M E M O R A N D U M

METRO

December 22, 1993

TO: Metro Council

FROM: Rena Cusma

SUBJECT: AMCO Building Decision

The administration has prepared the following in preparation for the regular council meeting of Thursday, December 23.

* Responses to questions raised by councilors at the special council meeting held Friday, December 17.

* A recommended resolution supporting extension of the Metro lease of the AMCO Building for the purpose of entering into the leases negotiated with prospective tenants secured by Regional Facilities.

* Budget actions necessary to expedite tenant improvements are not included, but shall be prepared and brought forward upon the council's decision to move ahead.

It is important to be clear about the decision to be debated and what constitutes an action that enables the administration to move toward resolving the present situation. Should the council not adopt the recommended resolution, an alternative decision will need to be made that sets forth a course of action and provides the administration with specific direction.

I believe it is also necessary to bring a measure of balance to the events and decisions that have led to our present circumstances. I am concerned that the way in which our present dilemna has unfolded may well cause individuals unfamiliar with the facts to doubt the wisdom of replacing Metro's former leased space with a public owned building. I continue to wholeheartedly support the council's October 10, 1991 vote to build; a decision that was preceded by exhaustive and careful analysis. The administration and the Metro Council made the right decision and made it in the best long term interests of this agency and the public.

What led us to that decision? Metro occupied space under a lease fast approaching expiration in June of 1996. Metro had outgrown those leased quarters and was renting 9100 square feet of additional office space in a building next door.

What were the pluses on the build side?

* Long term savings on space costs.

* Greatly improved location and access from all points of the region.

* Needed public/conference room space to support evening and daytime governmental, policy and citizen advisory committee meetings.

* 647 parking spaces to accomodate visitors and serve as evening backup parking for the Oregon Convention Center.

* Reclamation of a long "dead" building in the convention center local improvement district that would serve as a spur to further economic development in the zone.

* Application of lease payment monies to construct a regional government center at today's--not tomorrow's--prevailing construction costs.

Metro's vacated leased space was to be sublet to cover our remaining lease payment obligation. That was a reasonable objective at the time. The likelihood of success appeared to be strong, particularly given the number of large prospective tenants that expressed interest in the space well before Metro physically vacated the building.

You know the rest. Prospective tenants large enough to occupy all or most of the building (the owner's announced preference) dropped off or deferred their decision. New prospects were located. The likelihood of securing one large tenant began to diminish. Multiple tenant occupancies were explored. Negotiations advanced as quickly as a prospect's circumstances would permit. All the while, the lease period available for tenant occupancy was growing smaller and with it the chances of recovering our lease costs. Until we were left with the question that is before us today-- what course of action is most prudent in terms of risk and exposure and minimum financial shortfall.

In retrospect--and we all possess keen hindsight--we would have been wise to acknowledge at the outset that the real estate market is not predictable with certainty and that there was always a chance that our sub lease expectations would not be met. Or not be met soon enough. Without having made that early acknowledgement in clear terms to the council, we undoubtedly reinforced and prolonged the expectation that all would come out well in the end.

Ultimately, we were successful in negotiating a set of lease arrangements with prospective tenants that would fill 83% of Metro's vacated leased quarters. However, the fact that the signature of the administration's representative appeared on documents which describe long term lease arrangements when the council had yet to formally approve the long term solution made necessary by the inability to secure a shorter term answer struck some as a surprise. It may have also served to deflect attention away from resolving the problem and on to trying to understand how we could possibly have arrived at this state of affairs. What is evident, however, is that both sides of the aisle could have--should have--communicated in clearer terms and with greater frequency.

As to the financial consequences of our present situation, attempting to explain the loss of public monies is never pleasant and almost never palatable to the public. While I do not endorse attempting to justify or explain away our anticipated loss, I do believe that accurate information should be provided to allow the reasons for any loss of public funds to be understood within the full context of our decision to build and the resulting, bottom line economics.

The new Metro Regional Center is a well architected, award winning building with comfortable work spaces and a great deal of high use public meeting space of which this region can justly be proud. It was completed on time and on budget. And in the process, by our timely decision to refinance the bonds obtained to build it, Metro realized an unanticipated savings of 1.4 million dollars over the life of the bonds owing to market conditions. In real terms, that means that in the context of the entire transaction, Metro more than broke even. That remains true whether the anticipated shortfall produced by our former lease commitment be the minimum loss anticipated by extending the present lease and subletting to the prospective tenants or the maximum shortfall resulting from carrying an empty building. Add to that the ongoing savings projected to begin accruing following our first ten years of occupancy and the case for building is further strengthened.

Returning to our present situation, you have heard the administration's review of the options. Additional financial information, both refinements and new information arising out of requests made by councillors, will be forthcoming prior to the council meeting on the 23rd.

I conclude that the options--while not pleasant--are at least clear. I conclude that the best option--that the most responsible option--continues to be extension of the Metro lease and subletting 83% of the AMCO building to tenants with whom lease terms have been negotiated.

Against that option is the alternative of de-activating or mothballing the building, either immediately or as soon as present month-to-month tenants may elect to find replacement space.

It is clear from the council's earlier discussion that there was hope that Metro would be able to reach terms with Metropolitan Family Services sufficient to motivate their occupancy of the AMCO building for the remainder of the current Metro lease and no longer. That alternative, presumably, would at least allow Metro to be out of the real estate business in 2 1/2 years and to accomodate a prospective tenant that absolutely must be in new quarters within a very short timeframe, not withstanding the fact that other prospective tenants are in this same position.

I must report that this scenario will not work. In cost terms, we would be looking at a greater shortfall than would be produced by simply mothballing the building. Nor is Metropolitan Family Services truly attracted to the proposition; particularly if they were to find themselves the only tenant in the building which is the likely result if additional tenant improvement costs are to be avoided. Metro would also bear the full risk and cost of any major system breakdowns and/or replacement costs.

To me, the choice is clear. I understand the council's desire to find a more acceptable option, but in my view it is not there. I continue to believe that the course of action which the administration has recommended and is before you is the best business decision for this agency. I would urge authorization to proceed with the sub leases in hand so as to give certainty to those lesees who await your decision.

OPTIONS SUMMARY
METRO CENTER LEASE

			Profit/(Loss)
Option 1	FiveYear Lease		
		83% Occupancy	($776,405)
		95% Occupancy	($458,069)
Option 2	2.5 Year Lease		
		Current Occupants	($885,315)
		Metro Family Services	($922,333)
		Current Prospects	($1,118,144)
Option 3	2.5 Year Lease		
		Vacant	($808,400)

OPTION 1
METRO CENTER FIVE YEAR LEASE OPTION
JANUARY 1, 1994 TO AUGUST 31, 1999

83% OCCUPANCY

SUBLEASE INCOME[1]	$2,830,433
EXPENSES	
Rent Paid to AMCO	$1,647,640
Tenant Improvements	$557,235
Broker's Fee	$137,614
Interest on Interfund Loan	$84,257
	Metro Projection
TOTAL OPERATING EXPENSES ($7.34 per occupied sq. ft.)	$1,598,288
Credits from AMCO for:	
Tenant Improvements	($295,335)
Free Rent Allowance	($122,861)
NET PROFIT/(LOSS)	($776,405)

95% OCCUPANCY

SUBLEASE INCOME[1]	$3,242,887
EXPENSES	
Rent Paid to AMCO	$1,647,640
Tenant Improvements	$635,550
Broker's Fee	$155,485
Interest on Interfund Loan	$88,105
	Metro Projection
TOTAL OPERATING EXPENSES ($6.66 per occupied sq. ft.)	$1,653,312
Credits from AMCO for:	
Tenant Improvements	($338,372)
Free Rent Allowance	($140,764)
NET PROFIT/(LOSS)	($458,069)

BOMA High Operating Cost per available Square Foot -- $7.63
BOMA Low Operating Cost per available Square Foot -- $5.67

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[1] Assumes no excise tax deducted from lease income.

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Metro Center Expenditures

83% Occupancy

	Jan 1 - June 30 1994	FY 1994/95	FY 1995/96	FY 1996/96	FY 1997/98	FY 1998/99	July1-Aug 31 1999	Total
RESOURCES								
Beginning Fund Balance	0	50,000	50,000	50,000	50,000	50,000	50,000	
Sublease Income	3,857	477,210	549,228	558,148	567,389	576,963	97,637	2,830,433
Interfund Loan	702,144	561,715	421,286	280,858	140,429	0	0	2,106,432
AMCO Credit for TI	402	49,793	57,308	58,239	59,203	60,202	10,188	295,335
AMCO Credit for Free Rent	167	20,714	23,840	24,228	24,629	25,044	4,238	122,861
Savings on Bond Refinancing	295,860	246,101	214,779	168,296	127,304	412	1,279	1,054,031 $776,405
Transfer of Resources	0	(62,948)	(115,356)	(75,377)	(40,915)	79,420	(62,450)	(277,626)
Total	1,002,431	1,342,586	1,201,086	1,064,391	928,038	792,042	100,892	6,131,466
EXPENDITURES								
Personal Services	4,064	8,204	8,614	9,045	9,497	9,972	1,745	51,141
M&S Excluding Lease	108,139	263,393	267,528	276,448	285,689	295,264	50,687	1,547,147
Lease	145,380	290,760	290,760	290,760	290,760	290,760	48,460	1,647,640
Broker's Fee	137,614	0	0	0	0	0	0	137,614
Tenant Improvement	557,235	0	0	0	0	0	0	557,235
Interfund Xfer (Loan Repayment)	0	702,144	561,715	421,286	280,858	140,429	0	2,106,432
Interfund Xfer (Interest on Loan)	0	28,086	22,469	16,851	11,234	5,617	0	84,257
Contingency	50,000	50,000	50,000	50,000	50,000	50,000	0	
Total	1,002,431	1,342,586	1,201,086	1,064,391	928,038	792,042	100,892	6,131,466

1 Sublease income has operating cost escalator built in up to 5% maximum

2 Interfund loan decreases 20% of the original amount each year until zero at the end of five years

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Metro Center Expenditures

95% Occupancy

	Jan 1 - June 30 1994	FY 1994/95	FY 1995/96	FY 1996/97	FY 1997/98	FY 1998/99	July1-Aug 31 1999	Total
RESOURCES								
Beginning Fund Balance	0	50,000	50,000	50,000	50,000	50,000	50,000	
Sublease Income	3,857	525,897	636,932	646,604	656,628	667,018	105,951	3,242,887
Interfund Loan	798,331	561,715	421,286	280,858	140,429	0	0	2,202,619
AMCO Credit for TI	402	54,873	66,459	67,468	68,514	69,598	11,055	338,372
AMCO Credit for Free Rent	167	22,828	27,647	28,067	28,502	28,953	4,599	140,764
Savings on Bond Refinancing	295,860	246,101	214,779	168,296	127,304	412	1,279	1,054,031 } 458,069
Transfer of Resources	0	(8,403)	(204,906)	(165,038)	(130,692)	(10,478)	(76,443)	(595,962)
Total	1,098,618	1,453,011	1,212,198	1,076,255	940,685	805,504	96,441	6,382,711
EXPENDITURES								
Personal Services	4,064	8,204	8,614	9,045	9,497	9,972	1,745	51,141
M&S Excluding Lease	108,139	273,783	278,640	288,312	298,336	308,726	46,236	1,602,171
Lease	145,380	290,760	290,760	290,760	290,760	290,760	48,460	1,647,640
Broker's Fee	155,485	0	0	0	0	0	0	155,485
Tenant Improvement	635,550	0	0	0	0	0	0	635,550
Interfund Xfer (Loan Repayment)	0	798,331	561,715	421,286	280,858	140,429	0	2,202,619
Interfund Xfer (Interest on Loan)	0	31,933	22,469	16,851	11,234	5,617	0	88,105
Contingency	50,000	50,000	50,000	50,000	50,000	50,000	0	
Total	1,098,618	1,453,011	1,212,198	1,076,255	940,685	805,504	96,441	6,382,711

1 Sublease income has operating cost escalator built in up to 5% maximum

2 Interfund loan decreases 20% of the original amount each year until zero at the end of five years

OPTION 2
METRO CENTER 2.5 YEAR LEASE OPTION
JANUARY 1, 1994 TO JUNE 30, 1996

CURRENT OCCUPANCY

SUBLEASE INCOME[2]	$97,078
EXPENSES	
Rent Paid to AMCO	$726,900
Tenant Improvements	$0
Broker's Fee	$0
Interest on Interfund Loan	$
	Metro Projection
TOTAL OPERATING EXPENSES	$255,493
Credits from AMCO for:	
Tenant Improvements	$0
Free Rent Allowance	$0
NET PROFIT/(LOSS)	($885,315)

METRO FAMILY SERVICES OCCUPANCY

SUBLEASE INCOME[2]	$232,022
EXPENSES	
Rent Paid to AMCO	$726,900
Tenant Improvements	$132,060
Broker's Fee	$11,601
Interest on Interfund Loan	
	Metro Projection
TOTAL OPERATING EXPENSES	$283,794
Credits from AMCO for:	
Tenant Improvements	$0
Free Rent Allowance	$0
NET PROFIT/(LOSS)	($922,333)

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2 Assumes no excise tax deducted from lease income.

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OPTION 2 (CONTINUED)
METRO CENTER 2.5 YEAR LEASE OPTION
JANUARY 1, 1994 TO JUNE 30, 1996

83% OCCUPANCY
CURRENT PROSPECT LIST

SUBLEASE INCOME[3]	$1,030,295
EXPENSES	
Rent Paid to AMCO	$726,900
Tenant Improvements	$557,235
Broker's Fee	$68,807
Fire and Life Safety	$70,000
ADA Improvements	$15,000
Interest on Interfund Loan	$50,555
	Metro Projection
TOTAL OPERATING EXPENSES	$659,942
Credits from AMCO for:	
Tenant Improvements	$0
Free Rent Allowance	$0
NET PROFIT/(LOSS)	($1,118,144)

[3] Assumes no excise tax deducted from lease income.

OPTION 3

METRO CENTER LEASE

MINIMUM EXPENSES NECESSARY TO PRESERVE BUILDING

JANUARY 1, 1994 TO JUNE 30, 1996

0% OCCUPANCY

REVENUE		$0
EXPENSES		
OPERATING	$81,500	
LEASE	$726,900	
TOTAL EXPENSES		$808,400
NET LOSS		($808,400)

NOTES:

1. Minimum heat would be provided to prevent damage to the building. Outside grounds would be maintained. Minimum security checks would be made.
2. The expenses shown do not include any real estate consultation fees.
3. Assumes City of Portland does not permit rental of parking spaces to outside uses.