

**DATE:** June 24, 2015  
**TO:** Board of Commissioners  
**FROM:** Patrick Quinton, Executive Director  
**SUBJECT:** Report Number 15-45

Approving the Terms of a Predevelopment Loan, a Disposition Agreement, and a Commercial Property Redevelopment Loan to Asian Health and Service Center, Inc., for Redevelopment of a Certain Property in the Lents Town Center Urban Renewal Area

**BOARD ACTION REQUESTED**

Adopt Resolution No. 7131

**ACTION DESCRIPTION**

The following three actions by the Portland Development Commission (PDC) Board of Commissioners (Board) will authorize the PDC Executive Director to negotiate and execute agreements for the development and disposition of PDC-owned property and financing in the Lents Town Center (Lents TC) Urban Renewal Area (URA) for a mixed-use project by:

1. Authorizing a Commercial Property Redevelopment Loan (Predevelopment Loan) of up to \$786,800 to Asian Health and Service Center, LLC (AHSC).
2. Authorizing the negotiation and execution of a Development and Disposition Agreement (DDA) with AHSC for the conveyance of 0.72 acres of real property located at 8931 SE Foster Road (the Property). Execution of the DDA is conditional upon terms that are in accord with the Summary of Terms and Conditions.
3. Authorizing a Commercial Property Redevelopment Loan (Development Loan) of up to \$3,050,000 to AHSC conditioned upon PDC review and approval of standard underwriting protocols.

The planned development (the Project) is the construction of a mixed-use build-to-suit facility on PDC-owned property. See an aerial and site photos in Attachment A. The Project will include community meeting space, AHSC office space, medical clinic space, as well as two market-rate commercial spaces. The plan also includes one level of parking, most or all of which is tuck-under and surface parking.

The AHSC Project is part of the first-phase of PDC's larger disposition and investment strategy in the Lents TC URA. At the June 24, 2015, meeting, the PDC Board will also be asked to approve actions moving two other major initiatives forward, both of them mixed-use redevelopment projects being proposed by Williams/Dame and Associates, Inc., and Palindrome Communities, LLC. PDC will still own significant, redevelopable sites in the Lents TC URA that will increase in value and appeal from the first-phase projects.

In aggregate, PDC staff is proposing to invest significant resources in these three first-phase projects and feel strongly that public funding is critical to leveraging private investment that will, collectively,

dramatically transform the Lents TC URA. Should all three projects be completed as currently contemplated, their mix of market rate and affordable housing, retail, office, and community space will help create the vibrant, mixed-use, active Lents TC that has long been a goal for Lents stakeholders, PDC, and the City of Portland (City).

Following are estimated milestones for the proposed AHSC Project:

DDA Terms Approved	June 2015
Predevelopment Loan Approval	June 2015
Due Diligence Reports Complete	August 2015
Schematic Design Complete	September 2015
Design Review Initiated	December 2015
DDA Executed	February 2016
Building Permit Received	November 2016
Closing	November 2016
Construction Complete	January 2018

### **BACKGROUND AND CONTEXT**

The Lents neighborhood is one of the largest, oldest, and most ethnically diverse communities in Portland. While the actions defined in the Lents TC URA Plan (1998) continue to be implemented, many of the hoped-for retail amenities, residential density, job growth, and private investment have yet to materialize. The \$90,000,000 of public investments in City infrastructure and facilities, redevelopment, business development, transportation, and affordable housing – along with the countless hours of dedicated public participation on advisory committees – have laid solid groundwork on which to realize this vision.

**Lents Town Center Five-Year Action Plan.** In May 2014, the Portland City Council adopted the Lents Town Center Five-Year Action Plan (Action Plan) which lays out a strategy for the next five years that focuses investments where they will have the most impact, ensures existing residents and businesses benefit, and takes some calculated risks. The Action Plan requires collaboration among public and private sectors as well as non-profit partners. It builds upon previous plans and efforts for this neighborhood, including the 1998 Lents TC URA Plan (amended 2008), the 2009 Lents TC Redevelopment Feasibility Study, the 2010 Lents Business District Strategy, and the 2011-13 Foster/Lents Integration Partnership. The proposed action is consistent with desired outcomes of all of these strategies.

**Lents Request for Information (RFI).** In an effort to advance Neighborhood Centers, Commercial Corridors, and Affordable Housing, all focal points of the Action Plan, PDC staff issued an RFI in October 2014 for the disposition and development of multiple PDC-owned parcels in the Lents TC URA. PDC received nine proposals and selected four in January 2015, including AHSC’s project proposal.

With the Lents TC URA sun setting in 2020, these requested PDC Board actions may serve as the final, critical push of activity in this district. A PDC conditional commitment at this time is also considered a

necessary step to induce financial participation on the part of other financial partners. While the real estate market in the Lents TC URA is improving, current lease rates do not adequately return capital sources required to fund new construction. Preliminary pro forma indicate that there is a significant gap in the economic and financial feasibility of the Project. AHSC would be exposing themselves to undue risk and probable losses if they were to proceed before there is certainty that PDC funding, including the permanent financing, will be available to fill that gap. PDC's role as gap financier is critical, and AHSC would be unable to proceed with the project in the Lents TC URA but for PDC's involvement. AHSC is unlikely to move forward with predevelopment work if feasibility remains a significant issue. Consequently, this set of actions is intended to demonstrate PDC's support, which will in turn provide certainty to AHSC and the Project.

Predevelopment Loan Terms & Conditions

Staff recommends that PDC fund all tax increment-eligible, pre-approved predevelopment expenses through a \$786,800 Predevelopment Loan. In the event that the Project is deemed unfeasible and does not move forward, the Predevelopment Loan would be forgiven.

Proposed Disposition and Development Terms & Conditions

Staff recommends that the PDC Board approve the negotiation and execution of a DDA, which will be subject to the review of PDC's General Counsel prior to execution.

Development Loan Terms & Conditions

PDC staff is also recommending conditional approval of a Development Loan for construction/permanent financing, which would give confidence to AHSC of PDC's commitment to a project which would otherwise not be feasible. If approved, PDC would provide a Development Loan in the amount of \$3,050,000. The Development Loan represents 30 percent of the total Project cost, which is anticipated to be approximately \$10,600,000. Additionally, AHSC expects to secure a \$1,970,000 senior commercial loan, \$3,600,000 of New Market Tax Credits, and other program related investments and credits, as well as contribute \$1,950,000 in capital campaign/equity.

<b>Capital Stack</b>	<b>Asian Health Service Center</b>
Senior Debt	\$1,970,000
PDC Loan	\$3,050,000
NMTC, other	\$3,638,000
Capital Campaign/ Equity	\$1,955,000
<b>Total</b>	<b>\$10,613,000</b>

The PDC Development Loan is conditioned upon PDC review and approval of standard underwriting protocols. The PDC Development Loan structure and underwriting will be reviewed by the PDC Financial Investment Committee and General Counsel prior to finalization. The Summary of Terms and Conditions include unique provisions for cash flow-dependent repayment of the PDC Development Loan.

### **COMMUNITY AND PUBLIC BENEFIT**

**Lents Town Center Five-Year Action Plan.** These actions would further multiple key objectives of the Action Plan, including stimulating development for the Lents TC URA and the construction and preservation of affordable housing.

**District Identity.** The Project will provide new services that increase the vitality of the Lents TC, complement existing businesses, align with the Lents Grown identity, and implement the Business District Development Strategy.

**Jobs.** The Project will provide temporary construction jobs and permanent commercial spaces for employment opportunities and new services in the Lents TC, in addition to adding residential households that support neighborhood businesses.

**Equity Goals.** AHSC will comply with PDC's Equity Policy requirements for participation of minority-owned, women-owned, and emerging small businesses and shall use apprentices and women, minorities, and disadvantaged individuals in the construction workforce, as provided by the Business and Workforce Equity Program requirements.

**Green Building.** AHSC will comply with PDC's Green Building Policy, which requires Leadership in Energy & Environmental Design Gold or Earth Advantage Gold certification.

**Prevailing Wage.** The Project shall be considered a "public work," subject to Oregon's Prevailing Wage Law (Oregon Revised Statutes 279C.800 to 279C.870 and the administrative rules adopted thereunder).

**Community Benefits.** AHSC will comply with a Community Benefits Agreement that details additional requirements in exchange for the requested public investment. These include equity-based programs to implement PDC's Equity Policy, specific measures designed to mitigate community impacts through public participation, and reducing temporary impacts caused by construction activities.

**Financial Return.** The Development Loan is structured to ensure that PDC is returned its investment after 40 years. The payment obligation shall be cash flow dependent, with 50 percent of the positive cash flow to be utilized to service the Development Loan.

### **PUBLIC PARTICIPATION AND FEEDBACK**

PDC employed an aggressive marketing campaign to generate public and developer interest in the RFI. Aside from the standard social media, website presence, and media release, PDC staff held two investor walking tours (open to the public) and an open house on November 5, 2014. In addition, PDC staff installed on-site advertisements, and conducted an online survey to test market ideas for needed neighborhood services.

PDC staff worked with a stakeholder evaluation committee to select the final proposals. The evaluation committee included City bureau partners from the Lents Action Plan – the Portland Housing Bureau and the Bureau of Planning and Sustainability – as well as four Lents community members (including representatives from the Neighborhood Economic Development Leadership Group, Lents Neighborhood Association, and Lents Grown) and the Mayor's Office. The committee's final recommendation was to enter into exclusive negotiations with four of the nine proposal teams. PDC staff has subsequently organized monthly "developer breakfast" meetings to inform local community stakeholder groups, as well as periodic updates to the Lents Neighborhood Association. Moving forward, AHSC will participate in a public feedback process coordinated by PDC, following approval of the Predevelopment Loan, including a public open house in fall 2015, and other community involvement.

### **BUDGET AND FINANCIAL INFORMATION**

The Lents TC URA fiscal year 2015-16 Adopted Budget and Five-Year Forecast currently includes adequate funds for these proposed actions (see Attachment B).

### **RISK ASSESSMENT**

Risks related to these PDC Board actions include:

1. **AHSC may terminate the transaction prior to closing.** There is a risk that AHSC, after completing due diligence funded entirely by PDC, will terminate the transaction. The ramification of this risk is potential loss of the Predevelopment Loan amount.
2. **AHSC may not secure other financing.** AHSC expects to secure additional funding in the form of loans, New Market Tax Credits, and grants. The ramification of this risk is potential failure to close.
3. **AHSC may fail to construct after conveyance of the Property.** PDC retains a right to repurchase the Property for the same sale price under such circumstances.
4. **Rents may not increase sufficiently to service the Development Loan or generate a cash flow return to PDC as scheduled or anticipated.** The Development Loan payments are cash flow dependent. This risk is partly mitigated by the second lien position on the property.

### **ALTERNATIVE ACTIONS**

The PDC Board may elect to specify alternative terms for any or all of the proposed authorizations or reject the proposal in its entirety and direct staff to discontinue the disposition process.

### **ATTACHMENTS**

- A. Aerial and Property Photos
- B. Lents TC URA 2015-16 Financial Summary

**Aerial and Property Photos**



View from Foster Rd looking north



**Lents TC URA Financial Summary**

**Five-Year Forecast Program Requirements**

	Revised- 3 FY 2014-15	Adopted FY 2015-16	Forecast FY 2016-17	Forecast FY 2017-18	Forecast FY 2018-19	Forecast FY 2019-20
<b>Lents Town Center URA</b>						
<b>Resources</b>						
Beginning Fund Balance	15,409,526	14,689,015	12,190,722	72,330	859,889	4,515,145
Fees and Charges	6,624	1,500	534	530	529	529
Interest on Investments	48,000	44,067	36,572	217	2,580	13,545
Loan Collections	440,000	492,687	133,062	133,061	133,062	246,596
Long Term Debt	0	0	3,300,000	15,500,000	0	27,291,301
Property Income	56,941	60,875	1,754,156	240,875	60,875	3,537,873
Reimbursements	4,273	80,200	80,200	80,200	80,200	80,200
Short Term Debt	8,991,000	9,990,000	9,990,000	10,989,000	10,989,000	3,163,169
<b>Total Resources</b>	<b>24,956,364</b>	<b>25,358,344</b>	<b>27,485,246</b>	<b>27,016,213</b>	<b>12,126,135</b>	<b>38,848,358</b>
<b>Requirements</b>						
<b>Program Expenditures</b>						
<b>Administration</b>						
<b>Financial Administration</b>						
A45101360 Debt Management-LTC	32,413	32,413	20,000	20,000	20,000	20,000
<b>Total Administration</b>	<b>32,413</b>	<b>32,413</b>	<b>20,000</b>	<b>20,000</b>	<b>20,000</b>	<b>20,000</b>
<b>Business Development</b>						
<b>Business Lending</b>						
L00210360 BL-General-LTC	250,000	700,100	700,100	700,100	700,100	700,100
L00200360 BL-Modifications-LTC	500	0	0	0	0	0
<b>Small Business &amp; Community Dev</b>						
B55800360 Business Development-LTC	10,000	20,000	20,000	20,000	20,000	20,000
B55900360 Community Development-LTC	50,000	50,000	50,000	50,000	50,000	50,000
<b>Traded Sector Business Dev</b>						
B15100360 Cluster Development-LTC	10,000	0	0	0	0	0
T01069360 Lean Manufacturing-LTC	30,000	30,000	30,000	30,000	30,000	30,000
<b>Total Business Development</b>	<b>350,500</b>	<b>800,100</b>	<b>800,100</b>	<b>800,100</b>	<b>800,100</b>	<b>800,100</b>
<b>Housing</b>						
<b>PHB Housing</b>						
H15410360 Home Repair Projects-LTC	226,003	500,000	500,000	500,000	500,000	500,000
H15420360 Home Buyer Assistance-LTC	591,241	500,000	500,000	500,000	500,000	500,000
H15430360 Affordable Rental Hsg-LTC	0	24,324	5,700,000	5,400,000	600,000	2,100,000
H15900360 PHB Staff & Admin-LTC	595,004	592,365	679,402	745,255	895,913	900,000
<b>Total Housing</b>	<b>1,412,248</b>	<b>1,616,689</b>	<b>7,379,402</b>	<b>7,145,255</b>	<b>2,495,913</b>	<b>4,000,000</b>
<b>Infrastructure</b>						
<b>Parks</b>						
N36011515 Walker Stadium-LTC	0	200,000	0	0	0	0
N36012515 Leach Botanical Grdns-LTC	270,000	1,770,000	0	0	0	0
<b>Transportation</b>						
N36031525 Foster-Woodstock-LTC-Adm	51,600	0	0	0	0	0
N36031535 122nd-Holgate/Ramona-LTC-Adm	950,000	0	0	0	0	0
N36031545 Foster-52nd to 82nd-LTC-Adm	100,000	640,000	1,200,000	0	0	0
N36032015 Lents Entryway-LTC-Adm	6,250	0	0	0	0	0
N36031415 Street/Sidewalks LID-LTC-Adm	60,000	0	0	0	0	0
<b>Total Infrastructure</b>	<b>1,437,850</b>	<b>2,610,000</b>	<b>1,200,000</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Property Redevelopment</b>						
<b>Commercial Property Redevelopm</b>						
P36060935 Metro Auto Bldg & Lot-LTC-Adm	7,709	4,709	4,709	4,709	4,709	4,709
P36092015 Real Estate Mgmt-LTC-Adm	23,579	23,479	22,679	22,679	2,000	2,000

### Five-Year Forecast Program Requirements

	Revised-3 FY 2014-15	Adopted FY 2015-16	Forecast FY 2016-17	Forecast FY 2017-18	Forecast FY 2018-19	Forecast FY 2019-20
P36061015... ArchictIronPrdctBldg-LTC-Adm	13,904	209,229	9,229	9,229	9,229	9,229
P36060925... MetroAuto Whlsl WLot-LTC-Adm	6,697	50,500	5,500	0	0	0
P36060615... LTC II Parking Lot-LTC-Adm	7,666	7,840	7,840	7,840	7,840	7,840
P36060335... Bakery Block-LTC-Adm	1,018,964	94,544	94,544	94,544	94,544	94,544
P36060325... Lents Little Lge Flid-LTC-Adm	4,375	4,375	4,375	4,375	4,375	4,375
P36055015... Foster Road Redev-LTC-Adm	20,000	0	0	0	0	0
P36050915... LTC Town Ctr Redev-LTC-Adm	100,000	100,000	100,000	50,000	50,000	50,000
P36050815... SE 92nd Redev-LTC-Adm	25,000	0	0	0	0	0
P36090015... Project Development-LTC-Adm	49,500	100,000	100,000	100,000	100,000	100,000
<b>Commercial Real Estate Lending</b>						
R01100360... CPRL-General-LTC	2,500,000	4,502,000	15,002,000	15,002,000	1,002,000	1,002,000
<b>Community Redevelopment Grants</b>						
G01100360... CLG-General-LTC	800,000	450,000	250,000	250,000	250,000	250,000
G02100360... DOS-General-LTC	75,000	75,000	75,000	75,000	75,000	75,000
G03100360... SIP-General-LTC	560,000	300,000	300,000	300,000	300,000	300,000
G04100360... GFGR-General-LTC	50,000	125,000	125,000	125,000	125,000	125,000
<b>Total Property Redevelopment</b>	<b>5,262,394</b>	<b>6,046,676</b>	<b>16,100,876</b>	<b>16,045,376</b>	<b>2,024,697</b>	<b>2,024,697</b>
<b>Total Program Expenditures</b>	<b>8,495,405</b>	<b>11,105,878</b>	<b>25,500,378</b>	<b>24,010,731</b>	<b>5,340,710</b>	<b>6,844,797</b>
Personal Services	407,292	561,370	385,556	404,834	425,075	446,329
Transfers - Indirect	1,364,652	1,500,374	1,526,982	1,740,759	1,845,205	1,789,849
<b>Total Fund Expenditures</b>	<b>10,267,349</b>	<b>13,167,622</b>	<b>27,412,916</b>	<b>26,156,324</b>	<b>7,610,990</b>	<b>9,080,975</b>
Contingency	14,689,015	12,190,722	72,330	859,889	4,515,145	29,767,383
Ending Fund Balance	0	0	0	0	0	0
<b>Total Requirements</b>	<b>24,956,364</b>	<b>25,358,344</b>	<b>27,485,246</b>	<b>27,016,213</b>	<b>12,126,135</b>	<b>38,848,358</b>