



DATE: February 10, 2016
TO: Board of Commissioners
FROM: Patrick Quinton, Executive Director
SUBJECT: Report Number 16-08

Authorizing the Terms for a Parking Structure Development Agreement with Mortenson Development for the Design and Construction of the Convention Center Hotel Parking Garage; Authorizing the Terms for an Easement Agreement with Hyatt Corporation for the Use of the Convention Center Hotel Parking Garage; Authorizing the Terms for a Parking Operations and Valet Services Management Agreement with Hyatt Corporation for the Design and Construction of the Convention Center Hotel Garage

BOARD ACTION REQUESTED

Adopt Resolution No. 7165, 7166, and 7167.

ACTION DESCRIPTION

This set of actions by the Portland Development Commission (PDC) Board of Commissioners (Board) will authorize the terms for the development, use, and operations of a parking garage (Parking Garage) on a 0.88-acre PDC-owned property at the corner of NE 1st Avenue and NE Holladay Street (Block 49) in the Oregon Convention Center Urban Renewal Area (URA) (see site map in Attachment A). When constructed, the 425-stall PDC-owned Parking Garage will provide several public objectives, by i) supporting the yet-to-be-built 600-room Convention Center Hotel (Hotel) by providing required parking facilities, ii) creating a long-term revenue stream to PDC in the form of valet and other parking income, and iii) providing ground floor space and parking to TriMet for critical agency operations.

BACKGROUND AND CONTEXT

The Oregon Convention Center URA was formed in 1989 with the primary URA Plan goal of establishing “at least one headquarters hotel in the immediate vicinity of the Oregon Convention Center to capitalize on the convention center’s capacity.” Between 1991 and 2004, the PDC Board authorized acquisition of multiple properties as initial steps towards supporting development of a Convention Center hotel; this included acquisition of Block 49 and other properties in 1991 for a total of \$1,718,895.

Since 2004, PDC has partnered with Metro – owners and operators of the Oregon Convention Center – to pursue efforts to build a hotel in support of the Oregon Convention Center URA Plan and the region. More recently, in May 2012, Metro issued a Request for Proposals (RFP) for a privately-owned 600-room Convention Center hotel on properties adjacent to the Oregon Convention Center as potential sites for hotel development. Prior to the RFP release, the PDC Board expressed support for Metro’s RFP for a Convention Center hotel and, through Resolution No. 6942, authorized the Executive Director to enter into direct negotiations with the selected developer. As part of this action, PDC indicated a potential commitment to support hotel development for \$4,000,000 in Oregon Convention Center URA resources

(financing terms and conditions to be determined) as well as the value of PDC property (financing terms and conditions to be determined). Through the RFP process, Metro ultimately selected Mortenson Development (Mortenson), with local developer StarTerra LLC, for the hotel development, with the PDC Board approving Metro's selection through Resolution No. 6964 in September 2012.

In June 2014, Metro Council approved a final development agreement with Mortenson for the hotel development, allowing the project to proceed to the design and pre-construction planning phase. In August 2014, the PDC Board, through Resolution No. 7072, authorized the sale of PDC-owned property, Block 47, to the east of the identified hotel site for integration into the hotel design and development, to Mortenson for \$1,300,000. With commencement of design, PDC also entered into discussions with Mortenson and Metro regarding placement of the Parking Garage on Block 49.

In March 2015, PDC entered into a pre-development services agreement with Mortenson in the amount of \$300,000 for the design development of the Parking Garage. Mortenson has completed this scope of work and the funds have been fully expended. Conceptual renderings as submitted for City Design Advice Review are included as Attachment B.

Most recently, in January 2016, Metro announced settlement of certain legal disputes and their intention to move forward with hotel development and financing. The three agreements proposed to the PDC Board for approval, together with additional Parking Garage design, must be undertaken shortly in order for Metro and Mortenson to meet a hotel completion date of January 2019. Upon completion, Mortenson intends to sell the Hotel to Hyatt Corporation (Hyatt), which will ultimately manage the Hotel.

The Parking Garage will have approximately 425 stalls, 375 of which will be dedicated to the 600-room Hotel. The balance of the 50 parking stalls, along with other ground floor commercial space, will be sold to TriMet, which has long desired to own a facility adjacent to the Rose Quarter Transit Center; the sale of a portion of the Parking Garage to TriMet will be brought to the PDC Board at a later date. In addition, the Parking Garage will be constructed to support additional vertical square footage development, should PDC elect to exercise air rights development in the future. Construction of the Parking Garage is scheduled to begin in January 2017, with completion by January 2019, commensurate with the opening of the Hotel.

The three proposed actions (Agreements) before the PDC Board at its February 10, 2016, meeting pertain to the construction, use, maintenance, and operations of the Parking Garage. The Agreements are as follows:

Parking Structure Development Agreement between Mortenson and PDC. This is the primary contract under which Mortenson agrees to design, develop, permit, entitle, construct, and complete the Parking Garage. Exhibit A to Resolution No. 7165 provides the significant terms and conditions of the Parking Structure Development Agreement; the most notable are:

- Current estimated project cost is not to exceed \$25,895,836 which includes a \$1,188,391 design build contingency. The TriMet sale will reduce PDC's cost by approximately \$7,000,000 to \$8,000,000 resulting in a net cost to PDC of between \$17,895,836 and \$18,895,836.
- From the estimated \$25,895,836, approximately \$1,400,000 of design and preconstruction costs will be incurred prior to the determination of a final Parking Garage cost and Lump Sum Amount Mortenson will charge.
- Given the critical need for the hotel and Parking Garage to maintain a coordinated construction schedule, the full amount of construction funds will be funded into escrow prior to the start of construction.

Easement Agreement between PDC and Hyatt. Exhibit A to Resolution No. 7166 provides the significant terms and conditions of the Easement Agreement; the most notable are:

- Hyatt grants to PDC the parking entitlements required to build the Parking Garage.
- PDC grants to Hyatt the right to use 375 stalls on a first priority basis.
- PDC requires Hyatt to provide valet services for the hotel at rates comparable to other valet hotel services in the market.

Parking Operation and Valet Services Management Agreement between PDC and Hyatt. This agreement provides for the Parking Garage operations and management. At stabilization in 2020, the Parking Garage Net Operating Income is estimated at approximately \$1,800,000 with annual cash flow after debt service of approximately \$500,000. Exhibit A to Resolution No. 7167 provides the significant terms and conditions of the Parking Operation and Valet Services Management Agreement; the most notable are:

- Subject to PDC approval, Hyatt may assign the agreement to a third-party contractor.
- PDC, as Parking Garage owner, shall receive all Parking Garage income, including valet charges for hotel guests, after expenses and Parking Garage management fees.

If this set of actions is approved, several conditions as outlined in the respective term sheets will be met prior to executing the Agreements, including:

- Mortenson will have a fully executed contract with Hyatt.
- Confirmation that the required full construction funds for the hotel and Parking Garage have been placed in escrow.
- PDC will have completed a third-party review of Mortenson's construction estimate and schedule.
- PDC will have a fully executed contract with TriMet.
- PDC will have written confirmation of availability of permanent financing upon project stabilization in order for Oregon Convention Center URA funds to be returned to the district for additional projects.

COMMUNITY AND PUBLIC BENEFIT

Public benefits include:

- The primary function of the Parking Garage will be to serve out-of-town lodgers of the hotel and will advance the long-desired goal of building a quality headquarters hotel adjacent to the Oregon Convention Center to increase the amount of conventions hosted in Portland.
- The Parking Garage is critical to realizing the primary goal of the Oregon Convention Center URA Plan – to maximize the Oregon Convention Center's capacity, increase its vitality, and add significant economic activity to the city and the region.
- Developing the Parking Garage in concert with the hotel provides the opportunity for enhanced urban design in the Lloyd District along NE Holladay Street and improved connection between the Oregon Convention Center and the Rose Quarter area.

PDC's Business and Workforce Equity Policy will apply to the design and construction of the garage, in addition to the Green Building Policy.

PUBLIC PARTICIPATION AND FEEDBACK

Significant public outreach and discussion has occurred throughout the various discussions regarding development of a Convention Center Hotel – led both by PDC and Metro. Development of the Hotel continues to be a top priority of Lloyd District stakeholders. Most recently, the PDC Central City Budget

Advisory Committee advocated for allocating Oregon Convention Center URA resources towards the Parking Garage understanding its critical role to the development of the hotel. Both Lloyd District stakeholders and the broader Central City Budget Advisory Committee are supportive of PDC pursuing the Parking Garage with the following comments and conditions:

- PDC will own and operate the Parking Garage for the benefit of the hotel and to provide ongoing resources to PDC that help meet long-term financial sustainability goals.
- The Parking Garage will be refinanced upon completion of construction and all refinancing resources and/or land sales related to air rights or other property rights would be available to the Oregon Convention Center URA within the five-year forecast.
- Resources returned upon Parking Garage completion and refinancing should be prioritized for remaining redevelopment priorities along NE Broadway – particularly at the bridgehead – and as part of a broader Rose Quarter redevelopment approach.

BUDGET AND FINANCIAL INFORMATION

The Oregon Convention Center URA Fiscal Year (FY) 2015-2016 Revised Budget and Five-year Forecast currently includes funds budgeted available for the Parking Garage under the Project Development. PDC's FY 2016-17 Requested Budget, which has not yet been approved by the PDC Board or Portland City Council, recognizes moving these resources from FY 2015-16 to FY 2016-17 and to a specific Hotel Parking Garage line item (see Attachment C).

As currently estimated, PDC will disburse \$1,200,000 in the current FY 2015-16 for design costs and the remaining project amount in FY 2016-17 for construction. To construct the Parking Garage as an asset not restricted by tax increment financing, PDC staff will recommend to the PDC Board the authorization of an interfund loan(s) from the Oregon Convention Center URA Fund to the Business Management Fund for PDC's cost of designing and constructing the Parking Garage. A separate interfund loan for the value of the land may be requested as well. The interfund loan(s) will be repaid with the value of TriMet's participation and future proceeds from the Parking Garage. The initial interfund loan between the Oregon Convention Center Fund and the Business Management Fund for the value of the land and the initial \$1,200,000 in design costs will be requested at the March 9, 2016, PDC Board meeting along with a requested amendment to the FY 2015-16 Revised 2 Budget. The interfund loan required for construction occurring in FY 2016-17 will be requested at a later date along with future adjustments to the FY 2016-17 Requested Budget. The FY 2016-17 Requested Budget for the Business Management Fund will also need to be adjusted to include TriMet's participation. Estimated timing of repayment of the interfund loan(s) will be included in future versions of the FY 2016-17 Requested Budget and Five-Year Forecast for the Business Management Fund and Oregon Convention Center Fund.

RISK ASSESSMENT

If these actions are approved by the PDC Board, there are several risks:

- Approximately \$1,200,000 will be incurred to complete the Parking Garage design, entitlements, and construction drawings. Assuming all other conditions as outlined in the Agreements have been met, Mortenson will provide to PDC a Lump Sum Contract Price for the Parking Garage construction. If the Lump Sum Contract Price is below the initial estimate, the Parking Garage construction will move forward and Mortenson will guaranty construction costs and schedule at the Lump Sum Contract Price.
- If a final agreement with TriMet for the sale of the ground floor area and parking stalls is not reached, there are not enough budgeted funds in the Oregon Convention Center URA for construction of the Parking Garage.

- If the Parking Garage does not move forward, it is unlikely that the Hotel would move forward. Without the Parking Garage, the Hotel would require a substantial redesign and additional financial resources to fund the required below-grade parking.
- In the event that permanent financing is unavailable, the planned return to the Oregon Convention Center URA would be limited to the Net Operating Income of the Parking Garage, which is currently projected at \$1,799,603 per year.

ALTERNATIVE ACTIONS

The PDC Board could decide to:

- Direct PDC staff to incorporate new terms and/or conditions into the respective terms and conditions.
- Direct PDC staff to renegotiate specific terms and conditions.
- Reject any or all of the proposed Agreements.

ATTACHMENTS

- A. Site Map
- B. Initial Design Documents
- C. Oregon Convention Center URA Financial Summary – Requested FY 2016-17 Budget

SITE MAP



INITIAL DESIGN DOCUMENTS



esc
ethers swanson graham architects inc.
December 2, 2015

Mortenson
CONSTRUCTION

DRAFT

THE HYATT REGENCY OREGON CONVENTION CENTER
AND BLOCK 49 DEVELOPMENT

Land Use Review #LU 14-194555 H/DZX
PERSPECTIVE
Intersection of NE 2nd & Holladay

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esc
ethers swanson graham architects inc.
December 2, 2015

Mortenson
CONSTRUCTION

DRAFT

THE HYATT REGENCY OREGON CONVENTION CENTER
AND BLOCK 49 DEVELOPMENT

Land Use Review #LU 14-194555 H/DZX
PERSPECTIVE
Looking East from Freeway at Holladay

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OREGON CONVENTION CENTER URA FINANCIAL SUMMARY – REQUESTED FY 2016-17 BUDGET

Financial Summary

Fund Summary - Five-Year Budget Projections

	Revised FY 2015-16	Requested FY 2016-17	Forecast FY 2017-18	Forecast FY 2018-19	Forecast FY 2019-20	Forecast FY 2020-21
Convention Center URA Fund						
Resources						
Beginning Fund Balance	41,116,424	30,053,552	8,691,203	6,539,685	7,400,044	8,005,191
Fees and Charges	1,500	1,931	200	800	500	800
Interest on Investments	30,000	10,000	10,000	5,000	0	0
Loan Collections	292,735	342,114	421,823	1,183,500	834,036	699,347
Property Income	5,217,290	3,317,290	3,937,290	9,017,290	15,017,290	2,017,290
Total Resources	46,657,949	33,724,887	13,060,516	16,746,275	23,251,870	10,722,628
Requirements						
Program Expenditures						
Administration						
Financial Administration						
A45101350-Debt Management-CNV	11,795	30,045	30,045	30,045	30,045	30,045
Administration Total	11,795	30,045	30,045	30,045	30,045	30,045
Business Development						
Business Lending						
L00210350-BL -General-CNV	40,100	110,110	110,000	150,150	150,000	150,150
Business Development Total	40,100	110,110	110,000	150,150	150,000	150,150
Housing						
PHB Housing						
H15430350-Affordable Housing-CNV	6,140,000	1,710,000	4,000,000	0	0	0
Housing Total	6,140,000	1,710,000	4,000,000	0	0	0
Property Redevelopment						
Commercial Property Redevelopment						
P35050515-Eco District-CNV-Adm	2,500	2,500	2,500	2,500	0	0
P35050715-ConventionCenter Hotel-CNV-Adm	4,000,000	0	0	0	0	0
P35051115-Block47-CNV-Adm	6,200	6,200	0	0	0	0
P35051415-Rose Qtr Master Plan-CNV	0	0	0	7,000,000	13,000,000	0
P35060115-910 NE MLK Building-CNV-Adm	18,731	16,600	16,600	0	0	0
P35060215-Fmr B&K Car Rental-CNV-Adm	10,500	0	0	0	0	0
P35060315-Shilo Inn-CVN	2,750,000	0	0	0	0	0
P35060415-Metro Park-CNV-Adm	2,131	0	0	0	0	0
P35060515-Inn at Conv Ctr Mgmt-CNV	1,785,673	1,769,357	1,769,357	1,769,357	1,769,357	1,769,357
P35060615-Block 49-CNV-Adm	96,365	3,350	3,350	3,350	3,350	3,350
P35060715-Hotel Garage-CNV	0	20,000,000	0	0	0	0
P35090015-Project Development-CNV-Adm	559,383	0	0	0	0	0
P35092015-Real Estate Mgmt-CNV-Adm	5,000	5,000	5,000	5,000	5,000	5,000
Property Redevelopment Total	9,236,483	21,803,007	1,796,807	8,780,207	14,777,707	1,777,707
Total Program Expenditures	15,428,378	23,653,162	5,936,852	8,960,402	14,957,752	1,957,902
Personnel Services	147,226	93,517	83,979	85,829	88,927	90,794
Transfers - Indirect	1,028,793	1,287,005	500,000	300,000	200,000	100,000
Total Fund Expenditures	16,604,397	25,033,684	6,520,831	9,346,231	15,246,679	2,148,696
Contingency	30,053,552	8,691,203	6,539,685	7,400,044	8,005,191	8,573,932
Ending Fund Balance	0	0	0	0	0	0
Total Requirements	46,657,949	33,724,887	13,060,516	16,746,275	23,251,870	10,722,628