

**MINUTES OF THE JOINT METRO COUNCIL MERC COMMISSION WORK
SESSION MEETING**

Tuesday, January 16, 2007
Metro Council Chamber

Councilors Present: David Bragdon (Council President), Kathryn Harrington, Rod Park, Robert Liberty, Rex Burkholder

Councilors Absent: Brian Newman, Carl Hosticka

Commissioners Present: None

Commissioners Absent: George Forbes (Chair), Gary Reynolds, Don Trotter, Gale Castillo, Gary Conkling, Janice Marquis, Ray Leary

Council President Bragdon convened the joint Metro Council MERC Commission Work Session Meeting at 11:30 a.m.

I. PRESENTATION OUTLINE

Chief Operating Officer Michael Jordan said the purpose of today's meeting was to prepare the Council for headquarters hotel resolutions that would be brought before them on February 8. Council President Bragdon said he would like to poll the councilors at the end of today's meeting to see how they felt about the February 8 meeting.

Reed Wagner, Office of the COO, said that Metro staff had been receiving information from experts on the Headquarters Hotel Project, and this information was important to share with the Council. Mr. Wagner summarized the outline of the PowerPoint presentation (a copy is included in the meeting record).

II. OVERVIEW OF OREGON CONVENTION CENTER

Dan Cooper, Metro Attorney, discussed the history of the OCC and the OCC mission.

III. CHALLENGES

Mr. Cooper discussed the challenges facing the OCC, including excess capacity and a failure to attract national conventions to fill the capacity.

Brian McCartin, Portland Oregon Visitors Association (POVA), elaborated on the challenges of marketing the OCC. Last year, POVA booked over 235,000 convention room nights. The convention market has become very competitive. The number one reason why many organizations turned Portland down was the lack of a headquarters hotel. Mr. McCartin showed a graph from the OCC Lost Business Report (included as part of the PowerPoint presentation).

Councilor Liberty asked what sub issues constituted "HQ Hotel Issues." Mr. McCartin answered that the primary issue was the size of room block, and a 500-room block in one building was critical.

Councilor Park asked if these numbers included the lost business from groups that did not even consider Portland, because of the lack of an adequate hotel package. Mr. McCartin said that this

data only included groups that were seriously considering the OCC before deciding to take their business elsewhere.

Councilor Liberty asked if Metro built the type of hotel that they were considering, how it would affect the lost business report. Mr. McCartin cited a SAG survey of meeting planners that demonstrated meeting planners would be much more likely to choose Portland as their convention destination if we built a headquarters hotel of the type being considered.

Councilor Harrington asked if there were other issues that needed to be considered besides the hotel. Mr. McCartin answered that there were, and the OCC Blocks Vision plan would help address those issues. He stated that we were not struggling to attract small meetings. It is only the large, "city-wide" conventions that needed a bigger hotel package that we were struggling to attract. He summarized the efforts POVA had taken to market the city to event planners.

Dr. Edward Leech and Teri Tonioli, professional meeting planners, spoke to the Council about why they had chosen other cities over Portland in the past. Dr. Leech, from the League for Innovation, stated that his conferences required a 1,000-1,100 room block on peak nights, ideally taking no more than three hotels. In Portland, it would require six or seven hotels to satisfy that room block. Dr. Leech said meeting space was another important factor. The meeting space in Portland and at the OCC was fantastic. Dr. Leech chose Salt Lake City, Utah for his most recent convention. At Salt Lake City they were able to accommodate all 1,100 attendees in three hotels near the facility. Dr. Leech said that Portland also had an excellent technology package at the OCC, but the lack of an adequate room block was too much of a problem to overcome. He stated that it was not important that the OCC was not in downtown, because the Max service provided by TriMet made downtown accessible. Dr. Leech stated that Portland was a very attractive site for conventions, except that the hotel package was inadequate.

Councilor Liberty asked Dr. Leech hypothetically if the hotel room block could have been accommodated in two large hotels downtown rather than adjacent to the OCC, if that would have been sufficient to bring the convention to Portland. Dr. Leech said that would not be an ideal situation. The closer the hotels were to the convention center, the better.

Councilor Harrington asked if there were other cities comparable to Portland, that had hotels to accommodate the room block, but that were too pricy to attract conventions. Dr. Leech said that Phoenix was an example of a city that was too expensive for his group to consider.

Teri Tonioli, Senior Vice President with Experient, said Experient was a meeting planning company that handled over 400 clients. Last year they booked over 200 meetings, generating 2.7 million room nights and \$481 million in room revenue. She stated that networking was a big reason why people attended conferences. People wanted to have a large room block in a small number of hotels to allow for easier networking. Her clients were choosing Portland as their destination less and less. The lack of an adequate hotel package was the main factor affecting Portland's market share. Ms. Tonioli said the hotel industry was thriving right now, and prices would continue to go up until new hotels were built.

Councilor Burkholder asked about future trends in the convention industry and if the major convention cities (Orlando, Los Angeles and Las Vegas) would attract all the conventions and leave the smaller cities in the dust. Ms. Tonioli said that the lower rates offered in 2nd tier and 3rd tier cities made them attractive and competitive.

Councilor Liberty asked how many other convention center hotels were being built in other cities. Ms. Tonioli stated that not a lot of new hotels were being built right now, with the exception of Phoenix that was building a new convention center hotel.

Councilor Park asked if there were any other cities that had a facility of the same caliber as the OCC but lacked an adequate hotel package like Portland. Ms. Tonioli stated that Charlotte and Seattle were both in a similar situation. She stated that it would be easy for Portland to gain a larger market share than Seattle, because they did not have room to expand. Dr. Leech stated that Albuquerque was another city similar to Portland.

Councilor Liberty asked if there was a risk of building a hotel that was too small. Dr. Leech stated that there was definitely a risk. He said that a 400-room hotel would not cut it, and that the brand name of the hotel was important. Ms. Tonioli stated that if you could build a 1,000-room hotel then you should do it. She stated that the city would always be able to use more capacity for convention business.

IV. POLICY ALTERNATIVES

Mr. Cooper and Mr. Wagner, Council Office laid out the policy options Metro staff had looked at: Status Quo, Civic Center, Free Rent and Transportation, Private Hotel and Public Hotel.

Councilor Burkholder asked if we knew the exact economic impact of losing citywide convention business. Mr. Wagner stated that we did have some idea, but we would like to have better research on this question. The economic impact of each convention attendee at citywide conventions was estimated to be approximately \$300 per day.

Councilor Liberty asked when was the most advantageous time to take action and if we were in a better position to act now or later. Mr. Wagner responded that we were in a better position now and that we had a window of opportunity now that may be closing soon.

V. HEADQUARTERS HOTEL OPTION

Greg Crown, PKF Consultants, gave a synopsis of the work he did for PDC. Councilor Harrington asked what the general occupancy rate was for hotels. Mr. Crown stated that 65% was about average, nationwide, but it always depended on the specific market.

Councilor Park asked how Portland compared in terms of the average daily rate. Mr. Crown stated that Portland's rates were not as high as in other cities but they were beginning to rise.

Councilor Liberty asked what market conditions needed to be met to encourage private hotel development. Mr. Crown stated that Portland's current market situation with occupancy rates over 70% was conducive to new hotels entering the market.

Councilor Park asked about the Starwood Convention Collection. Mr. Crown stated that this was another organization that marketed large Westin hotels and tried to sell large blocks of room nights.

Councilor Burkholder asked how much hotel business would be from conventions and how much would be from transient business. Mr. Crown stated that there would be some days when the hotel was slow with no convention business and some days when it was at or near capacity. He said this would be similar to other convention center hotels across the country.

Council President Bragdon asked if there were any hotel models that would be financially feasible for the private sector. Mr. Crown said that private hotels could only be successful with a large public subsidy, because private hotel owners/developers were looking for returns of 20-25% on their leveraged equity.

Councilor Liberty asked if Mr. Crown had any other clients that were considering headquarters hotels. Mr. Crown stated that they were involved with the Austin and Houston hotel projects and with a couple of smaller projects now. Councilor Liberty asked if PKF had been involved in a headquarters hotel project where they had recommended not to build a new hotel. Mr. Crown stated that he had not been involved in a situation like that. Councilor Liberty asked if there was any way to avoid an “arms race.” Mr. Crown stated that you could not be in the convention business unless you participated in the “arms race” and continued to upgrade your facility.

Councilor Harrington asked about what projects PKF was currently working on. Mr. Crown stated they were all small cities such as Lubbock, Texas.

Councilor Park asked if there were any totally privately funded headquarters hotels that were being built now. Mr. Crown said that all recent headquarters hotel projects have required some public subsidy.

Councilor Liberty asked about the financial feasibility of this project at a later date. Mr. Crown said construction costs have historically risen at or above the rate of inflation. Also, hotel room rates might not rise as fast as inflation. Based on these reasons, Mr. Crown recommended that a hotel should be built sooner rather than later.

Council President Bragdon asked why a public model was financially feasible when a private model would require up to an \$80 million subsidy. Mr. Crown stated that the private sector required a much greater return on investment in order to consider a project financially feasible.

Fred Wearn, Senior Development Manager with the Portland Development Commission (PDC), asked Mr. Crown what the impact of a headquarters hotel would be on the other hotels in Portland. Mr. Crown stated the impact would be negligible on the Portland hotel market.

Councilor Liberty asked what time frame private developers would like to see their 20-25% rate of return. Mr. Crown stated that private hotel owners and developers would like to see that rate of return very soon.

VI. PORTLAND DEVELOPMENT COMMISSION PROJECT HISTORY

Mr. Wearn and Sara King, PDC Development Manager, discussed the OCC urban renewal goals and the headquarters hotel project history.

VII. PRIVATE VS. PUBLIC MODEL

Fred Wearn, PDC Senior Development Manager and Sara King, PDC Development Manager, discussed the different private and public models they looked at. Ms. King discussed the benefits of a public model.

Councilor Liberty commented that there were some publicly owned hotels that were constructed some time ago and that we should be able to look at their performance records to see how similar projects were doing.

Ms. King summarized the performance of convention center hotels in Sacramento, Denver, Houston and St. Louis. All of the hotels were performing relatively well, with the exception of St. Louis. St. Louis was a privately owned hotel, with public subsidy. It had not performed as well as anticipated, though its performance had improved recently. Ms. King discussed PDC's future involvement in the project.

Councilor Liberty asked if staffing was the reason that PDC no longer wanted to be in control of the project. Ms. King stated that Metro or MERC was more appropriate to be in control of the project, since Metro owned the OCC.

VIII. POSSIBLE APPROACHES

Mr. Cooper discussed the feasibility of the project. Councilor Park suggested that Multnomah County should also be considered a government partner on this project.

IX. NEXT STEPS

Mr. Wagner reminded the Council of the next steps in the project: consultation with stakeholders, negotiations with the development team and a comprehensive study. On February 8, resolutions would be brought before the Council to 1) have Metro accept the competitive bid process PDC used to select the development team, 2) to add the HQ Hotel project to Metro's official legislative agenda and 3) a budget amendment to fund the next steps of the project, including a comprehensive study by an independent consultant.

X. COUNCILOR DISCUSSION

Councilor Burkholder wanted to make sure Metro did not waste time reinventing the wheel. Metro staff should identify the gaps in the information and focus their resources there. Councilor Burkholder believed that if the Council did decide to act, it was imperative to do so quickly. He also wanted to research the benefits this project would have for the region.

Councilor Park asked how comfortable Metro should be accepting the RFQ and RFP process used by PDC to select the development team. Alison Kean Campbell, Metro Attorney, recapped the competitive bid process used by PDC and stated that the process was very inclusive and fair. However, she believed that Metro needed to pass a resolution to exempt this project from Metro's competitive bid process. Mr. Cooper stated that if Metro had been in charge of this project from the start, we likely would have had a very similar if not identical process.

Council President Bragdon stated that we did not need to duplicate the competitive bid process that was done by PDC and he was comfortable with their process, but he was uncomfortable with the information on finance and the pro forma. He would like to have some very serious review of the pro forma and the numbers and an unbiased look at worst-case scenarios. Council President Bragdon also stated Metro needed to be very clear about the problem statement before undertaking this project. Metro's goal should be to plug the funding gap at the OCC. He also stated that there should be absolutely no risk to Metro's general fund and this project should not

jeopardize the other functions of Metro. Metro needed to come to a decision and cannot drag this process out much longer.

Councilor Liberty said he was mostly interested in what happened after February 8. He also agreed with Council President Bragdon's comments. He was interested in the changes in the hotel industry in Portland, and whether the market changes were significant enough to reconsider the private model. He would also like to see more data on the economic impacts to the region, without relying on vague multiplier effects. He would also like to see risk analysis and worst-case scenarios.

Councilor Harrington said her primary concern was the economic impact; Metro needed to build that argument in order to gain support from other stakeholders. She felt the economic impact was the heart of the issue. She was not quite comfortable with the risks of accepting the PDC competitive process for selecting the development team. She would like a discussion about the budget and what projects will be put at risk by pursuing this process.

XI. TESTIMONIALS

Council President David Bragdon asked if anyone would like to testify on this matter in front of the Council.

Tim Ramis, a lawyer for a number of downtown hotels including the Hilton, the Benson and others, spoke about his view of the project. He agreed that Metro staff should do a thorough analysis of this project, using an independent consultant. He felt that any analysis should incorporate data from this specific market, not from national averages. He was concerned about pursuing only one course of action. Mr. Ramis favored a solution that 1) ensured resources were allocated to provide free transportation from existing hotels to the OCC, 2) provided resources to keep costs of conventions at a low level, 3) encouraged development of a smaller convention center hotel that may not require a large public subsidy.

Councilor Liberty asked Mr. Ramis if his clients would support the kind of hotel that had been discussed by PDC and Metro staff. Mr. Ramis stated that his clients did not believe a hotel of this size would be successful. He stated that the size of the headquarters hotel was not that important and that it only needed to accommodate a select number of people that needed to be close to the OCC.

Len Bergstein also addressed the Metro Council concerning his views on the project. He stated that he had a different interpretation of the SAG report and that a 600-room convention center hotel was not necessary or recommended. He stated that the private market should be left to build a headquarters hotel, without public intervention.

Councilor Harrington asked how the OCC was performing in terms of convention prices. She referenced comments from the meeting planners that stated the OCC costs are already low enough to attract conventions and that the lack of a headquarters hotel was the main obstacle to increased convention business.

Councilor Park stated he was a member of the Visitor Development Fund (VDF) Board and he asked Brian McCartin to discuss the costs of conventions at the OCC.

Mr. McCartin stated that there were funds available to address transportation and other costs. However, those were not the reasons why the OCC was losing business. In his professional

opinion, spending more money on these issues would not address the main reason the OCC was losing business.

Councilor Park asked if Mr. Ramis supported Metro taking these next steps and gathering more data. Mr. Ramis said that he did support gathering more data, especially financial data on worst-case scenarios.

Mr. Ramis suggested that the finance group report directly to the political leadership and work closely with them on this project.

Councilor Burkholder asked Mr. Ramis if a privately funded hotel was more likely to be developed now than it was several years ago when the RFQ process began. Mr. Ramis stated that he believed it was very likely someone would be interested in constructing a private model headquarters hotel.

Scott Langley, Ashford Pacific, also testified before the Metro Council. He stated that this was a very complex project. He had been involved with the project since the RFQ came out and had stayed involved since then. He stated the questions raised by Mr. Ramis and Mr. Bergstein had been asked and answered repeatedly for years. From a development standpoint, Mr. Langley believed we needed good information to ensure this project was feasible. He stated that costs were continuing to rise and that we needed to do more work, but we also needed to avoid the paralysis of analysis.

Councilor Park asked Mr. Langley if Metro could have a 400-room hotel that was still labeled a convention center hotel. Mr. Langley stated that small headquarters hotels were only effective in smaller markets, and a 400-room hotel would not be sufficient to enhance the business of the OCC.

Mr. Wearn commented that amendment 4 to the RFP process was made to allow smaller hotel proposals to be considered.

Mr. Langley said he was frustrated by detractors of the project, who continued to ask questions regarding smaller or privately owned hotel options. Mr. Langley stated that the issue had been studied extensively and now it was time to move forward on the project.

There being no further business to come before the Metro Council, Council President Bragdon adjourned the meeting at 2:25 p.m.

Prepared by,



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Office of the COO

ATTACHMENTS TO THE PUBLIC RECORD FOR THE MEETING OF
JANUARY 16, 2007

Item	Topic	Doc. Date	Document Description	Doc. Number
1	HQ Hotel	1/16/2007	To: Metro Council From Reed Wagner Re: Convention Center Hotel (PowerPoint Presentation)	011607jointmerccw-01