



PROSPER
PORTLAND
Building an Equitable Economy

DATE: August 9, 2017
TO: Board of Commissioners
FROM: Kimberly Branam, Executive Director
SUBJECT: Report Number 17-37

Authorizing a Leasehold Purchase and Sale Agreement to Convey Approximately 3.00 Acres of Leased Property in the Airport Way Urban Renewal Area to Mortenson Development, Inc

BOARD ACTION REQUESTED

Adopt Resolution No. 7250

STRATEGIC PLAN ALIGNMENT AND OUTCOMES

This action by the Prosper Portland Board of Commissioners (Board) will authorize the Executive Director to execute an Agreement for a Leasehold Purchase and Sale (Leasehold PSA) between Prosper Portland and Mortenson Development, Inc (Buyer) for the conveyance of the easternmost portion of Cascade Station Parcel G (Property), which Prosper Portland leases from the Port of Portland (Port) in the Airport Way Urban Renewal Area (URA) (see a Property Description and Aerial in Attachment A). The purchase price will be approximately \$1,568,160 depending on the final size of acreage. The Buyer is purchasing the Property to construct a mid-rise 200-room hotel that will serve business travelers and tourists flying into and out of Portland International Airport. Construction of the building shall be subject to Prosper Portland's Equity and Green Building policies. Strategic Plan outcomes furthered by this transaction are Outcome 3.4 (Equitable Construction and Contracting) and Outcome 5.3 (Financial Sustainability & Stewardship). Proceeds raised from this transaction will be made available for further Airport Way URA priorities.

BACKGROUND AND CONTEXT

In 1999, Prosper Portland partnered with TriMet, the City of Portland (City), the Port, and Bechtel Corporation to extend MAX light rail to Portland International Airport and to facilitate the development of a major retail, hotel, and office development on approximately 120 acres of Port-owned property at what is now known as Cascade Station. Prosper Portland provided \$14,000,000 in urban renewal funding in support of the light rail extension and also provided \$14,000,000 to fund public infrastructure at Cascade Station (streets, sidewalks, drainage improvements, lighting, etc.). As a condition of the infrastructure funding, Bechtel Corporation (Bechtel) pledged repayment to Prosper Portland once the cash flow reached a certain defined level after the other investors were paid off.

Because of the economic slowdown from 1999 to 2002 which adversely affected retail and other commercial development, as well as zoning limitations which prohibited any retail user of more than 60,000 square feet, the Cascade Station redevelopment project stalled, and no development took place for the next six years. In 2005, Bechtel approached Prosper Portland, the Port, and the City with a plan to restructure the development requirements and financing. Thereafter, a comprehensive agreement was reached which included i) a change in zoning requirements, and ii) a restructure of \$14,000,000 in debt owed to Prosper Portland. In satisfaction of the Prosper Portland loan, the leasehold rights to 36

acres of the 120-acre site were transferred to Prosper Portland. The appraised value of those 36 acres was \$14,000,000. The land that Prosper Portland acquired is zoned for office and/or hotel uses only; retail was and remains a prohibited use on the Prosper Portland parcels.

The Property is a part of the Cascade Station Master Plan, comprising 120 acres located just east of Portland International Airport. Prosper Portland acquired the Property in 2006 as part of the larger 36-acre transaction described above which was partitioned into separate parcels, including the Property. Previous Prosper Portland dispositions and subsequent developments within Cascade Station include the FBI Building, Holiday Inn, and Cook Security headquarters. Due to the restrictions in place by the Cascade Station Master Plan, the only authorized development use on the remaining Prosper Portland-owned parcels is office. The Buyer will be seeking an exemption from the City of Portland to convert existing office entitlements back into hotel use; this exemption is a condition of closing.

The \$1,568,160 purchase price may ultimately be adjusted depending on the final size of acreage. Building configuration, parking layout, public right-of-way, and environmental protection mitigation requirements are all factors that may affect the final dimensions of the development. These items will be determined through the City of Portland's land use review process. It is unlikely that the overall change in acreage will exceed five to ten percent. Any additional acreage required to comply with City permitting conditions will be charged to the buyer at a rate of \$12.00 per square foot. This rate was arrived at through a Broker opinion of value based upon the proposed use, as well as recent comparable sales.

EQUITY IMPACT

Prosper Portland Business and Workforce Equity programs will apply to this transaction. Based on an estimated \$20,000,000 development cost, approximately \$4,000,000 will be allocated to certified minority- and women-owned firms. Likewise, the general contractor will be required to provide 20 percent of total workforce hours to apprentice labor and will be expected to make a good-faith effort to achieve minority and women workforce utilization of 30 percent and 15 percent, respectively. The buyer, Mortenson Development recently completed the AC Hotel, where they achieved 23% certified firm participation in construction as well as meeting the Workforce Equity Program requirements.

COMMUNITY PARTICIPATION AND FEEDBACK

There was no public participation specific to this proposed transaction. However, the Columbia Corridor Association is supportive of Prosper Portland's efforts in Airport Way URA, including efforts to stimulate development at Cascade Station.

BUDGET AND FINANCIAL INFORMATION

The Airport Way URA Fiscal Year (FY) 2017-18 Approved Budget and Five Year Forecast currently include funds for ongoing ownership and maintenance of the Property (see Attachment B). The Approved Budget does anticipate the sale of the Property in FY 2019-20; however, the FY 2017-18 Budget and Five Year Forecast will be amended to acknowledge closing proceeds of approximately \$1,586,160.

RISK ASSESSMENT

Entering into this Leasehold PSA creates minimal risks. The primary risk for Prosper Portland is that the proposed development would not be realized in accordance with the terms of the Letter of Intent as follows:

1. Buyer May Terminate the Transaction. There is a risk that Buyer will terminate the transaction during the 12-month due diligence period. This is within their rights according

to the Leasehold PSA. A related risk is that Buyer will terminate the transaction subsequent to the end of the due diligence period but prior to closing. This risk is mitigated by Buyer providing a \$100,000 earnest money payment; this payment is non-refundable after the end of the due diligence period.

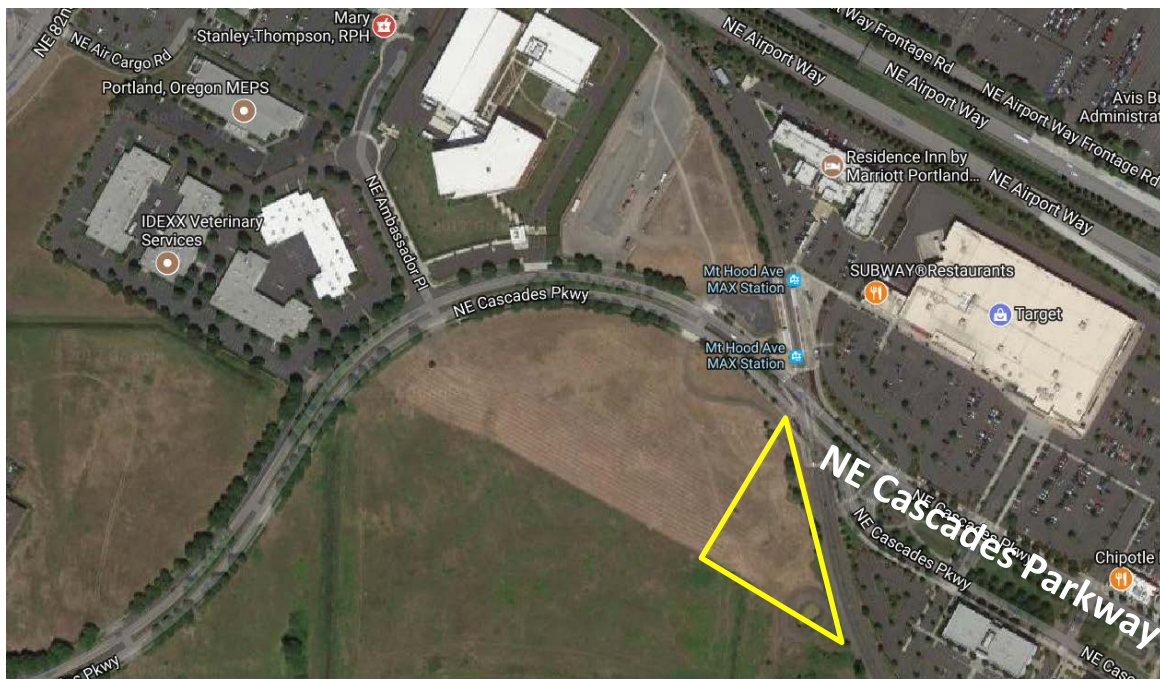
2. Buyer May Not Redevelop the Property Successfully. There is a risk that Buyer will not succeed in developing the Property as a hotel, as stipulated in the Leasehold PSA. This risk is partially mitigated by a provision that requires application to design review within 120 days of the Effective Date, and another provision that permits Prosper Portland to repurchase the Property if the Buyer does not commence construction within one year of closing.

ATTACHMENTS

- A. Property Description & Aerial
- B. Airport Way URA Financial Summary

PROPERTY DESCRIPTION & AERIAL

Project Name: Parcel-G Hotel Development
Description: 3.0-acre vacant parcel
Location: Bounded by NE Cascades Parkway, within the Cascade Station Master Plan District
URA: Airport Way
Current Phase: Disposition
Next Milestone: Closing/Conveyance
Completion Target: August 2020
Outcome: Mid-rise, 200-room Hotel



Airport Way URA Financial Summary

**Financial Summary
Five-Year Forecast**

<u>Airport Way URA Fund</u>	<u>Revised 2 FY 2016-17</u>	<u>Adopted FY 2017-18</u>	<u>Forecast FY 2018-19</u>	<u>Forecast FY 2019-20</u>	<u>Forecast FY 2020-21</u>	<u>Forecast FY 2021-22</u>
Resources						
Beginning Fund Balance	4,974,317	5,568,362	5,464,837	4,959,382	6,931,918	9,488,776
Revenue						
Fees and Charges	830	813	913	362	762	-
Interest on Investments	10,000	10,000	10,000	10,000	-	-
Loan Collections	81,654	162,606	102,615	72,336	72,336	-
Property Sales	1,035,000	-	-	2,315,844	3,058,371	-
Total Revenue	1,127,484	173,419	113,528	2,398,542	3,131,469	-
Total Resources	6,101,801	5,741,781	5,578,365	7,357,924	10,063,387	9,488,776
Requirements						
Administration						
A00024-Debt Management-NMC	2,000	-	-	-	-	-
A00032-Debt Management-APW	5,647	3,647	3,647	3,647	3,647	-
Administration Total	7,647	3,647	3,647	3,647	3,647	-
Traded Sector						
A00062-Cluster Development-APW	25,000	25,000	25,000	25,000	-	-
A00383-Lean Manufacturing-APW	30,000	30,000	30,000	30,000	-	-
Business Lending						
A00211-BL-General-APW	200,000	-	200,000	-	200,000	-
Economic Development Total	255,000	55,000	255,000	55,000	200,000	-
Property Redevelopment						
Real Estate						
A00349-Cascade Station-APW	7,311	7,311	7,311	7,311	7,311	7,311
A00350-Cascade Stn-Prcl G-APW	32,795	29,300	29,300	29,300	29,300	29,300
A00351-Cascade Station-Prcl K-APW	23,000	-	-	-	-	-
A00353-Real Estate Mgmt-APW	52,050	46,600	46,600	46,600	46,600	46,600
Property Redevelopment Total	115,156	83,211	83,211	83,211	83,211	83,211
Total Program Expenditures	377,803	141,858	341,858	141,858	286,858	83,211
Personnel Services	35,686	23,538	27,467	28,379	28,801	29,213
Total Fund Expenditures	413,489	165,396	369,325	170,237	315,659	112,424
Interfund Transfers - Indirect Charges	119,950	111,548	249,658	255,769	258,952	263,550
Contingency	5,568,362	5,464,837	4,959,382	6,931,918	9,488,776	9,112,802
Total Fund Requirements	6,101,801	5,741,781	5,578,365	7,357,924	10,063,387	9,488,776