Oregon Convention Center Headquarters Hotel
Answers to Frequently Asked Questions (FAQ)

1. What is the Oregon Convention Center Headquarters Hotel project?

The project entails construction of a headquarters hotel adjacent to the Oregon Convention Center that specifically serves the conventions and meetings industry so additional large visitor groups, who, independent studies show, spend millions per year on local businesses, will visit Portland and nearby destinations.

A headquarters hotel has long been planned as part of the Oregon Convention Center package of facilities to serve the state and region's tourism industry. Metro, the City of Portland and the Portland Development Commission (PDC) have worked diligently to define the appropriate size and type of headquarters hotel to maximize the economic impact of the Oregon Convention Center.

Currently, the City, PDC and Metro are completing a feasibility analysis of the headquarters hotel and must now decide whether or not to proceed with the next planning phase, called the pre-development phase. This next predevelopment phase is estimated to cost up to $12 million and, by employing local firms to complete the architectural and engineering drawings, will enable the project team to develop a guaranteed project construction cost. A significant portion of pre-development phase costs - $9 million – is scheduled to be repaid to the City and Metro.

Any final decisions – such as approving the entire project or issuing the City of Portland's tax-exempt revenue bonds to cover the construction costs – **won't be made for a minimum of 1-2 years and will involve additional public hearings and votes by the Portland City Council and the Metro Council**.

2. Why build an Oregon Convention Center Headquarters Hotel?

Tourism, convention and hospitality industry experts conclude that the key ingredient to attracting visitors who bring significant revenue to local businesses – those attending large national conventions - is to operate an appropriately-sized headquarters hotel adjacent to the convention center (source: Strategic Advisory Group Report to Portland Oregon Visitor Association, July, 2007).

A headquarters hotel was included in the very first plan when the Oregon Convention Center Urban Renewal Area (OCC URA) was formed. Goal 1 of the OCC URA Plan is "to maximize the regional job potential of the Oregon Convention Center" by recruiting "at least one headquarters hotel in the immediate vicinity of the OCC."

Without a headquarters hotel adjacent to the Oregon Convention Center, visitors and meeting planners, exhibitors and sponsors are restricted in their ability to travel easily between meetings and their lodging accommodations, so much so that analysis by Travel Portland (formerly Portland Oregon Visitor Association or " POVA"), the city's destination marketing agency responsible for attracting national convention business, concludes it is the most significant "deal breaker" for meeting planners who choose other cities over Portland (source: Strategic Advisory Group Report to Portland Oregon Visitor Association, 2007).

In 2008, 69 associations and organizations selected Portland among the finalists to hold a convention but chose other cities instead and cited the lack of an adjacent headquarters hotel or adequate hotel package as the primary reasons (source: Strategic Advisory Group Report to Travel Portland, 2008).

3. Why should the city attract national conventions and, therefore, more out-of-town visitors to Portland?

When business people and tourists visit Portland, they spend money in area restaurants, shops, hotels, venues, attractions and regional destinations, helping make the tourism and leisure sector 9.3% of the regional economy (source: Greenlight Greater Portland, 2008 Greater Portland Prosperity Report).

According to Crossroads Consulting, a national, independent consulting firm serving public assembly venues, out-of state visitors attending large national conventions spend on average $317 per day supporting local businesses during their stay in Portland. In contrast, local and regional visitors spend $29 per day when they are in town for state/regional association meetings or consumer tradeshows, which is currently the bulk of booked business at the Oregon Convention Center (source: 2007-2008 MERC Fiscal & Economic Impact Report, Crossroads Consulting).

Travel Portland consistently reports that planners for large national conventions choose other cities over Portland because the Oregon Convention Center lacks an adjacent headquarters hotel. Further, national hospitality consulting group, HVS International, concludes that if a 600-room headquarters hotel were constructed adjacent to the Oregon Convention Center, the city would attract eight new, large-scale national conventions a year (source: Proposed Westin Convention Center Hotel – Portland, Oregon, HVS International 2007).

Finally, KPMG International, LLP, an independent national audit, advisory and tax firm, estimates that with eight new national conventions recruited to Portland each year, $54.4 million would be generated annually in convention business. Combined with the estimated economic activity generated by business created by the headquarters hotel itself - $64 million per year – KPMG concludes that over $118 million per year in economic activity will be generated from new headquarters hotel and convention business. In addition, KPMG concludes that the headquarters hotel will support more than 820 new, living wage jobs and generate annual income earnings of $25.3 million in the year 2014, the first full year of hotel operation (source: Potential Economic Impacts of a Headquarters Hotel, KPMG 2007).

4. Why doesn't an existing private hotel work as a headquarters hotel?

A headquarters hotel is different from a typical private business or leisure hotel because:

1. It functions primarily to support the convention center by guaranteeing large blocks of rooms at "early bird" rates years in advance. Private business/leisure hotels will typically only reserve smaller blocks of rooms, if any at all, for conventions.
2. It is designed as a different facility. For example, large areas of square footage are dedicated to meeting space, banquet rooms and pre-function areas necessary for conventions. This space is expensive and typically doesn't pay for itself, so most business/leisure hotels limit such additional gathering space.
3. It is located immediately adjacent to the convention center to provide convenient and direct access for visitors, meeting planners, exhibitors, sponsors, speakers and service providers associated with the convention.

The current headquarters hotel project is based upon a public ownership model in which Metro would own the hotel, Starwood/Westin would operate it and visitors using it would pay for it. The public ownership approach has been used extensively in other cities over the past decade because it has proven to be more feasible to finance headquarter hotels with the use of tax-exempt bonds. And, the profit margin required by private hotels does not apply in a public ownership model. The cost of construction is a one-time investment that is repaid primarily by visitors using the hotel, and it generates maximum annual benefits for local businesses and the regional economy.

The feasibility of a privately built and operated headquarters hotel was analyzed by PDC in 2004-2006. PDC concluded that an appropriately-sized, 600-room headquarters hotel would not be profitable for a private hotelier without a minimum of $39 million in public subsidy. It was further determined that PDC was not able to provide $39 million in direct public subsidy to a privately-owned hotel, given the range of public goals to be achieved within the district (source: http://www.pdc.us/pdf/ura/convention_center/eco-northwest-hq-hotel-review_4-5-06.pdf).

5. Why continue to invest in the Oregon Convention Center?

The convention industry has generated significant revenue for the region since the Oregon Convention Center was built as an economic development tool and meeting/convention destination. KPMG concluded in 2006 that the public investment in Phase I and II of the Oregon Convention Center - $85 million in bonds for construction in 1989 and $115 million in bonds for expansion in 2003 – has helped generate $6.5 billion in economic benefits across the state and over $71 million in tax revenues for essential state programs and services.

In the last fiscal year alone, Oregon Convention Center business contributed an estimated $441.5 million in economic activity throughout the tri-county region, supported 4,760 (full-time equivalent) jobs and $171 million in earned wages (source: 2007-2008 MERC Economic & Fiscal Impact Report, Crossroads Consulting).

As with any industry, the convention business is highly competitive. Investments in the Oregon Convention Center and the convention package offered to meeting planners increase the city's attractiveness and competitiveness while maximizing revenue for the region.

> *"The convention center is already a critical economic driver, and the visitors it brings to the region make a big impact on the local economy on both sides of the Willamette….A headquarters hotel could help anchor a 24/7 neighborhood that generates year-round business that directly benefits the Rose Garden's entertainment district."* **-- Wanda Rosenbarger, general manager of the Lloyd Center and Connie Hunt, owner of the East Bank Saloon on Southeast Grand Avenue in comments submitted to The Oregonian newspaper on March 30, 2009**

6. How does the proposed headquarters hotel fit into other neighborhood redevelopment efforts?

The Oregon Convention Center Urban Renewal Advisory Committee has considered the headquarters hotel a primary component of their redevelopment efforts and the headquarters hotel has been included in every major plan for the Lloyd District since the urban renewal area was formed in 1989.

> *"The OCC Hotel is one of the three key priorities for the Lloyd Executive Partnership, in addition to the streetcar loop and the OCC Blocks Vision Plan. These three projects have the greatest catalytic potential for private and public job creation in the OCC Urban Renewal Area."* – **September 7, 2007 letter addressed to Metro from the Lloyd Executive Partnership**.

> *"If there's a bright spot in the Portland-area commercial real estate market, it's the area around the Oregon Convention Center and Lloyd District. The area has low vacancy rates and a promising future."* -- **March 23, 2009 article authored by Justin Carinci and published in the *Daily Journal of Commerce***

In addition, state and local leaders are considering the development of a "sustainable business district" within and surrounding the Lloyd District neighborhood that would include both the convention center, as the first existing convention center in the nation to be certified as LEED-EB* by the US Green Building Council (and first re-certified as LEED-EB Silver in 2008), and the proposed hotel, which is currently designed as LEED Silver, but could ultimately be constructed as LEED Gold or Platinum.

> "…*Blosser is at the head of the class when it comes to sustainable public assembly facilities...*" In December 2008, Jeff Blosser, Executive Director of the Oregon Convention Center, was recognized by Venues Today magazine in an article, "Leeding the Way," for his leadership in greening the convention and meeting industry.

*LEED stands for Leadership in Energy and Environmental Design and represents the industry standard in sustainable construction, design and building operation. An existing building, such as the Oregon Convention Center, is certified as "EB".

7. What is the impact of not building an Oregon Convention Center Headquarters Hotel?

If the Oregon Convention Center Headquarters Hotel is not built, the Portland region will continue to lose convention and meeting business to competitor cities – such as Spokane, Washington and Memphis, Tennessee – that are able provide attractive convention and hotel packages, as reported by Travel Portland. For example, in 2006, Portland lost 52 convention center bookings due to the lack of a headquarters hotel. In 2008, the city lost 69 conventions for the same reason and, as a result, more than $100 million was spent in other cities as opposed to Portland.

According to KPMG, the tri-county region is estimated to miss out on $40.8 million in spending each year without an Oregon Convention Center Headquarters Hotel.

8. Who pays for construction of the headquarters hotel?

The Oregon Convention Center Headquarters Hotel proposal is structured so that visitors and customers of the hotel essentially pay for the costs of construction and operation. The hotel's operating revenues and taxes and surcharges paid by headquarters hotel patrons and would be used to repay the debt incurred for construction.

No direct general funds from the City of Portland, Multnomah County or Metro will be used to finance the hotel. The main funding source for the project is proposed to be city-issued, tax-exempt revenue bonds backed by the full faith and credit of the city and repaid by three main sources:

- Oregon Convention Center Headquarters Hotel operating revenues
- Oregon Convention Center Headquarters Hotel transient lodging tax, plus a 2% room surcharge paid by hotel guests
- If necessary, a portion of transient lodging taxes and vehicle rental taxes (known as the Visitor Development Initiative or "VDI") collected and distributed to promote tourism locally

The current estimated cost of construction is $197.5 million, a reduction from $224 million estimated in summer 2008, due in part to reductions in the cost of construction supplies and materials.

The goal of the finance structure is to establish significant reserves from multiple sources to protect the City of Portland and Metro from ever having to make debt service contributions from general funds to repay the bonds.

In addition, PDC is anticipated to invest up to $4 million of restricted development funds into the project and contribute the land it currently owns as the future hotel site (valued at $11.9 million). Reserves would be established to buffer the City of Portland and Metro during the construction phase and while operating in the event of a significant economic downturn.

9. Who repays the city-backed revenue bonds?

Transient lodging taxes and a 2% room surcharge paid by headquarters hotel guests, as well as revenues generated by hotel operations, will be dedicated to repay the construction bonds financed and backed by the City of Portland's full faith and credit.

Should the operating revenues not meet projections, the following funds (commonly referred to as "backstops") will be tapped in priority order:

1. Oregon Convention Center Headquarters Hotel Debt Service Reserve Fund
2. Oregon Convention Center Headquarters Hotel Sinking Fund Reserve Fund
3. VDI Funds (up to $3 million per year, if needed)
4. Hotel Operator (Starwood) Letter of Credit (up to $6 million)
5. Oregon Convention Center Headquarters Hotel Cash Trap Fund (reserves funded through cash flow of projects)
6. Metro commitment ($1.5 million total outstanding)
7. City of Portland's Full Faith and Credit (city obligation to ensure full debt service payments are made in the event all of the above sources are inadequate to service the debt)

The financing model of the Oregon Convention Center Headquarters Hotel project used conservative estimates and projections and then applied "worst case scenarios" – literally, the economic conditions in San Francisco immediately following September 11, 2001 – in order to ensure the bonds could be repaid from reserves, avoiding the need to tap taxpayer funds, even in the most devastating of economic circumstances.

10. Is this really the best time to invest in the Oregon Convention Center Headquarters Hotel project?

Metro and City leaders see the value in proceeding with the pre-development phase of the headquarters hotel project at this time because once market conditions improve, the construction phase, which is estimated to generate 2,100 jobs over a 24-month period and $224.6 million in total spending, could immediately proceed (source: Economic/Fiscal Impacts of Headquarter Hotel on OCC, KPMG, August 2007). The hotel could open as the economy and market stabilizes. The pre-development phase would also support local jobs as the architectural and engineering drawings are completed.

In addition, over the last six months, the costs of fuel and construction services and materials have fallen dramatically and therefore, **reduced the project design and initial construction budget estimated by the development team by more than $25 million**. This makes the current, but not final, **project estimate $197.5 million**.

Once the hotel is built, KPMG projects that it will support over 820 living wage jobs and generate projected annual earnings of $25.3 million in the first year of stabilization (2014).

"It's true that it would be foolish to proceed if the hotel were being built tomorrow, given the convergence of uncertainty both in the bond market and the hotel market (Construction costs, the third factor in the decision, for the moment have actually gone down.) What is not foolish, though, is to plan, carefully and prudently for the very real possibility of an economic turnaround in a year. Or even 18 months….We can't count on a turnaround, but we should do more than hope for one. We should plan for one." **-- Editorial page, *The Oregonian*, April 19, 2009**

"The construction of a headquarters hotel next to the OCC would help spark other development and economic activity in the Lloyd District, leading to even more job creation. A headquarters hotel, built to the highest environmental standards, would anchor the efforts of the whole district and be a showcase to the world that Portland is on the forefront of the green building revolution. The jobs created during construction would utilize our highly-skilled journey-level and apprentice building tradesmen and women. The tourism and service-related jobs generated by the operation of the facility would provide competitive wages, good benefits and career development opportunities for a wide range of Oregonians." -- **Tom Chamberlain, president of Oregon AFL-CIO, in comments submitted to The Oregonian newspaper on February 19, 2009**

11. Why did Portland Mayor Sam Adams appoint a HQ Hotel Task Force to "truth squad" the Oregon Convention Center Headquarters Hotel proposal?

The Mayor recognizes the economic development potential of the Oregon Convention Center Headquarters Hotel project and believed it was prudent to perform another round of due diligence before proceeding. He asked a broad group of business leaders to conduct a careful and independent review of the project plans and assumptions. The group included project skeptics and proponents, as well as individuals who held no prior opinions.

The official charge of the Mayor's Task Force was to: 1) decide whether the proposed project is based on thorough analysis and reasonable, informed assumptions and 2) provide recommendation to proceed with the currently proposed project or discontinue/alter the project.

Because the mayor cited the need for honest and unfiltered input and discussion, and because the group reviewed proprietary information, attendance to the meetings was limited to task force members and staff. Opponents of the project and the members of development team were invited to present and discuss information at meetings. All non-proprietary information will be shared in public hearings prior to votes on the project.

In addition, the Mayor asked the Task Force Chair to convene an additional subcommittee of hotel industry leaders to review the project's financial pro forma and report findings. The task force submitted its report to the Mayor on April 14, 2009, and recommended that the city and Metro proceed with the pre-development phase of the project.

"The Project proposal is based on thorough analysis and reasonable, informed assumptions. Staff and the consultants they retained have reasonably and carefully analyzed the market, the financial feasibility and the choice of business partners for the proposed Headquarters Hotel…The Task Force concurs with the project advocates and consultants, based on current market knowledge, that the decision to proceed with a 600-room hotel is reasonable." -- **Report of the Headquarters Hotel Independent Review Task Force dated April 14, 2009**

12. What are the next decision-making steps for the proposed Oregon Convention Center Headquarters Hotel project?

At this time, **local officials are considering only one decision: whether or not to proceed with the next step in the headquarters hotel project, which is the pre-development phase**. Final project decisions, including the decision whether to issue city-backed revenue bonds, are not expected to be considered for at least 1-2 years and only if market conditions change and the project is determined to be feasible.

As the City of Portland and Metro determine whether or not to proceed to the next phase, several key documents will need to be approved or amended. The City, Multnomah County and Metro will consider amendments to the Visitor Development Initiative, the City will consider an amendment of the Oregon Convention Center Urban Renewal Area, and a series of agreements between Metro and project partners, including PDC, will be finalized and considered for approval. These decisions are anticipated to be completed by summer/fall 2009 which would allow the Oregon Convention Center Headquarters Hotel project to enter the predevelopment phase.

Any decision to issue construction bonds or approve next stages of the hotel project will include public input and consideration and will likely not occur until summer of 2010 at the earliest.