



**DATE:** June 4, 2014  
**TO:** Board of Commissioners  
**FROM:** Patrick Quinton, Executive Director  
**SUBJECT:** Report Number 14-20

Authorizing Modifications in the Loans Used to Finance the Acquisition and Redevelopment of the Armory Building, Located at 128 NW 11th Avenue in the River District Urban Renewal Area

### **BOARD ACTION REQUESTED**

Adopt Resolution No. 7053

### **ACTION DESCRIPTION**

This proposed action by the Portland Development Commission (PDC) Board of Commissioners (Board) will authorize modifications in the loans used to finance the Armory Building, located at 128 NW 11th Avenue in the River District Urban Renewal Area (URA) (see a site map in Attachment A). If approved, this modification will:

1. Assign Loan A (with an outstanding balance of approximately \$3,200,000) to the Armory Theater Fund, the proposed new owner of the property;
2. Extend the Loan A maturity for 10 years until June 21, 2024;
3. Provide PDC a security interest in the Armory Building; and
4. Convert the Loan B balance to a public investment by extinguishing its outstanding \$2,000,000 balance, as originally proposed and approved by the PDC Board in 2003.

### **BACKGROUND AND CONTEXT**

**History:** The First Regiment Armory Building was built in 1888 with an Annex constructed in 1891, occupying the entire city block between NW 10th and 11th avenues, Couch and Davis streets. Originally, the building was intended as a military drilling site for the National Guard, but quickly evolved into a cultural institution, hosting reunions, trade shows, exhibitions, and other events. In the early 20th Century, presidents Theodore Roosevelt, Woodrow Wilson, and William Howard Taft all visited and spoke at the Armory Building. With the development of other public meeting spaces in Portland that hosted cultural events, the Armory Building began to deteriorate from lack of use and neglect. In 1968, the Blitz-Weinhard brewing company acquired the building, demolishing the original Armory for a parking lot and using the Annex as a warehouse (now known as the Armory Building).

In 2000, Gerding Edlen Development Company (GED) purchased the Armory Building as one of the holdings in its four-block Brewery Blocks redevelopment project, pledging to maintain the historic character of the building while redeveloping the property. Although the building was historically important, redevelopment was constrained by seismic issues and its unique windows.

In 2003, PDC was asked to participate in the financing of the acquisition and redevelopment of the Armory Building as a world-class, sustainable performing arts center. On July 9, 2003, through

resolution no. 6035, the PDC Board authorized loans in an amount not to exceed \$6,600,000 as follows:

- \$2,600,000 Loan A, with a term of 10 years and interest at three percent;
- \$2,000,000 Loan B, which would be converted to a public investment and forgiven if certain public benefits were achieved;
- \$2,000,000 bridge loan, repaid upon receipt of \$2,000,000 in fundraising contributions; and
- All debt would be secured by a trust deed on the Armory Building property.

In November 2003, before PDC funded any of the loans, PDC's Board approved a request to restructure its financing, primarily to accommodate a new financing structure involving both Historic and New Market tax credits (NMTC). The three primary changes, relevant to today's proposed action, were:

1. To reduce the total PDC loan amount from \$6,600,000 to \$4,600,000, since \$2,000,000 in capital contributions was successfully raised, thus negating the need for the bridge loan;
2. To convert the \$2,000,000 Loan B public investment contribution to a \$2,000,000 loan without the conversion to public investment, in order to meet NMTC structural requirements; and
3. To remove the trust deed as collateral, since the NMTC structure could not proceed with PDC having a security interest in the building during the NMTC compliance period.

The Gerding Theater opened in 2006 to critical acclaim. The 56,000 square foot renovated Armory Building included a 599-seat main theater, 200-seat black box theater, rehearsal halls, community space, and office space for its main tenant, Portland Center Stage (PCS). The development team restored the building's distinctive façade while reconstructing a state of the art facility within the existing walls and roof of the single-story structure. The building was not only the first Leadership in Energy and Environmental Design (LEED) Platinum performing arts center in the world, it was also the first LEED Platinum building on the National Register of Historic Places. The building has won numerous awards including a 2007 Award for Excellence from the Urban Land Institute, a 2007 Top Ten Green Projects Awards Honorable Mention from the American Institute of Architects' Committee on the Environment, and a 2007 Grand Award for Engineering Excellence from the American Council of Engineering Companies of Oregon. It has been written about in *Sunset Magazine*, *Forbes*, *Portland Monthly*, *The Wall Street Journal*, and other publications, bringing publicity and visitors in sustainable design nationally and internationally.

Originally, it was anticipated that all the outstanding senior debt and the PDC loans would be repaid from PCS' capital campaign. However, with the downturn in the economy in the late 2000s, contributions to the capital campaign were slower than projected. In June 2011, PDC agreed to PCS' request to reduce the interest rate on the \$2,600,000 Loan A from three to zero percent and extend the maturity on Loan A and B from January 1, 2013, to June 21, 2014.

In the upcoming weeks, the entire remaining project debt is being restructured as the tax credit compliance period is coming to an end. The remaining debt in the financing structure is approximately \$1,900,000 in senior loans owed to US Bank and the \$4,600,000 in PDC loans. The US Bank loan is expected to be refinanced by a StanCorp Mortgage Investors (SMI) senior loan which is expected to be amortized over 10 years, and secured by a first lien in the Armory Building property.

**Modification Request:** With the upcoming conclusion of the tax compliance period, PCS has requested that PDC reconsider Loan B as a public investment and that the outstanding \$2,000,000 in principal be extinguished (which the PDC Board in July 2003 originally approved). In addition, PCS has requested that Loan A of \$2,600,000 in principal and \$561,750 in capitalized interest be restructured.

**Staff Recommendation:** PDC staff is recommending approval of PCS's request to extinguish its obligations of \$2,000,000 on Loan B. Such an action is consistent with the original deal structure approved by the PDC Board on July 9, 2003. All of the conditions set in 2003 for forgiving the loan

(primarily proven success in fully financing the development, completing the project and maintaining the Armory Building as a public space) have been met. The project also has provided, and will in the future provide, significant community and public benefits as detailed below. While the subsequent restructure of this portion of the financing as part of the tax credit structure does not legally require PDC to forgive this portion of the loan, staff recommends reconverting it back to the original structure since the project has achieved all of the laudable results that the PDC Board in July 2003 believed justified forgiveness.

With regard to Loan A, PDC recommends restructuring Loan A as follows:

- PDC would extend the maturity date of the current balance of Loan A (now approximately \$3,200,000) for 10 years, at zero interest;
- PDC would receive a second position trust deed on the Armory property; and
- In exchange, PCS would agree to provide the community benefits outlined in Attachment B.

This action would i) accommodate PCS's desire to not burden itself with debt service requirements in the short term, but ii) as with Loan B, restructure the loan consistent with the original intent of the PDC Board in 2003. Specifically, as originally contemplated, Loan A was not to be forgiven and would be secured by a trust deed security interest in the property. Today, the property has a value of about \$26,000,000. If PDC takes a security interest in the property, it will be behind only the anticipated senior loan of approximately \$1,900,000. Since much of the increased value of the Armory Building was obtained through PDC's public investment, staff believes it is appropriate to take a trust deed position as originally contemplated.

### **COMMUNITY AND PUBLIC BENEFIT**

The Armory Building and PCS are critical components to Portland's thriving and innovative arts ecosystem with more than 800 events held in the facility annually. Since its 2006 move to the Armory Building, PCS has demonstrated its commitment to the community and has increased the number of theatregoers by 80 percent from about 92,000 to more than 165,000, with more than 30 percent of single ticket sales on a reduced price program and increased proportion of younger attendees from six percent to 17 percent. Numerous programs have been developed and added which could not have occurred without the Armory Building as a performing arts center, including:

- Community Programs: PCS partners with scores of artists and educational, human service, environmental, and cultural groups each year to present free public events aimed at connecting the theater to diverse communities, stimulating civic conversation, and making PCS's Armory Building into a welcoming gathering place for the entire community. Last year, 7,235 people attended 105 community programs, developed in partnership with 62 individual artists and 59 organizations. Partners include the June Key Delta Center, August Wilson Red Door Project, Passin' Art Theater company, Central City Concern, Oregon Jewish Museum, NW China Council, Chinese Consolidated Benevolent Association, p:ear, Urban League of Portland, Partners in Diversity, Native American Youth and Family Center, PHAME Academy, and Raphael House. Programs range from music concerts and film screenings to youth mentoring projects and "Ideas in Play," a free series of discussions on the broader issues addressed in various PCS productions such as "Chinglish," "The Whipping Man," and "Clybourne Park."
- Educational Outreach: Youth participation in PCS's education programs has increased 139 percent, from 3,197 participants in 2005-06 to 7,630 in 2012-13. Its Stage Door program provided more than 3,100 free tickets to Title 1 schools and nonprofit youth organizations last year (nearly 2,500 more tickets were made available at a subsidized \$15 ticket price to schools). Programs for young people developed since the move to the Armory Building include Summer Teen Intensives, the PCS Teen Council, and the All's Fair in Love & Shakespeare outreach

program. PCS has also added an adult education component which offers courses in playwriting, acting and play analysis to nearly 150 people each year. More than 9,500 people participated in PCS education programs in 2012-13 alone.

- **Social Equity:** One of PCS's key organizational goals is to become more inclusive in its programming, leadership, staff, and operations, engaging voices that have been historically under-represented and striving to better reflect the evolving population of the community. In addition to its plays, PCS has partnered with stakeholders to engage the community on issues of diversity and equity through workshops and exhibits. PCS strives to make its performances and programs as accessible as possible to the community providing a variety of options such as day-of discounts, "Pay-What-You-Will," discounts for disabled and community program attendees, and "\$5 Arts-for-All tickets." PCS also partners with organizations like Central City Concern, the Portland Rescue Mission Women's Program, and the YWCA to provide complimentary tickets to their clientele.

Overall, PCS has contributed positively to Portland and has become one of the top 20 largest regional theater companies in the United States. It has activated the artistic community in ways that would not have been possible without the Armory Building. Using estimates of the Arts & Economic Prosperity calculator, PCS estimates that its economic impact grew from \$7,000,000 and 214 full time equivalent (FTE) jobs in 2005-06, to \$13,000,000 and 400 FTE jobs for the 2012-13 season. In addition to regular artistic, production, and administrative staff of 145, PCS provides employment for more than 300 artists each season, including actors, designers, directors, musicians, and playwrights. The theater also hired nearly 60 temporary personnel to help build costumes and scenery for its productions this year. Furthermore, PCS estimates that it directly and indirectly contributed more than \$557,000 in tax revenue to the local government and more than \$712,000 to the state government.

#### **PUBLIC PARTICIPATION AND FEEDBACK**

There has been no specific public participation related to the proposed loan modifications.

#### **BUDGET AND FINANCIAL INFORMATION**

If approved, the loan modification is expected to generate no revenues to PDC over the next 10 years until June 21, 2024, when the loan matures.

#### **RISK ASSESSMENT**

There is currently no plan for how the extended Loan A will be repaid at or before maturity. It is anticipated that PDC and PCS will meet in the coming years to establish a plan for extinguishing PCS's obligation. There is a risk that PCS may not be able to raise sufficient funds over the next ten years, through a capital campaign or otherwise, to repay the SMI senior loan and/or PDC loan. However, PCS has demonstrated fundraising ability in the past by raising approximately \$15,000,000 in cash and pledges for its capital campaign to acquire the Armory Building as its new permanent home. This risk is further mitigated by the fact that PDC will have a second lien over the Armory Building subordinate to SMI. An appraisal by National Valuation Consultants, Inc., in 2012 for US Bank, the current senior lender, appraised the Armory Building's market value at \$26,000,000. This would result in a loan-to-value ratio under 20 percent for PDC's Loan A, inclusive of proposed senior debt.

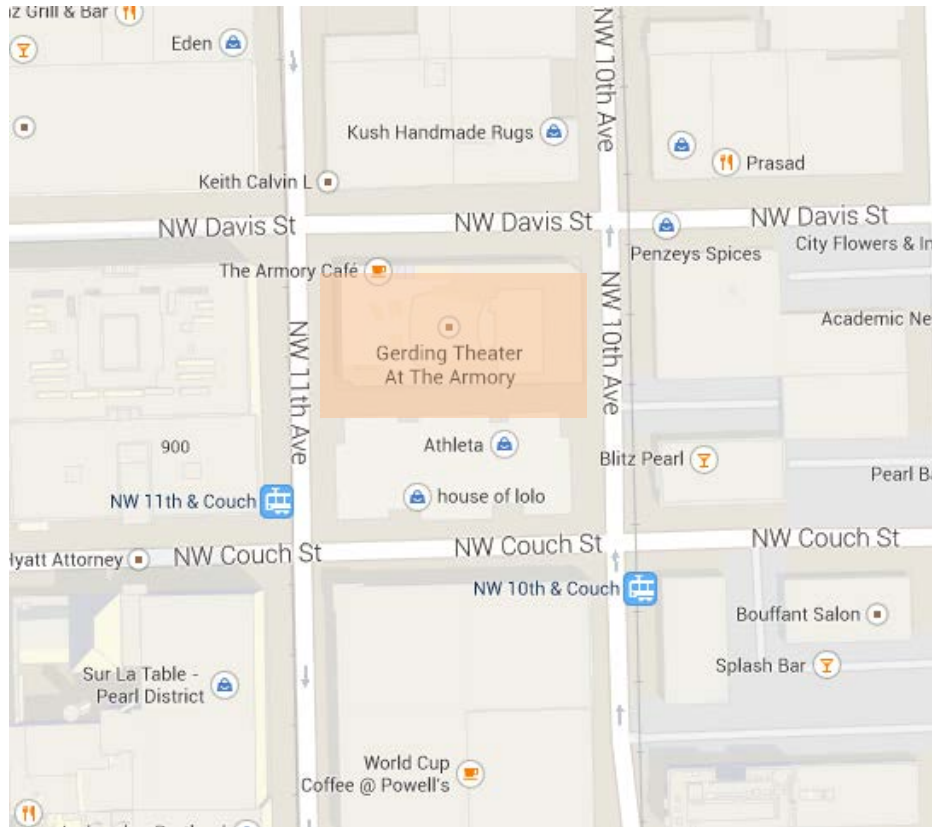
#### **ALTERNATIVE ACTIONS**


The Board could decide to direct staff to incorporate new terms or changes to the terms and conditions into the Loan Modification.

**ATTACHMENTS**

- A. Site Map
- B. Portland Center Stage Community Investment Program – Next 10 Years

### Site Map



 Armory Building (128 NW 11th Avenue)

**Portland Center Stage Community Investment Program – Next 10 Years**

<b>Social Equity: Wide Ranging Participation</b>	<b>Indicators</b>
<p><b><u>ACTIVITY</u></b> PCS offers a variety of price &amp; entry points to all programs and productions, from free to full price.</p> <p><b><u>OUTCOME</u></b> High representation &amp; participation from a variety of socioeconomic and age ranges in our community.</p> <p><b><u>IMPACT</u></b> Opportunities to directly participate in the art of theater inspire connections between everyone in our community enriching the experience for all.</p>	<p><b>Students</b> At least 5,000 students from area schools, with a focus on those from underserved populations, attend PCS productions yearly, with all receiving discounted tickets, and at least 2,000 receiving free tickets.</p> <p>At least 75 percent of responding youth who attend performances average three or higher in responses to survey questions designed to measure intrinsic factors (captivation, emotional resonance, etc.)</p> <p>2,500 students attend pre-show workshops, tours or outreach performance, with 90 percent of respondents rating the experience “Good” or “Excellent.”</p> <p>Participants demonstrate a desire and/or tendency to return for additional performances and programs.</p> <p><b>Adults</b> Approximately 30 percent of our annual audience (over 10,000 currently) will have found access to programming through discounts including:</p> <ul style="list-style-type: none"> <li>• “Pay what you will” night,</li> <li>• \$5.00 tickets with Oregon Trail Card,</li> <li>• \$20 – \$25 Stand-by tickets</li> <li>• Half price coupon</li> <li>• \$5 – \$10 discount promotions</li> </ul> <p>Participants demonstrate a desire and/or tendency to return for additional performances and programs.</p>
<b>Social Equity: Diverse Community</b>	<b>Indicators</b>
<p><b><u>ACTIVITY</u></b> PCS intentionally builds partnerships and programming that bridge differences in culture, age and socioeconomic status.</p> <p><b><u>OUTCOME</u></b> People build awareness, understanding, and social capital with</p>	<p>Portland Center Stage offers no fewer than 30 community programs a year focusing on civic issues, social equity or diversity &amp; inclusion.</p> <p>Participants in these community programs exceed 2,000 a year.</p> <p>Sharing assets, including the use of the Portland Armory, PCS partners with no fewer than 15 organizations representing minority or social equity groups with a focus on investing in continuous and sustained relationships.</p> <p>New participants and partners in community programming demonstrate a desire and/or tendency to return for additional PCS performances and programs.</p>

<p>community members who are different from them.</p> <p><b><u>IMPACT</u></b>                  Through shared experience and dialogue, our community grows stronger and more cohesive.</p>	<p>Current PCS patrons demonstrate a desire and/or tendency to return for community programs.</p> <p>80 percent of surveyed attendees respond that they learned something about their community by attending the event.</p>
<p><b>Community Outreach</b></p>	<p><b>Indicators</b></p>
<p><b><u>ACTIVITY</u></b>                  PCS shares assets with a vast variety of groups, individuals and organizations that represent our diverse community, to construct community programs open to the public</p> <p><b><u>OUTCOME</u></b>                  Shared resources build shared participation of constituents.</p> <p><b><u>IMPACT</u></b>                  Awareness among participants of respective missions, services, issues, and resources of a vast variety of organizations and populations.</p>	<p>Portland Center Stage offers approximately 100 community programs a year reaching over 5,000 participants representing diverse populations of the Portland community.</p> <p>Sharing assets including free tickets, space at the Portland Armory, artists, etc., PCS partners with no fewer than 30 organizations a year.</p> <p>PCS hires over 50 artists, experts, academics, and others to share their assets with PCS patrons and staff, with a focus on hiring speakers from diverse and varied backgrounds.</p>