

Memorandum



Date: October 9, 2005
To: Scott Keillor
From: Todd Chase and Matt Ransom
Subject: Cascade Sailpark Implementation Strategy

Introduction

This memorandum is intended to help identify strategies necessary to move the Cascade Sailparks project into construction. Primary topics covered include potential funding options, and sailpark operator lease issues. At this stage in the planning process we are assuming the Port of Cascade Locks will take the lead responsibility in future site disposition, funding, and lease negotiations, once a preferred site is chosen. As with any successful project, the ongoing work needed to move this project into implementation will require close coordination with affected stakeholders, including the City of Cascade Locks, Native American Tribes, and various user groups.

Funding Options

The Cascade Sailpark project suggests the need for a mix of public and private improvements. Selected on-site improvements (e.g., development of indoor storage, meeting/classroom and administration space) can usually be financed by the Sailpark operator, with a mix of equity, market loans and secondary sources of financing (e.g. low interest loans or foundation grants).

Site preparation improvements, such as driveway access treatments, site grading, and in-water work are activities that should be led by the Port of Cascade Locks, and can be funded by a variety of sources, including general fund appropriations, revenue bonds, urban renewal funds and Community Development Block Grant (CBDG) grants and other federal and state program which are identified in this memo. The City of Cascade Locks has been identified as a “distressed rural community” by the Oregon Economic and Community Development Department (OECDD), so there may be greater potential to receive CDGB grants and other federal or state grants to leverage economic development.

Table 1 provides a comprehensive list of funding “possibilities” available for consideration on the streetscape project.

Table 1. Selected Funding and Loan Programs

Funding Program/Source	Program Description	Cycle	Contact
Grants			
Economic Development Administration Community Development Block Grants	Construction and/or improvement of a wide variety of facilities and infrastructure that will primarily benefit low-moderate income persons. Grants and loans for projects that benefit low and moderate income households. Section 108 loans can leverage \$1m or more but have strict procurement rules. Eligible project types typically include infrastructure and in particular ADA and pedestrian accessibility improvements. (\$ of grant awards: vary)	Annual	Annual
U.S. Corps of Engineers, Water Resources Development Act, Cost Sharing Programs	Grants awarded for lands, easements, utilities, dredging, erosion control, waterways, flood control, and related facilities. Grants require a non-federal match (25-50%) at the discretion of District Corps. Office and available funding. (\$ of grant awards for projects maximum limit varies from \$500,000 to \$5M) <i>/www.nwp.usace.army.mil/pm/planning/pdf/planning.pdf</i>	Ongoing – No deadline information available	503-326-6435
Oregon Community Block Grant Program	Grants for infrastructure improvements needed to support a business that will create or retain permanent jobs, the majority of which will be made available to low and moderate income workers. For public infrastructure projects, the ratio is one job per \$20,000 invested. (\$ of grant awards: vary) <i>http://www.econ.state.or.us/cdbg.htm</i>	Annual – No deadline information available	Michelle Bilberry 503.986.0142
Oregon Industrial Development Revenue Bond Program (IDRB)	Administered by OECDD, this program is focused on non-retail job creation. Bonds may be issued for manufacturing, processing and tourism facilities. Eligible companies may borrow \$500,000 to \$10 million through this program, and are obligated to pay back the bondholders. <i>http://www.econ.state.or.us/idrb.htm</i>	Periodic – Generally it takes about six months from the time the application is submitted to the OECDD until the final closing of the bond issue takes place.	503-986-0160
USDA Grants	Grants and loans for rural infrastructure along with loans to distressed communities. (\$ of grant awards: vary) <i>http://www.rurdev.usda.gov/rd/nofas/index.html</i>	Periodic	Periodic

Funding Program/Source	Program Description	Cycle	Contact
Mt. Hood Economic Alliance	<p>The Mt. Hood Economic Alliance is a partnership between Wasco County, Clackamas County and Hood River counties that administers the Regional Investment and Rural Investment Programs which foster and promote economic and rural community development.</p> <p><i>http://www.co.clackamas.or.us/dtd/buserv/reports/rif2000.htm</i></p>	Bi-Annual	<p>Mary McArthur 503-288-5565</p>
Low Interest Loans			
Oregon Business Development Fund (OBDF)	<p>Administered by OECDD, this loan fund is available as a source of financing for land, buildings, machinery and equipment. Preference is given to projects that create at least one job per every \$15,000 of OBDF investment. Ineligible activities include construction of office buildings, retail businesses, and product distribution/food services.</p> <p><i>http://www.econ.state.or.us/obdf.htm</i></p>	Revolving – No deadline information available	503-986-0160
Revolving Loan Fund	<p>The Mid-Columbia Economic Development District (MCEDD) operates a revolving loan program for expanding companies. Typical loan amounts range from \$10,000 to \$75,000.</p> <p><i>http://www.cgeda.com/mcedd.htm</i></p>	Ongoing – No deadline information available	541 296-6182 x208
Special Public Works Fund	<p>A loan for construction and/or improvement of infrastructure needs to support industrial, manufacturing and certain types of commercial development. Loans provided for long terms and at or below-market rates.</p> <p><i>http://www.econ.state.or.us/spwf.htm#fund</i></p>	Ongoing – No deadline information available	<p>David Kim 503-229-5224</p>
USDA Loans	<p>Grants and loans for rural infrastructure along with loans to distressed communities.</p> <p><i>http://www.rurdev.usda.gov/rd/nofas/index.html</i></p>	Annual	
Local			
Local Capital Improvement Program	<p>City can fund public facilities using general funds or dedicated revenues. However, this is not usually applicable, since general funds are usually "over committed" by various city services.</p>	Annual	N/A
Local Property Tax Levies	<p>City can fund roads, schools, parks, and other facilities though voter-approved referendums, subject to Oregon law. Not usually a viable of funding for single projects that cost less than \$2,000,000.</p>	Ongoing	N/A

Funding Program/Source	Program Description	Cycle	Contact
Local System Development Charges	Development impact fees, directly related to the proportional share of capital costs. Applicable to sewer and water systems.	On-going	N/A
Reimbursement District or Zone of Benefit District	Public or private entities that build road systems can be compensated by future property owners at a proportional rate, as development occurs. Usually limited to private construction of roads, this mechanism can be useful for public/private developments	Requires local legislative action	N/A
Advanced Financing Agreements	Private entities that build public facilities can be compensated by the city as development occurs. Limited to private construction of public facilities, this mechanism is useful for public/private developments.	Requires legislative action	N/A
Local Improvement Districts (LID)	LIDs can be formed by petition and subsequent legislative action under Oregon Law. They are often used to finance public infrastructure (roads, sewer, water, etc.) using guaranteed payments from affect properties with a lien placed on those properties until the LID share is paid off. They typically require at least 51% of affected properties to approve the LID.	Requires legislative action	N/A
Urban Renewal District	Urban Renewal Districts can be formed by legislative action under Oregon law (with acknowledgment of an Urban Renewal Plan). Project financing is secured through dedication of increases in tax increment revenues in the affected district.	Requires legislative action	N/A

Funding Strategy Considerations

Funding of the proposed Sailpark will likely involve multiple layers of partnership and funding sources. It is most probable that financing of the complete build-out of the preferred site will occur in phases and the funding will flow to the project in increments. Development of interim milestones associated with logical project phasing will help to establish a funding gameplan and it will assist in establishing funding goals and partnership commitments while the project is built out over a multi year period.

We present the following hypothetical funding plan strategy for a Port and a sailpark operator. The strategy is a three tiered approach; which reflects the layering of partners and funding that will likely need to be assembled to deliver the project. The strategies are presented for primarily discussion purposes as an example of a layered approach.

Table 2: Layered Funding Approach

	Port of Cascade Locks and City	Sailpark Operator
Grants	Federal Lobbying Effort; State of Oregon Competitive Grant Programs (OECDD)	State of Oregon Competitive Grant Programs (OECDD) grants; USDA grants (for private enterprise); SBA grants
Borrowings	Port Revolving Fund; Rural Investment Fund; Special Public Works Fund; Port of Cascade Locks Revenue Bonds	Fundraising campaign; Market rate lines of credit (construction and business loans)
Partnerships	CGRA / other sailpark operator; Warm Springs Tribe; City of Cascade Locks	Warm Springs Tribe; City of Cascade Locks; Port of Cascade Locks

Potential Sailpark Operations Strategies

Case Study Findings

Previous technical memorandum (Tech Memo #2) documented major findings from the peer case study review in order to document typical revenue structure and operating costs for annual operations of peer sailpark facilities. During this case study review, additional information was collected in relation to the specific development agreements and deal structures underlying the land and building ownership of the respective centers. While each sailing center is unique in terms of the exact nature of the underlying ownership and deal structure; the case study review did reveal compelling similarities among the land and building ownership structure arrangements that can be used to help inform the preparation of an optimal financing and leasing structure for the Port of Cascade Locks.

Major findings of the peer study review include:

- Nearly all sailing centers did not own (fee simple) the underlying land on which they operated. In nearly all instances; the sailing center was provided a free or nominal long term lease agreement for the underlying land.
- Building ownership varied among the peer group.
- In several instances; the sailpark operator had a long term lease agreement with a governmental agency for the use of a building and in-water dock facilities.
- In a few instances; the sailpark operator owned the buildings and in-water facilities. This type of agreement was always accompanied by a long-term ground lease arrangement for instances where the operator did not own the underlying land.
- In most cases; the sailpark facility was solely designed for sailpark use. However in a few instances; the sailpark facility was jointly housed as part of a larger joint use

facility. This joint use arrangement consistently occurred as part of a regional public and park facility development.

- Building lease agreement terms varied per the type and focus of the sailpark facilities.
- For those sailpark operators whose business plan focused more on the provision of public access, community sailing and youth training, the lease terms were typically more generous - typically provided at a free or nominal rate.
- For those sailpark operators whose business plans focused more on training and competitive sailing, lease terms were typically higher, albeit in most cases the terms were below market thresholds.
- Market rate leases or full ownership arrangements were uncommon. Those facilities found to be operating under more traditional financing terms were typically private facilities. These facilities were found to be private sailing clubs and exclusive membership facilities which rely heavily on membership and club fees. Most of these clubs were found to be more established facilities. This type of facilities is not considered a peer sailpark facility and true market development terms are not considered attainable in this sailpark evaluation.

Based on the peer review; it is clear that sailpark land and building ownership agreements occur in forms that are common among a majority of the peer group studied. This is the case because sailparks (whether community or racing oriented) have similar operating characteristics and usually need public support in the form of subsidized land and building ownership/lease terms in order to operate a viably. The Port will need to evaluate their objectives relative to and land and building ownership either prior to or in conjunction with a preferred sailpark operator.

The following broad land and building ownership considerations are provided as an example matrix of decision factors. These factors will be discussed further in the Operations Strategies section.

Table 3: Port Land and Building Ownership Considerations

<p>Land Control</p>	<ul style="list-style-type: none"> • Sell versus lease land • Rate of lease (free; nominal rate; market rate; escalation clauses) • Term of lease (5, 10, 15 or 20+ years) and renewal terms (consider business type and operating expectations)
<p>Building Ownership</p>	<ul style="list-style-type: none"> • go / no-go on building construction participation • building type: special use or multi use • terms of lease: rate (nominal, “kicker”, market); term; other tenant expectations • up-front concessions and incentives (free rent, site and building allowances)

Potential Sailpark Operations Strategies

Establishing mutually beneficial operations agreements for the land and building components is crucial to the long term success of the sailpark. The Port clearly intends that development of a sailpark facility will require clear provisions for the operator to allow general public access to certain sailpark facilities. Likewise; the limited sailing season and limited revenue generating capacity of non-profit sailpark facilities (revealed in peer case study evaluation) find that a balance needs to be struck in negotiating the operating agreements of the sailpark facility.

The Port and the future sailpark operator will need to find and develop lease and site investment terms that provide for a manageable cash flow condition for both parties. Table 4 identifies a couple of hypothetical lease deal structures covering the land and building facilities. It is important to note that initiation of a development negotiation should start with establishment of common operating and cash flow goals and the terms and provisions of a development and lease agreement will be better aligned when both parties agreement to a common set of achievable goals.

Table 4: Sample Development and Operating Scenarios

	Agreement/Terms
Scenario A	
Ground:	Long term lease from Port – nominal rate per-annum
Building:	Fee simple ownership by Sailpark operator; financing options: 1. Private Donations/Sponsorships 2. Grants
Scenario B	
Ground:	Short-term lease (5 year with option to renew) from Port – nominal rate per-annum
Building:	Short-term lease (5 year with option to renew) from Port – with various Lease options: 1. Port to develop building and lease it to the leasee (operator) at market rate cost; 2. Port to finance and lease back at nominal (below market) cost; 3. Leasee to pay Port a variable lease based on a fixed percentage rate of net operating income; 4. Leasee to provide a pre-defined value in infrastructure/building/in-water improvements over lease term in lieu of lease payment with reversionary provisions to Port upon lease expiration.

Typical lease parameters

The following lease and deal negotiation parameters are provided as a preview to the types of issues that will need to be considered. The Port will need to develop a strategy for initiation and negotiation of the following parameters at specific milestones (ex. Site development, building construction, lease agreements) as the project moves forward.

The terms and negotiation points include but are not limited to:

- Permitting and Approvals
- Lease buy-out provisions
- Schematic and Final Design of site and facilities;
- Lot Line Adjustments;
- Mean High Water Line Survey;
- Lease Term
- Lease Renewal
- Basic Lease Rental Rates and Escalation
- Rights of Mortgagees
- Easements
- Parking Facilities, Operations and Availability

- No Charge for Public Parking
- Taxes
- Good Faith Deposit
- Repairs, Maintenance and Operations
- Commencement and Completion (for new construction activities on leased land)
- Certification of Completion (for new construction activities)
- Additions and Improvements (for new construction activities)
- Termination
- Damages to Port owned land or facilities
- Insurance
- Successors and Assigns

Implementation Steps

Developing a work plan and schedule to advance the proposed sailpark is the next logical step for the Port Commission to consider. The following steps provide a brief outline of the implementation sequence.

Implementation Outline:

1. Refine and finalize site selection
2. Develop and initiate funding program strategy
3. Decision regarding Port participation in site and building development

- *Assuming Port participation* -
4. Initiate permitting processes
5. Solicit prospective operators through RFP/RFQ or sole source process
6. Refine/finalize building and site designs
7. Finalize permitting
8. Negotiate land and building lease terms
 - consider an interim operations arrangement
9. Initiate site and building construction
10. *Project Completion....*

Closing

A world class sailpark at Cascade Locks that also functions as a local community sailing center would definitely benefit the region and state. Implementation of this concept will be challenging, and shall require several months of concerted effort by the Port of Cascade Locks. We stand by willing to help in any way possible. Please contact us with any questions or comments concerning this memorandum.