



**JOINT METRO COUNCIL/MERC WORK SESSION  
MEETING SUMMARY**

December 4, 2012  
Metro Council Chamber

**Councilors Present:** Council President Tom Hughes and Councilors Rex Burkholder, Shirley Craddick, Kathryn Harrington, Carl Hosticka and Barbara Roberts

**Councilors Excused:** Councilor Carlotta Collette

Council President Tom Hughes and Metro Exposition and Recreation Commission Chair Chris Erickson convened the Joint Metro Council/MERC work session at 12:08 p.m.

**1. PRESENTATION OF HOTEL AND CONVENTION INDUSTRY MARKET STUDY AND ECONOMIC/FISCAL ANALYSIS AND OREGON CONVENTION CENTER HOTEL PROJECT UPDATE – INFORMATION/DISCUSSION**

Ms. Teri Dresler of Metro and members of the convention center hotel development team updated the Metro Council and MERC on the progress made since negotiations began in early November. In September, Metro staff gained approval to enter into negotiations with Mortenson Development following a labor peace agreement, signed at the end of October. After one month of negotiation, the team has decided to spend more time working through the different financing options, instead of following the original timeline which anticipated bringing a term sheet before the Metro Council on December 13.

Mr. Tom Lander of Mortenson Development provided an overview of the current proposed design of the project. He noted that as it has not yet gone through community design review, the images shown do not represent the final design of the building, but do accurately depict its scale.

Ms. Cheryl Twete of Metro explained that the final financing structure has not yet been determined, but that the team is confident that the construction costs are consistent with other markets across the country. She introduced Mr. Ken Rust of Public Financial Management, who provided information on the financing options the team has been considering. The project's financing objects are:

- to utilize the transient lodging tax (TLT) revenues paid by the hotel to assist in financing its construction
- to ensure that any financing efficiently utilizes TLT revenues to maximize the upfront contribution to the project
- to limit the role of any public entity in monetizing the value of the TLT revenues.

Mr. Rust explained the financing options the project team is considering.

- **Hyatt Equity Option**

The Hyatt equity option uses Hyatt's balance sheet and financial capacity to finance the value of the site-specific lodging tax, and contribute that sum to the project. This reduces the value of TLT financing, because Hyatt has return standards it has to achieve, and does not benefit from the lower borrowing costs public entities enjoy.

- **Conduit Revenue Bond Option**

Conduit revenue bonds are issued by a public entity on behalf of a private or non-profit obligor. The repayment obligation falls on the private or non-profit borrower, not the public entity. In structured properly, conduit revenue bonds can be sold as tax-exempt obligations and at lower interest rates due to the public entity's tax exempt status. Conduit revenue bonds have been used around the USA, in Oregon, and by the City of Portland, funding a variety of projects such as PSU's Broadway Housing Complex. With this funding method, the private entity has the responsibility to service the debt, though this may vary depending upon how the mechanism is structured.

Mr. Tony Peterman of Strategic Advisory Group (SAG) presented the findings of the Convention Center Hotel Market Impact Study. The study addressed questions relating to the current performance of the Oregon Convention Center (OCC), the state of the convention industry, and the projected impact of building an OCC hotel in Portland.

Over the past 25 years, the OCC has generated \$4.7 billion in direct economic impact, supporting 4000-5000 regional jobs. However, over the past 5 years, Travel Portland reports that over 1,000,000 potential room nights were lost due to the lack of a convention center hotel.

At the national scale, the convention industry is a mature sector which historically fluctuates with the national economy. From 2002 to 2008, the industry experienced a period of sustained growth. Following the 2008 recession, there was a significant decline, but now the industry has recovered; the Center for Exhibition Industry Research predicts a recovery to a steady annual growth rate of 3%. The Portland hotel market has also observed a recovery: in 2012 year-to-date, the average hotel occupancy rate for Portland's central city is 75%, just two percentage points beneath the pre-recession peak in 2008 of 77%.

SAG conducted a survey of meeting planners who had expressed interest in the Portland market in the past to predict the impact of an OCC hotel. The survey asked meeting planners to rate on a scale from 1-10 their likelihood of booking an event at the OCC without and with a hotel. A majority of those surveyed reported a low likelihood of booking without the hotel, and a high likelihood if an OCC hotel were to be constructed. 61% responded that the Hyatt flag would have a positive impact on their decision to book in Portland.

SAG also addressed the concern that a new OCC hotel would negatively impact other hotels in the market. They gathered data from 10 other markets where new convention center hotels were built, to assess how many years it took for demand to absorb the new supply such a hotel would provide. In no market was the new supply absorbed in more than 5 years; in most, it took only 1 to 2 years. The meeting planners surveyed estimated 5-10 new large conventions annually could be attracted through the new hotel, at around 4000 room nights per event.

Mr. Peterman predicted \$320.2 million in direct and indirect spending for the construction of the hotel, and a continual annual operating impact of \$121.2 million. Approximately 2200 construction jobs would be generated, with 950 permanent operations positions. The proposed OCC hotel could generate 20,000 to 40,000 new citywide room-nights, and an additional 50-70,000 room-nights through in-house Hyatt groups. A part of this bump in room-nights can be attributed to pent-up demand for the Portland market satisfied by the new hotel.

### **Council Discussion:**

Metro councilors asked Mr. Peterman if they had looked back at the accuracy of the predictions they made in other cities. He explained that each community requests information specific to their desired outcomes. For example, in Houston, the plan was to build a public hotel, and then sell it when it was up and running. However, once they found it to be profitable, they instead used the profits to pay for a second hotel.

Metro Councilor Barbara Roberts explained that based on her personal experience attending conferences, a major reason for the meeting planners who said they would never bring a conference here could be that they had never been to Portland. Mr. Peterman confirmed this idea, and noted that all respondents who still said they would not bring an event here even with a new hotel had never booked an event in Portland in the past.

Metro Councilor Rex Burkholder remarked that while he is leaving the council, he supports this project, and noted that there is a market for hotels in this city, which will either be filled piecemeal and not make a large impact, or will be met by a headquarters hotel as in this proposal. He encouraged colleagues to see this as an opportunity, and said that while the financing is critical, it will be a great benefit to the community.

Councilors recalled that the proposed OCC hotel would actually be a benefit to other hotels in the market rather than a detriment.

Metro Councilor Kathryn Harrington thanked the presenters for fulfilling her desire for more in-depth study expressed in previous meetings. She confirmed that the presenters had provided information about where the market stands today, what it looks like moving forward, and how this proposal can address the needs for the continuing successful operation of the convention center.

**2. ADJOURN**

Chair Erickson adjourned the meeting at 1:21 P.M.

Respectfully Submitted,

A handwritten signature in black ink, appearing to read "Evan Landman". The signature is fluid and cursive, with a large initial "E" and "L".

Evan Landman  
Recording Secretary

**ATTACHMENTS TO THE PUBLIC RECORD FOR THE MEETING OF DECEMBER 4, 2012**

<b>ITEM</b>	<b>DOCUMENT TYPE</b>	<b>DOC DATE</b>	<b>DOCUMENT DESCRIPTION</b>	<b>DOCUMENT No.</b>
<b>1.0</b>	Powerpoint	10/30/2012	ESG Architect's Hyatt Regency Hotel design	120412cw-01
<b>1.0</b>	Powerpoint	12/4/2012	Transient Lodging Tax Financing Options	120412cw-02
<b>1.0</b>	Powerpoint	12/4/2012	Convention Center Hotel: Market Impact Study	120412cw-03