

PDC

PORTLAND DEVELOPMENT COMMISSION

DATE: September 23, 2009

TO: Board of Commissioners

FROM: Bruce A. Warner, Executive Director

SUBJECT: Report Number 09-112
Authorizing Centennial Mills Schematic Design Predevelopment Loan

EXECUTIVE SUMMARY

BOARD ACTION REQUESTED

Adopt Resolution No. 6738

ACTION SUMMARY

This action will authorize a predevelopment loan with Project SEED, LLC (a development entity of LAB Holding, LLC related to Centennial Mills) in an amount not to exceed \$100,000 to assist with completion of Centennial Mills schematic design. Centennial Mills is a Portland Development Commission (PDC)-owned property located at 1362 NW Naito Parkway in the River District Urban Renewal Area; a map of the site is included as part of the Project Summary in Attachment A. Schematic design work will be completed by Meyer, Scherer & Rockcastle (lead architect), SERA Architects (local architect), KPFF, Glumac, OTAK, GeoDesign, DIRT (landscape architect), Greenworks (local landscape architect), Flowing Solutions, and Green Building Services.

The total cost of schematic design is estimated at \$311,279. Authorization by the PDC Board of Commissioners (Board) is necessary because PDC Predevelopment Loan Guidelines require Board review and approval for any predevelopment loan over \$200,000. In September 2008, a loan of up to \$200,000 was authorized by the Executive Director to Project SEED, LLC to assist with earlier due diligence work including structural, environmental, and geotechnical assessments.

PUBLIC BENEFIT

The public benefits of authorizing this loan to Project SEED, LLC for Centennial Mills schematic design include the following:

- Advances a significant opportunity to preserve historic fabric of iconic Centennial Mills buildings.
- Advances the replacement of vacant property and vacated buildings with new retail and integration of the Mounted Patrol Unit.
- Advances creation of new retail and flex-office space that will create new jobs.
- Moves forward development that will provide significant public access and connectivity to and along the riverfront.

- A concentration of retail uses with landmark architecture will be a destination attracting visitors to the waterfront, improving the greenway connection and leading to further redevelopment in the north Pearl District area.
- Eliminates blight and blighting influences.
- Advances a project that has a total estimated development investment of approximately \$60 million and total estimated annual increase in property tax revenues of approximately \$770,000.

This action will support the following PDC goals:

- Sustainability and Social Equity
- Healthy Neighborhoods
- A Vibrant Central City
- Strong Economic Growth and Competitive Region
- Effective Stewardship over our Resources and Operations, and Employee Investment

PUBLIC PARTICIPATION AND FEEDBACK

The LAB Holding proposal for redevelopment of Centennial Mills, included in their response to PDC's 2008 competitive Request for Proposals (RFP), received a consensus of support from the general public and a stakeholder Evaluation Committee, charged with reviewing RFP proposals and making a selection recommendation to the PDC Executive Director. There has not been public feedback received on the specific action under consideration.

COMPLIANCE WITH ADOPTED PLANS AND POLICIES

This action is in compliance with PDC's Commercial Property Redevelopment Loan guidelines. Redevelopment of Centennial Mills, advanced by this action, complies with the following adopted plans and policies:

- *River District Plan (1995) and River District Urban Renewal Plan (1998)*: In 2000, PDC acquired the 4.7 acre Centennial Mills site for open space redevelopment pursuant to recommendations of these plans.
- In 2004, PDC commissioned a study that recommended demolition of the existing buildings for open use redevelopment. The recommendation, based on previous planning work and a lack of funding, was protested by historic preservation and neighborhood stakeholders.
- Resolution #36320 (2005): City Council, by resolution, directed PDC and the Bureau of Planning to work with stakeholders to develop a more comprehensive plan for Centennial Mills.
- *Centennial Mills Framework Plan (2006)*: With extensive outreach and public involvement, the plan recommended redevelopment of the site in accordance with five key redevelopment principles: include 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; and develop in an ecologically, economically, and culturally sustainable manner. The plan was approved by City Council in October 2006 and by the Board in December 2006.

- Authorization of this loan is in accordance with Board approved guidelines for PDC Predevelopment Loans.
- Supports implementation of the Portland Economic Development Strategy (2009), including maintaining and strengthening a vibrant Central City and growing the region's target industry clusters.

FINANCIAL IMPACT

There are adequate resources available in the River District Adopted FY 2009-2010 and Forecast Years Budget. A copy of the budget is included as Attachment B.

Loan repayment would occur at closing with proceeds from construction financing or as part of property sale, to be negotiated as part of a Disposition and Development Agreement. If the project is determined to be not feasible, Project SEED, LLC can request that loan is forgiven and forgiveness will be at PDC's discretion.

RISK ASSESSMENT

Current market risks that could impact loan repayment and redevelopment feasibility include the availability of sufficient private financing for the project and potential lack of market to generate enough retail lease revenue to support debt. However, LAB Holding, LLC has a proven track record with similar retail-based projects with successful ongoing project holding and operations, including over 20 years experience in innovative retail and commercial real estate projects such as The LAB, The CAMP, and SoBeCa District developments in Costa Mesa, California.

Additional risks to the redevelopment include that the property has unknown environmental and structural risks and costs relative to proposed redevelopment program. The intent of this assistance is to ensure developer moves forward with schematic design that mitigates these risks and on a schedule such that the project is ready for development once the private financing and retail markets are improved.

In addition, redevelopment of Centennial Mills is physically tied via a bridge to the adjacent Fields Neighborhood Park, a partnership project between PDC and the Bureau of Parks and Recreation. Maintaining concurrent schematic design schedules for both projects is necessary to ensure that bridge landings at both projects are feasible and that both projects enjoy joint success. Schematic design of the park, including bridge footing location, is anticipated to start this month and be completed by early next year.

WORK LOAD IMPACT

There is staff assigned within the Urban Development Department's Central City Team to coordinate with the Project SEED, LLC schematic design work. Loan monitoring is anticipated to be provided by the Housing Department's Construction Coordinator and Loan Processor positions, until such time as these positions are transferred to the new Bureau of Housing.

ALTERNATIVE ACTIONS

The Board could elect not to authorize the Executive Director to enter into this loan

CONCURRENCE

This loan request was presented to the PDC Loan Committee on September 10, 2009. Because this borrower has already received a \$200,000 pre-development loan, the maximum amount the Loan Committee is authorized to approve, Board approval of this request is necessary. The Loan Committee recommends approval of this loan.

BACKGROUND

Pursuant to the *Centennial Mills Framework Plan*, in early 2007 PDC initiated a two phased Request for Qualifications (RFQ)/Request for Proposals (RFP) seeking a qualified development team and proposal that best meets the framework plan's objectives. The PDC RFQ closed in May 2007. PDC received nine RFQ proposals, three of which were selected to submit to the subsequent RFP. The RFP was issued September 7, 2007, and responses were received in January 2008. Following extensive public outreach and a recommendation by a stakeholder Evaluation Committee, the Board approved the Executive Director's recommendation to select LAB Holding, LLC in March 2008.

In August 2008, PDC signed a Memorandum of Understanding (MOU) with LAB Holding. Pursuant to the MOU, in September 2008, LAB Holding, LLC in partnership with PDC initiated due diligence to analyze feasibility of the design proposed as part of the RFP submission. Additional due diligence was required, since earlier due diligence completed by PDC assumed demolition rather than preservation of the structures. PDC provided Project SEED, LLC a loan of up to \$200,000 (PDC Loan No. 38567-08) and a grant of up to \$200,000 (PDC Grant No. 38568-08) to assist with the due diligence work completed between 2008 and 2009. A total of \$340,285.20 was disbursed to LAB Holding as reimbursement for costs accrued, half as a loan and half as a grant. PDC holds an independent contract with Hart Crowser for work related to the site's environmental condition and any interim site clean up to prepare it for sale.

LAB Holding is currently in negotiations to acquire the Centennial Mills property from PDC; the MOU, outlining roles and responsibilities of each party during negotiation of a binding Disposition and Development Agreement, will expire on June 30, 2010.

The schematic design work supported by this loan request is expected to take three to four months from proceed notice. A design, permitting, and construction schedule developed as part of MOU negotiations assumes construction to begin in 2010/2011 with completion in 2012/2013.

ATTACHMENTS:

- A. Project Summary
- B. River District Adopted FY 2009-2010 and Forecast Years Budget

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:** Schematic Design
- Next Milestone:** Negotiation of a Disposition and Development Agreement
- Completion Target:** Negotiations by 2010; Design through 2010/2011; Construction complete 2012/2013
- Outcome:** Redevelopment of site, including preservation of historic structures and introduction of new open space and access to the Willamette River

Site/Project Map:



URA FINANCIAL SUMMARY**Financial Summary****Fund Summary - Five-Year Budget Projections**

	Revised	Adopted	Forecast	Forecast	Forecast	Forecast
	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13	FY 2013-14
River District URA						
Resources						
Beginning Fund Balance	16,879,294	19,872,035	3,414,718	7,580,135	4,655,385	3,271,635
Fees and Charges	0	0	0	0	0	0
Interest on Investments	320,000	1,000,000	200,000	50,000	50,000	50,000
Loan Collections	625,000	1,300,000	300,000	300,000	300,000	300,000
Property Income	200,000	200,000	200,000	200,000	200,000	200,000
Reimbursements	1,452,500	125,000	125,000	125,000	0	0
Tax Increment Proceeds	18,944,960	17,582,400	50,416,817	0	0	0
Total Resources	38,421,754	40,079,435	54,656,535	8,255,135	5,205,385	3,821,635
Requirements						
Program Expenditures						
Business & Industry						
General Business Assistance						
79020 Business Finance	1,100,000	2,100,000	3,100,000	0	0	1,100,000
Business & Industry Total	1,100,000	2,100,000	3,100,000	0	0	1,100,000
Housing						
Multi-Family - Rental Housing						
32138 Pearl Family Housing	900,000	12,000,000	7,000,000	0	0	0
37937 Access Center - Afford Housing	850,000	0	0	0	0	0
37938 Blanchet House Redev	465,000	0	0	0	0	0
37940 New Avenues for Youth	0	1,200,000	0	0	0	0
80036 Yards at Union Station	50,000	0	0	0	0	0
80037 Grove Apartments	500,000	0	0	0	0	0
89030 Affordable Rental Housing	0	500,000	4,000,000	0	0	0
Portland Housing Bureau						
28025 Administration	0	62,297	751,640	0	0	0
Housing Total	2,765,000	13,762,297	11,751,640	0	0	0
Infrastructure						
Facilities						
60020 Union Station	725,000	0	0	0	0	0
Parks						
13119 Neighborhood Park	350,000	2,450,000	2,450,000	0	0	0
Transportation						
11233 Public Site Improvements	0	200,000	0	0	0	0
11234 Westside Burnside-Couch Couplet	1,100,000	0	0	0	0	0
11263 RD Public Site Improvements	250,000	0	0	0	0	0
13137 Streetcar Loop Project	2,100,000	10,400,000	4,500,000	0	0	0
Infrastructure Total	4,525,000	13,050,000	6,950,000	0	0	0

Financial Summary**Fund Summary - Five-Year Budget Projections**

		Revised	Adopted	Forecast	Forecast	Forecast	Forecast
		FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13	FY 2013-14
Revitalization							
Plans and Strategies - Revitalization							
13112	North Pearl District Plan	200,000	0	0	0	0	0
92110	Westside/Central City Study	233,000	175,000	0	0	0	0
Redevelopment							
10221	Transit Mall Revitalization	657,450	0	0	0	0	0
10226	Meier & Frank Redevelopment	12,000	0	0	0	0	0
11244	One Waterfront Place	400,000	350,000	7,350,000	600,000	0	0
12101	Downtown Retail Strategy	5,000	0	0	0	0	0
13104	Centennial Mills Redevelopment	585,000	200,000	9,335,000	800,000	0	0
13143	RD Environmental	570,000	0	0	0	0	0
22500	Post Office	1,200,000	0	0	0	0	0
27001	Storefront Grants	200,000	200,000	200,000	0	0	0
27050	DOS Grants	100,000	75,000	75,000	75,000	75,000	75,000
28030	Redevelopment Loan Projects	0	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000
60021	10th & Yamhill Redevelopment	100,000	0	0	0	0	0
Revitalization Operations							
13142	RD Project Management	25,000	0	0	0	0	0
	Revitalization Total	4,287,450	2,500,000	18,460,000	2,975,000	1,575,000	1,575,000
Administration							
Finance							
98001	Debt Management	50,000	50,000	50,000	50,000	50,000	0
	Administration Total	50,000	50,000	50,000	50,000	50,000	0
Total Program Expenditures		12,727,450	31,462,297	40,311,640	3,025,000	1,625,000	2,675,000
Personal Services		1,315,358	1,086,995	826,804	91,960	49,400	81,320
Indirect Cost		4,506,911	4,115,425	5,937,956	482,790	259,350	426,930
Total Fund Expenditures		18,549,719	36,664,717	47,076,400	3,599,750	1,933,750	3,183,250
Contingency		19,872,035	3,414,718	7,580,135	4,655,385	3,271,635	638,385
Ending Fund Balance		0	0	0	0	0	0
Total Requirements		38,421,754	40,079,435	54,656,535	8,255,135	5,205,385	3,821,635