

WEST HAYDEN ISLAND ADVISORY COMMITTEE
FINANCE WORK SESSION
SEPTEMBER 21, 2012
BPS, 4TH AVENUE BUILDING 7A, 12:30-2:30 P.M.

Draft Notes

Attendees: Chris Hathaway, LCREP; Ann Beier, Rivers Office; Marla Harrison, Port of Portland; Nancy Hendrickson, Bureau of Environmental Services; Jennifer Cooperman, Office of Management and Finance; Janet Smith-Heimer, BAE Urban Economics; Carly Riter, Portland Business Alliance; Keith Leavitt, Port of Portland; Susie Lahsene, Port of Portland; Bruce Allen, Portland Development Commission; Brian Owendoff, Capacity Commercial Group; Sam Ruda, Port of Portland; Kelly Brooks, Metro Regional Solutions Team; Mich Meskel, Audubon Society; Graham Trainor, Oregon AFL-CIO; Bryce Ward, EcoNorthwest; Andy Cotugno, Metro; Tom Dana, Hayden Island Resident; Eric Engstrom, Rachael Hoy and Mindy Brooks, Bureau of Planning and Sustainability

Goal of meeting: 1) consider accuracy and meaning of the \$5-7 per acre assumption made by the Port, and 2) to generate discussion about the way that the structure of the agreement could help or hinder financial viability. There are private and public roles in an agreement like this, and we need to understand the way people see those roles. The players such as PDC and the Port and BAE understand real estate and development process. Players like Metro, city OMF, and the state understand public finance. A goal for this meeting is to connect those two perspectives a bit more.

Baseline information: WorleyParsons cost estimates and current City draft of IGA

Eric recapped the concept noting there will be no coal, no bridge and some NHID improvements, among other features. Cost per square foot is how the proposals are being discussed.

Discussion: Land Value

- Current Port proposal is in the \$5-7 per sq. ft. range for market value; pertains to the land that can be developed, not full 300 (284.4 (docks, terminals together) per Port or 281 acres per City)
- Market value - \$5-7 is the cost per buildable sq. ft. for *just the land*. When a developer goes in, they'll only pay for what they can use.
- Price of land is for "shovel-ready," which means it has been compacted with fill, any contamination have been dealt with, etc. All of these expenses will be surcharged onto the land to make it ready.
- Keith Leavitt, Port: they will not be selling this land; it will be leased based on fair market value. Fair market value is \$5.50 per sq. ft. x lease rate of 10% = annual price to use the dirt.
- Marine is in line with other industrial prices; \$5.50 is what you would find on Swan Island; office space has much higher land values.
- For 280 acres of developable land, some will be taken out for roads, railroads, etc; thus the number of acres is approximately 150-ish acres; this is the buildable land only.

- Bruce Allen, PDC: ran some numbers on this, the Mayor asked him to do a review. He looked at sites with rail service as a comparison. One developer gave him an estimate of a 20% premium. It is stable throughout the region, the numbers are pretty consistent.
- There is a premium for deep water access.

Discussion: Draft Plan Proposal Review, Updates, & Facilitator's Comparative Discussion Draft

- Transportation numbers are still in flux, and there are a number of other areas for discussion remaining between Port and City on several factors
- Mitigation: will there be a financial cap imposed? City: no financial cap; Port: yes, there will be a financial cap per the current version of IGA
- Balancing act for Port: the public sector is more patient on financial returns; a private sector investor wants much shorter payback period. They are merging both approaches in this project. They have to do fair market adjustments for both.

Sam referred the group to a comparative spreadsheet he drafted in an attempt to lay out the current status of proposals and frame up the points left to negotiate. Eric has concerns that some things are double counted, and some have contingencies and others do not. The document will be revised and updated per discussion.

Chris said the process seems out of control with the amount of rescheduled meetings. We have spent time going over numbers in this meeting, which should have been done before. He appreciates last minute staff work, but it is a challenging way to work. We are not able to have a substantive discussion today on mitigation topics. We keep hearing that. When will we have that discussion? Eric said the numbers surrounding mitigation are still in dispute and there is more work to do, which will be presented next Friday. The City wants to know if we are building in right costs.

- There was a significant change to some calculations – the costs the City assumed for invasives have been revised as it was in error.
- Janet Smith-Heimer, BAE Urban Economics, explained that she would expect that a \$5-7 land value to be fully serviced; \$7 probably with rail; she noted plenty of public sector projects get 0 (land value). It depends upon the structure; there are Ports whose whole purpose is to lease land at \$0 to create jobs.
- Andy, Metro, has incentive programs for this reason; PDC exists for this reason; what this tells him is that the costs are pretty darn close. We need to know if we are doing everything that needs to be done. He fully expects the Port will be at Metro talking about transportation costs. (Port agrees.) The region right now is essentially wrapping up 10 years of work to get industrial land ready. This project is part of the following decade's effort, which also includes Tualatin and the Wilsonville area.
- Numerous remarks to the effect of folks are pleased to see the numbers getting closer; and concurrently, to not lose sight of the economic development purpose of this project.
- Ongoing concern with management of process; last minute scheduling, preparation, no ability to review docs before, disproportionately impacts the most under-served

communities which will experience the most impacts. The City appears more concerned with meeting arbitrary deadlines than good public process.

- Ports are very different, and Oregon's governance structure has a big impact. For example, the Port of Seattle receives a tax subsidy of close to \$70M per year; POP gets about \$9M per year. We have to look at it in terms of the real cash from the Port (*not airport*) and keep eye on economic development. We can be patient, but there has to be a return for the financial investment. State and/or federal money has to be there for transportation. The Port's track record of attracting private investment is good.
- For the Port, there is a lot of capital needed early and risk in making these assessments. If you build it, will they come? Margins are razor thin.
- Comments on fill: single biggest line item is fill – why? Port believes they based their assessment WP assumptions. It is a material site-prep cost. Their experience from bringing in outside fill, is that their numbers may actually be understated. WHI is exempt from balanced-cut-and-fill through a Metro process, due to the size of site and what the fill would cost.
- Question for clarification: are there going to be any potential anomalies here, where prices rise faster than the cost of doing these things? PDC's best guess is appreciation in industrial real estate will be fairly stable; this is different than what the residential market has been through.
- For the Port, in planning for recovering costs - how long is reasonable? The approval of annexation does not get staff license to move forward; we have to develop a package proposal that is that is viable. As for payback, Finance folks would love to hear 5-7 years, but on this project, that will be harder to do.
- Janet: probably 20% of the costs are paid for by someone else, so there is a project in there. There are a lot of revenue generating structures beyond what we are talking about today that might make the Port whole, e.g., costs put onto the developer.

Wrap- up and Next Steps

The Port and City will continue to coordinate this week. Regarding transportation, they are still exploring NHID, and will know more by October. There are inherent unknowns, such as the cost of fill.

Eric noted his take-aways from today:

- 1) Andy's points
- 2) Points about the structure of Port, which makes a difference as to what they can accept
- 3) Assumption about public funding for transportation – we are looking for federal assistance
- 4) Focus on environmental mitigation; there is heartburn because the Port assumes cannot get funding for that; wondered if there are there examples of public funding for mitigation. A competing notion is that these expenses ought to be on the developer.

**WHI Financial Proposals
Facilitator's Draft Reconciliation 9-21-12**

	A) Element	B) Port's Proposal (Port's View)		C) City's Proposal (Port's View)		D) City's Proposal (City's View)		E) Notes
1	Federal/State Mitigation	9.30	9.30		10.80		8.50	
2	Local Forest	13.70	13.70		64.00		16.80	Need to reconcile
3	Land Costs						2.70	land costs built in for Port; not City
4	Local Grasslands	0.00	0.00		0.00		1.50	
5	Transportation	5.00	21.00		15.75		15.75	
6	Security	1.75	1.75		0.70		0.70	\$70K x 10 yrs
7	Community Grant	0.63	0.63		0.85		0.85	P: \$25K x 25 yrs C: \$25K x 10 yrs + \$40k x 15 yrs
8	Community Health Analysis	0.00	0.00		0.10		0.10	
9	Sewer/Water	0.34	0.34		0.34		0.34	
10	Recreation	1.00	1.00		1.00		1.00	
11	Trails	0.00	0.00		0.57		0.57	\$33,500 x 17)
12	Total	31.72	47.72		94.11	0.00	48.81	
13	Cost/Sq Ft for Above Elements (12,388,464 sq ft)	2.56	3.85	0.00	7.60	0.00	3.94	12,388,464

14	Site Prep Total	59.10	59.10			59.10	59.10	WorleyParsons
15	Cost/Sq Ft for Site Prep (12,388,464 sq ft)	4.77	4.77			4.77	4.77	
16	Total	7.33	8.62			4.77	8.71	
17	Market Price Industrial Waterfront	5.00	7.00					