DATE:            May 11, 2016
TO:              Board of Commissioners
FROM:            Patrick Quinton, Executive Director
SUBJECT:         Report Number 16-25

Approving Amended Intergovernmental Agreement with the City of Portland for the Support of City Guarantee of State of Oregon Loan

BOARD ACTION REQUESTED
Adopt Resolution No. 7182.

ACTION DESCRIPTION
This action by the Portland Development Commission (PDC) Board of Commissioners (Board) will authorize the Executive Director to execute an amendment to an Intergovernmental Agreement (Amended IGA) between PDC and the City of Portland (City) Bureau of Transportation (PBOT) that will authorize a $5,000,000 PDC investment in the 10th & Yamhill SmarkPark Garage (Garage) Renovation Project (Project) located in the River District Urban Renewal Area (URA) (see Attachment A). In addition to the PDC investment, PBOT will contribute $20,000,000 to the Project, which will include addressing deferred maintenance, Americans with Disabilities Act (ADA) improvements, additional parking stalls, and significant improvements to the ground floor retail spaces. Construction is expected to begin summer 2017 and conclude in fall 2018. See Attachment B for renderings and a description of the Project.

In 2011, a $20,000,000 State Energy Loan Program (SELP) loan from the Oregon Department of Energy was intended to support SoloPower, Inc.’s (SoloPower), construction of a manufacturing facility to produce thin film photovoltaic modules. The City agreed to guarantee $5,000,000 of the SELP loan. The original IGA, approved by the PDC Board through Resolution No. 6878 on May 25, 2011, obligated PDC to pay the City up to $5,000,000 if the City were obligated to pay upon the loan guarantee. SoloPower is current on all loan obligations. Should the PDC Board approve the Amended IGA, that action would release PDC from any future obligation to back up the City’s Guarantee.

The proposed Amended IGA also provides for a six-month period within which the City and PDC shall cooperate to see if mutually acceptable terms can be agreed upon for the assignment of the ground floor retail aspect of the Garage to PDC. If such an assignment cannot be agreed upon then the $5,000,000 PDC contribution to the Project shall be repaid to PDC at the time the City guarantee expires or terminates or the underlying SELP loan is repaid. Any amounts the City is required to pay as loan guarantor will reduce the amount the City is obligated to repay PDC. If an assignment of the retail space is agreed upon, the PDC contribution to the Project of $5,000,000 need not be repaid to PDC by the City.
BACKGROUND AND CONTEXT

Garage. The Garage, one of multiple garages owned by PBOT in the SmartPark system, is a seven-story structure with 27,000 square feet of leasable retail space at or near ground level and 796 parking spaces on the upper floors. Constructed in 1978 and improved in 1984 with the addition of two floors of parking, the garage currently generates $2,500,000 in gross annual revenue and net annual revenue of approximately $1,200,000 with average weekday peak-time occupancy between 85 and 90 percent. The current ground floor retail space is fully leased and is managed by the City Office of Management and Finance on behalf of PBOT. Tenants are on month-to-month leases and, for the most part, are paying below-market rents with varying lease rates and terms.

Over the past decade, PDC has partnered with the City on multiple efforts to improve the Project site, starting with the 2002 Downtown Retail Strategy (Retail Strategy). The Retail Strategy was developed in partnership with the Portland Business Alliance (PBA) (at that time the Association for Portland Progress) and focuses on maintaining the sustained success of Portland’s downtown retail core in the face of suburban retail mall competition. Key concepts of the Retail Strategy include having primary retail frontages on SW Morrison and SW Yamhill streets and calling out key redevelopment opportunities within the retail core, including at and adjacent to the Garage. The Retail Strategy has been refined and updated, including the Downtown Portland Retail Plan which highlights the Project as the first priority large scale redevelopment opportunity for Portland’s retail core.

At the time of signing the IGA in 2011, the Project site was proposed for demolition and full redevelopment within a public/private redevelopment scenario. The proposed structure included public resources assisting with the construction of a new public garage and private resources funding private development stacked with the new public garage. Based on this structure, PDC was anticipated to contribute $13,500,000 of the overall public garage cost. A Memorandum of Understanding between the City, PDC, and the private developer (Carroll Investments) reflecting this project approach was entered into in 2008, amended at the time of Target tenanting the Galleria, and has since terminated with the $13,500,000 being reallocated to other priority projects within the River District URA. It is the joint consensus of PDC and PBOT that the approach proposed under this Amended IGA is the preferred approach to realizing Project improvements that benefit the downtown retail core and support the Retail Strategy within a feasible budget and project schedule.

SoloPower Loan. The City’s loan guarantee and PDC’s related loan guarantee back-up to support the SoloPower State of Oregon (State) loan is based on the City’s support for the clean tech industry cluster, one of five targeted industry clusters for the city. SoloPower pursued the SELP loan to help construct a manufacturing facility to produce thin film photovoltaic modules. The State conditioned approval of the SELP loan on SoloPower obtaining a minimum of $5,000,000 in City loan guarantees. In exchange, SoloPower entered into a community benefits agreement wherein it committed to activities related to workforce development, local procurement, and general growth of the solar industry.

The City planned to satisfy the potential $5,000,000 guarantee with net parking meter revenues. The SELP loan term was approximately 10 years unless SoloPower repaid the SELP loan at an earlier date. There remain approximately six years before the SELP loan is fully paid off and the City guarantee is no longer needed. PDC agreed to back up the City’s guarantee by providing $5,000,000 to a City project in the River District URA that was consistent with the River District Urban Renewal Plan.

Proposed Project Improvements. The Project requires significant renovation to address deferred maintenance of both the parking levels and ground floor retail spaces and to improve its position as a valuable and safe public asset. PBOT and PDC entered into a separate IGA (separate from the one subject in this report) in February 2015 to cost share in developing a jointly agreed-upon concept design and scope of improvements to achieve these two objectives.
The recommended scope includes functional improvements to address deferred maintenance, ADA and parking-related upgrades as well as changes targeting areas with significant operational and visual impact – at the four corners of the building, surrounding storefronts, and building systems.

The total estimated cost for the improvements is $25,000,000. It is anticipated the proposed improvements will increase the performance and value of the garage from both a parking and retail perspective.

**SCHEDULE**

- **May – July, 2016**
  1. Portland City Council (City Council) Approves Amended IGA and Construction Manager General Contractor (CM/GC) Ordinance
  2. City Council Approves Owner’s Representative and Design Contracts
  3. City Council Approves CM/GC Contract

- **July 2016 – July 2017**
  Final construction documents and Guaranteed Maximum Price (GMP)

- **Summer 2017**
  Tenants to vacate, notification to PBA Retail Committee, adjacent retailers, users of Garage

- **July 2017**
  4. City Council Approves GMP and Construction Contract

- **Fall 2018**
  Construction Complete

**COMMUNITY AND PUBLIC BENEFIT**

The Garage is a publicly owned asset that generates revenue for the City while providing a critical role in supporting the downtown retail core. Investment in the Project renovation will ensure the structure continues to be functionally viable, is safe, and meets current code, while contributing to the downtown retail environment. The city will benefit from a renovated building that enhances the user experience through increased safety, accessibility, efficiency, and vitality.

**PUBLIC PARTICIPATION AND FEEDBACK**

There has been significant outreach over the multiple years of discussion regarding proposed plans for renovation and/or redevelopment of the Garage. Many adjacent property owners and retailers have encouraged an upgrade to the Garage as one of their top priorities for the area. PDC has continued to collaborate with the PBA on the Amended IGA’s proposed approach to ensure it is consistent with the goals of the Retail Strategy, which was informed by significant engagement with both the public and private sectors.

Furthermore, PDC, PBA, and PBOT representatives have met with all current ground floor retail tenants to inform them of the project approach and schedule well ahead of the construction start date of summer 2017. PBA will serve as a resource in identifying vacant space within the downtown retail core should existing tenants wish to relocate. In coordination with partners, PDC anticipates the re-tenanting of the Garage to be a competitive and open process that is consistent with the Retail Strategy, City goals, and PDC’s 2015-2020 Strategic Plan.

**BUDGET AND FINANCIAL INFORMATION**

The total estimated project cost from PBOT is $25,000,000, with hard and soft improvement costs estimated at $22,000,000 and PBOT financing costs of approximately $3,000,000. The River District URA
Fiscal Year (FY) 2016-17 Proposed Budget and Five Year Forecast currently includes PDC’s $5,000,000 loan guarantee within the 10th & Yamhill Redevelopment line item as provided in Attachment C.

**RISK ASSESSMENT**

PDC is currently at risk to back up the City SELP loan guarantee in the event of a SoloPower default. The up-to-date status of SoloPower payments and the six-year remaining term are promising and suggest that the risk of potentially paying to back up the City guarantee is currently low. The proposed Amended IGA will operate to satisfy PDC’s contingent obligation to back up the City’s loan guarantee but will put PDC funds at risk with regard to the Project. The primary risk for PDC in the context of the Project is that the proposed approach is not realized in accordance with the scope due to unforeseen project cost increases and/or PBOT’s inability to identify funding for the remainder of the Project. PBOT has mitigated cost increases by including reservations for inflation and contingency at approximately 18 percent. Furthermore, PBOT has identified a funding package that includes $7,200,000 of PBOT resources, $3,800,000 of net Garage revenue, and $6,000,000 of debt financing.

PDC faces some risk with regard to the potential assignment of ground floor retail space. The assignment, if agreed upon, would negate the City repayment obligation to PDC. The retail space may not generate returns at levels or in timeframes as anticipated for a $5,000,000 investment. If terms for such an assignment are agreed upon, the assignment proposal, along with greater risk and financial detail, will be presented to the PDC Board for consideration and potential approval.

**ALTERNATIVE ACTIONS**

The PDC Board could decide to:

- Direct PDC staff to incorporate new or revised terms into the Amended IGA; or
- Reject the proposed Amended IGA in its entirety and direct PDC staff to maintain the current IGA for the remainder of the SoloPower loan and City loan-guarantee term.

**ATTACHMENTS**

A. Site Map  
B. Project Description and Renderings  
C. FY 2016-17 River District URA Financial Summary
SITE MAP
PROJECT DESCRIPTION AND RENDERINGS

Project Summary
The total project cost is $25 million which includes hard and soft costs that address three primary areas: the parking garage, ADA improvements in both the garage and tenant spaces, and the ground floor retail. The project scope is summarized in the table below.

GARAGE

| General & Deferred Maintenance | Clean and paint exterior, brick veneer, and guardrails at roof. |
| Ramps: ADA levers and handrails at the interior ramps, new traffic coating and restriping, patch and seal cracked asphalt, repair spalling concrete. |
| Parking | Install concrete guardrail, steel cable, new standpipe, replace lighting control panel, and replace garage lighting fixtures. |

ADA IMPROVEMENTS
Replace stairs and elevators, parking areas, grading at storefronts and interior tenant space

GROUND FLOOR RETAIL

| Street Level Storefronts | Replace windows, doors, and tile, install steel/glass canopies and upgrade colonnade ceiling lighting. |
| Interior Space | Prep and paint floors, new ceilings, partitions, doors stairs, lighting, new toilet facilities and accessories, modify sprinklers, new plumbing, and new mechanical and HVAC equipment. |
Project Schematics

View from existing SW 9th and SW Morrison, showing areas of targeted intervention in yellow.
# FY 2016-17 RIVER DISTRICT URA FINANCIAL SUMMARY

## Financial Summary
### Five-Year Forecast

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## Requirements

**Administration**

- A00026: Debt Management-RVD
- Administration
- Total: 77,435

**Economic Development**

- A00026: Cluster Development-RVD
- 50,000
- Total: 50,000

**Business Lending**

- A00026: BL - General-RVD
- 500,100
- Economic Development Total: 500,100

**Housing**

- A00196: Affordable Housing-RVD
- 7,500,070
- Housing Total: 7,500,070

**Infrastructure**

- Parks
- A00026: Nitro Prk(The Fields)-RVD
- 0
- Transportation
- A00026: Pearl District Cor-RVD
- 1,100,000
- A00026: District Parking-RVD
- 0
- Public Facilities
- A00026: Station Grant-RVD
- 2,481,889
- Infrastructure Total: 3,651,889

**Property Redevelopment**

- Real Estate
- A00026: 4th and Burnside-RVD
- 46,400
- A00026: Enviro Reimb-RVD
- 5,400
- A00026: Block Y-RVD
- 45,400
- A00026: Union Station-RVD
- 1,398,737
- A00026: Grove Hotel-RVD
- 0
- A00026: Centennial Mills-RVD
- 10,709,076
- A00026: Station Place Lot 5-RVD
- 204,000
- A00026: Station Place Prkng-RVD
- 424,824
- A00026: One Waterfront North-RVD
- 8,300
- A00026: Old Fire Station Mgmt-RVD
- 23,000
- A00026: Real Estate Mgmt-RVD
- 10,550
- A00026: PVCA Contract-RVD
- 595

**Commercial Property Lending**
### Financial Summary

#### Five-Year Forecast

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