



DATE: December 14, 2016
TO: Board of Commissioners
FROM: Kimberly Branam, Executive Director
SUBJECT: Report Number 16-62

Amending the Terms for a Parking Structure Development Agreement with Mortenson Development for the Design and Construction of the Convention Center Hotel Parking Garage

BOARD ACTION REQUESTED

Adopt Resolution No. 7222

ACTION DESCRIPTION

This action by the Portland Development Commission (PDC) Board of Commissioners (Board) will authorize amended terms for the development of a 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). The terms previously authorized by the PDC Board on February 10, 2016 by Resolution No. 7165 included an estimated budget and Lump Sum Contract Price of \$25,895,391. The amended terms include a revised budget and Lump Sum Contract Price of \$32,200,000.

When constructed, the 442-stall PDC-owned Parking Garage (Garage) will meet several public objectives: (i) supporting the yet-to-be-built 600-room Convention Center Hotel (Hotel) by providing required customer parking facilities; (ii) providing ground floor space and parking to TriMet for critical agency operations; (iii) providing a platform for development of an office building on top of the Garage; and (iv) creating a long-term revenue stream to PDC in the form of valet and other parking income.

BACKGROUND AND CONTEXT

Convention Center Hotel. 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 supporting development of a Convention Center Hotel; this included acquisition of Block 49 for \$1,274,295, as well as other nearby properties.

Since 2004, PDC has partnered with Metro – owner and operator of the Oregon Convention Center – to pursue efforts to build a hotel in support of the Oregon Convention Center URA Plan. 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 which were 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. Through this process, Metro selected Mortenson Development (Mortenson), with local developer StarTerra LLC, for the Hotel development, and the PDC Board approved Metro's selection through Resolution No. 6964 in September 2012.

In June 2014, Metro Council approved the 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 to Mortenson for \$1,300,000 of PDC-owned property, Block 47, to the east of the identified Hotel site for integration into the Hotel design and development. With commencement of design, PDC also entered into discussions with Mortenson and Metro regarding placement of the Garage on Block 49.

Garage. 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 Garage to support the adjacent Hotel. During this design phase, TriMet approached PDC with a proposal to purchase a condominium interest in the Garage at the ground floor for a transit police precinct. In February 2016, the PDC Board, through Resolution No. 7165, authorized entering into a development agreement with Mortenson for the development of the Garage for an amount not to exceed \$25,895,836. The resolution noted PDC's intent to sell to TriMet a portion of the Garage ground floor and approximately 50 secured parking spaces for \$7,000,000 to \$8,000,000.

On the same date, the PDC Board approved Resolution No. 7166 which authorized entering into an easement agreement with Hyatt Corporation for the use of the Garage, and also Resolution No. 7167 which authorized the terms for a parking operations and valet services management agreement for the Garage.

Since then, PDC and Mortenson have advanced the design of the Garage through 50 percent design development, including approval by the Portland Design Commission on October 27, 2016, and have continued to coordinate with TriMet on the design of the lower level and first floor commercial space and secured parking to meet TriMet's needs. PDC and TriMet have tentatively agreed for TriMet to purchase the condominium for the transit police precinct on the lower level and first floor of the Garage for \$9,000,000. The proposed sale of the TriMet condominium will be presented to the PDC Board separately.

The cost of the garage has increased from approximately \$25,900,000 in February 2016 to approximately \$32,200,000 for the following reasons:

1. Approximately \$1,600,000 in additional foundation superstructure to support the future development of an office building on top of the Garage has been included in the Garage design and cost. This will enable PDC to construct an office building on top of the Garage without having to redesign and reconstruct the foundation for the office building. It will also allow TriMet to occupy the transit police precinct on the ground floor of the Garage without disrupting its operations. Earlier designs presumed ground floor uses would be suspended for office construction. The current Garage design includes a total of approximately \$3,000,000 in foundation superstructure to support the future office building.
2. Approximately \$2,100,000 in increased development costs associated with TriMet's design specifications. TriMet's commercial space has increased to approximately 19,000 square feet and TriMet also requires 47 secured parking spaces. These increased development

- costs will be passed through to TriMet's Purchase and Sale Agreement to purchase a condominium interest in the Garage to operate a transit police precinct.
3. Approximately \$2,300,000 in increased development costs associated with design changes required by the Portland Design Commission. These changes include adding ground floor retail space, enclosing ground floor bicycle parking, and modifying the exterior design and materials.
 4. Approximately \$320,000 in costs associated with the 1.5 Percent for Green Technology in Public Buildings program required by Oregon Revised Statutes (ORS) 330.135.0010. This cost was previously unanticipated but has been determined to apply to the Garage. Implementation of the required green technology may be deferred to construction of the office building on top of the Garage.

The most recent cost estimate, which serves as the preliminary budget in the Development Agreement with Mortenson, is based on the 50 percent design development architectural package. Mortenson will complete 100 percent design development in February 2017, and 50 percent construction documents by May 2017. The cost estimate for the 50 percent construction documents will serve as the basis for PDC and Mortenson to agree to a final budget.

To determine the reasonableness of the preliminary budget and the potential for costs to increase between the current preliminary budget and the final budget (which will establish the lump sum contract amount), PDC engaged Inici Group to evaluate the cost estimates. Inici Group concluded the current budget is "more than adequate" to complete the project with construction starting in 2017, that likelihood is "extremely low that a final development cost would exceed the October 2016 budget based on current market rate costs," and that there is a potential for cost savings.

To ensure the final budget is sufficient but not in excess of what is needed to complete the Garage, Inici Group recommends: (1) PDC conduct an independent review of the project costs upon completion of the 50 percent construction documents; and (2) review and negotiate soft costs with Mortenson. PDC will implement these recommendations.

Office Air Rights. As noted above, the current Garage design and budget includes approximately \$3,000,000 in foundation superstructure costs to support the future construction of an office building on top of the Garage. A July 2015 appraisal of the air rights estimated there are approximately 319,000 square feet of air rights above the Garage with a value of approximately \$6,500,000. The foundation superstructure is designed to support approximately 100,000 square feet of office. PDC has examined alternative methods of disposing of or developing air rights and concluded the \$3,000,000 initial investment in foundation superstructure has very little risk and produces the following benefits:

- Adds additional value to the Property;
- Better aligns the Garage and future office with Portland's land use policies that encourage high-density, mixed-use projects along transit lines and efficient use of parking structures;
- Addresses concerns of the Portland Design Commission which favored the density and urban design of the office tower; and
- Creates potential for future revenue to be used for other PDC strategic priorities and programs.

PDC can effectively develop these air rights, or a portion of these air rights¹, through one of three mechanisms: (1) market and sell the air rights to a developer who would then be responsible for developing an office building; (2) contribute the air rights and garage superstructure as equity and partner with a developer to develop an office building; or (3) borrow funds to independently develop the office building. PDC staff is evaluating the benefits and risks of these different disposition and development options and anticipates moving forward with a disposition and development plan for these office air rights in 2017.

COMMUNITY AND PUBLIC BENEFIT

Public benefits include:

- The Garage is essential 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 region.
- The primary function of the Garage will be to serve Hotel patrons, and it 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.
- Developing the Garage in concert with the Hotel provides the opportunity for enhanced urban design in the Lloyd District and along NE Holladay Street and improved connection between the Oregon Convention Center and the Rose Quarter.
- Developing the Garage will provide the foundation for a future office building on top of the Garage that is consistent with and will implement the Central City 2035 Plan, will increase density and activity along the existing MAX light rail line, and will increase property tax revenues to the taxing jurisdictions.
- Developing the Garage will generate approximately \$1,850,000 per year in net operating income to PDC which can be used to support other strategic priorities and programs.

PDC’s Business and Workforce Equity Policy and Green Building Policy will apply to the design and construction of the Garage.

PUBLIC PARTICIPATION AND FEEDBACK

There has not been any public outreach specific to the request to amend the Development Agreement to increase the budget to \$32,200,000. Significant public outreach and discussion has occurred throughout the various phases of development of the Convention Center Hotel – led by both PDC and Metro. Development of the Hotel and associated Garage continues to be a top priority of Lloyd District stakeholders. The PDC Central City Budget Advisory Committee advocated for allocating Oregon Convention Center URA resources towards the Parking Garage, recognizing its critical role in the development of the Hotel. The concept of selling a condominium interest in the Garage to TriMet was presented to the PDC Board and included in Resolution No. 7165 approved by the PDC Board on February 10, 2016.

¹ Based on current market conditions in Portland, PDC does not anticipate that full utilization of the 320,000 square feet of air rights is feasible in a single office building.

BUDGET AND FINANCIAL INFORMATION

Pursuant to ORS 294.460, the PDC Board previously instructed staff to consider allowing the Business Management Fund to enter into an interfund loan as needed for land acquisition and the PDC share of the Garage. The fiscal year (FY) 2016-17 Oregon Convention Center URA Adopted Budget and Five Year Forecast (Budget) anticipates this loan structure. However, since adoption of the Budget, staff has decided not to pursue the Business Management Fund interfund loan. The primary reason for this is staff's lack of confidence that the loan can be repaid within ten years, which is a requirement of ORS 294.460.

The FY 2016/17 Budget currently includes \$30,600,000 for design and development of the Garage as expenses and \$7,495,842 as income from the sale of the condominium unit to TriMet (see Attachment B). Since adoption of the budget, the Garage construction cost has increased to \$32,200,000 and the TriMet condominium purchase price has increased to \$9,000,000. Approximately \$1,600,000 in funds currently budgeted in the Rose Quarter Master Plan line item will be reallocated to support construction of the Garage, and the income from the sale of the TriMet condominium will be increased to \$9,000,000. These changes will be reflected in the FY 2016-17 budget amendment anticipated to be presented to the PDC Board in March 2017.

RISK ASSESSMENT

The risks associated with this action include:

- Approximately \$1,400,000 will be incurred by Mortenson to complete the Garage design, entitlements, and construction drawings. These costs are at risk and will be paid by PDC to Mortenson if either the Hotel or Garage does not move forward;
- Although TriMet staff agreed on the sale of a condominium unit for a transit police precinct for \$9,000,000, the agreement may not be approved or executed by TriMet, which would reduce financial resources available in the Oregon Convention Center URA budget for other projects and programs;
- The financial assumptions associated with the operation of the Garage may not be accurate. In the event parking utilization by Hotel patrons and/or parking rates are lower than anticipated, PDC's net operating income will also be lower than anticipated. This would reduce PDC's financial return and financial resources available for other projects and programs;
- The cost of the Garage may increase and the Final Budget proposed by Mortenson at the conclusion of 50 percent construction documents may exceed \$32,200,000. This risk is mitigated by the Inici Group review of the current budget estimate and its conclusion that there is very low risk that costs will increase beyond \$32,200,000 with construction beginning in 2017. If this were to occur, PDC staff would return to the PDC Board to seek a budget increase; and
- There is a risk the final budget proposed by Mortenson will be lower than \$32,200,000 but in excess of the amount necessary to build the Garage. This risk is mitigated by the fact that (1) the final budget will be based on 50 percent construction documents, which will be more detailed and accurate than the current design documents; (2) the final budget will consist, in part, of competitive subcontractor bids for certain scopes of work which will minimize cost estimation errors; and (3) by PDC's commitment to conduct a detailed evaluation of Mortenson's cost estimates and soft cost expenditures, prior to agreeing to the final budget, to ensure they are consistent with market rates.

ALTERNATIVE ACTIONS

The PDC Board could decide to:

- Direct staff to incorporate new terms or changes to the terms and conditions into the development agreement;
- Direct staff to renegotiate specific terms and conditions; or
- Reject the proposed amended terms.

ATTACHMENTS:

- A. Project Summary
- B. Oregon Convention Center URA Financial Summary

PROJECT SUMMARY

Project Name:	Convention Center Hotel Garage Development Agreement
Description:	Amended Terms for a Development Agreement with Mortenson Development for the Convention Center Hotel Garage
Location:	Bounded by NE Holladay Street, NE 1 st Avenue, NE Multnomah Street, and NE 2 nd Avenue
URA:	Oregon Convention Center
Current Phase:	50% Design Development
Next Milestone:	50% Construction Documents and Final Budget
Completion Target:	June 2017
Outcome:	Agreement on Final Budget and Notice to Proceed to Construction



URA Financial Summary

**Financial Summary
Five-Year Forecast**

Convention Center URA Fund	Revised FY 2016-17	Forecast FY 2017-18	Forecast FY 2018-19	Forecast FY 2019-20	Forecast FY 2020-21
Resources					
Beginning Fund Balance	38,400,928	1,250,454	2,674,778	419,354	1,297,078
Revenue					
Fees and Charges	1,931	200	800	500	800
Interest on Investments	10,000	10,000	5,000	-	-
Loan Collections	415,349	421,823	1,183,500	834,036	699,347
Property Sales	6,304,500	-	-	-	-
Rent and Property Income	2,530,043	2,017,290	2,017,290	2,017,290	2,017,290
Reimbursements	50,000	-	-	-	-
Transfers In	102,510	7,495,842	900,817	9,289,177	953,348
Total Revenue	9,414,333	9,945,155	4,107,407	12,141,003	3,670,785
Total Resources	47,815,261	11,195,609	6,782,185	12,560,357	4,967,863
Requirements					
Administration					
A00027-Debt Management-CNV	30,045	30,045	30,045	30,045	30,045
Administration Total	30,045	30,045	30,045	30,045	30,045
Economic Development					
Business Lending					
A00206-BL -General-CNV	110,110	110,000	150,150	150,000	150,150
Economic Development Total	110,110	110,000	150,150	150,000	150,150
Housing					
A00168-Affordable Housing-CNV	5,080,000	4,000,000	-	-	-
Housing Total	5,080,000	4,000,000	-	-	-
Property Redevelopment					
Real Estate					
A00301-Block47-CNV	6,200	-	-	-	-
A00306-910 NE MLK Building-CNV	16,600	16,600	16,600	16,600	16,600
A00307-Frmr B&K Car Rental-CNV	10,500	-	-	-	-
A00309-Inn at Conv Ctr Mgmt-CNV	2,038,682	1,769,357	1,769,357	1,769,357	1,769,357
A00310-Block 49-CNV	13,350	3,350	3,350	3,350	3,350
A00312-Real Estate Mgmt-CNV	5,000	5,000	5,000	5,000	5,000
Redevelopment Strategy					
A00298-Eco District-CNV	2,500	2,500	2,500	-	-
A00303-Rose Qtr Master Plan-CNV	0	2,000,000	4,000,000	9,000,000	-
A00311-Project Development-CNV	5,000,000	-	-	-	-
Property Redevelopment Total	7,092,832	3,796,807	5,796,807	10,794,307	1,794,307
Total Program Expenditures	12,312,987	7,936,852	5,977,002	10,974,352	1,974,502
Personnel Services	93,517	83,979	85,829	88,927	90,794
Total Fund Expenditures	12,406,504	8,020,831	6,062,831	11,063,279	2,065,296
Interfund Transfers - Indirect Charges	1,287,005	500,000	300,000	200,000	100,000
Interfund Transfers - Cash Transfers	30,600,000	-	-	-	-
Contingency	3,521,752	2,674,778	419,354	1,297,078	2,802,567
Total Fund Requirements	47,815,261	11,195,609	6,782,185	12,560,357	4,967,863