



DATE: December 14, 2016
TO: Board of Commissioners
FROM: Kimberly Branam, Executive Director
SUBJECT: Report Number 16-63

Authorizing a Purchase and Sale Agreement to Convey a Condominium Unit in the Convention Center Hotel Parking Garage consisting of approximately 19,000 Square Feet of Commercial Space and 47 Parking Spaces in the Oregon Convention Center Urban Renewal Area to TriMet for \$9,000,000

BOARD ACTION REQUESTED

Adopt Resolution No. 7223

ACTION DESCRIPTION

This action by the Portland Development Commission (PDC) Board of Commissioners (Board) will authorize the Executive Director to execute an Agreement for Purchase and Sale of Property (PSA) between PDC and the Tri-County Metropolitan Transportation District of Oregon (TriMet) for the conveyance of a condominium unit in the Convention Center Hotel Parking Garage (Garage), consisting of approximately 19,000 square feet of commercial space and 47 secured parking spaces (TriMet Condominium), for the consideration of \$9,000,000. TriMet is purchasing the TriMet Condominium to operate a transit police precinct. The Garage will be constructed on the PDC-owned parcel known as Block 49, which is located in the Oregon Convention Center Urban Renewal Area (URA) and is bounded by NE 1st Avenue, NE Holladay Street, NE 2nd Avenue, and NE Multnomah Street (see project summary in Attachment A) (Garage Property). The Garage, which is being developed by PDC in accordance with a Parking Structure Development Agreement with Mortenson Development to support the adjacent Convention Center Hotel (Hotel), will include approximately 442 parking spaces and 33,200 square feet of commercial space. Upon completion, the Garage will provide a minimum of 375 parking spaces to support the Hotel.

BACKGROUND AND CONTEXT

The Oregon Convention Center URA was formed in 1989 with the primary Oregon Convention Center URA Plan goal of establishing "at least one headquarters hotel in the immediate vicinity of the Oregon Convention Center to capitalize on the convention center's capacity." Between 1991 and 2004, the PDC Board authorized acquisition of multiple properties as initial steps towards supporting development of a Convention Center Hotel; this included acquisition of Block 49 for \$1,274,295, as well as other nearby properties.

Since 2004, PDC has partnered with Metro – owners and operators of the Oregon Convention Center – to pursue efforts to build a hotel in support of the Oregon Convention Center URA Plan. In May 2012,

Metro issued a Request for Proposals (RFP) for a privately-owned, 600-room Convention Center hotel on properties adjacent to the Oregon Convention Center as potential sites for hotel development. Prior to the RFP release, the PDC Board expressed support for Metro's RFP for a Convention Center hotel and, through Resolution No. 6942, authorized the Executive Director to enter into direct negotiations with the selected developer. Through this process, Metro ultimately selected Mortenson Development (Mortenson), with local developer StarTerra LLC, for the hotel development. The PDC Board approved Metro's selection through Resolution No. 6964 in September 2012.

In June 2014, Metro Council approved the final development agreement with Mortenson for the Hotel development, allowing the project to proceed to the design and pre-construction planning phase. In August 2014, the PDC Board, through Resolution No. 7072, authorized the sale of Block 47 to Mortenson for \$1,300,000 so that it could be integrated into the Hotel design and development. With commencement of design, PDC also entered into discussions with Mortenson and Metro regarding placement of the Garage on Block 49.

In March 2015, PDC entered into a pre-development services agreement with Mortenson in the amount of \$300,000 for the design development of the Garage. During this design phase, TriMet approached PDC with a proposal to purchase a condominium interest in the Garage at the ground floor for a transit police precinct. In February 2016, the PDC Board, through Resolution No. 7165, authorized entering into a development agreement with Mortenson for the development of the Garage for an amount not to exceed \$25,895,836. The resolution noted PDC's intent to sell to TriMet a portion of the Garage ground floor and approximately 50 secured parking spaces for \$7,000,000 to \$8,000,000.

Since then, PDC and Mortenson have advanced the design of the Garage; won approval by the Portland Design Commission; and continued to coordinate with TriMet on the design of the office space and secured parking to meet TriMet's needs. TriMet has engaged an architect to design the size and layout of the TriMet Condominium, and this information has been incorporated by Mortenson into the Garage design.

Purchase and Sale Agreement. The key terms of the PSA, which are summarized in an exhibit to the resolution, include:

- Purchase price of \$9,000,000 for the TriMet Condominium. This price is based upon an allocation of estimated hard and soft costs to TriMet based on the 50 percent design development architectural plans and associated construction cost estimates, an allocation of the fair market land value to the TriMet Property on a square footage basis, and includes a five percent PDC development and project management fee;
- TriMet to provide a \$300,000 earnest money payment within three business days of the effective date of the PSA;
- TriMet to have a 60-day due diligence period to review available property information;
- TriMet to pay the balance of the Purchase Price the later of July 3, 2017 or the date PDC must fund the escrow account;
- TriMet to approve plans and specifications for the TriMet Condominium;
- For changes in scope requested by TriMet which increase costs, TriMet will pay the increased costs;
- TriMet will be responsible for its own tenant improvements;
- TriMet will comply with its own Disadvantaged Business Enterprise program, which has been deemed equal or superior to PDC's Equity Policy, in completing its tenant improvements; and

- TriMet will design and construct its tenant improvement to meet Leadership in Energy and Environmental Design (LEED) Silver certification standards as required by the PDC Green Building Policy but seeks a waiver from the requirement to seek LEED Silver certification.

The design of the Garage is currently at the 50 percent design development phase. As the design progresses and more detailed and accurate cost estimates are produced, any cost increases will be addressed as follows: (1) any cost increases resulting from TriMet-directed changes to the project scope will be paid for by TriMet; (2) cost increases resulting from unforeseen conditions will be split between PDC and TriMet in a mutually agreeable manner; and (3) any cost increases resulting from PDC-directed changes to the project scope will be paid for by PDC.

In lieu of LEED Silver certification required by PDC's Green Building Policy, TriMet will (1) include language in its RFP that directs the selected design team to target LEED Silver for new construction; (2) use the standard LEED checklist for tracking purposes and assure delivery of the goals by a LEED design professional; and (3) ensure contract document deliverables from the design team issued for construction include a LEED Silver equivalency summary report of targets met and how they were achieved. This report will be submitted to PDC for review.

COMMUNITY AND PUBLIC BENEFIT

Public benefits of executing the PSA include:

- The disposition will generate approximately \$9,000,000 in sale proceeds that will offset PDC development and construction costs;
- The disposition will reduce PDC's risks and obligations associated with developing the Garage and leasing the ground floor commercial space; and
- Operation of a transit police precinct will enhance safety and security in the vicinity of the Hotel, the adjacent transit center, and the transit system.

PUBLIC PARTICIPATION AND FEEDBACK

Significant public outreach and discussion has occurred throughout the various phases of development of the Convention Center Hotel – led by both PDC and Metro. Development of the Hotel and associated Garage continues to be a top priority of Lloyd District stakeholders. The PDC Central City Budget Advisory Committee advocated for allocating Oregon Convention Center URA resources towards the Parking Garage understanding its critical role to the development of the Hotel. The concept of selling a condominium interest in the Garage to TriMet was presented to the PDC Board and included in Resolution No. 7165 approved by the Board on February 10, 2016.

BUDGET AND FINANCIAL INFORMATION

The budget currently includes \$30,600,000 for design and development of the Garage as expenses and \$7,495,842 as income from the sale of the condominium unit to TriMet (see Attachment B). Since adoption of the budget, Garage construction costs have increased to \$32,200,000 and the TriMet Condominium purchase price as proposed herein have increased to \$9,000,000. These changes will be reflected in the Fiscal Year 2016/17 Budget amendment anticipated to be presented to the PDC Board in March 2017.

Under the terms of the development agreement with Mortenson Development, upon PDC approving the final contract cost for the construction of the Garage (currently anticipated to occur in May 2017)

and satisfaction of all other funding contingencies, PDC will deposit the entire contract price into escrow (approximately \$32,200,000). TriMet will make the \$300,000 earnest money payment to PDC within five business days of executing the PSA. TriMet will pay the \$8,700,000 balance of the condominium purchase price to PDC, in full, on a date that is the later of July 3, 2017 or the date all development agreement funding contingencies have been satisfied and PDC must deposit the contract price into escrow. TriMet payments will be immediately returned to the OCCURA Fund.

RISK ASSESSMENT

Entering into this PSA creates minimal risks as this PSA will reduce PDC's financial obligations to construct the Garage as well as the need for PDC to lease and manage a significant portion of the Garage ground floor commercial space. The primary risk is that the TriMet Board will not approve a budget by July 2017 that includes the funds for the Purchase Price. PDC considers this an extremely low risk since entering into this PSA requires prior TriMet Board authorization (currently anticipated December 14, 2016), thereby contractually obliging TriMet to pay the Purchase Price. However, if this were to occur, PDC would incur costs to redesign the lower level and first floor commercial space which would be partially offset by retaining the \$300,000 earnest money payment. The potential for TriMet to request design changes that increase costs is mitigated by the PSA requiring TriMet to pay for such cost increases.

ALTERNATIVE ACTIONS

The PDC Board could decide to:

- Direct staff to incorporate new terms or changes to the terms and conditions into the PSA;
- Direct staff to renegotiate specific terms and conditions; or
- Terminate the disposition process.

ATTACHMENTS:

- A. Project Summary
- B. OCCURA Financial Summary

PROJECT SUMMARY

- Project Name:** TriMet Convention Center Hotel Garage Condominium Purchase and Sale Agreement
- Description:** Condominium interest consisting of approximately 19,000 square feet of commercial space and 47 secured parking spaces
- Location:** Bounded by NE Holladay Street, NE 1st Avenue, NE Multnomah Street, and NE 2nd Avenue
- URA:** Oregon Convention Center
- Current Phase:** Disposition
- Next Milestone:** Closing/Conveyance
- Completion Target:** Initial Closing July 2017; Final Closing/Conveyance July 2019
- Outcome:** Conveyance of condominium interest in Convention Center Hotel Garage to TriMet for a transit police precinct



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URA Financial Summary**Financial Summary
Five-Year Forecast**

Convention Center URA Fund	Revised FY 2016-17	Forecast FY 2017-18	Forecast FY 2018-19	Forecast FY 2019-20	Forecast FY 2020-21
Resources					
Beginning Fund Balance	38,400,928	1,250,454	2,674,778	419,354	1,297,078
Revenue					
Fees and Charges	1,931	200	800	500	800
Interest on Investments	10,000	10,000	5,000	-	-
Loan Collections	415,349	421,823	1,183,500	834,036	699,347
Property Sales	6,304,500	-	-	-	-
Rent and Property Income	2,530,043	2,017,290	2,017,290	2,017,290	2,017,290
Reimbursements	50,000	-	-	-	-
Transfers In	102,510	7,495,842	900,817	9,289,177	953,348
Total Revenue	9,414,333	9,945,155	4,107,407	12,141,003	3,670,785
Total Resources	47,815,261	11,195,609	6,782,185	12,560,357	4,967,863
Requirements					
Administration					
A00027-Debt Management-CNV	30,045	30,045	30,045	30,045	30,045
Administration Total	30,045	30,045	30,045	30,045	30,045
Economic Development					
Business Lending					
A00206-BL -General-CNV	110,110	110,000	150,150	150,000	150,150
Economic Development Total	110,110	110,000	150,150	150,000	150,150
Housing					
A00168-Affordable Housing-CNV	5,080,000	4,000,000	-	-	-
Housing Total	5,080,000	4,000,000	-	-	-
Property Redevelopment					
Real Estate					
A00301-Block47-CNV	6,200	-	-	-	-
A00306-910 NE MLK Building-CNV	16,600	16,600	16,600	16,600	16,600
A00307-Frmr B&K Car Rental-CNV	10,500	-	-	-	-
A00309-Inn at Conv Ctr Mgmt-CNV	2,038,682	1,769,357	1,769,357	1,769,357	1,769,357
A00310-Block 49-CNV	13,350	3,350	3,350	3,350	3,350
A00312-Real Estate Mgmt-CNV	5,000	5,000	5,000	5,000	5,000
Redevelopment Strategy					
A00298-Eco District-CNV	2,500	2,500	2,500	-	-
A00303-Rose Qtr Master Plan-CNV	0	2,000,000	4,000,000	9,000,000	-
A00311-Project Development-CNV	5,000,000	-	-	-	-
Property Redevelopment Total	7,092,832	3,796,807	5,796,807	10,794,307	1,794,307
Total Program Expenditures	12,312,987	7,936,852	5,977,002	10,974,352	1,974,502
Personnel Services	93,517	83,979	85,829	88,927	90,794
Total Fund Expenditures	12,406,504	8,020,831	6,062,831	11,063,279	2,065,296
Interfund Transfers - Indirect Charges	1,287,005	500,000	300,000	200,000	100,000
Interfund Transfers - Cash Transfers	30,600,000	-	-	-	-
Contingency	3,521,752	2,674,778	419,354	1,297,078	2,802,567
Total Fund Requirements	47,815,261	11,195,609	6,782,185	12,560,357	4,967,863