

CITY COUNCIL CONFERENCE MINUTES

April 30, 2015

The City Council of the City of Norman, Cleveland County, State of Oklahoma, met in a conference at 5:05 p.m. in the Municipal Building Conference Room on the 30th day of April, 2015, and notice and agenda of the meeting were posted at the Municipal Building at 201 West Gray, and the Norman Public Library at 225 North Webster 48 hours prior to the beginning of the meeting.

PRESENT: Councilmembers Allison, Castleberry, Heiple, Holman, Jungman, Lang, Miller, Williams, and Mayor Rosenthal

ABSENT: None

Item 1, being:

DISCUSSION REGARDING THE FOLLOWING COMPONENT OF A CITIZENS' QUALITY OF LIFE INITIATIVE ENTITLED "NORMAN FORWARD":

- PHASE 2 OF THE FEASIBILITY ANALYSIS FOR A POTENTIAL CONVENTION/EXPO CENTER DEVELOPMENT IN NORMAN

Mr. Dan Schemm, Norman Convention and Visitors Bureau (NCVB) Executive Director, introduced Mr. Bill Krueger of Conventions Sports & Leisure (CS&L).

Mr. Krueger highlighted components of Phase I and Phase II of the Convention/Expo Center Feasibility Analysis. Phase I included local market conditions; industry trends and characteristics; competitive and comparable facilities; market surveys; market demand; supportable building program; and development options. Phase II consisted of site analysis; event/utilization analysis; construction cost estimates; financial operating estimates; economic impacts; cost/benefit conclusions; and funding/ownership/management.

Mr. Kruger said the most important component of the analysis was interviewing event planners and media planners on local, state, regional, and national scopes. He said CS&L focused on the incremental opportunities that would be available. He said CS&L did not want to simply shift business around in the community, but more importantly looked to see what the optimal convention package would be needed for Norman.

Mr. Kruger said local market conditions include location and accessibility; demographics; Norman hotels and meeting facilities; primary Norman meeting facilities; and key local convention facilities. He said Norman has unique products in the Marriott National Center for Employee Development (NCED) and Embassy Suites. He said Embassy Suites is a full service, upper upscale, convention quality hotel that has twice the amount of conference space than a hotel normally has, which sets the stage for finding the best location for a Convention/Expo Center. He said CS&L looked at existing properties with prime space, exhibit space, and ballroom space and found that Cleveland County Fairgrounds has 46,200 square feet of exhibit space and 7,200 square feet of meeting space for a total sellable space of 53,400 square feet; Embassy Suites has 6,900 square feet of meeting space, 28,800 square feet of grand ballroom space, and 7,200 square feet of small ballroom space for a total sellable space of 42,900 square feet; and the Marriott has 40,500 square feet of meeting space, 9,450 square feet of grand ballroom space, and 15,050 square feet of smaller ballroom space for a total sellable space of 65,000 square feet; however, Norman has no prime exhibit space available.

Another important component considered was competitive facilities. He said Oklahoma City currently has the largest facilities that include the planned new State Fair Park Expo Center with total sellable space of 350,000 square feet and largest contiguous space of 200,000 square feet; the existing State Fair Park Expo Center with total sellable space of 297,950 square feet and largest contiguous space of 70,000 square feet; and the planned new Oklahoma City Convention Center with total sellable space of 290,000 and largest contiguous space of

200,000 square feet. He said the new facilities in Oklahoma City will actually help Norman not hurt Norman, since the new larger facilities will displace some of the current events/conferences being held in OKC due to size and cost. Mr. Schemm said he was told the Cox Center in Oklahoma City will no longer be a convention or meeting space once the new facilities are built, but will be repurposed for other uses or razed.

Mr. Kruger talked about nationally comparable convention centers. He said when competing for national events, Norman must have a full service headquarter hotel with enough rooms in a single property as part of the convention/expo project.

As part of the market demand analysis survey, CS&L held in-person interviews with local groups and individuals; met with Norman leadership and event facility representatives; performed follow-up telephone interviews; and completed telephone interviews with national convention event planners of more than 90 potential rotating events. Potential convention/expo center events include conventions; conferences; tradeshow; public/consumer shows; meetings, banquets and receptions; sports tournaments and competitions; and civic events and other uses.

Mayor Rosenthal is concerned about the structure of the survey because it asks people who are planning meetings whether or not they would use the facility then calling that unmet demand. She said that is really not demand, it is simply response to the survey question. She said on Pages 45 and 53 of the report CS&L states, "there is only limited demand from events representing new event activity for Norman." Mr. Kruger said the report is still in draft and corrections will be made on final review. He said CS&L should not have stated that so strongly and that statement will be removed from the report. Mayor Rosenthal said the demand analysis suggests there is very weak demand for new business and Mr. Kruger said 30% of events *not* currently held in Norman express positive interest. He said a big constraint is Norman's inability to host concurrent events by nature of space. He said many of those events require exhibit space that cannot be met effectively by Embassy Suites or Marriott. Mayor Rosenthal said editing out a statement or two that does not support CS&L's conclusion is not the answer. She said someone felt, by looking at this data, that there is only limited demand to grow and that is important. She said a great deal of emphasis has been placed on the market demand survey and how important it is to talk to state, national, and regional group meeting planners and the ones that have never been to Norman are going to be a hard, hard sell.

Councilmember Jungman was concerned about questions in the survey not focusing specifically on an expo center and asked what the hoped outcome will be for building one and Mr. Kruger said the return on investment of getting new people into the community. Councilmember Jungman said, according to the report, the investment will likely not attract 60% of the marketplace nationally and he does not like those odds. He wanted to know the specific question asked in the survey regarding a convention center and Mr. Kruger said the question states, "If Norman had a convention center in a hotel package that fully met the requirements of your groups or events, how likely would you be to bring one or more events to Norman." Councilmember Jungman said Norman's plan is to build something with greater open space and higher ceilings that covers the hole in the market that Norman does not currently provide, but the survey does not reference that. He said the intent of the survey is to determine the local, state, and national interest in this new facility, specifically research to support construction of a specific facility, so why does the question not mention the nature of the facility? Mr. Kruger said you need to find out if you meet the needs by the nature of the destination first. If the destination is appealing enough then the survey will ask how much exhibit space is needed, how much ballroom space is needed, how much meeting space is needed, what is event attendance, what is the event's seasonality, how much parking is needed, if a hotel package is preferred, etc.

Mr. Kruger highlighted market demand conclusions as follows:

- Unmet Market Demand – unmet market demand exists to support new convention/expo product in Norman;
- Strong Convention Planner Interest – market demand is characterized as moderate-high and measured survey was higher than the average comparable project study surveys;
- Limitations in Existing Local Convention Product – important limitations are present in the mix and quality of existing facilities;
- Opportunity to Drive New Visitation – significant new visitation and hotel room nights would be generated;
- Appropriate Hotel Support Critical to Success – appropriate attached headquarters hotel and proximate ancillary hotel support will be critical along with sufficient adjacent/proximate parking;
- Opportunities for University of Oklahoma (OU) Involvement and Benefit – sponsorship/recruitment, satellite presence, expanded/improved local venue; and
- Atypical Opportunity for Synergy in Norman – leveraging existing private sector investment can strengthen cost/benefit.

Mr. Kruger said a market supportable product would consist of an Exhibit Hall with 35,000 square feet of sub-dividable, column-free, concrete floor space, a 30 feet or higher ceiling, utility floor grids, independent loading/public access, and climate control; a ballroom with 20,000 square feet of sub-dividable, column-free, carpeted upscale space, 25 feet or higher ceiling, utility floor grids, independent loading/public access, and climate control; and breakout meeting rooms with 15,000 square feet of breakout meeting space that is sub-dividable and upscale. The facility would also need sufficient parking, pre-function area, support and storage space, 250 room or larger full-service hotel attached (adjacent or closely proximity), 400 or more total hotel rooms in immediate area, and a full-service headquarter hotel with its own controlled meeting space.

Mr. Kruger said the top three preferred sites are University North Park (UNP), Marriott, and the I-35 hotel corridor. He said the UNP has the opportunity to optimally leverage a strong existing hotel and conference asset, right sized and apportioned hotel and ballroom, established convention location, growing nearby retail and ancillary hotel support, and Tax Increment Finance (TIF) District benefits. The Marriott has the largest single concentration of hotel rooms, large amount of existing meeting space, and industry atypical headquarter hotel product, but is in a nondescript location with lack of nearby amenities. The I-35 hotel corridor offers accessibility, visibility, and nearby concentrations of hotel properties, but has no optimal appropriate full-service headquarter hotel candidates, no commensurate opportunity to leverage existing hotel based conference space, and has a lack of pedestrian friendly walking environment and destination appeal.

Mr. Kruger highlighted cost benefit analysis development scenarios as follows:

Scenario 1: Stand-Alone Convention Center

- Public sector builds and owns convention center
- Private sector manages via contract
- Public sector funds operating shortfall

Scenario 2: Public/Private Convention Center

- Public sector builds and owns new convention/expo center product attached to hotel
- Hotel partner operates via agreement (lease of management)
- No ongoing public sector operating subsidy

Mr. Kruger highlighted economic impact concepts that include direct spending, indirect spending, induced spending, total output, earnings, and employment. He said direct spending is initial purchases made by attendees at an event who do not reside in the local area; indirect spending is the re-spending of the initial or direct expenditures; induced spending is the positive changes in employment, earnings, and tax collections generated by changes in population associated with direct/indirect expenditures; total output represents the total direct, indirect, and induced spending effects generated by the project; earnings represents the wages and salaries earned by employees of businesses associated with or impacted by the product; and employment represents the number of full or part-time jobs.

Mr. Kruger said operating revenues in Scenario 1 (a stand-alone facility without a hotel partner) total \$1,619,000 and operating expenses total \$2,053,000 for a net operating deficit of \$434,000. He said nine out of ten stand-alone facilities lose money annually. He said without a public/private scenario, a stand-alone facility would be more costly to build in Norman and would not be feasible, but Norman does have the benefit of having a great foundation of existing private sector investments that could be leveraged.

Mr. Kruger highlighted hypothetical construction costs as follows:

- Scenario 1 \$42,000,000
- Scenario 2a \$22,500,000
- Scenario 2b \$15,750,000

Scenario 2a would represent a situation where a larger build-out of space would be required to achieve the market supportable program and Scenario 2b would represent a case where only the addition of an expo hall would achieve the overall market supportable program. He said the figures do not include site costs or soft costs. Mayor Rosenthal asked for an estimate of soft costs and Mr. Kruger said around 30% of total costs.

Mr. Kruger said construction costs tend to vary widely among comparable event facility projects. Many variables exist that influence actual realized construction costs including type of facility, size, components, level of finish, integrated amenities, costs of goods and services in the local market, location and topography of the site, ingress/egress issues, costs savings related to developing a joint hotel/center project, and other such aspects. Additional architectural cost analysis would be required to refine these estimates.

Councilmember Holman asked about traffic impacts to the UNP. He said existing traffic has surpassed projected traffic data and the area is only 35% developed. He asked if severe traffic congestion would be significant to events looking for a location and Mr. Kruger said traffic impacts can be taken into consideration if the plan moves forward. He said people come and go during conventions so there will not be the thrust of density like there would be for an entertainment venue when everyone arrives and leaves at one time.

Councilmember Miller asked for examples of the types of events that Norman does not currently have that may possibly come to Norman and Mr. Kruger said there are thousands of regional conventions of all types, such as Teacher Associations, that do not come now because the space is not available. He said sporting tournaments such as basketball, cheer, gymnastics, etc., that require a lot of space could come to Norman. He said the City could partner with NCVB to book these events with hotel packages.

Councilmember Castleberry thought CS&L should remove tournaments and competitions from the report because Norman Forward is already proposing an indoor sports complex that would hold sport tournaments and competitions.

Councilmember Castleberry asked if this project, in Mr. Kruger's professional opinion, would be a good deal for Norman and Mr. Kruger said in his opinion, this would be a good product for Norman. He has done studies where he has recommended cities not build a convention/expo center. Mayor Rosenthal asked the names of those cities and Mr. Kruger said to name a few, Kansas City, Missouri; Lincoln, Nebraska; and Cameron, Louisiana, because competitive centers were too close or an existing center could repurpose to add additional space to meet needs. Mayor Rosenthal asked Mr. Kruger to submit a complete list to the City Manager with a longer list of other cities where recommendations have been not to build.

Mayor Rosenthal said CS&L is suggesting the City choose Scenario 2b where construction costs are projected to be \$15,750,000 with an additional 30% for soft costs, which would make it a \$20,000,000 project. Councilmember Allison asked if soft costs in a public/private partnership would be the lessee's responsibility or the City's and who would own the buildings? Mr. Kruger said in Scenario 2b CS&L is assuming the public sector (the City) would own the building so the soft costs would be the City's. In exchange for the City providing that asset, the lessee would manage the facility under a long-term lease agreement.

Councilmember Lang asked the economic impact numbers would look like if the Marriott offered the City a deal to build at that location and Mr. Kruger said the numbers would be more conservative. He said if the idea is to attract larger state, national, and regional events the City will need a product more in line with industry standards in terms of best practices of products and operations. He said the Marriott has smaller hotel rooms than Embassy Suites with queen size beds because their rooms are not large enough for king size beds. He said the Marriott has less retail and restaurants and the campus is spread out. He said it is good for the City to have two hotels competing for the rights to the product and both locations could be used to the benefit of Norman to optimize the investment.

Ms. Jayne Crumpley, 423 Elm Avenue, asked if CS&L had reviewed the proposed project's proximity to Will Rogers World Airport and if that was part of the survey. Mr. Kruger said it was, and if the people being surveyed were not familiar with Norman, they were told the distance from Will Rogers to Norman. He said there are certain groups that will not come to Norman because they prefer meeting in bigger cities like Oklahoma City and Tulsa, but there are a lot of reasons an event could benefit from a product in Norman.

Mr. Kruger said the return on investment only works with a public/private partnership in Norman, but the cost benefit ratio is higher in Norman than in larger cities.

Mr. John Woods, Norman Chamber of Commerce, asked if CS&L had taken into the account the economic impact of Norman residents attending events outside of Norman that would now attend them in Norman if a facility was available. Mr. Kruger said the economic impact numbers do not take into account Norman residents attending events in Norman because that would be considered "displaced spending" that would have occurred within Norman anyway. He said if facility could bring back in those people attending outside events there would be a reduction in lost local impact, which is capturing the events Norman is losing, but those numbers are not in the report.

Councilmember Jungman would like the Economic Development Advisory Board (EDAB) to look at the report and give their opinion, especially since this is an economic analysis and Mr. Schemm said that has been scheduled.

Councilmember Miller asked if there is going to be an opportunity to discuss the Canadian River Project that is in the Parks Master Plan since there is public interest for Council to look at that. Mayor Rosenthal agreed that should be discussed before public meetings are held and suggested Council discuss that project on May 5, 2015, as well as the public art component, specific to Norman Forward proposals.

Councilmember Allison asked when Council would get an update of the Norman Forward public survey questions and responses. Mr. Steve Lewis, City Manager, said Staff is compiling data as it comes in and asked if Council wants to wait to see the finished data. Councilmember Allison asked when the survey will be closed and Mr. Lewis said the meetings are still ongoing so there is no closing date at this time. Mr. Lewis said the dates for the public meetings have been established for May 19, 20, and 21st. Councilmember Allison asked if public survey questions will be done for the financing portion of discussions. Mayor Rosenthal felt Council would want input on the financing portion because citizens have already voiced concerns on the possible level of sales tax, its aggressive nature, and how high it will rise. She said some citizens are advocating for property tax. Mayor Rosenthal suggested initial survey feedback results be presented to Council in their meeting of May 14th. Mr. Lewis said the survey is an internet survey and not a scientific survey so it would be helpful to Staff to discuss the formal survey process on May 7th to get Council's direction. Mayor Rosenthal felt that could be added to the May 7th agenda.

Items submitted for the record

1. PowerPoint presentation entitled, "Feasibility Analysis of Potential Convention/Expo Center Development in Norman, Oklahoma Summary of Findings" dated April 30, 2105
2. Draft Report of Feasibility Analysis of Potential Convention/Expo Center Development in Norman, Oklahoma, prepared by Convention Sports & Leisure (CS&L) for Norman Convention and Visitors Bureau dated April 27, 2015

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The meeting adjourned at 7:03 p.m.

ATTEST:

City Clerk

Mayor