MINUTES OF THE METRO COUNCIL/METROPOLITAN EXPOSITION RECREATION COMMISSION JOINT MEETING

Wednesday, March 10, 2004
Metro Council Chamber

Councilors Present: David Bragdon (Council President), Rex Burkholder, Carl Hosticka, Susan McLain, Rod Monroe, Brian Newman, Rod Park

Councilors Absent: None

Metropolitan Exposition Recreation Commissioners Present: Gary Conkling (Chair) Gale Castillo, George Forbes, Don Trotter

Metropolitan Exposition Recreation Commissioners Absent: Sheryl Manning, Judy Rice

Also Present: Michael Jordan, Metro Chief Operating Officer; Mark B. Williams, Director, General Manager

Council President Bragdon convened the joint meeting at 11:09 a.m.

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

Members of the meeting and audience introduced themselves. President Bragdon recognized Metropolitan Exposition Recreation Commission (MERC) facilities as publicly owned assets economically important to the region. He said his objective for the joint meeting was to gain an understanding of challenges and find creative, entrepreneurial and responsible approaches to those challenges.

Chair Conkling recognized the joint meeting as a first-time gathering of MERC and the Metro Council. He said the Commission viewed themselves as part of Metro and he recognized the commissioners' commitment. He looked forward to collectively finding intelligent ways to address challenges.

Council President spoke to the Oregon Convention Center (OCC) as a fiscally sound investment. He introduced consultant Charles H. Johnson.

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

The September 2003 Oregon Convention Center Benchmarking Analysis was distributed to meeting members, a copy of which is included as part of this record. Mr. Johnson delivered a PowerPoint presentation of the Oregon Convention Center Benchmarking Study, a hardcopy of which is included as part of this record.

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

Councilor Burkholder asked about the correlation between budget information used by Mr. Johnson and the expansion. Mr. Johnson said that only pre-expansion budget information was available at the time of the assessment, but that the themes would still hold true. Councilor Burkholder noted that costs would increase with the increase in square footage. Mr. Johnson said that if half of the Metro charge were put into the expanded facility, it would still be performing at an effective level from an operating standpoint.

Council President Bragdon asked about risk management and liability costs and how those were represented at comparative facilities. Mr. Johnson said those costs were imposed on the OCC and there was no open market capability for the facility to attain them from a competitive standpoint. His suspicion was that there were other indirect allocations imposed on the OCC, which, combined with the excise tax, were extraordinary burdens on the facility. He said he had not had the ability to audit whether the cost structure was reasonable.

Councilor McLain said that other convention centers had line items for risk management and legal services and asked if there had been a comparison between those and the OCC. Mr. Johnson replied that it had been factored in at the gross level.

Council President Bragdon asked how other cities provided funding for a headquarters hotel. Johnson spoke to an example in Fort Worth, Texas that used hotel/motel tax, sales tax and soft cost support to the tune of $40 million for a 600 room hotel. Commissioner Forbes asked about Denver. Mr. Johnson said Denver was an example of a public ownership hotel, through a 501(c)3. Council President Bragdon asked about concerns from existing hotels about competition from a subsidized hotel. Mr. Johnson said most existing hotels had short memories, because they also benefited from increased traffic.

Councilor Monroe asked if Mr. Johnson had looked at the relationship between the Expo Center and the OCC. Mr. Johnson said his observation was that Expo was a portfolio benefit, but that it could have a negative impact by taking consumer shows away from the OCC.

Councilor McLain said that several years ago the Council had asked MERC to look into whether they could improve their service charges to have a better package. She asked if Mr. Johnson if he had used that information. Mr. Johnson said he had not.

Councilor Park said there was no generalized flow of visitor–related income back into the general fund of the entity that owned the center, so there was no direct benefit to Metro. He said that Metro was responsible for operating the facility and that parties not directly involved in operations derived benefit from the facility. He said other entities benefiting from the facility could share in the costs.

Councilor Hosticka said a third option was to make revenue flow directly either through MERC as an authority with its own taxing ability or through Metro's taxing ability. He acknowledged there was a huge public subsidy in all facilities and asked where the benefit was and how those who enjoyed the benefit linked to the subsidy.

Councilor McLain said the group should build on the good news in the report and refine relationships and management issues for the facilities.

Councilor Burkholder asked about the end of the visitor development initiative (VDI) subsidy. Mr. Williams replied that at the end of 2006-2007, without either a change in revenue or expense structure, the OCC would start to go into negative fund balance territory. If the OCC continued to be funded as contemplated by the VDI by phasing out all subsidies from that fund by 06-07, and if it were to operate in the same manner, it would run out of money. To continue in a first-class fashion, one gap would be a zero fund balance and the other gap would be in cash flow. It had been determined that $4 million was needed to make cash flow work through the year, without factoring for inflation. He said the total amount was well in excess of $4 million. Councilor Burkholder spoke to the lack of sufficient operating funds. He said that $900,000 in excise tax for the OCC didn't cover the $6 million hole. He said the hole was what needed addressing with the City of Portland, Multnomah County and the VDI group. He said $6 million could not come from Metro's existing resources.

Councilor McLain asked about gambling revenue to fund hotels. Mr. Johnson said the precedent had been set elsewhere and it was an option. He said a chain-affiliated hotel was important.

The group thanked Mr. Johnson.

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

Council President Bragdon said he felt the support services issue and some other issues could be solved within the family, but that outside help was needed for the $6 million hole.

Dan Cooper, Metro Attorney, gave a history on the allocation formula set by the Metro Council for support services. He said it was consistent with what federal law allowed the Council to charge for grants to maximize that money for planning purposes. The formula was used across the agency to determine the support services charge. The issue with MERC and the OCC in particular was that since the money had to be applied uniformly, the assumption was that it was non-negotiable. He said there were various ways to set the base charges. He said there was a question about what workloads were generated in terms of legal services and Office of Metro Attorney allocations vs. in-house legal services. He said there was likely a base set of fixed costs as dictated by the charter. If Metro were a larger agency, true overhead costs would be spread across a broader base. In the agreement financing the OCC expansion, there was a reference to support services costs with a footnote stating the intent of Metro, the City of Portland and Multnomah County to hold support services costs to no greater than a certain level of increase for a certain time period. Metro had been budgeting consistently to comply, but had to use excise tax revenues in order to do that. Although the allocation formula was non-negotiable from the MERC point of view, the Metro Council had been negotiating with MERC over those charges. Since the Metro Council was in charge of budget, it was essentially a one-sided negotiation.

Councilor Newman asked how much the Metro Council charged its own internal operations for support services as opposed to what was charged to MERC. Mr. Jordan said that a cap existed for the OCC and that the current fiscal year cap was $173,000 and the next year's cap was $185,000. Mr. Williams said that per the VDI through FY06-07, with respect to the OCC only, Metro overhead charges were permitted to increase no more than 5% annually. Mr. Cooper said the buy-down was $185,000.

Councilor Park said that if business doubled at OCC, the percentage of fixed costs in Mark's shop would go down, yet theoretically the excise tax would increase. He said there was a disconnect when looking at the recipient of generated tax revenue. If OCC business doubled, costs doubled and deficit doubled, there was no benefit to Metro. He said the disconnect should be addressed.

Commissioner Forbes said there needed to be an entity that included local jurisdictions so that the benefits would be shared to Metro and to where the costs lay.

Commissioner Trotter said a big problem was loss of the VDI. He asked Mr. Cooper to review the flow of funds through the VDI. Mr. Cooper said that in 2006 Metro could propose a budget for an additional VDI subsidy. He reviewed the priority of funds as they flowed from the VDI. Funds would first go to pay OCC expansion completion bonds, secondly to pay Portland Center for the Performing Arts bonds, thirdly to pay the net needed for Civic Stadium (now PGE Park) bonds, and fourthly to pay Metro for the OCC operating deficit. The fourth item included a six-year pay schedule with a stipulation that if a deficit existed beyond the sixth year, a budget must be submitted, with notification to the City of Portland, Multnomah County and the VDF Board. Fifth, funds would flow to Metro for OCC marketing, sixth to TriMet, seventh to the VDF, eighth to Metro for PCPA, ninth to the OCC operating deficit in excess of the pay schedule stipulated in the fourth item, and three other items followed that Mr. Cooper did not address. He described the structure of the VDF Board and said it would determine how to spend that money.

Councilor Newman asked about the VDF Board and whether there was money in that account. Mr. Williams said the entire funding plan had been put together before September 11, 2002 with a 30-year time horizon, and had been deemed a very conservative plan. It assumed no real growth, just inflationary growth. Everyone knew the plan was skinny on money for the first five to seven years. But because of the economic downturn, there had been a real net decrease in the tax receipts. Consequently, the bottom buckets weren't being filled in the flow of money.

Councilor Newman asked if this group went to the VDF Board and asked for additional revenue to subsidize OCC operations, where would it come from? Mr. Williams said that because the current flow of funds was insufficient to fund the existing buckets, any extra dollars taken out for the OCC or any other purpose would deplete the buckets downstream.

Commissioner Trotter said that if this group could control expenditures or modify excise tax to reduce the revenue needed from the VDI, it would go a long way towards their partners saying yes.

Commissioner Forbes asked where the $900,000 from PGE Park was supposed to have gone. Mr. Cooper said it was supposed to pay a portion of the debt service on the stadium box. So far, that debt service had been paid from other funds. Mr. Williams said the agreement was that all revenues from PGE Park were supposed to flow into the fund. Thus, the predicted success of PGE Park would have gone towards early repayment of the OCC bonds. Mr. Cooper said that if PGE Park had made its projections, anything in excess of $900,000 would have not gone towards an annual flow of funds through the VDI; it would have bought off city bonds early. That would have meant the debt service on the PGE Park bonds would have gone away in an earlier year than anticipated.

Mr. Jordan re-addressed the buy-down figure, saying that the amount of money to be sent back for support services this year was a $2 million base and that next year's was $2.15 million.

Councilor Monroe said that during negotiations for the OCC bonds, City of Portland Mayor Katz had insisted on the city being used for credit because the city had had a lot of money. There was a compromise so that OCC bonds would be paid before bonds for PGE Park were paid. He was nervous that Mayor Katz's successor would not feel the commitment to maintain the subsidy. He said there wasn't a written requirement by the city to back up the compromise.

Mr. Jordan said he'd like to confirm the numbers in question before moving forward with any plan this meeting might come up with.

Councilor McLain said a team approach was imperative. Her goal was for this group to make a commitment to convene on a more regular basis to determine its approach.

Chair Conkling agreed and said the MERC was least able to influence outside parties and that Metro Councilors were the active participants. He said that internal issues were important as well as a broad understanding of the MERC budget. He said that information was important when talking to regional partners about facility management and financial stewardship and making the case for additional dollars and regional support. He asked Commissioner Trotter to address budget pressure points and where further cuts might be made.

Commissioner Trotter said personnel cuts would be necessary. The OCC was at bare bones for maintenance. Once personnel cuts were made in marketing, maintenance and sales, the OCC would operate more like the Expo Center.

Councilor Hosticka asked what effect a headquarters hotel would have and what the funding sources would be. Mr. Williams said what subsidy would be needed was yet to be determined, but that it was likely it could not be solely financed by the private sector. He said examples in other cities included different options for public subsidies.

Councilor Burkholder noted that the OCC was at 20% of the average in terms of public subsidy for similar facilities in other cities. He said the public subsidy could be a bigger piece and that the current tight management spoke well of the facility if they were to request a larger subsidy.

Chair Conkling said there was not only an interplay in the funding streams but that this group needed to influence elements of the headquarters hotel to help meet this group’s interests. This group must be prepared to be at the negotiating table, most likely with funds.

Council President Bragdon said this group was much better off having mutual understanding before negotiating outside of building. He said he would trust Mr. Jordan and Mr. Williams to address the support services issue to ensure that the public’s business was being done in the best possible way. The excise tax discussion was germane to what Councilor Park had addressed in terms of the disconnect between fiscal benefits and ownership and operation. He said that situation gave this organization all the wrong incentives and sent the wrong market signals. The excise tax was a surrogate for other governments that had revenue going directly to their general funds. He said once this group could reach an agreement on those issues, then a strategy was necessary to address the $6 million hole.

Commissioner Castillo said she saw two staff issues in which to direct staff; the first being maintenance of the facility and the second being the cost of the event subsidy.

Councilor McLain said she wanted more relevant numbers than had been presented in the Johnson report and she wanted a comparison from staff.

Councilor Hosticka said that from a citizen’s perspective, governments were paying for something to happen. He would like to determine whether those in the community who were paying the subsidies were actually benefiting.

Councilor Monroe said that the OCC brought in $400 million annually, benefiting the state. He said the restaurant and beverage industry should be a partner. He said that in negotiations for a headquarters hotel, the excise tax might be a source of revenue to act as Metro’s chips on the table when it came to bringing a deal together.

Councilor McLain recommended a closer look at regional facilities and exploring cross-facility services in the interest of efficiency.

Council President Bragdon spoke to bringing in Williams’ negotiation skills for a solid waste lease.

Commissioner Dean-Toran recommended looking at consolidating personnel and other major functions across jurisdictions.

Commissioner Forbes recommended having Mr. Jordan and Mr. Williams get together to talk about support services. He said he wanted to look at other models to see what would be best for this region.

Councilor Burkholder said he wanted to ensure there was sufficient operating revenue. He agreed with Councilor McLain to look at how to define regional facilities and the best way to manage them.

Chair Conkling said there was a need to develop better metrics on competitiveness issues. He said this group and the Portland Oregon Visitors Association (POVA) had the ability to get a better snapshot of competition. The headquarters hotel was a second competitive question that warranted discussion. He recommended looking at whether services received by MERC were exactly what was needed.

5. Identification of Mechanisms for Follow Up on Funding Issues

Council President Bragdon asked for feedback on this type of meeting.

Mr. Williams said he wanted to produce a 10-year look to ascertain what kind of funding gap there would be in the future. He said his staff could estimate the incremental point of existing tax structures and what those points would like in counties where they were currently not collected.

The group agreed that they would like to reconvene.

Commissioner Trotter said there were issues around the Expo Center warranting discussion.

Councilor Newman spoke to Council President Bragdon's budget and what would make strategic sense for the agency. He said timing was really important and that he would like better working relationships with jurisdictional partners before addressing financial issues.

Commissioner Dean-Toran suggested that Mr. Williams, Mr. Jordan, Chair Conkling and Council President Bragdon meet on a more regular basis than this group.

6. Close (Council President Bragdon)

There being no further business to come before the Metro Council and Metropolitan Exposition Recreation Commission, Council President Bragdon adjourned the meeting at 2:10 p.m.

Prepared by

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ATTACHMENTS TO THE PUBLIC RECORD FOR THE MEETING OF MARCH 10, 2004

Item	Topic	Doc Date	Document Description	Doc. Number
2	Written Report	September 2003	Oregon Convention Center Benchmarking Analysis	031004cjoint-01
2	PowerPoint	March 10, 2004	Oregon Convention Center Benchmarking Study	031004cjoint-02