

# PDC

## PORTLAND DEVELOPMENT COMMISSION

**DATE:** July 9, 2008

**TO:** Board of Commissioners

**FROM:** Bruce A. Warner, Executive Director

**SUBJECT:** Report Number No. 08-100  
Revised Disposition and Development Agreement with Killingsworth Station, LLC.

### EXECUTIVE SUMMARY

#### BOARD ACTION REQUESTED

Adopt Resolution No. 6620

#### ACTION SUMMARY

This Action will authorize the Executive Director to execute a revised disposition and development agreement (“DDA”) with Killingsworth Station, LLC for the granting and development of PDC-owned property (Property) at the northeast corner of North Interstate Avenue and North Killingsworth Street in the Interstate Corridor URA.

Resultant development will be a high-quality, four-story, residential mixed-use, transit-oriented building with approximately 54 unit residential condominiums, approximately 9,000 square feet of ground floor commercial space and significant sustainable building features (collectively, the “Project” or “Killingsworth Station”).

Key aspects of the DDA include:

#### **Programmatic:**

- Construction of 54 units of residential condominiums of which 60% (33 units) will be affordable to families earning 80% and below of area median family income (“MFI”), and 21 units will be available at market rates (48 one-bedroom units & 6 two-bedroom units);
- Construction of approximately 9000 square feet of active ground floor commercial condominium space targeted to local businesses.

#### **Financial:**

- As described in detail in the Financial Impact section of this report, in addition to granting the property to the developer, PDC will provide TIF funding for the purpose of:
  - Providing the buy down necessary to make 33 units affordable at 80% MFI;
  - Offsetting the difference between the cost of building the housing units and their market value;
  - Providing the financial assistance to local businesses with tenant improvement costs associated with the commercial condominium space;

#### **Outreach & PDC Policies:**

- Construction of LEED Silver Project with innovative and eco-friendly design and construction;

- Killingsworth Station, LLC's, compliance with PDC's Good Faith Efforts Program and the Workforce Training and Hiring Program;
- Killingsworth Station, LLC's, commitment to support for the City of Portland's Minority Homeownership Initiative to promote ownership opportunities at the Project; and
- The Project is subject to the Workforce Diversity Component of PDC's Construction Wage Policy.

## **PUBLIC BENEFIT**

The Project is anticipated to achieve the following objectives:

- Provides 54 new ownership housing units, 33 of which will be sold at prices affordable to households earning 80% of MFI;
- Activates the ground floor of a major transit node by providing approximately 9,000 square feet of neighborhood serving retail / commercial space;
- Provides wealth creation opportunities to neighborhood residents, local small businesses and entrepreneurs;
- Utilizes innovative green design and construction techniques;
- Provides multiple opportunities for Minority Women and Emerging Small Business (MWESB) participation in the project. Good faith effort to meet and/or exceed the 20% of total Project cost goal for MWESB participation.

### **This action will support the following PDC goals:**

- Develop healthy neighborhoods
- Provide access to quality housing
- Help business to create and sustain quality jobs
- Support a vibrant central city (urban core)
- Contribute to a strong regional economy

## **PUBLIC PARTICIPATION AND FEEDBACK**

In April, 2006, PDC released a second request for proposals (RFP #05-40) for the redevelopment of the Property. In May, 2006 PDC staff established a Selection Advisory Committee ("SAC") that included stakeholders from the Interstate Corridor Urban Renewal Advisory Committee ("ICURAC") and adjacent neighborhood associations, to evaluate the proposals and provide a recommendation on the developer selection. The SAC evaluated the proposals using the evaluation criteria in the RFP. Two community wide open houses were held for stakeholders, SAC members, and project staff to meet the development teams and review the proposals prior to the SAC making a recommendation on the preferred development team.

In August 2006, pursuant to the public participation and selection advisory process, PDC selected Winkler Development Corporation ("WDC"). On August 23, 2006, the Board of Commissioners authorized the Executive Director to enter into exclusive negotiations with WDC for the development and disposition of the Property through Resolution 6386. Killingsworth Station, LLC is a WDC entity. Since that time, PDC staff has met with the ICURAC on three occasions to update it on the status of the Project and to solicit feedback with respect to financial and programmatic changes to the Project. Staff held a design open house in December, 2007 with WDC and the ICURAC / Overlook Neighborhood Association Board.

Recently, staff met with the ICURAC on April 21, 2008, and provided an update on the project's funding requirements. After testimony and feedback from committee members, the ICURAC passed a motion recommending an expenditure of not more than \$4.23M in total subsidy (\$900k less than requested) on the project and requested that staff look for subsidy reductions in the commercial component and then to look at all other applicable elements of the project. The overall message was that the ICURAC, while still supportive of the project, clearly wanted PDC to "sharpen its pencil" and find ways to reduce the permanent subsidy in the project. Based on the ICURAC's input, PDC staff worked to further analyze and discuss internally all aspects of the project to identify areas for cost reduction. After considering the ICURAC's concerns, staff's recommendation was to proceed with the additional project funding requested for the project. That recommendation and rationale behind the decision was communicated to the ICURAC via a memo, dated May 16<sup>th</sup>, 2008 (Exhibit E).

## **COMPLIANCE WITH ADOPTED PLANS AND POLICIES**

Redevelopment of the Property at this Interstate transit node supports the following plans and strategies:

*Interstate Corridor Urban Renewal Area Plan (ICURA):* The adopted ICURA Plan stipulates as a general principle the goal of optimizing light rail investment through the creation of catalyst projects near light rail stations. The plan also supports increasing the number of ownership opportunities for current and future residents and supporting expanded services, business and employment opportunities.

*Interstate Housing Implementation Strategy:* The Interstate Corridor Urban Renewal Housing Strategy established 6, 20-year goals for housing in the ICURA.

- Goal #1: Preserve and maintain existing sound housing stock
- Goal #2: Increase the total housing stock by at least 4,000 housing units by the Year 2020 to increase the availability of rental and ownership housing opportunities for current and future residents, and to support expanded services, businesses and employment opportunities
- Goal #3: Ensure an adequate supply of housing is available and affordable (costs 30% or less of gross income) to people of all income levels living in the ICURA in the Year 2000
- Goal #4: Ensure housing options for households of different sizes and needs
- Goal #5: Increase opportunities for homeownership, prioritizing opportunities for existing residents
- Goal #6: Increase the housing stability of existing residents and protect them from involuntary displacement caused by gentrification, increases in housing costs and loss of housing choices

*Interstate MAX Station Area Revitalization Strategy:* The strategy identifies the Killingsworth Station site as a key transit-supportive redevelopment site to support the light rail investment.

*Metro's 2040 Growth Concept:* The long-range plan encourages policies that produce compact development, housing for people of all incomes, a balanced transportation system, and a healthy economy that generates jobs and business opportunities.

*PDC Strategic Plan:* Achieves PDC goals of retaining and developing housing and diverse neighborhoods; investing resources in home and business ownership to provide opportunities for wealth creation; revitalizing blighted areas through strategic partnerships and property acquisitions; and implementing a mechanism to ensure that PDC and the public share in the financial success of PDC's investments.

## FINANCIAL IMPACT

PDC anticipates participating financially in the Project as follows:

- (1) Provide a predevelopment loan of \$450,000 to Killingsworth Station, LLC, to pay for a portion of the predevelopment costs (\$1,240,000 in total) and to be repaid at the commencement of construction (\$200,000 of which has already been drawn upon by the developer);
- (2) Provide construction financing (anticipated at \$2,200,000). The construction loan will be repaid from the sales proceeds from the Project.
- (3) Grant the property to the developer subject to the use of the property for the project PDC requires.
- (4) Provide up to \$1,830,000 in an anticipated permanent construction subsidy.
- (5) Provide permanent funds to buy down 33 units to levels affordable at 80% MFI (anticipated at \$1,050,000).
- (6) Provide permanent funds from Economic Development for tenant improvement and downpayment financial assistance for buyers of the commercial condominium spaces (anticipated at \$900,000);
- (7) Budget up to \$220,000 for a capitalized interest construction loan that would be drawn upon by the developer under a protracted sales period for the housing and commercial units.

<b>PDC Permanent Gap Financing</b>	<b>\$ Amount</b>
(4) Construction Subsidy	1,830,000
(5) Affordability Subsidy	1,050,000
(6) Commercial Assistance	900,000
(7) Contingent Interest Reserve	220,000
<b>Total Permanent Gap Financing</b>	<b>4,000,000</b>

PDC will grant the land to the project based on the fair re-use value of the property as determined by an appraisal as noted below. In sum, the total PDC project subsidy equals the permanent gap financing (approximately \$4,000,000) plus the market value the land (approximately \$1,120,000), for a total of \$5,120,000. It is likely that without PDC's financial support that the property will either remain vacant until the market for ground floor

commercial and residential condominiums improves along Interstate Avenue to warrant a similar market-rate project, or the property will develop into a lower density, commercial center.

To date, PDC has expended approximately \$1,100,000 in sunk costs attributable to the acquisition and preparation of the Property as a development ready site. In total, PDC costs equal \$5,100,000 which includes both land acquisition sunk costs of \$1,100,000 and project costs of \$4,000,000.

An appraisal conducted in December, 2007, indicated that the market value of the Property was approximately \$1,120,000. The fair re-use valuation, based on an investment analysis that considered the constraints imposed on the Property by PDC through a set development program, valued the Property at zero dollars.

## **FINANCIAL CHANGES**

On January 23, 2008, PDC's Board approved a resolution authorizing the Executive Director to execute a DDA with Killingsworth Station, LLC. At that time, staff anticipated the total permanent subsidy for the project to equal roughly \$3,340,000. The original DDA approved on January 23<sup>rd</sup> went unsigned by both PDC and Killingsworth Station, LLC, once it became apparent from the receipt of higher than expected preliminary sub-contractor bids that the development budget was inadequate to fund the project. Since January 23, 2008, a number of things have happened.

1. WDC has obtained preliminary bids from sub-contractors reflecting a 12-month hard cost escalation;
2. Housing and Economic Development staff conducted detailed financial feasibility analysis for the commercial condominium space resulting in the realization that additional funds would be necessary to support local, small businesses in owning their space;
3. PDC determined that the construction loan is to be recourse to the borrower and PDC staff and WDC have negotiated an interest reserve as a part of the subsidy package to mitigate absorption risk.

The cumulative financial impact of the aforementioned events is roughly a \$1,780,000 increase in the development budget, for a total PDC permanent subsidy of \$5,120,000.

## **RISK ASSESSMENT**

There is still the risk of further construction cost escalation after the DDA has been signed. These risks are mitigated by the fact that the developer has already received preliminary subcontractor bids for the core mechanical, electrical, plumbing, and sprinkler components and that there is roughly \$500,000 of developer contingency built into the revised budget.

There is also a risk that the project will not meet the projected sales rates and that units may remain unsold for longer than anticipated. This risk is reduced by the fact that the units will be sold at relatively affordable prices as based on a December 2007 appraisal whereby comparable market prices for this type of product in this location equaled an average affordability of 100% MFI, or roughly \$310 per square foot. Additional mitigation includes the quality of design, durability of materials, the utilization of the Neighborhood Housing

Program's down payment assistance loans, the Project's proximity to public transportation, and the LEED Silver designation.

## **WORK LOAD IMPACT**

The Project has been incorporated into corresponding staff work plans.

## **ALTERNATIVE ACTIONS**

The Board could elect not to authorize the DDA, which would retain the Property in PDC's real estate portfolio as a vacant parcel; or the board could direct revisions to the proposed DDA.

## **CONCURRENCE**

The conceptual/preliminary financing package has been vetted and approved by PDC's Loan Review Committee. The terms of the DDA have been approved by PDC's Investment Committee.

The development concept has also been reviewed, with no significant objections, by the Bureau of Development Services and the Portland Department of Transportation.

## **BACKGROUND**

In 2003, PDC assembled the 32,000 square foot Killingsworth Station Site at the northeast corner of North Interstate Avenue and North Killingsworth Street in the Interstate Corridor URA for the development of mixed-use, transit oriented housing (the Project). PDC purchased the properties from 2000 to 2003 for a total of \$1,100,000.

In January, 2004, a project development team that included KemperCo, Innovative Housing Inc., and Peninsula Community Development, was selected through a Request for Proposal (RFP #02-21) process. Citing rising construction costs and market risks, the lead developer on the team, KemperCo, withdrew from the project in November, 2005.

In April, 2006, PDC released a second request for proposals (RFP #05-40) for the redevelopment of the Killingsworth Station Site requiring a minimum of 40 ownership housing units and retail space. It also required that at least 35 percent of the units be affordable to households at 100 percent of median family income (MFI) and 15 percent of the units affordable at 80 percent of MFI. The RFP required a mixture of one and two bedroom units.

In August 2006, pursuant to a public participation and selection advisory process that included stakeholders from the Interstate Corridor Urban Renewal Advisory Committee (ICURAC) and adjacent neighborhood associations, PDC selected Winkler Development Corporation (WDC). WDC's original proposal included 42 1-bedroom units, six 2-bedroom units and three 3-bedroom units for a total of 51 units, with 9,227 square feet of ground floor retail. On August 23, 2006, the Board of Commissioners authorized the Executive Director to enter into exclusive negotiations with WDC for the development and disposition of the Killingsworth Station Site through Resolution 6386.

Since that time, Staff worked closely with WDC to conduct detailed due diligence and financial feasibility analysis for the project. On November 14, 2007, the Commission was briefed on the current status of the Killingsworth Station project (Board Report 07-137). At that meeting, staff shared some preliminary conclusions with regards to a forthcoming appraisal's determinations of land value and market sales. The Commission instructed staff to conduct further financial analysis and due diligence on the project and to return to the Commission with the analysis prior to their consideration of the Killingsworth Station Disposition and Development Agreement (DDA) in early January, 2008.

On January 23, 2008, PDC's Board approved Resolution 6553 authorizing the Executive Director to execute a DDA with Killingsworth Station, LLC. At that time, staff anticipated the total permanent subsidy for the project to equal roughly \$3,340,000. The original DDA, approved on January 23, 2008, went unsigned by PDC and Killingsworth Station, LLC once it became apparent from the receipt of higher than expected preliminary sub-contractor bids that the development budget was inadequate to fund the project.

Since that time staff has been working to revise the development budget and the DDA to ensure that sufficient funding is made available to ensure a successful project.

**ATTACHMENTS:**

- A. URA Fund Summary
- B. Project Summary
- C. Site Map
- D. Project Renderings
- E. Letter to ICURAC dated May 16, 2008

**CC:** K. Kalevor, Interim Housing Director  
J. Cody, Chief Financial Officer  
D. Elott, Interim General Counsel  
J. Warner, Senior Manager  
M. Collier, Associate Project Coordinator

## URA FUND SUMMARY

### Financial Summary

#### Fund Summary - Five-Year Budget Projections

	<i>Revised FY 2007-08</i>	<i>Adopted FY 2008-09</i>	<i>FY 2009-10 Forecast</i>	<i>FY 2010-11 Forecast</i>	<i>FY 2011-12 Forecast</i>	<i>FY 2012-13 Forecast</i>
<b>Interstate Corridor URA</b>						
<b>Resources</b>						
Beginning Fund Balance	2,526,737	528,171	918,839	774,599	539,000	170,684
Interest - City Invest Pool	40,000	40,000	20,000	20,000	20,000	0
Loans - Interest Earned	79,840	60,120	53,559	1,156,384	46,897	38,748
Loans - Principal Collection	552,000	710,120	53,559	1,156,384	46,897	38,748
Real Property Sales	600,000	1,120,000	2,511,000	0	0	0
Reimbursement	1,272	0	0	0	0	0
Rent and Property Income	4,617	0	0	0	0	0
Tax Increment - L-T Debt	7,133,047	21,847,566	7,992,000	6,493,500	3,196,800	4,995,000
Tax Increment - S-T Debt	5,889,075	5,994,000	5,078,737	5,704,600	5,994,000	5,994,000
<b>Total Fund</b>	<b>16,826,588</b>	<b>30,299,977</b>	<b>16,627,694</b>	<b>15,305,467</b>	<b>9,843,594</b>	<b>11,237,180</b>

### Requirements

#### Project Expenditures (does not include Personal Services or Indirect Cost)

##### Development

19018 - Interstate Redevelopment	199,606	291,000	481,000	1,521,000	870,000	870,000
19019 - Interstate DOS Program	271,247	300,000	300,000	300,000	300,000	300,000
19020 - Interstate Streetscape Improve	2,169,944	4,872,000	2,581,000	300,000	0	800,000
19021 - Interstate Trans Improvements	190,066	150,000	75,000	75,000	75,000	175,000
19023 - Interstate Community Liv.	300,000	300,000	300,000	300,000	300,000	300,000
19038 - Interstate Parks	1,011,000	815,000	755,000	1,005,000	505,000	505,000
19048 - Downtown Kenton Redev	25,000	100,000	800,000	1,500,000	700,000	700,000
19049 - IC Redevelopment Loan Program	400,000	400,000	400,000	400,000	400,000	400,000
<b>Development Total</b>	<b>4,566,863</b>	<b>7,228,000</b>	<b>5,692,000</b>	<b>5,401,000</b>	<b>3,150,000</b>	<b>4,050,000</b>

##### Economic Development

19026 - IC Storefront Grants	540,333	400,000	400,000	400,000	400,000	400,000
70019 - IC Business Finance	1,725,000	1,350,000	1,385,000	1,850,000	1,750,000	1,750,000
70257 - IC Business Retent & Asst	80,900	20,000	50,000	0	0	0
70275 - Killingsworth Block Fin Asst	0	0	900,000	0	0	0
70556 - IC Community Ec Dev	0	275,000	0	0	0	0
<b>Economic Development Total</b>	<b>2,346,233</b>	<b>2,045,000</b>	<b>2,735,000</b>	<b>2,250,000</b>	<b>2,150,000</b>	<b>2,150,000</b>

##### Housing

19025 - IC Aff Rental Housing	200,000	970,000	1,500,000	1,500,000	502,000	502,000
31043 - Interstate Home Repair	555,618	500,000	300,000	300,000	300,000	300,000
33419 - Interstate Homebuyer Asst	400,000	450,000	450,000	450,000	450,000	450,000
33431 - IC Aff Homeownership Dev	566,577	1,290,423	500,000	500,000	500,000	500,000
34606 - Killingsworth Block	450,000	4,760,000	706,000	996,000	0	0
34612 - Patton Park Aff. Rental Hsg	1,415,000	3,055,000	0	0	0	0
34613 - Shaver Green	1,036,556	1,063,444	0	0	0	0
37919 - IC Hsg Policy/Planning	31,902	5,000	5,000	5,000	5,000	5,000
37928 - Vanport Phase II Housing	79,255	0	0	0	0	0
37931 - IC HAP Aff Hmownrshp/Acq	0	2,511,000	0	0	0	0
37932 - IC HAP Aff Ownrshp/Rehab	0	550,000	0	0	0	0
<b>Housing Total</b>	<b>4,734,908</b>	<b>15,154,867</b>	<b>3,461,000</b>	<b>3,751,000</b>	<b>1,757,000</b>	<b>1,757,000</b>

##### Central Services

59148 - IC Debt Management	17,655	18,537	19,464	20,438	21,459	22,532
<b>Central Services Total</b>	<b>17,655</b>	<b>18,537</b>	<b>19,464</b>	<b>20,438</b>	<b>21,459</b>	<b>22,532</b>

##### Executive

60040 - IC Eastside/Central City Plan	0	75,000	75,000	0	0	0
<b>Executive Total</b>	<b>0</b>	<b>75,000</b>	<b>75,000</b>	<b>0</b>	<b>0</b>	<b>0</b>

#### Total Project Expenditures

Operating Transfers Out	600,000	642,259	0	0	0	0
<b>Total Project Expenditures</b>	<b>11,665,659</b>	<b>24,521,404</b>	<b>11,982,464</b>	<b>11,422,438</b>	<b>7,078,459</b>	<b>7,979,532</b>

### Financial Summary

#### Fund Summary - Five-Year Budget Projections

	<i>Revised FY 2007-08</i>	<i>Adopted FY 2008-09</i>	<i>FY 2009-10 Forecast</i>	<i>FY 2010-11 Forecast</i>	<i>FY 2011-12 Forecast</i>	<i>FY 2012-13 Forecast</i>
<b>Interstate Corridor URA</b>						
Indirect Cost	3,001,460	4,217,475	3,870,631	3,344,029	2,594,451	2,916,447
<b>Total Fund Expenditures</b>	<b>15,267,119</b>	<b>29,381,138</b>	<b>15,853,095</b>	<b>14,766,467</b>	<b>9,672,910</b>	<b>10,895,979</b>
Contingency	1,559,469	918,839	774,599	539,000	170,684	341,201
Ending Fund Balance	0	0	0	0	0	0
<b>Total Requirements</b>	<b>16,826,588</b>	<b>30,299,977</b>	<b>16,627,694</b>	<b>15,305,467</b>	<b>9,843,594</b>	<b>11,237,180</b>

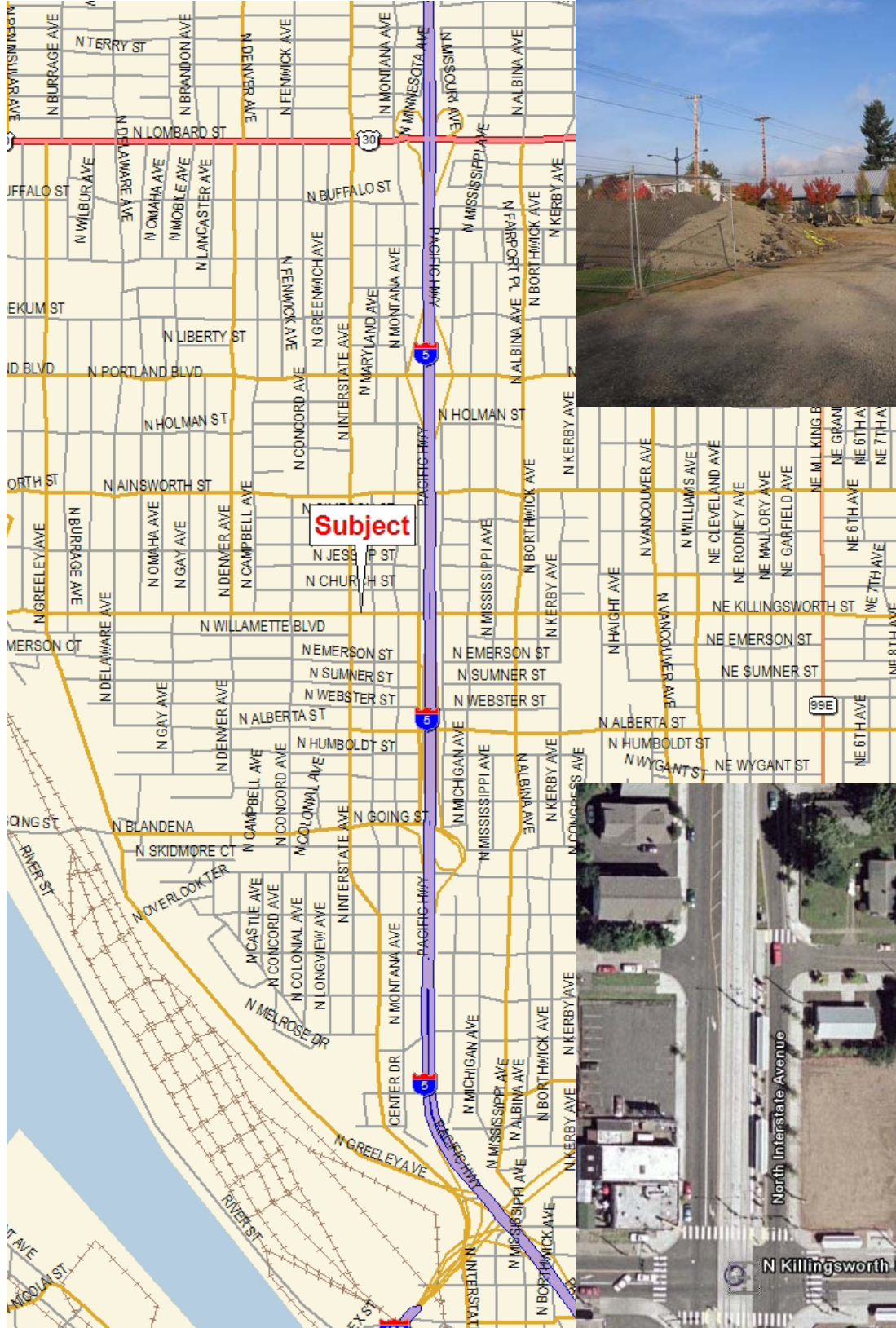


### PROJECT SUMMARY

The Project includes approximately 54 residential condominium units, 48 1-bedroom units, and six 2-bedroom units (the "Project"). Approximately 60% of the Project (33 units) will be affordable to individuals earning no more than 80 percent of MFI. The remaining 21 units will be sold at market rates. Approximately 9,227 square feet of ground floor retail space will be marketed as commercial condominiums to promote wealth creation and entrepreneurship opportunities for local and other small business owners. The Project includes approximately 16 one-car garages and approximately 34 on-site surface parking spaces for a total of approximately 50 parking spaces.

Component	# of Units	Average NSF	Total NSF	\$/NSF	\$/Unit	Total \$	% of MFI
Commercial			8,950	225		2,013,750	
Interstate							
2nd Floor							
1-Br							
A	4	590	2,360	300.00	177,000	708,000	80%
A	3	590	1,770	300.00	177,000	531,000	80%
A+	1	615	615	300.00	184,500	184,500	80%
B	1	676	676	328.51	222,072	222,072	119%
B+	1	753	753	310.23	233,603	233,603	125%
2-Br	1	973	973	324.12	315,369	315,369	162%
3rd Floor							
1-Br							
A	4	590	2,360	300.00	177,000	708,000	80%
A	3	590	1,770	300.00	177,000	531,000	80%
A+	1	615	615	300.00	184,500	184,500	80%
B	1	676	676	329.19	222,535	222,535	119%
B+	1	753	753	310.89	234,096	234,096	125%
2-Br	1	973	973	324.12	315,369	315,369	162%
4th Floor							
1-Br							
A	7	590	4,130	300.00	177,000	1,239,000	80%
A+	1	615	615	330.26	203,108	203,108	110%
B	1	676	676	329.88	222,998	222,998	120%
B+	1	753	753	311.46	234,529	234,529	125%
2-Br	1	973	973	325.07	316,295	316,295	163%
Killingsworth							
2nd Floor							
1-Br							
A	2	590	1,180	300.00	177,000	354,000	80%
A+	2	615	1,230	300.00	184,500	369,000	80%
A++	2	619	1,238	328.75	203,497	406,993	111%
2-Br	1	1,057	1,057	324.12	342,595	342,595	175%
3rd Floor							
1-Br							
A	2	590	1,180	300.00	177,000	354,000	80%
A+	2	615	1,230	300.00	184,500	369,000	80%
A++	2	619	1,238	329.50	203,960	407,919	111%
2-Br	1	1,057	1,057	324.56	343,058	343,058	176%
4th Floor							
1-Br							
A	2	590	1,180	300.00	177,000	354,000	80%
A+	2	615	1,230	330.26	203,108	406,216	110%
A++	2	619	1,238	330.25	204,423	408,846	111%
2-Br	1	1,057	1,057	325.00	343,521	343,521	176%
	54	658	35,556	311.203	204,910	11,065,122	
Garages	9			8.47	15,000	135,000	
Garages w/ Storage	7		4,040		20,000	140,000	
			39,596	286.40	210,002	11,340,122	
Gross Sales		77.66%	48,546	275.08		13,353,872	99.7%

**SITE MAP**



PROJECT RENDERINGS

