



PROSPER
PORTLAND
Building an Equitable Economy

DATE: February 13, 2019
TO: Board of Commissioners
FROM: Kimberly Branam, Executive Director
SUBJECT: Report Number 19-05
Adopting Property Valuation, Acquisition and Management, and Disposition and Leasing Policies and Superseding and Consolidating Certain Resolutions

BOARD ACTION REQUESTED AND BRIEF DESCRIPTION

Adopt Resolution No. 7301

This action by the Prosper Portland Board of Commissioners (Board) will authorize new real estate policies for valuation of real property, acquisition and management of real property, and disposition and leasing of real property.

As described more specifically in this report, these policies are being updated for three primary reasons:

- (1) To reflect the existing Financial Sustainability Plan, Strategic Plan, and Social Equity Policy, which the existing real property policies predate;
- (2) To modernize the agency's real estate management practices from a *property management* strategy to a *portfolio management* strategy; and
- (3) To make administrative and technical revisions to improve consistency, eliminate redundancy, and update references to outdated organizational structures.

The policies are also being updated to incorporate recommendations from the Portland City Auditor's Office's 2017 internal audit of Prosper Portland's income-generating properties.

If approved, this resolution would also direct staff to develop a property plan (Property Plan) for each real property in the agency's portfolio, which would include strategic purposes, income goals, and equity assessments for the property. Thus, each property would be specifically, explicitly and transparently linked to the agency's strategic, financial, and social equity goals.

STRATEGIC PLAN ALIGNMENT AND OUTCOMES

By regularly reviewing and updating how the agency manages its real estate assets, Prosper Portland will deliver on its 2015-2020 Strategic Plan goal of operating an equitable, innovative, and financially sustainable agency.

BACKGROUND AND CONTEXT

On May 13, 2015, the Prosper Portland Board through Resolution No. 7109 adopted the 2015-2020 Strategic Plan, setting a five-year course of action for the agency. The Strategic Plan outlines the specific actions the agency will undertake to be equitable, innovative, and financially sustainable, including developing a long-term business plan to define how it would meet financial goals.

In mid-2015, staff launched a formal process to craft a long-term business plan. Over the course of 2015 and 2016, staff convened a Financial Sustainability Committee; identified and scrutinized funding scenarios; and identified financial return targets for agency real estate assets. On June 8, 2016, the Prosper Portland Board through Resolution No. 7194 adopted an updated financial investment policy that affirmed “when investing public resources to achieve its Strategic Plan, Prosper Portland will apply sound financial guidelines and accountable and transparent processes,” and stated “all investments should seek public benefits and result in asset ownership or a financial return of and on capital.” Over the next two years, staff refined its assumptions, developed new models, and briefed Portland City Council prior to presenting the Prosper Portland Ten Year Financial Sustainability Plan (Financial Sustainability Plan) to the Prosper Portland Board for consideration. On July 18, 2018, the Prosper Portland Board through Resolution No. 7281 approved the Financial Sustainability Plan, whose primary objective was to “optimize both public benefits and financial return of the remaining tax increment funds and existing real estate assets.”

In 2017, the City of Portland Auditor’s Office conducted an internal audit of Prosper Portland’s income-generating properties. The audit focused primarily on real estate management practices from 2016 to determine if those management practices aligned with Prosper Portland’s strategic goals. At that time, the agency had not yet started to implement certain activities and objectives that were outlined in the Strategic Plan, such as creation of financial and strategic goals for each property and documentation of equity considerations.

The audit recommended that to ensure that real estate management activity is aligned with Prosper Portland’s strategic objectives, the agency should:

1. Develop strategic purposes for each property and income goals as outlined in the long-term business plan;
2. Document equity assessments for each property in the portfolio; and
3. Require the Financial Investment Committee to regularly review all real estate holdings for potential financial return.

Policies

To effectively implement the Strategic Plan, the Financial Sustainability Plan, and the Social Equity Policy into day-to-day real estate management activities and development goals, staff conducted a comprehensive review of Prosper Portland’s real estate policies, including acquisition, disposition, valuation, and real estate management to ensure these policies address the agency’s priorities and industry best practices.

In conducting this review, staff concluded that the real estate policies needed to be revised. As alluded to earlier in this report, the three main drivers of this conclusion are:

- (1) **The existing policies predate the Financial Sustainability Plan, Strategic Plan, and Social Equity Policy and do not adequately capture Prosper Portland’s current goals and priorities.** The existing real estate disposition and acquisition policy was adopted in 2002 and the existing real property management procedures were adopted in 2014. These policies predate significant new guidance provided by the Prosper Portland Board in the form of the Financial Sustainability Plan, Strategic Plan, and Social Equity Policy.

By way of one example, the 2002 real estate disposition and acquisition policy addresses below-market value sales in furtherance of public benefits or other unique goals as an *exception* to standing policy, as opposed to integrating consideration of non-financial benefits as a core part of the analysis the agency should be performing. By contrast, one of the main objectives of the Financial Sustainability Plan is to “optimize both public benefits and financial return.” The

proposed new disposition and leasing policy institutionalizes this direction by emphasizing that the agency should consider, in determining whether to sell or transfer property, whether both the financial benefits *and* community and equity-related benefits of a transaction are sufficient to justify the transaction.

- (2) **To modernize the agency’s real estate management practices from a *property management strategy* to a *portfolio management strategy*.** There is no existing *policy* in effect regarding the management of real property; the existing management *procedures* were adopted in 2014 and take a *property management* and *risk mitigation* perspective. While this perspective is often appropriate, it does not fully capture the broad range of activities Prosper Portland staff engages in, particularly in the realm of commercial and retail leasing.

Distinctions between types of dispositions are also fairly limited in nature within existing policies. For example, as far as the existing policies reflect, the lease of a major, unique asset such as Union Station would be subject to the same approval requirements as an ordinary course of business retail lease for affordable commercial space owned or master leased by the agency so long as either lease exceeds a five-year term. The new policies set forth an anticipated practice whereby Prosper Portland Board approval would be sought for general terms within which space could be leased, as opposed to on a tenant-by-tenant or lease-by-lease basis. In some cases, the Prosper Portland Board has already approved leasing activities in this manner, but the new policies institutionalize this practice and sets staff expectations accordingly.

- (3) **The existing policies are sometimes inconsistent or redundant, and frequently refer to obsolete organizational structures.** For example, reference is made throughout the existing real estate policies to Real Estate and Loan Servicing Manager, Real Estate and Lending Director, Real Estate Development and Construction Services Manager, and Real Estate Services Section – all of which no longer exist. By creating new policies which reference current positions, teams, and department structures, staff have the clarity and direction necessary to affect business decisions that reflect agency priorities.

To address these concerns, the following new policies are proposed:

- **Valuation of Real Property:** This policy establishes standards when determining the value of real property that Prosper Portland intends to acquire, sell, lease, or secure as collateral for a financial transaction. Elements of this policy include guidance on valuation methodology, adjustments to valuation – including adjustments to further the agency’s strategic goals – valuing Prosper Portland-owned property for accounting purposes, and policy exceptions. Exemptions include the need to determine value when selling or acquiring remnant properties to or from another public agency or for unique properties when it is impossible or not feasible to determine the value of such property.
- **Acquisitions and Management of Real Property.** This policy guides the agency when it seeks to acquire real estate and establishes management standards once acquired. This policy also requires the creation of a Property Plan for each owned property to guide stewardship of that property.
- **Disposition and Leasing of Real Property.** This policy consolidates and simplifies prior policy guidance on the process by which Prosper Portland sells and leases real property to further its mission. One material difference between this policy and the one it replaces is an exception to requiring Prosper Portland Board approval for non-commercial, non-residential leases with a duration of five years or fewer. The staging of construction activities falls into this category. In all other regards, this policy consolidates prior Prosper Portland Board actions into a single

document for clarity of staff and ease of reference. Most significantly, this policy consolidates all circumstances in which Prosper Portland Board approval is not needed before disposing of or leasing real property into one document. These exceptions had previously been specified in a variety of resolutions passed over a span of years.

Additionally, the new policies now incorporate strategic direction consistent with agency-wide objectives.

EQUITY IMPACT

All policies were crafted to clearly state agency social equity goals and priorities. The executive director has the authority to create procedures which would specify in detail the process and methodology by which the goals are to be achieved.

COMMUNITY PARTICIPATION AND FEEDBACK

Staff did not conduct any formal public engagement related to this action. However, the new policies provide increased transparency for the agency's work and allow Prosper Portland to engage with the community on a deeper level.

BUDGET AND FINANCIAL INFORMATION

The policies clarify the financial metrics to which real estate assets are managed and real estate transactions are evaluated. By managing the agency's real estate assets to meet publicly stated goals, Prosper Portland is better positioned to achieve the performance targets outlined in the Financial Sustainability Plan.

RISK ASSESSMENT

The revised policies mitigate risk by providing clear and consistent guidelines by which activities pertaining to Prosper Portland real estate assets will be conducted.

ATTACHMENTS

None.