

DATE: December 16, 2015
TO: Board of Commissioners
FROM: Patrick Quinton, Executive Director
SUBJECT: Report Number 15-73

Authorizing the Ninth Amendment to the Development Agreement for Pioneer Place in the Downtown Waterfront Urban Renewal Area

BOARD ACTION REQUESTED

Adopt Resolution No. 7158

ACTION DESCRIPTION

This proposed action by the Portland Development Commission (PDC) Board of Commissioners (Board) will authorize the Ninth Amendment to the 1987 Amended and Restated Agreement for the Sale and Redevelopment of Land (1987 DDA) in the Downtown Waterfront Urban Renewal Area (URA), known as the Pioneer Place Project. If approved, the amendment would release General Growth Properties (GGP) from their remaining obligations to pay defined Participation Payments, in exchange for a cash payment of \$12,500,000 to PDC (Termination Payment). The Termination Payment represents a final milestone in an agreement which helped spur and anchor the development of downtown Portland's retail and office core.

BACKGROUND AND CONTEXT

This action will be the culmination of one of the most successful series of urban redevelopment projects in city history. In the late 1960s and early 1970s there was substantial civic concern about the deteriorating business and retail environment of downtown Portland. Employers, retail establishments, and residents were relocating to suburban locations. As a result, PDC entered into partnerships with private and public partners to invest in the Central City to revitalize the downtown core. As a result of these concerns and efforts, the four-lane Harbor Drive was demolished to make way for Tom McCall Waterfront Park, a newly constructed Transit Mall was constructed to support intermodal transportation, and Pioneer Courthouse Square and Pioneer Place were constructed.

The history of the Pioneer Place Project spans several decades. In response to direction from Portland City Council (City Council), in June 1981, PDC adopted an Action Plan for Downtown Retail Development. The Action Plan recommended a phased development program on three blocks, calling for the acquisition of Blocks 60 and 61 (bounded by SW Fourth and Fifth avenues and Taylor and Morrison streets) and Block 50 (located between SW Third and Fourth avenues and Morrison and Yamhill streets). Over the subsequent years, the Action Plan added Block 51 to the combined project. See Attachment A for a project map.

After a competitive solicitation process, in June of 1983, PDC selected the Rouse Company (Rouse) to be PDC's development partner. An initial Disposition and Development Agreement was signed in May

1984, but subsequent changes to the development plan and financing led to PDC and Rouse executing the 1987 DDA on May 13, 1987. The 1987 DDA has been subsequently amended eight times over the years and Rouse's rights under the 1987 DDA were assigned to Pioneer Place Limited Partnership (Pioneer Place LLC). Pioneer Place LLC is currently managed by GGP, a real estate investment trust headquartered in Chicago, Illinois.

The 1987 DDA set forth the terms and conditions for developing:

- Block 61 as a 135,000 square foot retail shopping center
- Block 60 as a 60,000 square foot retail facility on two levels, with an 18-story office tower
- Block 51 as a three-quarter block parking garage for public parking, with 14,000 square feet (SF) of retail at street level.

The proposed PDC Board action relates to remaining obligations under the 1987 DDA. Although not directly relevant to this PDC Board action, on May 30, 1996, PDC and Pioneer Place LLC entered into a separate disposition and development agreement for construction of 160,000 SF of retail development on the adjacent Block 50 (Block 50 DDA), including both an underground concourse and sky bridge connecting to the Block 61 shopping center. That agreement is not affected by the proposed PDC Board action.

A series of grand openings for Pioneer Place began in December of 1989, culminating with the large public opening of the retail pavilion on March 29, 1990. A study published by the Urban Land Institute in 1995 concluded "(the Pioneer Place project's) impact on neighboring blocks is evident in building renovations and a marked increase in the number of high-quality storefronts and tenants (and has served) as a catalyst for revitalization."

As part of the 1987 DDA, PDC acquired parcels 60 and 61 and transferred the blocks to Rouse. In exchange, the 1987 DDA gave PDC the right to receive the following four Participation Payments:

1. Net cash flow payments. The right to receive a portion of net cash flow payments is contained in 19 pages of complex definitions. Pioneer Place LLC is required to provide PDC with annual and quarterly accounting statements to determine if net cash flow payments are required. Applying the formula did not result in any net cash flow payments being due to PDC during the first 25 years of operation. PDC received its first net cash flow Participation Payment in 2014 in the amount of \$193,562.
2. Net proceeds of additional financing. If Pioneer Place LLC obtains additional financing, PDC is entitled to a portion of the net proceeds under a complex formula. To date, no additional financing by Pioneer Place LLC has triggered the requirement of payments to PDC under these provisions.
3. Refinancing proceeds. If Pioneer Place LLC refinances the properties, and the previous provisions do not apply, PDC is entitled to a portion of the net refinance proceeds under a complex formula. To date, no refinancing proceeds payments have been required to be made to PDC under these provisions.
4. Net sale proceeds. If the property is sold, PDC is entitled to a portion of the net proceeds of sale, under a detailed formula. The property has not been sold to date, and no payments have been made under these provisions.

PDC's right to receive Participation Payments is extinguished in any the following three scenarios:

1. If prior to December 31, 2001, PDC elects to accept a cash payment of \$7,400,000 in repayment of the land value.
2. The property is sold and PDC receives its Participation Payment of net sale proceeds.
3. Pioneer Place LLC makes an election after 2025 to pay to PDC a defined payment of 10 percent of the "residual value" of the project.

In a separate transaction with the City of Portland (City), PDC transferred various rights and obligations related to the adjacent Block 51 (including the parking garage) to the City. The City and PDC have agreed that if PDC receives a Termination Payment, the City shall be entitled to 9.1 percent of this amount.

Given the complexity of applying the defined Participation Payments to given circumstances, and the fact that they act as restrictive covenants on the Property, GGP has found it challenging to recapitalize, restructure, or sell the project. On September 9, 2014, GGP sent PDC a formal offer for release of the 1987 DDA participation obligations by paying a one-time Termination Payment. PDC staff commenced due diligence and dialogue with GGP and commissioned a third-party independent appraisal to identify the present value of the various participation payment provisions contained in the 1987 DDA. On September 18, 2015, Colliers International provided an appraisal to PDC determining the value of the Termination Payment to be between \$10,900,000 and \$13,140,000. PDC staff subsequently negotiated a final Termination Payment of \$12,500,000 with GGP.

By this action, the PDC Board will be approving the amendment of the 1987 DDA to terminate the above described obligations to make Participation Payments in exchange for the Termination Payment of \$12,500,000. The action will also direct the Executive Director to pay \$7,400,000 to the Downtown Waterfront URA fund (the land value determined by the PDC Board in the 1987 DDA), \$1,137,500 to the City for their share of the Termination Payment payoff, and \$3,962,500 to PDC's Business Management Fund.

COMMUNITY AND PUBLIC BENEFIT

This action is the final chapter for an urban renewal project that has become one of the most successful redevelopment projects in the history of Portland's Central City. Both PDC's and Rouse's contributions to this four-block area have become the cornerstone of a vibrant retail core that has prevailed through multiple economic recessions. Furthermore, if approved, this transaction will provide significant financial resources for PDC to invest in the Downtown Waterfront URA, specifically initiatives and investments called for in the Old Town/Chinatown Action Plan.

PUBLIC PARTICIPATION AND FEEDBACK

There has been no formal public participation related to this proposed action. However, the initial program for both phases of development and the 1987 DDA and Block 50 DDA approvals included significant public outreach, including actions by City Council and the PDC Board. Both DDAs were products of the 1972 Downtown Plan and 1988 Central City Plan, remarkable for their unprecedented levels of local public involvement.

BUDGET AND FINANCIAL INFORMATION

If this action is approved, PDC will allocate \$7,400,000 in Termination Payment revenue to the fiscal year (FY) 2015-16 Downtown Waterfront URA Requested Budget and Five Year Forecast; \$3,962,500 to the Business Management Fund; and \$1,137,500 to the City General Fund. PDC staff will request that the PDC Board amend the FY 2015-16 PDC Adopted Budget in spring 2016 to acknowledge this revenue (see Attachment B for the URA Financial Summary).

RISK ASSESSMENT

There is no way to accurately predict the actual amount of Participation Payments PDC might receive in the future. Future performance and/or sale of the property could result in a higher or lower return to PDC than the proposed Termination Payment. Nonetheless, PDC staff believes the third party appraisal provides a reasonable estimate to guide this proposed action.

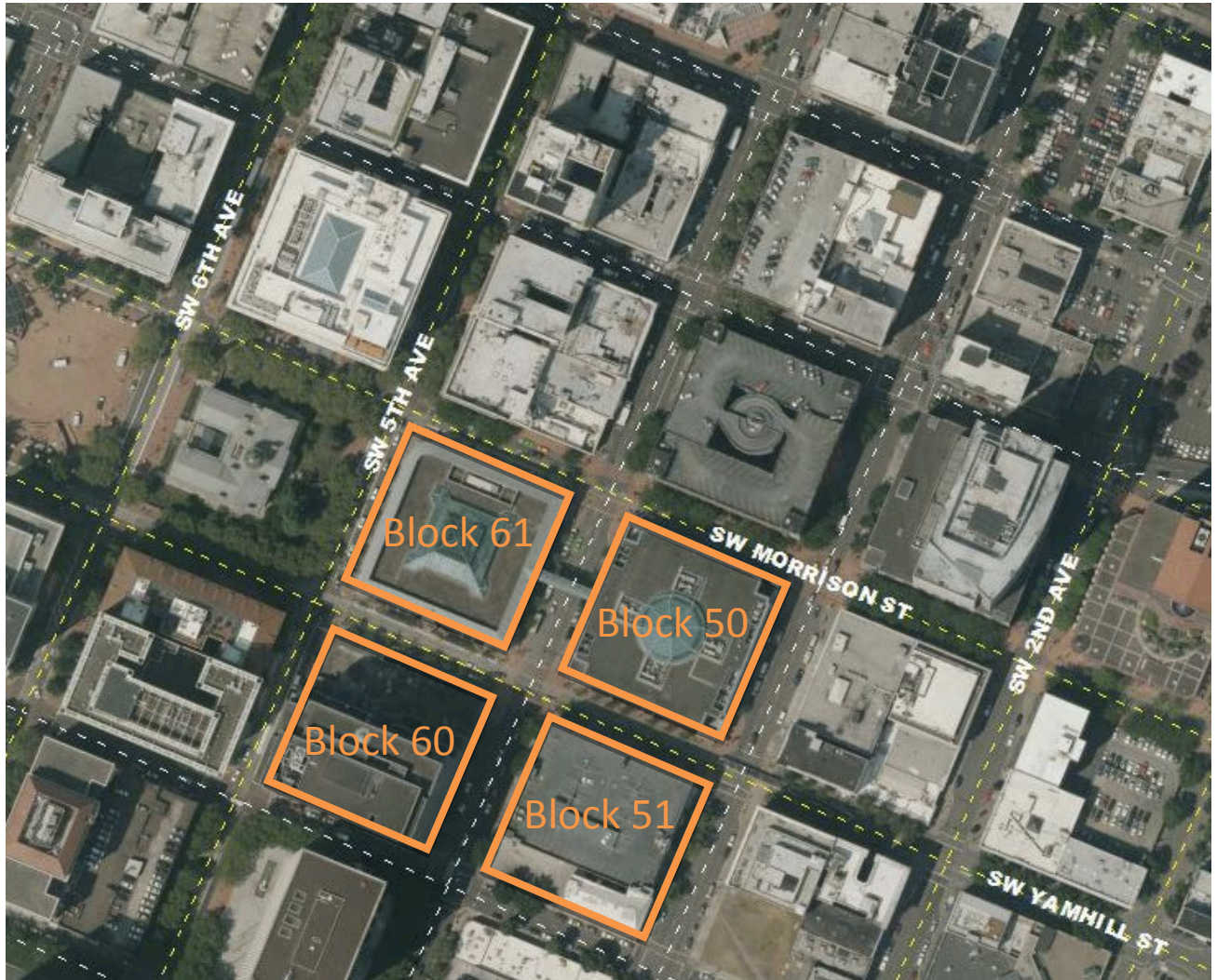
ALTERNATIVE ACTIONS

The PDC Board could choose to not approve the release of the 1987 DDA covenants and continue to receive potential Participation Payments until 2025.

ATTACHMENTS

- A. Site Map
- B. URA Financial Summary

Site Map



URA Financial Summary

Five-Year Forecast Program Requirements Detail

	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
<u>Downtown Waterfront URA</u>						
Resources						
Beginning Fund Balance	14,416,731	16,397,236	11,035,759	7,875,605	8,291,581	5,646,146
Fees and Charges	250	6,000	2,800	2,800	2,800	2,800
Interest on Investments	60,000	30,000	10,000	10,000	0	0
Loan Collections	2,294,229	321,487	2,275,437	3,296,476	289,382	29,226
Property Income	2,734,764	2,490,035	2,571,510	69,885	68,260	66,635
Reimbursements	15,200	15,200	15,200	15,200	15,200	15,200
Total Resources	19,521,174	19,259,958	15,910,706	11,269,966	8,667,223	5,760,007
Requirements						
Program Expenditures						
Administration						
Financial Administration						
A45101320 Debt Management-DTW	4,501	4,501	8,000	8,000	8,000	8,000
Total Administration	4,501	4,501	8,000	8,000	8,000	8,000
Business Development						
Business Lending						
L00210320 BL -General-DTW	100,000	100,100	100,100	100,100	100,100	100,100
Small Business & Community Dev						
B55005320 OT/CT Action Plan-DTW	75,000	65,000	65,000	0	0	0
Total Business Development	175,000	165,100	165,100	100,100	100,100	100,100
Housing						
PHB Housing						
H15430320 Affordable Rental Hsg-DTW	0	1,717,345	254,565	0	0	0
Total Housing	0	1,717,345	254,565	0	0	0
Infrastructure						
Parks						
N32010015 Chinese Garden-DTW	0	638,000	0	0	0	0
Transportation						
N32030015 Dtn Retail Infra-DTW-Adm	0	500,000	1,500,000	0	0	0
Total Infrastructure	0	1,138,000	1,500,000	0	0	0
Property Redevelopment						
Commercial Property Redevelopm						
P32053635 Old Town Lofts-Prkng-DTW-Adm	29,948	10,045	10,045	10,045	10,045	10,045
P32053625 Old Town Lofts-Accel	337,707	31,800	31,800	31,800	31,800	31,800
P32056515 RiverPlace Marina-DTW-Adm	20,000	15,200	15,200	15,200	15,200	15,200
P32060115 Block 8 - L-DTW-Adm	1,014,688	0	0	0	0	0
P32060415 SW 3rd & Taylor Lot-DTW-Adm	19,100	0	0	0	0	0
P32060515 One Waterfront South-DTW-Adm	8,960	4,600	4,600	0	0	0
P32060615 SW 3rd & Oak-DTW-Adm	78,015	73,432	2,873,432	0	0	0
P32052215 CC 2035-DTW-Adm	9,186	0	0	0	0	0
Commercial Real Estate Lending						
R01100320 CPRL-General-DTW	100,000	3,951,000	2,001,000	2,001,000	2,001,000	1,000
Community Redevelopment Grants						
G01100320 CLG-General -DTW	111,000	100,000	100,000	100,000	100,000	100,000
G02100320 DOS-General-DTW	100,000	50,000	50,000	50,000	50,000	50,000
G03100320 SIP-General-DTW	373,000	200,000	200,000	200,000	200,000	200,000
Total Property Redevelopment	2,201,604	4,436,077	5,286,077	2,408,045	2,408,045	408,045
Total Program Expenditures	2,381,105	7,461,023	7,213,742	2,516,145	2,516,145	516,145

Five-Year Forecast Program Requirements Detail

	Revised- 3	Adopted	Forecast	Forecast	Forecast	Forecast
	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20
Personal Services	173,786	201,529	249,752	262,240	275,352	289,119
Transfers - Indirect	569,047	561,647	571,607	200,000	229,580	272,684
Total Fund Expenditures	3,123,938	8,224,199	8,035,101	2,978,385	3,021,077	1,077,948
Contingency	16,397,236	11,035,759	7,875,605	8,291,581	5,646,146	4,682,059
Ending Fund Balance	0	0	0	0	0	0
Total Requirements	19,521,174	19,259,958	15,910,706	11,269,966	8,667,223	5,760,007