



CITY OF PORTLAND
Executive Department
Jon P. Jennings, City Manager

MEMORANDUM

TO: Housing and Economic Development Committee

FROM: Jon P. Jennings, City Manager

DATE: September 30, 2021

SUBJECT: Homeless Service Center Ground and Building Master Leases

I. ONE SENTENCE SUMMARY

Draft Ground and Building Master Leases will support construction of the Planning Board approved approximately 51,690 square foot 200-bed city of Portland Homeless Service Center located at 654 Riverside Street.

II. BACKGROUND

The Homeless Service Center (HSC) is an approximately 51,690 square foot 200-bed facility with complete wrap around services.

The City Council approved First and Second Agreements with Developers Collaborative (DC), the city selected HSC developer, for the city to cover costs to support DC finalizing the HSC design, handling a public engagement process to secure Planning Board approval, preparing construction/permit plans and proposing a financial public-private partnership for DC to construct and own the HSC under a city lease/purchase option.

The Planning Board approved the HSC on September 14, 2021.

III. INTENDED RESULT AND OR COUNCIL GOAL ADDRESSED

Housing and Economic Development Committee approval, in the form of a recommendation to the City Council, of Draft Ground and Building Master Leases to support construction of the Planning Board approved approximately 51,690 square foot 200-bed Homeless Service Center.

IV. FINANCIAL IMPACT

Proposed business and financial terms for the Ground and Building Master Leases include:

Ground Lease is on city-owned property. The property will remain owned by the city for the entire Building Lease term and will be pledged at no cost to support construction of the HSC.

Building Master Lease/Purchase Option

Homeless Service Center Cost. Capped at \$25 million for the facility construction. The \$5 million cost increase based upon the original DC \$20 million Proposal are due to the finalizing the HSC facility space and site plans to address Planning Board approval conditions; the pandemic impact upon the cost of materials; energy efficiency requirements associated with the Green New Deal and site improvement expenses. The breakdown of increased project cost increases are as follows:

- Changes in Planning Board comments and conditions = \$750,000;
- Green New Deal requirements (specifically HVAC, electrical and insulation) = \$800,000;
- Design Changes to the building including increase in ceiling height for improved natural light = \$700,000;
- Escalated materials costs from March to October = \$1.05 million and
- Increased scope and overall costs of site work, plantings, hardscaping, outdoor seating, etc. = \$1.7 million.
- **TOTAL = \$5 Million**

Term. Twenty-five (25) years with two ten (10) year consecutive renewal options.

City Upfront Investment. \$5 million from City American Rescue Plan funds.

Annual Rent. Fixed at \$2.701 million for ten years followed by a drop to \$307,500 in year 11 with annual 2.5% escalators to \$434,489 in year 25.

Purchase Option at end of year 25. \$1.

Building capital, maintenance and operational cost responsibility. The city staff is comfortable with the city maintaining building capital responsibility because this will be a new building with equipment warranties. All facility operating and maintenance costs (i.e., utilities, insurance, janitorial services, building property taxes, etc.) will be handled by the city. The city will ultimately own the facility, so it makes sense for the city to maintain it.

V. STAFF ANALYSIS

The proposed business financial terms are reasonable when compared to the city cost of issuing debt to support the entire facility costs but additional analysis and negotiations will be necessary prior to final lease approval.

VI. RECOMMENDATION

City staff recommends approval of the Draft Ground and Building Leases in substantial conformance as attached. Approval should be in the form of HSC total cost cap of \$25 million with allowing staff to negotiate equal or better lease terms based additional negotiations with the developer and possible additional State of Maine and/or Cumberland County funds to support the HSC.

VII. LIST ATTACHMENTS

- **GROUND LEASE AGREEMENT Between the CITY OF PORTLAND and DC RIVERSIDE LLC**
- **LEASE AGREEMENT, DC Riverside LLC/ CITY OF PORTLAND HOMELESS SERVICE CENTER**