

MINUTES OF THE METRO COUNCIL WORK SESSION MEETING

Tuesday, August 14, 2007
Metro Council Chamber

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

Councilors Absent: Carl Hosticka (excused)

Council President Bragdon convened the Metro Council Work Session Meeting at 2:01 p.m.

1. DISCUSSION OF AGENDA FOR COUNCIL REGULAR MEETING, AUGUST 16, 2007/ADMINISTRATIVE/CHIEF OPERATING OFFICER COMMUNICATIONS

Council President Bragdon reviewed the August 16, 2007 Metro Council agenda. He noted typographical errors in Ordinance No. 07-1147B that Marv Fjordbeck, Senior Metro Attorney, had caught and revised. These were technical amendments, which included date changes.

Councilor Newman asked about the reallocation of \$1 million for the Eastside Street Car Loop Project. Councilor Burkholder reviewed the two Metropolitan Transportation Improvement Program resolutions.

Council President Bragdon talked about their budget discussion and reserves.

Councilor Harrington had concerns about Resolution No. 07-3860. Councilors further discussed the upcoming budget discussion. Councilor Burkholder said that he wanted to get started as soon as possible on the conservation education project.

Michael Jordan, Chief Operating Officer, raised the issue of regional business and trade associations memberships the Council might want to join (he provided a memo which included a variety of associations and the potential financial impact of joining these membership). Councilors shared their thoughts about memberships. Council President Bragdon said he would get Councilor Hosticka's input on this issue and the Council would have further discussion at a future date.

2. NATURAL AREAS PROGRAM TARGET AREA REFINEMENTS

Kathleen Brennan-Hunter, Regional Parks and Greenspaces Department, said there were nine final refinement areas to review. She introduced Mary Rose Navarro, who had come from the City of Portland and was working with the Parks Department now. Ms. Brennan-Hunter proceeded to review each natural area—Willamette Narrows and Canemah Bluffs, Willamette River Greenway, Chehalem Ridgetop to Ridge, Wapato Lake, Cazadero Trail, Dairy and McKay Creeks Confluence, Deep Creek and Tributaries, East Buttes, and Johnson Creek and watershed.

Ms. Brennan-Hunter noted that Willamette River Greenway focused on the trail gaps. There were many organizations interested in this area. It would be beneficial to work with other organizations on this site. Councilors asked clarifying questions about this site. Councilor Liberty talked about Willamette Cove and Swan Island. There were some potential challenges and properties that could fill some holes. Council Harrington said the City of Portland was working on the

Willamette River area. We needed to coordinate local and regional priorities. She asked should we coordinate or confer? Mary Anne Cassin, Regional Parks and Greenspaces Department, talked about zoning issues. Councilor Liberty talked about leveraging connections and waiting for the 2009 process to finish. Jim Desmond, Regional Parks and Greenspaces Director, said the site was consistent with the Regional Transportation Plan focusing on connectivity and water quality. He noted the vision to connect Cathedral Park to Swan Island.

Councilor Newman asked about the Willamette Greenway, the waterfront and wondered what was the target objective? Ms. Brennan-Hunter spoke to the Sellwood and Marquam bridges. Councilors talked about the need to collaborate and coordinate this area with other entities such as the City of Portland. Partnerships, activities, trails and transportation funding should count into the formulas. The also talked about access to the sites and site development.

Ms. Brennan-Hunter then reviewed the Chehalem Ridge areas. They were focusing on the forested ridge top. It would be a Tier 2 priority. Councilor Harrington asked about state parks. Council President Bragdon wondered if we owned something else in the area. Ms. Brennan-Hunter said this site was an opportunity to pick up significant habitat, oak habitat, the habitat in b was more fragmented because of development and farmland.

The staff then talked about Wapato Lake area. Councilor Harrington said she did not understand the future linkages to this site. Ms. Brennan-Hunter said this would depend upon what they were able to achieve in the area. Jim Morgan, Regional Parks and Greenspaces Department, said tier 2 had linkages to Wapato, a possible future trailhead. Councilor Burkholder asked about Ayers Creek and where it was on the map as well as where was the Washington County line. Staff responded to his questions. Ms. Brennan-Hunter said Wapato Lake was Tier 1. Tier 2 objectives built upon Gales Green. Wapato Lake followed policy direction. Councilor Harrington talked about fish and wildlife boundaries on Fern Hill. This area was a high priority. Councilor Liberty wondered if this site should be inside a refuge area. How was this site different? Mr. Morgan responded by saying they had acquired land outside the boundary with the last bond measure. They were not duplicating efforts.

Ms. Brennan-Hunter then addressed the Lower Tualatin Trail linkages and the conflict with the regional trail. Mr. Desmond talked about the site, protection of fish and wildlife. He noted that the community at large was very supportive of protecting this area. They talked about issues with this site. Councilor Park asked why they were not going further up Gales Creek? Mr. Morgan talked about a major development in Forest Grove. Councilors made further suggestions about this area.

Ms. Brennan-Hunter then reviewed the Dairy and McKay Creeks Confluence site. She talked about riparian value and the closeness to Council Creek. Councilor Liberty talked about the Farm Bureau and its proposal. He noted the value of the Confluence area. Councilor Park agreed with Councilor Liberty's assessment. Council, McKay and Dairy Creeks raised water quality issues. Council also talked about agricultural easements in this area. This was a key area to protect. Councilor Park suggested reviewing an easement policy versus acquisition on Dairy Creek. Councilor Newman said the northern part of connections makes sense (separation).

Ms. Brennan-Hunter then reviewed the East Buttes area. Tiers were broken out due to the largeness of the area. She highlighted the areas on the map.

Ms. Brennan Hunter talked about Cazadero Trail and the specifics of this site. Councilors discussed issues with this site.

Ms. Brennan Hunter reviewed the Deep Creek refinement area. Mr. Morgan said there were challenges such as flood plains, fish passages, and steepness of the canyon.

Councilors further discussed refinements of these nine areas. Council President Bragdon indicated that the resolutions on these refinement areas would come to Council in September.

3. BREAK

4. OREGON CONVENTION CENTER HEADQUARTERS HOTEL PROJECT UPDATE

Council President Bragdon said they had asked Metropolitan Exposition Recreation Commission (MERC) to do due diligence on range of alternatives for a headquarters hotel. He noted that there were no forgone conclusions. They were trying to get to the best answer they could. All of the Councilors had said at one time or another, that as stewards of the tax payers funds and stewards of this agencies and the many things that Metro does, that the tax payers rely on, they were not going to jeopardize those things on behalf of any project in terms of their general fund. Second, this project had to meet some return on investment threshold with regard to community impact and economic impact. Those were the commitments that had been expressed both formally and informally.

Councilor Park introduced David Woolson, MERC Chief Executive Officer. He had been working through this issue. It was a complicated issue. Mr. Woolson provided an overview, a background of the project and an analysis of how they were approaching the project, a summary of the reports and feasibility findings. He said, Tom Hazinski of HVS International would present findings and Bill Stringer, Chief Financial Officer (CFO), would talk about financing.

Mr. Woolson gave a background of the project. He noted that some of the studies showed that business had leveled off at Oregon Convention Center (OCC) as far as the total number of conventions that were coming to town. He provided an overview of the meetings scheduled and spoke of alternatives. They wanted an open process to receive feedback from various stakeholders about the project. Wednesday, they would have an open public forum at OCC. On September 6th they would hold a joint work session with Council and MERC Commission. They would be presenting some of the other studies. On September 12th, the MERC Commission would make a recommendation. There would be a public hearing on September 20th and the final decision was scheduled for September 27th. He first wanted to talk about the alternatives. He recaptured what they had been asked to explore. He provided an overview of the options. One of the consultants they were working with was to help with developing an analysis around alternatives, trying to compare the five alternatives with each other. (A copy of the PowerPoint is included in the record). He noted factors for cost benefit analysis, which included impacts on the Oregon Convention Center, the Lloyd District, the region, the hospitality industry and Metro government. The factors became the framework to help analyze the alternatives. By September 6th they would be providing Council with a framework in the report as far as the various alternatives and factors. He asked Council for comments and issues. He noted Council had copies of all four studies and summaries. On September 6th they would have consultants present their reports to Council and the MERC Commission. The first KPMG report was an annual economic study that was done which looked retrospectively back at the business in the previous year. They would share economic impact in total in terms of spending as well as fiscal impacts. The second KPMG report was a prospective look at what the potential economic impact would be if you built the hotel and

the impact if you do not build the hotel. The Strategic Advisory Group was a study that was commissioned by POVA, which surveyed 56 meeting planners to assess Portland's attractiveness for events. That report would be provided at the joint Council/MERC Commission meeting on September 6th. Council President Bragdon asked about the presentation on alternatives analysis. Mr. Woolson said he was working with EcoNorthwest to pull this together. Councilor Liberty raised the issue of incentives. Mr. Woolson responded to his concern.

Tom Hazinski, Managing Director of HVS, gave an overview of their report (a copy of the PowerPoint is included in the record). Mr. Hazinski talked about their mandate for the study, which was to be a third party analyst to provide Council with the information to make their decision. The firm had a lot of experience doing this type of assessment, primarily with the private side. He had been asked to summarize the market analysis, what methods were used and the results. They also analyzed what the impact was on other properties in the market. Third, what had happened to other hotels in other cities as compared to additional projections? He explained several definitions he would be using such as occupancy rate. He spoke to market history and noted current trends were upward. He noted trend impacts. He provided a demand summary of hotel rooms and reasons for lost business. They assumed that about 20% of business would be recovered with a 600-room headquarters hotel. He provided estimates if they went forward with the hotel. He talked about financial performance of the hotel and explained the methodology behind this analysis. He talked about the net income with the addition of the headquarters hotel. Councilors discussed issues that arose from the report. Mr. Hazinski said the convention center should be expected to lose conventions without a headquarters hotel. Hotel capacity also impacted convention center business. They had also looked a new development in the Lloyd District, which was an important underlying assumption. If new development didn't occur, the market would not perform quite as well. He noted that hotel markets were volatile. He talked about forecasted market occupancy. He noted that there were new properties entering the market. He said over this period supply will go faster than demand. He said when the hotel opens in 2011, even though there will be supply, the patterns of demand may not be great in the first couple of years. He shared how this property would impact demand. Councilors asked additional questions about demand and how the hotel induced demand. Mr. Hazinski said the induced demand occurred because it attracted business demand. In 2011, they were projecting 6% growth in demand, which should continue to increase in the future. The hotel would get a piece of the national pie. He emphasized that these were projections, which were based upon a specific set of assumptions. He felt there had been a lot of misinformation about how properties had performed and/or failed.

Mr. Hazinski talked about what happened over the past 8 years with hotels that had opened. He noted that all hotels suffered because of the 9/11 event and area hotels suffered when Katrina hit. He summarized what had happened to the properties. Convention Center advanced bookings did appear to have an impact on hotel occupancy. It appeared to be a long-term effect, not temporary. He said one thing that Denver and Houston shared was a dynamic district near the convention centers. You were not just selling the convention but the destination itself. He also talked about public sector versus private sector subsidy risk.

Bill Stringer, CFO, talked about the financial picture, debt structure, and protecting the other assets. Consultants talked about funding with working capital. Typically working capital was funded in these types of contribution if available. They also fund from bond proceeds. They also looked to the operators to post operating guarantees. They were currently conducting a review and analysis of the projected revenues and operating expenses of the proposed hotel project. The finance team was focused on working with the development team to identify the facility and

construction costs estimates. That had been a significant problem for hotel development nationwide. Construction costs had increased over 20% in the last several years. That has been a significant impediment to hotel development. They were also having discussions to identify the legal and ownership structure. They were developing a myriad of financial alternatives. The volatility in the financial markets has created another layer of complexity to this analysis. It may limit some of the flexibility for some of this project. Market changes had a real impact for assembling a plan of finance. They were also preparing debt capacity and cash flow analysis that went out thirty years. They had been identifying the resources both public and private available to a proposed project. They did have one-time debt service coverage but this was not sufficient to put in place a proper plan of finance. They were assembling some additional scenarios. This would quantify the risk to the decision makers so that Council knew exactly the margin for error and how they were mitigating risk to the transaction. Lastly, they would be trying to narrow down the alternatives based upon the resources that were reasonably available. Councilors asked clarifying questions about debt bond coverage. The consultant responded to their questions and said ultimately it depended upon the financial structure they moved forward with. Margo Norton, Deputy CFO said the real question was how much risk they wanted to take on.

Council President Bragdon said they would be back on September 6th. Councilor Burkholder talked about the amount of available space in the Lloyd District. He also asked who else would be sharing the risk? Councilor Park added whoever was sharing the benefits should be part of the risk as well.

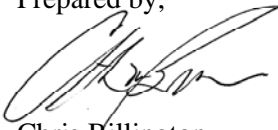
Mr. Woolson said on September 6th Council would get a report from KPMG. They would also be looking at an alternative analysis with EcoNorthwest and a more detailed financial plan.

5. COUNCIL BRIEFINGS/COMMUNICATIONS

It was noted that the Councilors had received a budget amendment package.

There being no further business to come before the Metro Council, Council President Bragdon adjourned the meeting at 5:39m.

Prepared by,



Chris Billington
Clerk of the Council

**ATTACHMENTS TO THE PUBLIC RECORD FOR THE MEETING OF
 AUGUST 14, 2007**

Item	Topic	Doc. Date	Document Description	Doc. Number
1	Agenda	8/16/07	Agenda: Metro Council regular meeting, August 16, 2007	081407c-01
1	Letter	7/24/07	To: David Bragdon From: Michael Jordan Re: Regional business and trade association membership strategy	081407c-02
4	Letter	8/14/07	To: David Bragdon From: Barry D. Schlesinger Re: Support the development of a publicly-owned, privately operated 600 room headquarters Hotel for the Oregon Convention Center	081407c-03
4	ECONorthwest Summary Report	8/14/07	To: Metro Council From: Lorelei Juntunen and Abe Farkas Re: Summary: KPMG Report on the potential economic impact of a headquarters hotel	081407c-04
4	ECONorthwest Summary Report	8/14/07	To: Metro Council From: Lorelei Juntunen and Abe Farkas Re: Summary: KPMG Report on the Oregon convention center	081407c-05
4	ECONorthwest Summary Report	8/17/07	To: Metro Council From: Abe Farkas and Lorelei Juntunen Re: SAG Report Summary	081407c-06
4	ECONorthwest Summary Report	8/14/07	To: Metro Council From: Abe Farkas and Lorelei Juntunen Re: HVS International Report Summary: Westin Hotel Market Analysis	081407c-07
4	Roles and Responsibilities	N/A	To: Metro Council From: Dave Woolson Re: Head Quarters Hotel Project Consultants' Roles and Responsibilities	081407c-08
4	PowerPoint Presentation	8/14/07	To: Metro Council From: Dave Woolson Re: Oregon Convention Center Headquarters Hotel Presentation	081407c-09
4	Email with attachments	8/12/07	To: Frank Selker From: Robert Liberty Re: Headquarters Hotel for Oregon Convention Center	081407c-10
4	Letter	8/10/07	To: David Bragdon, Council President From: Bruce Burns Chairman and CEO of Burns Bros Re: Headquarters Hotel	081407c-11

4	Email	8/6/07	To: Deborah Wakefield From: Jeff Miller POVA President & CEO Re: Proposed Headquarters Hotel Project – POVA position	081407c-12
4	Email and Report	8/2/07	To: Metro Council From: Nick Popenuk Re: POVA Headquarter Hotel 2007 Update Analysis	081407c-13
4	Email and Report	8/2/07	To: Metro Council and Suzanne Flynn From: Nick Popenuk Re: Market Study Proposed Westin Convention Center Hotel Portland Oregon	081407c-14
4	Email and Report	8/9/07	To: Metro Council From: Kim Bardes Re: KPMG Headquarters Hotel Report	071407c-15