

PDC

PORTLAND DEVELOPMENT COMMISSION

DATE: August 27, 2010

TO: Board of Commissioners

FROM: Bruce A. Warner, Executive Director

SUBJECT: Recommendation to Portland City Council for Preliminary Approval of Recovery Zone Facility Bonds for the Meier & Frank Warehouse Project in an Amount not to exceed \$31,000,000

EXECUTIVE SUMMARY

BOARD ACTION REQUESTED

Adopt Resolution No. 6817

ACTION SUMMARY

This action will recommend preliminary approval to the Portland City Council of Recovery Zone Facility Bonds (RZFBs) for the proposed Meier & Frank Warehouse Project (the Project) in an amount not to exceed \$31,000,000. The Portland Development Commission (PDC) has received an application for RZFBs for the Project. The applicant is 14th & Everett Investors, LLC (14th & Everett) an affiliate of Gerding Edlen Development Co.

PDC's role is to review the application for conformance with the bond eligibility standards; to work with the applicant to structure the Project's financing, including the bond financing; and to ensure the transaction meets City policies and goals. PDC Board recommendations are presented to City Council for approval.

The bond approval process includes a preliminary approval and a final approval. This report addresses the preliminary approval stage. At this stage, general project information is known, but specifics of the Project's overall financial structure, construction budget, and bond structure have yet to be confirmed. Therefore, PDC's review consists of, among other things, economic feasibility and general benefits to the City of the Project, conformance with City plans and policies, and the qualifications of the development team. If the PDC Board recommends approval and the City Council approves the preliminary application, then a Letter of Intent and Indemnification and Compensation Agreement will be executed between 14th & Everett, PDC, and the City. This report describes the general character and structure of the potential economic development revenue bonds for the Project and outlines the general responsibilities of the parties involved.

PUBLIC BENEFIT

The Project provides a unique opportunity to stimulate the redevelopment of the historic four-story Meier & Frank Warehouse building located at 1417 NW Everett St. into a refurbished five-story office building containing four floors of office space (approximately 133,000 net leasable square feet) and one floor of parking using hydraulic parking stackers totaling 183 parking spaces. The design has been approved in accordance with State of Oregon and Federal historic guidelines.

14th & Everett has submitted an application that addresses the following evaluation criteria. Staff recommends approval of the application after reviewing 14th & Everett's application and considering of the following standards contained in the Portland City Code (PCC), Chapter 5.72.040(B):

- Economic Feasibility;
- General Benefits to the City;
- Density of use and potential impact in the area affected by the proposed project;
- Land use, transit, and transportation facilities in the vicinity of the proposed project;
- City's ability to supply or support needed services for the project;
- Effect of proposed project on balanced economic development of the City;
- Employment and property tax income from the Project;
- Employment Opportunities;
- Suitability of proposed area in the City for the particular type of proposed development project; and
- Conformance with Internal Revenue Service Regulations and Oregon Revised Statutes.

Pursuant to PCC, Chapter 5.72.040(C), the Project does not conflict with adopted City of Portland (City) plans and policies and is a qualified historic project that conforms to commercial uses.

This action will support the following PDC goals:

- Strong Economic Growth and Competitiveness
- Sustainability and Social Equity
- Healthy Neighborhoods
- A Vibrant Central City
- Effective Stewardship over our Resources and Operations, and Employee Investment

PUBLIC PARTICIPATION AND FEEDBACK

There has been no public participation or feedback directly related to the Project itself. However, the RZFBs have had more than a twelve-month period for interested parties to submit inquiries to both local and state governments on proposed uses of the bonding authority.

This Project will include a second component with a PDC Board of Commissioners (Board) action date of October 27, 2010, where there will be opportunity for public feedback on the project. It is anticipated that the Project will receive positive public feedback.

COMPLIANCE WITH ADOPTED PLANS AND POLICIES

This action represents a unique opportunity to advance the City's Economic Development Strategy as the Project's action will contribute to the retention of approximately 400 Portland jobs at a prominent Clean Tech firm, specifically Vestas American Wind Technology Inc.'s North American Headquarters. Additionally, with this expansion the Project will bring an anticipated 170 additional jobs after five years of operations on site. This will help solidify the long-term position of Vestas as a Portland based company while further enhancing our City's reputation as a global Clean Tech leader.

In addition to the significant job retention and expansion aspects of the Project, it will also revitalize a property which is currently vacant and in disrepair within the River District Urban Renewal Area.

FINANCIAL IMPACT

The Project will produce positive financial impacts for the City, Multnomah County, and the State of Oregon. Significant rehabilitation of the Meier & Frank Warehouse as a result of the Project along with jobs retained and added at the location will ultimately bring additional revenue to the tax rolls.

The total development cost for the Project is estimated to be \$65,700,000. 14th & Everett has proposed a preliminary financial structure for the Project that identifies RZFBs in the amount of up to \$31,000,000, \$7,000,000 in Historic Tax Credit equity, \$19,500,000 in developer equity, \$1,000,000 Governor's Strategic Reserve Fund grant from the Oregon Business Development Department, and subordinate debt from PDC in an amount to be determined. PDC staff anticipates bringing a loan package before the PDC Board for approval in October 2010.

If both the PDC Board recommends and City Council approves the preliminary inducement request and a final inducement request, staff anticipates that the RZFB closing will occur in November 2010. Construction is anticipated to be complete in November 2011. This preliminary inducement is not a guarantee to request a final inducement on behalf of 14th & Everett; such request shall be subject to PDC's and City's final review and approval, as required by the Portland City Code.

RISK ASSESSMENT

This action is for preliminary approval of a conduit issue of debt financing that has minimal risk to PDC. Staff plan to bring a gap financing loan package to the Board for approval in October 2010 and final approval of the RZFBs.

Pursuant to the American Recovery and Reinvestment Act of 2009 (ARRA) and IRS Notice 2009-50, the State of Oregon has been allocated \$155,175,000 of RZFB volume cap.

RZFBs are private activity bonds that are able to be issued as tax-exempt bonds. ARRA requires that RZFBs be issued no later than December 31, 2010. ARRA permits the State to suballocate RZFB volume cap to local governments for use on eligible projects in recovery zones. The Portland City Council has enacted Ordinance No. 183563, designating the entire geographical area of the city of Portland as a recovery zone. The Oregon Business Development Department has agreed to suballocate \$31,000,000 in RZFB volume cap to the City for the Project. The City has expressed its intent to issue RZFBs pursuant to the administrative procedures and requirements of PCC Chapter 5.72, for issuance of private activity economic development revenue bonds.

Pursuant to PCC Chapter 5.72, PDC is charged with the responsibility to process applications for private activity economic development revenue bonds. These bonds are called "conduit financing" because the City issues them; however, the bonds are not obligations of the City or PDC. The borrower, through a loan agreement with PDC and the City, assumes responsibility for debt service on the bonds.

WORK LOAD IMPACT

The recommended preliminary approval to the City Council of RZFBs for the proposed Meier & Frank Warehouse Project will have minimal impact to existing work plans and no impact to the budget. Business & Industry Division has the capacity to deliver necessary project work as part of the allocated staffing costs for Business Retention/Expansion. Central City Division staff has also allocated staffing costs associated with this real estate project.

ALTERNATIVE ACTIONS

The alternative action would be not to support preliminary approval of RZFBs for the Project. This will decrease the likelihood of the Project occurring and may also trigger the company to seek other locations for their headquarters expansion.

CONCURRENCE

The State of Oregon, Mayor Adams, and City's Office of Management and Finance were all consulted on the development of the Project. Discussions related to this Project began in July 2008, with recessionary economic conditions putting the Project on hold until early 2010.

The Oregon Business Development Department has agreed to suballocate additional RZFB volume cap to the City for the Project in an amount that will allow for total RZFB allocation of up to \$31,000,000 as well as providing a \$1,000,000 Governor's Strategic Reserve Fund grant.

BACKGROUND

Discussions related to this Project began in July 2008, with recessionary economic conditions putting the Project on hold until early 2010. Retention and expansion of Vestas headquarters operations was identified as a Tier 1 Urban Development Department Project in 2009 and has remained a priority since. Vestas is an international leader in the Wind Industry, one of three Clean Tech clusters we are focused on developing within in the region as part of implementing the City of Portland Economic Development Strategy.

Redevelopment of the building has been a priority for the agency and the River District Urban Renewal Area as it is a significantly blighted facility which has been vacant for nearly a decade. The Project will re-activate this highly visible property and serve as a key example of the positive impacts of urban renewal within the Central City, bringing job growth in addition to physical improvements to the site.