

## Portland Planning and Sustainability Commission

Tuesday, March 26, 2013

2:00 – 5:00 p.m.

### Meeting Minutes

**Commissioners Present:** Andre' Baugh, Don Hanson, Mike Houck, Lai-Lani Ovalles, Gary Oxman (arrived 3:30 p.m.), Katherine Schultz, Chris Smith

**Commissioners Absent:** Karen Gray, Michelle Rudd, Howard Shapiro, Irma Valdez

**BPS Staff Present:** Joe Zehnder, Eric Engstrom, Mindy Brooks, Julie Ocken

**Other Presenters:** Sebastian Degans, Port of Portland; Susie Lahsene, Port of Portland; Keith Leavitt, Port of Portland

*Chair Baugh* called the meeting to order at 2:15 p.m. and provided an overview of the agenda.

### Consent Agenda

- Consideration of Minutes from the March 12, 2013 PSC meeting

*Chair Baugh* asked for any comments for the consent agenda. *Commissioner Smith* moved to approve. *Commissioner Houck* seconded.

The Consent Agenda was approved with an *aye* vote.  
(Y6 – Baugh, Hanson, Houck, Ovalles, Schultz, Smith)

### West Hayden Island

Briefing: Eric Engstrom

#### Presentations:

- [Work Session Presentation](#)
- [Port of Portland Commission Principles](#)
- [Portland's Marine Cargo Market](#)
- [Port WHI Financial Information](#)

#### Documents:

- [Work Session Packet 1](#)
- [Work Session Packet 2](#)
- [Letter from Bill Wyatt, Port of Portland Director, to Mayor Charlie Hales](#)
- [Hayden Island Manufactured Home Community letter to PSC](#)
- [Lucinda and Stefan Karlic letter to PSC on behalf of Hayden Island Livability Project](#)
- [Economic Needs memo from Victor Viets](#)
- [Port of Portland - Floodplain Mitigation Comments](#)
- [Staff/Port meeting recap](#)
- [Menu of Options](#)
- [Sallinger comments re: mitigation](#)
- [Community Work Group Principles](#)

This is the fifth in the series of work sessions about WHI. Today is focused on economic need and related issues as well as financial questions about the port. Today's meeting is grouped into sections based on the [Menu of Options](#).

At the February 26 PSC work session, staff presented an assessment of potential floodplain mitigation alternatives and ranges of costs. The memo included three alternative mitigation packages that could replace floodplain functions impacted by marine terminal development.

Staff reviewed actual floodplain restoration projects in the region to generate cost estimates. The range of actual project actions and costs were included in the memo. The project actions were varied and included a mix of actions such as floodgate removal, levee breach, levee reconstruction, excavation and vegetation work. None of the actual projects lined up directly with the three conceptual alternatives.

However, staff were able to extrapolate the actual project costs and assign cost ranges to each alternative. The costs ranged from \$50K to \$178K for simple floodgate work and from \$4.8M to \$62.6M for a 200 acre floodplain reconnection.

Each project has site specific conditions (e.g., land value, soil type, structure removal/protection, contamination, etc.) that make the costs only relevant to that site.

Staff is recommending to PSC a floodplain mitigation project similar to Alternative 3 to reclaim a disconnected flood area. The minimum cost for 200 acres is \$18M (\$90,000/acre). After reviewing a range of examples from our region, staff feel this is the minimum investment to replace floodplain function at a 1:1 ratio.

This would include levee breach to reconnect 200 acres of floodplain with the river; some excavation and grading to aide in reconnecting the floodplain, but not full balanced-cut-and-fill; and newly created shallow water and possibly new wetlands would be created.

The \$18M cost assumes:

- No new set-back levee is required to protect property and infrastructure.
- A project at the lower end of staff's fill removal assumptions.

The cost estimate includes project management, design/engineering, permits, construction and O&M. Such a project could include vegetation management or planting, but this cost estimate excludes those actions. It also does not include purchasing a site.

There is a preference to co-locate and consolidate mitigation actions. If all mitigation actions took place at one site, then the mitigation package would look like Alternative 3 from the floodplain memo. Co-locating actions would result in multiple features that function together in a mosaic and better replace what is lost on WHI. Co-locating could also reduce costs by taking advantage of economies of scale.

The Port also provided an [evaluation of flood plain costs](#) related to mitigation.

*Commissioner Hanson:* How did you arrive at 200 acres?

- This acreage accounts for the 100 year flood plain minus the dredge deposit management area, which is 100 acres.

*Commissioner Smith:* If we're not assuming a purchase, how do we secure access to the site?

- Staff is recommending this action be done with another aspect of mitigation. \$18M is a reasonable project scale.

*Commissioner Houck:* I appreciate that this version is easier to understand and is straight-forward and more likely to succeed than other options. The Lower Columbia Estuary Partnership (LCREP) is a logical partner that this could be added to or piggy-backed on. While our preference is that a floodplain mitigation project be in the immediate vicinity, it's a better

option to have a floodplain mitigation project in the lower Columbia River than not address loss of floodplain function.

\$18M is for flood plain reconnection, which will create other shallow water habitat. If you increased activity to include forest mitigation in the same location (moving it from WHI or Government Island), the costs would move to the flood plain location.

*Commissioner Houck* has concerns with the statement that asserted that “achieving net improvement of ecological function increases exponentially as you approach 100 percent.” That is true with projects like the “Big Pipe” or brownfield remediation where the last increment typically does increase dramatically. However, when it comes to mitigation and restoration, planting the “nth” tree costs no more than the first one or any others. This statement is not factually correct.

- Eric: This statement based on a set of facts, not in general about mitigation, for this specific case. Getting to 110 percent or adding flood plain on the Port property margin does add a significant percentage to the cost.

*Commissioner Hanson* is concerned about the commitment (action), not just the cost estimate. He is not convinced we need to do the flood plain mitigation. The site is exempt, but the PSC has discussed their position that this shouldn't be exempt. It's still unclear as to if we can achieve the ecological mitigation without some flood plain mitigation. He is seeing a lot of “piling on” on these issues for the project in general.

*Commissioner Houck* reiterated that the PSC did debate whether floodplain mitigation should be required and determined that it would be required, one reason being it would be necessary to achieve “net increase in ecological function.”

The PSC confirmed staff's flood plain recommendations but will revisit this discussion in the financial recommendations.

Mindy provided a brief overview of the [City staff/Port meeting recap](#).

### **Recreation Discussion**

As it stands now, the Port would lead the design and construction of the park area then turn it over. Mayor Adams suggested the City lead this, but PP&R would prefer to receive the facilities after built. Staff recommends for the Port to create the park then transfer it to the City as is currently laid out.

The timing of the recreation facilities should align with the timing of the terminal.

There is a question of the size of the East Hayden Island parcel – whether it should be 3 or up to 6 acres. There is disconnect between the PP&R cost estimate and the 6 acres in the Mayor's proposal. Costs are currently assumed are for the 3 acres. The park is an abstract proposal at this point, with 2-3 options. One option is to locate it immediately east to the entrance of West Hayden Island.

*Commissioner Smith* proposed the park be as close to the manufactured home community as possible. A best case would be Thunderbird Site (adjacent to the homes). The 3 acres should be defined location-wise.

- *Commissioner Hanson* agreed that proximity to the manufactured home park and ease of access should be included in the criteria for location.
- Eric noted that in the Thunderbird site, there is a connection to the CRC project. Another factor is if the properties near the entrance to WHI are considered, we change industrial to open space zoning, which would include some traffic mitigation – a benefit to the island residents.

- *Commissioner Hanson:* If it's a 3 acre site with a boat ramp, the ramp consumes lots of space. If the boat launch is included, the park should increase to 5-6 acres.
- Staff has not recommended a boat ramp within this acreage.

*Commissioner Houck:* If PP&R is opposed to this, why is it included in BPS proposal? Are there resources going to be given for PP&R to maintain this area? Even if PP&R has the resources would this project be on their list of priorities, given park deficiencies in East Portland and N/NE Portland? Would this redirect park priorities?

- Eric: The initial recommendation was that resources would be included via the IGA. The park upkeep is closer to PP&R's mission than the Port's.

PP&R likely already has a list of priorities and resource spending. Is this behind their reluctance to develop the park on Hayden Island? We can table this and bring PP&R staff input.

*Commissioner Houck:* O&M costs are about \$13M, which is significant for 3 acres. This does include acquisition but should be included in the cost/benefit discussion today.

*Commissioner Schultz:* If we're proposing to add more acreage, we add to the cost. I'm worried that the conversation gets tied up in the boat ramp discussion and increased costs instead of ensuring we provide the park.

The Thunderbird site is the recommended park site from the PSC. The park will need to be more than 3 acres if there is a boat ramp included on the site. Active recreation opportunities are a priority. Park development is tied to funding, so its development will happen concurrent to the Port facility being built. We don't want to hold up the planning of the park with the hopes of getting the boat ramp if that piece holds up the process.

#### **IGA / Legal**

SB 766 applicability to WHI: Staff and The City Attorney have stated that there is not an opportunity for WHI to use this process because it's not applicable to Federal and State processes. There doesn't need to be a specific element in the IGA, but we can include a clause stating this. We would reserve the right to designate the site as Regionally Significant Industrial Land. "Good faith" gesture should be the phrasing.

Non-appropriation of funds: If funding doesn't come through, we need to come back to the table for the IGA. This is fairly regular for agreements of this nature.

There is standard language about the processes to notify the other party about addressing failures by either party to perform what's included in the IGA.

If the IGA is terminated, zoning doesn't automatically revert to Open Space. Terminating it would stop agreements, which would put much pressure on City Council to do something else with the zoning. Annexation is one-way; it can't be undone. We can't predict what the political landscape will be in the future, but the City and Port are both putting money into this now, so there is a mutual interest in the agreement not being terminated (at this time). But there's not much we can do about it, so need to include the termination cause.

#### **Economic Need and Benefit**

- Forecasts indicate long-term need for additional terminal land on Columbia River.
- Portland has lost market share in the Pacific Northwest.
- ECONW Harbor Lands Report shows need for WHI in all but most conservative commodity forecasts.
- ECONW Cost-Benefit Report states local benefits outweigh the costs in all but most conservative benefit estimates.

Sebastian Degens (Port of Portland) provided an overview of [Portland's Marine Cargo Market](#). We are in a period of growth right now driven by multiple geo-political factors. These include things we don't control such as demand growth in the Pacific Rim, abundance of the fuel, fiber, fertilizer and food that's needed, and things we can influence such as the transportation systems and availability of suitable land.

WHI may not be ready in time to catch this current growth wave, but we are situated at a nexus between markets and rich production areas, and we have a modern and robust transportation network with which to leverage that position if we so choose.

The Port relies on railroads. Portland is a gateway for 3 large railroads: Canadian Pacific, Burlington Northern and Union Pacific.

There has been a doubling of facilities on the Columbia River in just the last 10 years to be able to serve the market.

Auto imports are another area of growth for the Port. Honda ships exclusively via rail.

Being able to grow the port and to grow the Portland harbor is tied to the availability of well-served industrial land. Success also creates the atmosphere and context for harbor brownfield redevelopment and intensification of existing terminals, both of which are also part of the Port's maritime strategy.

There has been nearly \$1B in Port terminal and infrastructure investment in the last 2 years through 16 projects. Investment creates the impetus for environmental enhancement, efficiencies and sustained competitive advantage.

Cargo has grown significantly on the Columbia River. Unless there is a structural shift, maritime cargo is still a good opportunity with lots of growth opportunities available.

*Commissioner Smith* commented on the written commentary suggests the widening of the Panama Canal may shift how Asia is served.

- This has been influencing the Port for years. In the last 2 years, we have gotten interest back from some of the bulk cargo carries that may benefit from the Panama Canal. Tolls in the Canal may drive car shipping to the West Coast.

*Chair Baugh*: 10 years from now, we don't know if we'll be in an economic peak or a down cycle.

- Today's growth and investment in unprecedented because people are taking advantage of growth trends. It's hard to forecast 5-10 years out, but over a 50 year period we have generally be on an upward trend.

*Commissioner Smith*: Are there policy levers in place to make sure Columbia Gateway develops before the WHI site? Both sites have environmental and health considerations, but WHI has a unique ecological function. At low economic forecasts, we only need to develop one of the sites. Economic impact on the region presumably doesn't matter where the terminal is (on the east or west side of the river).

- Staff has said that with the forecasts we have, choosing to develop only one location bets against the forecasts. It takes 10+ years to develop a terminal. By deferring development, we may be outside of the 25 year window. As for location jobs will be the same, but State tax revenue may be different depending on what side of the river is developed.
- We have little control over the market for many of the pieces. We don't choose where companies will locate. We need to make steady progress over next 5-10 years to develop so we don't miss the next wave of growth.

*Commissioner Houck:* We have received testimony from a number of people who have argued that we need to look outside Portland-Vancouver into the lower Columbia. At some point there will be no additional land to build on. Can we foresee a time when all the ports have a compact so we're looking at a more regional scale, the region being the entire lower Columbia River?

- There are lots of barriers to accomplish this, and it may not work in our favor. If the harbor is healthy, it's easier to develop new facilities, which is part of the maritime strategy.

### **Oregon State Goal 9**

The WHI decision has direct relevance to Goal 9. It would be beneficial from this point of view in terms of having available land and infrastructure for job growth. Not meeting Goal 9 may be a big lift, but this will be considered in the Comprehensive Plan Update.

There is not a "yes/no" Goal 9 question in terms of WHI. There are some aspects about the Portland Plan and Economic Opportunities Analysis (EOA) that would have to be rewritten if WHI is a departure from these; one of the key components is an emphasis on traded sector and job sectors around moving goods. If we preclude WHI in the land estimations, we have less land/space and opportunity for living wage jobs. There are options under Goal 9 to not annex WHI. If we annex WHI, we will site Goal 9 as one of the reasons, but it's not the only option. There is significant amount of additional work to back-track, but it's not off the table.

*Commissioner Houck:* The PSC did not base its decisions on Goal 9. The City can take exception to Goal 9. In Goal 9 there is a choice about which sectors of the economy we want to grow. We can rewrite the EOA. We can't look at WHI being annexed or not based on Goal 9. If the annexation option is cut off, there is a huge implication.

### **Vancouver as an Alternate**

- Vancouver has approximately 350 acres of vacant land.
- ECONW study found both Vancouver and WHI land needed to satisfy most forecasts.
- Vancouver lands have some similar constraints as the ones on WHI.

### **Financial Viability**

The overall question is if there a way for the Port to finance the new facility. This includes site preparation, fill and North Hayden Island Drive improvements.

There is approximately \$138M in mitigation and site improvements required. This includes fill and sewer/water infrastructure; environmental mitigation at \$44M; \$16M parks and recreation; \$10M in improvements to NHI Drive; plus the housing fund and community impact fund.

The City hired Bay Area Economics (BAE) to review the costs. This figure raises the question of \$7/square foot proposed by Port versus BPS \$12/square foot. This creates a \$52M gap between potential costs between the Port and BPS' estimates.

There is a choice to hit 110 percent on environmental benefits as part of the policy goal. Need to balance with [Community Work Group Principles](#) for a financially viable port.

*Chair Baugh* noted that the financial discussion relative to the CWG Principles. We can vary from these principles, and financial viability is something the PSC can find different from these. They are guidelines, not a mandate. We either balance the financial viability and principles or not. We ultimately need to give Council direction, and Council will refer back to the CWG Principles.

The principles and the 500/300 split were the premises given by City Council to create the best possible proposal. The PSC could be in the position to say the best possible plan we can create falls short in “x, y and z” principles.

Susie Lahsene provided an overview of the [Port of Portland Commission Principles](#).

WHI was brought into the Urban Growth Boundary in 1983. The Port purchased it in 1994 when it determined the need for land for future expansion opportunities.

The Port Commission’s principles include:

- Adopt a joint vision for sustainable development that incorporates and balances social, environmental and financial aspects of future development. Annexation should memorialize a shared vision between the Port and the City.
- Establish regulatory and legal certainty with regard to development of the 300 acre marine terminal area, allowing the Port to successfully market the property. If there are unclear entitlements, it makes it hard to attract business.
- Reflect the Port and City’s mutual commitment to ensure that the 500 acre open space area remain zoned as open space in the future, while at the same time retain the value of the property for future mitigation and restoration opportunities. It is the intent of the Port Commission to retain and secure the 500 acres as open space in perpetuity.
- Identify a financially viable path to marine terminal development that acknowledges public and private funding sources required for successful development. The cost of development should not exceed reasonable expectations of financial return.
- Establish unambiguous mitigation measures that are based on sound impact analysis and uniformly applied standards, and that acknowledge and respect the significant role state and federal agencies will play in future development. Mitigation requirements should address actual impacts, when development has a high degree of certainty and the impacts are known.

*Chair Baugh* Has the Port’s financial expectation changed over the years?

- Expectations have generally been fairly consistent and will make a return on investments, which may vary by site.

Keith Leavitt, Port of Portland, describe a more site-by-site expectation of financial return. Some properties can be as high as 8-10 percent; others are expected at 4-5 percent, based on the complexity of development.

There is a large investment and high risk in terms of length of time to see revenues on the WHI site. The Port doesn’t have general fund monies available today. They will need to find partners and look at different financing arrangements in the short-term.

In the long-term discounted cash flow analysis, the Port is conservative because this is used as a proxy for risk. A 12 percent discount rate was used for WHI. The Port added \$3M for an Environmental Impact Statement (EIS) process that would happen during the 10 year development horizon. Revenues assumed are based on current leases with auto tenants at other Port facilities.

Based on these figures:

- Port/public investment = site prep + mitigation = \$97M-\$140M
- Private investment = terminal/rail = \$164M

The Port’s base case is for a 10 year site prep/mitigation with revenues being seen starting in 2025 (year 11) and would ramp up through 2031 when the fully developed facility is in use.

Comments from BAE agree with most of the cost estimates. BAE ran a model based on these comments but with a 6 percent discount rate (closer to what the Port would expect) and revenue and costs escalating at 3 percent. This is typical of what the Port has seen in the market.

Additionally, Mayor Adam's and the City's proposal adds costs for site prep and mitigation.

When revenues are guaranteed, the Port then has certainty. The time until that point has serious risk. The payback range is between 23 (Consultant's scenario) and 32 years (City's scenario). The Port will have to find new ways to finance because the general fund is not sufficient, so it would be seed funding to attract other public funding.

We need to look at the issue of timing and consider mitigation requirements. There could be certain milestones where a mitigation fund can be capitalized by Port investments, which could include annexation, the launch of the EIS process, and/or when lease agreements are in place but prior to terminal construction.

Government Island is an aviation asset, so any mitigation on that island needs a fair market value for the aviation division of the Port.

The site preparation estimates still need more work to come to a clear cost assessment. Within the \$138M costs shown by the City, the fill is \$46M.

This also shows the Port's paying 100 percent of the costs to build. But this would be a worst-case scenario if there aren't additional funding sources from other public entities. Site prep costs are consistent through the different scenarios.

*Chair Baugh:* Has a city and a port entered into a business agreement regarding a financially feasible situation in the future? Something that includes how to make it work in terms of cost sharing when there are uncertainties about future costs.

- BAE Consultant: There are different models for public agencies doing joint planning with other public entities, for example Federal/State/Local planning for base closures and arrangements between airports and cities. WHI is likely to have more private parties in the future. Timing is key so the business proposition aligns and is feasible.

*Commissioner Smith* returned to the question of the Port's \$5-7/square foot. Land values in other ports around the country vary greatly. This port facility has many advantages, so shouldn't they be monetized highly?

- Each terminal function has a different inherent land value, so there is a broad range. Costs are location-specific and different based on the functions. We don't think \$7 is a starting point, but it depends on demand.
- Auto, bulk mineral and grains have different economic values; auto is the highest by far.
- We may need to see outcomes when the EIS is completed to price at that time.

*Commissioner Houck* read a section of BAE's comments on mitigation costs being minimal in comparison to costs for fill and other development costs to make a viable port. We don't want to backtrack from 110 percent mitigation.

*Commissioner Hanson* noted his concern over flood plain mitigation. The fill number is huge. Maybe there is a way to scrutinize that number, which could be more of a likely target for reductions.

*Commissioner Smith* noted his concern about having a contingency for terminal development but not a contingency on the mitigation side; there is a lack of balance in the proposal right

now. This is very deal-specific, but the City won't make the deals, the Port will. The PSC's role is to stand up for the health of the environment and the community, and for defining mitigation correctly. We don't want to argue the price of mitigation to make a number work. I'm more inclined to get to best mitigation numbers, but I'm concerned on the health side this is very weak.

*Chair Baugh* noted the risk for the Port and the City to look into the future, especially about costs. The community should get their money; without it, we should give the project up. We're trying to guess into the future and want to set a business plan between the City and Port with parameters about minimums/worst case scenario. We don't know the best case scenario (don't know grants that will come in, and we haven't reduced all risks). A future group would later work through the mitigation costs.

- *Joe*: This is an intriguing approach since we'll have more certainty about costs in the future. Defining a minimum level/baseline is what we've tried to do.
- *Commissioner Hanson*: We can't get down to the level of detail but can make a level for a good base case. When we send our recommendation to Council, we should include statements about remaining challenges. We need to challenge Council to look at these factors and work directly with the Port.

*Commissioner Houck* would want to affirm the 110 percent target for the net ecological improvement goal.

*Joe*: The desire from the Port will likely be a cap or constraint on where costs can go. Is there a limit that can be put into the IGA that is the best guess at a balance for the financial aspects at this time? How do you build in provisions for the future? Financial criteria will set the base.

The Port currently says \$138M is not feasible. We need to move the costs borne by the project closer to the \$93M (\$7/square foot). Need to define the range, what is required.

PSC recommendations for draft plan/IGA updates include:

- Partnerships should be part of ultimate structure.
- Subsequent business planning.
- \$7 is not the ideal number.
- Mitigation, especially for parks, will be done at time of terminal investment. The community and forest work will be done earlier because they take more time.
- Keep the goal of 110 percent target for net ecological improvement.
- Include the Port's proposal about risk management triggered by success milestones.

*Commissioner Schultz* noted the goal is a net ecological increase. There is a range of 101-110 percent. This, potentially, is where you get a base scenario (101) and a goal (110).

*Commissioner Smith*: The Portland Plan says we should not see prosperity over (without balance with) community and environment. We need to preserve this value.

*Commissioner Houck* is comfortable with the 110 percent being a target or goal, but the base requirement should remain: "net increase in ecosystem function."

*Commissioner Oxman*: Our policy needs to ensure harms are mitigated. The PSC's attention should be on ensuring harms are mitigated and ensuring estimates/data is as good as possible.

Next steps for the project:

- Updated draft plan released with code and IGA on 04/08
- PSC briefing on 04/09
- Hearings at PSC on 05/07, 05/14

- PSC work session and proposed vote on 05/28

**Adjourn**

*Chair Baugh* adjourned the meeting at 5:22 p.m.

Submitted by Julie Ocken, PSC Coordinator