

**DATE:** December 11, 2014  
**TO:** Board of Commissioners  
**FROM:** Patrick Quinton, Executive Director  
**SUBJECT:** Report Number 14-50  
Update on the Development Agreement with ZRZ Realty Company

**BOARD ACTION REQUESTED**

No action is requested; information only.

**ACTION DESCRIPTION**

The purpose of this report is to provide an update to the Portland Development Commission (PDC) Board of Commissioners (Board) on the status of the South Waterfront North District Project Development Agreement (DA) with ZRZ Realty Company (ZRZ). If ultimately approved, the DA would anticipate ZRZ developing 1,500,000 square feet (SF) of mixed-use, employment-oriented commercial and residential development over three phases and PDC making investments spanning a 10-year period.

PDC's investment is estimated at \$27,400,000 based on projected availability of tax increment financing (TIF) from a proposed amended North Macadam Urban Renewal Area (URA) Plan under consideration by the PDC Board and City Council as well as the final scale of private development. TIF investment is contemplated for PDC participation in economic development, transportation, infrastructure, greenway, and open space improvements and Portland Housing Bureau (PHB) investments in affordable housing within the URA. Implementation of significant components of the DA is anticipated to occur via subsequent Intergovernmental Agreements (IGAs) between PDC and partner bureaus.

Staff anticipates bringing an action item requesting approval of the DA to the PDC Board at their January 11, 2015 meeting.

**BACKGROUND AND CONTEXT**

ZRZ is a major property owner in the North Macadam URA, controlling approximately 30 acres of undeveloped land (see map in Attachment A). In aggregate, the ZRZ-controlled properties are the largest section of vacant, redevelopable land in Portland's Central City. The ZRZ development site is also within Portland's Innovation Quadrant (IQ), home to major regional higher-education institutions, workforce development providers, and private sector partners, and includes the Oregon Health & Science University's (OHSU) Schnitzer campus, where research and investment affiliated with the Knight Challenge is expected to be housed.

Staff has been working with ZRZ to craft a DA, which includes multi-year real estate developments or redevelopment projects that are mutually beneficial to the City of Portland (City), PDC, and ZRZ. The DA will establish the parameters that will foster new development and redevelopment within an extended and expanded North Macadam URA in furtherance of North Macadam URA Plan and City goals. This

area of the IQ is largely undeveloped, without the streets and infrastructure needed to support development. Without the public-private partnership of this DA, which shares costs for regional public infrastructure, it is unlikely that the 1,500,000 SF of private development would occur on the anticipated timeline.

The following provides a summary of the private development, public infrastructure, and public-private partnerships included in the DA. Attachment B provides a map of project phasing as described below and included in the DA.

### **Private Development**

- Phase 1: ZRZ intends to develop at least 440,000 SF of space anticipated to include mixed-use, employment-oriented projects, and build off of their Emery housing project.
- Phase 2: ZRZ intends to develop at least 1,000,000 SF of space anticipated to include commercial and residential uses that contribute to South Waterfront employment and housing goals.
- Phase 3: ZRZ has completed a plan for development of additional SF on properties south of the Ross Island Bridge; this development is anticipated to occur after the last date to issue debt in the North Macadam URA.

### **Infrastructure**

- Phase 1:
  - Bond Avenue: PDC will fund and the Portland Bureau of Transportation (PBOT) will design and construct Bond Avenue street improvements from SW River Parkway to SW Grover Street, built in three segments with adjacent development. Street improvements could include District Energy pipe conveyance system if a District Energy System is initiated by OHSU.
  - Stormwater: ZRZ will fund, design, and construct a stormwater system for development projects and Bond Avenue located on ZRZ property east of Moody Avenue and west of Bond Avenue.
  - Economic Development: At PDC's discretion, PDC will provide funding for eligible physical improvements aimed at recruiting jobs and assisting job creation, including but not limited to parking structures and PDC's commercial property redevelopment and business finance loan programs.
- Phase 2:
  - Willamette River Greenway: PDC will fund and ZRZ will design and construct greenway improvements from the Marquam Bridge to the Ross Island Bridge with a connector under the Ross Island Bridge to Moody Avenue. The final design shall be mutually agreed upon by ZRZ, PDC, OHSU, and Portland Bureau of Parks & Recreation (PP&R).
  - Bond Avenue: If ZRZ development reaches 750,000 SF, the SW Bond Avenue street improvement from SW Grover to SW Gibbs streets (on ZRZ property) and from SW Gibbs to SW Whitaker streets will be triggered for design and constructed.
  - Economic Development: At PDC's discretion, PDC will invest funding in an amount not to exceed the incremental amount of ZRZ Phase 2 generated tax increment above and beyond agreed upon infrastructure investments in eligible physical improvements aimed at recruiting jobs and assisting job creation, including but not limited to parking structures and PDC's commercial property redevelopment and business finance loan programs.
- Phase 3:
  - If ZRZ proceeds with Phase 3 development prior to June 2025, at PDC's discretion, PDC to invest additional tax increment financing, as available, to SW Bond Avenue from SW Grover to SW Gibbs streets or SW Gibbs to SW Whitaker streets street improvements (if not already funded); undergrounding of Portland Power & Light line; and remaining upland greenway improvements from Ross Island Bridge to Gibbs Street).

## **Partnerships**

- Phase 1:
  - Interim Activation: ZRZ and the City will review Interim Activation of Phase 2 properties and determine availability to streamline reviews and potential Title 33 allowances for interim/temporary uses.
  - Stormwater: ZRZ and the Bureau of Environmental Services (BES) will explore the potential for a District Stormwater System to serve ZRZ Phase 2 and 3 development area and rights-of-way and open space east of Bond Avenue, with ZRZ anticipated to fund a baseline system and the City to identify non-rate payer funds for any incremental improvements.
- Phase 2:
  - Ross Island Bridge Park/Greenway: ZRZ and PP&R will enter into a ZRZ Site Open Space Framework Plan public process that will include identifying a size, location, and conceptual design for the Ross Island Bridge Park and may include greenway concept design and other open space within the ZRZ property. Based on partnership outcomes, PDC would commit to \$5,000,000 for Ross Island Bridge property acquisition.

As noted, the public infrastructure and public-private partnerships are anticipated to be implemented via IGAs between PDC and the appropriate City bureaus, including PBOT, PP&R, BES, Bureau of Planning and Sustainability, PHB, and Bureau of Development Services.

## **COMMUNITY AND PUBLIC BENEFIT**

The DA incents the redevelopment of 30 acres of property within the Central City by providing the funding and timeline for public street and greenway improvements that benefit the future site development, the South Waterfront neighborhood, the Central City, and the region. Providing a funding and timeline commitment for the completion of Bond Avenue allows OHSU, ZRZ, and other South Waterfront residents and employees the assurance of the completion of the Moody-Bond connector through the district as called for in the North Macadam Transportation Development Strategy as approved by City Council.

Providing a funding and timeline commitment for greenway improvements provides assurance to the community that this portion of the regional 40-mile loop trail will be completed. The Ross Island Bridge Park Partnership provides the City an avenue to pursue a neighborhood park within South Waterfront that may not otherwise be available. The DA also includes a commitment by ZRZ to work with PHB and PDC to support solutions to the district's housing needs to the extent that those needs are not met by the market and to the extent the solutions do not reduce the TIF, and related TIF set aside, potential of the property.

## **PUBLIC PARTICIPATION AND FEEDBACK**

On May 7, 2014, City Council approved Resolution No. 37072, directing PDC and City staff to begin the process of drafting documents to amend six URAs, which included the closure of the Education District URA and the extension and expansion of the North Macadam URA. From June to October 2014, staff worked with a URA Amendment Advisory Committee (Committee) to advise PDC and the City on the proposed package of amendments. Over the course of those meetings, PDC staff presented high-level deal points of the DA to the Committee, which was supportive of the partnership. In addition, staff presented at various public outreach events between June 2014 and December 2014, including neighborhood associations, business associations, a public open house, and the Portland Planning and Sustainability Commission.

There is strong support for the projects and actions outlined in the DA. For example, the Bond Avenue and the Willamette River Greenway improvements have long been a priority for district stakeholders

and property owners as expressed in prior Urban Renewal Advisory Committee and budget process discussions and testimony.

### **BUDGET AND FINANCIAL INFORMATION**

PDC funding of the DA obligations will depend upon the availability of North Macadam URA TIF, which is subject to the successful performance of the amended North Macadam URA as modeled. Financial modeling relies on PSU, OHSU, and ZRZ proceeding according to schedule with the development of projects on their respective properties that will, when finished, be taxable and generate TIF as anticipated. Should the DA and related URA amendments be approved, staff anticipates that the proposed fiscal year 2015-16 budget and five-year forecast would reflect DA and resulting IGA obligations during that term.

### **RISK ASSESSMENT**

When the DA is presented to the PDC Board on January 11, 2015, risks related to authorizing the DA include:

- **North Macadam URA Amendment:** If the Fourth Amendment to the North Macadam URA is not adopted as part of the URA Amendment package, the resources and geographies considered under this DA would not be accessible and thus the DA would not move forward.
- **Generation of Adequate TIF from Taxable Development:** The DA is structured around private development coming online and generating TIF along a certain timeline. This timeline provides the schedule for when TIF is available to fund public improvements such as Bond Avenue and the greenway. If the private development timeline is delayed, the TIF necessary for these public improvements may not be available within the time frame identified. As a remedy, the DA includes language linking public DA obligations to occur concurrent with adjacent taxable development as well as the overall availability of TIF in the URA.
- **Incomplete Private Projects:** Any development presents the potential risk that a project will be started but not completed. Some of PDC's obligations are triggered upon the start of a private project and anticipate the successful completion of that project. As a remedy, if ZRZ initiates certain projects that trigger a commitment of PDC TIF and those projects are not completed then ZRZ must repay PDC the funds expended and ZRZ agrees to execute completion guarantees.

### **ALTERNATIVE ACTIONS**

This is an information item, so no action is being requested of the PDC Board. When staff returns to the PDC Board at their January 11, 2015 meeting, alternative actions the PDC Board could take include:


- Approve the DA with changes to the terms and commitments; this would involve ongoing negotiations with ZRZ and other partner bureaus, as appropriate.
- Not approve the DA and identify changes to the terms and commitments necessary to return to the PDC Board at a later date for approval; this would involve ongoing negotiations with ZRZ and other partner bureaus, as appropriate.
- Not approve the DA; this would likely impact the rate of development in the URA given the role of ZRZ property redevelopment in generation TIF for district economic development, redevelopment, and affordable housing priorities.

### **ATTACHMENTS**

- A. Development Agreement Property Map
- B. Development Agreement Phasing Plan

**Development Agreement Property Map**



 ZRZ property subject to Development Agreement

**Development Agreement Phasing Plan**



**Exhibit C: ZRZ Development Agreement Phasing Plan**