

DATE: April 9, 2013
TO: Board of Commissioners
FROM: Patrick Quinton, Executive Director
SUBJECT: Report Number 13-10
Authorizing a Predevelopment Loan with Centennial Mills Portland, LLC in an Amount Not to Exceed \$350,000 for Due Diligence and Schematic Design for Centennial Mills in the River District Urban Renewal Area

BOARD ACTION REQUESTED

Adopt Resolution No. 6998

ACTION DESCRIPTION

This action will authorize a predevelopment loan with Centennial Mills Portland, LLC, a limited liability company established by Harsch Investment Properties, LLC (Harsch), in an amount not to exceed \$350,000 to assist with due diligence and schematic designs for the proposed redevelopment of Centennial Mills. Centennial Mills is a Portland Development Commission (PDC) owned property located at 1362 NW Naito Parkway in the River District Urban Renewal Area (see Attachment A for a site map). The scope of work described in Attachment B will be completed by the Harsch development team, whose members are listed in Attachment C.

The proposed Harsch development program is consistent with the 2006 Centennial Mills Framework Plan (Framework Plan), and furthers the 2009 Portland Economic Development Strategy (Economic Development Strategy) by meeting a minimum of 75,000 square feet of space targeted to cluster industry and/or traded sector tenants (Project). The program includes:

- Cluster Industry/Traded Sector Employment Uses: 80,000 square feet
- Retail: 71,000 square feet
- Arts-related: 36,000 square feet
- Multi-family residential: 42,000 square feet
- Parking: 295 spaces

The total budget to complete due diligence and schematic design is estimated at \$700,000 and Harsch will be matching this predevelopment loan dollar for dollar (see Attachment C for the project budget). Harsch will provide detailed scopes of work to PDC for approval prior to proceeding with work.

Commercial Property Redevelopment Loan Guidelines require PDC Board review and approval for predevelopment loans over \$200,000.

BACKGROUND AND CONTEXT

PDC acquired the Centennial Mills site in 2000 for open space redevelopment pursuant to recommendations of the 1995 River District Plan and the 1998 River District Urban Renewal Plan. In May 2005 the City Council directed PDC and the Bureau of Planning to halt demolition planning and develop

a more comprehensive redevelopment plan. In the fall of 2006, the PDC and City Council approved the Framework Plan that outlined five principles to direct the redevelopment:

- Include a signature riverfront open space;
- Capture the historic significance, character, or function of the site;
- Create a dynamic, lasting, and unique waterfront destination;
- Connect to the River District, surrounding city, and region; and
- Develop in an ecologically, economically, and culturally sustainable manner.

Following a competitive solicitation process, PDC worked with LAB Holding, LLC (LAB) from 2008 to 2011 to complete schematic design work and pursue due diligence tasks to retain the existing structures. After negotiations with LAB ended, PDC and Mayor Sam Adams renewed efforts in February 2012 to seek feasible development proposals that complied with the Framework Plan and the Economic Development Strategy. Two responses were received by the February 2012 deadline. An Evaluation Committee was formed and after a series of interviews and meetings, the development team of Harsch Investment Properties and Venerable Group was selected. The Finance Investment Committee and Executive Director confirmed the selection. However, prior to any announcement, Art DeMuro of Venerable Properties unexpectedly passed away and the Venerable Group decided not to pursue the development. In October 2012, Harsch submitted a revised team roster, and upon review by the Evaluation Committee, Finance Investment Committee, and Executive Director, Harsch was deemed qualified to complete the redevelopment without the Venerable Group.

These next predevelopment efforts will adjust, enhance, and finish the due diligence work started by LAB as required by the new Harsch development program and design. In addition, this renewed effort will endeavor to definitively answer the financial feasibility of redeveloping an extremely complicated and challenging property. There are a total of 11 structures built between 1910 and 1940. Originally built to last approximately 15-20 years, the buildings are in an extreme state of disrepair. Approximately one-half of the structures are built atop a series of pilings and piers that date to 1910. Left unattended, approximately half of the entire site will be lost to redevelopment when these pilings reach a collective “sooner than later” point of critical failure.

In order to maximize redevelopment of the site, the City of Portland Mounted Patrol Unit (MPU) should optimally be relocated. As Harsch proceeds with its due diligence, PDC staff will concurrently work with the various stakeholders to determine the preferred location for the MPU and the associated cost to relocate.

COMMUNITY AND PUBLIC BENEFIT

Public benefits of authorizing this loan to Harsch include:

- Completes the due diligence and cost analysis of redeveloping Centennial Mills;
- Develops a plan for the Project that is consistent with the Framework Plan; and
- Develops a plan for the Project that is consistent with the Economic Development Strategy.

PUBLIC PARTICIPATION AND FEEDBACK

No direct public participation has taken place regarding this predevelopment loan. Public stakeholders participated in the selection of the Harsch development team, and the approach and cost of predevelopment work was discussed during the selection deliberations.

BUDGET AND FINANCIAL INFORMATION

There are adequate resources available in the River District URA Revised 2012-2013 Budget (see Attachment D).

Loan repayment would occur at closing with proceeds from construction financing or as part of a property sale to be negotiated as part of the Disposition and Development Agreement.

If the project is determined to be unfeasible, Harsch may request loan forgiveness. Any decision on loan forgiveness is at PDC's sole discretion, and would be based on the following criteria:

- Inability to attract equity investment
- Failure to attract acceptable tenants to the project
- Excessive development costs and/or insufficient operating income
- Loss of borrower's financial capability
- Inability to secure project financing

RISK ASSESSMENT

For several reasons the redevelopment of Centennial Mills may be unfeasible and the subsequent request for loan forgiveness likely. These include:

- The project has significant design challenges and cost unknowns. Lease revenue may not support the necessary debt and equity contribution to move the project forward without significant additional public investment. An objective of this predevelopment effort is to accurately estimate the total redevelopment costs and determine project feasibility so the result can be clearly communicated and assessed.
- While Harsch has a significant market presence and the resources to focus and respond to market opportunities, demand from traded sector and/or cluster industry office tenants may be weak and thus extend project timing which may increase the risk of structural failure of existing building elements. Finding tenants for the office component will be critical for the project to proceed in a timely manner.
- Should the City be unable to relocate the MPU to another location, timing and feasibility of the Project may be negatively impacted.

ALTERNATIVE ACTIONS

The Board could elect not to authorize the Executive Director to execute predevelopment loan.

ATTACHMENTS

- A. Property Images and Site Map
- B. Project Scope of Work & Budget
- C. Harsch Team Roster
- D. River District URA FY 2012-2013 URA Budget

Property Images and Site Map



Project Scope of Work and Budget

SOURCES & USES

Sources	
PDC Predevelopment Loan	350,000
Harsch Contribution	350,000
Total Project Sources	700,000
Uses	
GeoTech	10,000
Environmental Analysis, Underwriting	30,000
Tanner Creek Analysis, resolution	10,000
Land Use and Permitting	10,000
Planning, Architecture, Landscape Design	446,500
Waterway/Greenway Analysis and Design	25,000
Civil	25,000
Structural	50,000
Cost Estimating	10,000
Market Analysis	20,000
LEED Compliance/Sustainability	20,000
Historic Preservation/Tax Credit Feasibility	5,000
Regulatory Analysis and Compliance	5,000
Legal	10,000
Public Agency Coordination	10,000
Marketing/Tenant Procurement	5,000
Reimbursables	5,000
PDC Loan Fee	3,500
Total Project Uses	700,000
Leverage	1:1

Harsch Team Roster

1. Lead Architect: Thomas Meyer, Meyer Scherer Rockcastle
2. Local Architects:
 - a. Greg Sanders & David Wark, Hennebery Eddy
 - b. Bing Sheldon, SERA
3. Structural Engineer: Nate Ingraffea & Blake Patsy, KPFF
4. Civil Engineer: Scott Schumaker, SERA
5. Waterway Consultant: Andrew Jansky, Flowing Solutions, LLC
6. Land Use Consultant: Beverly Bookin, Bookin Group, LLC
7. Environmental Consultant: Rick Ernst, Hart Crowser
8. Sustainability Consultant:
 - a. Scott Lewis, Brightworks or
 - b. Ralph DiNola, Green Building Services
9. Historic Preservation / Historic Tax Credits: John Tess, Heritage Consulting
10. Legal:
 - a. Jeff Nudelman, General Counsel at Harsch Investment Properties
 - b. Tom Nicolai, Senior Real Estate Partner at Stoel Rives LLP
11. Developer Representative and Project Manager:
 - a. David Gazek, Harsch Investment Properties
12. Landscape Architect: Robin Craig & Mike Faha, Greenworks (with potential augmentation TBD)
13. Mechanical & Electrical: James Thomas, GLUMAC
14. Hardscape, Connectivity, ROW: James McGrath, CH2M Hill
15. Cost Estimating: Norm Dowty, R&H Construction
16. Construction Management: Brian Williams, Harsch Investment Properties
17. Leasing:
 - a. Craig Kelly, Venerable
 - b. Dave Moore, Steve Roselli & Margaret Georgilas, Harsch Investment Properties
18. Community Outreach, Marketing, Public Relations: Susanne Orton, Harsch Investment Properties
19. Finance: Jeff Thompson & Ryan Irwin, Harsch Investment Properties

URA Financial Summary

Five-Year Forecast Program Requirements Detail

	Revised FY 2012-13	Draft FY 2013-14	Forecast FY 2014-15	Forecast FY 2015-16	Forecast FY 2016-17	Forecast FY 2017-18
River District URA						
Resources						
Beginning Fund Balance	22,424,911	18,986,303	4,505,073	5,331,888	4,529,965	587,121
Intergovernmental Revenues	0	1,800,000	2,100,000	0	0	0
Loan Collections	241,920	2,899,564	1,913,258	2,733,943	658,725	1,310,253
Long Term Debt	0	6,200,000	12,900,000	29,608,389	25,000,000	13,000,000
Property Income	698,128	698,128	698,128	698,128	698,128	698,128
Short Term Debt	21,756,450	20,422,519	21,869,244	23,455,165	19,421,913	19,830,147
Total Resources	45,121,409	51,006,514	43,985,704	61,827,513	50,308,730	35,425,648
Requirements						
Program Expenditures						
Administration						
Financial Administration						
A45101330 Debt Management-RVD	50,000	50,000	50,000	50,000	50,000	50,000
General Administration						
A65467330 URA Administration-RVD	50,000	0	0	0	0	0
Total Administration	100,000	50,000	50,000	50,000	50,000	50,000
Business Dev						
Business Lending						
L02100330 BIF-General-RVD	500,000	301,000	200,000	200,000	200,000	200,000
L02110330 BIF-Cluster Group-Budget-RVD	0	500,000	500,000	500,000	500,000	500,000
Traded Sector Business Dev						
B15102330 Site Recruitment-RVD	82,500	0	0	0	0	0
B15401330 Design Forum/PDX-RVD	5,000	0	0	0	0	0
B15100330 Cluster Development-RVD	100,000	50,000	50,000	50,000	50,000	50,000
B55005330 OT/CT Entrepreneurial-RVD	0	110,000	5,000	5,000	0	0
Total Business Dev	687,500	961,000	755,000	755,000	750,000	750,000
Infrastructure						
Parks						
N33011915 Nbrhd Prk(The Fields)-RVD-Adm	4,205,000	0	0	0	0	0
Public Facilities						
N33022015 Union Station-RVD-Adm	0	2,226,500	2,546,500	3,506,500	6,500	6,500
Transportation						
N33030015 Dtwm Retail Infra-RVD-Adm	244,702	0	0	0	0	0
N33033417 Pearl District Cir-RVD-Pred	2,545,000	0	0	0	0	0
N33033715 Streetcar Loop Project-RVD	500,000	0	0	0	0	0
Total Infrastructure	7,494,702	2,226,500	2,546,500	3,506,500	6,500	6,500
Portland Hsg Bureau						
PHB Housing						
H15135330 The Medford-RVD	1,476,000	0	0	0	0	0
H15430330 Affordable Rental Hsg-RVD	2,025,000	4,825,000	7,325,000	11,025,000	7,425,000	2,725,000
H15900330 PHB Staff & Admin-RVD	521,210	173,995	430,271	516,490	544,756	528,533
H15930330 Fairfield Apartments-RVD	65,000	50,000	50,000	50,000	50,000	0
H15951330 Yards at Union Station-RVD	1,265,963	0	0	0	0	0
Total Portland Hsg Bureau	5,353,173	5,048,995	7,805,271	11,591,490	8,019,756	3,253,533
Property Redev						
Commercial Property Redevlopm						
P33050115 Dtwm Retail Strat-RVD-Adm	500,000	250,000	0	0	0	0
P33060525 Station Place Lot 5-RVD-Adm	200	200	0	0	0	0
P33091015 Public Outreach-RVD-Adm	0	2,000	0	0	0	0

Five-Year Forecast Program Requirements Detail

	Revised FY 2012-13	Draft FY 2013-14	Forecast FY 2014-15	Forecast FY 2015-16	Forecast FY 2016-17	Forecast FY 2017-18
P33060815 Old Fire Station-RVD-Adm	17,656	15,804	0	0	0	0
P33060715 One Waterfront North-RVD-Adm	6,508	4,187	4,187	4,187	4,187	4,187
P33060615 Block R-RVD-Adm	3,306	3,101	3,101	3,101	3,101	3,101
A45997330 Superfund-RVD	32,000	0	0	0	0	0
P33060535 Station Place Lot 7-RVD-Adm	9,554	9,365	9,365	9,365	9,365	9,365
P33050015 Post Office-RVD-Adm	675,000	500,000	8,000,000	16,000,000	15,000,000	22,000,000
P33060415 Centennial Mills-RVD-Adm	38,885	38,885	38,885	38,885	38,885	38,885
P33060315 Grove Hotel-RVD-Adm	42,924	29,584	0	0	0	0
P33050415 Centennial Mills Rdv-RVD-Adm	1,015,000	700,000	7,800,000	7,500,000	0	0
P33060115 Block Y-RVD-Adm	121,732	20,377	20,377	20,377	20,377	20,377
P33055115 Multnomah County-PDV-Adm	0	26,948,460	0	0	0	0
P33054315 RD Enviro-RVD-Adm	75,000	0	0	0	0	0
P33053219 Horse Barn Relocation-RVD-mgmt	1,750,000	0	0	0	0	0
P33052215 CC 2035-RVD-Adm	163,895	0	0	0	0	0
P33052115 10th & Yamhill Redev-RVD-Adm	0	0	0	3,250,000	14,200,000	0
P33060215 Union Station-RVD-Adm	842,767	0	0	0	0	0
P33060545 Station Place Prkng-RVD-Adm	276,572	208,168	208,168	208,168	208,168	208,168
Commercial Real Estate Lending						
R01100330 CPRL-General-RVD	4,035,000	3,000,000	3,000,000	3,000,000	1,500,000	1,500,000
Community Redevelopment Grants						
G02100330 DOS-General-RVD	100,000	100,000	100,000	100,000	100,000	100,000
G03100330 SIP-General-RVD	275,000	300,000	300,000	300,000	300,000	300,000
Total Property Redevel	9,980,999	32,130,131	19,484,083	30,434,083	31,384,083	24,184,083
Total Program Expenditures	23,616,374	40,416,626	30,640,854	46,337,073	40,210,339	28,244,116
Personal Services	897,565	768,477	1,732,370	2,619,802	2,273,409	1,596,864
Transfers - Indirect	3,669,367	5,316,338	6,280,592	8,340,673	7,237,861	5,083,941
Total Fund Expenditures	28,183,306	46,501,441	38,653,816	57,297,548	49,721,610	34,924,920
Contingency	16,938,103	4,505,073	5,331,888	4,529,965	587,121	500,728
Ending Fund Balance	0	0	0	0	0	0
Total Requirements	45,121,409	51,006,514	43,985,704	61,827,513	50,308,730	35,425,648