

PDC

PORTLAND DEVELOPMENT COMMISSION

DATE: December 10, 2008

TO: Board of Commissioners

FROM: Bruce A. Warner, Executive Director

SUBJECT: Report Number 08-139
Acquisition of Property at 10506-10512, 10520 NE Halsey Street in the Gateway Regional Center Urban Renewal Area

EXECUTIVE SUMMARY

BOARD ACTION REQUESTED

Adopt Resolution No. 6641

ACTION SUMMARY

This action will authorize the Executive Director to purchase real property at 10506-10512, and 10520 NE Halsey Street in the Gateway Regional Center Urban Renewal Area (URA), from two private parties for up to \$4,300,000. All costs will be split 50-50 by the Portland Development Commission (PDC) and the Portland Bureau of Parks and Recreation (PPR). The purchase amount is based on appraisals conducted by Integra Realty Resources (June 17, 2008 and amended October 6, 2008), a new appraisal conducted by PGP Valuation (estimated completion date of December 3, 2008), and prior acquisition negotiations.

The parcels are bounded by NE Halsey Street to the north, NE 106th Avenue to the east, NE Wasco Street to the south, and NE 105th Avenue to the west. The combined parcels are approximately 4.2 acres in size and zoned Central Commercial (CX). A vacant commercial building exists on the northern parcel. Both Purchase and Sale Agreements (see Exhibits A and B to Resolution) are tied to one another, such that closing with one party is contingent upon closing with the other.

This action will support the Gateway Regional Center revitalization efforts set forth in the 2001 URA Plan. PDC staff has worked collaboratively with staff from PPR to negotiate a shared acquisition; with the common understanding the site will ultimately become a signature park with supporting redevelopment. PDC and PPR have drafted an Intergovernmental Agreement (IGA) stipulating that the agencies will share in all due diligence and acquisition costs on a 50-50 basis and will share joint title of all three parcels. Acquisition is contingent upon successful execution of the IGA. The attached resolution also authorizes the Executive Director to enter into the IGA that outlines cost sharing and responsibilities with PPR.

Upon acquisition, PDC and PPR will execute an interim management plan prior to park and redevelopment master planning. It is anticipated that master planning work will commence in 2009; ultimate park implementation and redevelopment will be subject to PDC and PPR funding and private developer interest. PDC intends to dispose of the remaining redevelopable property through a competitive solicitation process that will identify a developer to develop a commercial, residential, or mixed-use project in support of the 2001 Gateway Regional Center URA Plan.

PUBLIC BENEFIT

Gateway has long been identified as one of the city's most park-deficient districts. In its acclaimed Regional Equity Atlas, the Coalition for a Livable Future found that three of the city's ten neighborhoods "with above average poverty or people of color and poor access to nature" fall within the Gateway URA (Hazelwood, Mill Park, and Parkrose). Acquisition of property in Gateway for a park has been a priority since the URA's inception in 2001; not a single acre of public park land has yet been added to the district. This site is in an excellent location abutted by both a commercial district and a residential neighborhood, and it is unusual for its large size. The nature of property ownership in Gateway is such that there are very few parcels that are of this size, in a great location, and are available for acquisition.

In addition to providing much-needed park land, acquisition of this property will provide PDC with control over a key redevelopment site on a major commercial corridor. NE Halsey Street, which serves as Gateway's "Main Street", is home to assorted retail and professional service businesses. Through a master planning process, PDC, PPR, and neighborhood stakeholders will discuss the optimal size and layout of a mix of park land and redevelopment. It is unknown at this time what the size and use of any redevelopment will be, but it will be designed to complement the future park.

This action will support the following PDC goals:

- Develop healthy neighborhoods
- Provide access to quality housing
- Help businesses to create and sustain quality jobs
- Support a vibrant Central City (urban core)
- Contribute to a strong regional economy

PUBLIC PARTICIPATION AND FEEDBACK

Staff has briefed the Gateway Urban Renewal Advisory Committee (URAC) four times over the course of negotiations, from June to November 2008. The URAC and the Hazelwood Neighborhood Association Land Use Chair are supportive of the acquisition. Future master planning work, which will likely begin in late 2009 and last six months in duration, will rely on extensive public participation and feedback.

COMPLIANCE WITH ADOPTED PLANS AND POLICIES

The 2001 Gateway URA Plan specifically authorizes property acquisition from willing sellers for park development and redevelopment to achieve the goals of the plan. In Policies and Objectives 11.47 (New Park land), the Plan calls to "increase the supply of new park land, giving priority to: areas where serious geographical and service level deficiencies exist."

In addition, the Central Gateway Redevelopment Strategy, which was adopted by the PDC Board of Commissioners (Board) in August 2007 (Resolution No. 6500), not only noted the need for park land in Gateway, but prioritized land acquisition as one of the four key implementation activities. While the site is not in Central Gateway, the lack of park land is a district-wide issue.

FINANCIAL IMPACT

Currently PDC and PPR are negotiating the acquisition cost and estimate to pay a fair market value totaling approximately \$4,300,000 for the three properties. This figure represents the appraised fair market value as of October 6, 2008.

PDC and PPR are splitting all acquisition and due diligence costs on a 50-50 basis as stipulated in the IGA mentioned above. The negotiated amount is justified for use of public funds because of the property's location on a major commercial district, and the scarcity of properties of this size in Gateway. The prior commercial tenant occupying the northern parcel has gone out of business, so PDC will not be responsible for relocation benefits.

PDC's share of the acquisition is approximately \$2.15 M. Funding this acquisition was established by the October 8, 2008 budget amendment which appropriated \$2,278,836 for the Gateway Regional Center Neighborhood Park and Redevelopment (account code 14387). Sources for this appropriation include a transfer of \$1.2 M from Housing Department (account codes 80016, 32140, and 33432) and an additional \$1 M were transferred from Development Department Central Gateway Redevelopment Strategy (14389) (see attached Gateway Budget and Five-Year Forecast).

PDC staff will revisit adding funding back to the Housing Department budget in the winter supplemental budget process based on anticipated housing spending through the end of the fiscal year. Funds will be added back to the Housing programs in the current year or future fiscal years in accordance with requirements established by the Housing Set Aside Policy guidelines for the Gateway URA.

RISK ASSESSMENT

We have mitigated the risk of a partial acquisition with one contingency clause. Since the Purchase and Sale Agreements with the two different property owners are tied to one another, if one transaction does not close the other becomes moot.

There is a risk of misunderstanding the appraisal and current offer price. A significant factor affecting the site's value is the Gateway Open Area Code, which applies to sites two acres and larger. Since the City of Portland is in the process of changing this code such that it will apply to sites five acres and larger, approximately \$400,000 has been added to the appraised fair market value of \$3,700,000 to a revised offer of \$4,100,000. The sellers countered to a current offer of \$4,300,000. Subsequent to these negotiations, Portland City Council requested that the final purchase price be subject to a new, independent appraisal.

There are environmental issues with parcel 2, which at one time was the location of a dry cleaner. An Environmental Assessment Report has been completed. The results of the assessment may result in re-negotiation of the final purchase price to be less than \$4,100,000 to account for environmental remediation costs. Staff anticipates completion of final negotiations, if necessary, by a December 22, 2008 closing date.

There is a risk that PPR will not be able to fund park development for several years. PDC and PPR staff plans to apply for a Metro Nature in Neighborhoods Capital Grant, using the acquisition cost as a funding match. While this would not cover the full cost of park development, the grant could be significant. In addition, sale of the redevelopable property could help fund park development activities.

WORK LOAD IMPACT

The work load impact of this acquisition and resulting disposition is not expected to result in additional staffing requirements in the Gateway Regional Center URA.

ALTERNATIVE ACTIONS

The Board could decline to approve acquisition and/or desire different arrangements with PPR.

CONCURRENCE

Acquisition negotiations and specific terms were approved by the PDC Investment Committee. The PDC Gateway Regional Center Urban Renewal Team discussed and supports the acquisition.

PDC and PPR staff drafted an IGA that accompanied an emergency ordinance sent to City Council on November 19, 2008 authorizing the use of PPR funding for acquisition. This action authorized execution of the IGA by PPR.

BACKGROUND

The site is comprised of three lots owned by two private parties. Parcels numbered 1 and 2 on the project/site map (Attachment B) are owned by the Ukrainian Bible Church -“Pathway to God”, which has a land sale contract with Tanasiy and Domnika Molofiy. Parcel number 3 is owned by four individuals, Brad Fishel, Karen Fishel, Scott Fishel, and Peggy Spott. Parcels 1 and 2 are vacant lots. Current uses on Parcel 3 include a vacant commercial building, surface parking, landscaping, and a sign. The vacant commercial building had been leased for many years by JJ North’s Grand Country Buffet, but this restaurant went out of business in July 2008. All three parcels are approximately 4.2 acres in size.

PDC made several prior attempts to acquire parcels 1 and 2, but PDC and the property owner could not agree to a purchase price.

In March 2008, PDC staff provided the property owners with a Development Opportunity Services (DOS) grant to explore redevelopment options. At that time, the property was listed on the market for approximately \$45 per square foot. Subsequent to the results of the DOS study, the current negotiations were initiated by representatives of the property owners, who approached PDC regarding their interest in selling the property. Negotiations and the appraisal process have proceeded apace resulting in a current offer price of approximately \$24 per square foot.

ATTACHMENTS:

- A. Gateway URA Financial Summary
- B. Project Summary, Site Map, and Photos

URA FINANCIAL SUMMARY

Financial Summary

Fund Summary - Five-Year Budget Projections

	<i>Revised FY 2007-08</i>	<i>Adopted FY 2008-09</i>	<i>FY 2009-10 Forecast</i>	<i>FY 2010-11 Forecast</i>	<i>FY 2011-12 Forecast</i>	<i>FY 2012-13 Forecast</i>
Gateway Regional Center URA						
Resources						
Beginning Fund Balance	1,090,748	497,857	197,628	158,968	131,745	147,481
Interest - City Invest Pool	5,000	5,000	5,000	5,000	5,000	0
Loans - Interest Earned	15,000	15,000	6,250	0	0	0
Tax Increment - L-T Debt	2,074,877	3,126,870	2,847,150	2,072,925	2,747,250	3,196,800
Tax Increment - S-T Debt	1,665,024	1,485,731	1,619,900	1,805,472	1,985,176	2,147,912
Total Fund Resources	4,850,649	5,130,458	4,675,928	4,042,365	4,869,171	5,492,193
Requirements						
Project Expenditures (does not include Personal Services or Indirect Cost)						
Development						
14388 - Gateway DOS Program	152,429	100,000	105,000	80,000	181,000	150,000
14389 - Central GW Redev Strat	250,000	1,050,000	69,000	90,000	287,000	139,000
14390 - GRC Mixed Use Devl/Acquis	549,966	250,000	825,000	707,000	1,159,000	1,023,000
14392 - GRC Property Maintenance	5,000	5,000	8,000	7,000	7,000	9,000
14394 - Gateway Transit Center	0	0	116,000	73,000	158,000	112,000
14396 - GRC Boulevard Imprvmnts	75,000	0	10,000	6,000	6,000	28,000
14403 - GRC Community Outreach	5,000	5,000	8,000	7,000	7,000	9,000
14407 - GRC Comm Prop Redev. Loan	0	50,000	0	0	0	0
Development Total	1,037,395	1,460,000	1,141,000	970,000	1,805,000	1,470,000
Economic Development						
70020 - GRC Business Finance	837,974	230,000	598,000	429,000	980,000	804,000
70262 - GRC Business Retention	59,317	50,000	82,000	43,000	68,000	87,000
70265 - GRC Storefront Grant	210,726	100,000	204,000	157,000	358,000	283,000
70273 - Halsey/Weidler Revit Strat	0	50,000	0	0	0	0
Economic Development Total	1,108,017	430,000	884,000	629,000	1,406,000	1,174,000
Housing						
32140 - GRC Workforce Rental Hsg	50,000	543,836	359,000	330,000	61,000	298,000
33432 - Affordable Homeownership	550,000	400,000	643,000	568,000	136,000	663,000
37917 - GRC Hsg Policy/Planning	5,000	1,000	1,000	0	0	2,000
80016 - GRC Affordable Rental Hsg	555,000	1,120,000	426,000	444,000	218,500	672,000
Housing Total	1,160,000	2,064,836	1,429,000	1,342,000	415,500	1,635,000
Central Services						
59166 - GW Debt Management	9,195	9,655	18,000	18,000	19,000	7,000
Central Services Total	9,195	9,655	18,000	18,000	19,000	7,000
Total Project Expenditures	3,314,607	3,964,491	3,472,000	2,959,000	3,645,500	4,286,000
Indirect Cost	1,038,185	968,339	1,044,960	951,620	1,076,190	1,201,480
Total Fund Expenditures	4,352,792	4,932,830	4,516,960	3,910,620	4,721,690	5,487,480
Contingency	497,857	197,628	158,968	131,745	147,481	4,713
Ending Fund Balance	0	0	0	0	0	0
Total Requirements	4,850,649	5,130,458	4,675,928	4,042,365	4,869,171	5,492,193

PROJECT SUMMARY

Project Name: Gateway Park and Redevelopment Site Acquisition
Location: 10506-10512, 10520 NE Halsey Street
URA: Gateway Regional Center
Current Phase: Board Authorization to Acquire Properties
Next Milestone: Finalize Due Diligence
Completion Target: December 22, 2008 Closing Date
Outcome: PDC/PPR Ownership
Site/Project Map:





10520 NE Halsey Street (Parcel 3)



10506-10512 NE Halsey Street (Parcel 1, with Parcel 3 in the background)