

DATE: June 8, 2016
TO: Board of Commissioners
FROM: Patrick Quinton, Executive Director
SUBJECT: Report Number 16-36
Approving Actions Associated with the Formation of a Limited Liability Company for Construction and Management of the 9101 SE Foster Road Project in the Lents Town Center Urban Renewal Area

BOARD ACTION REQUESTED

Adopt Resolution No. 7196.

ACTION DESCRIPTION

If approved, these proposed actions by the Portland Development Commission (PDC) Board of Commissioners (Board) will authorize the Executive Director to form a limited liability company (LLC) for the purpose of completing the 54-unit 9101 SE Foster Road Project (Project) located at the intersection of SE 91st Avenue and SE Foster Road in the Lents Town Center Urban Renewal Area (URA).

Specifically, this resolution will authorize:

1. Formation of the LLC for the purpose of completing and operating the Project;
2. Conveyance of the PDC-owned property to the LLC;
3. Delegation of management of the LLC to the Executive Director within defined constraints;
4. Assignment of contracts and work product in lieu of repayment of the predevelopment loan to Williams/Dame and Associates (WDA); and
5. Transfer the balance of the original predevelopment loan to the LLC.

The Project remains as it was originally proposed by WDA – a mixed-use building consisting of market rate and affordable residential units, ground floor commercial space, and surface parking (see a Project Summary in Attachment A). When completed, the Project will contribute to the revitalization of the Lents Town Center and deliver on community, PDC, and City of Portland priorities commemorated in the Lents Five-Year Action Plan (Action Plan).

Creating a project-specific LLC, which is a standard business practice in redevelopment projects, will provide the legal vehicle necessary for PDC to secure and leverage outside financing and therefore to complete the Project.

In a subsequent item on the June 8, 2016, PDC Board agenda, PDC staff will request that the PDC Board, acting as the PDC Local Contracting Review Board, approve findings exempting the Project from the standard competitive low-bid process. This will allow the Project to proceed with members of WDA's original development team and is expected to generate substantial cost savings. At the PDC Board meeting on August 10, 2016, PDC staff will likely request that the PDC Board authorize a financing package to complete the Project.

BACKGROUND AND CONTEXT

The Project is part of the first-phase of PDC's larger investment strategy described in the Action Plan. In an effort to advance neighborhood centers, commercial corridors, and affordable housing, all focal points of the Action Plan, in October 2014 PDC staff issued a Request for Interest seeking qualified development partners to develop PDC-owned properties in the Lents Town Center. After review of all submittals, WDA, which proposed the Project at the corner of SE 92nd Avenue and Foster Road, was one of the development teams selected to move forward. At its June 24, 2015, meeting, the PDC Board approved actions providing investments into three major projects, one of them being the Project.

While the Project was originally awarded to WDA, it was always anticipated that, at some point, the Project would convert to public ownership. A purchase option was specifically included in the original disposition terms in order to (1) ensure the Project delivered on public priorities that are consistent with the Action Plan and that will add to the vibrancy of the Town Center, and (2) provide PDC with the opportunity to obtain a long-term income producing asset in furtherance of its own financial sustainability goals. After a year of working together to advance the Project, PDC and WDA have agreed in principle to PDC accepting the permits, development work product, and assignable contracts in lieu of predevelopment loan repayment.

At the February 10, 2016, meeting, the PDC Board approved a \$6,200,000 commercial property redevelopment loan to fund construction. In addition, the Portland Housing Bureau has agreed to commit \$1,152,000 towards achieving affordable housing goals in the Project. At the August 10, 2016, meeting, PDC staff will likely present a financing package to the PDC Board for consideration that would include these two commitments as well as additional resources to complete the Project.

PUBLIC PARTICIPATION AND FEEDBACK

There has been no formal public participation regarding these proposed actions. However, PDC staff regularly corresponds with several local stakeholders and community groups, including the Lents Neighborhood Association which has been notified of the change in Project ownership. Community advocates have a strong desire to see the Project move forward on schedule, and that any future financial investments in the Project will not compromise other shared PDC/community priorities in the Lents Town Center.

Previously, together with the Lents Neighborhood Association and the development teams, PDC coordinated 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 success, with more than 150 community members in attendance. In addition to the open house, staff used PDC Town Hall, an online platform that allowed community members to view materials and provide feedback on the initial designs. More than 200 community members provided online feedback this fall as part of PDC's efforts to solicit stakeholder feedback. Subsequently, PDC staff has organized "Meet the Developer" breakfast meetings with community stakeholder groups and provide periodic updates to the Lents Neighborhood Association. Community members were generally supportive on the Lents Town Center projects and some of their feedback was incorporated into the projects.

BUDGET AND FINANCIAL INFORMATION

There are no direct financial impacts from the PDC Board approving these proposed actions. However, the PDC Board is making a commitment toward a funding approach that has implications for the Lents Town Center URA fund and budget (see Attachment B). PDC staff anticipates requesting that the PDC Board authorize a financing package for construction of the Project at the August 10, 2016, PDC Board meeting.

RISK ASSESSMENT

There are no direct risks from the PDC Board approving these proposed actions to establish an LLC.

The use of an LLC by PDC is a new investment approach, and the rationale and implications of this approach may be unclear to some. To mitigate this risk, PDC staff will continue to meet and communicate with stakeholders.

At the August 10, 2016, meeting, PDC staff will brief the PDC Board on the risks associated with the proposed financing package.

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 Project completion process.

ATTACHMENTS

- A. Project Summary
- B. Lents Town Center URA FY 2016-17 Proposed Budget

PROJECT SUMMARY

- Project Name:** 9101 SE Foster Road
- Description:** 0.63-acre vacant parcel
- Location:** Northwest corner of the intersection of SE 92nd Avenue and Foster Road
- URA:** Lents Town Center
- Current Phase:** Development Design & Permitting
- Next Milestone:** Construction Start
- Completion Target:** December 2017
- Outcome:** Creation of a LLC to complete the Project, a 65,504 square foot, mixed-use building with 54 apartment units (16 of which will be affordable to 60 percent median family income) 8,992 square feet of ground floor retail space, and 32 parking stalls.



LENTS TOWN CENTER URA PROPOSED FY 2016-17 BUDGET

**Financial Summary
 Five-Year Forecast**

Lents Town Center URA Fund	Revised FY 2015-16	Proposed FY 2016-17	Forecast FY 2017-18	Forecast FY 2018-19	Forecast FY 2019-20	Forecast FY 2020-21
Resources						
Beginning Fund Balance	18,589,745	17,066,817	217,538	525,335	2,493,906	20,199,572
Revenue						
Fees and Charges	50,300	31,211	31,462	3,539	4,107	3,390
Interest on Investments	61,040	51,118	665	1,607	8,938	72,951
Loan Collections	209,149	122,117	172,490	187,830	301,365	158,002
TIF - Short Term Debt	9,990,000	9,990,000	10,989,000	10,513,896	10,541,765	8,695,401
TIF - Long Term Debt	0	3,300,000	26,000,000	-	15,389,114	-
Property Sales	0	1,203,000	180,000	-	1,345,000	-
Rent and Property Income	61,025	58,874	58,874	58,874	2	1
Reimbursements	82,500	81,593	81,593	81,593	81,593	81,593
Total Revenue	10,454,014	14,837,913	37,514,084	10,847,339	27,671,884	9,011,338
Total Resources	29,043,759	31,904,730	37,731,622	11,372,674	30,165,790	29,210,910
Requirements						
Administration						
A00029-Debt Management-LTC	19,327	20,000	20,000	20,000	20,000	20,000
Administration Total	19,327	20,000	20,000	20,000	20,000	20,000
Economic Development						
Traded Sector						
A00113-Business Development-LTC	20,000	20,000	20,000	20,000	20,000	20,000
A00380-Lean Manufacturing-LTC	30,000	30,000	30,000	30,000	30,000	30,000
Community Economic Development						
A00121-Community Development-LTC	50,000	50,000	50,000	50,000	50,000	50,000
Business Lending						
A00208-BL -General-LTC	700,100	700,300	700,300	700,300	700,300	300,300
Economic Development Total	800,100	800,300	800,300	800,300	800,300	400,300
Housing						
A00159-Home Repair Projects-LTC	500,000	-	-	-	-	-
A00161-Home Buyer Assistance-LTC	500,000	-	-	-	-	-
A00170-Affordable Housing-LTC	202,475	8,553,402	17,071,255	3,180,913	4,165,000	4,371,849
A00180-PHB Staff & Admin-LTC	592,365	-	-	-	-	-
Housing Total	1,794,840	8,553,402	17,071,255	3,180,913	4,165,000	4,371,849
Infrastructure						
Parks						
A00239-Walker Stadium-LTC	200,000	-	-	-	-	-
A00240-Leach Botanical Grdns-LTC	25,000	1,890,989	-	-	-	-
Transportation						
A00243-Foster-52nd to 82nd-LTC	740,000	1,200,000	-	-	-	-
A00244-Lents Entryway-LTC	12,641	-	-	-	-	-
Infrastructure Total	977,641	3,090,989	-	-	-	-
Property Redevelopment						
Real Estate						
A00325-Lents Little Lge Fld-LTC	7,375	7,500	7,500	7,500	7,500	-
A00326-Bakery Block-LTC	290,787	95,937	95,937	95,937	95,937	95,937
A00327-LTC II Parking Lot-LTC	7,840	8,200	8,200	8,200	8,200	-
A00328-MetroAuto Whlsl WLot-LTC	66,620	9,500	9,500	-	-	-
A00329-MetroAuto Bldg & Lot-LTC	351	50	50	50	50	50
A00330-ArchctironPrdctBldg-LTC	212,100	12,100	12,100	12,100	12,100	-
A00332-Real Estate Mgmt-LTC	69,883	33,000	33,000	33,000	33,000	33,000
Commercial Property Lending						
A00365-CPRL-General-LTC	8,502,000	15,515,000	15,515,000	1,001,000	1,001,000	1,001,000
Redevelopment Strategy						
A00323-LTC Town Ctr Redev-LTC	100,000	-	-	-	-	-
A00331-Project Development-LTC	100,000	200,000	150,000	150,000	150,000	150,000
Redevelopment Grants						
A00130-CLG-General-LTC	450,000	250,000	250,000	250,000	250,000	250,000
A00137-DOS-General-LTC	75,000	150,000	150,000	150,000	150,000	150,000

**Financial Summary
 Five-Year Forecast**

<u>Lents Town Center URA Fund</u>	<u>Revised FY 2015-16</u>	<u>Proposed FY 2016-17</u>	<u>Forecast FY 2017-18</u>	<u>Forecast FY 2018-19</u>	<u>Forecast FY 2019-20</u>	<u>Forecast FY 2020-21</u>
A00145-SIP-General-LTC	300,000	600,000	600,000	600,000	600,000	600,000
A00149-GFGP-General-LTC	125,000	125,000	125,000	125,000	125,000	125,000
Property Redevelopment Total	10,306,956	17,006,287	16,956,287	2,432,787	2,432,787	2,404,987
Total Program Expenditures	13,898,864	29,470,978	34,847,842	6,434,000	7,418,087	7,197,136
Personnel Services	561,370	391,560	350,902	358,630	371,576	379,379
Total Fund Expenditures	14,460,234	29,862,538	35,198,744	6,792,630	7,789,663	7,576,515
Interfund Transfers - Indirect Charges	1,500,374	1,824,654	2,007,543	2,086,138	2,176,555	2,239,541
Contingency	13,083,151	217,538	525,335	2,493,906	20,199,572	19,394,854
Total Fund Requirements	29,043,759	31,904,730	37,731,622	11,372,674	30,165,790	29,210,910