

PDC

PORTLAND DEVELOPMENT COMMISSION

DATE: March 26, 2008

TO: Board of Commissioners

FROM: Bruce A. Warner, Executive Director

SUBJECT: Report Number 08-39
Approval of Executive Director's Recommendation to Select LAB Holding, LLC for Exclusive Negotiations to Redevelop Centennial Mills in the River District Urban Renewal Area

EXECUTIVE SUMMARY

BOARD ACTION REQUESTED

Adopt Resolution No. 6566

ACTION SUMMARY

This proposed action will approve the Executive Director's recommendation to select LAB Holding, LLC for the disposition and redevelopment of the Portland Development Commission (PDC)-owned Centennial Mills property at 1362 NW Front Avenue (Property) in the River District Urban Renewal Area (URA) (see Attachment A map). This proposed action will also authorize the Executive Director to enter into exclusive negotiations with LAB Holding, LLC regarding redevelopment of the Property. Staff anticipates returning to the PDC Board of Commissioners (Board) in mid 2009 for a briefing on the general terms of a Disposition and Development Agreement.

A Request for Proposals (RFP) for the 4.7 acre site was issued on September 7, 2007, to three teams selected from a preceding Request for Qualifications (RFQ). The Board was last briefed in June 2007 during the RFQ selection process. The teams submitting to the RFP, which closed on January 18, 2008, were The Cordish Co. of Baltimore, MD; LAB Holding of Costa Mesa, CA; and Nitze-Stagen of Seattle, WA.

In late January 2008, an Evaluation Committee was convened to review and evaluate proposals against the RFP criteria. The Committee roster is provided in Attachment B; the RFP criteria are provided in Attachment C. As part of PDC's outreach, public input was collected in many ways: via the Centennial Mills website, board display and comment cards posted at the Pacific Northwest College of Art throughout the month of February, and a public open house held on February 20, 2008. PDC received over 100 public comments regarding the proposals. The open house featured presentations by all three firms and was attended by over 200 people. Based on extensive review of the proposals and public input, in late February 2008, the Evaluation Committee made a consensus recommendation to the Executive Director to select the LAB Holding, LLC Proposal.

The LAB Holding, LLC Proposal offers the strongest response to the RFP's program and design criteria and the five key redevelopment principles of the Centennial Mills Framework Plan as endorsed by the Portland City Council and the Board in 2006. LAB Holding, LLC also demonstrates strong team capabilities for the unique challenges of this site. LAB

Holding, LLC has extensive experience with long term operations and hands-on management of their projects, which will be significant to maintaining Centennial Mills as an active focal point. Their partnered architectural firm of Meyer, Scherer, Rockcastle of Minneapolis, MN provides extensive experience in redevelopment of historic and industrial sites, including the Mill City Museum, one of the case studies included in the Centennial Mills Framework Plan.

PUBLIC BENEFIT

Specific public benefits of the LAB Holding, LLC Proposal include:

- Just under 150,000 square feet of renovated mill and new construction at a total development cost of almost \$60 million. The LAB Holding, LLC Proposal includes preservation of the significant grain elevators and warehouses and the wharf, with the majority of new uses being retail and office together with the Mounted Patrol Unit (MPU) facilities, which are preserved on site.
- Over 50 percent of the wharf is proposed for public open space together with significant greenway connections along the waterfront and via a bridge from The Fields Neighborhood Park through the middle of the historic Elevator C building through to the wharf.
- Based on the LAB Holding, LLC Proposal, annual property taxes generated from the new development are an estimated \$770,000 year together with over 325 new jobs and an annual payroll of approximately \$9.4 million.

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

In accordance with an approved Public Participation Plan, an Evaluation Committee of stakeholders was convened in January 2008. The Committee includes members from the Pearl District Neighborhood Association, the Centennial Mills Framework Plan Citizen Advisory Group, the design and development communities, as well as city-at-large representation. On February 28, 2008, the Evaluation Committee's consensus was to recommend to the Executive Director to select LAB Holding, LLC.

In addition, PDC hosted several involvement opportunities for public review and comment:

- Ongoing posting of the proposals with input opportunity on the Centennial Mills project website;
- Proposal summary boards displayed at the Pacific Northwest College of Art from First Thursday, February 7 through the end of the month;

- A public open house, hosted on February 20, 2008, with team presentations and an opportunity for public questions and comments.

Of the over sixty detailed comments received from the public, approximately two-thirds favored the LAB Holding, LLC Proposal. The public supports the Proposal's openness, public access to the river, preservation of the mill as the core element, and a signature program and design.

COMPLIANCE WITH ADOPTED PLANS AND POLICIES

Redevelopment of Centennial Mills follows the recommendation of the 2006 Centennial Mills Framework Plan, a joint effort between PDC and the Portland Bureau of Planning. The Framework Plan was accepted by the Portland City Council on October 11, 2006 and approved by the Board on December 13, 2006. The five key redevelopment principles, defined by the framework plan, provide the basis of the RFP's program and design criteria:

- provide a signature riverfront open space;
- represent the historic significance, character or function of the site;
- create a dynamic, lasting, and unique waterfront destination;
- connect to the River District, surrounding city, and region;
- develop in an ecologically, economically, and culturally sustainable manner.

The Framework Plan was subsequent to City Council Resolution No. 36320, adopted in May 2005, which directs PDC to work with the Planning Bureau, citizens and stakeholders to develop a comprehensive plan.

PDC's initial acquisition of the site was called for in the River District Urban Renewal Plan, as adopted by City Council in 1998, which includes plans to extend Tom McCall Waterfront Park to the River District via Centennial Mills open space. The importance of the Centennial Mills site to the River District's open space and parks network is underscored in the 2001 Portland River District Park System Urban Design Framework Study. This study recommends a string of four new parks that connect to a new complex of open space and public uses at Centennial Mills and the adjacent riverfront properties.

FINANCIAL IMPACT

PDC has budgeted approximately \$4.3 million in the Revised River District Fiscal Year 2007-2008 Budget and forecast years. Approximately \$10 million for this project is currently included as part of the Requested River District 2008-2009 Budget and forecast years as reviewed by the Budget Work Group and Urban Renewal Advisory Group.

The LAB Holding, LLC Proposal requests \$5 million of public investment to assist with the The Fields Neighborhood Park bridge, wharf and open space improvements. LAB Holding, LLC proposes to pay PDC a \$5 million acquisition price. LAB Holding, LLC proposes to provide all equity for the project and proposes to retain ownership of the site in the long-term. Their proposal assumes retail and commercial rents of approximately \$24 to \$30 per square foot; rents for the MPU facilities are assumed at \$18 per square foot. LAB Holding, LLC Proposal's phase two redevelopment of the adjacent Crescent Electric site to the north and, potentially, the MPU paddock to the south, are not included in their financial analysis.

The team may choose to pursue alternative public financing including historic tax credits, Business Energy Tax Credits, or New Market Tax Credits, depending on the site and program's eligibility.

RISK ASSESSMENT

While the LAB Holding, LLC Proposal requests \$5 million of financial assistance from PDC for elements of the redevelopment project; these elements may require substantial additional assistance depending on more complete due diligence and final program and design. The level of investment requested is a significant consideration given the high competition for funds in the River District URA, especially in the five-year term. Other market risks include tenanting the space as envisioned and leasing the space at market levels, given the site's currently fringe location and with a relatively low ratio of parking proposed.

The public has shown significant interest in the proposals and significant support for this specific Proposal. Nevertheless, there may be risk associated with Board action on selection.

WORK LOAD IMPACT

The selection of LAB Holding, LLC sets the stage for subsequent work to negotiate and implement agreements to complete redevelopment. This will require substantial staff time. The Development department's FY 2008-09 budget request for an additional FTE to work in the River District was not approved. To date, we have brought on a temporary worker and have borrowed parts of FTE time from other URA teams. Because Centennial Mills is a high priority project, we will continue this approach in order to keep up with the work load.

ALTERNATIVE ACTIONS

The RFP, as issued, requires Board action on the Executive Director's developer selection recommendation. The Board can elect not to approve the Executive Director's selection recommendation and not to authorize the Executive Director to enter into exclusive negotiations with LAB Holding, LLC in connection with redevelopment of Centennial Mills. If so decided, the properties would likely not be redeveloped in the near term and would require PDC to issue an additional solicitation for a development firm, putting at risk the investment PDC has made to date in attracting nationwide interest to this development opportunity.

Alternatively, the Board could elect to select an alternative proposing development team to that recommended by the Evaluation Committee and the Executive Director. If so decided, the Board may risk losing the public support of the Evaluation Committee and the general public as conveyed via input gathered to date.

CONCURRENCE

This action has the concurrence of the Evaluation Committee, which includes representatives of the Pearl District Neighborhood Association, the Centennial Mills Framework Plan Citizen Advisory Group, the City of Portland, and the design and development communities. PDC also convened a Technical Advisory Committee, including representatives from the Portland Bureau of Planning, Bureau of Development Services, Bureau of Environmental Services and Parks and Recreation. PDC received no feedback from these partner agencies indicating non-concurrence with this action.

BACKGROUND

In 2000, PDC acquired the Centennial Mills site for open space redevelopment pursuant to recommendations of the 1988 Central City Plan, 1995 River District Plan and 1998 River District Urban Renewal Plan. The site contains a complex of twelve industrial buildings, constructed primarily between 1910 and 1940, and it has significant environmental and seismic concerns given its historic use and riverfront location. To date, more than \$12 million of tax increment and City of Portland Bureau of Environmental Services (BES) funds have been spent for acquisition and site improvements. In 2001, PDC funds were used to construct the 20,000 square foot Portland Police Bureau Mounted Patrol Unit at the south end of the Centennial Mills site.

In 2004, PDC commissioned a committee-led study that recommended demolition of the existing buildings for open use redevelopment. In May 2005, City Council approved Resolution No. 36320, directing PDC and the Planning Bureau to work with interested stakeholders to develop a more comprehensive redevelopment plan. In September 2006, PDC and Planning staff completed the Centennial Mills Framework Plan, as adopted by the Portland City Council and the Board, which recommends redeveloping the site according to five key redevelopment principles:

- Open Space
- Historic Preservation
- Community Focal Point
- Connectivity
- Sustainability

In 2007, PDC initiated a two phase RFQ/RFP process nationwide to seek a qualified development team for the site. The RFQ was issued in March 2007, and nine responsive proposals were received in May 2007. In June 2007, the Executive Director selected six teams to interview. Following interviews in mid-July, three teams were selected to submit to the RFP currently under consideration for selection.

LAB Holding, LLC's redevelopment concept recommended for selection is for a regional public attractor that combines culinary commercial uses, including an urban public market, with other commercial elements related to healthy and sustainable living. Redevelopment contains six key structures that are either rehabilitated or redeveloped for new uses. Total development includes approximately 150,000 square feet of new retail and office use together with a new 14,000 square foot MPU building and preserved paddock.

More specifically, elements of the LAB Holding, LLC Proposal that address the five key Centennial Mills Framework Plan principles include:

- Provide Open Space. The wharf area is to be converted into a public open air plaza connecting to the riverfront greenway and The Fields Neighborhood Park. The open space, including an open air theater and pavilion, is to be activated through significant programming and to act as a venue for community events and as a complement to the adjacent commercial uses.
- Capture History. Preservation of numerous existing structures is at the core the LAB Holding, LLC Proposal. The mill structures are to be showcased as a central focal point. In addition to preserving buildings, the Proposal also includes salvaging historic materials and providing interpretive elements on site. A portion of the wharf and redevelopment is to be made available to the Maritime Museum for docking the Sternwheeler Portland and a land-based museum, respectively. The culinary art and culture theme is also intended to reflect the history of the site.
- Provide a Community Focal Point. Architectural preservation and showcasing combined with new construction is to create a visual icon. The open space along the wharf is to create a significant gathering place at the terminus of the Pearl District parks (Jamison Square, Tanner Springs, and The Fields Neighborhood Park). Activating of the open space is to occur with targeted tenant selection and site programming, which involves long-term property holding and management.
- Strengthen Connections. The LAB Holding, LLC Proposal includes both physical and thematic connections. Physical connections include the riverfront greenway cutting through the waterfront edge of the project; a bridge from The Fields Neighborhood Park continuing through the site to the waterfront; and streetscape improvements on NW Naito Parkway to encourage movement between neighboring residents and properties and the site. More thematic connections are the culinary concepts' reflection of the mill history as well as a potential connection with the adjacent Oregon State University Food Innovation Center and Albers Mill.
- Embrace Sustainability. Proposed sustainable elements related to built-form include at least LEED Silver certification and using the Living Building Challenge (tied to reduced energy, habitat restoration, stormwater treatment, and sustainable building practices) to guide the project. In addition, tenanting of the site is proposed to focus on sustainability and healthy living.

ATTACHMENTS:

- A. Project Summary with Site Map
- B. Centennial Mills Request for Proposals #07-10 Evaluation Committee
- C. Centennial Mills Request for Proposals #07-10, Evaluation Criteria
- D. River District URA Financial Summary (Revised FY 2007-08 and Draft FY 2008-09)

CC: C. Twete, Development Department Director
S. Shain, Development Manager
L. Abuaf, Senior Project Coordinator
M. Baines, General Counsel
J. Jackley, Executive Operations Manager

PROJECT SUMMARY

- Project Name:** Centennial Mills
- Description:** Redevelopment of 4.7 acre, PDC-owned property pursuant to the City Council and PDC Board approved Centennial Mills Framework Plan
- Location:** 1362 NW Front Avenue (NW 9th Avenue and NW Naito Boulevard)
- URA:** River District
- Current Phase:** Request for Proposals Selection of LAB Holding, LLC
- Next Milestone:** Negotiation of Memorandum of Understanding and Disposition and Development Agreement
- Completion Target:** Negotiations by 2009; Design through 2010; Construction complete 2012
- Outcome:** Redevelopment of site, including preservation of historic structures and introduction of new open space and access to the Willamette River

Site/Project Map:



RFP EVALUATION COMMITTEE

Stakeholder Group/Expertise	Name
Neighborhood (PDNA)	Patricia Gardner <i>PDNA Land Use Chair, member of the Centennial Mills Framework Plan Citizen Advisory Group</i>
Architect/Design	Thomas Robinson <i>Allied Architecture, member of the Centennial Mills Framework Plan Citizen Advisory Group</i>
Historic Preservation	Chet Orloff <i>Member of the Centennial Mills Framework Plan Citizen Advisory Group</i>
Developer	Al Solheim <i>AWS Real Estate</i>
Creative Services Industry	Steve McCallion <i>Ziba Design, Executive Creative Director</i>
City at Large	Lindsay Desrochers <i>Portland State University, Vice President of Finance & Administration</i>

Additional Evaluation Committee members	
City of Portland	Ken Rust <i>Office of Management & Finance, Chief Administrative Officer</i>
Portland Development Commission	Cheryl Twete <i>Development Department, Director</i>

RFP EVALUATION CRITERIA

1_ Development Program and Design

- A. Extent proposed development meets that desired by PDC as described in Section 5 Project Objectives.
- B. Extent proposed development meets the five key redevelopment principles outlined in the Centennial Mills Framework Plan.
- C. The extent the proposed development demonstrates quality site planning concepts, architectural design and character, sustainability, and urban design considerations and connections, including to the Fields Neighborhood Park.

2_ Development Team Capability

- A. Experience of the Development Team in the successful redevelopment, operation and economic performance of projects of comparable type, size, scale and complexity.
- B. Experience of the Development Team in working with the public sector in public/private real estate development projects.
- C. The quality of architectural and urban design aspects of comparable projects completed by the Development Team.
- D. Letter of financial commitment to complete the Project as proposed.

3_ Business Deal

- A. The feasibility of the proposed business offer and the amount of PDC or other public financial assistance necessary, if any, relative to public benefit received and risk assumed by PDC.
- B. The clarity and consistency of the Preliminary Development Budget, Financing Plan, and the Preliminary Proforma and Statement of Financial Capacity.

4_ Diversity Outreach and Participation

- A. The extent to which the Development Entity has maximized diversity in past projects.
- B. The feasibility and scope of the Diversity Plan to encourage diversity participation, including compliance with the M/W/ESB Good Faith Effort Program, Workforce Training and Hiring Program and other diversity outreach and participation efforts.

5_ Implementation

- A. Demonstrated experience meeting project schedules and deadlines, and realistic ability to meet the proposed Project's schedule.
- B. Demonstrated experience and proposed approach of the Development Entity to engage in public involvement efforts with potentially impacted business and property owners, and residents.
- C. Demonstrated commitment to comply with PDC Green Building and Construction Wage policies.

URA FINANCIAL SUMMARY

FY 2007-2008 ADOPTED BUDGET

Financial Summary

Fund Summary - Five-Year Budget Projections

	<i>FY 2006-07 Revised Budget</i>	<i>FY 2007-08 Adopted Budget</i>	<i>FY 2008-09 Forecast</i>	<i>FY 2009-10 Forecast</i>	<i>FY 2010-11 Forecast</i>	<i>FY 2011-12 Forecast</i>
River District URA						
Resources						
Beginning Fund Balance	1,755,241	425,973	16,251,236	6,166,308	2,079,112	7,318,398
Interest - City Invest Pool	154,000	300,000	485,000	500,000	550,000	450,000
Loans - Interest Earned	187,014	285,000	335,000	385,000	335,000	335,000
Loans - Principal Collection	187,013	300,000	350,000	400,000	350,000	350,000
Real Property Sales	0	2,000,000	0	0	0	0
Reimbursement	200,000	200,000	200,000	200,000	200,000	200,000
Rent and Property Income	0	0	0	200,000	200,000	200,000
Tax Increment - L-T Debt	9,000,000	15,139,473	11,082,000	17,401,000	10,206,999	0
Tax Increment - S-T Debt	10,132,289	11,277,252	12,243,031	13,615,506	14,302,205	4,475,068
Total Fund Resources	21,615,557	29,927,698	40,946,267	38,867,814	28,223,316	13,328,466

Requirements

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

Development

10225 - RD Retail Loan Program	404,000	200,000	200,000	200,000	200,000	200,000
10227 - RD Historic Preservation	75,000	75,000	75,000	0	0	0
10234 - RD Park Ave Redev	150,000	100,000	1,000,000	0	0	0
11032 - RD Light Rail	1,750,000	0	0	0	0	0
11263 - RD Public Site Imprv	350,000	250,000	125,000	125,000	125,000	125,000
11264 - RD Burns/Couch Trans	575,000	500,000	2,370,000	1,425,000	0	0
13104 - RD Centennial Mill	500,000	800,000	1,500,000	2,000,000	0	0

FY 2008-2009 DRAFT BUDGET

330 - River District Seven Year Forecast

	Current Year	Seven-Year Budget and Forecast Total							Total
	FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13	FY 2013-14	FY 2014-15	
Resources									
Beginning Fund Balance	10,316,420	4,077,159	2,302,624	6,902,766	4,479,012	6,270,723	(1,751,545)	(740,963)	4,077,159
Tax Increment Debt Proceeds	11,366,622	42,779,959	43,867,814	31,693,918	38,909,815	32,985,404	15,560,582	21,099,197	226,896,689
Other Resources	2,510,000	1,800,000	1,000,000	1,000,000	1,000,000	875,000	500,000	500,000	6,675,000
Total Resources	24,193,042	48,657,118	47,170,438	39,596,684	44,388,827	40,131,127	14,309,037	20,858,234	237,648,848

	Current Year	Seven-Year Budget and Forecast Total							Total
	FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13	FY 2013-14	FY 2014-15	
Requirements									
Dev and Ec Dev									
Existing Commitments									
13113 - One Waterfront Place Parking	500,000	8,000,000	0	0	0	0	0	0	8,000,000
13119 - RD Neighborhood Park	500,000	3,500,000	1,500,000	0	0	0	0	0	5,000,000
13137 - RD Eastside Streetcar	0	0	0	0	0	17,000,000	0	0	17,000,000
10226 - Meier and Frank	3,000,000	0	0	0	0	0	0	0	0
Union Station Critical Imp	410,000	2,150,000	3,150,000	2,500,000	0	0	0	0	7,800,000
Strategic Initiatives									
13104 - Centennial Mill	950,000	1,650,000	4,500,000	4,000,000	0	0	0	0	10,150,000