MINUTES OF THE METRO COUNCIL REGIONAL FACILITIES COMMITTEE MEETING

Wednesday, November 18, 1998

Metro Council Chamber

Members Present: Ruth McFarland (Chair), (Vice Chair), Rod Monroe

Members Absent: Patricia McCaig

Others Present: Jon Kvistad exercised his prerogative to act as a committee member in Councilor McCaig's absence.

Chair McFarland called the meeting to order at 1:31 PM.

1. INTRODUCTIONS

None.

2. CITIZEN COMMUNICATIONS

None.

3. CONSIDERATION OF MINUTES OF NOVEMBER 4, 1998

Motion:	Councilor Kvistad moved to adopt the Minutes of November 4, 1998.
Vote:	Chair McFarland approved the Minutes of November 4, 1998. Councilors Monroe and Kvistad abstained. Councilor McCaig was absent.

4. RESOLUTION NO. 98-2734, 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

Mark Williams, MERC General Manager, summarized the background for the resolution. He said this resolution concerns Expo phase 2. Phase 1, the new hall "E" constructed to house the Smithsonian exhibit, has been a tremendous success. When phase 1 was constructed, the Council and the MERC commission knew the older halls out there would need to be replaced. In light of the defeat of the ballot measure to expand the Oregon Convention Center (OCC), now is the time to begin to do that. Some business from the OCC could then be moved out there and free up badly needed space at the OCC. The proposed package would build a new Hall "D" and pay for existing landscaping obligations created by Hall E's construction. The total is estimated to be about $15.8 million.

Mr. Williams said it would be wise to make this investment right now for a couple of reasons. First, with two new buildings, Expo would begin to establish itself as a world-class exhibition facility. Second, although it would not substitute for expansion of the Oregon Convention Center, it would provide an important piece of the puzzle. With the new proposed Hall D, the Expo would reach a critical mass of 185,000 square feet of class A exhibit space. The number is critical because more business needs to be moved from OCC to Expo, to open up more room-night-generating business at OCC. To do that, at least 150,000 more feet of Class A exhibition space--i.e., space that is air-conditioned and in tip-top condition--is needed out there. Some business can be moved out there now and they have been, but to achieve the economies of scale that benefit Expo, OCC, and the region, more is needed. This project will not substitute for expanding the OCC, but it will be a step in the right direction, and it is a step that can be taken immediately.

John Houser, Council Analyst, summarized the sources that would be used to pay off the debt to finance this expansion. He distributed a table, attached to the meeting record, that outlines potential sources for paying off the debt service incurred by the issuance of bonds to pay for this facility. The sources of funds would include an agreed-upon contribution of $2 million from the existing Expo Center account fund balance. It would include bond proceeds from the sale of general revenue bonds for financing construction of the building. The amount of these bonds would vary slightly, depending on whether they were issued over a 20- or 30-year period and on the interest paid on the bonds. The generally agreed-upon range would be between $16.8 and $17.1 million dollars to finance the project.

Another small source of income dedicated to the project would be that during the construction phase, interest earned on the bond proceeds would be dedicated to the project.

This money would be used as follows. The basic project is estimated to cost about $15.8 million. An addition $1.75 million would be dedicated to repaying the existing Intel loan that was used to partially finance Hall E. MERC is currently paying that off at an accelerated rate of about $525,000 a year. The $1.75 million would pay that loan off completely. The main reason for a pay-off is that the loan contains a provision that does not allow debt to be issued for projects in excess of the amount of that loan during the term of that loan.

Mr. Houser said that in addition, whenever bonds are issued, a debt reserve must be created equivalent to one year's debt service for those bonds. Depending on the length of the bonds issued and the interest rate received, that debt service would be in the range of $1.1 to just over $1.4 million. The longer the term of the bonds and the lower the interest rate, the lower the debt reserve would be. Last, with any bond issuance, there are a variety of bond issuance costs. These would range from about $212,000 to $218,000, depending on the length of the bonds and the interest rate received. To pay for the debt service, the most likely and fundable scenario would be to issue 30-year bonds, assuming a relatively high interest rate of 5.6%. He said the current market for these kinds of bonds runs from 5.1% to 5.6%.

Mr. Houser then referred to the bottom half of the table, which outlines the sources identified to pay for the project. He noted the column that "zeroes out" is in the 5.6% interest rate, 30-year bond column. The first source would be approximately $800,000 in annual contributions from the Expo Center account. The exact source of these funds has not yet been specified, but the type of thing that might be considered is taking the money that would no longer need to be paid on the Intel loan, some $525,000 a year, and put it toward debt service. Also, MERC has a flex lease for the purchase of food-related equipment for FineHost, the contractor at the site. Those flex-lease payments end in 2000 or 2001. Payments amount to about $100,000 per year.

In addition, MERC has expressed interest in increasing the parking fees at the facility. Included is the potential for dedicating the excise tax on any increase in parking income to this project. Another source might be redirecting $425,000 budgeted for the "Wetland CIP Project." This is not a mandated project, and it is one that has the potential to attract funding from a number of other sources. By deleting this project, about $31,000 would be saved per year on 30-year bonds at 5.6% interest.

The next line is the debt-reserve set-aside, which earns interest each year. The interest could be dedicated to the project. The next line deals with the dedication of MERC-generated excise tax collections to the payment of debt service for this project. For the current fiscal and including both the OCC and the Expo, this will exceed the originally budgeted amount by about $86,000. This would be a policy decision that would take any excise tax collections from MERC that exceed the original 1998-99 budgeted amount and dedicate them to service the bonds for the life of the bonds. If, for example, next year MERC's collections exceeded the amount budgeted for this current fiscal year by $120,000, then next year $120,000 could be dedicated to debt service rather than $86,000 this year.

The assumption here is that as that number increases, the contributions from MERC general operation to the payment of debt service would decrease. In other words, that $800,000 would decrease as the amount of contribution from the excise tax increased over time.

The next line deals with a potential parking fee increase. It is estimated that, based on the proposed increase, that would generate about $18,000 in additional excise tax revenue. That would also be dedicated to the payment of the debt service.

Last, the remaining $92,105 would be paid for through budgetary adjustments in non MERC-related general fund portions of the Metro budget. That reduces the total remaining debt service, for a 5.6% interest, to zero.

A 5.1% interest rate would put things $63,000 ahead. What is being proposed is that if we end up ahead anywhere in the process, the $92,000 number would be reduced by whatever amount is saved through an advantageous interest rate. If, for example, the interest rate is only 5.1%, only $29,000 would need to be supplied out of Metro's general fund in order to balance out.

Mr. Houser also mentioned a couple of other sources that, although they are hard to quantify, might used to fund this project. One is naming rights. For example, Safeco is paying over $1 million to have the recent Mariner's stadium called "Safeco Field." Although that level of funding is probably not possible here, there might be an opportunity for either a one-time, up front payment or an annual payment for some kind of naming rights.

Chair McFarland asked about the accelerated payments on the Intel loan. She asked how much over the minimum they are paying. Mark Williams said they are paying an additional $325,000 above the contract amount of about $200,000. He said, however, that under the proposed scenario, that debt would be paid off. Chair McFarland said she understood that. She just wanted to emphasize that Metro has been frugal.

Councilor Kvistad said his concern is about the excise tax component on non-MERC related facilities. He said the lower the interest we can obtain and the lower the up-front costs, the less impact this would have on Metro's general fund. He said the important issue is that this will open up space at OCC. A new building at Expo with new kitchen facilities would be make that space more functional for events currently taking up OCC space. In the meantime, he said plans for expanding OCC should remain in the making. He said he thought the numbers Mr. Houser and Mr. Williams worked up were solid

Chair McFarland again addressed naming rights. She noted that recently someone gave $650,000 recently to Harriet Sherburne to name just one room. She thought that had potential.

Chair McFarland opened a public hearing at 1:55 PM.

Phil Peach, Tri-County Lodging Association, 12724 SE Stark Street, Portland, OR 97233, testified in support of the resolution. He said his association had supported construction of Hall E. He said, however, what is most attractive to his organization is the ability to free up space at OCC and bring in out-of-town meetings that will generate room-nights. He said his organization is still disappointed over the election outcome in which voters rejected a measure to expand OCC. His organization remains committed to the expansion at the original proposed level in a way that will not involve property taxes. Alternatives are currently being formulated. He said that in view of that, they anticipate using the amount in the OCC reserve fund--about $8 million. He said the rest of the package has not yet been put together. He said they will be coming back to this committee, Metro, MERC, the City of Portland, and Multnomah County, Clackamas County, Washington County, and the state to find ways to fund the original expansion. He requested that the resolution in question be reviewed in light of the fact that expansion of OCC is his organization's top priority.

George Forbes, President, Portland Oregon Visitor's Association (POVA) applauded Metro for moving ahead on this. He was glad to hear this might happen fairly soon. His organization is also still recovering from the election defeat. He said a lot of other cities--Seattle, Spokane, Salt Lake City, San Francisco--are going ahead and either building new convention centers or adding on to the ones they have. He said it would be unwise for Portland to phase back or to halt progress on the OCC. In the meantime, the additional Expo space would provide much needed relief at the OCC.

Chair McFarland added that the new building out at Expo has been wildly successful. She said there is no reason to believe a second building would not be just as successful.

Councilor Monroe said he remains a strong supporter of expanding the OCC. He asked about the possibility of asking the legislature for lottery money. He said lottery money was originally intended for economic development. He said this would be an appropriate use of that kind of money. Mr. Peach said contact has not yet been made, but said it would be appropriate and possible. He said tourism funding should also be pursued.

Councilor Kvistad said he shared the disappointment at voter rejection for funding the OCC expansion. He said the situation at the OCC is critical and something must be done. This proposal is just a stop-gap. He said the funding part of the package is new to him. He had not had a chance to study the numbers himself nor discuss them with the Executive Officer or others. He said he would see what he could do on the state level. He thought it would be important to go to the state as soon as possible and present this proposal to the legislature with some finesse. He said he anticipates it will be a challenge, given the current legislature.

Councilor Monroe asked Mr. Burton his view of what Metro could do and his view of the draft funding package.

Mike Burton, Executive Officer of Metro, said he had just received the numbers so he could not comment on them yet. He said he would like to see a market analysis of which businesses could be shifted to the Expo center. He said he would like to see some contributions from the private sector, also. He asked if the lodging association might be willing to dedicate a portion of the lodging tax to this. He said they were willing to do that for the OCC, and since this would replace that, it might be appropriate. He noted the negative numbers at the bottom of the sheet and suggested those might be made up for from such revenues. He said he would look at the figures. He emphasized his interest is asking the private sector for some support. He also said he would pursue obtaining lottery funds. He said he supports the idea; it is just a question of working out the funding package.

Councilor Kvistad said that when he discussed this issue earlier with Mr. Burton, they had discussed $600,000. That figure has been reduced to $92,000. In the table, the higher the negative number, the less would need to come out of Metro's internal excise tax. He said if up-front costs can be reduced by attracting state dollars and money from, say, naming rights, that would put the project in pretty good shape.

Mr. Burton said the projected Expo revenues also need to be justified by a market analysis that considers what will happen in the future.

Chair McFarland said she had heard anecdotal reports of venues lost because the facilities were not available. She said the first building out at Expo was built much sooner than expected and it has been wildly successful. She was confident that Jeffrey Blosser, Director of the OCC, could supply such a market analysis soon.

Councilor Monroe addressed Mr. Burton's remarks about the need to specify which aspects of the Convention Center's business that might be moved out the Expo. He said that type of information would be helpful. He also remarked on Mr. Burton's suggestion for pursuing private sector contribution. He said that Expo expansion would not replace the OCC expansion. The OCC expansion is still badly needed. This one would simply come first. If the OCC package is put together without tax money, then the hotel motel tax would have to be pretty high, even with lottery money. He did not think it would be realistic to tap lodging tax as a funding source for this package. The lodging industry's main interest is in OCC expansion, even though they realize this will help with that move. He understood that they want to save lodging tax as a funding source for expanding the OCC.

Mr. Burton said that he did not mean to imply that this expansion would replace expansion of the OCC, but if the intent is to be able to reserve business at the OCC, then this move will be beneficial to the lodging association. His question was whether they would be willing to put something toward that. He said the easiest solution would be to have the City of Portland's portion of the lodging tax come back to Metro instead of going into its general fund. Then there would be enough money to fund this. He said Metro is in the odd situation of having taken the facilities over, then in the middle of that having one of the big cash cows being taken away and given to the Blazers. He said Metro still suffers from that. He said the stadium could be taken away also. He said he would like to have this building built, but not at the expense of other regional responsibilities. He said he felt it was fair to take a look at who benefits from this and find out if they are willing to contribute more.

Chair McFarland said when Metro acquired Civic Stadium, no one else wanted it. Now that Metro has made it successful, it has become high priority.

Jeff Blosser, Director, OCC, said he had been involved in discussions and decisions regarding which businesses to move to the Expo in the past. He said four shows have been successfully moved to Expo already: Holiday Food and Gift, Performance Warehouse, the Ski Show, and a series of the larger Hispanic dances. As Mr. Williams discussed, the ability to move the larger shows depends on having adequate space. The larger shows have not been targeted in favor of those in the 60,000 to 90,000 square-foot range. A new building would present a new opportunity to consider larger shows.

Chair McFarland closed the public hearing.

Councilor Kvistad offered some general comments. He thanked the MERC commissioners and staff for their hard work on this. He said he understood how difficult it is to develop a fall-back position. He thought this proposal offers the best immediate opportunity, given the low current interest rates. He suggested reserving the hotel/motel debate for another year, when the lodging industry might be approached regarding expanding the OCC. He said he would like to move forward aggressively on this proposal. He said the key concern remains the excise tax outside of the MERC facilities. He thought if help comes forth from Salem and if naming opportunities materialize, that will be completely dealt with. At the worst case, Metro is still looking at having to come up with under $100,000 instead of the originally estimated $600,000. He thanked everyone for considering this project and moving on it so quickly.

Councilor Monroe expressed hope that the project would go forward. He said he would ask that the Executive's finance department to look carefully at the figures and provide detailed feedback by the time it comes before the full Council.

Motion:	Councilor Kvistad moved to recommend Council adoption of Resolution No. 98-2734.

Vote:	Chair McFarland, Councilors Kvistad and Monroe voted aye. Councilor McCaig were absent. The vote was 3/0, and the motion passed unanimously.

Chair McFarland will carry the resolution to a meeting of the full Council.

5. MERC QUARTERLY REPORT

Mark Williams said this quarterly report was postponed from the last meeting, because no quorum had been present at that meeting. He said he had planned to present a full review of a new pay-for-performance plan that will be implemented. He said that full review would take 30 to 40 minutes. He asked for guidance from the committee on whether to present the full report or, given the late hour, an overview.

Councilor Monroe apologized for his absence at the last meeting. He explained that the last meeting was the day after the elections, and he had promised his constituents he would pick up all his lawn signs within 24 hours. That was what he was doing.

Chair McFarland requested an overview rather than a full report.

Mr. Williams asked Linda Lewis, MERC Human Resource Manager, to join him. He began by giving a history of MERC and its pay structure. He said the pay structure at MERC has always been different from that of the rest of Metro. He said originally the pay structure resembled a civil service structure, providing for 5% step increases. He said that although this plan had elements of merit and elements of longevity, in operation it became a longevity program. Four or five years ago, MERC decided it could not afford to continue that program. MERC then suspended annual merit increases. He said there have been no merit increases for non-represented employees for five years. He said that has caused morale problems and inequities. MERC has based its salary increases in the past five years on ad hoc budget decisions.

The time has come to create a system based on the kind of business MERC is--i.e., one base on enterprise.

He said the new program would not apply to represented staff nor part-time employees. But it would apply to all non-represented full-time staff. The program puts in place an intensive performance-management and evaluation system. It involves setting overall goals for all MERC facilities, with each facility having its own financial and performance goals. The business plans already adopted and approved by the Council would serve as guides for establishing those goals.

Each facility's financial goals would get translated into performance goals for each facility director, and be passed down the line throughout the staff. For example, if OCC has been directed to produce $200,000 more revenue in a given year, that would become the director's performance goal. He, in turn, would set goals for his departments in terms of costs and revenues. The idea is to connect each employee to the business of the organization as a whole.

This device, developed with the aid of outside consultants, is common in the private sector. The plan MERC will use is simple. MERC will draw up performance goals for every non-represented employee in the organization, effective January 1, 1999. Employees will be formally evaluated in June 1999, on how well they have meet their goals. Ms. Lewis's job is to make certain the goals are clear, objective, and measurable. For example, many of the administrative staff have internal rather than external customers. They will need to deliver a 90% customer satisfaction rating to meet their performance goals. Surveys, both external and internal, will indicate how well those goals are being met. OCC already does a great deal of that.

Each facility will have its own goals, as each has different levels of financial support and levels of fund balances. They are owned by different jurisdictions and have different abilities to pay. The pay increases, therefore, will be different at different facilities. That is new and addressing the differences will be challenging. But there is no other way, given the way funds are segregated by facility.

Essentially, the evaluation system will have a rating of 1 to 4, with a rating of 1 indicating that the employee consistently fails to meet performance goals. There will be fairly constant communication between supervisors and employees, so there will be no surprises in June.

The current pay system resembles other government systems in that there is a minimum, a midpoint, and a maximum. That will be replaced by a different concept. There will still be a minimum level of pay. What is currently the midpoint will now be called the "market target." That is what the compensation study analyst has determined is the median base pay in the private sector for that job. People will be able to advance through the salary range until they hit market target. Once they hit market target, any further advances will come as bonuses that will be paid each year based on performance. Those bonuses will need to be re-earned each year. No one will be paid higher than the maximum for the job--that will be called the "MERC Incentive Maximum.".

Councilor Kvistad asked how MERC planned to budget to accommodate the proposed flexibility. He said he assumes market target will be used as the baseline.

Mr. Williams said the budget will look very similar to what has been done in the past. MERC will be budgeting a baseline, which will not necessarily be market target for each position but reflect where each employee currently is. Many have not moved since merit raises were frozen five years ago. Each facility will determine what percentage it can afford for salary increases as a total budget item. How that is divided will depend on internal rankings. There will be no requirement for any facility to spend all the budgeted increase in a given year. If a lot of employees receive a rating of "2," not all the money will be spent. He said he has briefed the Human Resource Department and gotten feedback as to how to eliminate the uncertainties and ambiguities in the program. Ambiguities are bound to exist and will need to be ironed out between January and July. The overall goal, however, is to directly hook up individual goals with those of the organization.

6. COUNCILOR COMMUNICATIONS

Councilor Kvistad added that work has been proceeding on the Morand Property, working with Tigard, Tualatin, and Sherwood to develop 80 acres of non-environmentally sensitive part of that property as a sports park. [More background on this issue can be found in the meeting record for November 4, 1998.] He said he would have a proposal to present before this committee soon. He said the cities involved, the school, and the sports districts are thrilled at the prospect of having a sports park.

There being no further business before the committee, the meeting was adjourned at 2:36 PM.

Prepared by,

Pat Emmerson
Council Assistant

ATTACHMENTS TO THE PUBLIC RECORD FOR THE MEETING OF NOVEMBER 18, 1998

The following have been included as part of the official public record.

ORDINANCE/RESOLUTION	DOCUMENT DATE	DOCUMENT DESCRIPTION	DOCUMENT NUMBER
Resolution No. 98-2734	No date	Financial background data on the proposed project	111898RF-1

- Testimony Card, Phil Peach, Tri-County Lodging Association