MINUTES OF THE JOINT METRO COUNCIL AND METROPOLITAN EXPOSITION RECREATION COMMISSION WORK SESSION MEETING

Thursday, September 6, 2007
Metro Council Chamber

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

Councilors Absent:

Commissioners Present: Janice Marquis (Chair), Don Trotter, Yvonne McClain, Gale Castillo, Gary Conkling, Gary Reynolds and Ray Leary (arrived at 1:04 pm)

Commissioners Absent:

Metro Council President Bragdon and MERC Chair Marquis convened the Joint Work Session Meeting at 11:30 a.m.

OREGON CONVENTION CENTER HEADQUARTERS HOTEL PROJECT

I. INTRODUCTION

MERC Chair Marquis outlined the work performed to-date by the MERC Commission and staff regarding the headquarters hotel project which included a very thorough review of the five alternatives while keeping in mind the Oregon Convention Center mission and the MERC Strategic Plan Goal #2. She expressed appreciation to Metro for the support provided and thanked the consultants for all their efforts to complete the studies. Additionally, Marquis thanked Metro Councilor Burkholder for hosting the Headquarters Hotel Equity Community Workshop and thanked David Woolson and MERC Commissioners Leary and Castillo for their participation.

Metro Councilor Park spoke to the importance of the decision at hand related to this project and made remarks about economic development involvement by Metro and MERC.

President Bragden asked everyone to save questions and comments until the end of the presentations.

Dave Woolson, MERC CEO, began by outlining the Oregon Convention Center mission of maximizing economic impact to the region while protecting the public investment in Oregon Convention Center. He noted that national convention business provides the greatest economic impact to Oregon Convention Center and to the region and community, and, in recent years that business has leveled off. In February when Metro took on this project, MERC was asked to address the project and a series of alternatives. David Woolson outlined the five alternatives and noted that the consultants have concluded their studies and a series of community and stakeholder outreach briefings and discussion have been held. Key meetings in the next couple of weeks include: September 12, the MERC Commission will review findings and provide a recommendation; on September 20 the Metro Council will hold a Public Hearing; and on September 27 Metro Council vote. Woolson then introduced the consultants.

II. CONSULTANT'S KEY FINDINGS

Susan Seiger, KPMG, presented results of findings and overview of role with the Oregon Convention Center annual economic impact reports and her firm was also asked to look at economic and fiscal benefits as they relate to a proposed headquarters hotel. See attached power point presentation, pages 8-22.

Tony Peterman, Strategic Advisory Group, presented results from an update study performed at the request of the Portland Oregon Visitors Association. Three main points to the presentation included: what is the health of the convention and hotel industry; why is Portland continuing to lose convention business and if there is a headquarters hotel, what impact would it have. See attached power point presentation, pages 24-44.

Tom Hazinski, HVS International, presented results from their report analyzing the hotel market conditions for a proposed Westin Convention Center Hotel study which he noted were done in a very thorough research with commonly accepted methodologies in the industry for this type of a study. Included in their written report, a very detailed analysis on the food and beverage revenue and how that would perform in food and beverage segments. See attached power point presentation, pages 46-57.

III. ALTERNATIVES ANALYSIS

Abe Farkas, EcoNorthwest, noted his group was charged with reviewing and providing summaries of the consultants' studies and to review and analyze the alternatives. He presented analysis on the five alternatives. See attached power point presentation, pages 59-71.

IV. FINANCIAL ANALYSIS

Peter Phillippi, Piper Jaffray, presented the financial analysis as a work in progress. See attached power point presentation, pages 72-79. He stated there are two principle reasons why public financing works better than private financing for this project. A headquarters hotel needs a large Room Block Agreement which is in direct contrast to a pure profit motive of a hotel owner or hotel investor. The average hold period for a hotel investor/owner is seven years and private investors cannot realize the requisite 20%+ return on investment during that time period. The public sector has a much longer term view, which is consistent with their ownership of the convention center itself. Also, they quantify the return or the benefits in much broader terms, i.e. economic benefits to the region, to the City, to the state.

Mr. Phillippi went on to say that Piper Jaffray has conducted a thorough review of the projected revenues and expenses for the headquarters hotel, worked through the market feasibility analysis provided by HVS and analyzed the performance of other convention center hotels by rate group, geographic region and by size of hotel. Based on Piper Jaffray's extensive experience with headquarters hotel projects, Piper Jaffray has come to the conclusion that the HVS projections are reasonable if not slightly conservative.

Piper Jaffray has also conducted a detailed review of the facility and construction cost estimates and these too are consistent with the range of other hotels that have been financed over the last 8-9 years with inflationary adjustments and other hotels that are in their planning process. One of the things that Piper Jaffray has done for planning purposes is added a 5% owner controlled contingency.

Phillippi also commented on the current market conditions, specifically the hotel market and the financial market and noted it is really a tale of two sectors. The hospitality market has been setting records in terms of its performance and profitability. The financial markets on the other hand, have gone through a major correction and ultimately that affects us in two ways. Credit spreads are widening, thus the ability to shelve off risk within the financing, visa vie subordinate bond trenches and other similar instruments have increased substantially in cost through this market correction. Secondly and equally important, liquidity has been affected. There has been a lot of money that has been put into high grade security.

Phillippi stated his firm has run through a lot of different financing scenarios and have looked at dozens of financing alternatives and his firm feels that it makes most sense to look at a single series, higher grade, lower cost of capital structure, for planning purposes. Given that the project is not planned to be financed for 12-18 months, at that point in time we can assess where the market is, and what the cost of parceling out various portions of risk on this transaction can be.

Phillippi thought it was also helpful to look at the stand alone financing or coverage based upon the projected net income. With the exception of 2012, HVS projected net income along is sufficient to cover debt service. However, the projected net income alone is insufficient to implement a financing and insulate Metro from project risk. Not to mention it is no where near enough to justify a 20+% IRR for a private hotel owner or investor.

Pipper Jaffray has turned our attention toward identifying resources that could potentially be made available to help facilitate the financing and insulate Metro from project list. In reviewing potential financial resources, the starting point is looking at hotel specific TLT taxes and an additional room surcharge; development team contributions which can take a variety of forms (key money, subordinated loans, operating guarantees); restructuring of existing VDI debt service. The challenge is to identify resources required to get it to an acceptable finance level – may be an opportunities to restructure that debt service in such a way to free up some VDI monies to help fund the project, help create an additional buffer for metro. These are preliminary discussion however. The state is one of the primary beneficiaries and is a logical place to seek assistance with the financing. This could range from an upfront contribution to an annual contribution to providing additional marketing funds for the convention center and POVA. Lastly, Piper Jaffray has been exploring a number of additional funding sources, which is an ongoing process, and looking towards the primary beneficiaries of this project.

Piper Jaffray believes that the ultimate solution here is more than financing the hotel and building the hotel, although that is a big piece. Phillippi if some more monies for marketing as well as for convention center operations could be freed up, then we are really looking at maximizing the potential benefit to the city, region and the state. Whether that is accomplished as part of the financing or separate from the financing, will be determined as this moves forward. In terms of going to other potential participants and having a reasonable conversation with them, Piper Jaffray felt this was based off a reasonable assumption today. The ask and the resources that we are looking to dedicate to this transaction are fair and reasonable.

V. STAFF RECOMMENDATION

Bill Stringer, Metro CFO, began by noting that financial feasibility implies that there is sufficient revenue to cover up front costs, annual operating costs and can cover the operation of the hotel in case of economic downturn. Second, bonds can be structured in such a way that they can be sold to investors at reasonable prices; and third, Metro and other participating governmental entities are sufficiently insulated from risks if the hotel revenues don't meet expectations. Stringer noted that the staff recommendation stated, in part, that under current available resources, Metro does not have the financial ability to adequately finance the Project without putting Metro's general fund and existing programs at undue risk. However, it has been determined that the project may be financially feasible if Metro is able to secure additional funding from other sources than those that are currently identified. Additionally, Stringer wanted to emphasize that moving forward consists, among other things, of entering into a satisfactory development agreement with the project developer; obtaining a project guarantee maximum price that is in line with the financing plan and reaching intergovernmental agreements with the City, the Portland Development Commission, Multnomah County and other entities that might benefit from the hotel and would be participating in that financing.

David Woolson reviewed the final slides of the presentation. See attached power point presentation, pages 80-83. Woolson also reviewed the staff recommendation including elements of a successful financing plan. Woolson noted this is a very important opportunity for MERC and Metro and there is a compelling need for this project and potential upside if the Oregon Convention Center is going to be the economic engine for the region as it was originally designed and envision. It is risk versus reward analysis. Based on the work completed to-date, Woolson encouraged support to more forward to take a closer look and to finalize a financing plan.

VI. QUESTIONS AND DISCUSSION

Metro Councilor Liberty noted he was understanding that the staff recommendation included not just the hotel but also additional money for additional incentives and increased funding for Oregon Convention Center (OCC). David Woolson noted that the recommendation addressed long term funding issues for the Oregon Convention Center.

Councilor Liberty also spoke to his interest in having a fully flushed analysis of the alternatives and not just advocacy for a particular alternative. He noted that the information provided did not include comparable information around the alternatives or analysis related to the enhanced incentives which will make it hard for him to make a decision. David Woolson stated that the assignment was to conduct a full feasibility study on the 600-room option. The Portland Development Commission extensively studied the 400-room privately owned model. Councilor Liberty noted he expected a more dispassionate analysis, specifically risks and benefits, and in his mind, there was not enough research to allow him to draw direct comparisons of benefits and risks between the alternatives.

MERC Commissioner Leary assessed the information as a very rapid, thorough consideration of the facts and an appraisal of the alternatives. He indicated that as time goes on the numbers will change leading up to March 31, but expressed a desire to move forward and continue to explore the possibilities and continue to collect data.

Metro Councilor Newman thanked everyone for the research collected to-date. He asked for a clarification on what action the Council is being asked to take on September 27 and how that differs from the action to be taken in March of 2008. Councilor Newman thought the Council would be making a decision on September 27th and that there would be a financing plan in place to make that decision, but from what he is hearing today, that may not be the case. Metro Counsel Dan Cooper stated that on September 27th, the Council will be asked to take action on a resolution, based on the recommendation, which would authorize entering into a phase development agreement with Garfield, Traub, Ashforth Pacific that will call for them to be paid approximately $600,000 over the next five months to do some preliminary review of the design and cost estimating as well as negotiate with Starwood Westin for what their participation will be in a financing plan. Mr. Cooper went on to note that upon completion of this first phase of work, there will be substantially more information that can be used in developing the financing plan. The resolution would also direct staff, if Council approves, to go forward with the group of identified stakeholders and partners to secure commitments necessary to achieve the additional resources that Piper Jaffray has outlined or not and be able to come to you in March with a report of the look of the developer's work product along side of the achieved financing commitments. Copper went on to say that at this point, the resolution will resolve the question of what the alternative are and direct staff to perform tasks associated with some or all of the three things recommended, or the Council may recommend something else. He noted that the resolution would also include other technical items such as will Metro and MERC be able to reimburse themselves from bond proceeds for expenses and other direction the resolution states. It will take a substantial amount of time to actually get to the actual finance portion, which is why Piper Jaffray is talking about financing occurring next year and not in the near future.

Metro Councilor Newman thought Council was one step beyond. He indicated his public session comments were that he felt confident based on provided information and discussion, that the Convention Center is suffering from a lack of a headquarters hotel and will continue to suffer and that the best model seemed to be a publicly owned, privately operated hotel. The information that has been presented confirms that confidence. He also reiterated, from his comments in the spring, that the bottom line would be the financing plan; where the resources would come from and what kind of risk is involved. Councilor Newman noted he was surprised to learn the process was not further along.

MERC Commissioner McClain noted her appreciation for the presentations. She stated that in terms of financing for the 600-room hotel, it was important to get the contractor and developer involved in the whole package in order to get to the real number, as without real number you can't have a definite financial plan. Once the cost has been determined, bonding can proceed with other entities. Commissioner McClain stated that this project is a benefit and a jumpstart for NE Portland's redevelopment. She also stated that it will be important to include vending and contracting opportunities for people in the NE neighborhoods in any contract prior to signing.

Metro Councilor Burkholder had three questions of which he did not expect answers today, but answered at some point in the process. Based on Tony Peterman's presentation, Strategic Advisory Group (SAG), it was noted that Metro should go for the largest cost effective hotel that gets an occupancy rate of 65% and in reviewing the projections, the question is, would an 800 room hotel provide the best benefit. Councilor Burkholder asked what debt coverage ratio is being sought. He noted his final question was related to the issue of additional resources for incentives and the operations and marketing needs of the Oregon Convention Center. If there is a higher transient lodging tax received can that be the resource or does the VDF agreement need to be re-negotiated in order to capture some of that increased new value.

MERC Chair Marquis noted she had made her comments at the beginning of the meeting.

Metro Council President Bragdon noted that he is much more informed about one of the alternatives based on the presented information. His question would be about some of the other alternatives. He felt it was important to go back to the main point of why the Oregon Convention Center exists which is to bring in new outside dollars into the community, which ripple though the region's economy and that should be the measure used for any of the five alternatives. President Bragdon felt at that a couple of the alternatives undermined that measure such as the question of incentives, in the ECONorthwest report, there was some suggestion to lowering the threshold on the ROI that is currently used by visitors as well as references to being more competitive with other cities. Bragdon spoke to the need to pause and consider the value of the current VDI is that it is required to show that room nights are being generated by out of town visitors as it would defeat the purpose of the project if random competition for business is not measured. President Bragdon noted he needed to understand why the incentives have been combined with the hotel in the recommendation. He went on to say he was curious why if the hotel is built, incentives would be needed in addition. As well, he noted he asked be developed is including other public entities who receive benefits from this project in the financial plan.

MERC Commissioner Conkling thanked the consultant teams for their presentations and Metro Council for their patience and courage to take on this project. He went on to point out that there is really no doubt that there is a need for this project but that the real question is doe the specific project make sense. Conkling noted his conversation with Tom Hazinksi, HVS, who indicated to Conkling that this project is well within a reasonable range for like-projects. Conkling spoke of the sense of the financing issue and even if a full equation is not available yet, it is within striking distance and other partners need to be brought into the finance plan discussions.

Metro Councilor Park spoke of his involvement with the Visitor Development Fund board and the opportunities see the businesses the Portland Oregon Visitors Association (POVA) and the Oregon Convention Center (OCC) Sales teams are trying to attract to Portland. He went on to say that he has a good understanding of the alternatives and how incentives help keep Portland competitive. Councilor Park also shared his experiences with the Far West Nursery Show, a client of OCC, as well as travel to other large cities in the country. He noted what makes a show successful as well as why a show selects a particular destination for their show. He also reiterated Council President Bragdon's comment about including other beneficiaries in the financial planning discussions.

MERC Commissioner Trotter noted he would speak to the concerns as to why there was not a financing package at this time. He reviewed the direction of the Council. He stated it is difficult to talk to partners and ask them to commit because the Council has not said it is willing to go ahead with this project if the financing package is reasonable. Commissioner Trotter went on to say that if the testimony the MERC Commission hears and the testimony the Metro Council hears doesn't alter the information presented to-date, then the Council needs to move this project forward if the financing package has appropriate risk.

Metro Councilor Hostika noted he had a number of questions that he will ask offline related to how the benefits are assessed as he indicated the measures of benefits are confusing and not necessarily ones that he clearly understands. He noted that the major beneficiaries of any of the alternatives are community level benefits that are widely shared throughout the community and that the financial implications of those community benefits are impacted largely on entities other than metro. . He stated he would be willing to move ahead and develop a fully flushed financial package and then see which beneficiaries are interested as long as Metro is well insulated from risk.

MERC Commissioner Castillo noted much data has been collected and research done as well as much support and participation and now is the time to move forward. She spoke of the economic opportunity for the City and region. The need now is to solidify the numbers, contact interested partners, and work to develop a financial plan. Commissioner Castillo noted she agreed with the staff recommendation to move forward with the hotel as well as funds for marketing and incentives as well as a strong marketing plan in place.

Metro Councilor Harrington was appreciative of the progress and the alternative information. She reinforced that Metro Council is seeking MERC's advice and counsel regarding this process. Harrington noted that she has questions and will follow up for answers, but did ask for clarification on her understanding of the need for operating revenue for the convention center, and the future capital and renewal and replacement needs. Harrington stated she clearly understood She heard Piper Jaffray say that there is a reasonable financial model today with minimized risk to the partners and then heard from Metro CFO and staff that there is further risk to Metro's general fund with regard to the three financing needs just mentioned. Councilor Harrington stated her responsibility as a Metro Councilor, is to make sure that bases are covered and will continue to ask further questions as the process moves forward. Harrington asked if the noted budget impacts with regard to the next steps, that being $600,000 and Metro staff resources being needed, is that related to the "any and all out of pocket expenses will be covered by the existing Convention Center operating fund. Bill Stringer, Metro CFO noted that the funds are available in the current approved budget

There being no further business to come before the Metro Council and MERC Commission Joint Work Session, Council President Bragdon and MERC Chair Marquis adjourned the meeting at 1:50 p.m.

Prepared by,

Lisa Brown

Lisa Brown
Clerk of the Commission

ATTACHMENTS TO THE PUBLIC RECORD FOR THE MEETING OF SEPTEMBER 6, 2007

Item	Topic	Doc. Date	Document Description	Doc. Number
		09-06-07	Oregon Convention Center Headquarters Hotel Power Point Presentation	090607cw-01
		9/2007	Headquarters Hotel Project Binder II	090607cw-02