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Portland Planning and Sustainability Commission

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April 5, 2018

Mayor Ted Wheeler and Members of Portland City Council
Portland City Hall
1221 SW Fourth Ave
Portland, OR 97204

Dear Mayor and Commissioners:

This is a follow up to the Planning and Sustainability Commission's recommendations on the Code Reconciliation Project, which were forwarded to City Council in February of this year.

In our February 19, 2018 transmittal letter to Council, the PSC expressed some ongoing questions about the proposed bonus for affordable commercial space in Commercial/Mixed Use zones. This bonus offers additional floor area and height for projects that provide a portion of their commercial space with enhanced affordability. It would also provide an additional tool for Prosper Portland to support smaller businesses in parts of the city where tax increment funding is not available. This is an innovative concept that helps provide much needed affordable space in areas of significant development and change, but it is a model that does not have precedent in other cities and may be challenging to implement.

At the time of our recommendations, staff from Prosper Portland and BPS were in the process of developing the program's administrative rules. The proposed zoning code gives discretion to Prosper to administer the program through these rules. But since the rules had not been fully drafted, the PSC asked Prosper Portland to return to PSC with more details and clarity about the program.

Prosper Portland and BPS staff returned to PSC on March 27, 2018 to brief the PSC on rule-making progress. The draft rules outline the parameters for on-site development of affordable commercial; space ("hot shell" tenant improvements, targeted local tenants, leasing parameters, etc.) and a fee-in-lieu option. While the rules are not yet final, a majority of the PSC believes that the program is on track for implementation.

We also wanted to share with City Council the questions considered in reaching this conclusion:

- 1) The zoning code anticipated that the affordable commercial space bonus would be a voluntary option for developers that would boost allowable floor area in exchange for providing affordable space on-site. The proposed rules also include a fee in-lieu option, effectively allowing developers to 'buy' additional floor area without providing any affordable commercial space. These in-lieu funds would go to Prosper Portland for program-related activities. This is similar to how the Inclusionary Housing (IH) program works on projects where enrollment is optional. In those instances, in-lieu funds would go



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to the Portland Housing Bureau – which was shared with the PSC as a possible (and appropriate) outcome during the IH discussion.

- 2) Some PSC members were uncomfortable with the idea of making in-lieu payments available as an option for *voluntary* programs to boost FAR. They questioned why funds raised in this manner (based on an in-lieu payment) would be sole sourced to a particular City bureau, when there might be alternative uses for such funds that would more directly mitigate impacts of the additionally allowed floor area in new development (e.g. parking management programs, street trees).
- 3) Value of the floor area: Preliminary information provided by Prosper Portland staff showed that the value of the bonus floor area may be close to the cost of providing the required on-site “hot shell” tenant improvements. This may limit on-site utilization. We recommend monitoring the program to determine if any adjustments may be needed.
- 4) Implementation cost: Based on an estimate provided by Prosper Portland’s economic consultant that this program might yield around 14,000 square feet of “hot shell” commercial space citywide, there was some concern that the staff costs of designing, implementing and monitoring this program could be large compared with its benefits.
- 5) Annual reporting: Given the innovative nature of this program and some of the uncertainty about its effectiveness, we suggest an annual report to the PSC and City Council.

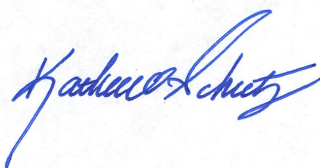
Recommendations

The PSC supports an effective affordable commercial space bonus program that provides community benefits; one that helps address displacement as neighborhoods change, and provides opportunities for businesses and entrepreneurs that may need assistance. The Affordable Commercial Space bonus adds another tool to the kit, and would be the only program for access to affordable retail space that would be available outside of Portland’s urban renewal districts.

The PSC recommends that City Council adopt the affordable commercial space bonus amendments included in the *Code Reconciliation Project – Recommended Draft*. We also recommend that you further review and work with staff to amend the code and administrative rules to better address the concerns outlined above.

Thank you for the opportunity to participate in the review of this project and for considering our recommendations.

Sincerely,



Katherine Schultz, Chair

