



PROSPER
PORTLAND
Building an Equitable Economy

DATE: November 14, 2018
TO: Board of Commissioners
FROM: Kimberly Branam, Executive Director
SUBJECT: Report Number 18-44

Authorizing the Executive Director to Execute a Hotel Management Agreement with Trek Ventures, LLC for Management of Inn at the Convention Center

BOARD ACTION REQUESTED AND BRIEF DESCRIPTION

Adopt Resolution No 7293

This action by the Prosper Portland Board of Commissioners (Board) will authorize the Executive Director to execute a three-year Hotel Management Agreement with Trek Ventures, LLC (Trek), with two, two-year extension options for day-to-day management of Inn at the Convention Center (ICC Hotel). The ICC Hotel, a five-story, 97-room hotel at 420 NE Holladay Street is directly across the street from the Oregon Convention Center and located in a rapidly changing neighborhood in inner northeast Portland (see a site map in Attachment A).

STRATEGIC PLAN ALIGNMENT

This action will deliver on Prosper Portland Strategic Plan goals by supporting the agency's financial sustainability. More specifically, it will address Ten-Year Financial Sustainability Plan goals by optimizing financial return of tax increment funds and existing real estate assets and by using Prosper Portland's real estate portfolio to generate long-term return.

BACKGROUND AND CONTEXT

History and Asset Management. On May 8, 2002 through Resolution No. 5855, the Prosper Portland Board authorized acquisition of the ICC Hotel with the intent of demolishing the building and using the site and adjacent land for the development of a new convention center hotel. Ultimately a different site was selected for that development which has left Prosper Portland with a revenue-producing asset.

Since acquisition, Prosper Portland has earned substantial income from ICC Hotel operation, last year generating more than \$500,000 in net revenues. Staff recommends that Prosper Portland hold ICC Hotel for five to seven years with the goal of maximizing revenues and agency return on investment in support of long-term business plan goals. This timeframe should provide adequate time for the new headquarter hotel (Hyatt Regency Portland at the Oregon Convention Center) to stabilize and for staff to finalize long-range plans for close-out of the Convention Center Urban Renewal Agreement (URA) and its remaining funds.

During this holding period, staff recommendations that Prosper Portland reposition the ICC Hotel as a mid-scale economy hotel to serve the need for affordably-priced lodging near the convention center and to allocate \$2,000,000 in Convention Center URA funds for needed capital improvements.

Hotel Management Agreement. Since acquisition, Prosper Portland managed the ICC Hotel through a profit-sharing lease form of agreement with Holladay Associates, LLC, a third-party hotel operator. In 2013, Holladay Associates, LLC assigned the lease agreement and hotel management to Trek, which has been the tenant under that lease agreement ever since. That form of agreement offered Prosper Portland the greatest flexibility to terminate the agreement, which was needed under the prior demolish and redevelop strategy.

Given the new mid-term hold strategy a different form of agreement is warranted. As recommended in the City's 2017 audit of Prosper Portland's real estate asset management systems, Prosper Portland issued a Request for Proposal (RFP) in June 2018 seeking competitive proposals for the operation of ICC Hotel under a hotel management agreement rather than a lease agreement. This form of agreement provides a greater level of operational certainty to the hotel operator and adjusts the compensation structure to be more in-line with industry standards.

Staff received three proposals in response to the RFP and two respondents were invited to interview. After interviews and deliberations, the RFP review committee (which included staff and Pinnacle Advisor Group, Prosper Portland's external hotel management consultant) recommended that Prosper Portland select Trek, the existing ICC Hotel operator, as its submittal was deemed the most competitive and demonstrated the most thoughtful response to cash flow modeling. Trek was also the only respondent to include an employer-funded retirement plan for the housekeeping staff and other lower-wage workers. Selecting Trek also allows Prosper Portland to save the conversion costs of switching to a new operator estimated at up to \$50,000 by other respondents.

Proposed Renovations. Modest improvements to upgrade guest rooms, hallways, and elevator landing areas have been included in the fiscal year (FY) 2017/18 and FY 2018/19 capital improvement plan and budget for the property. These upgrades are nearing completion and have already positively affected net revenue. ICC Hotel occupancy through October 2018 was up 4.7 percent over projections and it has achieved its average daily rate target of \$112.34. Those modest room/corridor upgrades have been funded out of revenues and the ICC Hotel has still generated \$363,896 in net revenue in the first quarter of this fiscal year.

In order to fully reach the targeted mid-scale hotel category and maximize returns to Prosper Portland, additional capital investments are needed, including:

- Updates to the exterior of the building to project an inviting Pacific Northwest image
- Remodeling the first-floor lobby to improve operating efficiencies and to add a sundries area for on-site purchases
- Reconfiguring the first-floor bathrooms to comply with Americans with Disabilities Act accessible requirements
- Reactivating the existing shuttered restaurant to provide guests with food and beverage options on-site
- Remodeling of the second-floor conference room to invite more small group bookings

In early 2019, staff will conduct a competitive RFP process for an architect to complete designs and cost estimates for these improvements. Staff anticipates returning to the Prosper Portland Board in spring 2019 for authorization of a construction contract to complete the upgrades.

EQUITY IMPACT

Authorizing a Hotel Management Agreement will lead to several positive equity outcomes. First, it will continue the agency's partnership with Trek, a company that employs 28 staff, the majority of whom are housekeeping, guest services, and maintenance staff. Trek offers a generous benefits package for

the industry which includes 75 percent paid medical insurance, paid time off accruals of 17 days per year, and employer paid monthly bus pass. One of the most compelling parts of Trek's employee compensation package is its 401(k) contribution program. Unlike most hotels that offer 401(k) programs which match employee contributions, Trek contributes three to five percent of salaries (determined by hotel profits) to all employees after one year of service independent of employee contributes. This is a significant benefit for lower-wage workers who often find it difficult to participate in a matched retirement program. Trek augments its contribution with periodic training for staff on financial and retirement planning.

Second, this action will provide long-term resources that the agency will be able to invest in Strategic Plan objectives within the Convention Center URA.

COMMUNITY PARTICIPATION AND FEEDBACK

There has been no formal public outreach specific to this action. However, staff regularly engages with district stakeholders primarily through participation as a board member on Go Lloyd and the Lloyd EcoDistrict. These two entities represent a cross-section of Lloyd stakeholders including building owners, businesses, and residents.

As part of the FY 2018/19 budget outreach, staff communicated the decision to hold the ICC Hotel until the next real estate cycle (five to seven years) and to make cosmetic improvement to the building during that period. Both boards agreed with the assessment of market timing given the level of construction in the district, the number of new lodging rooms coming on line, and others' plans to hold back construction of planned projects in the area. Long-term, however, both boards strongly support redevelopment of ICC Hotel for a higher and better use to serve both the needs of the Convention Center and the district.

BUDGET AND FINANCIAL INFORMATION

There are adequate funds in the Convention Center URA budget for ongoing maintenance and the modest improvements described above (see Attachment B.) Staff will return to the Prosper Portland Board in spring 2019 to authorize the contract for additional improvements, which may require a budget amendment to fully fund that work.

Pinnacle Advisory Group, Prosper Portland's hotel management consultant, estimates that in the first full year of this contract (FY 2019/20) Prosper Portland is likely to earn slightly more than \$1,000,000 (before capital costs) as compared to \$510,000 in FY 2017/18. The consultant projects that net revenues will increase as the renovation continues to improve cash flow such that Prosper Portland will be able to recoup its \$2,000,000 capital investment by the end of FY 2021/22.

Trek's compensation for its management of ICC Hotel is a base fee of 3.5 percent of gross revenues along with an incentive fee of 20 percent of net revenues after Prosper Portland's nine-percent preferred return of \$828,000 until the major renovations have been complete and \$990,000 after renovation. The compensation structure is common within the industry and percentages are within the ranges seen in the industry.

RISK ASSESSMENT

There are several risks to this action, including:

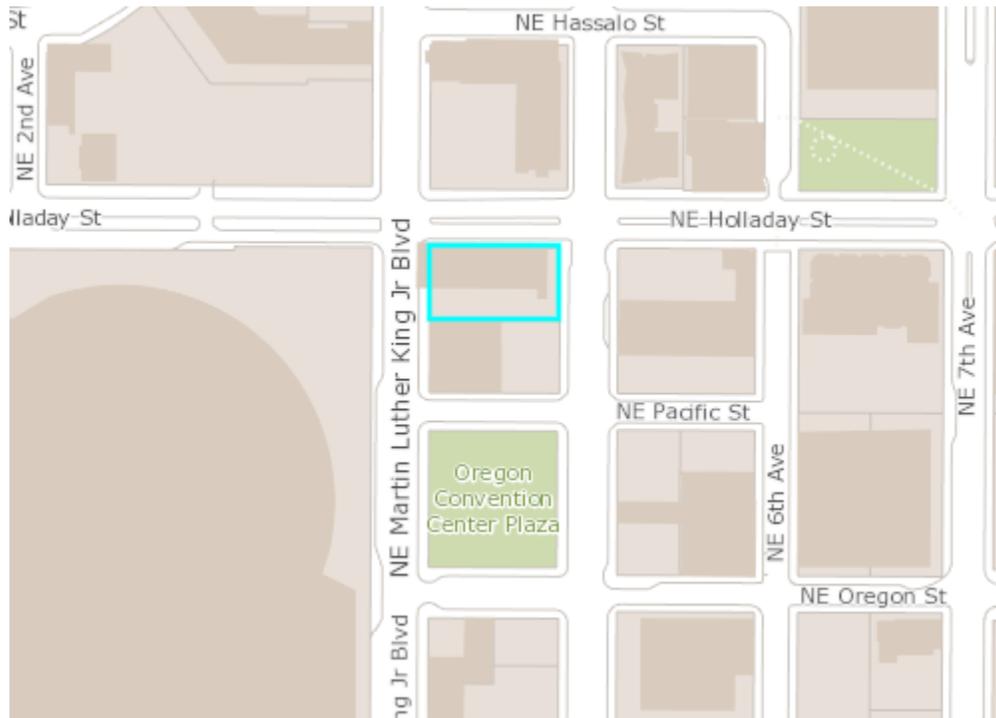
- Revenue projections are not achieved, reducing or eliminating net revenue projections and return on investment targets.
- Unexpected physical conditions are found that increase renovation costs beyond budget.

- Portland’s hotel market becomes saturated with new rooms, increasing competition and reducing daily rates.

The recommended improvements to ICC Hotel will help to mitigate a portion of these risks by improving the marketability and appeal of the hotel. Additionally, the property will be thoroughly inspected during the design phase to provide as complete a picture of the physical conditions of the facility as is reasonably possible.

ATTACHMENTS

- A. Site Map and Aerial
- B. URA Financial Summary



Financial Summary Five-Year Forecast

<u>Convention Center URA Fund</u>	<u>Revised 2 FY 2017-18</u>	<u>Adopted FY 2018-19</u>	<u>Forecast FY 2019-20</u>	<u>Forecast FY 2020-21</u>	<u>Forecast FY 2021-22</u>	<u>Forecast FY 2022-23</u>
Resources						
Beginning Fund Balance	38,305,125	21,118,115	400,325	5,899,624	3,734,747	1,615,448
Revenue						
Fees and Charges	3,350	7,678	6,074	4,998	4,998	-
Interest on Investments	375,442	5,000	-	-	-	-
Loan Collections	502,494	1,056,264	825,880	681,378	681,378	681,378
Other Debt	0	-	8,000,000	-	-	-
Property Sales	4,300,000	-	-	-	-	-
Rent and Property Income	2,616,656	4,023,240	5,500,153	5,572,241	5,646,130	5,646,130
Total Revenue	7,797,942	5,092,182	14,332,107	6,258,617	6,332,506	6,327,508
Total Resources	46,103,067	26,210,297	14,732,432	12,158,241	10,067,253	7,942,956
Requirements						
Administration						
A00027-Debt Management-CNV	12,121	12,121	12,121	12,121	12,121	12,121
Administration Total	12,121	12,121	12,121	12,121	12,121	12,121
Business Lending						
A00206-BL -General-CNV	110,000	150,000	150,000	150,000	150,000	150,000
Economic Development Total	110,000	150,000	150,000	150,000	150,000	150,000
Housing						
A00168-Affordable Housing-CNV	2,585,573	2,574,524	-	-	-	-
Housing Total	2,585,573	2,574,524	-	-	-	-
Infrastructure						
Transportation						
A00521-Sullivan's Crossing Bridge-CNV	0	1,000,000	1,000,000	-	-	-
Infrastructure Total	0	1,000,000	1,000,000	-	-	-
Property Redevelopment						
Real Estate						
A00301-Block47-CNV	4,000	-	-	-	-	-
A00306-910 NE MLK Building-CNV	32,056	26,822	26,822	26,822	26,822	26,822
A00307-Frmr B&K Car Rental-CNV	15,218	-	-	-	-	-
A00309-Inn at Conv Ctr Mgmt-CNV	2,614,987	3,053,338	2,453,338	2,453,338	2,453,338	2,453,338
A00310-Block 49-CNV	3,350	550,760	1,050,408	1,631,216	1,651,209	1,671,603
A00312-Real Estate Mgmt-CNV	5,000	5,000	5,000	5,000	5,000	5,000
Commercial Property Lending						
A00363-CPRL-General-CNV	500,000	500,000	500,000	500,000	500,000	500,000
Redevelopment Strategy						
A00298-Eco District-CNV	2,500	2,500	-	-	-	-
A00303-Rose Qtr Master Plan-CNV	0	250,000	500,000	1,000,000	1,000,000	1,000,000
A00311-Project Development-CNV	2,000,000	500,000	2,500,000	2,000,000	2,000,000	1,000,000
A00437-Hotel Garage-CVN	15,724,575	15,978,121	-	-	-	-
Property Redevelopment Total	20,901,686	20,866,542	7,035,569	7,616,377	7,636,370	6,656,763
Total Program Expenditures	23,609,380	24,603,187	8,197,690	7,778,498	7,798,491	6,818,884
Personnel Services	105,159	231,352	116,930	119,138	120,919	122,659
Total Fund Expenditures	23,714,539	24,834,539	8,314,620	7,897,636	7,919,410	6,941,544
Interfund Transfers - Indirect Charges	1,270,413	975,432	518,189	525,859	532,396	539,302
Contingency	21,118,115	400,325	5,899,624	3,734,747	1,615,448	462,110
Total Fund Requirements	46,103,067	26,210,297	14,732,432	12,158,241	10,067,253	7,942,956