

MINUTES OF THE METRO COUNCIL MERC COMMISSION JOINT MEETING

Thursday, September 21, 2006
Metro Council Chamber

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

Councilors Absent:

Commissioners Present: George Forbes (Chair), Sheryl Manning, Don Trotter, Gale Castillo, Ellis Ray Leary

Commissioners Absent: Janice Marquis (excused), Gary Conkling (excused)

Council President Bragdon and Commissioner Forbes convened the Metro Council/MERC Commission Work Session Meeting at 11:36 a.m.

I. CURRENT FINANCIAL SITUATION OF ALL THE FACILITIES GENERAL MANAGEMENT REPORT

Jeff Miller, Metropolitan Exposition Recreation Commission (MERC) General Manager, explained how they had organized the year-end financials. Jeff Blosser, Oregon Convention Center (OCC) Executive Director, provided an analysis of the fiscal year at Oregon Convention Center. They had a relatively lighter year for the convention center. He spoke to cost containments. He noted major variances; two had to do with hotel motel tax (a copy of the power point presentation is included in the meeting record). These were the major reasons why they had a positive fund balance for the end of the year. Councilor Park indicated that the slides did not take into account Metro Tourism Opportunity and Competitiveness Account (MTOCA) funds or lodging tax. Mr. Blosser responded to his comment and noted changes in personnel costs and materials and services expenditures ensured a positive fund balance. Council President Bragdon commented on the cost containments and the long-term implications such as maintenance of the building. Mr. Blosser said they eliminated graveyard shift to help contain costs the first couple of years after the expansion occurred. They had been able to add back in a portion of the maintenance crew on graveyard shift. He said they would have to look at renewal and replacement costs such as carpet down the road. Mr. Miller indicated that they had taken a conservative budget approach. Councilor Newman asked about future bookings. Mr. Blosser said this fiscal year was better than last fiscal year. They were looking at better convention center business in 2008-09 through 2011. Councilor Liberty asked about competition with Vancouver British Columbia's convention center. Mr. Blosser said Vancouver BC was expanding its center and would be a competitor. By 2009-2010 they would be a player on the west coast.

Robyn Williams, Portland Center for the Performing Arts (PCPA) Executive Director, said PCPA had a fabulous year. One of the rare times PCPA made money on the operations side. Lion King's high attendance drove revenues up, as did many of the Broadway shows. They had budgeted for increased costs which didn't come in as high as they anticipated. She indicated food and beverage revenues were up as well. There was an increase in the lodging tax and they also received Visitor Development Initiative (VDI) money, which they hadn't anticipated. City of Portland also helped PCPA with finances. She noted a payment that had been made to OCC because they had received too much lodging tax. Councilor Burkholder asked about the \$1.4 million in profit. Ms. Williams responded to his question. She said part of their strategic plan was to keep a six-month operating

reserve. Money over that they would look at using for capital improvements. Commissioner Forbes suggested Ms. Williams provide information on improvements to Schnitzer Hall. Ms. Williams talked about the enhancements they planned for the Hall. She provided information on Main Street, which had been identified as a gateway to the cultural district. They were looking at doing some improvements on that street. They wanted to make it a vibrant active environment. They closed the street a lot because of the events in both buildings. Commissioner Leary asked who had jurisdiction over Main Street. Ms. Williams responded that the City of Portland was responsible for the street. Councilor Hosticka asked about the church that was developing some of its property. Councilor Newman said that church was several blocks from the Hall. Ms. Williams said this summer they held a concert series on Main and 6th. They had it sponsored and had a great variety of music. Their average attendance was 200 to 500 people per event. It was a very popular series. They netted a profit. Councilor Liberty asked about improvements to Main Street. Ms. Williams responded to his question. Mr. Miller added that they looked at the long-term needs of each facility. There hadn't been a lot of work done on the Main Street development yet. Councilor Liberty talked about Schnitzer Hall and opening up Main Street. Councilor Burkholder felt that the concert series was great but conflicted with Oregon Zoo concerts. He suggested coordinating these two concert series so we didn't compete with ourselves. Mr. Miller said he felt there would always be a small contingency downtown that would support the downtown concert series.

Mr. Miller provided an update on Expo. They had had a good year financially. They didn't have large variances during the year. Chris Bailey, Expo Director, and Jeff Blosser were working closely to plan events in the facilities. They weren't sure what changes would occur at Expo facilities but there may be some changes such as a ballroom. Councilor Liberty asked about the competition with the Vancouver Convention Center. Mr. Miller said he didn't think that they would be major competitor with Expo because it was a relatively small center. Councilor Newman commented on event coordination. Mr. Miller said they wanted to be a resource for all parts of the region. Councilor Burkholder asked about the light rail stop at Expo. Mr. Miller said TriMet were disappointed in the ridership. He thought it would get better when the Columbia Crossing occurred. Councilor Burkholder said he liked the new walkway. Councilor Park raised the issue of truck traffic by Expo on the privately owned road. Mr. Miller said they were working with the city as well as doing some minor repairs themselves. Councilor Park clarified that it was a private road. Mr. Miller said yes it was and that they were working on a solution.

Mr. Miller addressed MERC financial analysis, which was a roll up of the three facilities. He spoke to the revenue increases at the facilities. He felt they were well run facilities.

II. ARMORY IMPACTS ON MERC OPERATIONS

Ms. Williams said right now they felt that Portland Center Stage's move to the Armory had a positive effect on PCPA. She said the Newmark Theater was deeply discounted. It was good for PCPA to have the opportunity for a variety of uses for this space. They were seeing a lot of nonprofit business and a small bit of commercial business. The Newmark Theater was taking a look at block bookings for the theater. They were feeling good about the move. It opened up a diversity of programming.

Councilor Burkholder asked about the agreement with the City of Portland. Ms. Williams responded to his question. Councilor Burkholder was concerned about Portland Center Stage and that they might request support from the City. He was concerned that this request might hurt our

facility. Council President Bragdon said the City had told them that they were not committing operating funds to the Armory.

III. PORTLAND OREGON VISITOR ASSOCIATION (POVA) UPDATE

Mr. Miller talked about the visitor association convention he attended and the hard work that POVA was doing. They were currently looking for a Chief Executive Officer.

IV. STATUS OF OREGON CONVENTION CENTER SUBSIDY DISCUSSION

Mr. Miller said the good news was they were above their strategic fund balance (three months of operating expenses) this year and anticipated this to be true next year as well. They used basic assumptions and could have a gap in the strategic fund balance in 2008-09. If they got a headquarters hotel they could add conventions. He provided details of the lodging tax and what each facility received this year. It was a healthy fund. He then reviewed the VDI fund. They were fully funded this year. They looked at the possible increases in revenue with increased convention business due to the headquarters hotel. He noted the financial impacts without a headquarters hotel. Council President Bragdon talked about lost conventions. Mr. Miller said the convention business is a very competitive business. Convention goers want to be next to the hotel. The hotel enhanced their business and allowed them to increase convention offerings. Mr. Miller shared with the Council and Commission the impacts of lost conventions.

Councilor Liberty was concerned about the subsidy and competition with other convention centers. Mr. Miller said OCC had the Visitor Development Fund (VDF), which many convention centers did not. They were doing creative things to recruit conventions to Portland. He was concerned about staying competitive on the package.

V. STATUS OF HEADQUARTERS HOTEL DISCUSSION

Dan Cooper, Metro Attorney, said they had had a headquarters hotel update in June. They had looked at a public headquarter hotel model. They had a briefing from the architect about what the hotel would look like. He explained what the public model would look like. He said several cities around the United States were constructing convention center hotels that would be public owned. The model that they were aiming for would be public owned and financed by tax-exempt bonds. The goal was for the operating revenue off the hotel to be sufficient to pay the debt service on the hotel. That was an ideal model that Denver had managed to achieve. Houston, Phoenix and Vancouver Washington's models were slightly different. They were looking at this with an assumption that they needed to be able to show that the hotel would cover its own debt service and its own operating income. They also had to provide for something going wrong and that might not have been anticipated. Mr. Cooper said they had been doing a lot of work to try and determine if a hotel here could be built consistent with the model he had described. He talked about the necessary agreement between City of Portland, Multnomah County and Metro. They had been spending time with the members of the hotel group in Portland to see if this project was doable. He talked about the assumptions of how the hotel would be built with the use of prevailing wagers. The recommendation was for a 600-room hotel. Could they design it and plan for expansion? He also noted parking issues. They were trying to nail down the operating income for the hotel. They had been working with a developer team to come up with figures. Lastly, they were looking at the financing. How much would have to be borrowed and how much would they have to pay back? They wanted to make a recommendation to

Council/Commission around the first of the year, which would resolve all of the questions so they could make a decision around March/April to determine bond expense.

Councilor Park talked about the timing. The difficulty they were having now was hotels were not willing to commit to blocks of rooms in the future. He asked how long the window would be if we didn't make a decision. Mr. Cooper said he would not want to speculate on this. They wanted to make sure that the models they were using on this hotel could allow for expansion at a later date. He noted that this was a long-term commitment to make sure this hotel stayed viable until the bonds were paid off. Councilor Park asked Mr. Miller to address future hotel block bookings. Mr. Miller responded to his question. Commissioner Forbes said hotel business was very cyclical. He felt it was difficult to get commitments now because hotel business was good.

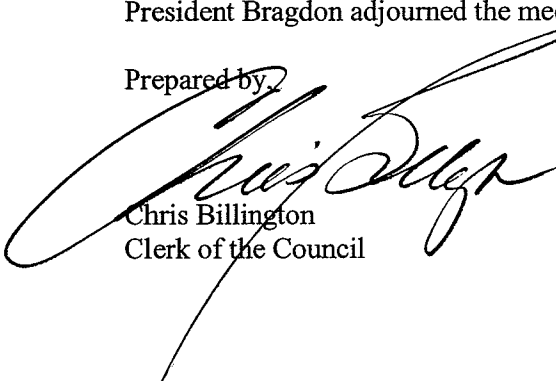
Councilor Hosticka asked about the other players. Mr. Cooper responded to his question, it would be a non-profit or a public entity that would issue the bonds. He explained how taxes were levied. Councilor Hosticka asked how the upfront resources were being covered. Mr. Cooper responded to his question. Councilor Newman said the public model required less subsidy than a public/private model. He asked that Mr. Cooper explain this. Mr. Cooper talked about the money that was needed upfront in a public/private model versus the public model. If the public model hotel did really well, there was very little that the public entity would have to cover. He talked about the risks in the public model. The goal was to have the hotel be self-financing. They were proceeding on the fact that there would be no additional sales tax to support the public hotel. Commissioner Leary asked who would own the hotel. Would OCC operate the hotel? Council President Bragdon said that would still need to be decided. Mr. Cooper talked about the Denver hotel model, which was operated by a non-profit group. He said normally another group in a public model operated facilities. Council President Bragdon said all of these issues would have to be hammered out. There would have to be a variety of agreements among all of the involved parties. Mr. Cooper talked about parking and use of the convention center garage. Commissioner Leary asked about the development team. Mr. Cooper said Portland Development Commission (PDC) issued a Request For Proposal. Commissioner Leary made additional comments about the development and operating agreement.

Councilor Liberty said he would like to see case histories on the public hotel/convention model. He wondered if we had a record of similar projections made from other convention centers around the United States and what they had gone through. Mr. Miller said they were reviewing these convention centers models. Mr. Cooper talked about the timeline, which would have the hotel open in July 2010. Councilor Liberty said he would like to know about our regional competition and changes in levels of subsidy. Councilor Park said they were putting conditions on the hotel that would not allow it to become as competitive as other hotels. He provided some examples. Mr. Miller reminded that this was 600-room hotel. They were talking about a different animal than a private hotel, which would not build a hotel this large. Councilor Liberty asked if they were seeing any large hotels being built. Mr. Miller said no. He talked about the requirements of a convention center hotel. Councilors and Commissioners continued to talk about the details of the public hotel model. Councilor McLain asked about similar cities and the convention center/hotel models. She suggested looking at options or other opportunities such as an art tax. Mr. Cooper talked about the Denver model and that its convention market was different. Councilor Park said they needed to remember that the convention center could survive without the hotel. The big loser was the tourism industry. The whole reason for the hotel was economic development. Councilor McLain talked about the financial relationship and the complex partnering that they do in this region, she thought it was important that we think about accountability to the public. She wanted to make sure the public understood who was in charge,

who was accountable and who took the risks. They needed to make that connection for the public. It was important to be accountable to the public. Councilor Newman summarized the timeline for the hotel issue. Commissioner Forbes said PDC had certain deadlines they were trying to meet too.

There being no further business to come before the Metro Council/MERC Commission, Council President Bragdon adjourned the meeting at 1:20 p.m.

Prepared by,



Chris Billington
Clerk of the Council

**ATTACHMENTS TO THE PUBLIC RECORD FOR THE MEETING OF
SEPTEMBER 21, 2006**

Item	Topic	Doc Date	Document Description	Doc. Number
1	Power Point Presentation	9/21/06	To: Metro Council and MERC Commission From: Jeff Miller, MERC General Manager Re: Financial analysis of MERC facilities	092106c-01