

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

Wednesday, May 4, 2005
Portland Expo Center

Metro Councilors Present:

David Bragdon (Council President), Rex Burkholder, Carl Hosticka, Brian Newman, Rod Park

Metro Councilors Absent:

Robert Liberty, Susan McLain

Metropolitan Exposition Recreation Commissioners Present:

Don Trotter (Chair), George Forbes, Sheryl Manning, Gale Castillo, Ray Leary

Metropolitan Exposition Recreation Commissioners Absent:

Gary Conkling, Janice Marquis

Also Present:

Dan Cooper, Metro Attorney; Jeff Miller, MERC General Manager

Council President Bragdon convened the joint meeting at 9:10 a.m.

1. Opening

Metro Council President Bragdon opened the meeting and welcomed all attendees. He stated that the purpose of today's meeting is to talk in more detail about the substance of what the Metropolitan Exposition Recreation Commission (MERC) actually does. There are three major issues to be discussed in today's meeting that have a lot of significance for the community in terms of the tourism trade, and they're all related to actions that bring more money into the community, create jobs and build the tourism industry. There are critical decisions to be made over the next 6 – 18 months on all of these issues. The Council and Commission being united and having a good understanding of the agency's objectives is important to getting these jobs done.

MERC Chair Trotter stated that the relationship between Metro and MERC has greatly improved over the last year and expressed his appreciation for the progress that's been made. He said that today's meeting will consist of presentations by MERC staff with opportunity for questions along the way. He added that these issues have long-term implications and are extremely important to Metro and MERC.

Jeff Miller reminded everyone of MERC's vision, which is to be the acknowledged leader in public assembly facility management in the region. He thanked Expo's Director, Chris Bailey, for hosting this meeting and noted that in 2004, with gross enterprises of \$5.3 million, Chris and his staff of 12 generated \$56,000 more to their strategic fund balance, after paying \$1.2 million in debt service, \$360,000 in MERC and Metro support services and \$400,000 in excise tax. Jeff stated that Expo is a well-run facility with opportunities for future growth and long-term opportunities.

Jeff said that the Portland Center for the Performing Arts' (PCPA) mission is to provide superior, responsibly managed performance spaces that foster an environment in which diverse performing arts

events and audiences may flourish. He stated that Robyn Williams, Executive Director of PCPA, and her team do an excellent job of managing the facilities to preserve an optimum mix of business and maintain long-term financial stability. Robyn and her team added \$790,000 to their strategic fund balance. PCPA receives \$1.2 million in hotel/motel tax and \$660,000 in support from the City of Portland for operations and capital to fulfill its mission to provide an affordable venue for resident companies. Jeff stated that Expo and PCPA, while not on today's agenda, are an important part of MERC's portfolio.

2. Oregon Convention Center Headquarters Hotel

Jeff Miller gave a presentation on the issue of the Oregon Convention Center (OCC) headquarters hotel. An outline of this presentation is included as part of this meeting record.

Councilor Burkholder asked how having a 500-room hotel would impact large convention business. Jeff Miller replied that meeting planners need a hotel where they can hold meetings and keep their people in one place, close to their event location. Commissioner Forbes added that it is also very important to exhibitors to have a hotel close to their events.

Councilor Park asked for clarification on how the tax base is defined. Jeff Miller replied that it is a combination of hotel/motel taxes, car rental taxes and payroll taxes.

Jeff Miller stated that OCC is hosting a series of informational luncheons to garner support for the headquarters hotel from other community leaders. The next two luncheons will be held on May 5 and May 18, and Jeff invited Councilors to participate in these events if they're available.

Councilor Burkholder asked what role the Councilors and Commissioners should play in supporting the process. Jeff Miller responded that Councilors and Commissioners should attend these informational luncheons and Portland Development Commission (PDC) meetings related to the headquarters hotel issue. He added that when interacting with other civic and political leaders, Councilors and Commissioners should stress the broad economic benefits of the project. Jeff noted that the hotel will not only be an economic driver, it will also help develop the Lloyd District into a more vibrant neighborhood.

President Bragdon noted that there has been some concern within the hotel industry regarding the subsidy level required by this project, and asked for an update on this issue. Joe D'Alessandro, President of the Portland Oregon Visitors Association (POVA), replied that significant headway has been made in discussions with hotel industry leaders. There is now a unified position and platform with the hoteliers, as well as a shared feeling that the headquarters hotel is critical to the long-term success of Portland as a convention destination.

President Bragdon asked if the process will continue with the four proposers currently being considered. Jeff Miller responded that PDC believes the four proposals they are considering are made up of strong teams. Commissioner Forbes added that seven proposals came out of the original RFQ, and that the four currently being considered had the strongest qualifications of the seven. The selection committee has discussed the possibility of narrowing the field to one or two proposals to move forward with.

Commissioner Leary asked if Commissioners and Councilors could be provided with brief summaries of the four proposals. Commissioner Forbes replied that this information could be found on PDC's web site. Commissioner Leary then asked if there were any local candidates or candidates with a working history in this market. Commissioner Forbes responded that two of the developers are local. Hyatt, Westin and Renaissance (a part of Marriott) are the flags being proposed by the developers. He added that some of the proposers are made up of teams with strong track records of building headquarters hotels across the country.

Councilor Newman asked how meeting space within the hotel itself has been considered as a factor in this project. Joe D'Alessandro stated that all proposals included this as a factor, with meeting space running from 34,000 to 65,000 square feet. He said that the ratio of meeting space depends on the number of rooms the hotel has. Joe added that meeting space increases the cost of the project, and that the stakeholders were cognizant of keeping costs down to minimize public subsidy requirements. Jeff Blosser stated that having meeting space within a headquarters hotel would likely benefit the convention center, since there may not be space available for exhibitors to hold their pre- and post-event functions at OCC because of other events going on in the building. Joe D'Alessandro stated that all project proposals feature the ability to expand in the future if necessary and that as the market grows, both the number of rooms and amount of meeting space can be increased.

Councilor Hosticka asked what form the subsidy will take. Jeff Blosser said that PDC is looking at all tax options available, including new market tax credits, but has not yet selected a process. There will probably be three to six components to the plan when all is said and done. Jeff added that headquarters hotel stakeholders will likely come to the Metro Council for support of whatever funding package is selected.

Councilor Hosticka asked if the subsidy would be used to underwrite the development cost or fund long-term operations. Jeff Blosser stated that it would primarily be used to support long-term operating costs and the bonding of the construction.

Commissioner Leary asked if there has been any discussion regarding what the threshold for a subsidy would be. Jeff Blosser responded that it is in the \$35 million to \$75 million range, depending on the size of the structure.

Joe D'Alessandro said that Mayor Potter has expressed his desire to minimize public subsidy and public risk on this project, so the idea of right-sizing the hotel is on track.

Jeff Miller stated that it's important to keep this project moving forward, and asked that if Councilors have any additional questions or concerns they let him know. Jeff also pointed out a frequently asked questions flyer that has been provided to the Councilors, which provides talking points to work from, and is included as part of this meeting record.

Councilor Hosticka asked for clarification on what public entity is responsible for the subsidy. President Bragdon responded that PDC has looked at Metro's bonding capacity, but since Metro really doesn't have that capacity, Metro has made it clear that this is not an option. The source really needs to be PDC. Chair Trotter stated that until the dollar amount of the subsidy is determined, it's difficult to pinpoint what the exact need is. He said that when PDC determines what the actual subsidization amount needed is and the pots of money are determined, those entities responsible for the various sources will be part of the process. PDC's biggest concern at present is selecting a developer to work with. Chair Trotter added that MERC and Metro need to continue to support the process that PDC has started. The evaluation committee expects to make a recommendation to PDC by May 25, and this will be followed by a series of public meetings. He urged Councilors to speak out in support of the process with other civic leaders.

Councilor Park asked for a briefing on other amenities that might be considered as part of this project, such as restaurants, and asked how these would all fit together with the development of the Lloyd District area. Commissioner Forbes stated that the belief is that the market will take care of this. If the convention center is successful, restaurants and other services will come in and the area will attract more people. Jeff Miller added that PDC is working on developing a plan for the Lloyd District to include greenspaces, shopping, nightlife and condos to help to liven up the area.

Commissioner Leary asked if the amenities being discussed are associated with the securing of a star rating for the hotel. Joe D'Alessandro said yes, and added that POVA is also working with PDC to look at a convention center district hotel plan, which other cities have done, where a portion of the collected room tax money is rebated to the hotel, for a finite period of time, to encourage the hotel to upgrade the status of the facility. Joe stated that this would help make the district more competitive with the downtown-area hotels.

Chair Trotter stated that the master plan assumed the headquarters hotel would be built across from OCC. PDC is now waiting for site selection to take place before moving forward with the Lloyd District development plan. Commissioner Manning added that this was not really a master plan but more of a commissioned study done by consultants. Jeff Blosser clarified that the study considered a 15-block radius around OCC, and PDC has not developed an implementation plan or process at this point.

President Bragdon stated that several large property owners are holding onto land in the area as potential development opportunities. He asked if they have participated in conversations about this project and if they have expressed an interest in being part of this development. Jeff Blosser responded that they did participate and they see the headquarters hotel as a catalyst for moving forward with development in the area.

Chair Trotter stated that this will be an ongoing topic of discussion as the process is refined. The project represents a tremendous benefit to the area.

3. Oregon Convention Center Funding

President Bragdon reminded Councilors that at a recent planning session it was determined that Councilor Park would take the lead on this issue on the Council's behalf. Councilor Park has been working through the numbers and is the main point of contact and leader on this issue for the Metro Council.

Jeff Miller gave a presentation on the Oregon Convention Center funding situation, an outline of which is included as part of this meeting record.

President Bragdon asked for clarification on the expectations of the Visitor Development Initiative (VDI) subsidy sunsetting after six years. He asked if the money was expected to just go away or if it was to come from another source. Dan Cooper explained the process that led to the signing of the VDI agreement. In this process the stakeholders did eventually realize that OCC would need ongoing subsidization after six years, and there is a placeholder in the agreement for additional subsidies for the facility. The agreement leaves the determination up to Metro in its budgeting process, provided there is no disagreement from other stakeholder parties.

Councilor Newman asked if the City of Portland was technically responsible for the \$900,000 that was supposed to come from the stadium. Dan Cooper responded that the agreement does not legally obligate the City of Portland to pay money into the buckets unless it actually receives revenue from the operator of the stadium. They have not received the rent that they expected and have been covering that payment to cover a portion of the debt service for the stadium bonds from other sources.

Councilor Newman asked if the city has replaced, dollar for dollar, the amount that Metro anticipated from the revenue. Dan Cooper stated that he was told by Mark Williams, former General Manager of MERC, that they were making the payments out of this source of surplus that they had in the coliseum fund. Someone at Multnomah County would know how much they've received into the buckets because they manage the funds.

Kathy Taylor, Director of Administration and Finance Officer at MERC, led a discussion of the key points of OCC's funding gap.

Councilor Burkholder stated that the Metro Tourism Opportunity and Competitiveness Account (MTOCA) could be looked at as adding renewal and replacement that MERC can improve its facilities through. With regard to OCC operations, he asked how staff would make adjustments. Jeff Miller replied that MERC would try to pull in additional business to the facility.

Councilor Hosticka asked if the 5% cap on support services would be exceeded if support services were inflated based on Metro's cost increases. Jeff Miller said yes. Councilor Hosticka asked if this has then already created a lid on the deficit MERC would have been running if it had been billed at the actual increase rate. Kathy Taylor stated that MERC received \$97,000 last year, is budgeted to receive approximately \$182,000 this year and has budgeted to receive \$197,000 next year. President Bragdon stated that another way to phrase this is that if support services were billed to MERC as they are to the Zoo, Planning or Solid Waste, it would have been higher than the amounts that Kathy Taylor has described.

Councilor Park stated that Metro operates its facilities on a break-even level. He said that Metro receives approximately \$900,000 in excise tax, but through MTOCA it puts back in \$600,000. He stated that if Metro was operating a business, it would be a poor way to operate, and added that there aren't many other entities operating facilities for net losses. He suggested that when the Council discusses this with its other partners, this needs to be brought up.

President Bragdon noted that this is a relic of times when there was mistrust among the governments. He pointed out that there are some anomalies in this arrangement. One is that support service costs exist and are increasing everywhere. OCC would have these costs regardless of who operated the facility. Another anomaly is that the governing body of the convention center does not share in its success by having money earned by the facility go into its general fund, as occurs in other cities. Owners of other facilities often receive lodging or sales tax revenue that goes into their general funds. It's not unusual for revenue from a convention center to go into the facility owner's general fund. What is an anomaly is that Metro's is in the form of an excise tax. Jeff Miller added that there have been some discussions about putting MTOCA into operating rather than capital. He stated that MERC understands it will need to continue to pay support services.

Councilor Newman asked who decides if the VDI changes. Councilor Park responded that Metro will make the proposal, and unless it's objected to by other agencies, it will move forward. Dan Cooper stated that this is correct, assuming that the current corners of the agreement are adhered to. If the agreement itself is amended, it must be approved by all parties.

Councilor Newman asked if debt service is in the form of 20-year revenue bonds. Dan Cooper responded that they are 25-year general obligation bonds, where the ultimate liability is for them to be paid out of any legally available funds from the City of Portland.

Councilor Park asked about the technical review process. Jeff Miller responded that about two-thirds of the stakeholders are on board, and there are two more that MERC still needs the support of.

Councilor Hosticka asked for clarification on how the buckets get filled. Dan Cooper explained the process. He stated that the City of Portland collects tax revenue from the hotels, keeps a portion of this money for their general fund, then transmits a portion to Multnomah County, who tracks the money, allocates it to the different buckets and pays it out.

4. Sales Contract

Chair Trotter noted that this contract was formerly called a marketing contract, and is now being called the sales contract to express a change of philosophy in how the Commission would like to approach this relationship going forward.

Jeff Miller gave a presentation on the Oregon Convention Center sales contract, an outline of which is included as part of this meeting record.

Councilor Burkholder asked about the timeline for this new contract to start. Jeff Miller responded that it is set to begin on October 1, 2005.

Councilor Burkholder expressed his appreciation of the change in emphasis from marketing to sales, adding that it reflects the real goal of working to bring new business to OCC. He stated that the new contract should make it easier to measure the success of the partnership. He also said that it may be narrow in that it doesn't promote Portland at large as a destination, but believes this focus is the right one. Chair Trotter responded that marketing is still a requirement of the work, with sales as the expected end result. President Bragdon stated that the city has more broadly-based objectives in its program that do incorporate more non-convention center-related elements of what Portland has to offer.

Councilor Park asked how the funds that the Oregon Tourism Commission collects are used to market the region. Joe D'Alessandro responded that the money is used to promote Multnomah, Clackamas, Washington and Columbia Counties, and supplements and leverages the state's marketing programs.

Councilor Park asked if there is any restriction on using these funds to market OCC. Joe D'Alessandro stated that the money is used for leisure travel-oriented promotion to generate room tax. The region decides collectively how best to approach this. The destination is marketed first to compel people to come here and to increase Portland's brand awareness. Approximately \$411,000 is dedicated to marketing this region.

Councilor Hosticka asked what the burden is on POVA to account for how its money is spent. Joe D'Alessandro responded that money is isolated and dedicated to specific areas. POVA is audited annually on this and funds are not co-mingled.

Scott West, President and CEO of the Tri-County Lodging Association, addressed the Council and Commission. He asked Councilors and Commissioners to consider that single pieces of hotel business are important to the generation of room tax money and contribute to the region at large as well.

Commissioner Castillo stated that Councilors and Commissioners should be aware that there are people who attend smaller-scale events in the region who may bring bigger events to our city and facilities down the road. Commissioner Forbes echoed these comments.

Chair Trotter stated that no one involved in the process of developing the new sales contract was acting out of a sense of dissatisfaction with the current relationship with POVA. He said that MERC believes there's a better way to make its expectations and needs clear, and he expressed his appreciation to Lisa Umscheid, Senior Attorney at Metro, for putting together the RFP for this contract.

5. Close

Chair Trotter expressed his hope that these meetings will become more frequent—perhaps quarterly—and thanked everyone for participating in today's meeting.

President Bragdon thanked the Commissioners for the time and expertise they put into being part of MERC.

There being no further business before the Metro Council and Metropolitan Exposition Recreation Commission, Chair Trotter adjourned the meeting at 10:48 a.m.

Prepared by

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Karen Smith
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ATTACHMENTS TO THE PUBLIC RECORD FOR THE MEETING OF MAY 4, 2005

Item	Topic	Doc Date	Document Description	Doc. Number
1	OCC HQ Hotel	May 4, 2005	Oregon Convention Center Headquarters Hotel Outline	050405joint-01
2	OCC HQ Hotel	May 4, 2005	Oregon Convention Center Headquarters Hotel Flyer	050405joint-02
3	OCC Funding	May 4, 2005	Oregon Convention Center Funding Outline	050405joint-03
4	OCC Sales Contract	May 4, 2005	Oregon Convention Center Sales Contract Outline	050405joint-04