



**DATE:** November 9, 2016  
**TO:** Board of Commissioners  
**FROM:** Kimberly Branam, Executive Director  
**SUBJECT:** Report Number 16-57

Authorizing the Acquisition of 2.19 acres of Real Property and a Lease for 2.18 Acres of Real Property Located on SE Water Avenue between SE Taylor and SE Madison Streets in the Central Eastside Urban Renewal Area from the Oregon Department of Transportation

#### **BOARD ACTION REQUESTED**

Adopt Resolution No. 7216

#### **ACTION DESCRIPTION**

This action by the Portland Development Commission (PDC) Board of Commissioners (Board) would authorize the following two transactions with the Oregon Department of Transportation (ODOT): i.) a Bid Form and Sale Agreement (Sale Agreement) that would allow PDC to purchase 2.19 acres of property located on SE Water Avenue, and ii.) a lease agreement (Lease Agreement) that would allow PDC to obtain a leasehold on 2.18 acres of property located on SE Salmon, SE Main, and SE Madison Streets. Collectively, this 4.3-acre site is commonly known as the ODOT Blocks and is located within the Central Eastside Urban Renewal Area (URA); see a map and aerial in Attachment A. If approved, these transactions will allow PDC to control three full city blocks of real estate in a strategic central city location and enable PDC to deliver on goals to increase affordable industrial space and district parking.

#### **BACKGROUND AND CONTEXT**

Over the last 150 years, Portland's Central Eastside has seen the face of industry change and diversify, and the district has accommodated many of these changes while maintaining its industrial functions. Today, the area is home to more than 1,100 businesses and 18,000 jobs — more than any other district in the Central City outside of the downtown core — and many of those jobs are in family wage occupations. Industrial uses and creative businesses sit side-by-side with the opportunity for cross-industry exchange, from film and digital enterprises to food manufacturing to craft industries. While employment in other areas in the central city decreased during the most recent economic downturn, jobs increased in the Central Eastside in part because of this combination of traded sector businesses and more traditional industry.

During the next 50 years, the City's goal for the district is to increase the number of jobs per acre and introduce new industrial types in Portland's Central City, while preserving traditional industrial uses. Based on regional, citywide, and Central Eastside job growth trends, it is estimated that Central Eastside employment could grow by over 9,000 jobs by 2035 but there is less land available than is required to meet this projected demand — a shortfall of about 20 acres.

The ODOT Blocks property has long been identified as an important redevelopment opportunity within the Central Eastside to meet these employment goals. The 1988 Central City Plan, the adopted Central City 2035 SE Quadrant Plan, and the Central Eastside Urban Renewal Area Plan all have goals and objectives related to expanding opportunities for jobs through the full use of vacant land and enhancing the Central Eastside as a close-in jobs center.

**Property Description.** The ODOT Blocks transaction consists of the acquisition in fee simple of three parcels and the acquisition of a leasehold of three adjacent parcels on three contiguous blocks located on SE Water Avenue in the Central Eastside URA. The purchased (fee simple) parcels are the eastern portion of each block, directly adjacent to SE Water Avenue. The leased parcels are the western portion of each block, between Interstate 5 and the parcels to be purchased. As shown in Attachment A, the areas to be leased versus purchased and the square footage of each are as follows:

<u>Parcel</u>	<u>Western Portion to be Leased</u>	<u>Eastern Portion to Be Purchased</u>
North:	20,635 square feet (SF)	34,800 SF
Center:	31,282 SF	34,800 SF
South:	43,159 SF	25,600 SF
Total:	95,036 SF (2.18 acres)	95,200 SF (2.19 acres)

**Purchased Parcels.** The purchased portion of the ODOT Blocks consists of 2.19 acres of developable land in three separate parcels. This property was listed by ODOT as surplus in May 2014 and in June 2014 PDC responded with an expression of interest to purchase the property on behalf of the City of Portland. To date, PDC has funded due diligence on the site, including the lot line work necessary for ODOT to sell the eastern fee simple aspects of the property and to retain but lease the western residual.

The ODOT Blocks property is zoned General Industrial (IG1), a designation that provides primarily for industrial uses and restricts other uses to prevent potential conflicts. This zoning has no height or Floor Area Ratio limitation. The property is vacant. Based on these existing conditions, an appraisal commissioned by ODOT and certified on July 28, 2015, determined the Fair Market Value of the Property to be \$2,845,000.

- **Sale Terms:** Key terms of the purchase of the fee simple parcels include:
  - PDC to purchase the ODOT Blocks property for a bid amount/purchase price of \$2,845,000.
  - Property to be conveyed to PDC by a bargain and sale deed.
  - PDC shall take the ODOT Blocks property as-is.
  - ODOT will waive the earnest money deposit given the public agency to public agency transaction.
  - The existing lease on the North Parcel will be terminated upon closing.
- **Environmental Condition of ODOT Blocks and Mitigation of Liability.** ODOT and PDC have conducted extensive environmental investigations of the ODOT Blocks and determined the presence of subsurface soil contamination. The subsurface contamination is consistent with the impacts found on other former industrial lands previously acquired and developed by PDC. Upon acquisition, PDC will enroll the purchased parcels in DEQ’s Voluntary Cleanup Program (VCP) in order to obtain regulatory closure following redevelopment anticipated to occur within a two-three year period.

Known and perceived environmental issues associated with the properties include petroleum-contaminated soil associated with former uses (asphalt plant, forklift facility, machine shop, auto repair and maintenance) and leaking underground storage tanks (LUSTs), buried debris related to demolished buildings, a drywell, and impacted groundwater migrating on site from a former fuel terminal located to the east. Given the extensive knowledge of the site, the clean-up required for

these issues was reviewed and estimated to cost approximately \$875,000 in 2015 dollars and the appraised value was reduced by this amount in recognition of these environmental remediation costs. This did not include the removal of development specific soil, which may result in the removal of soil that does not meet DEQ's clean fill criteria, and could incur an incremental environmental cost for off-site disposal.

- **Redevelopment Potential and Approach.** PDC is purchasing the ODOT Blocks for redevelopment purposes. Upon closing, PDC anticipates seeking public input regarding programing and phasing for redevelopment and selecting preferred development partner(s) through a competitive solicitation prior to commencing redevelopment of the ODOT Blocks. Selling the ODOT Blocks for private development will generate property tax revenues for the taxing jurisdictions, which are currently not realized due to state ownership.

**Leased Parcels.** The leased parcels of the ODOT Blocks consist of 2.18 acres in three separate parcels. These parcels were not declared surplus by ODOT as the property is necessary for ODOT access and maintenance of Interstate 5 and potential long-range plans. While permanent structures cannot be built on the leased parcels, surface uses such as parking and storage and non-permanent structures are allowed.

PDC's lease of these parcels is intended to complement the development of the purchased parcels by providing surface parking to serve the adjacent development on the purchased parcels. Until development is initiated, PDC intends to provide paid public parking on both the leased and purchased parcels.

- **Lease Terms:** Each parcel will have its own lease, with the same terms. Key terms of the leases include:
  - An initial term of twenty years, with two options to extend for terms of ten years each.
  - An initial rate of \$0.145 per square foot per month or \$1.74 per square foot per year
  - No escalation for the first five years followed by an annual three percent escalation beginning in year six and continuing through year ten.
  - A Fair Market Value Adjustment (Appraisal) every ten years, beginning in year 11 with an annual three percent escalation each year that does not include a FMV adjustment.
  - Interim uses include unimproved surface parking in accordance with City Council Ordinance 187410 waiving Title 33 requirements, storage, and non-permanent structures.
  - Long-term uses include improved surface parking (meeting Title 33 requirements) to serve adjacent development.
  - PDC may terminate the any one of the leases with 30 days' notice.
  - ODOT termination to be negotiated.
  - ODOT will terminate an existing parking lease on the northernmost lease parcel and PDC will enter into a lease with the existing operator.
- **Environmental Condition of ODOT Blocks and Mitigation of Liability:** The parcels to be leased will remain in ODOT's ownership. These parcels are enrolled in DEQ's LUST program. PDC has confirmed with DEQ that the proposed surface parking lot improvements, both interim and long term, will not trigger the need for any clean-up activities. The lease agreement includes language to address unknown issues that may arise over the terms of the lease, with ODOT having the first option to address clean-up itself. If ODOT approves PDC to complete the clean-up, the cost will be offset by rent decreases.

### **COMMUNITY AND PUBLIC BENEFIT**

The City has undertaken the Central City 2035 Plan process to identify required updates to the zoning code and land use needs, including the SE Quadrant Plan approved by City Council in summer 2015. Recommendations of the SE Quadrant Plan include new strategies to satisfy district employment growth and demand for land, including:

- Preserving land in the Central Eastside for employment use;
- Encouraging higher employment densities on vacant and underutilized land;
- Implementing tools to encourage new building types, such as multi-story industrial and industrial mixed with office on upper floors
- Making infrastructure investments to remove development constraints such as brownfield remediation, transportation network improvements, and parking supply solutions.

Proposed changes to development standards and allowable uses in the IG1 zone, together with PDC's acquisition of the ODOT Blocks, will facilitate implementation of these strategies.

### **PUBLIC PARTICIPATION AND FEEDBACK**

PDC's efforts to acquire and redevelop the ODOT Blocks have generally been supported by community stakeholders. Recent public actions which have supported acquisition of the ODOT Blocks include:

**Central City Budget Advisory Committee:** The Central City Budget Advisory Committee, one of PDC's two standing budget advisory committees, has discussed and recommended a budget allocation for acquisition of the ODOT Blocks, which offer a "strategic opportunity to accomplish long term community based goals and to generate lasting financial support to PDC."

**Preparation and Adoption of Central City's 2035 SE Quadrant Plan:** The SE Quadrant Plan, prepared as part of the City's Central City 2035 process to update the 1988 Central City Plan, directs PDC's efforts to acquire and redevelop the ODOT Blocks. Adoption of the SE Quadrant Plan by City Council on July 29, 2015, followed a two-year planning process in which the City hosted numerous public outreach meetings and a diverse 30-member Stakeholder Advisory Committee, which worked with interested community members and land use and transportation planners to craft the plan.

**Strategic Sites Analysis:** As part of the City's Employment Transit Oriented Development (ETOD) pre-work to the SE Quadrant Plan, PDC evaluated development potential on key strategic sites within the Central Eastside. The ODOT Blocks were identified by the City and the Stakeholder Advisory Committee as one of five sites to be studied. The analysis identified site constraints, zoning issues, and prepared concept development plans to inform the SE Quadrant Plan effort.

### **BUDGET AND FINANCIAL INFORMATION**

The FY 2015-16 Adopted Budget and Five-Year Central Eastside District URA Forecast includes \$5,000,000 for Strategic Sites acquisition and redevelopment, of which the ODOT Blocks were identified as a key site (see Attachment B). At the November 9, 2016 PDC Board meeting, staff will request that the PDC Board authorize a revision to the FY 2016-17 Adopted Budget to create a new ODOT Block line item, transferring \$2,845,000 from Strategic Sites that reflects the purchase price for this property.

PDC intends to operate public parking on the leased parcels – as unimproved parking lots until development occurs on the adjacent parcels. Income from parking is projected to exceed lease payments to ODOT. The monthly lease payment on the three parcels, at \$0.145 per square foot, per month, is \$13,786. PDC currently receives \$110 per space for parking on the adjacent "festival lots". Under the interim parking scenario (i.e., without Title 33 improvements), approximately 253 parking stalls could be provided on the leased parcels. At a rate of \$110 per stall per month and assuming 65

percent occupancy, and operating costs of 15 percent of revenue, the lots would generate approximately \$16,000 in income, not including hourly/daily parking rate income.

With the redevelopment of the adjacent parcels, it is expected that the parking on the leased parcels would be available for parking for the adjacent development and lease payment negotiations would be part of the development transaction.

### **RISK ASSESSMENT**

Approving these transactions involves the following risks:

- PDC will be purchasing the ODOT Blocks as is, with all environmental costs of cleanup assumed by PDC or its future developers. This risk is mitigated by the extensive known environmental condition of the ODOT Blocks and direction from DEQ regarding the requirements of the VCP. The appraisal, which set the sale price for the transaction, reduced the value of the property by \$875,000 based on the known environmental condition and the VCP clean-up approach required. With future redevelopment, there may be additional soil that does not meet DEQ's clean fill requirements that will generate an additional cost to remove and dispose. For the leased parcels, the proposed surface parking uses are not expected to trigger clean-up requirements; however, the lease agreements allow PDC to recoup any costs of clean up through reduced lease payments.
- The purchase of the ODOT Blocks is based upon projections the ODOT Blocks will increase in value and will be attractive to private investors following a change in entitlements that will allow a significant increase in development capacity. While there is a risk that PDC will be unable to obtain necessary governmental approvals for changes in entitlements, this risk is mitigated by City Council's adoption of the SE Quadrant Plan and ongoing collaboration with the Bureau of Planning and Sustainability to integrate these changes in the Central City 2035 Plan scheduled for City Council this year and expected to go into effect in 2017.
- Funding for the ODOT Blocks lease payments is intended to come from the income from the public parking on the leased parcels. If the income is not sufficient to pay the lease rate, the income from the interim parking on the purchased parcels could be utilized to pay the lease payments. In addition, the lease agreements include a termination clause where PDC could terminate a lease (s) with 30-days' notice, which PDC could trigger if parking revenue does not meet expectations.
- PDC's lease of leasable ODOT Blocks parcels is intended to provide surface parking to serve the adjacent development on the purchased parcels. If PDC does not lease these parcels, and ODOT leases these parcels to another party, it is anticipated that the future development will need to provide parking within the purchased parcels – through either structured parking and/or by reducing building footprints to accommodate surface parking on the PDC-owned properties.

### **ALTERNATIVE ACTIONS**

The PDC Board could decide to:

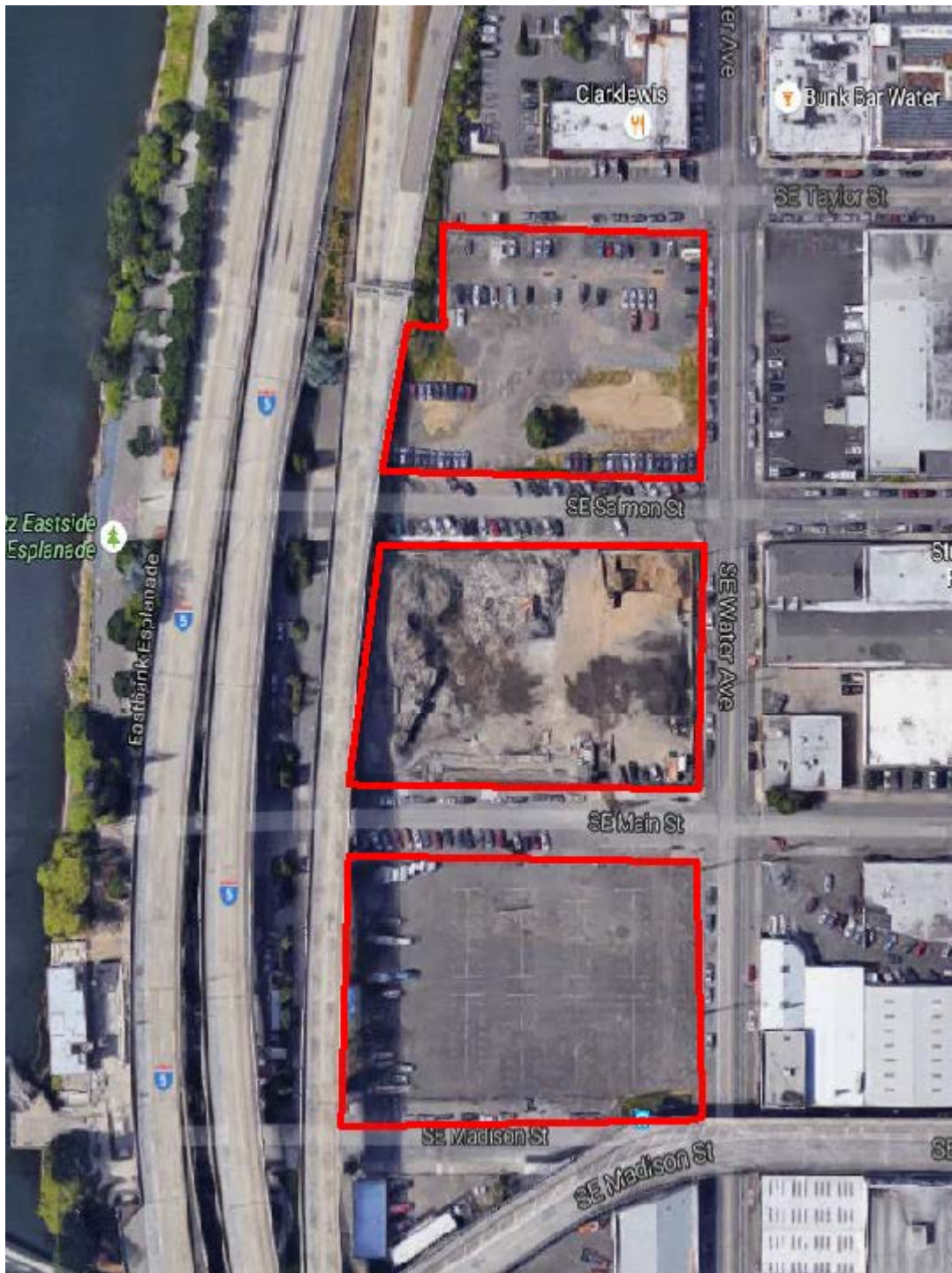
- Direct staff to incorporate new terms or changes to the terms and conditions into the sale and/or lease agreements;
- Direct staff to renegotiate specific terms and conditions;
- Direct staff to proceed with the acquisition but not with the lease agreements; or
- Terminate the negotiation process.

### **ATTACHMENTS**

- A. Aerial Photo

- B. ODOT Blocks Map – Lease and Purchased Parcels
- C. URA Financial Summary

Aerial Photo



**ODOT Blocks Map – Lease and Purchased Parcels**



**ODOT Blocks – Lease and Purchase Parcels – 9/2016**

 Lease Parcels       Purchased Parcels



**URA Financial Summary**

**Financial Summary  
Five-Year Forecast**

<b>Central Eastside URA Fund</b>	<b>Revised FY 2015-16</b>	<b>Adopted FY 2016-17</b>	<b>Forecast FY 2017-18</b>	<b>Forecast FY 2018-19</b>	<b>Forecast FY 2019-20</b>	<b>Forecast FY 2020-21</b>
<b>Resources</b>						
Beginning Fund Balance	15,954,751	13,606,604	8,836,501	5,488,453	3,615,841	4,244,093
<b>Revenue</b>						
Fees and Charges	800	1,622	1,500	1,200	1,200	1,200
Interest on Investments	10,000	5,000	5,000	5,000	5,000	-
Loan Collections	263,511	124,353	895,134	209,329	349,041	149,777
TIF - Short Term Debt	5,168,320	4,207,546	4,497,375	4,792,665	5,088,959	5,448,819
Rent and Property Income	104,000	104,000	104,000	343,000	98,000	98,000
<b>Total Revenue</b>	<b>5,546,631</b>	<b>4,442,521</b>	<b>5,503,009</b>	<b>5,351,194</b>	<b>5,542,200</b>	<b>5,697,796</b>
<b>Total Resources</b>	<b>21,501,382</b>	<b>18,049,125</b>	<b>14,339,510</b>	<b>10,839,647</b>	<b>9,158,041</b>	<b>9,941,889</b>
<b>Requirements</b>						
<b>Administration</b>						
A00028-Debt Management-CES	8,511	32,404	32,404	32,404	32,404	32,404
<b>Administration Total</b>	<b>8,511</b>	<b>32,404</b>	<b>32,404</b>	<b>32,404</b>	<b>32,404</b>	<b>32,404</b>
<b>Economic Development</b>						
<b>Business Lending</b>						
A00207-BL -General-CES	300,000	300,000	300,000	300,000	300,000	300,000
<b>Economic Development Total</b>	<b>300,000</b>	<b>300,000</b>	<b>300,000</b>	<b>300,000</b>	<b>300,000</b>	<b>300,000</b>
<b>Housing</b>						
A00169-Affordable Housing-CES	199,671	3,235,965	996,899	2,339,220	1,541,970	857,937
A00179-PHB Staff & Admin-CES	0	-	-	-	-	-
<b>Housing Total</b>	<b>199,671</b>	<b>3,235,965</b>	<b>996,899</b>	<b>2,339,220</b>	<b>1,541,970</b>	<b>857,937</b>
<b>Infrastructure</b>						
<b>Parks</b>						
A00236-Lightwater Craft-CES	50,000	26,500	26,500	26,500	26,500	26,500
<b>Transportation</b>						
A00238-District Parking-CES	0	1,500,000	1,500,000	-	-	-
A00421-Trans. Improvements-CES	0	500,000	2,000,000	2,500,000	1,000,000	-
<b>Public Facilities</b>						
A00237-River Access-CES	110,000	40,000	-	-	-	-
A00425-Community Center-CES	0	985,000	-	-	-	-
<b>Infrastructure Total</b>	<b>160,000</b>	<b>3,051,500</b>	<b>3,526,500</b>	<b>2,526,500</b>	<b>1,026,500</b>	<b>26,500</b>
<b>Property Redevelopment</b>						
<b>Real Estate</b>						
A00319-Festival Parking Lot-CES	76,160	76,160	76,160	76,160	76,160	76,160
A00321-Real Estate Mgmt-CES	2,500	1,000	1,000	1,000	1,000	1,000
<b>Commercial Property Lending</b>						
A00364-CPRL-General-CES	600,500	600,500	600,500	600,500	600,500	600,500
<b>Redevelopment Strategy</b>						
A00314-Strategic Site Redev-CES	5,350,000	650,000	2,000,000	-	-	-
A00315-CC 2035-CES	22,235	-	-	-	-	-
<b>Redevelopment Grants</b>						
A00136-DOS-General-CES	100,000	100,000	100,000	100,000	100,000	100,000
A00144-SIP-General-CES	300,000	300,000	300,000	300,000	300,000	300,000
A00419-GFGP-General-CES	25,000	50,000	50,000	50,000	-	-
<b>Property Redevelopment Total</b>	<b>6,476,395</b>	<b>1,777,660</b>	<b>3,127,660</b>	<b>1,127,660</b>	<b>1,077,660</b>	<b>1,077,660</b>
<b>Total Program Expenditures</b>	<b>7,144,577</b>	<b>8,397,529</b>	<b>7,983,463</b>	<b>6,325,784</b>	<b>3,978,534</b>	<b>2,294,501</b>
Personnel Services	173,080	214,313	206,594	211,144	218,766	223,360
<b>Total Fund Expenditures</b>	<b>7,317,657</b>	<b>8,611,842</b>	<b>8,190,057</b>	<b>6,536,928</b>	<b>4,197,300</b>	<b>2,517,861</b>
Interfund Transfers - Indirect Charges	577,121	600,782	661,000	686,878	716,648	737,387
Contingency	13,606,604	8,836,501	5,488,453	3,615,841	4,244,093	6,686,641
<b>Total Fund Requirements</b>	<b>21,501,382</b>	<b>18,049,125</b>	<b>14,339,510</b>	<b>10,839,647</b>	<b>9,158,041</b>	<b>9,941,889</b>