



PORTLAND DEVELOPMENT COMMISSION:
Indicators in Urban Renewal Areas
suggest economic progress

December 2012

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City Auditor

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Director of Audit Services

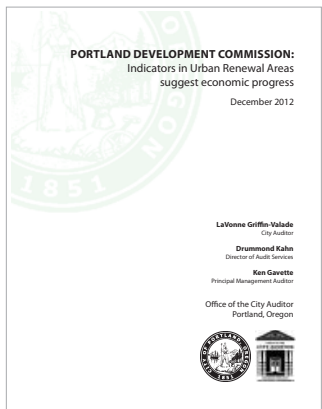
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CITY OF PORTLAND

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December 13, 2012

TO: Mayor Sam Adams
Commissioner Nick Fish
Commissioner Amanda Fritz
Commissioner Randy Leonard
Commissioner Dan Saltzman
Portland Development Commission

SUBJECT: Audit Report – *Portland Development Commission: Indicators in Urban Renewal Areas suggest economic progress* (Report #440)

The attached status report follows up on our 2006 audit of Urban Renewal Areas. We examined historical data in five URAs, focusing on these indicators of economic development: jobs, wages, and real estate values. Our report compares these measures to three control areas and to the city overall. We found evidence to suggest there was generally positive economic progress in URAs.

In our report, “jobs” refers to the number of private sector jobs located in a given URA, and “wages” refers to the wages paid for those jobs. Real estate value refers to the market value of the land and the ratio of building value to land value. Performance in URAs should not be judged solely on these indicators. Further, it is important to recognize that changes in economic factors are influenced by the efforts of other government agencies and private sector organizations. Broader economic trends also impacted the measures we report on in this follow-up audit.

Of note, our report does not explore PDC’s full role in the planning and implementation of URAs. Also, this report does not evaluate the City’s use of URAs as an investment tool or consider the impact of urban renewal debt. Those matters are addressed in past and future audits.

We appreciate the cooperation and assistance we received from PDC staff and management throughout this follow-up. Staff from Metro’s Data Resource Center were also immensely helpful.

LaVonne Griffin-Valade
City Auditor

Audit Team: Drummond Kahn
Ken Gavette

Attachment

PORTLAND DEVELOPMENT COMMISSION:

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Summary

This report is an update to our 2006 audit of Urban Renewal Areas. This audit looks at jobs, wages and real estate values in selected Urban Renewal Areas (URAs) managed by the Portland Development Commission (PDC). Because URAs represent a significant economic investment and continue to be a major part of the City's development strategy, it is important that periodic independent reviews of URA progress be conducted.

This report is not a cost/benefit analysis of URAs, nor is it an evaluation of the strength of URAs as a public investment strategy. Our report looks at a few select indicators among many that could be chosen for a more comprehensive evaluation.

We found that compared to other areas of the city and to the city as a whole, employment, average wages and real estate values in the URAs have grown during our study period (1996 through 2010). In the URAs we studied, the number of private sector jobs increased by 18 percent and wages increased 29 percent. This compares to job losses city-wide of 10 percent and 7 percent in three control areas we examined.

Real estate values in the URAs also increased almost twice as much as in other parts of the city.

Urban Renewal Areas in Portland

Urban renewal is a key component of the City of Portland's economic development strategy. The theory behind urban renewal financing is that jurisdictions can incur debt to finance projects in these areas. The debt is repaid from the additional taxes generated from the increased assessed value of the property.

In Portland, there are currently eleven active URAs. Since by State law the total size of URAs can not exceed 15% of a City's land area, URAs vary in size and sometimes change boundaries. Currently, 13.3 percent of the City is designated as URAs.

Figure 1 shows the indebtedness of each of the eleven active URAs and how much additional debt may be incurred for each.

Figure 1 City of Portland Urban Renewal Debt Issued through 6/30/12 ⁽¹⁾

Urban Renewal Area	Maximum Indebtedness	Debt issued as of 6/30/12	Amount remaining	Percent remaining
Airport Way	\$72,638,268	\$72,638,268	\$0	0%
Central Eastside	104,979,000	84,645,501	20,333,499	19%
Downtown Waterfront	165,000,000	165,000,000	0	0%
Gateway	164,240,000	30,526,172	133,713,828	81%
Interstate Corridor	335,000,000	139,774,158	195,225,842	58%
Lents Town Center	245,000,000	100,924,895	144,075,105	59%
North Macadam	288,562,000	102,131,845	186,430,155	65%
Oregon Convention Center	167,511,000	167,510,000	1,000	<1%
River District	489,500,000	252,223,033	237,276,967	48%
South Park Blocks	143,619,000	112,035,000	31,584,000	22%
Willamette Industrial	200,000,000	3,781,000	196,219,000	98%
Total Urban Renewal	\$2,376,049,268	\$1,231,189,873	\$1,144,859,395	48%

Source: Multnomah County Tax Supervising and Conservation Commission 10/24/12

(1) excludes Neighborhood Prosperity Initiative Districts and Education District

Economic indicators – jobs, wages, and land value

This report focuses on several direct economic indicators associated with economic development, primarily jobs and wages. In this case, “jobs” refers to the number of private sector jobs located within the area of study, not the employment rate of URA residents. Likewise, “wages” refers to the amount of wages paid for those jobs located within the URA.

In addition, we present data on the market value of the land and the ratio of building value to land value. These measures are used to gauge the health of an area in terms of the capital investment and the inherent value businesses see in certain locations. The ratio of the building value to land value is a measure of the intensity of capital investment in an area. It measures the value of capital improvements relative to the value of the land.

Use of information

It is important that PDC’s performance in URAs not be judged solely on the production of jobs and wages as described in this report. PDC performs a relatively complex role in the implementation of urban renewal area plans. URAs may have different goals and corresponding measures of success. In some cases, the primary purpose is to create jobs. In others, affordable or mixed-use housing is the primary goal. In most, however, there is a complex relationship between housing, jobs, and other livability issues.

It is also important to note that the end point of our study timeframe coincides with the deepest part of the national recession as referenced by national job losses, and by declaration of the National Bureau of Economic Research. Therefore, economic performance must be interpreted in this national context.

We are aware that changes in these corresponding measures are the result of other government agencies and private sector organizations independent of PDC, in addition to investments of PDC. The factors we report here are also affected by local and regional macroeconomic trends.

It is not our intention in the accompanying URA-specific narrative to describe all of PDC's accomplishments during the study period. We only describe major PDC projects with significant expenditures and that directly support planned activities. The monetary investments and major project descriptions are meant to be used only as descriptive context.

Audit objective, scope and methodology

Our audit evaluates the success of economic development efforts of PDC by reviewing indicators for total private sector jobs, average wages, and property values at the URA level.

Our specific objective was to assess the overall results of economic programs in targeted areas by comparing indicators from selected URAs to other areas of the city that received little or no concentrated investments by PDC ("control areas"), and to the city as a whole.

To accomplish this objective, we entered into an Intergovernmental Agreement with Metro's Data Resource Center to produce a set of employment and real estate market data for URAs, certain control areas, and for the city as a whole. Consulting with Metro economists for the original report in 2006, we selected five URAs which we determined had economic development as a primary goal and which had been in existence long enough that one would expect observable results to have occurred. For comparison purposes, we selected three separate control areas in the city with land use patterns similar to the URAs. The current audit uses the same URAs and control area boundaries, which allowed us to study effects over a longer time period. While there have been some changes to boundary areas in the intervening years, most changes occurred in, or after 2009, and do not affect the data in our study.

In consultation with Metro staff, we determined it was best to use the most recent data available for each of the indicator types. For employment data, the most reliable information that fits URA boundaries is from 2009. For real estate data, the most reliable recent information is from 2010.

Using confidential employment data obtained from the State Employment Department, Metro staff geographically placed employers, their number of employees, and wages paid in each of these areas.

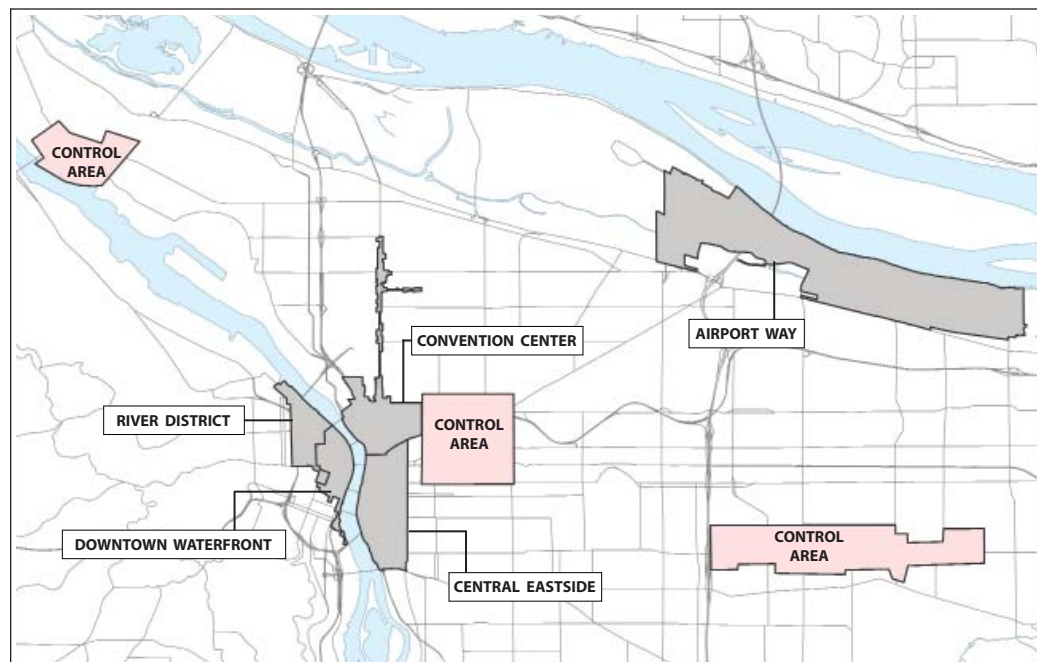
Land and building value data were geographically placed by Metro staff using data collected and maintained by the Multnomah County Division of Assessment and Taxation.

Metro is considered one of the leading agencies in geographic information and demographic analysis in the region. Our method for determining employment and wage data in 2006 was reviewed for reasonableness by staff from the State Employment Department's Division of Workforce and Economic Research. Metro was asked to use the same methodology in this update.

All dollar amounts presented in this report account for inflation, adjusted to 2012 dollars, with the exception of Figure 1.

All employment data pertains to the private sector only.

Figure 2 Map of URAs and control areas



Source: Metro Data Resource Center

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

URA study results

During the study period (1996-2009 for employment information, 1996-2010 for real estate data), PDC completed many highly visible projects in the five selected Urban Renewal Areas. Among those were: infrastructure improvements to Airport Way, including Cascade Station and the airport light rail project; completion of the Eastbank Esplanade; the leveraging of large scale housing projects in the River District resulting in thousands of new housing units; contributions to the Portland Streetcar Loop; and improvements to Waterfront Park Saturday Market. In addition, hundreds of business and storefront loans encouraged new and existing businesses to expand in the areas, and many more businesses were provided assistance to help expand or relocate to the area. We found that:

*** Employment production results in our selected URAs were positive.** Improvements to the total private sector employment picture in the URAs when taken as a group are positive. Despite the study period end point (2009,10) being at the low point of the national recession, total private employment in URAs was 18 percent higher than in 1996.

The Downtown Waterfront URA was an exception to the job growth experienced in the other URAs. It had a 6 percent decline in total jobs from 1996-2009. We also reported a job decline in this URA in our prior audit.

However, the collective URA employment increase of 18 percent was better than the 10 percent decline experienced in the rest of the city, and the 7 percent decline in the control areas.

*** Wages and real estate values in URAs were also positive.** Wages paid by the jobs in URAs increased by 29 percent. This compares to a 15 percent increase in the rest of the city and a 7 percent increase in the control areas. In particular, wages in the Convention Center URA increased by 60 percent (after inflation adjustment) from 1996 to 2009. This may indicate that URAs added higher paying jobs that PDC seeks.

In addition, two other indicators that demonstrate economic vitality increased in the URAs. Both the average real market value and the value of buildings compared to land value (i.e., the building-to-land ratio) indicate the impact of capital investments in the areas and the value of the areas as places to live and conduct business. These are key indicators of the successful development of urban property. The real market value of the URAs increased almost twice as much as the control areas and the city as a whole. In addition, the ratio of building value to land value (a measure of the value of construction and capital investment) increased 73 percent in the URAs, compared to a 14 percent decline in the control areas, and an 18 percent decline city-wide.

Figure 3 Percent change in selected economic development indicators during study period (1996 - 2009,10)

	Selected URAs	Control Areas	City-Wide ⁽²⁾
Total private sector jobs (1996-2009)	+18%	-7%	-10%
Avg wages for those jobs ⁽¹⁾ (1996-2009)	+29%	+7%	+15%
Market Value-land & bldgs ⁽¹⁾ (1996-2010)	+241%	+140%	+118%
Building/Land value ⁽¹⁾ (1996-2010)	+73%	-14%	-18%

Source: Metro analysis of employment and tax data, along with Audit Services' supplemental analysis

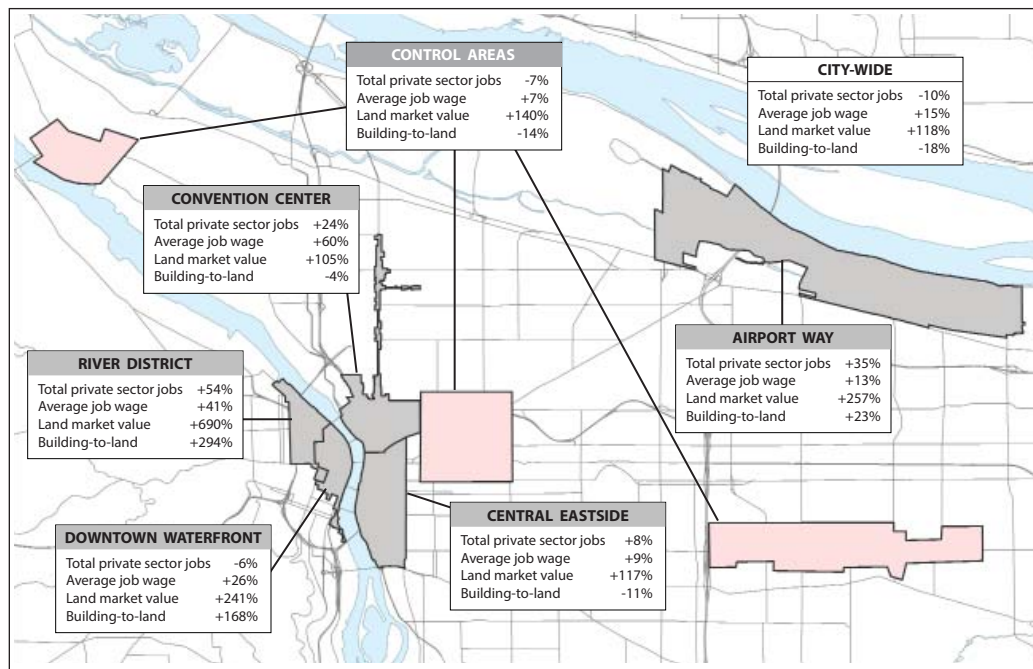
⁽¹⁾ Adjusted for inflation

⁽²⁾ Excluding URAs

Real estate values in the Central Eastside and Convention Center URAs, however, increased at a slower pace than other URAs, the control areas and the city as a whole.

Figure 4 shows more detailed results for each URA, the aggregated control areas and for the city as a whole. The section that follows provides a narrative description of some of the major projects undertaken in each of the five URAs, as reported by PDC. Each description also includes comparative economic data.

Figure 4 Changes in economic indicators for each URA, the aggregated control areas and City-wide⁽¹⁾: 1996-2009,10⁽²⁾



Source: Metro analysis of employment and tax data, along with Audit Services' supplemental analysis

⁽¹⁾ Excluding URAs

⁽²⁾ 2009 employment and wage data, 2010 real estate data

URBAN RENEWAL AREAS

Airport Way URA



After about \$22 million in infrastructure work at Cascade Station was completed, PDC worked with the City government to modify zoning elements to allow for large-format retailers. The result has been more than \$500 million in new development, including an IKEA store, a new Target store, three new hotels and three

office buildings. PDC helped finance the land portion of a deal to build an FBI regional headquarters.

Figure 5 Airport Way URA Results

	1996	2009,10	CHANGE	COMPARISON	
				Control areas	City
Total private sector jobs	12,512	16,933	+35%	-7%	-10%
Average annual job wage	\$40,370	\$45,619	+13%	+7%	+15%
Market value-land & bldgs (millions)	\$496	\$1,773	+257%	+140%	+118%
Building value to land value ratio	1.48	1.82	+23%	-14%	-18%
URA debt as of 6/30/12	\$72,638,268				

Note: Job and wage data (2009), real estate data (2010)

Source: Metro analysis of employment and tax data, along with Audit Services' supplemental analysis

Central Eastside URA



PDC spent about \$31 million from two URA districts on the Eastbank Esplanade. PDC has provided several tenant improvement loans and storefront and development opportunity grants for businesses in the URA. PDC helped finance the development of the Holman Building

that now houses a clean technology firm and a software firm. Large infrastructure projects have been completed in the area, including the East Burnside-Couch Couplet, and the Water Avenue and Portland Streetcar Loop.

Figure 6 Central Eastside URA Results

	1996	2009,10	CHANGE	COMPARISON	
				Control areas	City
Total private sector jobs	14,588	15,824	+8%	-7%	-10%
Average annual job wage	\$39,533	\$43,278	+9%	+7%	+15%
Market value-land & bldgs (millions)	\$602	\$1,310	+117%	+140%	+118%
Building value to land value ratio	2.42	2.16	-11%	-14%	-18%
URA debt as of 6/30/12	\$84,645,501				

Note: Job and wage data (2009), real estate data (2010)

Source: Metro analysis of employment and tax data, along with Audit Services' supplemental analysis

Downtown Waterfront URA



PDC spent \$6.8 million on the completion of the Chinese Classical Garden and about \$5.8 million to extend Waterfront Park southward. URA funds were used to fund rehabilitation of several buildings in Old Town, including the Mercy Corps World Headquarters and the University of Oregon/ White Stag Building.

Other notable projects include: the creation of a permanent space for the Waterfront Park Saturday Market, along with the Bill Naito fountain; the redevelopment of a block for the Oregon College of Oriental Medicine; and a \$1.4 million investment to leverage \$10 million in the General Auto Building, home to software firms.

Figure 7 Downtown Waterfront URA Results

	1996	2009,10	CHANGE	COMPARISON	
				Control areas	City
Total private sector jobs	25,081	23,638	-6%	-7%	-10%
Average annual job wage	\$46,213	\$58,216	+26%	+7%	+15%
Market value-land & bldgs (millions)	\$782	\$2,664	+241%	+140%	+118%
Building value to land value ratio	1.38	3.69	+168%	-14%	-18%
URA debt as of 6/30/12	\$165,000,000				

Note: Job and wage data (2009), real estate data (2010)

Source: Metro analysis of employment and tax data, along with Audit Services' supplemental analysis

Convention Center URA



PDC contributed over \$18 million to the Convention Center expansion and spent about \$10 million on acquiring land for a headquarters hotel. PDC used funds to renovate and develop several sites along Martin Luther King, Jr. Blvd.

Projects included Vanport, a commercial development now 100% occupied with 16 small businesses. PDC provided \$4.25 million toward the development of the Portland Streetcar.

Figure 8 Convention Center URA Results

	1996	2009,10	CHANGE	COMPARISON	
				Control areas	City
Total private sector jobs	16,027	19,799	+24%	-7%	-10%
Average annual job wage	\$35,859	\$57,439	+60%	+7%	+15%
Market value-land & bldgs (millions)	\$1,134	\$2,321	+105%	+140%	+118%
Building value to land value ratio	2.44	2.35	-4%	-14%	-18%
URA debt as of 6/30/12	\$167,510,000				

Note: Job and wage data (2009), real estate data (2010)

Source: Metro analysis of employment and tax data, along with Audit Services' supplemental analysis

River District URA



PDC invested \$8 million in loans and grants to the Brewery Blocks project and provided funding toward the rehabilitation of Portland’s historic Armory building. This URA helped finance the conversion of the historic Meier & Frank block into the Nines Hotel and Macy’s. PDC used \$1.7 million

to invest in the Green/Yellow MAX light rail line. More recently, an \$8 million redevelopment loan was used to renovate the Meier & Frank warehouse into the North American home of Vestas Americas. URA funding was also used to develop The Fields, a neighborhood park.

Figure 9 River District URA results

	1996	2009,10	CHANGE	COMPARISON	
				Control areas	City
Total private sector jobs	11,002	16,992	+54%	-7%	-10%
Average annual job wage	\$41,654	\$58,931	+41%	+7%	+15%
Market value-land & bldgs(millions)	\$496	\$3,916	+690%	+140%	+118%
Building value to land value ratio	1.62	6.37	+294%	-14%	-18%
URA debt as of 6/30/12	\$252,223,033				

Note: Job and wage data (2009), real estate data (2010)

Source: Metro analysis of employment and tax data, along with Audit Services’ supplemental analysis

RESPONSE TO THE AUDIT



December 10, 2012

Ms. LaVonne Griffin-Valade
City Auditor
1221 SW 4th Ave.
Portland, OR 97204

Dear Ms. Griffin-Valade:

Thank you and your staff for the time and energy put forth in preparing the audit regarding the Portland Development Commission (PDC). The report, *Portland Development Commission: Indicators in Urban Renewal Areas suggest economic progress*, provides insight regarding PDC's contribution toward economic progress through the management of the City's Urban Renewal Areas, and offers valuable metrics regarding the impact of this work.

We have reviewed your report and are very pleased with the results. The findings show that compared to other areas of the city and to the city as a whole, private-sector employment and wages within the URAs increased at a faster pace during the study period. Additionally, the audit found that property value within the URAs increased by more than twice that of market value citywide during the study period. These findings speak strongly to the value of quality-job creation and revitalization efforts.

The City and PDC are proud of the accomplishments in the report, which include many public/private partnerships and iconic developments. We look forward to continuing this important work.

Thank you again for all your efforts.

Sincerely,

Mayor Sam Adams
City of Portland

Patrick Quinton
Executive Director, Portland Development Commission

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*Portland Development Commission: Indicators in Urban
Renewal Areas suggest economic progress*

Report #440, December 2012

Audit Team: Ken Gavette

This report is intended to promote the best possible management of public resources. This and other audit reports produced by the Audit Services Division are available for viewing on the web at: www.portlandoregon.gov/auditor/auditservices. Printed copies can be obtained by contacting the Audit Services Division.

LaVonne Griffin-Valade, City Auditor
Drummond Kahn, Director of Audit Services

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