

PDC

PORTLAND DEVELOPMENT COMMISSION

DATE: August 13, 2008

TO: Board of Commissioners

FROM: Bruce A. Warner, Executive Director

SUBJECT: Report Number 08-109
Memorandum of Understanding with the Office of Management and Finance and Carroll Investments Inc. for Redevelopment of the 10th and Yamhill Garage

EXECUTIVE SUMMARY

BOARD ACTION REQUESTED

Adopt Resolution No. 6629

ACTION SUMMARY

This resolution would authorize the Portland Development Commission (PDC) Executive Director to enter into a three-party Memorandum of Understanding (MOU) with the Office of Management and Finance (OMF) and Carroll Investments Inc. (Carroll Investments) for redevelopment of the 10th and Yamhill SmartPark Garage at 730 SW Tenth Avenue (Garage).

On behalf of the City of Portland and OMF, PDC is leading development negotiations with Carroll Investments, as authorized by an Intergovernmental Agreement (IGA) between PDC and OMF approved in August 2007 by Portland City Council Ordinance No. 181203 and the PDC Executive Director. The Garage was formerly located in the South Park Blocks Urban Renewal Area and is included in the recently amended River District Urban Renewal Area. A map is provided as part of the Attachment A Project Summary.

Together with a Stakeholder Advisory Committee (SAC), OMF, PDC and Carroll Investments have been evaluating redevelopment options for the Garage based on project goals and guidelines outlined in the IGA. SAC members are listed in Attachment B. The team and SAC's preferred option includes demolishing the existing Garage and constructing a new structure (Project) at a total value of approximately \$160 million and generally to include:

- At least 600 SmartPark public parking spaces, owned and operated by OMF
- Four levels, 120,000 square feet of new commercial/office use
- Sixteen levels, 270,000 square feet of new residential use
- Two levels of parking for new private uses
- Interim retail parking mitigation during construction

In preparation for negotiating a binding Disposition and Development Agreement (DDA), PDC, OMF and Carroll Investments have prepared an MOU outlining these Project understandings and to serve as a framework for the terms of the DDA. Staff is seeking

authorization from the PDC Board of Commissioners (Board) to enter into the MOU. OMF will seek concurrent City Council authorization to enter into the MOU. The DDA, which is anticipated by early 2010, will be brought before the Board and the City Council for consideration and approval.

PUBLIC BENEFIT

Authorization to enter into the MOU offers the following public benefits:

- Redevelopment of a key underutilized parcel within the downtown retail core through a public/private partnership that joins new private development with replacement of the existing publicly-owned Garage to address the current building's seismic, structural, and design challenges.
- Introduction of additional pedestrian, residential and commercial activity in the area, helping to better link the retail core to the Pearl District and to strengthen the Park Avenue district.
- Increased transit ridership on the adjacent streetcar and MAX lines, together with improved coordination between the ground floor uses and adjacent light rail stations.
- Opportunities for new housing and jobs within the downtown core through the introduction of significant new residential and commercial space.
- Substantially increased tax revenue together with preserved parking revenue to the City from the publicly-owned parking structure.
- Compliance with City and PDC contracting requirements, including Green Building and Business Equity policies.

This action will support the following PDC goals:

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

PUBLIC PARTICIPATION AND FEEDBACK

The Downtown Neighborhood Association (DNA), the Portland Business Alliance, as well as many adjacent property owners and retailers have encouraged an upgrade to the Garage as one of their top priorities for the area. Carroll Investments has presented the development concept at various DNA Land Use Committee meetings to positive and supportive response.

In accordance with a Public Participation Plan, PDC convened a Stakeholder Advisory Committee to provide feedback and comment during redevelopment program and design discussions. The SAC has met twice, in November 2007 and February 2008, to discuss project priorities and to assess the redevelopment options based on these priorities. The SAC is supportive of moving forward with the project and the MOU.

COMPLIANCE WITH ADOPTED PLANS AND POLICIES

The Garage is identified in the 2002 Downtown Retail Strategy (adopted by PDC Resolution No. 5896) and the 2004 Park Avenue Vision (adopted by PDC Resolution No. 6203) as a significant short-term development opportunity for improved ground-floor retail, new uses within the downtown retail core, and revitalization of the existing structure. Redevelopment of the Garage was also highlighted by the PDC Urban Renewal Advisory Group and PDC-City Council Budget Work Group as a significant downtown project and redevelopment opportunity.

As outlined in the MOU, Carroll Investments will comply with PDC and City contracting requirements, including Business Equity and Workforce Equity Programs and Green Building Policy.

FINANCIAL IMPACT

This action does not involve a commitment of PDC funds. Any commitment of PDC or City funds for the Project will be pursuant to the negotiation of a binding DDA with Carroll Investments.

In total, the anticipated public investment required for the preferred Project is estimated at \$25 million to \$30 million, which covers construction of a new SmartPark facility for the City but does not include any interim parking costs. This public investment is equal to that required to renovate the Garage with no new uses. While previous PDC and OMF conceptual studies from 2004 showed an estimated \$15 million cost for renovating the Garage without new development, an updated independent assessment by PDC and OMF has increased to reflect current 2008 costs and to include additional seismic, structural, and façade improvements required for the conceptual level design.

OMF's Parking Fund has reserved a capital investment of \$3,500,000, and OMF has indicated that the major maintenance account may support additional lending or cost reimbursement for the Project.

Originally, PDC had included \$8,000,000 in the South Park Blocks FY 2007-2008 and Forecast Years Adopted Budget for the Project. In connection with recent urban renewal area amendments, the boundaries of the South Park Blocks URA were amended, among other things, to remove the Garage from that URA and the boundaries of the River District URA were amended, among other things, to include the Garage in an expanded River District URA (Amended River District). In the interim, the Amended River District has been appealed to the State of Oregon Land Use Board of Appeals (Appeal). The Amended River District FY 2008-2009 and Forecast Years Adopted Budget currently includes \$8,000,000 for the Project, subject to PDC budget authority and Board approval (PDC's Funding). PDC's Funding is contingent upon its ability to implement the Amended River District after the Appeal has been resolved. Reserved PDC and OMF resources leave a remaining gap of approximately \$15 million, which has been discussed by the Board and City Council as part of the budget process. Availability of additional public resources to cover this remaining gap will be a significant consideration for PDC and OMF during DDA negotiations.

RISK ASSESSMENT

Entering into the MOU under current market and financing conditions could impact the projected Project schedule and cost. To mitigate this risk, the MOU outlines regular check-ins with PDC and OMF management to discuss whether and how the Project should move forward based on design and program refinements as well as public and private financing availability. Any determination to significantly change the Project scope would be brought before the Board for review and consideration.

In the event that PDC is unable to implement the Amended River District as a result of the Appeal, the Project would be at risk of not being located in an urban renewal area and therefore ineligible for the necessary tax increment resources that have been identified.

WORK LOAD IMPACT

All work done on the MOU will be performed by PDC and OMF staff. Staff resources are available to coordinate the Project.

ALTERNATIVE ACTIONS

PDC has entered into an IGA with OMF to lead exclusive negotiations with Carroll Investments for redevelopment of the Garage. Based on this action, Carroll Investments has made considerable investment of time and money with the assumption that PDC and OMF are proceeding in good faith to pursue redevelopment of the Garage as outlined in the MOU. If PDC does not approve the MOU, PDC and OMF may lose Carroll Investments as a private development partner and the opportunity for broader redevelopment of the Garage.

Alternatively, PDC could continue to discuss with OMF pursuing the concept proposed in 2004 for improvements to the existing Garage with no new uses. Based on an updated assessment by PDC and OMF, the public investment required to renovate the Garage would be approximately \$25 million to \$30 million, which would preserve current City parking revenues and provide the City with an improved garage and ground floor retail, but would not generate any new development and taxes or comprehensively address the current structure's significant challenges and limitations.

CONCURRENCE

This action has the concurrence of the SAC, which includes representatives from the Downtown Neighborhood Association, Portland Business Alliance, Bicycle Transportation Alliance, City Club of Portland, and numerous adjacent retailers and property owners. This action also has the concurrence of OMF, who will present the MOU for City Council consideration concurrent with PDC Board action.

BACKGROUND

Staff last formally briefed the Board in October 2007 on the approval of the IGA between PDC and OMF authorizing PDC to lead redevelopment negotiations. At that time, Carroll Investment’s preliminary concept included renovation of the existing Garage with a new housing and office/commercial tower constructed over the Garage. Following the IGA, OMF and PDC, together with the SAC, have worked with Carroll Investments to evaluate various redevelopment options. The Board was provided with a status memo summarizing the options under consideration in April 2008.

In determining a preferred redevelopment concept, three primary scenarios were evaluated based on the principles included in the IGA and a cost-benefit analysis further outlined in Table 1 below. The three scenarios include:

- 1) Improve the existing Garage, as previously studied by OMF and PDC in 2004. The costs for this option are anticipated to have increased from the \$15 million estimated several years ago to approximately \$25 to \$30 million.
- 2) Construct a new tower through the existing Garage and complete renovations to the Garage parking and retail.
- 3) Demolish the existing Garage, build new SmartPark parking, retail, and office/housing uses above.

	Option 1 Renovated Garage with no new uses	Option 2 Tower through improved Garage	Option 3 New Building (preferred option)
FINANCIAL			
Public Investment	\$25-30 million <i>Based on an independent update by PDC & OMF</i>	\$25-30 million	\$25-30 million
Total project cost	\$25-30 million	\$160 million	\$160 million
New Taxes	\$0	\$1-\$1.5 million/year	\$1-\$1.5 million/year
Parking Fund Cash Flow	\$1.2 million/year	\$950,000/year	\$950,000/year
DEVELOPMENT			
Public return (housing, office, etc.)	Improved garage Improved retail	Improved garage Improved retail New housing New office/commercial	New garage New retail New housing New office/commercial
Full Utilization of site	No	Yes	Yes
Impact on adjacent sites	Removes negative design/function/safety	Significant positive impact with new uses and improvements	Greatest positive impact with new uses and new City garage structure
Interim parking	Operational during construction with some temporary closures	Approximately 8 month closure	20 month closure w/ 2 levels of parking available at 11 mos.

SmartPark parking	750 spaces (current = 796 spaces, approx 40 removed for retail improvements)	600 spaces	600 spaces
Transit stop	No improvements	Minimal improvements	Greatest design flexibility with new development

In April 2008, the SAC met to review and discuss the three options. The SAC's consensus preference is for the new building option, especially given the increased level of public investment required to renovate the Garage with no new uses. Pursuant to Board and City Council action on this MOU, staff anticipates continuing to work with OMF, Carroll Investments, and the SAC to further refine the preferred program and design and to present this at a public open house for comment. The project schedule includes negotiating a DDA over the next year and returning to the Board for review and consideration by early 2010.

ATTACHMENTS:

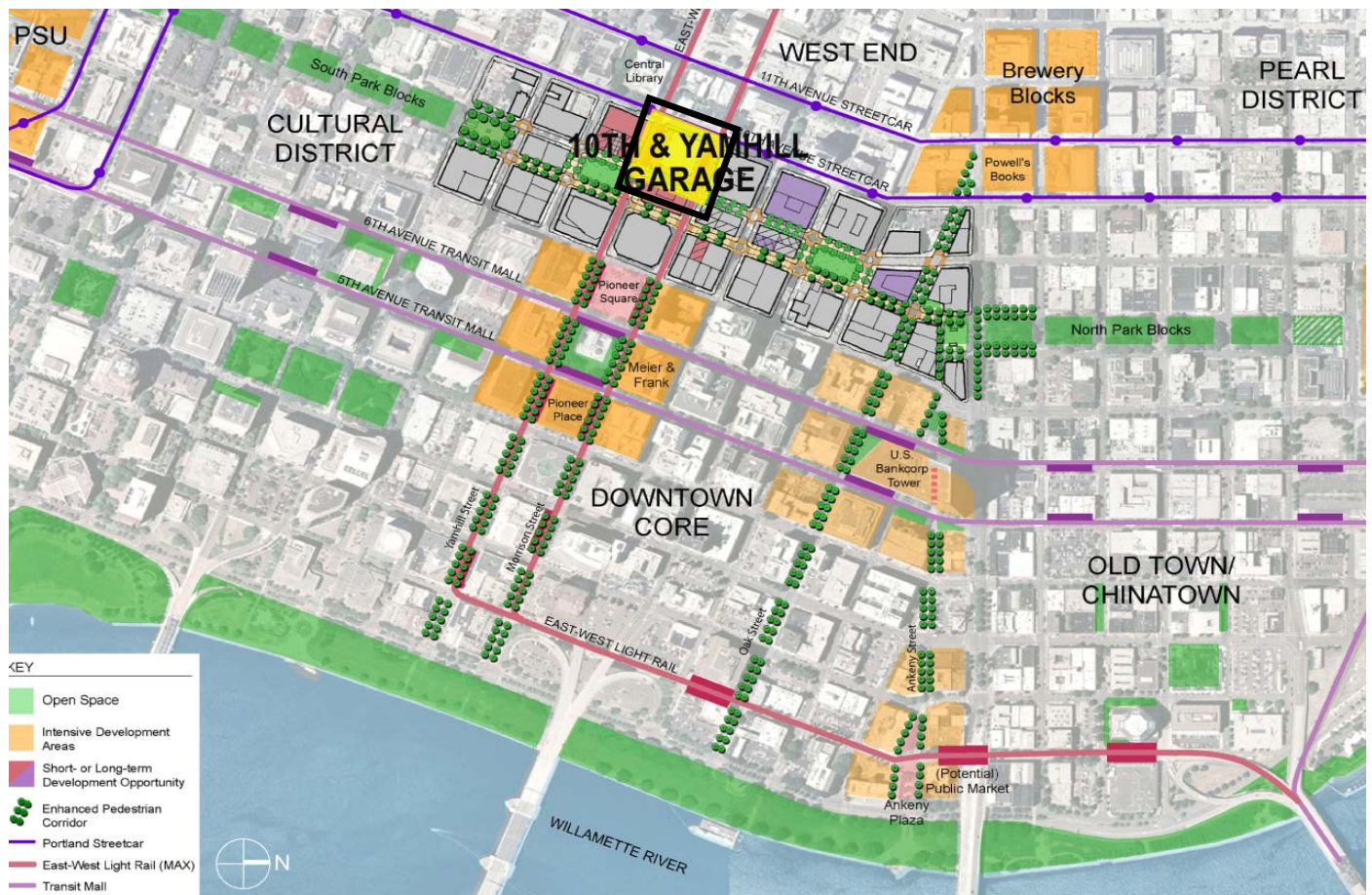
- A. Project Summary
- B. 10th & Yamhill Redevelopment Stakeholder Advisory Committee Roster
- C. South Park Blocks URA and River District URA Budget Summaries

CC: L. Bowers, Interim Development Director
L. Abuaf, Senior Project Coordinator
D. Elott, Interim General Counsel
J. Jackley, Executive Operations Manager

ATTACHMENT “A” PROJECT SUMMARY

- Project Name:** 10th and Yamhill Garage Redevelopment
- Description:** Improve ground-floor retail and SmartPark Garage as well as introduce new 24/7 uses to the district to enhance downtown retail core and augment pedestrian activity
- Location:** 730 SW 10th Avenue (SW 10th and 11th Avenues, SW Yamhill and Morrison Streets)
- URA:** Originally in South Park Blocks; relocated to River District
- Current Phase:** Memorandum of Understanding
- Next Milestone:** Disposition and Development Agreement (early 2010)
- Completion Target:** Construction start in 2010-2011, completion in 2012-2013
- Outcome:** New SmartPark garage; 27,000 square feet of ground floor retail; 20 levels of new residential/commercial use

Site/Project Map:



ATTACHMENT “B” STAKEHOLDER ADVISORY GROUP ROSTER

Name	Stakeholder Group
John Cabrera	Multnomah County Central Library
Wade Fickler	City Club of Portland
Fernando Garibay	Brooks Brothers
Alex Hofberg	Local retailer, Alex's Watchworks
Kirsten Kays	Local retailer, Nordstrom
Peggy Kendellen	Regional Arts & Culture Council
Bud Kramer	Area resident
Stephen Pirkl, SV Jewelers Kristi Kono, Columbia Sportswear	Portland Business Alliance
Karl Rohde	Bicycle Transportation Alliance
Judy Van Alstyne	Adjacent property owner, Bill Naito Co.
Dan Zalkow	Downtown Neighborhood Association

ATTACHMENT “C” BUDGET SUMMARIES

SOUTH PARK BLOCKS ADOPTED FY 2007-08

	<i>FY 2006-07 Revised Budget</i>	<i>FY 2007-08 Adopted Budget</i>	<i>FY 2008-09 Forecast</i>	<i>FY 2009-10 Forecast</i>	<i>FY 2010-11 Forecast</i>	<i>FY 2011-12 Forecast</i>
South Park Blocks URA						
Resources						
Beginning Fund Balance	25,270,804	6,142,406	16,840,996	0	0	0
Budgeted Transfers	402	0	0	0	0	0
Interest - City Invest Pool	658,426	775,000	500,000	0	0	0
Loans - Interest Earned	145,825	350,000	350,000	0	0	0
Loans - Principal Collection	395,824	350,000	350,000	0	0	0
Real Property Sales	0	2,000,000	1,800,000	0	0	0
Rent and Property Income	250,000	0	0	0	0	0
Tax Increment - L-T Debt	0	34,978,213	0	0	0	0
Tax Increment - S-T Debt	3,383,396	1,983,126	0	0	0	0
Total Fund Resources	30,104,677	46,578,745	19,840,996	0	0	0
Requirements						
Project Expenditures (does not include Personal Services or Indirect Cost)						
Development						
11033 - SPB Light Rail	7,234,000	0	0	0	0	0
11912 - SPB Park Ave Redev	1,175,000	4,575,000	1,175,000	0	0	0
11913 - SPB 10th & Yamhill	500,000	4,000,000	3,500,000	0	0	0
12101 - SPB Retail Loan Program	250,000	500,000	500,000	0	0	0
12206 - SPB Pre Development	125,000	0	0	0	0	0
12210 - Park Block 5	825,000	800,000	1,000,000	0	0	0
12217 - SPB Univ District	610,000	2,050,000	150,000	0	0	0
12218 - SPB Historic Preservation	50,000	0	0	0	0	0
12219 - SPB Seismic Loans	1,000,000	1,000,000	1,000,000	0	0	0
60003 - SPB Transit Mall Redev	0	500,000	500,000	0	0	0
60004 - SPB PSU/CAT Redev	0	0	2,000,000	0	0	0
60013 - SPB Signage & Lighting	0	100,000	100,000	0	0	0
Development Total	11,769,000	13,525,000	9,925,000	0	0	0

RIVER DISTRICT ADOPTED FY 2008-09

	<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>
River District URA						
Resources						
Beginning Fund Balance	10,316,420	10,550,506	10,277,571	211,899	1,032,771	237,278
Interest - City Invest Pool	300,000	50,000	50,000	50,000	50,000	50,000
Loans - Interest Earned	285,000	335,000	335,000	335,000	335,000	335,000
Loans - Principal Collection	300,000	2,290,000	290,000	290,000	290,000	290,000
Real Property Sales	1,500,000	0	0	0	0	0
Reimbursement	200,000	1,025,000	125,000	125,000	125,000	0
Rent and Property Income	0	200,000	200,000	200,000	200,000	200,000
Tax Increment - L-T Debt	0	27,219,465	48,951,000	13,986,000	22,018,279	14,485,500
Tax Increment - S-T Debt	10,112,492	13,986,000	13,986,000	12,202,544	13,803,900	9,621,427
Total Fund Resources	23,013,912	55,655,971	74,214,571	27,400,443	37,854,950	25,219,205
Requirements						
Project Expenditures (does not include Personal Services or Indirect Cost)						
Development						
10225 - RD Retail Loan Program	200,000	600,000	750,000	750,000	750,000	515,000
10226 - Meier&Frank Redevelopment	3,000,000	0	0	0	0	0
10227 - RD Historic Preservation	75,000	0	0	0	0	0
10234 - RD Park Ave Redev	100,000	0	0	0	0	0
11263 - RD Public Site Imprv	250,000	250,000	0	0	0	0
11264 - RD Burns/Couch Trans	500,000	1,100,000	0	0	0	0
13104 - RD Centennial Mill	800,000	585,000	4,560,000	5,775,000	0	0
13112 - RD North Pearl Planning	200,000	200,000	0	0	0	0
13113 - RD One Waterfront	500,000	4,000,000	4,000,000	0	0	0
13115 - RD Station Place Redev	50,000	0	0	0	0	0
13117 - RD Dev Loan Program	500,000	0	0	0	0	0
13119 - RD Neighborhood Park	500,000	350,000	4,900,000	0	0	0
13135 - RD Seismic Loans	350,000	0	0	0	0	0
13136 - RD DOS Program	100,000	0	0	0	0	0
13137 - RD Eastside Streetcar Connect	0	7,500,000	5,000,000	4,500,000	0	0
13138 - RD Post Office	2,750,000	1,200,000	2,550,000	2,000,000	25,500,000	0
13143 - RD Environmental	125,000	0	0	0	0	0
13144 - RD Pedestrian Bridge	150,000	0	0	0	0	0
60005 - RD Transit Mall Redev	500,000	0	0	0	0	0
60017 - RD Signage & Lighting	88,000	0	0	0	0	0
60020 - Union Station Mgt & Crit Impr	0	725,000	3,150,000	4,325,000	0	0
60021 - RD 10th & Yamhill	0	4,000,000	4,000,000	0	0	0
60024 - RD Multnomah County	0	0	0	0	0	10,000,000
60026 - RD Satellite Districts	0	0	0	0	500,000	4,500,000
Development Total	10,738,000	20,510,000	28,910,000	17,350,000	26,750,000	15,015,000