



Oregon Convention Center Headquarters Hotel

**Metro Council & MERC Commission
Joint Work Session
9/06/07**



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Agenda

- Introduction
- Consultants' Key Findings
- Alternatives Analysis
- Financial Analysis
- Staff Recommendation
- Questions and Discussion



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Background

- The mission of the OCC is to maximize economic benefit for the region.
- National conventions provide the greatest economic impact for the OCC and the region.
- In recent years, demand for national conventions at the OCC has leveled off.
- Metro Council has asked MERC to look at alternatives to address this situation.



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Alternatives

- Status quo with increased subsidy for operations
- Change the OCC Mission: regional meeting center
- Enhanced Incentives: i.e. shuttle service, free rent, etc.
- Privately owned, small scale headquarters hotel with public subsidy
- Publicly-owned, privately operated, 600-room headquarters hotel



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Process

Where are we now?

- MERC/Metro Work Session: 9/6
- MERC Recommendation: 9/12
- Metro Public Hearing: 9/20
- Council Decision: 9/27



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Consultants

- KPMG
 - Susan Sieger
- Strategic Advisory Group (SAG)
 - Tony Peterman
- HVS Market Study
 - Tom Hazinski
- ECONorthwest
 - Abe Farkas
- Piper Jaffray
 - Peter Phillippi



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**Economic and Fiscal Impacts Estimates
Oregon Convention Center CY 2006 Operations
Proposed New Headquarters Hotel**

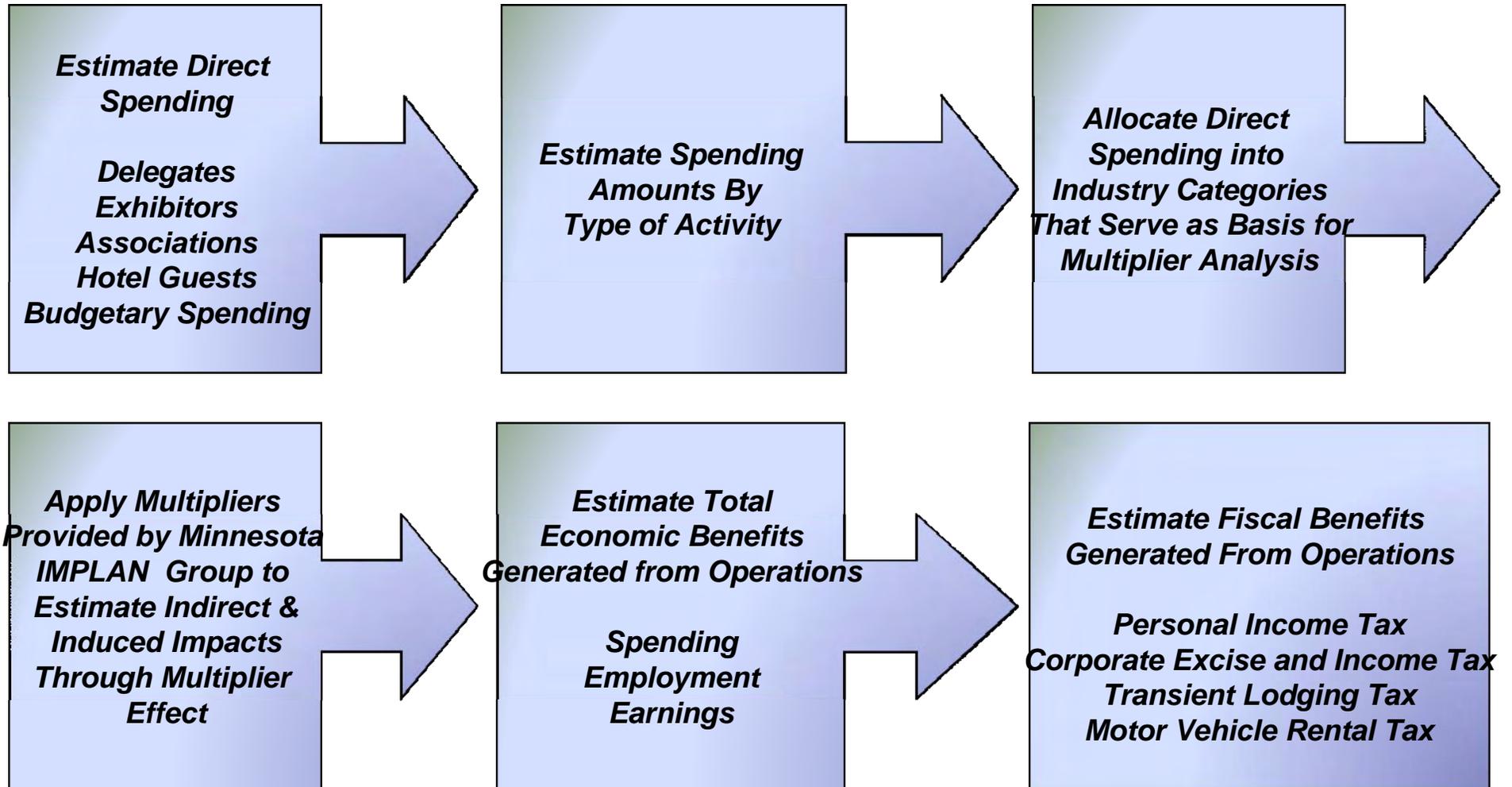
ADVISORY

Presentation - September 2007

Background

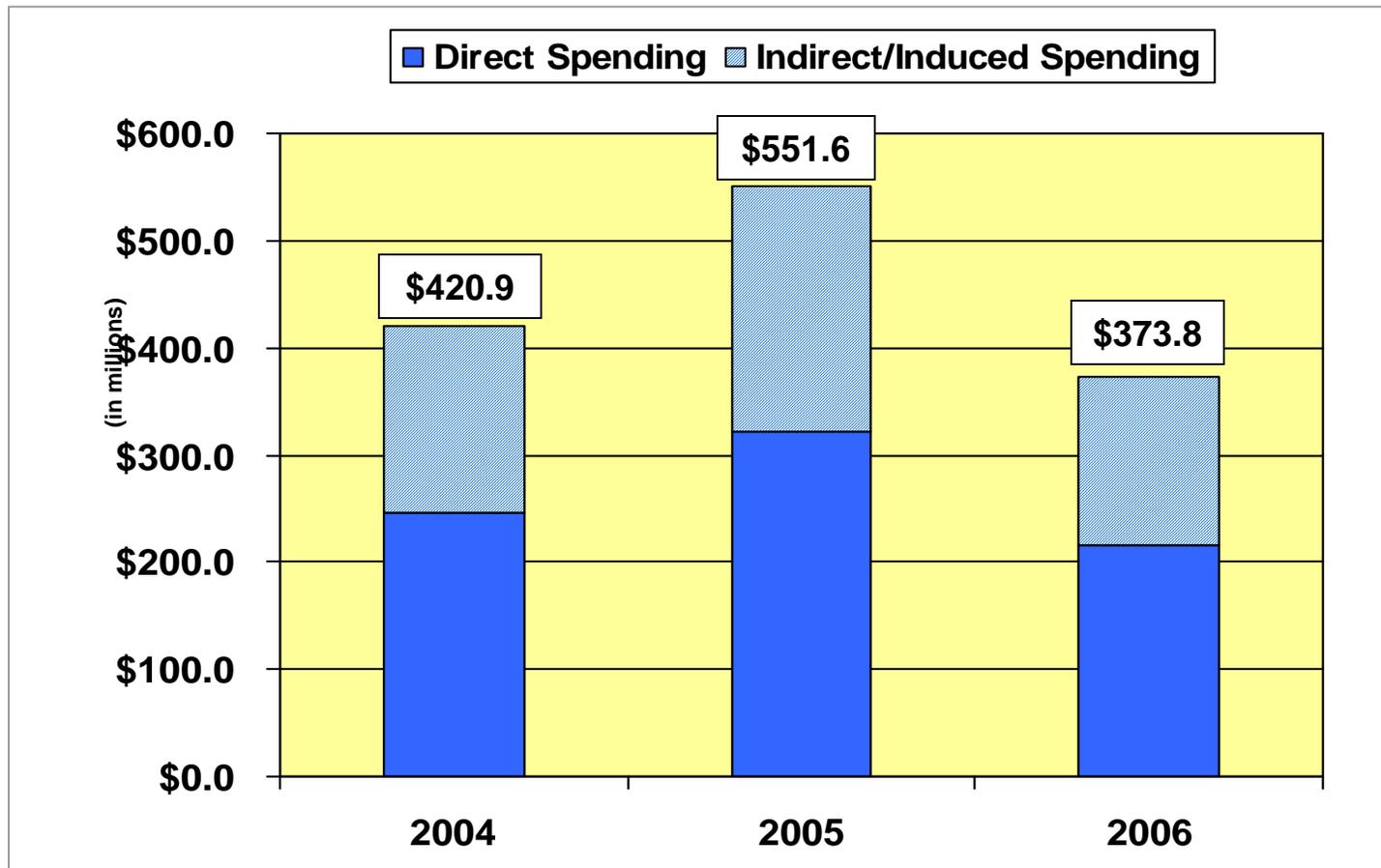
- KPMG conducts an annual economic and fiscal impacts analysis for the OCC based on historical event data and budget figures provided by management
 - This presentation summarizes CY 2006 estimates
- KPMG was also retained to estimate the economic and fiscal impacts associated with construction and operations of the proposed 600-room headquarters hotel based on information provided by PKF and HVS International as well as historical OCC operations

Methodology



Total spending generated from OCC operations in CY 2006 was estimated to be 32% lower than in CY 2005

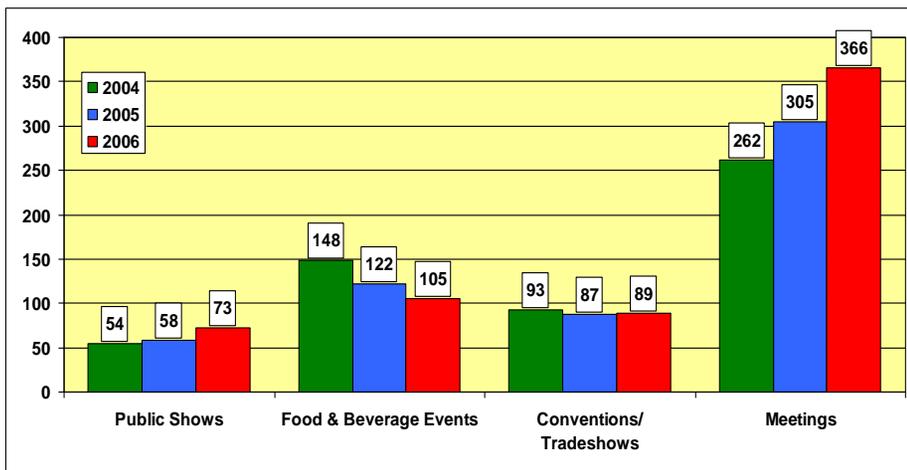
Summary of Estimated Spending Generated from OCC Operations



OCC event activity is increasingly becoming more local in nature drawing fewer attendees from outside the region

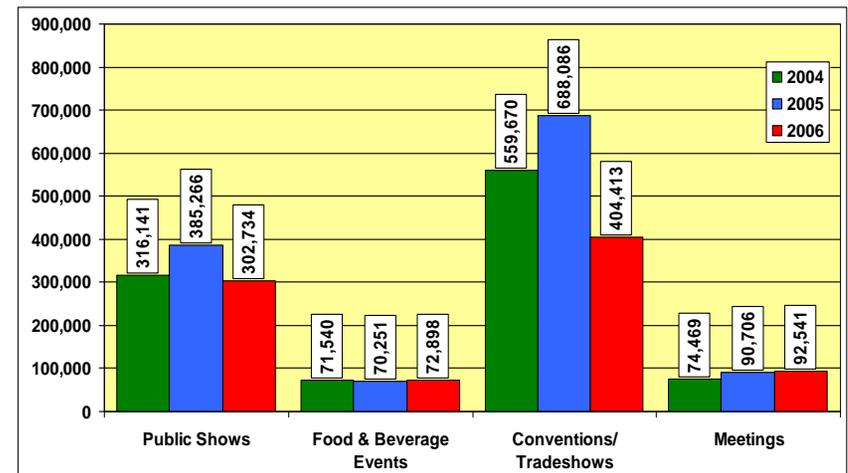
- The number of public shows and meetings has increased each of the last two years
- These events do not typically generate significant economic impact to the region

Comparison of the Number of Events at the OCC



Source: OCC

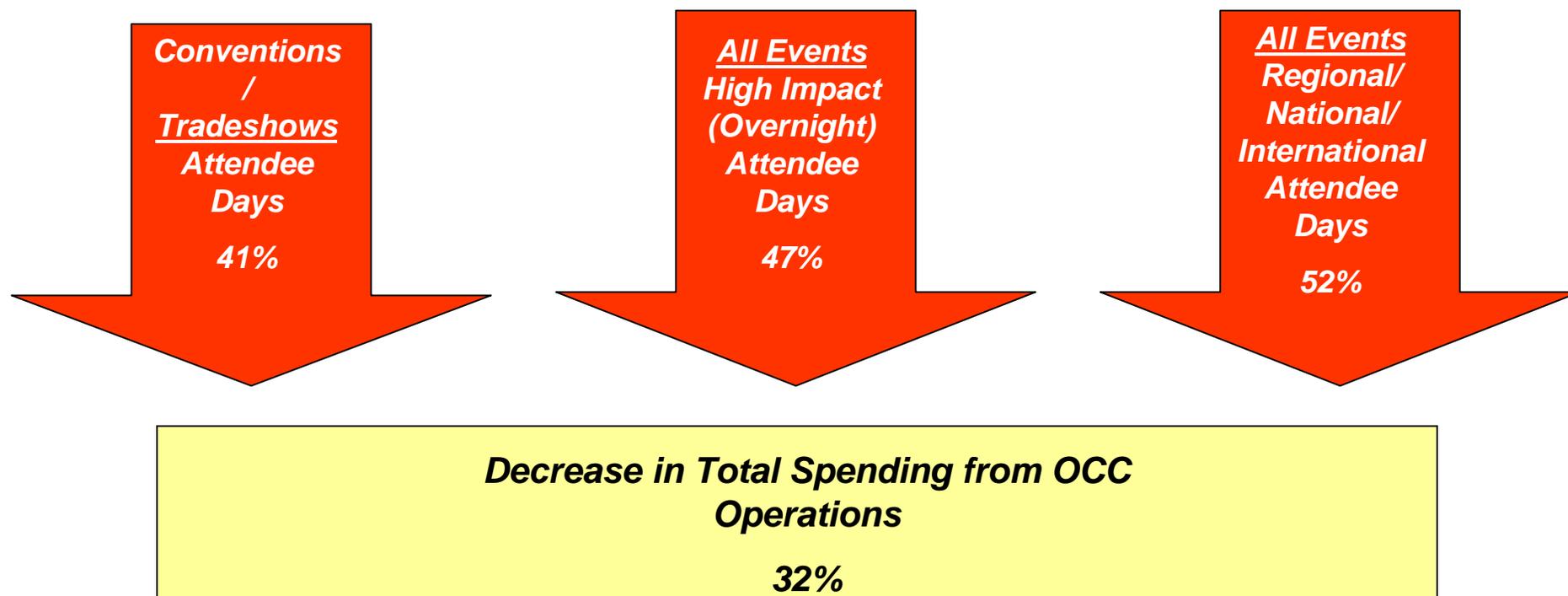
Comparison of Total Attendee Days at the OCC



Source: OCC

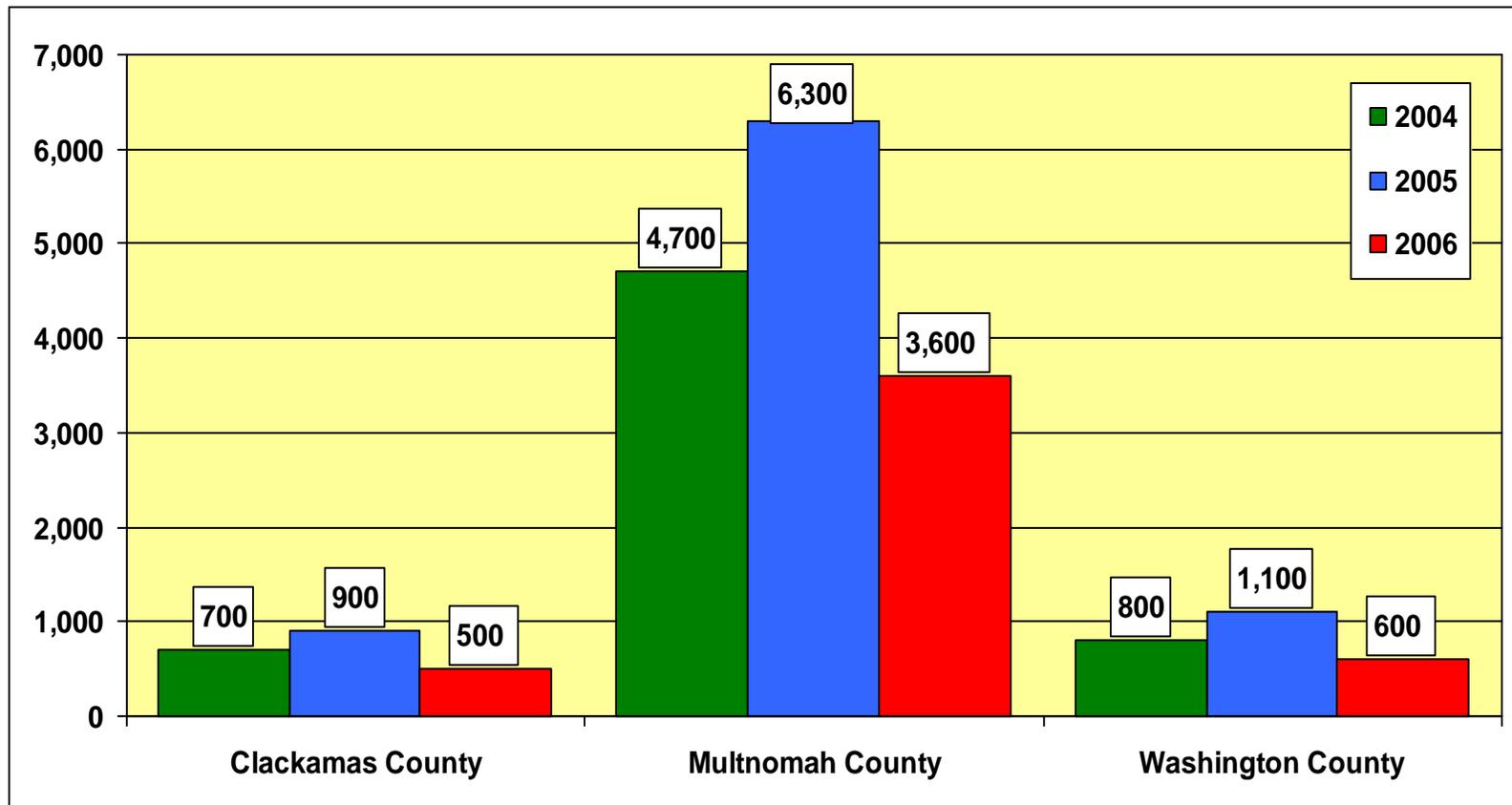
The decrease in total spending between CY 2005 and CY 2006 is primarily attributable to the decline in total attendee days (29%)

- Certain categories of attendees generate more spending at area hotels, restaurants, retail and other business establishments (e.g. overnight, those attending regional/national/international events)
- The same attendee days can be segregated into multiple categories
- As shown below, several categories associated with higher spending per day were down in CY 2006



Estimated total employment generated from CY 2006 OCC operations decreased in each county to the lowest level in six years

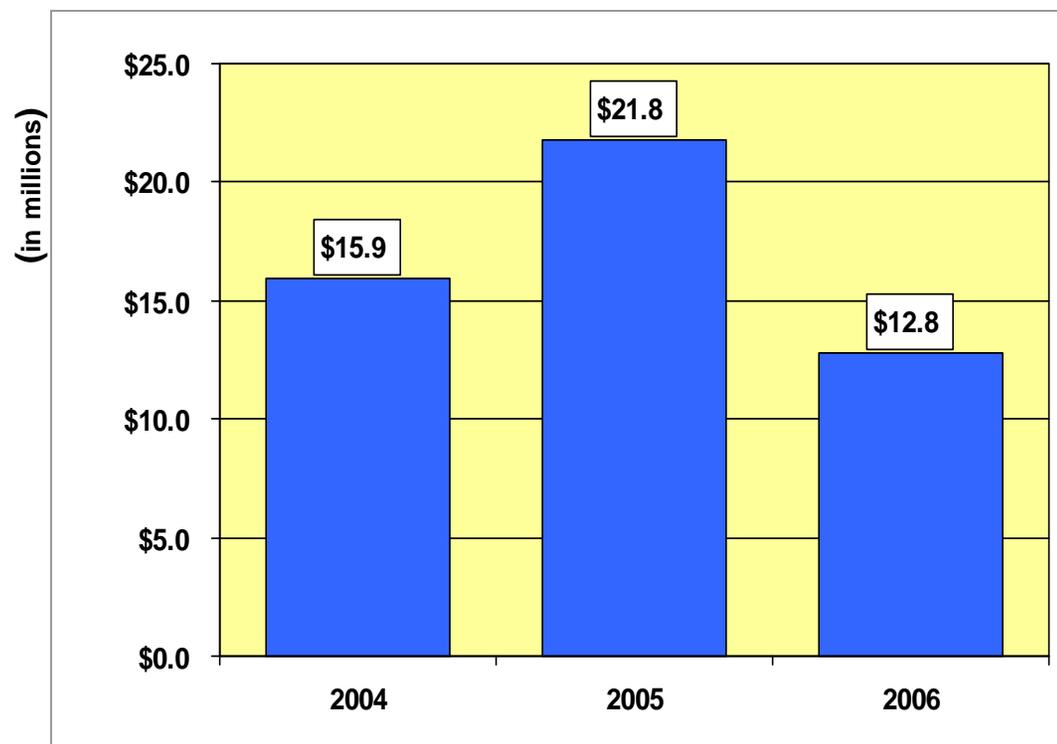
Summary of Estimated Total Employment by County



Estimated fiscal impacts generated from CY 2006 OCC operations decreased by approximately 41% to the lowest level in six years

- Decreased fiscal impacts are primarily attributable to the decline in convention/tradeshow attendees and related spending during CY 2006

Summary of Estimated Fiscal Impacts (Counties & State Combined)



According to independent research conducted by SAG, PKF and HVS, certain factors are contributing to the decline of the OCC's convention and tradeshow business

- Portland's lack of a headquarters hotel
- Competition from other cities
- The relatively small room block available near the OCC
- The high occupancy rates at Portland hotels
- The distance to convention-quality hotels

POVA records indicate that last year alone, Portland lost 52 future OCC bookings due to the lack of a headquarters hotel and/or limited hotel package

- Lost groups represent approximately 250,000 room nights
- Represent significant lost potential economic and fiscal impact to the community

Approximate Hotel Rooms at OCC Competitors

Convention Center Destination	Attached or Adjacent	Within 2 Blocks	Within 4 Blocks	Within 6 Blocks	Total
San Francisco	1,908	2,249	1,951	2,685	8,793
Denver	1,321	1,007	3,329	420	6,077
San Diego	4,179	1,213	350	301	6,043
Salt Lake City	896	1,050	3,086	393	5,425
Anaheim	2,882	1,883	490	0	5,255
Seattle	1,430	2,137	0	1,035	4,602
Austin	800	1,203	977	189	3,169
Phoenix	712	1,651	0	0	2,363
San Jose	1,270	891	0	100	2,261
Long Beach	895	460	609	0	1,964
PORTLAND	174	0	678	239	1,091

Source: SAG

Drivers of hotel economic/fiscal impact study

- OCC management asked KPMG to use these historical estimates as well as figures provided by their hotel consultants to estimate the following:
 - Economic/fiscal impacts associated with net (loss)/gain of OCC-related business
 - Economic/fiscal impacts associated with non-OCC related business at the proposed property (e.g. independent business travel, leisure, in-house group)
 - Cumulative State fiscal benefits from OCC operations since 2000

Presence of the proposed new headquarters hotel impacts future convention/tradeshow business at the OCC

Without the proposed headquarters hotel

- PKF and HVS research indicates a potential loss of six (6) conventions/tradeshows at the OCC annually
- Economic *loss* to the region is estimated to be approximately \$40.8 million annually
- Fiscal (tax) *loss* to the region and State combined is estimated to be approximately \$1.9 million annually

With the proposed headquarters hotel

- HVS research indicates a potential gain of eight (8) conventions/tradeshows at the OCC annually
- *Incremental* economic benefits to the region are estimated to be approximately \$54.5 million annually
- *Incremental* fiscal (tax) benefits to the region and State combined are estimated to be approximately \$2.5 million annually

There are regional economic benefits associated with the proposed new hotel's non-OCC related business

Estimated Net Economic Benefits to the Tri-County Metropolitan Region From Operations of a Proposed New Headquarters Hotel - Non-OCC Related Business		
Economic Benefits:	600 Room HQ Hotel	
	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/induced 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.

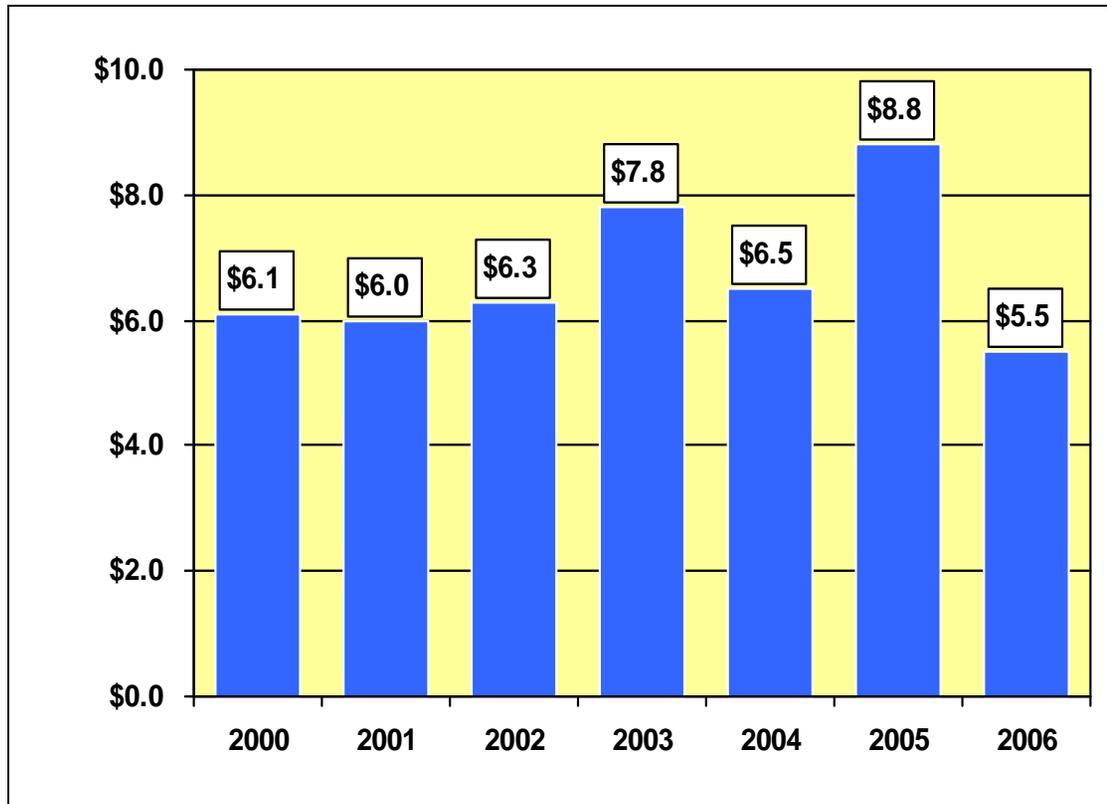
There are fiscal benefits associated with the proposed new hotel's non-OCC related business

Summary of Estimated Net Annual Fiscal Impacts Generated From Operations of a Proposed 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

Cumulative State fiscal benefits from OCC operations since 2000 are estimated to be \$47.0 million in constant dollars

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.

Summary of key findings

- OCC event activity during calendar year 2006 supports the independent research findings that the lack of a headquarters hotel is negatively impacting the facility's ability to attract certain groups associated with relatively higher spending and, consequently, the economic and fiscal impacts to the region are similarly impacted
- 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 SAG
- 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.

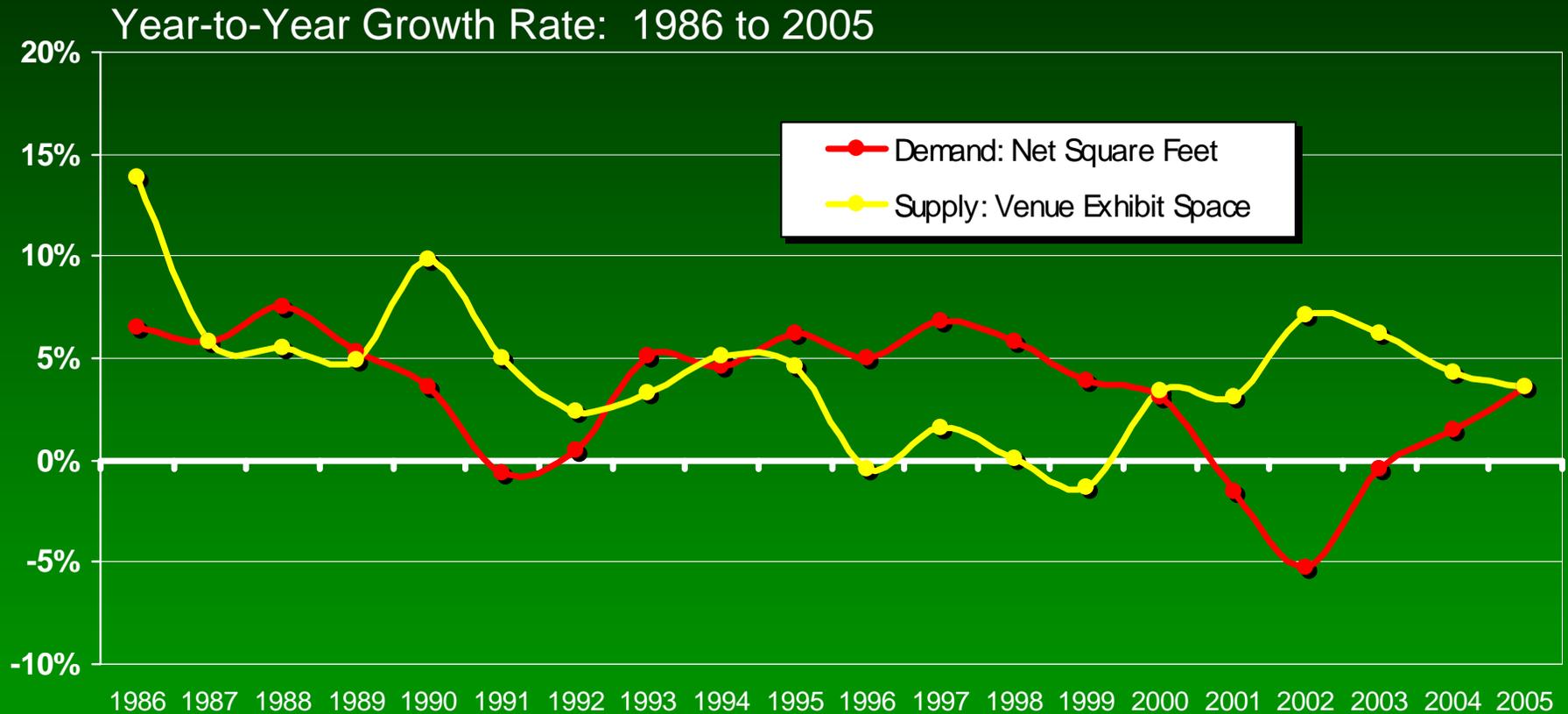
PORTLAND OREGON VISITORS ASSOCIATION

**2007 HQ Hotel Update
Study:**
Oral Presentation for Metro/MERC

September 6, 2007

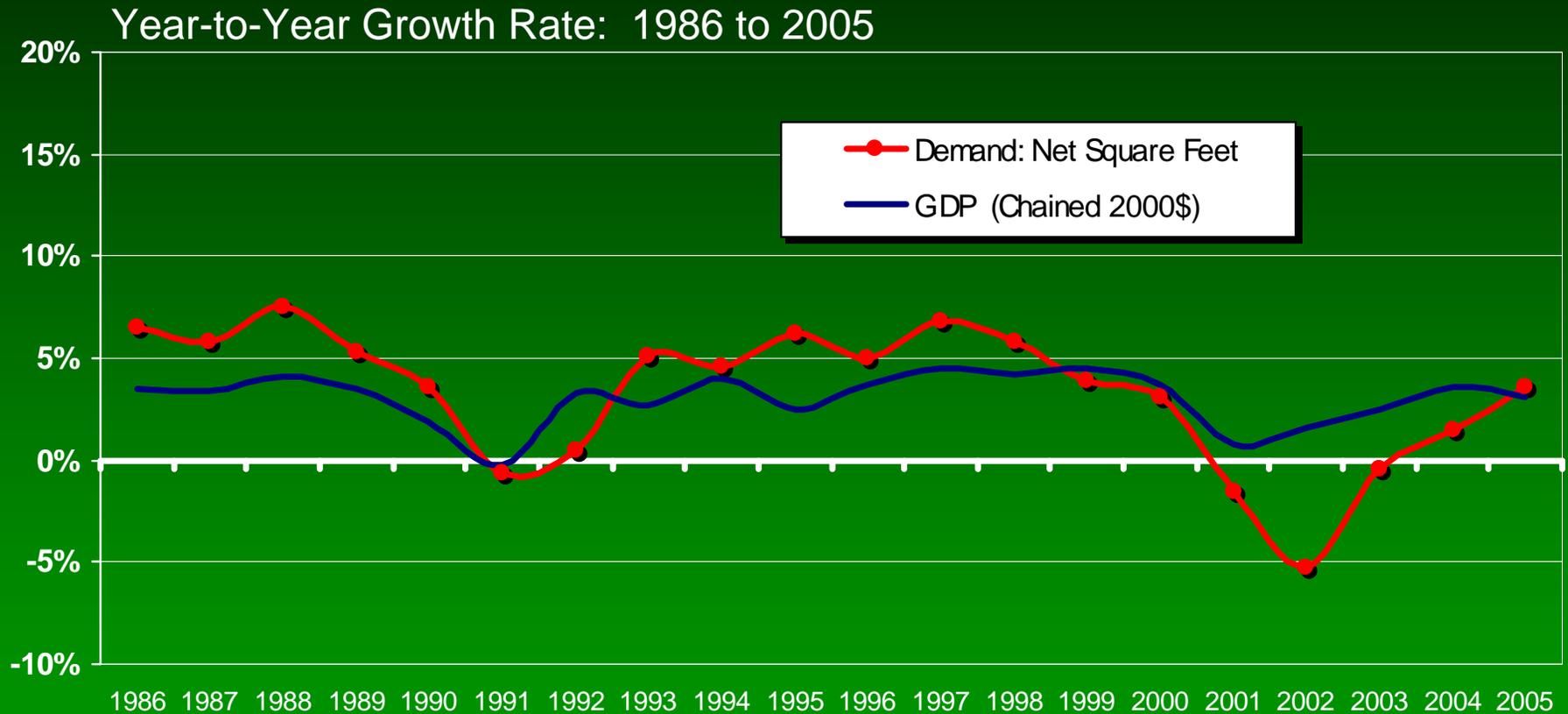
Convention & Hotel Industries:
Are they healthy?

Convention Industry Growth



Source: *Tradeshow Week Custom Research; US Dept. of Commerce.*

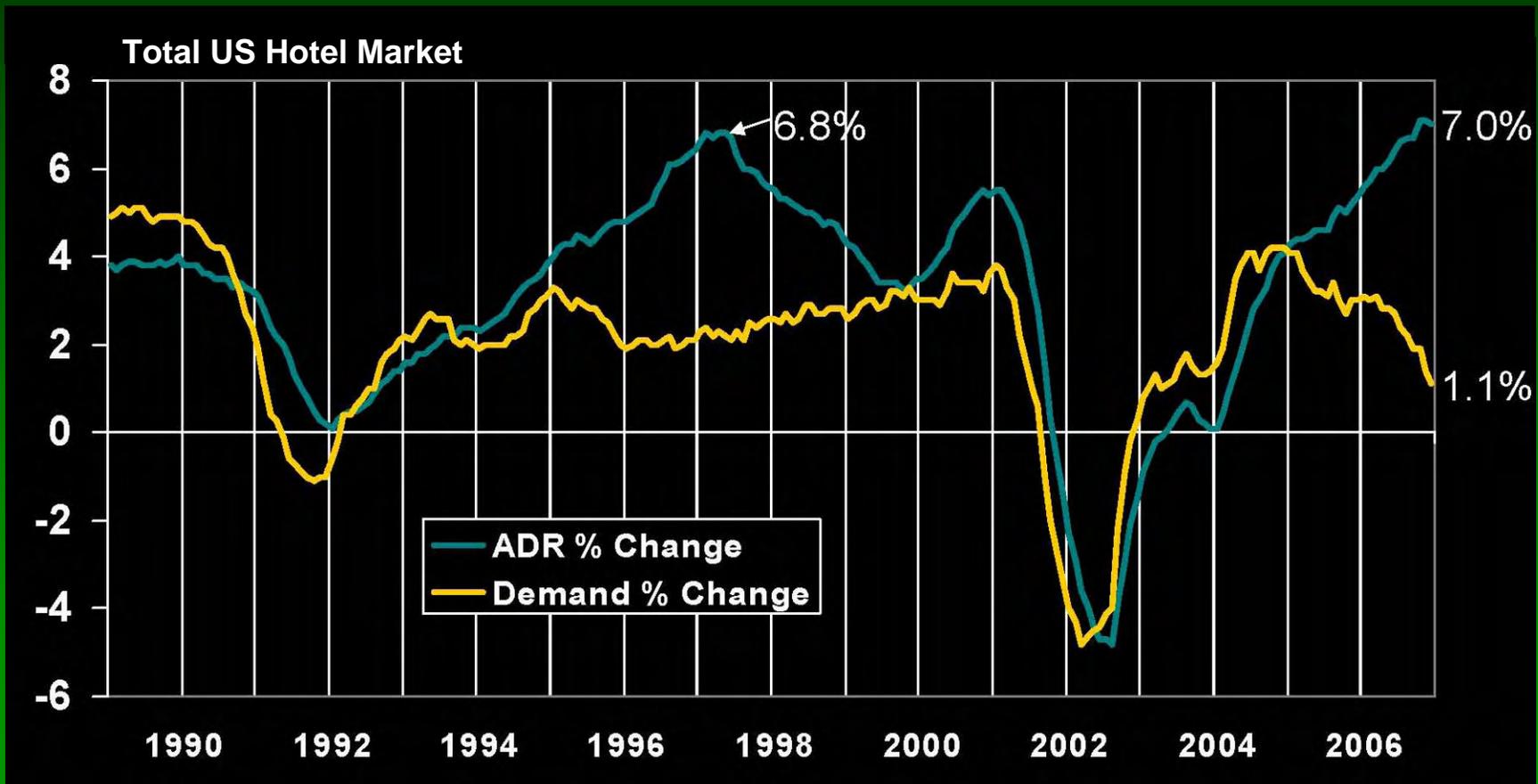
Convention Industry Growth



Source: Tradeshow Week Custom Research; US Dept. of Commerce.

Health of the Hotel Industry

ADR and Room Demand Pct Change:
12 Month Moving Average 1989 to 2006



Source: Smith Travel Research

Portland Hotel Market

[Portland Central City including Lloyd District]



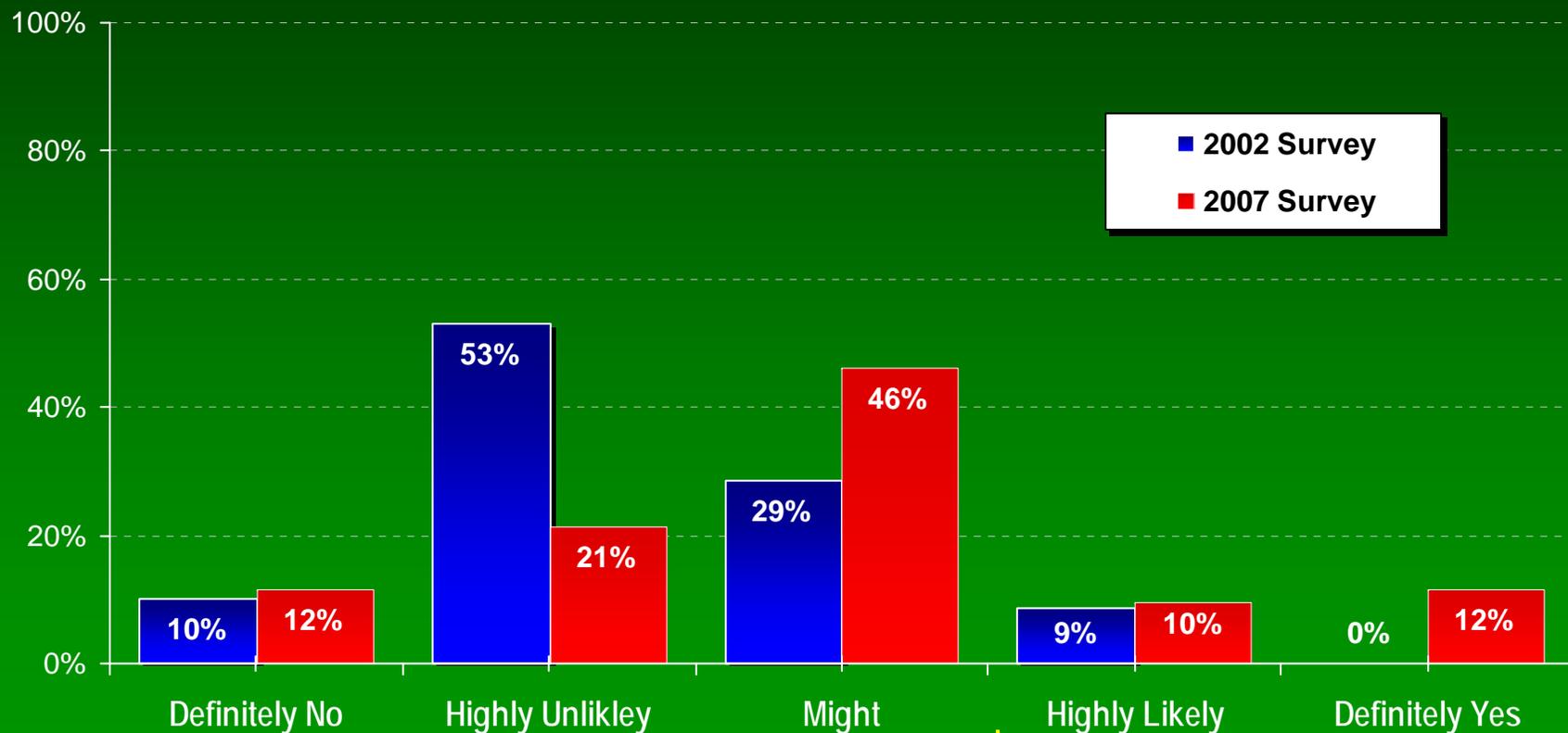
Source: Smith Travel Research

Lost Business Report:

Why does Portland continue to lose?

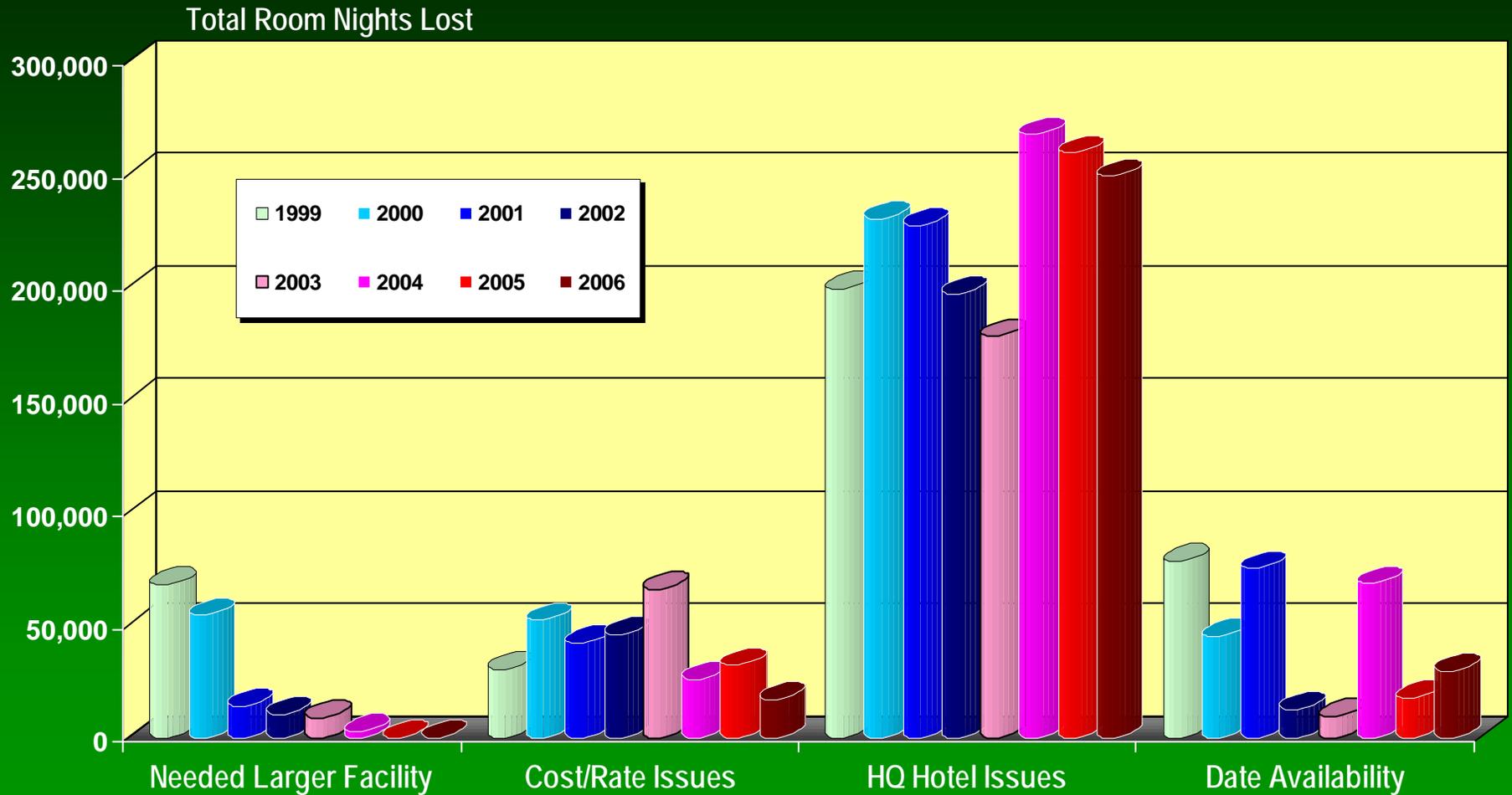
Projected Use: “As-Is”

“Assuming that OCC completes its expansion in April 2003, and given the hotel package that currently exists, and understanding that your HQ hotel would be one of these existing hotels, how likely would you be to host your event in Portland?”



Expanded OCC/Function Space was only part of the solution

Reasons for Lost Business

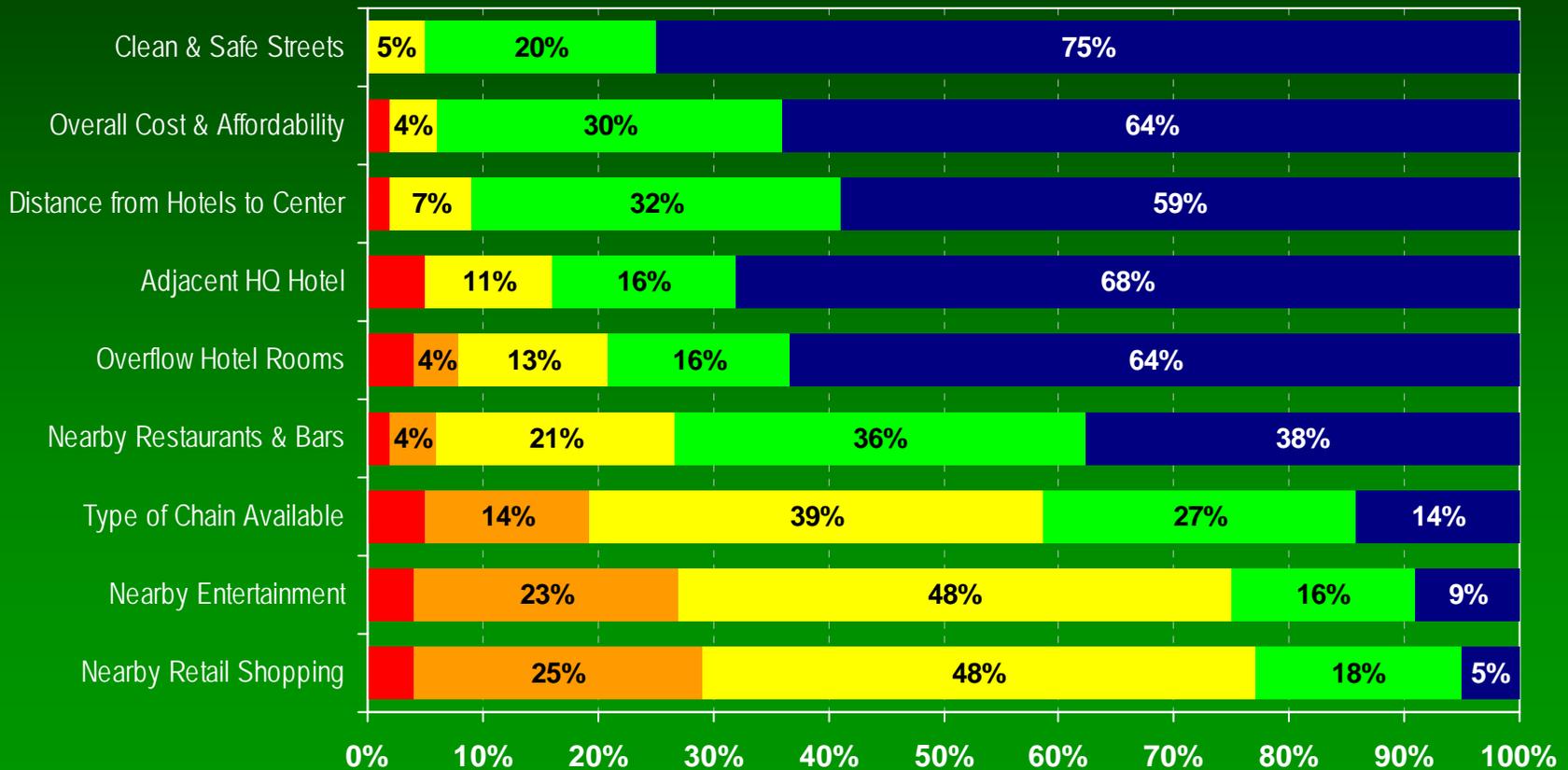


Source: POVA

Destination Selection Criteria:
What is important to event planners?

Destination Factors

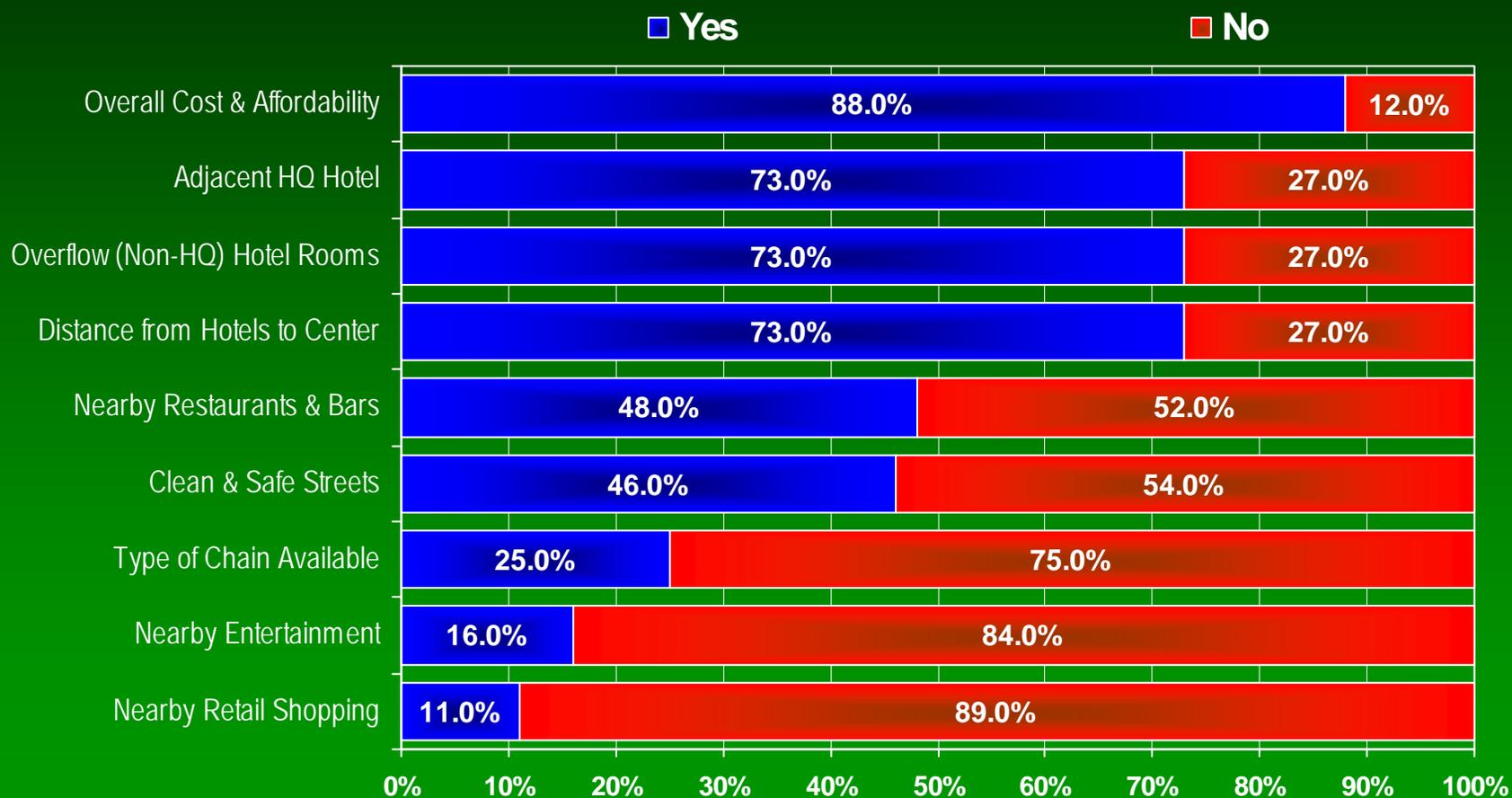
"On a scale from 1 to 5, how important do you consider the following factors?"



Source: S.A.G.

Destination Factors

"Can this factor alone have the potential to be a "Deal Breaker"?"



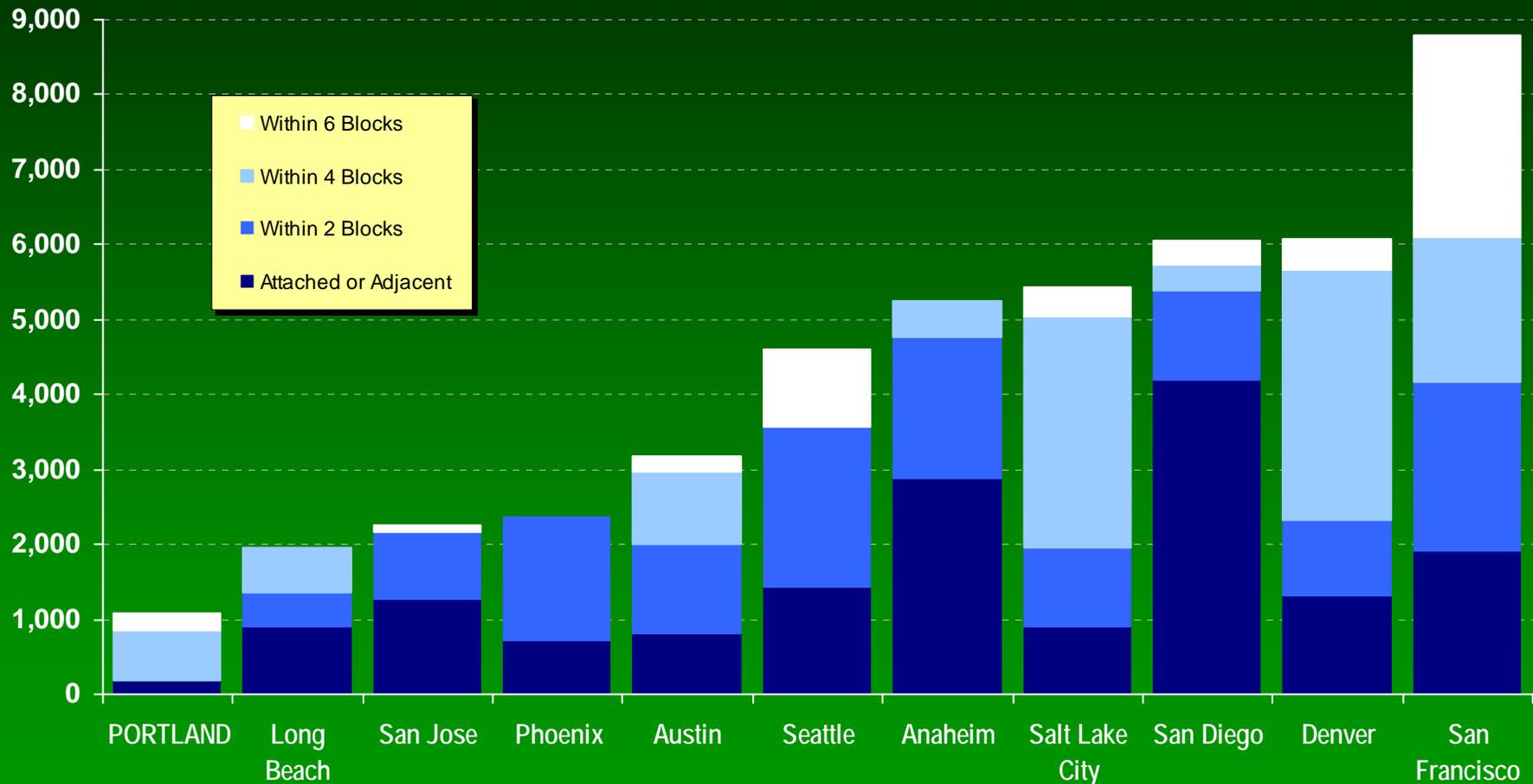
Source: S.A.G.

Portland v. Comp Set:

What do comps have that we do not?

Portland v. Comps: *Hotel Rooms*

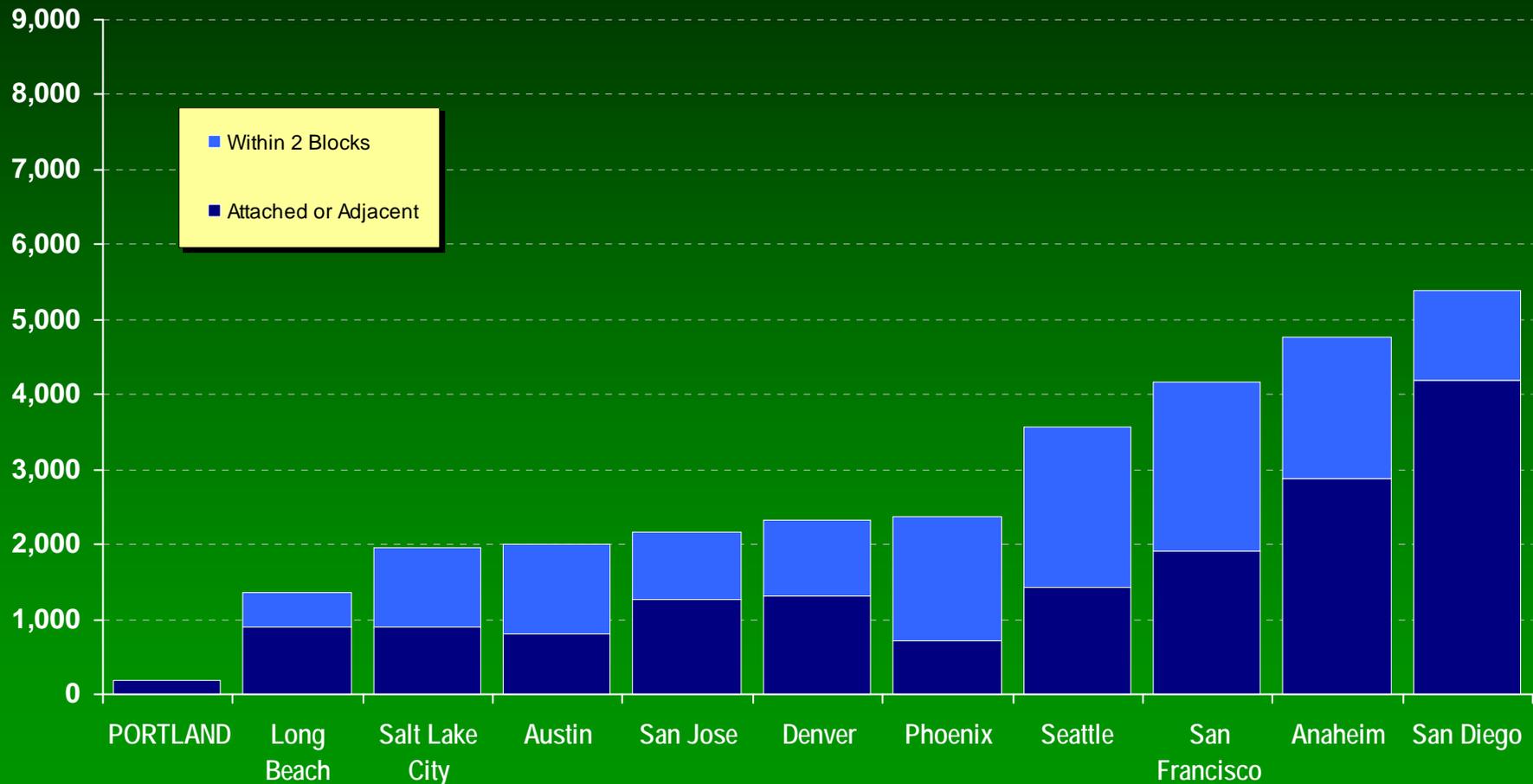
Total Hotel Rooms within Walking Distance of Center



Source: Individual hotels, CVB's. Includes financed properties.

Portland v. Comps: *Hotel Rooms*

Total Hotel Rooms within Walking Distance of Center



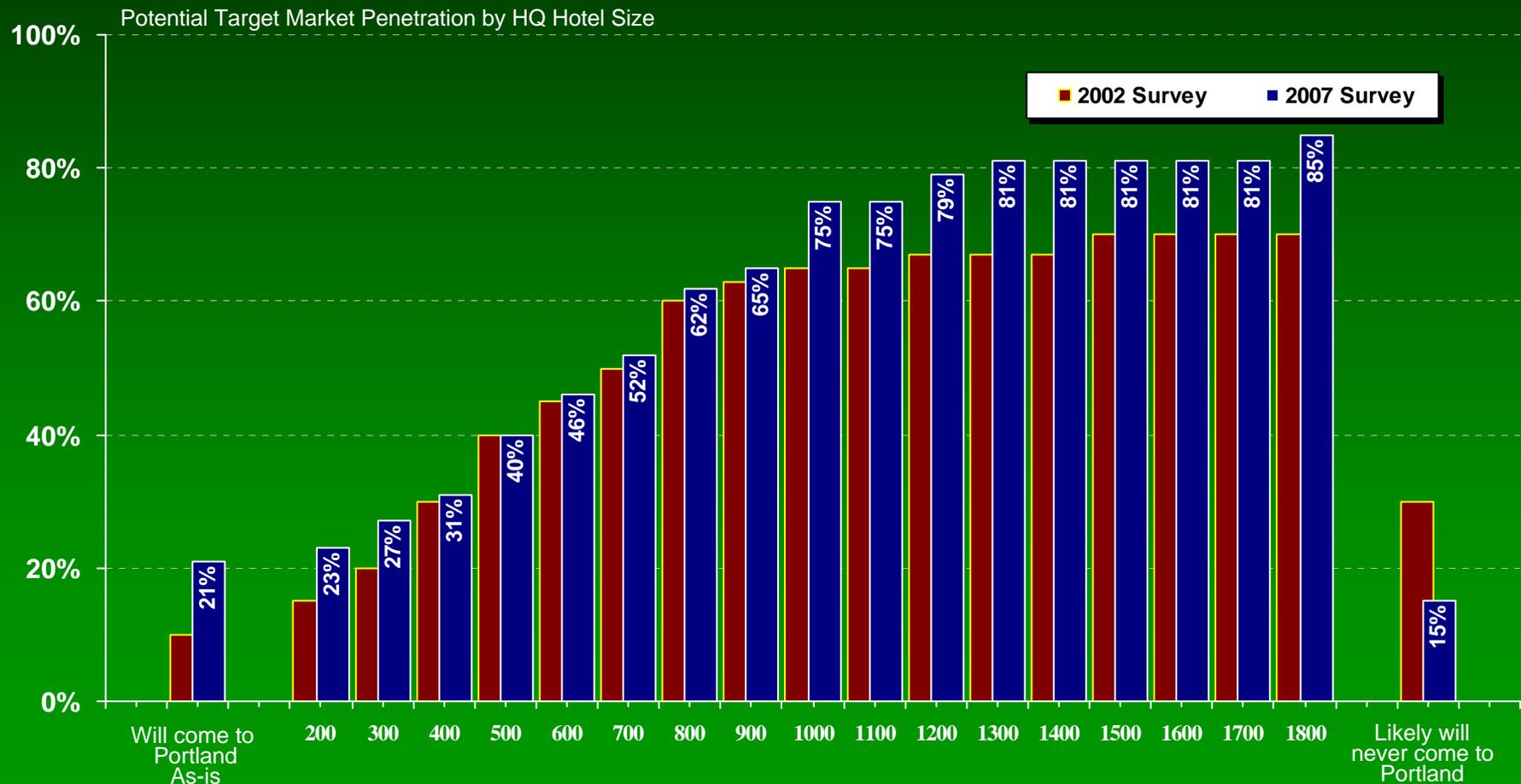
Source: Individual hotels, CVB's. Includes financed properties.

Meeting Planner Survey:

Would a HQ make a difference in Portland?

Would They Come with HQ?

“What is the minimal number of blockable rooms that a New Adjacent HQ Hotel would need to offer in order for you to characterize your expected future usage of the OCC as ‘Highly Likely or ‘Definitely Yes’ ?”



Source: SAG - Meeting Planner Survey 2002, 2007

Summary Recommendations

Recommendations

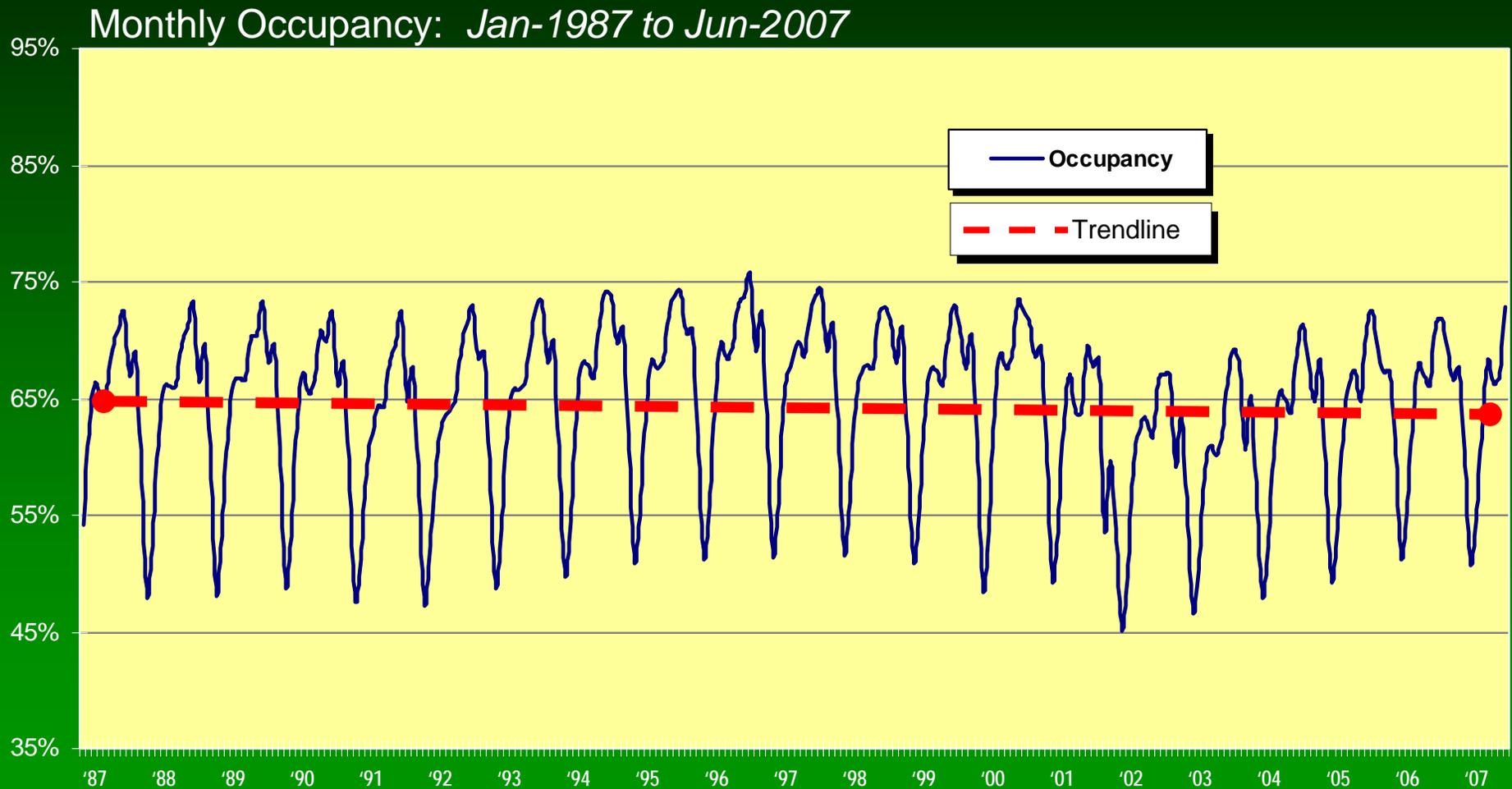
- Portland should continue offering financial incentive packages when cost-effective to appropriate events
 - 68% of all high-impact industry events receive financial incentives
 - Trend mitigates effectiveness; Back to fundamentals
 - Function Space - Hotel Package - Destination Appeal
- Portland and other industry stakeholders should make best efforts towards realizing the development of a new convention HQ hotel adjacent to OCC
 - Continue to coordinate public transportation; facilitate uniform/common room block; and develop Lloyd District area (fundamentals)
- HQ hotel should be as large as the market-wide occupancy levels in Portland allow
 - Market-wide occupancy levels should stabilize at no less than 65%
- HQ hotel should be as large as the cost-effective use of public resources permit

Two Major Questions:

a. Why 65%?

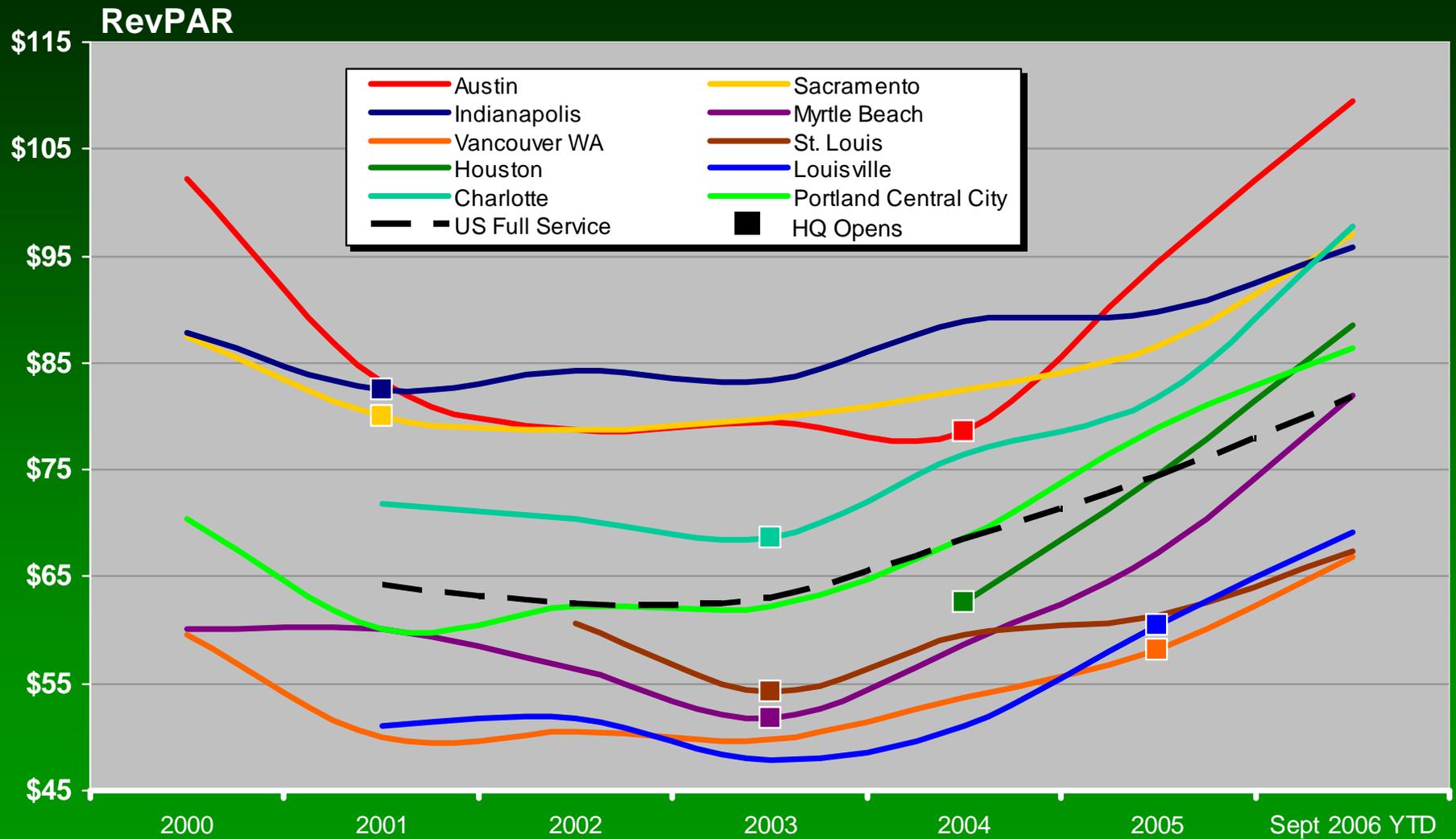
b. Will HQ impact the Portland Market?

U.S. Full-Service Hotel Performance



Source: Smith Travel Research

HQ Hotel Impact on its Market



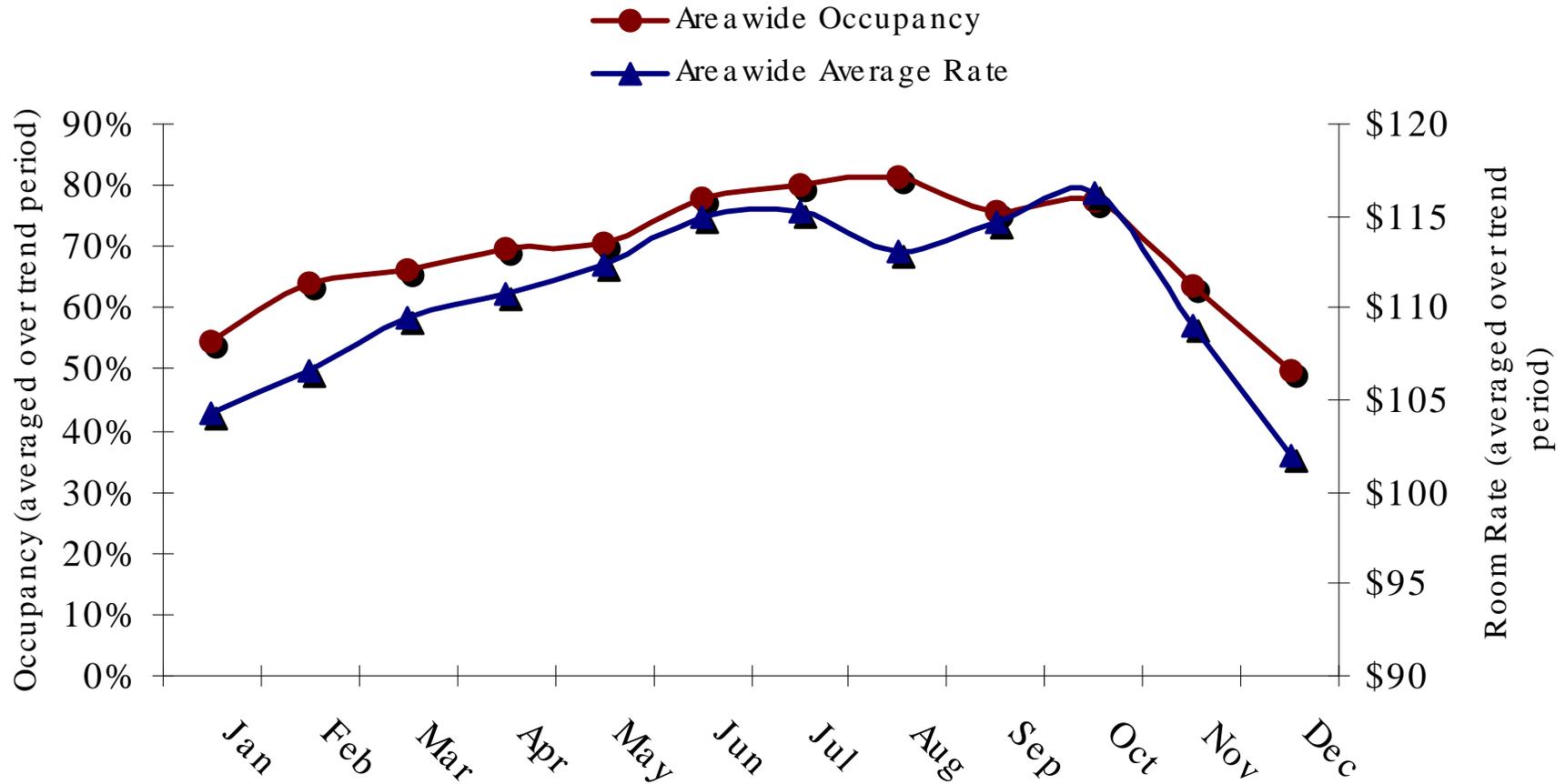
Source: Smith Travel Research

**Presentation
Metro Council and
Metropolitan Exposition
Recreation Commission**

Proposed Westin Convention Center Hotel
September 6, 2007



Average Rate and Occupancy Primary and Secondary Competitors



Source: Smith Travel Research



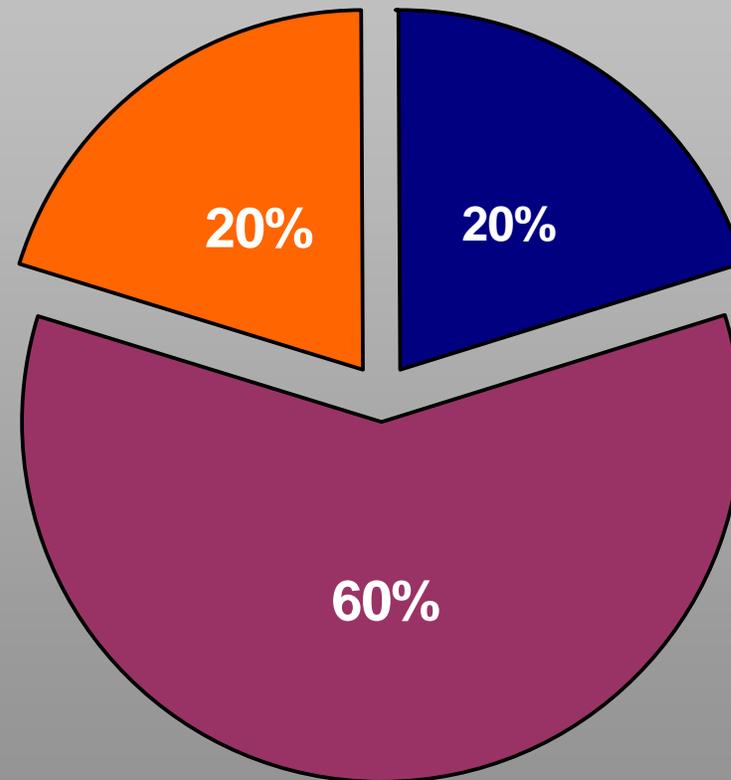
Performance of Competition

	2004	2005	2006
Primary Competitors			
Occupancy	67.5%	71.7%	72.3%
Average Rate	\$104.98	\$109.69	\$118.08
REVPAR	\$70.90	\$78.67	\$85.34
Secondary Competitors			
Occupancy	70.2%	74.3%	75.8%
Average Rate	\$105.08	\$114.03	\$122.93
REVPAR	\$73.80	\$80.54	\$87.77

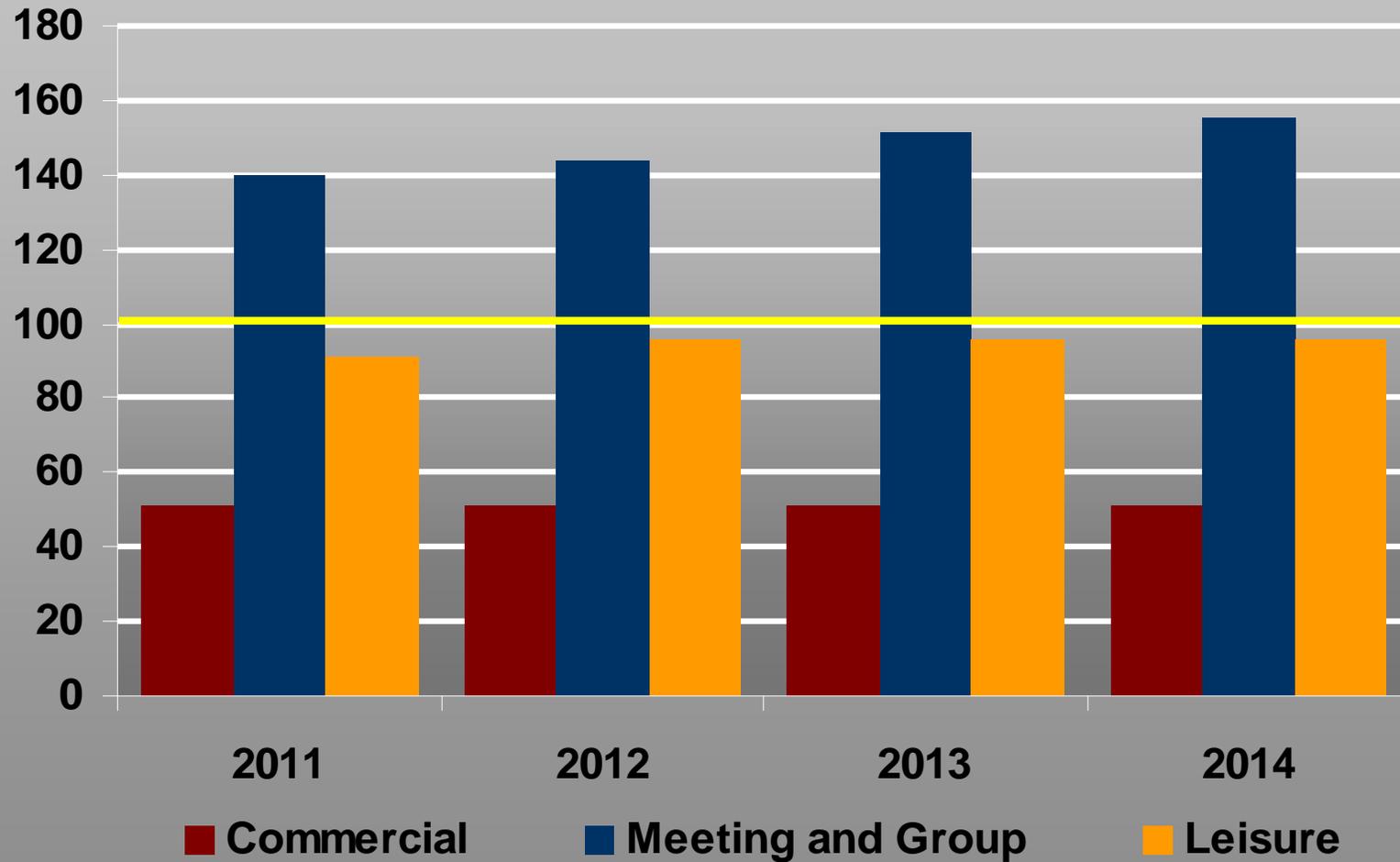
Estimated Segmentation

**Estimated market segmentation
of the subject property
at stabilization (2014)**

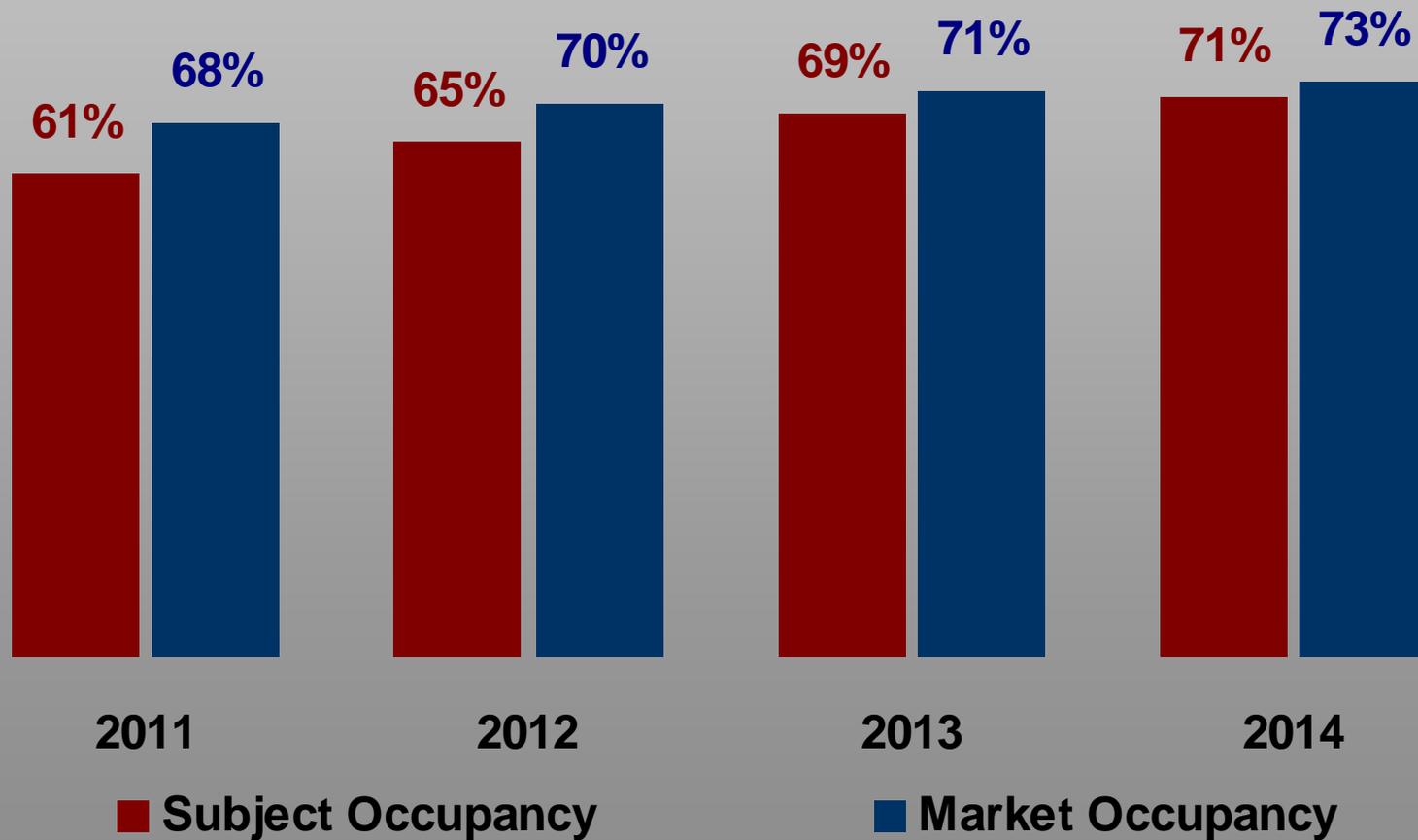
- Commercial
- Meeting and Group
- Leisure



Market Penetration by Segment



Occupancy Estimates



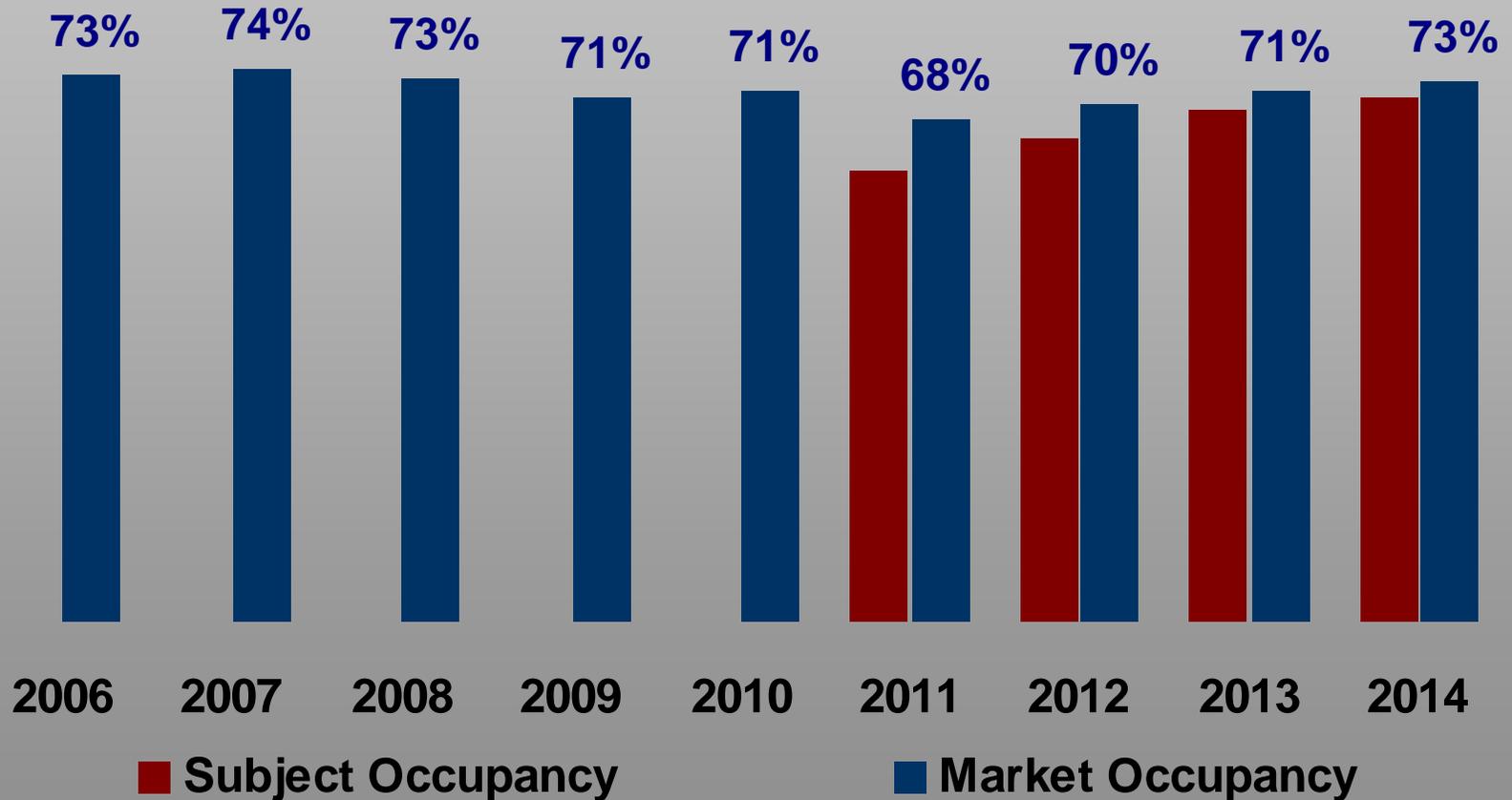


Five Year Proforma

	2011	2012	2013	2014	2015
Occupancy	61%	65%	69%	71%	71%
Average Daily Rate	\$136.06	\$143.11	\$152.30	\$161.76	\$166.61
RevPAR	\$83.00	\$93.02	\$105.09	\$114.85	\$118.30
Projection of Financial Operations (\$ millions)					
Revenue	31,055	35,113	39,843	42,804	44,075
<i>% Growth</i>		13.1%	13.5%	7.4%	3.0%
Contribution	16,026	19,037	22,628	24,915	25,662
<i>% of Revenue</i>	51.6%	54.2%	56.8%	58.2%	58.2%
Undistributed Expenses	8,122	8,752	9,339	9,837	10,132
<i>% of Revenue</i>	26.0%	25.0%	23.4%	23.0%	23.0%
House Profit	7,904	10,285	13,289	15,077	15,531
<i>% of Revenue</i>	25.6%	29.2%	33.4%	35.2%	35.2%
Management Fee	1,025	1,159	1,315	1,413	1,454
<i>% of Revenue</i>	3.3%	3.3%	3.3%	3.3%	3.3%
Fixed Expenses	997	1,089	1,594	2,123	2,186
<i>% of Revenue</i>	3.2%	3.1%	4.0%	5.0%	5.0%
NET INCOME	5,883	8,037	10,381	11,542	11,890
<i>% of Revenue</i>	19.1%	22.8%	26.1%	26.9%	26.9%

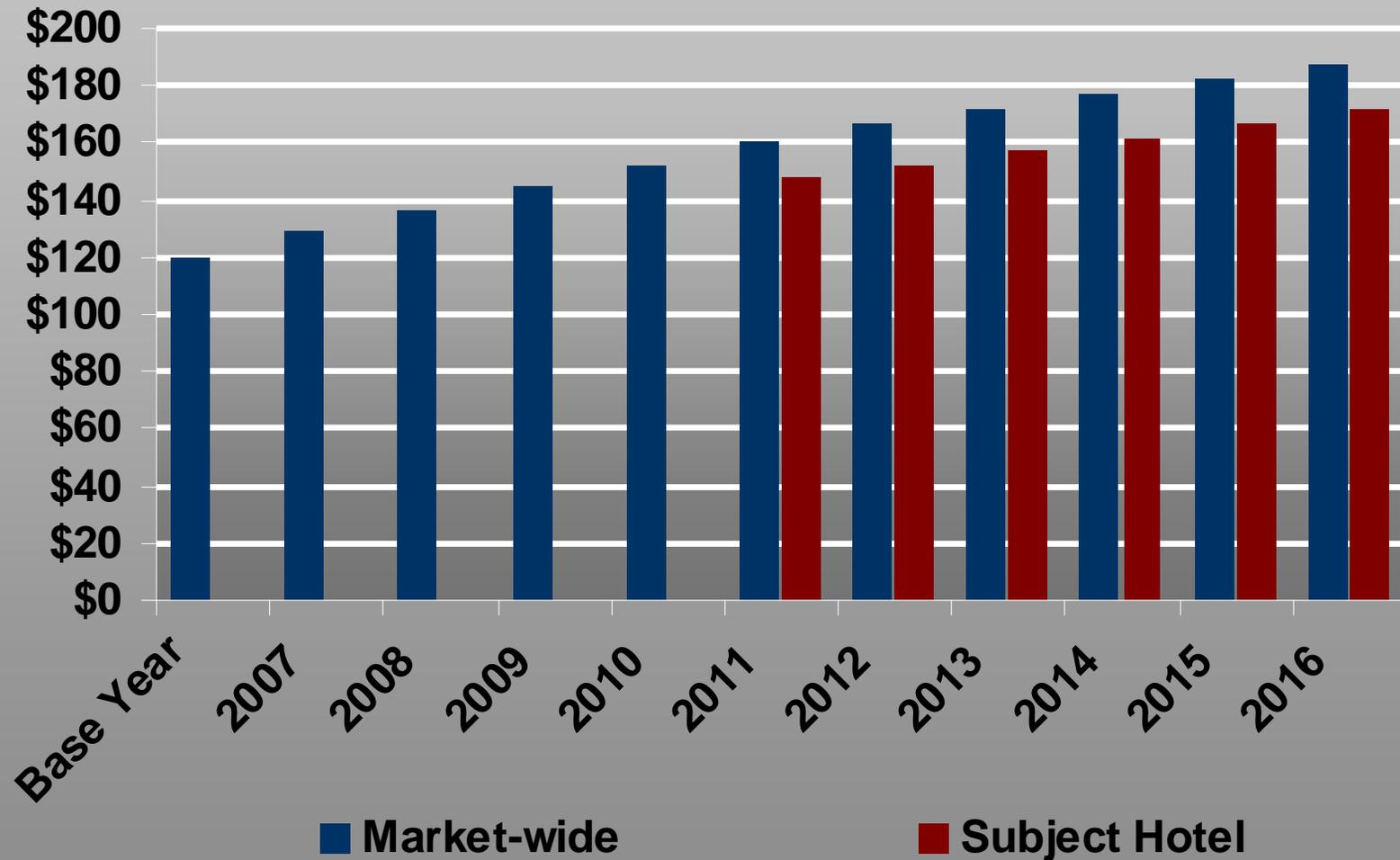


Forecast of Market Occupancy



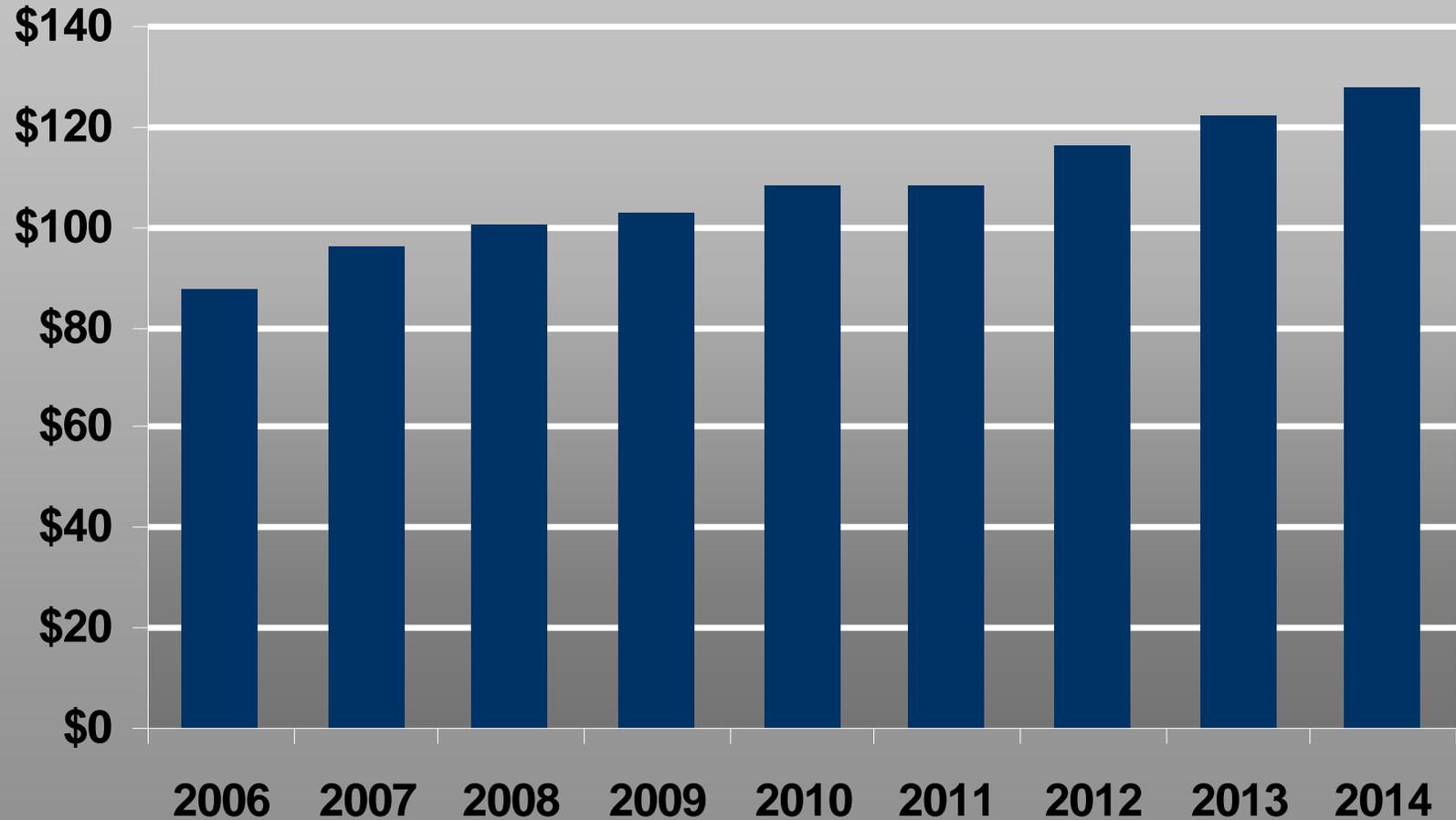


Average Daily Rate Projections





Forecast of Market RevPar



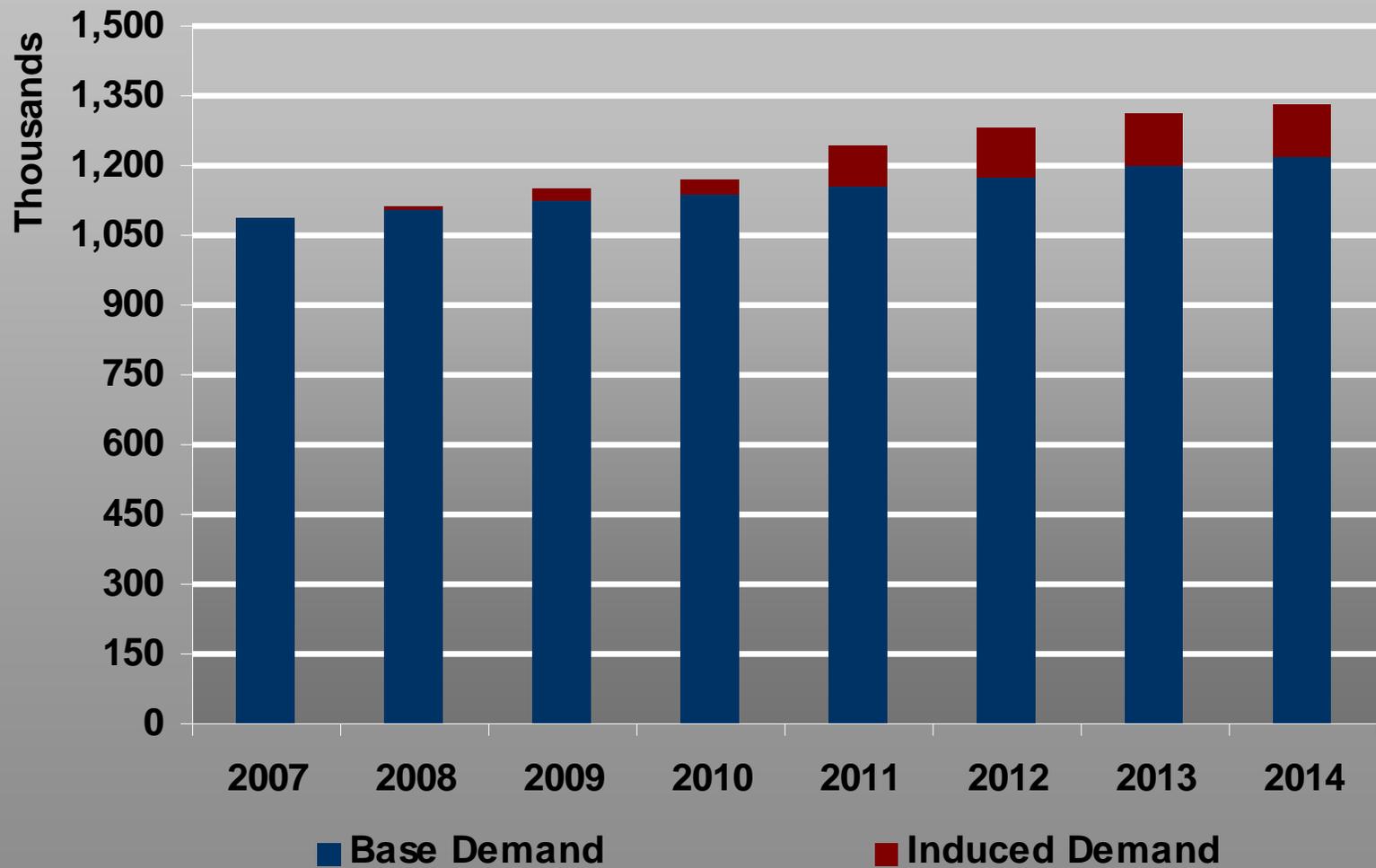


Induced Room Nights

Oregon Convention Center Groups	60,000
In-House Group	27,600
Leisure	2,300
Loss without the addition of the Hotel*	25,000
Total	<u>114,900</u>

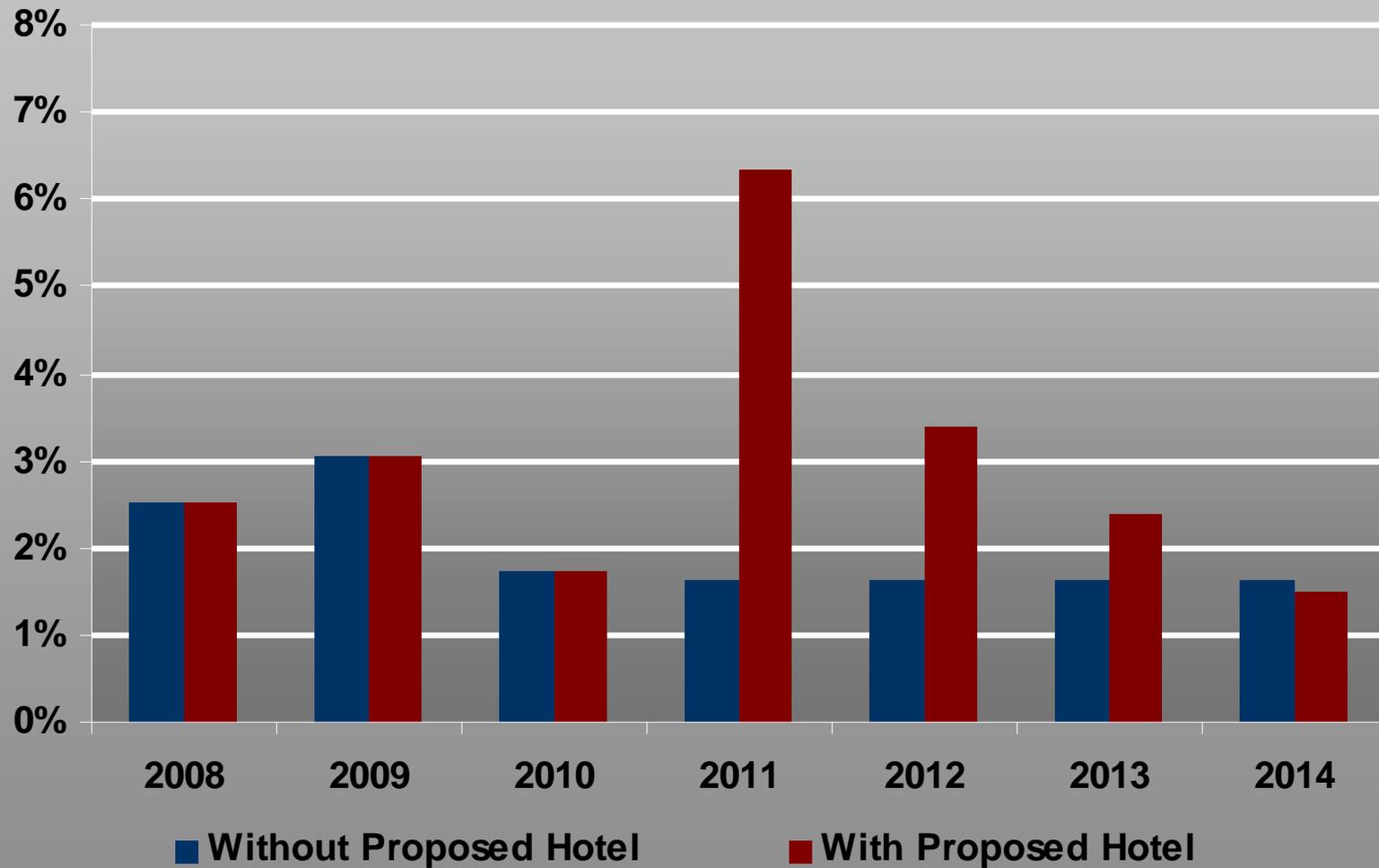
***Source: PKF**

Room Night Demand Forecast





Percent Change in Room Night Demand





Headquarters Hotel

Alternatives Analysis

Prepared by ECONorthwest



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Overview of alternatives

- Publicly-owned, privately-operated 600 room hotel
- Privately-owned 400 room hotel
- Enhanced incentives
- Change the OCC mission
- Status quo with increased subsidy



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Evaluation criteria

- Impact to convention center
- Impact to neighborhood
- Impact to region
- Impact to hospitality industry
- Impact to Metro
- Financial feasibility



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Data sources

- HVS analysis of hotel market and proformas
- KPMG estimates of economic impact of HQ Hotel and the OCC
- SAG survey of selection criteria for national convention planners
- PKF study of hotel market and HQ hotel impacts
- Previous PDC studies regarding a 400 room hotel and other options
- Interviews regarding IGAs and VDTF



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600-Room publicly funded headquarters hotel

- Revenue Impacts:
 - 20% of OCC's lost potential business could be recovered with a 600-room HQH (HVS)
 - 8 new high impact national conventions/yr
 - \$940,000/yr additional OCC operating revenue
- HQH would be catalyst for economic development and redevelopment
 - 820 permanent jobs in Lloyd district/ \$25 million in additional wages to area
 - \$54 million in net new area economic activity
 - 2 block intensive development is positive impact for surrounding area



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600-Room Continued

- No major impacts to hospitality industry at stabilization
- Development of the hotel would create a public asset owned by Metro
 - If hotel is unable to service debt, Metro would be responsible for supporting bonds
- VDF funds may need to increase to accommodate incentives to additional conventions



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400-room privately funded/ publicly subsidized HQH

- Minimal impact on new national conventions
 - 300 room block would only increase OCC penetration of the national convention market from 21% to 27%
 - Room block of any size may not be possible with private hotel
 - Hotel would need to acquire new site - PDC would not donate its land
- Minimal impact on area economic development
 - 400-room hotel would create fewer jobs
 - Does not induce new room nights into the market, but “divides the pie.”



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400-Room Continued

- PDC RFP for private hotel showed minimum public subsidy of \$35 million
 - Variations in amenities and facilities only increased needed subsidies
 - New Market Tax Credits infeasible for closing gap
- Starwood/Westin hotel showed need for \$56 million in public money
- Public money to private HQH may put Metro general fund at risk
 - Metro funds in subordinate position - operating revenues would not be available to repay bonds



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Enhanced Incentives

- OCC currently offers incentives including free space and transportation subsidy
 - Additional incentives may be possible, but marginal benefit is unclear
 - Enhanced incentives could have positive effect
 - 13% of meeting planners cited low incentives at OCC as contributing to rejection of venue
- 68% of all high impact events nationwide are offered incentives
 - 90% of all comparable entities have dedicated incentive funds
 - Incentives such as free rent and transportation subsidy are an expectation



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Incentives Continued

- Evidence suggests POVA has never lost a convention only because of incentives
 - VDF funds have never been insufficient to provide required incentives
- Incentives already increasing at industry rate
 - Further increases in VDF funds may affect funds available to other VFTA programs
- Incentives are an important part of an overall package, but cannot replace the demand for a headquarters hotel and large room block



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Change the OCC Mission

- Change would shift focus from national conventions to local events and trade shows
- 2006-07: small meetings and public shows made up 58% of all OCC events
- Revenue from local events much lower
 - Local events generate \$15K on average
 - Conventions generate \$118K on average
- Spending from local attendees much lower
 - Local attendees spend \$28/day
 - National attendees spend \$298/day



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Change the Mission Continued

- Shifting to a local/regional focus would decrease OCC revenues and economic impact
- Room night demand to surrounding hotels would decrease
 - 20% of existing Portland hotel group business is OCC related
- Hotel occupancy tax revenue would likely decrease while OCC operating gaps increase



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Status Quo with Increased Funding

- 22% of national meeting planners would consider OCC based on current incentives/ accommodations package
- OCC faces increasing future operating deficit under status quo
- Projected loss of 6 conventions/yr would cause negative impacts to economy (\$40.8 million/yr) and hospitality industry (25,000 room nights)



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Status Quo Continued

- Increasing operating deficit would inhibit OCC's ability to fund reserves for renewal and replacement
 - Additional public money may be necessary for capital improvement
- Current IGA could be modified to allow VTFA money to cover operating deficit



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Financial Analysis



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Metro & MERC Joint Work Session
9/06/07

Presented by Piper Jaffray



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Financial Analysis Discussion

- Public versus private financing
- Projected revenues and expenses
- Facility and construction cost estimates
- Current market conditions
- Project timing
- Financing alternatives
- Capitalization plan for planning purposes

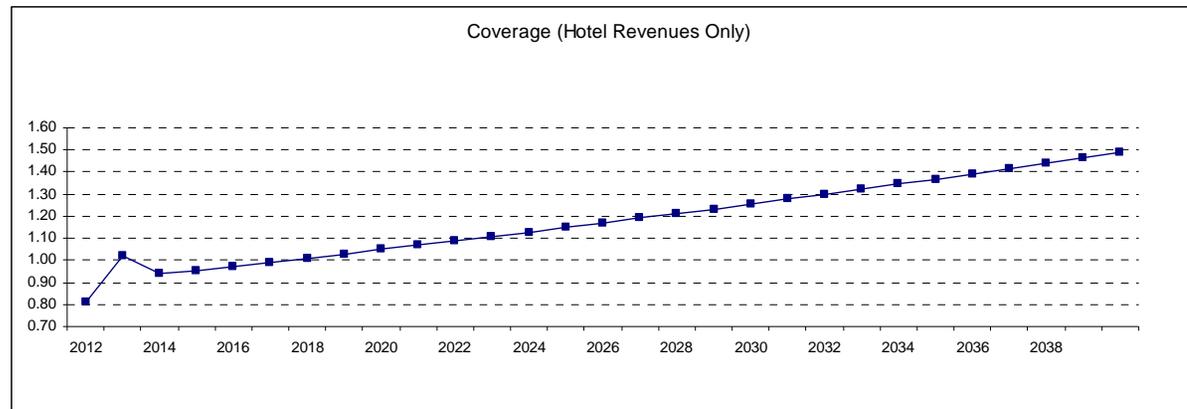


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Stand Alone Financing

- With the exception of 2012, HVS projected net income alone is sufficient to cover debt service

Fiscal Year Ending	2011	2012	2013	2014	2020	2025	2030	2040
Hotel NOI	6,688	8,929	11,771	13,454	16,070	18,629	21,597	28,179
Net Debt Service	5,153	10,307	10,307	12,637	13,280	13,856	14,466	15,788
FF&E Reserve	621	702	1,195	1,712	2,041	2,366	2,743	3,686
Coverage	-	0.81	1.02	0.94	1.05	1.15	1.25	1.45



- However, the projected net income alone is insufficient to implement a financing and insulate Metro from project risk



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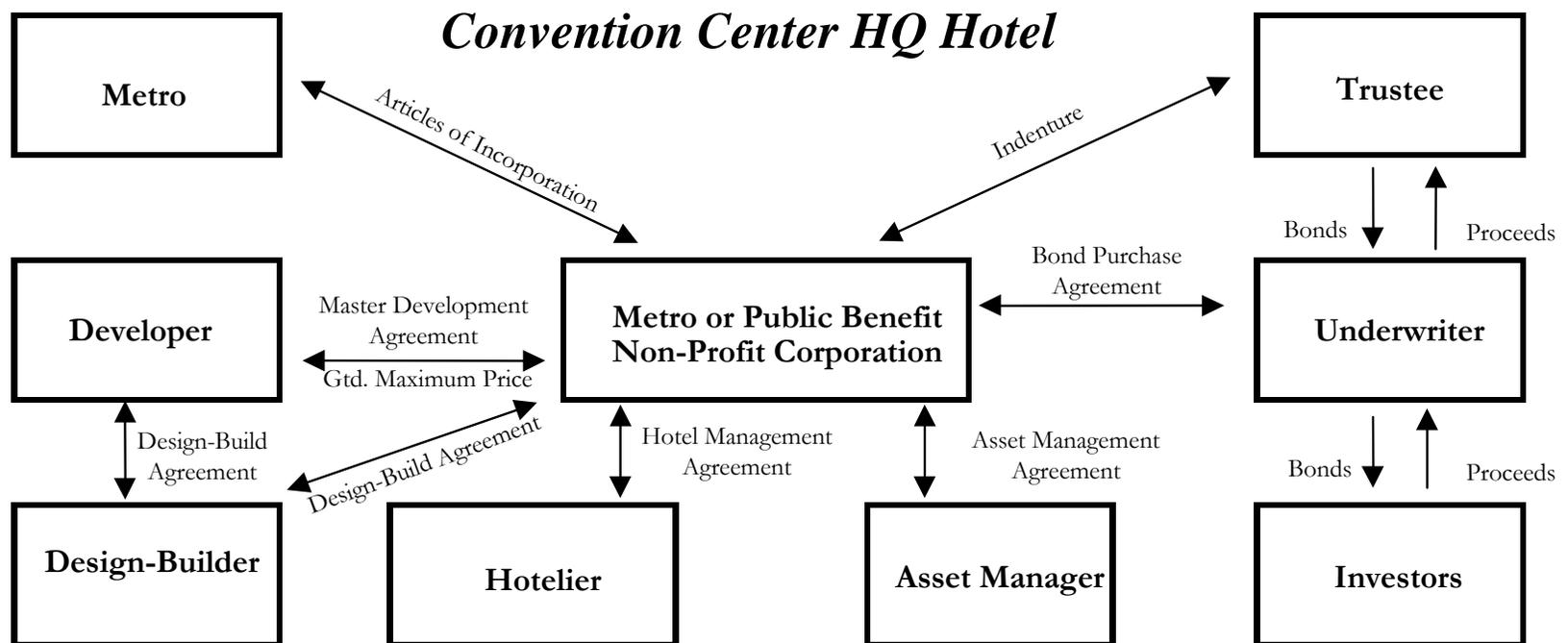
Potential Financial Resources

- Hotel specific TLT taxes and additional room surcharge
- Development team contribution
- Restructuring of existing VDI debt service
- Financial support from the State
- Explore additional funding as necessary



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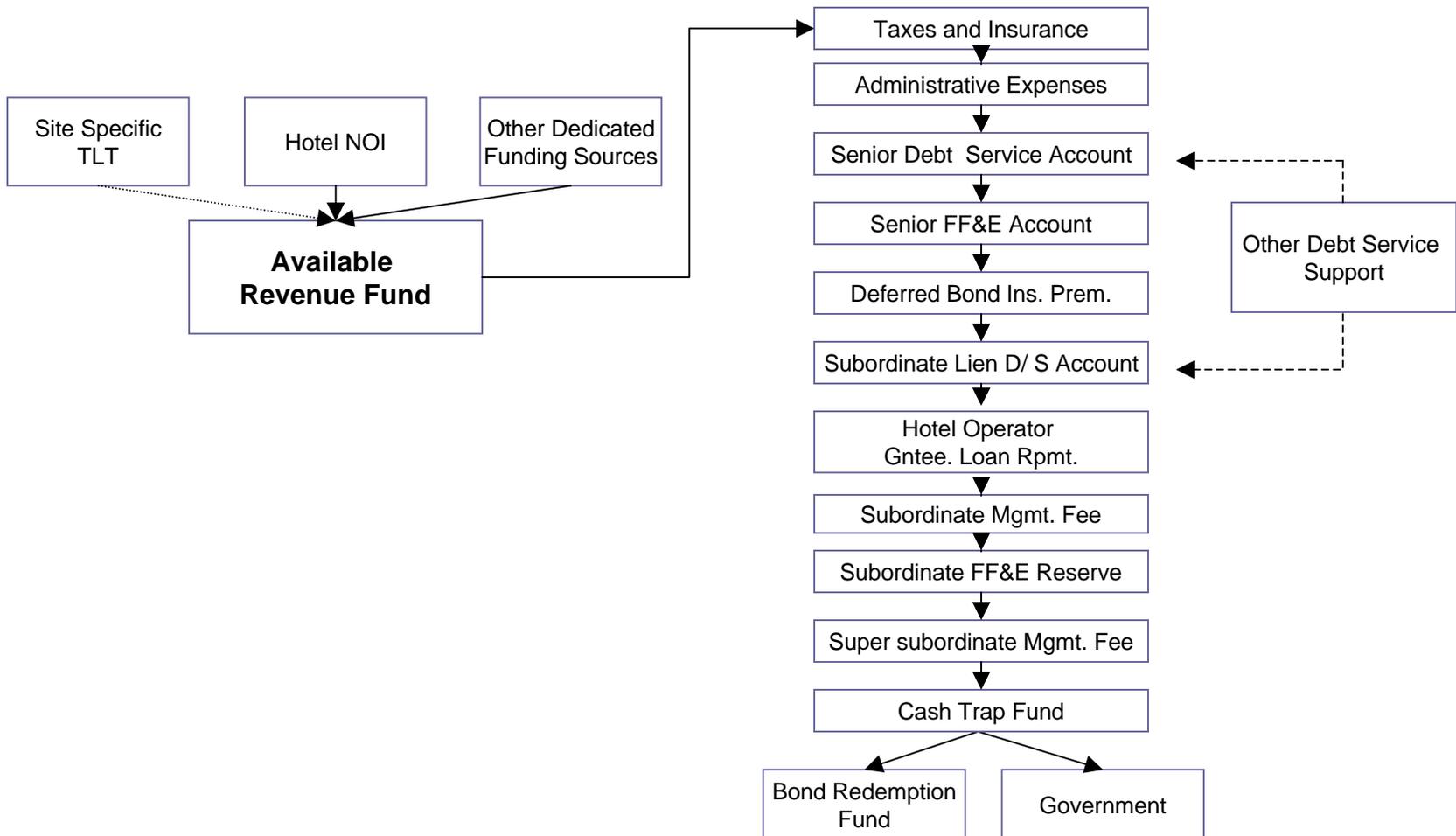
Legal Structure





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Flow of Funds





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Financing Analysis – General Assumptions

- Current market rates and sensitivity
- Private investment of \$15 million
- PDC contribution of land and \$4 million
- Project budget of \$168.6 million
- Additional financial resources
 - Annual contribution of site specific TLT and surcharge
 - VDI debt restructuring
 - Additional contributions
- Limited backstop by Metro



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Base Case - Sources and Uses of Funds (\$000)

<u>Sources of Funds</u>	
Bond Proceeds	\$ 215,819
Development Team Contribution	15,000
Interest Earnings on Project Construction Fund	9,209
PDC Contribution	4,000
TOTAL SOURCES OF FUNDS	\$ 244,029
<u>Uses of Funds</u>	
Deposit to Project Construction Fund	\$ 168,654
Owners Contingency	8,408
Pre-opening expenses	4,500
Deposit to Capitalized Interest (CIF) Fund	28,505
Deposit to Debt Service Reserve Fund (DSRF)	14,683
Operating Reserve	12,500
Costs of Issuance	5,280
Construction Period Expense	1,500
TOTAL USES OF FUNDS	\$ 244,029



Metro & MERC Staff Recommendation



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Staff Recommendation

- Developing a 600-room publicly owned, privately operated headquarters hotel adjacent to the Oregon Convention Center will generate the greatest benefits to the OCC and to the region.
- Identify additional resources and partners to minimize risk to Metro, and complete the financing plan
- Increasing the existing incentives package provided to prospective conventions would also be necessary for increasing national conventions at the OCC
- The OCC must continue to receive an adequate level of public funding for marketing and operations.



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Elements of a Successful Financing Plan

- Adequately funds debt service, risk scenarios, capitalized bond interest, bond insurance, and sinking fund requirements
- Provides necessary funding to offer enhanced incentives to prospective national conventions
- Provides adequate level of funding for OCC capital and operations
- Protects Metro's general fund and existing programs from undue risk



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Project is Contingent Upon:

- Completed financing plan
- Metro entering into a satisfactory development agreement with the Project developer, Garfield Traub-Ashforth Pacific and previously selected Project team;
- Garfield Traub-Ashforth Pacific delivering a Project guaranteed maximum price that is in line with the financing plan developed;
- Metro entering into any necessary Intergovernmental Agreements with the City of Portland, PDC, Multnomah County, and other parties to implement a proposed financing plan;
- Final Recommendation on March 31, 2008



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Questions & Discussion



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