



PROSPER
PORTLAND
Building an Equitable Economy

DATE: May 13, 2020
TO: Board of Commissioners
FROM: Kimberly Branam, Executive Director
SUBJECT: Report Number 20-18

Authorizing Acquisition of a 0.9-Acre Property in the Downtown Waterfront Tax Increment Finance District from Northwest Natural Gas Company for \$8,00,000, the Execution of a Term Sheet with Lan Su Chinese Garden Regarding Development of the Site, and a \$4,000,000 Interfund Loan from Portland Parks and Recreation to Assist in the Acquisition

BOARD ACTION REQUESTED AND BRIEF DESCRIPTION

Adopt Resolution No. 7368

This action by the Prosper Portland Board of Commissioners (Board) will authorize the Executive Director to acquire a 0.9-acre property (Property or Block 24) in the Downtown Waterfront Tax Increment Finance (TIF) District, adjacent and north of the Lan Su Chinese Garden (Garden), bounded by Northwest Flanders Street to the south, Northwest Third Avenue to the west, Northwest Glisan Street to the north, and Northwest Second Avenue to the east from Northwest Natural Gas Company (NWN) for \$8,000,000. See a summary and map in Attachment A.

If approved, this action will allow Prosper Portland to enter into a term sheet (Term Sheet) with Lan Su Chinese Garden (Lan Su), the non-profit organization that operates the Garden, which includes binding language assigning the purchase and sale agreement to Prosper Portland and describes how the parties will work together to potentially pursue a mixed-use redevelopment. As currently contemplated, redevelopment of Block 24 may include an event and cultural space owned and operated by Lan Su, housing, and commercial uses that are consistent with goals of the Old Town/Chinatown Five-Year Action Plan. The resolution will also allow Prosper Portland to accept and partially fund the acquisition with a \$4,000,000 interfund loan from the Portland Parks and Recreation (PP&R).

STRATEGIC PLAN ALIGNMENT AND OUTCOMES

This action meets multiple Prosper Portland Strategic Plan objectives, including creating healthy, complete neighborhoods and strengthening partnerships with public and non-profit partners to deliver on community priorities as expressed in the Old Town/Chinatown Five-Year Action Plan.

BACKGROUND AND CONTEXT

Known as the Portland Classical Chinese Garden when it opened in 2000, the Garden is a full city-block walled-garden influenced by many of the famous classical gardens in Portland's sister city of Suzhou, China. The Garden, which attracts approximately annual 150,000 visitors, is owned by PP&R which contracts with Lan Su to operate and maintain the Garden.

As part of its programming, Lan Su holds many cultural events that might be better served in a facility designed for such functions and that could increase attendance and enhance the visitor experience. When NWN announced in late 2017 that it intended to relocate its headquarters from Old Town/Chinatown to a new headquarters office building downtown, Lan Su identified an opportunity to purchase Block 24, a 120-space surface parking lot, and fulfill its vision of a new facility. In addition to space for a cultural and event center along with its staff offices, Lan Su imagined a development that could include an Asian-themed hotel, office space, and/or housing units. Lan Su executed a Purchase & Sale Agreement (PSA) with NWN for Block 24 on April 18, 2019 with terms that included a purchase price of \$8,000,000, due diligence completed by June 1, 2020, and closing by July 2, 2020.

After exploring options with several developers, Lan Su requested Prosper Portland partner in the acquisition of Block 24 and step into the role of purchaser in the PSA with NWN. In August 2019, Prosper Portland staff began to evaluate development feasibility and due diligence activities (including a fair market appraisal, preliminary title report, land survey, zoning analysis, and Phase I and Phase II environmental studies), which have now been completed.

Prosper Portland and Lan Su have not created specific plans for the redevelopment. However, staff believes that a mixed-use development that would include Lan Su's programming could be feasible and appropriate to explore. Should Prosper Portland acquire Block 24, staff anticipates using it as a revenue-generating public parking lot until development activities commence. As currently envisioned, Prosper Portland will solicit for a development partner in summer 2021.

Following are the key deal points in the acquisition, partnership, and development of Block 24:

- Purchase price of \$8,000,000 will be paid by Prosper Portland from Downtown Waterfront TIF District funds.
- Prosper Portland will endeavor to enter into a \$4,000,000, two-year, interfund loan agreement with PP&R to assist in the acquisition of the Property.
- Lan Su will assign its rights in the current PSA with NWN to Prosper Portland, including the right to the \$250,000 deposit that is in escrow, and upon assumption of the PSA, Prosper Portland will pay Lan Su \$250,000.
- Prosper Portland and Lan Su will work cooperatively to develop a development plan and select a developer for the Property that meets the needs of the Garden and Prosper Portland's Financial Sustainability Plan and Old Town/Chinatown Action Plan.
- Upon certain conditions, Lan Su will have the option to purchase a section of Block 24 for a prorated amount of the \$8,000,000 purchase price, in order to be able to execute its vision if Prosper Portland and Lan Su cannot reach an agreement on a developer or a development plan within the three years that is the maximum term of the Term Sheet. If the parties cannot agree to a size, location, and price for the Garden's site, it will be designated as the southeast quarter section for \$2,000,000.
- Within two years of closing on the PP&R loan, Lan Su will be required to have project funding commitments for at least \$1,000,000 in-hand to demonstrate the viability of its vision for Block 24.
- Lan Su will be required to make regular quarterly status reports to Prosper Portland on progress made toward raising acquisition funds.
- The term of the Term Sheet can be extended by one year to June 30, 2024 by either party assuming substantial progress has been made toward a development agreement, as evidenced by the issuance of a solicitation, the selection of a potential development partner, and active, ongoing negotiations between Prosper Portland, Lan Su, and the potential development partner.

EQUITY IMPACT

Portland's Old Town/Chinatown neighborhood was predominantly settled by Japanese and Chinese immigrants from the late 1800s through the early to mid-1900s and has historically been both culturally diverse and economically disadvantaged. In recent decades, the neighborhood has had a high concentration of social service providers serving homeless individuals and those with addiction and mental health issues. Through this action, Prosper Portland will take title to and control of the Property which will set the stage to pursue redevelopment that meets Old Town/Chinatown Five-Year Action Plan priorities, including directing revitalization, investment, wealth creation opportunities, and business growth to the neighborhood and encouraging a diverse business and cultural community. This action will also serve to expand the Garden which has been a key cultural institution and Old Town/Chinatown destination since its opening in 2000. Furthermore, Prosper Portland's Business and Workforce Equity program goals will be met or exceeded by future development of Block 24.

COMMUNITY PARTICIPATION AND FEEDBACK

The Old Town/Chinatown Five-Year Action Plan, accepted by Portland City Council on August 6, 2014, and extended for an additional five years on September 4, 2019, established a strategic approach to revitalizing Old Town/Chinatown including promoting development of Prosper Portland-controlled properties and attracting new neighborhood investment. Prosper Portland has worked with the Old Town Community Association and other partners to advance these goals, including redevelopment of the Society Hotel; construction of 38 Davis; activation of the Old Town Loft commercial space; grants to support small businesses and cultural organizations; and a major renovation of and addition to the Grove Hotel, now The Hoxton. The Old Town Community Association is in full support of the acquisition and redevelopment of Block 24 as envisioned by Lan Su and Prosper Portland.

BUDGET AND FINANCIAL INFORMATION

There are sufficient resources in the fiscal year 2019-20 Downtown Waterfront TIF budget and forecast (see Attachment B). Should the Prosper Portland Board choose to move forward with the acquisition, it will initially be funded by \$8,000,000 in Downtown Waterfront TIF investment to be replenished by a \$4,000,000, two-year, PP&R interfund loan. The \$4,000,000 PP&R loan would have a two-year term and charge an interest rate equal to the rate of return for the City of Portland's Investment Fund (approximately two percent, or \$160,000). After acquisition, Prosper Portland would be able to generate revenue from paid public parking estimated at \$156,000 annually net of expenses. Staff has also received interest from PDX Friends of Green Loop which is working to find locations for food cart operators displaced by the recent downtown development. This interim use has the additional benefits of helping vulnerable entrepreneurs resume work in a challenging time and activating the north end of Old Town /Chinatown while also providing a potential income stream to Prosper Portland.

RISK ASSESSMENT

There are several risks to the Prosper Portland Board approving this action, including:

- Lan Su may not be able to raise sufficient funds to finance its portion of the redevelopment or to purchase the designated one quarter of Block 24 for \$2,000,000 should it choose not to move forward with Prosper Portland as a partner. This risk is mitigated by the fact that Prosper Portland would own a full block for redevelopment that will further the goals and objectives of the Old Town/Chinatown Five-Year Action Plan.
- The Property has environmental contamination with remediation that will be triggered at the time it is redeveloped. The cost of the remediation would range between \$500,000 to \$1,500,000; staff believes the land's value will absorb these development costs.

- Given the current economic crisis, the valuation of the Property in the short term could decline in value. A mitigating factor is that this is envisioned as a long-term project with redevelopment planned for more than three years from closing.

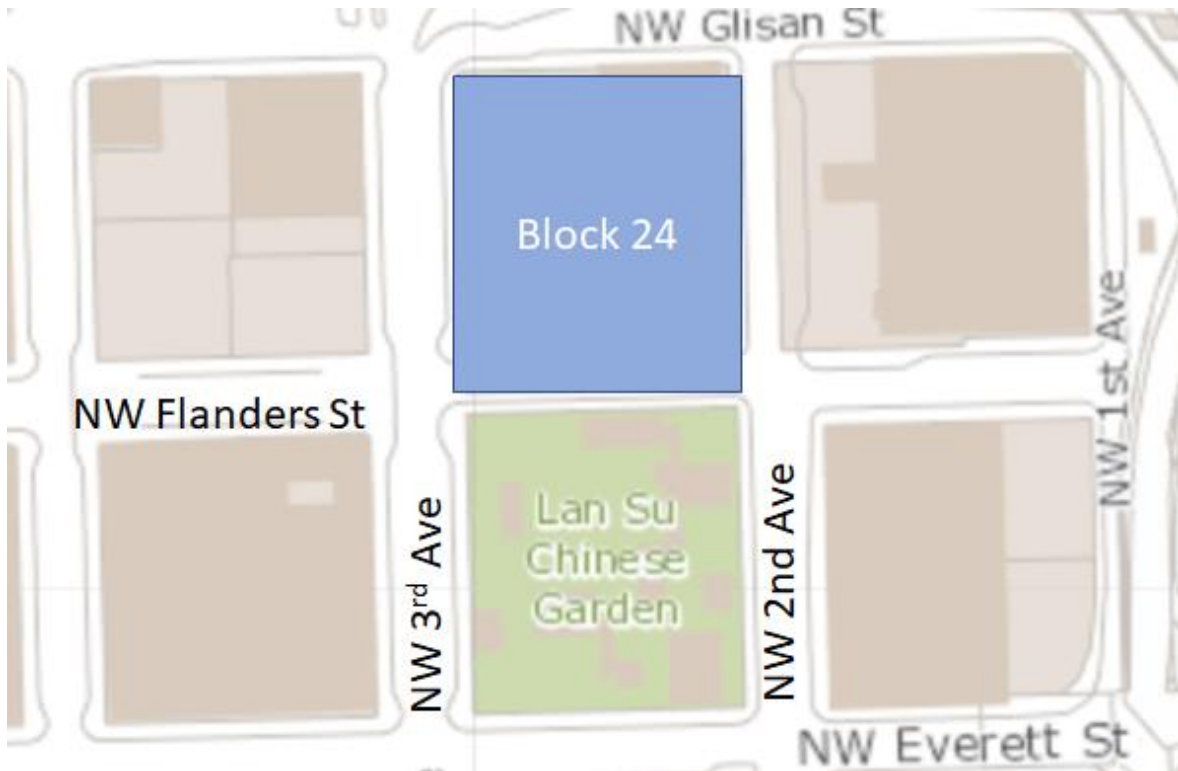
ATTACHMENTS

- A. Project Summary
- B. Downtown Waterfront Tax Increment Finance District Financial Summary

PROJECT SUMMARY

- Project Name:** Block 24
- Description:** 0.9-acre parcel with 120 surface parking spaces
- Location:** Bounded by NW 3rd Avenue, NW Glisan Street, NW 2nd Avenue, and NW Flanders Street
- Tax Increment District:** Downtown Waterfront
- Current Phase:** Acquisition
- Next Milestone:** Close on property by July 2, 2020
- Completion Target:** Select developer and execute binding agreement by June 30, 2023
- Outcome:** Mixed-use development that includes an event and cultural space expansion of the Lan Su Classical Chinese Gardens along with housing and commercial space.

Property Location:



Downtown Waterfront Financial Summary

**Financial Summary
 Five-Year Forecast**

| <u>Downtown Waterfront URA Fund</u> | <u>Revised 2 FY 2018-19</u> | <u>Adopted FY 2019-20</u> | <u>Forecast FY 2020-21</u> | <u>Forecast FY 2021-22</u> | <u>Forecast FY 2022-23</u> | <u>Forecast FY 2023-24</u> |
|--|---------------------------------|-------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
| Resources | | | | | | |
| Beginning Fund Balance | 44,205,229 | 37,201,421 | 5,932,797 | 2,141,075 | 1,533,314 | 872,485 |
| Revenue | | | | | | |
| Fees and Charges | 1,110 | 290 | 290 | 276 | - | - |
| Interest on Investments | 511,962 | 426,530 | 411,952 | 136,419 | 115,751 | 70,421 |
| Loan Collections | 192,706 | 97,831 | 97,831 | 95,946 | 80,860 | 80,860 |
| Property Sales | 24,000 | 10,000 | - | - | - | - |
| Rent and Property Income | 48,830 | 9,740 | 740 | 740 | 740 | 740 |
| Reimbursements | 29,789 | 17,000 | 17,000 | 17,000 | 17,000 | 17,000 |
| Transfers In | - | - | 937,000 | - | - | - |
| Total Revenue | 808,397 | 561,391 | 1,464,813 | 250,381 | 214,351 | 169,021 |
| Total Resources | 45,013,626 | 37,762,812 | 7,397,610 | 2,391,456 | 1,747,665 | 1,041,506 |
| Requirements | | | | | | |
| Administration | | | | | | |
| A00023-Debt Management-DTW | 12,621 | 12,121 | 12,121 | 12,121 | 12,121 | 12,121 |
| Administration Total | 12,621 | 12,121 | 12,121 | 12,121 | 12,121 | 12,121 |
| Economic Development | | | | | | |
| Community Economic Development | | | | | | |
| A00083-OT/CT Action Plan-DTW | 2,600 | - | - | - | - | - |
| Business Lending | | | | | | |
| A00202-BL -General-DTW | 100,100 | 100,100 | 100,100 | - | - | - |
| Economic Development Total | 102,700 | 100,100 | 100,100 | - | - | - |
| Housing | | | | | | |
| A00164-Affordable Housing-DTW | 1,787,488 | - | - | - | - | - |
| Housing Total | 1,787,488 | - | - | - | - | - |
| Property Redevelopment | | | | | | |
| Commercial Property Lending | | | | | | |
| A00359-CPRL-General-DTW | - | 1,068,867 | 4,300,000 | - | - | - |
| Real Estate Management | | | | | | |
| A00258-Old Town Lofts-Accel-DTW | 37,000 | 45,800 | - | - | - | - |
| A00259-Old Town Lofts-Prkng-DTW | 5,126 | 1,800 | - | - | - | - |
| A00260-RiverPlace Marina-DTW | 17,000 | 17,000 | 17,000 | 17,000 | 17,000 | 17,000 |
| A00263-One Waterfront South-DTW | 5,000 | - | - | - | - | - |
| Real Estate Disposition | | | | | | |
| A00259-Old Town Lofts-Prkng-DTW | - | 1,500 | - | - | - | - |
| Redevelopment Strategy | | | | | | |
| A00522-OT/CT Investment & Parking-DTW | 5,000,000 | 30,039,646 | - | - | - | - |
| Redevelopment Grants | | | | | | |
| A00389-CLG-General -DTW | 149,785 | 100,000 | 100,000 | 100,000 | 100,000 | 100,000 |
| A00495-Prosperity Investment Program (PIP) Grant-DTW | 300,000 | 200,000 | 200,000 | 200,000 | 200,000 | 200,000 |
| Property Redevelopment Total | 5,513,911 | 31,474,613 | 4,617,000 | 317,000 | 317,000 | 317,000 |
| Total Program Expenditures | 7,416,720 | 31,586,834 | 4,729,221 | 329,121 | 329,121 | 329,121 |
| Personnel Services | 112,419 | 114,675 | 118,187 | 118,357 | 123,092 | 115,936 |
| Total Fund Expenditures | 7,529,139 | 31,701,509 | 4,847,408 | 447,478 | 452,213 | 445,057 |
| Interfund Transfers - Indirect Charges | 283,066 | 128,506 | 409,127 | 410,664 | 422,967 | 408,087 |
| Contingency | 37,201,421 | 5,932,797 | 2,141,075 | 1,533,314 | 872,485 | 188,362 |
| Total Fund Requirements | 45,013,626 | 37,762,812 | 7,397,610 | 2,391,456 | 1,747,665 | 1,041,506 |