

MINUTES OF THE METRO COUNCIL WORK SESSION MEETING

August 8, 1996

Metro Room 601

Councilors Present: Jon Kvistad (Presiding Officer), Patricia McCaig, Rod Monroe, Ed Washington, Susan McLain, Ruth McFarland

Councilors Absent: Don Morissette

Presiding Officer Kvistad called the meeting to order at 12:03 p.m.

1. OVERVIEW ON TRANSITION TEAM

Councilor Washington oriented the Council to the composition of the Transition Team. He acknowledged the cooperation and support of the team members particularly the Chair Stein of Multnomah County and Mr. Lindberg. He noted the willingness of the members to come to some kind of solution.

He added that the two attachments D and J were the most important to review. He indicated the attachments were background for the Council. He believes there would be some kind of solution given so that finances could be figured out.

2. EXECUTIVE OFFICER COMMUNICATIONS

Mike Burton expressed his concerns about the financial ability to maintain the facilities over the long haul. Mr. Burton gave a historical overview. When the City put the PCPA together, the question was asked, how is this going to be funded over the long term. The answer at the time was, we will worry about that later. No one really considered what the operational funding would be. Later, the City threw PCPA, the Stadium and the Coliseum into the pot. The Coliseum was at the time a money maker. however, the City turned it over to the Blazers. The funding resource for the operational health of the Coliseum was given away. Mr. Burton noted in his letter, that there was a funding source that the City of Portland had that should come with the facilities. Since the Coliseum was not available to Metro their portion of the hotel/motel tax that is generated from Multnomah County should come over to Metro for the continuing operation of the facility. Metro does not have this funding resource. If the City is unable or unwilling to make that money available then it seems that they should be the one responsible for maintaining the facilities because they have the funding source.

The governance questions all pale against the question of funding. There is also capital needs that were not previously included in the funding source. When the capital needs for the Performing Arts Center and Stadium are added in as well as the operating needs beyond five years, the money does not pencil out. There needs to be a continuous base of income. He believes this is the hotel/motel tax which the City currently receives.

He asked if there was a way to expand the base of available funding right now for the facilities to include a charge to Washington and Clackamas counties. This would broaden the original base which is currently Multnomah County's hotel/motel tax. A policy question to be looked at is, when you look at a facility, who gets the benefit of it. He would argue that the Performing Arts Center gives

added value to the entire state of Oregon as well as Vancouver, Washington. He noted that the users do not pay for the total amount of the facility. If prices to the users were increased to what it really costs to maintain the facility, very few people could afford it. The consideration of the financial benefit as well as esthetic benefit has to be taken into consideration. The City of Portland derives more direct economic benefit from the Performing Arts Center than other cities. What is it that we as a region should be putting our effort into. He argued that Metro's effort should be in trying to increase the availability in the whole region, so that the City of Beaverton, Gresham, etc. would receive funding for their own Performing Arts Centers.

He added that the form of the governance has a lot to do with the funding mechanism in the sense that, regardless of the outcome, that Multnomah County should be approached with a request to transfer the hotel/motel tax that they are collecting to Metro, it should be a Metro tax rather than a Multnomah County tax. If the governance of these facilities were to stay with Multnomah County then the tax should stay with that entity. There should, however, be a connectivity between governance and funding. There needs to be contract flexibility. The key question is to find a way to keep the Performing Arts Center open and solve some of the capital needs that the Performing Arts Center has and he would argue that the dollars are in the system but not being spent on the PAC because the City has these monies going into the general fund.

Councilor Monroe summarizes Mr. Burton's comments by saying, first, the Performing Arts needs a public subsidy. Second, whoever provides the public subsidy should also have some management responsibility for the facility, the tax entity and the management entity should be merged. Third, when there is public money there needs to be public accountability. You can't provide public money and then have no public entity that has controls of that money.

Mr. Burton indicated that ultimately the responsibility for the expenditure, gain or loss of dollars is in the hands of the public elected officials who do that. There must be some relationship. The question is how close do you want that, particularly in the nature of the PAC. He would argue that you need to have a lot of flexibility in contracting and purchasing for PAC.

3. LEGAL BRIEFING

Mr. Cooper suggested focusing on Attachment H and I. The Lindberg Consolidation Task Force came out with 10 recommendations about the future of the PCPA and the other facilities. One of those recommendations was that the management structure be a non-profit corporation which would contract with the government entity to do the management of the facilities. That recommendation was finalized last year, based on some initial work that was presented to the Task Force. For a variety of reasons the non-profit model is not actively being pursued at the transition team level and that reflects the resolution that the Council passed when it accepted the report of the Consolidation Task Force. The transition team is now looking at management of structured government and have considered two active models which were a commission model based on the present MERC Commission with possible modifications. Modifications dealing with the appointment of the commissioners and the possibility of changing the review structure where currently under the ordinance the council may review most of the actions that the MERC Commission takes and in effect reverse them is so desired.

Mr. Cooper stated that he believed that there was a tremendous amount of flexibility to this model and if it is pursued the transition team could be coming back with a recommendation with either minor or major changes through present MERC structure but continue the governance model of being a Metro Commission. The second model is termed as a Public Corporation, which is a legal entity that can be created under Oregon Law by the joint action of more than one government. This model overcomes many of the disadvantages of the Non-Profit model because it is a public corporation but equal to the flexibility of the Commission Model.

Councilor McFarland asked if this was similar to what was happening at OHSU.

Mr. Cooper replied that at OHSU that was much more to the creation of MERC. He stated that OHSU is more akin to the old Metropolitan Human Relations Commission. He stated that was created by an inter-governmental agreement between all of the governments participating in which case they appoint one board member each. One of the major differences between the Public Corporation Model and the Commission Model, recognizing there is a lot of similarities is the Commission Model where one government is the parent of it.

Councilor McLain stated that looking at the flow charts of the models described and the work plan attachment it was her understanding that within the next few weeks that Mr. Cooper would be looking at the models again for legalities.

Mr. Cooper replied that there will be developed a matrix for the transition team to look at that will list four models which will simply line up major issues and give summaries of where they could be illegally flexible and where anyone of them has potential difficulties in putting something together.

Councilor McLain asked if it was the direction of the Committee to have Mr. Cooper look at the status quo and see what improvements could be made on that model.

Mr. Cooper stated that is the modified model and the active discussion of the last meeting was that most of the members of the transition team were interested in looking at modifications to the current model that would improve efficiencies.

Presiding Officer Kvistad asked if Metro wanted to send MERC off to manage the City of Portland's facilities, and keep Expo and OCC as a Metro function here, and further stated that Metro currently has the opportunity to do that and the right to do that under existing ordinance authority.

Mr. Cooper reiterated that through Council action Metro could remove the Convention Center and Expo from MERC's responsibility and leave it as the manager of the PCPA stadium. Under the current agreement that is with the City of Portland, they might have the right to terminate and take them back and manage them themselves immediate. Metro has promised not to amend the MERC structure without city approval, if it does without city approval the city can terminate it. Termination means the city takes their facilities back. But the Council has the right to do this at any time.

4. FINANCIAL BRIEFING

Jennifer Sims stated that she had made a condensed version of the materials handed out.

Councilor McCaig stated that implicit of all the material that is handed out Metro is going to go ahead with this expansion. She further stated that she is nervous that this is built in to these expectations that this is a done deal.

Jennifer Sims stated that they particularly isolated those numbers into the projections so that they could extract them and so that it could be shown what the impact is either way. In terms of the work that is being done here Ms. Sims does not feel that has been made as an assumption but it is anticipated here.

Councilor Washington referred to attachment B, a glossary of terms. He felt that this would be helpful in understanding what Ms. Sims was talking about. Further he thanked Councilor McCaig for her comments and stated that there needed to be some clarification on that language.

Jennifer Sims stated that she would like to explain the approach that was taken to put the work together for the Transition Team. The chair of the Transition Team pulled together a team of finance staff from the City of Portland, Multnomah County, MERC and Metro. An assignment was given to develop a set of projections for the Transition Team and to identify issues. A handout was given to the Council with a summary of those Transition Team projections, a correlation back to how those are different from the work that was done a year ago for the Consolidation Committee and what the issues were. The work that was done for the Consolidation Committee which was the reference point, only went out five years. Those projects were updated to go out 10 years which allows to include things such as showing what the expansion would be like for the Convention Center as well as projects going on at other facilities. The Consolidation Committee recommended some enhancements that they as a group felt could be skipped over to some extent because part of them had been included into the MERC budget. It was accounted what the anticipated loss would be if the Convention Center expansion was done but also not included was what the impact would be if the PCPA was closed for updating it. She then referred to a condensed version of numbers and referred to the Convention Center which showed that the Convention Center expanded or not will continue to require support. Renewal and replacement will be one of the big question marks in this picture. She next highlighted the Expo Center stating that it is generally a revenue plus but when you look at it there is a commitment to do a landscape project within the next 7 years, but if other construction is done it would trigger it sooner, therefore it was shown as being done in that particular year which was a condition of doing that expansion.

Councilor Washington stated that the landscaping project was part of the design process.

Jennifer Sims continued by looking at the line that holds the subtotal, which is essentially the support requirement not including whatever renewal or replacement might be, not including if the facilities have to be closed down for capital. It also showed with the current hotel/motel tax projection what would be available to cover that cost, which it is forecasted as looking fairly good.

Councilor Monroe commented if the hotel/motel tax projection was at the current Multnomah County 3% motel revenue but does not assume any decrease.

Jennifer Sims clarified that this is correct and does assume that there is growth in that projection as a revenue source and that there are more hotel rooms built.

Councilor Monroe asked if this figure then assumed the expansion of the Convention Center. And further clarified that when the Convention Center was expanded that there would be more hotel rooms built.

Jennifer Sims clarified that this was correct that expansion would mean more hotel rooms.

Michael Morrissey asked if this included the identified reserves within the budget.

Councilor Monroe stated that he had heard that after the new Expo building was built, the plan was to renovate of the old facility and asked if that was figured into the budget.

Jennifer Sims stated that this was identified below as an unmet Capital Need of \$4 million.

Councilor Washington asked that when the assumption is made about the increase in the hotel/motel taxes what is used to come up with these figures. He further asked what is used to estimate this figure if an increased rate is figured in.

Mr. Burton stated that the occupancy level of the city in terms of the going rate of a hotel room and because of the market place right now, there has been several weekends in a row with no rooms available between Portland and Salem. All those factors work together to apply the suggested increase. The plan of expanding the Convention Center is not to attract more people but to attract a higher quality of Convention delegate.

Councilor Monroe stated that if in fact the Convention Center expansion goes on as planned that significant numbers of room will have to be added to meet the requirements of that extended facility.

Jennifer Sims continued that the next item of discussion is Net Profit or Loss that shows each year how much is being gained overall. She states that while these numbers show to be positive these do not include renewal and replacement for those two facilities or for any closing down for construction or that sort of thing. Next she discusses the ending Fund Balance in this system with these assumptions continues to stay positive and it's on a positive upward trend with all the qualifiers given will be about 10 years. She further discussed that the negative aspect is that there is no current solution or pipeline to deal with the \$25 million of deferred capital it was suggested to see what it would look like if it was Revenue Bonded in the financial system. The bottom line of the handout represents this figure and that it would be about \$2.77 million a year to cover that kind of debt and a Revenue Bond is not an option to cover that cost.

Presiding Officer Kvistad commented that figure did not identify taking into account the unmet capital needs listed on the bottom of the page, that those were outside of the \$11 million.

Jennifer Sims stated that the ending balance did not address the unmet Capital Needs. The bottom line does showing it as a Revenue Bond.

Presiding Officer Kvistad clarified that if for example PCPA and Civic Stadium were excluded as needs that would dramatically change that number.

Jennifer Sims confirmed that was true. She also mentioned that another part of the discussion with the finance team on this is that it has not been yet determined what would be an appropriate reserve level. It is know that there is regular business cash flow requirements but then all of these facilities are subject to business cycle and possibly to an economic down turn. Having appropriate reserves for those types of possibilities are not set yet. It has been agreed on that it makes sense to have pulled or shared funding of the hotel/motel tax, there is a need for a strategic reserve, renewal and replacement is an operation cost and it ought to be built into these numbers but those are not figured out yet. If MERC becomes separate from Metro, Loss Support Service Revenue to Metro is an issue. Things that are still being discussed are should the hotel/motel source be broaden or should there be other sources that should be looked at.

Presiding Officer Kvistad commented that when talking about MERC it is assumed that all facilities support services are included that deal with MERC. He asked that if OCC and Expo stayed here would there be a tremendous shift.

Jennifer Sims stated that there would be an impact. She stated that OCC is pretty substantial.

Councilor Washington commented on the Ending Fund Balance and asked if Ms. Sims could explain the relationship between the \$11 million and the \$25 million, and if the \$11 million is what it would cost to take care of the \$25 million.

Jennifer Sims explained that if a Revenue Bond was issued to cover the \$25.6 million of unmet Capital Needs and paid debt service of \$2.77 million every year, by the year 2006-7, that is how much in the hole Metro would be. She further reiterated that the \$ 11 million would be how much Metro would be in the hole.

Councilor Monroe stated that it would be reasonable to assume that you could fund about \$12 to \$13 million in projects and break even.

Jennifer Sims clarified that was correct. She continued with the item of whether hotel/motel sources should be broadened to other counties or look at other sources. She stated that this has not been done yet but will be looked at in depth in the near future. She commented on other areas that the team needed to work on and that being if the city assumed management of the PCPA stadium what would happen with the hotel/motel tax and how would that be allocated or split. Another point of consideration would be if the entity that manages the facility controlled the revenue source. These items will be worked on in the upcoming months.

Presiding Officer Kvistad asked if Ms. Sims could give some numbers on what the support service break down is for the facilities in terms of OCC and Expo versus the others.

Jennifer Sims clarified that the Presiding Officer wanted to know how much of the support service allocation comes from the City of Portland facilities versus OCC and Expo.

5. REGIONAL FACILITIES CHAIR'S VIEW

Councilor Washington commented that he had some thoughts on these matters and that these were his independent thoughts and not those of the Council. Councilor Washington touched on the topic that people do not want Metro micro managing. He said that he has made it very clear to the people that the Council has no intention of micro managing anybody but that the Council is responsible for the budget and that the Council does have the responsibility to the public and they have the right to ask questions about the budget and financial issues. He further stated that if Metro assumes these facilities there needs to be total responsibility and not just one person taking the initiative to go to the city on a proposed project without the consent of the managing group. Maintenance Capital, there needs to be a solution found for the long term, short term capital needs. He stated that he did not see the Council taking on that kind of responsibility and not knowing how to keep the building maintained. He felt that there should be a connection in governance between the executive and general manager at MERC and also the Council and the MERC board. Councilor Washington stated that this is a good process but he was concerned with the monies, which is the biggest issue.

6. COUNCILOR DISCUSSION

Councilor McLain stated that she was very happy to have this meeting and that there was a lot of detail here. She stated that she does not have an opinion at this point but felt that Mr. Cooper did a good job giving some idea of the descriptions and the models. She felt that everyone knew that the money issue was at the core of why this has taken so long. It was her hope that the transition team could come up with some good ideas for flushing out what the extra types of funding possibilities might be.

Councilor Washington asked Councilor McLain if she had any thoughts on the issue of governance or ownership.

Councilor McLain replied that was one area that she does not have a first priority, she would like this to be reviewed for public dollar sake and wants it done well. Councilor McLain stated that she is open to suggestions on the issue of governance and ownership.

Presiding Officer Kvistad stated that he felt that these should be given back to the city. He felt that it would be best to do it as soon as possible. Next Presiding Officer Kvistad touched on the earthquake liability on Civic Stadium that regardless what is done there it is a major problem and will be for whoever owns it and that the revenue is not available. If Metro does go ahead and take over these facilities and do not come over with additional funds from the City, it is his recommendation that Metro does not take them because Metro can not afford them or maintain them to the kind of quality that this community expects. It is his opinion that he would discuss spinning MERC off now as an independent unit managing only the City of Portland's facilities and making Expo and OCC a Metro exposition agent within the existing agency.

Councilor McFarland stated that she would still like to see the finished reports before she addresses certain items. She stated that she was not in favor of making the management of the MERC facilities a department of Metro and she believes that if the MERC general manager having to report to the Metro Executive Officer that's exactly what it would be.

Councilor Monroe stated that he was convinced that the financial decisions are paramount and he felt that in the idea world the Performing Arts and the Civic Stadium were in fact facilities that were of regional significance and would prefer to see them continued to be managed by a regional entity but the financing has to be there. He further stated that he agreed with Mr. Burton's comment that governments and financing have to be together that you can not have one entity owning something and another entity providing the funding for it and another entity managing it, which is what there is now. Ownership and financing has to be down under the same authority. Anytime there is public money involved in something there has to be public accountability, he stated that he is not in favor of turning over management to some quasi public private entity that does not have any direct public accountability. Councilor Monroe hoped that the county, the city, Metro and the hotel/motel industry can all reach an agreement as to an appropriate funding package and can all determine who ought to own these facilities, who ought to run them and who ought to have the funding authority.

Councilor McCaig stated that she felt there were a lot of ways to ensure accountability and she thinks that the Metro involvement is the weakest link. She has no difficulty with Metro stepping away from the management of the facilities. She believed that as a regional government Metro was assigned the responsibility of those facilities. She stated that she is ready for the management of this be moved to the next step which is a quasi public or some other entity to manage it as long as there is the appropriate accountability. She felt that it does not have to be through elected officials and it does not have to only rest at Metro.

7. WRAP UP

Councilor Washington thanked the Council for their input and asked for any other questions or comments.

8. ADJOURN

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With nothing further Councilor Washington adjourned the work session at 1:30 p.m.

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