

9/25/12

TO: Mike Houck, Planning and Sustainability Commission

FROM: Eric Engstrom

RE: Response to WHI Questions

Below are staff responses to the questions you sent in an email dated 8/17/12.

1. I remain unconvinced by the jobs argument and agree with some that the EcoNW report barely gives the proposed development a passing grade re "penciling out." We had an interesting discussion in yesterday's Economic Development PEG, Industrial Lands subcommittee regarding "through put" vs "job creation." It sounded to me that so-called "through put" was much more significant for WHI than job creation, yet the Port continues to emphasize job creation as the most important aspect of the proposed port facility. I would really appreciate more discussion regarding the cost-benefit issue, especially with regard to how many jobs can realistically be counted on [especially with increased mechanization] vs the "through put" economics, if that makes sense. This information is key to answering the annexation question for me.

EcoNorthwest Conclusions

The suggestion that it "barely" pencils out is probably not an accurate reading of the EcoNorthwest report. EcoNorthwest took a fairly skeptical view of Port benefits, pointing out that many port benefits flow to the larger region, and many impacts are local. Despite that general statement, they did conclude (and the numbers show) that the local benefits would still exceed the costs, potentially by a wide margin.

The often-quoted phrase is here:

"The goods currently expected to flow through West Hayden Island (autos, grain, or dry bulk) will not come from local firms or end up in local stores. Instead, West Hayden Island (WHI) would serve as a convenient transshipment point in part of a much longer supply chain. For instance, if a Canadian firm ships potash from Saskatchewan to China through Portland, the user benefits from this transaction will be captured by the Canadian company or the Chinese consumers (or other middlemen). While the benefits to these parties are real, they are global in scale. Important for our analysis, most of these benefits do not occur in the Portland metro area."

But the narrative continues as follows... [my emphasis added]

"A port facility like the one envisioned for WHI does not generate the same local economic benefits as a 19th century port. **The local economic benefits created by a WHI port resemble those generated by a factory (or other traded sector entity).** The port employs local resources (labor and capital) to produce port

services that it sells primarily to consumers outside the region. The money brought into the region helps support other local businesses, potentially increasing income and employment in the local sector. Greater economic activity may increase tax revenues, population, and/or property values. To the extent the port affects the success and location of other firms (e.g., perhaps due to greater local economic efficiency and agglomeration effects), these effects will be magnified."

- page 6-5

The local benefits take the form of wages paid to longshore workers, business revenue for local businesses that serve the port, and wages paid to the employees of those businesses, and tax revenue generated by that income, and property taxes paid by Port tenants. Depending on your view of Port benefits, these benefits total up to \$3.75 to \$90 million annually, in local benefit. The marine terminal is expected to generate up to \$30 million annually in state and local tax revenue. As noted in their conclusion, the break even point for the public investment is about \$5.5 million annually.

They produced a sensitivity analysis table that explains the two primary factors that effect our confidence in the benefit numbers. The factors are: a) the opportunity cost, or percent of benefit that would not have otherwise been earned by other uses of the money), and b) the percent of benefit that is local (the question of how many of the "local" jobs and related local business revenue is really captured locally).

At the high end of that range (\$90 million annually), they assumed only 30% of the benefits cited are really new benefits (that is, they still assume 70% of the people and firms employed by the Port would have been equally employed locally anyway). They also assume that 100% of the jobs, taxes, and local business revenue estimated in the Martin Study is captured by the local metro region. Keep in mind that the Martin study is a study of *local* and regional benefits. The \$90 million does not include any of the benefits going to the railroads, international shipping companies, Canadian mining firms, or Chinese consumers.

On the low end, (\$3.75 million annually), they assume that only 5% of the benefits cited are really new benefits. That is, they basically assume a full employment situation where 95% of the people employed by the Port would have been equally employed locally anyway. They also assume, in this scenario, that only 25% of the local jobs, tax benefits and business revenue is actually captured by the region (for example, if the local firms benefiting from this are not actually locally-owned firms).

They put it this way: "Thus, for net [local] port benefits to fall below the net [local] costs of the Development Scenario, one must assume that impacts will be *significantly* lower than the amount estimated by Martin and Associates and one must assume that *nearly all* of the income related to the WHI port would have been earned even without port investment." Therefore: "it is likely that the Development Scenario will generate net local economic benefits relative to the Baseline Scenario" - page 7-5

The major caveats are:

- Forecasts are sometimes wrong, and the benefits depend on the market demand being as predicted by the forecasts.
- Local health impact costs are not quantified - though it should be noted some of those impacts may be positive - employment is actually the number one health determinant.
- No secondary benefits to other Port users are assumed by EcoNorthwest (i.e improved local rail operations from having a place to park a long unit train without having to first break it up in the rail yards, as currently happens).

Job Numbers

Studies done to date project that WHI development would lead to roughly 2,300 to 3,600 jobs, including direct, indirect, and induced. This does not include jobs associated with initial terminal construction. For context, there were about 18,000 jobs in the Central Eastside Industrial Area in 2008. The citywide job total in 2008 was 292,000. Between 2000 and 2008 Portland gained only about 3,000 jobs in total.

Relationship to Economic Development Strategy

It is a mistake to suggest that “throughput” is a less productive activity than purely local manufacturing activity. Throughput does have major economic impacts, and is deeply connected to the City’s economic development strategy.

Although the Port is shipping goods that did not all originate in Portland, this traded sector work is still important to the local economy. By selling transportation and logistical services to people and businesses from outside Portland, locally-based businesses serving the Port bring new money into the local economy. The additional income is further circulated within the local economy as these local firms and their employees purchase additional services.

Jobs at traded sector companies help anchor the city’s middle class employment base by providing stable, living wage jobs for residents. Today, only 77 percent of Portland households earn enough income to be considered economically self-sufficient (Bureau of Planning and Sustainability, 2012). The Self-Sufficiency Index posits that an annual income of \$35,711 is needed to meet the basic needs of the same family. In 2008, annual income (2008) for workers in various employment sectors was: Retail worker - \$27,300; Food and drink service - \$16,600; Personal service workers - \$25,360.

Low-income residents have generally lost ground during the economic growth of recent decades. From 1979 to 2005, Oregon households in the bottom 20 percent of the income distribution have seen a 14 percent decline in their inflation-adjusted average income (Bureau of Planning and Sustainability, 2012). In particular, disproportionate income disparities persist for communities of color, residents with disabilities, young female householders and other groups. In 2010 the average household income for African Americans in Portland was only \$26,449, which is well below what is necessary to maintain self sufficiency (Bureau of Planning and Sustainability, 2012).

Manufacturing and distribution jobs are typically an important part of any long-term economic development strategy because often wages in these sectors are significantly higher, and they are available to those with lower levels of education. Average wages of the direct jobs provided at public and private marine terminals in the Portland harbor is \$50,392 (Local and Regional Economic Impacts of the Port of Portland, 2011, Martin Associates, March 2012). Although both in Portland and nationwide, manufacturing jobs have declined as more industrial processes have become automated, the Portland region has held onto a higher number of manufacturing jobs than most other US cities have. Portland appears to have some comparative advantage in this sector (ED Hovee & Company, 2012 – see Section I of the EOA, Local Sector Specializations).

For these reasons, Portland’s traded sector businesses have the power to drive and expand Portland’s economy. The Portland Plan calls for retaining the competitive market as a West Coast trade gateway as reflected by growth in the value of international trade.

The EcoNorthwest *Evaluation of Economic Specialization* (2009) found that the City of Portland’s 2nd and 5th largest economic specializations are wholesale trade and transportation, which are the city’s freight distribution industries. In 2008, the Portland region’s traded sector businesses brought \$22 billion of export income into the regional economy, which was 21 percent of total regional economic output. Portland ranked second among U.S. metropolitan areas in export growth over five years. The 118,700 jobs in Portland’s industrial districts accounted for 30 percent of the city’s employment, including 30,400 manufacturing jobs and 44,000 wholesale and transportation jobs, (Bureau of Planning and Sustainability, 2012). The industry sector “transport by water” contributes to the local, regional, and national economies in numerous ways. In 2007, an estimated \$540 million in direct economic output by this industry sector generated an additional \$248 million in indirect output and nearly \$117 million in induced output for a total estimated economic output of nearly \$905 million (ENTRIX Inc., History and Economic Role of Portland Harbor and Marine Related Development, DRAFT Oct 2009).

2. IF annexation were to occur, then I have the following questions/concerns:

a. Long term ownership. Who should own the 500 acres? I will argue that the Commission recommend that language in the IGA would require the 500+ be transferred to PUBLIC ownership, to be protected in perpetuity. It should not continue in Port ownership or transferred to a private entity. It should be transferred to Metro Natural Area program and/or City of Portland Parks and Recreation with an ENDOWMENT sufficient to allow these agencies to continue beyond the Port's restoration and mitigation obligations.

It should probably be clarified that the Port is a public agency, and its board of directors is appointed by Governor. The City explored a variety of ownership scenarios in a white paper – West Hayden island Land Management Options. City staff interviewed a list of potential management agencies, and other non-profit entities that have experience with

urban land management. Metro has stated that they are not interested, presumably for financial reasons. Portland Parks has expressed interest, at least in day-to-day management of the recreational elements of the plan (trails, beach access, boat launch, etc). They do not have interest in management of the mitigation areas. The proposed IGA includes a proposal for creation of an endowment, to establish a basis for future management of the recreational elements. Port and City staff see a logic in Port maintaining ownership while terminal development and initial mitigation activities are underway. The Port has substantial experience managing mitigation sites, with a relatively high success rate.

b. During the work session I asked if the "increase in ecological function" was still operative? It is still unclear whether all mitigation and enhancement actions are to conform to the Resolution's requirement that there be "net increase in ecological function."

It is not correct to characterize this as a formal "requirement." The City Council resolution guiding this work referred to the principles as "core values to inform the proposal". The Community Working Group report referred to them as "principles to guide its ultimate decisions". Staff has interpreted from the words "values", "guide" and "inform" that they all must be balanced and considered equally. Other equally important principles were to have an "economically viable Port", and "a positive contribution to regional economic health". In other words, we understand an "increase in ecological function" as something that is a desirable value that should inform the proposal, in context with the other principles. That is not the same thing as a binding policy statement. The City staff estimate that the current IGA replaces about 85 to 90% of current ecological function - but does not quite reach a net increase. Most of the gap is related to forest impact.

c. The Port's mitigation obligations should be specific to the port project, not superfund or other federal or state environmental programs. The Port's superfund or other mitigation requirements are separate from this package and the Port should not be allowed to "double dip"

Agree - there is not double-dip proposal.

On Government Island, the proposed forest mitigation areas are geographically separate from areas previously committed to mitigation (in the Airport Futures project).

On WHI, there are several different types of mitigation/enhancement opportunity, which is quantified in the Concept Plan prepared by Worley Parsons. The WHI IGA outlines several natural resource actions on WHI that would be done in anticipation of marine terminal impacts: wetland and shallow water creation in the vicinity of Benson Pond, and forest enhancement (invasive control) within a subset of the remaining WHI forest. Finally, some "credit" is being given for the protective action of establishing OS zoning on WHI. City staff believe there is un-used opportunity for additional shallow water improvement on WHI above what is needed for marine terminal mitigation, and in the

interest of meeting the "economically viable port" principle, it may be appropriate that those actions be done as remedy for Superfund damages. In particular, large areas along the south shoreline would remain un-encumbered by marine terminal mitigation, leaving open the possibility that wetland or shallow water actions in that area could be used to mitigate any Superfund damages, or some other future action. The Trustees for the Portland Harbor Superfund would decide if those actions are creditable toward Superfund damages.

d. In reference to b above, will the Port be required to perform mitigation [on and off the island] that truly results in increased ecological function? The example I used in addressing this issue during the briefing was the fact that there is significant "interior" bottomland forest habitat on WHI that cannot be replaced by planting small patches of cottonwood on Government Island over time, as I believe is currently being proposed. The issue of habitat "mosaic", interspersed habitats must be addressed in a manner that relates to the sum being greater than the parts analogy I and others have raised. An associated issue for me is there seems to be an over emphasis on fish habitat, and too little attention being paid the cottonwood/ash forest habitat. While I am concerned that shallow water and wetland habitat be adequately addressed, it's also the bottomland forest that is so ecologically significant. References to blackberry and reed canarygrass have been used to portray WHI as degraded. While there are invasive species issues on the island there is no question that this increasingly rare habitat is significant both regionally and in the lower Columbia River, as indicated by the Lower Columbia River Partnership.

One solution to this issue is the suggestion full mitigation cannot be accomplished on the island itself. To remedy that problem a fund [\$30 million to \$40 million has been suggested] be established and transferred to an entity with experience in acquisition, restoration, and management that would allow the acquisition of similar habitat within as close a proximity as possible to the confluence of the Willamette and Columbia Rivers. I do not recall that being addressed as part of the IGA or in staff presentations. Is the creation of such a fund being seriously considered?

The forest mitigation on Government Island is focused on filling in the holes in existing forest patches. The patches in question are large – adding up to 470 acres or planting and/or invasive species control in two contiguous areas. The objective is to re-create the large interior size that exists on WHI. Government Island's proximity to the urban area, and that fact that it is an island in the river makes it a good candidate for focused large scale action. Staff believes there is substantial opportunity to create more valuable bottomland forest habitat on Government Island. It should be noted that the City's current forest planting proposal is not "over time", but all at once upon annexation.

The City has not described WHI as weedy or infested with invasive species. The City's natural resource inventory ranks the WHI as high value – in particular because of its size, relative quality, and relationship to other habitats (the confluence area).

The City did consider this proposal made by Audubon, but ultimately it lacked specificity. The Port has proposed a specific set of actions, and the City agrees that Government Island will benefit from these actions, and that they will benefit the regional ecosystem. The scale of the City-suggested mitigation is substantially equivalent to the \$30 to \$40 million fund cited by Audubon.

e. As I indicated in the briefing, the issue of mitigation is a complex one and one that argues for additional details being provided to the Commission, by an ecologist [whether on staff at BES or from outside the city] who is expert in the issue of mitigation so that we clearly understand the concepts behind mitigation requirements and what is being proposed by: Port; City; Outside entities such as Audubon Society of Portland, Lower Columbia R Partnership or others.

The current proposal was developed by staff in both BPS and BES with ecological science backgrounds. City staff can provide additional briefing details on the mitigation issue if the Commission feels it is useful.

f. Will habitat be lost prior to actual development? Timing of habitat loss and mitigation is an important one. Given that development is unlikely in the near future, what requirements will be included in the IGA that protect the habitat on the 300 acres until they actually proceed with development and will mitigation occur at the time disturbance commences?

The proposed IGA suggests that mitigation begin immediately upon annexation in order to get a jump start on the impact. The development impact would not occur for at least another decade.

g. While I support some, limited access for recreational purposes, I share concerns that after expending significant resources to restore and enhance habitat values on the 500 acres that excessive public access will then degrade the restored/enhanced habitat. The recreation plan must focus first and foremost on ecological function. There are recreational opportunities nearby at Smith and Bybee Lakes, on the Columbia and Willamette Rivers. Direct public access into the 500 acre "nature reserve" should be strictly limited. When recreation and access are planned there should be an analysis of the recreation "shed" both on and off WHI.

There is a community interest in limited recreational access on WHI, specifically trails and beach access. The proposal reflects those advisory committee perspectives. The Hayden Island Neighborhood Plan notes the lack of recreational opportunities on the Island, and the WHI plan is an opportunity to remedy that shortfall. There is a need to carefully plan the relationship between recreation and natural resource objectives. For this reason, the IGA includes provisions for additional more detailed site planning within the 500 acres of open space. This would be akin to a parks master plan kind of process.