

METROPOLITAN EXPOSITION RECREATION COMMISSION

Resolution No. 13-20

For the purpose of approving the Oregon Convention Center Hotel project Term Sheet with Mortenson Development Inc.

WHEREAS, in October of 2011, the Metropolitan Exposition Recreation Commission (MERC) and the Oregon Convention Center (OCC) Advisory Committee requested that the Metro Council consider developing a convention center hotel;

WHEREAS, on May 11, 2012, Metro issued a Request for Proposals for the development of an convention center hotel, seeking a private development team to build a privately-owned and operated 4-star convention hotel adjacent to the OCC;

WHEREAS, on September 13, 2012, the Metro Council adopted Resolution 12-4365, authorizing staff to begin predevelopment negotiations with Mortenson Development Company/Hyatt Hotels (Mortenson/Hyatt); and

WHEREAS, staff negotiations with Mortenson/Hyatt have resulted in a non-binding, preliminary business deal term sheet, the general terms of which are set forth in the attached Exhibit A (OCC Hotel Term Sheet).

BE IT THEREFORE RESOLVED, that the Metropolitan Exposition Recreation Commission:

Approves of the non-binding business terms set forth in the OCC Hotel Term Sheet attached hereto as Exhibit A and recommends to the Metro Council that it pursue a final development and financing agreement with Mortenson/Hyatt containing the terms set forth therein.

Passed by the Commission on August 7, 2013.

Approved as to form:

Alison R. Kean, Metro Attorney

Chair

By:

Nathan A. Schwartz Sykes, Senior Attorney

Secretary/Treasurer



Exhibit A to Resolution 13-20

**OREGON CONVENTION CENTER HOTEL
DEVELOPMENT AND FINANCING AGREEMENT LETTER OF INTENT**

_____, 2013 (the "Effective Date")

BETWEEN: Metro ("Metro")
600 NE Grand Avenue
Portland, Oregon 97232

AND: Mortenson Development, Inc. ("Developer")
M. A. Mortenson Company
700 Meadow Lane North
Minneapolis, MN 55422-4899

In May 2012, Metro issued a Request for Proposals for a development team to build, own and operate a private convention center hotel (the "Hotel"). The Parties understand that the primary purpose for Metro engaging in the Hotel project is to generate additional economic benefit to the region and the State by enhancing the marketability of the Oregon Convention Center.

In September 2012, the Metro Council selected the Mortenson Development, Inc. team to develop the Hotel adjacent to the Oregon Convention Center in Portland, Oregon. In late October 2012, Metro and the Developer (together, the "Parties") completed predevelopment activities resulting in the Development and Financing Agreement Term Sheet attached as Exhibit A ("Term Sheet") for review and approval by the Metro Council and Mortenson Development, Inc.

Metro and Developer intend to enter into a Development and Financing Agreement for the development of a privately-owned convention center Hotel, upon terms and conditions satisfactory to the Parties. The intent of the Term Sheet is to set forth the mutual understandings, intentions and approach of the Parties to plan, finance and develop the proposed Hotel to support the economic development mission of the Oregon Convention Center. The Parties anticipate negotiating and executing a formal, binding Development and Financing Agreement incorporating the general terms set forth in the Term Sheet on a date as soon as feasible within the term of the Term Sheet. Once a formal, binding Development and Financing Agreement has been executed, the Parties will have obligations with respect to the development and financing of the Hotel. The Parties desire to complete predevelopment and due diligence activities with the goal of constructing and opening the Hotel in 2016.

The term of the Term Sheet is 6 months from the Effective Date of this Letter of Intent. The Parties may extend the term upon mutual agreement, which shall not be unreasonably withheld provided the Parties are working in good faith and will be able to perform their expected duties and responsibilities under the Development and Financing Agreement, and will notify each other of substantive changes. If at any time either Party determines that it is unable to proceed, such party shall promptly notify the other, who may then elect to discontinue negotiations or proceed under revised terms.

Both Parties understand that this Term Sheet is non-binding and is intended to define the project approach and general business terms for the Development and Financing Agreement negotiation process. Both Parties commit to work in good-faith.

M.A. Mortenson Company

Tom Lander, Vice President and General Manager

Metro

Martha Bennett, Metro Chief Operating Officer

**EXHIBIT A
OREGON CONVENTION CENTER HOTEL**

DEVELOPMENT AND FINANCING AGREEMENT TERM SHEET

This Development and Financing Agreement Term Sheet summarizes the proposed terms under which Mortenson Development, Inc. (“Developer”) and Metro (“Metro”) intend to plan, finance and develop a privately owned Convention Center Hotel (the “Hotel”) to be owned and operated by Hyatt Hotel Corporation (“Manager”).

DESCRIPTION OF DEVELOPMENT TEAM	
Developer	Mortenson Development, Inc. will serve as the project developer, assuming all responsibility for the design, entitlement, financing and construction of the Hotel. The Developer is expected to enter into a Development and Financing Agreement with Metro.
Owner	<p>The initial project owner is expected to be a special purpose entity (SPE) to be created for purposes of this project. The Developer will act as managing member or managing partner of the SPE. The SPE will assume the Developer’s outstanding rights and responsibilities of the Development and Financing Agreement with Metro.</p> <p>Upon completion of construction, the SPE will be sold to Hyatt Hotels Corporation which shall cause the Hotel to be operated under the Hyatt Regency brand. A subsequent sale of the Hotel by Hyatt Hotels Corporation shall be encumbered with a Hyatt Regency franchise agreement or management contract, or shall be caused to be re-flagged an upper-upscale hotel brand of similar quality to Hyatt Regency. Owner shall notify Metro of a proposed sale and/or change in the Hotel flag. Metro will approve any change in Hotel flag as a condition to the change, with such approval not unreasonably withheld.</p>
Manager	Hyatt Hotels Corporation will manage and operate the Hotel.
Contractor	Mortenson Construction will serve as the general contractor for the project.
Design/Build	The Hotel will be built under a design/build approach, with Mortenson Construction providing cost and completion guarantees.
Architect	Elness Swenson Graham Architects will serve as the lead design firm, with Ankrom Moisan Associated Architects as the local design partner.

Other Consultants	<p>Piper Jaffray & Co. –finance investment banking</p> <p>Jones Lang LaSalle Hotels – market and feasibility studies</p>
Public Partners	<p>Metro, as owner of the Oregon Convention Center, is the lead public participant in the project.</p> <p>Three other public organizations will be required to take actions to facilitate the Hotel:</p> <ul style="list-style-type: none"> (a) Portland Development Commission (PDC) (b) City of Portland (c) Multnomah County
PROJECT DESCRIPTION	
Hotel Location	<p>The Developer prefers the Hotel be developed on portions of Block 47 and 48, Holladay’s Addition, Portland, as depicted in <u>Attachment A</u>. The property is currently owned by (or under the control of) StarTerra, LLC and is expected to be sold to the SPE at closing. The site is 1.85 acres and provides excellent proximity to the Oregon Convention Center and Light Rail along NE Holladay Street.</p> <p>PDC owns a 15,000 square foot parcel on Block 47, Holladay’s Addition, Portland, as depicted in Attachment C. This parcel is adjacent to the StarTerra site and will be considered as part of the Hotel design phase.</p> <p>An alternative site available for Hotel development is PDC’s property known as Block 43 and 26, Holladay’s Addition, Portland, as depicted in Attachment B.</p> <p>Mortenson shall coordinate with PDC on planning efforts for the adjacent, 15,000 square foot parcel on Block 47 currently owned by PDC.</p>
Hotel Description	<p>The Hotel will serve as the flagship convention hotel serving the Oregon Convention Center due to its size and proximity. The Hotel is currently expected to consist of the following facilities and amenities: (1) 600 rentable guest rooms; (2) 35,000 square feet of meeting and ballroom space; (3) a three meal upscale restaurant; (4) a lobby bar; (5) a coffee bar; (6) an indoor pool and whirlpool; (7) an exercise room; (8) a business center; (9) a gift shop; and (10) other additional facilities and amenities agreed upon by the parties, consistent with the high quality</p>

	Hyatt Regency brand.
Hotel Name	For purposes of this Term Sheet and subsequent negotiations, the Hotel will be referred to as the "Convention Center Hotel."
Parking Management	Structured parking shall be provided for the Hotel either under the Hotel or on Block 49 and shall be managed by StarTerra, LLC.
Operating Standards	The Hotel will be built and operated in conformance with the design, construction and operating standards for the Hyatt Regency brand, in place as of the effective date of the Development and Financing Agreement, and as approved by Hyatt Hotels Corporation.
LEED [Silver] Standards	The parties desire the Hotel to be certified LEED Silver or higher for New Construction by U.S. Green Building Council. Developer intends to construct the Hotel in a manner that would qualify it as LEED Silver or higher.
Operating Agreement with Manager	The Owner will enter into an Operating Agreement with Hyatt Hotels Corporation, with the expectation that Hyatt will operate and manage the Hotel.
UNION LABOR	
Construction	As a union signatory contractor, Mortenson routinely builds its projects utilizing union subcontractors and with union labor. Mortenson fully intends to do so for the Hotel project.
Operations	Hyatt Hotels Corporation, has entered into a labor peace agreement with Unite Here, Local 9, dated October 31, 2012.
NON-BINDING COMMITMENTS AND ROLES OF THE PARTIES	
Development	<p>Developer will serve as project developer and Mortenson Construction will be the construction contractor. Developer will:</p> <p>(a) Manage the predevelopment and construction process, including design/build, financing, permitting and construction management of the Hotel.</p> <p>(b) Provide a guarantee for construction costs and completion to facilitate project financing.</p> <p>(c) Serve as the lead entity in negotiations with the public participants, participating in joint team meetings, negotiating meetings and public</p>

	<p>meetings upon request.</p> <p>(d) Ensure that the project complies with terms and provisions conditions of the Development and Financing Agreements.</p> <p>(e) Provide Metro with copies of design product, budgets, statement of sources and uses of funds, financing commitments, operating pro formas, and other relevant information as mutually agreed upon throughout the Hotel project process.</p>
<p>Hotel Ownership and Operations</p>	<p>Hyatt Hotels Corporation expects to:</p> <ul style="list-style-type: none"> (a) Participate in the predevelopment process and provide project management oversight to ensure that the project is designed, constructed and equipped to meet the Hyatt Regency brand; (b) Negotiate and enter into a Room Block Agreement with Metro; (c) Acquire the Hotel from SPE upon completion of construction and issuance of a Certificate of Completion by the City; (d) Manage and operate the Hotel to the standards of a Hyatt Regency product upon completion of construction under contract with the ownership entity.
<p>Public Parties</p>	<p>Metro expects to:</p> <ul style="list-style-type: none"> (a) Serve as the lead public participant and public oversight agent through completion of the Hotel with any ongoing involvement to be addressed in the Room Block Agreement; (b) Coordinate necessary approvals for funding from PDC, City and Council. Negotiate and enter into development and financing agreements, including intergovernmental agreements, Visitor Development Initiative amendments, etc. (c) Negotiate and enter into a Room Block Agreement with Hyatt Hotels Corporation to address required convention room block needs and concerns regarding potential room rate impacts on the market. (d) Negotiate and prepare appropriate intergovernmental agreements to implement the project, including transient lodging tax (TLT) related agreements.

	<p>PDC's expected participation includes:</p> <ul style="list-style-type: none"> (a) Involvement in the project pre-development process, providing technical assistance as requested. (b) Providing direct financing as described below and potentially selling property for the project, either on Block 46 or Blocks 43/26 as indicated in <u>Attachment B</u> or a portion of Block 47, shown in <u>Attachment C</u>.
<p>CAPITAL STRUCTURE</p>	
<p>Private Financing</p>	<p>Construction Period:</p> <p>Mortenson Development, Inc. will structure approximately \$119.5 million in private investment through a combination of private equity and private debt accessed through institutional financing sources such as money center banks or life insurance companies.</p> <p>Post Construction:</p> <p>Hyatt Hotels Corporation will deliver a forward take-out commitment to purchase the Hotel upon completion.</p>
<p>Public Financing</p>	<p>Metro will:</p> <ul style="list-style-type: none"> (a) Provide direct financing available for use in the construction of the Hotel in the form of a performance grant for an amount up to \$4 million, contingent upon negotiation of the Development and Financing Agreement. (b) Amend the Visitor Facilities Trust Account (VFTA) Intergovernmental Agreement, upon approval from the City of Portland and Multnomah County and Metro Council, to create a funding mechanism within the VFTA to support the issuance of revenue bonds for the Hotel, based on the equivalent of 11.5% of the site-specific transient lodging tax (TLT) expected to be generated by the operations of the Hyatt Regency Hotel. (c) Issue, or cause to be issued, a revenue bond in the approximate amount of \$60 million ("Metro Revenue Bond") supported by the revenue stream generated from TLT through the Visitor Facilities Trust Account, with proceeds utilized for the construction of the Hotel.

	<p>Metro expects that PDC’s participation includes:</p> <p>(a) Direct financing in the form of a loan in an amount up to \$4 million, contingent upon budget authority and Board approval of appropriate financing agreements.</p> <p>Metro has received confirmation that the State’s participation will be:</p> <p>(a) Direct financing in the form of a grant in an amount of \$10 million, contingent upon Board approval of appropriate financing agreements.</p> <p><i>Note: Public and private financing terms are subject to further negotiation consistent with the intent of this Term Sheet based on the details of the overall financing plan for the Hotel and PDC’s terms for its financial participation, and are subject to review and approval by the appropriate public bodies.</i></p>																					
Project Budget	The project is anticipated to have a total budget, inclusive of all hard and soft costs of \$197.5 million. See <u>Attachment D</u> for a detailed, preliminary project budget.																					
Financing Sources Summary	See <u>Attachment E</u> .																					
SCHEDULE																						
<p>Project Schedule</p> <p><i>The Project Schedule is based on the assumption that Metro, City and County shall have approved amendments to the Visitor Facilities Intergovernmental Agreement (VFIGA) by September 30, 2013</i></p>	<table border="0"> <thead> <tr> <th>Pre-Development Phase:</th> <th>Start</th> <th>Finish</th> </tr> </thead> <tbody> <tr> <td>(a) Financing Plan</td> <td>June 1, 2013</td> <td>July 30, 2013</td> </tr> <tr> <td>(b) Amendments to VFIGA Approved</td> <td>August 15, 2013</td> <td>September 30, 2013</td> </tr> <tr> <td>(c) Development Agreements and Iterative Design</td> <td>October 1, 2013</td> <td>July 1, 2014</td> </tr> <tr> <td>(d) Entitlements and Permitting</td> <td>October 1, 2013</td> <td>July 1, 2014</td> </tr> <tr> <td>(e) Closing</td> <td></td> <td>September 1, 2014</td> </tr> <tr> <td>Construction Phase:</td> <td>September 1, 2014</td> <td>September 1, 2016</td> </tr> </tbody> </table>	Pre-Development Phase:	Start	Finish	(a) Financing Plan	June 1, 2013	July 30, 2013	(b) Amendments to VFIGA Approved	August 15, 2013	September 30, 2013	(c) Development Agreements and Iterative Design	October 1, 2013	July 1, 2014	(d) Entitlements and Permitting	October 1, 2013	July 1, 2014	(e) Closing		September 1, 2014	Construction Phase:	September 1, 2014	September 1, 2016
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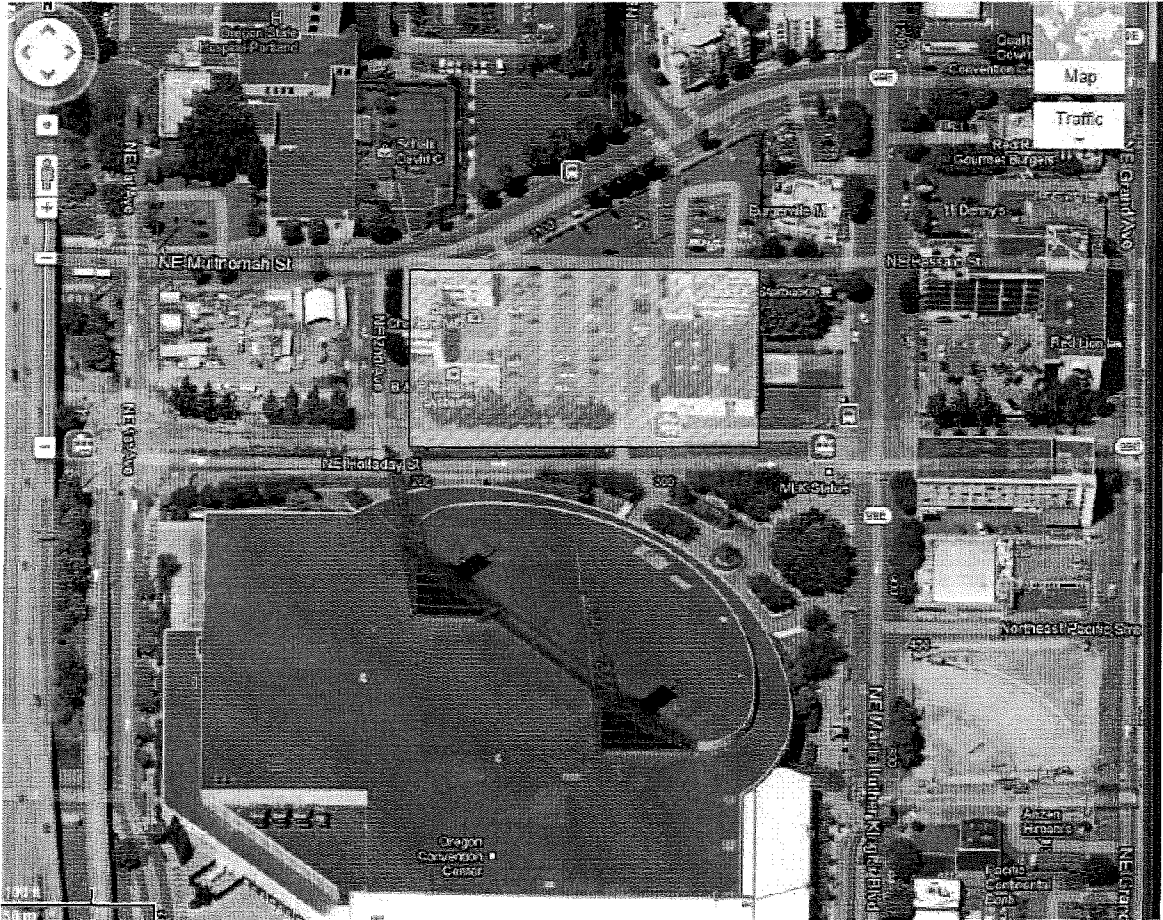
Project Schedule (cont.)	Hotel Opening: September 1, 2016
Performance Goal	The Parties commit to work diligently to achieve the project schedule, with a goal of Hotel Opening in 2016.
MISCELLANEOUS	
Room Block Agreement	As a condition to Metro issuance of the Metro Revenue Bond, Metro and Owner/Hyatt Hotel Corporation shall have executed a Room Block Agreement to be negotiated among such parties which addresses and defines the terms required by Metro and Owner relating to city-wide events, event room blocks of 500 rooms and a mutually agreed upon timeframe, and event block rates, as applicable.
Business and Work Force Equity - ESB/MBE/WBE Programs	Developer will ensure that the development, design, and construction of the Hotel comply with PDC's priorities for Emerging, Minority, and Women-Owned Businesses as set forth in RFP 13-2115 and as available at www.pdc.us .
Prevailing Wages and other Labor Requirements	Developer will ensure that all contractors, subcontractors and consultants fully comply with the State of Oregon's BOLI statues and regulations and any other applicable regulations.
First Opportunity Target Area Hiring	Owner will use its best efforts to comply with Metro's First Opportunity Target Area Hiring policy and as available at www.oregonmetro.gov .
Public Records	As allowed under Oregon law, Metro intends to use best efforts to maintain confidential documents related to the Hotel development proposal throughout the negotiation process. Upon completion of negotiations and during the final public approval process (at which time the Metro Council would approve issuing an intent to award a contract to Developer), Metro expects to make general project documents, not otherwise exempt from disclosure under Oregon law, available for public review.
Exclusivity	Metro and Mortenson anticipate to negotiate exclusively throughout the term of this Term Sheet.
Contacts	The appropriate representatives and addresses may be used throughout the negotiation process: M.A. Mortenson Company Tom Lander, Vice President and General Manager Nate Gundrum, Senior Development Manager 700 Meadow Lane North

	<p>Minneapolis, MN 55422-4899</p> <p>Metro Attention: Teri Dresler, Visitor Venue General Manager Attention: Cheryl Twete, Senior Development Advisor 600 NE Grand Avenue Portland, Oregon 97232</p>
<p>List of Attachments</p>	<p>A – Developer’s Preferred Hotel Site Location</p> <p>B – PDC-owned Site Available for Hotel</p> <p>C – PDC-owned Site Adjacent to StarTerra Property</p> <p>D – Preliminary Total Project Budget</p> <p>E – Financing Sources</p>

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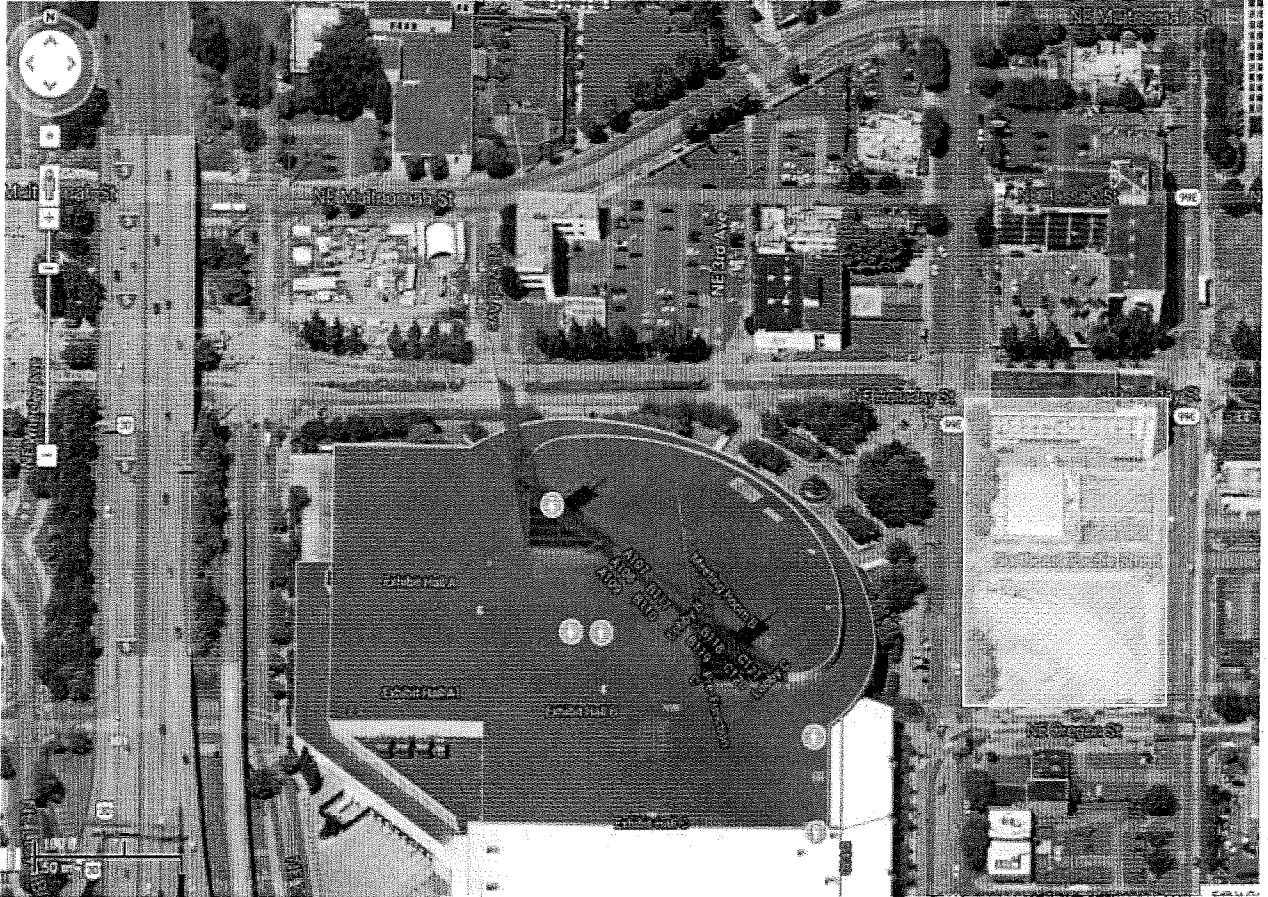
ATTACHMENT A

DEVELOPER'S PREFERRED HOTEL SITE LOCATION



ATTACHMENT B

PDC-OWNED SITE AVAILABLE FOR HOTEL



ATTACHMENT C

PDC-OWNED SITE ADJACENT TO STARTERRA PROPERTY



ATTACHMENT D

PRELIMINARY TOTAL PROJECT BUDGET

Uses of Funds		
Land	\$ 7,300,000	Land acquisition, etc.
Construction	\$ 125,000,000	Foundations, structure, enclosure, building systems, finishes, site work, utilities, etc.
FF&E/OS&E	\$ 25,200,000	Furniture, fixtures, operating supplies, food service equipment, technology, etc.
Development	\$ 30,600,000	Environmental site assessment, geotechnical investigation, consulting, survey, legal, sanitary sewer impact fee, storm sewer impact fee, transportation impact fee, park and recreation impact fee, water bureau impact fee, school impact fee, development fee, building permit/plan review fee, project contingency, pre-opening expenses, etc.
Financing	\$ 9,400,000	Construction period interest, loan origination, closing costs, title, disbursement, inspection, etc.
Total	\$ 197,500,000	

ATTACHMENT E
FINANCING SOURCES

Sources of Funds		
Private Investment	\$	119,500,000
Metro Revenue Bond	\$	60,000,000
State Grant	\$	10,000,000
Metro Grant	\$	4,000,000
PDC Loan	\$	4,000,000
Total	\$	197,500,000

MERC Staff Report

Agenda Item/Issue: For the purpose of approving the amended and restated Visitor Facilities Intergovernmental Agreement between Metro, Multnomah County, and the City of Portland, and approval of the Oregon Convention Center Hotel project Term Sheet with Mortenson Development Inc., and recommend to the Metro Council approval of both resolutions.

Resolution No.: 13-19
13-20

Presented By: Teri Dresler & Scott Cruickshank

Date: August 7, 2013

Background and Analysis:

In October of 2011, the Metropolitan Exposition Recreation Commission (MERC) and the Oregon Convention Center (OCC) Advisory Committee requested that Metro Council consider developing a convention center hotel, citing ongoing concerns that the lack of an adjacent convention center hotel continues to be a primary reason the OCC increasingly loses national convention market share to its competitors.

On January 17, 2012, Council convened a joint work session with MERC in which a presentation of the OCC's fiscal year 2010-11 economic impacts concluded that the lack of an adjacent convention center hotel was a significant challenge to the facility's ability to maintain its national convention market share. The two bodies agreed that, as stewards of the public facility, measures to maximize regional economic impact by solidifying its national convention business should be identified and implemented by staff.

On January 26, 2012, Council approved Resolution 12-4327, which directed staff to proceed with an Oregon Convention Center Enhanced Marketing Initiative work program, including Phase I Assessment of pursuing a privately owned, financed, constructed and operated hotel adjacent to the convention center to serve national convention clients, and report back to Council by April 30, 2012.

On April 26, 2012, Council was briefed by staff on Phase I Assessment conclusions which outlined the following completed assignments:

- Documented hotel room block deficiency surrounding the OCC
- Defined desired convention center hotel program
- Convened jurisdictional partners to work together to enhance the regional economic impact of the OCC by increasing the number of national conventions at OCC
- Executed a Statement of Principles – a joint declaration of the public goals for the OCC Hotel project

The Statement of Principles, executed by Multnomah County Chair Jeff Cogen, then Portland Mayor Sam Adams, Portland Development Commission (PDC) Executive Director Patrick Quinton and Metro President Tom Hughes, reflected a common understanding of 1) the OCC's fundamental competitive disadvantage with other comparable-sized facilities and 2) the regional and statewide economic benefits of OCC. It also recognized that public investment

would likely be necessary to achieve a convention-quality hotel of the type and scale necessary to “move the needle” in terms of driving additional national convention business to the OCC.

Based on the satisfactory completion of Phase I Assessment, at its April 26, 2012 meeting, Council approved Resolution 12-4346 and authorized implementation of Phase II, directing staff to issue a Request for Proposals (RFP) for the development of an Oregon Convention Center (OCC) Hotel consistent with the goals and public resources identified in the Statement of Principles.

On April 30, 2012, the Portland Development Commission approved Resolution #6942 endorsing Metro’s RFP process and authorizing the Executive Director to enter into negotiations with the selected developer, should a feasible development team be selected as a result.

The RFP was issued on May 11, 2012, seeking a private development team to build a privately owned and operated 4-star convention hotel adjacent to the convention center and including a 500-room room block, among other City and Metro construction and operational requirements. Two proposals were received and a public/private RFP evaluation team was convened to carefully assess and forward recommendations to the Council.

On September 13, 2012, staff returned to the Council with recommendations for development team selection and Council adopted Resolution 12-4365, selecting Mortenson Development Company/Hyatt Hotels (Mortenson/Hyatt) as the development team and authorizing staff to begin predevelopment negotiations following the successful completion of a Labor Peace Agreement between Hyatt Hotels and UNITE HERE labor union. Upon confirmation that such agreement had been reached between the two parties, Metro commenced predevelopment negotiations with Mortenson/Hyatt on October 31, 2012.

In the ensuing months, staff worked with the development team on a financing model with the goal of limiting public investment and risk, and an OCC Hotel Term Sheet detailing the essential elements of the project.

On December 4, 2012, Council received a briefing on the status of the predevelopment negotiations and the public bonding tools under consideration to assist in financing construction of the hotel.

Since that time, additional tools and models were explored and developed for Council consideration. Finance and legal staff at Metro, Multnomah County and the City of Portland have also been working on a parallel track creating a set of amendments to the existing Visitor Facilities Trust Fund Intergovernmental Agreement (VF IGA) to facilitate the use of site-specific transient lodging taxes to support the costs associated with construction of the hotel. A summary of both efforts, including the draft OCC Hotel Term Sheet, was presented at a joint Council/MERC work session on July 9, 2013.

Action Items Before Commission

The Commission is being asked to consider and act upon two items:

Resolution 13-19 which approves the Visitor Facilities Intergovernmental Agreement

Resolution 13-20 which approves the OCC Hotel Project Term Sheet with Mortenson Development Company.

Visitor Facilities Intergovernmental Agreement (VF IGA)

Since March 2013, staff has actively engaged in negotiations with City and County staff to prepare a thorough set of amendments to the existing Visitor Facilities Intergovernmental Agreement (VF IGA). See Exhibit A to Resolution 13-19 for the amended and restated VF IGA. A Summary of the VF IGA is Attachment 1 to this Staff Report.

The VF IGA was originally approved in 2001 by the City of Portland, Multnomah County and Metro. The VF IGA: 1) authorized collection of a 2.5% transient lodging tax (TLT) surcharge and a 2.5% vehicle rental tax surcharge; 2) established the Visitor Facilities Trust Account (VFTA); 3) provided for distribution of the taxes collected to a variety of uses supporting visitor development and tourism facilities and activities; and 4) called for the creation of the Visitor Development Fund Inc. (VDFI). The VDFI Board is a public/private board comprised of elected officials from Metro, the County, and City, along with representatives from the hospitality industry. Its purpose is to direct the use of certain allocations established by the VF IGA.

The proposed VF IGA amendments before Council reflect updated and new priorities and needs of the governments managing the region's visitor facilities and public/private tourism promotion programs. The amendments include provisions to accommodate a future OCC Hotel Project, including redirection of certain site-specific TLT into the overall VFTA, and an allocation of funding to support hotel revenue bond debt service payments to Metro. Other amendments address: 1) additional new or revised priorities intended to support the tourism and hospitality industry; 2) new management approaches for annual financial reviews, creation of reserves for on-going allocations and early bond repayment; and 3) the creation of a future strategic plan for the industry and visitor facilities. Staff conducted stress tests to ensure that adequate funding would be available for all of the proposed priorities, even under severe and catastrophic economic conditions. It is expected that the City and County will act upon the amendments in September 2013.

Staff believes that the proposed VF IGA amendments represent fair and reasonable updates and revisions for the public and private partners involved in the tourism and convention industry. Metro's priorities in the VF IGA negotiation process were to ensure that: 1) the OCC has long-term and appropriate levels of operating and marketing funding; 2) a viable funding mechanism is created to support Metro's issuance of the OCC Hotel revenue bonds; and 3) efforts on behalf of City and County partners related to the hospitality and tourism industry are supported.

Metro staff and financial advisors, in consultation with City and County financial staff, have also analyzed and defined general OCC Hotel bond underwriting assumptions. The fundamental assumptions employed as part of the VF IGA effort as well as for the OCC Hotel Term Sheet (described below) are that the OCC Hotel bond amount is capped at \$70 million and bond repayment is consistent with the projected OCC Hotel site-specific revenues, debt service coverage ratio of 1.05, with approximately a 30-year term (similar to the OCC Expansion Bonds term). The final interest rates and other terms will be based upon these factors and bond market conditions at the time of issuance.

The amendment creates a viable path for the proposed OCC Hotel by enabling the equivalent of 11.5% of the 12.5% visitor-paid, site-specific TLT to be generated by the OCC Hotel to be redirected to the VFTA and used to reimburse Metro for revenue bond debt service payments. The proposal originally submitted by Mortenson/Hyatt was to utilize OCC Hotel site-specific TLT to support private financing of the hotel; however, due to complex state and federal regulations, consultants advise that the most efficient manner is to structure the publicly-issued revenue bonds supported by the VF IGA.

Staff recommends approval of Resolution 13-19 authorizing approval and execution of the amended and restated VF IGA. Upon consideration and approval of the VF IGA by Council and City and County partners, the document will be executed and implemented immediately. Without approval and execution of the VF IGA amendments, Metro will not be able to agree to or perform the responsibilities identified in the OCC Hotel Project Term Sheet. The 2013 VF IGA provides important updated funding and management approaches for the tourism and hospitality industry and staff acknowledges the hard work and efforts of the jurisdictional partners.

OCC Hotel Term Sheet

The OCC Hotel Term Sheet represents a preliminary business deal term agreement with Mortenson/Hyatt. It consists of a description of the project and its programming, projected costs and funding sources, project schedule, site and design attributes of the proposed OCC Hotel and roles and responsibilities of the key team members, including the Portland Development Commission. This document, while not legally binding, is a significant milestone for the OCC Hotel project and reflects a joint understanding of how the project will move forward. It builds on the momentum of the State of Oregon's recent approval of a \$10 million grant for the project, which demonstrated a strong commitment to and understanding of the importance of the tourism industry in Oregon.

A general description of the project is as follows:

- 600 (approximately) room Hyatt Regency
- 500 room block commitment
- 36,000 square feet of meeting and ballroom facilities
- On-site restaurant/bar facilities and food and beverage catering services
- Quality amenities of the Hyatt Regency brand
- Commitment to public policy priorities – LEED Silver or higher, City of Portland's Business and Workforce Equity and MWESB policies, and Metro's First Opportunity Target Area (FOTA) program

The OCC Hotel Term Sheet is Exhibit A to Resolution 13-20. If approved by Council, it will serve as the basis for continued negotiations of a full development agreement, room block agreement, revenue bond documentations and other project agreements. Staff expects to return to Council for final development approvals in Fall/Winter 2013.

Obtaining approval of both the VF IGA and the OCC Hotel Term Sheet is necessary for predevelopment planning to proceed. Without VF IGA approvals, Metro would not have the financing tools it requires to commit to issuing revenue bonds. As agreed to in 2012, Metro serves as the lead partner for the OCC Hotel Project and the City and County are not parties to the OCC Hotel Term Sheet. Metro anticipates providing \$4 million of grant funding to the project and is coordinating with the City of Portland Development Commission on its proposed \$4 million of urban renewal financing for the project as well as urban design planning for the site.

The project schedule is another critical element. To take advantage of interest rates and construction costs that remain historically low, Metro and Mortenson Development propose to move forward with the following next steps and decision points:

Staff negotiates development/financing agreement	Fall 2013
Metro Council/PDC final approvals	Winter 2013
Construction begins	Summer 2014
Construction completed	Summer 2016

At this stage of the potential project, there is a group of local hoteliers who have indicated their opposition to this project, similar to the opposition voiced during the 2007-09 publicly-owned hotel effort. There could be concerns from some members of the public who may question whether public investment in private development projects is appropriate. Staff will report on the outcome of the August 1, 2013 Public Open House and comments received. During the next several months of the project, Metro will track issues raised by interested stakeholders and address appropriately. An open and transparent public communication and outreach strategy will be essential to the success of the project.

Fiscal Impact: Budgeted FY 2013-14 funds are expected to be adequate for the project pre-development and development phase.

Approval by all three jurisdictions of the VF IGA will initiate the amended language which does have implications for OCC and PCPA in terms of funding priority and in the case of OCC, places additional requirements on the annual budget deficit funding request. As you are aware, the amendments to the VF IGA have been tested against anticipated performance of the new convention center hotel and potential economic downturns as experienced in the past 12 years. Staff is confident that the amended language and the implications for OCC and PCPA funding will not threaten the budgets of those venues.

These resolutions seek authority to enter into the VF IGA and proceed with further development negotiations, but does not seek authorization of any specific project agreements, nor does it obligate MERC or Metro to commit any funding to the project.

Exhibits and Attachments to Resolutions 13-19 and 13-20:

Exhibit A to Resolution 13-19: the amended and restated VF IGA

Exhibit A to Resolution 13-20: OCC Hotel Term Sheet

Attachment 1 to this Staff Report: Summary of the VF IGA

Recommendation: Staff recommends that the Metropolitan Exposition-Recreation Commission approve Resolution 13-19, for the purpose of approving the amended and restated Visitor Facilities Intergovernmental Agreement between Metro, Multnomah County, and the City of Portland, and approval of Resolution 13-20, Oregon Convention Center Hotel project Term Sheet with Mortenson Development Inc., and recommend to the Metro Council approval of both resolutions.

Attachment 1

Proposed Amended Visitor Facilities Intergovernmental Agreement

Background and description of amendments under consideration – August 1, 2013

The Visitor Facilities Intergovernmental Agreement (VFIGA) was originally approved in 2001 by the City of Portland, Multnomah County and Metro to: 1) establish a 2.5% Transient Lodging Tax surcharge and a 2.5% Vehicle Rental Tax surcharge; 2) establish the Visitor Facilities Trust Account (VFTA); 3) allocate and distribute the tax surcharges collected to a variety of uses supporting visitor development and tourism facilities and activities; and 4) create the Visitor Development Fund Inc. (VDFI). The VDFI Board is a public/private board composed of elected officials from Metro, the County, and the City along with representatives from the hospitality industry and directs the use of certain allocations established by the VFIGA.

In March 2013, City of Portland, Multnomah County and Metro staff re-engaged in a process, begun in 2012, to update the 2001 VFIGA. The proposed amendment package, if approved by the City Council, County Board and Metro Council, will be the first amendment to the Agreement in its 12-year history. The main goals of the VFIGA amendments are:

1. To reflect updated and new priorities of the partners and clarify existing intent and priorities.
2. To provide a mechanism to redirect site-specific Transient Lodging Taxes (SSTLTR) collected at the OCC Hotel Project into the VFTA to support the OCC Hotel Project Bonds.
3. To provide a mechanism for debt service payments on revenue bonds which will be issued by Metro to support the development of the OCC Hotel Project.
4. To provide for long-term stability of the VFTA system and its funding priorities by updating revenue and expenditure projections and creating processes for ongoing financial review.
5. To revise the document structure to provide clearer organization and ease of reading.

The proposed amendments include the following:

1. Recitals – provide more history and clarity regarding purpose and intent
2. Restructure organization of document – consolidate language and reduce redundancy to more clearly describe funding priorities and obligations of parties
3. Create mechanisms to redirect the site-specific City 5% TLT (General Fund), the site-specific 3% Excise Tax Fund TLT, and the equivalent of the site-specific City 1% TLT (Tourism Promotion) into the VFTA.
4. Create mechanism for debt service payments on Metro issued Hotel Project Bonds using equivalent of site-specific Transient Lodging Tax Revenues (SSTLTR) within VFTA, with excess SSTLTRs above debt service payments accruing to the benefit of the VFTA.
5. Revise allocation priorities to reflect 2013 needs and opportunities (see VFTA priorities below).
6. Create process for periodic financial review of VFTA finances by City/County/Metro financial leads including mechanisms for reviewing Hotel Project Bond payment terms, reviewing financial performance of VFTA and providing analysis, as needed, to the VDFI Board.
7. Create reserve requirements to ensure allocations are covered if revenues decline; create a new reserve for early bond redemptions.
8. Agreement to work on a future Visitor Development Strategic Plan.
9. Maintain basic legal provisions regarding dispute resolution, termination and remedies.

VFTA Priorities

Allocations 1 – 4 Debt Service for Bonds

1. Convention Center Completion Bonds – no change; refinanced by City in 2011, generating ~\$875K/year to VFTA from savings
2. PCPA Bonds – no change; refinanced by City in 2011, generating some savings to VFTA
3. Stadium Bonds – change to facilitate refinancing and savings to City and VFTA
4. Hotel Project Bonds– new; for debt repayment on approximately \$60-\$70 million revenue bonds sized as supported by projected SSSLTRs generated by the proposed OCC Hotel Project.

Allocations 5 – 11 Support for Operations, Programs, Services, Capital Improvements and Marketing

5. OCC Operating Support – modified; to support Oregon Convention Center to maintain the OCC's competitiveness; changes formula and approval approach for OCC Operating Support allocation up to \$1.25M/year escalated, which is automatically approved unless objections are raised, and allows for Additional OCC Operating Support request for funding beyond the initial request, subject to review by Financial Review Team and approval from the VDFI Board.
6. Multnomah County – new; to provide funding to enhance the visitor experience; at \$500K/year escalated (\$250K in FY2013-14); step increases up to \$1M/year escalated subject to review by Financial Review Team of expected adequacy of VFTA revenues to fund all obligations.
7. Enhanced Convention Center Marketing – modified formula, but funding remains equivalent; amount allocated is reduced to reflect projected equivalent of the site-specific City 1% TLT from the OCC Hotel Project which will continue to flow to Travel Portland per City Charter; at \$450K escalated until third fiscal year after the OCC Hotel Project in operation for more than 18 months; then \$175K escalated.
8. Convention Visitor Public Transit Passes – modified; change to direct funding to VDF for convention delegate transit passes due to elimination of Fareless Square; up to \$390K escalated.
9. Visitor Development Fund – modified; provides funds to the VDFI Board to use for convention and tourism promotion purposes, hosting meeting planners, grants to conventions, etc.; at current \$645K escalated, plus an additional fixed \$875K/year for remainder of OCC Bond term.
10. PCPA – no change; maintained at current \$645K escalated.
11. City of Portland – new; to provide operating and capital improvement funding for Rose Quarter Facilities; at \$500k/year escalated (\$250K in FY2013-14).

Allocations 12-13 Reserves

12. Restricted Reserve – new; to be sized to cover 1.5x the expected maximum annual amount for allocations 5-11 in the event that VFTA revenues fall short
13. Bond Redemption Reserve – modified concept; to be used to redeem bonds prior to their stated maturity date.

