

**Portland Development Commission**  
**A Response to The League of Women Voters**

**May 26, 2006**

**Regarding: Questions related to the Central District Development Agreement - Eighth Amendment**

**BLOCK 49 – SECTION I**

1) What is the real Fair Market Value (FMV) of Block 49 after the clean up of the contamination on site?

A: An independent appraisal of FMV is not currently available but property sales in the immediate neighborhood have ranged from \$76 to \$148.92 per square foot.

2) Has PDC had the property appraised?

A: PDC has commissioned an appraisal of the property, which is expected to be completed in approximately three weeks.

3) Why isn't PDC contracting with an experienced affordable housing developer to construct the affordable housing units, or at least putting the project out for bid?

A: Williams and Dame Development Inc. (Williams and Dame) is among the most experienced and successful urban residential developers in Portland, and they have excellent experience with the type of high density housing desired for this site. The current Development Agreement gives North Macadam Investors (NMI), Williams and Dame or an affiliate the right to be the affordable housing project developer on Block 33, a larger affordable housing site than Block 49. The agreement to designate NMI or an affiliate as the developer of the Block 49 affordable housing project is an integral part of the larger South Waterfront Funding Agreement that resulted in NMI giving up the right to be the designated developer on Block 33.

Williams and Dame were most recently associated with the development of the Sitka affordable housing project in the Peal District and we believe they are fully capable of assembling a strong development team to begin work on this first affordable housing project in the South Waterfront Project area.

4) Ultimately who will own Block 49? Who will own the improvements on it?

A: NMI, Williams and Dame or an affiliate are expected to be the owners of Block 49. The ground floor, non-residential component and the residential component of the building will be separate condominiums with separate ownership and financing. Both components are expected to be owned by NMI, Williams and Dame or an affiliate.

- 5) Will there be any lease arrangements associated with Block 49 after housing, etc. is in place?  
A: It is expected that the ground floor commercial space and non-residential parking will be leased to third parties.
- 6) Will there actually be 275 units of affordable housing in the project?  
A: The final design and program for the building will determine the exact number of units in the proposed project. However, it is expected that the project will provide between 200 and 220 residential units if “stick frame” construction is used. This construction type provides the greatest number of units at the least cost. Since the site is deemed to be able to accommodate a project of 275 units, if a more expensive concrete or steel building is built, NMI’s affordable housing unit requirement will be credited with 275 units even if PDC decides to use the property for a smaller project.
- 7) What levels of affordability (price/size) will be achieved in the housing project?  
A: The affordability level and unit size distribution for the project has not been determined but will be consistent with the NMI target requirement of developing rental units in the 0 – 100% of Median Family Income range.

### **BLOCK 33 – SECTION I**

- 1) Who currently owns Block 33?  
A: Block 33 is owned by the Grunbaum Family Trust.
- 2) What transactions with respect to this block have taken place up to this point?  
A: NMI entered into a lease with the Grunbaum Family Trust on August 1, 2002 that included an option to purchase Block 33 no earlier than 2012. NMI assigned its leasehold interest in the property to Oregon Health and Science University (OHSU) on December 23, 2005. OHSU agreed at that time to form a condominium of the proposed garage and airspace above the garage and convey the air space unit to NMI. PDC has agreed to acquire NMI’s entire interest in the future airspace unit (air rights).
- 3) What is NMI's position in the property - air rights only?  
A: NMI has a right to future air rights and other rights and obligations under the terms of the sale of its leasehold interest to OHSU in December 2005.
- 4) Have these rights been appraised?  
A: Yes, within the past year by NMI and OHSU completed appraisals of the value of the fee simple ownership of the air rights at \$5.6 million and \$3.39 million respectively. NMI has obtained additional rights, such as a right to repurchase all of OHSU’s interest if deadlines for garage construction are not met. These additional rights were not appraised but will be owned by PDC.

- 5) What are the terms of OHSU's right of first refusal with respect to air rights development?
- A: Our earlier description of this provision was incorrect. OHSU has a Right of First Offer. Under the terms of OHSU's purchase of NMI's leasehold interest in Block 33, OHSU and (now) PDC will execute a Purchase and Sale Agreement for the Air Space Unit that will include the right for OHSU to make a first offer to purchase the Air Space Unit if PDC intends to transfer all or a portion of the Air Space Unit to a party other than an affordable housing developer. The precise terms of the right of first offer will be negotiated between PDC and OHSU.
- 6) What impact does the right of first refusal have on the FMV of NMI's position?
- A: Assuming that PDC negotiates a commercially reasonable right of first offer, the value should not be diminished.
- 7) Describe any outstanding obligations and timelines for projects anticipated on this site.
- A: The South Waterfront Central District Project Development Agreement (DA) identified October 1, 2005 as the late start date for construction of the OHSU garage on Block 33. This schedule commitment is conditional upon financial feasibility. Adequate funds for completion of the garage have not yet been identified. A new date for the start of construction will be developed as part of the Eighth Amendment. The Affordable Housing Parking Agreement approved in July requires OHSU to repay with interest the \$3 million PDC prepaid for 100 parking spaces in the garage if not under construction by 2010.
- 8) Explain the FAR transfer. Where is the additional FAR coming from?
- A: Because the parking garage is expected to use most of the available Floor Area Ratio (FAR) on the site, additional unused FAR from other sites owned by NMI will be transferred to the property to provide development capacity for the construction of two affordable housing towers in the future, as allowed by the South Waterfront Plan District
- 9) How much is the supplemental payment mentioned in I.C.4?
- A: The supplemental payment is estimated to be \$213,000, but the final payment amount is a function of the change in the CPI between August 2005 and August 2012. This payment would be payable at OHSU's closing on its purchase of Block 33, which is expected to be in August 2012.
- 10) Will 400 affordable apartments actually be built here?
- A: The air rights may only be used for affordable housing development. A minimum of 400 affordable housing units are planned for this site in two towers. The first tower will be designed and constructed at the same time as the parking garage.

- 11) What levels of affordability (price/size) will be achieved in the housing projects?  
A: The affordability level and unit size distribution for the projects has not been determined, but it will be consistent with the Development Agreement affordable housing requirements.

## **TRAM - SECTION II**

- 1) Why does the special transportation LID apply to Block 23?  
A: NMI's additional Local Improvement District (LID) contribution for the Tram of \$2.5 million is intended to be assessed against Block 23.
- 2) Will NMI borrow the money owed under the LID and, if yes, on what terms?  
A: When the Tram is complete NMI and other property owners will be offered an opportunity to pay the assessment in cash or finance the assessment through the LID system over a number of years. All property owners repay at the same terms, which are set by the City.
- 3) What changes have been made to the LID "bump rate"?  
A: The City has agreed to reduce the financing charge currently applied to all LIDs in Portland from 1.25% to 0.25%.
- 4) To whom and where are those changes applicable?  
A: This change is applicable city-wide to all property owners in future LIDs – not solely to the Tram LID.
- 5) At the time the Central District Development Agreement was drafted, was OHSU's application for transportation SDC credits related to the Tram anticipated?  
A: Under City Code provisions relating to Transportation System Development Charge (SDC) credits, OHSU has always been eligible to apply for credits for their expenditures on the Tram project. Reference to the SDC credits is made in the proposed Eighth Amendment for the sole purpose of setting a cap or maximum SDC credit for their expenditures for the Tram of \$4.3 million, even if City code might allow a higher amount.

We don't know whether or not OHSU intended to apply for Transportation System Development Charge (SDC) credits for their expenditures on the tram project at the time the DA was originally approved in 2003.

- 6) What is the TIF Investment Fund? Where does the money come from and how can it be used?  
A: TIF Investment Funds is the term used in the DA to describe TIF funds that may be used to provide funding to Phase II and III OHSU projects.. Phase II and III projects are Contingent Projects that are not required to be completed unless contingencies such as financing are satisfied. The amount of TIF Investment

Funds is determined by a formula which in general provides a credit of \$0.50 for each \$1.00 of federal funds obtained by OHSU in excess of the City of Portland funding requests if the OHSU secured funds are exclusively for use in funding public projects in the North Macadam Urban Renewal Area.

#### **OHSU BLOCK 33 PARKING GARAGE - SECTION IV`**

- 1) Has PDC ever before agreed that TIF revenues generated from a specific parcel can be used to defray the parcel owner's URA obligations?

A: It is important to note that OHSU has neither a "URA obligation" nor DA obligation to build the garage (and affordable housing podium) unless it is financially feasible. The parking garage is entirely contingent upon the financial feasibility of the project and is not required to be built. PDC does, however, have an interest in its timely construction so that the affordable housing planned for this site can move forward without undue delay.

Looking at the Central District more broadly, a public funding commitment was made through the DA that is based on the reciprocal commitment with property owners to produce taxable investment on specific parcels (the basis of the GAP Obligation commitments) to support TIF investments in projects benefiting the public, future residents and existing property owners.

#### **GREENWAY FUNDING - SECTION V**

- 1) Explain the provision that describes NMI's agreement to purchase parks SDCs.

A: NMI has agreed to make a firm commitment to provide funding for park and open space development in the Central District through the purchase of \$3 million of Parks SDC's by March 1, 2009. NMI recognizes that the total future assessments of Parks SDCs against their projects may never reach \$3 million. The NMI commitment is critical to the full funding of the accelerated parks and Greenway development in the Central District. The exact mechanism that will be used to implement this agreement is still under development.

#### **STREETCAR - SECTION VII**

- 1) What is the rationale for reallocating LID assessments to a different property?

A: The original 2003 DA contemplated that NMI would be able to move LID assessments from completed projects to land still under development, so that the new condominium owners would not have liens on their property. The City would have to agree that the City's security would not be impacted for such a change to

take place. Williams and Dame has said that it has done a similar reallocation in a development project in Bend and wished to use the same technique in the Central District. NMI has said that it has previously used this technique with the City of Bend and fully honored its funding commitments.

#### **NMI GAP PAYMENT OBLIGATION - SECTION IX**

- 1) On what basis can NMI reject the Real Market Value (RMV) projections?  
A: NMI will agree to the RMV projections for their development as part of the final 8th Amendment package. If the parties do not agree, the 8th Amendment will not be completed.
- 2) What is the RMV of NMI's real estate?  
A: The current updated RMV is not currently known. In Exhibit V to the 8th Amendment, the parties will identify and update the current RMV in order to measure the extent and duration of NMI's Gap Payment Obligation.
- 3) Under the terms of the agreement, will NMI be allowed to sell any of its holdings?  
A: Yes. The Development Agreement allows the sale of property to other developers provided that all the Gap Payment Obligation responsibilities of the parcel are assumed by the new owner after PDC has determined that the new owner has the financial capacity to carry out its project.
- 4) Has the city borrowed money ahead of TIF revenues in other urban renewal areas?  
A: Yes. This was done very successfully in Interstate Corridor Urban Renewal Area, when the City made funds available for Light Rail construction in advance of the URA debt capacity being attained. Bonds were issued in FY 2004-2005 for the Interstate Corridor URA to repay the interim loan that provided the local matching funds for the Federal Light Rail Transit funds.