DATE: August 13, 2008

TO: Board of Commissioners

FROM: Bruce A. Warner, Executive Director

SUBJECT: Report Number 08-109 Memorandum of Understanding with the Office of Management and Finance and Carroll Investments Inc. for Redevelopment of the 10th and Yamhill Garage

EXECUTIVE SUMMARY

BOARD ACTION REQUESTED

Adopt Resolution No. 6629

ACTION SUMMARY

This resolution would authorize the Portland Development Commission (PDC) Executive Director to enter into a three-party Memorandum of Understanding (MOU) with the Office of Management and Finance (OMF) and Carroll Investments Inc. (Carroll Investments) for redevelopment of the 10th and Yamhill SmartPark Garage at 730 SW Tenth Avenue (Garage).

On behalf of the City of Portland and OMF, PDC is leading development negotiations with Carroll Investments, as authorized by an Intergovernmental Agreement (IGA) between PDC and OMF approved in August 2007 by Portland City Council Ordinance No. 181203 and the PDC Executive Director. The Garage was formerly located in the South Park Blocks Urban Renewal Area and is included in the recently amended River District Urban Renewal Area. A map is provided as part of the Attachment A Project Summary.

Together with a Stakeholder Advisory Committee (SAC), OMF, PDC and Carroll Investments have been evaluating redevelopment options for the Garage based on project goals and guidelines outlined in the IGA. SAC members are listed in Attachment B. The team and SAC’s preferred option includes demolishing the existing Garage and constructing a new structure (Project) at a total value of approximately $160 million and generally to include:

- At least 600 SmartPark public parking spaces, owned and operated by OMF
- Four levels, 120,000 square feet of new commercial/office use
- Sixteen levels, 270,000 square feet of new residential use
- Two levels of parking for new private uses
- Interim retail parking mitigation during construction

In preparation for negotiating a binding Disposition and Development Agreement (DDA), PDC, OMF and Carroll Investments have prepared an MOU outlining these Project understandings and to serve as a framework for the terms of the DDA. Staff is seeking
authorization from the PDC Board of Commissioners (Board) to enter into the MOU. OMF will seek concurrent City Council authorization to enter into the MOU. The DDA, which is anticipated by early 2010, will be brought before the Board and the City Council for consideration and approval.

PUBLIC BENEFIT

Authorization to enter into the MOU offers the following public benefits:

- Redevelopment of a key underutilized parcel within the downtown retail core through a public/private partnership that joins new private development with replacement of the existing publicly-owned Garage to address the current building’s seismic, structural, and design challenges.
- Introduction of additional pedestrian, residential and commercial activity in the area, helping to better link the retail core to the Pearl District and to strengthen the Park Avenue district.
- Increased transit ridership on the adjacent streetcar and MAX lines, together with improved coordination between the ground floor uses and adjacent light rail stations.
- Opportunities for new housing and jobs within the downtown core through the introduction of significant new residential and commercial space.
- Substantially increased tax revenue together with preserved parking revenue to the City from the publicly-owned parking structure.
- Compliance with City and PDC contracting requirements, including Green Building and Business Equity policies.

This action will support the following PDC goals:

- Develop healthy neighborhoods
- Provide access to quality housing
- Help businesses to create and sustain quality jobs
- Support a vibrant Central City (urban core)
- Contribute to a strong regional economy

PUBLIC PARTICIPATION AND FEEDBACK

The Downtown Neighborhood Association (DNA), the Portland Business Alliance, as well as many adjacent property owners and retailers have encouraged an upgrade to the Garage as one of their top priorities for the area. Carroll Investments has presented the development concept at various DNA Land Use Committee meetings to positive and supportive response.

In accordance with a Public Participation Plan, PDC convened a Stakeholder Advisory Committee to provide feedback and comment during redevelopment program and design discussions. The SAC has met twice, in November 2007 and February 2008, to discuss project priorities and to assess the redevelopment options based on these priorities. The SAC is supportive of moving forward with the project and the MOU.
COMPLIANCE WITH ADOPTED PLANS AND POLICIES

The Garage is identified in the 2002 Downtown Retail Strategy (adopted by PDC Resolution No. 5896) and the 2004 Park Avenue Vision (adopted by PDC Resolution No. 6203) as a significant short-term development opportunity for improved ground-floor retail, new uses within the downtown retail core, and revitalization of the existing structure. Redevelopment of the Garage was also highlighted by the PDC Urban Renewal Advisory Group and PDC-City Council Budget Work Group as a significant downtown project and redevelopment opportunity.

As outlined in the MOU, Carroll Investments will comply with PDC and City contracting requirements, including Business Equity and Workforce Equity Programs and Green Building Policy.

FINANCIAL IMPACT

This action does not involve a commitment of PDC funds. Any commitment of PDC or City funds for the Project will be pursuant to the negotiation of a binding DDA with Carroll Investments.

In total, the anticipated public investment required for the preferred Project is estimated at $25 million to $30 million, which covers construction of a new SmartPark facility for the City but does not include any interim parking costs. This public investment is equal to that required to renovate the Garage with no new uses. While previous PDC and OMF conceptual studies from 2004 showed an estimated $15 million cost for renovating the Garage without new development, an updated independent assessment by PDC and OMF has increased to reflect current 2008 costs and to include additional seismic, structural, and façade improvements required for the conceptual level design.

OMF’s Parking Fund has reserved a capital investment of $3,500,000, and OMF has indicated that the major maintenance account may support additional lending or cost reimbursement for the Project.

Originally, PDC had included $8,000,000 in the South Park Blocks FY 2007-2008 and Forecast Years Adopted Budget for the Project. In connection with recent urban renewal area amendments, the boundaries of the South Park Blocks URA were amended, among other things, to remove the Garage from that URA and the boundaries of the River District URA were amended, among other things, to include the Garage in an expanded River District URA (Amended River District). In the interim, the Amended River District has been appealed to the State of Oregon Land Use Board of Appeals (Appeal). The Amended River District FY 2008-2009 and Forecast Years Adopted Budget currently includes $8,000,000 for the Project, subject to PDC budget authority and Board approval (PDC’s Funding). PDC’s Funding is contingent upon its ability to implement the Amended River District after the Appeal has been resolved. Reserved PDC and OMF resources leave a remaining gap of approximately $15 million, which has been discussed by the Board and City Council as part of the budget process. Availability of additional public resources to cover this remaining gap will be a significant consideration for PDC and OMF during DDA negotiations.
RISK ASSESSMENT

Entering into the MOU under current market and financing conditions could impact the projected Project schedule and cost. To mitigate this risk, the MOU outlines regular check-ins with PDC and OMF management to discuss whether and how the Project should move forward based on design and program refinements as well as public and private financing availability. Any determination to significantly change the Project scope would be brought before the Board for review and consideration.

In the event that PDC is unable to implement the Amended River District as a result of the Appeal, the Project would be at risk of not being located in an urban renewal area and therefore ineligible for the necessary tax increment resources that have been identified.

WORK LOAD IMPACT

All work done on the MOU will be performed by PDC and OMF staff. Staff resources are available to coordinate the Project.

ALTERNATIVE ACTIONS

PDC has entered into an IGA with OMF to lead exclusive negotiations with Carroll Investments for redevelopment of the Garage. Based on this action, Carroll Investments has made considerable investment of time and money with the assumption that PDC and OMF are proceeding in good faith to pursue redevelopment of the Garage as outlined in the MOU. If PDC does not approve the MOU, PDC and OMF may lose Carroll Investments as a private development partner and the opportunity for broader redevelopment of the Garage.

Alternatively, PDC could continue to discuss with OMF pursuing the concept proposed in 2004 for improvements to the existing Garage with no new uses. Based on an updated assessment by PDC and OMF, the public investment required to renovate the Garage would be approximately $25 million to $30 million, which would preserve current City parking revenues and provide the City with an improved garage and ground floor retail, but would not generate any new development and taxes or comprehensively address the current structure’s significant challenges and limitations.

CONCURRENCE

This action has the concurrence of the SAC, which includes representatives from the Downtown Neighborhood Association, Portland Business Alliance, Bicycle Transportation Alliance, City Club of Portland, and numerous adjacent retailers and property owners. This action also has the concurrence of OMF, who will present the MOU for City Council consideration concurrent with PDC Board action.
BACKGROUND

Staff last formally briefed the Board in October 2007 on the approval of the IGA between PDC and OMF authorizing PDC to lead redevelopment negotiations. At that time, Carroll Investment’s preliminary concept included renovation of the existing Garage with a new housing and office/commercial tower constructed over the Garage. Following the IGA, OMF and PDC, together with the SAC, have worked with Carroll Investments to evaluate various redevelopment options. The Board was provided with a status memo summarizing the options under consideration in April 2008.

In determining a preferred redevelopment concept, three primary scenarios were evaluated based on the principles included in the IGA and a cost-benefit analysis further outlined in Table 1 below. The three scenarios include:

1) Improve the existing Garage, as previously studied by OMF and PDC in 2004. The costs for this option are anticipated to have increased from the $15 million estimated several years ago to approximately $25 to $30 million.

2) Construct a new tower through the existing Garage and complete renovations to the Garage parking and retail.

3) Demolish the existing Garage, build new SmartPark parking, retail, and office/housing uses above.

<table>
<thead>
<tr>
<th>TABLE 1: Comparison of 10th &amp; Yamhill Options</th>
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<tbody>
<tr>
<td><strong>FINANCIAL</strong></td>
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<tr>
<td>Public Investment</td>
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<tr>
<td>Public Investment</td>
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<tr>
<td>Total project cost</td>
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<td>New Taxes</td>
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<td>Parking Fund Cash Flow</td>
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<td><strong>DEVELOPMENT</strong></td>
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<tr>
<td>Public return (housing, office, etc.)</td>
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<tr>
<td>Full Utilization of site</td>
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<td>Impact on adjacent sites</td>
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<tr>
<td>Interim parking</td>
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</table>
### Table

<table>
<thead>
<tr>
<th>SmartPark parking</th>
<th>750 spaces (current = 796 spaces, approx 40 removed for retail improvements)</th>
<th>600 spaces</th>
<th>600 spaces</th>
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<tbody>
<tr>
<td>Transit stop</td>
<td>No improvements</td>
<td>Minimal improvements</td>
<td>Greatest design flexibility with new development</td>
</tr>
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</table>

In April 2008, the SAC met to review and discuss the three options. The SAC’s consensus preference is for the new building option, especially given the increased level of public investment required to renovate the Garage with no new uses. Pursuant to Board and City Council action on this MOU, staff anticipates continuing to work with OMF, Carroll Investments, and the SAC to further refine the preferred program and design and to present this at a public open house for comment. The project schedule includes negotiating a DDA over the next year and returning to the Board for review and consideration by early 2010.

### ATTACHMENTS:

A. Project Summary  
B. 10th & Yamhill Redevelopment Stakeholder Advisory Committee Roster  
C. South Park Blocks URA and River District URA Budget Summaries

### CC:

- L. Bowers, Interim Development Director  
- L. Abuaf, Senior Project Coordinator  
- D. Elott, Interim General Counsel  
- J. Jackley, Executive Operations Manager
ATTACHMENT “A” PROJECT SUMMARY

Project Name: 10th and Yamhill Garage Redevelopment

Description: Improve ground-floor retail and SmartPark Garage as well as introduce new 24/7 uses to the district to enhance downtown retail core and augment pedestrian activity

Location: 730 SW 10th Avenue (SW 10th and 11th Avenues, SW Yamhill and Morrison Streets)

URA: Originally in South Park Blocks; relocated to River District

Current Phase: Memorandum of Understanding

Next Milestone: Disposition and Development Agreement (early 2010)

Completion Target: Construction start in 2010-2011, completion in 2012-2013

Outcome: New SmartPark garage; 27,000 square feet of ground floor retail; 20 levels of new residential/commercial use

Site/Project Map:
## ATTACHMENT “B” STAKEHOLDER ADVISORY GROUP ROSTER

<table>
<thead>
<tr>
<th>Name</th>
<th>Stakeholder Group</th>
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<tbody>
<tr>
<td>John Cabrera</td>
<td>Multnomah County Central Library</td>
</tr>
<tr>
<td>Wade Fickler</td>
<td>City Club of Portland</td>
</tr>
<tr>
<td>Fernando Garibay</td>
<td>Brooks Brothers</td>
</tr>
<tr>
<td>Alex Hofberg</td>
<td>Local retailer, Alex's Watchworks</td>
</tr>
<tr>
<td>Kirsten Kays</td>
<td>Local retailer, Nordstrom</td>
</tr>
<tr>
<td>Peggy Kendellen</td>
<td>Regional Arts &amp; Culture Council</td>
</tr>
<tr>
<td>Bud Kramer</td>
<td>Area resident</td>
</tr>
<tr>
<td>Stephen Pirk, SV Jewelers</td>
<td>Portland Business Alliance</td>
</tr>
<tr>
<td>Kristi Kono, Columbia Sportswear</td>
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<tr>
<td>Karl Rohde</td>
<td>Bicycle Transportation Alliance</td>
</tr>
<tr>
<td>Judy Van Alstyne</td>
<td>Adjacent property owner, Bill Naito Co.</td>
</tr>
<tr>
<td>Dan Zalkow</td>
<td>Downtown Neighborhood Association</td>
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</tbody>
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## ATTACHMENT “C” BUDGET SUMMARIES

### SOUTH PARK BLOCKS ADOPTED FY 2007-08

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<tr>
<td>Revised Budget</td>
<td>Adopted Budget</td>
<td>Forecast</td>
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**Resources**

- **Beginning Fund Balance**: 25,270,804 8,142,406 16,840,996 0 0 0
- **Budgeted Transfers**: 402 0 0 0 0 0
- **Interest - City Invest Pool**: 659,426 775,000 500,000 0 0 0
- **Loans - Interest Earned**: 145,825 350,000 350,000 0 0 0
- **Loans - Principal Collection**: 396,824 390,000 360,000 0 0 0
- **Real Property Sales**: 0 2,000,000 1,800,000 0 0 0
- **Rent and Property Income**: 250,000 0 0 0 0 0
- **Tax Increment - L-T Debt**: 0 34,978,213 0 0 0 0
- **Tax Increment - S-T Debt**: 3,383,396 1,983,126 0 0 0 0

**Total Fund Resources**: 30,104,677 46,578,745 19,840,996 0 0 0

### Requirements

#### Project Expenditures (does not include Personal Services or Indirect Cost)

**Development**

- **11020 - SPF Light Rail**: 7,234,000 0 0 0 0 0
- **11912 - SPF Park Ave Redevelop**: 1,175,000 4,575,000 1,175,000 0 0 0
- **11913 - SPF 10th & Yamhill**: 500,000 4,000,000 3,500,000 0 0 0
- **12101 - SPF Retail Loan Program**: 250,000 500,000 500,000 0 0 0
- **12206 - SPF Pre Development**: 125,000 0 0 0 0 0
- **12310 - Park Block 6**: 825,000 800,000 1,000,000 0 0 0
- **12217 - SPF Univ District**: 610,000 2,650,000 150,000 0 0 0
- **12118 - SPF Historic Preservation**: 50,000 0 0 0 0 0
- **12219 - SPF Seismic Loans**: 1,000,000 1,000,000 1,000,000 0 0 0
- **60003 - SPF Transit Mall Redevelop**: 0 500,000 500,000 0 0 0
- **60004 - SPF P&R/CAT Redevelop**: 0 2,000,000 2,000,000 0 0 0
- **50113 - SPF Signage & Lighting**: 0 100,000 100,000 0 0 0

**Development Total**: 11,765,000 13,525,000 9,925,000 0 0 0

### RIVER DISTRICT ADOPTED FY 2008-09

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<tbody>
<tr>
<td>Revised</td>
<td>Adopted</td>
<td>Forecast</td>
<td>Forecast</td>
<td>Forecast</td>
<td>Forecast</td>
</tr>
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</table>

**Resources**

- **Beginning Fund Balance**: 10,316,420 10,250,506 10,277,371 211,899 1,032,771 237,276
- **Interest - City Invest Pool**: 300,000 50,000 50,000 50,000 50,000 50,000
- **Loans - Interest Earned**: 285,000 335,000 335,000 335,000 335,000 335,000
- **Loans - Principal Collection**: 300,000 2,200,000 290,000 290,000 290,000 290,000
- **Real Property Sales**: 1,500,000 0 0 0 0 0
- **Reimbursement**: 200,000 1,025,000 125,000 125,000 125,000 125,000
- **Rent and Property Income**: 20,000 200,000 200,000 200,000 200,000 200,000
- **Tax Increment - L-T Debt**: 0 27,219,465 48,951,000 13,966,000 22,018,279 14,465,500
- **Tax Increment - S-T Debt**: 10,112,462 13,986,000 13,966,000 12,202,544 13,803,900 9,621,427

**Total Fund Resources**: 23,013,912 55,655,971 74,214,571 27,409,443 37,854,956 25,210,205

### Requirements

#### Project Expenditures (does not include Personal Services or Indirect Cost)

**Development**

- **10225 - RD Retail Loan Program**: 200,000 600,000 750,000 750,000 750,000 750,000
- **10226 - Melrose/Frank Redevelopment**: 3,000,000 0 0 0 0 0
- **10227 - RD Historic Preservation**: 75,000 0 0 0 0 0
- **10224 - RD Park Ave Redevelop**: 100,000 0 0 0 0 0
- **1120 - RD Public Site Improv**: 250,000 250,000 0 0 0 0
- **11264 - RD Burner/Coach Trans**: 500,000 1,100,000 0 0 0 0
- **13104 - RD Centennial Mill**: 900,000 550,000 4,500,000 5,775,000 0 0
- **13112 - RD North Pearl Planning**: 200,000 200,000 0 0 0 0
- **13113 - RD One Waterfront**: 500,000 4,000,000 4,000,000 0 0 0
- **13115 - RD Station Place Redevelop**: 50,000 0 0 0 0 0
- **15117 - RD Dev Loan Program**: 500,000 0 0 0 0 0
- **13119 - RD Neighborhood Park**: 500,000 300,000 4,900,000 0 0 0
- **13135 - RD Seismic Loans**: 350,000 0 0 0 0 0
- **13106 - RD DOS Program**: 100,000 0 0 0 0 0
- **13137 - RD Eastside Streetcar Connect**: 0 7,500,000 5,000,000 4,500,000 0 0
- **13138 - RD Post Office**: 2,750,000 1,200,000 2,500,000 2,000,000 25,500,000 0
- **15143 - RD Environmental**: 125,000 0 0 0 0 0
- **13144 - RD Pedestrian Bridge**: 150,000 0 0 0 0 0
- **60005 - RD Transit Mall Redevelop**: 500,000 0 0 0 0 0
- **60017 - RD Signage & Lighting**: 88,000 0 0 0 0 0
- **60020 - Union Station Mgt & Ctrl Improv**: 0 725,000 3,150,000 4,325,000 0 0
- **60021 - RD 10th & Yamhill**: 0 4,000,000 4,000,000 0 0 0
- **60024 - RD Multnomah County**: 0 0 0 0 0 0
- **60026 - RD Satellite Districts**: 0 0 0 0 0 500,000 4,500,000

**Development Total**: 16,738,000 20,510,000 28,910,000 17,566,000 26,756,000 15,015,000