

PDC

PORTLAND DEVELOPMENT COMMISSION

DATE: August 27, 2010
TO: Board of Commissioners
FROM: Bruce A. Warner, Executive Director
SUBJECT: Oregon Sustainability Center – Schematic Design Authorization

EXECUTIVE SUMMARY

BOARD ACTION REQUESTED

Adopt Resolution No. 6818

ACTION SUMMARY

The action will authorize the Portland Development Commission (PDC) Executive Director to negotiate and enter into an Intergovernmental Agreement (IGA) with the Oregon University System (OUS) for an amount not to exceed \$500,000 for the payment of the schematic design of the Oregon Sustainability Center. PDC Board of Commissioners (Board) approval of this expenditure is necessary because the total aggregate expenditure by PDC on contracts with the development and design team on this project, led by Gerding Edlen Development, is greater than the \$500,000 expenditure authority of the Executive Director. This expenditure will be matched by OUS who will hold the schematic design phase contract.

After schematic design, staff will return to the Board to present the refined design, program, and cost, and seek a separate Board decision on whether to proceed with further design and construction.

The Oregon Sustainability Center (Center) aims to fulfill a partnership vision to create the most sustainable large-scale building in the world by constructing the first high-rise office building pursuing net zero energy, water, and waste water, and the criteria established by the Cascadia Region Green Building Council's Living Building Challenge. The Center will be located on PDC owned property at SW Fourth Avenue and SW Montgomery Street within the South Park Blocks Urban Renewal Area (SPB URA). This is a partnership effort between City and State government, higher education, nonprofit organizations, and the business community.

PUBLIC BENEFIT

- Provide immediate support for over 1,000 jobs within the city and state's sustainable and green building sectors, in architecture, engineering, development, and higher education.

- Promote longer term job creation through ongoing research and commercialization; the monitoring, management, and maintenance of the Center; and the export of green building knowledge sourced from the project.
- Integrate new green technologies into the Center as a “living laboratory” that align with concurrent research underway at OUS universities, and, through Oregon Built Environment & Sustainable Technologies Center (Oregon BEST), spur the development of new businesses in Oregon based on these new green building construction techniques and innovations.
- Support Oregon companies through sourcing materials locally, as required by the Living Building Challenge; this will involve extensive collaboration between the Center’s design team, tenants, and Oregon-based manufacturing and project-related businesses.
- Develop the city and state’s green workforce using the Center’s innovative energy and technical systems for hands-on training for OUS students, including at Portland State University.

This action will support the following PDC goals:

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

PUBLIC PARTICIPATION AND FEEDBACK

In 2009, the selection of a team to complete the Center’s feasibility study was conducted via a competitive solicitation process. This process included public presentations by four short-listed proposing teams, and resulted in the selection of the team led by Gerding Edlen Development. Outreach during the feasibility study included a week-long eco-charrette attended by over 80 people representing a diverse cross section of organizations working in sustainability in Oregon. Outreach also included a public blog to provide ongoing updates and receive input, as well as two public open houses, each attended by over 200 people.

On August 4, 2010, the Portland City Council (City Council) committed to pursue a mutually agreeable partnership with OUS for the Center; directed the Bureau of Planning and Sustainability (BPS) and PDC staff to initiate schematic design for the Center; and directed further analysis of the proposed development by BPS, PDC, and the Office of Management and Finance. The City Council commitment is to pursue a mutually agreeable partnership in the development of the Center with OUS dependent on (1) the outcome of the schematic design phase and (2) further analysis to determine whether the development of the Center can reasonably and economically achieve the stated policies and goals of the City. Within this commitment, the City and OUS would have joint public ownership in the Center. The further analysis as called for in the Council action includes:

- the joint public ownership proposal by the City and OUS, including financial analysis of the full construction and development costs for the Center;

- finalized square footage and financial assumptions;
- the City's commitment to long term tenancy and ownership, including the move-in and furnishing costs and the ongoing cost of operation, maintenance, and repair;
- the partnership to jointly own, manage, and share financial risks for non-City and OUS space, including the minimum and maximum financial risk to the City and OUS for that space and an analysis whether the space would meet or generate returns to exceed the debt service and other expenses required for development, construction, operation, maintenance, and repair for the space; and
- an appraisal of the value of the PDC property to be contributed to the City and OUS for the development and construction of the Center.

Following Board review, OUS will pursue OUS Board approval for its share of the schematic design expenditure. The schematic design phase is expected to take four months and result in a firmer level design and cost estimate. Once PDC and OUS approve proceeding with schematic design, public outreach will resume to elicit feedback on design and program elements. In addition to a public kickoff event, PDC will host a public website providing opportunity for ongoing input.

Based on feedback during both the solicitation and feasibility study processes, likely areas of public interest include final design and the project's higher development cost relative to other downtown office space. The action being taken by the Board is to authorize schematic design spending only, and does not commit PDC to the full project. A key goal of schematic design is to refine the project design and program in order to develop a firmer cost estimate and help inform any future investment decisions by the Board.

Private business support is evidenced by the partnership Letters of Intent signed by General Electric, Intel, SolarWorld, and other private companies who have identified the Center as an opportunity to test new technologies and help Oregon and Portland extend its leadership in the green economy.

COMPLIANCE WITH ADOPTED PLANS AND POLICIES

Entering into schematic design of the Center supports the following PDC and City approved plans and policies:

- *South Park Blocks Urban Renewal Plan* (1985, adopted by City Council through Ordinance No. 157635): calls for maintaining Portland's role as the major regional employment, population, cultural center by encouraging expanded opportunities for jobs.
- *University District Plan* (1995, amendment to the Central City Plan adopted by City Council through Ordinance No. 168702): identifies the University District as a vital, multi-cultural, and international crossroads with an environment which stimulates lifelong learning and collaboration between business and government.
- *Green Building Policy* (2001, adopted by City Council through Resolution No. 35956): outlines green building requirements that have helped position Portland as a leader in sustainable development, including contributing to Portland's 108 LEED Certified buildings today, second in the nation.

- *Climate Action Plan* (2009, adopted by City Council through Resolution No. 36748): a joint adoption with Multnomah County, calls for the reduction of local greenhouse gas emissions by 80 percent from 1990 levels by 2050.
- *City of Portland Economic Development Strategy* (2009, adopted by City Council through Resolution No. 36714): outlines the City's goal to have the most sustainable economy; identifies the clean tech and sustainable industry cluster as one of four target industry clusters for the City; and calls for the development of the Center to foster the next generation built environment.
- *PDC Strategic Plan* (2010, adopted by the PDC Board by Resolution No. 6767): guides PDC's business plans, activities, and investments from 2010 through 2014, and includes key actions of partnering with higher education institutions to drive and commercialize research and innovation in support of cluster growth and developing the next generation of green building practices through projects such as the Center.

FINANCIAL IMPACT

This action commits PDC to negotiate an agreement with OUS to contribute one half of total schematic design cost. The total schematic design contract is anticipated to be approximately \$900,000. These resources are available in the SPB URA Approved FY 2010-2011 and Forecast Years Budget as shown in Attachment A. In total, PDC has reserved approximately \$6.7 million for the project, including an assumption of \$1.8 million in resources via land sale. Work completed as part of the schematic design phase will help refine the project design and program and provide a firmer estimate of total project costs.

Through June 2010, PDC funds spent to date on the project are approximately \$775,000, including the feasibility study contract, other professional services contracts, and project staff time.

RISK ASSESSMENT

The project's current total development cost estimate is \$75 million, including schematic design. This total cost figure is a low confidence number based on 2009 numbers and concept level analysis. Since the feasibility study, the project has been scaled back by approximately 50,000 square feet and the design team has been provided with a cost cap of \$420 per square foot as a requirement of schematic design. Consequently, the total development cost will likely shift during schematic design.

The current project gap is estimated at approximately \$8 million. Project partners are pursuing an aggressive fundraising effort targeting federal grants and appropriations, private sector in-kind donations of products and/or services, and a capital campaign of foundations and individuals. The risk of additional cost to PDC is limited due to the SPB URA's restricted remaining resources, assigned to other projects including Section 8 housing preservation.

Additional details on program, cost, and fundraising activities to address these risks are provided below.

WORK LOAD IMPACT

The Center is a Tier One project for PDC, and both Central City and Business & Industry staff have been assigned to manage the redevelopment and commercialization work loads, respectively.

ALTERNATIVE ACTIONS

The Board could elect not to authorize the Executive Director to negotiate an IGA with OUS. If the Board elects not to authorize negotiation of an IGA, full schematic design funding would not be available and the project would likely be put on hold. OUS has indicated that any delay to the project, given current advantageous interest rates, would have a significant and detrimental impact on the project budget and feasibility. Any delay to schematic design would also impact the construction schedule of a \$75 million capital project which could translate into over 1,000 jobs. Finally, project delay could also impact partnerships with the private sector who have indicated interest in participating in the Center's commercialization goals.

CONCURRENCE

Development of the Center is a key action item in the 2009 *City of Portland Economic Development Strategy: A Five-Year Plan for Promoting Job Growth and Economic Growth* as approved by the Board and City Council, as well as the 2010 *PDC Strategic Plan* as approved by the Board.

BACKGROUND

PDC acquired the two parcels at SW Fourth and Montgomery Street on Block 153 near the Portland State University (PSU) campus between 2002 and 2004 pursuant to the 1995 *University District Plan* and the 2002 *Montgomery Blocks Redevelopment Strategy*. A map is provided in Attachment B.

Last summer, the development and design team led by Gerding Edlen Development completed a feasibility study which included findings on energy and water technical and use requirements to pursue the Living Building Challenge's net zero goals; a concept level cost and design; and recommended next steps.

In June 2009, PDC staff provided a briefing to the Board regarding the findings of the Center's feasibility study and requesting Board input on whether and how to proceed with the project. Since that time, PDC and project partners have been working on three major activities:

- Determining a firm program based on committed tenant mix for the building;
- Revising project costs and pursuing additional funds based on preliminary cost estimates; and
- Pursuing commercialization partnerships with the private sector.

Program

The Center will house a variety of non-profit, business, City, and academic tenants working to promote sustainability. The retail and public spaces on the lower floors are planned to include an educational exhibit space with interactive displays and signage to tell the story of the region's innovations in sustainable technologies, policies, and practices. Lower floors will also include lecture halls and classrooms to support academic purposes.

Prior to entering into schematic design, project partners have worked to refine the project program and design to reduce costs and to confirm tenant commitments. Firm contingent tenant commitments have been pursued due to (1) the up to \$80 million of OUS bonds available for the project rely on tenant leases for repayment, and (2) the desire to minimize tenanting risk given the level of other speculative office space already available in downtown.

Based on discussions with project partners during the feasibility phase, the feasibility study projected a 222,000 square foot building. Since that time, project partners have determined to move forward with a smaller project of approximately 150,000 square feet based on contingent tenant commitments in hand. It is likely that the schematic design will allow the flexibility to increase this square footage by 20,000 to 30,000 square feet depending on additional tenant demand as the project is refined.

Funding

The preliminary revised budget based on a smaller building program is approximately \$75 million, which includes the base building costs for the Center; elements necessary to pursue the Living Building Challenge; a permanent streetcar alignment; and the public action/exhibit center.

Proposed funding sources for the project include \$6.7 million of tax-increment financing from PDC; \$3 million of OUS funds; and approximately \$53 million in OUS revenue and City of Portland bonds to be supported by tenant payments. The City's commitment analysis assumes PDC's financing assists with City tenancy. Similarly OUS funds are assumed to contribute to OUS tenants in the building.

Additional resources under pursuit include:

- ongoing dialogue with private sector partners regarding opportunities for in-kind donations of technologies;
- a City of Portland FY 2011 federal appropriations request of \$2 million to assist with the Center's water systems;
- a \$2 million Connect Oregon grant request submitted in partnership with the Portland Bureau of Transportation to assist with the permanent streetcar alignment;
- potentially \$2 million in New Markets Tax Credits; and
- a private campaign being led by the project's nonprofit partners for individual and foundation donors to assist with exhibit center and overall project cost, including a \$500,000 request of the Meyer Memorial Trust.

Private Sector Partnerships and Commercialization Opportunities

As described in the City's *Economic Development Strategy*, PDC's involvement with the Center and its partners is to help link clean tech firms with the region's research and development infrastructure for the joint purposes of (1) capitalizing on unique supply chain opportunities and (2) driving the commercialization of future products, technologies, and practices needed to achieve net zero performance goals.

PDC is working with cluster industry firms to identify opportunities that result from both certain materials requirements of the Living Building Challenge and from the rethinking of traditional building design and operations necessary for the energy and water performance requirements of the Challenge. For example, these opportunities include:

- Sourcing of materials within specific distances from the building site and identifying local and regional firms that can provide materials that typically are procured from distant sources;
- Identifying local and regional firms that can provide the necessary products in the Center which do not incorporate materials prohibited by pursuing the Living Building Challenge; and
- Integrating technologies from local and regional firms needed to manage, monitor, and inform resource use and occupant activities in order to achieve net zero energy and water performance.

ATTACHMENTS:

- A. FY 2010-2011 SPB URA Adopted Budget
- B. Project Summary and Site Map

URA FINANCIAL SUMMARY

Financial Summary

Fund Summary - Five-Year Budget Projections

	Revised FY 2009-10	Adopted FY 2010-11	Forecast FY 2011-12	Forecast FY 2012-13	Forecast FY 2013-14	Forecast FY 2014-15
South Park Blocks URA						
Resources						
Beginning Fund Balance	29,369,533	11,695,555	3,147,239	1,655,771	752,103	448,435
Fees and Charges	0	0	0	0	0	0
Interest on Investments	220,000	70,000	25,000	20,000	20,000	10,000
Loan Collections	1,282,884	68,732	68,732	68,732	68,732	68,732
Property Income	1,535,775	1,800,000	1,800,000	0	0	0
Reimbursements	0	0	0	0	0	0
TIF Proceeds	225,000	0	0	0	0	0
Total Resources	32,633,192	13,634,287	5,040,971	1,744,503	840,835	527,167
Requirements						
Program Expenditures						
Business and Industry						
Community Economic Development						
H79020 Business Finance	0	375,000	0	0	0	0
General Business Assistance						
H79020 Business Finance	0	0	0	0	0	0
High Growth						
H79020 Business Finance	0	375,000	0	0	0	0
Industry Cluster						
H61011 Weave	500,000	0	0	0	0	0
H70021 Oregon Sustainability Center	740,000	5,984,836	0	0	0	0
H79020 Business Finance	0	750,000	0	0	0	0
Business and Industry Total	1,240,000	7,484,836	0	0	0	0
Housing						
Multi-Family - Rental Housing						
H12027 Jefferson West Apartments	86,000	86,000	86,000	0	0	0
H12035 Martha Washington	4,650,000	0	0	0	0	0
H12036 Admiral Apartments	2,050,000	0	0	0	0	0
H12037 Chaucer	2,000,000	0	0	0	0	0
H34510 SPB Section 8 Preservation	775,000	656,591	2,607,000	817,000	317,000	0
H34525 University Place	5,148,725	0	0	0	0	0
Portland Housing Bureau						
H28025 Administration	73,884	0	0	0	0	0
Housing Total	14,783,609	742,591	2,693,000	817,000	317,000	0
Infrastructure						
Parks						
H12210 South Park Block 5 and Streetscapes	1,681,814	0	0	0	0	0
Transportation						
H12217 University District Projects	268,911	0	0	0	0	0
Infrastructure Total	1,950,725	0	0	0	0	0
Revitalization						
Redevelopment						
H10221 Transit Mall Revitalization	163,000	0	0	0	0	0
H12101 Downtown Retail Strategy	61,500	125,000	0	0	0	0
H27001 Storefront Grants	282,011	200,000	118,000	0	0	0
Revitalization Total	506,511	325,000	118,000	0	0	0
Administration						
Executive						

Financial Summary

Fund Summary - Five-Year Budget Projections

	Revised	Adopted	Forecast	Forecast	Forecast	Forecast
	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13	FY 2013-14	FY 2014-15
H92110 Westside/Central City Study	145,971	15,000	0	0	0	0
Finance						
H98001 Debt Management	28,100	10,000	10,000	10,000	10,000	10,000
Administration Total	174,071	25,000	10,000	10,000	10,000	10,000
Total Program Expenditures	18,654,916	8,577,427	2,821,000	827,000	327,000	10,000
Personal Services	455,813	270,366	101,556	29,772	11,772	360
Transfers - Indirect	1,826,908	1,342,735	389,298	114,126	45,126	1,380
PHB Staff/Admin	0	296,520	73,346	21,502	8,502	260
Total Fund Expenditures	20,937,637	10,487,048	3,385,200	992,400	392,400	12,000
Contingency	11,695,555	3,147,239	1,655,771	752,103	448,435	515,167
Ending Fund Balance	0	0	0	0	0	0
Total Requirements	32,633,192	13,634,287	5,040,971	1,744,503	840,835	527,167

PROJECT SUMMARY

Project Name: Oregon Sustainability Center

Description: Approximately 150,000 square feet of mixed use, currently modeled to include:

- 14,000 square feet retail, action/exhibit and conference center
- 55,000 square feet OUS office and classrooms
- 33,000 square feet City office
- 48,000 square feet nonprofit and business office

Location: SW 4th Avenue and SW Montgomery Street

URA: South Park Blocks

Current Phase: Schematic Design; Programming; Financing

Next Milestones: Firm Tenant Commitments and Full Funding; Disposition and Development Agreement; Design/Construction

Completion Target: 2013

Outcomes:

- Establish Portland as the leader in next generation urban development and performance
- Create immediate market for Oregon products and services
- Incubate new products and services for export

Site/Project Map:

