A G E N D A

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METRO

Agenda

MEETING:	METRO COUNCIL/METROPOLITAN EXPOSITION RECREATION COMMISSION (MERC) SPECIAL MEETING
DATE:	March 10, 2004
DAY:	Wednesday
TIME:	11:00 AM
PLACE:	Metro Council Chamber

MEETING OBJECTIVES

Identify the challenges and opportunities that will determine the long-term success of regional facilities.

Determine the follow-up mechanisms necessary to effectively address challenges and opportunities.

CALL TO ORDER AND ROLL CALL

1. Opening (Council President Bragdon and MERC Chair Gary Conkling)

2. Presentation of C.H. Johnson Report (C.H. Johnson)

3. Discussion of C.H. Johnson Report and its Implications (Metro Councilors / MERC Commissioners)

4. Discussion of Issues and Options for Long-Term Funding of the Regional Facilities (Metro Councilors / MERC Commissioners)

5. Identification of Mechanisms for Follow Up on Funding Issues

6. Close (Council President Bragdon)

ADJOURN

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Oregon Convention Center

Benchmarking Analysis

Submitted to:
Oregon Convention Center

September 2003

Submitted by:
C.H. Johnson Consulting, Inc.
Six East Monroe, Suite 500
Chicago, IL 60603
Phone: 312-444-1031

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I. REPORT LETTER

C.H. JOHNSON CONSULTING, INC.
EXPERTS IN CONVENTION, SPORT AND REAL ESTATE CONSULTING

September 24, 2003

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

Dear Mr. Blosser:

Pursuant to our contract with the Oregon Convention Center (OCC), C.H. Johnson Consulting, Inc. (Johnson Consulting) has prepared the enclosed report summarizing our benchmarking analysis of the Oregon Convention Center operation.

The objective of this study is to analyze and compare the OCC's operating cost structure, rate policies, subsidy levels, and other relevant factors to selected representative comparables, in order to assess the OCC's competitive position in the marketplace, to compare the OCC's discounting and pricing policies among peers, and to determine future policy decisions for the facility. The attached report explains the methods used in the analysis and discusses the findings.

Johnson Consulting has no responsibility to update this report for events and circumstances that occur after the date of this report. The findings presented herein reflect analysis of primary and secondary sources of information. Johnson Consulting utilized sources deemed to be reliable but cannot guarantee their accuracy.

We have enjoyed serving you on this engagement and look forward to providing you with continuing service.

Sincerely yours,

C.H. Johnson Consulting, Inc.

C.H. Johnson Consulting, Inc.

II. INTRODUCTION AND OVERVIEW

INTRODUCTION AND OVERVIEW

The Oregon Convention Center (OCC) engaged C.H. Johnson Consulting, Inc. (Johnson Consulting) to conduct a benchmarking analysis in regard to facility rates, policies, and operating strategies. The objective of this study is to present a comparative analysis of the OCC's operating costs and resource support mechanisms; rate structure and rental policies; underwriting resources/incentive capacities, and; other factors in relation to a set of competitive peer facilities. This information will allow management and other stakeholders to evaluate the OCC's competitive position in the convention center marketplace, identify strategies to increase the OCC's market penetration, and provide a framework for ongoing policy decisions.

The OCC is owned by Metro, the Portland area regional government, and managed by the Metropolitan Exposition-Recreation Commission (MERC), a special purpose arm of Metro dedicated to managing public assembly facilities. OCC is positioned in a highly visible and appealing location along the banks of the Willamette River, directly opposite from downtown Portland, Oregon. With 155,000 square feet of contiguous exhibit space, the OCC is the largest 'Class A' convention facility in Oregon, and already among the premier facilities in the Northwestern US. The Portland Metropolitan Exposition Center (Expo) (largest hall: 144,000 square feet, total exhibit space: 333,000 square feet) is the only other facility in the state that compares in size, but its quality level puts it in a different competitive category than the OCC. Expo is also run jointly by MERC, which is an advantage for both facilities in that any potential competition locally can be controlled.

The OCC just opened a $116 million expansion. The facility now offers 255,000 square feet of contiguous exhibit space, a new 35,000 square foot grand ballroom and approximately 28,000 square feet of additional meeting space. An expanded parking structure, which increases capacity to approximately 1,100 vehicles, is also part of the expansion program. With this expansion, the OCC will be more effectively positioned to compete for larger events. However, the expansion also moved the OCC and Portland beyond their traditional events base and into a competitive set comprised of a broader array of western US cities and facilities vying for regional events and rotating national shows.

In order to position the OCC to transition the next level and, subsequently, increase Portland's market share in the convention and meeting industry, it is important for OCC management and stakeholders such as the City, Metro, and the Portland Oregon Visitors Association (POVA) to acknowledge the existing competitive position of the OCC, recognize the factors that may be inhibiting performance, and distinguish the tools and strategies that have been used in other markets/facilities to capture additional events and, most importantly, the associated economic activities.

While well located, its key liabilities are separation from the downtown by the river, as well as a lack of a headquarters hotel. Some people feel that it is expensive to hold events in Portland due to these two considerations. Hence the marketing agent of the center, the Portland Oregon Visitors Association (POVA) regularly receives requests from potential users of OCC for rental rate reductions for the facility. Due to its closed system of funds and the limited support structure in place for the facility, MERC generally takes the position that the rate is not a variable, and that other incentive strategies have to be found, if indeed they are actually the deciding factor in site selection.

Based on the preceding objectives and framework, this report presents the results of an independent investigation of industry discount and incentive practices, convention center financial support mechanisms, and taxation or assessments charged by governments to convention centers. It also provides a baseline assessment of the OCC's overall performance, on a revenue and expense basis.

The balance of this report includes the following elements:

- **Section 2** contains this introduction, an overview of the methodology used to conduct the analyses contained herein, and an executive summary,
- **Section 3** presents a comparative analysis of the OCC in relation to five competitive facilities in the following peer markets: Seattle, San Jose, Austin, Denver, and Salt Lake City. Included are an analysis of selected operating and financial characteristics and funding mechanisms amongst the OCC and its competitive set, and a comparative review of event related expenses and revenues for rotating events,
- **Section 4** presents the results of a survey to a nationwide sample of convention centers on incentive and rebate strategies, and presents case studies on two events that visited Portland and rotated among various convention centers.

METHODOLOGY

In order to complete its benchmarking analysis for the OCC, Johnson Consulting performed the following tasks:

- Analyzed financial information, rental rate policies, and other operating information of the Oregon Convention Center,
- Analyzed financial information, rental rate policies, and other operating information of the facilities that compete with the OCC in the marketplace.

These facilities include: 1) Washington State Convention and Trade Center in Seattle, Washington; 2) San Jose McEnery Convention Center in San Jose, California;. 3) Austin Convention Center in Austin, Texas; 4) Colorado Convention Center in Denver, Colorado; and 5) Salt Palace Convention Center in Salt Lake City, Utah,

- Compiled the information in the format that is somewhat standardized, given the absence of a standard chart of accounts, for all of the facilities being analyzed.
- Prepared a ratio analysis and compared the OCC's revenues, expenses, and ratios with those of the comparable facilities.
- Compared respective facilities' annual subsidies, funding mechanisms, and overhead on a gross and per-square-foot basis to those of the OCC.
- Analyzed the rent/rates structures of the respective facilities, including a review of user fees and surcharges on items such ticket sales,
- Interviewed management of the selected convention centers to gain insight into the rate/rental structures, discounting or rebate policies and practices, exceptions, and other strategies used to induce events activity,
- Interviewed convention and visitors bureau staff in selected cities to gain insight into prevailing sales and marketing tactics within the conventions sales industry,
- Interviewed municipal government officials to ascertain the prevalence of excise taxes or other special assessments directed toward convention centers,
- Reviewed invoices and settlement sheets for selected events that met in Portland and subsequently other cities to develop actual data on rents and other charges paid. This exercise was not as fruitful as desired, but does provide some additional insights for the few events that participated, and
- Conducted a survey to a nationwide sample of convention centers regarding booking policies, event inducement strategies, and incentive/discount practices and policies.

EXECUTIVE SUMMARY

Johnson Consulting compared the Oregon Convention Center with five similar buildings, all of which are in attractive, comparatively sized growth markets and popular tourist destinations. The analysis revealed the following:

- The OCC expansion being developed is consistent with its competition and was essential to stay on par with comparatively sized cities. It was also strategic to size the facility larger than Seattle's Washington State

Convention Center. Portland's offerings are the largest in the Northwest and that is an essential advantage.

- In terms of events and attendance, the current facility is attracting demand. It is on par in terms of number of conventions and tradeshows as well as number of consumer show events in comparable markets. Average attendance is on the lower end of the scale. Larger buildings in major metro areas are attracting larger trade shows, which largely explains the attendance variance.

- Most convention centers are intended to function as economic loss leaders and operate at a planned rate of deficit in order to attract out of town business and promote economic development. OCC is no exception. Like most such centers, it receives a share of the local lodging tax in order to help fund its operations.

- Two things are unique about the Oregon Convention Center's finances:

  First, its $2.8 million outside marketing expense is paid for out of its own available resources, which are a combination of lodging tax support and operating revenues. In most competitive facilities, marketing expense is provided for outside of the convention center's funds and chart of accounts. While it is appropriate for MERC to have the ability to direct these marketing funds by contract with the visitor association, the marketing contract should be viewed as a non-operating expense for the convention center as it is in essence a pass-through of subsidy dollars.

  Second, the Center is assessed a 7.5 percent excise tax on all gross earned revenue by its parent body, Metro, which is unique in the industry. In order to analyze the convention center's financial performance accurately and compare it with other similar facilities, the excise tax assessments should be viewed as a deduction against the operating support the center otherwise receives from lodging taxes.

- In terms of financial performance and management, the Oregon Convention Center's operating revenues and expenses compare very favorably with its competitive set when viewed under a more standard chart of accounts as described above. The building's deficit is at the lower end of the spectrum. Only one facility, the Denver Convention Center, reported a profit and only did so in one of the two years reviewed. In OCC's competitive set, the average operating deficit per square foot is $17.84. OCC's operating deficit per square foot is $27.83, or over 60 percent greater than the average. However, after the restatement of proforma with regards to the marketing contracts with POVA and the excise tax, OCC's operating deficit per square foot is $9.42, or approximately 50 percent of the average. When the expanded size is considered, OCC's operating deficit per exhibit hall spqaure foot is $5.73, or approximately 32 percent of the average.

- The lodging tax subsidy provided to support the Oregon Convention Center's operations is on the low end of the spectrum when viewed through a more standardized chart of accounts as described above. In OCC's competitive set, the average rate of subsidy per square foot is $52.68. OCC's net subsidy per square foot is $6.81, or 11 percent of the average.

- The Oregon Convention Center is the only facility in its competitive set which is assessed an excise or similar tax, which amounted to approximately $767,000 in FY 2000-01. This is a detrimental financing burden, especially given that after expansion, no long term provision has been considered to reflect the larger facility's potential funding requirements or competitive positioning. Typically, convention centers receive tax dollars to support their operations and are not required to fund other public operations via such tax assessments.

- Currently, the Oregon Convention Center is also charged for governmental support services which are mandatory and non-negotiable. This type of mandatory municipal assessment is not unheard of in the industry. Of OCC's competitive set, the Austin Convention Center and the San Jose McEnery Convention Center are also charged substantial city assessments. Based on information provided by the case study buildings, the other buildings that have been analyzed are not charged municipality assessments. Generally, where facilities have the ability to control their own costs through competitive selection of service providers rather than mandatory municipal assessments, those costs are usually lower. OCC, however, is the only facility which pays both a mandatory municipal assessment and a tax on its operations.

- In terms of discounting rates, there is no clear pattern or report available. In all cases concessions are made and they are dealt with in three principal ways, a) a discrete fund that pays costs for the facility, b) on a case-by-case basis through formally recognized rent or other discounts, or c) informal discounts provided by the building. Such informal discounts come in the form of lenience in charges for move in and move out days, absorbing some labor costs, etc.

- In order to support our comparables work, we also analyzed two events that met at the OCC, and then other cities. We also conducted a broader survey regarding rate discounting and taxes or assessments charged to the building. Based on both the specific show and the broader survey information several conclusions can be drawn. First, it appears that discounting does occur at two levels- informally by the building by being lenient in charging for move in and move out days, labor, calculation of net square feet, etc. Secondly, between the CVB, Center and hotels, funds are being developed to support attracting events. These activities seem to be increasing as the economy softens and as more convention center space comes on line.

- Based on our review, the best approach is to recognize that management has some judgment in developing its invoice and it is using its judgment wisely to attract maximum demand, minimum bottom line impact and equity between clients. Purposeful rate discounts are not recommended as they undermine rate integrity. Rather, if the community desires an event fund, a preferred incentive strategy is the development of a fund or resource pool, funded by hotel tax or room rebates, that is allocated based on predetermined criteria. This allows the convention center to be compensated for its costs without eroding its pricing policy, while at the same time still provides a tool to be competitive.

- In terms of taxes and charges, no other convention center known to the author is assessed a property or excise tax per se. Other City owned facilities are assessed administrative charges for support services and these allocations can be substantial. In some instances, where room taxes are used to support the facility, these allocations are strategies used by municipalities to gain access to the room tax stream for other purposes. In other instances, it is an effort to account for actual services provided. Standalone authorities with dedicated funding have more autonomy and are generally not assessed.

- In conclusion, the OCC is financially disadvantaged in its ability to adequately fund its operations, much less discount rates, due to the combination of excise taxes, mandatory municipal support cost assessments, and one of the lowest subsidy amounts among its competitive set. Given the financial structure at the center, it is doubly important that the facility be reimbursed for its costs. Short term, a fund set up outside the Center, to incentivize events, rather than direct facility discounts is more appropriate. Long term, OCC's need for additional operational support should be addressed.

III. Facility Overview

FACILITY OVERVIEW

The section provides a comparative review of the Oregon Convention Center (OCC) and selected facilities in competitive peer markets. Johnson Consulting reviewed the market characteristics, operating environment, event volume and demand, and market opportunity for the OCC and its peers. This information provides the framework for evaluating the competitive profile of the OCC, and context for establishing benchmarks and identifying other factors that may impact the short- and long-term potential for the OCC. The first portion of this section presents an overview of individual facilities. Comparative analysis is presented at end of the section.

Oregon Convention Center, Portland, Oregon

Located in northwest Oregon, at the intersection of the Columbia and Willamette Rivers, Portland is part of the two-state, six-county Portland, OR-Vancouver, WA metro area. Over the last decade, the metro area has experienced robust population growth, increasing at an annual rate of 2.3 percent, or approximately double the national average. As of the 2000, the MSA had 1.9 million residents.

Situated along the banks of the Willamette River, directly opposite downtown Portland, the Oregon Convention Center (OCC) opened in September 1990. The OCC is owned by the Metro, the Portland area elected regional government, and operated by the Metropolitan Exposition and Recreation Commission (MERC), which also operates the Portland Center for the Performing Arts and the Portland Metropolitan Exposition Center. The MERC is directed by a seven-member Commission comprised of business and community leaders appointed to four-year terms by the City of Portland (two), Metro (two), Multnomah County (one), Washington County (one), and Clackamas County (one).

The initial development cost for the OCC was $90 million, including $65 million for construction and $25 million for site acquisition, soft costs, construction management fees, and furniture, fixtures, and equipment purchases. Project financing was derived through property taxes ($70 million), a local improvement district tax ($5 million), and the state lottery ($15 million).

The OCC originally featured 155,000 square feet of exhibit space, a 25,000-square foot ballroom, 27,000 square feet of meeting space in 28 flexible rooms ranging from 800 square feet to 10,000 square feet, and on-site parking for 400 cars. Recently, a $116 million expansion project opened in April 2003. Now the OCC offers 255,000 square feet of contiguous exhibit space, a new ballroom with 35,000 square feet, and

52,000 total square feet of meeting space, as well as a parking capacity for 1,100 cars. Most importantly, the facility is now the largest Class A facility in the Northwest US, which will improve the competitive potential of the OCC and enhance Portland's identity as a location for convention and tradeshow activity. The expansion is being funded through a 0.25 percent increase in the County transient occupancy tax and car rental tax, a $5 million contribution from the City of Portland via development commission funding, and a $5 million matching contribution from MERC drawn from the OCC reserves. The increase in lodging tax and car rental tax will sunset when the bonds for the project are paid off.

Table 3-1 summarizes the size and capacity of the exhibit hall, ballrooms, and meeting rooms before and after the expansion.

Table 3-1

Oregon Convention Center
Convention and Meeting Room Size and Capacity

	Size (SF)		Capacity			
	Smallest Section/ Room	Combined	Theater	Class Room	Banquet	Exhibits (10'x10')
Exhibit Hall						
Hall A	30,000		2,600	1,550	1,700	165
Hall A1	30,000		2,600	1,550	1,700	165
Hall B	30,000		2,600	1,550	1,700	165
Hall C	61,000		5,500	3,300	3,550	340
*Hall D**	*61,000*		*5,500*	*3,300*	*3,550*	*340*
Hall E	*30,000*		*2,600*	*1,550*	*1,700*	*165*
Hall A-C Combined		155,000	13,300	7,950	9,050	864
Hall A-E Combined		*255,000*	*21,400*	*12,800*	*15,000*	*1,400*
Ballrooms						
Oregon Ballroom						
Section 1, 2, 3, or 4	6,300		700	360	360	30
Section 1-4 Combined		25,200	2,800	1,440	1,530	125
Portland Ballroom						
Section 1 or 6	*4,000*		*440*	*210*	*220*	*22*
Section 2 or 5	*4,700*		*520*	*250*	*260*	*26*
Section 3, 4, 7, or 8	*4,200*		*460*	*220*	*240*	*24*
Section 1-8 Combined		*34,200*	*3,600*	*1,840*	*2,000*	*184*
Meeting Rooms						
Smallest Room	165		15	8	10	na
Largest Room (Combined)		5,670	700	352	300	na
Total SF of Meeting Rooms		27,100				
Number of Rooms	28	13				
After Expansion:						
Smallest Room	*165*		*15*	*8*	*10*	*na*
Largest Room (Combined)		*6,066*	*630*	*315*	*310*	*na*
Total SF of Meeting Rooms		*52,500*				
Number of Rooms	*50*	*20*				

**Text and figures in italics indicate the room, size, and capacity after expansion.*
Source: Oregon Convention Center

As shown in the table, the OCC's current 155,000-square foot exhibit hall is divisible into four sections ranging from 30,000 to 61,000 square feet. The ballroom is divisible into four sections of 6,300 square feet each. There are 26 flexible meeting rooms, which can be combined into nine larger rooms. The size of the meeting rooms ranges from 165 square feet (when used individually) to 5,670 square feet (when combined). The meeting rooms comprise 27,100 square feet.

The expansion added two exhibit hall sections of 30,000 and 61,000 square feet, increasing the amount of contiguous exhibit space to 255,000 square feet. It will also add a ballroom of 34,200 square feet, divisible into eight sections of similar sizes. Meeting room space will increase to a total of 52,500 square feet, with a total of 50 flexible rooms, which can be combined into 16 larger rooms.

Table 3-2 shows the event and attendee demand at the OCC in its last full year (before expansion).

Table 3-2

Oregon Convention Center
Event Demand and Attendance

	Number of Events	Total Attendance	Average Attendance
Convention/Trade Shows	59	160,245	2,700
Consumer Shows/Specialty Expos	32	186,953	5,800
Meetings and Seminars	246	126,446	500
Banquets	92	59,800	700
Total	429	533,444	

Source: Oregon Convention Center

As shown in the table, in 2001, the OCC hosted 59 conventions and trade shows, 32 consumer shows and specialty expositions, 246 meetings and seminars, and 92 banquets. Events at the OCC generated approximately 533,000 attendees and 140,700 room nights.

Table 3-3 shows the OCC's financial statements for FY 1999-00 and FY 2000-01.

Table 3-3

Oregon Convention Center
Financial Statements ($000's)

	1999-00	2000-01
Operating Revenues		
Rental	$1,837	$1,920
Reimbursed Labor	352	350
Food Service Revenue	5,325	5,060
Merchandising	0	0
Utility Services	1,432	1,316
Parking	744	668
Admission Fees	2	(8)
Commissions	30	60
Retail Sales	59	62
Other	101	24
Total	$9,883	$9,454
Operating Expenditures		
Personal Services (Payroll)	$5,083	$5,242
Materials and Services	1,704	1,579
Concessions/ Catering	4,117	4,000
Parking	55	320
Marketing Contracts	2,256	2,627
Total	$13,216	$13,768
Operating Income (Deficit)	($3,333)	($4,314)
Non-Operating Resources		
Hotel/Motel Tax	$4,286	$10,869
Donations and Contributions	0	0
Investment Earnings	247	297
Other Non-Operating Revenue	0	24
Transfer	0	81
Total	$4,533	$11,271
Non-Operating Requirements		
MERC Administration	$1,237	$539
Insurance	147	0
Charges for Services	384	0
Metro Support Services	0	849
Debt Service	3	1
Capital Outlay	324	268
Transfer	0	713
Contingency	0	0
Total	$2,096	$2,369
Revenues and Other Sources over Expenditures amd Other Uses	**($896)**	**$4,588**
Fund Balance, Beginning	$5,894	$4,998
Fund Balance, Ending	$4,998	$9,585

Source: Oregon Convention Center

The OCC has a closed funding arrangement, limited to the resources presented in the above table. In order to address the expansion, a Visitor Development Initiative

(VDI) fund was created with the hotel tax to help start up operations of the expanded convention center, as well as to provide resources to cover construction impacts and to market the expansion. The OCC receives the VDI funding in installments over a five-year period from FY 2001-02 through 2005-06. The majority of the payment came in one bulk sum of $5.74 million in the first year, and then it will be about $550,000 in the last two years. Once the temporary grants expire, no other resource streams have been provided, even though the facility historically ran at a deficit previously and almost doubled in size. (Comparative deficit levels are analyzed subsequently).

Based on the OCC's chart of account structure, in FY 2000-01, the OCC generated operating revenue of $9.5 million (net of Metro's excise tax), and incurred operating expenses of $13.8 million, resulting in an operating deficit of approximately $4.3 million. Net operating revenues are combined with revenues derived from the transient hotel occupancy tax to cover the deficit and to pay for all other requirements, including Metro's annual support service assessments. When the annual deficit is higher than the initial dollar amount of hotel/motel tax revenues allocated for this purpose, MERC covers this gap with a combination of strategies:

1. By increasing revenues, through price increases or other entrepreneurial activity, and/or

2. By cutting expenditures that are within MERC's control (e.g. reducing optional maintenance, marketing or other activities), and/or

3. Drawing down on OCC's fund balance.

The OCC currently has 23 administration and management staff, seven sales and marketing staff, and 66 full- and part-time employees for maintenance and setup. Major revenue and expense categories for the OCC include:

- Under contract with the OCC/MERC, Aramark serves as the food and beverage (F&B) provider for the facility. In 2000-01, F&B services produced a net profit of approximately $1.1 million, based on revenues of $5.1 million and expenses of $4 million.

- In 2000-01, net profit from parking activities was approximately $348,000, based on revenues of $668,000 and related expenses of $320,000. Similar to F&B, a third party, City Center Parking, operates this service for the OCC. With the increase in capacity from 400 to 1,100 cars, this will continue to be a critical revenue source.

- While it is not reflected on the OCC pro forma, the facility is assessed a 7.5 percent 'excise' fee on its annual operations in order to return financial support to Metro. This item, which is atypical for a convention center, represents a significant financial obligation for the OCC. Further, the actual operating proforma is also burdened with direct charges for services provided by Metro, over and above the excise tax. These correspond to the Metro Support Services line item in Non-Operating Requirements presented in the Table 3-3 above.

Compared to the chart of accounts commonly used in comparable convention facilities, the OCC proforma has several oddities: 1) Marketing Contracts ($2.6 million in FY 2000-01), is shown as an operating expense, 2) MERC Administration ($539,000), is shown as a non-operating requirement, but is actually a service provider to the Center, and 3) Metro Support Services ($849,000), is properly recorded as a non-operating requirement. Additionally, the OCC incurs the 7.5 percent 'excise' fee on its annual operations, which is deducted off all invoices, with only the net amount showing up in the revenue accounts.

As to be described later in this section, two of the comparable facilities analyzed are assessed a major overhead charge back, similar to the Metro assessment at the OCC: San Jose McEnery Convention Center and Austin Convention Center. As part of its overhead charge, Metro also provides legal services for the OCC. The MERC charge for the OCC, while high in appearance, actually funds the convention center's "administrative" department. MERC provides finance, accounting, and executive director support.

As a result, the deficit performance of the OCC should reflect these adjustments to be comparative to other facilities:

- Realize that the 7.5 percent excise fee is a liability that comes right off the top of the Center's gross sales,
- The marketing contracts is actually a non-operating passthrough to Portland Oregon Visitors Association (POVA), and
- The MERC charge is actually a true operating cost.

Table 3-4 shows the revised proforma, reflecting the above adjustments and using the recommended chart of accounts in which the marketing contracts and MERC administration line items are reallocated: the marketing contracts line item is moved down from Operating Expenditures to Non-Operating Requirements, and the MERC administration line item is moved up from Non-Operating Requirements to Operating Expenditures. In addition, the 7.5 percent excise taxes are added back to the operating revenues. The net result is a more accurate and favorable presentation of the facility's operation.

Table 3-4

Oregon Convention Center
Financial Statements ($000's)

	1999-00	2000-01
Operating Revenues		
Rental	$1,837	$1,920
Reimbursed Labor	352	350
Food Service Revenue	5,325	5,060
Merchandising	0	0
Utility Services	1,432	1,316
Parking	744	668
Admission Fees	2	(8)
Commissions	30	60
Retail Sales	59	62
Other	101	24
Total	$9,883	$9,454
Excise Tax Added Back	$801	$767
Actual Operating Revenue	$10,684	$10,220
Operating Expenditures		
Personal Services (Payroll)	$5,083	$5,242
Materials and Services	1,704	1,579
Concessions/ Catering	4,117	4,000
Parking	55	320
MERC Administration	1,237	539
Total	$12,196	$11,681
Operating Income (Deficit)	**($1,513)**	**($1,461)**
Non-Operating Resources		
Hotel/Motel Tax	$4,286	$10,869
Donations and Contributions	0	0
Investment Earnings	247	297
Other Non-Operating Revenue	0	24
Transfer	0	81
Total	$4,533	$11,271
Non-Operating Requirements		
Marketing Contracts	$2,256	$2,627
Insurance	147	0
Charges for Services	384	0
Metro Support Services	0	849
Debt Service	3	1
Capital Outlay	324	268
Transfer	0	713
Contingency	0	0
Total	$3,115	$4,456
Revenues and Other Sources over Expenditures amd Other Uses	**($95)**	**$5,354**
Fund Balance, Beginning	$5,894	$5,799
Fund Balance, Ending	$5,799	$11,153

Source: Oregon Convention Center

As shown in the table, eliminating excise tax would add between $700,000 and $800,000 to the OCC operating revenues, and switching the marketing contracts with MERC administration line items result in lower operating expenditures. As a result, OCC operating deficit would have been $1.5 million in FY 2000-01 (instead of $4.3 million).

The Metro revenues, between excise fee and its assessments, account for approximately $1.6 million. It is expected that these will increase due to the expansion. These charges defacto result in a transfer of lodging tax to Metro, are atypical and do disadvantage the OCC's ability to offer rate concessions, and perhaps service its clients effectively, especially given the expanded facility.

National Comparable Facilities and Markets

Johnson Consulting compiled market and operating data for a set of convention centers that were deemed by the OCC management and Johnson Consulting to have a similar orientation and competitive profile as the OCC. The event demand, financial performance, and other operating characteristics provide insight into the operating environment for this segment of the convention center market. The comparison also provides an indication of the OCC's competitive position in relation to its peers and illustrates the varying approaches used in comparable markets to develop and operate convention facilities. The facilities incorporated into this analysis include:

- Washington State Convention and Trade Center in Seattle, Washington,
- San Jose McEnery Convention Center in San Jose, California,
- Austin Convention Center in Austin, Texas,
- Colorado Convention Center in Denver, Colorado, and
- Salt Palace Convention Center in Salt Lake City, Utah.

Among the principal challenges in evaluating convention centers is the absence of a standardized chart of accounts for facility operation. In order to address the lack of standardization in this industry, we present financial data generally as reported by the facility. However, at the end of the section, we provide a comparison of the operations on a standardized basis, and draw conclusions based on this comparative data. Due to our experience within the industry, Johnson Consulting has developed a thorough understanding of the techniques used to document performance and operations. This experience is critical to drawing the observations resulting from this analysis.

Washington State Convention and Trade Center in Seattle, Washington

The City of Seattle, Washington is in the Seattle-Bellevue-Everett primary metropolitan statistical area (population 2.4 million). The metro area is a center for advanced technology, software development, and scientific research. Major employer employers include Microsoft, VoiceStream Wireless (T-Mobile), and AT&T Wireless Group. In additional to a strong heritage as a center for recreation, Seattle has also recently developed a number of facilities that complement the WSCTA in appealing to visitors and convention goers. Among them are the Experience Music Project, the 120,000 square foot Museum of History and Industry, and efforts are also underway to develop a new Pacific Northwest Aquarium.

Located in downtown Seattle, just off of Interstate 5, the Washington State Convention and Trade Center (WSCTC) opened in 1988 as the Seattle area's largest exhibition, convention, and meeting facility. The WSCTC is owned by the State of Washington, via a public corporation, and was originally constructed at a cost of $202 million. As the facility is independent of the City of Seattle and King County, it is assessed no overhead charges or excise taxes by either the City or County.

The WSCTC recently completed a $206 million expansion. The expanded WTCTC offers 205,700 square feet of exhibit space, 64,600 square feet of ballroom space, 57,700 square feet of meeting space in 56 flexible rooms ranging from 208 square feet to 10,020 square feet, on-site parking capacity for 1,035 cars, and an adjacent parking garage for 665 cars. While Seattle's expanded facility is smaller than the OCC, the quality of the facility, appeal of the destination, and ready inventory of hotel properties in the downtown area, make the WSTCTC the primary competitor for events that rotate within and to the Northwest.

Table 3-5 summarizes the size and capacity of the WSCTC's convention and meeting space.

Table 3-5

Washington State Convention and Trade Center
Room Size and Capacity

	Size (SF)		Capacity			
	Smallest Section/ Room	Combined	Theater	Class Room	Banquet	Exhibits (10'x10')
Exhibit Hall						
Hall 4A	40,000		4,032	2,226	2,310	186
Hall 4B	40,000		4,278	2,142	2,390	204
Hall 4C	22,000		1,740	871	1,030	79
Hall 4D	10,900		na	na	500	28
Hall 4E	64,200		5,000	na	3,000	352
Hall 4F	30,600		3,000	na	1,800	144
All Halls Combined		**205,700**	na	na	na	972
Ballroom						
Ballroom 6A	8,352		850	456	540	36
Ballroom 6B	11,500		1,150	760	770	55
Ballroom 6C	9,512		1,000	608	660	51
Ballroom 6D	11,050		1,025	636	560	52
Ballroom 6E	15,048		1,548	988	990	72
Ballroom 6F	9,184		na	na	500	38
All Section Combined		**64,600**	4,176	na	2,610	188
Meeting Rooms						
Smallest Room (Single)	208		na	na	10	na
Largest Room (Combined)		10,020	1,051	663	660	na
Total SF of Meeting Rooms		**57,700**				
Number of Rooms	56	37				

Source: Washington State Convention and Trade Center

As shown in the table, the exhibit hall is divisible into six sections ranging from 10,900 to 64,200 square feet, and the ballroom is divisible into six sections ranging from 8,352 square feet to 15,048 square feet. There are 56 flexible meeting rooms that can be combined into 37 larger rooms. The size of the meeting rooms range from 208 square feet (when used individually) to 10,020 square feet (when combined).

Table 3-6 shows the event and attendance demand at the WSCTC in FY 2001-02.

Table 3-6

Washington State Convention and Trade Center
Operating Statistics FY 2001-02

	Number of Events	Number of Attendees	Average Attendees
Conventions and Trade Shows	58	163,404	2,800
Public Shows	16	128,031	8,000
Meetings and Seminars	294	40,476	100
Other Events	75	39,954	500
Total	443	371,865	

Source: Washington State Convention and Trade Center

As shown in the table, in FY 2001-02, events at the WSCTC attracted 371,865 attendees to Seattle, providing an important source of economic activity and a critical generator of hotel room nights. The events calendar, which was dominated by conventions and meetings, indicates the WSCTC is clearly focused on securing events that attract a large number of out of town visitors.

Table 3-7 shows the WSCTC's financial statements for FY 1999-00 through FY 2001-02.

Table 3-7

Washington State Convention and Trade Center
Financial Statements

	1999-00	2000-01	2001-02
Operating Revenue			
Building Rent	na	$2,569,658	$3,310,158
Food Service	na	2,126,975	2,561,130
Parking	na	3,450,432	3,238,451
Facility Services	na	818,465	869,498
Retail Rent	na	658,850	680,714
Total	$9,779,687	$9,624,380	$10,659,951
Non-Operating Revenue			
Hotel/Motel Tax	$31,224,616	$34,604,869	$30,366,742
Transient Rental Tax	1,906,542	7,665,772	6,823,160
Total	$33,131,158	$42,270,641	$37,189,902
Total Revenue	$42,910,845	$51,895,021	$47,849,853
Operating Expenses			
Personnel Costs	$6,315,935	$6,735,371	$7,359,091
Marketing	3,537,699	3,679,207	4,361,661
Professional Services	87,057	32,833	95,807
Non-Capital Equipment	74,425	117,838	41,361
Goods and Services	3,229,331	3,378,316	4,133,572
Travel	19,413	20,006	8,421
Total	$13,263,860	$13,963,571	$15,999,913
Non-Operating Expenses			
Interest Expense	$857,484	$16,638	$1,934
Depreciation Expense	4,113,972	4,154,960	4,229,006
Total	$4,971,456	$4,171,598	$4,230,940
Bond Interest Expense	$8,329,493	$7,755,478	$17,346,587
Other Debt Service Payment:	$1,492,051	$9,086,924	$8,701,473
Total Expenses	$28,056,860	$34,977,571	$46,278,913
Net Income (Loss)	$14,853,985	$16,917,450	$1,570,940

Source: Washington State Convention and Trade Center

In FY 2001-02, the WSCTC generated operating revenue of $10.7 million and incurred operating expenses of $16.0 million, resulting in an operating deficit of approximately $5.3 million. The operating deficit, as well as other non-operating expenses and debt service payments are funded through seven points of the transient hotel/motel tax (the total tax is 15.6 percent and other shares are used for regional transit projects, among other things). In FY 2001-02 the total tax generated amounted to $37.2 million, all flowing to the convention center. Non-operating expenses amounted to $30.3 million, including a bond interest expense of $17.3

million. As a result, net income was $1.6 million in FY 2001-02. Two parking garages, connected to the WSCTC via a pedestrian walkway, provide parking for 1,700 cars, which are available for the Center's visitors and guests as well as patrons to the nearby A Contemporary Theatre (ACT) and Paramount Theatre. In addition, the garages are used for monthly rentals for business and residents. In FY 2001-02, parking revenues amounted to $3.2 million, or 30 percent of the WSCTC's annual operating revenue.

Despite the value of these revenues sources, when operating revenue is compared to operating expenses, without including tax income or non-operating expenses, the facility incurred an operating deficit of $5.3 million in FY 2001-02.

The WSCTC reports no definitive policies with regard to rental rate discounts. However, in conjunction with hotels and the CVB, the WSCTC reserves the ability to develop strategies on a per event basis that will make the center more competitive on price. Typically, these efforts are coordinated through the CVB and, in the past, have included strategies such as subsidies for transportation and housing services and room block rate discounts. Rental rate reductions at the center have also been used, but typically the emphasis is on developing a complete services package and pricing that competitively.

San Jose McEnery Convention Center in San Jose, California

The City of San Jose, California is in the San Jose MSA, which is comprised of Santa Clara County (population 1.7 million). Over the last decade, the metro area population has increased by an average of 1.2 percent per year. San Jose is located at the southernmost end of the San Francisco Bay, approximately 50 miles south of San Francisco. As the center of "Silicon Valley," San Jose's economy is dominated by technology-related research and manufacturing.

Located in downtown San Jose, off of Interstate 280, the McEnery Convention Center (SJMCC) opened in 1989 and is owned and operated by the City of San Jose. The facility's $143-million construction cost was funded entirely by issuing Redevelopment Agency Certificates of Participation. In addition to the SJMCC, the Santa Clara Convention Center is located in the same county. While this facility represents a competitive element for smaller tradeshows and conventions, it draw is primarily regional and niche focused. Accordingly, as the largest facility in the area, the SJMEC is the dominant facility in the area, and the facility that competes with the OCC for regional and national events.

Table 3-8 summarizes the size and capacity of the SJMCC's convention and meeting space.

Table 3-8

San Jose McEnery Convention Center
Convention and Meeting Room Size and Capacity

	Size (SF)		Capacity			
	Smallest Section/ Room	Combined	Theater	Class Room	Banquet	Exhibits (10'x10')
Exhibit Hall						
Hall 1	43,000		4,800	2,000	2,000	230
Hall 2	50,000		5,000	2,200	2,200	290
Hall 3	50,000		5,000	2,400	2,400	280
Hall 1-3 Combined		143,000	14,800	5,000	5,000	800
Ballroom						
Section 1-8 Each	1,974		180	84	100	na
Section 1-8 Combined		11,985	1,638	806	770	na
Meeting Rooms						
Smallest Room (Single)	450		42	24	30	na
Largest Room (Combined)		10,000	1,000	552	600	na
Total SF of Meeting Rooms		25,900				
Number of Rooms	22	12				

Source: San Jose McEnery Convention Center, mpoint.com

The SJMCC features 143,000 square feet of exhibit space, a 12,000-square foot ballroom, approximately 26,000 square feet of meeting space in 22 flexible rooms ranging from 450 square feet to 10,000 square feet, and on-site parking capacity for 1,300 cars. As shown in the table, the exhibit hall is divisible into three sections ranging from 43,000 to 50,000 square feet, and the ballroom is divisible into eight sections of 1,974 square feet each. There are 22 flexible meeting rooms that can be combined into 12 larger rooms. The size of the meeting rooms range from 450 square feet (when used individually) to 10,000 square feet (when combined).

Table 3-9 shows the event and attendance demand at the SJMCC in Fiscal Year 2001-02.

Table 3-9

San Jose McEnery Convention Center
Event Demand and Attendance FY 2001-02

	Number of Events	Total Attendance	Average Attendance
Conventions and Trade Shows	35	172,350	4,900
Local Trade Shows	5	9,500	1,900
Consumer Shows	8	98,052	12,300
Corporate Events	16	10,617	700
Community Events	104	85,275	800
Total	168	375,794	

Source: San Jose McEnery Convention Center

In FY 2001-02, the SJMCC hosted 35 conventions and trade shows, five local trade shows, eight consumer shows and specialty expositions, 16 corporate events, and 104 community events. Events at the SJMCC generated over 375,794 attendees and a reported 235,000 room nights.

Table 3-10 shows the SJMCC's operating statements in FY 2001-02.

Table 3-10

San Jose McEnery Convention Center
Financial Statements FY 2001-02

	2001-02
Revenues	
Earned Revenue from Operation	$6,657,234
TOT Allocation	6,971,665
Total Revenues	$13,628,899
Expenses	
Personal Services	$6,582,197
Non-Personal Services	5,058,749
Total Expenses	$11,640,946
Net Income (Deficit)	$1,987,953

Source: San Jose McEnery Convention Center

In FY 2001-02, the SJMCC generated operating revenue of $6.7 million and received Tourist Occupancy Tax (TOT) allocation of $7.0 million. The facility incurred operating expenses of $11.6 million. As a result, the facility generated net operating income of $2.0 million. In other years when the facility incurs an operating deficit, it is covered by the City of San Jose.

The SJMCC's management staff consists of 15 administration and management staff, six sales staff, and 64 full- and part-time employees for maintenance and set-up. Food and beverage services are exclusively provided by Volume Services of America. Parking is operated by Ampus Parking.

According to the SJMCC management, in FY 2001-02 the facility generated an estimated $118 million of delegate expenditures and $22 million in tax benefits.

Austin Convention Center- Austin, Texas

The City of Austin is the capital of Texas and part of Austin-San Marcos MSA (population 1.2 million). The metro area is among the fastest growing regions in the US, experiencing an average per year population growth of approximately four percent during the last decade. Among the factors contributing to the growth are the emergence of a strong corporate base, particularly in consumer electronics research and manufacturing, semiconductors, computers and peripherals, and software. In 2001, the metro area's unemployment rate averaged 3.8 percent compared to 4.8 percent for the US as a whole.

Located proximate to the downtown area, the Austin Convention Center (ACC) opened in July 1992. The ACC is owned and operated by the City of Austin. The facility recently completed a $110 million expansion, which was funded by revenue bonds backed by combination of tax sources, including hotel/motel and rental car. The Convention Center Department also oversees the Palmer Auditorium, which will soon revert to a separate entity, the newly opened Class B "Coliseum" and a large parking deck.

Table 3-11 summarizes the size and capacity of the ACC's convention and meeting space.

Table 3-11

Austin Convention Center
Room Size and Capacity

	Size (SF)		Capacity			
	Smallest Section/ Room	Combined	Theater	Class Room	Banquet	Exhibits (10'x10')
Exhibit Hall						
Hall 1	44,100		4,032	1,728	2,560	225
Hall 2	32,640		3,024	1,300	1,690	179
Hall 3	49,232		4,392	2,052	2,690	280
Hall 4	79,525		7,980	3,954	6,490	472
Hall 5	40,600		3,994	1,982	3,240	240
All Halls Combined		**246,100**	23,442	11,016	16,670	1,396
Ballroom						
Ballroom A	15,288		1,444	648	1,140	na
Ballroom B	3,896		304	156	270	na
Ballroom C	4,234		360	160	300	na
Ballroom A-C Combined		23,418	2,181	964	1,790	na
Ballroom D	26,540		2,858	1,300	1,950	na
Ballroom E	4,470		478	224	300	na
Ballroom F	4,570		478	232	300	na
Ballroom G	4,930		448	224	300	na
Ballroom D-G Combined		43,300	4,212	2,040	3,240	na
Total Ballroom Space		**66,700**				
Meeting Rooms						
Smallest Room (Single)	780		84	48	60	na
Largest Room (Combined)		6,625	853	386	560	na
Total Meeting Rooms SF		**31,100**				
Number of Rooms	21	12				

Source: Austin Convention Center.

The expanded ACC has 246,100 square feet of exhibit space, 66,700 square feet of ballrooms, 31,100 square feet of meeting space in 21 flexible rooms ranging from 780 square feet to 6,625 square feet, and on-site parking capacity for 1,000 cars. As shown in the table, the exhibit hall is divisible into five sections ranging from 32,640 square feet to 79,520 square feet. There are two ballrooms, one is divisible into three sections ranging from 3,900 square feet to 15,300 square feet, the other is divisible into four sections ranging from 4,470 square feet to 26,540 square feet. There are 21 flexible meeting rooms that can be combined into 12 larger rooms. The size of the meeting rooms range from 780 square feet (when used individually) to 6,625 square feet (when combined).

Table 3-12 shows the event and attendance demand at the ACC for the most recent fiscal year.

Table 3-12

Austin Convention Center
Event Statistics FY 2001-02

	# of Events	Attendance	Average Attendance
Conventions	30	106,200	3,500
Trade Shows	10	20,900	2,100
Consumer Shows	21	247,080	11,800
Meeting and Seminars	47	31,755	700
Sporting Events	3	8,300	2,800
Concerts and Entertainment Events	3	8,000	2,700
Banquets	15	6,885	500
Other Events	1	300	300
Total	130	429,420	

Source: Austin Convention Center

The ACC's event calendar shows greater balance across event types than many of its counterparts, but does particularly well as a convention and meetings destination. This is attributable to the appeal of the market and the presence of the state capital, which makes the city an obvious destination for state association activities. In addition, the volume of consumer shows underscores the advantage of Austin's position as the geographic center of the state. As seen on the table, the OCC hosted 130 events in FY 2001-02, generating approximately 429,400 attendees.

Table 3-13 shows the ACC's financial statements in FY 2000-01 through FY 2001-02.

Table 3-13

Austin Convention Center
Operating Fund Summary

	2000-01	2001-02
Revenue		
Facility Revenue	$5,430,404	$4,015,022
Contractor Revenue	5,641,432	4,688,156
Interest Earnings	1,355,522	612,000
Total Revenue	$12,427,358	$9,315,178
Expenses		
Event Operations	$8,533,266	$10,559,107
Contractor Expenses	4,685,476	5,027,889
Support Services	1,774,385	2,583,193
Total Operating Expenses	$14,993,127	$18,170,189
Operating Income (Deficit)	($2,565,769)	($8,855,011)
Transfers and Requirements		
Transfers In*	$10,136,348	$4,742,532
Transfer Out	($152,704)	($995,827)
Other Requirements**	($15,951,542)	($919,009)
Total	($5,967,898)	$2,827,696
Excess (Deficiency) of Total Available Funds Over Requirements	($8,533,667)	($6,027,315)
Adjustment to GAAP	($10,061)	$0
Beginning Balance	$24,966,075	$16,422,347
Ending Balance	$16,422,347	$10,395,032

**From Convention Center Tax Fund (room tax revenues).*
***Includes $500,000 to $1 million City assessments.*
Source: Austin Convention Center

As the table shows, in 2001-02, the ACC generated operating revenue of $9.3 million, but incurred operating expenses of approximately $18.2 million. As a result, the ACC incurred an operating deficit of $8.9 million. However, as 2001 and 2002 were expansion years for the ACC, the pro-forma reflects a higher than normal expenses. The ACC is operated in association with a parking deck, which management reports generates a substantial profit. While operated by the Convention Center Department, those revenues flows directly to the City, with the convention center fund serving solely as a conduit.

Management reports the ACC does not have specific discounting policies. The facility negotiates with convention clients on an individual basis based upon many factors, such as room nights, food and beverage potential, and other considerations.

The ACC controls the access and use of the convention center and as an enterprise fund it operates more like its hotel partners than as a city entity. The facility is responsible for its own financial success. Contained within the various line items presented in the Convention Center Department's financial statement are allocations for City services. Historically, the City of Austin has assessed the ACC, which is a City department, approximately $500,000 annually for the use of city services such as purchasing and other city charges. These assessments cover central city costs such as the Mayor's office, purchasing, audits and a myriad of other city overhead. Given the tight fiscal climate as well as the expansion, the amount is anticipated to increase to one million dollars for next fiscal year (FY 2002-03). The facility is tax-exempt and therefore pays no taxes.

Colorado Convention Center in Denver, Colorado

Located in central Colorado, the Denver MSA (population 2.1 million) is another region that has experienced considerable population growth over the last decade, increasing at average rate of 2.6 percent per year from 1990 through 2000. While Denver's traditional economic base has been as a center for regional federal government operations and natural resource-based industries such as oil and gas exploration and mining, in recent years, the area has also emerged as a regional center for Internet and broadband services as well as technology research and development.

Located in downtown Denver, the Colorado Convention Center (CCC) is owned through a public benefit corporation that is a joint entity of the City and County. The facility is managed under a long-term contract by SMG, a private company specializing in the management of public assembly facilities.

Table 3-14 summarizes the size and capacity of the CCC's convention and meeting space.

Table 3-14

Colorado Convention Center
Convention and Meeting Room Size and Capacity

	Size (SF)		Capacity			
	Smallest Section/ Room	Combined	Theater	Class Room	Banquet	Exhibits (10'x10')
Exhibit Hall						
Hall A	105,000		7,000	5,000	6,000	583
Hall B	88,700		6,000	4,000	5,000	493
Hall C	94,000		6,000	4,000	5,000	522
Hall A-C Combined		288,000	19,000	15,000	15,000	1,600
*All Halls Combined**		*584,000*	*38,000*	*30,000*	*30,000*	*3,200*
Ballrooms						
Ballroom I						
Section 1	10,650		924	456	680	60
Section 2	12,855		1,188	608	900	70
Section 3	12,835		1,188	608	900	70
Section 4	10,680		924	456	680	60
Section 1-4 Combined		34,800	3,472	1,776	2,280	260
Ballroom II						
All Sections Combined		*50,000*	*5,000*	*2,550*	*3,280*	*370*
Meeting Rooms						
Smallest Room	743		72	44	70	na
Largest Room (Combined)		10,356	1,400	560	760	na
Total SF of Meeting Rooms		63,200				
Number of Rooms	46	23				
After Expansion:						
Total SF of Meeting Rooms		*100,000*				
Auditorium						
Seating Capacity			*5,000*			

**Text and figures in italics indicate the room, size, and capacity after expansion.*
Source: Colorado Convention Center, mpoint.com

The CCC has 288,000 square feet of exhibit space, 34,800 square feet of ballroom space, and 63,200 square feet of meeting space in 45 flexible rooms ranging from 743 square feet to 10,356 square feet. However, the facility is currently undergoing a $268 million expansion and improvement program, funded by both the City and County. This expansion is scheduled for completion in early 2004. To make room for the expansion, the adjacent Currigan Exhibition Hall was demolished in November 2001. With the completion of the expansion, the CCC will have a total of 584,000 square feet of exhibit space, 50,000 square feet of ballroom space, 100,000 square feet of meeting rooms, and a 5,000 seat auditorium.

Table 3-15 shows the number of events and attendees at the CCC in 2001 (2002 data in not yet available).

Table 3-15

Colorado Convention Center
Event Statistics Year 2001

	# of Events	Attendance	Average Attendance
Convention/Trade Show - National	30	137,861	4,600
Convention/Trade Show - Regional	13	32,901	2,500
Public Shows	26	422,769	16,300
Meetings/Banquets/Graduations/Other	105	104,946	1,000
Total	174	698,477	

Source: Colorado Convention Center

As shown in the table, in 2001 the CCC attracted nearly 700,000 attendees to 174 events. As the number of national conventions illustrates, Denver's exceptional air service capacity and location closer to the geographic center of the country, has allowed it to establish a strong presence for national events. With the expansion of the CCC, Denver's share of this market segment should grow markedly. In addition, as the largest facility in the mountain states, the CCC also has a large share of the regional convention and tradeshow market.

Table 3-16 shows the CCC's financial statements for 2000 and 2001.

Table 3-16

Denver Convention Complex*
Statement of Revenues and Expenses

	2000	2001
Direct Event Revenue	$3,060,600	$2,960,281
Direct Event Expenses	(1,631,910)	(1,709,265)
Direct Event Profit	$1,428,690	$1,251,016
Net Ancillary Revenue		
F&B Concessions and Catering	$1,822,712	$1,507,309
Telecommunications	590,330	477,896
Electrical and Utilities	1,376,090	1,466,467
Equipment Rent and Other	560,743	482,767
Total Net Ancillary Revenue	$4,349,875	$3,934,439
Total Event Income, Net of Direct Expense:	$5,778,565	$5,185,455
Other Income		
Interest	$92,603	$57,987
Other	197,335	61,124
Total Other Income	$289,938	$119,111
Total Income	$6,068,503	$5,304,566
Indirect Expenses		
Executive	$571,254	$473,932
Sales and Marketing	376,858	401,279
Event Management	283,662	272,119
Operations	2,813,102	2,747,052
Finance	294,336	311,398
Overhead	1,489,447	1,677,117
Total Indirect Expenses	$5,828,659	$5,882,897
Other Non-Operating Expenses	$100,000	$0
Excess of Operating Revenue (Expenses) Before Funding	$139,844	($578,331)
Funding from (Due to) the City and County of Denver	($139,844)	$578,331
Excess of Revenues over Expenses	$0	$0

**Including Colorado Convention Center and Currigan Exhibition Hall until July 2000.*
Source: Colorado Convention Center

In 2001, the CCC generated operating revenue (net of direct expenses) of $5.3 million. Indirect expenses amounted to $5.9 million, resulting in an operating deficit of $578,300. The City and County of Denver fund any operating deficit, and also retain any operating profit.

SMG management at the CCC reports that the facility does not maintain a strict rental or incentive strategy, but will develop competitive packages on a case-by-case basis or as a yield management strategy (for open dates within 12 months). In each case, the effort is valued based on its estimated economic impact for the community and the package is developed in consultation with the City of Denver and the CVB. Past strategies have included discounts on non-event rental days, housing services, or rate reductions on hotel rooms.

Salt Palace Convention Center in Salt Lake City, Utah

Salt Lake City is part of Salt Lake City-Ogden MSA (population 1.3 million). The metro area population has increased by an average of 2.2 percent per year from 1990 through 2000. The City is located on Interstates 80 and 15 in northern Utah, near the Great Salt Lake. Strong growth in services sector, tourism, and recreation are the leading contributors to the expansion of Utah's economy in recent years. In addition, the building boom associated with the 2002 Winter Olympics played a substantial role.

Operated by SMG, the Salt Palace Convention Center (SPCC) opened in August 2000 and is owned by Salt Lake County. Table 3-17 summarizes the size and capacity of the SPCC's convention and meeting space.

Table 3-17

Salt Palace Convention Center
Convention and Meeting Room Size and Capacity

	Size (SF)		Capacity			
	Each	Combined	Theater	Classroom	Banquet	Booths
Exhibit Hall						
Hall 1	48,600		5,300	2,700	2,700	238
Hall 2	16,200		1,700	700	900	64
Hall 3	16,200		1,700	700	900	64
Hall 4	48,600		5,300	2,700	2,700	238
Hall A	48,600		5,300	2,700	2,700	238
Hall B	24,300		2,600	1,300	1,350	119
Hall C	48,600		5,300	2,700	2,700	238
Hall D	48,600		5,300	2,700	2,700	238
Hall E	64,800		7,100	3,400	3,600	317
All Halls Combined		**364,500**	na	na	na	1,754
Ballrooms						
Ballroom A	3,820		400	190	200	na
Ballroom B	3,820		400	190	200	na
Ballroom C	3,820		400	190	200	na
Ballroom D	3,820		400	190	200	na
Ballroom E	3,820		400	190	200	na
Ballroom F	3,820		400	190	200	na
Ballroom G	3,820		400	190	200	na
Ballroom H	3,820		400	190	200	na
Ballroom I	3,820		400	190	200	na
Ballroom J	3,820		400	190	200	na
All Section Combined		**45,000**	4,900	2,500	2,900	na
Meeting Rooms						
Smallest Room (Single)	490		40	15	20	na
Largest Room (Combined)		8,800	900	450	550	na
Total Meeting Rooms SF		**52,000**				
Number of Rooms	43	13				

Source: Salt Palace Convention Center

The SPCC has 364,500 square feet of exhibit space, 45,000 square feet of ballroom space, 52,000 square feet of meeting space, and on-site parking capacity for 1,150 cars (600 underground, 550 surface). As shown in the table, the exhibit hall is divisible into nine sections ranging from 16,200 square feet to 64,800 square feet. The ballroom is divisible into ten sections of 3,820 square feet each. There are 43 flexible meeting rooms that can be combined into 13 larger rooms. The size of the meeting rooms range from 490 square feet (when used individually) to 8,800 square feet (when combined).

Table 3-18 shows the number of events by event category (attendance was not made available, but management does present rent by event category).

Table 3-18

Salt Palace Convention Center
Event Demand - Year 2000

	# of Events	Rent Income	Ave. Rent Income
National Association	19	$580,483	$30,552
National Trade	3	220,563	73,521
National Corporate	5	202,497	40,499
Consumer Shows	45	822,118	18,269
State Corporate	24	62,022	2,584
Government	5	10,275	2,055
Local Associations	34	129,922	3,821
Local Trade	29	240,565	8,295
Other	100	135,129	1,351
Total	264	$2,403,574	

Source: Salt Palace Convention Center

As the table shows, in 2000 the SPCC held 264 events, including more than two dozen national events. While the bulk of the existing event calendar remains largely regional and local in its orientation, as the SPCC and Salt Lake City establish themselves and Class A destinations, market share will grow.

Table 3-19 shows the 2000 financial statements the SPCC. Also shown are the financial statements of the South Towne Exposition Center, which is also managed by SMG for Salt Lake County under the same contract.

Table 3-19

Salt Palace Convention Center and South Towne Exposition Center
Financial Statements Year 2000

	Salt Palace Convention Center	South Towne Exposition Center	Total
Revenues			
Exhibit and Convention Rents	$2,403,574	$60,821	$2,464,395
Commissions	2,786,897	0	2,786,897
Labor and Set-Up	767,175	0	767,175
Advertising	42,957	0	42,957
Interest	74,981	0	74,981
Miscellaneous	32,832	0	32,832
Total	$6,108,416	$60,821	$6,169,237
Expenditures			
Salaries and Wages	$3,341,954	$315,937	$3,657,891
Employee Benefits	779,707	53,449	833,156
Building and Equipment Maintenance	943,738	109,692	1,053,430
Utilities	1,180,217	44,746	1,224,963
Professional and Management Fees	464,579	100,000	564,579
Insurance	160,869	602	161,471
County Indirect Charges	130,797	0	130,797
Other	650,672	178,236	828,908
Total	$7,652,533	$802,662	$8,455,195
Deficiency of Revenues over Expenditures Before Other Financing Sources	($1,544,117)	($741,841)	($2,285,958)
Other Financing Sources (Operating Transfer-In)	$2,560,687	$1,019,822	$3,580,509
Excess of Revenues and Other Financing Sources over Expenditures	$1,016,570	$277,981	$1,294,551
Fund Balances, Beginning of Year	($867,024)	$0	($867,024)
Fund Balances, End of Year	$149,546	$277,981	$427,527

Source: Salt Palace Convention Center

In 2000, the SPCC incurred an operating deficit of $1.5 million on revenues of $6.1 million and expenses of $7.65 million. After an operating support 'transfer-in' of $2.6 million from the County, excess revenues over expenditures amounted to $1 million, providing relief from a negative beginning fund balance to an end-of-year fund balance of approximately $149,500. For the same period, the South Towne Exposition Center incurred an operating deficit of $742,000. After a transfer-in from

County funds of $1 million, excess total revenues over expenditures amounted to $278,000.

As is consistent with its peers, the SPCC strives to remain competitive on pricing by factoring the total value of an event bid, and then responding through various channels including the CVB, County, and SPCC. In addition, Salt Lake City views itself as a cost effective events market based on hotel rates and other seasonal factors, and often points to that as a strategic advantage in pursuing events.

Benchmarking and Comparison Analysis

In order to provide a basis for facility-to-facility reviews, Johnson Consulting has prepared summary tables for key operating criteria. Table 3-20 summarizes the size and capacity of the exhibit and meeting space at the OCC in relation to the competitive set.

Table 3-20

Comparison of Convention Center Size

	Oregon CC Existing	Oregon CC After Expansion**	Washington State CTC	San Jose McEnery CC	Austin CC	Colorado CC*	Salt Palace CC
Exhibit Hall							
Total SF	155,000	255,000	205,700	143,000	246,100	288,000	364,500
# of Sections	4	6	6	3	5	3	9
Section SF Min.	30,000	30,000	10,900	43,000	32,640	88,700	16,200
Section SF Max.	61,000	61,000	64,200	50,000	79,530	105,000	64,800
Rank (before expansion)	5	-	4	6	3	2	1
Rank (after expansion)	-	3	5	6	4	2	1
Ballroom(s)							
Total SF	25,200	34,200	64,600	22,000	66,700	34,800	45,000
# of Sections	4	12	6	8	7	4	10
Section SF Min.	6,300	4,000	8,400	2,750	3,900	10,650	3,820
Section SF Max.	6,300	6,300	15,000	2,750	26,540	12,855	3,820
Meeting Rooms							
Total SF	27,100	52,500	57,700	26,600	31,100	63,200	52,000
# of Rooms	13-28	20-50	37-56	12-22	12-21	23-46	13-43
Room SF Min.	165	165	208	450	780	740	490
Room SF Max.	5,670	6,066	10,020	10,000	6,625	10,360	8,800
Total Function Space SF	**207,300**	**341,700**	**328,000**	**191,600**	**343,900**	**386,000**	**461,500**
Rank (before expansion)	5	-	4	6	3	2	1
Rank (after expansion)	-	4	5	6	3	2	1
Ballroom and Meeting Room SF per Exhibit Space SF	0.34	0.34	0.59	0.34	0.40	0.34	0.27

**Reflects existing size. After expansion (to be completed Dec 2004), the facility will have 584,000 SF of exhibit hall, 50,000 SF of ballrooms, 100,000 SF of meeting rooms, and a 5,000-seat auditorium.*
***Expansion completed in April 2003.*
Source: Respective Facilities, mpoint.com, Johnson Consulting

Analysis of the preceding data produced the following observations:

- The expanded OCC product will effectively position Portland as a competitive facility in relation to its peers. As the table shows, upon completion of the expansion, the OCC will have the third largest exhibit hall in its competitive set.
- The ratio or meeting and ballroom space to exhibit space in the OCC not only compares favorably to the competitive set, but more importantly it illustrates that the OCC is positioned to serve the less-space-intensive local and state events, which will help balance the event calendar.

Table 3-21 compares the event and attendance demand for the competitive set.

Table 3-21

Comparison of Event Demand and Attendance

	Oregon CC	Washington State CTC	San Jose McEnery CC	Austin CC	Colorado CC	Salt Palace CC
# of Events						
Convention	59	58	40	30	43	53
Trade Shows	incl.	incl.	incl.	10	incl.	32
Consumer Shows	32	16	8	21	26	45
Meeting and Seminars	246	294	16	47		29
Sporting Events	0	0	0	3		0
Concerts and Entertainment Events	0		0	3	105	0
Banquets	92	75	0	15		0
Other Events	0		104	1		105
Total	429	443	168	130	174	264
# of Attendance						
Convention	160,245	163,404	181,850	106,200	170,762	na
Trade Shows	incl.	incl.	incl.	20,900	incl.	na
Consumer Shows	186,953	128,031	98,052	247,080	422,769	na
Meeting and Seminars	126,446	40,476	10,617	31,755		na
Sporting Events	0	0	0	8,300		na
Concerts and Entertainment Events	0		0	8,000	104,946	na
Banquets	59,800	39,954	0	6,885		na
Other Events	0		85,275	300		na
Total	533,444	371,865	375,794	429,420	698,477	na

Source: Respective Facilities, Johnson Consulting

As shown in the table, even before the completion of the expansion, the OCC performed comparatively well, ranking second in terms of the number of events and total attendance, and third in the volume of conventions, trade shows, and consumer shows. This indicates that the facility has consistently benefited from effective sales and marketing strategies.

Table 3-22 shows convention and trade show event demand relative to exhibit hall size within the competitive set.

Table 3-22

Comparison of Convention and Trade Show Demand and Attendance per Exhibit Space

	Oregon CC	Washington State CTC	San Jose McEnery CC	Austin CC	Colorado CC*	Salt Palace CC	Average
# of Events							
Conventions	59	58	40	30	43	53	-
Trade Shows	incl.	incl.	incl.	10		32	-
Total	59	58	40	40	43	85	54
Per 10,000 SF of Exhibit Space	3.8*	2.8	2.8	1.6	1.5	2.3	2.5
Rank	1	2	3	5	6	4	-
# of Attendees							
Conventions	160,245	163,404	181,850	106,200	170,762	na	-
Trade Shows	incl.	incl.	incl.	20,900		na	-
Total	160,245	163,404	181,850	127,100	170,762	na	160,672
Per 10,000 SF of Exhibit Space	10,338**	7,944	12,717	5,165	5,929	na	8,419
Rank	2	3	1	5	4	na	-
Average Attendance per Event	2,716	2,817	4,546	3,178	3,971	na	3,446

**Based on 155,000 SF of exhibit hall (prior to expansion). If based on 255,000 SF of exhibit hall, ratio would decrease to 2.3.*
***Based on 155,000 SF of exhibit hall (prior to expansion). If based on 255,000 SF of exhibit hall, ratio would decrease to 6,284.*
Source: Respective Facilities, Johnson Consulting

Relative to exhibit hall size, the OCC is among the most productive facilities in the competitive set, followed by Washington State Convention and Trade Center. Based on the 155,000 square feet of exhibit hall, the OCC holds 3.8 events per 10,000 square feet of exhibit space, compared with 2.8 events for the Washington State CTC. The OCC generated approximately 10,338 attendees per 10,000 square feet of exhibit space, second only to the San Jose McEnery Convention Center.

Table 3-23 shows convention and trade show event demand relative to exhibit hall size within the competitive set.

Table 3-23

Comparison of Consumer Show Event Demand and Attendance per Exhibit Space

	Oregon CC	Washington State CTC	San Jose McEnery CC	Austin CC	Colorado CC	Salt Palace CC	Average
# of Events							
Consumer Shows	32	16	8	21	26	45	-
Per 10,000 SF of Exhibit Space	2.1*	0.8	0.6	0.9	0.9	1.2	1.1
Rank	1	5	6	4	3	2	-
# of Attendees							
Consumer Shows	186,953	128,031	98,052	247,080	422,769	na	-
Per 10,000 SF of Exhibit Space	12,061**	6,224	6,857	10,040	14,679	na	9,972
Rank	2	5	4	3	1	na	-

**Based on 155,000 SF of exhibit hall (prior to expansion). If based on 255,000 SF of exhibit hall, ratio would decrease to 1.3.*
***Based on 155,000 SF of exhibit hall (prior to expansion). If based on 255,000 SF of exhibit hall, ratio would decrease to 7,331.*
Source: Respective Facilities, Johnson Consulting

With regards to the consumer shows, the OCC had a high level before expansion. Considering expansion, the facility holds 1.3 consumer show events per 10,000 square feet of exhibit space, which is much more in line with the competitive set. In terms of attendance, the OCC generates 12,061 attendees per 10,000 square feet of exhibit space, second only to the Colorado CC. However, the ratio decreases when the expanded exhibit hall is considered, reinforcing the role of the convention center in accommodating multiple event types, especially more conventions and trade shows.

Table 3-24 compares the key financial and operating statistics for the competitive set, including the original and restated proforma for the OCC as shown previously in Table 3-3 and Table 3-4, respectively.

Table 3-24

Comparison of Operating Financial Proforma

	Oregon CC*	Oregon CC**	Washington State CTC	San Jose McEnery CC	Austin CC	Colorado CC	Salt Palace CC	Average***
Operating Revenues	$9,453,530	$10,220,032	$10,659,951	$6,657,234	$9,315,178	$5,185,455	$6,108,416	$8,024,378
Per Exhibit SF	*$60.99*	*$65.94*	*$51.82*	*$46.55*	*$37.85*	*$18.01*	*$16.76*	*$39.49*
Per Expanded Exhibit SF	*$37.07*	*$40.08*	-	-	-	-	-	-
Operating Expenses	$13,767,786	$11,680,667	$15,999,913	$11,640,946	$18,170,189	$4,205,780	$7,652,533	$11,558,338
Per Exhibit SF	*$88.82*	*$75.36*	*$77.78*	*$81.41*	*$73.83*	*$14.60*	*$20.99*	*$57.33*
Per Expanded Exhibit SF	*$53.99*	*$45.81*	-	-	-	-	-	-
Operating Income (Deficit)	($4,314,256)	($1,460,635)	($5,339,962)	($4,983,712)	($8,855,011)	$979,675	($1,544,117)	($3,533,960)
Per Exhibit SF	*($27.83)*	*($9.42)*	*($25.96)*	*($34.85)*	*($35.98)*	*$3.40*	*($4.24)*	*($17.84)*
Per Expanded Exhibit SF	*($16.92)*	*($5.73)*	-	-	-	-	-	-

**From original proforma as shown in Table 3-3.*
***After restatement of proforma, as shown in Table 3-4.*
****Average includes restated OCC proforma.*
Source: Respective Facilities, Johnson Consulting

As shown in the table, after the excise tax, the OCC's operating revenues total to $60.99 per square foot of exhibit hall. After restatement of the proforma, adding back the excise tax into the revenues, the OCC's operating revenues total to $65.94 per square foot of exhibit hall. On the expense side, with the marketing contract with POVA included as one of the line items, operating expenses total to $88.82 per square foot of exhibit hall, the highest among the comparable facilities. After restatement of the proforma, reallocating the marketing contract into non-operating expenses, the operating expenses incurred by the OCC decrease to be within the levels of most comparables, especially relative to the size of exhibit space. As reported in the original proforma, the OCC's operating deficit is $27.83 per square foot of exhibit hall. After the restatement of proforma, the OCC's operating deficit decreases to $9.42 per square foot of exhibit hall. Furthermore, when the expanded exhibit hall size is considered, the operating deficit is a very respectable $5.73 per square foot of exhibit space. Still, being in a deficit position indicates that the OCC can not generally afford to discount rates further. Additionally, the difference between the OCC's original and restated proforma illustrates the effects of the excise tax and POVA marketing contracts to the OCC's bottom line. It is unknown what impacts the expanded exhibit hall and larger ballroom capacity, along with increased building efficiency associated with the modernization elements incorporated into the expansion, will in combination do to deficit levels. Hopefully there will be some balance, as no other resources have been considered.

Table 3-25 compares the subsidy that is received by the facility. As there are no specific "subsidy" line items in the financial statements of the facilities, the term "subsidy" in this comparison mostly refers to the amount of hotel/motel taxes that flow into the facility proforma, unless indicated otherwise. The subsidy amount is adjusted to not include the embedded costs to make it apples-to-apples with the other subsidy lines.

Table 3-25

Comparison of Net Subsidy per Exhibit Hall SF

	Oregon CC	Oregon CC (Expanded)	Washington State CTC	San Jose McEnery CC	Austin CC	Colorado CC*	Salt Palace CC	Average
Subsidy**								
Hotel/Motel Tax	$10,868,819	$10,868,819	$37,189,902	$6,971,665	$17,898,978	$578,331***	$2,560,687	na
- Non-Recurring VDI****	5,740,000	5,740,000	0	0	0	0	0	na
- Excise Tax	766,502	766,502	0	0	0	0	0	na
- Marketing Contract	2,626,506	2,626,506	0	0	0	0	0	na
- City Assessment	0	0	0	0	500,000	0	0	na
= Net Subsidy	$1,735,811	$1,735,811	$37,189,902	$6,971,665	$17,398,978	$578,331	$2,560,687	na
Exhibit Hall SF	155,000	255,000	205,700	143,000	246,100	288,000	364,500	na
Net Subsidy per Exhibit Hall SF	$11.20	$6.81	$180.80	$48.75	$70.70	$2.01	$7.03	$53.41

Reflects existing size. After expansion (to be completed Dec 2004), the facility will have 584,000 SF of exhibit hall, 50,000 SF of ballrooms, 100,000 SF of meeting rooms, and a 5,000-seat auditorium.
***Mostly include hotel/ motel taxes that are dedicated to the operation of the facility.*
****Refers to the amounts of operating deficit that is covered by the City and County of Denver.*
*****Refers to Visitor Development Initiative.*
Source: Respective Facilities, Johnson Consulting

As shown in the table, the net subsidy received by the OCC is on the lower end of the range of the comparables. After adjustments for non-recurring Visitor Development Fund, excise tax, and marketing contract with POVA, the Oregon CC receives net subsidy of only $6.81 per square foot of exhibit hall, considering the expanded size. Washington State CTC receives the highest subsidy of $180.80 per square foot of exhibit hall. Colorado CC receives the smallest subsidy, $2.01 per square foot of exhibit hall space.

Table 3-26 shows the rental rates for facilities that do present rate data on a per square foot basis.

Table 3-26

Comparison of Reported Rental Rate per SF-Day

	Oregon CC	Washington State CTC	San Jose McEnery CC	Austin CC	Colorado CC
Exhibit Hall					
Min	$0.19	$0.13	$0.14	$0.09	$0.20
Max	$0.19	$0.15	$0.15	$0.15	$0.20
Ballroom(s)					
Min		$0.12	$0.29	$0.13	
Max		$0.14	$0.29	$0.28	
Meeting Rooms					
Min		$0.13	$0.26	$0.20	
Max		$0.56	$0.33	$0.27	

Source: Respective Facilities, Johnson Consulting

As the table shows, each of the represented facilities is relatively consistent in its minimum charges for event days, but vary in their maximum. The reported rate often varies from the actual effective rate, indicating that some facilities may set artificially high rates, and then present bids using an artificially deflated rental price. Based on the analysis conducted for this project, it was not clear if that is a prevalent practice within the competitive set, but it was clearly pointed out during interviews as a perceived competitive practice.

Given the variance in presentation, analysis of discounting policies is exceedingly difficult to present in a manner that provides true representation of comparative rates. All reporting facilities charge on a (net) square foot basis but management generally has flexibility to change variables to reduce customer costs. This informal discounting is already occurring in many buildings; however, it is not advertised. Other modifications occur by charging or not charging all of the labor invoices, passing through security or labor rates, and others.

Summary

The preceding review of comparable facility performance and operating strategies provides a baseline assessment that reveals the OCC has been a competitive, but undersized facility. The expansion program, which is consistent with its competition, is an essential step for Portland to stay on par with comparatively sized cities. It was also strategic to size the facility larger than Seattle's Washington State Convention Center, as it will establish Portland's offerings as the largest in the Northwest, providing an immediate identity and inherent advantage.

In terms of events and attendance, the current facility is attracting demand. It is on par in terms of number of conventions and tradeshows, as well as number of consumer show events in comparable markets. However, average attendance is on the lower end of the scale, perhaps due to Portland's headquarters hotel situation. Further, larger facilities in other metro areas are attracting larger trade shows, which largely explains the attendance variance. In regard to financial performance, the OCC's revenues and expenses compare favorably. While the facility incurs an operating deficit, it is at the lower end of the spectrum after adjustments discussed in the report are considered. Only one facility, the Denver Convention Center, reported a profit and only did so in one of the two years reviewed.

The OCC is the only facility in the competitive set assessed a direct excise tax. While the Austin Convention Center and the San Jose Convention Center are subjected to an assessment in return for city administrative services, OCC pays sizeable assessments for Metro support services in addition to a direct excise tax. The size and volume of the excise tax placed on the OCC represents a significant resource limitation, and the combination of excise taxes and substantial municipal service assessments is unique. The impact is a reduction in funding available for other purposes that could potentially be used to assist in the OCC's efforts to bring additional visitors (and economic activity) to Portland.

IV. EVENT AND VENUE COMPARISON

EVENT AND VENUE COMPARISON

In addition to the comparative analysis presented in section three, Johnson Consulting sampled comparable sized national facilities to review their policies on rental rate discounting, administrative recovery (chargebacks), taxation, and assessments or charges. In addition, two specific events that met in Portland and elsewhere were analyzed in order to compare actual rental rates and incentive policies incurred by these groups from facility to facility.

Findings and Observations

Johnson Consulting distributed a survey to a sample comprised of 40 of the largest 'Class A' convention centers in North America, as well as the corresponding convention and visitors bureaus (CVB). Ten respondents were then selected for a follow up interview. The tables and text below summarize the findings of this effort.

Table 4-1 summarizes the reported underwriting or incentive strategies used by the competitive set.

Table 4-1

Incentives for Conventions

Survey Respondent # Convention Center Size	1 Mega	2 Mega	3 Large	4 Large	5 Medium	6 Medium	7 Medium	8 Medium	9 Medium
Ability to Give Incentive?	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Incentives Used	Discounted Move In/Out Days Hotel Rebates via CVB Other discounts can be negotiated with telecom providers, meeting rooms, etc.	Price according to supply and demand	Price according to supply and demand	Numerous rent reduction/credit options Credit or waive rental if high Food and Beverage Growing Show Discount, Marketing Fund	Reduced Rent (CC can offer) CVB can provide credit for rental also; hotels can help with rental reduction	Reduced Rent	Up to 50% off Rent CVB can provide credit for Rent and Busing Hotels can rebate Room Rates	Reduced Rent Sponsorship of Activities (receptions, meetings)	Reduced Rent Other Incentives, but no specifics
Annual Amount of Incentives	None Set	Varies	$250,000 - $350,000	$350,000	No set limit	$500,000	No Answer	Varies	No Answer
Criteria	Facility Availability Need Integrity of Group Each Group Reviewed Individually	Facility Need	Facility Need	National Show High F&B Expenditure Growing Show Competitive bid from another city	Facility Availability Need Amount of Guaranteed F&B Total Hotel Rooms Used		Summers of 2004 & 2005; free rent Min. Room Block of 1,000	Total Hotel Room Nights F&B expenditure level Low Demand Period Each Group Reviewed Individually	
Who makes decision?	No Answer	President of the CC	CVB	CC GM	Head of Group that gives Discount	CVB recommends, CC Exec. Director approves	Jointly by CVB, Hotels, and CC. CC GM has final approval.	CC Director	Jointly by CVB, Hotels, and CC
Is CC Charged any Fees by City?	No	No	No	No	No	No	No	$500,000 to $1 million annually for purchasing, the Mayor's office and other city charges	No Answer

[1] Medium = Under 500,000 SF Exhibition Space
Large = 500,000 - 1 million SF Exhibition Space
Mega = Over 1 million SF Exhibition Space

Source: Individual Convention Centers and CVBs, Johnson Consulting

As indicated in the table, based on the sample responses, it is evident that most major convention center markets reserve the ability to offer specific packages to make their destination or center more attractive to event promoters, meetings planning, and other convention center users. However, the predominant practice is to reserve this ability without developing a formal policy.

According to interviewees, this strategy allows CVBs, convention centers, hoteliers, and municipal or other forms of government to develop a package that addresses the needs of each potential event, rather than have a blanket list of options. This tact reflects directly on the varying economic concerns for facility users. For example, for state associations meetings, the major economic concern is often hotel room rates. In order to attract these events, hoteliers and the CVB may coalescence to offer reduced room rates or develop a more comprehensive package that reduces or eliminates the cost of other ancillary services such as housing services or transportation. Conversely, tradeshow promoters are often focused on exhibit hall rental rates. In order to attract these events, convention center management and governmental jurisdiction (city, authority, state, etc.) may respond with a bid package that discounts rates on move in/out days, shows days, etc.

A common belief among meeting planners and promoters, however, is that facilities typically publish their maximum rates, only to reduce them each show/event. For this reason, a standardized chart of accounts that captures an "effective" rental rate would be a welcome measurement within the industry.

Regardless of the strategy, it is common practice in the industry to offer incentives or other financially beneficial packages to promoters, meeting planners, and other convention center users. However, rarely does this burden rest with a single entity, but rather it is shared across the spectrum of stakeholders, from hoteliers to CVBs to convention center management. In addition, each of these parties is reluctant to disclose their strategies for fear that it will alert competitors to their approach. Ironically, the approach is relatively common from market to market, as illustrated in the text below, which breaks down the strategies into 'common' and rare:

Common Competitive Pricing Strategies:

- Variable rate structures for event versus non-event days.
- "Free" or subsidized ancillary services such as busing, housing services, or event registration.
- Wholesale rent reductions, often based on show/event size or length, or willingness to sign multiple year contracts.

Rare Competitive Pricing Strategies:

- Reductions in labor charges.
- Revised fee schedules for service-related income (telecommunications, decorating, set-up)
- Discounted food and beverage rates.

Cost Recovery

Despite the prevalence of competitive pricing strategies, convention centers, cities, CVBs, hoteliers, and other stakeholders typically seek to recover or offset the costs or charges resulting from their pricing tactics. Often, these charges are passed either directly or indirectly back to promoters, meeting planners, or event attendees, or are built into (but not formally recognized) in the operating costs of a center or CVB.

According to the interviewees, in the case of the later, it is common practice within the convention center and CVB industry to utilize general "marketing dollars" to sweeten a bid package. These dollars can be used to pay for a center for rental reduction (common practice if the center has private, third-party management) or pay busing and other services. These dollars, however, typically are derived from hotel/motel taxes, which means that event attendees are, in effect, paying for them as part of the hotel charge. Other strategies that were reported include:

- For buildings, it is usually in the form of rent reduction, which is either recouped by the CVB or City, or is simply recognized as lower rent collected. In some cases, it will lead to the convention center losing money during the year, in which case the deficit must be made up by the city or another party. The amount of incentives is not known in all cases, but for those that are, the amounts are either not set each year (and are based on other criteria), or they range from $250,000 to $500,000 annually.
- For citywide events, hotels may add a one to three dollar surcharge to room rates and, in turn, use this surcharge to create a resource for funding center rental charges or to pay themselves back if they discount rates to attract large events.

Administrative Recovery/Chargebacks

Survey and interview responses indicate that for City or County owned and operated facilities, it is common for the larger governmental entity (e.g. city) to assess or charge the center for administrative and other costs such as participating in a purchasing pool. Facilities that have a specialized authority and are independent of another jurisdiction generally are not assessed any charges. This is consistent with the experience of Austin and the OCC (as documented in Section 3). What is uncommon is the direct excise tax levied on OCC in addition to the assessed service charges.

Decision Making and Other Observations

In addition to the issues outlined above, our survey, interviews, and analysis also produced the following observations:

- While the party that develops and offers the package varies markedly across markets (CVB, convention center, city, hoteliers, etc.), the decision to develop and offer a competitive package is typically made through a cooperative effort. The criteria for award varies widely but is generally based on the event attributes and need.
- It is rare that groups require a payoff in cash in advance. If this is the case, a local host committee is set up to raise money. Once a city is chosen, rent is paid for by the host committee, not the event itself. Examples include Republican and Democratic National Conventions, the National League of Cities, and the NAACP.

- Some cities like Chicago rely on certain tax revenue streams to support shuttle expenses for most groups. This is due to Chicago's unique situation where the hotels are at least a mile from the convention center. This subsidized shuttling allows the overall cost to be competitive with other cities where the convention center and hotels are closer together.
- Many newer convention centers, like Boston and Washington, DC, as well as older centers like Los Angeles and Fort Lauderdale have set up hotel tax or other funding streams as a war chest to subsidize rent or other costs. Offers of low rent in certain cities is leading to a price war, and it appears that other cities are looking for ways to generate 'marketing funds' that would allow them to discount or eliminate rent in some instances.
- Generally speaking shows can qualify for discounts if they either are large enough and spend enough money on food and beverage (and other services) to justify a discount of rent, or if the show is willing to come to a city during a historically weak period (the south in the summer, the north in the winter).
- Accounting for incentives is almost never handled as cash transfer from a building or CVB to a group. Instead, if a building lowers rent, then it simply does not receive as much money and its bottom line suffers. For some buildings, if this causes an operating deficit, the city or authority will inject funds to make the building whole for the period. If a CVB has a marketing fund and offers a credit to the convention, then usually the CVB will pay the building the credit amount and the rest will be billed to the event.
- Some cities are not as competitive due to high labor rates, so rental reductions are offered to allow the building to compete. An incentive fund is then used to pay the building's rent so as to minimize deficits.

Comparative Event Analysis

In order to compare event costs across facilities, Johnson Consulting analyzed two shows that were hosted at the OCC and comparable facilities. We then analyzed their experience from facility-to-facility. In order to prepare this analysis, Johnson Consulting contacted the venues used by four events the year prior to using the Oregon Convention Center. Most venues and events were very reluctant to provide this information as they deem it competitive and proprietary. Nonetheless, information was provided for two events, as described below.

Wound Ostomy and Continence Nurses Society

The Metro Toronto Convention Center (MTCC) provided data regarding their 2002 hosting efforts for an event sponsored by the Wound Ostomy and Continence

Nurses Society. The event was staged at the OCC in the prior year. Table 4-2 presents comparative data for the event at the OCC versus the MTCC.

Table 4-2

Wound Ostomy and Continence Nurses Society Convention Costs (US$)

Item	Oregon CC (2001)	Metro Toronto CC (2000)
Building Rental	$ 47,253	$ 77,185
Admissions Labor	1,868	-
Audio/Visual	836	176
Business Center	5	159
Equipment	80	-
Freight	75	-
Keys	750	-
Labor	1,400	655
Public/Special Events Permit	158	-
Security/Medical	4,851	-
Telephone	1,023	-
Utilities	4,833	-
Coffee Service	-	122
Working Lunch	-	86
Committee Meetings (F&B)	-	6,685
Poster Session	-	9,750
	$ 63,132	$ 94,817

Source: Individual Facilities

As the table indicates, the OCC and the MTCC account for event charges in different ways. The OCC provides for a more literal accounting of each cost, which is typically preferred for the event sponsors. In contrast, the MTCC chooses to consolidate many event costs into the total facility rental fee. While this provides for flexibility and administrative savings for the center, from the user perspective it does not allow for a thorough understanding of true event costs. For this event, however, the services, activities, and attendance were comparable (but not identical) across the two venues, which allows for the comparison. For the purpose of the analysis, all values have been converted to US dollars. Overall, the OCC was approximately one third less expensive for the equivalent event than at the MTCC.

Sweet Adelines

Johnson Consulting interviewed representatives and meeting planners for Sweet Adelines, one of the largest national SMERF events. This interviewee provided the context for understanding the criteria used by this group to evaluate destinations. In addition, it also provided insights into the strategies used by the organization to negotiate more favorable packages.

Revenue earned by the OCC from the event is presented in Table 4-3 below.

Table 4-3

Sweet Adelines Revenue for Oregon Convention Center

Item	Amount
Building Rental	$ 18,750
Admissions Labor	130
Audio/Visual	924
Keys	450
Other	950
Public/Special Events Permit	88
Security/Medical	1,317
Telephone	500
Utilities	288
	$ 23,397

Source: Oregon Convention Center

As the table shows, building rent was nearly $19,000 and other expenses were approximately $4,000, for a total of approximately $24,000. The group also used the Rose Garden, which was expensive to rent. Its costs are not included above.

According to representatives, Sweet Adelines requires a facility with a large amount of exhibit space in addition to a space for the major convocations and competitions. Convention and performance space of approximately 130,000 square feet is the current threshold, plus an additional 40,000 square feet for exhibits. The group prefers locations with a convention center and an arena attached, for maximum flexibility and to allow for spectators for competitions. Nonetheless, in cities in which the convention facilities are large enough, an arena is not a necessity. Plus, Sweet Adelines reports the use of arenas adds substantially to rental costs.

The Sweet Adelines held or will hold their convention in the following facilities and cities:

- 2000 – Orange County Convention Center, Orlando
- 2001 – Oregon Convention Center & The Rose Garden, Portland

- 2002 – Nashville Convention Center and Gaylord Entertainment Center
- 2003 – Phoenix Civic Plaza and America West Arena
- 2004 – Indiana Convention Center & RCA Dome, Indianapolis

For the Oregon, Nashville, and Phoenix dates, an arena was or will be used for the competitions. Costs for each city vary widely, according to the planner. For example, the cost of the OCC to Sweet Adelines was $23,400, plus the additional cost of the Rose Garden. The group considered bypassing Portland due to the arena expense, which was very high, according to the planner. However, the appeal of the destination somewhat mitigated the higher costs as the group anticipated strong attendance in Portland.

In Phoenix, the CVB used incentives to provide a $40,000 credit to the group for rent reduction at America West Arena in 2003. The cost would have been $110,000, without the credit. Convention Center ballroom and exhibit hall rental will total approximately $22,500, or about the same as the OCC's rent. In Indianapolis in 2004, the group expects to only use the Indiana Convention Center as it is large enough for all events. The convention center price is expected to be $36,000 for space rental.

Summary

Based on both the specific show and the broader survey information, several conclusions can be drawn. First, it appears that discounting does occur at two levels- informally by the building when being lenient in charging for move in and move out days, labor, calculation of net square feet, etc. Secondly, between the CVB, Center and hotels, funds are being developed to support attracting events. These activities seem to be increasing as the economy softens and as more supply comes on line.

Based on our review, the best approach is to recognize that management has some judgment in developing its invoice and it is using judgment wisely to attract maximum demand, minimum bottom line impact and equity between clients. Purposeful rate discounts are not recommended as that undermines rate integrity. Rather, if the community desires an event fund, a preferred incentive strategy is development of a fund, funded by hotel tax or room rebates, that is allocated based on criteria. This allows the convention center to be compensated for its costs and not erode its pricing policy, while at the same time still provide a tool to be competitive.

In terms of taxes and charges, no other facility is assessed a property or excise tax per se. Other City owned facilities are assessed administrative charges and these allocations can be substantial. In some instances, where room taxes are used to support the facility these allocations are strategies used by Cities to gain access to the room tax stream. In other instances, it is an effort to account for actual services provided. Standalone Authorities with dedicated funding have more autonomy and are generally not assessed.

The OCC is disadvantaged in its ability to discount rates. Given that Metro assesses a 7.5 percent excise tax, it makes it doubly important that the facility be reimbursed for its costs. A fund set up outside the Center, to incentivize events, rather than direct facility discounts is more appropriate.

03100l/cjoint-02

Oregon Convention Center Benchmarking Study

CH JOHNSON CONSULTING

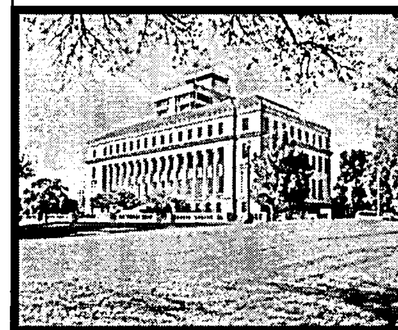
EXPERTS IN CONVENTION, SPORT & REAL ESTATE CONSULTING

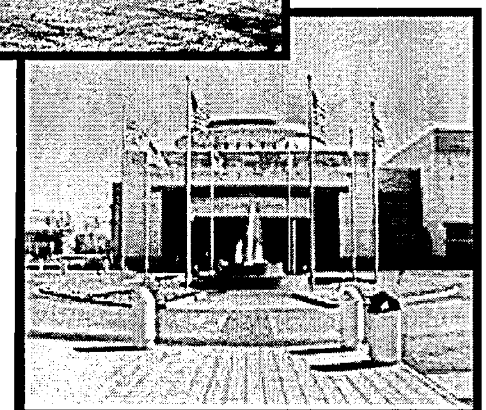
CH JOHNSON CONSULTING

March 10, 2004

Experience

- Oregon Convention Center-POVA Marketing Agreement
- Meydenbauer Center
- Washington State Convention & Trade Center
- Vancouver Convention Center
- Phoenix Civic Plaza Redevelopment
- Salem Conference Center/ hotel; Fairgrounds
- Tempe Convention center and Conference Center
- Hundreds of operational reviews, convention center studies, hotel studies, sports facility studies





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Scope of Work

- Independent, third party review of:
  - Rates
  - Policies
  - Revenues
  - Expenses
  - Deficits
  - Discounting
- Interpretation
  - Reflect on data
  - Control for variances in operating conditions
  - Draw conclusions

Comparators

- Austin Convention Center
- Colorado Convention Center
- Salt Palace Convention Center
- San Jose Convention Center
- Washington State Convention Center

Caveats

- No standard chart of accounts
  - Facilities range within departments
  - Departmental structure
  - Approach to ownership and management
- All facilities are in flux
  - Expansions
  - Construction projects
  - New facilities in market
  - Hotel supply changes

Findings-Product

- Appearance & Quality- Best facility in nation
- Competitive w/ respect to meeting/ballroom space to exhibit space
- Sizing in Northwest very strategic- no one larger, nor will be soon
- Placement across river from CBD is a liability & mandates HQ hotel
- HQ hotel will be impacted by removal from CBD

Findings

- Operating System is Thoughtful
  - Dedicated entity focused on facilities
  - Outside of City government
    - Business oriented
    - Industry expertise
    - Avoidance of many civil service conditions
- Contracting CVB services through Center is appropriate

Findings

- MERC administration overhead charges are equivalent to the administrative and accounting arm of the Center, and are roughly comparable to other facilities.
- Metro mandatory support charges are not unique—San Jose and Austin charge municipal assessments as well. These charges are beyond the control of the facility management organization because they are mandated and non-negotiable. Generally, such municipal assessments rise at a higher rate and are less flexible than those that are under direct control of a single purpose facility management organization.
- Metro excise tax is unique. No other facility in comparator set or in consultant's professional experience suffers from excise tax- some sales taxes, but not as punitive.
- Unique combination of mandatory municipal support service assessments and excise tax results in perception from stakeholder groups that what is occurring amounts to a defacto transfer of dedicated tax support for center to other unintended public purposes.
- Resulting financial bind on facility causes one or more of following: increased costs to clients, reduced negotiating flexibility, or inadequate operational funding.

Findings

- Rental Rates
  - In line with comparables
  - As with hotels, essential to retain rate integrity- OCC has fiduciary responsibility to MERC/ METRO
  - Management is professional- indirectly can negotiate, but must preserve rate and integrity
- Adjusting for CVB budget pass-through+ METRO assessment+ excise tax, OCC operates extremely effectively

OCC Financial Proforma vs. Peer Facilities

Comparison of Operating Financial Proforma

	Oregon CC*	Oregon CC**	Washington State CTC	San Jose McEnery CC	Austin CC	Colorado CC	Salt Palace CC	Average***
Operating Revenues	$9,453,530	$10,220,032	$10,659,951	$6,657,234	$9,315,178	$5,185,455	$6,108,416	$8,024,378
Per Exhibit SF	*$60.99*	*$65.94*	*$51.82*	*$46.55*	*$37.85*	*$18.01*	*$16.76*	*$39.49*
Per Expanded Exhibit SF	*$37.07*	*$40.08*	-	-	-	-	-	-
Operating Expenses	$13,767,786	$11,680,667	$15,999,913	$11,640,946	$18,170,189	$4,205,780	$7,652,533	$11,558,338
Per Exhibit SF	*$88.82*	*$75.36*	*$77.78*	*$81.41*	*$73.83*	*$14.60*	*$20.99*	*$57.33*
Per Expanded Exhibit SF	*$53.99*	*$45.81*	-	-	-	-	-	-
Operating Income (Deficit)	($4,314,256)	($1,460,635)	($5,339,962)	($4,983,712)	($8,855,011)	$979,675	($1,544,117)	($3,533,960)
Per Exhibit SF	*($27.83)*	*($9.42)*	*($25.96)*	*($34.85)*	*($35.98)*	*$3.40*	*($4.24)*	*($17.84)*
Per Expanded Exhibit SF	*($16.92)*	*($5.73)*	-	-	-	-	-	-

**From original proforma as shown in Table 3-3.*
***After restatement of proforma, as shown in Table 3-4.*
****Average includes restated OCC proforma.*
Source: Respective Facilities, Johnson Consulting

- Based on the expanded facility size, OCC operating deficit is among the least among comparables ($5.73 per SF of exhibit space)

Requirements for Success

1. Source of $ to Compensate for Liabilities
   - Remoteness of hotels
   - SMERF Costs
2. Can't expect Center to be able to discount-stretched too tight
3. Need to address Convention Center expansion cost structure growth
4. Need to expect hotel subsidy

Recommendations

- Be comfortable w/ MERC structure- equitable system; self operation outside of "City" liabilities
- Congratulate excellent physical product and effective management
- Address unique excise tax issue- eliminate or dedicate excise tax to expanded operations, client subsidy fund, other investments; prefer elimination of tax in this competitive business environment
- Eliminate mandatory, non-negotiable nature of municipal support charges
- If truly needed, provide event subsidy funding sources outside of center budget
- Lack of sufficient operational support for expanded center is major concern which community must address. Success and competitiveness of center are at stake