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The Charlottesville Omni Hotel

Why was a hotel built on Vinegar Hill? In 1978 the City Council created the Charlottesville Development Group which was composed of community and neighborhood leaders from throughout the City. After making a study of the possibilities of the Vinegar Hill property which had been vacant for more than 15 years, the Group recommended that a hotel/conference center be constructed and that public funds be committed to the project. Consultant reports stated that a hotel/conference center was financially feasible and would strengthen the downtown area and return significant revenues to the City treasury. Subsequent public hearings indicated significant citizen support for the project as long as the property tax was not utilized to pay the City's share of the project cost.

Why was the Housing Authority financially involved in building the hotel? Our consultants advised us and negotiations and discussions with several developers and bankers confirmed that there would need to be a loan of public dollars for any hotel/conference center project located in the downtown area. Public-private projects of this type are common in every city which has made an all out effort to revitalize its central city core. These projects require an expression of both public and private sector confidence. The commitment of public dollars is a requirement for these projects to go forward. Without the public financial participation there would not be a hotel of any type on Vinegar Hill.

Who built the hotel? The hotel was originally developed and built by Lawler-Wood, Inc. of Knoxville, Tennessee. Their company for the hotel project was known as Charlottesville Properties, Ltd.

Was the hotel strictly a Republican or Democratic project? No, although there was initially some difference of opinion about whether a referendum should be held on the City's participation in the project, the hotel project has continuously been supported by both Republican and Democratic members of City Council.

How much did the hotel cost originally and where did the money originate? The hotel project budget was $23.9 million. The cost of the building itself was about $15 million, with another $700,000 being spent on extending the downtown mall. The funds to build the project came from the following sources:

Loan from United Virginia Bank	$12.4 million
Loan from Charlottesville Redevelopment and Housing Authority	9.5 million
Developer	2.0 million
	$23.9 million

$3.5 million of the cost was for a debt service reserve.

How much did the General Electric Training Center cost? The General Electric Training Center cost the original developer $2 million to build. General Electric pays only $1.00 per year in rent but guarantees it will use the hotel to house its students and other GE travelers, which provides the hotel at least $150,000 per year in revenues.

Were my taxes raised to finance the public loan to the hotel? In accordance with the desires of citizens who we heard from at public hearings, property tax revenues were not used to fund the public portion of the hotel project. A meals tax was instituted and a portion of it will be used to retire the bonds used to provide the public funds for the project. Neither the real property tax nor the personal property tax was raised as a result of this project.

Is it legal for public funds to be spent on a private project like this downtown hotel? Yes, that issue was decided by the Virginia Supreme Court in the lawsuit filed by the owners of the Ramada Inn when this project was begun in 1984. The Court held that the overriding public purposes of the Vinegar Hill project made the expenditure of City funds for the hotel lawful.

Why did the Housing Authority acquire the hotel from the original developer and then sell it to the present owners? According to the agreement with the original developer the Housing Authority had the right to take back the project (December, 1984) if the developer did not elect to add one million dollars more in capital to the project. The Housing Authority Commissioners felt at that time that since the developer had decided not to add more capital, a better financial arrangement could be secured with another owner. The sale of the hotel in April of 1985 did in fact create a better financial position for the Housing Authority.

What were the financial arrangements when the Housing Authority sold the hotel to Jefferson Court Associates? According to the agreements transferring title of the hotel to Jefferson Court Associates, JCA was to take over the $9.9 million loan at United Virginia Bank, pay the Housing Authority $2 million over a three-year period, and assume a $6.5 million second mortgage from the Housing Authority. The Housing Authority agreed to assume one-third of the debt service shortfall after the end of the second year of operation and was relieved of its previous liability of guaranteeing $2 million of the United Virginia Bank loan.

Who is Jefferson Court Associates? Jefferson Court Associates is a limited partnership which owns the Omni Hotel. The general partner is a corporation called FRIV, Inc. whose principles are Scott and Gary Nordheimer whose office is in Arlington, Virginia. The limited partners are members of a New York law firm, Skadden, Arps, Slate, Meagher and Flom.

What is Omni's role in the operation of the hotel? The Omni Hotels Management Corporation operates the hotel for the owners for a fee. The Omni Credit Corporation has agreed to make certain short-term loans to the project as needed, principally for cash flow purposes as part of the new financing arrangement. Omni has no ownership position in the hotel.

How much did the present owners pay for the hotel? The present owners agreed to pay the Housing Authority two million dollars cash, assume a $9.9 million first mortgage and a $6.5 million second mortgage. In addition the owners have contributed significant amounts of money to cover debt service shortfalls the first two years of operation.

What was the Housing Authority's continuing financial commitment to the hotel under the sale agreement? When the hotel was sold to Jefferson Court Associates, the Housing Authority agreed to pay annually one-third of the debt service shortfall after the end of the second year of operation. Under the new agreement the Housing Authority has been relieved of that burden and will contribute $220,000 per year for seven years beginning on November 1, 1988. The maximum liability under the former arrangement was $420,000 per year for eight years, but the maximum amount actually to be paid was estimated at about $350,000. The Housing Authority's annual contribution has been decreased in the new financing arrangement.

Why was the hotel changed from Radisson to Omni? The owners of the hotel made the change based on their business judgment that Omni would do a better job managing for them than Radisson. Under Omni's management, occupancy of the hotel and use of its food and beverage facilities have steadily increased.

When did the owners of the hotel originally default on the payment of the first mortgage? The Housing Authority discovered the first mortgage default in May when an annual payment to the Housing Authority by the owners was not forthcoming as required.

How much was the annual debt service on the hotel? Prior to the refinancing the debt service was approximately $1,262,250 per year. As a result of the refinancing plan the debt service for the next three years will be $792,000 per year and then increase to $1,089,000 per year for the remainder of the term of the loan.

<u>Why did it take so long to find a solution to the default problem?</u> Curing the default involved convincing the first mortgage holder not to foreclose until it could be determined whether sufficient funds could be found to pay the arrears. It also necessitated asking the first mortgage holder to consider restructuring the loan. There were five groups of people involved, all with different interests and some of whom were in no hurry to find a solution. Just getting everyone together in one place became a major undertaking. The owners initially made it quite plain that they did not intend to spend any additional money on the project, which made finding a solution even more difficult. The owners eventually did put an additional $300,000 into the financial restructuring. The course of these negotiations and the time they took was not unusual for a "workout" of a default on a large commercial real estate project.

<u>Why should the Housing Authority participate any further in the financial matters of the Omni Hotel?</u> There are two basic reasons why the Housing Authority Commissioners felt that it was in the best interest of the community to continue with this project:

1. A foreclosure and bankruptcy would have placed the hotel's financial future in jeopardy for quite some time. The Authority's hotel consultants advised that it often takes two to three years for a hotel's business to recover from the adverse impact of a foreclosure. Foreclosure on the hotel would also have signaled to other persons contemplating investing money in the Central Business District that such an investment might not now be wise. It would very likely have had an adverse affect on retail sales and restaurant business downtown. It would also have implied that the City government now lacked confidence in its own creation, which has been successful in generating significant new economic activity in the Central Business District. This was not the time to take two steps backward.

2. The public investment already committed to this project needed to be protected as did the income the City was receiving from taxes from the hotel. A foreclosure would have resulted in the Housing Authority losing its $6.5 million second mortgage and a ground lease worth $24,000 per year. The City is receiving almost $400,000 per year in taxes and license fees from the hotel and a major downturn in hotel finances as a result of foreclosure and bankruptcy would have reduced that income. Other taxes and revenues collected

in the Central Business District could also have been affected adversely, as would potential private developments contemplated elsewhere on the mall.

How much money does the City receive in taxes each year from the Omni Hotel? The City receives almost $400,000 per year in taxes and license fees from the Omni itself. The larger items are the real estate tax, personal property tax, meals tax and the transient lodging tax. The Omni also serves as a "generator" of tax revenue from nearby businesses, although the exact amount of this revenue is difficult to measure.

What is the financial condition of the Omni Hotel? By hotel industry standards, the Omni is doing quite well for a three-year old hotel. The room occupancy rate is well above 70% which is considered good for a new hotel operation. The hotel is generating funds to be applied toward debt service costs but not enough to cover those costs completely. The Authority's consultants tell us the hotel is well run and operated on a cost effective basis. The principal problem appears to be that the room rates charged at this time are not sufficient to support the debt service on a hotel of this caliber. Room rate charges are highly competitive in the Charlottesville area and the going rates are not sufficient to support this facility at this time. However, room rates are gradually increasing, especially for first class hotels and expectations are that the room rate problem will decrease over the next few years.

What are the new financial arrangements for the hotel? First, the debt service arrears must be paid to the first mortgage holder. $300,000 of this will be made up from the hotel's funds currently on hand. The owners will contribute another $300,000, the Housing Authority will contribute $350,000 and the Omni Hotel Credit Corporation will contribute $186,000. All of these contributions are in the form of loans to the project. Once the arrears have been paid, Mutual Benefit Life Insurance Company has agreed to lower the interest rate on its first mortgage loan from 12.75% to 8% for the next three years and then raise it to 11% for the remainder of the term of the loan which is eight years. The difference between the original and the reduced interest payments will be accrued and be added to the loan balance at the end of the period. The Housing Authority will lend $220,000 each year for seven years beginning on November 1, 1988 to be credited to debt service. Omni will loan any difference needed to meet shortfalls not covered by hotel operations or the Housing Authority's loans. All of the Housing Authority's contributions are in the form of interest free loans to be paid back at the end of the term of the first mortgage or upon sale of the hotel if it should happen sooner. The total amount of the Housing Authority loan over the next eight years will be $1,890,000.

Where will the Housing Authority get its share of the funds for this project? The initial $350,000 will come from funds on hand in the Vinegar Hill Urban Renewal Account. These funds were derived from Federal contributions, sale of land and proceeds from the sale of the hotel in 1985. The $220,000 each year beginning next November will be appropriated to the Housing Authority from the General Fund of the City as a regular budget item.

Will my taxes be increased by this arrangement? No, this financing arrangement will cause no increase on any existing tax rate or source. No one will pay more taxes as a result of this transaction.

What are the financial advantages of this new arrangement to the City and Housing Authority? First, the Housing Authority is released from its previous obligation to pay one-third of the debt service shortfall of the hotel. Second, the Housing Authority protects its second mortgage and the $24,000 per year ground lease. Third, the City will continue to receive its current tax revenues from the facility, and will maintain the current stability of its downtown tax base. Fourth, the continued operation of the Omni will act to spur future downtown development and business, resulting in an increase of license and tax revenues to the City.

What are the financial advantages to the owners of the hotel? The owners will protect the tax credits they have accrued under Federal law. They will receive no cash outlays from the operation of the hotel, but will receive repayment of their new $300,000 loan at such time as the hotel is sold or refinanced at the end of the current loan.

Will the owners receive any of the money being advanced by the Housing Authority? No, the Housing Authority's contributions go directly toward debt service and reserves. In the event of a sale the Housing Authority will receive all of its funds before the owners and even then the owners will receive only $300,000 as opposed to the Housing Authority's $9.3 million.

If the hotel is sold how will the proceeds of the sale be divided? First, Mutual Benefit Life Insurance Company will receive the balance of its first mortgage and any accrued interest. Second, Omni Credit Corporation will receive any unpaid amounts it has lent to the hotel. Third, the Housing Authority will receive any amounts it has lent as a result of the current refinancing. Fourth, the Housing Authority will then receive repayment of the existing $6.5 million second mortgage. Fifth, Jefferson Court Associates will receive repayment of their $300,000 loans. Sixth, the Housing Authority will receive payment of one million dollars representing the defaulted payments from Jefferson

Court. Seventh, any balance will be divided two-thirds to the Housing Authority and one-third to the owners.

<u>How do we know the owners will not default again next year or the year after?</u> There can never be an absolute guarantee against this possibility, but based on the projections of hotel operating funds available for debt service plus the Omni and Housing Authority contributions, it is not likely to happen. The reduced interest rate makes the amount needed for debt service considerably less and thus easier to achieve. Also, an asset manager has been employed by Mutual Benefit Life Insurance Company to oversee the Omni operation as further insurance that the hotel will make enough money to make the mortgage payments. The asset manager will be Stephen W. Brener and Associates of New York, who have an excellent reputation in the hotel industry.

<u>Why wasn't there more time for the public to ask questions and raise issues before the Housing Authority voted on this new financial arrangement?</u> The first mortgage holder, not the City, set the deadline for a solution to be achieved. That deadline was October 30th. If no solution had been agreed upon by all parties by that time, the first mortgage holder had instructed its attorneys to begin foreclosure proceedings and Jefferson Court would probably have sought protection from the Federal Bankruptcy Court, which would have clouded the hotel's finances for a significant period of time. While there was agreement in principle a week before the 30th, a final document to which everyone could agree was not available until only a few days before the 30th. Thus the Housing Authority had only a few days to consider the proposed solution to determine if it was acceptable to them. As much public notice as was possible was given. The Housing Authority Commissioners were not at all happy with the short time frame and wanted more time for public discussion but it was not a decision over which they had any real control. An earlier decision which would have given more time for public comment was not possible given the dynamics of the negotiations among all the affected parties.

<u>Why is the City/Housing Authority reluctant to make the financial records of the Omni available to the public?</u> The Omni Hotel is privately managed as a for-profit operation which must compete with other hotel/motel facilities in the area. Divulging hotel business data for general public consumption would place the hotel at a competitive disadvantage. Since the operating information for other hotel/motel facilities is not available to the public, neither should such information for the Omni be made available. Part of the philosophy behind the original idea of having a hotel built on Vinegar Hill was that it should be successful financially. It would be inconsistent public policy to restrict the financial achievements of the hotel by making its daily business data available to its

competitors. The public investment will be scrutinized by the asset manager who will be reporting periodically to both the first mortgage holder and the Housing Authority. There is much precedent for governments making loans to private individuals, i.e., FHA home loans, Small Business Administration loans, student loans, housing rehabilitation loans, UDAG grants, etc. without the personal financial details of the private parties being made public. The hotel owners have not waived their rights of privacy simply because they have received a loan from a local unit of government.