

**DATE:** October 29, 2014  
**TO:** Board of Commissioners  
**FROM:** Patrick Quinton, Executive Director  
**SUBJECT:** Report Number 14-47  
Update on the Centennial Mills Project in the River District Urban Renewal Area

**BOARD ACTION REQUESTED**

No action is requested; information only.

**SUMMARY**

The purpose of this report is to provide an update to the Portland Development Commission (PDC) Board of Commissioners (Board) on the status of the Centennial Mills project in the River District Urban Renewal Area (URA), including proposed strategies for redevelopment, roles and responsibilities, and budget implications. In addition, staff requests guidance and direction from the PDC Board on priorities and next steps given that the scope of public investment associated with the currently-proposed site plan greatly exceeds the amount of resources PDC has budgeted for Centennial Mills. Staff would like to use the PDC Board work session to elicit feedback on two key questions:

1. What is the appropriate scale of public investment given budget availability and other River District URA projects?
2. What are PDC priorities or requirements tied to public investment at Centennial Mills?

**BACKGROUND AND PLANNING CONTEXT**

The PDC Board authorized the acquisition of the Centennial Mills site through Resolution No. 5397 on February 17, 2000, for open space redevelopment pursuant to recommendations of the 1995 River District Plan and the 1998 River District Urban Renewal Plan. However, the recommendation to demolish the complex was met with opposition and in May 2005 the Portland City Council (City Council) directed PDC and the Bureau of Planning & Sustainability (BPS) to halt demolition planning and develop a more comprehensive redevelopment plan. After a detailed public process, in fall of 2006 PDC and City Council approved the Centennial Mills Framework Plan (Framework Plan) that outlines five principles to direct the redevelopment:

- Include a signature riverfront open space;
- Capture 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.

Subsequent to a Request for Qualifications process that identified a development partner, PDC worked with LAB Holding, LLC (LAB), from 2008 to 2011 to complete schematic design work and pursue due

diligence tasks to retain the existing structures. After negotiations with LAB ended, PDC and Mayor Sam Adams renewed efforts in July 2011 to seek feasible development proposals that complied with the Framework Plan and the City of Portland's (City) Economic Development Strategy. The development team of Harsch Investment Properties (Harsch) was ultimately selected, per an evaluation committee's recommendation. After research on a wide range of development scenarios, site investigation, and cost estimating, Harsch has proposed a site plan that responds to the 2006 Framework Plan redevelopment principles but requires significantly more public investment than is currently budgeted. Should PDC and Harsch proceed according to schedule, staff anticipates drafting a Disposition and Development Agreement (DDA) that will be presented to the PDC Board for approval in early 2015.

### **SITE PLAN PROPOSAL**

On April 9, 2013, the PDC Board through Resolution No. 6998 authorized a \$350,000 predevelopment loan to Harsch for due diligence and schematic design. Since that time, Harsch has established a concept site plan and associated budget that illustrate the significant financial challenges that must be overcome in order to redevelop the site, including infrastructure improvements, soil stabilization, environmental remediation, and alignment with the Framework Plan objectives. Harsch considered and evaluated a wide range of concepts from a basic park to a very dense urban mixed-use development and has drafted a site plan that seeks to minimize public investment burden while maximizing private development potential. The proposal, included in Attachment A, includes:

- Retail: 24,000 square feet (SF)
- Historic Renovation/Reuse: 50,000 SF
- Multi-family residential: 120,000 SF
- Office: 80,000 SF

The concept site plan also includes public amenities such as a boat dock, greenway path, pedestrian bridge connecting to Fields Park, plazas, and an event center. These public amenities address many of the redevelopment principles described in the 2006 Framework Plan.

### **DEVELOPMENT CHALLENGES**

PDC staff and the Harsch team, in coordination with City bureau partners, are evaluating a number of development challenges in order to redevelop the Centennial Mills site. The property is 4.75 acres and includes over 600 feet of river frontage. The existing complex is a combination of 12 structures plus the outdoor paddock currently utilized by the Mounted Patrol Unit (MPU); see Attachment B for diagrams of the site. Considerations to be addressed include:

- Existing Conditions: Built in phases from 1910 – 1940, the majority of this 100-year old complex is in an extreme state of disrepair. The wharf is a particular subject of concern; many pilings that hold up the concrete foundation which overhangs the Willamette River have completely disintegrated. Additionally, there are multiple points of failure and partially collapsed areas throughout the structure. Staff at BPS has conducted a historic preservation analysis which indicated that the Flour Mill and Feed Mill buildings were considered the most iconic parts of the site. Harsch's redevelopment site plan calls for the preservation of a portion of the Centennial Mills complex, consistent with BPS's findings. Due to the advanced and rapid deterioration of the Flour Mill and Feed Mill roofs, PDC intends to release a request for bids to complete a limited scope of repairs as soon as possible.
- MPU Relocation: The MPU currently leases space in the complex and will need to vacate the premises prior to redevelopment. The Office of Management and Finance is currently leading relocation efforts with the Portland Police Bureau.

- Land Use Approvals: Redevelopment of the site will require Design Review Approval, Greenway Review Approval, and potentially other approvals depending on the preferred development scenario and implementation strategy.
- U.S. Army Corps of Engineers (COE) and Oregon Department of State Lands (DSL) Permits: A portion of the existing building stock was constructed upon a wharf that extends into the Willamette River. Based on existing conditions, if the wharf and underlying structure undergoes significant repairs, or is modified or removed, the work to the in-water structure likely requires a Section 404 removal/fill permit and a Section 10 permit from COE, and a State removal/fill permit from DSL. Permitted work within jurisdictional waterways (below ordinary high water) is typically limited to the in-water work window defined by the Oregon Department of Fish & Wildlife.
- Public Space Ownership and Programming: Conversations are on-going with Harsch and City partners regarding options for the ownership, maintenance, and programming of the greenway, plazas, pedestrian bridge, and other open spaces within the site.

### **ROLES AND RESPONSIBILITIES**

PDC and Harsch have conceptually agreed to a partnership structure that is similar to past district development agreements wherein PDC funds and manages the primary horizontal development components and the developer partner completes the vertical elements. This arrangement ensures that the public sector has control of the design, construction, and delivery schedule of the prerequisite site preparation as well as the public amenities. For example, Harsch would be responsible for restoring and renovating historic areas (Feed Mill and Flour Mill), and/or design and construction of new vertical development with associated parking requirements. The terms of these obligations will be outlined in the DDA. As with all of PDC-supported projects, the Equity Policy will apply. But because PDC envisions playing a far more active role in the development of this site than in typical redevelopments, and because the public expenditure is substantial, this project has the potential to greatly expand the breadth and depth of Portland's Minority/Women/Emerging Small Business (MWESB) contractors. PDC plans to generate separate MWESB goals for specific phases of the project (depending on the availability of qualified firms) and to meet or exceed the current PDC contracting threshold.

### **PUBLIC INVOLVEMENT AND TECHNICAL ADVISORS**

Project stakeholders have participated in the formation of the 2006 Framework Plan and the selection of the Harsch development team. Going forward, local and regional stakeholders will be engaged to provide input on public investment and public realm design priorities within the constraints of: 1) immediate work required due to building structural and safety conditions; 2) technical requirements related to permitting and other regulatory processes; and 3) scale of total public investment as directed by the PDC Board and other City decision makers. A number of tools will be deployed to seek broad participation including:

- Public Open Houses: A series of open houses will be held from fall 2014 to spring 2015, to be scheduled at key project milestones including the kick-off of schematic design and the completion of 30 percent and 60 percent schematic design. The forums will provide an opportunity to discuss project status and technical constraints, budget/cost updates, public realm elements, and design decisions within public investment limitations.
- Community Briefings: Staff will conduct community and individual briefings to groups such as neighborhood/business associations and PDC's other standing committees (i.e., Central City Budget Advisory Committee).
- Social Media: Current project updates (open house materials, etc.) will be posted on a regular basis to PDC's website. Staff will also pursue tools to allow people to gain knowledge and

provide feedback from across the city given the size of potential public investment and the regional role Centennial Mills could play.

Concurrently, staff will engage City bureau partners to proactively solicit technical input on the project given its complex nature. Regular technical advisory team meetings will be scheduled with appropriate subject matter experts to help inform schematic design and permitting efforts as the project proceeds.

**PROJECT COSTS AND RIVER DISTRICT URBAN RENEWAL AREA BUDGET**

The estimated total cost to implement the current proposed site plan is approximately \$115,700,000; based on a preliminary pro forma there is an estimated funding gap of \$38,500,000 as summarized below:

<b>Estimated total project costs</b>	<b>\$115,700,000</b>
Harsch investment in proposed commercial/residential	(\$64,200,000)
Harsch investment in proposed parking	(\$6,900,000)
Harsch contribution to Flour/Feed Mills renovation	(\$6,100,000)
<b>Funding Gap</b>	<b>\$38,500,000</b>

Table 1 details the estimated cost of the proposed public components. Given that PDC has budgeted \$16,213,713 for Centennial Mills, staff would like direction from the PDC Board on how to address the \$38,500,000 gap.

**Table 1. Proposed Public Components**

*\*Figures include soft costs*

<b>Compliance Projects</b>	<b>Cost*</b>	<b>Amenity Projects</b>	<b>Cost*</b>	
Selective Demolition	\$4,207,527	Feed Mill – Net of Harsch Contribution	\$1,023,546	
Environmental (\$2,000,000)	Inc in Soft Costs	Flour Mill – Net of Harsch Contribution	\$3,673,602	
Riverbank Restoration	\$2,070,076	Elevator-C Restoration		
Site Work	\$3,127,059	Event Center	\$1,965,262	
Greenway	\$2,384,518	Dock & Boat Slips	\$5,345,512	
Basement Lid	\$3,459,778	Pedestrian Bridge	\$4,199,686	
Hardscape & Plaza	\$2,293,722	Naito Street Improvements	\$2,657,086	
Contingency (5 percent of Costs)	\$877,134	Contingency (5 percent of Costs)	\$1,248,235	
Non-Optional Project Costs	\$18,419,814	Optional Projects	\$20,112,928	Total Est. Public Components \$38,532,742

Reduction of the project gap can be achieved by 1) reducing or eliminating public elements (identified as Amenity Projects, above); 2) reducing the amount of structured parking and commercial square footage; 3) replacing commercial square footage with residential square footage; or 4) some combination of 1, 2 and 3. In addition to the Amenity Projects, the table also itemizes necessary site preparation and code-required work (Compliance Projects). The table does not include the \$19,000,000 projected cost of preserving Elevator-C, which have been considered but is currently not contemplated in the concept plan.

PDC has currently allocated \$16,213,713 in the River District Adopted fiscal year (FY) 2014-15 and Forecast Budget for the redevelopment of the Centennial Mills site (see Attachment C). Under the adopted River District URA budget, an additional \$22,300,000 would need to be identified to fully fund the proposed concept site plan. To the extent the PDC Board seeks to identify additional resources within the River District URA budget to be reassigned to the Centennial Mills project, the largest sources of funding to other area priorities include:

- **Old Town/Chinatown Action Plan: \$52,000,000 budgeted primarily in the River District URA Commercial Property Redevelopment Loan line item.** In August of this year, following briefings to the PDC Board, City Council accepted the Old Town/Chinatown Five-Year Action Plan and authorized related modifications to the System Development Charge Exemption Program, via Ordinance No. 186744. The Ordinance references PDC's allocation of Tax Increment Finance resources for Old Town/Chinatown over five years to support the objectives of the Action Plan, to be funded by the River District and Downtown Waterfront Urban Renewal Areas.
- **U.S. Post Office: \$30,000,000 budgeted.** Relocation and acquisition of the U.S. Post Office has long been envisioned by the general public, elected officials, and adopted City plans due to the opportunity to redevelop a large, signature site in North Downtown to better knit together the fabric of the city and provide improved connections to Union Station and Old Town/Chinatown.
- **Union Station: \$14,000,000 budgeted, including \$5,700,000 for property management and \$8,400,000 for property improvements.** In March 2013, the PDC Board approved an Intergovernmental Agreement (IGA) with the Oregon Department of Transportation to provide match to a federal grant which is funding completion of preliminary engineering, design and environmental review for final phase improvements to the PDC-owned Union Station, including seismic/structural upgrades, American with Disabilities Act improvements, new mechanical systems, electrical service, fire detection and protection systems, and track and platform upgrades. This predevelopment work is anticipated to be completed by mid-2016 and will help PDC better identify the cost for final phase of improvements.
- **10th & Yamhill Garage: \$13,250,000 budgeted for improvements to the City-owned Smart Park Garage.** In 2010, per the Downtown Retail Strategy, PDC entered into a Memorandum of Understanding (MOU) for redevelopment of the 10th & Yamhill Smart Park Garage site and partnered with a development partner on predevelopment work through 2012. That MOU has since expired. In May 2011, City Council authorized an IGA between PDC and the Portland Bureau of Transportation for up to \$5,000,000 for the 10th & Yamhill garage improvements as part of the City's support of the State of Oregon's loan to SoloPower Inc. To date that loan guarantee has not been required by the State of Oregon.

## **PROJECT SCHEDULE**

The current project schedule envisions beginning permitting and design efforts in late 2014. Because of the complex nature of this permitting process, particularly for the in-water work, staff estimates demolition and site development will not commence until the spring/summer of 2016. Follow-on horizontal and infrastructure improvements to the site will be completed by the first quarter of 2017,

and vertical construction of the private development is projected to be complete by the third quarter of 2018.

**SUMMARY**

The Centennial Mills redevelopment, as described in this informational report, represents a series of key challenges and major opportunities. With such a wide-ranging number of issues to tackle, PDC staff respectfully requests direction from the PDC Board regarding project priorities, approach, and immediate steps.

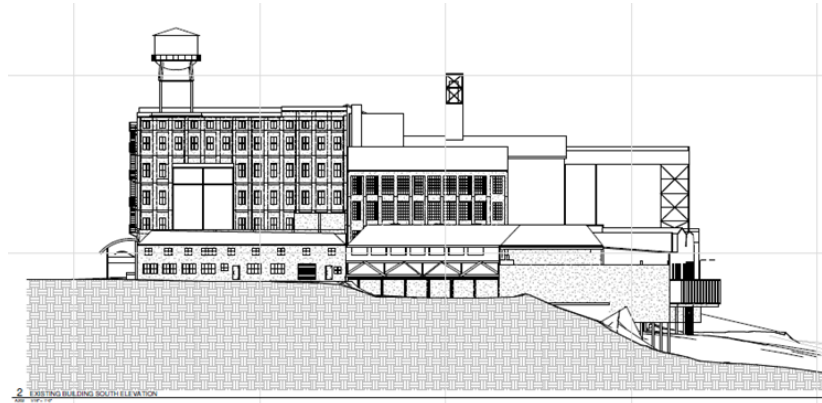
**ATTACHMENTS**

- A. Conceptual Site Plan
- B. Property Details
- C. River District URA FY 2014-2015 URA Budget





### Property Details





**River District URA FY 2014-2015 URA Budget**

**Five-Year Forecast Program Requirements Detail**

	Revised-3 FY 2013-14	Adopted FY 2014-15	Forecast FY 2015-16	Forecast FY 2016-17	Forecast FY 2017-18	Forecast FY 2018-19
<b>River District URA</b>						
<b>Resources</b>						
Beginning Fund Balance	38,290,152	24,128,634	911,920	1,901,504	18,448,618	6,227,963
Fees and Charges	23,000	935	10,961	1,124	2,737	1,910
Interest on Investments	200,000	0	0	0	0	0
Intergovernmental Revenues	1,790,946	1,322,413	1,322,413	0	0	0
Loan Collections	2,899,564	8,110,789	3,108,070	2,956,649	3,392,019	3,013,874
Long Term Debt	0	10,100,000	21,000,000	61,387,874	0	2,605,785
Property Income	3,367,147	2,110,930	1,593,440	1,593,440	1,593,440	1,593,440
Reimbursements	1,030,000	860,000	0	0	0	0
Short Term Debt	25,000,000	19,078,701	22,342,241	6,159,442	18,669,280	12,412,918
<b>Total Resources</b>	<b>72,600,809</b>	<b>65,712,402</b>	<b>50,289,045</b>	<b>74,000,033</b>	<b>42,106,094</b>	<b>25,855,890</b>
<b>Requirements</b>						
<b>Program Expenditures</b>						
<b>Administration</b>						
<b>Financial Administration</b>						
A45101330 Debt Management-RVD	52,000	65,000	65,000	65,000	65,000	65,000
<b>Total Administration</b>	<b>52,000</b>	<b>65,000</b>	<b>65,000</b>	<b>65,000</b>	<b>65,000</b>	<b>65,000</b>
<b>Business Development</b>						
<b>Business Lending</b>						
L00210330 BL -General-RIV	0	500,000	500,000	500,000	500,000	500,000
L02100330 BIF-General-RVD	301,000	0	0	0	0	0
L02110330 BIF-Cluster Group-Budget-RVD	500,000	0	0	0	0	0
<b>Small Business &amp; Community Dev</b>						
B55005330 OT/CT Action Plan-RVD	0	125,000	125,000	125,000	0	0
<b>Traded Sector Business Dev</b>						
T01069330 Lean Manufacturing-RVD	12,500	0	0	0	0	0
B15100330 Cluster Development-RVD	37,500	50,000	50,000	50,000	50,000	50,000
B55005330 OT/CT Action Plan-RVD	80,000	0	0	0	0	0
<b>Total Business Development</b>	<b>931,000</b>	<b>675,000</b>	<b>675,000</b>	<b>675,000</b>	<b>550,000</b>	<b>550,000</b>
<b>Housing</b>						
<b>PHB Housing</b>						
H15135330 The Medford-RVD	0	1,476,000	0	0	0	0
H15136330 Erickson-Fritz-RVD	0	5,894,702	0	0	0	0
H15137330 The Abigail-RVD	0	8,936,091	2,800,000	0	0	0
H15430330 Affordable Rental Hsg-RVD	0	850,000	4,751,409	7,200,000	2,500,000	1,200,000
H15900330 PHB Staff & Admin-RVD	689,077	818,911	1,140,081	819,756	753,533	1,228,468
H15930330 Fairfield Apartments-RVD	19,391	50,000	50,000	50,000	0	0
H15951330 Yards at Union Station-RVD	220,000	0	0	0	0	0
<b>Total Housing</b>	<b>928,468</b>	<b>18,025,704</b>	<b>8,741,490</b>	<b>8,069,756</b>	<b>3,253,533</b>	<b>2,428,468</b>
<b>Infrastructure</b>						
<b>Parks</b>						
N33011915 Norrid Prk(The Fields)-RVD-Adm	470,992	0	0	0	0	0
<b>Public Facilities</b>						
N33022015 Union Station Grant-RVD-Adm	1,650,017	1,725,017	1,653,017	3,500,500	0	0
<b>Transportation</b>						
N33033415 Pearl District Cir-RVD-Adm	395,700	1,779,465	0	0	0	0
<b>Total Infrastructure</b>	<b>2,516,709</b>	<b>3,504,482</b>	<b>1,653,017</b>	<b>3,500,500</b>	<b>0</b>	<b>0</b>
<b>Property Redevelopment</b>						
<b>Commercial Property Redevelopm</b>						

**Five-Year Forecast Program Requirements Detail**

	Revised- 3 FY 2013-14	Adopted FY 2014-15	Forecast FY 2015-16	Forecast FY 2016-17	Forecast FY 2017-18	Forecast FY 2018-19
P33050115 Dtn Retail Strat-RVD-Adm	195,000	30,000	30,000	30,000	0	0
P33060525 Station Place Lot 5-RVD-Adm	12,842	4,000	4,000	4,000	4,000	4,000
P33092015 Real Estate Mgmt-RVD-Adm	0	2,000	0	0	0	0
P33091015 Public Outreach-RVD-Adm	2,000	0	0	0	0	0
P33060815 Old Fire Station Mgmt-RVD-Adm	88,047	51,247	0	0	0	0
P33060715 One Waterfront North-RVD-Adm	4,187	7,187	7,187	7,187	7,187	7,187
P33060615 Block R-RVD-Adm	6,750	8,750	8,750	8,750	8,750	8,750
A45997330 Superfund-RVD	0	25,000	0	0	0	0
P33060535 Station Place Lot 7-RVD-Adm	28,149	0	0	0	0	0
P33050015 Post Office-RVD-Adm	500,000	500,000	0	10,000,000	10,000,000	9,000,000
<b>P33060415 Centennial Mills-RVD-Adm</b>	104,256	<b>1,143,713</b>	43,713	43,713	43,713	43,713
P33060315 Grove Hotel-RVD-Adm	44,499	43,037	37,237	37,237	37,237	37,237
<b>P33050415 Centennial Mills Rdv-RVD-Adm</b>	75,000	<b>1,070,000</b>	<b>14,000,000</b>	0	0	0
P33060115 Block Y-RVD-Adm	16,044	45,100	45,100	45,100	45,100	45,100
P33055115 Multnomah County-PDV-Adm	26,948,460	0	0	0	0	0
P33054315 RD Enviro-RVD-Adm	600,000	200,000	0	0	0	0
P33052815 PNCA Contract-RVD	135,000	0	0	0	0	0
P33052715 PNCA-RVD-Adm	22,000	0	0	0	0	0
P33052215 CC 2035-RVD-Adm	75,977	70,064	0	0	0	0
P33052115 10th & Yamhill Redev-RVD-Adm	0	0	3,250,000	10,000,000	0	0
P33060215 Union Station-RVD-Adm	1,917,805	1,258,889	1,108,889	1,108,889	1,108,889	1,108,889
P33060545 Station Place Prkng-RVD-Adm	260,855	261,320	248,820	248,820	248,820	248,820
<b>Commercial Real Estate Lending</b>						
R01100330 CPRL-General-RVD	7,903,000	30,720,000	9,350,000	12,000,000	11,000,000	2,000,000
<b>Community Redevelopment Grants</b>						
G01100330 CLG-General-RVD	0	100,000	0	0	0	0
G02100330 DOS-General-RVD	100,000	100,000	100,000	100,000	100,000	100,000
G03100330 SIP-General-RVD	300,000	300,000	300,000	300,000	300,000	300,000
<b>Total Property Redevelopment</b>	<b>39,239,871</b>	<b>35,940,107</b>	<b>28,533,496</b>	<b>33,933,496</b>	<b>22,903,496</b>	<b>12,903,496</b>
<b>Total Program Expenditures</b>	<b>43,668,048</b>	<b>58,210,293</b>	<b>39,668,003</b>	<b>46,243,752</b>	<b>26,772,029</b>	<b>15,946,964</b>
Personal Services	693,481	561,819	2,237,909	2,427,892	2,383,228	1,974,615
Transfers - Indirect	4,110,646	6,028,370	6,481,629	6,879,771	6,722,878	5,483,082
<b>Total Fund Expenditures</b>	<b>48,472,175</b>	<b>64,800,482</b>	<b>48,387,541</b>	<b>55,551,415</b>	<b>35,878,131</b>	<b>23,404,661</b>
Contingency	24,128,634	911,920	1,901,504	18,448,618	6,227,963	2,451,229
Ending Fund Balance	0	0	0	0	0	0
<b>Total Requirements</b>	<b>72,600,809</b>	<b>65,712,402</b>	<b>50,289,045</b>	<b>74,000,033</b>	<b>42,106,094</b>	<b>25,855,890</b>