Oregon Convention Center

HEADQUARTERS HOTEL

IMPLEMENTATION STRATEGY

August 2003

Investing in Portland's Future

PDC

PORTLAND DEVELOPMENT COMMISSION

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ACKNOWLEDGEMENTS

PDC staff would like to acknowledge the efforts of the following individuals who have contributed their time and efforts to review this report and provide valuable advice and counsel:

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EXECUTIVE SUMMARY

There is renewed interest in development of a Headquarters (HQ) Hotel in Portland led by the Portland/Oregon Visitors Association (POVA), the Metropolitan Exposition Recreation Commission (MERC), the Portland Development Commission (PDC), convention industry stakeholders and by developers interested in implementing the project. The next few years may present a unique opportunity to successfully achieve a HQ Hotel in Portland. There exists today broad stakeholder support, site availability and a newly expanded Oregon Convention Center. Taken together, these factors provide a significant rationale to initiate development of a HQ Hotel. With an estimated five year time frame for completion, planning for a HQ Hotel must begin soon if the region is to enjoy the full economic benefit of the project by decade's end.

Holladay Park in the Lloyd District

To accelerate the process, in May 2003 the PDC Board directed staff to prepare an Implementation Strategy with the target of developing an 800-room HQ Hotel in Portland by 2008, in conjunction with key project stakeholders. This report has been prepared in response to that directive. It provides project goals, summarizes technical information, describes program and financing alternatives and presents staff recommendations to advance the project.

GOALS

The following goals reflect agreement among project stakeholders about the desired outcomes from a HQ Hotel, serve to guide staff recommendations and may be used through the development process to assess project success.

- Maximize Impact on Area Economy
- Increase Economic Impact of the Oregon Convention Center
- Minimize Public Investment and Risk
- Maximize Positive Impact on Area Hotels
- Meet Key Public Objectives (M/W/ESB contracting and employment, design quality including green/sustainable architecture and Lloyd District redevelopment objectives)

GENERAL APPROACH

Due to the currently challenging hotel market in Portland and the variety of potential public sector roles in developing a HQ Hotel, a phased approach to soliciting developer interest is recommended. First, PDC should issue a Request for Qualifications (RFQ) to identify qualified developers and determine if a privately funded approach is possible. Second, if necessary, solicit specific, detailed proposals from promising developers through a Request for Proposals (RFP). At this time, do not eliminate from consideration any implementation alternative or public financing tools until the full array of developer interest and potential approaches has been identified.

HOTEL PROGRAM

For the Oregon Convention Center (OCC) to maximize its potential, Portland requires 800 blockable hotel rooms in the immediate vicinity of the OCC. The optimum would be to provide this room block in a single HQ Hotel that is physically connected to the OCC. Such a hotel should have a 3.5 star rating, include a minimum 25,000 s.f. of meeting and ballroom space and contain at least one full-service restaurant. A minimum of .5 parking spaces per room will likely be required.

FINANCING

The optimum scenario will be to identify a private developer and operator to implement the desired HQ Hotel with limited public investment. This approach would maximize the amount of private funding and reduce public financial risk. The experience of other cities suggests that some direct public investment (public improvements, New Market Tax Credits, parking, etc.) may be necessary.

SOLICITATION

The following phased solicitation approach is recommended:

- Request for Qualifications – An RFQ should be issued to identify all qualified parties interested in developing a HQ Hotel in Portland. This effort will determine if there are private developers and operators able to carry out the project with minimal public investment. Proposals may be received that suggest creative alternative approaches to achieve project goals including partnerships that upgrade and/or expand nearby hotels. The city should reserve the right to pursue negotiations with developers who propose a bona-fide, privately financed approach; however, a defined time limit should be placed on any such negotiations. Potential developers will be qualified based on responsiveness to identified project goals, hotel development experience, project approach and ability to secure financing.
- Request for Proposals – If a privately funded development is not identified, or if negotiations are unsuccessful, qualified developers will be invited to respond to an RFP. Prior to issuance of the RFP, the city should determine the nature and extent of public financing tools that may be available, examine the program requirements for the hotel, and decide whether the RFP will seek 'bundled' proposals (including the full development team) or 'unbundled' (fee developer and operator only). Proposals will be evaluated based on additional evaluation criteria including a detailed description of financing, design, ownership structure and implementation schedule.

Both the RFQ and RFP should strongly encourage the development of a HQ Hotel on property controlled by PDC, but should allow for opportunities on other sites provided these alternatives meet critical public objectives, including proximity to the OCC.

MAX lightrail runs east-west through the Lloyd District and serves the Oregon Convention Center and Rose Garden Arena.

SCHEDULE

The expected schedule to implement a HQ Hotel could vary significantly based on the outcome of the solicitation process. Assuming the two-phase process is followed, selection would be completed by June 15, 2004, negotiations would be completed by December 2004 and construction would commence by June 2006. Based on a two-year construction schedule, the HQ Hotel is projected to open by Fall 2008.

NEXT STEPS

Following PDC Board approval of this Implementation Strategy, staff would organize a Project Advisory Committee, conduct additional research and fact finding relative to HQ Hotel development in other cities, finalize the RFQ solicitation and identify a list of likely respondents for mailing. The RFQ should be issued by September 15, 2003.

I

OVERVIEW

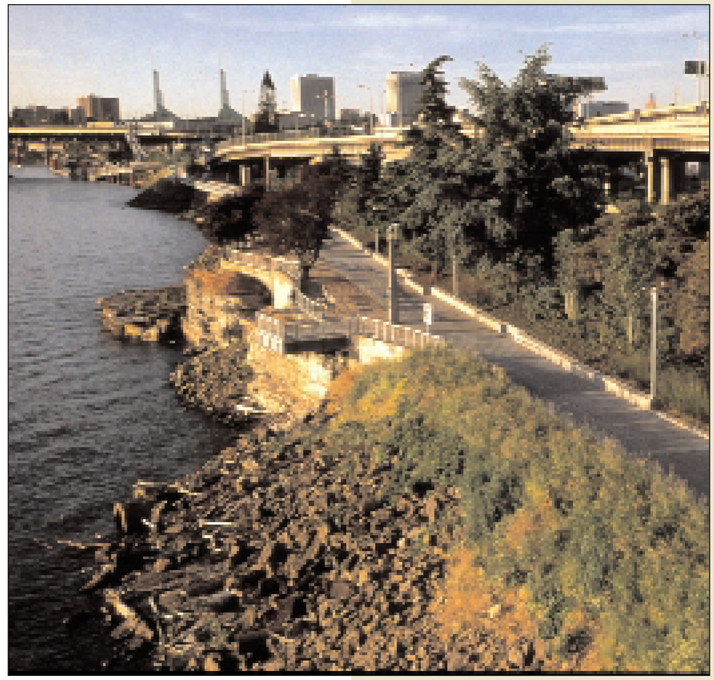
A. INTRODUCTION

Since 1989, Portland has identified the need for a HQ Hotel (HQ Hotel) to leverage the significant public investment made in the Oregon Convention Center (OCC). A HQ Hotel can bring larger, more lucrative conventions and draw visitors and delegates to Portland from outside the metropolitan area. Such visitors bring new spending into the community and support hospitality and tourism related businesses. This can play a significant role in the local economy.

A HQ Hotel offers significant benefits but comes with potential risks. It can have a broad economic impact by attracting larger, more lucrative conventions to the host city and meet important public policy objectives related to job creation, contracting and sustainable design. It can also act as a local catalyst for revitalization and redevelopment. However, a HQ Hotel also presents development and operating risks. To attract qualified developers and operators, cities are often required to assume some of this risk by providing financial subsidies or, increasingly, by taking an ownership role in the project. And while a HQ Hotel creates hotel room demand by helping to attract conventions that would not otherwise consider Portland, it also consumes existing demand when the hotel is not fully booked with convention business. This dynamic raises important issues for local hoteliers.

Through the 1990's attempts were made to assemble property and attract a convention hotel. In 1999 a plan was approved to finance construction of the long-planned expansion of the OCC. This expansion, completed in May 2003, and the Commission's acquisition of property adjacent to the OCC, has drawn increased interest from hotel developers interested in participating in development of a HQ Hotel.

In response, the Portland Oregon Visitors Association (POVA), the Metropolitan Exposition Recreation Commission (MERC) and PDC retained the Strategic Advisory Group (SAG) to assess the feasibility and implementation potential of a HQ Hotel near the Oregon Convention Center. The assignment included a survey of meeting planners, assessment of market conditions, identification of implementation options and costs and specific recommendations regarding size, program cost, and financing of a HQ Hotel. The SAG report was completed in February 2003. It recommended that Portland seek 800 blockable rooms in proximity to the OCC, secure a common hotel contract and identify better transportation links between existing hotels and the OCC. These recommendations were accepted by the Board of Directors of POVA and MERC respectively in March 2003 and reviewed with the PDC Board in April 2003.



Eastbank Esplanade

In May 2003, PDC adopted a resolution directing staff to prepare an implementation strategy with a goal of achieving an 800-room HQ Hotel by 2008. The resolution further directed staff to work closely with key stakeholders during preparation of such a strategy. As the urban renewal agency for the City of Portland with longstanding development experience, land for a HQ Hotel under control and access to tax increment and other funding mechanisms, PDC will be expected to take a leadership role in project development. A HQ Hotel is also the foremost goal of PDC's Oregon Convention Center Urban Renewal Plan adopted by the Portland City Council in 1989.

This report describes project goals, key information from recent consultant reports, evaluates various implementation alternatives and presents staff recommendations to develop a HQ Hotel per the Commission's directive. If adopted by the Commission, it provides a road map for PDC and its partners to follow. It has been prepared by PDC staff with extensive reference to the "Convention Center Hotel Strategic Plan" (2003) by the Strategic Advisory Group, the "Evaluation of Hotel Market Conditions and Impact Analysis of a Convention Hotel" (2001) by Economics Research Associates and in consultation with project stakeholders including the Portland Oregon Visitors Association (POVA), the Metropolitan Exposition Recreation Commission (MERC), and the Tri-County Lodging Association.

B. PROJECT GOALS

Given the interests of various stakeholders in this project and the complexities associated with HQ Hotel development, staff sought to clearly identify the key strategic goals that would be generally accepted by all parties and determine the ultimate success of the project. These are identified as follows:

1. Maximize Impact on Area Economy

Research completed by the Strategic Advisory Group (SAG) presents a scenario in which 800 convention-quality rooms near the OCC could generate a total economic impact of $6.3 billion in additional new spending over 30 years (the typical bond authorization period). Such a facility would also support 2,400 jobs per year and generate additional taxes over the 30-year bond period in the following amounts: county taxes, $155.5 million; state taxes, $95.8 million. This is a significant potential impact on the area economy and tax base.

2. Increase Economic Impact of the Oregon Convention Center

The primary role of the OCC is to maximize the economic impact of visitors from outside the metropolitan area. Since it opened in 1990, the OCC has generated $4.5 billion in economic benefits for the region. In 2002, the convention center pumped $380 million into the regional economic infrastructure, and that figure is expected to increase at least $100 million annually with the newly expanded facility.

Now that the expansion of the OCC is complete, the most important remaining reason for the loss of high-impact conventions that bring substantial numbers of out-of-town visitors with significant spending power is the lack of a HQ Hotel. Portland has lost a significant amount of convention business due to the absence of a HQ Hotel with 800 blockable, proximate, convention quality hotel rooms.

Convention Center at dusk

Without the room block, a certain percentage of meeting planners, particularly those that represent larger convention groups, will continue to reject Portland. Conventions can generally find their preferred convention package in dozens of other U.S. cities. When the Strategic Advisory Group (SAG) queried meeting planners who reject Portland, 60 percent said that they would be "highly likely" or "definitely" inclined to book Portland if the city had 800 convention-quality rooms adjacent to the OCC. The groups include the American Academy of Forensic Scientists, Automotive Recyclers Association, Geological Society of America, Institute of Navigation, National Fire Ecology Symposium, National PTA, Specialty Coffee Association, and the U.S. Department of Transportation.

3. Minimize Public Investment and Risk

To the maximum extent possible, financing requirements and risk for a HQ Hotel should be allocated to the private sector. However, all HQ Hotels built in the last ten years, or currently in the planning stages, have required some form of public investment. Many are 100% publicly owned and financed. The challenge is to finance and operate a hotel whose market share is significantly tied to conventions and whose construction cost may be higher due to increased public spaces. This generally precludes stand-alone private financing. This investment may take many forms on both the capital and operating sides. If public funds are determined necessary for a Portland HQ Hotel, they should be as small as necessary to implement the desired project.

4. Maximize Positive Impact on Area Hotels

Portland's hotel market has been severely challenged in the last few years. The combined effect of 9/11 events, oversupply and a downturn in the hotel and convention market generally due to the recession has lead to significantly reduced occupancy rates and declining room rates for central city hotels. The negative impact of room supply added by a new HQ Hotel in a depressed market could be significant. A new HQ Hotel must significantly increase room night demand to an extent that exceeds the supply provided by the new hotel. Area hotels need to benefit from this greater demand while conventions are in town and need to be protected from a subsidized competitor when the OCC is empty. Otherwise, the positive impact from the HQ Hotel will be offset by its negative impact on existing hoteliers.

5. Meet Key Public Objectives

Development of a HQ Hotel presents an opportunity to achieve key public policy objectives of the Commission. These include:

- M/W/ESB Employment – A large hotel can provide significant numbers and a variety of jobs. A fully operating HQ Hotel could provide hundreds of permanent jobs. Although generally not in high pay ranges, the hospitality industry employment provides career track opportunities, good benefits and is an important sector of Portland's economy. In addition, based on a $150-$180,000,000 total construction cost, a HQ Hotel would be expected to provide significant numbers of construction jobs over a two and a half year period. These job opportunities must be made available to minority, women and emerging small businesses.
- Green/Sustainable Design – A HQ Hotel can be developed to showcase advanced practices of Green architecture and sustainable design. Such an approach can provide significant payoffs in terms of lower long-term operating costs. It can also be an asset for attracting conventions associated with the growing Green Building movement.

II

MARKET ENVIRONMENT

A. PORTLAND'S HOTEL MARKET

Portland's hotel market has witnessed a significant increase in available rooms over the past few years. Since 1997, approximately 1,300 convention-quality hotel rooms have been added to the metro area hotel supply. During the middle part of the 1990's, average occupancy and room rates were generally on an upward path. Hotels were performing adequately if not spectacularly in some cases. In contrast, in the last few years hotel occupancy and room rates have declined and the last two years have posed severe challenges to the local hotel market. The combined events of 9/11, the recession and new hotel supply have placed severe downward pressure on occupancy rates, room rates and average room revenue.

Occupancy Rates – Between January 1998 and August 2002, convention-quality hotels in Portland saw occupancy rates decline by nearly 14% to 64.3%. Since then, occupancy rates have declined still further. About 68% occupancy is generally considered by some to be the minimum required to cover operating costs and debt service.

Average Daily Rate (ADR) – Between January 1998 and August 2002, convention-quality hotels in Portland saw ADR's decline by 3.7% to $100.61 per room. This rate is considered too low to finance new construction and may be too low, depending on occupancy rates, to cover reserve and replacement funds for existing hotels.

Revenue Per Room (RevPar) – RevPar is an indicator of a hotel's financial performance, taking into account occupancy, rate and other revenue sources. On a wider market basis, considering approximately 16,200 hotels throughout the tri-county area, Rev Par declined form $61.33 in July 1997 to $48.92 in July 2001. This represents a decline of 20.2%. It is assumed that there has been additional downward pressure on RevPar since this period.

B. PORTLAND CONVENTION FACILITIES

The May 2003 expansion of the Oregon Convention Center provides Portland with one of the finest medium-size city convention venues in the nation. The expanded OCC contains 370,000 square feet of exhibition, ballroom and meeting space. It allows Portland the versatility to accommodate national conventions exceeding 4500 delegates as well as simultaneous smaller conventions. Prior to expansion, the OCC annually attracted an average of 400 events with an average annual attendance of 580,000 individuals and generated over $380 million in economic activity. With the current expansion these numbers can be substantially greater.

C. CURRENT HOTEL ROOM BLOCK APPROACH

Convention meeting planners seek to house their attendees in as few hotels as possible. This simplifies logistics, reduces costs and minimizes exposure to liability (fewer contracts, less transportation issues, etc.). Without a HQ Hotel in Portland, POVA must be more creative and work harder in order to secure convention business. POVA works closely with convention planners to determine anticipated total peak night room block requirement and then determines the fewest number of acceptable hotels needed to meet the group's needs. The issue becomes complex due to quality parameters planners often place on their hotel selections (brand, minimum room block, hotel rating, distance to OCC, etc.). Based on Portland's hotel package and the lack of a convention center HQ Hotel, a peak night block within walking distance of the OCC totaling approximately 1,000 rooms can be designed but it requires the utilization of 7 hotels, most of which are deemed generally acceptable to planners. The largest of these is the Doubletree Lloyd Center, with a maximum committable block of 400. Should a group need to increase the total block or to improve the quality of hotels, downtown hotels are required. This obviously brings transportation issues and more complexity into the equation. Portland's largest peak night committable block at a single hotel is approximately 600 (Hilton), followed by the Marriott Downtown with 350. Downtown Portland will yield a total peak night block of approximately 2,500, but it requires utilizing 20 properties.

D. HQ HOTEL DEVELOPMENT IN COMPETITIVE CITIES

Since 1991, approximately 21 HQ Hotels have been developed in cities across the country. Sixteen other HQ Hotels are currently in the planning or construction phase. In general, these numbers indicate a significant increase in the level of competition for larger, lucrative conventions and the recognition of the importance of hotel supply, room rates and location to successful convention marketing. In many of these cities, the convention facility is within the downtown where significant numbers of hotel rooms already exist proximate to the convention site. However, many cities are also responding to the need to develop HQ Hotels that are connected to their respective convention centers. This direct physical connection is an important feature for many convention planners.

HOTEL SIZE Portland competes for convention business with medium and larger cities in the western United States, particularly those with large convention venues. Exhibit B shows Portland's hotel assets compared to those of its most immediate competition. As indicated, all of the competitive cities have a HQ Hotel of at least 380 rooms adjacent to or across the street from their convention center. In addition, each city has hundreds of convention-quality hotel rooms within two blocks of their respective convention venues. By contrast, Portland has one 476 room convention-quality hotel over five blocks away from the Oregon Convention Center. As described above, Portland has historically attempted to overcome this disadvantage by obtaining room block commitments from existing hotels– sometimes necessitating numerous, separate hotel contracts to secure larger conventions.

TYPE AND PROGRAM HQ Hotels must meet a standard of quality and service that corresponds to at least a 3.5 star rating. Portland's competition has developed, and continues to develop, hotels that meet or exceed this quality standard. Typical hotel brands in competitive cities include Marriott and Hyatt as described in Exhibit B. Except for the Salt Lake City Wyndham, each hotel has at least 25,000 s.f. of meeting and ballroom space, .5-1.0 parking spaces per room and a variety of restaurants and other amenities.

PUBLIC FINANCING TOOLS UTILIZED Exhibit C indicates the type and variety of public financing tools utilized by a broad sample of other convention cities to implement HQ Hotel projects. Of 10 recent, or current projects, all have required significant public financial participation tools. Due to the difficulty of financing, half of the HQ Hotel projects have utilized the public non-profit model to reduce financing costs. The SAG report indicates that Portland may need to take advantage of virtually all public investment tools to achieve the goal of an 800-room block.

III

IMPLEMENTATION ALTERNATIVES

Staff examined a variety of implementation alternatives related to hotel program (size and amenities), financing and solicitation process in order to ensure that the full range of possibilities were considered in forming the recommended strategy.

A. PROGRAM OPTIONS

The SAG report identified the need for convention sales staff to have access to a block of up to 800 convention-quality rooms proximate to the OCC to secure large conventions. Four options were identified to accomplish this. The pros and cons of each are summarized below.

1. Seek Development of an 800-Room HQ Hotel Constructed as a Single Project

A new hotel would be constructed in one phase consisting of at least 800 convention-quality rooms. With development of such a hotel taking about five years, the hotel would likely open in 2008. An 800-room HQ Hotel would provide a block of about 700-800 rooms for conventions and retain the balance for transient business. Eight-hundred rooms would be sufficient to serve most conventions. For conventions requiring a larger room commitment, the room block would be supplemented through arrangements with other area hotels.

Pros:

- Best supports marketing efforts by providing a room block large enough for major conventions.
- Provides meeting and ballroom capabilities sought by meeting planners and convention delegates.
- Allows for efficient property management.
- Potentially restricts development of competing area hotels.
- Allows for the lowest total development cost due to efficiencies in design, permitting, bidding and construction.
- Provides the largest and most immediate urban design upgrade to the area and maximizes the potential to catalyze development in the area.

Cons:

- Could require the maximum immediate amount of public assistance.
- Maximizes the amount of new hotel product in the Portland market and may exacerbate low occupancy rates for hotel properties.
- Exposes the hotel to greater financial risk.
- May create additional downward pressure on RevPar for area hotels.

2. Seek Development of an 800-Room HQ Hotel Constructed in Phases

Eight-hundred rooms would be constructed in two phases; an immediate phase of a specified amount of rooms and a future phase at a specified time set either by date or objective criteria –e.g. occupancy rate, for the remaining rooms. Before phase 2 is built, an interim approach to provide the 800-room block will have to be established. Some of this room-block must be filled by hotels near the OCC and may offer less quality than desired.

Pros:

- Ultimately produces desired product, which maximizes marketability of the OCC and redevelopment of the area.
- Reduces the amount of public assistance that may be immediately needed; may require simpler financing tools.
- Permits a period of market absorption before the full complement of new rooms comes on-line reducing the risk of a prolonged period of low profitability for the HQ Hotel and other hotels.

Cons:

- Less ability to market large room block in a single facility or in convention-quality rooms until Phase 2 is completed.
- Phase 2 construction may impact earlier built phases.
- In multi-phase projects, there is a risk that conditions change between phases increasing construction costs and risk of non-completion.

- Community support for needed expansion may diminish in the future.

3. Create 800 new convention-quality rooms near the OCC through construction of a smaller hotel and renovation of other hotels in the area.

Pros:

- Minimizes the number of net new rooms and reduces the potential impact on the occupancy rates of other central city hotels.
- Produces the desired room block in close proximity to the OCC. Would enhance marketability of the OCC, but not as much as Option 1.
- May require less public assistance than other options, but further work is required to determine the true financing requirements.
- Would substantially upgrade the area surrounding the OCC. While the impact of the new hotel would not be as great, the rehabilitation of existing hotels would provide substantial benefit.

Cons:

- Negotiating and coordinating the development/renovation of two to three hotels is more complicated and could result in delays.
- May reduce competitiveness of Portland for new conventions.
- The need for substantial public assistance will likely remain.

4. Leave Flexibility How Room Block will be Provided

Identifies broad objectives including a target room block size, but not a specific development program requirement allowing developers discretion in what they propose.

Pros:

- Allows for innovative proposals, possibly with a lower public assistance requirement.

Cons:

- Evaluation of proposals is complicated by 'apples-and-oranges' proposals, and can lead to a controversial or lengthy selection process.

B. DEVELOPMENT AND FINANCING

Staff examined three alternatives for the development and financing of the HQ Hotel. These are defined by the amount and type of public assistance and described as follows:

OPTION 1:

Private Development without Public Assistance

Despite the experience of other cities nationwide that significant public assistance is needed, it may be possible to develop a HQ Hotel without any substantive public assistance. This means releasing an RFP that does not offer public assistance and gauge the response to determine if and how much public assistance is required.

Pros:

- Private development avoids the complexity and on-going administrative requirements associated with various public financing tools.
- All other features equal, no or limited public assistance is better than substantial public assistance. This would free limited public funds for other public projects.

Cons:

- Can result in an unnecessary delay in HQ Hotel completion and the consequential loss in convention business.

OPTION 2:

Private Development with Public Assistance

This option seeks a developer to develop a privately owned and operated hotel and utilizes public investment to accomplish this objective. The public financing tools could include the use of hotel/motel tax revenues, New Market Tax Credits, tax increment funds, hotel-related public improvements, shared-use with the OCC and provision of land at re-use value. In return for the public investment, the private developer would commit to program and operations requirements aimed at achieving public objectives.

Pros:

- A private developer approach eliminates the need for the city to involve itself as a hotel owner and the time, attention and expertise this would require.

- While providing public assistance for private development is often controversial, it is highly likely to be necessary to secure the desired hotel and room block. The faster this determination can be made, the sooner the OCC will be able to attract its full-range of conventions, and the sooner the city will reap the economic benefits.

Cons:

- It is uncertain whether this approach would be able to provide sufficient assistance to achieve the 800-room block and other public benefits.

OPTION 3:
Public Non-Profit Entity

This approach entails establishing a public non-profit entity that develops and owns the HQ Hotel and retains a private operator under a qualified management contract pursuant to federal tax code requirements to run the facility. This approach offers the possibility of using tax-exempt bonds to construct the facility and reduce the project's financing costs. It may also allow other funding tools not available to a private project. However, it does raise other important issues such as the need for a public guarantee on a portion of project debt. This option would apply to a new hotel construction only.

Pros:

- To the extent there is long-term profitability, the public benefit entity allows the city to avoid private subsidy and to retain profits from its investment.
- The financial tools that are solely available to the public non-profit entity approach may be necessary to achieve the desired hotel program.
- Maintains better control of room block guarantees for OCC conventions.
- Has a proven track record in other cities
- May be able to structure financing which enables sharing financial benefits with the broader hotel industry (e.g. marketing funds)

Cons:

- Is likely to require on-going attention, administrative costs and risk for the City of Portland; how ever, the city has longstanding experience with financing and ownership of public facilities such as the Memorial Coliseum and Smart Park garages.
- A publicly-owned HQ Hotel may be controversial.
- Public backing for bonds may reduce the ability to achieve other public goals.
- Public guarantees for a portion of project debt may be required.

C. FORM OF SOLICITATION

Several approaches were identified regarding how a proposal for a new hotel or hotel room block could be solicited. This is a critical strategic decision because it has significant impact on the proposals that are likely to be received. The options differ depending on whether one is seeking a private developer or employing a public benefit corporation. These options are discussed below.

1. PRIVATE DEVELOPMENT

Bundled– Solicit Full Development Team

In seeking a private developer to carry out the full project, a solicitation will require a respondent to assemble and propose its entire team, including the developer, owner, operator, architect, and, possibly, source of financing. In the context of soliciting a private developer, this is the only practical approach. It would not be productive to solicit a developer and then later seek other major parties. This is because the primary advantage of a private, bundled approach is that it provides a "turnkey" project. And developers will generally require control of the entire team assemblage to assume project risk.

2. PUBLIC DEVELOPMENT

Two possible options are available if a public non-profit corporation is ultimately pursued:

Bundled– Solicit Full Development Team

Under a public non-profit corporation approach, a fee developer could be sought to "turnkey" the development of a HQ Hotel that will then be owned by the public corporation. The developer may be required to purchase a portion of the project debt. Under the "Bundled" approach, the RFP would require the developer to assemble his/her entire team and incorporate it in the proposal. The city would maintain control over the underwriting of bonds issued on its behalf for the project and establish key project goals so that public policy objectives are achieved.

This approach allows the developer to select his/her entire team, eliminating the possibility of a "forced marriage" of developer and partners. The developer is generally assumes more responsibility and risk than is possible under the "unbundled" approach and it allows the pre-development and development planning stages to be expedited. However, by soliciting full teams, the city may need to deal with the inclusion of team members it prefers not to have. There is some loss of control under this approach compared to the 'unbundled' approach.

Unbundled—Solicit Key Development Team Members

A developer would be solicited through an RFP process, without assembling the architect, operator, contractor, etc. Instead, individual RFP's would be employed over time to seek these disciplines. This allows PDC to select the individual members of the development team, and to do so with the benefit of having pre-requisite work done prior to the solicitation. This option allows the city greater control of the team and the product. Some cities using this approach indicate that it can save significant funds because each component work element can be negotiated separately. However, it does generally reduce the responsibility of the developer, and, as a result, the developer can be expected to assume a reduced level of risk. It may also lengthen the pre-development and development stages of the project.

D. POTENTIAL PUBLIC FINANCING TOOLS

The following financing tools may be considered to achieve the convention hotel and room block objectives. Each requires further analysis to determine their revenue generating capacity, legal restrictions and approvals path. Other cities have used all or most of the options that follow as part of an overall financing package to support development of a HQ Hotel.

1. Hotel/Motel Taxes

Other cities have dedicated or rebated Hotel/Motel taxes to HQ Hotel projects to support their financial viability. A Multnomah County ordinance would likely be required wherein all or a portion of the proceeds of the hotel/motel tax that result from the new hotel are dedicated for debt service or credit enhancement for the HQ Hotel. Some legal questions remain regarding how this can be accomplished; to do so, the City/County hotel/motel tax ordinance may have to be modified. In addition, there are potentially new demands on the Hotel/Motel tax that are currently being considered associated with Major League baseball. Further research is needed. The use of hotel/motel tax proceeds that may not otherwise exist but for this proposal may be a reasonable method.

2. Land

PDC has assembled land in the vicinity of the Convention Center. PDC can offer such land for redevelopment, consistent with the objectives of its urban renewal plan for the district, at re-use value, which is the value of the land given the required use established by PDC. In return for providing the land, PDC will establish program and operation requirements on the developer through a Development Agreement. Alternatively, PDC can convey the land to a public non-profit entity to achieve its urban renewal objectives.

By assembling land, PDC can provide the platform required to achieve the projects' program requirements. Moreover, it can do so without the inordinate delay or risk associated with land assembly by a private entity. Land assembly has been widely-used by PDC and offers few complications or uncertainties compared to some of the other financing tools. And by controlling the underlying land, PDC is in an advantageous position to establish program and operation requirements on a private or public developer through the conveyance of the land. PDC must follow state procedures to assemble land, and, once acquired, the land must be used for purposes consistent with the objectives of the Oregon Convention Center Urban Renewal Area.

3. Capital Contribution

In some cases, a tax increment funded project can achieve multiple objectives. For example, a public garage that is needed in the Convention Center area can also be used to park cars of HQ Hotel guests (subject to a parking fee as with any other public parker). Under such a scenario, the parking garage can be funded with tax exempt bonds and not be subject to property taxes. At the same time, the hotel developer is relieved of the financial obligation to construct expensive, structured parking and it becomes an indirect form of public assistance. As an example, the City of Portland financed and constructed two parking garages to support development of the Rose Garden for similar reasons.

This is a customary approach when employing urban renewal funds to support private development, and there are fewer complications compared to other financing tools. The project must be included in PDC's urban

Dedication of the Oregon Convention Center expansion, April 2003.

renewal plan and budget for the district and obtain Commission approval.

4. Shared Facilities with OCC

HQ Hotels need access to ancillary spaces, such as ballrooms and break-out meeting rooms. These spaces frequently are not profitable, or not as profitable as the guest rooms, and are a primary reason why public assistance is required. However, these spaces exist within the Oregon Convention Center. If the OCC and HQ Hotel can coordinate the use of these facilities, it may be possible to have the HQ Hotel use the facilities in the OCC and avoid the cost of constructing such space. Thus, the shared-use becomes an indirect subsidy.

Since the OCC space has already been built, shared-use is a way to reduce the need for subsidy without obtaining or allocating new revenues. Further research is needed to determine if and how this approach can work.

5. Public Non-Profit Corporation

This option was discussed earlier. The primary financing tools this approach makes available are tax exempt bonding for construction of the hotel and potential property tax abatement or reduction. This can lower financing costs and is the primary financing tool other cities are currently using to develop HQ Hotel. The approach comes with the potential challenges for the City of Portland or PDC due to the responsibility for on-going involvement in the hotel.

6. New Market Tax Credits

One new potential tool for project financing is the use of New Market Tax Credits (NMTC), a program to assist job creation in lower income communities administered through the U.S. Department of Treasury. The Convention Center Hotel is currently under consideration for application to the federal NMTC program. This program provides tax credits worth 39 cents on the dollar, distributed over a seven year period, to Community Development Entities (CDE) which invest in businesses and real estate projects in qualified areas. The CDE then returns these tax credits to their investors. A $200 million application for the hotel would yield tax credits that could be sold for $50 to $60 million to an equity investor, providing 25% to 30% of overall project finance. A CDE can invest both in businesses and 501(c)(3) non-profit corporations; they are probably not allowed to directly invest in public non-profit corporations.

IV

RECOMMENDATIONS

A. HOTEL PROGRAM

1. Room Block Required to Maximize Benefits of OCC Expansion

Based upon the hotel package offered by competitive cities and research regarding maximum penetration into the larger convention market, a "room block" of 800 convention-quality rooms with convenient access to the OCC is optimal to achieve the benefits anticipated from the expanded OCC. However, there is no one, simple solution to achieving the room block. Rather; the key is to balance available resources and market conditions with the following factors:

a.) Composition of the room block

From an OCC marketing perspective, it would be best to offer the 800-room "room block" in a single HQ Hotel. However, industry experts have varying opinions about the total number of rooms necessary to allow for the reservation of 800 rooms in advance. In a private hotel, it would customarily take 900-1,000 rooms to provide an 800-room room block because it is usually necessary to retain a portion of the rooms in the hotel for transient-travelers (i.e. day-to-day). It may be possible to provide the 800-room room block in the HQ Hotel by providing public financial assistance to compensate for the lost transient-traveler business. In a publicly owned hotel, where there is greater control over costs, reservations and pricing structure, it may be possible to reserve virtually the entire hotel for future conventions.

b.) Proximity of the room block

The marketability of the OCC is significantly enhanced by having the HQ Hotel directly proximate and physically connected to the OCC. If the HQ Hotel does not provide all 800 rooms for the room block, the balance must be derived from other hotels with convenient access to OCC. Research has shown that, absent special transport services, the following relationships between proximity of the room block to the convention center and marketability of the convention center:

- 1-2 Blocks: Closest to ideal without being attached
- 3-5 Blocks: Considered an acceptable walk distance by convention planners, if the convention center and hotel are in a clean and safe area.
- 6+ Blocks: Likely to impede booking conven tion business; usually acceptable only to price-conscious groups.

There have been discussions in the Portland region regarding instituting special shuttle services to provide access between Downtown/Lloyd District convention-quality hotels and the OCC. Such special services would appear to be highly desirable under any circumstances to spread the benefits of the expanded OCC to area hotels, but such shuttle services become crucial if it is not possible to offer a room block of 800 convention-quality rooms proximate to the OCC. The cost of such a special shuttle service is not known and a financing vehicle has not been identified.

c.) Consistency of room block price and quality

To maximize the convention marketing benefits of the HQ Hotel and to simplify its development, construction of all 800 rooms in one phase is preferred. If financial or market conditions dictate, the desired 800-room block may need to be achieved through renovation of an existing hotel(s) in addition to new HQ Hotel construction. While not ideal, this approach can provide the required 800-room room block. However, it requires close integration between the participating hotels to ensure ease in booking rooms and a consistent experience for all guests.

2. Other HQ Hotel Program Elements

Portland must present a competitive, high quality hotel package to attract its target convention market. Based on an evaluation of HQ Hotel development in other cities, particularly Portland's competition in the western U.S., development of a HQ Hotel in Portland should consist of at least the following program elements.

- 3.5-star or better quality
- 25,000 sq. ft. of meeting and ballroom space
- A full-service restaurant
- 0.5 parking spaces per room

In addition, PDC and the City of Portland have adopted policies relative to Green Design and sustainable building practices. Aside from bringing substantial public benefit in their own right, these policies are intended to create a significant economic development tool that links Portland to an emerging economy. It is believed that a

HQ Hotel that incorporates a very high level of green design can provide a visible link to the green economy and become an attraction for certain types of conventions and travelers in its own right. The inclusion of sustainable features would be more costly to construct but should provide significant long-term costs savings through operations. If the hotel is developed privately, green design will likely require additional public investment.

B. DEVELOPMENT AND FINANCING

As described in prior sections, the financing of a HQ Hotel is challenging, and highly dependent on program, cost, capital markets, public investment and other factors. Two primary approaches to financing and development were identified and evaluated— private development or public development through a Public Non-profit Corporation (PNPC).

The preferred approach would be to identify a private developer and operator willing to implement the desired HQ Hotel with no or very limited public investment. This would maximize the public benefit and reduce the public risk. However, the experience of other cities suggests that significant public investment may be necessary to carry out the project. Because there is some chance, albeit small, that a privately financed/no public subsidy proposal can be identified, it is recommended that a solicitation approach be used that will determine quickly and early whether a such a proposal exists.

If public investment is required to attract a HQ Hotel, the following potential sources of public investment will be considered:

- Use proceeds of Hotel/Motel taxes generated by the new hotel(s) for debt service or credit enhancement.
- Use of tax increment financing for eligible project costs.
- Shared-use with a public parking garage to lower construction costs.
- Shared use of convention-related space (i.e. ballroom space) with OCC to lower construction costs.
- Provision of land on flexible terms.

One new additional tool for project financing is the use of New Market Tax Credits (NMTC), a program to assist job creation on lower income communities administered through the U.S. Department of Treasury. If public assistance is necessary, the use of the New Market Tax Credit program should be considered, in lieu of or in addition to the public financing techniques used identified above. Additional research is required to determine if the NMTC resource is compatible with a publicly-owned model. The allocation of these tax credits is a result of a national competition, and the HQ Hotel may be a highly competitive proposal in this context. If utilized, PDC could prepare a project specific application for a tax credit allocation in each of the next two years.

If significant public financial assistance is needed and the above-mentioned revenue sources are unavailable or insufficient, the publicly-owned approach should be further examined. Research has shown that other cities have only attracted a HQ Hotel this way which potentially offers two significant funding opportunities:

- Lower debt service through the use of tax-exempt bonds; and
- Lower operating costs through the use of property tax abatement.

If a public non-profit model is being considered, PDC should take preliminary steps to reach agreement among project stakeholders (including MERC, Multnomah County, City of Portland and PDC) about the formation of a PNPC financing structure. This preliminary agreement will inform the solicitation and evaluation process and allow for a smooth transition if the PNPC structure is required. It is likely that PDC or MERC will need to be the sponsor of the public model.

C. SOLICITATION APPROACH

While it is clear what the city would like to achieve in terms of a HQ Hotel, the financing and development methods that can be employed are numerous. In addition, the challenges to the hotel market in Portland are well documented and there is uncertainty regarding the public role in securing the desired 800-room HQ Hotel. Within this environment, it is recommended that a formal process for soliciting development proposals be undertaken that allows potential proposers flexibility to propose – within defined public policy objectives set by PDC and the city – a development program and approach that they believe would be most beneficial to the city. To accomplish this, a two-phase development solicitation process is recommended:

PHASE ONE:

Request for Qualifications (RFQ)

The Phase 1 Request for Qualifications (RFQ) would identify qualified parties interested in developing a HQ

Hotel in Portland and identify their recommended method and requirements to achieve project goals. This phase would determine if there are private developers and operators able to carry out the project with no or limited public investment. However, qualifications would be solicited and reviewed from any legitimate HQ Hotel developer. Proposals may be received that suggest creative alternative approaches including partnerships that upgrade and expand nearby hotels.

The Phase One RFQ, developers would be evaluated based on:

- Responsiveness to project goals;
- Maximize impact on area economy;
- Significantly increase economic impact of OCC;
- Minimize public investment and risk;
- Maximize positive impact on area hotels; and
- Meet key public objectives for contracting, employment, design quality, sustainable development and Lloyd development
- Hotel development experience;
- Development and financing approach;
- Proven ability to secure debt and equity for the project;
- Proposed hotel size and program;
- Assessment of market conditions in Portland that supports their suggested hotel size and program, and
- Other factors to be identified

The city would reserve the right to pursue negotiations with developers who propose a bona-fide, privately financed approach.

PHASE TWO:

Request for Proposals (RFP)

If a privately funded HQ Hotel is not identified through the RFQ, or if preliminary negotiations are unsuccessful, qualified developers from Phase One would be asked to respond to a Request for Proposals (RFP). Prior to issuance of the RFP, the city should determine the nature and extent of public financing tools that may be available and whether the RFP would seek 'bundled' proposals (including the full development team) or 'unbundled' (developer and operator only), depending upon whether a public non-profit corporation approach is utilized. The RFP would state a strong preference for all or a part of the HQ Hotel to be on property controlled by PDC because of its location and the existing public investment.

This solicitation phase would require detailed hotel development proposals with respect to the above criteria and others that include specific proposals for financing, design, ownership structure and other elements. These proposals would constitute developer commitments subject to due diligence scrutiny and negotiations. After initial evaluation, it is possible that preliminary negotiations may proceed with more than one developer. Successful negotiations would result in a combination of development and management agreements with well as operating structure and by-laws in the case of a PNPC.

D. PROJECT LEAD

PDC would take the lead role in the solicitation process and would work in close consultation with project stakeholders. As the urban renewal agency for the City of Portland, PDC has significant development and financing expertise, tax increment funding available through the Oregon Convention Center Urban Renewal Area (OCCURA) and control of key land parcels by the OCC. A HQ Hotel is the foremost goal of the OCCURA and key steps have been taken to acquire land assets sufficient to carry out the project. If a public approach is used, the appropriate legal structure for financing, development and long term ownership will need to be determined in partnership with the City of Portland Office of Management and Finance. Under either circumstance, PDC will ensure and maintain ongoing communication between the various project stakeholders.

E. PROJECT ADVISORY COMMITTEE

It is recommended that a Project Advisory Committee (PAC) be established to guide the project through a long period of implementation. Membership of the PAC would include senior staff and/or board of director members of PDC, POVA, MERC, Tri-County Lodging Association, City of Portland Office of Management & Finance (OMF), Multnomah County, Oregon Economic and Community Development Department (OECDD, Lloyd District Business Improvement District and Northeast Economic Development Alliance. A Selection Committee, to evaluate qualifications and proposals submittals, would consist of a subcommittee of this PAC representing key interests and may be expanded to include other interests and areas of expertise.

F. IMPLEMENTATION SCHEDULE

The schedule to implement a HQ Hotel would vary significantly based on the outcome of the solicitation process and the specific implementation approach that is used. Assuming a two-phase solicitation, the schedule shown in Exhibit A is proposed.

G. NEXT STEPS

Following Commission approval of this Implementation Strategy and prior to issuance of the RFQ, PDC staff would:

- Identify membership and charge of Project Advisory Committee
- Conduct additional research and fact finding relative to HQ Hotel development in other cities
- Identify a project advisor—a consultant expert in HQ Hotel financing and development
- Engage in a work session with the PDC Board of Commissioners and obtain Board approval of the Implementation Strategy
- Prepare a draft Request for Qualifications, review with project stakeholders and identify a list of likely respondents for mailing

SOURCES

Evaluation of Hotel Market Conditions and Impact Analysis of a Convention Hotel
Economics Research Associates, (San Francisco, CA, January 11, 2003)

Convention Center Hotel Strategic Plan
Strategic Advisory Group LLC (Duluth GA, February 2003)

V

EXHIBITS

EXHIBIT A

IMPLEMENTATION SCHEDULE

SOLICITATION

Phase 1: Request for Qualifications

Issue RFQ	September 15, 2003
Due Date for Qualifications	October 31, 2003
Evaluation	November -December 2003
Commission Action to Select Finalists	January 14, 2004

Phase 2: Request for Proposals

Issue RFP	February 15, 2004
Due Date for Proposals	April 15, 2004
Evaluation of Proposals	April 16-May 25, 2004
Commission Action to Select Proposal	June 15, 2004
Negotiations/Agreements	June- March 2005

DESIGN	January - December 2005
PERMITTING	December 2005- June 2006
CONSTRUCTION	June 2006- July 2008
OPENING	fall 2008

EXHIBIT B

HQ HOTEL DEVELOPMENT IN COMPETITIVE CITIES

Program

CITY	ANAHEIM	DENVER	LONG BEACH	PHOENIX	SALT LAKE CITY	SAN DIEGO	SAN FRANCISCO	SEATTLE
FLAG	MARRIOTT	HYATT	HYATT	HYATT	WYNDHAM	MARRIOTT	MARRIOTT	HYATT
Distance to Center	Adjacent	Across Street	Adjacent	Adjacent	Adjacent	Adjacent	Next Door	Adjacent
No. Rooms	1,033	1,100	521	712	381	1,354	1,498	425
No. Suites	-	-	19	28	7	55	-	113
K/Q	-	-	262	355	-	-	-	251
Double Double	-	-	247	357	-	-	-	61
No. Floors	19	-	16	-	14	25	39	30
Total Meeting Rooms SF	54,000	85,000	27,000	42,000	15,000	110,000	100,000	25,000
Grand Ballroom SF	25,000	30,000	10,000		5,635	25,000	40,000	5,671
Junior Ballroom SF	16,000	15,000	-	-	-	15,000	23,000	-
Total No. Meeting Rooms	31	-	-	24	17	56	52	-
Total Meeting SF per Room	52	77	52	59	39	81	67	59
Total No. F&B Outlets	4		3	4	1	4	4	3
Restaurant #1 Seats			248	250				150
Restaurant #2 Seats				132				150
Restaurant #3 Seats								
Café Seats			24	40				25
Lounge/Bar & Grill Seats			80	150				
Other Seats								

EXHIBIT C

HQ HOTEL DEVELOPMENT DEALS

CITY	PHILADELPHIA	TAMPA	INDIANAPOLIS	SACRAMENTO	CHARLOTTE	OVERLAND PARK	ST. LOUIS	HOUSTON	MYRTLE BEACH	AUSTIN
FLAG	**MARRIOTT**	**MARRIOTT**	**MARRIOTT**	**SHERATON**	**WESTIN**	**SHERATON**	**MARRIOTT**	**HILTON**	**RADISSON**	**HILTON**
Groundbreaking Date	1992	1998	1999	1999	2000	2000	2000	2001	2001	2001
Opening Date	1995	2002	2001	2001	2002	2002	2002	2004	2003	2004
No. Rooms	1199	708	615	500	700	412	1081	1200	404	800
Cost per Room (000)	175	148	146	194	204	214	246	263	192	346
PRIVATE PARTICIPATION (MILLIONS)										
Equity	$ 78.0	$16.5	n/a	$ 0.0	$27.0	$0.0	$22.2	$0.0	$0.0	$0.0
Debt	90.0	71.5	n/a	0.0	75.0	0.0	16.0	0.0	0.0	0.0
Total	168.0	88.0	67.0	0.0	102.0	0.0	38.2	0.0	0.0	0.0
% Private	80%	84%	74%	0%	71%	0%	14%	0%	0%	0%
PUBLIC PARTICIPATION (MILLIONS)										
Project Revenue Bonds	0.0	0.0	0.0	92.7	0.0	0.0	98.0	0.0	40.6	107.0
Credit Enhanced Proj. Revenue Bonds	0.0	0.0	0.0	0.0	25.0	88.0	0.0	315.0	23.0	135.0
Tax Increment Financing	0.0	0.0	0.0	0.0	0.0	0.0	80.7	0.0	0.0	0.0
Subordinate Bonds	0.0	0.0	0.0	4.1	0.0	0.0	10.0	0.0	0.0	20.0
Grant	0.0	16.5	23.0	0.0	16.0	0.0	0.0	0.0	0.0	15.0
Tax Credits	0.0	0.0	0.0	0.0	0.0	0.0	21.2	0.0	0.0	0.0
Infrastructure/Other	42.0	0.0	0.0	0.0	0.0	0.0	17.5	0.0	14.1	0.0
Total	42.0	16.5	23.0	96.8	41.0	88.0	227.4	315.0	77.7	277.0
% Public	20%	16%	26%	100%	29%	100%	86%	100%	100%	100%
TOTAL COST (millions)	**$210.0**	**$104.5**	**$90.0**	**$96.8**	**$143.0**	**$88.0**	**$265.6**	**$315.0**	**$77.7**	**$277.0**

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