

PDC

PORTLAND DEVELOPMENT COMMISSION

DATE: October 26, 2011

TO: Board of Commissioners

FROM: Patrick Quinton, Executive Director

SUBJECT: Report Number 11-68

Authorize Intergovernmental Agreement with the City of Portland Office of Management and Finance for Property Disposition and Development of the Oregon Sustainability Center

EXECUTIVE SUMMARY

BOARD ACTION REQUESTED

Adopt Resolution No. 6906

ACTION SUMMARY

The action will authorize the Portland Development Commission (PDC) Executive Director to enter into an Intergovernmental Agreement (IGA) with the City of Portland Office of Management and Finance (OMF) for the land disposition and development of the Oregon Sustainability Center (the Center). The action would also authorize the PDC Executive Director to enter into a Construction Equity Agreement (attached as Exhibit D to the IGA) consistent with PDC's Business and Workforce Equity policies and reflecting the Center's commitment to social equity. The Center, to be located at SW 4th Avenue and SW Montgomery Street in downtown Portland in the South Park Blocks Urban Renewal Area (SPBURA), is designed to be the first urban high-rise office building pursuing net zero energy, water, and waste water, and the criteria established by the International Living Future Institute's (IFCI) Living Building Challenge. The Center is intended to reinforce Portland as an international leader in advanced green building and clean technology.

The project's current total development cost estimate is \$62 million. The IGA will contingently commit the following PDC resources to the project, totaling \$10.45 million:

- Approximately \$4.1 million in tax increment finance (TIF) funding, including \$1.5 million to prepare design and construction documents and approximately \$2.6 million provided for project construction; and
- 0.77 acres of PDC-owned property valued at \$3.85 million;
- Approximately \$2.5 million in program revenues from the close out of the SPBURA over the next 15 years.

The project is a partnership effort between the City and the Oregon University System (OUS), Portland State University, nonprofit organizations, and the business community. OMF, through a development agreement with the OUS, will be responsible for final design, permitting, financing, construction, and ownership of the Center. A two-page project summary is included as Attachment -A".

PUBLIC BENEFIT

Portland's history of supporting high-performance design and construction has helped local and regional companies develop sought-after expertise, and Oregon firms now routinely provide design, engineering and consulting services to major development projects in China, Korea, and the Persian Gulf States. Early adoption of green building policies for City facilities and projects receiving PDC funds played an important role in building demand for this expertise. Similarly, by housing the Office of Sustainable Development as an original tenant in the reconstructed Natural Capital Center (the Ecotrust Building)—the first LEED Gold historic renovation and a path-breaking building—the City made a business commitment to high-performance buildings that lent credibility and stability to an emerging economic sector.

The Center is proposed as an investment in Portland's economy that would give Oregon companies a position of global leadership in super-high-performance design and construction. It would also serve as a real estate investment by PDC and the City that would house the Bureau of Planning and Sustainability.

The Center's approximately 130,000 gross square feet is intended to serve as:

- an investment in Oregon's economy, building on our clean-technology expertise and giving local firms involved in green building a competitive advantage in the global economy;
- high-performance office space for private firms, academia, non-profit organizations, and public owners and tenants, converting underdeveloped land in Portland and on the Portland State University (PSU) campus into a mixed use office and institutional building;
- a tangible demonstration of Oregon's commitment to advancing social equity by integrating equity commitments, benchmarks, and programming into each phase of building construction and operation;
- a living laboratory to drive advanced research and commercial innovation and connect university researchers with industry partners, including through a consortium of university and private firms convened by the Oregon Built Environment & Sustainable Technologies Center (Oregon BEST) to spur development of new businesses in Oregon based on new green building construction techniques and innovations as integrated in the Center's performance;
- an educational facility, including a 350-seat classroom;
- an investment in Oregon companies through sourcing materials locally, as required by the Living Building Challenge;
- a new global standard-bearer for high-performance buildings, as the tallest Living Building in the world; and
- a major construction project that will generate approximately 780 direct and indirect jobs and more than \$100 million of total economic impact.

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

In 2009, the selection of a team to complete the Center's feasibility study was conducted via a competitive solicitation process. This process included public presentations by four short-listed proposing teams, and resulted in the selection of the team led by Gerding Edlen Development. Outreach during the feasibility study included a week-long eco-Charrette attended by over 80 people representing a diverse cross section of organizations working in sustainability in Oregon. Outreach also included a public blog to provide ongoing updates and receive input, as well as two public open houses, each attended by over 200 people.

On August 4, 2010, via Resolution No. 36808 the Portland City Council (City Council) committed to pursue a mutually agreeable partnership with OUS for the Center; directed the Bureau of Planning and Sustainability (BPS) and PDC staff to initiate schematic design for the Center; and directed further analysis of the proposed development by BPS, PDC, and the Office of Management and Finance (OMF).

During schematic design, OMF in partnership with PDC and BPS completed a full financial and risk analysis for the City. As part of this design phase, extensive public outreach was conducted. Specifically, the project team conducted two public meetings to review design and programmatic elements; created and updated a website and Facebook page to provide information and solicit feedback; established subcommittees to examine and provide feedback on informational technology, research and commercialization, and social equity; and provided presentations to Portland's minority Chambers of Commerce and various community-based construction industry associations.

On September 21, 2011, City Council approved three items: via Ordinance 184919, authorization for the City to enter into this IGA; via Ordinance 184920, authorization of a City-OUS Intergovernmental Agreement for construction drawing costs; and via Resolution 36880 instruction to City and PDC staff to enter into a disposition and development agreement (Development Agreement) discussions with OUS covering terms related to Center ownership, financing, and construction management.

The Oregon Legislature initially approved the Center's OUS bond authorization in 2009. Since 2009, the project progressed with substantial completion of due diligence, conceptual planning, and schematic design. In summer 2011, as part of the 2011-2013 budget discussions, the Oregon Legislature did not carry forward the project's previously approved bond limitation, instead seeking additional information concerning the Center pursuant to a legislative budget note (HB 5005-5006) for consideration in February 2012. On September 22 and 23, 2011, the project team presented a budget note response to the Interim Joint Ways and Means Committee which accepted the report, without recommendation on bond reauthorization. The team plans to return to the Legislative Assembly in February 2012 for bond reauthorization.

In addition to all of the above opportunities for public participation and comment, the Center has had extensive involvement from the business community ranging from technical

discussions to fundraising to tenanting interest. Significant private business support is evidenced by signed partnership letters of commitment from companies who have identified the Center as an opportunity to test new technologies and help Oregon and Portland extend its leadership in the green economy, including Sanyo, Portland General Electric (PGE), CertainTeed, Intel, Cisco, and Neil Kelly. In addition, Umpqua Bank has committed to tenant a first floor “store” that will include interactive technology and other design features to educate consumers and businesses about sustainability.

COMPLIANCE WITH ADOPTED PLANS AND POLICIES

Entering into this IGA supports the following PDC and City approved plans and policies:

- *South Park Blocks Urban Renewal Plan* (1985, adopted by City Council through Ordinance No. 157635): calls for maintaining Portland's role as the major regional employment, population, cultural center by encouraging expanded opportunities for jobs. The ownership structure of the Center has been clarified during the schematic design phase, with joint ownership to be between the City of Portland and OUS. Prior to expending funds on the construction of the Center, the PDC Board will need to amend the SPBURA plan to enable tax increment finance (TIF) funds to be spent on a public building.
- *University District Plan* (1995, amendment to the Central City Plan adopted by City Council through Ordinance No. 168702): identifies the University District as a vital, multi-cultural, and international crossroads with an environment which stimulates lifelong learning and collaboration between business and government.
- *Green Building Policy* (2001, adopted by City Council through Resolution No. 35956): outlines green building requirements that have helped position Portland as a leader in sustainable development, including contributing to Portland's 108 LEED Certified buildings today, second in the nation.
- *Climate Action Plan* (2009, adopted by City Council through Resolution No. 36748): a joint adoption with Multnomah County, calls for the reduction of local greenhouse gas emissions by 80 percent from 1990 levels by 2050.
- *City of Portland Economic Development Strategy* (2009, adopted by City Council through Resolution No. 36714): outlines the City's goal to have the most sustainable economy; identifies the clean tech and sustainable industry cluster as one of four target industry clusters for the City; and calls for the development of the Center to foster the next generation built environment.
- *PDC Strategic Plan* (2010, adopted by the PDC Board by Resolution No. 6767): guides PDC's business plans, activities, and investments from 2010 through 2014, and includes key actions of partnering with higher education institutions to drive and commercialize research and innovation in support of cluster growth and developing the next generation of green building practices through projects such as the Center.

FINANCIAL IMPACT

The project's current total development cost estimate is \$62 million to be financed through multiple sources. Since this project was last considered by the Board, the funding gap has been closed due to the announcement of a federal Economic Development Administration award of \$1.5 million and added foundation and private sector commitments. Proposed funding sources for the project include:

- \$36.2 million in OUS XI-F revenue bonds which are fully funded via tenant lease payments;
- \$3.0 million in OUS cash;
- \$8.2 million in City of Portland bonds;
- \$8.75 million in PDC TIF and land resources;
- \$5.5 million in grants, fundraising, and in-kind contributions.
- \$62 million total

The land and \$4.1 million in TIF resources were included in the SPB URA Approved FY 2011-12 and Forecast Years Budget as shown in Attachment -B", although assumed fully expended in FY 2010-2011. Note that the \$6.7 million identified in the budget for the Center (B15201346) includes \$4.9 million in TIF and \$1.8 million in the value of the land based on prior assumptions and appraisals. A September 2011 appraisal indicated the value of the property to be \$3.85 million. Of the budgeted FY 2010-2011 amount, \$645,766 was spent on schematic design phase activities. The carry forward TIF amount, along with the updated land value, will be reflected in the revised FY 2011-12 budget to be reviewed by the Commission in November 2011.

RISK ASSESSMENT

OUS is seeking Legislative reauthorization of \$37 million bond limitation in February 2012. OUS is requesting Article XI-F bonds which require tenants and leases to pay down the bonds over a 30 year term. This limitation request is slightly higher than the currently assumed project sources of \$36.2M in OUS bonds in order to accommodate possible interest rate fluctuations and minor changes in gifts and grants to the project between now and the time of bond issuance. There is a risk OUS will not receive reauthorization in February 2012. If the Legislature does not reauthorize the bonds, feasible alternative financing mechanisms would need to be found or the project would not proceed. Design dollars expended by PDC are at risk if the reauthorization being sought is not received.

There is a risk the building will not be fully tenanted prior to construction starting. Together, Oregon State University, Portland State University, Oregon BEST and the City will occupy approximately sixty percent of the building. The project team has LOIs and contingent commitments with other partner tenants for approximately 20,000 GSF of the Center's leasable space and has various active conversations underway for the available leasable space. Approximately 25,000 GSF is currently untenanted, speculative office space; the project team is continuing discussions with private, for-profit companies like GBD Architects, Skanska, and Cisco. Resolution 36880 approved by Council requires lease commitments for 90% of the leasable space before the City will authorize commencement or funding of construction

There is a risk that tenants may not fulfill the terms of their leases, or may not renew leases and the space may be difficult to lease at rents capable of repaying the bonds. This is a risk that would be assumed and shared jointly by the City and OUS as owners of the building, with the City's ownership share increasing to reflect any net City contribution to leasable space costs.

There is a risk the environmental conditions on the property will preclude redevelopment or will be prohibitively expensive to support development of the Center. PDC has conducted extensive environmental analysis and remediation efforts on the property since 2002. In addition, PDC is conducting a Phase I Environmental Site Assessment that will be completed in the next month and prior to property conveyance to identify the presence of any Recognized Environmental Conditions (RECs). This IGA establishes a cap of \$500,000 for any additional resources PDC may consider investing to clean up RECs on the property and requires seeking Board approval for any additional investment.

The Center is designed to be the first high-rise Living Building constructed in a downtown setting. There is a risk the building will not meet the Living Building Challenge as achieving this designation relies both upon technology as well as changes in tenant behavior from those of a typical office space. The project team has incorporated energy and water usage contingencies into the project design ; has tenant partners who are committed to conform to these requirements; and incorporated behavior expectations into draft lease agreements under negotiation. Although the Center is being designed as a net zero energy, potable water, and wastewater over the course of a year, the Center will have back up connections to customary utilities as required by code.

WORK LOAD IMPACT

The Center is a Tier One project for PDC, and existing Central City and Business & Industry staff will be managing the redevelopment and commercialization workloads, respectively. As a result of this IGA, design contract oversight and OUS partnership responsibilities will shift to the City. However, PDC staff will continue to manage other elements of the project including continuing to pursue green development cluster industry partnerships and opportunities.

ALTERNATIVE ACTIONS

The Board could elect to:

- not authorize the IGA; or
- authorize the IGA but with a lesser PDC financial contribution; or
- direct staff to renegotiate specific terms of the IGA and bring the revised IGA back to the Board for authorization at a later date.

Not authorizing the IGA project would likely eliminate the potential for the Center to be completed as PDC owns the property and the Center cannot be completed without PDC's provision of the land for the project. In addition, PDC funds are an essential component of the funding sources for final design and construction. Not authorizing the IGA at this time would also impact the project schedule both in terms of other funding commitments involved in the project's financing and in terms of tenant commitments. Both nonprofit and private

tenant partners have existing leases and need a firm timeline to make solid business decisions and commitments.

Authorizing the IGA with a lesser PDC financial contribution would likely put the project in jeopardy as PDC's funds are an essential component of the funding sources for the final design and construction. The project team would need to identify alternative sources of funding, which may not be possible.

Directing staff to renegotiate specific terms of the IGA would cause a delay in the project schedule and would require OMF to return to Council for both the changes to this IGA and, potentially, the OUS-City Intergovernmental Agreement also approved by Council.

CONCURRENCE

Development of the OSC is a key action item in the 2009 *City of Portland Economic Development Strategy: A Five-Year Plan for Promoting Job Growth and Economic Growth* as approved by the Board and City Council, as well as the 2010 *PDC Strategic Plan* as approved by the Board. Specific concurrent actions by the City Council are described in the above Public Participation section.

BACKGROUND

Between 2002 and 2004, PDC acquired the two parcels at SW Fourth and Montgomery Street on Block 153 near the Portland State University (PSU) campus between 2002 and 2004 for a total of \$3.6 million pursuant to the 1995 *University District Plan* and the 2002 *Montgomery Blocks Redevelopment Strategy*. A map is provided in Attachment -G".

In early 2009, the City, the Oregon University System (OUS), the Oregon Living Building Initiative (OLBI) - a group of several sustainability-focused organizations, the Portland Sustainability Institute (POSI), Portland Community College (PCC), and the PDC initiated a feasibility study for the Center to be located on this PDC-owned site. The feasibility study was completed in July 2009 and study findings were presented to the PDC Board. At that time, the Center was projected to be approximately 220,000 gross square feet (GSF).

Entering into schematic design, the team was instructed to reduce the building's gross square footage (GSF) to approximately 133,000 GSF based on current tenant discussions. Schematic design resulted in a 130,129 GSF project, with a design that could accommodate one additional floor in the event additional tenant commitments are made.

Program and Design

The Center will include the following space allocations and tenants:

- 8,700 GSF retail and conference center;
- 45,000 GSF OUS research, office, and classrooms;
- 33,000 GSF office space for the Bureau of Planning and Sustainability; and
- 44,000 GSF office space for non-profit and for-profit companies and organizations.

The retail and public spaces on the lower floors are planned to include an educational exhibit space with interactive displays and signage to tell the story of the region's innovations in sustainable technologies, policies, and practices. Lower floors will also include lecture halls and

classrooms to support academic purposes. Full schematic design renderings and floor plans are provided as Attachment -D”.

ATTACHMENTS:

- A. Oregon Sustainability Center Quick Facts
- B. FY 2011-2012 SPB URA Adopted Budget
- C. Project Site Map
- D. Schematic Design

PROJECT QUICK FACTS

Project Costs:

Project Schedule*

<u>Project Uses:</u>	<u>Costs:</u>		<u>Project Phasing</u>	<u>Timeline</u>
Design	\$17,860,000		Schematic Design	Complete
Construction	\$38,667,000		Design Development to 50% Construction Documents and GMP	4-5 months
Land	\$ 3,850,000		Complete design and construction	18 months
Financing	\$ <u>1,318,000</u>		Facility Opens	Winter 2013*
Total	\$61,695,000			

*subject to Legislative approval in February 2012

Project Funding:

<u>Sources:</u>	<u>Amount:</u>	<u>% of Total</u>
OUS Bonds – State Article XI-F (General Obligation bonds)	\$36,183,000	58.65%
City Bonds – City of Portland Limited Tax Revenue Bonds	\$ 8,247,000	13.37%
City Tax-Increment Financing	\$ 4,900,000	7.94%
City Land Contribution	\$ 3,850,000	6.24%
OUS Cash	\$ 3,000,000	4.86%
New Market Tax Credits	\$ 2,000,000	3.24%
Energy Trust Credits	\$ 500,000	0.81%
Private Contributions	\$ 1,200,000	1.95%
Metro Grant	\$ 40,000	0.06%
Flora Foundation	\$ 25,000	0.04%
Meyer Grant	\$ 250,000	0.41%
Pending Federal Grant	\$ <u>1,500,000</u>	<u>2.43%</u>
Total	\$61,695,000	100.00%

Project Tenants:

<u>Entity</u>	<u>Gross Square Feet</u>	<u>Percentage of Total</u>
Retail	4,794	3.68%
Portland State University	34,757	26.71%
Oregon State University	6,273	4.82%
Oregon BEST/Research	3,613	2.78%
City of Portland – Bureau of Planning and Sustainability	33,475	25.72%
Oregon Environmental Council	3,327	2.56%
Earth Advantage	9,845	7.57%
International Living Future Institute	2,680	2.06%
River Network	2,828	2.17%
For-profit office	24,607	18.91%
Conference Center	<u>3,930</u>	<u>3.02%</u>
Total	130,129	100.00%

Project Goals:

1. **Economic Impact of Construction** – 780 jobs (direct + indirect) and more than \$100M total
2. **Global Leadership and Innovation** – New global standard for high performance building reflects Oregon’s leadership, innovation and expertise.
3. **Oregon Firms, Jobs and Workforce Development:**
 - a. The solar energy system on the top of the building will be comprised of:
 - i. Photovoltaic panels that lead the industry in energy production and that use silicon manufactured by Sanyo (Salem, OR);
 - ii. Industry-leading inverters manufactured by PV Powered (Bend, OR); and
 - iii. Racking system for mounting the solar panels manufactured by Sun Storage (Joseph, OR) using aluminum extrusions from Sapa Extrusions (Portland, OR).
 - b. Oregon Electric Group and Interface Engineering, both in Portland, will design and deploy an experimental cutting-edge DC loop utilizing a large-scale lithium-ion battery storage system to optimize the efficiency of a the building’s solar energy system.
 - c. Charter Mechanical (Tualatin, OR) will deploy the advanced mechanical and plumbing systems in the building needed to achieve net-zero performance goals.
 - d. McKinstry (Portland, OR) will develop the systems to allow real-time energy monitoring, fault detection, weather normalizing and other relevant methods to optimize performance.
 - e. SERA Architects and GBD Architects, both in Portland, will design the auditorium to incorporate an innovative daylighting solution.
 - f. InSpec (Portland, OR) will design and install the first PV project in the U.S. to utilize Sanyo’s highest efficiency panels.
 - g. Orenco Systems (Sutherlin, OR) and Lando & Associates (Portland, OR) will work with and learn from market-leading Natural Systems Inc. regarding how best to design and implement aggressive on-site water capture and reuse strategies.
4. **Research and Commercialization** – Oregon BEST, multiple university faculty and firms collaborating via the newly launched Consortium for Sustainable Built Environment Research, a member-driven consortium of industry and researcher partners pooling resources and expertise
5. **Education and Public Outreach** – an action center and a conference center showcases Oregon’s leadership in sustainability, engages local, state, national and global communities around sustainable practices, and engages and collaborates with businesses in sustainable industries

URA FINANCIAL SUMMARY

Five-Year Forecast Project Requirements

	FY 2010-11	FY 2011-12	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16
South Park Blocks URA						
Resources						
Beginning Fund Balance	18,327,122	5,801,939	2,833,864	4,127	245,527	454,194
Interest on Investments	70,000	25,000	20,000	20,000	10,000	10,000
Loan Collections	68,732	98,400	98,400	98,400	75,667	30,111
Property Income	1,800,000	0	0	0	0	0
Reimbursements	0	0	0	133,000	133,000	133,000
Total Fund Resources	20,265,854	5,925,339	2,952,264	255,527	464,194	627,305
Requirements						
Program Expenditures						
Administration						
Finance Admin						
H98001 Debt Management	10,000	10,000	10,000	10,000	10,000	10,000
Strategic Planning/Policy & Prgm Dvlpmt						
H92110 Westside/Central City Study	19,787	0	0	0	0	0
Administration Total	29,787	10,000	10,000	10,000	10,000	10,000
Business Development						
Business Lending						
H79020 Business Finance	1,017,956	270,000	0	0	0	0
Cluster Industry Development						
H70021 Oregon Sustainability Center	6,700,000	0	0	0	0	0
Business Development Total	7,717,956	270,000	0	0	0	0
Housing						
PHB Housing						
H12027 Jefferson West Apartments	86,000	86,000	86,000	0	0	0
H12035 Martha Washington	281,156	0	0	0	0	0
H12036 Admiral Apartments	370,000	0	0	0	0	0
H12037 Chaucer	2,615,000	35,000	0	0	0	0
H34510 SPB Section 8 Preservation	0	1,946,254	1,181,000	0	0	0
H34525 University Place	315,622	0	0	0	0	0
Housing Total	3,667,778	2,067,254	1,267,000	0	0	0
Infrastructure						
Transportation						
H12099 SPB Streetcar/Scapes Imp	50,000	100,000	1,350,000	0	0	0
Infrastructure Total	50,000	100,000	1,350,000	0	0	0
Property Redevelopment						
Commercial Real Estate Lending						
H28030 Redevelopment Loan Projects	708,000	0	0	0	0	0
Community Redevelopment Grants						
H27001 Storefront Grants	200,000	118,000	0	0	0	0
Property Redevelopment						
H10221 Transit Mall Revitalization	112,427	0	0	0	0	0
H12101 Downtown Retail Strategy	124,000	0	0	0	0	0
Property Redevelopment Total	1,144,427	118,000	0	0	0	0
Total Program Expenditures	12,609,948	2,565,254	2,627,000	10,000	10,000	10,000
Personal Services	270,366	245,047	94,572	0	0	0
Transfers - Indirect	1,342,735	46,701	158,263	0	0	0
PHB Staff/Admin	296,520	234,473	68,302	0	0	0
Total Fund Expenditures	14,519,569	3,091,475	2,948,137	10,000	10,000	10,000
Contingency	5,746,285	2,833,864	4,127	245,527	454,194	617,305
Ending Fund Balance	0	0	0	0	0	0

Five-Year Forecast Project Requirements

	FY 2010-11	FY 2011-12	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16
Total Requirements	20,265,854	5,925,339	2,952,264	255,527	464,194	627,305

PROJECT SITE MAP

- Project Name:** Oregon Sustainability Center
- Description:** Approximately 130,000 gross square feet (GSF) of mixed use
- Location:** SW 4th Avenue and SW Montgomery Street
- URA:** South Park Blocks
- Current Phase:** Final Design; Financing; Construction
- Next Milestones:** Design and Construction Documents/Guaranteed Maximum Price; Firm Tenant Commitments and Funding Approvals; OUS-City of Portland Development Agreement; Construction
- Completion Target:** 2014

Site/Project Map:



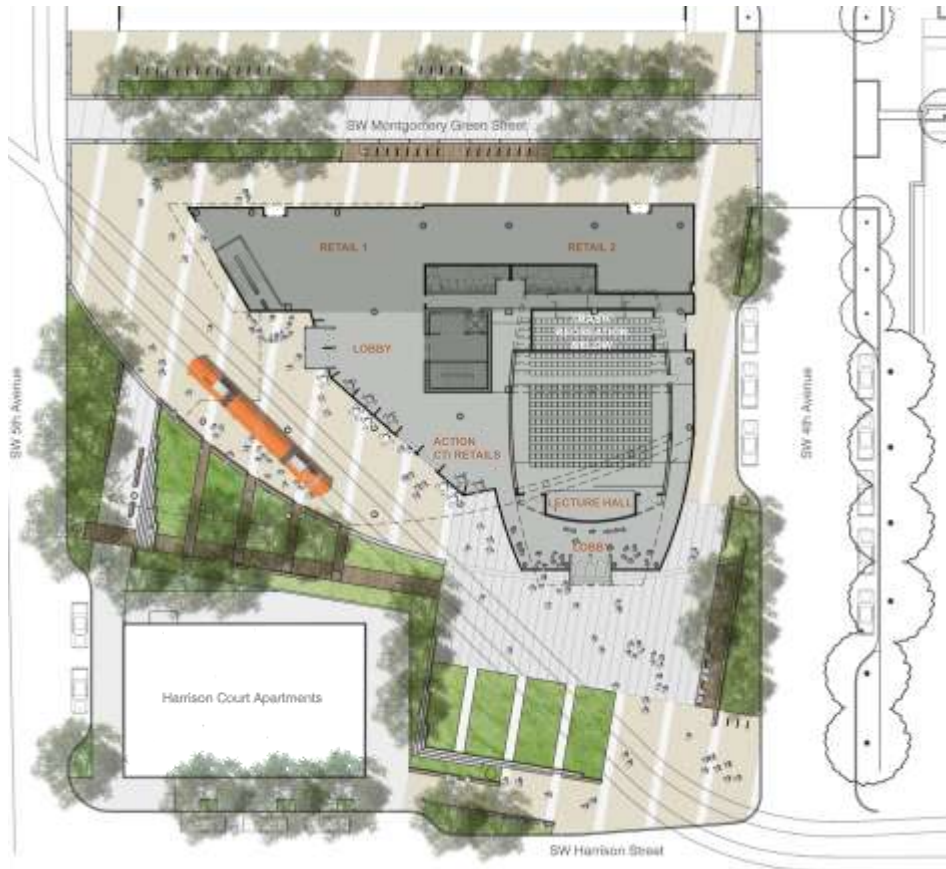
SCHEMATIC DESIGN



View from northwest



View from south



Ground floor plan



Section perspective