Metropolitan Exposition-Recreation Commission

Resolution 99-08

For the Purpose of Approving a Plan to Finance the Replacement of the Expo Center's Hall D

WHEREAS, the Commission is authorized by Metro Code Section 6.01.040(a) to advise Metro, the owner of the Expo Center, on financial measures which are desirable with respect to major capital projects at the Expo Center; and

WHEREAS, the Expo Center's Hall D is in serious disrepair, is deteriorating at a rate which makes maintenance and repair unlikely to be cost effective, and lacks modern heating and ventilation systems necessary for year round use; and

WHEREAS, the addition of upgraded exhibit space at the Expo Center would improve the utilization of regional convention and exhibition facilities by permitting the transfer of major consumer shows to the Expo Center; and

WHEREAS, the Metro staff, the Metro Council, and MERC staff in collaboration have developed a sound plan to finance the construction of a modern replacement for Expo Center's Hall D;

NOW, THEREFORE, BE IT RESOLVED:

1. That the Commission supports rebuilding Hall D at the Portland Metropolitan Exposition Center.

2. That the Commission recommends that the Metro Council and Executive take action to move forward on rebuilding Hall D.

3. That the Commission directs its staff to move forward in cooperation with Metro on development of a master plan for Expo development, and to bring such plans to the Expo liaison Commissioners and the full Commission for consideration.

Passed by the Commission on February 26, 1999.

Chair

Secretary-Treasurer

APPROVED AS TO FORM:
Daniel B. Cooper, General Counsel

By: Kathleen Pool
Kathleen A. Pool
Senior Assistant Counsel

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Date: February 22, 1999

To: Mark Williams, General Manager, MERC

CC: Chris Bailey, Expo Center Facility Director
Jeff Blosser, Oregon Convention Center Facility Director

From: David Biedermann, Director of Administration

RE: Information on Expo Hall D Rebuild

Attached are cash flow projections for the Expo Hall D project. This is to be used in conjunction with other data to determine the feasibility of financing the Hall D project via various methods

The assumptions used in both scenarios by the MERC staff are:

- 3% annual growth in revenues except 10% growth in FY02, (first year of new Hall D operation) and 5 % increase in FY05 (overall rent increase)
- 2% growth in parking rates, except during construction year
- 1% growth in personal services costs
- $200,000 per year beginning in FY02 for capital spending for fixtures, furnishings and equipment (FF&E).

The variable in the two scenarios is the long-term physical condition of Halls A, B and C. Part of the long-term plan in replacing Hall D is that Halls A, B and C will require some significant capital investment simply to maintain their use (particularly seismic concerns.) If we project those expenses into the equation, the Expo cash flow is unable to fund the Hall D rebuild <u>and</u> those additional hall capital expenses.

It is with some reservation that we suggest even when the Halls A, B and C capital investment is removed from the cash flow analysis, the Hall D rebuild financing can be accomplished within existing Expo business. The Ending Fund Balances in this scenario are drawn to smaller than comfortable levels, particularly in the first 2-3 years after construction. If anything unforeseen occurs (such as the requirement to repair Halls A, B or C), we will not have the funds to do so.

When the Halls A, B and C capital investment is removed from the cash flow analysis, the Hall D rebuild financing can be accomplished within existing Expo business—but, again, it's tight. The Ending Fund Balances in this scenario are drawn to smaller than comfortable levels, particularly in the first 2-3 years after construction. If anything unforeseen occurs (such as the legal requirement to repair Halls A, B or C regardless of operational need), we will not have the funds to do so as well as pay debt service on the Hall D build out, ***absent significant measures to enhance revenues by other means.***

Despite the difficulties, however, staff are recommending that the Commission endorse the Hall D rebuild out of operating revenue. It would have been easier from a financial standpoint to have some assistance from our parent body to get the job done. Even without this, however, we do not see much of an option here—Hall D needs to be replaced and if we are to do it with operating revenue only, this is the only way we see to proceed.

There are other measures staff can pursue to ensure the long term financial health of Expo, including the following:

- Explore the possibility of partnering with a for-profit corporation to locate a small amphitheater on a currently unused portion of the Expo property—this is based on a proposal that has just recently been given to us by a private group. We are in the exploratory stage at a staff level on this—it is much too early to discuss this in public, nor can we count on this revenue, but, it is the type of project you will be seeing staff pursue if we must depend solely on our own business revenue for capital development. Please keep this particular piece of information strictly confidential for the time being.
- Changing Expo's rate structure. Right now, Expo does not charge a percentage of gross vs. the flat rent, as does OCC and our other facilities. Essentially, we do not share on a percentage basis in our users' success. This is based on historical practice at Expo rather than any real justification for such a different practice. It needs to change anyway, eventually—the need to pay for the build out will make the change come sooner.
- Other rate increases will need to be explored—more parking increases, rent increases, concessions, etc. Some of these increases are already considered in the funding plan.

- We must look very seriously into other types of marketing efforts—additional advertising revenue, naming opportunities, etc.

Of all of these, only the amphitheater idea is truly speculative—the rest are easily done from a business standpoint—although be sure that many of our users will not quietly accept rate increases of this nature.

In sum, staff believes the plan is do-able, although not ideal—it would be much easier if we had some outside financial assistance for this project, but that is not looking likely right now. The choice the Commission faces, we believe, is between (a) leaving the building as it is, with severe deferred maintenance problems, but relatively low rates, and (b) beginning to build a more modern, marketable facility, but with increased usage rates as needed to pay for the build-out out of operations.

In the final analysis, staff recommends moving forward on the build-out plan while simultaneously moving ahead on the development of additional revenues for Expo.

A

PROJECTED FISCAL IMPACT OF HALL D AT THE EXPO CENTER

		FY 97-98	FY 98-99 Budget	FY 99-00 (Prop)	FY 2000-01(Proj)	FY 01-02 (Proj)	FY 02-03 (Proj)	FY 03-04 (Proj)	FY 04-05 (Proj)	FY 05-06
	Operating Revenue									
1	Rental Income	$1,072,387	$1,213,705	$1,239,672	$1,243,639	$1,368,003	$1,409,043	$1,451,314	$1,523,880	$1,569,596
2	Reimbursed Labor	$56,851	$119,997	$88,792	$97,671	$102,555	$107,682	$113,067	$118,720	$124,656
3	Concessions/Catering	$1,478,289	$1,403,096	$1,492,761	$1,567,399	$1,645,769	$1,728,057	$1,814,460	$1,905,183	$2,000,443
4	Utility Services	$127,598	$160,137	$123,650	$136,015	$141,456	$147,114	$152,998	$159,118	$165,483
5	Parking	$1,019,949	$1,092,093	$1,280,616	$1,205,616	$1,330,616	$1,357,228	$1,557,228	$1,588,373	$1,620,140
6	Other	$53,791	$13,810	$15,137,023	$45,000	$45,000	$45,000	$45,000	$45,000	$45,000
7	**Total Operating Revenue**	$3,808,865	$4,002,838	$19,362,514	$4,295,340	$4,633,398	$4,794,125	$5,134,068	$5,340,274	$5,525,318
	Investment Interest	$73,735	$51,084	$400,000	$135,000	$50,000	$60,000	$0	$20,000	$40,000
8	**Total Resources**	$3,882,600	$4,053,922	$19,762,514	$4,430,340	$4,683,398	$4,854,125	$5,134,068	$5,360,274	$5,565,318
	Operating Expenditures									
9	Personal Services	$572,930	$832,102	$823,324	$852,557	$1,007,458	$1,017,532	$1,027,708	$1,037,985	$1,048,365
10	Materials and Services	$608,992	$716,561	$800,000	$1,050,380	$900,000	$936,000	$973,440	$1,012,378	$1,052,873
11	Concessions	$913,094	$1,022,543	$1,097,350	$1,144,201	$1,201,411	$1,261,482	$1,324,556	$1,390,784	$1,460,323
12	Parking	$112,533	$129,140	$102,000	$106,080	$110,323	$114,736	$119,326	$124,099	$129,063
	Non-Operating Expenditures									
13	Debt Service									
13a	Equipment Flex Lease	$97,821	$99,383	$99,976	$100,113	$0	$0	$0	$0	$0
13b	Hall E Loan	$530,038	$524,136	$0	$0	$0	$0	$0	$0	$0
13c	Hall D			$566,000	$839,000	$885,000	$934,500	$981,500	$1,041,000	$1,043,000
14	Capital Spending	$82,575	$78,060	$132,500	$200,000	$200,000	$200,000	$200,000	$200,000	$200,000
15	Capital Improvement Plan (CIP)	$90,490	$150,000	$5,000,000	$10,084,000	$0	$0	$750,000	$750,000	$0
16	Metro Support Services	$103,169	$93,999	$117,274	$121,965	$126,844	$131,917	$137,194	$142,682	$148,389
17	MERC Administration	$73,297	$128,499	$140,377	$145,992	$151,832	$157,905	$164,221	$170,790	$177,622
18	Revenue Bond Payment			$1,900,620	$0	$0	$0	$0	$0	$0
	Total Expenditures	$3,184,939	$3,774,423	$10,779,421	$14,644,289	$4,582,868	$4,754,073	$5,677,945	$5,869,717	$5,259,634
19	Cash Flow	$697,661	$162,159	$8,783,093	($10,213,948)	$100,531	$100,052	($543,877)	($509,442)	$305,685
20	**Beginning Fund Balance**	$734,571	$1,428,789	$1,590,948	$10,374,041	$160,093	$260,623	$360,676	($183,201)	($692,643)
21	**Ending Fund Balance**	$1,432,232	$1,590,948	$10,374,041	$160,093	$260,623	$360,676	($183,201)	($692,643)	($386,959)
22	**Contingency**		$117,340	$200,000						

B

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4	Utility Services	$127,598	$160,137	$123,650	$136,015	$141,456	$147,114	$152,998	$159,118	$165,483
5	Parking	$1,019,949	$1,092,093	$1,280,616	$1,205,616	$1,330,616	$1,357,228	$1,557,228	$1,588,373	$1,620,140
6	Other	$53,791	$13,810	$15,137,023	$45,000	$45,000	$45,000	$45,000	$45,000	$45,000
7	**Total Operating Revenue**	$3,808,865	$4,002,838	$19,362,514	$4,295,340	$4,633,398	$4,794,125	$5,134,068	$5,340,274	$5,525,318
	Investment Interest	$73,735	$51,084	$400,000	$135,000	$50,000	$60,000	$0	$20,000	$40,000
8	**Total Resources**	$3,882,600	$4,053,922	$19,762,514	$4,430,340	$4,683,398	$4,854,125	$5,134,068	$5,360,274	$5,565,318
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13c	Hall D			$566,000	$839,000	$885,000	$934,500	$981,500	$1,041,000	$1,043,000
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15	Capital Improvement Plan (CIP)	$90,490	$150,000	$5,000,000	$10,084,000	$0	$0	$0	$0	$0
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18	Revenue Bond Payment			$1,900,620	$0	$0	$0	$0	$0	$0
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19	Cash Flow	$697,661	$162,159	$8,783,093	($10,213,948)	$100,530	$100,052	$206,123	$240,558	$305,684
20	**Beginning Fund Balance**	$734,571	$1,428,789	$1,590,948	$10,374,041	$160,093	$260,624	$360,676	$566,799	$807,356
21	**Ending Fund Balance**	$1,432,232	$1,590,948	$10,374,041	$160,093	$260,624	$360,676	$566,799	$807,356	$1,113,041
22	**Contingency**		$117,340	$200,000						