BEFORE THE METRO COUNCIL

RESOLUTION DESIGNATING THE OREGON CONVENTION CENTER HEADQUARTERS HOTEL PROJECT AS A COUNCIL PROJECT AND ASSIGNING A LEAD COUNCILOR AND COUNCIL LIAISON	))))	RESOLUTION NO. 07-3772 Introduced by Councilor Rod Park

WHEREAS, the Metro Council is responsible for the operation of the Metropolitan Exposition and Recreation Commission (MERC), including the Oregon Convention Center (OCC); and

WHEREAS, the mission of the OCC is to maximize economic benefits for the metropolitan region and the state of Oregon, while protecting the public investment in the facility; and

WHEREAS, the cumulative economic effects of the OCC from 1990 to 2005 amount to $6.0 billion in total convention spending and 92,620 FTE jobs in the Tri-County metropolitan region, as well as $185 million in tax revenue in the state of Oregon, according to the cumulative annual reports by the independent consulting firm KPMG measuring the regional economic impact of the OCC; and

WHEREAS, METRO and MERC are responsible for ensuring the OCC operates in a fiscally responsible manner; and

WHEREAS, METRO and MERC have considered multiple policy alternatives to operate the OCC in a fiscally responsible manner, while continuing to support the OCC mission of maximizing the regional economic impact of the OCC; and

WHEREAS, the development of a Headquarters Hotel (HQ Hotel) adjacent to the OCC has been identified as a policy option to meet these goals; and

WHEREAS, projects that are of a scope and complexity that, for purposes of efficiency, would benefit from the focused attention of a subset of the Council are designated by the Metro Council as Council Projects and are assigned a Lead Councilor and Council Liaisons; and

WHEREAS, the Oregon Convention Center Headquarters Hotel is such a project with policy questions relating to economic benefit, cost, feasibility, equity and centers development; and

WHEREAS, the Council President, working with members of the council, has designated councilors to play lead and liaison roles; now therefore

BE IT RESOLVED:

That the Council hereby designates the Oregon Convention Center Headquarters Hotel as a Metro Council Project; and that Metro Councilor Rod Park is hereby designated as lead Metro Councilor and that Metro Councilor Rex Burkholder is hereby designated Metro Council Liaison on this Project.

ADOPTED by the Metro Council this 8th day of February 2007.

David Bragdon, Council President

Approved as to Form:

Alison Kean Campbell, Metro Senior Assistant Attorney

Officially Approved
Gesetzlich Verabschiedet
Regionaler Gemeinderat
METRO COUNCIL
Metro Council

STAFF REPORT

IN CONSIDERATION OF RESOLUTION NO. 07-3772, A RESOLUTION OF METRO COUNCIL, DESIGNATING THE OREGON CONVENTION CENTER HEADQUARTERS HOTEL PROJECT AS A COUNCIL PROJECT AND ASSIGNING A LEAD COUNCILOR AND COUNCIL LIASON.

Date: January 25, 2007
Prepared by: Nick Popenuk

BACKGROUND

In 1989 voters approved general obligation bonds to finance the development of the Oregon Convention Center. The project cost was $90 million, and the OCC opened in 1990. Its mission is to maximize economic benefits for the metropolitan region and the state of Oregon, while protecting the public investment in the facility.

The consulting firm KPMG issues an annual report measuring the regional economic impact of the OCC. The most recent report was completed in May 2006 and summarizes the economic impact of the 2005 calendar year. The report is attached as Attachment 1. The report found the OCC was responsible for $551.6 million in total convention spending in 2005, and that the OCC generated $21.8 million in annual tax revenue and 8,300 FTEs of employment in 2005. According to the KPMG annual reports, the cumulative economic effects of the OCC from 1990 to 2005 amount to $6.0 billion in total convention spending and 92,620 FTE jobs in the Tri-County metropolitan region, as well as $185 million in tax revenue in the state of Oregon. A chart, generated by KPMG, summarizing the cumulative economic impact of the OCC is attached as Attachment 2.

Despite the significant economic impact the OCC has on the region, the facility itself is struggling with a projected gap in fund balance. The Oregon Convention Center is forecasted to experience a strategic fund balance gap of over $1 million in fiscal years 2007-2008 increasing to a fund gap of almost $4.2 million in fiscal year 2013-2014 under current conditions.

The forecasted funding gap is a result of excess, unused capacity in the Center. The OCC significantly expanded its facilities in 2003 in response to full occupancy rates in the original convention space and industry demand for increased convention space. However, due in part to the lack of adjacent hotel space dedicated to large room blocks to serve national conventions, the expanded OCC has struggled to attract the large, national conventions necessary to occupy the expanded space.

Metro and the Metropolitan Exposition and Recreation Commission (MERC) have considered several alternative policies to solve the OCC funding gap. These alternatives included: maintaining the status quo and continuing to invest Metro and regional dollars to fund the convention center; converting the OCC into a civic center; the development of a privately owned HQ Hotel; and the development of a publicly owned HQ Hotel. The alternative of providing free rent and transportation to the OCC as an inducement to national conventions was also discussed, however, the Portland Oregon Visitors Association (POVA) reports that this inducement is already provided to national conventions through allocation of the Visitor Development Fund.

Every year POVA completes an annual Lost Business Report explaining why national conventions opted against coming to Oregon. The top reasons reported to POVA for this lost business in 2006 were: 1) lack of an adjacent HQ Hotel – 249,339 room nights, 2) Date Availability – 29,849 room nights, 3) Cost/Rate – 17,083 room nights, 4) Larger Facility – 0 room nights. A chart from POVA's Lost Business Report summarizing the reasons for lost business is attached as Attachment 3. POVA's lost business report illustrates that the lack of a convention center headquarters hotel is by far the most significant obstacle to attracting more convention business to the Oregon Convention Center.

After considering all of these alternatives, the option that provides the most likelihood of solving the OCC funding gap while still promoting and achieving the OCC's mission of maximizing regional economic impact, while also providing public control over the Project and providing public equity in return for public expenditures, is a publicly-owned and privately-operated convention center headquarters hotel model.

REPORTS/ANALYSIS

Since 2003, several independent studies were commissioned on the impact and feasibility of a headquarters hotel. Those studies include:

- 2003 – Strategic Advisory Group (SAG)
- 2005 – KPMG, LLP.
- 2006 – PKF Consulting
- 2006 – ECONorthwest

These reports are attached as Attachments 4, 5, 6 and 7 respectively. The Strategic Advisory Group was engaged collaboratively by Metro, MERC, PDC, POVA and the Tri-County Lodging Association (TCLA). The SAG study concluded that an appropriately sized headquarters hotel would be necessary in order for the OCC to maximize its positive economic impact on the Metro region. The study projected that over 30 years the benefits to the Metro region and the State of Oregon from a convention center headquarters hotel would add millions of additional hotel room nights and millions of dollars in additional spending, and thousands of additional jobs supported each year.

The KPMG report estimated the regional benefit of a 600-room convention center Headquarters Hotel would range from $83.8 to $111.7 million annually and approximately 1,250 to 1,600 full-time jobs within the area's convention industry would be needed to support the new convention business (laundry services, florists, audio/visual providers, and the like).

The PKF study recommended that an OCC Headquarters Hotel contain 600 rooms with 41,000 square feet of function space, which would have an impact of preventing an erosion of current OCC convention volume of an estimated 25,000 rooms per night annually by 2013, and that competitive hotels' rates and occupancies would likely be equal to or greater than that achieved without such a hotel, and that a Headquarters' Hotel would provide a catalyst for new business relocation to the hotel's area and would also provide significant economic impact via jobs, taxes, and income.

The ECONorthwest study examined the economic impact of a convention center Headquarters Hotel in Portland, and concluded that such a hotel would generate expenditures of almost $50 million in the Portland region in 2013 (in 2004 dollars), which expenditures would generate a total economic impact of over $100 million in business sales and $40 million in labor income, and the equivalent of almost 1500 full-time jobs in the Portland region in 2013; and that the present value in 2006 of future benefits generated by the Headquarters hotel is $850 million to $1.4 billion in business sales, $340 million to $653 million in labor income, and the equivalent of 278 to 2,058 annual full-time jobs.

KNOWN OPPOSITION

There is no known opposition to this resolution designating the Council project and a Council liaison. Significant doubts remain as to whether a publicly owned and financed HQ Hotel is financially feasible and whether it will eliminate the strategic fund gap and achieve the OCC mission of maximizing economic impact to the region. Metro has received letters from the Tri-County Lodging Association and the Oregon Lodging Association detailing their concerns regarding a publicly owned hotel of this size. Both stakeholders who support and oppose the development of a publicly owned and financed Convention Center Hotel, agree that more information is needed before any final decisions are made regarding development of a Convention Center Hotel. This resolution will designate the Project as one that the Metro Council will investigate, allowing Metro staff to do the necessary research to determine if development of a Convention Center Hotel is the best policy option to achieve the OCC mission of maximizing economic benefits to the region and eliminate the OCC strategic fund gap.

LEGAL ANTECEDENTS

Simultaneous to the consideration of this Metro Council Resolution 07-3772, the Metro Council is also considering two other resolutions regarding the OCC Headquarters Hotel Project: Resolution 07-3748, "ADOPTING FINDINGS GRANTING AN EXEMPTION TO THE METRO AND MERC CONTRACTING RULES, AUTHORIZING ACCEPTANCE OF PDC'S CONTRACTING PROCESS, AUTHORIZING EXCLUSIVE NEGOTIATIONS WITH THE SELECTED PROJECT TEAM; AND AUTHORIZING USE OF ALTERNATIVE CONTRACTING METHODS FOR DESIGN, CONSTRUCTION, MANAGEMENT, OPERATION AND FINANCING OF THE OCC HEADQUATERS HOTEL," and Resolution 07-3777, "AMENDING THE LEGISLATIVE AGENDA TO SEEK LOTTERY FUNDS TO SUPPORT CONSTRUCTION OF A HEADQUARTERS HOTEL ADJACENT TO THE OREGON CONVENTION CENTER."

BUDGET IMPACTS

The budget impacts of this resolution are staff and Councilor time. This resolution designates the Oregon Convention Center Headquarters Hotel as a Metro Council Project. It does not seek authorization of any specific agreements, nor does it obligate Metro to commit any hard costs to the Project.

ANTICIPATED EFFECTS

Adopting Resolution No. 07-3772 would recognize Metro as lead agency investigating the Oregon Convention Center Headquarters Hotel Project. The resolution would authorize Metro staff to further research feasibility of the Project and remaining policy questions. Possible next steps include: negotiations with the Development Team, meet with key project stakeholders, build partnerships with other beneficiaries of OCC operations, contract with an independent consultant to conduct an in depth project feasibility study and research and consider financing options.

RECOMMENDED ACTION

The Office of the Chief Operating Officer recommends adoption of this resolution.

KPMG

OREGON CONVENTION CENTER
METRO ER COMMISSION

Economic and Fiscal Impacts Analysis Update

ADVISORY

Final Report
May 2006

AUDIT ▪ TAX ▪ ADVISORY

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May 5, 2006

Mr. Jeffrey Blosser, Director
Oregon Convention Center
P. O. Box 12210
Portland, Oregon 97212

Dear Mr. Blosser:

Per our agreement dated March 22, 2004, we have completed our economic and fiscal impact analysis update for the Oregon Convention Center's operations in 2005. The report presented herein includes the summary of findings and principal conclusions from our research.

The findings and assumptions contained in the report reflect analysis of primary and secondary sources including information from management at the Oregon Convention Center. We have utilized sources that are deemed to be reliable but cannot guarantee their accuracy. Moreover, estimates and analysis are based on trends and assumptions and, therefore, there will usually be differences between the projected and actual results because events and circumstances frequently do not occur as expected, and those differences may be material. We have no obligation, unless subsequently engaged, to update this report or revise this analysis as presented due to events or conditions occurring after the date of this report.

In accordance with the terms of our engagement letter, the accompanying report is restricted to internal use by the Oregon Convention Center and may not be relied upon by any third party for any purpose. Notwithstanding these limitations, it is understood that this document is subject to public information laws and as such can be made available to the public. Neither this report, nor any portion thereof, may be used for any other purpose without the prior written consent of KPMG LLP.

This analysis was prepared under the Consulting Standards issued by the American Institute of Certified Public Accountants (AICPA) and does not constitute an examination, compilation or agreed upon procedures in accordance with the standards established by the AICPA. As such, we do not express an opinion or any other form of assurance on whether the prospective financial statements are presented in conformity with AICPA presentation guidelines or on whether the underlying assumptions provide a reasonable basis for the presentation.

The client has authorized reports to be sent electronically for its convenience. However, only the final hard copy report should be viewed as our work product.

We have enjoyed working on this engagement and our on-going relationship with the Oregon Convention Center and look forward to the opportunity to provide you with continued service.

Sincerely,

KPMG LLP

Introduction

The Oregon Convention Center (OCC) is owned by METRO, a regional government, and managed by Metropolitan Exposition-Recreation Commission (MERC), a seven-member commission which is a subsidiary of METRO. MERC also provides management and stewardship of other regional public assembly facilities including the Portland Center for the Performing Arts and the Portland Metropolitan Exposition Center. Originally opened in September of 1990, the OCC currently offers the following components subsequent to its expansion in April of 2003:

- *Exhibit Space*: 255,000 square feet of contiguous space divisible into six exhibit halls
- *Ballroom Space*: 59,400 square feet of total space, which includes a 25,200-square foot ballroom and a 34,200-square foot ballroom
- *Meeting Space*: 50 rooms totaling 52,330 square feet of meeting space
- *Skyview Terrace*: 7,000 square feet
- *Parking*: 800-space underground parking garage on-site and 2,500 parking spaces within walking distance
- *Technology*: High-speed wired and wireless (Wi-Fi)

In addition, the Portland Development Commission (PDC), in conjunction with MERC and the Portland Oregon Visitors Association (POVA), sought developers for construction of a headquarters hotel near the OCC. Four proposals were received and were evaluated by a headquarters hotel evaluation committee comprised of representatives from MERC, POVA, OCC, the Tri-County Lodging Association, the Lloyd Business Improvement District, the Lloyd District Transportation Management Association, the Portland Office of Finance and Administration, the N/NE Economic Development Alliance, PDC, the Lloyd District Community Association and METRO. After a series of public meetings, this committee made a recommendation for a preferred developer to the PDC Executive Director.

Introduction (cont'd)

The PDC Board approved the recommendation of the Executive Director to select Ashforth Pacific and Garfield Traub for the headquarters hotel project. The selected developer will enter into a Memorandum of Understanding and begin exclusive negotiations with the PDC. Upon successful completion of negotiations, the PDC and developer will enter into a formal Development Agreement that will detail the development program, project financing and conveyance of property.

The benefits realized from on-going OCC operations are recurring in nature. This analysis reflects the impact of the event activity during calendar year 2005.

The Tri-County Metropolitan Region benefits from the OCC in a number of ways, including such tangible and intangible benefits as:

- Enhancing the area's image as a business, meetings and tourist destination;
- Receiving regional and national exposure through destination marketing and visitation;
- Providing a first-class meeting venue for area residents and out-of-town delegates/attendees;
- Unifying the market area, creating a more distinct identity;
- Providing a catalyst for urban redevelopment initiatives; and
- Generating additional economic activity and enhanced fiscal revenues to the Tri-County Metropolitan Region.

Each of these benefits is important in assessing the benefit of the on-going operations of the OCC to the Tri-County Metropolitan Region. While the value of most of these benefits is difficult to measure, the economic activity generated by the OCC within the Tri-County Metropolitan Region can be quantified in terms of spending, employment and earnings. As such, this analysis summarizes the estimated direct, indirect and induced economic benefits and tax benefits associated with the OCC's operations for the entire Tri-County Metropolitan Region as well as by individual county.

Overview of OCC Event Activity

The convention and meetings industry is comprised of several types of events with varying space requirements. The following describes the primary event types hosted at the OCC.

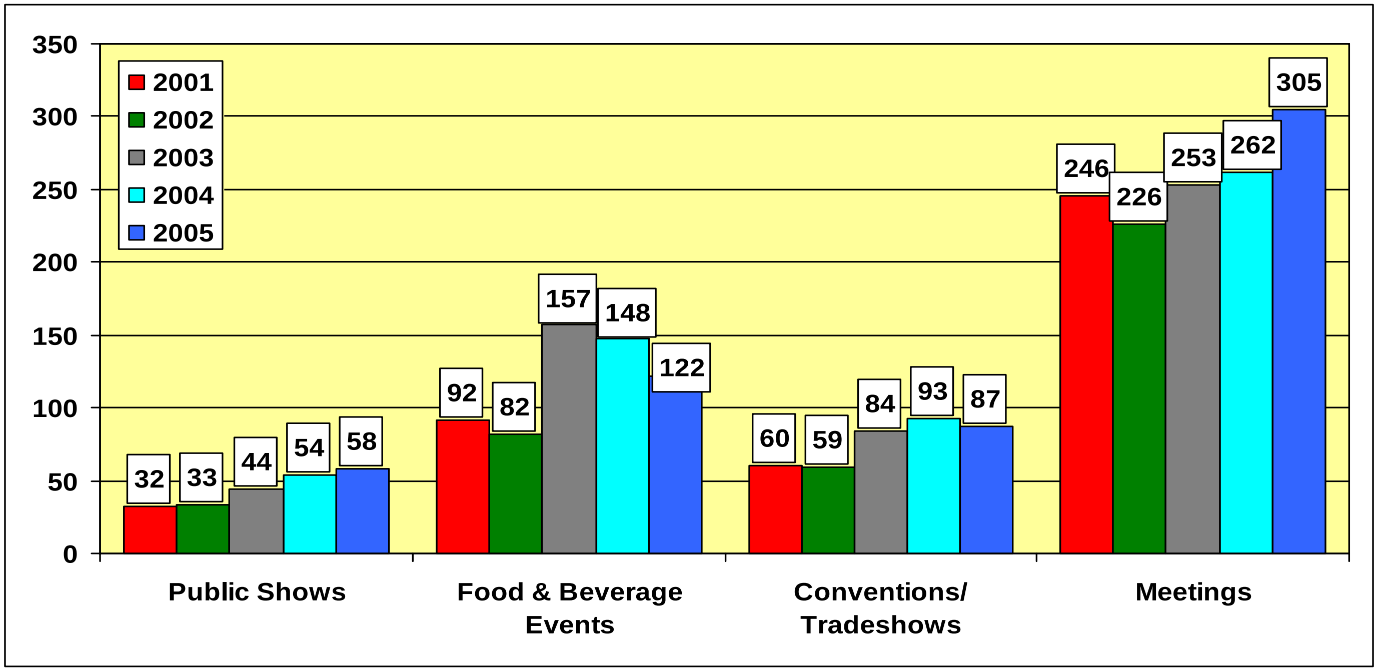
- *Convention* - An assembly of attendees from an association, corporation or other organization, meeting for a common purpose which typically require hotel/motel rooms.
- *Tradeshow* - An assembly of members from common trade associations or other organizations, meeting to buy and sell products, exchange information and generally conduct business via the use of exhibit booths. Tradeshows are usually not open to the public.
- *Meeting* - Any gathering of persons for a common cause such as annual meetings, religious meetings, seminars and other public assemblies.
- *Public Show* - Any assembly of members of common trade associations, organizations and/or other groups who meet solely to sell, display or demonstrate their wares and services to the general public where an admission fee may or may not be charged.
- *Food & Beverage Event* - Special events requiring catering services such as luncheons, receptions and banquets.

During calendar year 2005, the OCC hosted 572 events, which accounted for a total attendance of approximately 723,900. This event activity represents an increase of 15 events and approximately 80,200 in total attendance from the prior year. The pages that follow summarize event activity at the OCC in terms of number of events, attendance and attendee days.

Overview of OCC Event Activity – Number of Events

The number of public shows and meetings increased between 2004 and 2005. Consistent with most convention centers, meetings comprised the largest number of events at the facility, accounting for approximately 53% of the total number of events in 2005. However, meetings are not typically a large economic impact generator. The OCC experienced a slight decrease in the number of conventions/ tradeshows from 93 in 2004 to 87 in 2005. In addition, the number of food and beverage events also decreased for the second consecutive year.

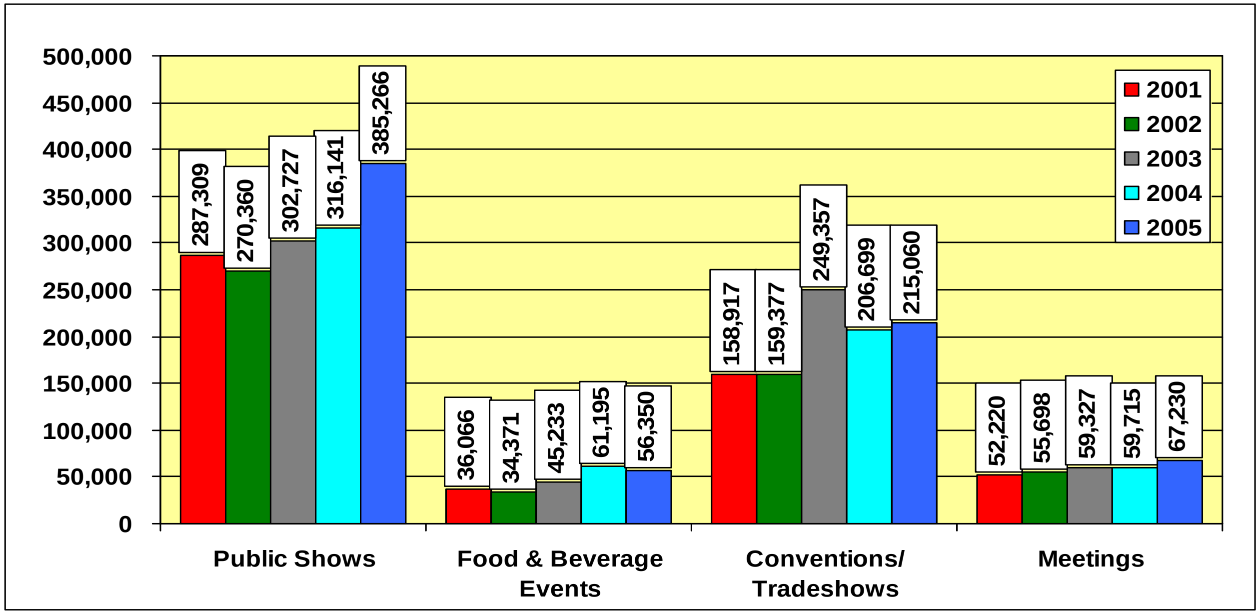
Comparison of the Number of Events at the OCC



Overview of OCC Event Activity – Total Attendance

Public shows, conventions/tradeshows and meetings all experienced an increase in total attendance between 2004 and 2005. Historically, public shows account for the highest percentage of attendance at the facility, of which the annual International Auto Show is one of the largest. Although attendance at this event decreased by more than 9,000 people between 2004 and 2005, this single event still accounted for approximately 19% of total attendance at public shows. Despite a decline in the number of conventions/ tradeshows, total attendance for these events increased by approximately 8,400 people. In addition, total attendance at meetings increased for the fourth consecutive year.

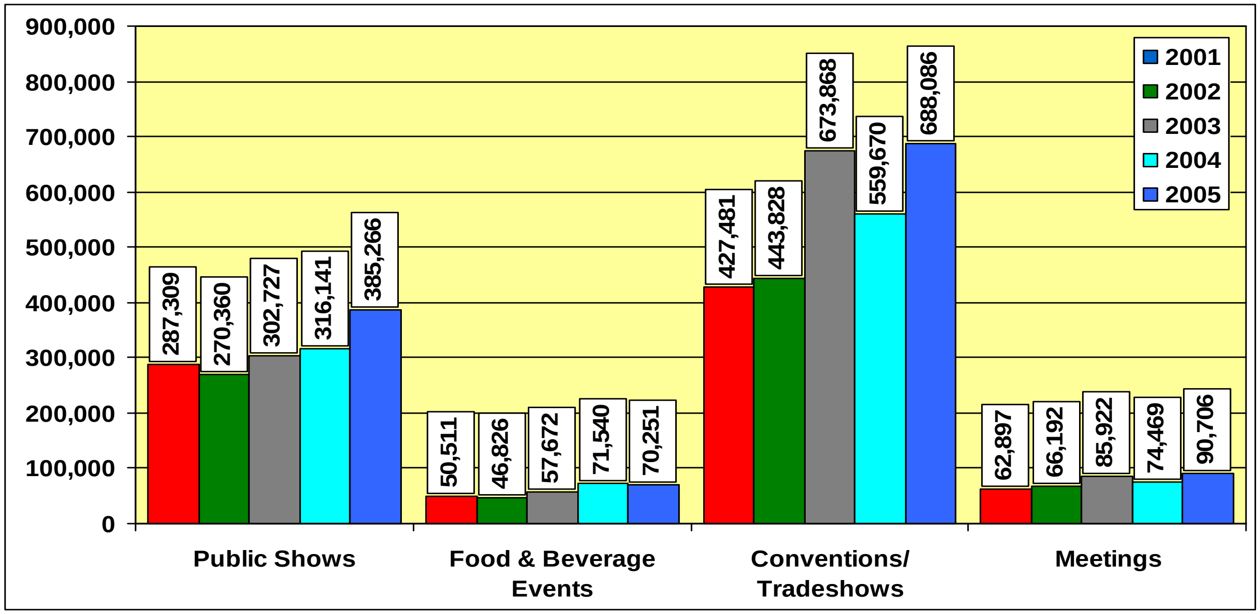
Comparison of Total Attendance at the OCC



Overview of OCC Event Activity – Total Attendee Days

The number of attendee days is an important component in the methodology used to calculate economic impact. For conventions/tradeshows, meetings as well as food and beverage events, an attendee day is defined as total attendance multiplied by the event length. For example, a three-day convention with 600 delegates equates to 1,800 attendee days which reflects that the same number of delegates return to the event each of the three days. Conversely, attendee days for public shows are assumed to be the same as total attendance since most attendees generally attend a public show only once during the event. Total attendee days at conventions/tradeshows increased by 23% from nearly 560,000 in 2004 to just over 668,000 in 2005, which is important since these events typically generate the greatest amount of economic impact within the surrounding areas.

Comparison of Total Attendee Days at the OCC



Overview of OCC Event Activity – Scope

When estimating economic impact, the scope of event activity is important because different spending amounts are applied to attendees based on whether they are attending State/local or national/regional/international events. As shown in the table below, approximately 85% of all events hosted at the OCC were State/local in scope. However, approximately 43% of the conventions/tradeshows and 83% of related attendee days were generated from national/regional/international events.

Summary of Event Activity at the OCC in 2005 by Scope						
	Number of Events			Attendee Days		
Event Type	State/ Local	National/ Regional/ International	Total	State/ Local	National/ Regional/ International	Total
Conventions & Tradeshows	50	37	87	119,004	569,082	688,086
Meetings	270	35	305	70,570	20,136	90,706
Other	165	15	180	429,168	26,349	455,517
Total	**485**	**87**	**572**	**618,742**	**615,567**	**1,234,309**

Methodology

An assessment of the economic benefits that could potentially accrue to the Tri-County Metropolitan Region as a result of the on-going operations of the OCC can be approached in several ways. The approach used in this analysis considers the expense side of convention center operations as well as attendee, association and exhibitor spending for documentation of the initial direct impacts to a community. All expenses generated by convention center operations from salaries and wages, repairs and maintenance, contract services, administrative, marketing, utilities, insurance, etc. as well as an estimate of spending for attendees, associations and exhibitors using the facility are used as an initial measure of economic activity within the marketplace. Once the amount for direct spending is estimated, a multiplier is applied to generate the total (direct, indirect and induced) spending, earnings and employment associated with the project. This "multiplier" effect is estimated in this analysis using a regional economic forecasting model provided by the Minnesota IMPLAN Group, Inc.

The economic activity directly generated through the on-going operations of the OCC and the spending of its users affects more than just the facility and immediately surrounding land uses. As this money ripples through the economy, several other economic sectors are impacted and jobs are created. For example, when a caterer purchases food for an event at the OCC everyone from the wholesaler to the farmer that produced the food is impacted. In addition, local governmental entities that tax these economic transactions also benefit. The following are the specific aggregate industries used in this analysis:

- hotel/entertainment;
- eating and drinking places;
- transportation;
- retail trade;
- electric, gas, water & sanitary services; and
- business services.

Methodology (cont'd)

Once the total economic impact for the Tri-County Metropolitan Region is estimated, a percentage of the total is allocated to each of the three counties. Allocations for hotel spending are based on the historical transient lodging tax receipts for each county as a percentage of the total collections within the Tri-County Metropolitan Region. Allocations for all other spending are calculated in the same manner based on historical information on travel spending as provided by Dean Runyan Associates to the Oregon Tourism Commission. The table below summarizes the allocations for hotel and all other spending used in this analysis.

	% Allocation	
County	**Hotel Spending**	**All Other Spending**
Clackamas	8.37%	12.40%
Multnomah	80.35%	74.10%
Washington	11.28%	13.50%
Total	100.00%	100.00%

Source: Dean Runyan Associates.

Methodology (cont'd)

The three categories of measurement used to assess the economic impact of a project are spending, earnings and employment which are defined below:

- **Total spending (output)** represents the total direct and indirect/induced spending effects generated by the project. This calculation measures the total dollar change in spending (output) that occurs in the local economy for each dollar of output delivered to final demand.

- **Personal earnings** represent the wages and salaries earned by employees of businesses associated with or impacted by the project. In other words, the multiplier measures the total dollar change in earnings of households employed by the affected industries for each additional dollar of output delivered to final demand.

- **Employment** represents the number of full and part-time jobs supported by the project. The employment multiplier measures the total change in the number of jobs supported in the local economy for each additional $1.0 million of output delivered to final demand.

In addition to the economic impact analysis, fiscal benefits or tax revenue impacts that result from on-going operations of the OCC are also estimated. The governmental entities considered in this fiscal analysis are Clackamas, Multnomah and Washington Counties, as well as METRO and the State of Oregon. Revenues generated from hotel/motel occupancy tax, excise tax, motor vehicle rental tax, business income tax and personal income tax are calculated. All amounts depicted in this report are presented in 2005 dollars unless otherwise noted.

Summary of Estimated Economic Benefits from On-Going OCC Operations

The table to the right summarizes the estimated economic impacts generated from operations of the OCC in 2005 in terms of total direct and indirect/induced spending, employment and earnings for the entire Tri-County Metropolitan Region as well as the allocation of this spending among the three individual counties using the method previously described. The pages that follow discuss each component in more detail.

Estimated Economic Benefits To the Tri-County Metropolitan Region From OCC Operations in 2005

Total Economic Benefits:	Tri-County Region
Direct Spending	$322,395,000
Indirect/Induced Spending	$229,251,000
Total Direct and Indirect/Induced Spending	$551,646,000
Total Direct and Indirect/Induced Employment (# of FTE jobs)	8,300
Total Direct and Indirect/Induced Earnings	$243,422,000

Total Economic Benefits:	Clackamas County
Direct Spending	$36,441,000
Indirect/Induced Spending	$26,005,000
Total Direct and Indirect/Induced Spending	$62,446,000
Total Direct and Indirect/Induced Employment (# of FTE jobs)	900
Total Direct and Indirect/Induced Earnings	$27,756,000

Total Economic Benefits:	Multnomah County
Direct Spending	$244,380,000
Indirect/Induced Spending	$173,631,000
Total Direct and Indirect/Induced Spending	$418,011,000
Total Direct and Indirect/Induced Employment (# of FTE jobs)	6,300
Total Direct and Indirect/Induced Earnings	$184,141,000

Total Economic Benefits:	Washington County
Direct Spending	$41,575,000
Indirect/Induced Spending	$29,615,000
Total Direct and Indirect/Induced Spending	$71,190,000
Total Direct and Indirect/Induced Employment (# of FTE jobs)	1,100
Total Direct and Indirect/Induced Earnings	$31,525,000

Notes:
Amounts are presented in 2005 dollars.
FTE denotes full-time equivalent employees.
There may be slight differences due to rounding.

Summary of Direct Spending

The first step in calculating economic impact is estimating the direct spending. The benefits generated at the local level result from the impact of direct spending both by attendees and activities that support events held at the OCC. Direct spending impacts from operations are annually recurring in nature. The primary types of spending quantified in this analysis include:

- Attendee spending, including out-of-town delegates and local attendees;
- Association spending;
- Exhibitor spending; and
- Budgetary spending by the OCC.

Per capita attendee spending amounts are estimated based on the Convention Expenditure and Impact Study conducted by Destination Marketing Association International (DMAI), formerly the International Association of Convention and Visitors Bureaus (IACVB), which reflects the spending patterns of thousands of convention and meeting delegates from a broad base of meeting types. The 2004 Convention Expenditure and Impact Study provides the spending attributes for regional/national business, however, State/local spending attributes were unavailable due to an inadequate sample. Thus, figures from the 2002 Convention Income Survey were used. All amounts were inflated by a 3% annual inflation rate to reflect 2005 dollars.

Summary of Direct Spending (cont'd)

Attendee Spending

Through information from management, OCC events were analyzed to separate out attendees at regional/ national events from those at State/local events. The DMAI Convention Income Survey provides spending estimates by scope of event. For purposes of this analysis, high impact attendees are defined as those that stay overnight in a hotel room. In general, low impact attendees are local patrons at consumer shows, civic events and meetings. As such, adjustments are made to the DMAI spending amounts to account for low impact spending. Based on information provided by the OCC and for purposes of this analysis, all attendees at regional/national/international events are classified as high impact. In addition, 30% of State/local convention/ tradeshow attendees and 5% of attendees at all other State/local events are considered high impact. All remaining attendees are classified as low impact.

The following table presents the total spending characteristics per delegate day for delegates.

	State/Local		Regional/ National
Per Day Spending	**High Impact**	**Low Impact**	**High Impact**
Delegate	$234.94	$26.77	$269.48

Note: In 2005 dollars.

Source: DMAI.

Summary of Direct Spending (cont'd)

Association & Exhibitor Spending

Sponsoring organizations have substantial investments in the events that they host. These organizations purchase goods and services from either the convention center, food and beverage contractor or from outside sources. Items such as exhibit space and equipment rental are typically provided by the convention center, which are reflected as revenues for the provider. Since this spending is eventually reflected in the budgetary spending by the convention center, these amounts are excluded from association spending to avoid double counting. Estimated association spending amounts are provided by the DMAI Convention Expenditure and Impact Study and are based on spending per attendee day.

The DMAI Convention Expenditure and Impact Study also provides spending estimates for exhibitors per attendee day. Adjustments to these estimates are made to avoid double counting similar to association spending. Based on conversations with DMAI representatives, exhibitor spending at State/local events can be higher than that at regional/national events since these exhibitors are more likely from the local area. Thus, they tend to spend a greater portion of their exhibit-related expenses within their own community. Conversely, exhibitors attending regional/national events are likely to spend a greater portion of their expenses where they are based as opposed to the event location.

Association and exhibitor spending per delegate day are presented below.

Per Day Spending	State/ Local	Regional/ National
Association[1]	$14.68	$15.45
Exhibitor[1]	$114.36	$72.38

Note: [1] Amounts are for 2005 spending per delegate.

Source: DMAI.

KPMG

Summary of Direct Spending (cont'd)

Budgetary spending by the OCC

Budgetary spending refers to the "expense side" generated by the OCC. Regardless of the source or magnitude of the revenues that the building produces, this analysis focuses on the operating expenditures occurring in the Tri-County economies. Based on information provided by management, the OCC had approximately $17.9 million in operating expenditures in 2005.

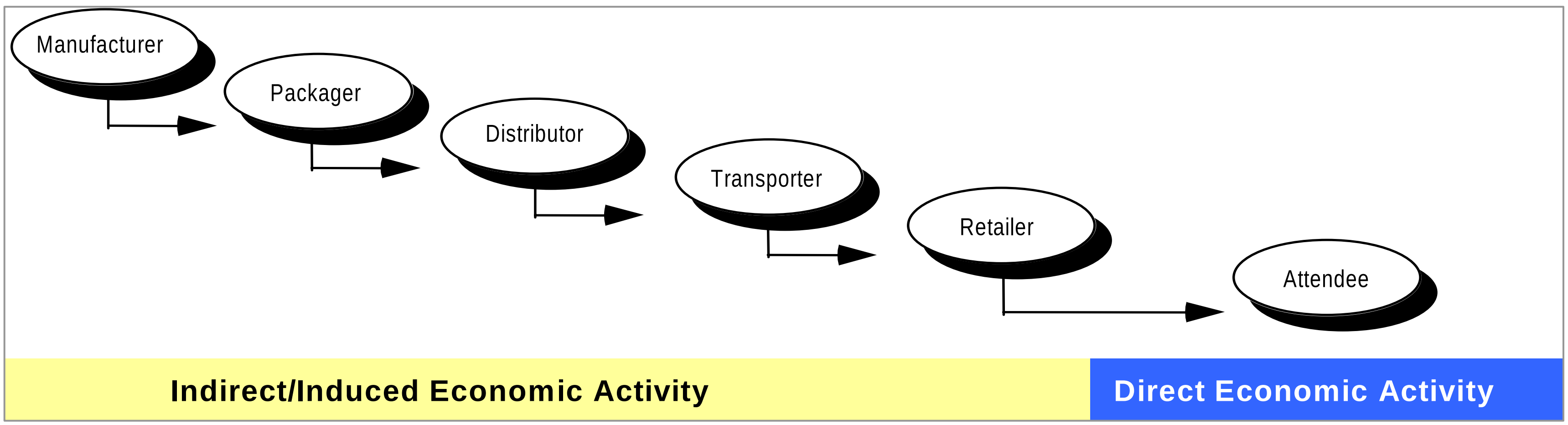
Summary of Direct Spending

Based on information provided by the OCC for 2005 and the DMAI spending estimates, the total direct spending related to OCC attendees, associations and exhibitors as well as budgetary spending is estimated to be approximately $322.4 million in 2005. The table below shows the breakdown of estimated direct spending among these groups.

Category	2005
Attendee Spending	$195,090,000
Association Spending	109,365,000
OCC Budgetary Spending	17,940,000
Total Direct Spending	$322,395,000

Indirect/Induced Spending

The economic activity generated through the on-going operations of the OCC affects more than just the facility. In preparation for new spending in the economy, several other economic sectors are impacted and jobs are created. It is a common misconception to assume that the indirect/induced spending occurs subsequent to the purchase of the good as an "after effect." To further illustrate this point, consider that raw materials are purchased, labor is hired, and goods are produced, transported and marketed to retailers before the attendee spending takes place. To yield direct spending, several intermediary levels of spending must occur first.



Multipliers

In an effort to quantify the inputs needed to produce the total output, economists have developed multiplier models. This "multiplier" effect is estimated in this analysis using a regional economic forecasting model provided by Minnesota IMPLAN Group, Inc., a private economic modeling company. The format and data is based on models developed and maintained by the U.S. Department of Commerce, Bureau of Economic Analysis (BEA). One of the major advantages of this type of model is that it is sensitive to both location and type of spending, and has the ability to provide induced/indirect spending, employment and earnings information by industry category.

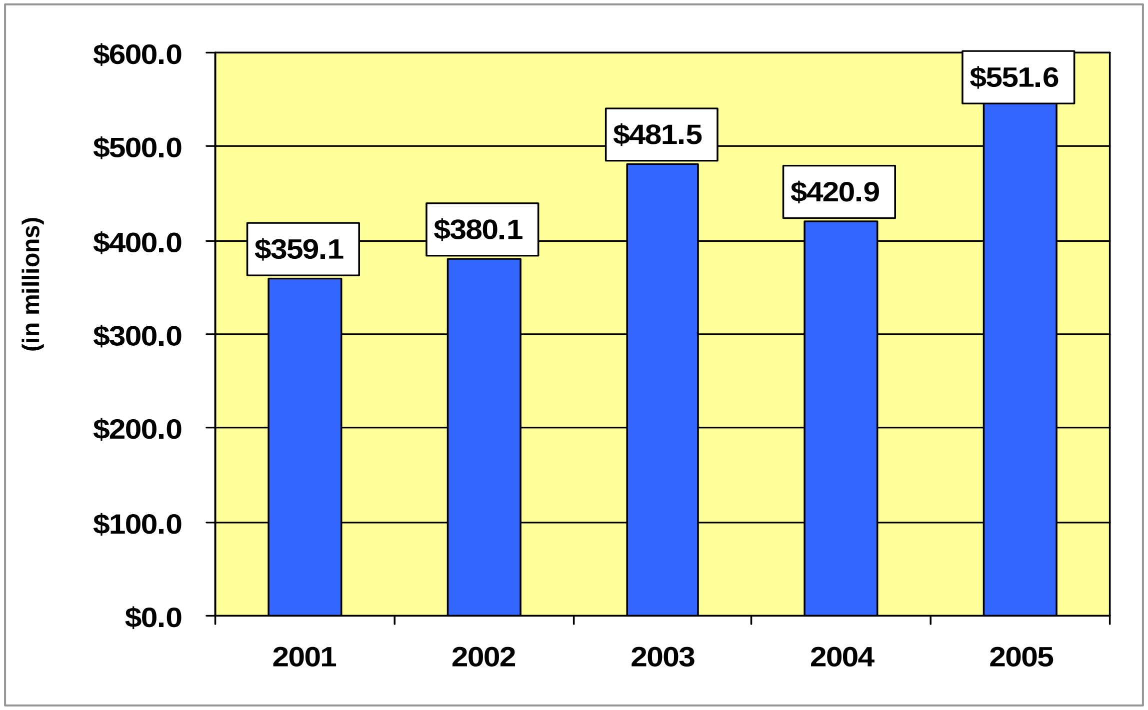
The direct spending amounts estimated from operations of the OCC are applied to the multipliers in order to calculate estimates for total spending, total earnings and total employment (jobs). The Tri-County Metropolitan Region multipliers used in this analysis are shown in the following table.

	Oregon's Tri-County Metropolitan Region Multipliers		
Category	**Spending**	**Employment**	**Earnings**
Hotels/Entertainment	1.6847	31.4	0.6865
Eating & Drinking Places	1.7526	31.5	0.6504
Retail Trade	1.5825	22.8	0.6681
Transportation	1.7919	15.6	0.6513
Utilities	1.3344	4.6	0.3390
Business Services	1.7315	20.6	0.9230

Source: IMPLAN.

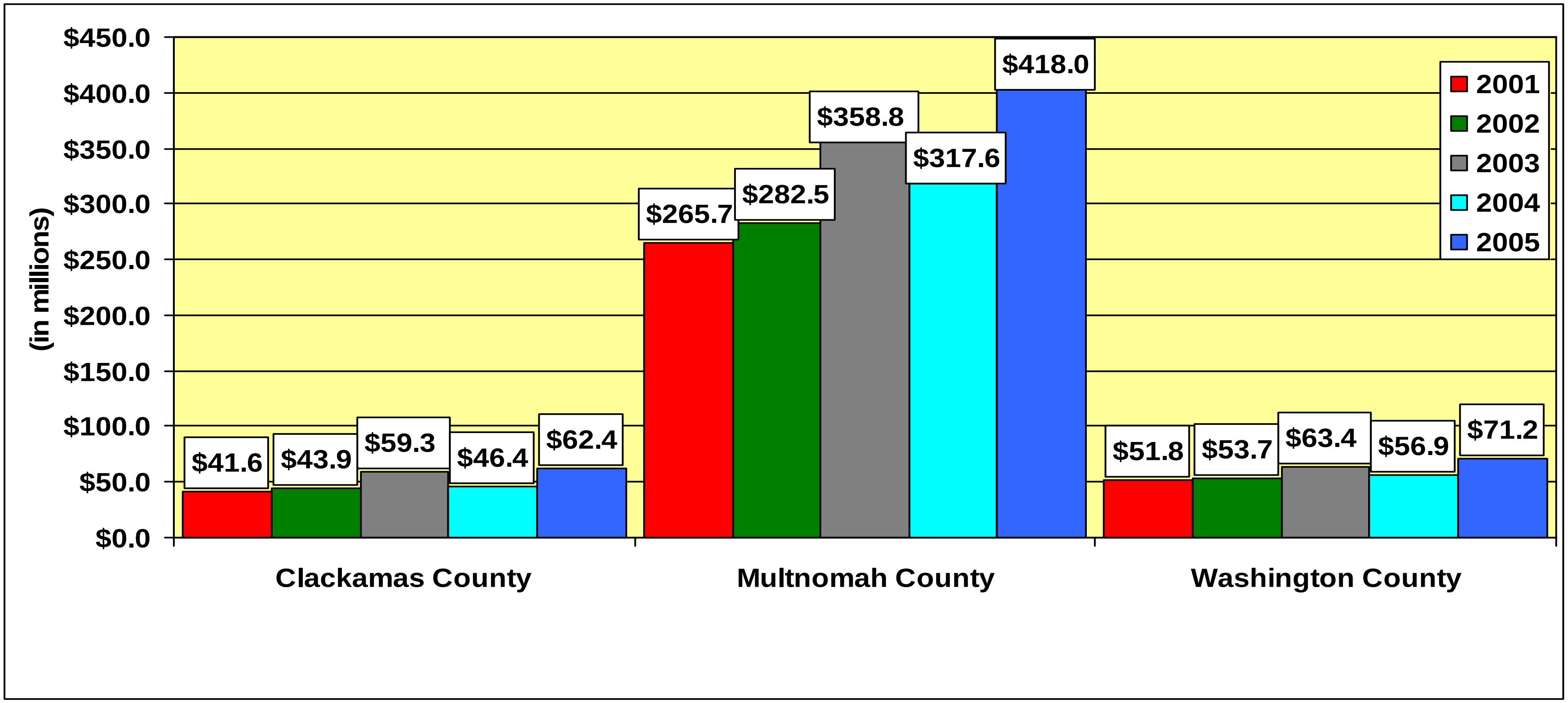
Summary of Estimated Total Spending in the Tri-County Metropolitan Region

Outputs from the model indicate that total (direct and induced/indirect) spending generated within the Tri-County Metropolitan Region from OCC operations in 2005 is estimated to be approximately $551.6 million, which is 31% higher than in 2004. This difference in total spending is likely attributable to increases in total attendee days (21%), total conventions/tradeshows attendee days (23%), total high impact attendee days (39%) and total regional/national/international attendee days (50%). In 2005, approximately 55% of total attendees days were high impact days compared to 47% in 2004.



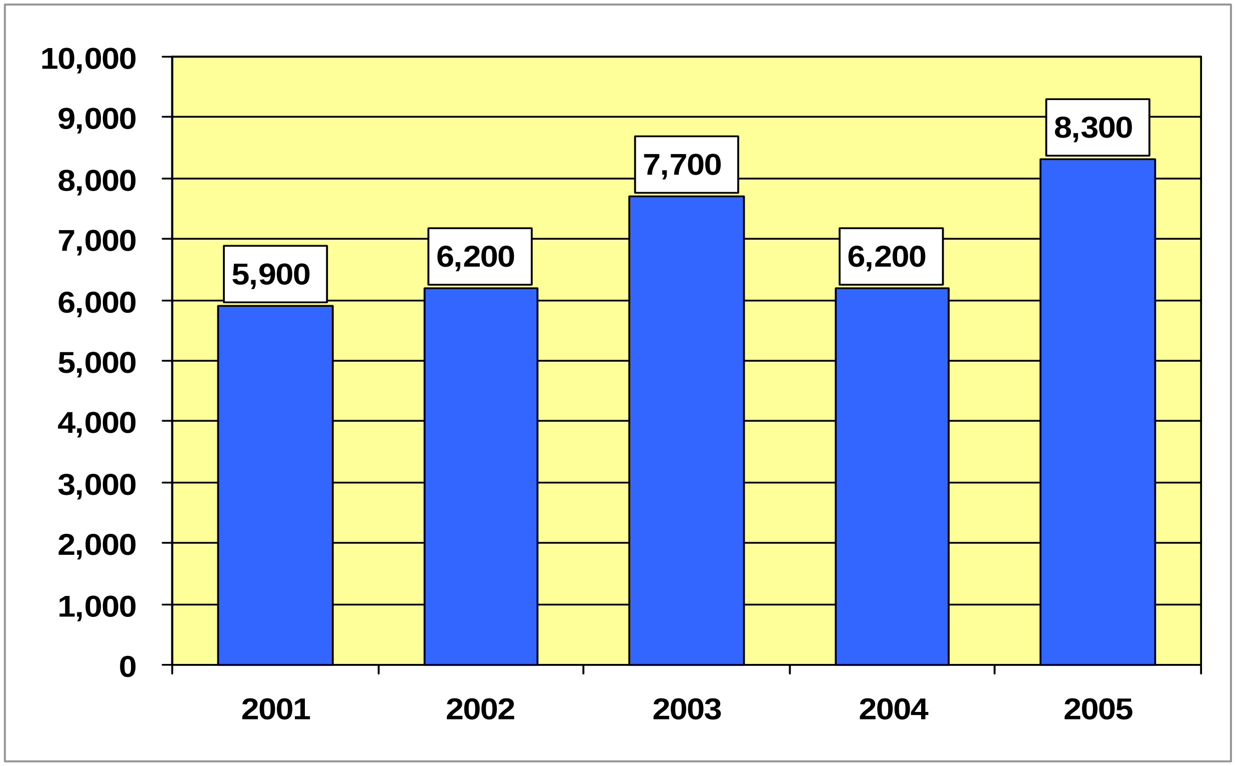
Summary of Estimated Total Spending By County

Estimated total spending increased by approximately 34% in Clackamas County, 32% in Multnomah County and 25% in Washington County.



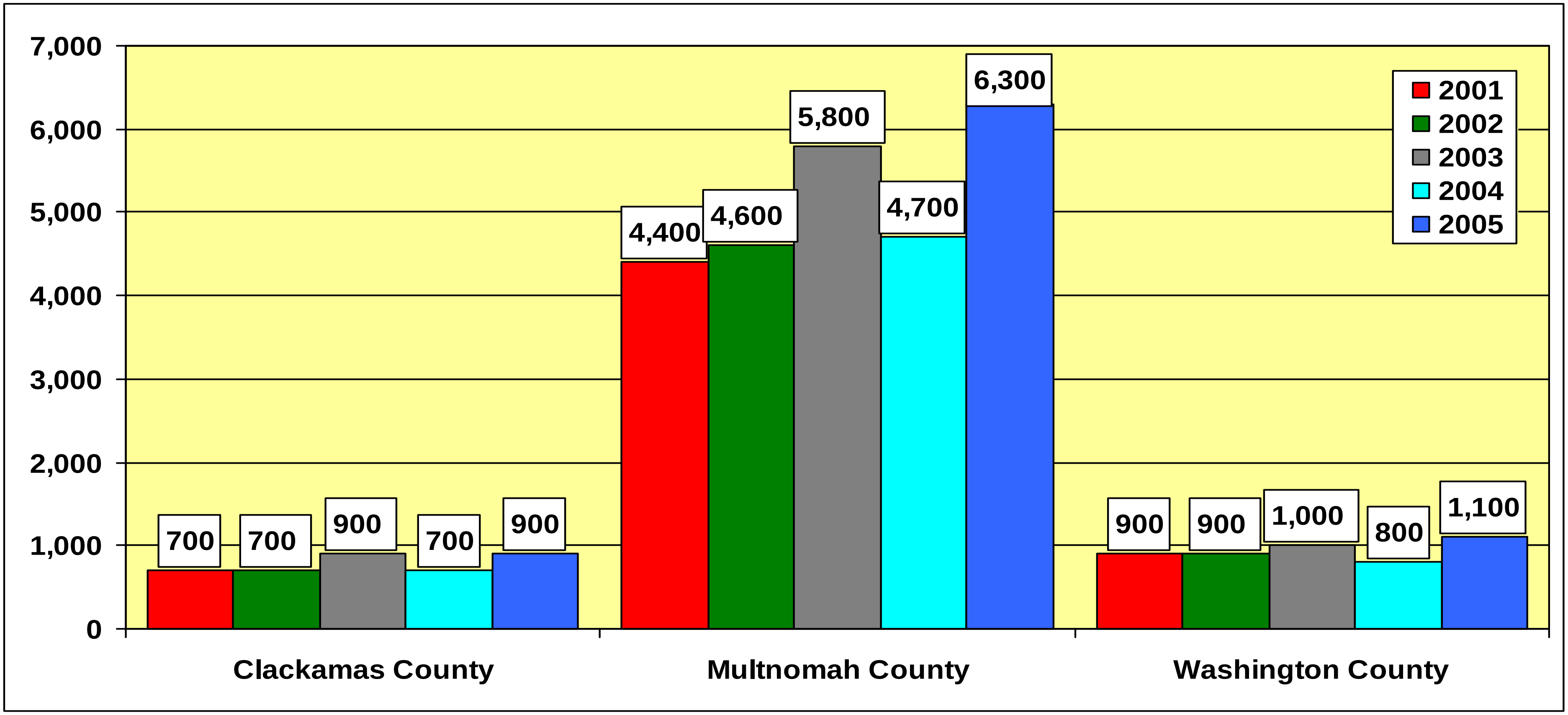
Summary of Estimated Total Employment in the Tri-County Metropolitan Region

Based on the IMPLAN model, which calculates the number of jobs per $1.0 million in spending, it is estimated that the economic activity associated with OCC operations generated approximately 8,300 total jobs in 2005 in the Tri-County Metropolitan Region, an increase of approximately 2,100 jobs from 2004. These jobs are created in many sectors of the economy, which both directly and indirectly support the increased level of business activity in the area.



Summary of Estimated Total Employment by County

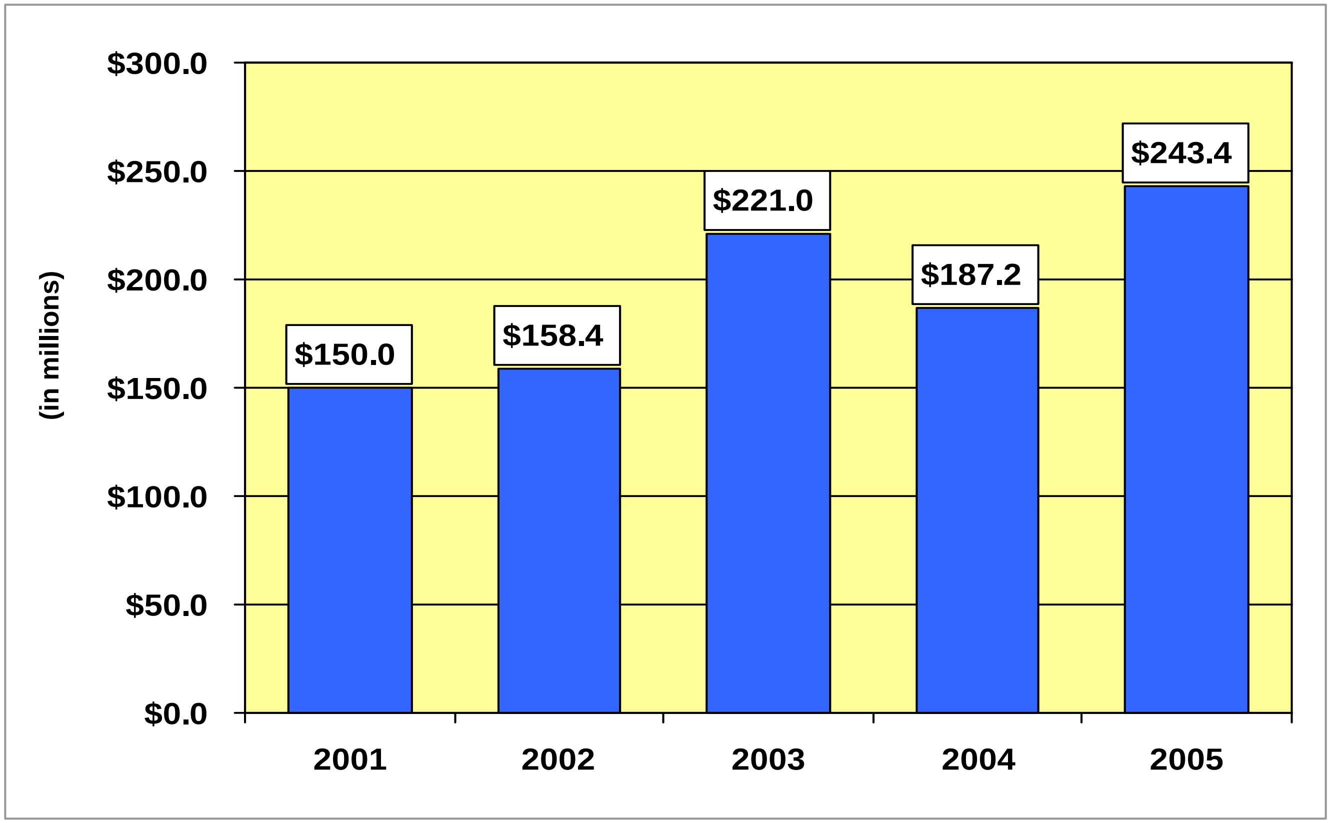
As with total spending, estimated total employment increased in each of the three counties between 2004 and 2005. Washington County experienced the largest percentage increase in employment (38%) followed by Multnomah (34%) and Clackamas (29%) counties.



KPMG

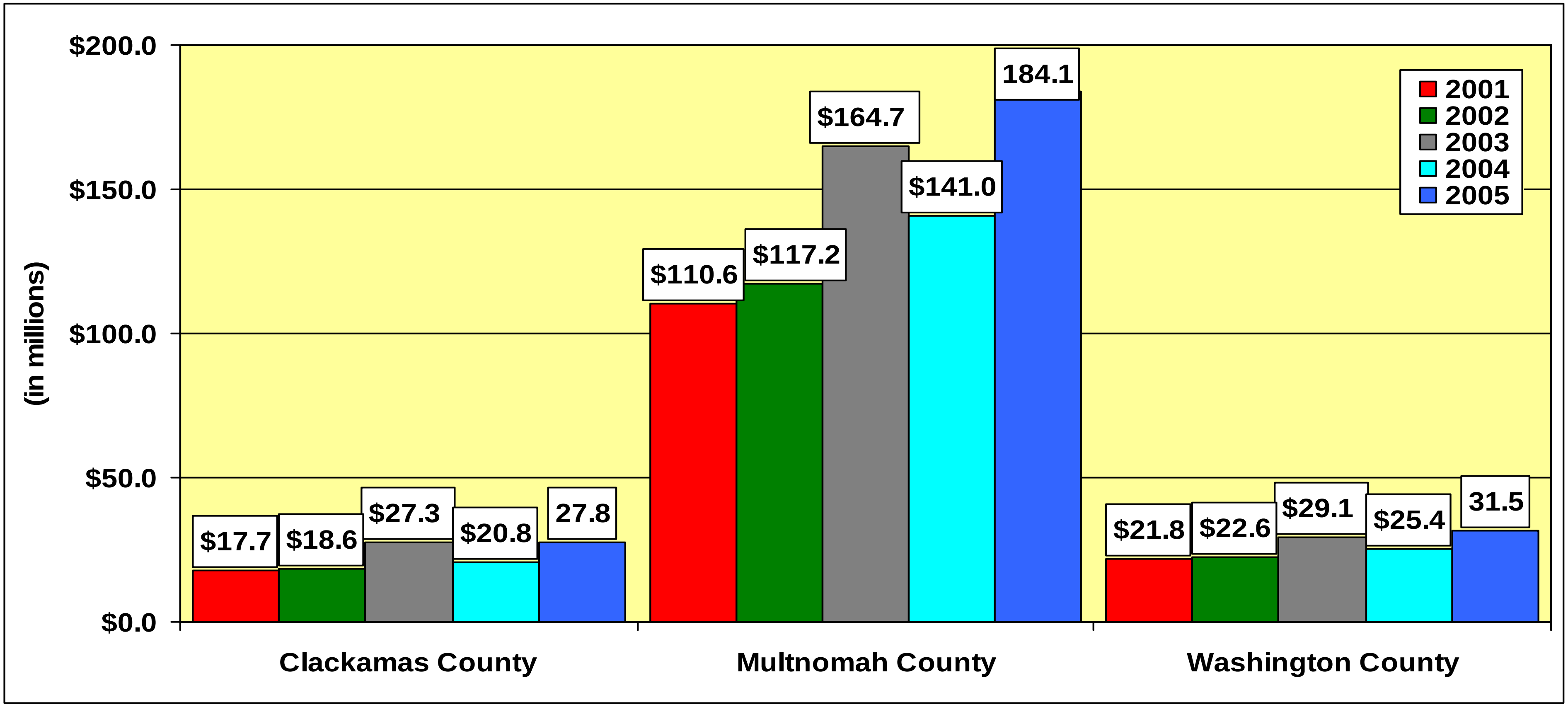
Summary of Estimated Total Earnings in the Tri-County Metropolitan Region

Estimates by IMPLAN indicate that total earnings in the Tri-County Metropolitan Region generated from OCC operations were approximately $243.4 million in 2005.



Summary of Estimated Total Earnings By County

In terms of estimated total earnings, Clackamas County increased by approximately 34% between 2004 and 2005 followed by Multnomah County (31%) and Washington County (24%).



Fiscal Impacts Analysis

The estimated spending generated by the on-going operations of the OCC create tax revenues for the Tri-County Metropolitan Region. Experience in other markets suggests that while a significant portion of the direct spending would likely occur near the facility, additional spending occurs in other areas within the Tri-County Metropolitan Region, particularly spending such as business services and the everyday living expenses of residents.

Major tax sources potentially impacted by OCC operations were identified in order to estimate the taxable amounts to apply to each respective tax rate. Although other taxes, such as property taxes and gasoline taxes, may be impacted by the on-going operations of the OCC, this analysis estimates revenues generated from the following taxes based on the direct and indirect/induced spending amounts previously discussed:

<u>State of Oregon</u>

- Personal Income Tax
- Transient Lodging (Hotel/Motel) Tax
- Corporate Excise and Income Tax

<u>METRO</u>

- Excise Tax

<u>Clackamas County</u>

- Transient Room Tax

<u>Multnomah County</u>

- Transient Lodgings Tax
- Personal Income Tax
- Motor Vehicle Rental Tax
- Business Income Tax

<u>Washington County</u>

- Lodging Tax

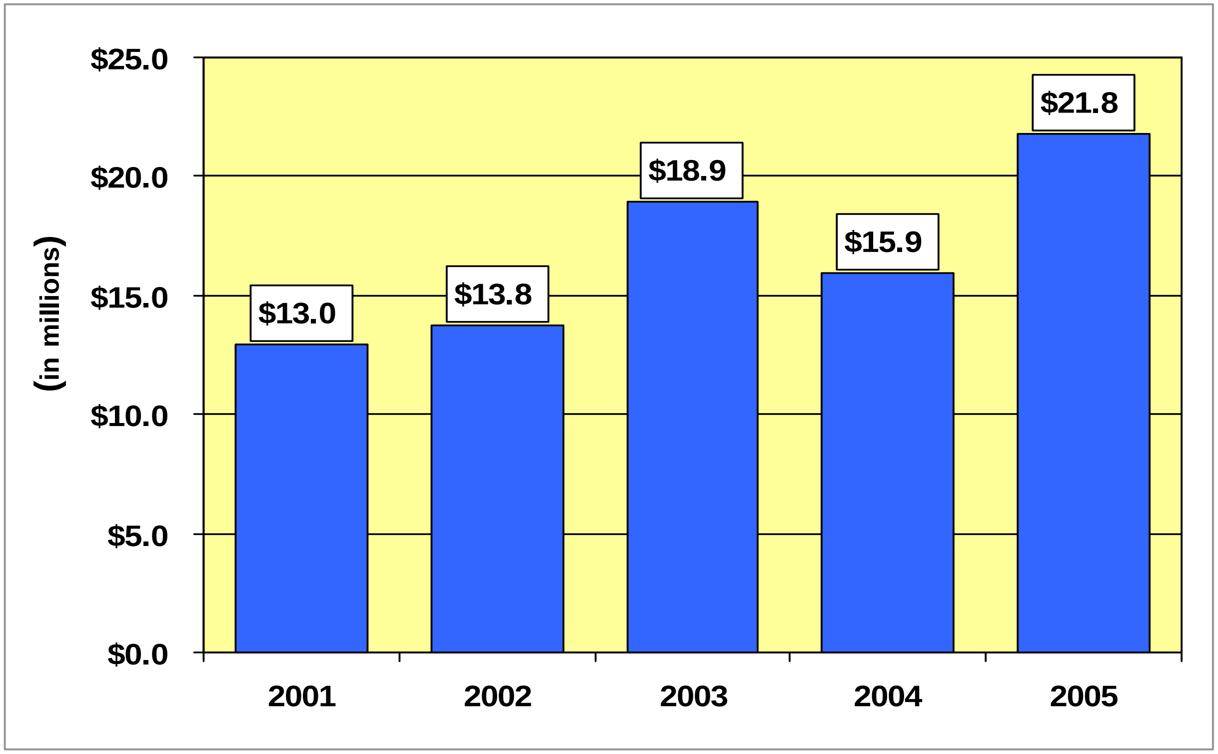
Summary of Estimated Fiscal Impacts Generated From OCC Operations in 2005

Tax revenues generated from OCC operations and related spending in 2005 are estimated to be $21.8 million.

Estimated Fiscal Impacts from OCC Operations in 2005	
State of Oregon	
Personal Income Tax	$7,088,000
Transient Lodging Tax	878,000
Corporate Excise and Income Tax	851,000
Total	$8,817,000
METRO	
Excise Tax	$1,065,000
Total	$1,065,000
Clackamas County	
Transient Room Tax	$661,000
Total	$661,000
Multnomah County	
Transient Lodgings Tax	$8,109,000
Personal Income Tax	1,197,000
Motor Vehicle Rental Tax	1,073,000
Business Income Tax	142,000
Total	$10,521,000
Washington County	
Lodging Tax	$693,000
Total	$693,000
Total Tax Benefits	**$21,757,000**

Summary of Estimated Total Fiscal Impacts Generated From OCC Operations

As shown below, estimated fiscal impacts generated from OCC operations increased by approximately 37% between 2004 and 2005, which is primarily attributable to the increase in attendees and related spending.



Summary of Assumptions Used in the Fiscal Impacts Analysis

The pages that follow outline the assumptions utilized in this analysis to calculate the estimated fiscal benefits generated by the State of Oregon, METRO, and the three individual counties in the Tri-County Metropolitan Region.

State of Oregon

Personal Income Tax – The State of Oregon imposes a personal income tax, which is calculated on a graduated scale. Personal income tax is the State of Oregon's largest source of revenue. Based on information from the State of Oregon Department of Revenue, the Statewide effective tax rate for personal income is 5.6%. For purposes of this analysis, personal income tax is calculated by applying the effective tax rate of 5.6% to 52% of total earnings, which represents the State's average taxable income as a percentage of total income.

Transient Lodging Tax – Effective in 2004, public and private lodging providers began paying a 1% State lodging tax. This tax is in addition to and not in place of any local transient lodging tax. This tax continuously appropriates funds to the Oregon Tourism Commission to promote tourism programs in Oregon. For purposes of this analysis, the 1% tax rate is applied to 100% of hotel spending.

Corporate Excise and Income Tax – Corporate excise and income tax is the second largest source of revenue for the State. All corporations doing business in Oregon pay excise tax while corporations not doing business in the State but having income from an Oregon source pay income tax. The corporate tax rate is 6.6% of Oregon net income. For purposes of this analysis and based on information from the State of Oregon Department of Revenue, the 6.6% tax rate is applied to 4% of direct spending in order to reflect net income.

Summary of Assumptions Used in the Fiscal Impacts Analysis (cont'd)

METRO

Excise Tax – METRO imposes an excise tax of 7.5% of total earned revenues of facilities owned or operated by MERC. The tax is remitted on a monthly basis to METRO and is a General Fund Revenue which goes toward the funding of general government activities as well as various planning, parks and green spaces activities. For purposes of this analysis, the actual excise tax amount paid by the OCC is used.

Clackamas County

Transient Room Tax – Clackamas County imposes a 6% transient room tax on hotels, defined as any structure or any portion of any structure which is occupied or intended or designed for transient occupancy for 30 days or less for dwelling, lodging or sleeping purposes. Revenues generated by this source are allocated as follows: two points are used for administration purposes, a flat fee is allocated to help fund the County Fair and the remaining amount goes to the Tourism Development Council Fund which is used to promote tourism. The flat fee allocated to the County was originally set at $250,000 per year and is adjusted by CPI annually. For fiscal year 2005, the flat fee was approximately $343,000.

In addition to the 6% tax rate imposed by Clackamas County, several cities in the County also impose additional transient room taxes, which range from 3% to 5%. For purposes of this analysis, a tax rate of 9% is applied to 100% of direct hotel spending in the County. Although all tax revenue is generated within the County, the County only retains six of the nine points while the various cities within the County receive the remaining amount.

Summary of Assumptions Used in the Fiscal Impacts Analysis (cont'd)

Multnomah County

Transient Lodgings Tax – Multnomah County imposes a tax of 11.5% of the rent charged by the operator of any structure or any portion of any structure which is occupied or intended or designed for transient occupancy for 30 days or less for dwelling, lodging or sleeping purposes. This tax is allocated as follows:

- the base rate of 5% is allocated to the County's general fund
- a 1% surcharge rate of the tax is used for contracting with private organizations for the promotion, solicitation, procurement and service of County convention business and tourism
- a 3% surcharge rate of the tax is allocated to the excise tax fund of which hotel operators can deduct 5% of the 3% for administrative costs. The remaining amount is dedicated to various projects such as the OCC, the Portland Center for the Performing Arts, and the Regional Arts and Culture Council
- a 2.5% surcharge rate of the tax is allocated to the Visitors Facilities Trust Account (VFTA) of which hotel operators can deduct 5% of the 2.5% for administrative costs

For purposes of this analysis, the tax rate of 11.5% is applied to 100% of direct hotel spending in Multnomah County.

Personal Income Tax – In addition to the State's personal income tax, the County levies an additional 1.25% on Oregon's taxable personal income. For purposes of this analysis, the 1.25% tax rate is applied to 52% of total earnings in Multnomah County consistent with the methodology described earlier related to the personal income tax imposed by the State of Oregon. This tax sunset at the end of calendar year 2005.

Summary of Assumptions Used in the Fiscal Impacts Analysis (cont'd)

Motor Vehicle Rental Tax – Multnomah County levies a tax on the rental of motor vehicles from a commercial establishment doing business in the County if the rental is for a period of 30 days or less. The total tax rate is 12.5% of the rental fee charged by the commercial establishment for the rental. The tax is remitted to the County on a quarterly basis. The collections from the base rate of 10% is allocated to the County's general fund while the remaining 2.5% is allocated to the OCC. For purposes of this analysis, the tax rate of 12.5% is applied to 50% of direct local transportation in Multnomah County.

Business Income Tax – A business income tax is imposed on each person doing business within Multnomah County equal to 1.45% of the net income from that business within the County. This tax is administered by the City of Portland. For purposes of this analysis, the business income tax rate of 1.45% is applied to 4% of total direct spending in order to reflect net income.

Washington County

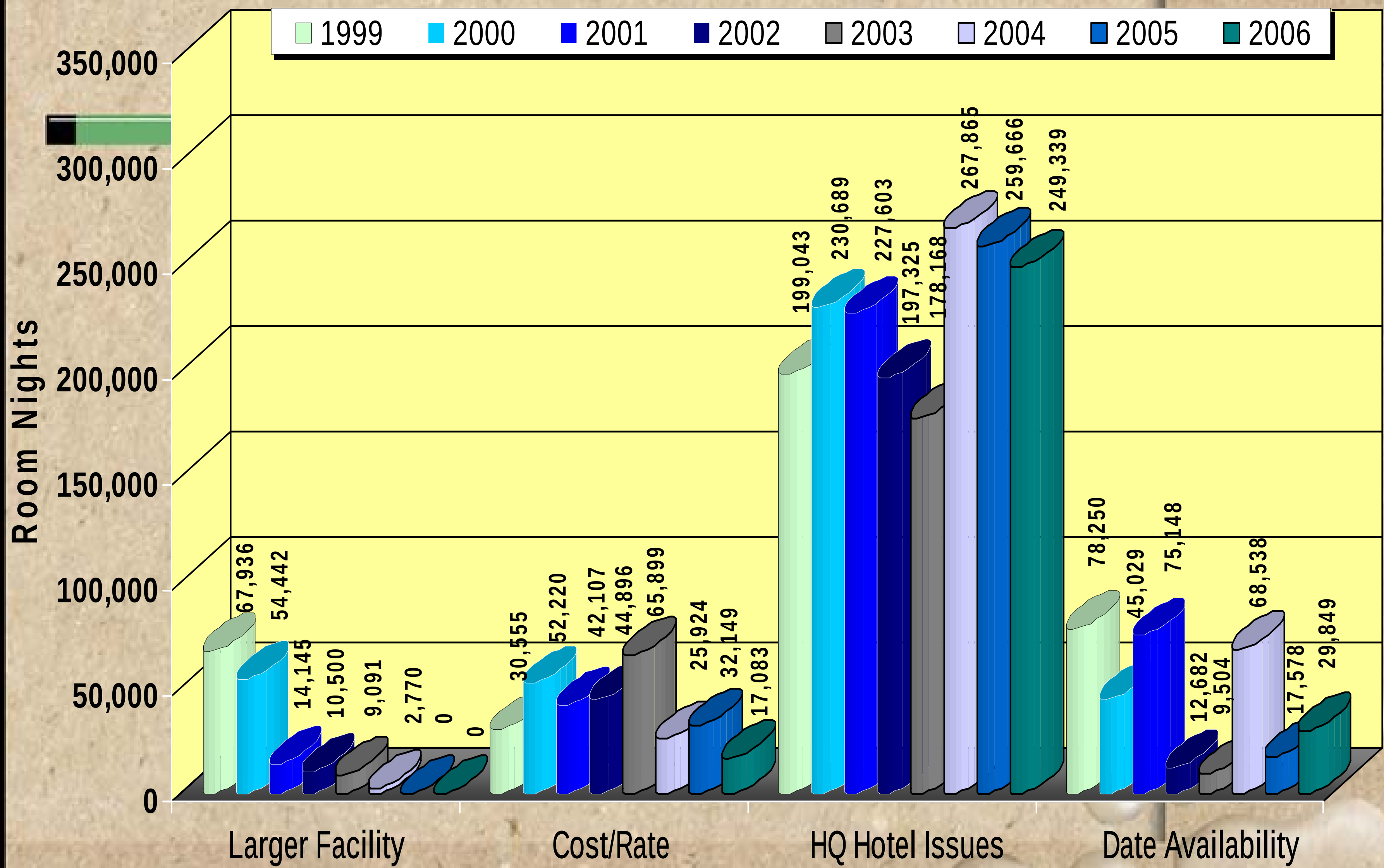
Lodging Tax – Washington County levies a 7% tax on short term stays in hotels, motels and RV parks. Currently, one point is dedicated to the Fair Board to support the County Fair and one point is dedicated to the Washington County Visitors Association to expand tourism. The remaining five points are split between the County and cities and are primarily used to fund functions like public safety, public health, transportation and other local government services. At the present time, no city in Washington County has its own lodging tax. For purposes of this analysis, the 7% tax rate is applied to 100% of direct hotel spending in Washington County. In addition, there is currently a measure on the May ballot to increase the lodging tax from 7% to 9%.

Oregon Convention Center
Economic Impact Results
1990-2005

	Convention Spending			**Tax Revenues** *(thousands)*									**Employment**
	Total (millions)	*Direct*	*Indirect*	Total	County Lodging	Vehicle Rental	City Lodging	Metro Excise	State Income	County Income	State Business	County Business	FTEs
1990	13.7	8.2	5.5	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	102
1991	326.0	141.7	184.3	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	5,578
1992	345.4	150.6	194.8		*1993 figures are cumulative for 1990-1993*								5,632
1993	341.8	150.7	191.1	29,177	12,812	3,013	n/a	378	10,972	n/a	2,002	n/a	5,285
1994	430.2	188.6	241.6	12,360	5,351	1,235	n/a	222	4,672	n/a	880	n/a	6,539
1995	389.9	175.0	214.9	11,457	4,772	1,134	n/a	654	4,089	n/a	808	n/a	5,463
1996	377.9	164.9	213.0	11,537	4,778	1,202	n/a	652	4,218	n/a	687	n/a	5,179
1997	311.7	142.4	169.3	8,720	3,616	849	n/a	630	2,995	n/a	630	n/a	3,842
1998	467.2	240.4	226.8	6,468	5,921	547	n/a	n/a	n/a	n/a	n/a	n/a	7,700
1999	477.4	246.2	231.2	7,424	6,835	589	n/a	n/a	n/a	n/a	n/a	n/a	7,900
2000	306.4	158.5	147.9	7,430	4,987	481	1,962	n/a	n/a	n/a	n/a	n/a	5,100
2001	359.0	184.8	174.2	14,482	5,460	517	1,907	645	5,221	n/a	732	n/a	5,900
2002	380.1	195.7	184.4	15,469	5,922	562	2,117	615	5,607	n/a	646	n/a	6,200
2003	481.4	269.8	211.6	20,958	8,165	738	2,179	924	6,930	1,132	890	146	7,700
2004	420.8	245.9	174.9	18,261	7,122	801	2,340	1,061	5,452	917	487	81	6,200
2005	551.6	322.4	229.2	21,757	10,341	1,073		1,065	7,088	1,197	851	142	8,300
Cumulative Totals	5,980.5	2,985.8	2,994.7	185,500	86,082	12,741	10,505	6,846	57,244	3,246	8,613	369	92,620

PORTLAND OREGON VISITORS ASSOCIATION

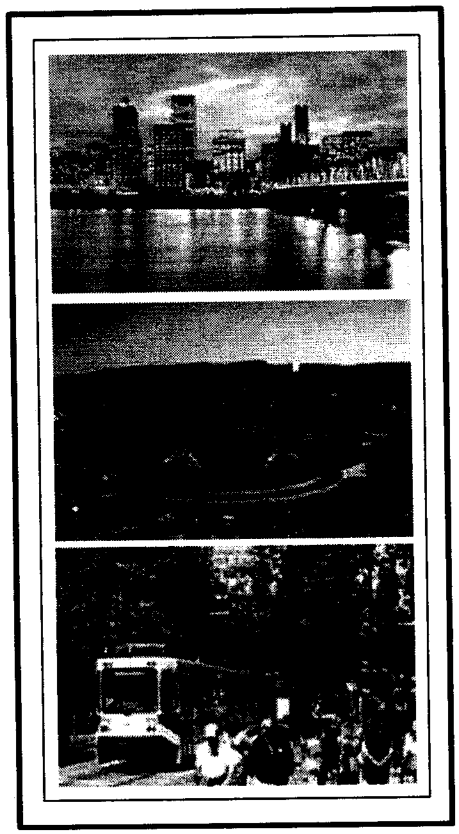
Reasons for Lost Business



Source: *POVA*

sent 2/19/03

PORTLAND OREGON VISITORS ASSOCIATION



CONVENTION CENTER HOTEL STRATEGIC PLAN

February 2003

STRATEGIC ADVISORY GROUP LLC

STRATEGIC ADVISORY GROUP

February 17, 2003

Mr. Joe D'Alessandro
Portland Oregon Visitors Association
1000 SW Broadway, Suite 2300
Portland, OR 97205

Dear Mr. D'Alessandro:

We have completed our engagement to assist the Portland Oregon Visitors Association ("POVA"), the City of Portland, The Metropolitan Exposition-Recreation Commission (MERC), the Portland Development Commission, and community leadership with preparing a *Convention Center Hotel Strategic Plan*.

The data included in this report has been extracted from information supplied to us during discussions with representatives of POVA, local hotel management, Oregon Convention Center (OCC) management, potential users, and various other primary and secondary sources. We have utilized sources that are deemed to be reliable but cannot guarantee their accuracy. Moreover, estimates and analyses regarding the project are based on trends and assumptions and, therefore, there will usually be differences between the projected and actual results because events and circumstances frequently do not occur as expected, and those differences may be material.

We have enjoyed working on this project and our relationship with the project team. We look forward to providing you continued services in the future.

Sincerely,

Strategic Advisory Group

3848 St. Annes Ct. Suite 300 ⊕ Duluth Georgia 30096 ⊕ 678.584.0727

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INTRODUCTION

In April 2003, the City of Portland will open the doors to its newly expanded Oregon Convention Center (OCC). With nearly 370,000 square feet of exhibition, ballroom, and meeting space, it will be among the 50 largest facilities of its kind in the nation.

The current facility attracted 486 events in 2000 with a total attendance of over 580,000 individuals. According to some estimates, this annual activity at the Center generates over $100 million in economic activity, contributes several million dollars to tri-county area tax base, and supports thousands of jobs for local residents. These are the rewards a successful convention center brings.

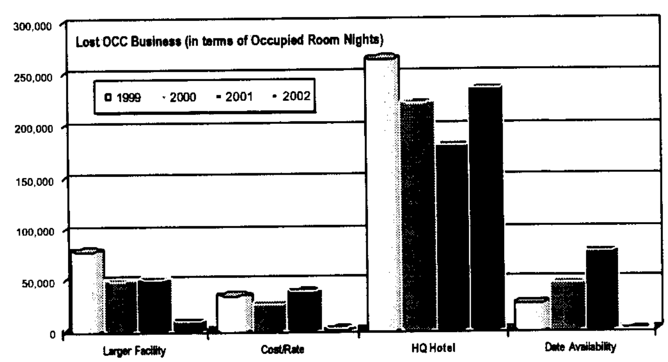
In pursuit of these benefits, and given the size of investment made to build and expand the Center, the City and other facility stakeholders desire to determine if everything is being done, that can be done, to maximize both the activity and the economic impact of the new Center. The answer, according to those in the best position to do so, is "No."

The Portland Oregon Visitors Association (POVA), the body responsible for marketing to and the contracting of large convention groups into OCC, report that there are four main challenges that keep Portland from attracting high-impact events and therefore maximizing OCC's success.

Chart 1 presents lost business in terms of the number of occupied hotel room nights that were unable to be generated given the particular challenge. The challenges are (i) a "Larger Facility" would be needed for a group to consider Portland as a destination, (ii) the "Cost/Rate" of the facility is too high relative to its competition, (iii) a "Headquarter (HQ) Hotel" would be needed to attract the group, and (iv) Portland could not offer the group's desired "Date Availability" due to previous space commitments.

As shown in Chart 1, expanding the facility from approximately 200,000 total "rentable" square feet to nearly 370,000 logically resolved the issues of "Larger Facility" and "Date Availability." [It should be noted that a POVA sales call made in 2002 would likely be made to an event that would actually be held three to five years later.]

Chart 1 – POVA's Lost OCC Business Report



It is apparent that the largest issue, and perhaps the only remaining *major* obstacle keeping Portland from maximizing its potential with respect to economic impact, concerns hotel rooms.

In order to assist the City with this important issue, the Strategic Advisory Group of Atlanta was engaged to create a Strategic Plan aimed to maximize the success of the OCC in the most efficient manner.

EXECUTIVE SUMMARY

Target Market Needs

Portland's OCC expansion not only allows the City to service more of the types of events it currently hosts, but also opens up new potential target markets that were previously too large for the facility.

The biggest obstacle in contracting additional high-impact events is the lack of an adjacent HQ hotel.

Portland's nearby hotel package includes a 174-room Holiday Inn located just across the street, a 476-room Doubletree Hotel four blocks from OCC, a 202-room Marriott Courtyard, and three other limited service hotels totaling approximately 900 rooms. Virtually every competitor in the western region offers an ±800-room headquarter hotel attached or adjacent to the convention center.

The lack of a large convention quality hotel nearby the OCC was confirmed through interviews with potential target meeting planners. Based on potential user comments, the expanded OCC is projected to likely penetrate only 8.6% of its new potential target market. However, a total of 71.4% of that market commented that if the "correct" size HQ hotel were built near OCC, the group would bring their event to Portland.

Meeting planners indicated they need access to 800 nearby HQ hotel rooms near the OCC.

Strategy for Addressing the Target Market Needs

The feasibility of adding 800 new rooms to the already sluggish Portland lodging market is questionable and could have a significant negative impact on the existing hotels. Hotel rate growth could be limited with the added supply, and financing such a large project in the current capital markets is questionable.

It is recommended that Portland address the needs of the marketplace with a three-step approach:

❶ Maximize the existing hotel infrastructure by providing better event transportation to downtown hotels and agreeing upon a common citywide room contract. This can be implemented immediately. The transportation component has already been implemented on an ad-hoc, event-by-event basis. Institutionalizing and marketing the transportation program to meeting planners is the next step. The common hotel contract, while challenging, can also be implemented relatively quickly. Utilizing organizations like POVA can help facilitate the process by bringing the various owners and operators together.

❷ Redevelop existing hotels around the center to provide for HQ hotel needs. Before embarking on the development of new rooms adjacent to the center, it is recommended that the community work with nearby hotel owners to determine how many rooms can be redeveloped to HQ hotel quality standards. The focus area might include a three to four block area around the center. Maximizing the redevelopment initiative should require lower public participation, as well as minimize the negative impact on the local lodging market.

❸ Cause the balance of the rooms not created through redevelopment to be developed adjacent to the convention center. Steps 1 and 2 will not by themselves be able to address the HQ hotel issue. Step 1 should reduce the 800-room requirement slightly. Step 2 could directly provide for part of the solution. But the remainder of the rooms will still need to be developed to meet the needs of the target market. If 350 rooms can be provided via redevelopment, it is recommended that 400 new rooms also be developed adjacent to the convention center.

From a timing perspective, Steps 1 and 2 should begin concurrently. After determining the level of rooms that can be redeveloped, Step 3 can be implemented.

It is estimated the demand generated by the OCC from the addition of the convention center hotel is generally equal to or greater than the demand consumed by the new supply, overall market occupancy is estimated to be 70% in 2012. The ideal market solution would be to generate the market demand of an 800-room convention center hotel without adding all 800 rooms as new supply. For example, if 600 rooms are built new and 200 rooms are renovation of existing supply, market occupancy in 2012 could increase to 74%. If only 400 rooms are new and 400 are renovated, market occupancy could raise to 77%.

Developing New Hotel Rooms In Portland

With estimated construction costs of $213,400 per room and an economic value of $116,000 per room, there is a significant financing gap of $39 million for a 400-room hotel, $58 million for a 600-room hotel, or $78 million for an 800-room hotel.

Given the large size of the hotel financing gap, Portland will need to employ several features to make the project financially feasible. Creating a financially feasible hotel in Portland will require developing and financing the project through a non-profit corporation ("NPC"), leasing the land, agreeing upon a joint use of convention center meeting space for hotel use, and rebating the property taxes and occupancy taxes.

This option would also require the credit enhancement of the "B" series bonds by pledging to provide for debt service from a non-hotel revenue stream if hotel income is insufficient to provide for debt service. For a 400-room hotel, the City, County, or Metro would need to pledge $1.5 million escalating to $2.5 million annually over the term of the bonds. The pledge would increase to $2.3 million escalating to $3.8 million annually for a 600-room hotel, and $3.1 million escalating to $5.1 million annually for an 800-room hotel.

The NPC could be a new entity established by the City, County, or Metro. In this situation, a new board of directors would be appointed by the sponsoring entity. The NPC could also be developed via an existing entity, like Chicago, by having the convention center authority develop and own the hotel.

The development of the hotel through the NPC will also help with ensuring the hotel focuses on its goal of impacting the city-wide convention center business and limits its impact on the existing hotel base. The NPC hotel should be restricted by a room block agreement that generally provides the availability of all or most of the rooms 24 months and out for city-wide conventions, with provisions to ensure rates charged are enticing to meeting planners. Conversely, there may also be rate floors to ensure the hotel does not utilize its subsidies to artificially offer low rates during slow periods.

NPC profits after debt service and reserve requirements are met should be programmed to address the marketing, transportation, and convention center operating needs.

Public Return on Investment

The public's return on investment can be assessed in a couple of ways. Over a 30-year period, the solving of the HQ hotel issue in Portland is estimated to bring an additional seven million over night stays. These out-of-town delegates are estimated to spend $6.3 billion on local hotels, restaurants, and entertainment venues. This economic activity support 2,400 jobs each year and generates $145 million in Transient Lodging Tax, $9.6 million in Motor Vehicle Rental Tax and $95.8 million in State Income Tax over 30 years.

From a project perspective, the hotel is estimated to earn a 14% public return on investment assuming the capital structure outlined above is implemented and all 800 rooms are developed new.

If the overall three-step recommendation is implemented and the market potential can be reached with only 600 net new rooms, the return on investment increases to over 18%. If the market potential can be reached with only 400 net new rooms, the return on investment increases to over 30%.

Next Steps

This first step in the *Convention Center Hotel Strategic Plan* is to gain consensus among the stakeholders on the three-step plan. All the community leaders including POVA, PDC, MERC, the City, Metro and the hotel community must generally agree to the strategy to make it a success.

The transportation and contracting plan can be implemented quickly, reaping the benefits this year. The redevelopment initiative can probably be implemented sooner than the new construction, potentially in the two to three year horizon. A new HQ hotel could be open in three to four years if consensus is obtained quickly and there are no significant project delays.

TARGET MARKET NEEDS

The first step in the strategic planning process was to address the market demand for and potential impact of a headquarter (HQ) hotel.

Why is Portland Considering a HQ Hotel?

As discussed in the Introduction section of this document, the expansion of the Oregon Convention Center (OCC) from approximately 200,000 square feet of net exhibit and meeting space to nearly 370,000 square feet brings the facility into the "Top 50" in the United States.

This distinction not only allows Portland to service more of the types of events it currently hosts, but also opens up new potential target markets that were previously too large for the facility. According to custom research by Tradeshow Week, the expanded OCC will be able to accommodate approximately 90% of all events in the industry, or roughly over 3,500.

Although the ability to meet a group's convention space requirements is critical in being considered as a potential destination, it is rarely the only key to winning the business. According to a *Successful Meetings* magazine's survey of national meeting planners, the size of the convention facility is the only fourth most important factor. The three most important site-selection decision factors are availability of hotel rooms, distance of hotel rooms from facility, and hotel room rates, ranked first, second, and third, respectively. (Refer the Appendix for ranking of all decision criteria.)

Although there are varying definitions of a successful convention center, most facilities are built with the expectation of generating economic impact within the community. The biggest driver of this impact is when convention attendees from outside the local area spend several days "meeting, eating, and sleeping" in a host market.

Another clear indicator that the size of the facility does not directly correlate to a successful convention center is shown by research presented in Table 2.

Table 2 – Ratio of ORN per SF

	City	Exhibit SF	Total Attendance	Ratio	Rank	Convention ORN's	Ratio	Rank
1	New Orleans	1,100,000	1,124,974	1.0	17	1,313,000	1.2	5
2	Cleveland	720,000	437,000	0.6	19	-	-	-
3	Detroit	700,000	1,201,000	1.7	13	80,000	0.1	18
4	St Louis	502,000	2,226,000	4.4	3	434,000	0.9	11
5	Philadelphia	470,250	1,208,000	2.6	11	457,000	1.0	7
6	Indianapolis	403,700	2,018,000	5.0	2	405,000	1.0	6
7	Denver	292,000	435,000	1.5	15	228,000	0.8	12
8	Charlotte	280,000	790,200	2.8	8	108,400	0.4	15
9	Reno	261,000	343,000	1.3	16	566,000	2.2	2
	PORTLAND	255,000	?	?	-	?	?	-
10	**San Antonio**	**240,000**	**223,000**	**0.9**	**18**	**409,000**	**1.7**	**3**
11	Birmingham	207,000	341,114	1.6	14	185,000	0.9	10
12	Wichita	200,000	807,000	4.0	4	40,000	0.2	17
13	Tampa	200,000	713,000	3.6	5	183,000	0.9	9
14	Cincinnati	162,000	450,000	2.8	9	155,000	1.0	8
15	Ft Lauderdale	151,000	401,000	2.7	10	116,000	0.8	13
16	Pittsburgh	131,000	277,130	2.1	12	66,000	0.5	14
17	Nashville	119,000	375,000	3.2	7	177,000	1.5	4
18	Jacksonville	78,500	259,226	3.3	6	19,300	0.2	16
19	Daytona Beach	48,700	525,127	10.8	1	144,000	3.0	1

According to data supplied by individual markets, there is no direct relationship between the size of the convention center and the number of occupied hotel room nights (ORN) it generates.

On a standardized basis, a facility could expect to generate a range from 0.1 ORN per every one square foot of exhibit space it offers (e.g. Detroit) to over 2.0 ORN's per square foot (e.g. Reno).

This sample data substantiates that other factors are important if not critical when events and meeting planners consider the selection of a host destination.

Some convention markets are unaware of reasons for lagging the competition in terms of market desirability. Fortunately, the Portland Oregon Visitors Association (POVA) keeps annual statistics on the reasons for lost business.

As presented earlier in Chart 1, POVA's biggest obstacle in securing events for the expanded OCC is lack of an adjacent HQ hotel. To put the scale of this challenge into perspective, Portland lost a potential of approximately 235,000 ORN's last year for a facility that annually averages 113,000 ORN's.

POVA's lost business reports clearly suggest that the existence of a HQ hotel would assist the City increase the economic impact return on its OCC investment. The lack of a HQ hotel may be the *largest* deterrent, but it is not the *only* deterrent.

How Does Portland's Hotel Package Compare to the Competition?

Portland's nearby hotel package include a 174-room Holiday Inn located just across the street, a 476-room Doubletree Hotel four blocks from OCC, a 202-room Marriott Courtyard, and three other limited service hotels totaling approximately 900 rooms. There are also over 3,000 downtown hotel rooms that are accessible to the OCC via a free 10-minute light rail ride. Properties include a 785-room Hilton hotel, 503-room Marriott Waterfront hotel, 249-room Marriott City Center hotel, 276-room Embassy Suites, 205-room Westin Hotel, and a 287-room Benson Hotel

Table 3 – Competitive Hotel Packages

ANAHEIM
- 1,033-rm Anaheim Marriott - adjacent
- 1,572-rm Anaheim Hilton - next door
- 359-rm Anabella Hotel - 1 block
- 300-rm Anaheim Plaza - 1 block

DENVER
- 1,100-rm Hyatt (opens 04) - across street
- 613-rm Marriott City Center - 2.5 blocks
- 337-rm Executive Tower Hotel - 2.5 blocks
- 394-rm Holiday Inn Downtown - 2 blocks
- 1,235-rm Adam's Mark Hotel - 4 blocks
- 511-rm Denver Hyatt Regency - 4 blocks
- 420-rm Westin Tabor Center -6 blocks

LONG BEACH
- 521-rm Hyatt - adjacent
- 374-rm Renaissance - across street
- 460-rm Westin - 1.5 blocks
- 393-rm Hilton Long Beach - 4 blocks

LOS ANGELES
- 195-rm Holiday Inn City Center - 1 block
- 285-rm Figuero Hotel - 1 block
- 900-rm Wilshire Grand Hotel - 5 blocks
- 485-rm Hyatt Regency LA - 6 blocks
- 188-rm Wyndham Checkers - 10 blocks
- 1,489-rm Westin Bonaventure Hotel & Suites - 1mile

PHOENIX
- 712-rm Hyatt Regency - adjacent
- 530-rm Crowne Plaza - 2 blocks

SALT LAKE CITY
- 381-rm Wyndham - adjacent
- 515-rm Marriott Salt Lake City - across street
- 479-rm Hilton City Center - 0.5 block
- 362-rm Sheraton City Center - 3 blocks
- 376-rm Marriott City Center - 3 blocks
- 775-rm Grand America Hotel - 4 blocks
- 850-rm Little America Hotel - 4 blocks
- 393-rm West Coast Hotel - 5 blocks

SAN DIEGO
- 1,354-rm San Diego Marriott - adjacent
- 875-rm Manchester Grand Hyatt - adjacent
- 512-rm Omni (opens 2004) - across street
- 282-rm Hilton - across str

SAN FRANCISCO
- 1,500-rm Marriott - next door
- 423-rm W Hotel - across street
- 667-rm Argent Hotel - 1 block
- 198-rm Hotel Palomare - 1 block
- 277-rm Four Seasons - 1 block
- 166-rm Mosser Victorian House - 1.5 blocks
- 1,009-rm Renaissance - 3 blocks
- 389-rm Holiday Inn - 4 blocks
- 1,900-rm H ilton San Fran - 4 blocks
- 697-rm Grand Hyatt San Francisco - 5 blocks

SEATTLE
- 382-rm Elliott Grand Hyatt - adjacent
- 850-rm Sheraton - across street
- 297-rm West Coast Grand - 1 block
- 891-rm Westin - 2 blocks
- 415-rm Crowne Plaza - 2 blocks
- 237-rm Hilton - 2 blocks
- 585-rm Renaissance Madison - 6 blocks
- 450-rm Four Season - 5 blocks

Table 3 presents the hotel package offerings for Portland's competitive destinations. Portland's hotel package is at a competitive disadvantage in the region when it comes to offering large nearby convention quality hotel. For example, Anaheim offers a 1,000-room Marriott and a 1,500-room Hilton out the convention center's from door. Denver has a 1,200-room Adams Mark and is developing a 1,100-room Hyatt. Long beach has a 500-room Hyatt and a 400-room Renaissance. L.A. has long suffered from the lack of a nearby HQ hotel and is in the early stages of developing a 1,200-rrom property. Phoenix has a 700-room Hyatt and has been trying for a number of years to get another HQ hotel developed. Salt Lake City has two 500-room hotels and a 400-room hotel nearby. San Diego has a 1,400-room, 900-room nearby and are in the early stages of developing a 1,200-room hotel. San Francisco, with its numerous boutique hotel, has a 1,500-room Marriott adjacent to its center. Seattle offers a 400-room and 850-room hotel nearby.

Virtually every competitor offers an 800-room plus hotel in conjunction with its convention center. With its limited supply of nearby convention quality hotel rooms, Portland is at a disadvantage when competing within the region and nationally.

What is the Interest in Portland as a Meeting Destination?

Portland currently captures the majority of the state and regional meetings that require the use of a convention center. There is limited potential to increase market share in this segment. For Portland to increase its market penetration, it must attract the national meetings market to the destination.

In an effort to understand the scope of challenges Portland faces, a survey of 100 national meeting planners was conducted (refer to slide 13 through 15 in the Phase I presentation in the appendix for a list of those surveyed). The initial reaction by 30% of these groups was that the City of Portland would not be a consideration for the event.

A large factor was the geographical location of Portland and the subsequent travel and cost considerations. Several events commented that Portland was "too far" with "too many flight connections," especially given that the bulk of their attendees were not located in the Pacific Northwest region.

Responses also suggested that the lack of interest might be more accurately associated with a lack of familiarity with the City.

When asked, "what is the first thing that comes to mind when you think of Portland?" approximately 22% of the 100 meeting planners could not respond. They simply had no impression whatsoever. For a city ranked 28th in the nation in terms of population, larger than the city population of New Orleans and Las Vegas, this total lack of familiarity was surprising. However, those respondents that had been to Portland commented on its positive attributes such as "beauty," "friendliness," and "environment."

Of the 70 groups that would consider Portland as a destination for their event, opinions on destination appeal were evenly divided. According to the survey, 20% of this target market felt that Portland had "about the same" destination appeal as compared to other cities that host their events. The remaining 80% was almost split with 41% reporting Portland as "more appealing" and 39% feeling that Portland was "less appealing" than its competition.

In terms of initial impressions and destination appeal in general, as it relates to the goal of maximizing the economic impact of OCC, there are two issues.

First, given the positive reviews from groups that do convene in the area, Portland does have a saleable asset and therefore would benefit by an increase in the size and scope of its marketing "message."

Secondly, the geographical challenge is fixed and could be offset by aggressive and effective marketing of the reasons events should meet in Portland. As one meeting planner responded, for example, after having met in Portland in the past, their group "would sell <their next visit to Portland> as a vacation."

How Much Difference Does a HQ Hotel Make in Portland?

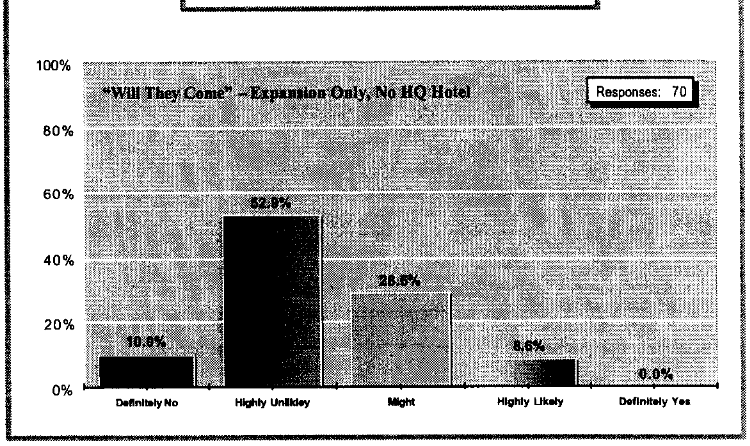
The survey collected other general event data, such as attendance, seasonality, transportation issues, and exhibit and meeting space needs. On average, the 70 target market groups brought nearly 3,000 individuals in to a host city for a little over 3.5 days. The detailed response data can be found in the Appendix. However, the primary purpose of the survey was to understand the essentiality of a HQ hotel in Portland.

As a base case, the 70 meeting planners were asked to generalize their likelihood of selecting Portland as a host destination given the OCC expansion and existing hotel supply [detailed explanations were provided to those groups that were unfamiliar with either or both].

As shown in Chart 4, Portland would likely penetrate only 8.6% of the target market given its current hotel supply, with another 28.6% responding that they "might" convene in Portland. These base-case or "as-is" responses are indicative of the POVA lost business data, confirming that a small percent of groups only need more space at OCC in order to select Portland for the event.

By comparison, the 70 meeting planners were then asked to consider a scenario where, in addition to the expanded OCC, a "new full-service hotel is built directly across the street from the Center." Given this new hotel, they were asked, "what is the smallest number of blockable rooms the new HQ hotel would need to offer for you to characterize your expected future usage of the OCC as "Highly Likely" or "Definitely Yes?"

Chart 4 – "As-Is" Scenario



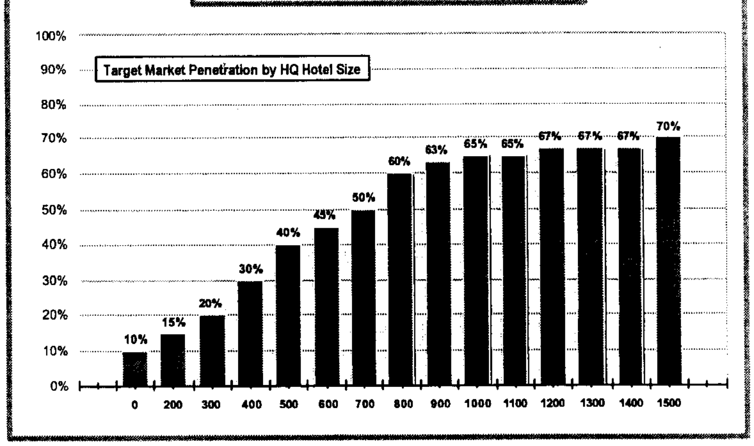
As shown in Chart 5 on the next page, the HQ hotel size that moved their characterization of future OCC use from "Definitely No," "Highly Unlikely," or "Might" into the category of "Highly Likely" or "Definitely Yes" ranged from 100 rooms to slightly more than 1,500-rooms.

A total of 50 of the 70 target market groups said, in essence, that a HQ hotel of a certain size is the only component keeping Portland from hosting its event.

The remaining 20 groups reported that although a HQ hotel is important, other issues such as destination appeal, geographical location, and travel considerations keep Portland from future consideration as a host city.

Based on the responses of the 50 meeting planners, as shown in Chart 5, the estimated penetration of the target market ranges from 10% (if no HQ hotel is built) to 70% (if a 1,500-room HQ hotel was built). To be certain, a HQ hotel will make a difference in Portland's ability to maximize the economic impact return on the OCC investment. But what size hotel will maximize the benefits efficiently?

Chart 5 - Penetration Potential



What is the Appropriate Size HQ Hotel for Portland?

A representative sample suggested that Portland had the potential to penetrate up to 70% of its target market. In an effort to estimate the total size of that market, comparable markets were used as a basis. Many similarities exist between the Portland and San Antonio markets from a convention destination, namely a convention facility with approximately 250,000 square feet of exhibit space, airports that rank 33rd and 50th respectively in the U.S. in terms of total enplanements, a fairly moderate climate (see Appendix), similar levels of overall tourism appeal (albeit differing tourism assets), and a geographical location that could be characterized as being near the "edge" of the nations border and not necessarily a direct flight from all points of origin.

As presented earlier in Table 2, San Antonio has a ratio of 1.7 occupied room nights generated for every one square foot of exhibit space offered (ORN/SF). One of the highest ratios of any convention center over 200,000 square feet, San Antonio is recognized as a leader in the industry and heralded as a truly successful facility. While Portland may not have the convention assets as yet to garner such acclaim, it is perhaps reasonable to project that "if everything is done that can be done" to assemble the proper components, the Oregon Convention Center could aspire to achieve a ratio of 1.7 ORN/SF. With a ratio of 1.7 and a total exhibit square feet of 255,000 it was assumed that the OCC has the potential to generate 433,500 total ORN's per year.

POVA estimates that the total ORN's the existing OCC generates is approximately 113,000 annually. Based on the assumption that the target market represents new OCC business that is currently not utilizing the facility (it should be noted that the complete list of 100 potential users was generated with the sole intent of surveying those groups whose space needs could be met by OCC but had not met there in recent history), the target market represented 320,500 ORN's that were "available" to penetrate [433,500 less 113,000].

It is also interesting to note that the 70 groups that would consider Portland, support a combined total of nearly 300,000 ORN's, possibly suggesting that the sample may have been a large percentage of the actual population of target market users for Portland.

As shown in Table 6, with a potential of 320,500 new ORN's and the estimated penetration rates given the various HQ hotel sizes, Portland could generate up to 301,000 new ORN's if a 1,500-room HQ hotel was developed.

Financial development and physical limitations aside, Portland could maximize the success of the OCC by building a very large hotel.

However, since SAG's charge was to "maximize the success of the OCC in the most efficient manner," the impact that new HQ hotel has on the overall hotel market must be considered.

Even though, as shown in Table 6, a 1,500-room HQ hotel could generate 301,000 new ORN's that hotel, if it were to operate at an acceptable occupancy level of 70%, it would take up or "consume" over 383,000 room nights. The difference of 82,250 room nights would essentially be cannibalized from the existing hotel market.

The optimal size for a HQ hotel in Portland is shown to be 800-rooms, which would generate via new OCC convention business and its own in-house group business approximately 233,180 new occupied room nights, consume 204,400 room nights if maintained at an occupancy level of 70%, for a net additional rooms in the Portland hotel market of approximately 28,780.

Under this scenario, all stakeholders might benefit, as the OCC could be servicing 170% more high-impact business than it currently hosts, the City could realize the economic impacts of hosting nearly one quarter of one million additional overnight guests in downtown, and the existing hotels, restaurants, and retailers could benefit by a rising tide of overall demand for hotel rooms in the market.

Table 6 – Potential New Room Nights in Market

	HQ Hotel Size (Rooms)				
	0	400	800	1000	1500
New Target Market Potential ORN's	320,500	320,500	320,500	320,500	320,500
Target Mkt Penetration %	10.0%	30.0%	60.0%	65.0%	70.0%
New OCC ORN's	32,050	96,150	192,300	208,325	224,350
New Induced HQ Hotel ORN's [20% Induced]	0	20,440	40,880	51,100	76,650
Total New OCC & HQ Induced ORN's	32,050	116,590	233,180	259,425	301,000
ORN's Consumed by HQ Hotel [70% Occup'y]	0	102,200	204,400	255,500	383,250
Net ORN Impact on Portland Hotel Market	32,050	14,390	28,780	3,925	-82,250

What Impact would a HQ Hotel have on Portland's Lodging Market?

With the exception of a 1,500-room HQ property, all of the above scenarios produce a net positive impact on the Portland hotel market. But what would be the impact of the various HQ hotel scenarios on the overall supply, demand, and occupancy rates in the Portland Market?

For the purposes of this analysis, a convention center hotel is to compete in a market that includes the Portland Marriott, Radisson Hotel Portland, Holiday Inn Convention Center, Doubletree Lloyd Center, Doubletree Jantzen, Doubletree Columbia, Hilton Hotel, The Benson Hotel, Fifth Ave Suites, Embassy Suites, Courtyard Lloyd Center, Portland Westin Hotel, and Marriott City Center.

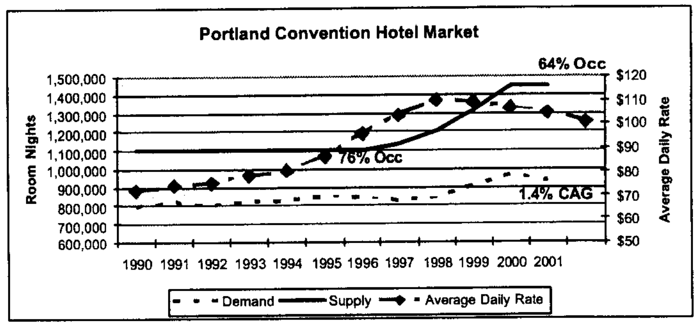
Using historical data supplied by Smith Travel Research as well as other local data supplied by POVA, supply and demand has grown at a compound annual growth rate of 2.08% and 1.56%, respectively, from 1987 to 2002. (Refer to the Appendix for detailed projections for the No HQ Hotel scenario, 400-Room HQ Hotel scenario, 800-room scenario, 1000-room scenario, and the 1500-room scenario).

With respect to future supply, it was assumed that with the exception of the proposed HQ hotel, no full service hotel would be developed in the Portland market through 2012.

With respect to future demand, and to be consistent with historical demand growth rates, it was assumed that the existing transient and in-house group business would increase 1.5% annually through the projection period.

It was further assumed that the existing OCC demand would increase at 1.0% each year. This existing OCC demand would be augmented by the "New OCC ORN's" and "New Induced HQ Hotel ORN" as shown in Table 6.

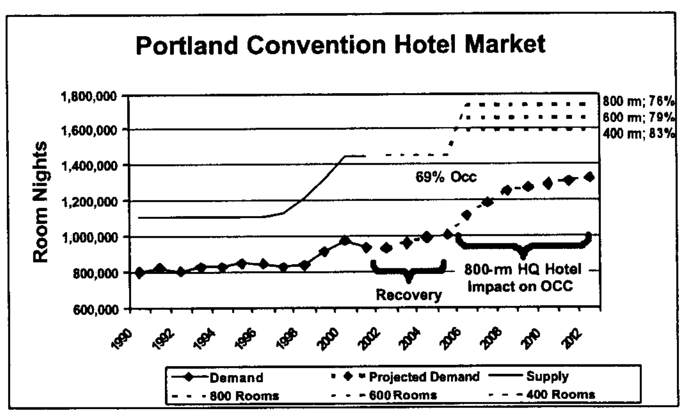
Chart 7 – Historical Convention Hotel Market



It was also assumed that the HQ hotel would open on January 1, 2006.

Based on these assumptions, Chart 8 presents the projected impact of the various scenarios on Portland's hotel supply, demand, and market occupancy. Since the demand generated by the OCC from the addition of the convention center hotel is generally equal to or greater than the demand consumed by the new supply, overall market occupancy is estimated to be 76% in 2012. The ideal market solution would be to generate the market demand of an 800-

Chart 8 – Future Convention Hotel Market



room convention center hotel without adding all 800 rooms as new supply. For example, if 600 rooms are built new and 200 rooms are renovation of existing supply, market occupancy in 2012 could increase to 79%. If only 400 rooms are new and 400 are renovated, market occupancy could raise to 83%.

What is the Potential Economic Impact of a HQ Hotel on Portland?

According to the International Association of Convention & Visitor Bureaus (IACVB), every one convention - generated occupied room night (ORN) equates to an amount of $351 being spent in the host community. (Refer to slide 34 of the Phase I presentation in the Appendix for a breakdown of the spending)

Most of this total ($232) is spent directly by the convention delegate themselves for such things as hotel rooms, meals, local travel, retail, and sightseeing. In addition, the exhibitors that attend the event also spend, on average, approximately $94 for every one ORN generated. Moreover, the association or event spends an average of $25 per convention ORN. The economic impact attributable to the various HQ hotel sizes would be based on the "Total New & HQ Induced ORN's" presented earlier in Table 6. Using those assumptions, the "Total New & HQ Induced ORN's" over a typical bond amortization period of 30 years (as shown in Table 9) ranges from approximately 3.5 million to 9.0 million ORN's for a 400-room and a 1,500-room HQ hotel, respectively.

Based on the total ORN's and the spending estimates reported by the IACVB, and 800-room HQ hotel could generate a total economic impact of $6 billion over 30 years, supporting nearly 2,400 jobs each and every year (for a total of approximately 71.3 thousand jobs over 30 years).

The County tax base would increase by $155.3 million over the 30 years, while the State would add $95.7 million to its tax base via personal and corporate income taxes.

Table 9 – Economic Impact of HQ Hotel
(Amounts in Millions)

	HQ Hotel Size (Rooms)				
	0	400	800	1,000	1,500
Total New OCC & HQ Induced ORN's	1.0	3.5	7.0	7.8	9.0
Total Direct Spending	498.5	1,813.4	3,626.8	4,035.0	4,681.7
Induced Spending (0.7)	348.9	1,269.4	2,538.8	2,824.5	3,277.2
Total Economic Impact	$847.4	$3,082.8	$6,165.6	$6,859.5	$7,958.8
FT Annual Employment *(not in millions)*	327	1,188	2,376	2,644	3,068
Employment Compensation	$297.2	$1,081.0	$2,161.9	$2,405.3	$2,790.7
Fiscal Benefits					
11.5% County Transient Lodging	$20.0	$72.9	$145.7	$162.1	$188.1
12.5% County Motor Vehicle Rental	1.3	4.8	9.6	10.6	12.4
5.5% State Personal Income Tax	9.8	35.7	71.3	79.4	92.1
6.6% State Corporate Income Tax	3.4	12.2	24.4	27.2	31.5
	$34.5	$125.5	$251.1	$279.3	$324.1

Summary of the Target Market Needs

Portland's OCC expansion not only allows the City to service more of the types of events it currently hosts, but also opens up new potential target markets that were previously too large for the facility.

Although the ability to meet a group's convention space requirements is critical in being considered as a potential destination, it is rarely the only key to winning the business. According to a *Successful Meetings* magazine, hotel room availability, location, and price are more important.

Moreover, POVA reports its biggest obstacle in contracting additional high-impact events is the lack of an adjacent HQ hotel. Survey data suggests that Portland may need to enhance its marketing message if it is to maximize OCC's success in the long-term.

Based on potential user comments, the expanded OCC is projected to likely penetrate only 8.6% of its new potential target market. However, a total of 71.4% of that market commented that if the "correct" size HQ hotel were built near OCC, the group would bring their event to Portland.

The optimal size, when considering the positive impact on OCC as well as the potential drawback on the Portland hotel market due to oversupply, was shown to be 800-rooms. It is likely that the Portland hotel market would not support 800 additional rooms at this time and would therefore require phasing.

Even in the event a 400-room HQ hotel is developed, all stakeholders might benefit, as the OCC could be servicing 85% more high-impact business than it currently hosts, the City could realize the economic impacts and tax benefits of hosting over 100,000 additional overnight guests in downtown each year, and the existing hotels, restaurants, and retailers could benefit by a rising tide of overall demand for hotel rooms in the market.

STRATEGY FOR ADDRESSING THE TARGET MARKET NEEDS

The target market indicated the convention center needs the HQ hotel room issue solved to reach its market potential. Outlined below are the options available to the destination.

What are Portland's Options?

Option 1 – Do nothing. To do noting is to admit defeat and incur the opportunity cost in terms of fewer jobs, visitor spending, and tax generation in the City. Moreover, without addressing the hotel problem, the meeting planners indicated they will not come and the convention center will struggle from both a utilization and financial perspective, meeting the needs of only 10% of the target market. The only advantage to doing nothing is that the supply of hotel rooms will not increase.

Option 2 – Maximize the existing hotel infrastructure by providing better event transportation to downtown hotels and agreeing upon a common citywide room contract. This is definitely part of the solution. While this option was not specifically tested with the target market, it intuitively should have a positive impact on the hotel situation. While meeting planners will still demand HQ-quality rooms adjacent to the convention center, improved transportation and ease of contract could reduce the number of rooms required.

Option 3 – Cause 800 new hotel rooms to be developed adjacent to the convention center. From a convention center perspective, this is the best solution. The market research indicated that this level of new rooms adjacent to the center will maximize the net benefit to the community and make 70% of the target market "highly likely" or "definitely" interested in coming to Portland. However, the feasibility of adding 800 new rooms to the already depressed Portland lodging market is questionable and could have a significant negative impact on the existing hotels. Hotel rate growth could be limited with the added supply, and financing such a large project in the current capital markets is questionable.

RECOMMENDED STRATEGY:

Address the target market need for 800 HQ hotel rooms by:

- Maximize the existing hotel infrastructure by providing better event transportation to downtown hotels and agreeing upon a common citywide room contract.
- Redevelop existing hotels around the center to provide for HQ hotel needs.
- Cause the balance of the rooms not created through redevelopment to be developed adjacent to the convention center.

Option 4 – Cause less than 800 rooms, 400 to 600 rooms for example, to be developed adjacent to the convention center. While this option would reduce the impact of new rooms in the market, it would also limit the potential impact the convention center could have on the destination. The market research indicated that a 400-room hotel would accommodate only 30% of the target market. A 600-room property would only accommodate 45% of the market.

Option 5 – Redevelop existing hotels around the center to provide for HQ hotel needs. This should be part of the solution. There are opportunities to redevelop and reposition existing hotel properties around the center to help address, in part, the HQ hotel issue. There has been past proposals to redevelop nearby hotels into convention quality properties. The main advantage of this option is that it helps solve the HQ hotel problem, while limiting the number of net new rooms in the market.

What is Portland's Recommended Strategy?

Option 6 – It is recommended that Portland implement a combination of the above options to solve the HQ hotel issue and maximize the convention center's impact on the community. Specifically, the recommended strategy is:

1. Maximize the existing hotel infrastructure by providing better event transportation to downtown hotels and agreeing upon a common citywide room contract. This can be implemented immediately. The transportation component has already been implemented on an ad-hoc, event-by-event basis. Institutionalizing and marketing the transportation program to meeting planners is the next step. The common hotel contract, while challenging, can also be implemented relatively quickly. Utilizing organizations like POVA can help facilitate the process by bring the various owners and operators together.

2. Redevelop existing hotels around the center to provide for HQ hotel needs. Before embarking on the development of new rooms adjacent to the center, it is recommended that the community work with nearby hotel owners to determine how many rooms can be redeveloped to HQ hotel quality standards. The focus area might include a three to four block area around the center. Maximizing the redevelopment initiative should require lower public participation, as well as, minimize the negative impact on the local lodging market.

3. Cause the balance of the rooms not created through redevelopment to be developed adjacent to the convention center. Steps 1 and 2 will not by themselves be able to address the HQ hotel issue. Step 1 could reduce the 800-room requirement slightly. Step 2 could directly provide for part of the solution. But the remainder of the rooms will still need to be developed to meet the needs of the target market.

From a timing perspective, Steps 1 and 2 should begin concurrently. After determining the level of rooms that can be redeveloped, Step 3 can be implemented. The next section discusses the issues and options related to developing new hotel rooms in Portland.

Developing New Hotel Rooms in Portland

Developing new full-service convention center hotel rooms has been a challenge for the last decade. It all started in the mid 1980s with a general over building, led in part by the pre-1986 tax code that drove hotel development for tax reasons versus market reasons. The tax reform act of 1986 removed the tax reasons for development, and assets started to devalue.

In the early 1990s, the recession added to the problems and many full service hotels were foreclosed upon, ultimately ending up in the hands of the Resolution Trust Corporation (RTC). The RTC bundled these assets together and sold them for 25% to 50% of their book value. Full service hotels were hit the hardest where values plummeted to a level much lower than replacement or development costs. Today, value is still less than development costs, hence virtually all convention center hotels developed since the early 1990s have been with public participation.

Outlined below is an analysis of the issues related to new convention center full-service hotel development in Portland. The analysis was completed for both a 400 and an 800-room hotel. The supporting schedules are presented in the Appendix.

What will a New Hotel Cost to build in Portland?

SAG worked with HDC Construction to develop a preliminary program and project development budget for a 400 and 800 room headquarter hotel at the 3-Star, 3.5-Star and 4-Star quality level. For the purposes of this analysis, 3-Star hotels generally might include Crowne Plaza, Radisson Plaza or Omni; 3.5-Star hotels generally might include Marriott and Hilton; and 4-Star hotels generally might include Hyatt and Renaissance. Within hotel brands quality level can vary.

Based on the market research and an analysis of the competitive environment, Portland needs to generally target a 3.5-Star hotel product for its convention center. It is assumed that a 3.5-Star 400-room hotel would include 25,000 square feet of meeting and ballroom space and a 200-space parking garage. An 800-room hotel would include 50,000 SF and 400 spaces.

After accounting for hard and soft development costs; furniture, fixtures, and equipment; escalation; and contingencies; but excluding land acquisition, it is estimated that a 3.5-Star full service hotel in Portland would cost $213,400 per room to develop. This equates to $85.4 million for a 400-room hotel and $170.7 million for an 800-room hotel. (Refer to the Appendix for a more detailed breakdown of costs).

What is the Warranted Private-Sector Investment?

Hotels are valued based on the cash flows they produce. Cash flows were projected for a new convention center hotel, based on an analysis of the historical performance of similar hotels in the marketplace. Specifically, comparable properties reviewed included the Downtown Marriott, Downtown Hilton, Downtown Embassy Suites and Doubletree Lloyd Center. Based on this analysis, it was concluded that if a convention center hotel were operating in 2002 at a stabilized level, it would have a $110 average daily rate. Moreover, the hotel could achieve a 68% occupancy level in a more stabilized, less 911 impacted economy. Net operating income as a percent of gross revenues would begin at 15% and stabilize at 30%. (Refer to the Appendix for the 10-year cash flow projections).

A capital investment structure must be assumed to estimate value. Current market conditions are tight for hotel lending. Senior debt lenders are targeting 50% loan to value ratios, and equity requires a 20% or greater return. Mezzanine lending is scarce, but when available cost approximately 13%.

Assuming a 50% senior loan at 9.5%, 20% mezzanine loan at 13%, and a targeted 20% equity return, the hotel's economic value is $116,000 per room. This equates to $46.4 million for the 400-room hotel and $92.8 million for the 800-room hotel.

What is Size of the Financing Gap?

With estimated construction costs of $213,400 per room and an economic value of $116,000 per room, there is a significant financing gap of $39 million for a 400-room hotel, $58 million for a 600-room hotel, or $78 million for an 800-room hotel.

How are Cities Filling the Gap?

Cities across the U.S. have created a number of finance and development plans that reduce costs or increase cash flows to eliminate hotel financing gaps.

There are over 20 completed convention center public-private partnerships completed over the last decade. During the 1990s, most of the projects were structured as private developments with public subsidies. Typical subsidies were 20 to 30% of the project costs and utilized cash grants, infrastructure donations (parking), tax increment financing, tax rebates, and other traditional economic development tools.

The tightening of the hotel capital markets in the late 1990s, brought on by a general economic slow down and a flight of investment dollars away from traditional companies, like hotel companies, into the technology sector, made large hotel projects even more challenging. What investment dollars were available preferred to diversify their risk by investing in several small hotels (i.e. limited service) in several geographic markets, instead of investing in one large hotel. Lenders rarely considered hotel construction loans, and those that did were only willing to fund 50%-60% of the costs. Furthermore, lenders required each entity involved in the deal to fully guarantee the entire loan. Privately owned and public subsidized hotel projects that did get done took time and developer commitment. One of the most recent privately owned, publicly subsidized projects financed was the Charlotte's 700-room Westin convention center hotel. A private development team, who provided the $27 million in equity, will own the project. After one year of searching, the developer was able to assemble a $75 million, 50% loan to value (LTV) loan utilizing four banks, with the majority of the lending provided by non-U.S. institutions. Developer loan

Table 10 – Funding Gap

	400-rm	600-rm	800-rm
Per Room			
Cost (3.5-Star)	$213,400	$213,400	$213,400
Economic Value	$116,000	$116,000	$116,000
Funding Gap	$97,400	$97,400	$97,400
Amount *(Millions)*			
Cost (3.5-Star)	$85.4	$128.0	$170.7
Economic Value	$46.4	$69.6	$92.8
Funding Gap	$39.0	$58.4	$77.9

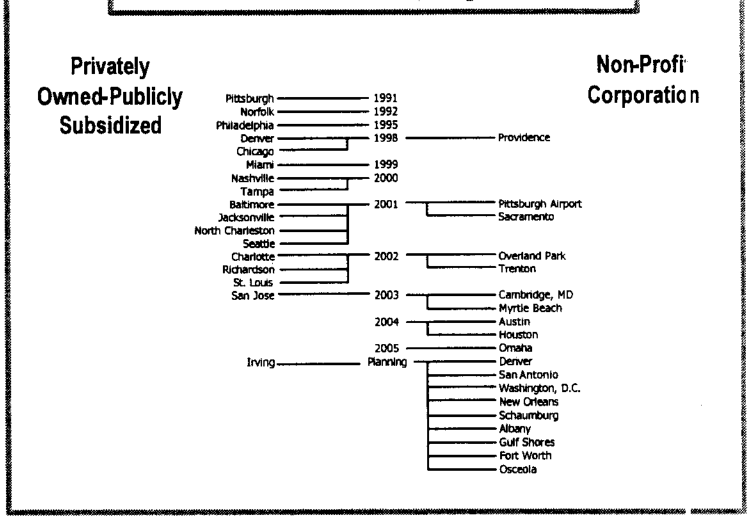
guarantees were provided and the City had to provide a $16 million cash grant and credit enhance $25 million of project debt.

To the extent there is a trend, the current financing movement in headquarters hotel development is to develop the project utilizing a non-profit corporation ("NPC"). Structured correctly, this method allows access to the lower cost tax-exempt bond market. Under this structure, a NPC would be established by the sponsoring entity to finance and own the hotel. The entity would hire private-sector professionals to develop, design, build, and operate the project.

In 1997, the IRS opened up the ability to finance convention center hotels through a NPC by allowing a longer-term, 15-year management contract to be utilized while maintaining the ability to issue tax-exempt bonds. Instead of being limited to traditional banks and institutions for project debt, a NPC could approach the more abundant municipal bond funds. Most convention center hotels that have been financed since 1999 have utilized this form of financing. We have record of over 10 convention center hotel projects, along with several conference center and airport hotels, which have been financed through a NPC. Moreover, we have record of nine cities that are currently working on an NPC structure after attempting a private sector structure. (Refer to slide 21 of the Phase II presentation in the Appendix) Many other cities with stalled conventional financed projects are currently considering converting to the NPC structure.

There are four key reasons why this structure has become so popular. The first is the difference in the cost of capital. A private developer's debt and equity costs an average of 15% to 18%. Tax-exempt bond cost between 5% and 8%. A ten percent interest cost savings on an 800-room, $170 million hotel, equates to a $17 million annual incremental cash flow. This reduces the financing "gap" that is generally encountered in the private financing model.

Table 11 – HQ Hotel Financing Trends



The second reason the NPC structure has become popular is the availability of capital. This is evidenced by the recent success of the sales of the bonds for the hotels in Myrtle Beach, Houston, Overland Park, Austin, and Omaha (post 911). The bonds for each of these projects were significantly oversubscribed and had pre-sale commitments before they ever went to market.

The third reason relates to control. The NPC is controlled by a board of directors that can establish policies that meet the destination's overall objectives. In some cases, such as McCormick Place in Chicago, the same board of directors that oversees the convention center oversees the hotel. The board ensures the destination's objectives are met such as HQ hotel room blocks for city-wide events, hotel rate controls (not charging too much or too little), and common convention center and hotel booking policies. These goals and objectives can be addressed u front in the NPC's by-laws, as well as ongoing through the annual business planning process.

The forth key reason why the NPC structure has become so popular relates to profit taking. In a traditional private financing scenario, profits after debt service go to the owner in the form of a return of and on equity. In a NPC structure, profits can be applied to a number of needs. For example, after for providing for debt service and the required reserves, NPC profits can go to convention center marketing, subsidizing the convention center's deficit, or funding a convention transportation loop.

Public financial involvement has varied in NPC structures. They range from Houston's desire to achieve the lowest cost of capital by credit enhancing all the bonds with the city-wide occupancy tax, to Myrtle Beach's annual appropriation guarantee on one-third of the project, to Austin's utilization of expensive third-party insurance. These structure decisions are driven by political attitudes, risk thresholds, available resources, and the level of desire to utilize NPC profits to fund other convention center related projects.

While seemingly a panacea, the NPC concept does not necessarily work for every community. Existing hoteliers sometimes believe the structure provides some undue competitive advantage, worse than providing a developer a cash subsidy. Elected officials struggle with the merits of one of their entities owning a hotel and with the unknown impact a failed project would have on their city's credit. While there is no legal obligation to fund a failing project, cities may feel a moral obligation, as they would be more likely to step in to support the hotel if it came upon troubled times than if it were a privately owned hotel. Nevertheless, this structure is a viable alternative that can eliminate cash subsidies, provide a return to the public body, and has an available capital source.

What are Portland's Options for Filling the Gap?

As previously stated, the economic value of the hotel is approximately $116,000 per room. According to estimates provided by US Bancorp Piper Jaffray, the cash flows under a generic NPC structure support $145,000 per room, an increase of $29,000 per room over the $116,000 per room private model. This still leaves a gap of $68,400 per room. Slides 26 and 27 of the Phase II presentation in the Appendix summarize the value of various options for filling this gap. These include:

Cost Reduction – The cost estimates prepared for this analysis were order of magnitude estimates. Ultimately, a site will be selected and more detailed cost estimates will be prepared. Moreover, the operator will be determined and their design criteria will be known. It is hoped that during the design and development process, a number of value engineering techniques will be employed and the development cost can be reduced.

Credit Enhancement – Under both a privately financed and publicly subsidized model and the NPC model, there are ways to enhance the hotel's cash flow with other available revenue streams that add credit beyond that of the hotel itself. The structure generally makes a non-project based cash flow stream available for debt service in the event that project net income is not sufficient. For the private models, Cities can make contract payments, say for use of a parking facility, to the hotel out of a credit worthy stream, and are repaid after hotel debt service is paid. This can also be used in a NPC structure, as well as a number of others including a simple pledge to maintain a reserve fund.

If the City enhanced the 30% mezzanine loan in the private model, $7,000 per room could be gained. In the NPC model, typically at least 30% credit enhancement is required and is assumed in the above modeling.

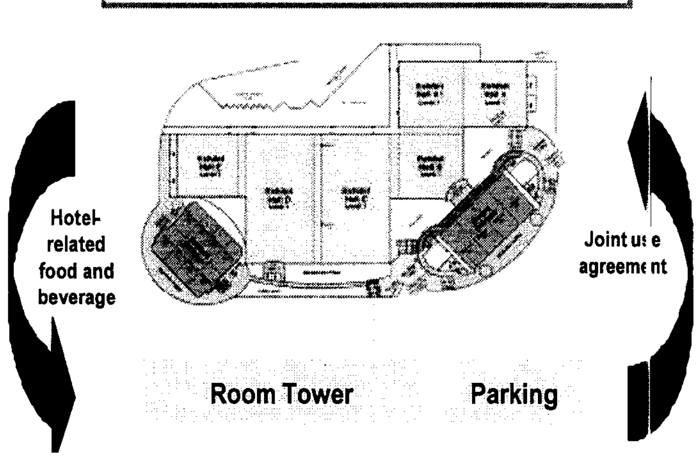
Providing Infrastructure – The most common method of reducing a financing gap is for the public sector to provide infrastructure in the form of land, parking or public meeting spaces. Land is assumed to be provided in all scenarios, although the NPC has the ability to make a land lease payment. Providing parking in a nearby garage or surface lot could save the project $11,100 per room. Eliminating hotel meeting space and agreeing upon a joint use of convention center meeting space could save the project $31,300 per room.

Abating/Rebating Taxes – Another common gap filling tool is to allocate the subject hotel's property and/or occupancy taxes generated back into the project. If the property taxes are given back to the hotel owner on an annual basis, they could add $4,000 per room to the private project and $10,000 per room for the NPC. Occupancy taxes could add up to $24,000 per room to the private project and $30,000 per room for the NPC.

Tax Increment Financing – The only difference between rebating/abating taxes and tax increment financing as defined here. Is that under TIF the public body monetizes the tax streams. A property tax TIF is estimated to add $5,000 per room and the occupancy tax TIF is estimated to add $25,000 per room. The individual occupancy tax TIF does not yield as much, due to the coverage requirement, as when combined with other cash flows as part of the overall NPC financing.

Grants – The final method used to eliminate any financing gap is through a cash grant.

Table 12 – Joint Meeting Space Option



What is Portland's Most Viable Option?

Given the large size of the hotel financing gap, Portland will need to employ several features to make the project financially feasible. Table 10 demonstrates how this gap generally provides for construction costs.

Creating a financially feasible hotel in Portland will require developing and financing the project through a NPC, leasing the land, agreeing upon a joint use of convention center meeting space for hotel use, and rebating the property taxes and occupancy taxes.

This option would also require the credit enhancement of the "B" series bonds by pledging to provide for debt service from a non-hotel revenue stream if hotel income is insufficient to provide for debt service. For a 400-room hotel, the City, County, or Metro would need to pledge $1.5 million escalating to $2.5 million annually over the term of the bonds. The pledge would increase to $2.3 million escalating to $3.8 million annually for a 600-room hotel, and $3.1 million escalating to $5.1 million annually for an 800-room hotel

The NPC could be a new entity established by the City, County, or Metro. In this situation, a new board of directors would be appointed by the sponsoring entity. The NPC could also be developed via an existing entity, like Chicago did by having the convention center authority develop and own the hotel.

The development of the hotel through the NPC will also help with ensuring the hotel focuses on its goal of impacting the city-wide convention center business and limits its impact on the existing hotel base. The NPC hotel should be restricted by a room block agreement that generally provides the availability of all or most of the rooms 24 months and out for city-wide conventions, with provisions to ensure rates charged are enticing to meting lanners. Conversely, there may also be rate floors to ensure the hotel does not utilize its subsidies to artificially offer low rates during slow periods.

NPC profits after debt service and reserve requirements are met should be programmed to address the marketing, transportation, and convention center operating needs.

What would be the Public Sector's Return on Investment?

The public's return on investment can be assessed in a couple of ways. Over a 30-year period, the solving of the HQ hotel issue in Portland is estimated to bring an additional seven million over night stays. These out-of-town delegates are estimated to spend $6.3 billion on local hotels, restaurants, and entertainment venues. This economic activity support 2,400 jobs each year and generates $145 million in Transient Lodging Tax, $9.6 million in Motor Vehicle Rental Tax and $95.8 million in State Income Tax over 30 years.

Table 13 – Portland's Option
(Amounts are Per Room)

Economic Value	$116,000
NPC Structure	29,000
Credit Enhance 30% of Debt (assumed in NPC)	-
Leasing Land (Assumed)	-
Joint Use of Convention Center Meeting Space	31,300
Abate property Taxes	10,000
Rebate Occupancy Taxes	30,000
Total Project Supported	$216,300
Estimated Development Cost	$213,400

From a project perspective, the hotel is estimated to earn a 14.6% public return on investment assuming the capital structure outlined above is implemented and all 800 rooms are developed new.

If the overall three-step recommendation is implemented and the market potential can be reached with only 600 net new rooms, the return on investment increases to over 18%. f the market potential can be reached with only 400 net new rooms, the return on investment increases to over 30%. The following pages demonstrate the return of investment each scenario.

Portland HQ Hotel
Summary of Public Return on Investment
800-Net New Room Scenario
(000s omitted)

Return on Investment **14.6**

		Investment					Return									Net Benefit	
													Delegate Spending Taxed (Net)**				
	Year	Credit Enhance.	Land	Property Tax	Occup. Tax	Total	Credit Enhance. Release	Land Rent (6%)	Hotel Profits	Hotel Sale	Property Tax	Occup. Tax	County	State	Total	Annual	Cumr
1	2006	($1,540)	($20,000)	($552)	($2,446)	($24,538)	$1,540	$0	0	$0	$0	$0	$1,585	$2,184	$3,125	($21,413)	($21,413
2	2007	(3,080)	0	(566)	(2,716)	(6,362)	3,080	1,744	1,641	0	0	0	1,457	2,239	7,922	1,560	(19,853
3	2008	(3,590)	0	(580)	(2,913)	(7,083)	3,590	1,744	2,076	0	0	0	1,391	2,295	8,801	1,718	(18,135
4	2009	(3,860)	0	(594)	(2,986)	(7,440)	3,860	1,744	1,810	0	0	0	1,425	2,352	8,839	1,399	(16,736
5	2010	(4,122)	0	(609)	(3,060)	(7,791)	4,122	1,744	752	0	0	0	1,461	2,411	8,079	288	(16,447
6	2011	(4,138)	0	(624)	(3,137)	(7,899)	4,138	1,744	1,063	0	0	0	1,498	2,471	8,443	544	(15,904
7	2012	(4,028)	0	(640)	(3,215)	(7,883)	4,028	1,744	1,398	0	0	0	1,535	2,533	8,705	822	(15,082
8	2013	(4,253)	0	(656)	(3,296)	(8,205)	4,253	1,744	1,748	0	0	0	1,573	2,596	9,318	1,113	(13,968
9	2014	(4,294)	0	(672)	(3,378)	(8,344)	4,294	1,744	2,113	0	0	0	1,613	2,661	9,764	1,420	(12,549
10	2015	(4,338)	0	(689)	(3,462)	(8,489)	4,338	1,744	2,492	0	0	0	1,653	2,728	10,227	1,738	(10,811
11	2016	(4,382)	0	(706)	(3,549)	(8,637)	4,382	1,744	2,888	0	0	0	1,694	2,796	10,708	2,070	(8,740
12	2017	(4,424)	0	(724)	(3,638)	(8,786)	4,424	1,744	3,306	0	0	0	1,736	2,866	11,210	2,424	(6,317
13	2018	(4,469)	0	(742)	(3,729)	(8,940)	4,469	1,744	3,734	0	0	0	1,779	2,937	11,726	2,786	(3,530
14	2019	(4,516)	0	(761)	(3,822)	(9,099)	4,516	1,744	4,181	0	0	0	1,824	3,011	12,265	3,166	(364
15	2020	(4,560)	0	(780)	(3,917)	(9,257)	4,560	1,744	4,649	0	0	0	1,869	3,086	12,822	3,566	3,202
16	2021	(4,606)	0	(799)	(4,015)	(9,420)	4,606	1,744	5,136	0	0	0	1,916	3,163	13,402	3,982	7,183
17	2022	(4,656)	0	(819)	(4,116)	(9,591)	4,656	1,744	5,639	0	0	0	1,964	3,242	14,003	4,412	11,596
18	2023	(4,702)	0	(839)	(4,219)	(9,760)	4,702	1,744	6,169	0	0	0	2,013	3,323	14,628	4,868	16,463
19	2024	(4,752)	0	(860)	(4,324)	(9,936)	4,752	1,744	6,716	0	0	0	2,063	3,406	15,275	5,339	21,802
20	2025	(4,797)	0	(882)	(4,432)	(10,111)	4,797	1,744	7,290	0	0	0	2,115	3,491	15,946	5,835	27,637
21	2026	(4,847)	0	(904)	(4,543)	(10,294)	4,847	1,744	7,887	0	0	0	2,168	3,579	16,646	6,352	33,988
22	2027	(4,897)	0	(927)	(4,657)	(10,481)	4,897	0	10,241	0	0	0	2,222	3,668	17,360	6,879	40,867
23	2028	(4,945)	0	(950)	(4,773)	(10,668)	4,945	0	10,883	0	0	0	2,277	3,760	18,105	7,438	48,305
24	2029	(4,996)	0	(974)	(4,892)	(10,862)	4,996	0	11,558	0	0	0	2,334	3,854	18,888	8,026	56,331
25	2030	(5,045)	0	(998)	(5,015)	(11,058)	5,045	0	12,248	0	0	0	2,393	3,950	19,686	8,628	64,959
26	2031	(5,095)	0	(1,023)	(5,140)	(11,258)	5,095	0	12,964	0	0	0	2,452	4,049	20,511	9,254	74,213
27	2032	(5,146)	0	(1,048)	(5,268)	(11,463)	5,146	0	13,717	0	0	0	2,514	4,150	21,377	9,914	84,127
28	2033*	(5,135)	0	(1,075)	(5,400)	(11,610)	5,135	0	7,797	253,530	0	0	2,577	4,254	269,039	257,429	341,556
29	2034	0	0	0	0	0	0	0	0	0	1,101	5,535	2,641	4,360	9,278	9,278	350,833
30	2035	0	0	0	0	0	0	0	0	0	1,129	5,674	2,707	4,469	9,510	9,510	360,343
31	2036	0	0	0	0	0	0	0	0	0	1,157	5,815	2,775	4,581	9,747	9,747	370,091
32	2037	0	0	0	0	0	0	0	0	0	1,186	5,961	2,844	4,696	9,991	9,991	380,082
33	2038	0	0	0	0	0	0	0	0	0	1,216	6,110	2,915	4,813	10,241	10,241	390,323
34	2039	0	0	0	0	0	0	0	0	0	1,246	6,263	2,988	4,933	10,497	10,497	400,819
35	2040	0	0	0	0	0	0	0	0	0	1,277	6,419	3,063	5,057	10,759	10,759	411,579
36	2041	0	0	0	0	0	0	0	0	0	1,309	6,580	3,139	5,183	11,028	11,028	422,607
37	2042	0	0	0	0	0	0	0	0	0	1,342	6,744	3,218	5,313	11,304	11,304	433,911
38	2043	0	0	0	0	0	0	0	0	0	1,376	6,913	3,298	5,445	11,587	11,587	445,498
39	2044	0	0	0	0	0	0	0	0	0	1,410	7,086	3,381	5,582	11,876	11,876	457,374
40	2045	0	0	0	0	0	0	0	0	0	1,445	7,263	3,465	5,721	12,173	12,173	469,547

* Debt repaid; sell hotel at 10% cap.

** Spending by new convention center delegates, net of subject hotel taxes.

Portland HQ Hotel
Summary of Public Return on Investment
600-Net New Room Scenario
(000s omitted)

Return on Investment	18.4%

		Investment					Return									Net Benefit	
													Delegate Spending Taxed (Net)**				
	Year	Credit Enhance.	Land	Property Tax	Occup. Tax	Total	Credit Enhance. Release	Land Rent(6%)	Hotel Profits	Hotel Sale	Property Tax	Occup. Tax	County	State	Total	Annual	Cumm
1	2006	($1,155)	($15,000)	($414)	($1,835)	($18,404)	$1,155	$0	0	$0	$0	$0	$2,074	$2,184	$3,229	($15,174)	($15,174)
2	2007	(2,310)	0	(425)	(2,037)	(4,772)	2,310	1,308	1,231	0	0	0	2,001	2,239	6,849	2,078	(13,096)
3	2008	(2,693)	0	(435)	(2,185)	(5,312)	2,693	1,308	1,557	0	0	0	1,973	2,295	7,531	2,218	(10,878)
4	2009	(2,895)	0	(446)	(2,240)	(5,580)	2,895	1,308	1,358	0	0	0	2,022	2,352	7,583	2,003	(8,875)
5	2010	(3,092)	0	(457)	(2,295)	(5,843)	3,092	1,308	564	0	0	0	2,073	2,411	7,037	1,194	(7,681)
6	2011	(3,104)	0	(468)	(2,353)	(5,924)	3,104	1,308	797	0	0	0	2,125	2,471	7,334	1,409	(6,272)
7	2012	(3,021)	0	(480)	(2,411)	(5,912)	3,021	1,308	1,049	0	0	0	2,178	2,533	7,556	1,644	(4,629)
8	2013	(3,190)	0	(492)	(2,472)	(6,154)	3,190	1,308	1,311	0	0	0	2,232	2,596	8,041	1,887	(2,741)
9	2014	(3,221)	0	(504)	(2,534)	(6,258)	3,221	1,308	1,585	0	0	0	2,288	2,661	8,402	2,144	(597)
10	2015	(3,254)	0	(517)	(2,597)	(6,367)	3,254	1,308	1,869	0	0	0	2,345	2,728	8,776	2,409	1,812
11	2016	(3,287)	0	(530)	(2,662)	(6,478)	3,287	1,308	2,166	0	0	0	2,404	2,796	9,164	2,686	4,498
12	2017	(3,318)	0	(543)	(2,729)	(6,589)	3,318	1,308	2,480	0	0	0	2,464	2,866	9,569	2,980	7,478
13	2018	(3,352)	0	(556)	(2,797)	(6,705)	3,352	1,308	2,801	0	0	0	2,525	2,937	9,985	3,280	10,758
14	2019	(3,387)	0	(570)	(2,867)	(6,824)	3,387	1,308	3,136	0	0	0	2,588	3,011	10,419	3,595	14,353
15	2020	(3,420)	0	(585)	(2,938)	(6,942)	3,420	1,308	3,487	0	0	0	2,653	3,086	10,868	3,925	18,279
16	2021	(3,455)	0	(599)	(3,011)	(7,065)	3,455	1,308	3,852	0	0	0	2,719	3,163	11,334	4,269	22,547
17	2022	(3,492)	0	(614)	(3,087)	(7,193)	3,492	1,308	4,229	0	0	0	2,787	3,242	11,817	4,623	27,171
18	2023	(3,527)	0	(630)	(3,164)	(7,320)	3,527	1,308	4,627	0	0	0	2,857	3,323	12,318	4,998	32,169
19	2024	(3,564)	0	(645)	(3,243)	(7,452)	3,564	1,308	5,037	0	0	0	2,928	3,406	12,837	5,385	37,554
20	2025	(3,598)	0	(661)	(3,324)	(7,583)	3,598	1,308	5,468	0	0	0	3,002	3,491	13,375	5,792	43,345
21	2026	(3,635)	0	(678)	(3,407)	(7,721)	3,635	1,308	5,915	0	0	0	3,077	3,579	13,935	6,215	49,560
22	2027	(3,673)	0	(695)	(3,493)	(7,860)	3,673	0	7,681	0	0	0	3,154	3,668	14,507	6,647	56,206
23	2028	(3,709)	0	(712)	(3,580)	(8,001)	3,709	0	8,162	0	0	0	3,232	3,760	15,103	7,102	63,309
24	2029	(3,747)	0	(730)	(3,669)	(8,146)	3,747	0	8,669	0	0	0	3,313	3,854	15,729	7,582	70,891
25	2030	(3,784)	0	(748)	(3,761)	(8,293)	3,784	0	9,186	0	0	0	3,396	3,950	16,366	8,073	78,964
26	2031	(3,821)	0	(767)	(3,855)	(8,443)	3,821	0	9,723	0	0	0	3,481	4,049	17,025	8,582	87,546
27	2032	(3,860)	0	(786)	(3,951)	(8,597)	3,860	0	10,288	0	0	0	3,568	4,150	17,715	9,118	96,664
28	2033*	(3,851)	0	(806)	(4,050)	(8,707)	3,851	0	5,848	190,148	0	0	3,657	4,254	203,504	194,796	291,460
29	2034	0	0	0	0	0	0	0	0	0	826	4,151	3,749	4,360	8,726	8,726	300,186
30	2035	0	0	0	0	0	0	0	0	0	847	4,255	3,842	4,469	8,944	8,944	309,130
31	2036	0	0	0	0	0	0	0	0	0	868	4,362	3,938	4,581	9,168	9,168	318,298
32	2037	0	0	0	0	0	0	0	0	0	890	4,471	4,037	4,696	9,397	9,397	327,695
33	2038	0	0	0	0	0	0	0	0	0	912	4,582	4,138	4,813	9,632	9,632	337,327
34	2039	0	0	0	0	0	0	0	0	0	935	4,697	4,241	4,933	9,873	9,873	347,199
35	2040	0	0	0	0	0	0	0	0	0	958	4,814	4,347	5,057	10,120	10,120	357,319
36	2041	0	0	0	0	0	0	0	0	0	982	4,935	4,456	5,183	10,373	10,373	367,691
37	2042	0	0	0	0	0	0	0	0	0	1,007	5,058	4,567	5,313	10,632	10,632	378,323
38	2043	0	0	0	0	0	0	0	0	0	1,032	5,185	4,681	5,445	10,898	10,898	389,221
39	2044	0	0	0	0	0	0	0	0	0	1,057	5,314	4,798	5,582	11,170	11,170	400,391
40	2045	0	0	0	0	0	0	0	0	0	1,084	5,447	4,918	5,721	11,449	11,449	411,840

* Debt repaid; sell hotel at 10% cap.

** Spending by new convention center delegates, net of subject hotel taxes.

Portland HQ Hotel
Summary of Public Return on Investment
400-Net New Room Scenario
(000s omitted)

Return on Investment	30.5%

		Investment					Return									Net Benefit	
							Credit						Delegate Spending Taxed (Net)**				
	Year	Credit Enhance.	Land	Property Tax	Occup. Tax	Total	Enhance. Release	Land Rent(6%)	Hotel Profits	Hotel Sale	Property Tax	Occup. Tax	County	State	Total	Annual	Cumm
1	2006	($770)	($10,000)	($276)	($1,223)	($12,269)	$770	$0	0	$0	$0	$0	$2,563	$2,184	$3,333	($8,936)	($8,936)
2	2007	(1,540)	0	(283)	(1,358)	(3,181)	1,540	872	821	0	0	0	2,544	2,239	5,776	2,595	(6,340)
3	2008	(1,795)	0	(290)	(1,457)	(3,542)	1,795	872	1,038	0	0	0	2,556	2,295	6,261	2,719	(3,621)
4	2009	(1,930)	0	(297)	(1,493)	(3,720)	1,930	872	905	0	0	0	2,620	2,352	6,327	2,607	(1,014)
5	2010	(2,061)	0	(305)	(1,530)	(3,896)	2,061	872	376	0	0	0	2,685	2,411	5,994	2,099	1,084
6	2011	(2,069)	0	(312)	(1,569)	(3,950)	2,069	872	532	0	0	0	2,752	2,471	6,225	2,275	3,360
7	2012	(2,014)	0	(320)	(1,608)	(3,942)	2,014	872	699	0	0	0	2,821	2,533	6,406	2,465	5,825
8	2013	(2,127)	0	(328)	(1,648)	(4,103)	2,127	872	874	0	0	0	2,892	2,596	6,764	2,662	8,486
9	2014	(2,147)	0	(336)	(1,689)	(4,172)	2,147	872	1,057	0	0	0	2,964	2,661	7,040	2,868	11,354
10	2015	(2,169)	0	(345)	(1,731)	(4,245)	2,169	872	1,246	0	0	0	3,038	2,728	7,325	3,080	14,434
11	2016	(2,191)	0	(353)	(1,775)	(4,319)	2,191	872	1,444	0	0	0	3,114	2,796	7,621	3,302	17,736
12	2017	(2,212)	0	(362)	(1,819)	(4,393)	2,212	872	1,653	0	0	0	3,191	2,866	7,928	3,535	21,272
13	2018	(2,235)	0	(371)	(1,865)	(4,470)	2,235	872	1,867	0	0	0	3,271	2,937	8,245	3,775	25,046
14	2019	(2,258)	0	(380)	(1,911)	(4,549)	2,258	872	2,091	0	0	0	3,353	3,011	8,574	4,024	29,071
15	2020	(2,280)	0	(390)	(1,959)	(4,628)	2,280	872	2,325	0	0	0	3,437	3,086	8,913	4,285	33,356
16	2021	(2,303)	0	(400)	(2,008)	(4,710)	2,303	872	2,568	0	0	0	3,523	3,163	9,266	4,556	37,911
17	2022	(2,328)	0	(410)	(2,058)	(4,796)	2,328	872	2,820	0	0	0	3,611	3,242	9,630	4,835	42,746
18	2023	(2,351)	0	(420)	(2,110)	(4,880)	2,351	872	3,085	0	0	0	3,701	3,323	10,009	5,128	47,875
19	2024	(2,376)	0	(430)	(2,162)	(4,968)	2,376	872	3,358	0	0	0	3,793	3,406	10,399	5,431	53,306
20	2025	(2,399)	0	(441)	(2,216)	(5,055)	2,399	872	3,645	0	0	0	3,888	3,491	10,804	5,748	59,054
21	2026	(2,424)	0	(452)	(2,272)	(5,147)	2,424	872	3,944	0	0	0	3,986	3,579	11,225	6,078	65,132
22	2027	(2,449)	0	(463)	(2,329)	(5,240)	2,449	0	5,121	0	0	0	4,085	3,668	11,654	6,414	71,546
23	2028	(2,473)	0	(475)	(2,387)	(5,334)	2,473	0	5,442	0	0	0	4,187	3,760	12,101	6,767	78,313
24	2029	(2,498)	0	(487)	(2,446)	(5,431)	2,498	0	5,779	0	0	0	4,292	3,854	12,569	7,138	85,451
25	2030	(2,523)	0	(499)	(2,507)	(5,529)	2,523	0	6,124	0	0	0	4,399	3,950	13,046	7,517	92,968
26	2031	(2,548)	0	(511)	(2,570)	(5,629)	2,548	0	6,482	0	0	0	4,509	4,049	13,539	7,910	100,878
27	2032	(2,573)	0	(524)	(2,634)	(5,731)	2,573	0	6,859	0	0	0	4,622	4,150	14,054	8,322	109,200
28	2033*	(2,568)	0	(537)	(2,700)	(5,805)	2,568	0	3,899	126,765	0	0	4,738	4,254	137,969	132,164	241,364
29	2034	0	0	0	0	0	0	0	0	0	551	2,768	4,856	4,360	8,174	8,174	249,538
30	2035	0	0	0	0	0	0	0	0	0	565	2,837	4,977	4,469	8,379	8,379	257,917
31	2036	0	0	0	0	0	0	0	0	0	579	2,908	5,102	4,581	8,588	8,588	266,505
32	2037	0	0	0	0	0	0	0	0	0	593	2,980	5,229	4,696	8,803	8,803	275,308
33	2038	0	0	0	0	0	0	0	0	0	608	3,055	5,360	4,813	9,023	9,023	284,331
34	2039	0	0	0	0	0	0	0	0	0	623	3,131	5,494	4,933	9,249	9,249	293,579
35	2040	0	0	0	0	0	0	0	0	0	639	3,210	5,631	5,057	9,480	9,480	303,059
36	2041	0	0	0	0	0	0	0	0	0	655	3,290	5,772	5,183	9,717	9,717	312,776
37	2042	0	0	0	0	0	0	0	0	0	671	3,372	5,917	5,313	9,960	9,960	322,736
38	2043	0	0	0	0	0	0	0	0	0	688	3,456	6,064	5,445	10,209	10,209	332,944
39	2044	0	0	0	0	0	0	0	0	0	705	3,543	6,216	5,582	10,464	10,464	343,408
40	2045	0	0	0	0	0	0	0	0	0	723	3,631	6,372	5,721	10,725	10,725	354,134

* Debt repaid; sell hotel at 10% cap.

** Spending by new convention center delegates, net of subject hotel taxes.

PORTLAND'S NEXT STEPS

As shown in the Gantt chart following this section, the first step in the *Convention Center Hotel Strategic Plan* is to gain consensus among the stakeholders on the three-step plan. All the community leaders including POVA, PDC, MERC, the City, Metro and the hotel community must generally agree to the strategy to make it a success.

With consensus, Steps 1 and 2 of the strategy can begin concurrently. It is logical for POVA to spearhead Step 1, maximizing the existing hotel infrastructure by providing better event transportation to downtown hotels and agreeing upon a common city-wide hotel room contract.

PDC is the logical leader for Step 2, determining how many rooms can be redeveloped around the center to provide for HQ hotel needs. It is recommended to first determine the potential of redevelopment and the level of public involvement that will be required to make each project financially feasible. Armed with this information, the next step would entail creating a generic economic redevelopment plan that could be offered to interested parties on an equal basis. The plan should outline both what the public will provide economically and what the public will receive, specifically, a level of hotel quality and contractual room block commitment.

By way of example, SAG created a redevelopment policy for the City of Houston that rebated qualifying hotels 4-points of its occupancy tax generated for ten years if they developed/redeveloped more than 200 rooms into convention quality rooms and reserved 80% of their rooms 2years and out for city-wide conventions at a room rate not to exceed 120% of its group average daily rate.

Making this determination needs to be completed prior to delving into developing any new rooms.

If no rooms can be redeveloped, the strategy may be to phase the 800-room goal, or try to develop close to 800 rooms. The potential developers, operators, etc. are significantly different for 400 rooms versus 800 rooms. The list of 800-room hotel developers is limited. Conversely, operators will be more interest in a larger product, and more willing to invest. The list of potential developers for a 400-room hotel is much longer and can include more local and regional developers.

There may be an interest in soliciting both the redevelopment component and new-build component at the same time. This could be accomplished by notifying interested parties the desire of Portland to ultimately provide for 800 convention quality hotel rooms through redevelopment and/or new build. While this could reduce the solicitation process by a few months, it will be challenging to outline the new-build requirement without knowing how many of the 800 rooms can be provided through redevelopment. As previously stated, there will be different developer interest for a 300 to 500 room new build hotel than there is for a 600 to 800-room hotel.

Once into Step 3, developing the new rooms the first step will probably be to retain a pre-development manger. Projects of this size are unique and there are companies that specialize in getting these projects going.

The next two important team members are the operator, to define the product, and underwriter, to set financing parameters. It is recommended not to team the operator with the developer. There are limited potential operators for a new Portland convention center hotel since most hotel brands are already represented in the city. If developers must team with operators, you might only receive two to three proposals. If the operator is selected separately, the number of potential developer responses is unlimited. Moreover, it has been SAG's experience that negotiating with the operator and developer separately can achieve for favorable terms and conditions.

With the product generally defined (number of rooms and brand), the design and development team can be solicited. The designer and developer can be solicited separately or together. t is not recommended to combine the operator with the development team. There are no advantages to combining the operator and developer. The developer builds the hotel over a three-year period under the guidance of the owner, architect and operator. The operator operates the hotel once open for the next 15 years. The developers and architects considered for this size of project will have experience with most if not all the hotel brands considered.

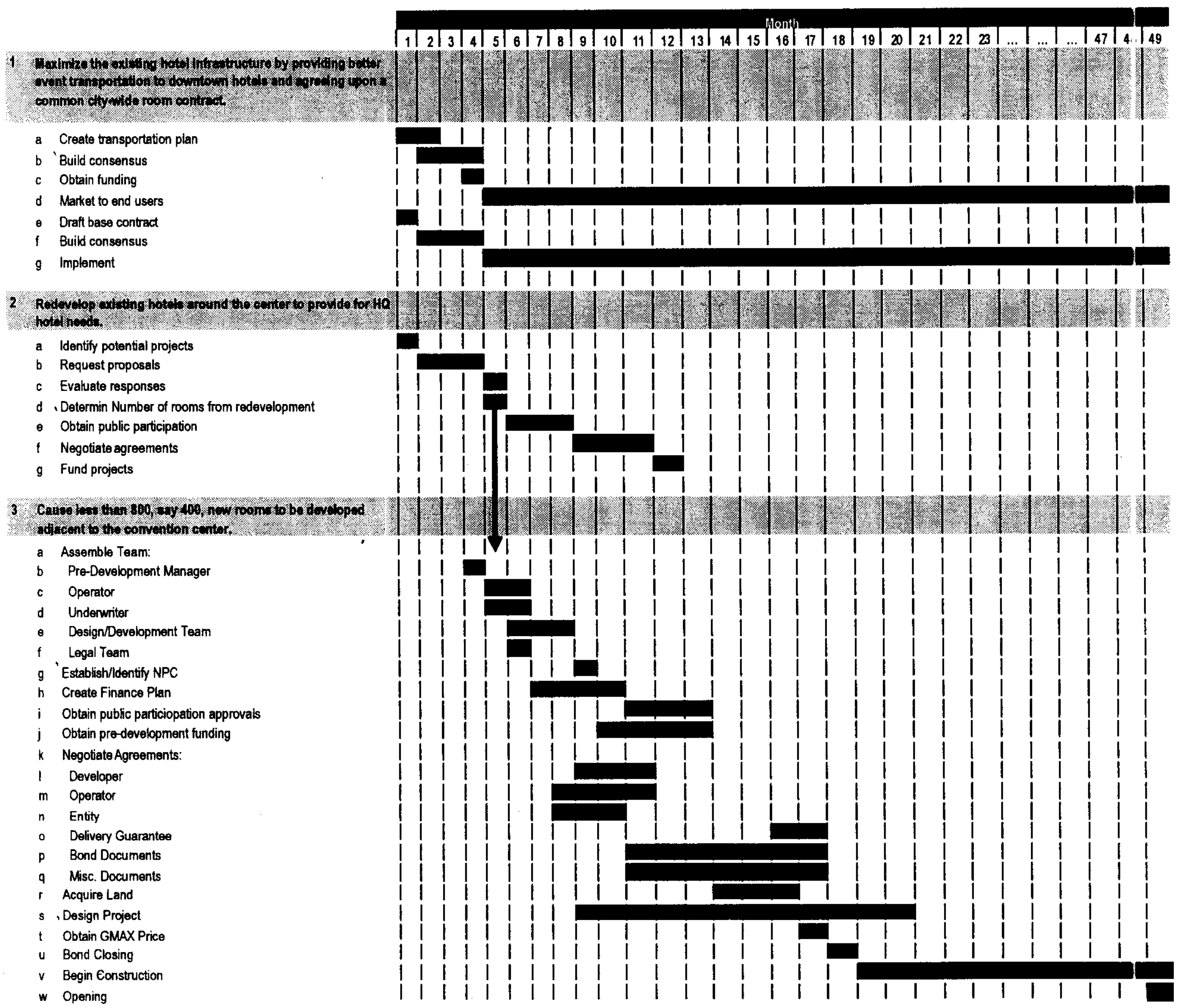
The most important advantage to separate developer/operator solicitations is utilizing competition to obtain the best deal for the owner. By way of example, in New Orleans the developer was given the option to teaming with an operator or not. One of the finalists teamed and the other did not. After completing a separate solicitation for the operator, the original "teamed" operator increased its purchase of subordinate bonds three-fold, lowered their annual management fees by 20%, and offered key money (upfront operator investment that does not have to be repaid unless terminated early). Competition is good.

Once the developer is on-board, a certain level of design must be completed to obtain a project deliver guarantee for a budgeted amount on a date certain before the bonds can be sold. The level of design that must be completed depends upon the level of risk the owner and developer are able and willing to assume. More design means less risk. The challenge relates to funding the design services. Some developers are willing and have the ability to fund the design effort, reimbursed from bond proceeds. The risk lies in what happens if the bonds are never sold. Developers usually want a credit worthy entity to pledge to repay costs if the bonds do not sell.

With the bond proceeds in hand, it typically takes 24 to 36 months to complete construction. The length of time varies dependant upon the complexity of the construction, primarily driven by the level of subterranean development that is designed.

The transportation and contracting plan can be implemented quickly, reaping the benefits this year. The redevelopment initiative can probably be implemented sooner than the new construction, potentially in the two to three year horizon. A new HQ hotel could be open in three to four years if consensus is obtained quickly and there are no significant project delays.

Portland HQ Hotel
Summary Next Steps



Appendix

APPENDIX 1: PHASE I PRESENTATION

PORTLAND OREGON VISITORS ASSOCIATION

HQ Hotel Analysis
Phase I

Oral Presentation

September 23, 2002

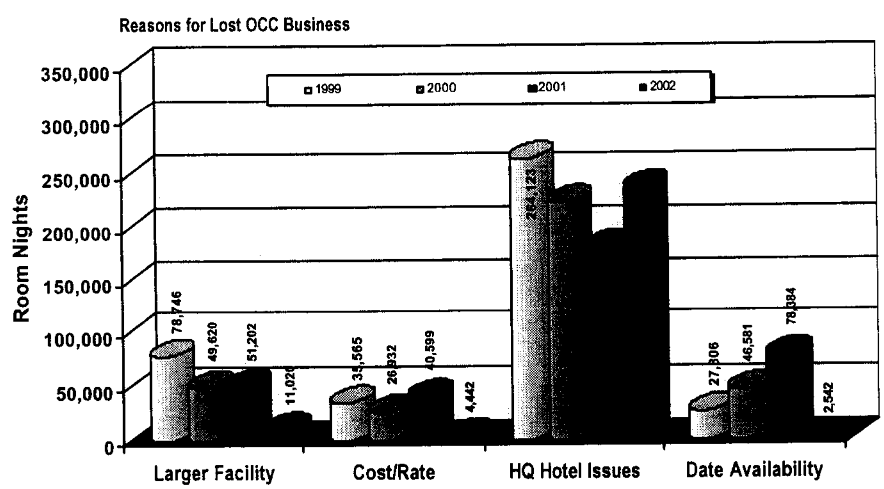
STRATEGIC ADVISORY GROUP LLC

Today's Discussion Topics

- Phase I:
  - Why are We Considering a HQ Hotel?
  - What's Happening in the Industry?
  - What is the Interest in Portland as Meeting Destination?
  - What is the Appropriate Sized HQ Hotel for Portland?
  - What Impact could HQ Hotel have on:
    - Oregon Convention Center?
    - Hotel Market?
    - Region (Economic Impact)?
- Phase II:
  - What are the Financial Aspects of a HQ Hotel?
- Phase III:
  - What is the Implementation Plan?

Why is Portland Considering a HQ Hotel?

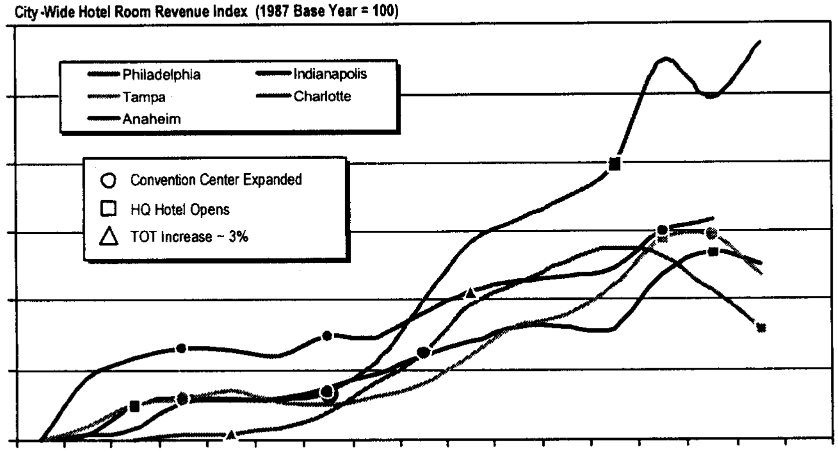
Study Impetus



Source: POVA

Impetus - Case Studies

City-Wide Hotel Room Revenue Index (1987 Base Year = 100)

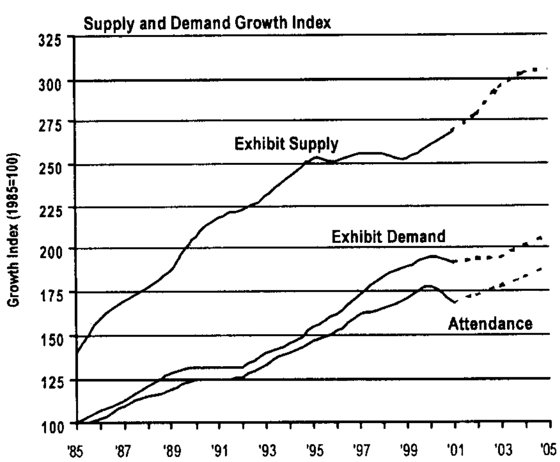


Why Consider HQ Hotel?

- OCC's Expansion Opened Up New Group Business Markets
- Portland did Well with 150K SF, How Will it Compete as a 255K?
- HQ Hotel is Biggest Hurdle in POVA Booking Business
- Many Other Destinations Pursuing "Philadelphia Story"
- HQ Hotel is Becoming Cost of Entry into Big Leagues

What's Happening in the Industry?

Convention Center Industry Trends



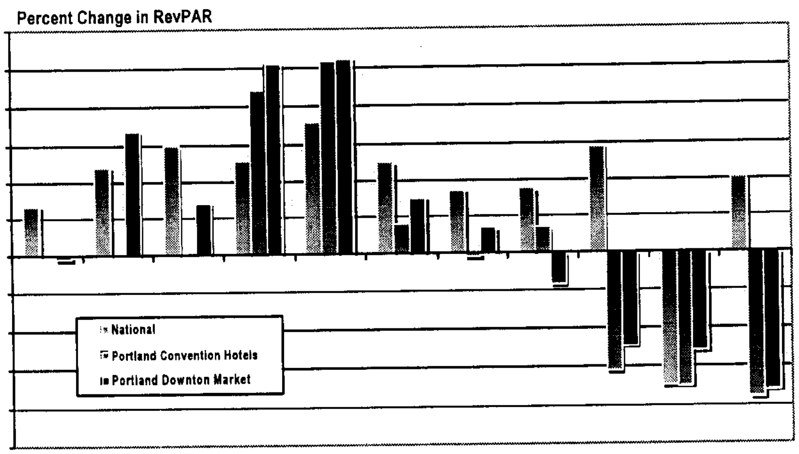
Source: TradeshowWeek; Major Exhibit Hall Directory.

Growth Rates:

	2001	Last 5 Yrs	Last 10 Yrs
SUPPLY: Exhibit SF	3.0%	1.4%	2.2%
DEMAND:			
NSF - All TS	-1.3%	3.5%	3.9%
NSF - TS 200	-1.5%	3.3%	3.9%
Attendance - All TS	-5.8%	2.0%	3.7%
Attendance - TS 200	-4.5%	1.2%	3.4%

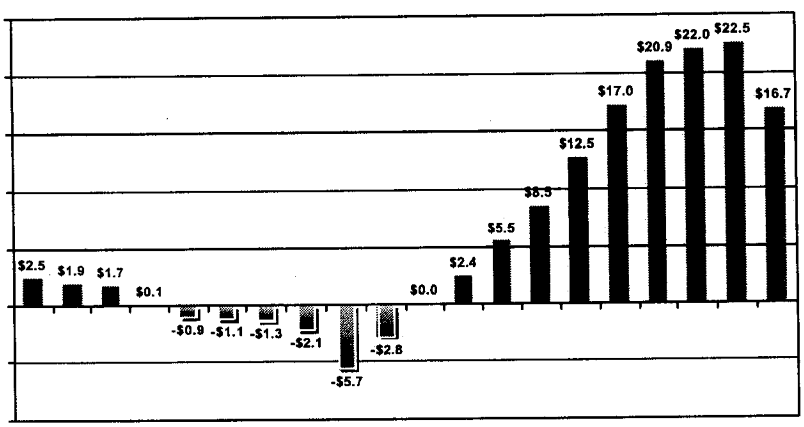
Projections: Supply growth based on known projects under development. Demand growth assumes 2003 recovery to 2000 levels, 3% thereafter.

Hotel Industry Trends



Source: Smith Travel Research.

U.S. Lodging Industry Profitability



What's Happening in Industry?

- Demand for Exhibit Space Projected to Continue it's Slow, Steady Growth
  - Typically Tracks GNP
- Portland's Hotel Market Not Rebounding as Quickly as National Average
- Due to Industry Fundamentals, Hotel Industry Still Profitable

What is the Interest in Portland as Meeting Destination?

Incremental OCC Room Night Potential

	Current	*Potential*
Exhibit SF	**150,000**	**255,000**
Room nights/SF	**0.8**	**1.7**
Room nights	**113,000**	**434,000**

HQ Impact on OCC

			HQ Hotel Rooms					100%
	Current	Do Nothing	400	600	800	1,000	1,500	Penetration
Convention Center Market Potential	113,000	434,000	434,000	434,000	434,000	434,000	434,000	434,000
Existing Convention Center	0	(113,000)	(113,000)	(113,000)	(113,000)	(113,000)	(113,000)	(113,000)
Potential Incremental Room Nights	113,000	321,000	321,000	321,000	321,000	321,000	321,000	321,000
Market Penetration		10%	30%	45%	60%	65%	70%	100%
Incremental OCC Room Nights		32,100	96,300	144,450	192,600	208,650	224,700	321,000
Induced HQ Hotel Room Nights (20%)		0	20,440	30,660	40,880	51,100	76,650	76,650
New Market Room Nights		32,100	116,740	175,110	233,480	259,750	301,350	397,650
ORN Ratio	0.8	0.6	0.8	1.0	1.2	1.3	1.3	1.7
Similar ORN Ratio	*Portland*	*Pittsburgh*	*Denver*	*Philadelphia*	*New Orleans*	*New Orleans*	*New Orleans*	*San Antonio*

Incremental OCC
Room Nights Generated

Induced HQ Hotel Group
Room Nights (20%)

OREGON CONVENTION CENTER

METRO ER COMMISSION

ECONOMIC/FISCAL IMPACT ANALYSIS FOR A PROPOSED HEADQUARTERS HOTEL ADJACENT TO THE OREGON CONVENTION CENTER

Final Report – July 2005

KPMG

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July 8, 2005

Mr. Jeffrey Blosser, Executive Director
Oregon Convention Center
777 NE Martin Luther King, Jr. Boulevard
Portland, Oregon 97232

Dear Mr. Blosser:

Per our amended agreement dated May 6, 2005, we have completed our hypothetical, order-of-magnitude estimate of the economic and fiscal impacts that may be generated by the construction and operation of a proposed headquarters hotel adjacent to the Oregon Convention Center. The report presented herein includes the summary of findings and principal conclusions from our research.

The findings contained in the report reflect analysis of primary and secondary sources of information. We have utilized sources that are deemed to be reliable but cannot guarantee their accuracy. Moreover, estimates and analysis regarding the economic and fiscal impacts are based on trends and assumptions and, therefore, there will usually be differences between the estimated and actual results because events and circumstances frequently do not occur as expected, and those differences may be material.

The accompanying analysis was prepared for internal use by the Oregon Convention Center. In accordance with the terms of our agreement, the accompanying economic and fiscal impact analysis is restricted to internal use and may not be relied upon by any third party for any purpose. We have no obligation, unless subsequently engaged, to update this report or revise this analysis as presented due to events or conditions occurring after the date of this report. Notwithstanding these limitations, it is understood that this document is subject to public information laws and, as such, can be made available to the public. Neither this report, nor any portion thereof, may be used for any other purpose without the prior written consent of KPMG LLP.

Because the procedures we performed do not constitute an examination of prospective financial statements in accordance with standards established by the American Institute of Certified Public Accountants, we do not express an opinion or any other form of assurance on whether the prospective financial statements are presented in conformity with AICPA presentation guidelines or on whether the underlying assumptions provide a reasonable basis for the presentation.

We have enjoyed working on this engagement and our relationship with the Oregon Convention Center, and look forward to the opportunity to provide you with continued service.

Sincerely,

KPMG LLP

KPMG

Introduction

The Oregon Convention Center (OCC) is owned by a regional government known as Metro and managed by a seven-member commission, which is a subsidiary of Metro called the Metropolitan Exposition-Recreation Commission (MERC). MERC also provides management and stewardship of other regional public assembly facilities, including the Portland Center for the Performing Arts and the Portland Metropolitan Exposition Center.

The OCC originally opened in September of 1990 and unveiled an expansion in April of 2003. The OCC currently offers 255,000 square feet of exhibit space and over 100,000 square feet of meeting and ballroom space. Since the opening of the expanded center, the OCC has hosted 80 to 90 conventions and tradeshows annually. These events represent primarily regional, national and international groups that attract out-of-town guests. Attendees at conventions and tradeshows generate spending at hotels, restaurants, retail, entertainment and transportation establishments.

The Portland Oregon Visitors Association (POVA) indicated that there are currently slightly more than 2,000 hotel rooms within close proximity to the OCC. Of these rooms, approximately 1,300 are considered “first-class” hotel rooms. Based on POVA records, a total of thirty groups representing future bookings from 2004 through 2012 were lost, in 2004 alone, due to the lack of a headquarters hotel. The vast majority of these groups are national or international in scope, representing nearly 240,000 room nights and more than 85,000 attendee days. Groups that are not choosing to host their event in Portland represent significant potential economic impact to the community in the form of spending, jobs and earnings.

Introduction (cont'd)

Given the potential benefits from these groups the Portland area is currently losing, the OCC has assessed the merits of developing a hotel to serve as its headquarters property, while also serving the needs of the greater marketplace. Effort has been made by the community to understand the potential demand for a headquarters hotel while also studying the potential impact to the local hotel market and community as a whole. The following summarizes the major findings from two studies that have been completed in the last five years:

Evaluation of Hotel Market Conditions & Impact Analysis of a Convention Hotel – Economics Research Associates, 2001

ERA found that the full economic impact of the OCC expansion would not be fully realized if the facility did not offer a more competitive hotel package. The study states this could include development of a headquarters property and/or more larger hotels willing to dedicate 250+ room blocks to OCC event-related activity. At the time of this study, the Portland hotel market was weak due to a slowing in demand (after years of substantial growth) and an increase in supply. Consultants estimated a range of impacts from incremental delegate spending due to additional hotel supply under both weak and strong assumed hotel market conditions. Under weaker conditions, the expansion/renovation of an existing property appeared most appropriate. ERA added that under stronger market conditions, the development of a new, 600 to 800-room headquarters property would be a more appropriate strategy.

The report set forth three alternative hotel development strategies that the City could employ to respond to then current hotel market conditions while still planning for future hotel supply to serve the OCC. These included: a firm stance of no public subsidy, remaining ambiguous to keep options open, and providing public subsidy when under improved market conditions and actively planning for such a time. The report laid out other considerations for the City, including the potential to restrict competition by limiting the development of smaller, limited-service properties that could ultimately dilute the market for a full-service, larger-scale property. In addition, ERA recommended that the land parcels in the immediate vicinity of the OCC be preserved to maintain the option of future hotel development.

Introduction (cont'd)

Convention Center Hotel Strategic Plan – Strategic Advisory Group, 2003

In preparation for the opening of the OCC expansion, POVA retained Strategic Advisory Group (SAG) to create a strategic plan aimed at maximizing the potential for city-wide conventions while minimizing any negative impact on the lodging market. Findings suggested that the expanded OCC would not be able to capture much of its new target market (due to greater rentable space) based on its lack of a headquarters hotel property. Recommendations were made to address the market needs in a three-step process: maximizing the existing hotel supply downtown via an institutionalized transportation program between downtown hotels and the OCC; redeveloping existing hotels proximate to the OCC; and subsidize development of additional rooms adjacent to the OCC.

Based on SAG's interview of meeting planners, the OCC could attract 40% to 45% of its target market should a 500- to 600-room headquarters hotel be developed. Findings suggested such a property could generate over 15,000 incremental room nights annually. One of SAG's assumptions was that no other full-service hotel would be developed in the Portland market. Estimates of construction costs and incremental economic benefits generated by different hotel development scenarios were prepared. In addition, financing requirements, potential funding strategies and the public's return on investment were also outlined.

Introduction (cont'd)

Subsequent to these studies, the Portland Development Commission (PDC) issued a Headquarters Hotel Implementation Strategy that's objective was to identify the full array of developer interest and potential approaches to the project. In September 2004, the PDC issued a Request for Proposals (RFP) to qualified hotel developers interested in creating a public/private partnership to build a headquarters hotel for the OCC. The RFP specifically states that the winning developer/operator will be required to enter into a Room Block Agreement with MERC which reserves the greater of (a) 75% of the newly developed or rehabilitated rooms or (b) 500 rooms for potential OCC-related bookings for a specified period and makes the rooms available to OCC users at a to-be-negotiated competitive group discount rate.

The overall goal, according to the PDC, is to attract more large conventions and tradeshows to the OCC, as well as to leverage the economic benefits of the center to the City of Portland, add quality jobs for the local workforce, and increase tax revenues. Four developer/operator proposals were received in December 2004 and are currently under review. Recommendations for the winning bid are expected in May, with final approval by the PDC likely occurring in June.

Introduction (cont'd)

As outlined in the RFP for the proposed headquarters hotel issued by the PDC, development objectives of the property include the following:

- Maintain Portland's current market share in the regional, national and international meetings market
- Expand Portland's position in the group meetings market by attracting groups with a headquarter hotel requirement and/or a larger committable room block
- Provide POVA with a room block of 400 to 500 rooms
- Maximize positive impact to other area hotels
- Increase economic impact of the OCC and thereby maximize impact to the area's economy
- Minimize public investment and risk

Introduction (cont'd)

KPMG was retained to assist the OCC in preparing a hypothetical, order-of-magnitude estimate of the economic and fiscal impacts that may be generated by the construction and operation of a potential headquarters hotel in the Tri-County Metropolitan Region. Based on information provided by OCC management, two development scenarios are presented including a 500-room and a 600-room property. The region includes Clackamas, Multnomah and Washington Counties. The study estimates impacts associated with hotel construction and operations. In addition, hypothetical, order-of-magnitude estimates of the direct and total jobs, spending and earnings as well as tax revenues that could potentially be generated in the Tri-County region are presented.

Construction of the proposed hotel would generate direct spending on various goods and services. This spending would create new jobs and earnings, as well as induce further spending within the region. This impact would be a one-time benefit during the construction period.

The hypothetical benefits generated from on-going operations of the proposed hotel would be recurring in nature. This analysis reflects the estimated impacts for a possible range of hotel operations for each of the two development scenarios.

Introduction (cont'd)

The Tri-County Metropolitan Region would benefit from the proposed hotel in a number of ways, including such tangible and intangible benefits as:

- Enhancing the area's image as a business, meetings and tourist destination;
- Receiving regional and national exposure through destination marketing and visitation both by tourism agencies within Portland as well as via the national marketing arm of the chosen flag;
- Providing a first-class support hotel for the OCC;
- Providing a catalyst for urban redevelopment initiatives in the Lloyd Center District;
- Generating enhanced fiscal revenues; and
- Generating additional economic activity in the Tri-County Metropolitan Region.

Each of these benefits is important in assessing the benefit of the on-going operations of the hotel to the Tri-County Metropolitan Region. While the value of most of these benefits is difficult to measure, the economic activity that may be generated by the proposed hotel within the Tri-County Metropolitan Region can be estimated. This analysis includes order-of-magnitude estimates of the direct and indirect/induced benefits associated with the construction and on-going operations of the property. These potential benefits are measured at the regional level for spending, jobs and income as well as the associated tax revenues.

Methodology

An assessment of the economic benefits that could potentially accrue to the Tri-County Metropolitan Region as a result of the on-going operations of a proposed headquarters hotel for the OCC can be approached in several ways. The approach used in this analysis considers the expense side of hotel operations as well as attendee, association and exhibitor spending for estimation of the initial direct impacts to a community. All expenses generated by hotel operations from room department, food/beverage department, administrative, advertising, utilities, maintenance, etc. as well as an estimate of spending for guests using the hotel, are used as an initial measure of economic activity within the marketplace. With respect to construction impacts, direct spending is estimated as total project costs including hard and soft costs. Once the amount for direct spending is estimated, a multiplier is applied to generate the total (direct, indirect and induced) spending, earnings and employment associated with the project. This "multiplier" effect is estimated in this analysis using a regional economic forecasting model provided by the Minnesota IMPLAN Group, Inc. (IMPLAN). The economic impact amount generated represents the order-of-magnitude total impact to the Tri-County Metropolitan Region.

The economic activity directly generated through the construction and on-going operations of the proposed hotel and the spending of its users affects more than just the property and immediately surrounding land uses. As this money ripples through the economy, several other economic sectors are impacted and jobs are created. For example, when a caterer at the hotel purchases food for an event, everyone from the wholesaler to the farmer that produced the food is impacted. In addition, local governmental entities that tax these economic transactions are also impacted.

The following are the specific aggregate industries used in this analysis:

- new construction
- hotel/entertainment
- eating and drinking places
- transportation
- retail trade
- electric, gas, water & sanitary services
- business services

Methodology (cont'd)

The three categories of measurement used to assess the economic impact of a project are spending, earnings and employment which are defined below:

Total spending (output) represents the total direct and indirect/induced spending effects generated by the project. This calculation measures the total dollar change in spending (output) that occurs in the local economy for each dollar of output delivered to final demand.

Personal earnings represent the wages and salaries earned by employees of businesses associated with or impacted by the project. In other words, the multiplier measures the total dollar change in earnings of households employed by the affected industries for each additional dollar of output delivered to final demand.

Employment represents the number of full and part-time jobs supported by the project. The employment multiplier measures the total change in the number of jobs supported in the local economy for each additional $1.0 million of output delivered to final demand.

In addition to the economic impact analysis, fiscal benefits or tax revenue impacts that may potentially result from the on-going operations of the proposed hotel are also estimated. The governmental entities considered in this fiscal analysis are Clackamas, Multnomah and Washington Counties, as well as the State of Oregon. Potential revenues generated from hotel/motel occupancy tax, motor vehicle rental tax, business income tax and personal income tax are calculated. All amounts depicted in this report are presented in constant 2005 dollars unless otherwise noted.

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Summary of Significant Assumptions

These hypothetical estimates are primarily based on information from various secondary sources including, but not limited to, historical OCC operating data provided by management, delegate spending data from the 2004 International Association of Convention and Visitors Bureaus (IACVB) ExPact Survey, per diem spending data from the 2005 Corporate Travel Index, multipliers from IMPLAN and information in the four hotel developer RFP responses received by the PDC, rather than on primary market research.

This analysis assumes that the proposed new headquarters hotel under either scenario will be built adjacent to the OCC and that no other full-service hotel is built in the Lloyd Center district. While some new full-service hotel developments have recently occurred downtown, such as the new Sage Renaissance Hotel, these will not likely have a significant impact on the operation of the proposed headquarters hotel property due to the fact that downtown hotels focus primarily on commercial business that prefers to stay downtown. For purposes of this analysis, KPMG assumes that the new headquarters hotel will focus a majority of its marketing efforts on OCC-related and in-house group business.

These estimates are also based on certain hypothetical assumptions pertaining to operations of the proposed new headquarters hotel including occupancy, average daily rate, mix of business, hotel operating expenses and project costs which are primarily derived from the hotel developer proposals currently under consideration. For the benefits associated with construction of the hotel, it is estimated that 70% of total project costs are spent in the Tri-County region.

This analysis is subject to change depending on further refinements regarding operating strategies for the proposed new headquarters hotel as well as more detailed information on the project including projected changes in supply and demand for hotels, lost business reports from POVA and other related information.

Hypothetical Estimate of the Total Economic Benefits from the On-Going Operations of the Proposed Headquarters Hotel

The following table presents the hypothetical, order-of-magnitude estimate of economic impact to the Tri-County region from the proposed hotel's operations under two scenarios. These impacts would be annually recurring and are estimated to range from approximately $83.8 million to $111.7 million in total spending. In addition, based on the assumptions previously noted, approximately 1,250 to 1,600 jobs could be created in the Tri-County region, generating approximately $36.0 million to $49.0 million annually in total earnings.

Estimated Benefits from Operations of a New Headquarters Hotel to the Tri-County Region (annually recurring impact)

	500 Rooms		600 Rooms	
Total Economic Benefits:	**Low**	**High**	**Low**	**High**
Direct Spending	$48,829,000	$56,711,000	$52,369,000	$65,125,000
Indirect/Induced Spending	$34,994,000	$40,545,000	$37,502,000	$46,603,000
Total Direct and Indirect/Induced Spending	$83,823,000	$97,256,000	$89,871,000	$111,728,000
Total Direct and Indirect/Induced Employment (# of FTE jobs)	1,250	1,400	1,300	1,600
Total Direct and Indirect/Induced Earnings	$36,030,000	$42,560,000	$39,033,000	$48,988,000

Note: FTE denotes full-time equivalents.

The pages that follow discuss each component (i.e. direct and indirect/induced spending, total employment and total earnings) in more detail.

Direct Spending

The first step in calculating economic impact is estimating the direct spending. The benefits that may be generated at the local level result from the impact of direct spending both by hotel guests and activities that support operations of the hotel. Direct spending impacts from operations are annually recurring in nature. The primary types of spending estimated in this analysis include:

- OCC-related hotel guest spending;
- Non-OCC-related hotel guest spending; and
- Budgetary spending by the hotel.

OCC-Related Hotel Guest Spending - Per capita OCC-related guest spending amounts are estimated based on the Convention Expenditure and Impact Study conducted by the International Association of Convention and Visitors Bureaus (IACVB), which reflects the spending patterns of thousands of convention and meeting delegates from a broad base of meeting types.

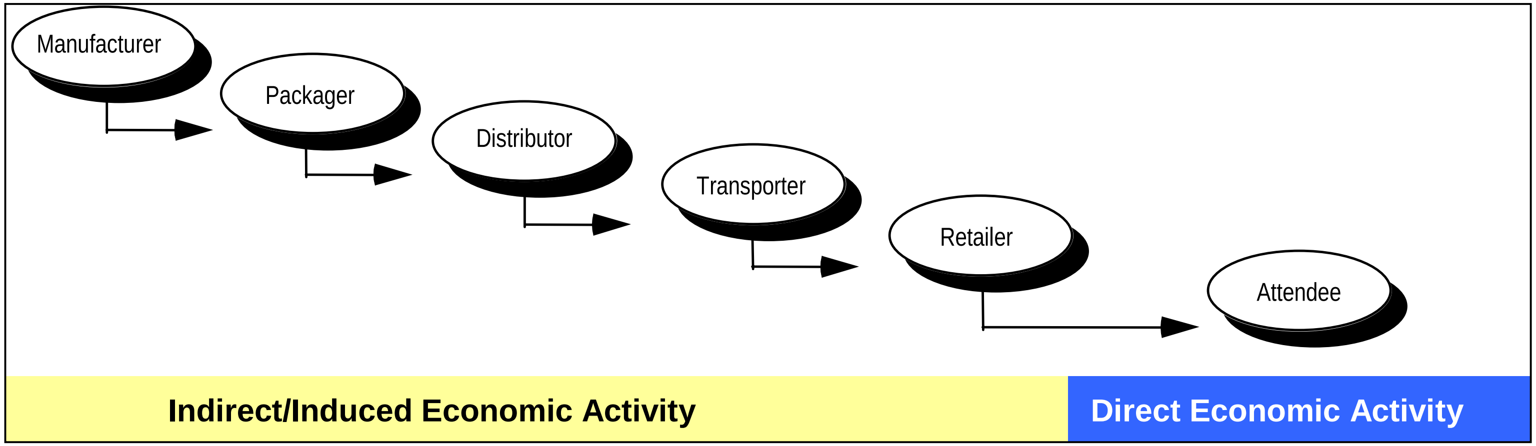
Non-OCC-Related Hotel Guest Spending - Per capita non-OCC-related guest spending amounts are estimated based on the 2005 Corporate Travel Index.

Budgetary Spending by the Hotel - Budgetary spending refers to the “expense side” generated by the hotel. Regardless of the source or magnitude of the revenues that the property produces, this analysis focuses on the operating expenditures occurring in the Tri-County economies. Based on various sources including the four hotel developer proposals, the proposed hotel’s operations could range from $5.7 million to $10.4 million. These figures are subject to vary depending on several factors including, but not limited to, the hotel’s size, operator, marketing focus/niche and the actual development deal negotiated with the PDC.

As a final step, each of the spending amounts described previously is assigned to a logical industry sector to be used as inputs into the regional economic multiplier model.

Indirect/Induced Spending

The economic activity that may be generated through the on-going operations of the proposed hotel affects more than just the property. In preparation for new spending in the economy, several other economic sectors are impacted and jobs are created. It is a common misconception to assume that the indirect/induced spending occurs subsequent to the purchase of the good as an "after effect." To further illustrate this point, consider that raw materials are purchased, labor is hired, and goods are produced, transported and marketed to retailers before the attendee spending takes place. To yield direct spending, several intermediary levels of spending must occur first.



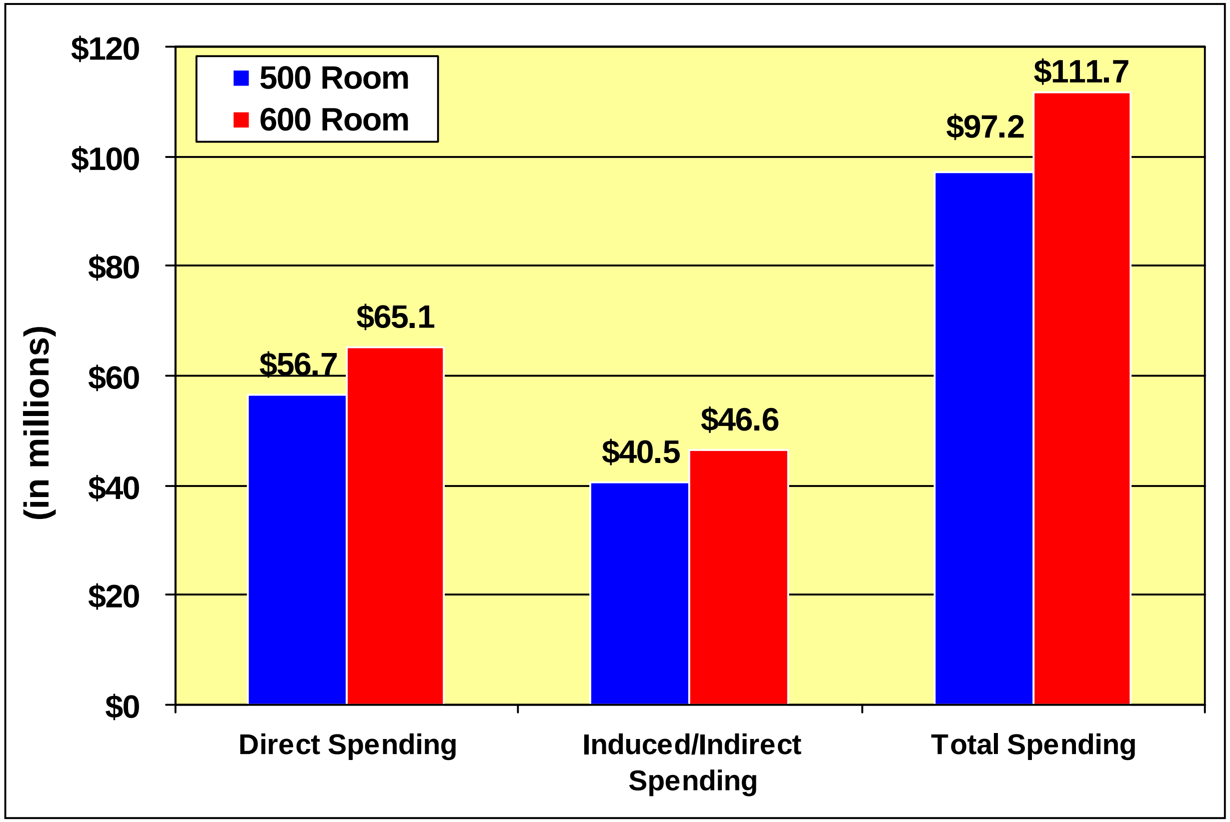
In an effort to quantify the inputs needed to produce the direct output, economists have developed multiplier models. This “multiplier” effect is estimated in this analysis using a regional economic forecasting model provided by the Minnesota IMPLAN Group, Inc., a private economic modeling company. The format and data is based on models developed and maintained by the U.S. Department of Commerce, Bureau of Economic Analysis (BEA). The models analyze economic data on a regional basis by individual industry categories. One of the major advantages of this type of model is that it is sensitive to both location and type of spending and has the ability to provide indirect/induced spending, employment and earnings information by industry category. The direct spending amounts estimated to be generated by operations of the proposed hotel are applied to the multipliers in order to calculate estimates for total spending, total earnings, and total employment (jobs).

Spending in the Tri-County Metropolitan Region

Outputs from the model indicate that total (direct and indirect/induced) spending in the Tri-County Metropolitan Region from annual facility operations may not differ significantly for a 500-room property versus a 600-room hotel. It is estimated that a 600-room hotel may generate approximately 15% greater spending in the Tri-County region, which is illustrated in the graph below.

Based on the 2003 SAG report, a 600-room property would allow the OCC to penetrate an additional 5% of the market demand over a 500-room hotel. An additional 100 rooms, in practice, may only translate to an additional 70 committable rooms for OCC-related business. Thus, this relatively small change in inventory generates a relatively minor difference in impact.

Comparison of Spending for the Two Development Scenarios



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Summary of Total Economic Benefits from Construction of the Proposed Headquarters Hotel

In addition to the annually recurring benefits from the proposed hotel's operations, a one-time impact from construction of the property would also be generated. The following table outlines the potential impacts to the Tri-County region in terms of spending, employment and earnings from construction.

Estimated Benefits from Construction of a New Headquarters Hotel to the Tri-County Region (one-time)				
	500 Rooms		600 Rooms	
Total Economic Benefits:	**Low**	**High**	**Low**	**High**
Direct Spending	$108,150,000	$115,360,000	$129,780,000	$136,990,000
Indirect/Induced Spending	$82,614,000	$88,122,000	$99,137,000	$104,645,000
Total Direct and Indirect/Induced Spending	$190,764,000	$203,482,000	$228,917,000	$241,635,000
Total Direct and Indirect/Induced Employment (# of FTE jobs)	2,000	2,100	2,400	2,500
Total Direct and Indirect/Induced Earnings	$83,366,000	$88,924,000	$100,039,000	$105,597,000

Note: FTE denotes full-time equivalents.

As shown, construction of a 500- or 600-room hotel could potentially generate between $190.8 million and $241.6 million in total spending based on the assumptions outlined previously. In addition, approximately 2,000 to 2,500 jobs may be created in the Tri-County region, generating approximately $83.4 million to $105.6 million in total earnings.

Fiscal Impacts Analysis

The direct and indirect/induced spending generated by the operations of the proposed headquarters hotel create tax revenues for the Tri-County Metropolitan Region. Experience in other markets indicates that while a significant portion of the direct spending would occur near the hotel, additional spending occurs in other areas within the Tri-County Metropolitan Region, particularly spending such as business services and the everyday living expenses of residents.

Each major tax source impacted by hotel operations was reviewed in order to ascertain the appropriate taxable amounts to apply the respective tax rate. Direct and indirect/induced spending estimates discussed previously were used to calculate tax benefits associated with hotel operations.

Fiscal benefits were estimated for the following major taxes in the State of Oregon, Clackamas County, Multnomah County, and Washington County:

<u>State of Oregon</u>

- Personal Income Tax
- Business Income Tax
- Transient Lodging (Hotel/Motel) Tax

<u>Clackamas County</u>

- Hotel/Motel Occupancy Tax

<u>Multnomah County</u>

- Motor Vehicle Rental Tax
- Transient Lodging (Hotel/Motel) Tax
- Business Income Tax
- Personal Income Tax

<u>Washington County</u>

- Hotel/Motel Occupancy Tax

These taxes are summarized in the table on the next page. Other County-level taxes, such as property taxes and gasoline taxes were also considered but, upon investigation, these taxes were deemed not to be particularly relevant to the project and have therefore been excluded from the fiscal analysis. In addition, it should be noted that there is no general sales tax levied in the State of Oregon.

Summary of Total Fiscal Impacts from a New Headquarters Hotel

Estimated Annual Tax Revenue Impact from a New Headquarters Hotel				
	500 Rooms		600 Rooms	
	Low	High	Low	High
State of Oregon				
Personal Income Tax	$1,049,000	$1,239,000	$1,137,000	$1,427,000
Business Income Tax	$97,000	$112,000	$104,000	$129,000
Transient Lodging Tax	$171,000	$184,000	$175,000	$208,000
Total	$1,317,000	$1,535,000	$1,416,000	$1,764,000
Clackamas County				
Hotel Occupancy Tax	$123,000	$133,000	$126,000	$149,000
Total	$123,000	$133,000	$126,000	$149,000
Multnomah County				
Motor Vehicle Rental Tax	$275,000	$300,000	$300,000	$353,000
Transient Lodging Tax	$1,574,000	$1,696,000	$1,610,000	$1,909,000
Business Income Tax	$16,000	$19,000	$17,000	$22,000
Personal Income Tax	$178,000	$210,000	$192,000	$241,000
Total	$2,043,000	$2,225,000	$2,119,000	$2,525,000
Washington County				
Hotel Occupancy Tax	$144,000	$155,000	$147,000	$174,000
Total	$144,000	$155,000	$147,000	$174,000
Total Tax Benefits	**$3,627,000**	**$4,048,000**	**$3,808,000**	**$4,612,000**

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Summary of Assumptions Used in the Fiscal Impacts Analysis

The pages that follow outline the assumptions utilized in this analysis to calculate the estimated fiscal benefits generated by the State of Oregon and the three individual counties in the Tri-County Metropolitan Region.

State of Oregon

Personal Income Tax – The State of Oregon imposes a personal income tax, which is calculated on a graduated scale. Personal income tax is the State of Oregon's largest source of revenue. For purposes of this analysis, based on information from the State of Oregon Department of Revenue, the Statewide average effective tax rate of 5.6% is used. This effective tax rate is applied to 52% of total earnings, which is calculated by dividing the taxable income by the personal income in order to determine the percentage of total income that is taxable.

Business Income Tax – The State of Oregon also imposes a business income tax of 6.6% on net income. The corporate income tax is the second largest source of revenue for the State. All corporations doing or authorized to do business in Oregon and corporations not doing or authorized to do business, but having income from an Oregon source, pay the tax.

The business income tax is actually two separate taxes: corporation excise tax and corporation income tax. The minimum excise tax is $10. Ninety-nine percent of all corporations pay the excise tax and just one percent pays the income tax. Since these two taxes are nearly identical and the common tax base is net income, both taxes are simply referred to as corporate income tax.

For purposes of this analysis and based on information from the State of Oregon Department of Revenue, the 6.6% tax rate is applied to 3% of direct spending in order to reflect net income.

Summary of Assumptions Used in the Fiscal Impacts Analysis (cont'd)

Transient Lodging (Hotel/Motel) Tax – The 2003 Oregon Legislature enacted a 1% State lodging tax effective in 2004. This tax continuously appropriates money to the Oregon Tourism Commission, with generated revenues used to promote tourism programs in Oregon. Any person requiring an overnight stay in a hotel/motel is required to pay this tax. Thus, the effective tax rate is applied to 100% of hotel spending.

Clackamas County

Hotel/Motel Occupancy Tax – Clackamas County imposes a hotel/motel occupancy tax of 6% on revenue for all hotel room night stays within the County. Revenues generated by this source are allocated as follows: 2% is used for administration purposes, a flat fee is allocated to help fund the County Fair and the remaining goes to the Tourism Development Council Fund which is used to promote tourism. The flat fee allocated to the County was originally set at $250,000 per year and is adjusted by CPI annually. In 2004, the flat fee was budgeted at $335,000. In addition to the 6%, several cities in the County also impose additional hotel/motel taxes, which range from 3% to 5%. For purposes of this analysis, a tax rate of 9% has been applied to 100% of direct hotel spending. Although all tax revenue is generated within the County, the County retains 6 points of the estimated 9% tax and various cities within the County receive the remaining amount.

Multnomah County

Motor Vehicle Rental Tax – Up until April 2000, the County of Multnomah levied a motor vehicle rental tax of 10% on the rental of all vehicles from a commercial establishment in Multnomah County if the rental is for a period of 30 days or less. The tax is remitted to the County on a quarterly basis and is allocated as General Fund Revenue. In April 2000, an additional 2.5% tax was approved for Convention Center, Civic Stadium and other regional uses. For purposes of this analysis, a tax rate of 12.5% is applied to 50% of direct local transportation in Multnomah County.

Summary of Assumptions Used in the Fiscal Impacts Analysis (cont'd)

Transient Lodging (Hotel/Motel) Tax – This tax source was originally established in 1972. The tax rate of 5% of the room rent collected by hotels/motels in unincorporated Multnomah County is collected by the hotel/motel operator and remitted to the County on a quarterly basis. An additional 1% tax in unincorporated Multnomah County was established in January 1979 to be used exclusively for contracting with private organizations for the promotion, solicitation, procurement and service of convention business and tourism in the County. The Board of County Commissioners adopted a supplemental countywide 3% tax (incorporated and unincorporated) in February 1986.

Hotel/motel operators are allowed to keep 0.15% (5% of the 3%) tax for administration costs and the remaining 2.85% is dedicated to the OCC. The City of Portland, Troutdale, Wood Village and Fairview collect taxes from hotel/motel operators located in their jurisdiction and remit the tax to the County. The County collects the taxes from operators in the unincorporated area of the County. All funds collected are transferred to Metro, who is responsible for the operations of the Convention Center. An additional 2.5% tax was approved for Convention Center, Civic Stadium and other regional uses on April 1, 2000. For purposes of this analysis, a tax rate of 11.5% is utilized. This tax rate is applied to 100% of direct hotel spending in Multnomah County.

Business Income Tax – The County Business Income Tax was established in 1976 to replace the Business License. The tax is imposed on each person or entity doing business within Multnomah County on the net income from that business within the County. The taxes are administered by the City of Portland. Through an agreement, Multnomah County distributes a portion of the tax to the cities in East Multnomah County. For tax years beginning January 1, 1994, the business income tax rate is 1.45%. For purposes of this analysis, a tax rate of 1.45% was applied to 3% of total direct spending.

Summary of Assumptions Used in the Fiscal Impacts Analysis (cont'd)

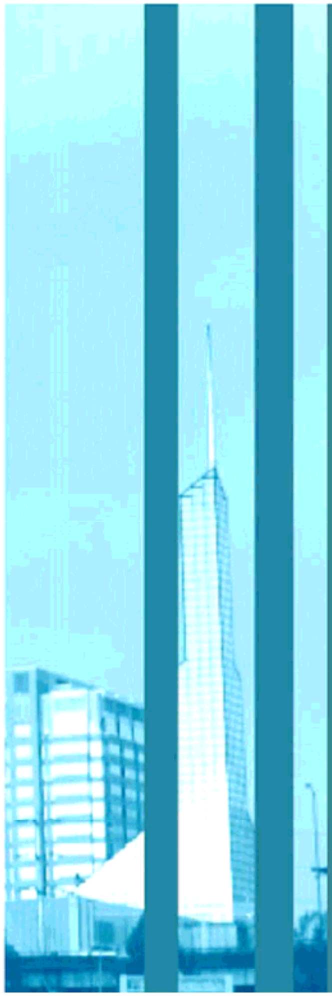
Personal Income Tax – In addition to the State's personal income tax, the County levies an additional 1.25% on Oregon's taxable personal income. This tax became effective January 1, 2003. For purposes of this analysis, the 1.25% tax rate is applied to 52% of total earnings in Multnomah County, similar to the methodology used to calculate the percentage of taxable income for the personal income tax imposed by the State of Oregon.

Washington County

Hotel/Motel Tax – Washington County levies a 7% tax on hotels and motels in the County. Of that amount, 1% is dedicated to the Fair Board and 1% is dedicated to the Washington County Visitors Association. Of the remaining 5%, cities are allocated one-half of that portion of the tax raised within their jurisdiction, and the County retains the other half. The County exclusively retains all of the 5% revenue collected from motels outside incorporated city limits. The County administers this program on behalf of the cities within Washington County. In fiscal year 2004, Washington County collected approximately $3,968,400 in hotel/motel taxes. For purposes of this analysis, the 7% tax rate is applied to 100% direct hotel spending in Washington County.

Resolution No. 07-3772
Attachment 6

Portland Development Commission



Portland, OR

May 2006

I. Engagement Goals

- Evaluate the market potential for a headquarters hotel to be located across the street from the Oregon Convention Center
- Recommend an appropriate facilities program for such a hotel
- Estimate attainable occupancy and average daily rate (ADR) for the subject hotel over its first 10 years of operation
- Estimate hotel financial operating performance to the point of cash flow available for debt service and returns to equity for the first 10 years of operation
- Estimate the impact of the subject hotel on the occupancy and ADR of competitive Portland hotels

II. Engagement Scope

- Review of various economic and demographic data – per the City of Portland, Economy.com and other sources
- Review of the development proposal submitted by Ashforth Pacific and Garfield Traub Development
- Review of various prior studies regarding the subject lodging market
- Meetings with:
  - Portland Oregon Visitors Association
  - Portland Development Commission
  - Oregon Convention Center
  - Garfield Traub
  - Ashforth Pacific
- Teleconferences with Starwood Hotels & Resorts
- Teleconferences with selected office/retail contacts
- Tour of the Downtown and Lloyd District areas
- Site inspection and evaluation

- Tour of the Oregon Convention Center
- Review of selected real estate and transportation materials related to Portland
- Interviews with various local real estate brokers and developers
- Collection of relevant hotel market data – per Smith Travel Research and various other sources
- Interviews of representatives of selected area hotels regarding their property and market performance parameters
- Evaluation of the hotel facilities program as proposed and recommendations of appropriate facilities
- Projections of future competitive market supply & demand
- Estimates of occupancy & ADR for the proposed hotel
- Estimates of potential impact of the proposed hotel on competitive supply

Note: Research and analysis completed March 2006.

III. Area Overview

- The rank of the Portland economy among 387 MSA's per Economy.com:
  - Employment growth — 2nd quintile (2004 – 2009)
  - Vitality — 1st quintile
  - Cost of doing business — 86% (US= 100%)
  - Cost of living — 99% (US = 100%)
- The expected annual growth of key indicators over the period 2004 – 2009 per Economy.com:
  - Gross metro product — 3.4%
  - Total employment — 1.8%
  - Personal income — 4.9%
  - Population — 1.5%
- The Portland economy is growing, though the pace of expansion is expected to slow somewhat as the area's labor market reaches full employment. Improved terms of trade and business investment will drive near-term growth. Over the extended horizon, Portland is expected to sustain above average rates of growth due to a continued influx of population.

- Key local employers include Intel Corporation, Providence Health Systems, Oregon Health Sciences University, The Kroger Company, Nike, Adidas International, and local and county government.
- Total passenger activity at Portland International Airport grew at 4.3% annually from 2002 – 2005, and is expected to exceed 14 million total passengers in 2006. As of 2004 it was the 33rd largest airport in the US.
- According to The CoStar Office Report – Year-End 2005, the CBD market contains approximately 32% of Portland's 64 million sf of total office space. The CBD achieved the 5th lowest vacancy rate and the 3rd highest quoted rental rate among nine area market sectors.
- The CBD market contains 271 buildings with approximately 20.4 million sf of rentable space. It achieved a 12.8% vacancy rate and a $18.38 per sf quoted rental rate for year-end 2005.
- The Lloyd Center District contains approximately 4% of Portland's total office space. This does not include public-owned single-tenant buildings. It achieved the 3rd lowest vacancy rate and 5th highest quoted rental rate (roundly $1.80 below the CBD).

- The Lloyd Center District contains 83 buildings with approximately 2.6 million sf of rentable space. It achieved a 10.1% vacancy rate and $16.57 per sf quoted rental rate at year-end 2005.
- Portland is the center for Oregon business, conventions, retail, medical services, arts and entertainment.

IV. Site Evaluation

- The Portland Center City hotel market consists of the CBD sector and the Lloyd Center District sector, separated by the Willamette River.
- The subject site is located in the Lloyd Center District, the geographic center of Portland, approximately 2 miles northeast of the core of the CBD (Pioneer Square).
- The subject site for the proposed hotel is located across from the OCC - bordered by NE Martin Luther King Jr. Boulevard, NE Holladay Street, NE Grand Avenue and NE Oregon Street.
- The site is slightly elevated and slopes downward north to south and east to west.
- The site is currently improved with the 97-room Inn at the Convention Center, which will be demolished to construct the subject property.
- Auto and light rail access to Portland International Airport is direct and of short duration.
- Auto access to/from the site to the CBD is via a series of bridges across the Willamette River or Interstate Highways - both of which can be problematic during peak traffic times.
- Light rail access to/from the site is available via Holladay Street in front of the OCC. Light rail availability can be problematic during peak traffic times.

- The building's height should provide good visibility for the hotel. The hotel will also feature excellent views of Downtown Portland and surrounding areas.
- The site is very well located to service demand from and provide access to the OCC, Rose Garden Arena and Memorial Coliseum.
- The site is not as well located as CBD hotels to service demand from Individual Business Travelers (IBT) and Leisure segments generated in the CBD.
- A significant portion of nearby development consists of under-utilized land with rather dated commercial, retail and restaurant (fast food) uses.
- The proposed hotel is expected to act as a catalyst to spur redevelopment and/or new urban development in the immediate area.
- On balance, the subject site is suitable for the intended use.

V. Historic Hotel Market Analysis

- The Portland Central City lodging market contains approximately 5,700 hotel rooms in 31 hotels located in the CBD and the Lloyd District.
- In 2005, these properties achieved a composite occupancy of 73% at a $108 ADR.
- The relevant competition consists of 8 primary competitive properties containing 2,980 rooms and 13 secondary competitive properties containing 2,022 rooms. Together the primary and secondary set total 5,002 rooms.
- Of this total, 12 properties containing 3,672 rooms (73%) are chain-affiliated hotels and 9 properties containing 1,330 rooms (27%) are independent/boutique hotels.
- 16 properties containing 3,743 rooms (75%) are located in the CBD and five properties containing 1,259 rooms (25%) are located in the Lloyd District.

Competitive Set

Primary Set (Rooms)

Courtyard by Marriott	202
Westin	205
Marriott City Center	249
Embassy Suites	276
The Benson Hotel	287
DoubleTree Lloyd Center	476
Marriott Waterfront	503
Hilton	782
	2,980

Secondary Set (Rooms)

Independent / Boutique Hotels	
Riverplace Hotel	84
Avalon Hotel	99
Governor Hotel	100
Hotel Vintage Plaza	107
Hotel Lucia	128
The Heathman	150
The Paramount Hotel	154
Fifth Avenue Suites	221
	1,043
Chain Affiliated Hotels	
Four Points Downtown	140
Residence Inn Lloyd Center	168
Red Lion	174
Holiday Inn	239
Residence Inn Downtown	258
	979
	2,022

- The degree of competition offered by the identified hotels varies by property, market segment, season and day of week.
- The Primary Set varies in type and size of property, but all are upscale in quality and all but one are national brands, with relatively larger room counts and more extensive meeting facilities. Most of these properties rely on more group/convention demand than properties in the Secondary Set.
- The Secondary Set represents a diverse group of indirect competitors. The independent/boutique properties in this group are smaller in room count and meeting facilities and are typically oriented toward the transient customer (IBT & Leisure) at higher price points than those of the Primary Set.

  The chain-affiliated properties in the Secondary Set consist of both group/convention and extended-stay oriented hotels with price points significantly below those of the Primary Set.
- Other central city supply not included in the Primary or Secondary Sets include:

– Motel 6	- Travelodge Hotel
– Thriftlodge	- Rodeway Inn
– Days Inn	- La Quinta Convention Center
– Shilo Inn Rose Garden	- La Quinta Inn & Suites
– Econo Lodge	- Holiday Inn Express

Collectively these 10 properties total 730 rooms and achieved a composite occupancy of 59% at a $65 ADR in 2005. The Inn at the Convention Center is not included in other supply as it will be demolished to develop the subject hotel.

Historic Competitive Market Performance
Primary Competitive Set

Year	Available Rooms*	Market Occupancy*	Occupied Rooms*	Market ADR*	Market RevPAR*
2001	968,300	67%	647,800	$112	$75
2002	1,028,200	66%	678,600	$108	$71
2003	1,087,700	65%	705,900	$108	$70
2004	1,087,700	69%	747,200	$107	$74
2005	1,087,700	74%	803,800	$113	$84

* Rounded

Source: Smith Travel Research

Historic Competitive Market Performance
Secondary Competitive Set

Year	Available Rooms*	Market Occupancy*	Occupied Rooms*	Market ADR*	Market RevPAR*
2001	684,000	60%	410,500	$110	$66
2002	738,000	62%	460,600	$103	$64
2003	738,000	64%	475,300	$102	$66
2004	738,000	70%	515,100	$104	$73
2005	738,000	75%	555,800	$113	$85

* Rounded

Source: Smith Travel Research

Historic Competitive Market Performance
Total Competitive Set

Year	Available Rooms*	Market Occupancy*	Occupied Rooms*	Market ADR*	Market RevPAR*
2001	1,652,400	64%	1,058,300	$111	$71
2002	1,766,200	64%	1,139,200	$106	$68
2003	1,825,700	65%	1,181,200	$105	$68
2004	1,825,700	69%	1,262,300	$106	$73
2005	1,825,700	74%	1,359,600	$113	$84

* Rounded

Source: Smith Travel Research

- Over the period 2001-2005:
  - Though stable since 2003, available rooms grew at 2.5% per year (primary @ 2.9% / secondary @ 1.9%).
  - Occupied rooms grew at 6.5% per year (primary @ 5.5% / secondary @ 7.9%).
  - ADR grew at 0.4% per year. Both primary and secondary markets experienced significant rate growth in 2005 ($6 and $9, respectively).
  - RevPAR increased at 4.3% per year (primary @ 2.9% / secondary @ 6.5%). Almost 85% of the RevPAR growth occurred in 2005.
  - Average annual occupancy was 67% (primary 68% / secondary 66%).
- Competitive market segmentation in 2005:

Individual Business Travelers	45% (Primary 42% / Secondary 50%)
Group / Convention	30% (Primary 41% / Secondary 15%)
Leisure	25% (Primary 17% / Secondary 35%)

- Seasonality of demand (2005):
  - The highest occupancy months were June – October (85%)
  - The lowest occupancy months were December and January (55%)
- Daily variation in demand (2005):
  - Peak occupancy days were Tuesday – Thursday(81%) and Saturday (77%)
  - The lowest occupancy day was Sunday (54%)

Historic OCC Convention Demand

Year	Number of Conventions	Tracked Roomnights
2001	31	106,249
2002	29	113,604
2003	40	139,527
2004	39	104,097
2005	36	118,076
Average	35	116,311

Notes (1) Source: POVA (2) Includes conventions and trade shows that generate significant out-of-town visitation (3) Peak of 2003 represents opening of expanded OCC (4) Tracked OCC roomnights represent approximately 50% of total group business in which POVA is involved

Factors Impacting Future Growth OCC Convention Business

- Growing convention market competition – new hotels / new and expanded convention centers / additional attractions
- Committable convention room block – small block size / large number of hotels / distant hotel locations / limited by high occupancy patterns during prime periods
- Transportation to Portland – cost / logistics / time
- Logistics v. Downtown – hotels / f&b / entertainment
- OCC pricing / rental policies
- Surrounding neighborhood development – quality/quantity
- Amount of available POVA marketing / incentive funds
- Relatively high OCC utilization during prime periods
- Already high penetration of state and regional markets

VI. Facility Recommendations

- 600 rooms
- 41,000 sf function space:
  - Ballroom of 20,000 sf, divisible into 5-6 rooms
  - Jr. Ballroom of 8,000 sf, divisible into 4-5 rooms
  - Two meeting rooms of 3,000 sf, divisible into 2 rooms
  - Two meeting rooms of 2,000 sf, divisible into 2 rooms
  - Four breakout rooms of 500 sf
  - Two boardrooms
  - Extensive pre-function space with windows where possible
- Three-meal restaurant seating 175 (outdoor patio seating / private dining room)
- Upscale sports bar seating 150 (leased space)
- Lobby bar seating 60 - 75
- Coffee express seating 25
- 24-hour roomservice
- Fitness center
- Indoor pool and whirlpool
- Business center
- Gift shop
- 10,000 sf of leased retail / food & beverage space
- Parking to include 350-400 spaces – provided at the hotel / OCC / local parking lots

Why 600 Rooms?

- Consistent with PKF experience and feedback from meeting planners as to what meets the definition of a true HQ Hotel
- Provides the 500-room minimum HQ Hotel room block requirement sought by most targeted meeting planners
- Allows for a 1,000-room block at three hotels within four blocks of the OCC
- Allows POVA and Westin to more effectively market to larger groups (1,500 – 2,000 peak night rooms v. 1,000 – 1,500 peak night rooms)
- Allows Westin to market the hotel within its Starwood Convention Collection
- Even at 600-rooms, would be among the smallest headquarters hotels v. competitive convention markets
- Consistent with sizing recommended by SAG, POVA, OCC, GTA and Westin

Why 41,000 sf of Function Space?

- Desirable complement for a 600 room HQ Hotel (At 68 sf per room, parameter is actually lower than the 81 sf per room offered by the 5 largest competitive Portland hotels)
- Needed to support in-house group business
- Would support occasional shortages of OCC breakout rooms
- Avoids challenges that would accompany partial dependence on OCC space:
  - Group logistics (distance / catering / coordination / control)
  - Group appeal
  - Space availability
  - Less freedom for OCC to book spaces for high profit non-convention uses
  - Administration and control of complicated booking agreement
- Maximizes headquarters hotel revenue and profit potential (rooms, food & beverage, other)
- Consistent with sizing recommended by SAG, GTA and Westin

VII. Estimated Future Competitive Market

- Key Assumptions:
  - No major terrorism events/wars impacting travel to Portland
  - No major economic recessions
  - Continued general economic improvement/growth of Portland
  - Development and absorption of new commercial office space at a strong pace in the CBD and Lloyd Center District
  - Continued growth of POVA marketing efforts and expenditures
  - Total supply additions of 1,220 rooms (24%). Primary supply additions of a 332-room Luxury Collection Hotel opening 9/08 and the subject 600-room hotel opening 1/10. Secondary supply additions of a 168-room boutique hotel at 12th and Washington opening 8/08 and an as yet unnamed 120-room boutique hotel opening 1/12
  - Significant new residential and retail development in the Lloyd Center District

Estimated Future Competitive Supply and Demand 2005 - 2013

Year	Available Rooms*	Occupied Rooms*	Market Occupancy*
2005	1,825,700	1,359,600	74%
2006	1,825,700	1,340,100	73%
2007	1,825,700	1,365,000	75%
2008	1,891,900	1,398,000	74%
2009	2,008,200	1,414,700	70%
2010	2,227,200	1,497,800	67%
2011	2,227,200	1,537,700	69%
2012	2,271,000	1,573,700	69%
2013	2,271,000	1,599,500	70%

* Rounded

Future Supply and Demand Observations

- Total roomnight demand is expected to be down in 2006, owing to a fall-off in OCC demand.
- OCC demand is expected to return to the levels of 2005 by 2008.
- Certain constraints on demand growth in 2006 through mid-2008 owing to flat supply.
- Portland competitive market demand is estimated to grow at 2.1% per year over the 2005 – 2013 period.
- The average annual increase in occupied roomnights is 14,000 over the 2005 – 2009 period and 46,000 over the 2009 – 2013 period.
- Approximately 55% of demand growth is expected to be in the Group/Convention segment, with 104,400 roomnights owing directly to the addition of the subject HQ Hotel.

Future Supply and Demand Observations

- Supply is estimated to grow at 2.8% per year over the 2005 – 2013 period.
- The average Portland competitive market occupancy is expected to be approximately 71% over the 2006 – 2013 period (73% over the 2005 – 2009 period / 69% over the 2010 – 2013 period).
- The Portland competitive market ADR is expected to grow at rates averaging 3% – 4% per year over the 2005 – 2013 period.

VIII. Estimated Operating Performance Proposed Westin Hotel

- Competitive positioning:
  - Strong brand
  - Designation as OCC Headquarters Hotel
  - Extensive facilities
  - New / high quality facilities
  - Experienced management
  - Effective marketing (POVA, Property, Westin Convention Sales)
  - Competitive pricing, consistent with product and market
- Relative advantage in Group/Convention segment due to location v. OCC, facilities and designation as headquarters hotel
- Relative disadvantage in IBT and Leisure segments v. CBD hotels due to location, size and market mix
- Property market segmentation expected to be as follows:

Group / Convention	75%
Individual Business Travelers	15%
Leisure	10%

Estimated Operating Parameters
Proposed Westin Hotel

Year	Occupancy	ADR*	RevPAR
2010	56%	$141	$79
2011	62%	$146	$91
2012	66%	$150	$99
2013	68%	$155	$105
2014	68%	$159	$108

* Assumes 4% average annual inflation from 2005 – 2009 and 3% thereafter

IX. Headquarters Hotel Impact

- The impetus for 61,200 roomnights of new OCC convention demand and 43,200 roomnights of new in-house group demand.
- Its development prevents an erosion of current OCC convention volume beginning as early as 2009/2010 – a loss that otherwise could total an estimated 25,000 roomnights annually by 2013.
- The average annual occupancy of competitive hotels is approximately the same with the subject headquarters hotel v. without it (varying from -1.1 point in 2010 to +0.8 point in 2013).
- Competitive hotel ADR is likely to be equal to or greater than that achieved without it.
- Enhances Portland's image, exposure and traveler volume – potentially leading to enhanced new business relocation to the area.
- POVA and State marketing funds are increased.
- Provides a catalyst for new area real estate development.
- Provides significant economic impact re. jobs, taxes and income.

X. Other Supportive Measures

- Encourage renovations of Lloyd District hotels through various incentives
- Increase POVA marketing funds for direct selling and image enhancement
- Increase funds to help underwrite OCC charges and local transportation
- Provide additional incentives to spur Lloyd District commercial development

XI. Financial Projections – Proposed Westin Hotel (000's)

	2010	2011	2012	2013	2014
Revenues					
Rooms	$17,292	$19,824	$21,681	$23,083	$23,678
Food & Beverage	10,503	11,816	12,856	13,595	14,002
Telecommunications	586	668	732	777	801
Parking	1,168	1,317	1,434	1,517	1,562
Other Income	622	700	765	818	842
Total Revenues	**30,171**	**34,325**	**37,468**	**39,790**	**40,885**
Total Departmental Expenses	**15,188**	**16,461**	**17,517**	**18,331**	**18,881**
Departmental Profit	**14,983**	**17,864**	**19,951**	**21,459**	**22,004**
Undistributed Expenses					
Administrative & General	2,332	2,457	2,567	2,664	2,742
Marketing	2,429	2,609	2,757	2,879	2,962
Property Maintenance	1,796	1,890	1,988	2,091	2,197
Utility Costs	1,290	1,328	1,368	1,409	1,451
Total	**7,847**	**8,284**	**8,680**	**9,043**	**9,352**
Gross Operating Profit	**$7,136**	**$9,580**	**$11,271**	**$12,416**	**$12,652**

Financial Projections – Proposed Westin Hotel (000's)

	2010	2011	2012	2013	2014
Base Management Fee	**905**	**1,030**	**1,124**	**1,194**	**1,227**
Fixed Expenses					
Property Taxes	711	968	1,119	1,253	1,290
Insurance	287	295	304	313	323
Total Fixed Expenses	**998**	**1,263**	**1,423**	**1,566**	**1,613**
Gross Operating Income	5,233	7,287	8,724	9,656	9,812
FF&E Reserve	603	1,030	1,499	1,592	1,635
Net Operating Income	**$4,630**	**$6,257**	**$7,225**	**$8,064**	**$8,177**

Financial Projections – Proposed Westin Hotel (000's)

	2015	2016	2017	2018	2019
Revenues					
Rooms	$24,423	$25,167	$25,912	$26,657	$27,550
Food & Beverage	14,422	14,855	15,301	15,760	16,233
Telecommunications	825	849	875	901	928
Parking	1,609	1,657	1,707	1,758	1,811
Other Income	867	893	920	948	976
Total Revenues	**42,146**	**43,421**	**44,715**	**46,024**	**47,498**
Total Departmental Expenses	**19,447**	**20,032**	**20,632**	**21,250**	**21,889**
Departmental Profit	**22,699**	**23,389**	**24,083**	**24,774**	**25,609**
Undistributed Expenses					
Administrative & General	2,825	2,910	2,997	3,087	3,181
Marketing	3,052	3,144	3,238	3,334	3,437
Property Maintenance	2,263	2,331	2,401	2,473	2,547
Utility Costs	1,495	1,540	1,586	1,634	1,683
Total	**9,635**	**9,925**	**10,222**	**10,528**	**10,848**
Gross Operating Profit	**$13,064**	**$13,464**	**$13,861**	**$14,246**	**$14,761**

Financial Projections – Proposed Westin Hotel (000's)

	2015	2016	2017	2018	2019
Base Management Fee	**1,264**	**1,303**	**1,341**	**1,381**	**1,425**
Fixed Expenses					
Property Taxes	1,329	1,369	1,410	1,452	1,496
Insurance	332	342	352	363	374
Total Fixed Expenses	**1,661**	**1,711**	**1,762**	**1,815**	**1,870**
Gross Operating Income	**10,139**	**10,450**	**10,758**	**11,050**	**11,486**
FF&E Reserve	**1,686**	**1,737**	**1,789**	**1,841**	**1,900**
Net Operating Income	**$8,453**	**$8,713**	**$8,969**	**$9,209**	**$9,566**

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June 16, 2006

TO: **Michael O'Connell**
FROM: **David Helton and Terry Moore**
SUBJECT: **ECONOMIC IMPACT OF HEADQUARTERS HOTEL IN PORTLAND**

The Portland Development Commission asked ECONorthwest to estimate the economic impacts associated with development of a 600-room Headquarters Hotel adjacent to the Oregon Convention Center in Portland.[1] The main assumptions and conclusions are:

- By 2013, the Headquarters Hotel will attract new events and retain events in Portland that will generate 129,000 Occupied Room Nights (ORNs) and 150,000 Delegate-Days per year.
- These new and retained events will generate expenditures of almost $50 million in the Portland region in 2013 (in 2004 dollars).
- These expenditures will generate a total economic impact of over $100 million in Output (business sales) and $40 million in Labor Income (in 2004 dollars), and the equivalent of almost 1,500 full-time jobs in the Portland region in 2013.
- The present value in 2006 of future benefits generated by the Headquarters Hotel under a pessimistic to optimistic range of assumptions is $850 million to $1.6 billion in Output (business sales), $340 million to $653 million in Labor Income, and the equivalent of 278 to 2,058 annual full-time jobs.

This memorandum has five sections:

- **Background** describes the purposes and scope of the analysis, and summarizes the theory, techniques, and data relevant to estimating the impacts of a new Headquarters Hotel on key measures of regional economic activity.
- **Visitation and Spending Generated and Retained by a Headquarters Hotel** estimates of the number of additional Occupied Room Nights, attendees, and spending generated by a Headquarters Hotel
- **Business Sales, Labor Income, and Jobs Generated by the Headquarters Hotel** presents our estimate of the total economic impact of spending generated by the Hotel.

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[1] The economic impact analysis in this memorandum is ECO's product for Phase III of its work on the proposed hotel. Phases I and II focused on a review of existing documents regarding the state of the national convention industry, performance of the OCC, and economic impact of the proposed Headquarters Hotel.

- **Fiscal Impacts of a Headquarters Hotel** estimates the tax revenue to State and local jurisdictions resulting from expenditures generated by the Hotel.

- **Qualitative Impacts of the Headquarters Hotel** describes other impacts of the Headquarters Hotel that are more difficult to quantify.

BACKGROUND

The Portland Development Commission has asked ECONorthwest to estimate the economic impacts associated with development of a 600-room Headquarters Hotel adjacent to the Oregon Convention Center in Portland. To estimate the total economic impact of the Hotel, we estimated the level of annual spending that can be attributed to the Hotel (expenditures that would not have occurred in the Portland economy but for the existence of the Hotel). We used a model of the regional economy to estimate the total impact of these expenditures as they circulate through the Portland economy. We estimate these impacts in terms of business sales, labor income (wages and benefits) and full-time jobs generated by expenditures attributable to the Hotel. We also estimate the fiscal impact (tax revenue) to the State and local jurisdictions resulting from expenditures attributable to the Hotel.

The focus of the analysis in this report is on the impact of operation of the Headquarters Hotel. Construction of the Headquarters Hotel, however, will also generate business sales, labor income, job, and tax revenue over three years. We also report an estimate of economic impacts generated by construction of the Headquarters Hotel in our impact analysis.

VISITATION AND SPENDING GENERATED AND RETAINED BY A HEADQUARTERS HOTEL

PKF Consulting prepared an estimate of the impact of a 600-room Headquarters Hotel on the number of events and visitors in Portland generated by and retained by the Hotel.[2] PKF estimates that by 2013 a 600-room hotel would:

- Attract an additional 17 conventions annually at the OCC. Each event would generate an average of 3,600 Occupied Room Nights (ORNs) (1,200 per day for three days)—a total of 61,200 new ORNs annually.
- Attract another 43,000 ORNs annually of in-house group business at the Headquarters Hotel that would not otherwise happen in Portland.
- Retain 6-8 events at the OCC that would otherwise leave Portland because of a lack of a Headquarters Hotel. These events average 1,000 to 1,400 ORNs per day with an average stay of 3 days, or about 25,000 ORNs annually.

Our assessment of the impacts estimated by PKF Consulting is that they are reasonable to the point of conservative given the size of the convention and exhibition event industry and the attractiveness of Portland as an event destination. Data from the Center for Exhibition Industry Research *Exhibition Industry Census*[3] shows that there were at least 4,500 events in the United States and Canada using 10,000 to 249,000 square feet of exhibition space in 2004. This is the

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[2] Greg Crown, PKF Consulting. "The Impact of the Failure to Develop a Headquarters Hotel." Draft.

[3] Center for Exhibition Industry Research, CEIR http://www.ceir.org/

minimum number of events as data in the Census is self-reported by event organizers and confirmed by a third-party auditor, so it does not include events that did not respond to the CEIR Census survey. Portland needs only attract a small fraction of these events to generate the impact estimated by PKF Consulting.

Table 1 summarizes the number of additional/retained events, delegates per event, total ORNs, and total delegate-days spent in Portland by event type. To calculate total ORNs generated by the additional events, PKF Consulting assumed that each delegate at the additional or retained events would spend three nights in a hotel room. To calculate total delegate-days, we assumed that each delegate spends 3.5 days in Portland to include time that delegates spend in Portland before and after their event.[4]

Table 1. Events attracted or retained by a Headquarters Hotel, delegates per event, total ORNs, and total delegate-days spent in Portland by event type, 2013

Event Type	Events	Delegates per Event	Total ORNs	Total Delegate Days
New OCC Events	17	1,200	61,000	71,000
Retained OCC Events	7	1,200	25,000	29,000
New and Retained OCC Events	**24**		**86,000**	**100,000**
New HQ Hotel Events			**43,000**	**50,000**
Total OCC and HQ Hotel Events			**129,000**	**150,000**

Source: PKF Consulting; summary and delegate-days by ECONorthwest.
Assumptions: Each delegate stays in a hotel room three nights and stays in Portland 3.5 days.

To estimate the amount of expenditures this additional and retained visitation would generate in Portland, we used the *ExPact 2004 Convention Expenditure & Impact Study* published by the International Association of Convention & Visitor Bureaus Foundation.[5] The *ExPact 2004 Study* reports average expenditures by convention delegates, exhibiting companies, and event organizers broken down by event type and expenditure type. The expenditure data are derived from completed surveys returned by 12,920 delegates, 1,286 exhibiting companies, and 77 event organizers. The *ExPact 2004 Study* uses methods to provide statistically valid estimates of expenditures that can be used to measure the direct spending and economic impact of conventions, meetings, trade shows, and exhibitions in the host community. The *ExPact 2004 Study* reports expenditures in the host city only—it omits expenditures on airfare and other expenditures incurred outside of the host city.

To estimate total spending in Portland generated by events attracted or retained by the Headquarters Hotel we use the number of ORNs and delegate-days reported in Table 1 and expenditures reported in the *ExPact 2004 Study*. To make this estimate we must make assumptions about the correspondence of the data on additional and retained use from PKF Consulting with the expenditure data reported in the *ExPact 2004 Study*. The rest of this section describes the assumptions and data we use to estimate expenditures in the Portland region. We chose methods and assumptions to yield conservative but reasonable estimates of total new expenditures resulting from the existence and operation of the Headquarters Hotel.

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[4] This assumption reflects event-related time in Portland only, and does not include additional time that some delegates may choose to spend in Portland or the Pacific Northwest for recreation, travel, visiting family, etc.

[5] Revised February 2005. www.iacvb.org

The *ExPact 2004 Study* reports total expenditures and average daily expenditures by type for All Events and for International/National/Regional events only.[6] We apply data for All Events or for International/National/Regional events as appropriate to estimate expenditures generated by the Headquarters Hotel. The *ExPact 2004 Study* reports only local expenditures by delegates, exhibitors, and event organizers—non-local expenditures such as airfare is not included. Since the *ExPact 2004 Study* was published in 2004, the expenditures are in 2004 dollars. Applying 2004 dollars to ORNs and delegate-days generated in 2013 produces an estimate of this future impact in 2004 dollars. We use 2013 as the base year for estimating annual economic impacts because this is the first year in which PKF Consulting shows operation of the Headquarters Hotel having a full impact on the number of events at the OCC.

For delegate spending at additional and retained events at the OCC we used average daily expenditure data for International/National/Regional Events. For events at the Headquarters Hotel, we used the data for All Events as these data also include State/Local Events, which may better reflect spending by delegates at events in the Headquarters Hotel. For visitors of groups using the Headquarters Hotel we omitted expenditures for Auto Rental and Local Transportation under the assumption that a higher proportion of these visitors will drive and not need to rent a car or hire a cab; remaining Transportation expenditures for these visitors is primarily for gas and parking.

Table 2 shows the result of applying the average daily expenditures to the number of delegates attracted or retained by the Headquarters Hotel as shown in Table 1. For calculating expenditures on Lodging & Incidentals, we used the number of ORNs by event type shown in Table 1, which represents each delegate spending three nights in a hotel room. For other categories of expenditures we use delegate-days shown in Table 1, as this captures expenditures that delegates make during their entire stay in Portland, including in the morning of their last day before they leave Portland.

We calculated annual expenditures using ORNs and delegate-days shown in Table 1. Table 2 shows that visitors attracted or retained in Portland by the Headquarters Hotel would spend a total of $36.2 million annually for lodging, food, retail purchases, transportation, and entertainment in the Portland area. Table 2 also shows that the average number of event nights per delegate and delegate travel party size reported in the ExPact 2004 Study. The reported average number of nights per delegate 3.56, supports our assumptions that delegates at events in Portland will spend three nights and 3.5 days, and suggests that our assumptions are conservative. The reported average delegate travel party size of 1.05 indicates that most delegates travel alone, supporting the assumption used by PKF Consultants that each delegate staying overnight will generate an Occupied Room Night at an area hotel.

[6] All Events includes expenditures at events classified as International/National/Regional and State/Local events. Expenditures for State/Local events is not reported separately in the *ExPact 2004 Study* due to an insufficient number of responses to yield a statistically valid representation of delegate expenditures that market. The difference between data for All Events and International/National/Regional events is small, and spending at All Events in each category is generally less than spending at International/National/Regional events alone.

Table 2. Expenditures by delegates attracted or retained by the Headquarters Hotel, 2013 ($2004)

	Daily Expenditure		
Type of Expenditure	**OCC Events**	**HQ Hotel Events**	**Annual Expenditures**
Lodging & Incidentals	$127.52	$126.45	$16,404,070
Food & Beverage	$73.36	$76.16	$11,233,152
Entertainment/Recreation	$7.23	$8.29	$1,146,600
Retail	$28.60	$29.16	$4,352,544
Transportation	$24.82	$10.22	$3,016,944
Other	$0.10	$0.17	$18,648
Total	**$261.63**	**$250.45**	**$36,171,958**
Average number of nights per delegate:			3.56
Average delegate travel party size:			1.05

Source: Average daily expenditures, nights per delegate, and delegate travel party size from *ExPact 2004 Study*.

In addition to expenditures by visitors in Portland, events attracted or retained by the Headquarters Hotel will generate expenditures by event organizers and exhibiting companies. Table 3 shows expenditures by organizers of events that would be attracted or retained by the Headquarters Hotel in 2013. To estimate expenditures by organizers of events at the OCC and Headquarters Hotel, we used the average event organizer expenditure per delegate-day reported in the *ExPact 2004 Study* ($22.36) and the number of delegate-days shown in Table 1 (151,200). By using average expenditures *per delegate-day*, rather than *per event*, we weight the event organizer expenditures by the size of events that would be attracted or retained by the Headquarters Hotel. The level of event-organizer spending per delegate-day is low compared to spending per day by delegates themselves because expenditures for events are spread across a large number of delegate-days. Table 3 shows that organizers of events attracted or retained by the Headquarters Hotel would spend almost $3.4 million annually in 2013 (in 2004 dollars) in the Portland area. While this level of spending is significant, it is only about 10% of the annual spending generated by delegate spending.

Table 3. Expenditures by organizers of events attracted or retained by the Headquarters Hotel, 2013 ($2004)

Type of Expenditure	**% of Total Expenditures**	**Annual Expenditures**
Food & Beverage	26.6%	$899,301
Exhibition Space Fees	23.4%	$791,115
Services Hired	22.0%	$743,783
Equipment Rental	9.7%	$327,941
Staff Living	6.2%	$209,612
Advertising (in event city)	3.6%	$121,710
Technology Services	1.7%	$57,474
Additional Space	1.2%	$40,570
Local Transportation	1.0%	$33,808
Other	4.6%	$155,518
Total	**100.0%**	**$3,380,832**
Avg. event organizer spending per delegate day:		$22.36

Source: Average event organizer spending per delegate-day from *ExPact 2004 Study* (all events).
Annual expenditures calculated by ECONorthwest using delegate-days shown in Table 1.

Table 4 shows the amount of expenditures in the Portland area by exhibiting companies at events attracted or retained by the Headquarters Hotel. To estimate these expenditures, we used average exhibitor spending per delegate-day, rather than spending per event, again to weight the expenditures by size of events. We used the number of delegate-days from events at the OCC (100,800) to estimate expenditures by exhibiting companies at all events attracted or retained by the Headquarters Hotel. We did not include delegate-days from events at the Headquarters Hotel itself in our estimate to reflect our expectation that some events will have few or no exhibiting companies.[7]

Table 4 shows that exhibiting companies from events attracted or retained by the Headquarters Hotel would spend over $9.3 million in Portland in 2013 (in 2004 dollars).

Table 4. Expenditures by exhibiting companies at events attracted or retained by the Headquarters Hotel, 2013 ($2004)

Type of Expenditure	% of Total Expenditures	Annual Expenditures
Staff Living	50.1%	$4,682,939
Vendor Services	12.3%	$1,149,704
Food & Beverage	12.1%	$1,131,009
Equipment Rental	10.6%	$990,802
Advertising (in event city)	2.9%	$271,068
Local Transportation	2.8%	$261,721
Services Hired	2.1%	$196,291
Additional Meeting Rooms	1.6%	$149,555
Other	5.5%	$514,095
Total	**100.0%**	**$9,347,184**
Avg. exhibiting company spending per delegate day:		$92.73

Source: Average event organizer spending per delegate-day from *ExPact 2004 Study* (all events).
Annual expenditures calculated by ECONorthwest using delegate-days shown in Table 1.

Table 5 summarizes the expenditures estimated in Tables 2, 3, and 4. Table 5 shows that events attracted or retained by the Headquarters Hotel would generate expenditures of almost $50 million annually in Portland in 2013 (in 2004 dollars). The largest source of expenditures would be Delegates, followed by Exhibiting Companies and Event Organizers. The largest type of expenditures would be on Lodging & Incidentals, followed by Food & Beverage. These two expense categories, together with expenditures for Staff Living (which is primarily for lodging) together account for over 70% of total expenditures from events attracted or retained by the Headquarters Hotel.

[7] Some events at the Headquarters Hotel will have exhibitors, and some events at the OCC will not. We use delegate days for events at the OCC to estimate exhibitor expenditures, rather than all events, to be conservative in our estimate.

Table 5. Expenditures generated by events attracted or retained by the Headquarters Hotel, 2013 ($2004)

	Expenditure Source			
Type of Expenditure	**Delegates**	**Event Organizers**	**Exhibiting Companies**	**Total**
Lodging & Incidentals	$16,404,070			**$16,404,070**
Food & Beverage	$11,233,152	$899,301	$1,131,009	**$13,263,463**
Staff Living		$209,612	$4,682,939	**$4,892,551**
Retail	$4,352,544			**$4,352,544**
Local Transportation	$3,016,944	$33,808	$261,721	**$3,312,473**
Equipment Rental		$327,941	$990,802	**$1,318,742**
Vendor Services			$1,149,704	**$1,149,704**
Entertainment/Recreation	$1,146,600			**$1,146,600**
Services Hired		$743,783	$196,291	**$940,074**
Exhibition Space Fees		$791,115		**$791,115**
Other	$18,648	$155,518	$514,095	**$688,261**
Advertising (in event city)		$121,710	$271,068	**$392,778**
Additional Space		$40,570	$149,555	**$190,125**
Technology Services		$57,474		**$57,474**
Total	**$36,171,958**	**$3,380,832**	**$9,347,184**	**$48,899,974**

Source: ECONorthwest.

We refer to all the expenditures in Table 5 as *direct* expenditures: new money coming into the Portland regional economy because delegates, event organizers, and exhibitors are spending money in the region. The next section uses a model of the Portland area economy to estimate *indirect* (and *induced*) impacts on total business sales, personal income, and jobs generated as the spending in Table 5 circulates through the regional economy.

BUSINESS SALES, LABOR INCOME, AND JOBS GENERATED BY OPERATION OF THE HEADQUARTERS HOTEL

We used IMPLAN, a regional input-output model, to estimate the economic impact of expenditures generated by events attracted or retained by the Headquarters Hotel. IMPLAN allows us to estimate the total amount of Output (business sales), Labor Income, and jobs generated by these expenditures in the three-county Portland region (Multnomah, Clackamas, and Washington County).

Impact of Headquarters Hotel in 2013

We matched event expenditures in Table 5 to industry categories used in the IMPLAN model to estimate economic impacts. Table 6 shows the IMPLAN industries we selected to correspond to the event expenditure categories and the regional multipliers associated with these industries.

Table 6. Industries and IMPLAN multipliers corresponding to event expenditure categories

			Total Impact Multiplier		
Type of Expenditure	**Direct Expenditures**	**Industry Proxy**	**Output**	**Labor Income**	**Jobs**
Lodging & Incidentals	$16,404,070	Hotels and motels- including casino hotels	2.12	0.86	27.68
Food & Beverage	$13,263,463	Food services and drinking places	2.06	0.75	31.13
Staff Living	$4,892,551	Hotels and motels- including casino hotels	2.12	0.86	27.68
Retail	$4,352,544	Miscellaneous store retailers	2.19	1.01	41.07
Local Transportation	$3,312,473	Transit and ground passenger transportation	2.09	0.88	33.05
Equipment Rental	$1,318,742	Business support services	2.15	0.94	28.58
Vendor Services	$1,149,704	Business support services	2.15	0.94	28.58
Entertainment/Recreation	$1,146,600	Promoters of performing arts and sports	2.13	0.73	57.36
Services Hired	$940,074	Facilities support services	2.21	0.86	25.93
Exhibition Space Fees	$791,115	Facilities support services	2.21	0.86	25.93
Other	$688,261	Other support services	2.10	0.76	17.91
Advertising (in event city)	$392,778	Advertising and related services	2.26	0.90	22.88
Additional Space	$190,125	Facilities support services	2.21	0.86	25.93
Technology Services	$57,474	Other computer related services	2.21	0.84	17.53
Total	**$48,899,974**				

Source: ECONorthwest. Multipliers from MIG IMPLAN © model.

The IMPLAN model uses multipliers to estimate the total impact of expenditures in a region on Output (business sales), Labor Income, and jobs in the region. The *Total Impact Multipliers* in the last columns of Table 6 include direct, indirect, and induced impacts. These categories reflect the impact of expenditures as they circulate through the regional economy. Direct impacts occur at the point of sale; indirect and induced impacts occur in the region as the income from direct impacts is spent on other goods and services in the region.

- ***Output multipliers*** typically describe the change in Output in an economy per dollar of direct impact. Changes in output primarily reflect changes in gross sales by area businesses. A total output multiplier of 2.12 indicates that total Output in the economy increases by $2.12 for each $1 of direct expenditure. This total results from purchases of other goods and services in the regional economy generated from the original $1 of direct expenditures. These additional purchases eventually total $1.12.

  Output is primarily reflected as gross business sales in the economy, so we use the term *business sales* as a synonym for output. In most businesses, a large portion of gross sales goes toward paying wages and benefits to workers, and a smaller portion goes to the business owner as profit. The portion of business sales that go to labor and business owners in the Portland region is captured by the Labor Income multiplier and Employment multipliers.

- ***Labor Income multipliers*** describe the change in Labor Income per $1 change in Output. Labor Income means money that people working in the Portland area receive as compensation, primarily in the form of wages, salaries, and benefits. Aggregated increases to Labor Income is one reasonable way to measure the economic benefit that a new headquarters hotel would have on the region. A total income multiplier of 0.86 indicates that total personal income in the economy increases by $0.86 for every dollar of expenditures.

  Labor Income impacts are a subset of Output impacts—that is, Labor Income impacts are the portion of Output impacts that result in income for workers and small business owners in the Portland region. Therefore the Output and Labor Income impacts should not be added.

- ***Employment multipliers*** represent the number of jobs, measured as full time-equivalent positions, per million dollars of direct expenditure. An employment multiplier of 27.68 indicates that every million dollars of expenditures in the Portland economy generates the equivalent of 27.68 full time-equivalent positions.

Applying the total impact multipliers to the level of expenditures in Table 6 results in an estimate of the total annual impact of expenditures generated by events attracted or retained by the Headquarters Hotel. The nearly $50 million of expenditures shown in Table 6 would result in an annual economic impact in the Portland economy of:

- $103 million in Output (business sales)
- $41 million in Labor Income
- The equivalent of 1,500 Full-Time Jobs

These estimates are for the year 2013, and the estimates of Output and Labor Income impacts are in 2004 dollars. By using the IMPLAN model of the current economy to estimate these future impacts, we implicitly have assumed that the economic structure of the three-county region in 2013 will be similar to that today (a reasonable assumption given the purposes of this analysis).

The annual impacts will be distributed among the three counties that make up the Portland region as defined for this analysis: Clackamas, Multnomah, and Washington. To estimate the distribution of these impacts within the region, we used a breakout of expenditures by county developed by KPMG for their assessment of the economic impacts of the OCC.[8] The estimate by KPMG is based on historical transient lodging tax receipts by jurisdiction and estimates of historical travel spending by county from the Oregon Tourism Commission. Table 7 shows the results.

Table 7. Allocation of expenditures by county in the Portland region

County	Hotel Spending	All Other Spending
Clackamas	8%	14%
Multnomah	81%	72%
Washington	11%	14%
Total	**100%**	**100%**

Source: KPMG. *Economic/Fiscal Impact Analysis for the Oregon Convention Center*. April 2005.

Applying the percentages to the level of expenditures shown in Table 5 yields an estimate of county-level impacts. For example, if 11% of the Hotel Spending in Table 5 is in Washington County, then Washington County will get 11% of the Output, Labor Income, and employment impacts generated by expenditures in Hotels. Table 8 shows the result of applying the percentages in Table 7 to estimate the annual regional impacts by county.

[8] KPMG. *Economic/Fiscal Impact Analysis for the Oregon Convention Center*. Prepared for Metro E R Commission. April 2005.

Table 8. Economic impact of the Headquarters Hotel by county, 2013 ($2004)

	Economic Impact		
County	Output	Labor Income	Employment FTE
Clackamas	$11,779,082	$4,688,166	175
Multnomah	$78,605,181	$31,403,971	1,132
Washington	$13,135,956	$5,237,132	192
Total	**$103,520,219**	**$41,329,270**	**1,499**

Source: ECONorthwest.

Stream of annual economic impacts generated by the Headquarters Hotel

The analysis of economic impacts summarized in Table 8 is for the year 2013 only, which is the *first* year that operation of the Headquarters Hotel will have a full impact on the number of events and visitors at the OCC and Hotel. The Headquarters Hotel will, however, generate economic impacts as soon as it opens and will continue to generate impacts after 2013. Thus, *it is not enough for an analysis of total economic impacts to limit itself to looking at a single year—we must estimate the value of the stream of economic impacts that the Headquarters Hotel will generate as it operates in the future.*

Estimating a single value for a stream of impacts that occurs over many years is referred to as *discounting to present value*. The technique is based on the observation that future benefits and costs are less valuable to most people than current ones.[9] The typical technique for summarizing a stream of impacts that occurs over many years is *discounting to present value*. Most people understand that in terms of a savings account or a mortgage. If a savings account pays 3% interest, then $100 today will be $103 in a year, and, going the other direction, $103 a year from now is worth $100 today. In the case of the HQ hotel, we can take the estimates of economic impacts in future years, “discount them to a present value” for each year, and then add up the discounted values to get an estimate of the total value of the impacts. Tables 9 and 10 show that analysis.

We use a discount rate of 3% per year to discount the stream of future economic impacts generated by the Headquarters Hotel into a single estimate that represents the value of that stream today. We do not discount for inflation because our estimates of future benefits are in constant 2004 dollars—an adjustment for inflation is not necessary or appropriate. To estimate the impact generated by the Headquarters Hotel in the years between its opening in 2010 and full impact in 2013, we used a ramp-up of Occupied Room Nights generated by the Headquarters Hotel estimated by PKF Consulting. Table 9 shows this ramp-up of ORNs generated by the Headquarters Hotel.

[9] For example, most people would prefer to receive $1 million today over $1 million in five years. Even if we agreed that inflation would average 3% over this period, most people would still prefer $1 million today over $1 million adjusted for inflation in five years ($1.15 million). The reason is that waiting for the money has an *opportunity cost* in addition to inflation—the opportunity cost is the return on other investments that one could make during the waiting period. Economists refer to this as the *time value of money*. It is a generally accepted rule-of-thumb that the time value of money averages 3% per year. This value is based on returns from low-risk investments such as corporate and municipal bonds, which have an average yield of about 3% above expected inflation over the long run.

Table 9. Ramp-up of ORNs generated by the Headquarters Hotel, 2010–2014

	Occupied Room Nights				
Year	Additional OCC Events	Retained OCC Events	HQ Hotel Events	Total	% of 2013
2010	32,400	25,000	28,810	86,210	67%
2011	46,800	25,000	36,000	107,800	83%
2012	54,000	25,000	43,200	122,200	94%
2013	61,200	25,000	43,200	129,400	100%
2014	61,200	25,000	43,200	129,400	100%

Source: Greg Crown, PKF Consulting.

After 2013, the Headquarters Hotel will have its full impact on retaining and attracting events to the OCC and generating economic impacts from the resulting expenditures, and these impacts will continue annually into the future. To assess the total benefit to the Portland economy from an investment in a Headquarters Hotel, we need to make an estimate of the future stream of economic impacts as the Hotel continues to operate after 2013. The estimate of room nights attracted or retained by the Headquarters Hotel from PKF Consulting, however, does not estimate these impacts after 2014 or comment on the expected trend.

In making assumptions about the future stream of benefits generated by the Headquarters Hotel, we considered two possible scenarios that would move future impacts in different directions:

- Our earlier review of existing documents for PDC on the state of the convention and event market found that the number events using over 5,000 square feet of exhibition space increased at an average rate of 2.5% per year between 1989 and 2004. Annual growth in net space rented, number of exhibitors, and attendance at 400 events surveyed by Tradeshow Week averaged growth of about 2% between 1995 and 2004, with higher rates of growth observed in earlier periods.[10] We expect the convention and exhibition industry to continue to grow at rates close to these long-run averages. This suggests that the economic impacts generated by the Headquarters Hotel could increase over time as the number and size of large events continue to grow.
- Other cities have also invested in convention and hotel facilities, and we expect this competition to continue. In addition, some of the large events that might come in early years will grow too large for Portland in later years. These considerations suggest the possibility that the economic impacts generated by the Headquarters Hotel could decline over time as competition for these events increases faster than growth of demand in the industry.

Our assessment of these countervailing trends is that growth in the industry will lead to growth in the economic impacts generated by the Headquarters Hotel, despite increasing competition from other cities for events, because:

- Construction of a Headquarters Hotel will put Portland in the market for large events, and we expect this market to grow over time.
- Many of these large events are annual or semi-annual events that rotate to different regions of the country. The 2003 study by the Strategic Advisory Group found that roughly 60% of respondents who would consider holding an event in Portland thought

[10] Hazinski, Thomas and Hans Detlefsen. “Is The Sky Falling on the Convention Industry?” HVS Journal. May 2005.

that the city was "about the same" or "more appealing" than other cities they would consider.[11]

- We think that Portland will be increasingly attractive as a location for convention and exhibition events because of the increasing importance of culture and recreational amenities in selecting a location, the need for alternatives to overused locations such as Chicago and Las Vegas, and increasing benefits from Portland's investments in light rail and neighborhood revitalization.
- Increasing personal income levels should cause delegate spending to grow faster than inflation over the long-run.

Given our expectation of growth in the economic impacts generated by the Headquarters Hotel in real (constant dollar) terms, a conservative assumption for estimating the present value of this stream of benefits is that they continue in future years at the same level as in 2013 (that is, assuming that there is no growth in the real value of benefits over time).

Table 10. Annual economic impact of the Headquarters Hotel, 2010–2030

Year	Output	Personal Income	Employment FTE
Future Benefits ($2004)			
2010	$68,968,146	$27,534,748	999
2011	$86,240,183	$34,430,412	1,249
2012	$97,760,207	$39,029,650	1,416
2013	$103,520,219	$41,329,270	1,499
2014	$103,520,219	$41,329,270	1,499
2015	$103,520,219	$41,329,270	1,499
2016	$103,520,219	$41,329,270	1,499
2017	$103,520,219	$41,329,270	1,499
2018	$103,520,219	$41,329,270	1,499
2019	$103,520,219	$41,329,270	1,499
2020	$103,520,219	$41,329,270	1,499
2021	$103,520,219	$41,329,270	1,499
2022	$103,520,219	$41,329,270	1,499
2023	$103,520,219	$41,329,270	1,499
2024	$103,520,219	$41,329,270	1,499
2025	$103,520,219	$41,329,270	1,499
2026	$103,520,219	$41,329,270	1,499
2027	$103,520,219	$41,329,270	1,499
2028	$103,520,219	$41,329,270	1,499
2029	$103,520,219	$41,329,270	1,499
2030	$103,520,219	$41,329,270	1,499
Present Value in 2006 (discounted 3% per year)			
	$1,452,000,000	$580,000,000	n/a

Source: ECONorthwest.

This assumption is obviously just that: an assumption. But such assumptions are an inevitable part of forecasting. We have to make an assumption that reflects what we think will be happening in the U.S. economy, the Portland economy, and the convention and hotel industry 25

[11] Strategic Advisory Group. *Convention Center Hotel Strategic Plan*. Prepared for the Portland Oregon Visitors Association. February 2003.

years from now. After considering comments received on our draft report and talking with PKF Consulting, we concluded that the most reasonable assumption for the purposes of forecasting was to assume a steady (not growing, not declining) stream of economic benefits after 2013.[12]

Table 10 shows the stream of annual economic impacts generated by a Headquarters Hotel between 2010 and 2030. To estimate the impacts in 2010–2012, we apply the ramp-up of ORNs shown in Table 9. After 2014, we assume that the annual impact of the Headquarters Hotel will continue on at the 2013 level. We did not include impacts after the year 2030. Table 10 shows the resulting estimate of annual economic impact by year between 2010 and 2030.

To estimate the present value in 2006 of the stream of Output and Personal Income impacts shown in Table 10, we used an annual real discount rate of 3% to represent the time value of money. We did not discount for inflation because the impacts in Table 10 are all in 2004 dollars. Applying this discount rate to the stream of Output and Personal Income impacts shown in Table 10 results in a net present value of roughly $1.5 billion in total output and $580 million in total personal income.

Type of jobs generated by the Headquarters Hotel

Dividing annual Personal Income impacts by the number of annual full-time jobs in Table 10 results in an average income per job of $27,569. For comparison, the Oregon Employment Department reports that the average pay per job in the Portland PMSA (Oregon portion) was $40,651 in 2004. [13] While this comparison suggests that the jobs generated by the Headquarters Hotel will be low-wage jobs, this is not an accurate characterization.

Focusing on the average income per job obscures the fact that visitor spending generated or retained by the Headquarters Hotel will support a wide range of jobs, including high-wage professional and managerial jobs to low-wage unskilled jobs. Visitor spending at the Headquarters Hotel and other hotels, for example, will support a range of jobs that include managers, accountants, electricians, plumbers, contractors, receptionists, housekeepers, and food service workers. The wages that these workers earn will be in turn spent on the whole range of consumer goods and services, such as health care, utilities, housing, and food, that also will support a wide range of jobs. In addition, many workers at hotels, such as waiters and bellhops, receive tips in addition to their wage, and wages for these occupations are low in part to reflect this tip income. The earnings data produced by IMPLAN may not fully represent all of this additional tip income.

Range of potential impacts under varying assumptions

Given the uncertainty about the future stream of impacts generated by the Headquarters Hotel, we investigated the sensitivity of our results to changes in the base assumptions. As explained earlier, one could argue that the stream of future impacts generated by the Headquarters Hotel will grow or decline in the future. To represent each of these scenarios, we made the following assumptions:

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[12] We corresponded with Greg Crown of PKF Consulting about reasonable parameters for the long-term growth of benefits generated by the Headquarters Hotel. He agreed that an appropriately conservative approach would show a constant number of events and attendees over time beyond 2013, with growth in expenditures at or near the rate of inflation (that is, little or no growth in constant dollar terms).

[13] Oregon Employment Department. Covered Employment and Wages. http://www.qualityinfo.org/olmisj/CEP

- To represent a scenario of growth in the stream of benefits generated by the Headquarters Hotel, we used the historical growth rate for the number of delegates and exhibitors at Tradeshow 400 events, 2% per year. We believe that this growth rate is optimistic and achievable only if Portland continues to invest in marketing and improvements to the OCC, nearby hotels, and regional attractions.

- To represent a scenario of declining benefits, we assumed that benefits generated by or attributable to the Headquarters Hotel declines 10% per year each year after 2014. We believe that this rate of decline overstates the potential for declining benefits from the Hotel over time.

The result of applying these assumptions to estimate the present value of the stream of future benefits generated by the Headquarters Hotel is shown in Table 11. As in Table 10, Table 11 uses a discount rate of 3% to estimate the value today of the future stream of benefits from the Hotel.

Table 11. Present value of economic impacts generated by the Headquarters Hotel under a range of assumptions, 2006

Scenario	Output	Personal Income	Annual Employment FTE
Declining Benefits	$850,000,000	$340,000,000	278 to 1,499
Constant Benefits	$1,452,000,000	$580,000,000	999 to 1,499
Growing Benefits	$1,636,000,000	$653,000,000	999 to 2,058

Source: ECONorthwest.

Table 11 shows that the nearly $50 million of expenditures shown in Table 6 would result in a stream of annual economic impacts in the Portland economy with a present value of:

- $850 million to $1.6 billion in Output (business sales)
- $340 million to $653 million in Personal Income
- The equivalent of 278 to 2,058 annual full-time jobs

The focus of the analysis in this report has been on the impact of operation of the Headquarters Hotel. Construction of the Headquarters Hotel, however, will also generate business sales, labor income, job, and tax revenue over three years. We estimated these impacts using IMPLAN and the same methods used for the analysis of operational impacts. To estimate the economic impacts, we used a construction cost for the 600-room Headquarters Hotel of $150 million and assumed that this spending would be new to the Portland economy. IMPLAN shows that the initial expenditure of $150 million to construct the Headquarters Hotel results in Output (business sales) of $321 million, Labor Income of $149 million, and 3,390 annual full-time jobs in the Portland economy. These impacts would be spread out over the three-year period in which the Hotel is under construction.

Putting these impacts in context

We are very familiar with the techniques of economic impact analysis, and how analyses like the one presented in this memorandum are done and reported. Many lack the kind of discussion about techniques and assumptions that we have presented, and are hard to interpret. But part of the difficulty is just the nature of the assignment. In our opinion, these numbers get so big and distant that they are hard to interpret. It may be clearer for public policy to think about the impacts in a way that is a little simpler and consistent with the techniques described in the memorandum:

- **Does a HQ Hotel bring new business to the Portland region?** This question is fundamental if there are going to be any benefits from investing in the Headquarters Hotel. The answer from the PKF Consulting is yes: at full operation, the Hotel will account for about 150,000 new delegate-days per year. Based on our review of market conditions, we believe that the estimate by PKF Consulting is reasonable.

- **How much more money will get spent in the Portland region because of that new or retained business?** An approximate answer is easily derived from the estimate of new or retained delegate-days. Many studies and casual observation suggest that delegates spend an *average* of about $250 per day. And event organizers and exhibitors also spend new money in the region, which bumps the impact up to about $360 per delegate-day. To make the arithmetic simple, let's be conservative and say the amount is $333 per delegate-day, so that every 3 delegate days generates $1000 of new spending. Combine that with 150,000 new and retained delegate-days per year generated by the Headquarters Hotel and one gets our estimate in Table 5: $50 million of new spending per year.

  But that is *direct* spending and does not account for multiplier effects. When those are added, the spending roughly doubles, to $100 million per year.

- **How big a deal is $100 million per year in the Portland regional economy?** The 2002 Economic Census reports that retail sales alone totaled $17.8 billion in Multnomah, Clackamas, and Washington counties. While $100 million is a small share of total sales in the Region, it is still a lot of money. The proper comparison, however, is not with total sales in the Region but with the amount of public investment needed to leverage this $100 million in annual spending. If the amount of this public investment is less than the present value of $100 million in annual spending, then the investment yields a return for the Region.

- **Think in terms of a single year, not in present discounted value.** As economists, the proper measure of benefits from the Headquarters Hotel for comparison to the public costs of the Hotel is the present value of the stream of future benefits. But we have found that the concept of discounting to present value is not intuitive for most people. Thus, for the purposes of public decision-making, it seems adequate to frame question as follows: Is it worth spending $X million dollars of public money now to subsidize the development of a Headquarters Hotel that will generate about $100 million of new spending per year in the regional economy?

- **What else could be done with funding dedicated to the Headquarters Hotel?** The temptation for many will be to compare the benefits of public funding for a Headquarters Hotel to other public investments that might be made, such as education. The critical issue here, however, is what other uses the funding dedicated to the Headquarters Hotel could be used for. For example, property tax abatements for the Hotel and room tax revenue generated by visitors attracted by the Hotel would not exist but for the Hotel and thus are not available for other uses. In addition, other funds used to support construction of the Headquarters Hotel such as tax increment funds from urban renewal districts often have restrictions that limit their use. Thus, the key question when considering whether an investment in the Headquarters Hotel is worthwhile is what other investments could the funds be used for, and what kind of benefits would those investments return to the Region?

FISCAL IMPACTS OF A HEADQUARTERS HOTEL

Additional spending generated in Portland by events attracted or retained by the Headquarters Hotel will result in additional tax revenue to the State of Oregon, Metro, and the three counties that compose the Portland area.[14] To estimate the amount of tax revenue generated by events attracted or retained by the Headquarters Hotel, we used the estimates of spending shown in Table 2, the allocation of expenditures by county in Table 7, and additional assumptions to convert this spending to a base amount on which the respective tax rates are applied. We used the following assumptions to estimate the base amounts on which taxes are applied:

- Personal Income Tax: We assumed that 55% of the new Labor Income reported in Table 8 would be subject to this tax, which has a tax rate of 5.6%. This represents the level of taxable income after deductions and non-taxable income and benefits are deducted from gross income.
- Hotel Occupancy Tax: We assumed that 90% of expenditures for Lodging & Incidentals and Staff Living in Table 5 would be subject to this tax. All of this expenditure would be subject to the State tax of 1%, and expenditures in the individual counties would be subject to this tax at the rate in each County.
- Excise Tax: Metro charges a 7.5% Excise Tax on revenue received by the OCC. To estimate this revenue, we made assumptions for the share of event expenditures made at the OCC by Event Organizers and Exhibiting Companies (100% of exhibition space, 50% of equipment rental, 50% of additional space, and 20% of services hired, based on expenditure per delegate-days at the OCC only).
- Business License Fee: The City of Portland has a Business License Fee that is 2.2% of net business income in the City. For this analysis, we assumed that 90% of output (business sales) in Multnomah County will occur in the City of Portland, and that net business income is 5% of total sales.
- Motor Vehicle Rental Tax: Multnomah County levies a tax of 12.5% on motor vehicle rentals in the County. To estimate these expenditures, we used average daily delegate spending on auto rentals reported in the *ExPact 2004 Study* ($6.66) and applied this to the number of OCC delegate-days.
- Business Income Tax: Multnomah County levies a tax of 1.45% on business income in the County, which we assumed is 5% of total Output in the County as reported in Table 8.

The analysis in this section does not include all of the fiscal tax and fee revenue that jurisdictions will receive as a result of operation of the Headquarters Hotel. Visitation and jobs generated by the Hotel, for example, will increase demand for electricity which will generate utility tax revenue to the City. The Hotel will also increase property tax revenues to jurisdictions by increasing property values around the Hotel and by supporting businesses and households that otherwise would not be in the Region (the Headquarters Hotel itself will probably be exempt from property taxes for a period as part of the public participation in the project). We did not include these revenue sources because their relationship to the Headquarters Hotel is indirect and

[14] Those events, and the secondary business activity they generate, will also increase the demands on the services that the tax revenues pay for. This memorandum looks only at tax revenues.

difficult to estimate. We also expect relatively little additional revenue from sources not included in this analysis.[15]

Table 12 shows the result of applying these assumptions to the estimated level of spending and economic impacts in this report. Table 12 shows that events attracted or retained by the Headquarters Hotel are expected to generate almost $3.8 million in tax revenue in 2013 (in 2004 dollars). The majority of this revenue is from the Hotel Occupancy Tax and the State's Personal Income Tax.

Table 12. Tax revenue from expenditures by events attracted or retained by the Headquarters Hotel, 2013 ($2004)

Jurisdiction/Tax	Assumption	Input	Tax Base	Tax Rate	Revenue
State of Oregon					**$1,464,600**
Personal Income Tax	55% of total labor income	$41,329,270	$22,731,000	5.6%	$1,272,900
Hotel Occupancy Tax	90% of lodging and staff living expenditures	$21,296,621	$19,167,000	1.0%	$191,700
Metro					**$107,000**
Excise Tax	100% exhibition space 50% equipment rental; 20% services hired by event organizers at OCC)		$1,426,890	7.5%	$107,000
City of Portland					**$77,819**
Business License Fee	5% of output in City of Portland, which is 90% of output in Multnomah County	$70,744,663	$3,537,233	2.2%	$77,819
Multnomah County					**$1,925,700**
Hotel Occupancy Tax	81% of lodging expenditures	$19,167,000	$15,525,000	11.5%	$1,785,400
Motor Vehicle Rental Tax	OCC delegate spending on auto rentals ($6.66 per delegate-day)		$666,000	12.5%	$83,300
Business Income Tax	5% of output in Multnomah Co.	$78,605,181	$3,930,000	1.45%	$57,000
Clackamas County					**$92,000**
Hotel Occupancy Tax	8% of lodging expenditures in the Region	$19,167,000	$1,533,000	6.0%	$92,000
Washington County					**$147,600**
Hotel Occupancy Tax	11% of lodging expenditures in the Region	$19,167,000	$2,108,000	7.0%	$147,600
TOTAL ANNUAL IMPACT					**$3,814,719**

Source: ECONorthwest.

QUALITATIVE IMPACTS OF THE HEADQUARTERS HOTEL

So far in this report we have focused on the economic impacts of the Headquarters Hotel that we can quantify in terms of spending, income, jobs, and tax revenue. The Headquarters Hotel will have additional impacts that are more difficult to quantify in terms of spending or jobs; this section describes these impacts. A 2005 report by KPMG[16] identified several qualitative economic benefits that the tri-county region would experience from operation of a Headquarters Hotel adjacent to the OCC:

- Enhancing the Portland area's image as a business, meeting, and tourist destination.

[15] In other regions, the bulk of fiscal impacts generated by events at a convention center are from sales tax revenue. Oregon, however, does not have a sales tax.

[16] KPMG. *Economic/Fiscal Impact Analysis for a Proposed HQ Hotel Adjacent to the Oregon Convention Center*. Prepared for Metro E R Commission. July 2005.

- Regional and national exposure through destination marketing and visitation. This will encourage return visits to Oregon for travel and recreation that will generate additional economic impacts in the state.

- Providing a first-class support hotel for the OCC, improving the performance of that asset and the return on the Region's investment in that facility.

- Providing a catalyst for urban redevelopment projects in the Lloyd Center District.

In addition, we would add:

- Supporting new and niche industries in Portland by giving them exposure to national markets.

On this last point, by allowing the OCC to bring more national and international events to Portland, a Headquarters Hotel can allow the OCC to better support new and niche industries in Oregon by showcasing these industries and giving them exposure to national and international markets. For example, attracting a national or international wine-related event could showcase Oregon wineries and give them exposure to potential customers that they otherwise might not have the budget to reach. In this way, the OCC can help the Portland region to transition from old declining industries to new growing industries. Making this transition is critical for continued economic vitality in the Region. Examples of industries that could benefit in this way include craft brewing, high technology, biotechnology, alternative energy, computer security, and food processing.

A recent article in the Willamette Week[17] illustrates another point about qualitative economic impacts associated with a Headquarters Hotel. The article claims that Portland has never gotten the NBA All-Star Game because it lacks a Headquarters Hotel near the Rose Garden arena. In addition to the spending by players and visitors that such an event would bring, it would also bring national exposure to Portland through televised shots of the city that would cost millions if Portland were to buy that airtime for advertising.

The Portland region has made substantial investments and efforts to ensure that Portland is an international center of commerce and culture. Examples of these investments and efforts include improvements to Portland International Airport and efforts to attract national and international flights, port facilities and efforts to attract and retain international shipping lines, improvements to major transportation facilities, encouragement of downtown redevelopment, investments in light rail transit, and construction and operation of performing arts, sports, and cultural facilities. The OCC itself is an example of the Region's investments and efforts to ensure that Portland is a center of commerce and culture. The investment in the OCC, however, is not generating the highest return of benefits to the Region because it lacks a Headquarters Hotel. Investing in a Headquarters Hotel will increase the return on the Region's investment in the OCC.

[17] Gerald, Paul. "Ill-Starred: Why Portland Never Gets the NBA All-Star Game." *Willamette Week*. February 15, 2006.