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August 8, 2007

Mr. Jeffrey Blosser, Executive Director
Oregon Convention Center
777 NE Martin Luther King, Jr. Boulevard
Portland, Oregon 97232

Dear Mr. Blosser:

We have completed our advisory services to assist the Metropolitan Exposition-Recreation Commission assess specific economic and fiscal issues related to the construction and operation of a proposed 600-room Westin headquarters hotel adjacent to the Oregon Convention Center as outlined in our amended engagement letter dated March 19, 2007. The attached report presents the summary of findings and principal conclusions from our assessment assistance.

The information contained in the report are based on assumptions from various primary and secondary sources including information provided by management at the Oregon Convention Center and the 2007 HVS International report prepared for the Metro and the Oregon Convention Center. We have utilized sources that are deemed to be reliable but cannot guarantee their accuracy. The estimates are based on assumptions agreed to by Metropolitan Exposition-Recreation Commission management. In accordance with the terms of our original engagement letter dated March 22, 2004, the accompanying report is restricted to internal use by the Oregon Convention Center and may not be relied upon by any third party for any purpose. Notwithstanding these limitations, it is understood that this document may be subject to public information laws and, as such, can be made available to the public upon written request. We have no obligation, unless subsequently engaged, to update this report or revise this analysis as presented due to events or conditions occurring after the date of this report. While KPMG assisted the Metropolitan Exposition-Recreation Commission with specific analysis related to the proposed new headquarters hotel, the Metropolitan Exposition-Recreation Commission developed or provided all assumptions used and maintains total responsibility for management decisions pertaining to this engagement.

This analysis was prepared under the Consulting Standards issued by the American Institute of Certified Public Accountants (AICPA) and does not constitute an examination, compilation or agreed upon procedures in accordance with the standards established by the AICPA. As such, we do not express an opinion or any other form of assurance on this analysis.

As of August 6, 2007, we have completed all services as described in our engagement letter dated March 19, 2007. We have enjoyed working on this engagement and our relationship with the Oregon Convention Center, and look forward to the opportunity to provide you with continued service. Please contact Andrew Wharton at 305-913-3684 if you have any questions or comments about our report.

Sincerely,

KPMG LLP

Introduction

The Oregon Convention Center (OCC) is owned by a regional government entity known as Metro and managed by a seven-member commission, which is a subsidiary of Metro called the Metropolitan Exposition-Recreation Commission (MERC). The OCC originally opened in September of 1990 and unveiled an expansion in April of 2003. The OCC currently offers 255,000 square feet of exhibit space and over 100,000 square feet of meeting and ballroom space. Since its expansion, the OCC has hosted between 80 and 90 conventions/tradeshows annually. These events represent groups that attract out-of-town guests who generate spending at hotels, restaurants, retail, and entertainment establishments.

Portland offers approximately 1,475 hotel rooms within the Lloyd Center District and many other properties in the downtown core that house OCC convention/tradeshow attendees. Competitive convention centers are increasingly offering headquarters hotels which have, in recent years, placed the OCC at a competitive disadvantage according to Strategic Advisory Group. The following table summarizes the number of hotel rooms within close proximity for some of Portland's primary competitors in terms of convention/ tradeshow business. While many other properties may also act as headquarters hotels for certain conventions or tradeshows, groups are increasingly demanding properties located proximate to the convention center that offer significant blocks of rooms in one or two properties in order to attract their business.

Approximate Hotels at OCC Competitors

Convention Center Destination	Attached or Adjacent	Within 2 Blocks	Within 4 Blocks	Within 6 Blocks
PORTLAND	**174**	**0**	**678**	**239**
Long Beach	895	460	609	0
San Jose	1,270	891	0	100
Phoenix	712	1,651	0	0
Austin	800	1203	977	189
Seattle	1,430	2,137	0	1,035
Anaheim	2,882	1,883	490	0
Salt Lake City	896	1,050	3,086	393
San Diego	4,179	1,213	350	301
Denver	1,321	1,007	3,329	420
San Francisco	1,908	2,249	1,951	2,685

Source: Strategic Advisory Group

In 2006 alone, the Portland Oregon Visitors Association (POVA) records indicate that the OCC lost a total of 52 groups representing future bookings from 2006 through 2016 due to the lack of a headquarters hotel/limited hotel package. The majority of these groups were national or international in scope and were estimated to represent approximately 250,000 room nights.

Groups not choosing to host their event in Portland represent significant lost potential economic impact to the community in the form of spending, jobs and earnings. As such, Metro/MERC have explored the merits of developing a headquarters hotel including assessing the potential impact to the area hotel market. Between 2003 and 2006, a series of market and economic analyses on the benefits and impacts of a headquarters hotel in Portland were commissioned. KPMG was retained in 2005 to provide an order-of-magnitude estimate of the economic and fiscal benefits that a headquarters hotel could potentially generate under different hypothetical scenarios.

We understand that PKF Consulting (PKF) was engaged by the Portland Development Commission (PDC) in 2006 to evaluate the potential impact the proposed headquarters hotel could have on the OCC. Results of this effort included the potential incremental room nights that could be generated by OCC-related business with a new hotel as well as the potential loss of room night activity should the headquarters property not be built.

We also understand that HVS International (HVS) was subsequently engaged by Metro and the OCC in 2007 to evaluate the market supply and demand for a proposed 600-room Westin hotel assumed to be located across the street from the OCC. HVS assumed the property would be open by 2011 and reach stabilized operations in 2014. HVS also estimated certain operational characteristics for a proposed 600-room Westin Hotel which MERC directed KPMG to use as assumptions in the estimation of the economic impacts associated with the proposed hotel. Operational parameters such as average daily rate, occupancy, distribution of room night demand and financial operating characteristics estimated by HVS and utilized in this analysis are outlined later in this report. KPMG has not independently verified the information and does not warrant its accuracy. Any changes in this information could change the results of this analysis.

Although the benefits that a headquarters hotel property can potentially bring to the OCC has been acknowledged in various studies, recent research conducted by the PDC and other advisors has determined that a privately-owned hotel cannot be funded without significant public investment. Therefore, in October 2006, PDC staff and the hospitality community began exploring the potential of developing a publicly-owned hotel. Metro, or a governmental entity created by Metro, has been considered the likely owner of a publicly-owned/privately managed hotel because it owns the OCC and has a vested interest in enhancing its marketability as well as the benefits the convention industry brings to the region.

One of the primary reasons that convention center headquarters hotels are developed is because of the economic and fiscal impacts that they can generate. As such, when evaluating the merits of pursuing a project of this magnitude, it is useful to present governmental entities with an estimate of the benefits that they could potentially receive as a result of the project.

In order to assist the OCC in assessing specific economic and fiscal issues related to the construction and on-going operation of the proposed hotel, KPMG was retained to:

- Read the financial pro forma and related assumptions for the proposed new 600-room hotel provided by OCC management and its advisors

- Read the PKF PowerPoint presentation prepared for the PDC that estimated the potential loss of conventions should the hotel not be developed
- Read the HVS report prepared for Metro that estimated the operating characteristics of the proposed headquarters hotel in Portland and using these assumptions estimate the potential incremental impact the new hotel could have in terms of additional conventions per year booked at the Oregon Convention Center
- Assist management in conducting a sensitivity analysis that estimates the potential economic/fiscal loss associated with lost event activity if a headquarters hotel is not built based on data provided by PKF as well as historical operations of the OCC
- Assist management in estimating the hypothetical, order-of-magnitude economic (i.e. spending, jobs, earnings) and fiscal benefits that could potentially be generated in the Tri-County Metropolitan Region from non-OCC related operations of the proposed 600-room Westin hotel for its first year and stabilized year of operations based on assumptions developed by HVS and other MERC advisors
- Assist management in summarizing the estimated fiscal benefits that the State of Oregon has received as a result of OCC operations since calendar year 2000 based on historical event activity and tax rates

Executive Summary

This section provides a summary of the analysis presented in this report. It should be noted that while it is possible that some of the estimated direct spending associated with the proposed headquarters hotel operations could occur outside the Tri-County Metropolitan Region, with the exception of construction spending and budgetary line items it is likely that this amount would be nominal given the size of the region. Consequently, for purposes of this analysis it is assumed that all direct spending associated with attendee or hotel guest spending occurs within the region while budgetary and construction spending are discounted for amounts which may leak outside of the Tri-County Metropolitan Region.

Because this information is extracted from the more detailed analysis of various data related to the proposed headquarters hotel, it is important for the reader to review the report in its entirety in order to gain a better understanding of the methodology and the assumptions used.

- Significant investment has been made by the Tri-County Metropolitan Region and the State to construct and expand the OCC
- Evaluation of the merits of a proposed new headquarters hotel has been on-going for several years
- Research conducted by OCC/MERC and their advisors suggests that a headquarters hotel is needed to maintain/increase the OCC's overall competitiveness, particularly in the regional, national and international convention/tradeshow market
- Although a private developer was selected for a 600-room Westin Hotel, recent studies conducted by the PDC and its advisors suggest it is unlikely that a privately-owned hotel can be funded without public investment
- Presence of the proposed new headquarters hotel impacts future convention/tradeshow business at the OCC
  - ➢ Without the hotel –the economic *loss* to Tri-County Metropolitan Region is estimated to be approximately $40.8 million annually; fiscal (tax) *loss* to the Tri-County Metropolitan Region and the State combined is estimated to be approximately $1.9 million annually
  - ➢ With the hotel – the *incremental* economic benefits to the Tri-County Metropolitan Region are estimated to be approximately $54.5 million annually; *incremental* fiscal (tax) benefits to the Tri-County Metropolitan Region and the State combined are estimated to be approximately $2.5 million annually
- The estimated economic and fiscal impacts associated with construction and on-going operations of a proposed new headquarters hotel from its non-OCC related business are significant to the Tri-County Metropolitan Region
  - ➢ Annual direct spending is estimated to range from approximately $33.1 million to $37.0 million
  - ➢ Annual fiscal (tax) benefits are estimated to range from approximately $2.4 million to $2.7 million

- Although there may be some shifts in business among properties, the existing hotel market in Portland is not expected to be negatively impacted, after the first stabilized year of operation, by the proposed property's operation based on independent studies conducted by HVS, PKF and Strategic Advisory Group
- Construction of the proposed property could potentially generate $224.6 million in total spending and approximately 2,100 jobs during the estimated 24 month construction period based on preliminary construction cost estimates

- The State of Oregon originally contributed $15 million to construction and has been a primary beneficiary through personal income, transient lodging as well as corporate excise and income taxes
    - Cumulative State fiscal (tax) benefits since 2000 are estimated to be approximately $47.0 million in constant dollars

Proposed Headquarters Hotel Impact on OCC Event Activity and Resulting Estimated Economic/Fiscal Benefits

A growing number of competitors to the OCC have developed headquarters hotel properties adjacent to convention centers over the last ten years causing the market for regional/national and international conventions/tradeshows to become even more competitive. Lost business reports prepared by POVA increasingly cite the lack of a headquarters hotel as a primary reason for losing convention/tradeshow business. While the proposed new headquarters hotel in Portland would generate its own business and resulting economic impact, its operation (or lack thereof) would also have ripple effects. Without a headquarters hotel, the potential decrease in convention/tradeshow business at the OCC will likely have a negative impact on the area economy. Conversely, the proposed hotel property's estimated benefit to the OCC's marketability suggests that area governmental entities will stand to gain economic and fiscal impacts based on historical event activity, incremental estimates of conventions/tradeshows provided by HVS and historical tax rates.

Estimated Economic Impact of Incremental Loss/Gain of Convention/Tradeshow Activity

Research conducted by PKF, and confirmed by HVS, indicates that the OCC could potentially lose up to six (6) conventions/tradeshows annually if a headquarters hotel property is not developed. Conversely, HVS estimates that constructing a 600-room headquarters property could potentially attract as many as eight (8) incremental conventions/tradeshows annually in a stabilized year. KPMG used HVS research information as the basis to calculate the impact of induced demand from OCC convention/tradeshow business because this information represents the most up-to-date research on the impact of the proposed hotel property. Based on input from OCC management, it is assumed that these incremental conventions/tradeshows lost or gained would likely be regional, national or international events drawing a greater portion of overnight attendees than State/local business and thus requiring a headquarters hotel.

Based on OCC regional/national and international historical event data, KPMG utilized economic/fiscal impacts estimated for calendar years 2004, 2005 and 2006 to calculate an average amount of economic and fiscal impacts per convention/tradeshow. The following table summarizes the potential economic and fiscal loss/gain of convention/tradeshow activity to the Tri-County Metropolitan Region based on these assumptions. It should be noted that while it is possible that some of the estimated direct spending associated with the incremental OCC event activity could occur outside of the Tri-County Metropolitan Region, it is likely that this amount would be relatively nominal given the size of the region. Consequently and for purposes of this analysis, it is assumed that all direct spending occurs within the region.

Estimated Impact Per OCC Convention/Tradeshow - Regional/National/International Business				3-Year
	2004	**2005**	**2006**	**Average**
Number of Events	46	37	38	40
Attendee Days	410,182	569,082	256,977	412,100
Total Estimated Economic Impact	$265,848,000	$368,848,000	$177,689,000	$270,795,000
Total Estimated Fiscal Impact	$12,540,000	$17,179,000	$8,279,000	$12,666,000
Average Economic Impact Per Event	**$5,779,000**	**$9,969,000**	**$4,676,000**	**$6,808,000**
Average Fiscal Impact Per Event	**$272,609**	**$464,297**	**$217,868**	**$318,000**
HVS Estimated Incremental (Loss) *Without* HQ Hotel				
Number of Conventions/Tradeshows				(6)
Potential Economic Impact Loss				**($40,848,000)**
Potential Fiscal Impact Loss				**($1,908,000)**
HVS Estimated Incremental Gain *With* HQ Hotel				
Number of Conventions/Tradeshows				8
Potential Economic Impact Gain				**$54,464,000**
Potential Fiscal Impact Gain				**$2,544,000**

Note: All amounts are in 2007 dollars.

Based on historical OCC event data and the prevailing tax structure for the most recent three years, it is estimated that regional/national and international conventions/tradeshows generate an average of approximately $6.8 million of total spending per event to the Tri-County Metropolitan Region. In addition, these events are estimated to generate approximately $318,000 in fiscal impacts per convention/tradeshow to the Tri-County Metropolitan Region and State combined. It should be noted that these are order-of-magnitude estimates and could be impacted by the level of event activity in a given year and the existing tax structure in place.

Assuming the incremental loss of events estimated by PKF, the Tri-County Metropolitan Region could potentially lose up to $40.8 million in total spending and $1.9 million in fiscal impacts annually without the proposed new headquarters hotel. Alternatively, using the HVS data should the proposed new headquarters hotel be developed, it is estimated that the Tri-County Metropolitan Region could realize an incremental gain of approximately $54.5 million in total spending and $2.5 million in fiscal impacts during a stabilized year from increased regional/national/international convention/tradeshow activity at the OCC.

It is important to note that, according to PKF, the benefits that may accrue to the community from a headquarters hotel include those associated with stopping the erosion of convention/tradeshow activity at the OCC. These impacts would occur at many existing hotels and other business institutions throughout the community as well as at the proposed headquarters hotel property.

Economic/Fiscal Impacts from On-Going Operations of the Proposed Headquarters Hotel – Non-OCC Related Business

In addition to increasing the amount of regional/national/international group business hosted at the OCC, the Tri-County Metropolitan Region could benefit from the proposed new headquarters hotel in a number of ways, including such tangible and intangible benefits as:

- Enhancing the area's image as a business, conventions, meetings and tourist destination
- Receiving increased regional and national exposure through destination marketing via the national marketing arm of the chosen flag
- Providing an enhanced hotel package to meeting planners for the Portland market
- Providing a catalyst for urban redevelopment initiatives in the Lloyd Center District
- Generating additional economic activity for local businesses and service companies and increased tax revenues through non-OCC related business
- Creating construction related jobs for the 24-month construction period of the headquarters hotel project as well as on-going jobs for the operations of the new hotel
- Moving current local events and meetings to other MERC facilities and area hotels when the new convention business is utilizing the OCC which will serve to positively impact other venues' event base and financial operations

While the value of some of these benefits is difficult to measure, the economic activity that may potentially be generated by the proposed new headquarters hotel by hosting non-OCC guests within the Tri-County Metropolitan Region can be estimated in terms of spending, employment and earnings. OCC-related guests are excluded from this estimate in order to avoid double counting as their potential impacts are taken into account in the previous section. Based on information from a variety of sources including, but not limited to, OCC management and its advisors, the 2007 HVS report, the 2005 Destination Marketing Association International (DMAI) ExPact Survey, the 2006 Corporate Travel Index, information from the Travel Industry Association (TIA) and Minnesota IMPLAN Group, Inc. (IMPLAN), this analysis summarizes order-of-magnitude estimates of the direct, indirect and induced economic and tax benefits to the Tri-County Metropolitan Region for the first year of hotel operations and the first stabilized year of hotel operations as well as during the construction period.

Methodology

An assessment of the economic benefits that could potentially accrue to the Tri-County Metropolitan Region as a result of the construction and on-going operations of a proposed new headquarters hotel can be approached in several ways. The approach used in this analysis considers the expense side of hotel operations as well as hotel guest spending generated from non-OCC business for estimation of the initial direct impacts to a community. All expenses generated by hotel operations from the rooms department, the food/beverage department, administrative, marketing, utilities, maintenance, insurance, management fee, etc. as well as an estimate of spending for guests using the hotel, are used as an initial measure of economic activity within the marketplace. With respect to construction impacts, direct spending is estimated as total hard costs as provided by OCC management. It should be noted that while it is possible that some of the estimated direct spending associated with the proposed headquarters hotel operations could occur outside the Tri-County Metropolitan Region, with the exception of construction spending and budgetary line items it is likely that this amount would be relatively nominal given the size of the region. Consequently and for purposes of this analysis, it is assumed that all direct spending associated with attendee or hotel guest spending occurs within the Tri-County Metropolitan Region.

Once the amount for direct spending is estimated, a multiplier is applied to generate the total (direct, indirect and induced) spending, earnings and employment associated with the project. This "multiplier" effect is estimated in this analysis using a regional economic forecasting model provided by the IMPLAN. The economic impact amount generated represents the order-of-magnitude total impact to the Tri-County Metropolitan Region.

The economic activity directly generated through the construction and on-going operations of the proposed new headquarters hotel and the spending of its users affects more than just the property and immediately surrounding land uses. As this money ripples through the economy, several other economic sectors are impacted and jobs are created. For example, when a caterer at the hotel purchases food for an event, everyone from the wholesaler to the farmer that produced the food is impacted. In addition, local governmental entities that tax these economic transactions also benefit.

The following are the specific aggregate industries used in this analysis:

- hotel/entertainment
- eating and drinking places
- transportation
- retail trade
- electric, gas, water & sanitary services
- business services
- new construction

The three categories of measurement used to assess the economic impact of a project are spending, earnings and employment which are defined below:

Total spending represents the total direct and indirect/induced spending effects generated by the project. This calculation measures the total dollar change in spending that occurs in the local economy for each dollar of spending delivered to final demand.

Personal earnings represent the wages and salaries earned by employees of businesses associated with or impacted by the project. In other words, the multiplier measures the total dollar change in earnings of households employed by the affected industries for each additional dollar of spending delivered to final demand.

Employment represents the number of full and part-time jobs supported by the project. The employment multiplier measures the total change in the number of jobs supported in the local economy for each additional $1.0 million of spending delivered to final demand.

In addition to the economic impact analysis, fiscal benefits that may potentially result from the on-going operations of the proposed new headquarters hotel are estimated. The governmental entities considered in this fiscal analysis are Multnomah County and the State of Oregon. Potential revenues generated from transient lodging tax, motor vehicle rental tax, business income tax and personal income tax are calculated. All amounts depicted in this section of the report are presented in 2007 dollars unless otherwise noted.

Summary of Significant Assumptions

These hypothetical estimates are primarily based on information from various secondary sources including, but not limited to, the 2007 HVS report, delegate spending data from the 2005 DMAI ExPact Survey, per diem spending data from the 2006 Corporate Travel Index and TIA as well as multipliers from IMPLAN, rather than on primary market research.

This analysis assumes that the proposed new 600-room Westin headquarters hotel will be built across the street from the OCC and that no other full-service hotel is built in the Lloyd Center District. These estimates are also based on certain hypothetical assumptions pertaining to operations of the proposed new headquarters hotel including occupancy, average daily rate, mix of business and hotel operating expenses which are derived from the 2007 HVS report. A range of data is presented based on the HVS-estimated operating parameters for the first year of operation (2011) and the initial stabilized year (2014). The following table outlines the primary operating parameters estimated in the 2007 HVS report used as assumptions for this economic impact analysis. The analysis also assumes there will not be any negative impact to the greater Portland hotel community, after the stabilization year, as a result of the proposed headquarters hotel operation as stated in the HVS report.

Summary of Assumptions

Year	Year 1 (2011)	Stabilized Year (2014)
ADR	$136	$162
Occupancy	61%	71%
Non-OCC Related Estimated Room Nights		
Individual Business Travel	29,704	31,507
Leisure	28,076	31,273
In-House Group	22,648	27,608
Total	80,428	90,388
(in $000s)		
Total Revenues	$31,239	$43,004
Total Expenses	$25,172	$31,262
Net Income	$6,067	$11,742

Source: HVS International (2007)

This analysis is subject to change depending on further refinement of operating strategies for the proposed new headquarters hotel as well as more detailed information on the project including projected changes in supply and demand for hotels, lost business reports from POVA and other related information.

The following table presents the hypothetical, order-of-magnitude estimate of economic impact to the Tri-County Metropolitan Region from the proposed hotel's non-OCC related business in its assumed first year of operations and first stabilized year. These impacts would be annually recurring and are estimated to range from approximately $57.3 million to $64.1 million in total spending. In addition, approximately 730 to 820 full-time equivalent jobs could be created in the Tri-County Metropolitan Region that may generate approximately $22.6 million to $25.3 million annually in total earnings.

Estimated Net Economic Benefits to the Tri-County Metropolitan Region From Operations of a Proposed New Headquarters Hotel - Non-OCC Related Business

	600 Room HQ Hotel	
Economic Benefits:	**First Year (2011)**	**Stabilized Year (2014)**
Direct Spending	$33,101,000	$37,043,000
Indirect/Induced Spending	$24,181,000	$27,056,000
Total Spending	$57,282,000	$64,099,000
Total Employment (Number of FTE jobs)	730	820
Total Earnings	$22,598,000	$25,276,000

Notes:
Indirect/inducted spending results from the circulation of the initial spending through the Tri-County economy and is captured by the multipliers.
FTE denotes full-time equivalents.

The pages that follow discuss each component in more detail.

Direct Spending

The first step in calculating economic impact is estimating the direct spending. The benefits that may be generated at the local level result from the impact of direct spending both by hotel guests and activities that support operations of the hotel. Direct spending impacts from operations are annually recurring in nature. As mentioned previously, this analysis is net of any OCC-related room nights based on the 2007 HVS report estimates. The primary types of spending estimated in this analysis include:

- Individual business travel
- Leisure travel
- In-house group business
- Budgetary spending by the hotel

Individual Business Travel – Direct spending generated from individual business travel is estimated to range from approximately $8.6 million to $9.2 million annually. The daily per capita spending amount is based on information from the 2006 Corporate Travel Index. The individual business travel room nights are based on estimates in the 2007 HVS report.

Leisure Travel – Direct spending generated from leisure travel guests is estimated to range from approximately $7.6 million to $8.4 million annually. The daily per travel party spending amount for leisure travel guests is based on information from the TIA and associated room nights are based on estimates in the 2007 HVS report. Leisure travel spending is based on a travel party because leisure room nights typically represent an entire travel party as opposed to other types of hotel demand where most people stay one to a room.

In-House Group Business - Direct spending generated from in-house group business is estimated to range from approximately $7.0 million to $8.5 million annually. The per capita spending amounts for in-house group business are based on the Convention Expenditure and Impact Study conducted by DMAI which reflects the spending patterns of thousands of convention and meeting delegates from a broad base of meeting types. The results of this survey are widely used throughout the industry as estimates of attendee spending at group business events (i.e. conventions, tradeshows). The in-house group business room nights are based on estimates in the 2007 HVS report.

The following table summarizes spending for each of the HVS-estimated demand types.

Non-OCC Related Demand Generators					
Category	**Daily Per Capita Spending**	**Range for Estimated Room Nights**		**Range for Estimated Direct Spending**	
Individual Business Travel	$291	29,704	31,507	$8,644,000	$9,169,000
Leisure Travel*	$269	28,076	31,273	$7,552,000	$8,412,437
In-House Group Business	$307	22,648	27,608	$6,953,000	$8,476,000
Total		80,428	90,388	$23,149,000	$26,057,437

Notes:

*Leisure spending is per travel party.

Direct spending amounts are rounded to the nearest thousand.

Budgetary Spending by the Hotel – Budgetary spending refers to the "expense side" generated by the hotel. Regardless of the source or magnitude of the revenues that the property produces, this analysis focuses on the operating expenditures occurring in the Tri-County economies. This spending is included as an initial direct spending element because the proposed hotel is considered a business entity that purchases goods and services from the local economy that are not currently purchased without its existence. For instance, when the hotel uses utilities it directly impacts the local electric, gas and water service providers. Indirect impacts occur when these entities in turn purchase goods and services from their vendors.

In order to net out OCC-related budgetary spending which would already be accounted for in the estimate of incremental conventions/tradeshows presented previously, the percentage of non-OCC room nights (60% in the first year and 58% in a stabilized year) is multiplied by the total estimated operating budget prepared by HVS. This represents a conservative estimate based on the fact that in-house group demand likely uses a higher percentage of the hotel's services as they typically host all their event activity inside the hotel property as opposed to OCC-related group business that utilizes the convention center for many of its food/beverage and/or exhibit/meeting events.

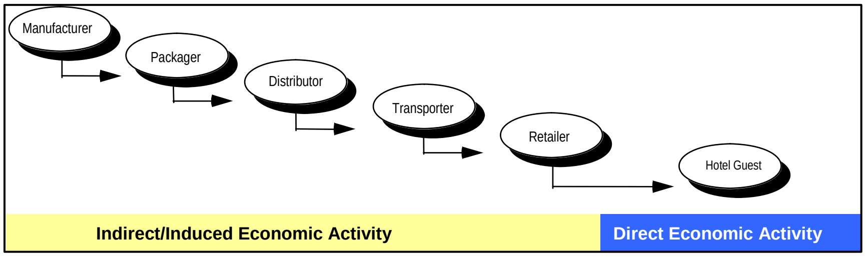
Estimates are also made regarding the percentage of budgetary expenses that occur in the local economy. After taking into account taxes paid by employees, purchases made from companies not based in the Portland area, and those made by the hotel management company's parent organization, amounts which may leak outside of the Tri-County Metropolitan Region may include home mortgage payments, marketing services, insurance and other significant amounts.

Finally, HVS figures are deflated to represent 2007 dollars. Based on the 2007 HVS report, net direct spending from non-OCC related hotel operations is estimated to range from approximately $10.0 million to $11.0 million. These amounts are subject to vary depending on several factors including, but not limited to, the hotel's size, distribution of room nights, operator and marketing focus/niche.

As a final step, each of the spending amounts described previously is assigned to a logical industry sector to be used as inputs into the regional economic multiplier model.

Indirect/Induced Spending

The economic activity that may be generated through the on-going operations of the proposed new headquarters hotel affects more than just the property. In preparation for new spending in the economy, several other economic sectors are impacted and jobs are created. It is a common misconception to assume that the indirect/induced spending occurs subsequent to the purchase of the good as an "after effect." To further illustrate this point, consider that raw materials are purchased, labor is hired, and goods are produced, transported and marketed to retailers before the hotel guest spending takes place. To yield direct spending, several intermediary levels of spending must occur first.



In an effort to quantify the inputs needed to produce the total spending, economists have developed multiplier programs. This "multiplier" effect is estimated in this analysis using a regional economic forecasting program provided by IMPLAN, a private economic modeling company. The format and data is based on models developed and maintained by the U.S. Department of Commerce, Bureau of Economic Analysis (BEA). The models analyze economic data on a regional basis by individual industry categories. One of the major advantages of this type of model is that it is sensitive to both location and type of spending and has the ability to provide indirect/induced spending, employment and earnings information by industry category. The direct spending amounts estimated to be generated by operations of the proposed new headquarters hotel are applied to the multipliers in order to calculate estimates for total spending, total earnings, and total employment (full-time equivalent jobs). For purposes of this analysis, multipliers were generated for the Tri-County Metropolitan region which includes Clackamas, Multnomah and Washington Counties and is the region that Metro oversees. The following table includes the IMPLAN multipliers for the Tri-County Metropolitan region.

	Oregon's Tri-County Metropolitan Region Multipliers		
Category	**Spending**	**Employment***	**Earnings**
Hotels/Entertainment	1.7304	29.1	0.6721
Eating & Drinking Places	1.6476	25.7	0.5522
Retail Trade	1.6912	21.1	0.6506
Transportation	1.7203	14.3	0.6471
Utilities	1.3556	5.0	0.3516
Business Services	1.8179	18.3	0.8223
New Construction	1.7341	16.4	0.7391

Note: Employment multipliers represent full-time equivalent jobs per $1.0 million of direct spending.
Source: IMPLAN

The spending multiplier represents the change in total spending resulting from initial direct spending in the economy. For instance, for every $1.00 spent on hotels and entertainment by hotel guests, another $0.73 is estimated to be spent within various industries throughout the region.

Fiscal Impacts

The estimated spending generated by the on-going operations of the proposed headquarters hotel from non-OCC related business creates tax revenues for the Tri-County Metropolitan Region and State of Oregon. Experience in other markets suggests that while a significant portion of the direct spending will likely occur near the hotel, additional spending will occur in other areas within the Tri-County Metropolitan Region, particularly spending such as business services and the everyday living expenses of residents.

Major tax sources potentially impacted by the proposed headquarters hotel's operations were identified in order to estimate the taxable amounts to apply to each respective tax rate. Metro imposes an excise tax of 7.5% of total earned revenues of facilities owned or operated by MERC. Because ownership and operations of the proposed new headquarters hotel has not yet been determined, any potential Metro excise tax has been excluded from this analysis. Although other taxes, such as property taxes and gasoline taxes, may be impacted by the on-going operations of the hotel, this analysis estimated revenues generated from the following taxes based on the spending amounts previously discussed:

State of Oregon
- Personal Income Tax
- Transient Lodging (Hotel/Motel) Tax
- Corporate Excise and Income Tax

Multnomah County
- Transient Lodging Tax
- Motor Vehicle Rental Tax
- Business Income Tax

It is important to note that the majority of the Multnomah County Transient Lodging Taxes goes to the City of Portland. Tax revenues generated from non-OCC related operations of the proposed new headquarters hotel are estimated to range from approximately $2.4 million to $2.7 million annually.

Summary of Estimated Net Annual Fiscal Impacts Generated From Operations of a New Headquarters Hotel – Non-OCC Related Business

	Non-OCC Related HQ Hotel Operations	
	First Year (2011)	**Stabilized Year (2014)**
State of Oregon		
Personal Income Tax	$670,000	$749,000
Corporate Excise and Income Tax	$98,000	$116,000
Transient Lodging Tax	$90,000	$102,000
Total	$858,000	$967,000
Multnomah County		
Transient Lodgings Tax	$1,128,000	$1,331,000
Motor Vehicle Rental Tax	$350,000	$387,000
Business Income Tax	$19,000	$21,000
Total	$1,497,000	$1,739,000
Total Tax Benefits	**$2,355,000**	**$2,706,000**

The pages that follow outline the assumptions utilized in this analysis to calculate the estimated fiscal benefits generated for the State of Oregon and Multnomah County.

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State of Oregon

Personal Income Tax – The State of Oregon imposes a personal income tax, which is calculated on a graduated scale. Personal income tax is the State of Oregon's largest source of revenue. Based on information from the State of Oregon Department of Revenue, the Statewide effective tax rate for personal income is 5.7%. For purposes of this analysis, personal income tax was calculated by applying the effective tax rate of 5.7% to 52% of total earnings, which represents the State's average taxable income as a percentage of total income. It should be noted that this impact includes not only personal income taxes paid by employees of the proposed hotel but also employees of other businesses impacted by hotel operations and associated guest spending throughout the region.

Transient Lodging Tax – Effective in 2004, public and private lodging providers began paying a 1% State lodging tax. This tax is in addition to and not in place of any local transient lodging tax. This tax continuously appropriates funds to the Oregon Tourism Commission to promote tourism programs in Oregon. For purposes of this analysis, the 1% tax rate was applied to HVS estimated room nights for non-OCC related guests multiplied by the estimated ADR deflated to 2007 dollars.

Corporate Excise and Income Tax – Corporate excise and income tax is the second largest source of revenue for the State. All corporations doing business in Oregon pay excise tax while corporations not doing business in the State but having income from an Oregon source pay income tax. The corporate tax rate is 6.6% of Oregon net income. Based on information from the State of Oregon Department of Revenue, taxable corporate income as a percent of gross state product is approximately 4%. For purposes of this analysis, the 6.6% tax rate was applied to 4% of direct spending in order to reflect net taxable income. It should be noted that this includes more than just the proposed hotel's corporate tax burden; rather all businesses impacted by the estimated direct spending and their associated increase in corporate taxes.

Multnomah County

Transient Lodgings (Hotel/Motel) Tax – Multnomah County imposes a tax of 11.5% of the rent charged by the operator of any structure or any portion of any structure which is occupied or intended or designed for transient occupancy for 30 days or less for dwelling, lodging or sleeping purposes. This tax is allocated as follows:

- The base rate of 5.5% is allocated to the City's general fund
- A 1% surcharge rate of the tax is used for contracting with private organizations for the promotion, solicitation, procurement and service of County convention business and tourism
- A 3% surcharge rate of the tax is allocated to the excise tax fund of which hotel operators can deduct 5% of the 3% for administrative costs. The remaining amount is dedicated to various projects such as the OCC, the Portland Center for the Performing Arts, and the Regional Arts and Culture Council
- A 2.5% surcharge rate of the tax is allocated to the Visitors Facilities Trust Account (VFTA) of which hotel operators can deduct 5% of the 2.5% for administrative costs

For purposes of this analysis, the tax rate of 11.5% was applied to HVS estimated room nights for non-OCC related guests multiplied by the estimated ADR deflated to 2007 dollars.

Motor Vehicle Rental Tax – Multnomah County levies a tax on the rental of motor vehicles from a commercial establishment doing business in the County if the rental is for a period of 30 days or less. The total tax rate is 12.5% of the rental fee charged by the commercial establishment for the rental. The tax is remitted to the County on a quarterly basis. Collections from the base rate of 10% are allocated to the County's general fund while the remaining 2.5% is allocated to the OCC debt service. For purposes of this analysis, the tax rate of 12.5% was applied to 50% of direct local transportation spending in Multnomah County.

Business Income Tax – A business income tax is imposed on each person doing business within Multnomah County equal to 1.45% of the net income from that business within the County. This tax is administered by the City of Portland. For purposes of this analysis, the business income tax rate of 1.45% was applied to 4% of total direct spending in order to reflect net taxable income. As mentioned previously, this includes more than just the proposed hotel's business income tax burden; rather all businesses impacted by the estimated direct spending and their associated increase in business income tax.

Economic Impact from Construction of the Proposed Headquarters Hotel

In addition to the annually recurring benefits from the proposed hotel's operations, a one-time impact from construction of the property would also be generated. Current estimates indicate that construction of the proposed hotel could take approximately 24 months to complete. While final construction costs have not been established, for the purposes of estimating construction related economic impact, we used an estimated $185 million for total hard construction costs. This number is only an estimate and will be finalized upon completion of negotiations. For the benefits associated with construction of the hotel, it is estimated that 70% of total hard costs are spent in the Tri-County Metropolitan region due to the fact that some materials will likely be purchased from outside the immediate area. The IMPLAN multipliers for new construction are applied to the discounted direct spending to estimate total spending, employment and earnings. The IMPLAN model takes into account any leakage of indirect/induced spending and, as such, estimated benefits are net of any leakage outside the region. The following table outlines the potential net impacts to the Tri-County Metropolitan region in terms of spending, employment and earnings generated from construction.

Estimated Net Economic Benefits to the Tri-County Metropolitan Region from Construction of a New Headquarters Hotel

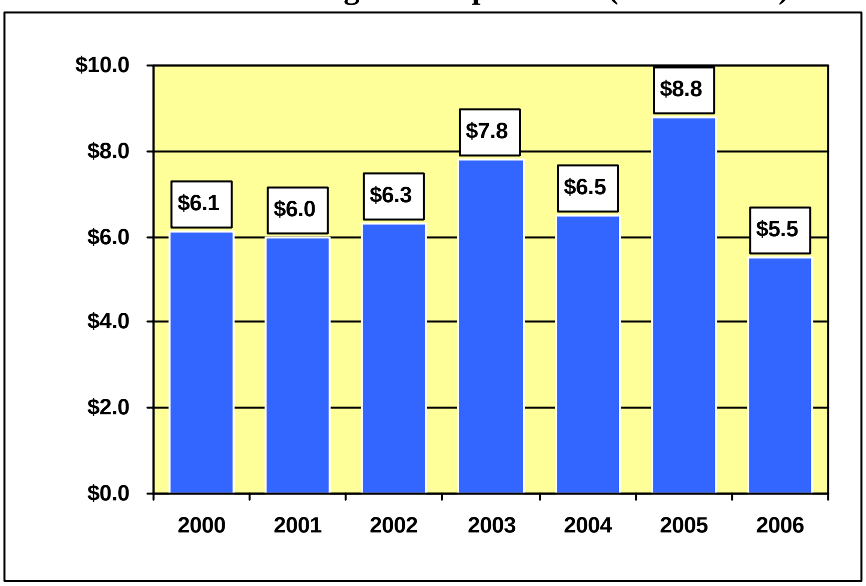
Category	One-Time
Direct Spending	$129,500,000
Indirect/Induced Spending	$95,064,000
Total Spending	$224,564,000
Total Employment (Number of FTE jobs)	2,100
Total Earnings	$95,717,000

As shown, construction of the proposed property could potentially generate $224.6 million in total spending based on the assumptions outlined previously. In addition, approximately 2,100 full-time equivalent jobs may be created in the Tri-County Metropolitan region, generating approximately $95.7 million in total earnings during the construction period.

Estimated State of Oregon Fiscal Impacts from Historical OCC Operations

In 1989 when the OCC was under construction, the State of Oregon's Economic Development agency dedicated $15 million of lottery funds to the project. Over the last 18 years, the State has benefited from OCC operations in the form of both economic and fiscal benefits. Over the last seven years economic and fiscal impacts of the OCC have been estimated based on event activity and financial operating data provided by management and effective tax rates in effect during each calendar year. As shown in the graph below, these previous estimates indicate that OCC activity has generated between $5.5 million and $8.8 million annually for the State of Oregon over each of the last seven years. Fiscal benefits include those derived from personal income, transient lodging as well as corporate excise and income taxes. In aggregate, estimated fiscal benefits to the State amount to approximately $47.0 million in constant dollars over the time period shown. Given the OCC's operation since 1991, the State's actual benefit over the life of the facility is likely to be significantly higher given another ten years of operations are not accounted for in the historical estimates.

Summary of Estimated Fiscal Benefits Realized by the State of Oregon From On-Going OCC Operations (2000 – 2006)



Notes: In 2004, the State instituted a transient lodging tax of 1% on all hotel night stays statewide.
All figures are shown in constant dollars for that particular year.

The State of Oregon stands to benefit significantly from the continued marketability of the OCC to regional, national and international conventions/tradeshows. Conversely, the State's tax collections could be negatively impacted by the continued erosion of these groups due to the lack of a headquarters hotel in Portland.