

DATE: January 21, 2015
TO: Board of Commissioners
FROM: Patrick Quinton, Executive Director
SUBJECT: Report Number 15-06
Update on the Development Agreement with ZRZ Realty Company in the North Macadam Urban Renewal Area

BOARD ACTION REQUESTED

No action is requested; information only.

SUMMARY

The purpose of this item is to provide the Portland Development Commission (PDC) Board of Commissioners (Board) with an update on the ongoing negotiations between PDC and ZRZ Realty Company (ZRZ) related to the South Waterfront North District Project Development Agreement (DA) in the North Macadam Urban Renewal Area (URA). The DA anticipates ZRZ developing 1,500,000 square feet (SF) of mixed-use, employment-oriented commercial and residential development over three phases and PDC making investments spanning a 10-year period.

PDC's investment is estimated at \$27,400,000 based upon projected availability of tax increment financing (TIF) from a proposed amended North Macadam URA Plan under consideration by the PDC Board and Portland City Council, and upon the final scale of private development. TIF investment within the URA is contemplated for PDC participation in economic development, transportation, infrastructure, greenway, and open space improvements and Portland Housing Bureau (PHB) investments in affordable housing. Implementation of significant components of the DA is anticipated to occur via subsequent Intergovernmental Agreements (IGAs) between PDC and partner bureaus.

UPDATES

Since the PDC Board was last briefed at its December 11, 2014, meeting, staff and partners have made the following progress on negotiating the DA:

- *Ross Island Bridge Park:* ZRZ, PDC, and the Portland Bureau of Parks and Recreation (PP&R) continue to negotiate the terms for a park on ZRZ property. These terms include partnering on an Open Space Concept Plan to identify the size, location, and potential programming for the park; an option for acquisition; a timeline and process for detailed park design; and an alternative acquisition process should agreement on a park not be reached by 2024.
- *Affordable Housing:* The affordable housing approach in the DA establishes a public/private partnership where PHB is provided the opportunity to consider subsidizing rental housing to meet 0 to 60 percent median family income housing goals within every ZRZ residential project, and the opportunity to purchase property for affordable housing development. The rental

housing subsidy would be executed through an Affordable Housing Covenant that provides PHB the ability to determine subsidy feasibility up until construction documents are initiated, at which point the partnership either continues if subsidy is available or is dissolved until the next housing project on ZRZ property is initiated. The property purchase opportunity is triggered at the time ZRZ initiates Phase 2 of Zidell Yards if affordable housing within the North Macadam URA is less than 479 units.

- *South Waterfront Project Apprenticeship Agreement:* The DA has been edited to ensure that there is coordination with the South Waterfront Project Apprenticeship Oversight Committee for both private development and public infrastructure projects.
- *Protection of Public Funds:* The DA has been edited to include a trigger for reimbursement of public investment in Bond Avenue projects should private development projects stop mid-construction and not resume within six months.

Staff intends to finalize the DA and request PDC Board approval of execution at its February 11, 2015, meeting.

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 Challenge is expected to be housed.

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 of Portland (City), PDC, and ZRZ. The DA will establish the parameters that will foster new development and redevelopment within an extended and expanded 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 shares costs for regional public infrastructure, it is unlikely that the 1,500,000 SF of private development would occur on the anticipated timeline.

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 on their Emery housing project.
- 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 River Parkway to SW Grover Street, built in three segments with adjacent development. Street improvements could include District Energy pipe conveyance system if a District Energy System is initiated by OHSU.
 - Stormwater: ZRZ will fund, design, and construct a stormwater system for 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 will provide funding for eligible physical improvements aimed at recruiting jobs and assisting job creation, including but not limited to parking structures and PDC's commercial property redevelopment and business finance loan programs.
- 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 PP&R.
 - Bond Avenue: If ZRZ development reaches 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.
 - Economic Development Pool: At PDC's discretion, PDC will invest funding in an amount not to exceed the incremental amount of ZRZ Phase 2 generated tax increment above and beyond agreed-upon infrastructure investments in eligible physical improvements aimed at recruiting jobs and assisting job creation, including but not limited to parking structures and PDC's commercial property redevelopment and business finance loan programs.
- Phase 3:
 - If ZRZ proceeds with Phase 3 development prior to June 2025, at PDC's discretion, PDC will invest additional TIF, as available, to SW Bond Avenue from SW Grover to SW Gibbs streets or SW Gibbs to SW Whitaker streets street improvements (if not already funded); undergrounding of Portland Power & Light line, 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 area 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 ZRZ Site Open Space Framework Plan public process that will include identifying a size, location, and conceptual design for the Ross Island Bridge Park and may 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.

As noted, the public infrastructure and public-private partnerships are anticipated to be implemented via IGAs between PDC and the appropriate City bureaus, including PBOT, PP&R, BES, Bureau of Planning and Sustainability, PHB, and Bureau of Development Services.

ATTACHMENTS

- A. Development Agreement Property Map
- B. Development Agreement Phasing Plan

Development Agreement Phasing Plan



Exhibit C: ZRZ Development Agreement Phasing Plan