



DATE: June 10, 2015
TO: Board of Commissioners
FROM: Patrick Quinton, Executive Director
SUBJECT: Report Number 15-33

Authorizing the Executive Director to Enter into a Development Agreement With ZRZ Realty Company within the North Macadam Urban Renewal Area and Recommend Portland City Council Adopt the Development Agreement and Direct the Bureaus Of Transportation, Parks & Recreation, Environmental Services, Housing, Planning & Sustainability, and Development Services to Work with PDC to Develop Intergovernmental Agreements to Implement Public Obligations as Specified in the Development Agreement; Authorizing an Intergovernmental Agreement with the Portland Bureau of Transportation for Design of Bond Avenue in the North Macadam Urban Renewal Area; Providing Funding in an Amount Not to Exceed \$500,000

BOARD ACTION REQUESTED

Adopt Resolution Nos. 7117 and 7118

ACTION DESCRIPTION

These two actions by the Portland Development Commission (PDC) Board of Commissioners (Board) will i.) Authorize the Executive Director to enter into a South Waterfront North District Project Development Agreement (DA) with ZRZ Realty Company (ZRZ) and recommend Portland City Council (City Council) approve the DA, and ii.) Authorize the execution of an Intergovernmental Agreement (IGA) with the Portland Bureau of Transportation (PBOT) in an amount not to exceed \$500,000 for the design of improvements to SW Bond Avenue in the North Macadam Urban Renewal Area (URA).

If approved, the DA would establish an agreement for City of Portland (City) support of ZRZ development of 1,500,000 square feet (SF) of mixed-use, employment-oriented commercial and residential property.

PDC's investment under the DA is estimated to be \$23,700,000. The estimate is based on projected availability of tax increment financing (TIF) from the amended North Macadam URA Plan recently approved by the PDC Board and City Council and the planned scale of private development. PDC TIF investment is directed to economic development, transportation, infrastructure, greenway, and open space improvements. The DA also establishes opportunities for Portland Housing Bureau (PHB) investments for affordable housing. Implementation of particular components of the DA, e.g., transportation, parks, and stormwater control, are anticipated to occur via subsequent IGAs between PDC and partner bureaus within 120 days of DA approval by City Council.

If approved, the IGA with PBOT will fund preliminary design of improvements to SW Bond Avenue. Subsequent IGAs with PBOT may address construction of the total estimated \$8,200,000 transportation investment.

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 Cancer Challenge is expected to be housed. The DA also provides a mechanism for realizing other City goals including having rights to land for affordable housing and open space as part of ZRZ's development plans.

PDC staff has been working with ZRZ to craft a DA that includes multi-year real estate developments or redevelopment projects that are mutually beneficial to the City, PDC, and ZRZ. The DA establishes the parameters that will foster new development and redevelopment within the 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 includes the public-private sharing of costs for regional public infrastructure, it is unlikely that the planned 1,500,000 SF of private development would occur on the anticipated timeline, as without the DA the private development would bear these costs alone.

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 the ZRZ Emery housing project completed in 2013.
- 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 Porter to SW Grover, built in three segments that are coordinated with adjacent development. Street improvements could include District Energy pipe conveyance system if a District Energy System is initiated by OHSU.
 - The PDC-PBOT Intergovernmental Agreement for the design (current IGA) and construction (later IGA) of Bond Avenue also includes the portion of Bond Avenue between SW River Parkway and SW Porter, adjacent to OHSU's Schnitzer Campus.
 - Stormwater: ZRZ will fund, design, and construct a stormwater system for Phase I 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 may provide funding for the undergrounding of the Pacific Power & Light line adjacent to ZRZ property and other economic development investments including structured parking.

- 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 an aggregate of 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.
- Phase 3: If ZRZ proceeds with Phase 3 development prior to June 2025, PDC, at its discretion, may invest additional TIF, as available, for street improvements on SW Bond Avenue from SW Grover to SW Gibbs streets or SW Gibbs to SW Whitaker streets (if not already funded) 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 areas 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 Zidell Yards Open Space Concept Plan that will include identification of a size, location, and conceptual design for the Ross Island Bridge Park and will also 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.
 - Affordable Housing: ZRZ and PHB will enter into an agreement to provide PHB with an option to purchase property and development rights within the Zidell Yards development. A purchase price will be agreed to by July 2016, with an escalation rate increasing the purchase price until the option is executed, anticipated to occur by 2021.

As noted, the public infrastructure and public-private partnerships are anticipated to be implemented via IGAs between PDC and 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 establishes an incentive for the earlier redevelopment of 30 acres of property within the Central City. The DA establishes funding and a timeline for public street and greenway improvements that benefit the future site development, the South Waterfront neighborhood, the Central City, and the region. The DA establishes greater local development predictability and raises the level of assurance for OHSU, ZRZ, and other South Waterfront residents and employees that key infrastructure will support private development, including the completion of Bond Avenue, through the PDC/PBOT IGA.

Providing a funding and timeline commitment for greenway improvements provides assurance to the regional 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 might not otherwise be available or as robust.

Securing a commitment by ZRZ to offer an option to PHB to purchase property for affordable housing at an established purchase price gives greater certainty to the broader Portland community about the timing and terms for including affordable housing within the Zidell Yards and North Macadam URA.

PUBLIC PARTICIPATION AND FEEDBACK

From June to October 2014, PDC staff worked with the URA Amendment Advisory Committee (Committee) to advise PDC and the City on the proposed package of six URA 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 numerous public outreach events between June 2014 and December 2014 including neighborhood associations, business associations, and a public open house, and to the Portland Planning and Sustainability Commission, the PDC Board, and City Council.

There is strong support for the projects and actions outlined in the DA. For example, the Bond Avenue and Willamette River Greenway improvements have long been a priority for district stakeholders and property owners as expressed in prior Urban Renewal Advisory Committee and ongoing budget process discussions and testimony.

BUDGET AND FINANCIAL INFORMATION

On April 1, 2015, City Council approved Resolution No. 187072 approving the extension and expansion of the North Macadam URA.

PDC funding of the DA obligations, including the PDC/PBOT IGA for Bond Avenue, depends upon the availability of North Macadam URA resources, 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 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

Risks related to the PDC Board authorizing execution of the DA and the PDC/PBOT IGA for Bond Avenue include:

- **Performance and Termination Remedy:** The DA anticipates voluntary but stimulated private development. If ZRZ delays development then PDC's obligation to fund infrastructure is also delayed. If ZRZ violates a provision of the DA then PDC's remedy is to terminate further funding commitments. However, individual PDC funding commitments, e.g., a section of Bond Street, must be completed once begun despite a termination of the agreement.
- **Inadequate Financial Resources:** The DA anticipates new private development generating TIF along a certain timeline. This timeline provides the schedule for when TIF is available to fund each successive public improvement such as later stages of Bond Avenue and the Greenway. If the private development timeline is delayed, the TIF necessary for later public improvements may not be available within the time frame identified. PDC faces no liability under the DA if adequate TIF is not yet available at the time a PDC funding commitment matures. ZRZ may elect to fund infrastructure if PDC TIF is not available. PDC may reimburse ZRZ in certain instances where ZRZ undertakes an infrastructure project because TIF was not available.
- **Incomplete Private Projects:** Any development presents the potential risk that a project will be started but not completed. Some of PDC's obligations to fund infrastructure are triggered upon the start of a private project by ZRZ. The DA grants PDC the right to inspect ZRZ's financing documents

prior to construction start and to review a construction completion guarantee. In certain instances, if ZRZ initiates a private project that triggers a commitment of PDC TIF and that ZRZ project is not completed then ZRZ must repay PDC the public funds expended.

ALTERNATIVE ACTIONS

The first action requested of the PDC Board is to approve a DA with ZRZ. Alternative actions the PDC Board could take include:

- Approve the DA with changes to the terms and commitments, which 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, too, 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 North Macadam URA given the role of the ZRZ property redevelopment in generation of TIF for district economic development, redevelopment, and affordable housing priorities.

The second action requested of the PDC Board is to authorize an IGA between PDC and PBOT. Alternative actions the PDC Board could take include:

- Approve the IGA with changes to the terms and commitments, which would involve ongoing negotiations with PBOT, as appropriate.
- Not approve the IGA and identify changes to the terms and commitments necessary to return to the PDC Board at a later date for approval; this, too, would involve ongoing negotiations with PBOT, as appropriate.
- Not approve the IGA; this would likely impact the timeline for meeting PDC's DA obligations regarding the design and construction of Bond Street segments concurrent with ZRZ's private development design and construction timelines.

ATTACHMENTS

- A. Development Agreement Property Map
- B. Development Agreement Phasing Plan
- C. North Macadam URA Financial Summary

Development Agreement Property Map



 ZRZ property subject to Development Agreement

Development Agreement Phasing Plan



North Macadam URA Financial Summary

Five-Year Forecast Program Requirements Detail

	Revised-2 FY 2014-15	Proposed FY 2015-16	Forecast FY 2016-17	Forecast FY 2017-18	Forecast FY 2018-19	Forecast FY 2019-20
North Macadam URA						
Resources						
Beginning Fund Balance	6,829,038	7,561,112	5,830,264	761,452	4,213,668	1,449,418
Fees and Charges	0	353,641	364,251	375,178	386,433	0
Interest on Investments	5,000	20,000	30,000	30,000	30,000	0
Loan Collections	27,347	27,239	27,238	12,387	0	0
Long Term Debt	0	0	12,000,000	0	0	0
Miscellaneous	0	17,000	17,000	17,000	17,000	17,000
Property Income	175,662	239,062	236,062	236,062	236,062	236,062
Reimbursements	141,000	0	0	0	0	0
Short Term Debt	2,593,000	1,740,000	6,993,000	7,564,235	7,693,277	8,379,823
Total Resources	9,771,047	9,958,054	25,497,815	8,996,314	12,576,440	10,082,303
Requirements						
Program Expenditures						
Administration						
Financial Administration						
A45101325 Debt Management-NMC	31,069	20,000	20,000	20,000	20,000	20,000
Total Administration	31,069	20,000	20,000	20,000	20,000	20,000
Business Development						
Business Lending						
L00210325 BL -General-NMC	500,000	0	0	0	0	0
Traded Sector Business Dev						
B15701325 Bio-Tech Build-Out-NMC	525,000	0	0	0	0	0
Total Business Development	1,025,000	0	0	0	0	0
Housing						
PHB Housing						
H15430325 Affordable Rental Hsg-NMC	0	2,000,000	17,000,000	200,000	200,000	200,000
H15900325 PHB Staff & Admin-NMC	17,652	0	0	0	0	0
Total Housing	17,652	2,000,000	17,000,000	200,000	200,000	200,000
Infrastructure						
Parks						
N32511815 Central Dist Greenway-NMC-Adm	141,000	0	0	0	0	100,000
Transportation						
N32534115 Trans Initiatives-NMC-Adm	369,000	0	0	0	0	0
N32530315 South Portal Design-NMC-Adm	50,000	0	0	0	0	0
N32530515 EcoDistrict Conduit-NMC-Adm	10,000	0	0	0	0	0
N32534215 Bond Avenue-NMC	0	700,000	1,450,000	2,400,000	3,650,000	0
N32539915 Streetcar/Scapes-NMC	149,000	0	0	0	0	0
N32530615 Central Dist Infra-NMC-Adm	0	166,000	0	0	0	0
N32530715 Trans Strategy Dev-NMC-Adm	50,000	0	0	0	0	0
Total Infrastructure	769,000	866,000	1,450,000	2,400,000	3,650,000	100,000
Property Redevelopment						
Commercial Property Redevelopm						
P32552315 N Distr Partnership-NMC-Adm	75,000	0	2,500,000	0	0	0
P32592015 Real Estate Mgmt-NMC-Adm	51,991	3,316	3,316	3,316	3,316	3,316
P32590015 Project Development-NMC-Adm	425,000	0	0	0	0	0
P32560155 RiverPlace Prkng -NMC-Adm	31,716	46,196	46,196	46,196	46,196	46,196
P32556315 RiverPlace Lot 3 Rdv-NMC-Adm	150	0	0	0	0	0
P32552215 CC 2035-NMC-Adm	69,294	0	0	0	0	0
P32550515 Eco District-NMC-Adm	2,500	2,500	0	0	0	0