



DATE: September 12, 2012
TO: Board of Commissioners
FROM: Patrick Quinton, Executive Director
SUBJECT: Report Number 12-28
Authorizing the Second Amendment to the Disposition and Development Agreement with Grove Hostel Property, LLC, to extend the Final Termination Date by 90 days

BOARD ACTION REQUESTED

Adopt Resolution No. 6962

ACTION DESCRIPTION

Authorize the Executive Director to execute the Second Amendment to the Disposition and Development Agreement with Grove Hostel Property, LLC (GHP), to extend the Final Termination Date by 90 days. The original Disposition and Development Agreement (DDA) was approved by the PDC Board of Commissioners (Board) on July 27, 2011, executed on August 18, 2011, and was set to terminate on March 31, 2012. Pursuant to Section 15.8.3 of the DDA, the Executive Director approved the First Amendment to the DDA which extended the Final Termination Date by 180 days, to September 30, 2012.

The project team is preparing to bring a revised deal structure to the PDC Board at its regular meeting on November 14, 2012. Since the Final Termination Date of the DDA is September 30, 2012, the DDA must be extended to allow the Board to consider the revised deal structure which, if approved by the Board, would be implemented through a Third Amendment to the DDA at that time.

BACKGROUND AND CONTEXT

PDC entered into exclusive negotiations with members of GHP for the renovation of the Grove Hotel (the Project) located at West Burnside Street between NW 4th and NW 5th Avenues in the River District Urban Renewal Area (the Property), due to their ownership of the adjacent property, Blocks 32 & 33, and planned future redevelopment. See Attachment A, Property Map. Pursuant to the subsequent DDA (authorized by the Board on July 27, 2011, and executed on August 18, 2011), PDC agreed to sell the Property for its current appraised value and provide financing for the Property acquisition and a portion of the renovation costs as part of the Project. The remainder of the Project financing was to be in the form of a loan from Advantis Credit Union and an equity contribution from GHP.

The Project will create an urban youth hostel and restaurant/bar operated by Ace Group International, LLC, with additional leased retail space on the ground floor. The ground floor will be well suited for commercial retail use when the new storefront façade is installed, but the upper floors have a shallow depth of only 30 feet, and are less well suited for typical upper floor uses such as office space or residential units. The location, with excellent transit access and proximity to bus and train stations, is

highly desirable for any urban hostel. The Project will serve as a catalytic anchor that will help further the goals of the Old Town Chinatown Entrepreneurial District.

In the fall of 2011, the revised construction cost from the developer's general contractor significantly exceeded the Project budget assumed during underwriting and, as a result, PDC did not close on the Property conveyance and PDC financing. The Project was rebid in February 2012 and, while the construction estimate is lower, a gap remains in the Project budget, necessitating a further restructure of the Project financing. In addition, the Property has been re-appraised and the developer has added new equity members.

Next month, staff intends to bring a revised financial structure to the PDC Board in the form of a Third Amendment to the DDA which will reflect an updated Schedule of Performance and Redevelopment Loan Term Summary.

COMMUNITY AND PUBLIC BENEFIT

This Project will rehabilitate a highly visible blighted site that has suffered from decades of neglect and disrepair and continues to burden PDC resources in terms of property management and upkeep. As a building directly adjacent to the Old Town Chinatown gate, it will provide an iconic symbol of the neighborhood's revitalization.

A catalytic project for Old Town Chinatown in the near term, the Project will create significant benefit for the neighborhood. The proposed youth hostel will draw thousands of new visitors to the historic neighborhood that will, in turn, draw discretionary income to the existing neighborhood businesses. The operator, Ace Group International, LLC, is a nationally known brand that caters to a young, creative class clientele. The ground floor commercial will remain active throughout the day, unlike many businesses in the immediate vicinity which have a nighttime clientele focus. The hostel has the potential to create an economic impact here similar to that created by the Ace Hotel in the West End neighborhood south of Burnside.

The attraction of young, creative tourists to the area supports Objective 2.2 of the Economic Development Strategy: Enhance the vitality and distinctiveness of the Central City to showcase our sustainable way of life and attract creative class talent. Finally, this Project implements PDC's Business and Workforce Equity Policy, PDC's Green Building Policy, and State of Oregon Prevailing Wage Rates.

PUBLIC PARTICIPATION AND FEEDBACK

This Project was presented to the River District URAC and the Old Town Chinatown Neighborhood Association prior to PDC Board consideration in July 2011. Both groups support the Project and welcome new investment to Old Town Chinatown in the near term.

There has not been additional public outreach conducted on the amendments to the DDA.

BUDGET AND FINANCIAL INFORMATION

The financial information pertaining to the DDA executed August 18, 2011, remains in full force and effect with the proposed second amendment to the DDA. The full budget amount for the project is not included in the current year's budget. Of the \$2,707,850 budgeted in FY 2011-12, \$59,864 was

expended. Staff anticipates the remaining amount of \$2,647,986 will be included in the FY 2012-13 first budget amendment that is currently scheduled for Board consideration in November.

RISK ASSESSMENT

This amendment will only extend the Final Termination Date and will not introduce new factors to consider in a risk assessment. Staff is requesting a 90-day extension to provide some flexibility in the unlikely event that the revised deal structure is not ready for Board consideration in November.

ALTERNATIVE ACTIONS

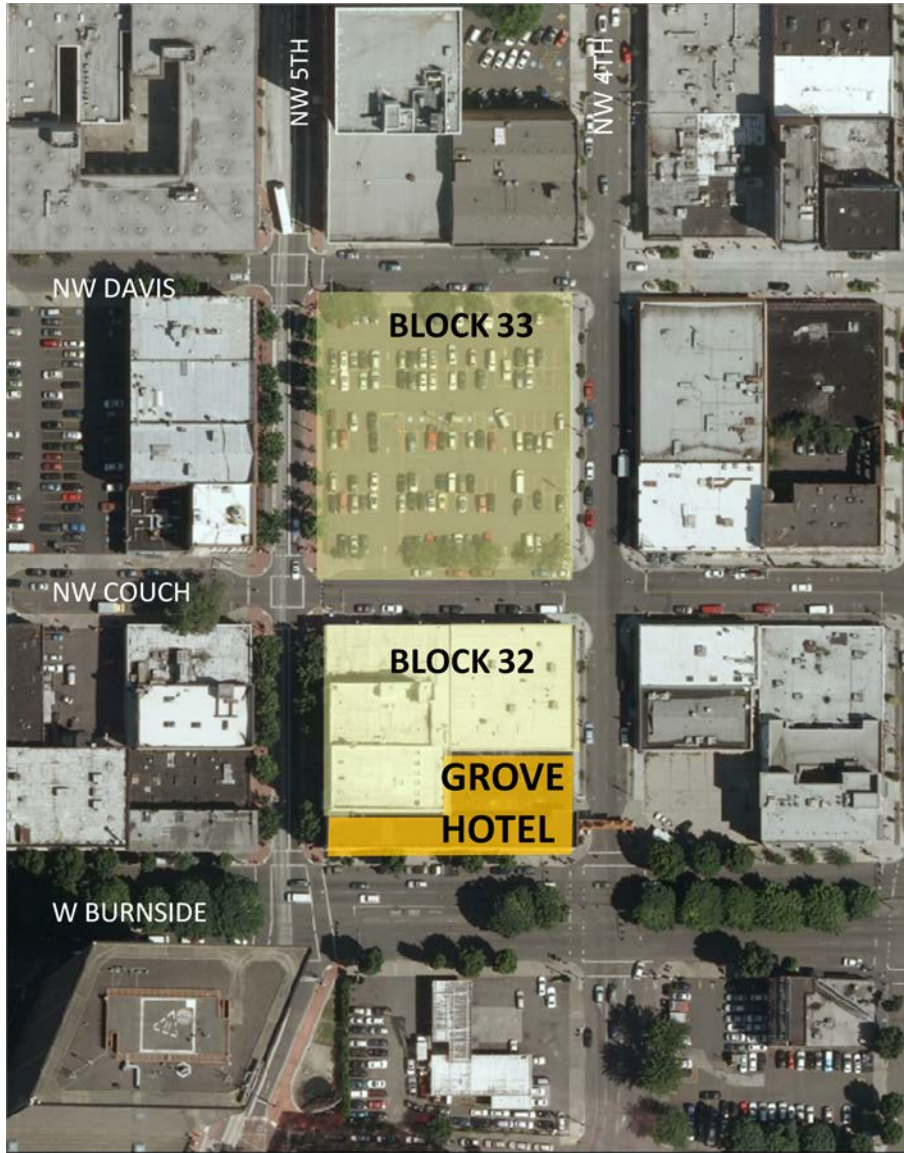
The Board could choose not to authorize the Executive Director to execute the Second Amendment to the DDA, resulting in termination of the DDA on September 30, 2012.

If the Board then wished to proceed with a restructured transaction, staff would either need to (a) prepare a new Disposition and Development Agreement and submit it for Board consideration or (b) prepare, and submit to the Board for consideration, documentation to reinstate retroactively the terminated DDA and then amend the retroactively reinstated DDA to implement the restructured transaction. Both of these options are more time consuming and, in some respects, more complex, than implementing the restructured transaction through a Third Amendment to a DDA that remains in effect.

ATTACHMENTS

- A. Property Map
- B. URA Financial Summary

Property Map



URA Financial Summary

Five-Year Forecast Project Requirements Detail

	FY 2011-12	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17
River District URA						
Resources						
Beginning Fund Balance	9,943,488	11,650,302	7,769,589	2,120,760	1,529,322	1,478,706
Interest on Investments	30,000	0	0	0	0	0
Loan Collections	450,000	600,000	600,000	600,000	600,000	600,000
Long Term Debt	19,760,955	0	38,081,104	25,800,000	33,535,673	27,500,000
Property Income	582,348	582,348	582,348	582,348	582,348	582,348
Reimbursements	200,000	452,822	100,000	100,000	100,000	100,000
Short Term Debt	24,975,000	21,756,450	21,124,245	17,400,567	18,792,098	17,592,981
Total Fund Resources	55,941,789	35,041,922	68,257,286	46,603,675	55,139,441	47,854,015
Requirements						
Program Expenditures						
Administration						
Financial Administration						
A45101330 Debt Management-RVD	50,000	50,000	50,000	50,000	50,000	50,000
A45997330 Portland Harbor-RVD	85,000	0	0	0	0	0
Administration Total	135,000	50,000	50,000	50,000	50,000	50,000
Business Dev						
Cluster Industry Development						
B15100330 Cluster Development-RVD	200,000	100,000	100,000	100,000	100,000	100,000
B15102330 Site Recruitment-RVD	71,250	82,500	75,000	75,000	75,000	75,000
B15401330 Design Forum/PDX-RVD	0	5,000	0	0	0	0
Business Lending						
L02100330 BIF-General-RVD	2,000,000	2,000,000	2,500,000	0	0	3,000,000
Business Dev Total	2,271,250	2,187,500	2,675,000	175,000	175,000	3,175,000
Infrastructure						
Parks						
N33011915 Nbrhd Prk(The Fields)-RVD-Adm	1,550,000	4,130,000	0	0	0	0
N33012015 Nbrhd Park SDC Credit-RVD-Adm	0	0	400,000	0	0	0
Public Facilities						
N33022015 Union Station-RVD-Adm	1,706,500	1,182,520	506,500	506,500	3,506,500	106,500
Transportation						
N33033417 Burnside Oper Improv-RVD-Pred	0	2,595,000	0	0	0	0
N33033715 Streetcar Loop Project-RVD	0	500,000	0	0	0	0
N34630015 Dtnw Retail Infra-SPB-Adm	240,924	0	0	0	0	0
Infrastructure Total	3,497,424	8,407,520	906,500	506,500	3,506,500	106,500
Portland Hsg Bureau						
PHB Housing						
H15135330 The Medford-RVD	0	1,476,000	0	0	0	0
H15138330 Pearl Family Housing-RVD	547,748	0	0	0	0	0
H15430330 Affordable Rental Hsg-RVD	1,227,314	310,201	4,429,737	7,309,297	10,771,838	7,269,123
H15900330 PHB Staff & Admin-RVD	492,919	521,210	565,867	629,976	659,802	674,283
H15930330 Fairfield Apartments-RVD	5,000	65,000	64,400	64,400	64,400	65,000
H15938330 Blanchet House Redev-RVD	4,022,950	0	0	0	0	0
H15940330 RAC - Access Center-RVD	17,363,209	0	0	0	0	0
H15951330 Yards at Union Station-RVD	4,965,000	1,893,799	0	0	0	0
Portland Hsg Bureau Total	28,624,140	4,066,210	5,060,004	8,003,673	11,496,038	8,008,406
Property Redev						
Commercial Property Redevopm						
A35401330 Central City 2035-RVD	27,840	0	0	0	0	0
A45997330 Portland Harbor-RVD	0	32,000	0	0	0	0
N33024015 Multnomah County-RVD-Adm	0	0	26,948,460	0	0	0
P33013715 Grove Hotel-RVD-Adm	2,707,850	0	0	0	0	0
P33050015 Post Office-RVD-Adm	100,000	500,000	8,000,000	16,000,002	15,088,222	22,313,779

Five-Year Forecast Project Requirements Detail

		FY 2011-12	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17
P33050115	Dtwn Retail Strat-RVD-Adm	200,000	500,000	250,000	250,000	250,000	250,000
P33050415	Centennial Mills Rdv-RVD-Adm	472,000	365,000	7,836,000	7,076,000	0	0
P33051515	Station Place Garage-RVD-Adm	233,147	223,147	223,147	223,147	223,147	223,147
P33052115	10th & Yamhill Redev-RVD-Adm	15,000	0	0	3,750,000	14,200,000	0
P33052215	CC 2035-RVD-Adm	0	163,895	0	0	0	0
P33052715	PNCA-RVD-Adm	250,000	0	0	0	0	0
P33053219	Horse Barn Relocation-RVD-mgmt	100,000	1,750,000	0	0	0	0
P33054315	RD Enviro-RVD-Adm	65,000	75,000	0	0	0	0
P33054415	One Waterfront Pl-RVD-Adm	7,000	6,000	6,000	6,000	6,000	6,000
P33054515	Blocks A&N-RVD-Adm	32,300	150,000	32,300	32,300	32,300	32,300
Commercial Real Estate Lending							
R01100330	CPRL-General-RVD	1,280,000	4,035,000	3,000,000	0	0	3,000,000
Community Redevelopment Grants							
G02100330	DOS-General-RVD	75,000	100,000	100,000	100,000	100,000	100,000
G03100330	SIP-General-RVD	300,000	275,000	275,000	275,000	275,000	275,000
Property Redev		Total					
	Total Program Expenditures	40,392,951	22,886,272	55,362,411	36,447,622	45,400,207	37,540,132
	Personal Services	1,062,225	816,694	2,628,182	2,098,214	2,021,682	1,834,749
	Transfers - Indirect	3,324,879	3,569,367	8,145,933	6,528,517	6,238,846	5,691,590
	PHB Staff/Admin	0	0	0	0	0	0
	Total Fund Expenditures	44,780,055	27,272,333	66,136,526	45,074,353	53,660,735	45,066,471
	Contingency	11,161,734	7,769,589	2,120,760	1,529,322	1,478,706	2,787,544
	Ending Fund Balance	0	0	0	0	0	0
	Total Requirements	55,941,789	35,041,922	68,257,286	46,603,675	55,139,441	47,854,015