

BEFORE THE METRO COUNCIL

FOR THE PURPOSE OF REQUESTING )  
THE EXECUTIVE OFFICER TO PREPARE )  
THE NECESSARY DOCUMENTS FOR THE )  
ISSUANCE OF REVENUE BONDS TO FUND )  
CONSTRUCTION OF A NEW EXHIBIT HALL )  
AT THE EXPO CENTER)

RESOLUTION NO. 98-2734A  
Introduced by Presiding  
Officer Kvistad and Councilor  
McFarland

WHEREAS, the Oregon Convention Center and Expo Center generate significant revenue and jobs for the citizens of the region;


WHEREAS, there is a need for additional exhibit hall and meeting space to continue to attract local, regional and national trade shows and conventions;

WHEREAS, use of revenue bonds will provide funding for additional facilities without the need for additional property taxes;

BE IT RESOLVED,

The Metro Council requests that the Executive Officer prepare the required resolution, financing plan and other related documents for the issuance of general revenue bonds to finance the construction of a new exhibit hall at the Expo Center.

ADOPTED by the Metro Council this 24th day of November 1998

  
Jon Kvistad, Presiding Officer

BEFORE THE METRO COUNCIL

FOR THE PURPOSE OF REQUESTING )  
THE EXECUTIVE OFFICER TO PREPARE )  
THE NECESSARY DOCUMENTS FOR THE )  
ISSUANCE OF REVENUE BONDS TO FUND )  
CONSTRUCTION OF A NEW EXHIBIT HALL )  
AT THE EXPO CENTER)

RESOLUTION NO. 98-2734  
Introduced by Presiding  
Officer Kvistad and Councilor  
McFarland

WHEREAS, the Oregon Convention Center and Expo Center generate significant revenue and jobs for the citizens of the region;

WHEREAS, there is a need for additional exhibit hall and meeting space to continue to attract local, regional and national trade shows and conventions;

WHEREAS, use of revenue bonds will provide funding for additional facilities without the need for additional property taxes;

BE IT RESOLVED,

The Metro Council requests that the Executive Officer prepare the required resolution, financing plan and other related documents for the issuance of \$18.125 million in revenue bonds to finance the construction of a new exhibit hall at the Expo Center.

ADOPTED by the Metro Council this \_\_\_\_\_ day of \_\_\_\_\_ 1998

\_\_\_\_\_  
Jon Kvistad, Presiding Officer



**METRO**

To: Presiding Officer Jon Kvistad  
Councilor Ruth McFarland, Regional Facilities Committee Chair

From: John Houser, Senior Council Analyst

Re: Financing of Debt Service For the Proposed New Expo Center Building

Date: November 16, 1998

You requested that I provide background information on the proposed new building at the Expo Center, with particular emphasis on the method of financing the building and funding sources that could be used to pay the debt service on bonds issued to finance the facility. This memo provides brief descriptions of the existing facilities and the new building, outlines the construction and other costs related to the new building, reviews potential funding mechanisms, and identifies sources for the payment of bond debt service.

#### **Description of the Existing Facility**

Metro acquired ownership of the Expo Center facility from Multnomah County in 1996. The facility has about 330,000 square feet of exhibit space and is primarily used for consumer and trade shows. The Expo Center consists of five halls. These include:

Hall A, B and C East and C West— Hall A originally built in 1923 as a livestock exposition building. Hall's B and C East and C West were added, bringing the total exhibit space in this complex to 100,000 square feet. This space is generally viewed as unsuitable for many types of shows. It will require substantial structural improvements to meet building code and seismic requirements. These improvements are estimated to cost about \$1.2 million and are projected for FY 2002-03.

Hall C is a 60,000 square foot building originally designed as a rodeo arena. It will require about \$750,000 in structural improvements in FY 2002-03 and also lacks utility and climate control systems.

Hall D is a 60,000 square foot building with an asphalt floor. It is not acceptable to many potential users. It would be replaced by the new facility outlined in this memo.

Hall E is a new, state-of-the-art, 108,000 square foot facility built in 1996. It's initial exhibit was from the Smithsonian.

#### **Proposed Addition Project**

There are several elements of the proposed addition project. The principal element would be a new building that would replace Hall D and include 72,000 square foot of exhibit space and an additional 30,000 in support space including a new central kitchen, meeting rooms, and

administrative offices. It would be patterned after many of the structural benefits of the new Hall E. It would be connected by corridors to Hall's C and E.

The project also would include about \$750,000 in parking facility landscaping work. This work would need to be completed as a part of this project to satisfy the landscaping requirements of the conditional use permit under which Hall E was constructed. This portion of the project would include a new "court" area in the primary facility parking lot. A third element would include the landscaping and redevelopment of the exhibitor and service area parking facilities.

The final major portion of the project would involve the expenditure of about \$425,000 to develop and preserve a wetland site near the southwest corner of the property. Under the terms of a natural resources management plan for the area, it is likely that, if this portion of the project were not included, some other type of environmental improvement might be required to obtain the necessary local permits. MERC officials indicate that this other work could cost up to \$200,000. This project would include a paved walkway through the area.

### **Financing the Project**

**Sources of funding.** Metro financial planning and MERC staff have examined several different funding options for the proposed project. These included general revenue bonds, lease/purchase certificates of participation and use of the entire MERC Operating and Capital Fund balances. As a result, it has been generally agreed that the issuance of general revenue bonds would be the most cost effective method of financing the project. Such bonds are generally backed by all revenue sources of the issuing agency that are not dedicated to specific uses. For example, at Metro, solid waste funds could not be used to pay back these funds. The principal Metro revenue source that could be used would be excise tax revenue. The attached table entitled "Financial Data on Proposed Project" outlines the sources of funding, uses of this funding, estimated annual debt service and potential sources for the payment of the debt service.

The amount of the bond sale needed to finance the project would depend on four factors. These would include: 1) whether the term of the bonds was 20 or 30 years, 2) the amount of up-front funding available in addition to bond proceeds, 3) whether the cost of the project was changed prior to the issuance of the bonds and 4) the interest rate on the bonds. At this point, MERC has agreed to contribute \$2 million from the Expo Center Account. The remaining project costs would be financed by the issuance of revenue bonds. Project revenues also would include a small amount of interest (\$100,000) earned on the bond proceeds during the construction of the building.

Metro's financial planning staff estimates that the bond interest rate will be in the 5-5.5% range for 20 year bonds and 5.1-5.6% for 30 year bonds. Assuming a 5.5% rate, a total of \$17.12 million in 20-year term revenue bonds would be needed to finance the project. With the addition of the \$2 million from the Expo Center Account and interest on the bond proceeds during construction a total of \$19.22 million would be available for the project. A total of \$16.85 in 30-year term bonds would be needed with a 5.6% rate. The difference is caused by a lower debt reserve for 30-year vs. 20-year bonds. The cumulative total principal and interest payments for 30 year bonds would be about \$6.5 million higher than for 20-year bonds. If a 5%-5.1 rate is assumed, the amount of the sale would be reduced by about \$70,000 and the annual debt service would be reduced by \$64,000.

**Uses of the funding.** The funds provided by the MERC contribution and the bonds proceeds would be used to finance four principal activities including: 1) the cost of construction of

the building, 2) the payoff of the Intel loan for the construction of Hall E, 3) establishing the debt reserve, and 4) payment of bond issuance costs. These costs are outlined in the attached table.

The total project cost is estimated to be \$15,815,302. These include construction costs totaling \$13,985,302 and "soft" costs ( e.g. architect/engineering fees, 1% for Art, permits and fees) of \$1,830,000. The cost of the landscaping and wetland projects is included in the site work within the construction costs

A portion of the cost of construction of the existing Hall E was financed by a \$2.5 million loan from Intel. Annual payments on the loan total about \$200,000, with a balloon payment due of \$1.4 million due in 2006. MERC has been paying off the loan at an accelerated payment rate with the intent of paying of the entire loan by FY 2002-2003. The loan gives Intel a first lien on facility revenue which means that no debt pledging facility revenue could be made in excess of the amount owed to Intel. Therefore, the \$2 million contribution from the Expo Center Account for the new building would be used to payoff the existing Intel loan

All prior Metro bond sales have required that an amount be set aside that is equal to one-year's debt service on the bonds. This is referred to as the "debt reserve". The annual debt service payments will depend on the length of the bond term and the interest rate to be paid. Given the assumptions noted above annual debt service for the proposed bond sale could range from about \$1,104,000 to \$1,433,000.

All bond sales incur a variety of issuance costs. They include the cost of a financial advisor, bond counsel, arbitrage/rebate advisor, paying agent, and an underwriter. The estimated cost of these services for the proposed bond sale would be between \$212,000 and \$218,000.

**Potential Sources For Payment of Debt Service.** There are several potential sources of revenue that could be used to pay the bond debt service. Many of these are quantifiable while others are not. Among the quantifiable sources are an annual contribution from the Expo Center account, potential increased parking revenues, savings from eliminating a wetlands development from the project, elimination of certain capital improvement plan (CIP) projects, and interest on the debt reserve and the excise tax. Sources that cannot be easily quantified would include naming rights and "new" revenue generated by the building. Each of these are discussed below.

MERC officials have indicated a willingness to contribute a total \$800,000 annually from the Expo Center Account for the payment of debt service. While no specific sources of revenue from the facility would be dedicated, there would be three likely initial sources for these funds. First, the annual savings generated from the early repayment of the Intel loan for Hall E. Annual principal and interest payments on this loan total about \$525,000. Second, MERC is currently paying about \$100,000 annually on a flex lease for the purchase of new equipment for the food vendor at the facility. The final payment on this lease will occur in FY 2000-01. Third, MERC officials have indicated a willingness to consider a \$1 increase in parking fees at the facility. Such an increase would generate about \$250,000 in gross annual revenue. After additional payments to the parking vendor and payment of the excise tax, about \$200,000 in net revenue would be generated annually.

As noted earlier, the project currently includes a \$425,000 wetlands project. This work would not be required to complete the construction of the building facility, though some other type of environmental improvements might be required. MERC officials have indicated a willingness to consider removing this element from the project or seeking others sources of funds. Elimination of the wetlands proposal would reduce the amount of the bonds needed to finance the facility and reduce the annual debt service between \$30,000-\$40,000 depending on the interest rate and term of the bonds.

If the new building is constructed, MERC could eliminate two scheduled CIP projects with a savings of \$235,000. These projects include remodeling of administrative office space and improvements in an exhibitor storage and parking. Both of these improvements would be made as part of the proposed projects. MERC officials have indicated that they would be willing to contribute the cost of the remodeling project (\$85,000) to the payment of the first year of debt service on the projects. In the remaining years, another source of funds would be needed to pay this portion of the debt service.

The debt reserve is money that is set aside to insure the bond holders that the debt service can be paid for at least one year. Depending on the interest rate and term of the bonds, this amount could range from \$1.1 to 1.4 million. Interest on the reserve would range from \$60,000-\$70,000 annually. This interest revenue could be dedicated to the payment of the current debt service.

The attached table includes three different potential sources of general excise tax revenue that could be dedicated to the payment of debt service. These include: 1) the excise tax collected on the \$1 increase in parking fees, 2) excise taxes from MERC facilities that exceed the current budgeted amount, and 3) excise taxes saved from reductions in other non-MERC general fund budgets.

Excise taxes from a \$1 parking fee increase would be an estimated \$18,750. This amount would slowly increase as overall parking revenues at the facility increased.

The Expo Center and the Convention Center were budgeted to contribute \$1,001,583 in excise tax collections during the current fiscal year. New projections prepared by the financial planning staff indicate that actual collections may exceed the budgeted amount by about \$86,145. MERC officials have suggested that the amount collected above the budgeted amount be directed to pay the bond debt service. In addition, they have suggested, in effect, "freezing" or "capping" the amount of excise taxes paid to general fund at the amount budgeted for the current fiscal year. Thus, if excise tax collections from these facilities grows in future years all of this growth would be dedicated to the payment of debt service. MERC officials have further suggested that any increased revenue from this source that is dedicated to the debt service would reduce the \$800,000 in MERC payments from Expo Center operations that was outlined above.

The third potential source of excise tax revenue that could be dedicated to debt service would result from reductions in non-MERC-related, general fund expenditures financed by the excise tax. The amount of money needed from this source could vary greatly. For example, in the attached table, if 30-year bonds are issued at 5.6%, the additional amount needed to cover all of debt service would be about \$92,000. But, this amount could be reduced or eliminated depended on the bond interest rate and funds from the non-quantifiable sources noted above. For example, if the bond interest rate was only 5.1% (see table), this amount could be reduced by \$63,000.

It should be noted that the financial planning staff is estimating that projected general fund expenditures funded by the excise tax will exceed projected excise tax revenue by about \$850,000. While these numbers may change as the fiscal year progresses, it would appear that general fund expenditures from the remainder of the agency will need to be reduced meet revenue expectations.

As noted above, there are at least two revenue sources that could provide additional funding for the payment of the debt service. MERC staff has expressed interest in pursuing the sale of "naming rights" for the new hall. The sale of naming rights is a relatively new method of helping to fund public buildings that is being increasingly used around the country. Payments from naming rights agreements occur in a variety of ways. Some involve a single "up-front" payment or a series of payments over a short period of time, while others involve annual payments for periods as long as 20 or 30 years. A recent local example of a naming rights agreement involves the

naming of the intermediate theater at the PCPA. The theater will be named after the Newmark family in exchange for a series of payments totaling \$650,000.

The "new" revenue streams from the new building also could be dedicated to debt service. There would be some difficulty in defining the new revenue stream. For example, some shows would simply be moving from older portions of the facility to the new hall or using it in combination with other halls.

**FINANCIAL BACKGROUND DATA ON THE PROPOSED PROJECT**

<b>20 Yr. Bonds</b>			<b>30 Yr. Bonds</b>		
<b>Sources</b>	<b>5.5% Interest Rate</b>	<b>5% Interest Rate</b>	<b>Sources</b>	<b>5.6% Interest Rate</b>	<b>5.1% Interest Rate</b>
Fund Balance	2,000,000	2,000,000	Fund Balance	2,000,000	2,000,000
Bond Proceeds	17,120,000	17,055,000	Bond Proceeds	16,855,000	16,785,000
Interest	100,000	100,000	Interest	100,000	100,000
<b>Total</b>	<b>19,220,000</b>	<b>19,155,000</b>		<b>18,955,000</b>	<b>18,885,000</b>
<b>Uses</b>					
Construction	15,819,000	15,819,000	Construction	15,819,000	15,819,000
Intel Payoff	1,750,000	1,750,000	Intel Payoff	1,750,000	1,750,000
Debt Reserve	1,433,000	1,369,000	Debt Reserve	1,173,000	1,104,000
Bond Issuance Costs	218,000	217,000	Bond Issuance Costs	213,000	212,000
<b>Total</b>	<b>19,220,000</b>	<b>19,155,000</b>		<b>18,955,000</b>	<b>18,885,000</b>
<b>Annual Debt Service</b>					
	<b>5.5% Interest Rate</b>	<b>5% Interest Rate</b>		<b>5.6% Interest Rate</b>	<b>5.1% Interest Rate</b>
<b>Annual Debt Service</b>	<b>1,433,000</b>	<b>1,369,000</b>	<b>Annual Debt Service</b>	<b>1,173,000</b>	<b>1,104,000</b>
<b>Possible Sources For Payment of Debt Service</b>			<b>Possible Sources For Payment of Debt Service</b>		
Expo Revenue	800,000	800,000	Expo Revenue	800,000	800,000
Wetlands/CIP Project	40,000	38,000	Wetlands/CIP Project	31,000	30,000
Eliminated CIP Project FY 99-00	85,000	85,000	Eliminated CIP Project FY 99-00	85,000	85,000
Interest on Debt Reserve	70,000	68,000	Interest on Debt Reserve	60,000	55,000
FY 98-99 MERC Excise Tax Collections Exceeding Budget Estimates	86,145	86,145	FY 98-99 MERC Excise Tax Collections Exceeding Budget Estimates	86,145	86,145
Excise Tax From Parking Fee Increase	18,750	18,750	Excise Tax From Parking Fee Increase	18,750	18,750
Non-MERC Related General Fund Budget Economies	92,105	92,105	Non-MERC Related General Fund Budget Economies	92,105	92,105
<b>Total Remaining Debt Service</b>	<b>241,000</b>	<b>181,000</b>	<b>Additional Expo Fund Balance</b>	<b>0</b>	<b>-63,000</b>