



DATE: February 10, 2016
TO: Board of Commissioners
FROM: Patrick Quinton, Executive Director
SUBJECT: Report Number 16-09

Approving the Terms of a Commercial Property Redevelopment Loan to WDA 91st & Foster Development LLC for Redevelopment of a Certain Property in the Lents Town Center Urban Renewal Area in an Amount Not to Exceed \$6,200,000; Approving the Terms of a Commercial Property Redevelopment Loan to Palindrome Communities LLC for Redevelopment of a Certain Property in the Lents Town Center Urban Renewal Area in an Amount Not to Exceed \$8,100,000; Approving the Terms of a Commercial Property Redevelopment Loan to Asian Health and Service Center for Redevelopment of a Certain Property in the Lents Town Center Urban Renewal Area in an Amount Not to Exceed \$4,900,000

BOARD ACTION REQUESTED

Adopt Resolution Nos. 7168, 7169, and 7170.

ACTION DESCRIPTION

The following three actions by the Portland Development Commission (PDC) Board of Commissioners (Board) will authorize the Executive Director to negotiate and execute revised loan agreements for the disposition and development of PDC-owned properties in the Lents Town Center Urban Renewal Area (URA); the loan agreements have been revised to reflect the increased PDC project funding required for each project. The three actions will:

1. Authorize a Commercial Property Redevelopment Loan (Development Loan) of up to \$6,200,000 to WDA 91st & Foster Development LLC, conditioned upon PDC review and approval of standard underwriting protocols.
2. Authorize a Development Loan of up to \$4,900,000 to Asian Health and Service Center, conditioned upon PDC review and approval of standard underwriting protocols.
3. Authorize a Development Loan of up to \$8,100,000 to Palindrome Communities LLC, including the timing of the funding of the loan disbursements, conditioned upon PDC review and approval of standard underwriting protocols.

If approved, these three actions, PDC's final financial contribution toward these projects, will allow WDA 91st & Foster Development LLC, Asian Health and Service Center, and Palindrome Communities LLC (individually and collectively, Project Teams) to proceed with a transformative phase of redevelopment in the Lents Town Center. Should all three projects be completed as currently contemplated, their mix of market rate and affordable housing, retail, office, and community space will help create the vibrant, mixed-use, active Lents Town Center that has long been a goal for Lents stakeholders, PDC, and the City of Portland (City). See Attachment A for a map and description of all three projects.

BACKGROUND AND CONTEXT

At the June 24, 2015, meeting, the PDC Board authorized the negotiation and execution of disposition and development agreements, predevelopment loans, and Development Loans with the Project Teams. Following are the Development Loans the PDC Board approved at the June 24 meeting and the new revised amounts:

<u>Project Teams</u>	<u>Original Development Loan</u>	<u>Revised Development Loan</u>	<u>Change</u>
WDA 91st & Foster Development LLC	\$4,750,000	\$6,200,000	\$1,450,000
Palindrome Communities LLC	\$5,130,000	\$8,100,000	\$2,970,000
Asian Health and Service Center	\$3,050,000	\$4,900,000	\$1,850,000
Totals	\$12,930,000	\$19,200,000	\$6,270,000

Since June 2015, all three Project Teams have closed on their predevelopment loans with PDC and are nearing the completion of all property-related due diligence. Additionally, all three Project Teams have completed schematic designs for their projects and have received initial estimates and bids from their respective construction contractors, as well as applications and preliminary commitments from other funding sources. Disposition and Development Agreements in the form of modified Purchase and Sale Agreements are pending execution with each Project Team. Moving forward, Project Teams will continue to refine their cost estimates and attempt to secure additional capital sources. All of the three projects are anticipated to have obtained design review approval by June 2016. After the Project Teams have received design review approval from the City, land and financial closings are projected to occur in the final quarter of the calendar year, with the commencement of construction within 60 days thereafter.

PDC staff recommends conditional approval of the increased PDC project funding. Such an approval is anticipated to give confidence to the Project Teams that PDC intends to complement the financial support received from other sources. The loan approvals will be subject to further review and recommendation by PDC’s Financial Investment Committee and General Counsel prior to execution.

In aggregate, PDC staff is proposing the PDC Board approve an additional \$6,270,000 of PDC resources to these three projects above the amount approved in June 2015. The basis for the increase in financial need is primarily a combination of rising construction costs (based upon completed schematic and development designs) and decreased availability of some sources of capital. The following table shows both the changes in construction costs and the changes in non-PDC financing sources from June 2015 to January 2016. The bottom row of the table on page three is the difference between the two, representing the additional financial shortfall of each project.

	<u>WDA 91st & Foster Development LLC</u>	<u>Palindrome Communities LLC*</u>	<u>Asian Health and Service Center</u>	<u>Total Change</u>
Development Cost Increase	\$890,000	\$12,132,000	\$3,473,000	\$16,495,000
Capital Sources Increase (Decrease)	(\$560,000)	\$9,162,000	\$1,623,000	\$10,225,000
Total Financial Gap	\$1,450,000	\$ 2,970,000	\$1,850,000	\$6,270,000

*Project cost increases are partially a consequence of adding additional commercial square footage, 25 additional residential units, and increased land acquisition costs.

The Palindrome project (Palindrome Project) is planned for three parcels of land, only one of which is currently owned by PDC. The Project Team will need to acquire both the New Copper Penny site, on the east side of SE 92nd Avenue, as well as the Chevron site located adjacent to the PDC parcel on the west side of SE 92nd Avenue. The Palindrome Project consists of two structures: one on the New Copper Penny site and one on the combined site of Chevron and PDC parcels. This action by the PDC Board will approve an early disbursement of part of the loan funded by PDC. The PDC Board’s prior action approved a construction loan to be funded in conjunction with other sources and at a time near to construction commencement. PDC’s construction loan was to be secured by an inferior lien on the Palindrome Project parcels in order to allow for a superior position held by private lenders. The action before the PDC Board on February 10, 2016, authorizes \$5,130,000 funding for acquisition of real property as a necessary prerequisite to Palindrome Project construction. The funding of the Project Team’s acquisition of New Copper Penny site will be secured by a first position lien on that property acquired by the Project Team. When the remaining financing and land conveyances are closed later this fall, PDC will fund an additional \$2,970,000 for construction and land acquisition. In part to allow for other funding sources, PDC’s loan will, at that fall closing, assume an inferior lien position against all of the Palindrome Project, consistent with the original approval. PDC’s loan takes the form of two disbursements, the first of which could, at PDC’s election, be called due if the other funding sources and land acquisitions do not close in the fall. If the fall closing is successful the loan will, like the other loans to the Lents Town Center Project Teams, assume a 40-year term and be cash-flow dependent on the commercial or market aspects of the Project.

PUBLIC PARTICIPATION AND FEEDBACK

PDC staff, together with the Lents Neighborhood Association and the Project Teams, hosted a public open house on October 27, 2015, providing attendees with the opportunity to view and comment on preliminary project concepts. The open house was a major success, with more than 150 community members in attendance. Subsequently, PDC staff has continued to organize “Meet the Developer” breakfast meetings with community stakeholder groups, provide periodic updates to the Lents Neighborhood Association, and update the project website: <http://www.pdc.us/our-work/urban-renewal-areas/lents/current-projects/lents-rfi.aspx>. In addition, PDC staff has continued to use PDC Town Hall, an online platform that allows community members to view materials and provide feedback. More than 200 community members provided online feedback this fall as part of PDC’s efforts to solicit stakeholder feedback.

BUDGET AND FINANCIAL INFORMATION

The Lents Town Center URA fiscal year (FY) 2015-16 Revised Budget and Five-Year Forecast are shown in Attachment B. Disbursement of the proposed loans is contingent upon the PDC Board adopting a revision to the FY 2015-16 budget at its March 9, 2016, meeting. If these actions are approved by the PDC Board, there will be significantly fewer resources in the Lents Town Center URA budget for priorities identified in the Lents Action Plan, such as 92H.

RISK ASSESSMENT

Risks related to the PDC Board actions include:

1. **Project Teams may terminate the transaction prior to closing.** There is a risk that the Project Teams, after completing due diligence funded entirely by PDC, will terminate the transaction. The ramification of this risk is the potential loss of the predevelopment loan amount and any advances made to secure the non-PDC owned properties.
2. **Project Teams may not secure other required financing commitments.** The Project Teams may not be able to secure additional funding in the form of federally guaranteed housing loans, Portland Housing Bureau Loans, New Market Tax Credits, and donor contributions, among other sources. The ramification of this risk is potential failure to close.
3. **Project Teams may fail to commence construction after conveyance of the property.** PDC retains a right to repurchase each of the properties under such circumstances.
4. **Rents may not increase sufficiently to service the PDC loans or generate a cash flow return to PDC as scheduled or anticipated.** The Development Loans and potential revenue payments are cash flow dependent which, in turn, are dependent upon future economic conditions. This risk is only partially mitigated by the second lien position on the property and the right for PDC to repurchase the property but this security may not be supported by adequate equity.
5. **The risk of increased costs is high.** As designs are finalized, project costs are refined, and other capital sources provide formal commitments, there is a high probability that the feasibility of each project may depend upon more significant support from existing sources or new sources. As noted in the Action Description, the revised loan totals represent the final PDC contribution to these projects.
6. **Palindrome Project.** The Palindrome Project Team's option to purchase the New Copper Penny site expires on April 3, 2016. The restructured timing of the PDC financing is necessary to support acquisition of this key parcel. However, PDC's funding now occurs prior to i) confirmation of final Palindrome Project costs and ii) successful completion of full Palindrome Project funding. Thus, there is risk that either or both of these conditions will not occur, and that the anticipated Palindrome Project may not be feasible. PDC could call the \$5,130,000 loan due upon project failure. The value of the collateral is approximately \$3,000,000 according to the last appraisal. However, in such an event, PDC will have retained control over (or first lien rights to) the two larger parcels (not including Chevron) that constitute the Palindrome Project site. With these two larger parcels PDC could promote the site for another development project consistent with the Lents Town Center Urban Renewal Plan and with the beneficial influence of the other development projects advancing.

ALTERNATIVE ACTIONS

The PDC Board may elect to specify alternative terms for any or all of the proposed authorizations or reject the proposal in its entirety and direct PDC staff to discontinue the disposition process.

ATTACHMENTS

- A. Map and Project Summaries
- B. Lents Town Center URA FY 2015-16 Financial Summary

MAP AND PROJECT SUMMARIES

	Asian Health and Service Center (AHSC)	WDA 91st and Foster Development, LLC	Palindrome Communities LLC
Property Size	0.72 acres	0.63 acres	PDC owned site: 0.60 acres Chevron site: 0.36 acres <u>NCP site: 1.76 acres</u> Total: 2.72 acres
Project Description	<ul style="list-style-type: none"> • 30,000 square feet built-to-suit commercial building to house AHSC offices, clinic space, programming, community/event space, and a rooftop garden terrace. • Approximately 4,600 square feet of building will be leasable commercial space. 	<ul style="list-style-type: none"> • Four-story mixed-use project. • 54 apartment units total with 16 affordable units and 38 market rate units planned. • Approximately 9,000 square feet of ground floor commercial space. • Project includes a public courtyard. 	<ul style="list-style-type: none"> • Four and five-story mixed-use project. • 145 apartment units total with 126 affordable units and 19 market rate units planned. • Approximately 29,000 square feet of ground floor commercial space.
Design Review Initiated	February 2016	November 2015	May 2016
Construction Start	November 2016	September 2016	November 2016
Completion Target	February 2018	September 2017	March 2018



LENTS TOWN CENTER URA FY 2015-16 FINANCIAL SUMMARY

Five-Year Forecast Program Requirements

	Revised- 3 FY 2014-15	Revised FY 2015-16	Forecast FY 2016-17	Forecast FY 2017-18	Forecast FY 2018-19	Forecast FY 2019-20
Lents Town Center URA						
Resources						
Beginning Fund Balance	15,409,526	18,589,745	12,190,722	72,330	859,889	4,515,145
Fees and Charges	6,624	1,800	534	530	529	529
Interest on Investments	48,000	61,040	36,572	217	2,580	13,545
Loan Collections	440,000	209,149	133,062	133,061	133,062	246,596
Long Term Debt	0	0	3,300,000	15,500,000	0	27,291,301
Property Income	56,941	61,025	1,754,156	240,875	60,875	1,341,888
Reimbursements	4,273	82,500	80,200	80,200	80,200	80,200
Short Term Debt	8,991,000	9,990,000	9,990,000	10,989,000	10,989,000	3,163,169
Total Resources	24,956,364	28,995,259	27,485,246	27,016,213	12,126,135	36,652,373
Requirements						
Program Expenditures						
Administration						
Financial Administration						
A45101360 Debt Management-LTC	32,413	19,327	20,000	20,000	20,000	20,000
Total Administration	32,413	19,327	20,000	20,000	20,000	20,000
Business Development						
Business Lending						
L00210360 BL -General-LTC	250,000	700,100	700,100	700,100	700,100	700,100
L00200360 BL -Modifications-LTC	500	0	0	0	0	0
Small Business & Community Dev						
B55800360 Business Development-LTC	10,000	20,000	20,000	20,000	20,000	20,000
B55900360 Community Development-LTC	50,000	50,000	50,000	50,000	50,000	50,000
Traded Sector Business Dev						
B15100360 Cluster Development-LTC	10,000	0	0	0	0	0
T01069360 Lean Manufacturing-LTC	30,000	30,000	30,000	30,000	30,000	30,000
Total Business Development	350,500	800,100	800,100	800,100	800,100	800,100
Housing						
PHB Housing						
H15410360 Home Repair Projects-LTC	226,003	500,000	500,000	500,000	500,000	500,000
H15420360 Home Buyer Assistance-LTC	591,241	500,000	500,000	500,000	500,000	500,000
H15430360 Affordable Housing-LTC	0	202,475	5,700,000	5,400,000	600,000	2,100,000
H15900360 PHB Staff & Admin-LTC	595,004	592,365	679,402	745,255	895,913	900,000
Total Housing	1,412,248	1,794,840	7,379,402	7,145,255	2,495,913	4,000,000
Infrastructure						
Parks						
N36011515 Walker Stadium-LTC	0	200,000	0	0	0	0
N36012515 Leach Botanical Grdns-LTC	270,000	1,770,000	0	0	0	0
Transportation						
N36031525 Foster-Woodstock-LTC-Adm	51,600	0	0	0	0	0
N36031535 122nd-Holgate/Ramona-LTC-Adm	950,000	0	0	0	0	0
N36031545 Foster-52nd to 82nd-LTC-Adm	100,000	740,000	1,200,000	0	0	0
N36032015 Lents Entryway-LTC-Adm	6,250	12,491	0	0	0	0
N36031415 Street/Sidewalks LID-LTC-Adm	60,000	0	0	0	0	0
Total Infrastructure	1,437,850	2,722,491	1,200,000	0	0	0
Property Redevelopment						
Commercial Property Redevelopm						
P36060935 Metro Auto Bldg & Lot-LTC-Adm	7,709	4,709	4,709	4,709	4,709	4,709
P36092015 Real Estate Mgmt-LTC-Adm	23,579	69,883	22,679	22,679	2,000	2,000

Five-Year Forecast Program Requirements

	Revised - 3 FY 2014-15	Revised FY 2015-16	Forecast FY 2016-17	Forecast FY 2017-18	Forecast FY 2018-19	Forecast FY 2019-20
P36061015 ArchtclIronPrddBldg-LTC-Adm	13,904	209,229	9,229	9,229	9,229	9,229
P36060925 MetroAuto Whlsl WLot-LTC-Adm	6,697	62,120	5,500	0	0	0
P36060615 LTC II Parking Lot-LTC-Adm	7,666	7,840	7,840	7,840	7,840	7,840
P36060335 Bakery Block-LTC-Adm	1,018,964	282,235	94,544	94,544	94,544	94,544
P36060325 Lents Little Lge Fld-LTC-Adm	4,375	7,375	4,375	4,375	4,375	4,375
P36055015 Foster Road Redev-LTC-Adm	20,000	0	0	0	0	0
P36050915 LTC Town Ctr Redev-LTC-Adm	100,000	100,000	100,000	50,000	50,000	50,000
P36050815 SE 92nd Redev-LTC-Adm	25,000	0	0	0	0	0
P36090015 Project Development-LTC-Adm	49,500	100,000	100,000	100,000	100,000	100,000
Commercial Real Estate Lending						
R01100360 CPRL-General-LTC	2,500,000	4,502,000	15,002,000	15,002,000	1,002,000	1,002,000
Community Redevelopment Grants						
G01100360 CLG-General-LTC	800,000	450,000	250,000	250,000	250,000	250,000
G02100360 DOS-General-LTC	75,000	75,000	75,000	75,000	75,000	75,000
G03100360 SIP-General-LTC	560,000	300,000	300,000	300,000	300,000	300,000
G04100360 GFGP-General-LTC	50,000	125,000	125,000	125,000	125,000	125,000
Total Property Redevelopment	5,262,394	6,295,391	16,100,876	16,045,376	2,024,697	2,024,697
Total Program Expenditures	8,495,405	11,632,149	25,500,378	24,010,731	5,340,710	6,844,797
Personal Services	407,292	561,370	385,556	404,834	425,075	446,329
Transfers - Indirect	1,364,652	1,500,374	1,526,982	1,740,759	1,845,205	1,789,849
Total Fund Expenditures	10,267,349	13,683,893	27,412,916	26,156,324	7,610,990	9,080,975
Contingency	14,689,015	15,301,366	72,330	859,889	4,515,145	29,767,383
Ending Fund Balance	0	0	0	0	0	-2,195,985
Total Requirements	24,956,364	28,995,259	27,485,246	27,016,213	12,126,135	36,652,373