Response to Comments/Questions Received During Oregon Convention Center Hotel Open House (8/1/13) and Metro Council Public Hearing (8/8/13)

As the Metro Council prepares to make decisions on next steps on the OCC Hotel Project, the agency has sought public input on the project from a range of stakeholders. A number of questions have been raised at an open house and public hearing held in August. Following are responses to those comments and questions presented by the public and various organizations which participated in these two public events.

On August 15, 2013, Metro Council will consider both 1) final action on the Visitor Facilities Intergovernmental Agreement with the City and County and, 2) preliminary action on the OCC Hotel Project – a general project Term Sheet. If the Metro Council approves both the IGA and Term Sheet, then Metro staff will negotiate a development agreement, room block agreement and hotel revenue bond structure to present to the Council in late 2013.

1. **What are the income projections that the hotel would have to meet in order to generate enough revenue to repay the bonds? Average Daily Rate? Occupancy rate? On what basis are those assumptions being made?**

   Answer:

   - Projections for hotel income (and transient lodging tax) are being prepared by Hyatt and will be finalized with the development agreement.
   - Preliminary projections of site-specific transient lodging tax (TLT), which are generated from operating revenue projections, are included in the financial stress test analysis. Bond payments will be structured to be lower than projected site-specific TLT.
   - Metro has conducted economic stress tests to determine how lower-than-expected revenues affect bond repayments. Even in the worst case scenario, the 30-year forecast of revenues are sufficient to cover bond repayment.
   - Metro has hired HVS, a global hospitality industry consultant, to advise on the hotel projections to ensure that they 1) are realistic and reasonable in the market and 2) adequately support the proposed revenue bond payments.

   Additional Background Information:

   - The proposed Visitor Facility IGA requires that the total amount of the hotel revenue bonds be sized so that the projected site-specific TLT revenue from the hotel is more than adequate to cover annual bond payments (See Exhibit A to Resolution No. 13-4452, Visitor Facilities Intergovernmental Agreement Attachment A, Task 4B "Verify OCC Hotel Project Bond Debt Service" – page 30 of the August 15, 2013 Metro Council meeting packet).

- See also responses to Question 7 for more information.

2. **If the occupancy and rate assumptions are based on a recent study by the Strategic Advisory Group, why should we accept those assumptions as credible when a Forbes article, "The Answer is Always Yes," found that SAG nearly always projects convention projects to be successful and an SAG partner admitted to the magazine that, "You lose clients if you shoot down projects."**

   Answer:

   - The hotel occupancy and rate assumptions are based on projections prepared by Hyatt Corp. in their RFP response.

   Additional Background Information:

   - SAG is a hospitality industry consultant and works extensively throughout the United States. SAG was hired by Metro to conduct a market study, case study and economic and fiscal impact analysis as part of our due diligence work for the OCC hotel project. To our knowledge, SAG is not involved in Hyatt's financial or market projection analysis.
   - It is *false* that SAG nearly always projects convention projects to be successful. In recent years, SAG has recommended to clients in 18 cities that a convention hotel was not feasible at that time.
   - The Forbes article quoted by the Coalition for Fair Business Priorities representatives is dated February 28, 2005. It focused on trade shows and not conventions.

3. **What are the terms of Hyatt's management contract? How long, how much per year, any performance requirements, or termination rights? If termination of the contract is possible, who makes that decision?**

   Is there a management or licensing agreement with Hyatt? If so, what are the details? How long, how much per year, any performance requirements, or termination rights?

   Answer:

   - The proposed OCC hotel will be privately-owned and operated. The management contract will be between the owner and operator. Metro will not be a party to the hotel management contract, unlike the 2009 proposal for a publicly-owned hotel.

- Hyatt Corporation has pledged its intention to buy the hotel at completion of construction and hold it for a period of approximately five years. Hyatt also intends to operate the hotel during and after the sale of the hotel.
- Hyatt's proposed management fees are indicated in the Mortenson Development July 2012 proposal. For the full-service Regency, Hyatt proposed a fee of 3% of gross revenue.
- Metro will require, as a part of the development agreement, that hotel management continue at the quality level of the Hyatt Regency for the term of the hotel revenue bonds.

Additional Background Information:

- Currently, the management contract has not yet been negotiated. It is premature to have a contract at this early predevelopment stage.
- Metro will have a room block agreement with Hyatt. It has not yet been negotiated, but Metro expects to establish the ability of convention planners to use a 500-room block for future conventions for the term that the hotel revenue bonds are outstanding (30 years).
- In the future, when and if Hyatt sells the hotel, Hyatt anticipates maintaining the management contract on a long-term basis.

4. **What's included in the development costs? At $30.6 million that's 18% of the deal. Multnomah County just negotiated a 4% development fee on a large construction project. So what is the breakdown of the contractor's fees, general conditions, developer's fees and mark up to the principals?**

Answer:

- Mortenson stated a 3.5% development fee/contingency in their July 2012 RFP response and we anticipate that the final deal will reflect a development fee no higher than the original proposal.
- The current budget proposal is based on typical costs for constructing a large-scale convention hotel. The $30.6 million includes a variety of soft development costs that are separate from the developer's fee.
- As the project's design and cost-estimating proceed, more detailed budget information will be prepared and made public.

Additional Background Information:

- See Attachment D of the Term Sheet for a description of the Development Cost category. This includes permitting and entitlement fees, environmental and geotechnical analysis, legal, pre-opening expenses, contingency and a development fee.

5. **Was there an appraisal done on the land that justifies the $7.3m price tag being paid to StarTerra? The county assessor's office shows the real market value at $2.7m.**

Answer:

- The property owned by StarTerra north of the Convention Center comprises 11 tax lots and county records indicate a fair market value of $9.6 million. One of those 11 tax lots has a fair market value of $2.7 million, and that single lot is what is referred to in the question above. That single lot is a small portion of the total property being considered for the OCC hotel project.

- The hotel is anticipated to use roughly 2/3 of the total StarTerra property and is expected to include an additional parcel currently under contract for purchase by StarTerra. The hotel project may also use a portion of the nearby corner property owned by the Portland Development Commission.

- $7.3 million in land costs falls into an appropriate range at this stage. Metro will conduct an appraisal review prior to the scheduled date of closing (September 2014) so that it accurately reflects the market at that time.

6. **Why is a 20 year no-bid parking contract being granted to StarTerra, LLC? What is the value of this contract? Do they have any partners in this contract? Why is this contract not being put out to bid? With at least $40m of the money coming from public sources shouldn't public contracting practices be followed?**

Answer:

- In their July 2012 Request for Proposal response to Metro, Mortenson proposed that parking be privately owned and financed by StarTerra LLC's parent company (see page 135 of the July 2012 Mortenson proposal).
- Parking will be a stand alone, private project and not part of the hotel project. Metro will not own nor finance the parking garage. Mortenson/Hyatt will determine the most feasible manner to provide parking.

7. **If the "site specific" transient lodging tax (TLT) revenues from the new hotel are not enough to pay back the bonds, who will be required to pay the shortage, the developers, Hyatt, or money in the public revenue stream? What other priorities or projects will get cut to cover Hyatt's losses? What is interest rate you are using for your calculations and what is the interest that will be paid over the life of the bonds?**

Answer:

- The revenue bonds will be repaid by the Visitor Facility Trust Account (VFTA) which is comprised of vehicle rental and transient lodging taxes paid by visitors.

- Metro will issue and structure the revenue bond to be guaranteed by VFTA revenues, and will not provide a full faith and credit pledge. The general fund of Metro, City of Portland and Multnomah County will not be at risk nor considered as a source of bond repayment.
- The amount of revenue bonds will be based on the projected site-specific TLT, assuming a 30-year term and 1.05 debt coverage ratio.
- The projected interest rate on the bonds is 4.75%.
- The total projected cost of the bonds, including interest, is $121m.
- As outlined in an August 9, 2013 memo from Ken Rust of PFM Group, the project's financial consutant, financial testing indicates that:
    - Base case Ssenario: OCC Hotel site-specific TLT revenues are projected to exceed OCC Hotel revenue bond debt service payments over the 30-year term by approximately $9m. This means that the project more than "pays for itself" through site-specific TLT.
    - Even in the worst case scenario, site-specific TLT revenues are projected to exceed revenue bond debt service payments by approximately $3m.
    - Excess site-specific TLT revenues remain in the VFTA, to the benefit of the other tourism-related funding priorites.

Additional Background Information:

- Metro intends to negotiate limited financial guarantees from Hyatt in the unlikely event that site-specific TLT is insufficient. There are legal restrictions that limit the amount of guarantee that Metro or a private party can provide. Those terms will be presented at a later date as part of the development agreement.
- Metro's goal is to ensure that other priorities and projects included in the Visitor Facility IGA are not impacted in the event of reduced site specific TLT.
- The Visitor Facility Intergovernmental Agreement includes language that requires Metro to reimburse the VFTA in the event that site-specific TLT does not cover bond debt service payments (see section 6.2 of the Visitor Facilities Intergovernmental Agreement) over a multi-year period. Thorough analysis concludes that the VFTA will be strengthened by the inclusion of site-specific TLT and that over the term of the bonds, net site-specific TLT will be available for other priorities and projects.
- It is important to note that the Oregon Convention Center is publicly-owned and funded facility, with bonds backed by the VFTA. Growing business at the OCC is important to its long-term financial health.

8. **Metro has repeatedly refused public records requests for this basic and critical information in spite of your claims of "transparency". In fact you haven't even shared it with the elected officials you are asking to approve the project. Why is the information being withheld and when will it be released?**

Answer:

- Metro has consistently provided all publicly available documents, per Oregon Public Records law.
- Metro is fully committed to an open and transparent process. When the revenue bond financial structure and the development agreement are complete, those documents will be made public as part of the future public approval process.
- Real estate negotiations are confidential until complete.
- All hotel specific revenue and transient lodging tax information is confidential, per City Code.
- At this early stage of the project, several of the documents requested by Jordan Ramis do not actually exist.

9. **The Portland Business Alliance has expressed support for the project if certain conditions are met. Are you planning on meeting those conditions?**

Answer:

- Yes, the three conditions expressed and outlined below will be met by the project:
  - Metro's approach to sound analysis and a business plan for the hotel is consistent with the PBA's first condition.
  - The hotel project financing does not require any increases in taxes or fees.
  - The revenue bonds will be repaid by the VFTA using site-specific TLT revenues. In no instance would the VFTA be called upon to provide operational support for the OCC hotel.

10. **Why isn't the private sector building the convention hotel on its own?**

Answer:

- Because the requirements placed upon the hotel developer and operator when building and operating a convention center hotel add specific costs that require public investment. For this project, some of those costs include:
  - Location and property limitations
  - Room-block agreement

    - Additional amenities (ballrooms and meeting space) and fewer individual, rentable rooms
    - Labor peace agreement
- Convention center hotels exist to support citywide convention and tourism business with the goal of maximizing economic impact for the greater good, through increased commerce for local businesses through tourism spending and the creation of tax revenues that pay for public services.
- In many cities, convention hotels are publicly-financed <u>and</u> publicly-owned. Metro's proposal is for a privately-owned and managed hotel developed in partnership with public agencies with an agreement to commit more than 80% of the hotel rooms for booking conventions.

11. Has Metro conducted a risk assessment of the TLT revenue stream? How will the Visitor Facilities Trust Account (VFTA) be impacted by the OCC Hotel?

Answer:

- Metro has worked closely with City of Portland and Multnomah County financial staff to carefully analyze the VFTA revenue and expenditure allocations. Analysis by PFM Group summarizes that work and was used to guide the update of the IGA, specifically to guide the recommendation of new projects/programs and allocation amounts for each (see attached August 9, 2013 PFM memo).
- The proposed OCC Hotel revenue bond is one of the 11 proposed funding categories within the VFTA system. In addition, the proposed IGA creates both an on-going reserve and a bond redemption reserve to provide additional financial stability.
- The 30-year financial model incorporates two significant economic downturns (a 9/11-level economic crisis and another recession like the 2008 Great Recession) to test how the VFTA performs in times of severely reduced revenues. The proposed IGA was structured to enable all bond/project/program priorities to be fully funded, even in the instance of severe, unanticipated economic recessions.

12. The Nines Hotel project received loan foregiveness of some type from PDC, due to the economic crisis. Can this type of situation happen with the OCC Hotel too?

Answer:

- The Nines project was a very different project than the OCC Hotel. PDC is currently preparing a summary memo to present to Metro Council on August 15, 2013 to clarify how that hotel has truly performed.

- Specific terms of the PDC loan for the OCC Hotel have not been negotiated with Mortenson, however it is PDC's intention that the loan be repaid and not forgiven.
- There is no form of public financing for the OCC Hotel that would subsidize or finance on-going operational costs.

13. Will there be a room rate floor?

Answer:

- The term sheet calls for Metro staff, in negotiating a development agreement, to address concerns regarding potential room rate impacts on the market (see page 6 of the OCC Term Sheet attached).

14. What are the hotel costs, development costs and anticipated benefits for the public and private sectors:

Answer:

- The construction cost is $197.5 million; the term sheet proposes that
  - 60% be covered by the private sector
  - 10% be covered by the public sector
  - 30% be covered low-cost construction financing with revenue bonds repaid by future visitors at the OCC hotel
- Total development costs equal $329,000 per room.
- Direct construction costs are estimated to be $208,000 per room. This does not include furnishings, fixtures and X, land, financing and development soft costs.
- The anticipated benefits to the public sector are:
  - 5 to 10 new citywide conventions each year, anticipated to generate up to $120 million in annual tourism spending
  - Roughly $5.5 million in state tax revenues each year
  - Roughly $4.5 million in local tax revenues each year
  - Financial stability for the OCC, convention industry and the state's tourism economy
  - Increased VFTA revenues overall, with specific funding streams for the City of Portland and Multnomah County
- The anticipated benefits to the private sector are:
  - Mortenson Development will receive a 3% development fee.

- Hyatt Hotels will receive a management fee totaling 3% of gross revenues.

And as a final comment, Jeff Miller, President and CEO of Travel Portland, referred to a very recent article in the Orange County Register, “The Convention Industry is Booming And It Is Only Getting Bigger” (August 2013) in which the following was reported:

- According to the US Bureau of labor Statistics, conventions and events are expected to expand by 44 percent from 2010 to 2020, far beyond the average projected growth of other industries.

- “Even as everyone predicted the rise of digital would do away with face to face, precisely the opposite is happening, as the value of in-person meetings and conventions rises. And the need's only getting bigger, much to the delight of the travel industry and CVB (convention & visitor bureaus).”
  — Rafat Ali, CEO of Skift.com