

BEFORE THE METRO COUNCIL

FOR THE PURPOSE OF AUTHORIZING) RESOLUTION NO. 99-2760
THE EXECUTIVE OFFICER TO BEGIN)
THE PROCESS TO FINANCE THE) Introduced by
CONSTRUCTION OF HALL D AT THE) Executive Officer Mike Burton
EXPO CENTER)

WHEREAS, It is prudent to construct a new Hall D at the Portland Metropolitan Exposition Center (Expo) to replace a substandard building, and

WHEREAS, The new building will provide additional needed flat exposition space with climate controls, and

WHEREAS, The new Hall D will be able to handle consumer shows currently using the Oregon Convention Center (OCC), thereby freeing space at OCC for more conventions, and

WHEREAS, The new Hall D will aid in the future expansion of the OCC by providing alternative space and additional parking while the OCC is under construction, and

WHEREAS, The new Hall D will provide additional climate-controlled space that allows growth in Expo business, and

WHEREAS, Resolution 98-2734 directed the Executive Officer to prepare a plan to finance the construction of Hall D, and

WHEREAS, Executive Officer presented his recommended plan to the Metro Council in informal session on February 9, 1999, and

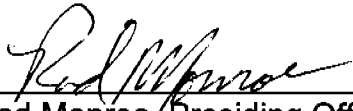
WHEREAS, The Executive Officer's recommendation is to issue approximately \$15.8 million of revenue bonds backed by Expo revenues; and

WHEREAS, The Metro Council wishes to proceed with this financing in a timely and expeditious manner so that construction on the new Hall D can begin as soon as possible.

NOW, THEREFORE, the Metro Council endorses the recommendations of the Executive Officer as presented in Attachment A to this resolution and authorizes him to begin the process to finance the construction of Hall D.

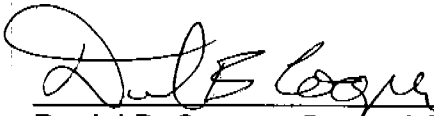
THE METRO COUNCIL FURTHER RESOLVES, that the Executive Officer is hereby authorized to issue requests for proposals from underwriters and to take all other necessary actions to initiate this financing and to prepare the bond resolution for adoption by the Metro Council according to the financing schedule attached to his February 9, 1999 memo and incorporated to this resolution in Attachment A.

ADOPTED by the Metro Council this 1st day of April, 1999.



Rod Monroe, Presiding Officer

Approved as to Form:



Daniel B. Cooper, General Counsel

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**METRO**

To: Councilor Ed Washington, Operations Committee Chair

From: John Houser, Senior Council Analyst

Date: February 17, 1999

Re: Projected Financial Impacts of the Proposed Hall D at the Expo Center

The purpose of this memo is to provide a narrative background to the oral presentation that I made to the Council "informal" on February 10. In addition, I have held meetings and conversations with the MERC and Expo Center staff concerning the data that I presented. As a result, I have made some adjustments to the tables related to personal services, materials and services and capital spending. Other adjustments related to concessions and parking revenues and the "other" revenue line item. Attached to this memo are the revised tables and a "glossary-type" sheet that briefly explains each of the numbered lines in the tables.

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 to 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.

Projected Fiscal Impact Tables

Fiscal Years

The four attached fiscal impact tables cover a period of nine years, from FY 97-98 through FY 05-06. The data shown for FY 97-98 are actual revenue, expenditure, cash flow and fund balance amounts. The data for FY 98-99 (the current fiscal year) are the adopted budget amounts. For FY 99-00, the data are from the proposed budget, with two notable changes that are discussed below.

The projected data for FY 2000-01 assume that the new Hall D will be operational at the start of the fiscal year or shortly thereafter. If the opening of the building is delayed, the projected revenue benefits would be spread over two fiscal years and would be somewhat lower. The specific projections for each revenue and expenditure line item are discussed below. The projections for FY 01-02 through FY 05-06 assume a uniform annual growth rate for the various sources of revenues and expenditure line items.

Budget Line Items

The Expo Center budget has historically included various operating revenue sources, major operating expenditure line items and various non-operating expenditure line items. Based on these revenues and expenditures, a cash flow from the facility is estimated along with a projected beginning and ending fund balance. A contingency was included for the current fiscal year and included in the proposed FY 99-00. Each of the major revenue and expenditure line items are shown in the projections table. The following

analysis addresses each of these line separately and includes an explanation of how the projected changes in each line item were developed. The line items are identified by the number in the far left-hand column.

Revenues

Line 1--"Rental Income". The rental income line item is an operating revenue that results from the charges collected for the use of the all or a portion of the Expo Center by event promoters and operators. Most of the events at the facility and consumer or trade shows. Depending on their size, these shows may use only a portion of one hall. A small number of shows use the entire facility. Rental rates will vary depending on the size of the show and the specific halls that are rented. For example, the new Hall E commands a higher rental fee than some of the older halls that are unsuitable for certain types of uses.

The construction of the new Hall E has significantly enhanced rental income at the Expo Center. During its first full year of operation, rental income increased from \$600,000 to \$991,000. Rental income grew 8% in FY 97-98 and is projected to grow an additional 12% during the current year to \$1,213,705. For FY 2000-01, the proposed budget includes only a small increase to \$1,239,000. This is based on MERC's assumption that a small number of shows (estimated at 4) that currently use the facility, would be unable to use it during construction of the new Hall D and that construction-related disruption would limit the ability to acquire new facility users.

In a January 27 memo, David Biedermann, MERC Director of Administration, noted that a new Hall D would positively affect rental income through increases in rental rates and increased utilization of the facility. Rental rates would increase in two ways. First, because the new hall would be state-of-the-art, a higher rate could be charged than that currently in place for the old antiquated hall. Second, the new hall would allow a differential increase in the rates charged for the remaining older halls. Biedermann estimated that the initial increase in annual revenue from these rate increases would total about \$135,000.

Currently, Hall E is the only portion of the facility that is air-conditioned. As a result, facility utilization declines significantly during the summer months. Instead, many consumer and trade book the OCC which often results in underutilization of that facility or restricting the MERC's ability to bring more lucrative convention business to that facility. The construction of a new Hall D would give MERC the opportunity to move several shows from the OCC to the Expo Center. MERC has developed a list of up to 24 events that could conceivably be moved to the Expo Center. In the Biedermann memo noted above, he concludes that it would be reasonable to assume that one-half, or 12 of these events could be transferred to Expo. With an average rental of \$10,000, he concluded that an additional \$120,000 in rental income would be generated from these events. If all of the events were transferred, a total of \$240,000 in additional rental income could be anticipated.

Biedermann concluded that "Therefore, we would forecast new revenues (rental income) for Expo as ranging from \$255,200 per year on the low end to \$375,250 on the high end."

At the time of the "informal", I had prepared three tables that forecasted the fiscal impact of a new Hall D. These were based on initial growth rates of 10%, 15%, and 20% in FY 2001-02. A growth rate of 5% was used for the remaining four years of the forecast. For rental income, my 10% initial growth scenario is equivalent to Mr. Biedermann's low end forecast (\$259,000 vs. \$255,000). My most aggressive 20% initial growth scenario is equivalent to Mr. Biedermann's high end estimate (\$383,000 vs. \$375,000).

Line 2--Reimbursed Labor. This line item relates to labor services provided to event operators by Expo at the operators request. The most common services provided are event set-up and tear-down and security services. The event operator pays a fee to Expo for these services.

Reimbursed labor revenue increased significantly following the opening of Hall E. However, Expo staff reports that in recent months there has been a decline in the number of requests for these services, particularly security services. The proposed budget reflects a drop in revenue from this source from \$119,000 to \$88,000. My forecast assumes that this revenue stream will begin to increase at the same percentage rate of growth in the number new or transferred events (e.g. a 10% growth in the number of events would result in a 10% growth in reimbursed labor revenue). MERC officials indicated that they were comfortable with such an assumption.

Line 3--Concessions/Catering. This line item represents revenue from concessions and catering at the facility. Concession services are provided by a contract vendor (currently Fine Host). The current contract expires in June. A new vendor is possible, particularly in light of Fine Host's recent bankruptcy filing. From a revenue standpoint, MERC staff assumes that the terms of the new contracts will be similar to those in the existing contract.

Concession/catering revenue has more than tripled since Metro assumed control of the facility and the opening of Hall E (from \$463,000 in FY 94-95 to \$1,478,000 in FY 97-98). The adopted budget for the current year estimates a slight decline in revenue to \$1,403,000 and the proposed budget for next year assumes \$1,492,000 in revenue.

Historically, the rate of growth in concession/catering revenue has been somewhat less than the rate of growth in rental income. Therefore, for the purpose of my forecast, I have assumed an initial growth rate of one-half of the growth rate in rental income. For example, in the 10% growth rate table, I have assumed a 5% growth in concession/catering revenue in FY 2000-01. For the remaining years in the forecast, I have assumed a 5% annual growth rate.

Line 4--Utility Services. This line item reflects revenue received from event operators for the provision of utility services, such as telephone and electricity. The older halls were not constructed to readily provide such services, while the new Hall E was constructed specifically to facilitate the provisions of such services.

Since the opening of Hall E, utility service revenue has increased from \$51,000 in FY 94-95 to \$127,000 in FY 97-98. For the current year, the budget estimates an increase to \$160,000, but it should be noted that this number includes about \$40,000 in solid

waste disposal fees collected from event operators that was formerly budgeted as "other" revenue. In the proposed budget, these fees are again budgeted as other revenue and therefore, utility service revenues are shown at \$123,000.

The new Hall D also will be constructed to facilitate the provision of utility services. Therefore, for the purposes of my forecast, I have assumed that the initial growth rate for utility services will at least match the growth rates in rental income. In the remaining years of the forecast, I have estimated that utility services revenue would increase 5% annually.

Line 5-- Parking. This line item reflects parking fees collected at the facility. The current rate is \$4.

Parking revenue has grown from \$707,000 in FY 94-95 to \$1,019,000 in FY 97-98. Fees for the current year are budgeted at \$1,092,000 and are proposed are \$1,080,000 for FY 99-00.

For the purpose of my forecast, I have assumed that parking revenue will grow as the result of both a parking fee increase and from increased utilization of the facility. MERC officials have indicated that they are considering an increase in the parking fee from \$4 to \$5. This would make the rate comparable to the Convention Center. Such a fee would generate about \$250,000 in additional revenue. After deducting the excise tax paid on this amount, I have assumed a net revenue increase of about \$225,000. I also have assumed that, like concession revenue, parking revenue will grow at a lesser rate than rental income. My forecast assumes an initial growth rate of one-half the rate for rental income. For the remaining years of the forecast, I have assumed a 5% growth rate.

Line 6--Other Revenue. This item reflects small amounts of miscellaneous revenue that are collected each year (generally less than \$15,000). In addition, beginning in FY 99-00, garbage disposal revenue of about \$40,000 annually will be included in this line item.

For the purpose of my forecast, I have conservatively assumed a flat number of \$45,000 for other revenue.

Line 7a--Investment Income. This line item represents the interest received on the investment of the fund balance each year. The assumed rate of return is 5%. In FY 99-00, this line item includes estimated interest of \$360,000 on the unused portion of the bond proceeds during the construction of Hall D.

Line 8--Total Resources. This line item is simply the total of all sources of operating revenue, plus investment interest.

Expenditures

Line 9--Personal Services. This line item includes all personnel-related expenditures associated with the facility. These include full time exempt and non-exempt employees and related fringe benefits. Also included are the costs of procuring

the reimbursable labor from which revenue is collected from event operators. The cost of procuring this labor is about 2/3 of the revenue collected.

During the past two years, actual personal services costs at the facility have been significantly below the budgeted amounts. For example, in FY 97-98, a total of \$752,000 was budgeted, but only \$573,000 was expended. For the current fiscal year, a total of \$823,000 was budgeted and between \$650,000 and \$700,000 will be expended. Many of the FTE positions at the facility are portions of full-time positions that are allocated among all MERC facilities. According to the facility manager, much of the underexpenditures in personal services have resulted from the underutilization of these allocated positions. He estimates that the facility is currently operating at about 3.5 FTE under the budgeted amount.

After consulting with MERC staff, I have modified my original assumptions about potential personal services costs. The attached tables now assume that when the new Hall D opens, the facility will be utilizing all of its current FTE allocation (an addition of about 3.5 FTE) plus 1 or 2 new positions. This would result in an initial cost of \$850,000 which would increase to \$900,000 in the second year. For the remaining years of the forecast, 4% annual growth rate was assumed.

Line 10--Materials and Services. This line item includes all normal budgetary materials and services items. For the Expo Center, the largest item is utility services for the operation of the facility which total about \$400,000. Contracted professional services is the largest remaining item at about \$140,000.

During the past two years, materials and services expenditures also have been well below budgeted amounts. For example, during the current fiscal year, a total of \$716,000 is budgeted and about \$618,000 is projected to be expended. The proposed budget for FY 99-00 includes a base appropriation of \$778,000, plus an additional \$521,000 to accommodate show that would be partially or totally displaced during the construction of the new Hall D. This additional funding would be used for the renting of tents, the construction of a temporary plywood floor and related labor costs. It is assumed that the temporary tented structure would be in use for about a four-month period running from December through March, the busy season for the facility.

For the purpose of my forecast, I have estimated that initial materials and services expenditures will be \$850,000. This assumes the current budgeted spending level plus additional utility costs related to the new, larger hall. During the second year of operation, these costs would increase to \$900,000 and for the remaining four years of the forecast, materials and services costs would increase 4% annually.

Line 11--Concessions. While the Expo Center receives considerable revenue from concessions and catering, there are also significant expenses associated with such services. This line item includes all of the concession/catering-related expenses.

For the past two years, concessions-related expenses have been about 73% of total revenues from these sources. Therefore, for the purpose of my forecast, I have assumed that the annual concession expenses will be 73% of the annual revenues.

Line 12--Parking. The Expo Center contracts with an outside vendor to provide staffing of the parking booths at the facility. This line item reflects these staffing costs.

For the purpose of my forecast, I have estimated a 4% annual increase in these parking costs.

Line 13--Debt Service. Lines 13a through 13c reflect the debt service payments for: 1) a flex lease for concessions equipment that will be paid off in FY 2000-01, 2) the Intel loan related to the construction of Hall E which must be paid off prior to the construction of a new Hall D, and 3) debt service related to the bond issue for the new Hall D.

My forecast assumes that the Intel loan will be paid off during the current year in part or wholly from a loan from the MERC Pooled Capital Account and would be repaid next fiscal year (see Line 18). The amounts shown for debt service payments for the Hall D bonds are the amounts estimated by Metro's financial advisor.

Line 14--Capital Spending. This line item includes all facility capital spending that is not addressed in the adopted CIP. Total expenditures for FY 97-98 through the proposed budget for FY 99-00 will be about \$293,000.

Throughout the discussion related to the proposed new Hall D, MERC officials have expressed concern about the outstanding and future capital expenditure needs of the facility. In my forecast, I have attempted to address these concerns by forecasting significantly increased capital spending expenditures. For example, during the three year period beginning in FY 2000-01 I have projected total expenditures of \$900,000. This represents a three-fold increase (over \$600,000) over actual and projected expenditures from FY 97-98 through FY 99-00. An additional \$750,000 would be forecast for expenditure during the remaining three years of the forecast.

Line 15--Capital Improvement Plan. This line item reflects actual and adopted capital improvement projects that have been adopted as part of the agency capital improvement plan.

The amount shown in FY 99-00 relates to the costs associated with the new Hall D. The only other improvement projects relate to seismic improvements involving Halls A, B, and C. The cost of these projects is slightly less than \$2 million. Both projects are tentatively scheduled for FY 2002-03. Hall C costs are estimated at \$1.24 million and the combined Halls A and B costs at about \$742,000. I have included no other projects in my forecasts, since none have been proposed as part of the CIP process.

Line 16--Metro Support Services. This line item reflects the percentage of total Metro support services payments made by MERC that have been allocated to the Expo Center.

My forecast assumes a 4% annual growth in these costs.

Line 17--MERC Administration. This line item reflects the percentage of total central MERC administrative costs that are allocated to the Expo Center.

It is interesting to note that, as the size of the central MERC administrative staff has grown, the increase in the costs allocated to the Expo have grown significantly and now exceed that costs associated with Metro support services. My forecast assumes that these costs will grow at a 4% annual rate.

Line 18 Pooled Capital Loan Repayment. This line item shows that amount needed to repay an estimated loan of \$1,500,000 during the current fiscal year to pay off the Intel loan.

Line 19 Cash Flow. For each fiscal year, this line item simply reflects the amount remaining after total expenditures are deducted from total revenues. This number is then added to the beginning fund balance to estimate the ending fund balance for the fiscal year.

Fund Balances

One of the most critical issues related to the feasibility of constructing a new Hall D is the ability of MERC to retain an adequate fund balance. Each of the forecast scenarios that I have prepared show a steadily increasing cash flow that will generally result in increased fund balances. The principal negative affecting the fund balance is the proposed seismic improvement projects for Halls A, B, and C. Under my most conservative scenario, this project would result in a small negative fund balance of \$87,000 in FY 2002-03. Under both of the other scenarios, the fund balance remains positive in all years.

There are at least two factors that would indicate that the potential of the small negative balance noted above could be avoided. First, both of the seismic improvement projects are scheduled for the same fiscal year. If this work were spread out between FY 2002-03 and FY 2003-04 a positive balance of over \$650,000 would occur in FY 2002-03.

The second factor that may positively affect all of the fund balance totals is that the estimated ending fund balance for the current fiscal year may be somewhat higher than budgeted. The estimated balance of \$1.59 million was based on a cash flow of \$162,159. The actual cash flow through the first seven months of the fiscal year is \$503,000. While the usage patterns of the Expo Center are greatest in the winter and early spring and lowest during the summer, these data would indicate the potential for a higher than projected fund balance.

For example, by comparison, in FY 97-98, the cash flow through the first seven months was \$413,000 and the actual cash flow for the fiscal year ending up being \$697,000. Given the cash flow (\$503,000) for the first seven months of this year, it would appear that the year-end cash flow may significantly exceed the projected \$162,000.

Conclusion

Given the results of the scenarios that I have run, it would appear that the projected cash flows and fund balances at the Expo Center could support the payment of the projected debt service. Some minor modification of the proposed seismic improvement

projects might be required, but it would appear that fund balances of at least \$300,000 could be maintained and that the actual fund balances at the end of my forecast period would be at least \$1.5 million and possibly as high as \$3.3 million.

GLOSSARY OF BUDGETARY LINE ITEMS INCLUDED IN FORECAST TABLES

Line 1--"Rental Income". The rental income line item is an operating revenue that results from the charges collected for the use of the all or a portion of the Expo Center by event promoters and operators. Most of the events at the facility and consumer or trade shows. Depending on their size, these shows may use only a portion of one hall. A small number of shows use the entire facility. Rental rates will vary depending on the size of the show and the specific halls that are rented. For example, the new Hall E commands a higher rental fee than some of the older halls that are unsuitable for certain types of uses.

Line 2--Reimbursed Labor. This line item relates to labor services provided to event operators by Expo at the operators request. The most common services provided are event set-up and tear-down and security services. The event operator pays a fee to Expo for these services.

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Line 4--Utility Services. This line item reflects revenue received from event operators for the provision of utility services, such as telephone and electricity. The older halls were not constructed to readily provide such services, while the new Hall E was constructed specifically to facilitate the provisions of such services.

Line 5-- Parking. This line item reflects parking fees collected at the facility. The current rate is \$4.

Line 6--Other Revenue. This item reflects small amounts of miscellaneous revenue that are collected each year (generally less than \$15,000). In addition, beginning in FY 99-00, garbage disposal revenue of about \$40,000 annually will be included in this line item.

Line 7a--Investment Income. This line item represents the interest received on the investment of the fund balance each year. The assumed rate of return is 5%. In FY 99-00, this line item includes estimated interest of \$360,000 on the unused portion of the bond proceeds during the construction of Hall D.

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Line 10--Materials and Services. This line item includes all normal budgetary materials and services items. For the Expo Center, the largest item is utility services for the operation of the facility which total about \$400,000. Contracted professional services is the largest remaining item at about \$140,000.

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Line 19 Cash Flow. For each fiscal year, this line item simply reflects the amount remaining after total expenditures are deducted from total revenues. This number is then added to the beginning fund balance to estimate the ending fund balance for the fiscal year.

**METRO**

To: All Councilors

From: John Houser, Senior Council Analyst

Re: Expo Center Hall D Update

Date: March 8, 1999

The Presiding Officer requested that I provide the Council with an update on the status of the proposed replacement of Hall D at the Expo Center. Since the Council's last consideration of this issue at its February 9 informal meeting, further discussion and actions have centered on three areas: 1) the MERC commission's level of support for the project, 2) the timing of the project, and 3) the further refinement of financial forecasts related to the near and intermediate fiscal impact of the project.

MERC Commission Support

At the time of the February informal meeting, the MERC Commission had not formally reviewed or taken a position on the proposed project. A special commission worksession was held on February 26 to review financial, timing and other information related to project that was developed and presented by the MERC staff. Presiding Officer Monroe and Councilor Washington appeared at the meeting and expressed Council support for the project based on the resolution adopted last November (Resolution 98-2734A) which requested the Executive Officer to develop, and present to the Council, a financing plan for the project.

The staff presented a "worst-case" fiscal scenario with only minimal growth in revenue from the new building, but noted that such a scenario was highly unlikely. Instead, the staff focused on a scenario that showed a more moderate growth level that staff felt was readily attainable. Under this scenario, the Center's critical ending balance was never less than \$630,000 and would increase substantially after the new building was opened. Staff also noted that the commission could pursue a variety of options for increasing revenue from the Expo Center including public/non-profit partnerships, changes in the rental structure and other marketing activities such as advertising and naming opportunities.

The staff's presentation also focused on the potential costs associated with the renovation of Hall's A-C. As you recall, the cost of the seismic improvements for these buildings, scheduled for FY 02-03, was a major deterrent to maintaining a positive fund

balance at the Expo Center. The staff's scenario estimated these costs at \$1.5 million, split between FY 03-04 and FY 04-05. Staff noted that it was becoming increasingly concerned about the total potential cost of renovating these buildings and whether these expenditures would be cost effective, given the commission's ultimate goal of replacing these buildings with a third new structure. The commission directed the staff to further examine future development and construction-related issues within the context of a master plan for the facility.

Following discussion of the various issues related to the proposed project, the commission unanimously adopted a resolution which endorsed the construction of a new Hall D.

Project Timing

The commission also discussed the timing for construction of the new building. When the proposed project was initiated last fall, it was felt that it might be possible to begin actual construction this summer. But, there are a variety of factors that would indicate that this timeline would be difficult to meet. First, the 17-week timeline for the issuance of the funding bonds would mean the bond proceeds would not likely be available until August. While the fund balance and other potential sources could finance costs prior to receipt of the bond proceeds, it will take several months to obtain the necessary construction permits and to complete the necessary architectural and design work for the building. Given these factors, the MERC staff has suggested that actual construction not begin until spring of 2000 with the opening occurring in spring of 2001.

If this timeline is accepted, it would be appropriate for the bonds to be issued, and the proceeds received in about mid-fall (October/November). This would provide funding for initial architectural and permit work to be completed prior to construction in the spring. Federal arbitrage requirements also will affect the timing of bond issuance relating to completion of the project. The financial planning staff has indicated that bond proceeds may need to be fully expended within 18-24 months to avoid any negative arbitrage requirements.

Fiscal Impact

At the February informal, I provided an in-depth review of a fiscal impact forecast that I had prepared relating to the Hall D project. The forecast assumed that construction would begin this summer and that the proposed seismic improvements would be made in FY 02-03 at a cost of \$1.97 million. As noted above, MERC is now indicating that construction would not begin until spring 2001, and the seismic improvements, if they are made, would occur over two fiscal years at the total cost of \$1.5 million. Given these changes, I have recalculated my forecast into two scenarios, one with the seismic improvements and one without these improvements (see attached). The A-Council scenario includes the seismic improvements, while the B-Council eliminates these improvements.

I also have worked extensively with the MERC staff concerning the potential fiscal impact of the new building. While we still may differ slightly on particular line items within our forecasts, the bottom line ending fund balances are very similar. For

example, in the scenario that includes the seismic improvements, the MERC forecast shows a minimum fund balance of \$630,000 in FY 2000-01 and a balance of \$1.44 million in the last year of the forecast (FY 2005-06). My forecast shows a minimum balance of \$821,000 and a balance of \$1.55 million in FY 05-06. In our forecasts without the seismic improvements, the MERC forecast shows an ending balance of \$2.94 million in FY 05-06 and my forecast shows an ending balance of \$3.17 million. Both staffs consider these differences to be minor and that either forecast indicates that the proposed project is very "doable" and would recommend to the Council that it proceed with the construction of a new Hall D.

		PROJECTED FISCAL IMPACT OF HALL D AT THE EXPO CENTER								B-Council
		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	\$1,503,003	\$1,578,153	\$1,657,061	\$1,739,914	\$1,826,910
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	\$1,080,616	\$1,370,896	\$1,425,732	\$1,482,761	\$1,542,072	\$1,603,754	\$1,667,905
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	\$19,162,514	\$4,460,620	\$4,863,514	\$5,088,768	\$5,324,658	\$5,571,690	\$5,830,396
Investment Interest		\$73,735	\$51,084	\$500,000	\$190,000	\$40,000	\$60,000	\$75,000	\$100,000	\$125,000
8	Total Resources	\$3,882,600	\$4,053,922	\$19,662,514	\$4,650,620	\$4,903,514	\$5,148,768	\$5,399,658	\$5,671,690	\$5,955,396
Operating Expenditures										
9	Personal Services	\$572,930	\$832,102	\$823,324	\$850,000	\$900,000	\$936,000	\$973,440	\$1,012,378	\$1,052,873
10	Materials and Services	\$608,992	\$716,561	\$800,000	\$850,000	\$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	\$78,050	\$132,500	\$300,000	\$300,000	\$300,000	\$275,000	\$250,000	\$225,000
15	Capital Improvement Plan (CIP)	\$90,490	\$150,000	\$5,000,000	\$10,084,000	\$0	\$0	\$0	\$0	\$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 Repayment			\$1,700,000	\$0	\$0	\$0	\$0	\$0	\$0
Total Expenditures		\$3,184,939	\$3,774,423	\$10,578,801	\$14,541,351	\$4,575,410	\$4,772,540	\$4,948,677	\$5,144,109	\$5,289,142
19	Cash Flow	\$697,661	\$400,000	\$8,883,713	(\$9,890,731)	\$328,104	\$376,228	\$450,981	\$527,580	\$666,254
20	Beginning Fund Balance	\$734,571	\$1,428,789	\$1,828,789	\$10,712,502	\$821,771	\$1,149,875	\$1,526,103	\$1,977,084	\$2,504,664
21	Ending Fund Balance	\$1,432,232	\$1,828,789	\$10,712,502	\$821,771	\$1,149,875	\$1,526,103	\$1,977,084	\$2,504,664	\$3,170,918
22	Contingency		\$117,340	\$200,000						

STAFF REPORT

CONSIDERATION OF RESOLUTION 99-2760 FOR THE PURPOSE OF AUTHORIZING THE EXECUTIVE OFFICER TO BEGIN THE PROCESS TO FINANCE THE CONSTRUCTION OF HALL D AT THE EXPO CENTER

Date: February 10, 1999

Presented by: Mike Burton, Executive Officer

FACTUAL BACKGROUND AND ANALYSIS

Resolution 99-2760 endorses the Executive Officer's recommendations for financing a new Hall D at the Portland Metropolitan Exposition Center (Expo), and initiates the process to issue \$15.8 million of Expo Revenue Bonds. The Executive Officer recommended that the bonds be secured solely by Expo revenues, but if necessary, allows Metro's general revenues to be pledged to obtain a good credit rating. That decision will be made in the course of the financing, after Metro has had the opportunity to test market acceptance of bonds backed solely by Expo revenues.

EXECUTIVE OFFICER'S RECOMMENDATION

Adoption of Resolution No. 99-2760.

CP:rs

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METRO

Attachment A
(p. 1 of 4)

Date: February 9, 1999

To: Presiding Officer Rod Monroe
Metro Council

From: Executive Officer Mike Burton

Subject: Expo Hall D Financing Options

A handwritten signature in black ink, appearing to read "Mike Burton", written over the "From:" line of the memo.

Resolution 98-2734 directed me to put together a financing plan for construction of a new building at the Portland Expo Center. To build this plan, I assembled a team of representatives of MERC, Metro's finance staff, the Executive Office, the Council Office, and Metro's financial advisor. I asked the team to develop a financing plan for construction of Hall D without using any excise tax for debt service payments.

The Expo Hall D project will have benefits to MERC and to the region by creating badly needed additional flat exposition space. I also believe that this project will aid the Oregon Convention Center by transferring consumer shows to this new venue, thereby freeing up space at OCC. The new hall will also attract additional business to the Expo Center by extending the season during which shows can be put on due to the climate-controlled space. I feel that this project will have a net beneficial effect on MERC's finances which will allow it to support the full debt service without public subsidy.

Based on the work done by this committee, I am recommending that this project proceed immediately by issuing revenue bonds backed solely by Expo revenues and using a loan from OEDD for qualifying elements.

The Oregon Economic Development Department (OEDD) makes loans to local governments for economic development projects. Portions of this project will meet OEDD guidelines for funding. The OEDD loan will help reduce overall debt service by eliminating a portion of the debt reserve requirement and a portion of debt issuance costs.

It is common for successful entrepreneurial enterprises to finance their own capital needs, without relying on public subsidies. Expo has the financial capacity to undertake this project without encumbering any other Metro funds. A question in this regard is the acceptance of these bonds in the marketplace. This would be the first publicly offered Expo bond. First-time issues often receive a higher degree of scrutiny in the marketplace than subsequent issues. It may therefore ultimately be necessary to offer

Metro's general revenue pledge as security for these bonds, but that is a decision that can be made later, after we have tested the waters for my first recommendation.

We should also plan on purchasing a surety to replace the debt reserve requirement. Revenue bonds commonly require a reserve equal to one year's debt service be established as additional security for bondholders. Issuers frequently finance this reserve as part of the debt issue. This increases the bond size, and therefore the annual debt service requirements. The OEDD financed portion of this project will not require a reserve, but the bond portion will. I propose purchasing a form of surety to replace that reserve, thereby reducing the overall issue size and lowering debt service.

Finally, Metro can also purchase bond insurance to provide additional security for bondholders. Bond insurance costs about one percent of total debt service, but can reduce interest rates charged on the bonds. In this case, I believe that this would be cost-effective strategy.

I look forward to beginning work on this project.

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Attc.

cc: Mark Williams, MERC General Manager
Jennifer Sims, Chief Financial Officer

Expo Hall D Executive Officer Recommendations

Expo Revenue Bonds

- Issue Expo Revenue Bonds (no general revenue pledge)
- Obtain a loan from OEDD for qualifying portions of the project
- 30-year term
- Ramp debt service over first 5 years
- Buy a surety to replace the required debt reserve, and
- Insure the bond issue

Expo Revenues Available for Debt Service

Intel debt service savings	\$525,000
Flexlease debt service savings	\$100,000
Expo parking rate increase	\$225,000
Hall D rental rate increase	\$135,250
Transferred events rentals (conservative)	\$120,000
Net concessions & parking (conservative)	\$140,000

Total Resources available for debt service **\$1,245,250**

Anticipated Debt Service

	<u>First Year</u>	<u>6th Year</u>
30-Year Term, Ramped Debt Service	\$566,000	\$1,040,000
Balances available for Expo operations	\$679,250	\$205,250

Option – General Revenue Bonds (use as fall-back in case Expo Revenue Bonds would not receive a favorable rating)

Same as Option I, using General Revenue Bonds rather than Expo Revenue Bonds

Draft Bond Issuance Schedule
Expo Hall D

- Week 1
 - Financing structure and plan approved
 - Financing team meets to discuss bond structure, terms, method of sale, and bond resolution
- Week 2
 - Issue RFP for bond underwriter
- Week 4
 - Bond underwriter proposals due
- Week 5
 - Review underwriter proposals, select short list for interview, invite short list to interviews
- Week 6
 - Interview underwriter candidates, select firm
 - Prepare 1st draft of POS
 - Prepare 1st draft of bond resolution
- Week 7
 - Financing team (including underwriter, & underwriter's counsel) meet to discuss bond structure, terms, target sale dates, and bond resolution
 - Comments due on 1st draft of POS
 - Comments due on 1st draft of bond resolution
- Week 8
 - Distribute 2nd draft of POS
 - Finalize POS
- Week 9
 - File bond resolution for Council agenda
 - Send draft bond resolution and final draft of POS to rating agencies
- Week 11
 - Finance Committee reviews bond resolution, recommends approval
- Week 12
 - Council approves bond resolution
- Week 13
 - Final bond resolution and POS distributed to rating agencies
 - Final POS distributing to marketing team
- Week 14
 - Presentation to rating agencies
 - Underwriter marketing meetings
 - Apply for CUSIP and DTC
- Week 15
 - Rating assigned by rating agencies
 - Bond pricing (sale)
 - Sign pricing agreement
- Week 16
 - Final OS preparation, send to printer
- Week 17
 - Closing documents distributed to financing team
 - Final OS to underwriter
 - Closing, funds available