

PDC

PORTLAND DEVELOPMENT COMMISSION

DATE: March 25, 200
TO: Board of Commissioners
FROM: Bruce A. Warner, Executive Director
SUBJECT: Report Number 09-37
The Nines - Approval of Payment Restructuring

EXECUTIVE SUMMARY

BOARD ACTION REQUESTED

Adopt Resolution No. 6689

ACTION SUMMARY

1. Authorize a change in the repayment structure of 3 of 4 PDC loans, made to Urban Heritage Hotel and related entities, to cash flow dependent status until March 31, 2015 (the expiration of the New Market Tax Credit compliance period). The proposed PDC cash flow and interest accrual provisions will provide relief during a difficult economic climate but will require debt service payments as soon as the property is able to make those payments.
2. Authorize the movement of the \$3.0 million from an unsecured loan to Buildco to a new loan for the same amount plus accrued interest to Ownco to satisfy the New Markets Tax Credit structure
3. Authorize the Executive Director to enter into a Second Amendment to the Third Amended and Restated Development Agreement with Portland Hotel Developer, LLC.

This action is necessitated by the reduction of hotel income caused by the recent, unprecedented, economic downturn. The resulting Net Operating Income (NOI) of the hotel has been reduced to a level that will only allow payments to the senior debt.

The proposed action will result in \$570,769 less in loan payments coming from the property, to PDC's River District URA, in the next 12 months. This will enable the conversion of mezzanine debt to permanent loan status and will enable the property to keep the senior loans current and avoid default actions.

The current five-year forecast anticipated receiving \$336,000 annually for loans 38439-06 and 38440-06. With the net-reduction in dollars collected over the five-year forecast for these loans, the River District revenue forecast will be decreased a total of \$1,680,000 through June 30, 2014, requiring a corresponding decrease of \$1,680,000 in planned projects or programs. FY 2009-10 projects are not necessarily impacted since adequate tax increment funds exist to fund all projects and programs in the draft FY 2009-10 budget, however this will require making a cut of \$1,680,000 to projects and programs later in the five-year forecast.

On December 12, 2007 the Commission approved resolution #6543 authorizing the Executive Director to execute an amendment to the Third Amended and Restated Development Agreement with Portland Hotel Develop, LLC for the Meier & Frank Building Reuse project for the purpose, among others, of authorizing an additional PDC loan of \$3,000,000. This was the last loan of four fundings and paid for seismic upgrades and , cost over-runs. The funding increased the combined PDC funding for the project to \$16.925 million. This equates to a 12% interest in the \$140 million project with a leverage factor of \$8.23 in private dollars for every \$1 PDC dollar invested towards the \$140 million project cost.

Since there is significant debt senior to the PDC interest and the management team is strong and is doing everything possible to make the hotel operate successfully, it is recommended by staff that the PDC loans should not be placed in default but that the payment structure on the loans be modified to allow payments to commence when the property has the income to pay. This will enable the property to continue to operate during the economic recession.

The action requested will take place immediately. Board action is required because of the capitalization of accrued interest on one of the loans due to its payoff and transfer to another related entity.

PUBLIC BENEFIT

The public benefits include:

- 275 permanent FTE jobs created over 3 years,
- \$143 million in private sector investment in the downtown.
- Strong leverage of PDC dollars. The private sector investment in the Downtown: contribution was comprised of Prudential, JP Morgan and the Sage Hospitality Corp. The combined private sector funds for the Nines project is over \$123.08 million, representing an 8.23 leverage of private funds to each PDC dollar invested. In addition, \$43 million of private funds were expended to improve the first 5 floors by Macy's. This brings the combined private investment to \$143.08 million and the leverage to 9.65.
- Addition of a 5 star Hotel operated by a proven successful operator (Sage) and significant retail operation (Macy's) to the downtown retail district.

This action will support the following PDC goals:

- Sustainability and Social Equity
- Healthy Neighborhoods
- A Vibrant Central City
- Strong Economic Growth and Competitive Region
- Effective Stewardship over our Resources and Operations, and Employee Investment

FINANCIAL IMPACT

Since there are no new funds being requested the only financial impact is to the DTWF URA program income described above.

RISK ASSESSMENT

Overall risk of repayment increases when the referenced loans change excess cash-flow loans where the interest accrues independently of payments made. Add to this the impact of an anticipated reduction in the national overall hotel market of 15% to 20% in the next year and the level of risk has definitely increased from the time of inception. PDC will help mitigate those risks by modifying its loans to keep the other players moving forward to complete the outstanding take-out / permanent financing before additional negative economic developments impact the source of the rollover funds. From a CLTV and lien position perspective, PDC's risk position is quite high but is mitigated by the fact that other (JP Morgan, Prudential and Sage) have much more at risk than PDC.

To further mitigate the credit risk, Loan Servicing will review the operating statements for this property prior to the perm loan closing, and 30 days after, to proactively manage any other issues that may negatively impact the property and its ability to make debt service requirements according to the proposed workout. After that initial review, if the cash flow appears adequate under the new structure, we will put the loan on an annual cash flow payment review cycle. If the first review reveals additional problems then the file will be reviewed quarterly.

WORK LOAD IMPACT

Proposed monitoring of the cash-flows of the property and determination of ability to pay and invoicing of payments due and payable will be handled by existing Loan Servicing staff.

ALTERNATIVE ACTIONS

If we do not go forward, the option of foreclosure is available, but not a very practical choice. This is because we have a huge amount of debt that is senior to our position, and there is no PDC source that could pay off the senior loans. In that scenario, the operation of the hotel by PDC will almost certainly create a negative public image and resulting reduction of hotel income. Overall, it would worsen matters to try and take control of the project to change the financing or property management at this time.

CONCURRENCE

Loan Committee has reviewed and agrees with the proposed course of action.

BACKGROUND

The four loans that comprise the total \$16,925 million indebtedness to PDC are as follows:

First there was a \$2.6 million loan secured by a lien on the property to the Community Development Entity (CDE), the Building Investment fund. This was followed by a \$2.7 million secured, initial bridge loan to Ownco to acquire the property (\$500k forgivable based on job requirement) and a \$8.625 million secured Seismic Loan to Ownco all of which were approved in March, 2006. This was followed by \$3.0 million loan that was approved in November, 2007 and funded in May of 2008. These combined PDC loans total \$16,925 million of a total \$140 million project cost, or a 12% interest in the project with a leverage factor of \$8.23 in private dollars for every PDC dollar invested towards the \$140 million project cost.

FINANCIAL STRUCTURE CHANGES

Payments have been scheduled and are due and payable for all loans except the \$2.7 million loan that has a \$500,000 forgivable component and a \$2.2 million portion that has no payment due until 2016. In lieu of the current payments due the \$8.625M Seismic loan, the \$2.6M Upper Tier Building Investment Fund (BIF) loan and the \$3.0 million additional seismic loan will now be required to make payments only if there is sufficient cash-flow after the senior lien debt service has been paid. If there is insufficient cashflow then the loans will continue to accrue interest.. The loans will be reviewed quarterly to determine the amount of cash-flow owing, if any, and will be billed accordingly. The loans will continue to accrue interest regardless of whether payments are due.

ATTACHMENTS:

- A. URA Financial Summary
- B. Project Summary

URA FINANCIAL SUMMARY

RIVER DISTRICT URA - Five-Year Budget Planning by Project for FYs 2010-2014

Scenario 1 - No Amendments	Adopted FY 2008-09	2008-09 Actuals July-Dec	AMENDED 2008-09 BUDGET	2009-10	2010-11	2011-12	2012-13	2013-14	5 Yr Total
3110 Tax Increment - S-T Debt	13,986,000	0	18,766,327	16,519,453	0	0	0	0	16,519,453
3120 Tax Increment - L-T Debt	27,219,465	0	0	49,221,708	0	0	0	0	49,221,708
3130 Loan Fees	0	3,195	0	0	0	0	0	0	0
3140 Loan Late Charges	0	30	0	0	0	0	0	0	0
3310 Loans - Principal Collection	2,290,000	22,822	290,000	1,290,000	290,000	290,000	290,000	290,000	2,450,000
3320 Loans - Interest Earned	335,000	342,876	335,000	335,000	335,000	335,000	335,000	335,000	1,675,000
3325 Loan Interest - Capitalized	0	71,545	0	0	0	0	0	0	0
3340 Reimbursement	1,025,000	0	1,452,500	125,000	125,000	125,000	0	0	375,000
3510 Rent and Property Income	200,000	89,387	200,000	200,000	200,000	200,000	200,000	0	800,000
3710 Interest - City Invest Pool	50,000	176,863	50,000	1,000,000	200,000	50,000	50,000	0	1,300,000
3999 Beginning Fund Balance	10,550,506	16,879,294	16,879,294	20,028,402	52,609,563	8,265,563	5,635,563	4,560,563	91,099,654
Total Fund	55,655,971	17,586,011	37,973,121	88,719,563	53,759,563	9,265,563	6,510,563	5,185,563	163,440,815

Requirements

Project Expenditures (These do not include Personal Services or Indirect Cost)

Development	2009-10	2010-11	2011-12	2012-13	2013-14	5 Yr Total
10225 RD Retail Loan Program	600,000	4,589	5,000	0	0	0
10226 Meier&Frank Redevelopment	0	1,686	12,000	0	0	0
11263 RD Public Site Imprv	250,000	460	250,000	200,000	0	200,000
11264 RD Burns/Couch Trans	1,100,000	0	1,100,000	0	0	0
13104 RD Centennial Mill	585,000	44,921	585,000	200,000	9,335,000	10,335,000
13112 RD North Pearl Planning	200,000	570	200,000	0	0	0
13113 RD One Waterfront	4,000,000	8,869	200,000	350,000	7,350,000	8,300,000
13115 RD Station Place Redev	0	8,048	0	0	0	0
13119 RD Neighborhood Park	350,000	0	350,000	2,450,000	2,450,000	4,900,000
13135 RD Redevelopment Loan Fund	0	33,163	200,000	1,500,000	1,500,000	7,500,000
13136 RD DOS Program	0	0	100,000	75,000	75,000	375,000
13137 RD Eastside Streetcar Connect	7,500,000	4,367	2,100,000	10,400,000	4,500,000	14,900,000
13138 RD Post Office	1,200,000	137,885	1,200,000	0	0	0
13142 RD Project Management	0	2,793	25,000	0	0	0
13143 RD Environmental	0	0	570,000	0	0	0
60005 RD Transit Mall Redev	0	653,450	657,450	0	0	0
60017 RD Signage & Lighting	0	2,737	0	0	0	0
60020 Union Station Mgt & Crit Impr	725,000	1,719	725,000	0	0	0
60021 RD 10th & Yamhill	4,000,000	7,470	100,000	0	0	0
60024 RD Multnomah County	0	0	0	0	0	0
60026 RD Satellite Districts	0	0	0	0	0	0
Development Total	20,510,000	912,726	8,379,450	15,175,000	25,210,000	46,510,000
Economic Development						
13088 RD Storefront Grants	350,000	32,595	200,000	200,000	200,000	400,000
70003 RD Business Finance Tools	1,100,000	317,650	1,100,000	1,100,000	1,100,000	3,300,000
70753 RD Target Industry Development	0	0	0	1,000,000	2,000,000	4,500,000
Economic Development Total	1,450,000	350,245	1,300,000	2,300,000	3,300,000	8,200,000
Housing						
32129 Pearl Family Housing	9,000,000	341,364	900,000	12,000,000	7,000,000	19,000,000
37926 RD HSP Affordable Rental Hsg	500,000	0	0	500,000	4,000,000	4,500,000
37935 Yards at Union Station	3,700,000	270	50,000	0	0	0
37937 Access Center/Aff Hsg	750,000	10,852	650,000	0	0	0
37938 Blanchet House Redev	1,000,000	11,161	465,000	0	0	0
37939 Fairfield Preservation	0	0	0	0	0	0
37940 New Avenues For Youth	1,200,000	0	0	1,200,000	0	1,200,000
RD. Ne OT/CT Homeownership Development	0	0	0	0	0	0
60014 Affordable Homeownership	0	150	0	0	0	0
60027 Grove Apartments	300,000	265,155	500,000	0	0	0
Housing Total	16,450,000	628,952	2,565,000	13,700,000	11,000,000	24,700,000
Central Services						
59156 RD Debt Management	50,000	34,993	50,000	50,000	50,000	200,000
Central Services Total	50,000	34,993	50,000	50,000	50,000	200,000
Executive						
60002 RD Westside/Central City	233,000	107,116	233,000	175,000	0	175,000
Executive Total	233,000	107,116	233,000	175,000	0	175,000
Total Project Expenditures	38,693,000	2,034,033	12,527,450	31,400,000	39,560,000	79,785,000
Total All Personal Svcs & Indirect Costs	6,685,400	3,076,713	5,822,269	4,710,000	5,934,000	12,409,000
Total Fund Expenditures	45,378,400	5,110,746	18,349,719	36,110,000	45,494,000	92,194,000
Contingency	10,277,571	0	20,028,402	52,609,563	8,265,563	71,246,815
Ending Fund Balance	0	0	0	0	0	0
Total Requirements	55,655,971	5,110,746	38,378,121	88,719,563	53,759,563	163,440,815

PROJECT SUMMARY

Project Name: Meier & Frank Building – The Nines Hotel

Description:

Location: 621 SW Fifth Avenue; Portland, OR 97204

URA: River District

Current Phase: N/A

Next Milestone: N/A

Completion Target: Finished

Outcome: Requesting change in the repayment structure of three of the four loans to Urban Heritage Hotel and related entities to cash flow dependent status until March 31, 2015; the expiration of the New Market Tax Credit compliance period. This is necessitated by the reduction of hotel income caused by the recent, unprecedented economic downturn.

Site/Project Map: 621 SW Fifth Avenue; Portland, OR 97209

