

PDC

PORTLAND DEVELOPMENT COMMISSION

DATE: February 24, 2010

TO: Board of Commissioners

FROM: Bruce A. Warner, Executive Director

SUBJECT: Report Number 10-24
Agreement with Oregon Health and Science University for the assignment and assumption of rights to Block 33 in the South Waterfront Central District Project of the North Macadam Urban Renewal Area

Ninth Amendment to the South Waterfront Central District Project Development Agreement

EXECUTIVE SUMMARY

BOARD ACTION REQUESTED

Adopt Resolution No. 6776 (Agreement of Assignment and Assumption)

Adopt Resolution No. 6777 (Ninth Amendment)

ACTION SUMMARY

This action will authorize an Agreement of Assignment and Assumption (the Agreement) with Oregon Health and Science University (OHSU) for the disposition of certain Portland Development Commission (PDC) owned rights (Rights) for Block 33 in the South Waterfront Central District of the North Macadam Urban Renewal Area (URA). The Agreement will facilitate the sale of PDC's Rights to the property to OHSU in exchange for:

- \$1,000,000 in Transportation System Development Charge Credits (SDC credits)
- Twenty-five percent (25%) of the net proceeds from the future sale of the property to a third party within the next seven (7) years up to a maximum of \$2,000,000.

In addition, PDC will be refunded its past payment to OHSU for a Parking Agreement in the amount of \$3,000,000 payable in two installments, the first at closing, the second within one year of closing.

Most importantly, this agreement will remove the future obligation by PDC to contribute an estimated \$4,000,000 to fund structural enhancements to the parking garage and will eliminate PDC's obligation to build affordable housing on the air rights above the garage. PDC will now be able to utilize the funds for the development of affordable and workforce housing elsewhere in the North Macadam URA.

This action will also authorize the Ninth Amendment to the South Waterfront Project Central District Development Agreement. This amendment is needed to facilitate this transaction; it primarily revises language with relation to the Phase I Parking Garage and deals with the language related to OHSU projects.

PUBLIC BENEFIT

The transactions contemplated by the Agreement will return \$3,000,000 in cash and \$1,000,000 in Transportation SDC credits to PDC and allow a more effective utilization of funds for affordable and workforce housing. Specifically the transactions will:

1. Relieve PDC of its obligation to fund an estimated \$4 million dollars in structural enhancements to support future projects planned above the entire parking garage proposed for Block 33 (the Parking Garage);
2. Remove a restrictive covenant that limits development in the air rights to affordable housing for those earning 0%-60% of median family income (MFI); and
3. Provide additional revenue to the URA from the sale of the Rights to fund the development of affordable and workforce housing elsewhere in the North Macadam URA.

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

Staff briefed the North Macadam Urban Renewal Advisory Committee (URAC) at its May 2009 meeting about the discussions between OHSU and PDC regarding the Agreement. The URAC did not raise any comments at the time. In addition, the final Agreement of Assignment and Assumption and the Ninth Amendment to the Central District Development Agreement were presented to the URAC at its August 13, 2009, meeting and were not met with any significant objections.

COMPLIANCE WITH ADOPTED PLANS AND POLICIES

The sale of the Rights will provide PDC with an additional \$3 million to implement goals of the North Macadam Urban Renewal Plan (the Plan) and the PDC Mission. In particular, the transactions contemplated by the Agreement will support the primary goal of the Plan, to render the URA as a viable employment and neighborhood center with necessary housing, infrastructure, transportation, and neighborhood-supportive businesses, amenities, and services. The transactions contemplated by the Agreement will also support specific goals of the Plan including revitalization of vacant and underutilized land, support of transit stations and existing adjacent neighborhoods.

FINANCIAL IMPACT

The transactions contemplated by the Agreement will result in OHSU providing to PDC \$1,000,000 in transportation SDC credits and up to twenty five percent (25%) of the net proceeds from the sale of the land to a third party by OHSU in the seven (7) years after

closing, up to a maximum of \$2,000,000. SDC credits can be used to pay transportation SDCs for projects in the City of Portland, making the credits marketable to a developer, or if sold below par, a potential subsidy source for future developments.

In addition, OHSU will refund to PDC the \$3,000,000 Parking Agreement Payment in two installments: \$1,500,000 at closing and the remaining balance of \$1,500,000 plus interest one year after closing. The Parking Agreement amount was established in the Eighth Amendment to the Central District Development Agreement.

The transaction will also eliminate PDC's obligations to contribute as much as an estimated \$4,000,000 for structural enhancements to a parking garage to accommodate development by OHSU of the Rights. This estimate was determined at the time of the Eighth Amendment in 2006.

This action will reduce the FY 2009-10 North Macadam budget by \$1,500,000. However, it will recapture \$1,500,000 in FY 2010-2011.

RISK ASSESSMENT

PDC may not be able to sell or convert the SDC credits for cash in a timely manner, despite success with similar transactions in the past. If unable to sell the credits at face value, PDC may need to sell them at a discount and may not be able to realize the full \$1,000,000 in value. However, PDC will be able to utilize the credits to subsidize any development elsewhere in the City as needed.

WORK LOAD IMPACT

Existing staff resources are available to undertake negotiation and finalization of the agreement and internal coordination without impacting other projects.

ALTERNATIVE ACTIONS

If this agreement and the Ninth Amendment are not executed, PDC and OHSU would still be required to fulfill the obligations set forth in the Eighth Amendment of the Central District Development Agreement. The obligations include construction of the Phase I Parking garage by OHSU with PDC structural enhancements of an estimated \$4 million, as well as PDC's continuing obligation to build affordable housing in the air rights above the garage at an undetermined future cost.

CONCURRENCE

The transactions contemplated by the Agreement have been reviewed by the North Macadam URA Team and the Urban Development Department leadership. The transactions contemplated by the Agreement were reviewed and approved by the Investment Committee on February 9, 2010.

BACKGROUND

The Eighth Amendment to the Central District Development Agreement approved by the PDC Board of Commissioners (the Board) on September 13, 2006 (Resolution No. 6389), included authorization to acquire the air rights for Block 33 from North Macadam Investors, LLC (NMI) for \$3 million. PDC purchased the air rights on December 5, 2006. OHSU retained ownership of Rights to the underlying land parcel for the development of the Parking Garage. Construction of the Parking Garage was originally scheduled for 2010.

Over the past two years, PDC has been coordinating predevelopment efforts with OHSU on the development of the Parking Garage to incorporate structural elements to support development of the air rights. PDC had planned on developing both building pads into a total of 400 units of affordable rental housing divided between two towers. However, increasing construction costs for developing high rise concrete and steel construction atop a complex multi-level parking structure will necessitate significant subsidy to reach targeted affordability levels. PDC is currently obligated to pay for structural enhancements estimated at approximately \$4,000,000 to the parking structure to accommodate the two towers in the air rights above.

For a variety of reasons, both parties recognized that they would not be able to fulfill the obligations of the Eighth Amendment and have chosen to work out the Agreement of Assignment and Assumption as well as the Ninth Amendment to the Central District Development Agreement. The currently contemplated agreement removes the obligation for PDC to construct improvements to the garage as well as build affordable housing in the air rights. In addition, OHSU is no longer obligated to construct the parking garage on the Block 33 site in the originally contemplated timeframe. To allow for the necessary changes, a Ninth Amendment to the Central District Development Agreement is required. The amendment will remove several of the obligations put in place by the Eighth Amendment and allow for the refunded monies to be better utilized elsewhere.

The \$3 million in proceeds from the refund of the parking payment for the Block 33 Rights can be more effectively used to deliver affordable and workforce housing elsewhere in the South Waterfront.

ATTACHMENTS:

- A. North Macadam URA Financial Summary
- B. Project Summary and Map

URA FINANCIAL SUMMARY

Financial Summary

Fund Summary - Five-Year Budget Projections

	Revised FY 2008-09	Adopted FY 2009-10	Forecast FY 2010-11	Forecast FY 2011-12	Forecast FY 2012-13	Forecast FY 2013-14
North Macadam URA						
Resources						
Beginning Fund Balance	2,448,633	210,307	558,724	884,025	1,577,298	1,005,398
Federal and Other Grants	0	0	0	0	0	0
Fees and Charges	290,402	298,526	306,880	315,472	0	0
Interest on Investments	50,000	50,000	50,000	50,000	0	0
Loan Collections	0	1,959,928	0	0	0	0
Miscellaneous	0	0	0	0	0	0
Property Income	0	3,000,000	5,400,000	0	0	0
Reimbursements	449,650	0	0	0	0	0
Tax Increment Proceeds	11,341,882	18,235,550	6,193,800	6,946,131	5,428,100	16,238,866
Total Resources	14,580,567	23,754,311	12,509,404	8,195,628	7,005,398	17,244,264
Requirements						
Program Expenditures						
Business & Industry						
Target Industries						
79020 Business Finance	1,505,000	700,000	700,000	378,500	350,000	980,000
Business & Industry Total	1,505,000	700,000	700,000	378,500	350,000	980,000
Housing						
Multi-Family - Rental Housing						
10543 Block 49 Affordable Rental Housing	4,000,000	16,800,000	0	0	0	0
10544 Block 33 Mixed Use Afford Rental Housing	0	0	0	0	0	0
89030 Affordable Rental Housing	0	0	998,268	1,650,000	1,500,000	4,200,000
Portland Housing Bureau						
28025 Administration	0	84,613	155,198	165,000	150,000	420,000
Housing Total	4,000,000	16,884,613	1,153,466	1,815,000	1,650,000	4,620,000
Infrastructure						
Parks						
10518 Central District Greenway Design And Construction	75,000	500,000	3,360,000	0	0	0
10536 Neighborhood Park Design and Construction	2,000,400	1,463,000	0	0	0	0
10540 New Initiatives - Parks and Greenway	0	0	0	757,000	700,000	1,960,000
Plans and Strategies - Infrastructure						
10511 Transportation Planning (Trans Sys Dev Strat-TSDS)	20,000	0	0	0	0	0
11081 Harbor Naito Plan/Redev	38,000	0	0	0	0	0
Transportation						
10532 Central District Infrastructure	2,444,020	0	0	0	0	0
10537 Gibbs Street Pedestrian Bridge	578,000	0	0	0	0	0
10541 New Initiatives - Transportation	0	0	0	2,649,500	2,450,000	6,860,000
Infrastructure Total	5,155,420	1,963,000	3,360,000	3,406,500	3,150,000	8,820,000

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						
10510 NMAC Implement Coord	80,000	50,000	50,000	50,000	0	0
10512 Central District Development Agreement	45,000	45,000	45,000	0	0	0
Redevelopment						
10523 North District Partnership	120,000	0	0	0	0	0
11060 RiverPlace Environmental Parcel 1 - The Strand	8,000	2,000	0	0	0	0
11062 RiverPlace Lot 8 Parcel Develop	0	40,000	0	0	0	0
11063 RiverPlace Lot 3 Redevelopment	0	80,000	10,000	0	0	0
11069 RiverPlace Lot Development Parcel 1 & General	1,500	0	0	0	0	0
Revitalization Operations						
11080 RiverPlace Property Management	10,000	10,000	10,000	15,000	0	0
Revitalization Total	264,500	227,000	115,000	65,000	0	0
Administration						
Finance						
98001 Debt Management	15,834	16,626	17,457	18,330	0	0
Administration Total	15,834	16,626	17,457	18,330	0	0
Total Program Expenditures	10,940,754	19,791,239	5,345,923	5,683,330	5,150,000	14,420,000
Personal Services	514,754	760,270	206,931	220,000	200,000	560,000
Debt Service	0	0	5,400,000	0	0	0
Indirect Cost	2,520,147	2,644,078	672,525	715,000	650,000	1,820,000
Total Fund Expenditures	13,975,655	23,195,587	11,625,379	6,618,330	6,000,000	16,800,000
Contingency	604,912	558,724	884,025	1,577,298	1,005,398	444,264
Ending Fund Balance	0	0	0	0	0	0
Total Requirements	14,580,567	23,754,311	12,509,404	8,195,628	7,005,398	17,244,264

PROJECT SUMMARY

- Project Name:** South Waterfront Block 33
- Description:** Assignment and Assumption of PDC’s Rights in Block 33
- Location:** 3516 SW Macadam, Portland, OR
- URA:** North Macadam URA
- Current Phase:** N/A
- Next Milestone:** Execution of Assignment and Assumption Agreement, Execution of Ninth Amendment to the Central District Development Agreement
- Completion Target:** March 2010
- Outcome:** Execution of Assignment and Assumption Agreement
Execution of Ninth Amendment to the Central District Development Agreement

Site/Project Map:

