

**Agenda Bill 2019-XX-XX-XX**

Date Prepared: May 21, 2019

For Meeting Date: June 3, 2019 Work Session/June 10, 2019 Regular Meeting

To: Russ Axelrod, Mayor  
West Linn City Council

From: John R. Williams, Deputy City Manager/Community Development Director *JRW*

Through: Eileen Stein, City Manager  
Tim Ramis, City Attorney

Subject: Letter of Commitment re: Historic City Hall

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**Purpose**

Council consideration of Letter of Commitment with Willamette Falls Heritage Area Coalition (“Coalition”) regarding the Historic City Hall Building at 22825 Willamette Drive.

**Question(s) for Council:**

Does Council wish to adopt a Letter of Commitment with the Coalition? If so, what terms and conditions would the Council wish to see included?

**Public Hearing Required:**

None required.

**Background & Discussion:**

On December 10, 2018 the West Linn City Council adopted a Letter of Intent (Attachment 1) that established a partnership with a group of non-profits led by the Coalition to develop an Arts, Heritage and Tourism Cultural Center (“Cultural Center”) in the Historic City Hall building. Also, on December 3, 2018, Council agreed to reserve \$400,000 of General Obligation Bond revenues for potential improvements to the building pending further investigations into building needs and partnership structure.

The Letter of Intent outlined a two-step process lasting approximately six months in which the City and the Coalition first were to cooperate in a Due Diligence process investigating joint development of the Cultural Center and, second, based upon the results of that investigation, consider whether to commit to a development project through a letter of commitment.

Since December, the Coalition has led the due diligence investigation and has now completed an inventory of estimated costs to develop the Cultural Center. The Coalition has also identified grant sources that could reasonably be expected to meet project needs. Based on all of this work, the Coalition and City staff are now ready to recommend moving forward to a Letter of Commitment (Attachment 2). This would be a legally binding agreement between the City and Coalition laying out each party’s roles and responsibilities moving forward.

Essentially, the Letter of Commitment (“LOC”) commits the City and Coalition to continuing the process to secure funding for needed capital improvements to the building. Should that funding be secured, the LOC describes the roles and responsibilities of each party in performing the improvements. It also includes a ten-year Lease Agreement (with two potential five-year renewals) that would govern ongoing operations of the Cultural Center. The binding commitment of an LOC and Lease Agreement is needed in order for the Coalition to secure the capital grants needed to complete the project. That is, potential funding organizations need to see a long-term binding commitment by the City in order to feel confident in awarding capital grant funds for a facility that the Coalition does not own.

#### *Estimated Project Costs and Revenue Sources*

Project components are outlined in the “Due Diligence Findings” section of the proposed Letter of Commitment and are documented in detail in LOC Exhibits A and B. As required by the Letter of Intent, the costs are broken into two phases. Phase 1 results in a “useable and attractive Cultural Center” which allows the Coalition and its partners to move in and begin operation, while Phase 2 makes the building completely adapted for the Center and fully “historically resonant.” Phase 1 costs are estimated to be \$1,024,970 and Phase 2 would be an additional \$260,690. Note these cost estimates include contingencies, permitting and design. The LOC states an aim to complete Phase 1 in 2020, and no later than 2021, but this will depend largely on the timing of obtaining grants for the work. This timeline works for appropriate use of the City’s GO Bond funds.

The Coalition has done an enormous amount of work investigating funding options in a short amount of time (see LOC Exhibit D). The City’s \$400,000 and Clackamas County Tourism’s \$100,000 represents just under half of Phase 1’s funding needs. As of May 20, the Coalition has identified an additional \$465,000 in “probable” grant sources, leaving only about \$60,000 needed from among the additional \$320,000 - \$345,000 in “possible” sources. Therefore, at this stage the partners feel confident that there is a very reasonable chance of reaching the needed total dollar figure. However, the proposed Letter of Commitment requires a complete and secured funding package to be finalized before any construction funds are committed (see, for example LOC Terms 1d and 2c on page 4).

Note that at this time, potential funders are not identified by name, to allow the highest chance of successful partnership with these private granting organizations.

#### *Letter of Commitment Roles and Responsibilities*

The heart of the proposed LOC is the “Terms” section starting at the bottom of page 3, which describes joint and individual obligations for each party. Highlights include:

- Joint obligations: the City and Coalition agree to work together from this point forward to secure funding for the project; this may include grant applications signed by the City for funding sources only open to public agencies.
- Coalition obligations: responsible for applying for grant funding meeting the full project needs; for providing architectural/design services from initial estimates through construction administration; and responsible for management of the operating Cultural Center.
- City obligations: providing \$400,000 from GO Bond proceeds for construction of Phase 1 capital improvements; managing the construction bid, award and construction process once funding has been secured; and timely review and processing of relevant permit applications.

#### *Lease Agreement Terms*

The LOC also includes a draft Lease Agreement (LOC Exhibit C) which would be utilized post-construction for occupancy of the Cultural Center. The proposed lease would be for a ten-year term with two possible five-year extensions. This term is proportionate to the level of effort and commitment that would be required of the Coalition to secure funding for the project. Highlights include:

- Rent (Section 3): \$1/year (a minimal consideration required for contract law)
- Expenses (Sections 3, 6): Coalition pays for insurance, basic cleaning/maintenance/janitorial, data service to building, landscaping, and any real estate taxes. City pays for all utilities except data, larger building maintenance and future year capital repairs (i.e., other than the Phase 1 and 2 work).
- Uses (Section 5): Required to be related to cultural affairs in Clackamas County. May include supportive retail such as art gallery, gift shop, or coffee shop. All local zoning, building, etc. regulations apply.
- Subleasing (Section 11): A short list of potential tenants that the City Council has already discussed with the Coalition are “pre-approved” as building occupants. Additional occupants would require City approval to ensure consistency with the purpose of the Center.
- Parking: (Section 6.2.2): City agrees to establish a city-controlled parking plan on Mill Street for the benefit of this building. Currently parking on Mill Street is unregulated and largely used by those visiting downtown Oregon City. The current thinking is to create a permit system, and potentially some metered parking, for Cultural Center employees and visitors. An estimated 20 spots minimum are possible if both sides of the street are utilized. If the area redevelops, the City would be responsible for ensuring that the Cultural Center has access to the same number of parking spots in a different configuration.
- Indemnification, Insurance, Remedies, Miscellaneous Provisions (Sections 9-14): All of these elements have been drafted/approved by the City Attorney to ensure the City is protected to the extent possible.

#### **Budget Impact:**

The proposed Letter of Commitment obligates the City to providing staff time to partner on the Due Diligence phase, and commits \$400,000 of General Obligation Bond revenues for capital improvements to the building (should all required matching funds be secured by the Coalition). In addition, the Lease Agreement commits the City to paying most utility costs, plus ongoing maintenance and capital expenses related to the Historic City Hall building. The last year this building was occupied, 2013 as the Police Department, we estimate total utility costs were \$24,000 per year. Costs are currently perhaps a third of that with the building unoccupied, so this would represent an additional impact on the City’s operating budget. However, the Council’s goal is to have the building occupied and used, not vacant and dark. Note that the capital improvements that would be carried out include sustainability improvements such as insulation, new roof, new HVAC, new lighting, etc. that would reduce our ongoing costs significantly. Finally, it’s important to note that the LOC anticipates over \$600,000 in grant funded capital improvements to the building, which the City would retain ownership of in the long-term. This literally represents free money to the taxpayers and residents of West Linn. No alternative funding sources for this capital work have been identified should the Coalition partnership not move forward.

#### **Sustainability Impact:**

Adaptive reuse of this historic building will have many sustainability/environmental benefits in terms of both the building itself and developing its location as a local center of culture and tourism. The proposed capital improvements will eliminate hazardous asbestos from the facility and reduce the building's environmental footprint.

**Council Goal/Priority:**

This project is included as an action item under the City Council's adopted 2019 Council Goals (Guiding Principle #2A(7)): "Pursue redevelopment of Old City Hall property as a Cultural/Tourism Center with the Willamette Falls Heritage Area Coalition and other non-profits."

**Council Options:**

Council may wish to discuss specific terms or may opt to not move forward at this time. Staff and Coalition representatives will be present at the June 3 and 10 meetings to answer any questions about the draft and to support Council conversation.

**Staff Recommendation:**

Staff recommends approval of the proposed Letter of Commitment because it is in keeping with the Council's 2018 decision on a Letter of Intent, GO Bond funding allocation and 2019 Council Goals. All materials have been reviewed and approved by the City Attorney for legal/risk sufficiency.

**Potential Motion:**

"I move Council approve the Letter of Commitment from the City of West Linn to the Willamette Falls Heritage Area Coalition regarding the Historic City Hall Building at 22825 Willamette Drive."

**Attachments:**

1. December 2018 Letter of Intent between City and Coalition
2. Draft Letter of Commitment between City and Coalition, which includes the following exhibits:
  - a. Exhibit A – Proposed Construction Phasing
  - b. Exhibit B – Project Cost Estimates
  - c. Exhibit C – Lease Agreement
  - d. Exhibit D – Proposed Funding Plan