MINUTES OF THE METRO COUNCIL WORK SESSION MEETING

Tuesday, June 29, 2006
Oregon Convention Center D137-138

Councilors Present: David Bragdon (Council President), Susan McLain, Rod Park, Robert Liberty, Rex Burkholder, Brian Newman

Councilors Absent: Carl Hosticka (excused)

MERC Commissioners Present: Gary Conkling, George Forbes, Janice Marquis and Don Trotter (Vice-Chair)

MERC Commissioners Absent: Sheryl Manning, Gale Castillo and Ray Leary

Council President Bragdon and Vice-Chair Don Trotter convened the Metro Council/MERC Joint Work Session Meeting at 12:00 noon.

I. Oregon Convention Center Long Term Financial Forecast

Jeff Miller, MERC General Manager, and Bill Stringer, Chief Financial Officer, informed the council/commission about the market and economic dynamics that have and will affect the vitality of the Oregon Convention Center.

- Market and economic dynamics
  - Historic downturn in industry
  - Variable business cycles – Bigger conventions rotate on a three year basis.
  - Increasing competitive environment - To play we must have the total package.
  - Expansion expectations and requirements – Larger venues require large hotel packages. In 2003 we gained the size of the convention center that we needed. 538 events were held in 2003 compared to 572 last year. This is an increase of 22% in $148,000 m to $552,000 m economic impact.
- Unsustainable funding model
  - Requirements outpacing resources – 70% is enterprise revenue. OCC is run very efficiently and maintains a three month strategic fund balance.
  - Inadequate support for expanded center.
  - Declining strategic fund balance. Short term funding is needed even with the HQ Hotel to get us through and support the strategic fund balance.
- How do we take the necessary steps to protect Portland's competitiveness as a convention destination and ensure the Oregon Convention Center maximizes its economic development benefits to the region through tourism?

II. OCC Vision Plan and Area Development Activity

Portland Development Commission, Fred Wearn gave background history of OCC URA formation of goals in 1989 and the OCC Vision Plan.

Background
- OCC URA Formed 1989

Goal 1 Maximize the regional job potential of the Oregon Convention Center.
Goal 1.1 Recruit at least one headquarters hotel in the immediate vicinity of the OCC to capitalize on the convention center's capacity.
Goal 3 Create opportunities within the area for businesses to expand and service the convention trade.
Goal 3.1 Encourage lodging, entertainment, restaurant, and retail development in the corridor between the Convention Center and Lloyd Center.

- MLK/Alberta Expansion 1993
  To implement the Albina Community Plan

OCC Vision Plan
Summary
- Long range development vision for 16 blocks surrounding the OCC
- Provides framework for projects in the area
- Partnership between PDC, Bureau of Planning, property owners and area stakeholders
- Endorsed by Planning Commission on March 14, 2006
- Adopted by PDC Commission on May 10, 2006

Development Vision
- Vibrant mix of housing, office, retail, and entertainment.
- Fun, exciting, memorable.
- Place where visitors and residents mix.
- Re-centering Portland on both sides of the Willamette River.

Urban Design Principles
- Encourage greater density & mix of uses
- Focal point at MLK/Holladay
- Public art and visual activity
- Improve pedestrian realm
- Traffic calming
- Improve connectivity
- Coordinated parking plan
- Greater density of housing

Application of Vision Plan
- Support PDC solicitations/negotiations
  (Blocks 45, 47 - 49)
- Inform potential HQ Hotel Planning & Design
- Create a common Bureau of Planning, PDC and stakeholder vision
- Promote area development

III. History of Hotel/OCC Relationship

Dan Cooper, Metro Attorney, and Jeff Blosser, OCC General Manager, gave a history of the hotel and the convention center.

- 1986 - Committee on Regional Convention, Trade, & Spectator Facilities approves construction of Oregon Convention Center
- 1989 - PDC officially begins effort for HQ Hotel
- 1990 - Convention Center opens
- 1999-2000 - Public-private partnership finances Oregon Convention Center expansion
- 2000 - PDC acquires 834 NE MLK property in preparation for impending Hotel development
- 2001 - Construction begins on OCC expansion - September 11 & National recession

- 2003 - Oregon Convention Center expansion completed. PDC acquires 910 NE MLK property
- 2004 - RFP for Headquarters Hotel, September RFP Addendums 1& 2, November
- 2005 - RFP Addendum 4, June Developer selection, October

IV. Market Studies

Portland Oregon Visitors Association, Brian McCartin reviewed the market potential and analysis.

Portland's Convention Market Potential (Strategic Advisory Group)

- Lack of HQ Hotel number one reason for lost OCC conventions
  - Over 1.5 million potential future room nights lost since 1999
- Survey of meeting planners/decision makers reveals only 8.6% would "highly likely" choose Portland based on existing package
- The optimum size HQ Hotel shown to be 800 rooms
  - The 8.6% goes up to 60% that would 'highly likely" or "definitely yes" choose Portland with 800 room HQ Hotel. 45% with a 600 room hotel
  - Over 30 years could generate 7 million additional room nights, total economic impact of $6 billion, $251 million in taxes and support 2400 jobs each year
- Goal is 800 rooms but redevelopment or phasing were suggested approaches to minimize impact if existing hotel market is oversupplied

Market Analysis (PKF Consulting)

- Portland hotel market is strengthening – 74% occupancy
- HQ Hotel should be 600 rooms
  - Allows 500 room block
  - Meets Starwood Convention Collection standard
- 41,000 sq. ft. meeting space optimum
  - Consistent with recommendations by SAG, POVA,
- OCC, GTA, and Westin
  - Needed to support in-house group business
- Prevents erosion of convention volume beginning in 2009
- Adds 104,000 net additional room nights by 2013
  - 61,000 Convention Business (17 new conventions)
  - 43,000 In-House Group Business
- Neutral or beneficial to competitive set of hotels
- Image exposure and traveler volume enhanced
- Catalyst for area development
- Significant economic impact

Economic Analysis (ECONW)

- Convention demand expected to grow at historical averages but will become increasingly competitive
- The national/international meeting market is primary growth opportunity for the OCC
- The lack of a HQ Hotel is the primary obstacle to attracting more conventions
- Without a HQ Hotel Portland's national/international convention market share will decline
- OCC use has followed national trends

At Stabilized Occupancy (2013):

- $49 million estimated annual new expenditures by delegates, organizers and exhibitors
- With multiplier effects:
  - $104 million in annual business sales; $1.4 billion over 20 years (NPV)
  - $41 million annual personal income; $580 million over 20 years (NPV)
- Estimated 1500 jobs created

V. Hotel Development Plan

Langley and Pacific - Showed an early concept of how the hotel would look.

- **Create a world-class "distinctively Portland" HQ Hotel**
- **Protect City's investment in Convention Center**
- **Provide return commensurate with public investment**
- **Minimize City's risk and necessary public investment**
- **Maximize City's economic benefits**
- **Maximize revenues and operating margins with "Best in Class" Westin brand**
- **Ensure best visitor experience through City control of Hotel**
- **Complete on time and within budget**

VI. Financing Models

Mr. Stringer and Mr. Cooper said reviewed different financing models.

Conventional – Private financing and ownership. No public involvement except normal approvals.
Public/Private Partnerships – Public subsidy with private ownership and conventional financing.
Public Financing – Public ownership with tax-exempt financing utilizing private developers and operators

- Construction Costs could be made up in the form of government contribution, other private funds (if any), and developer equity and loans.
- Revenues from the HQ Hotel would go to annual operating costs, Net Operating Income to Private Investor and Private Debt Service.

Pros and Cons of Public / Private Model
PROS
- Less financial risk involved to government
- Usually, no long-term contractual operating agreement

CONS
- Significant upfront contribution necessary
- Politically tied to sponsoring government
- No residual income

Pros and Cons of Public Model
PROS
- Public owns asset and any financial benefits
- Lower tax-free interest rates on borrowing
- Eliminates need for private equity
- Can be sold and privatized later

CONS
- Significant debt reserves necessary
- Competition with hotel industry
- Potential risks to government resources

Next Steps
- Continue conversations between Metro and PDC, hospitality industry, other government and private partners
- Joint Metro-PDC workplan may be considered, exploring public models

VII. Discussion

- Councilor Park, liaison to the Convention Center, said that the hotel is a piece of the puzzle and the long term financial health of the convention center is also part of the puzzle.
- Councilor Liberty – if a HQ Hotel results in a big increase of convention business, why is that they all require subsidies for the last eight years?
- Metro General Counsel Dan Cooper – there has been some significant changes in the hotel industry and the general commercial financing industry since the late 1980's. The recent recession in travel in 2001 had a significant impact on the financing of new hotels in general. The HQ Hotel itself comes with some significant extra costs because of the need for the amenities to make it truly a HQ Hotel rather than just a large room hotel. In the past the public/private model which is much more typical of an urban renewal transaction conducted by PDC and others historically throughout the country has been a sufficient model to get the amenities you need for a HQ Hotel. It is only the last seven years or so that the shift to a true public model has occurred.
- PDC Fred Wearn – To do a private model you have to bring private equity and commercial loans, and underwriting is much more conservative on HQ Hotel than it was in the 80's. On top of that you have construction prices going through the roof and a very expensive product because of the function space about ballrooms and meeting rooms that is essential to a HQ Hotel. In our current negotiations the gap for the 600 room hotel there is still some stuff we can look at, but it is in the $70 million range. So it has been more conservative underwriting, higher construction costs that it is really driving an expensive product, not per room as such but in the total hotel package.
- Councilor Liberty – I know a couple of cities there are a combination of condo hotel and sometime condo hotel office/retail projects that are underway that are privately financed. Is there a way to do that by reducing risk for the public investment if needed to sell off rooms?
- PDC – We have looked at that. Usually condos have been an association with luxury boutique hotels. This is more of a business class 3.5 star hotel. But the condos have usually gone in resort areas or Riverwalk in San Diego where there is an existing tourist attraction where people really want to be. To do condimimums, and we have looked at, it would be more than $400 a square foot in cost, which this area so far has not supported that kind of expense in terms of recapturing that type of cost. We are looking at an expanded retail component would help the overall proforma. We are still continuing to work the private

model, but the direction from our commission was to start pursuing the public model with a 500-600 room hotel under the private model and that has been the shift nationally from private to public.

- Councilor McLain – My question would be that you indicated, Fred indicated that this is really along with the 2001 Albina Plan and also the renewal area. How do we protect the other hotels and the Lloyd District and the other restaurants that we have to make sure that they succeed and how are you dealing with the design issue to be complimentary to this particular area. Wants to make sure that it fits in with the neighbors.
- PDC – The Albina was really about the MLK portion of OCC, not so much the Lloyd District portion. One of the design initiatives to date has been to respect the block by block development.
- The real initiative is to make it more pedestrian friendly and energize the area.
- Councilor Newman – Renderings of plans is for 600 rooms, could it be phased to a larger hotel at a certain point?
- PDC – Design program at this moment, ultimately would start with 600 expandable to 800 rooms.
- Councilor Newman – Is that the smaller facilities don't have their own meeting space largely supported because more room nights means and they'll benefit and the larger hotels that have their own meeting space are more concerned because of the competition meeting space level or is really the opposition to hard characterize.
- MERC General Manger Jeff Miller – I think the concerns are around the size of the conventions and when there is not a convention in town what does that do to business downtown and that is a question and PKF and Econorthwest helped work through that to come up with a conclusion that the effect over the course of 2013 is neutral or increases their business also. Because it is a Westin convention hotel they would also be bringing in their own business.
- Councilor Liberty – When we expanded this building and when we did the expansion at the Expo Center, we learned some things about our bonding capacity, that we are not a general purpose government in terms of what our budget is, and in the segregation of the different funds that we have in solid waste and what we can and can not touch, please give a brief review of what our financial capacities and tools as the type of government that we are. Does the different ownership models have different implications either for operating or construction costs?
- METRO General Counsel Dan Cooper – PDC has been assuming, all financial assumptions that are being used is with prevailing wages. The expectation is also the operating model we are using is the assumption that the hotel will have union employees, rather than being a non-union hotel. These are the two limitations and realities that all this work is predicated on.
- METRO Chief Financial Officer Bill Stringer – METRO's financial capabilities, the financing models that were displayed on the screen assume public entities which may be more than one public entity, which may, in fact, be more a group of public entities joining together, but Metro's capabilities we do not have a general fund as most government entities have a general fund, we do not have any tax source that is very flexible as far as how much could be diverted to the purpose like this. So it would require another source of revenue. We have considerable unused capacity, as far as our debt limits are concerned and we have a very good bond rating, because we do not have great deal of debt outstanding. We could offer a lot of different resources, but as far as identifying a current stream of income to divert to a purpose like this there is not one, it would require a new source of income.
- METRO General Counsel Dan Cooper – The public models of hotels that have already been financed publicly, which the exception of Phoenix where they actually increased their general

sales tax and dumped the extra sales tax revenue into the hotel financing, have all been carefully constructed with a variety of public funds and specific resources identified as the way to cover whatever needs to be covered from the public side and take whatever public risks there are without having to risk in any real sense existing revenue streams that are already committed to existing programs.

- Councilor Burkholder – One concern they have had here, and have as a citizen and resident of Portland, is that the convention center we recognize there is a large regional benefit for this operation and yet we do not have way of collecting from the region and help support that. We need to look beyond this room and look at other areas and regions that are benefiting from this kind of business coming year. The rising cost of fuel and how it is affecting behavior both locally and in the world, looking at what is the long term viability of the business model based on cheap, easily accessible air travel. A little worried about more public investment in a model that may be fragile.
- MERC General Manager Jeff Miller – I will tell you from my conversations with folks from Intel and one of many specific groups that have meetings and we were talking about the value of having employees together in one place and the real value is in the face to face time. I think that as long as business continues in the fashion that it is, they are a world wide operation and they continue to see the value of having their folks face to face. While I understand your question, I think that it is a business that will continue to grow, albeit 2% vs. 5% next year, there is a huge value in having these sorts of facilities and those sorts of meetings.
- Councilor Liberty – There are lots of interesting things about the proposal that appeal to me in terms of urban development, I still go back to the numbers and what we invest, I think we heard that for a 600 room hotel about $70 million subsidy and then I am thinking about the funding gap that appears in a couple of years for this facility, so I want to understand the relative magnitude of those two things; what is the net present value of that funding gap vs. the $70 million. What is the portion there?
- METRO General Counsel Cooper – I want to point out the $79 million funding gap is the PDC staff discussion of the public/private model which has private ownership. We have not identified a specific funding gap on a publicly owned model, we just simply don’t know how we would put that model together and that is what is going to take further work. So the public model we don’t want to have anybody thinking we have identified a specific number and because of the differences between public and private financing models we are starting with the assumption that if there is a gap that it should be a much smaller one. The reason we are here to talk to you today is to help you decide whether you want us to pursue the public model, is because the $79 million number and opinion from PDC is not doable, and we are looking to see whether the public model has a significantly less need for a public subsidy.
- Councilor Liberty – Given that there is so much uncertainty, I would be glad to hear your comments, Jeff, that was helpful.
- MERC General Manager Jeff Miller – The cumulative gap to 2014 is $12 million dollars if we do nothing. If there is no extra VDI, if there is no hotel/motel tax, and that is considering around a 2% increase in both expenses and in revenues, so it is a $12 million gap by that time.
- Councilor Park – One other condition, that is to assume the current model continued; however the question that also needs to be fleshed out a little bit that if you start eating in the reserves and can no longer maintain the building in the condition that it is in now, as a reputation of the convention center is tarnished, the acceleration could be much more rapid. In my discussion with Brian at POVA typically what happens the only way they turn that around is rebranding or reflagging the building.

- MERC General Manager Jeff Miller – When your fund balance begins to get below an acceptable level you have to make some decisions to keep the convention center open, so the $12 million number is a number that we can never allow to happen, so there has to be solutions between now and then. At the end of this year we plan to be close to our ending fund balance, perhaps $250,000 - $400,000 below the strategic fund balance. Next year, if we do nothing, grows to about $700,000, and that is on a $6 million strategic fund balance.
- Councilor Liberty – How much we do for different solutions and how those compare. I know there is a lot of uncertainty about it.
- President David Bragdon – Asking the commissioners if they have any questions – more than welcome to ask.
- Commissioner Trotter – I think the reason that George and I and some of the other commissioners have not been asking questions is that we have been more intimately involved over the private model study, so we have been brought up to speed a little quicker than the METRO Councilors have and that is one of the reasons we wanted to have this session today to give all of us the same starting point, so if we proceed with the discussion we can interact better.
- Councilor Park – For me there are several things that I want to make sure as we look at this, number one, request a work session so there is a lot of information for us to go back and go over and I think the council needs some time to digest this. The other is the timing question, I think that that is probably one of the important ones and one of the things that we can ask our partners to do some checking around is that I suspect there are companies out there that are thinking about hotels and are waiting to see what we do before they make their own move because they are trying to gauge what the competition is going to be. I have been told that that potentially or really affects what we may or may not be able to do based upon what we have been told in the difference between a convention center hotel vs. motel tower that doesn't necessarily have the other issues, and the other one that Jeff went over again is the gap is real, it is not going away and if we are not to take this particular solution as one of the ways to solve it, then we will have to start thinking very quickly on what other potential solutions that are out there and also what was mentioned earlier in Jeff's presentation even if we do take the solution as being the convention center hotel, there is going to have to be interim financing of some sort to get us from now to when the convention center hotel would open. So there are a lot of things that occur and the other thing that I would like more conversation about with Gil…… and City of Portland is the eastside center that potentially being created especially with other blocks being opened up for development on the towers, Burnside Bridge project, (kind of trailed off word wise). I think those are other exciting things that could potentially could make a difference in this.
- METRO CEO Michael Jordan – I have a lot of history in trying to run facilities that traditionally run at a deficit and I know the kind of box that puts public agencies in and elected and appointed officials who have to make decisions on how to keep them going and those are really tough questions and that is really why we are here today. This project has been kicking around a couple of decades, I think that we at the staff level, in multiple agencies, are coming to the conclusion that if this project is going to move forward in one shape or another it is going to take elected and appointed public officials to be able to exercise leadership in whatever the solution you choose is. I think it is evident from the presentations today that if you want a world class convention center in this region, it is going to take investment on your part. Either you are just going to feed this building to keep it open and keep it running in its present business model or you are going to make some other kind of investment to try and close that gap and that has been reiterated multiple times. That is a tough choice and that is not only going to require innovative financial thinking, it is going to require a certain amount of public leadership on your parts and think that is why were are

here today, certainly not to make you make a decision today, but to begin to call the question on the future of this building and what solution set we can help you to put into place to continue its health into the future. Michael thanked everyone for their hard work.

- President Bragdon thanked Councilor Park and the staff for organizing as well as the outside presenters and all the time and thought that went into this. This is a multi party, multi jurisdictional sort of situation and multi beneficiaries and part of the solution today. The other observation is how intertwined the issue of this support for this building is with the issue of the HQ Hotel and those two calculations do interact, and I think that will be the key in a lot of the discussions over next several months in terms of there is a cost of doing nothing.
- MERC Commissioner George Forbes – I would like to put in the perspective of how much time we have. The PDC Commission end of May said 90 – 120 days so 30 of those days are gone, at which time PDC they will issue conveyance, so I think we should all feel somewhat a sense of urgency on this.
- Councilor Newman – If you are looking for a explicit head nod of those two bullets as opposed to just stop talking and assume we have a head nod, I think at least from me as one councilor I do want to encourage the continued conversation and the development of a workplan, so I guess that is a cautious yes let us go forward. I would like the next conversation to be much more specific about what alternative funding plans would get us to an actual point we could have something before us to consider along with PDC, Multnomah County, City of Portland to consider as well.

There being no further business to come before the Metro Council/MERC Commission, Council President Bragdon and Chair George Forbes adjourned the meeting at 1:30 p.m.

Prepared by,

Penny Knouf
MERC Commission Clerk

ATTACHMENTS TO THE PUBLIC RECORD FOR THE MEETING OF JUNE 29, 2006

Item	Topic	Doc Date	Document Description	Doc. Number