Oregon Convention Center Alternatives Analysis

The Metro Council is preparing to make critical decisions about the future of the Oregon Convention Center (OCC) as an economic engine for the region. The Council has instructed staff to study a range of alternatives to support OCC operations in the convention center market. This document provides an analysis of those alternatives, weighing each against a series of decisionmaking criteria. It does not produce new research, but relies upon recent studies and interviews with local experts to provide the most complete picture possible of the outcomes that might result from the policy choice the Council is about to make. Though this is not a full benefit-cost analysis, it does provide an assessment of each of the alternatives that will be useful for the Council as it considers its next steps with the OCC.

The document begins with a brief background section that provides an overview of the alternatives under consideration and the criteria used to assess each. That section is followed by an analysis of each of the alternatives. A summary matrix that provides an overview of the results of this analysis is attached.

BACKGROUND

Metro owns the Oregon Convention Center (OCC) as a public asset. The Metropolitan Exposition Recreation Commission (MERC), a subsidiary of Metro, is responsible for the efficient management of the OCC. The mission of the Oregon Convention Center is “to maximize economic benefits for the metropolitan region and the State of Oregon while protecting the public investment in the facility.”

Large-scale, national conventions and tradeshows provide the greatest economic impact to the Oregon Convention Center and to the region. Conventions that attract thousands of visitors to the region provide needed tourism dollars, an economic impact that has been estimated by KPMG LLP (KPMG) to be at least $370 million per year to the region and approximately $13 million in annual State and County tax revenue.

In recent years, demand for high-impact national conventions at the Oregon Convention Center has leveled off. In February, the Metro Council asked MERC and Metro staff to investigate alternatives that could ameliorate this situation and assure that the public investment in the OCC is protected. The alternatives under consideration are:

- Develop a 600-room, publicly-owned, privately-operated headquarters hotel.

- Develop a small-scale, privately-owned and operated headquarters hotel with public subsidy.
- Provide enhanced incentives to attract the desired conventions, such as covering space rental costs at OCC and providing shuttle service to downtown hotels free of charge.
- Change the OCC mission to focus on attracting local meetings.
- Maintain the status quo with increased levels of funding to cover the projected increase in the OCC operating deficit and future capital needs for renovations and repairs.

This document considers information from a variety of sources to present an independent analysis of the five alternatives. MERC and Metro have recently commissioned a variety of studies to support this analysis, the results of which are summarized in this document. Sources of information include: KPMG, HVS International, the Strategic Advisory Group (SAG), PKF Consulting, as well as the Portland Development Commission (PDC), Portland Oregon Visitors Association (POVA), MERC, and the Oregon Convention Center (OCC). The criteria used to assess each of the alternatives are:

- *Impact to the Oregon Convention Center*: How would the OCC be affected in terms of number and type of events, attendance, and revenue?
- *Impact to the neighborhood*: Would employment be generated? Would there be an impact to redevelopment efforts in the Lloyd District?
- *Impact to the region*: Would there be impacts to the regional economy and employment?
- *Impact to the hospitality industry*: Would local hotels be affected? Would demand for hotel rooms be affected?
- *Impact to Metro and other financial considerations*: What would be the cost? What intergovernmental agreements would be needed? What are the risks to existing Metro programs?

ALTERNATIVES ANALYSIS FINDINGS

1: 600-ROOM, PUBLICLY-OWNED, PRIVATELY-OPERATED HEADQUARTERS HOTEL

The number, location, quality, and affordability of hotel rooms are very important factors for meeting planners when choosing locations to host conventions. Meeting planners prefer to book their convention attendees in large, high amenity hotels located in close proximity to convention centers. Currently, no such hotel exists near the Oregon Convention Center to satisfy the needs of most meeting planners. A 600-room headquarters hotel adjacent to the OCC could make the Oregon Convention Center more competitive in the national convention market.

In this alternative, Metro would attempt to develop a financing plan for the development of a 600-room Westin hotel adjacent to the Oregon Convention Center. Metro would enter into a development agreement with the development team led by Garfield Traub-Ashforth Pacific (GTA). The agreement would require the development team to obtain updated construction costs and a guaranteed maximum price for the development of a 600-room, publicly-owned, privately-operated Westin hotel adjacent to the Oregon Convention Center.

The decision to finance and develop the project would be contingent on Metro's ability to develop a satisfactory financing plan with the project underwriter, Piper Jaffray. Intergovernmental agreements with the City of Portland and Multnomah County would also need to be executed to implement the financing plan. The Portland Development Commission (PDC) is another important partner in the development of the potential hotel because the hotel would be in an existing urban renewal area, and because PDC owns the site identified for the potential hotel and has identified additional development resources.

If the Metro Council finds the project cost, financing plan, and level of risk satisfactory, the project would proceed to the development phase. Construction would last approximately two years and the hotel would be expected to open early in January 2011.

IMPACT ON THE OREGON CONVENTION CENTER

The addition of a 600-room headquarters hotel could allow the Oregon Convention Center to capture a larger share of events and their associated room nights. This would increase the revenue stream available to the OCC and assist MERC in its mission to maximize economic benefits to the region and the State.

Increased operating revenue

In 2006 alone, POVA records indicate that the OCC lost a total of 52 events representing future bookings, due in large part to the lack of a headquarters hotel or an unacceptable hotel package offered by existing hotels. The majority of these events were national or international in scope.

After analyzing POVA's records, HVS concluded that 20% of the OCC's lost business could be recovered with a 600-room, Westin headquarters hotel adjacent to the OCC. HVS projects this would result in eight new high impact, national convention center events each year.

Based on a three-year history of past events, the average convention or tradeshow event booked by POVA for the OCC generates $118,000 in revenue for the Oregon Convention Center. Therefore, it is possible that eight new conventions could lead to an increase of $940,000 in OCC annual operating revenue. This additional revenue could be used for future capital needs for renovations and repairs at the Oregon Convention Center. OCC management estimates the need for capital reinvestments in the facility is $10.5 million over the next decade, and includes projects such as roof replacement, carpet replacement, Oregon Ballroom renovations, etc.

Ability to attract conventions

The SAG study commissioned by POVA supports HVS's findings. According to SAG, "The development of a headquarters hotel remains the biggest single catalyst in effectuating Portland's ability to significantly improve as a convention destination." The SAG study concluded that Portland ranks "a distant last" in comparison to its competitors in terms of the number of convention-quality, full-service hotel rooms within walking distance of the center. SAG research suggests that development of a 600-room headquarters hotel, offering a 500 room block would increase the Oregon Convention Center's penetration of the convention market from 21% to 40%. A room block refers to the number of rooms that hotels can reserve for convention groups many years before the convention occurs. If the hotel were expanded to 800-rooms at a later date, with a 700 room block, the market penetration would improve to 52%.

Revenue lost without the hotel

A 2006 study by PKF Consulting indicates that Portland could lose six city-wide conventions annually if a headquarters hotel is not developed. These are groups that currently choose to host their events at the Oregon Convention Center, but are likely to leave due Portland's deteriorating competitive position and the attractive hotel packages offered in other destinations. This could have a negative effect on the Oregon Convention Center's operating revenue, resulting in a loss of approximately $700,000 per year.

IMPACT TO THE NEIGHBORHOOD

According to KPMG, there would be multiple benefits to the Lloyd District resulting from the development of a 600-room headquarters hotel. The hotel could act as a catalyst for urban redevelopment initiatives in the Lloyd District, generate additional economic activity for local businesses and service companies, and create construction-related jobs for the 24-month construction period and ongoing jobs for the operations of the new hotel.

Job creation

The KPMG report estimates that approximately 2,100 jobs would be generated during the construction period. Annual employee earnings of $25 million are estimated for the 820 jobs that will be generated by the hotel's operations and other induced business activity. While not all of these jobs would be in the Lloyd District, it is expected to have a ripple effect on the regional economy, leading to job growth throughout the region.

Catalyst for Lloyd District development

HVS projections for the hotel's performance assume that the Lloyd Center District will continue to be redeveloped in the near future to include new high-end residential housing and retail shops. According to representatives of the Portland Development Commission, multiple residential and commercial projects are proposed near the Oregon Convention Center and the surrounding areas. The blocks on which the Headquarters Hotel would be built are among the more challenging in the Lloyd District. They are bound by two high capacity streets, MLK Jr. Blvd and Grand Ave. These blocks are also smaller than traditional Portland blocks. This combination suggests that transforming the area will require constructing catalytic buildings that bring considerably greater numbers of people to the area more often.

The proposed hotel would also be a positive addition to the proposed Burnside Bridgehead project and the Eastside streetcar line. The headquarters hotel is also the centerpiece of the PDC's Development Vision for the OCC Blocks (2006), which envisions a truly vibrant 24 hour district, including places where residents and visitors will mingle at new hotels, housing developments, entertainment and retail venues, and on the green streets that characterize Portland.

These projects would relate symbiotically to the proposed hotel: they would support efforts to bring new conventions to the OCC at the same time that the additional people staying in the hotel would support existing and new Lloyd district businesses.

IMPACT TO THE REGION

Spending at local businesses

Attendees to events at the Oregon Convention Center generate economic benefits to the region when they spend money at local businesses. However, different types of events generate different magnitudes of impact. Based on industry data, KPMG estimates the average spending of a low impact, local attendee to be $28 per day. The average spending of a high impact, regional/national/international attendee is $298 per day.

KPMG calculated the estimated order of magnitude economic impact to the region from developing a 600-room, headquarters hotel. The potential economic benefit from new convention spending (direct and indirect) is estimated to be $54 million per year. The potential loss resulting from not building the hotel is estimated to be $41 million per year, due to the gradual erosion of national convention business at the OCC. The headquarters hotel would also generate economic impact from operations not related to OCC business, such as group business booked through Westin/Starwood's own in house efforts. The impact from non-OCC business is estimated to be $64 million per year.

Tax revenue

Development of a headquarters hotel will also result in fiscal benefits for the City of Portland, Multnomah County and the State of Oregon. KPMG estimated the impact of a headquarters hotel on the State of Oregon personal income tax, transient lodging tax, and corporate excise and income tax, as well as the Multnomah County transient lodging tax, motor vehicle rental tax and business income tax. With development of the proposed hotel, annual tax benefits accruing to the City of Portland, Multnomah County, and Oregon are estimated to be $2.7 million. Without development of the hotel, the gradual erosion of convention business could lead to a loss of $1.9 million in tax revenue.

Other impacts

In addition to the economic and fiscal benefits of the proposed hotel, other benefits could include:

- Enhancing the area's image as a business, convention, meeting and tourist destination
- Receiving increased regional and national exposure through destination marketing via the national marketing arm of Westin, Starwood, the proposed hotel operator
- Providing an enhanced hotel package to meeting planners considering the Portland market
- Moving local events and meetings currently held at the OCC to area hotels and other venues, which will serve to positively impact other venues' event base and financial operations

IMPACT TO THE HOSPITALITY INDUSTRY

Short-term occupancy decline, followed by stabilization

HVS studied the proposed hotel's impact on the Portland hospitality industry. By 2011, when the headquarters hotel is projected to open, two other competitive hotels are also expected to have been developed. The cumulative effect of these three new hotels will lead to a growth in occupied room nights, but a short-term 5% occupancy decrease. Assuming historical growth rates in base demand for hotel rooms continues and that new demand is induced in the meeting and group segment, HVS expects the market to rebound to current occupancy levels by 2014, after four years of the proposed headquarters hotel operation.

Room night generation

Due to an increase in annual conventions and the hotel operator's ability to attract new business, the headquarters hotel is expected to generate an additional 89,900 room nights per year into the region. This does not include the impact of 25,000 room nights that PKF projects could be lost by the gradual erosion of convention business if the proposed headquarters hotel is not developed.

HVS also quantified the number of unaccommodated room nights in the Portland market. Unaccommodated demand refers to individuals who are unable to secure accommodations in the market because all of the local hotels are filled. Currently there are an estimated 19,000 unaccommodated room nights in the Portland market each year. With the expected supply of three new hotels entering the marketplace over the next few years, HVS assumes that the new supply will be able to accommodate visitors unable to book hotel rooms during peak occupancy periods.

The hotel market in Portland is currently strong, with occupancy levels and average daily rates near historical highpoints. The Portland Development Commission, POVA, and HVS all agree that if the headquarters hotel is not developed, it is likely that other smaller, limited service hotels may be developed instead to take advantage of strong market conditions. Because they would be less likely to participate in convention center events or have significant amounts of their own meeting space, these hotels would be less likely to attract new conventions to Portland. Also, these limited service hotels would not generate as many new induced room nights as the proposed headquarters hotel.

HVS projects that the development of a 600-room Westin headquarters hotel is expected to contribute to a 6% increase in room night demand for the Portland hotel market in 2011. Without the headquarters hotel, HVS expects an increase of only 1.5% in 2011. The development of the proposed headquarters hotel is also anticipated to support also induce higher growth rates in market demand in years 2012 and 2013 at 3.5% and 2.5% respectively. After the hotel reaches stabilization in year 2014, growth in demand is forecast to stabilize at 1.5% annually.

Shift in demand for local meeting business

Another impact this alternative would have on the hospitality industry relates to local meeting business. KPMG concludes that state and local events are typically booked within a shorter timeframe, so it is a common strategy for convention centers to experience a higher percentage of these events during years with fewer national and international conventions and tradeshows, in order to positively influence revenues. The development of a headquarters hotel and the resulting growth in national convention business could move many local meetings currently hosted at the OCC to other venues and area hotels. This would have a positive impact on those hotels' and venues' financial operations. Conversely, the gradual erosion of business resulting from the lack of a headquarters hotel could force the OCC to refocus its business development efforts on hosting more local meetings that are currently held in area hotels.

IMPACT TO METRO AND FINANCIAL CONSIDERATIONS

Financing and feasibility

This alternative would have significant financial implications for Metro. Project costs have not yet been determined, but would include hard and soft construction costs, other pre-opening costs, appropriate reserves, and financing costs. A guaranteed maximum price for construction would be agreed upon before the Metro Council determines to move forward with the development of the project.

The project would be financed through revenue bonds issued by Metro. Metro is working with the project underwriter, Piper Jaffray, and the financial advisor, Seattle Northwest, to develop a financing package that does not put Metro’s general fund or existing programs at undue risk.

Currently, Metro has determined that the project could be feasible if Metro is able to secure additional funding from sources other than those currently available, based on initial project cost estimates, the hotel operating pro forma generated by HVS, and input from the underwriter regarding appropriate reserves, sinking funds, relevant interest rates, the maturity structure of all requisite bonds, and potential pledges of income and expense during the maturity period.

The determination of ultimate feasibility is contingent upon final project costs, the satisfactory negotiation of agreements with the developer (GTA), the hotel operator (Westin/Starwood) and the construction firm (Turner Construction). The determination of feasibility is also conditional, based on Metro’s ability to negotiate the necessary intergovernmental agreements with the City of Portland, Multnomah County, and PDC to cover debt service of the bonds, as well as procurement of other financial contributions to the project from the State of Oregon or other beneficiaries of the proposed project.

Possible impacts to Visitor Development Fund

If the proposed 600-room headquarters hotel is developed adjacent to the Oregon Convention Center, it is possible that Visitor Development Fund (VDF) funding will need to increase. If the proposed hotel is successful in attracting new conventions to the OCC, then these conventions will probably require some financial incentives.

If Metro decides to pursue the development of the 600-room, publicly owned, privately operated headquarters hotel, then the financing plan for the project should consider including increased funding for the VDF to provide the associated increase in financial incentives.

Revenue impacts

Development of the proposed hotel would create a public asset owned by Metro. In the event that the hotel generates revenues in excess of those required to cover debt service and fund the necessary reserves and sinking loan funds, then those financial benefits would accrue to Metro. If Metro chose to sell the hotel in future years, any revenue in excess of the amount necessary to pay off outstanding bonds would be available to Metro to use on new or existing programs.

On the other side of the equation, if the hotel is unable to service its debt, Metro would need to have a contingent financing structure in place for supporting the bonds. This will be an important consideration in the final feasibility and financing negotiations.

2: 400-ROOM PRIVATE HEADQUARTERS HOTEL WITH PUBLIC SUBSIDY

Using a private financing model, it has not been possible to develop a headquarters hotel adjacent to the Oregon Convention Center that generates a return on investment great enough to attract private investors. A public subsidy would be required to make a privately-owned hotel generate a return on investment sufficient to entice private development. The Portland Development Commission determined the subsidy for a privately-owned, 600-room hotel is prohibitively high. The Metro Council is therefore evaluating a smaller, 400-room privately-owned hotel, an option that has also been studied previously by the Portland Development Commission.

Two different versions of a 400-room hotel were evaluated. One version includes all the amenities of a typical headquarters hotel and a nationally respected hotel brand. These amenities include extra meeting space, pre-function space and ballroom space. These amenities are important to meeting planners when selecting a convention destination, however they substantially increase the per-room hotel construction costs.

The second version of the 400-room hotel does not include the amenities typically associated with a headquarters hotel. A lower quality (two or three star) hotel without the requisite meeting and ballroom space has a lower per-room construction cost.

HVS, SAG, and POVA all agree that a hotel adjacent to the Oregon Convention Center would need to offer all the amenities of a typical headquarters hotel in order to attract new convention business, and that without new convention business, a smaller hotel would not provide significant benefits to the OCC or the region. In the remainder of this section, this report considers only the hotel that has amenities typical of a headquarters hotel.

IMPACT TO THE OREGON CONVENTION CENTER

According to POVA records, the lack of a headquarters hotel is most frequently cited as the reason that meeting planners choose to host their conventions in cities other than Portland. POVA commissioned a study by the Strategic Advisory Group to determine, among other issues, whether a 400-room headquarters hotel would be of sufficient size to attract new conventions to the OCC.

SAG surveyed meeting planners on what would be the minimum size room block offered by a headquarters hotel in Portland to convince them to host their event in the Oregon Convention Center. A room block refers to the number of rooms that hotels can reserve for convention groups many years before the convention occurs. The SAG study found that a 400-room headquarters hotel, offering a 300 room block would only increase the Oregon Convention Center's penetration of the convention market from 21% to 27%.

The SAG study concluded that the ability to penetrate the market improves as the size of the headquarters hotel increases. A rapid growth in penetration potential occurs above 200 rooms.

The results of the SAG study, confirmed by POVA, project that a 400-room headquarters hotel could result in a modest positive impact on the Oregon Convention Center's ability to attract new convention business.

IMPACT TO THE NEIGHBORHOOD

Job creation

The KPMG study did not directly estimate the impact of a 400-room headquarters hotel. However, it is likely that development of a 400-room headquarters hotel adjacent to the Oregon Convention Center could create significant construction jobs during the construction period, as well as a number of jobs to support the ongoing hotel operations.

Other impacts possible but difficult to measure

A 400-room hotel would be an improved use of land in the area surrounding the Oregon Convention Center and could act as a catalyst for redevelopment. Previous studies commissioned by the Portland Development Commission concluded, however, that the hotel should be at least 600 rooms to effectively support the OCC's efforts to bring in new national convention. PDC has expressed no interest in contributing their land for development of a hotel with fewer than 600 rooms. Without the contribution of land from PDC, it is not a 400-room, privately owned hotel adjacent to the OCC is not feasible. The impact on the neighborhood and the Lloyd District is therefore not analyzed further.

IMPACT TO THE REGION

None of the studies summarized here directly estimate the economic and fiscal impacts of a 400-room headquarters hotel on the region, but it is still possible to draw some conclusions about the likely impact to the region if a 400 room hotel were to be developed.

Based on the findings of SAG, confirmed by POVA, the proposed 400-room headquarters hotel could have a minimal impact on the Oregon Convention Center's ability to attract new conventions. Since there would not be significant growth in convention business, there would not be significant increase in convention spending in the region, or an associated increase in tax revenue.

IMPACT TO THE HOSPITALITY INDUSTRY

HVS International did not conduct a detailed market analysis or feasibility study for a 400-room hotel. However, it is likely that a 400-room hotel, in conjunction with the opening of two other hotels currently planned for development would contribute to a temporarily decrease in hotel occupancy rates in the Portland market. Occupancy rates would likely rebound in future years.

A 400-room hotel would not be large enough to be considered a part of Starwood's Convention Collection, which is a group of Starwood's larger, group hotels which co-market and work together to move large groups amongst those Starwood hotels. Because of the small size of the hotel, a 400-room hotel would not be expected to induce significant demand into the Portland market.

For the market study of the 600-room Westin hotel, HVS quantified the number of unaccommodated room nights in the Portland market. The findings from that study indicated there are an estimated 19,000 unaccommodated room nights in the Portland market each year. HVS did not analyze the impact of a 400-room headquarters hotel on unaccommodated demand in the Portland market. However, with the expected supply increase resulting from the development of a 400-room headquarters hotel in addition to two other hotels entering the marketplace over the next few years, it is likely that unaccommodated room nights would decrease.

When considering a 400-room hotel's more limited ability to induce demand into the market, and the increase in new room supply, the proposed 400-room hotel would not increase the size of the pie, but would take a slice out of the existing market.

IMPACT TO METRO AND FINANCIAL CONSIDERATIONS

The Portland Development Commission analyzed the development of a 400-room, privately owned hotel in previous years. The PDC issued a request for proposals to develop a privately owned convention center headquarters hotel in 2004. According to the proposals submitted to the PDC, significant public subsidy of at least $35 million would be required for a privately owned 400-room hotel. PDC looked at strategies for reducing this funding gap, including variations on retail, meeting space, and parking spaces, and adding condominiums to the project. These options did not decrease the funding gap.

The Portland Development Commission also considered the use of New Market Tax Credits and found they are unlikely to be available for this project and would not eliminate the funding gap. The magnitude of this funding gap led the PDC to conclude that this alternative is not feasible. Construction costs have increased since the PDC analyzed this issue, and it is likely the financing gap has also increased.

Starwood, the hotel operator with the selected development team, drafted an estimate of project costs for a private 400-room, Westin hotel with all the amenities of a typical headquarters hotel. According to Starwood's estimates, there is a $56 million funding gap that would need to be covered by public subsidy.

To pursue this alternative, it is likely that Metro would need to sell bonds in order to cover the funding gap. Because the hotel would be privately-owned, net operating income from the hotel would not accrue to Metro and would not be available to repay the bonds. Therefore, Metro would need to determine other sources of revenue for debt service. This could put the Metro general fund at risk and come at the expense of existing Metro programs.

The reluctance of the PDC to contribute funds and donate the land, valued at $12 million, to the development of a 400-room hotel, further decreases the feasibility of this alternative.

3: PROVIDE ENHANCED INCENTIVES

According to Tradeshow Week, approximately 68% of all high-impact events are offered financial incentives to convene in a host destination. The SAG study corroborates this finding, stating "at the recent annual event of Destination Marketing Association International, the association of all entities like POVA that market their respective destinations, a sampling of nearly 80 other marketing entities showed that approximately 90% had a dedicated revenue source (such as a VDF) to offer financial incentives to convention groups." The SAG study concludes that financial incentives such as free rent and free transportation have become commonplace, and in the eyes of most event planners, these incentives are an expectation.

The Visitor Development Fund (VDF) currently provides financial incentives to large conventions and tradeshows that have a significant economic impact to the region. The Visitor Development Fund (VDF) is funded by Multnomah County hotel occupancy taxes and funneled through the Visitors Facilities Trust Account (VFTA). The VDF is allocated $500,000 each year, increasing annually based on inflation and the growth rate for VFTA collections.

The Visitor Development Fund Board oversees the VDF and determines which prospective conventions merit financial incentives. VDF funds are used in various ways, but primarily to cover the cost of space rental at the Oregon Convention Center for high-impact conventions, as well as provide transportation incentives when appropriate.

This alternative would increase the annual allocation of VDF funding and would expand the use of such funding. Examples of possible changes to the use of VDF funds include: lowering the threshold of economic impact for an event to be eligible to receive funding, and expanding efforts to publicize VDF funds for prospective conventions.

Another possible use of incentives would be to target niche markets with incentives that appeal to their specific needs. For example - for the sustainable/environmentally conscious conventions - according to POVA, it could be possible to offer green tags or carbon offsets for convention management groups and/or a percentage of convention attendees.

Covering the possible costs of attrition for convention groups is another possible incentive that POVA believes could have a significant influence on the decisions of meeting planners. When meeting planners decide to host a convention in a city, they contract large blocks of rooms in hotels for convention attendees. These room blocks need to be secured years in advance to ensure that they are available. When the convention finally comes to town and if fewer convention attendees stay in a particular hotel than was originally anticipated, the hotel may be unable to fill those previously reserved rooms with commercial or leisure customers on short notice. To compensate for this loss, the hotels charge attrition fees to convention groups based on the number of room nights they contracted for but did not ultimately use.

If significant additional funding were allocated to the VDF, it could be used to cover the cost of attrition for convention groups. For meeting planners, this would make the process of entering into multiple room block agreements with Portland hotels much less risky. POVA does not know of any other cities offering a similar incentive, which makes it difficult to estimate how successful this incentive would be for attracting new convention business. It is also difficult for POVA to calculate the cost to offer this incentive, and any such program would need to be developed and supported by the local hospitality community and the VDF Board.

The ultimate design of an enhanced incentive program will need to consider the most compelling needs of event planners and keeping competitive with other destinations' incentive programs in light of available resources.

IMPACT TO THE OREGON CONVENTION CENTER

Lost business

Previous research conducted by PKF suggests that the lack of a headquarters hotel could result in the OCC losing six conventions per year. POVA records of lost business state that lack of a hotel package is the primary reason for lost business. Meeting planners cite the lack of a "headquarters hotel/hotel package" approximately ten times as frequently as "cost/rate" affordability for why they choose to host their events at convention centers other than the OCC. HVS International reviewed POVA's lost business reports for 2005 and 2006. HVS concluded that 232,000 room nights were lost due to the lack of a headquarters hotel.

Potential for increased demand with incentives uncertain

The recent survey of meeting planners by the Strategic Advisory Group found offering financial incentives was attractive to many meeting planners. Approximately 49% of those surveyed reported that free shuttle service between the OCC and downtown hotels would be a sufficient incentive for them to "highly likely" or "definitely yes" choose to host their event at the Oregon Convention

Center. Additionally, 66% of those surveyed reported that free rent at the OCC would be a sufficient incentive for them to very seriously consider hosting their event in Portland. HVS also determined that approximately 13% of POVA's lost business cited "financial incentives" as a factor contributing to their decision not to come to Portland. Together, these sources indicate that increasing the incentive package would have at least some positive impact on the ability of the OCC to bring new conventions to Portland.

Offering incentives is an important part of the process of negotiating a convention package for nearly all convention centers in the national market. However POVA claims to have never lost a convention at the OCC solely due to the inability to offer appropriate financial incentives, since the inception of the VDF. This is supported by the fact that there has never been a year when VDF funds were insufficient to provide financial incentives to a prospective convention that would bring the requisite level of economic impact to the region.

The SAG study acknowledges that POVA already offers these financial incentives to many potential OCC clients, and these incentives alone have not been sufficient to attract the majority of potential conventions. SAG examined future convention bookings at the OCC and determined "For the fiscal years of 2005, 2006, 2007, 2008 and 2009, the percentage of definite, new OCC city-wide bookings that received approval for VDF funds was 57%, 61%, 66%, 73% and 86% respectively. Portland's upward trend in the use of incentives is reflective of the entire convention industry." The report goes on to recommend that the OCC continue to offer transportation and rental incentive packages when appropriate, in conjunction with developing a headquarters hotel in order to capture the greatest possible share of the national convention market.

Based on information from POVA, corroborated by SAG, it is unlikely that providing enhanced financial incentives alone will attract significantly more conventions to the OCC, and that its impact will be minimal.

IMPACT TO THE NEIGHBORHOOD

It is not anticipated that this alternative would have a significant impact to the blocks adjacent to the Oregon Convention Center, nor the greater Lloyd District.

IMPACT TO THE REGION

Based on information from POVA, corroborated by SAG, it is unlikely that providing financial incentives alone will attract significantly more convention business to the OCC. Therefore, this alternative is not expected to have an impact to the region.

IMPACT TO THE HOSPITALITY INDUSTRY

Based on information from POVA, corroborated by SAG, it is unlikely that providing financial incentives alone will attract significantly more convention business to the OCC. Therefore, this alternative is not expected to induce new room night demand into the Portland hotel market. This alternative is not expected to have an impact on the hospitality industry.

IMPACT TO METRO AND FINANCIAL CONSIDERATIONS

The Visitor Development Fund is currently funded through an annual allocation of approximately $500,000 from hotel occupancy taxes collected by Multnomah County through the Visitors Facilities Trust Account. Increasing the incentives offered to prospective conventions would likely result in a reduction of VFTA capacity to fund other programs, such as fareless square and the Portland Center for Performing Arts.

The VFTA is expected to generate surplus revenues in future years that could be allocated to the VDF for increased incentives. Modification of the existing intergovernmental agreement between Metro, the City of Portland and Multnomah County would be necessary to implement this alternative.

4: CHANGE THE OCC MISSION

The mission of the Oregon Convention Center is to maximize economic benefits for the region while protecting the public investment in the facility. If the OCC is unable to sustain long-term fiscal success operating under its current business model, then the Metro Council could choose to change the OCC mission to focus its business development efforts on attracting local meetings. Changing the mission could allow the Oregon Convention Center to increase the number of local meetings hosted at the OCC, possibly creating a stable revenue stream for OCC operations.

IMPACT TO THE OREGON CONVENTION CENTER

Small local events already comprise a large portion of business that occurs at the Oregon Convention Center. In fiscal year 06-07, small meetings and public shows represented 58% of all events at the OCC.

While conventions and tradeshows comprised only 14% of all events hosted at the OCC in fiscal year 06-07, they generated $8 million in revenue for the Oregon Convention Center. According to OCC financial records, the average convention or tradeshow event booked by POVA for the OCC generates $118,000 in revenue, compared to local meetings, which generate $15,000 on average. Therefore, it requires eight local events on average to generate the same amount of revenue for the Oregon Convention Center as one national convention.

If the mission of the Oregon Convention Center changed to focus on local meetings, it would require a significant increase in local marketing efforts in order for the OCC to generate revenue necessary to continue to operate with current funding levels.

IMPACT TO THE NEIGHBORHOOD

It is not anticipated that this alternative would have a significant impact to the blocks adjacent to the Oregon Convention Center, nor the greater Lloyd District.

IMPACT TO THE REGION

This alternative would not have a positive impact on the region. KPMG calculates an annual estimate of the economic impact the OCC has on the region. Over the past five years, the average economic impact to the region as a result of the Oregon Convention Center has been $440 million per year. Focusing on local events rather than national conventions would dramatically decrease this impact.

Local attendees have very different spending characteristics than regional, national or international attendees. The vast majority of attendees to state and local events are classified as low impact. As previously stated, based on industry data, KPMG estimates low impact attendees spend an average of $28 per day. Attendees of regional, national or international conventions are considered high impact. High impact attendees spend an average of $298 per day.

Based upon information from KPMG, POVA, and HVS local meetings generate only a modest economic impact to the region, whereas national conventions generate substantial economic impact. Therefore, changing the OCC mission to focus on attracting local events would have a severely negative economic impact on the region.

IMPACT TO THE HOSPITALITY INDUSTRY

Convention attendees typically require hotel accommodations, since they are from out of town. Local meeting attendees do not require hotel accommodations. Changing the OCC mission to focus on attracting local meetings would decrease the group room night demand in the Portland hotel market.

Through discussions with local hotel operators, HVS determined that for some operators approximately 20% of their group room nights are convention center affiliated. If the Oregon Convention Center no longer focused on attracting national conventions, then the room night demand affiliated with the OCC would substantially decrease.

Based on information from KPMG, POVA, and HVS this alternative would have a negative impact on the hospitality industry as the hotels may then be competing with the OCC for the same group business.

IMPACT TO METRO AND FINANCIAL CONSIDERATIONS

Changing the mission of the Oregon Convention Center to focus on attracting local meetings would likely lead MERC to cancel its contract with POVA to market the OCC on a national level. This would be replaced with a more focused business development sales effort on the local market. POVA's marketing efforts are funded by an annual allocation of $350,000 from the Visitors Facilities Trust

Account. The intergovernmental agreement between Metro, the City of Portland and Multnomah County that governs that VFTA would need to be modified to reflect these marketing dollars are no longer necessary. This would result in an annual surplus of $350,000 in the VFTA that could be allocated for other purposes.

However, due to the limited revenue generated by local events at the Oregon Convention Center, it is likely the OCC would require increased funding for operations, in order to avoid an increasing operating deficit. It is likely the Oregon Convention Center would also need to hire additional personnel to adequately handle the increased booking of local events.

The decrease in convention business, and subsequent decrease in hotel room night demand could also have a negative impact on Multnomah County's hotel occupancy tax collections. OCC operations are partially funded through the Multnomah County hotel occupancy tax, so this could decrease the funding available to OCC operations on an annual basis. This could impair the Oregon Convention Center's ability to adequately fund a reserve for necessary repairs and renovations for the facility.

5: STATUS QUO WITH INCREASED FUNDING

This alternative maintains the Oregon Convention Center's mission to maximize economic benefits for the region. However, no new affirmative action would be taken to improve the OCC's competitive position in the national convention market.

Due to gradual erosion of profitable national convention business, MERC anticipates the Oregon Convention Center will have decreasing unrestricted fund balance in future years, resulting from an increase in the gap from operations. This alternative would seek to provide increased levels of funding to cover the projected OCC operating deficit as a result of lost convention business and future capital needs for renovations and repairs.

IMPACT TO THE OREGON CONVENTION CENTER

Since 2002 the number of conventions and tradeshows hosted at the Oregon Convention Center has remained relatively flat, while the number of local meetings has increased significantly. The SAG study finds that with the existing package the OCC has to offer, the facility will continue to struggle to attract national conventions. Only 22% of the meeting planners surveyed by SAG would seriously consider hosting their conventions at the OCC based on the current package. Maintaining the status quo for booking events at the OCC would likely continue this trend.

MERC projects the OCC unrestricted fund balance will decrease from $6.5 million in fiscal year 2006-07 to $4.5 million in fiscal year 10-11. In 2011 the strategic fund balance goal will be greater than the projected fund balance, resulting in the emergence of a strategic fund balance gap. MERC has not projected the OCC's fiscal performance beyond 2011. However, if no action is taken to address the OCC's operating deficit, the unrestricted fund balance is expected to decline in future years.

Without changing the OCC mission to focus on local meetings, it is unlikely the Oregon Convention Center would be able to book enough local events to compensate for the gradual erosion of national convention business. This could result in a decrease in OCC operating revenue.

IMPACT TO THE NEIGHBORHOOD

It is not anticipated that this alternative would have a significant impact to the blocks adjacent to the Oregon Convention Center, nor the greater Lloyd District.

IMPACT TO THE REGION

KPMG analyzed the economic impact of the Oregon Convention Center assuming a headquarters hotel is not developed, based on the findings of PKF. PKF estimated the lack of a headquarters hotel could lead to the gradual erosion of convention business, resulting in six fewer national conventions hosted at the OCC each year.

According to KPMG, the loss of six conventions could result in an economic loss to the region of approximately $40.8 million annually. Fiscal losses to Multnomah County and the State of Oregon combined are estimated to be approximately $1.9 million annually. It is important to note that approximately half of the hotel occupancy tax collected by Multnomah County ultimately goes to the City of Portland. Also, OCC's shift toward obtaining local meeting business would continue to occur and further erode the other venues and hotels of that local business.

IMPACT TO THE HOSPITALITY INDUSTRY

Maintaining the status quo would have an impact on the hospitality industry. Research by PKF indicates the loss of six conventions per year could result in 25,000 lost room nights. This could have a minor, negative impact on the occupancy rate of the Portland hotel market.

The operating gap analysis conducted by the Oregon Convention Center indicates an increase in funding will be necessary in future years to cover the OCC operating deficit as well as future capital needs for renovations and repairs.

IMPACT TO METRO AND FINANCIAL CONSIDERATIONS

Maintaining the status quo may require Metro and MERC to secure additional revenues to cover the projected OCC operating deficit. If OCC revenues in a given year were insufficient to maintain a strategic fund balance greater than the unrestricted fund balance, the OCC would most likely be unable to contribute excise tax to Metro. A current source of revenue to support the Oregon

Convention Center is the Visitors Facilities Trust Account. The intergovernmental agreement between Metro, the City of Portland and Multnomah County that governs that VFTA could be modified to allocate additional resources for OCC operations in order to avoid an operating deficit.

The Oregon Convention Center has recently begun funding a reserve for renewal and replacement. According to OCC management, in order to provide for future capital needs for renovations and repairs and maintain a stable unrestricted fund balance, OCC would need $2 million of funding over the course of the next four years. If the Oregon Convention Center's revenue declines due to a difficulty in attracting high-impact, national conventions, then it is likely the OCC would be unable to adequately fund the reserve for renewal and replacement.

Alternative	Impact to convention center	Impact to neighborhood	Impact to region	Impact to hospitality industry	Impact to Metro	Financial feasibility
Publicly owned, privately operated 600-room headquarters hotel	★	★	★	⊘	direct risk and cost to Metro, but most consistent with Metro goals	financially feasibile but political considerations exist
Privately owned, small scale headquarters hotel with public subsidy	✚	★	✚	⊘	direct risk and cost to Metro, but may not further other goals	low financial feasibility - significant equity constraints
Enhanced incentives (I.e. free shuttle, free rent, etc)	⊘	⊘	⊘	⊘	minimal risk and low cost	contingent upon increase in VDI funds
Change the OCC mission: regional meeting center	−	−	−	−	minimal	negative impacts create financial and political difficulties
Status quo with increased subsidy for operations	−	−	−	− / ⊘	minimal	combination of negative impacts and public subsidy lead to very low feasibility

★ strong increase

✚ modest increase

⊘ minimal change

− decrease