



DATE: September 13, 2013
TO: Board of Commissioners
FROM: Patrick Quinton, Executive Director
SUBJECT: Report Number 13-35

Authorizing the First Amendment to the Disposition and Development Agreement to Convey 0.76 Acres of Real Property in the Central Eastside Urban Renewal Area to Key Development Corporation for \$1,542,000

BOARD ACTION REQUESTED

Adopt Resolution No. 7023

ACTION DESCRIPTION

This action will authorize the Executive Director to execute the First Amendment (Amendment) to the Disposition and Development Agreement (DDA) between the Portland Development Commission (PDC) and Key Development Corporation (Key) dated December 17, 2012, for the conveyance of Burnside Bridgehead Block 67 (Property), a 0.76-acre PDC-owned parcel. This Amendment will reduce the purchase price for the Property from \$1,650,000 to \$1,542,000 (Purchase Price) to account for incremental environmental costs identified during the due diligence period. Key will be responsible for the removal of approximately 2,000 tons of lightly contaminated soils located on the western portion of the Property and disposal in accordance with Oregon Department of Environmental Quality (DEQ) regulations. Pursuant to the original DDA, Key is purchasing the property as is. Any additional environmental costs, if any, will be the responsibility of Key.

During the due diligence period subsequent to execution of the DDA, Key conducted a Phase I Environmental Site Assessment (ESA). The analysis indicated the likelihood of an underground storage tank (UST) under the Property and lightly contaminated soils on the western half of the Property. At its expense, PDC subsequently removed the UST in June 2013. Additional investigation on the lower parking area revealed the presence of approximately 1,333 cubic yards (2,000 tons) of lightly contaminated shallow soils that exceed DEQ's Clean Fill Criteria. The incremental cost of disposing of these soils is estimated to be \$108,000, inclusive of a 20 percent contingency. This PDC Board of Commissioners (Board) action will reduce the Purchase Price by this amount.

BACKGROUND AND CONTEXT

Burnside Bridgehead Property. The Burnside Bridgehead Property, which consists of Blocks 67, 68, 76, and portions of Blocks 69 and 75, was acquired by PDC between 1998 and 2006 for the purposes of implementing a multi-block mixed-use redevelopment project. The Burnside Bridgehead Property is located within Portland's Central City, immediately across the Willamette River from the Central Business District.

Block 67. The Property is located in the southwest quadrant of the Burnside Bridgehead Property (Attachment A). The Property is located adjacent to the Burnside Bridge, the Burnside Skate Park (located under the Burnside Bridge), Convention Plaza (Block 68, which is being renovated by Beam

Development and now known as Eastside Exchange), and within two blocks of the recently opened Eastside Portland Streetcar Loop. The eastern half of the block, fronting NE 3rd Avenue, is vacant. The western half of the block, fronting NE 2nd Avenue, is a surface parking lot leased by PDC to nearby commercial businesses from which PDC receives approximately \$1,000 per month in revenue. There is a significant slope running north-south through the Property, so that the western half of the block (adjacent to the Burnside Skate Park) is significantly lower than the eastern half. The Property is zoned EXd, Central Employment with Design Review overlay.

Key Development Corporation Planned Development. Key was selected to be the developer of the Property as a result of the Request for Interest (RFI) issued on July 15, 2010. PDC and Key entered into a Memorandum of Understanding (MOU) dated April 4, 2011. Upon successful completion of the tasks and deliverables called for in the MOU, PDC and Key executed the DDA on December 17, 2012. The Purchase Price of \$1,650,000 established in the DDA was based on the property appraisal, which did not account for any incremental environmental costs.

Key is proposing to develop a mixed-use project that includes a 16-story market rate apartment residential tower over a five-level podium including commercial space and a naturally ventilated above-ground parking garage. The program includes 276 apartment units, approximately 21,000 square feet (SF) of commercial space, and 201 parking spaces. A landscaped green roof will be integrated at the podium roof. The total size of the building is approximately 340,000 SF, and the total development budget is approximately \$74 million.

Subsequent to executing the DDA, Key has completed the following major activities:

- Completed a Phase I ESA;
- Conducted a Green Building Eco Charrette;
- Participated in two Design Advice Requests (DARs) with the City of Portland Design Commission;
- Designed a foundation system consistent with the Eastside Big Pipe easement that runs through the Property;
- Coordinated with the Oregon Department of Transportation (ODOT) regarding the relocation of a 30-inch stormwater line that runs under the Property;
- Received a letter of intent from The Holt Group for a \$13.2 million equity investment;
- Completed the concept meeting and pre-application with the United States Department of Housing and Urban Development to receive Section 221(d)(4) mortgage insurance for a \$58 million loan to be provided by Walker & Dunlop; and
- Completed schematic design and submitted an application for Design Review approval.

Under the terms of the DDA, Key was anticipated to proceed with and complete development on only the eastern half of the Property, with a Phase II Project to “eventually be developed in accordance with the Vision, Objectives and Principles of the Framework Plan, to the extent feasible.” Although not required by the terms of the DDA, Key has advanced the redevelopment of the entire block as part of the Phase I project. In so doing, Key has encountered and successfully resolved issues with the Big Pipe easement, ODOT stormwater line, and incremental environmental costs associated with the lightly contaminated soils on the western half of the Property. Although this process has been more challenging and costly for Key than pursuing a smaller, half-block development, the proposed project will result in a more cohesive and complete redevelopment of the entire block. In addition, Key is on track for closing/conveyance to occur by June 14, 2014, which is the same timeline as established in the DDA.

COMMUNITY AND PUBLIC BENEFIT

Public benefits of executing the DDA Amendment include the following:

- Disposition of the Property will generate \$1.54 million in land sale proceeds that can be allocated by PDC to other project and program priorities within the Central Eastside Urban Renewal Area (CESURA);
- The Property will be redeveloped without direct financial assistance from PDC;
- The Property will be redeveloped with a privately owned mixed-use building that is estimated to generate between \$450,000 and \$550,000 per year in property tax revenues;
- PDC's Business and Workforce Equity (BWE) Policy will apply to the construction of the project, ensuring fair and equitable opportunities for Portland's diverse populations, promoting prosperity in all segments of Portland's diverse communities, and expanding competition in the market;
- Key will comply with PDC's Green Building Policy since sustainability is one of the primary goals identified in the Framework Plan; and
- Development of the Property will further implement the Burnside Bridgehead Framework Plan (Framework Plan) and build upon other recent activities, including completion of the Eastside Burnside-Couch Couplet in 2010, completion of the Eastside Portland Streetcar Loop in 2012, and the renovation of the Convention Plaza building by Beam Development that is anticipated to be complete in October 2013.

PUBLIC PARTICIPATION AND FEEDBACK

The Framework Plan was prepared with the advice and consultation of a 15-member Citizen Advisory Committee (CAC) and adopted by the Board on May 26, 2010. The Framework Plan set the stage for redevelopment of the entire four-block area. Three members of the CAC served on the evaluation panel that selected Key as the preferred developer for Block 67. Since that time, PDC staff has been working with Key to refine the scope of the project and agree to terms of a DDA. PDC staff has periodically provided updates on the status of the project to the CES Urban Renewal Advisory Committee (CESURAC) and project stakeholders.

Subsequent to execution of the DDA, Key has conducted periodic meetings with neighborhood groups and stakeholders, including the Kerns Neighborhood Association, Central Eastside Industrial Council, Burnside Skate Park, and Beam Development. In addition, stakeholders have had the opportunity to provide input at the two DAR hearings.

No direct public participation has taken place regarding the proposed DDA Amendment.

BUDGET AND FINANCIAL INFORMATION

The CESURA fiscal year (FY) 13-14 Adopted Budget currently includes funds for ongoing ownership, maintenance, and disposition of the entire Burnside Bridgehead Property (Attachment B). Specific to Block 67, the approved budget assumes \$1.65 million in revenue from the sale of the Property in accordance with the DDA. Since the proposed action reduces the Purchase Price to \$1,542,000, the budget will need to be amended to be consistent with the terms of the DDA. This change will not significantly impact the CESURA budget.

RISK ASSESSMENT

Entering into this DDA Amendment creates minimal risks for PDC since PDC is selling the Property for fair market value, does not have financial resources at risk, and Key will be responsible for removal and disposal of the lightly contaminated soils in accordance with DEQ regulations and is otherwise taking the property "as is." To the extent the incremental environmental costs may exceed \$108,000, Key is assuming that risk. Otherwise, the terms of the DDA and the associated risks remain the same as when PDC entered into the DDA in December 2012.

One of the risks with entering into the initial DDA with Key was that Key could terminate the transaction during the due diligence period. The due diligence period has been extended from March 18, 2013, to September 18, 2013, due to the unavoidable delay associated with resolving the incremental environmental costs identified during the due diligence period. Key has expressed satisfaction with all other aspects of the Property, has continually advanced the design and financing of the project, and is on track to close on the Property on or before June 14, 2014, as called for in the DDA. Upon approval and execution of this DDA Amendment and conclusion of the due diligence period on September 18, 2013, the risk that Key will terminate the transaction during the due diligence period will be eliminated and Key's earnest money deposit of \$89,500 will no longer be refundable.

ALTERNATIVE ACTIONS

The Board could decide to not approve the DDA Amendment or direct staff to renegotiate specific terms and conditions.

ATTACHMENTS:

- A. Project Summary
- B. CESURA Adopted FY 2012-13 Budget

PROJECT SUMMARY

- Project Name:** Burnside Bridgehead Block 67 Disposition and Development Agreement
- Description:** 0.76-acre vacant parcel zoned Central Employment with Design Review Overlay (EXd).
- Location:** East Burnside Street (Burnside Bridge), NE 2nd Avenue, and NE 3rd Avenue
- URA:** Central Eastside
- Current Phase:** Disposition
- Next Milestone:** Closing/Conveyance
- Completion Target:** June 2014
- Outcome:** Conveyance of Burnside Bridgehead Block 67 to Key Development Corporation for development of a 16-story, 340,000 square foot building with 276 market rate apartments, ground floor retail, and 201 structured parking spaces.



URA Financial Summary

Five-Year Forecast Program Requirements Detail

	Revised-3 FY 2012-13	Adopted FY 2013-14	Forecast FY 2014-15	Forecast FY 2015-16	Forecast FY 2016-17	Forecast FY 2017-18
Central Eastside URA						
Resources						
Beginning Fund Balance	3,153,893	3,122,882	5,047,443	6,597,404	7,082,712	7,889,990
Interest on Investments	10,000	10,000	10,000	10,000	5,000	5,000
Loan Collections	730,056	206,094	299,927	229,771	225,904	988,946
Property Income	2,331,000	1,656,000	1,116,810	791,000	0	0
Short Term Debt	2,775,975	2,997,000	2,997,000	3,996,000	3,905,514	3,641,876
Total Resources	9,000,924	7,991,976	9,471,180	11,624,175	11,219,130	12,525,612

Requirements

Program Expenditures

Administration

Financial Administration

A45101355 Debt Management-CES

20,000 18,000 18,000 18,000 18,000 18,000

Total Administration

20,000 18,000 18,000 18,000 18,000 18,000

Business Dev

Business Lending

L02100355 BIF-General-CES

200,000 300,000 300,000 300,000 300,000 300,000

Small Business & Community Dev

T01100355 OMEP-General-CES

25,000 0 0 0 0 0

B55808355 CES Entrepreneurial District-C

50,000 0 0 0 0 0

Traded Sector Business Dev

T01089355 Lean Manufacturing-CES

0 30,000 0 0 0 0

B55808355 CES Entrepreneurial District-C

0 150,000 150,000 150,000 150,000 0

B15100355 Cluster Development-CES

50,000 50,000 50,000 50,000 50,000 50,000

B15102355 Site Recruitment-CES

38,000 0 0 0 0 0

Total Business Dev

363,000 530,000 500,000 500,000 500,000 350,000

Infrastructure

Parks

N35514815 Eastbank/Asset Trsfr-CES-Adm

40,000 0 0 0 0 0

Public Facilities

N35525215 Community Center-CES-Adm

0 0 0 0 985,000 0

Transportation

N35534315 New Water Ave-CES-Adm

275,000 0 0 0 0 0

Total Infrastructure

315,000 0 0 0 985,000 0

Portland Hsg Bureau

PHB Housing

H15900355 PHB Staff & Admin-CES

46,106 40,619 115,429 338,003 149,531 97,123

H15430355 Affordable Rental Hsg-CES

0 0 800,000 2,300,000 0 0

Total Portland Hsg Bureau

46,106 40,619 915,429 2,638,003 149,531 97,123

Property Redevel

Commercial Property Redevelopm

P35572195 Conv Plaza Offc Bldg-CES-Adm

65,996 0 0 0 0 0

P35550115 ODOT Blocks-CES-Adm

0 100,000 0 0 0 0

P35591015 Public Outreach-CES-Adm

11,000 2,000 2,000 2,000 2,000 2,000

P35552215 CC 2035-CES-Adm

33,428 0 0 0 0 0

P35580185 Block75-Frmr Ararat-CES-Adm

5,977 2,329 2,329 2,329 0 0

P35580175 Block67-Frmr Brdgprt-CES-Adm

3,000 0 0 0 0 0

P35580165 Block76-S Sliver-CES-Adm

4,800 0 0 0 0 0

P35580145 Block76-Frmr Unocal-CES-Adm

1,181 1,181 1,181 0 0 0

P35580125 Block76-Frmr Fishels-CES-Adm

347 347 347 0 0 0

Five-Year Forecast Program Requirements Detail

	Revised-3 FY 2012-13	Adopted FY 2013-14	Forecast FY 2014-15	Forecast FY 2015-16	Forecast FY 2016-17	Forecast FY 2017-18
P3557215 Burnside Bridgehd Rdv-CES-Adm	50,000	102,700	0	0	0	0
P35592015 Real Estate Mgmt-CES-Adm	20,000	50,000	10,000	10,000	10,000	10,000
Commercial Real Estate Lending						
R01100355 CPRL-General-CES	2,980,000	600,000	600,000	600,000	600,000	600,000
R03100355 Comm Energy Eff Retro-CES	0	100,000	0	0	0	0
Community Redevelopment Grants						
G02100355 DOS-General-CES	100,000	100,000	100,000	100,000	100,000	100,000
G03100355 SIP-General-CES	450,000	300,000	300,000	300,000	300,000	300,000
Total Property Redev	3,725,729	1,358,557	1,015,857	1,014,329	1,012,000	1,012,000
Total Program Expenditures	4,469,835	1,947,176	2,449,286	4,170,332	2,664,531	1,477,123
Personal Services	555,891	342,309	88,636	80,336	146,033	109,824
Transfers - Indirect	852,316	655,048	335,854	290,795	518,576	385,144
Total Fund Expenditures	5,878,042	2,944,533	2,873,776	4,541,463	3,329,140	1,972,091
Contingency	3,122,882	5,047,443	6,597,404	7,082,712	7,889,990	10,553,521
Ending Fund Balance	0	0	0	0	0	0
Total Requirements	9,000,924	7,991,976	9,471,180	11,624,175	11,219,130	12,525,612