Gross Operating Revenues;



# Center Expansion History

- City Council initiated current expansion project with the CMAR approval in June 2021
- ACE began working with the City, Hilton, and Bondholders in the Fall of 2021, including a public bondholder call in December 2021, to negotiate a waiver of this clause
- City published the project RFQ in May 2023
- ACE board approved negotiated documents on August 9. Hilton provided consent last week.





# Proposed Agreement

**Bondholder Loan**

**Primary Capital Loan**

**Secondary Capital Loan**

**Other Terms**



## Bondholder Loan

- Loan from City to ACE to address risk of debt payment shortfalls
  - Maximum total amount of \$25 million
  - Available to cover shortfalls in First and Second Tier debt service payments after hotel revenue and before utilizing other reserves
  - Earns 2% interest
  - Available for use only during the closure period + 6 months
  - ACE's financial models show this loan is not utilized under most likely scenario
  - Loan funds expected to come from Convention Center resources



## Primary Capital Loan

- Loan from City to ACE for essential capital projects
  - Maximum amount of \$8.75 million
  - Available only after main capital reserve is depleted (Renewal/Replace Fund)
  - Available only for certain “Life/Health/Safety” projects which are specifically enumerated or others reasonably approved by City
  - Available for use only during the closure period + 6 months
  - Earns 2% interest
  - Loan amount expected to be fully utilized. Repayment anticipated by 2035
  - Loan funds expected to come from Convention Center resources



## Secondary Capital Loan

- Loan from City to ACE for emergency capital projects
  - Maximum amount of \$5 million
  - Available only after all other capital-eligible funds are depleted
  - Available only for certain “Life/Health/Safety” projects which are specifically enumerated or others reasonably approved by City
  - Available for use only during the closure period + 24 months
  - Earns 2% interest
  - ACE’s financial models show this loan is not utilized under almost all scenarios
  - Loan funds expected to come from Convention Center resources



## Other Terms

- Waiver of Indenture §9.02(n) Event of Default related to closure
- Changes to Subordinate Management Fee
  - Reduction in performance test with ramp-up post center re-opening
  - Changes to funding order in the Indenture flow of funds for IRS compliance
- Bondholder progress reports
  - Quarterly written reports
  - Quarterly public bondholder calls upon Trustee request





# Projected Timeline





## Next Steps

- Public Bondholder call scheduled for August 23
- Bondholder approval deadline of September 6
- Council approval of loan documents

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