



DATE: December 11, 2014
TO: Board of Commissioners
FROM: Patrick Quinton, Executive Director
SUBJECT: Report Number 14-51

Authorizing the Executive Director to Enter Into a Disposition and Development Agreement with Portland State University for Redevelopment of Multiple Properties within the University District Area and University Place Site

BOARD ACTION REQUESTED

Adopt Resolution No. 7088

ACTION DESCRIPTION

This action by the Portland Development Commission (PDC) Board of Commissioners (Board) will authorize the PDC Executive Director to enter into a Disposition and Development Agreement (DDA) with Portland State University (PSU), which includes multi-year real estate developments and/or redevelopments that are mutually beneficial to the City of Portland (City), PDC, and PSU. If approved, PSU would commit to develop three properties within the University District, including the 3.8 acre University Place site, and expand and improve two additional buildings to include ground floor commercial activation. PDC's investment would span multiple fiscal years (FY) between 2016 and 2025, based on projected availability of tax increment financing (TIF) from a proposed amended North Macadam Urban Renewal Area (URA) under consideration concurrent with this action.

PSU and PDC agree that no part of the resources provided by PDC, either as funds or value of property, shall be used exclusively for educational purposes but rather will be incorporated into projects in conjunction with PSU funds and will be tax-generating, so as to be consistent with the limitations established in Article XI, Section 11b(1) of the Oregon Constitution.

BACKGROUND AND CONTEXT

PSU is one of Oregon's largest universities, a renowned provider of quality accessible higher education, and a major employer and contributor to economic activity in downtown Portland. Since the City's adoption of the University District amendment to the Central City Plan in 1995, PDC and PSU have worked together to promote development and vitality within the University District that reflected shared planning and development priorities.

In light of the URA amendment package's proposal to close the Education District URA, and PDC, PSU, and the City's desire to continue a mutual partnership, staff has worked with PSU to craft a DDA, which includes multi-year real estate developments or redevelopment projects to realize shared goals. This URA amendment package is being considered by the PDC Board concurrent to this action. This agreement will establish parameters that will foster new development and redevelopment within an extended and expanded North Macadam URA.

While the DDA outlines the projects listed below, the DDA also requires that each of the projects involve a more detailed specific Intergovernmental Agreement (IGA) or other legal agreement to implement the DDA commitments. Staff will return to the PDC Board for approval of each project-specific IGA. A site map provided as Attachment A shows the location of the projects described below.

Table 1: Projects Outlined in the DDA

Projects	Description	Budget Year	PDC Investment
School of Business Administration	<i>Renovations and addition to existing building with ground-floor retail/commercial space.</i>	FY 2016-17	\$2,000,000
Jasmine Block	<i>Multi-use development between PSU and private partner or PSU and City of approximately 150,000 GSF based on site entitlements.</i>	2016 est.	Land value \$4,000,000 est.
University Place	<i>Termination of existing PDC-PSU Doubletree Disposition and Development Agreement, including Payment in Lieu of Taxes (PILOT) obligation of PSU in preparation for redevelopment.</i>	FYs 2015-19	\$1,800,000 PILOT value
	<i>Redevelopment of 3.86-acre property with dense, mixed-use program consistent with the PSU Framework Plan and City plans, and with an assessed value requirement tied to timing of funds.</i>	FYs 2018-21	\$13,000,000
Fourth and Lincoln	<i>Partnership between Tri-Met/PSU/PDC to secure and develop a multi-use building that includes commercial/retail space, and may be combined with PSU Art Building to the west.</i>	FY 2024-25	\$2,000,000, or acquisition price at time of purchase
Fourth Avenue Building	<i>Development of commercial space within PSU's Maseeh College of Engineering & Computer Science, including through renovation and possible expansion to provide new research, commercialization, or other uses linked to incubator activities.</i>	FY 2024-25	\$2,000,000

COMMUNITY AND PUBLIC BENEFIT

If approved, the proposed URA amendment package, including the closure of the Education District URA, will provide significant public benefits such as the return of significant financial resources to other taxing jurisdictions over the next 30 years and the preservation of public resources to assist with implementing economic development, redevelopment, and affordable housing goals.

Encouraging development in the University District supports PSU's growth as a significant regional educational and economic development partner. For example, the DDA acknowledges that the

University Place redevelopment, along with its private commercial and institutional uses, will create jobs at all levels. In addition, PSU will work with the Portland Housing Bureau and PDC to consider solutions that address the City's housing needs and goals.

PUBLIC PARTICIPATION AND FEEDBACK

On May 7, 2014, Portland 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 URA amendments. Over the course of those meetings, PDC staff presented high-level deal points of the DDA 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.

Over the past year, PSU has conducted significant public outreach to property owners and stakeholders within the adjacent community and the university regarding redevelopment plans for the University Place site. Outreach activities gathered public input and provided opportunities for stakeholders to be involved in the identification of a preferred redevelopment approach.

BUDGET AND FINANCIAL INFORMATION

PDC funding of the DDA obligations will depend upon the availability of URA TIF, which is subject to the successful performance of the amended URA as modeled. URA modeling relies on PSU, Oregon Health & Science University, and ZRZ Realty Company 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 DDA and related URA amendments be approved, staff anticipates that the proposed FY 2015-16 budget and five year forecast would reflect DDA obligations during that term.

RISK ASSESSMENT

Risks related to the DDA 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 DDA would not be accessible and thus the DDA would not move forward.
- **Private Development Funding:** The DDA is structured around assumptions regarding North Macadam URA private development coming online and generating TIF on a certain timeline. Should development or scale of development not occur on that assumed timeline, the availability of TIF resources may be more limited than modelled. As a remedy, PDC's monetary obligations within the DDA are tied to TIF availability.
- **Lawsuit:** A group of citizens has initiated a lawsuit (McGuire) against PDC, PSU, and the City. The lawsuit asserts that the transfer of value to PSU without full market compensation changes the categorization of taxes from general government to education for the purposes of limiting property taxes. The change in categorization would likely increase what is commonly called "compression" on education taxes and thereby reduce the amount of tax revenue for education. Should the McGuire lawsuit receive a ruling adverse to PDC, PDC reserves the right to terminate part or all of the DDA and reform in light of the court ruling. PDC intends to contest the lawsuit and has also taken a number of steps in the language of the DDA to avoid compression.

ALTERNATIVE ACTIONS

The action requested is to approve the DDA in a form substantially similar to that provided. Alternative actions the PDC Board could take include:

- a) Approve the DDA with changes to the terms and commitments; this could involve ongoing negotiations with PSU and may impact the URA amendment package timeline.
- b) Not approve the DDA and identify changes to the terms and commitments necessary to return to the PDC Board at a later date for approval; this could involve ongoing negotiations with PSU and may impact the URA amendment package timeline.
- c) Not approve the DDA. With the May 2014 presentation to City Council, PDC committed that no action on either the existing North Macadam URA or Education URA would be taken prior to the approval of a DDA.

ATTACHMENTS

- A. PSU Project Map

PSU Project Map

