WILLAMETTE INDUSTRIAL URBAN RENEWAL REPORT

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I. INTRODUCTION

This Urban Renewal Report (the “Report”) accompanies the Willamette Industrial Urban Renewal Plan (the “Plan”) and contains information and analysis in support of Plan boundaries, policies and projects. An important source of information for this Report is the Industrial Urban Renewal Area Draft Feasibility Report, a study prepared in September, 2004 by the staff of the Portland Development Commission (PDC) with financial analyses prepared by the firm of Tashman Johnson, LLC. The study examined the feasibility and eligibility of the Urban Renewal Area (the “Area”) for urban renewal. It also contains base information regarding physical and other conditions of the Area.

This Report also draws from city-wide studies related to industrial land supply, including the Portland Harbor Industrial Land Study and the Citywide Industrial Land Inventory and Assessment. Both of these reports were completed in 2003.

The Willamette Industrial Urban Renewal Area represents an enormous opportunity to strengthen the Portland economy. Urban renewal will allow for public investments to address the challenges which property owners in the area face, such as environmental contamination. Urban renewal will also help the City to address the severe shortage of industrial land within the harbor area, which is a fundamental challenge to the City’s economic health.

II. PHYSICAL CONDITIONS

A. Land Use and Zoning

The proposed URA as described in this Report consists of approximately 751 acres of land lying on both the east and west sides of the Willamette River. The Area includes portions of Swan Island and Mocks Bottom on the east side, as well as properties lying on the west side of the River between St. Helens Road (Highway 30) and the River, in the vicinity of the historic Railroad Bridge.

The URA is divided into four sub-areas, as indicated in the map attached as Exhibit 1. These sub-areas are Swan Island and Mocks Bottom (both of which are located on the east side of the Willamette River), and West Bank-North and West Bank-South, lying on the west side of the River. Note that for the purposes of this Plan and Report “Mocks Bottom” includes all industrial lands between the Swan Island Lagoon and Mocks Bluff. Mocks Bottom includes “Mocks Landing” which is limited to property on the east side of the main rail line.

Almost all of the proposed Urban Renewal Area falls within either the IG-2, General Industrial, or IH, Heavy Industrial, base zones. All of the Mocks Bottom sub-area falls within the IG-2 zone, except for approximately ½ acre of steep, undevelopable property on Mocks Bluff, lying below the University of Portland, which is zoned R2. Another 18.5 acres towards the southern end of the Swan Island sub-area is also zoned IG-2. A very small portion of the Swan Island sub-area (1/2 acre) is zoned EG-2, General
Employment. The balance of the proposed URA (consisting of the remaining acreage of Swan Island as well as all the west bank properties) falls within the IH zone. Table 1 indicates the acreage in each sub-area, by zoning.

<table>
<thead>
<tr>
<th>Sub-Section</th>
<th>IH</th>
<th>IG-2</th>
<th>EG-2</th>
<th>R2</th>
</tr>
</thead>
<tbody>
<tr>
<td>West Bank North</td>
<td>79</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>West Bank South</td>
<td>120</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Swan Island</td>
<td>173.5</td>
<td>18.5</td>
<td>.5</td>
<td>0</td>
</tr>
<tr>
<td>Mocks Bottom</td>
<td>0</td>
<td>360</td>
<td>0</td>
<td>.5</td>
</tr>
<tr>
<td><strong>Totals:</strong></td>
<td><strong>372.5</strong></td>
<td><strong>378.5</strong></td>
<td><strong>.5</strong></td>
<td><strong>.5</strong></td>
</tr>
</tbody>
</table>

Both the IG-2 and IH zones are classified as “industrial sanctuary” zones, meaning that there are strong restrictions on non-industrial uses. Industrial sanctuary zones are intended to preserve lands for industrial, manufacturing and warehousing activities. Both the IG-2 and IH zones allow a broad range of industrial uses, including manufacturing, as well as warehousing, light processing and fabrication activities. A very small, undevelopable parcel on the hillside above Mocks Bottom’s is zoned R2, a multi-family residential zone. The constraints of this site preclude any actual development. There is also a thin sliver of EG-2 zoned land on the southern tip of the Swan Island sub-area. This zone allows various industrial uses.

Portions of the proposed URA (including all of the Swan Island sub-area, and those portions of the Mocks Bottom, West Bank North and West Bank South sub-areas lying close to the River) lie within the i, River Industrial, overlay zone and are subject to its requirements in addition to the base zone requirements. The i overlay zone is one of five Willamette Greenway overlay zones. The intent of the i zone is to “encourage and promote the development of river-dependent and river-related industries which strengthen the economic viability of Portland as a marine shipping and industrial harbor, while preserving and enhancing the riparian habitat and providing public access where practical.” Under the provisions of the Swan Island Plan District, some waterfront properties in Swan Island and Mocks Bottom are exempt from greenway review under certain circumstances, in recognition of the particular needs of river-dependent industries; a mitigation plan is required in lieu of the greenway review.

Consistent with the zoning designations, the predominant land uses within the URA are industrial, including manufacturing and warehousing. Table 2 indicates the number of sites and acreage by land use within the URA. Note that 127 acres are dedicated to transportation rights-of-way and open space (streets, railroads, and so forth).
Table 2: Sites and Acreage by Land Use

<table>
<thead>
<tr>
<th>Facility Type</th>
<th>All Sites</th>
<th>All Acres</th>
</tr>
</thead>
<tbody>
<tr>
<td>Occupied Sites</td>
<td></td>
<td></td>
</tr>
<tr>
<td>General Industrial</td>
<td>60</td>
<td>526</td>
</tr>
<tr>
<td>Distribution</td>
<td>13</td>
<td>254</td>
</tr>
<tr>
<td>Multi-Tenant</td>
<td>22</td>
<td>151</td>
</tr>
<tr>
<td>Industrial Services</td>
<td>10</td>
<td>76</td>
</tr>
<tr>
<td>Non-Industrial</td>
<td>3</td>
<td>6</td>
</tr>
<tr>
<td>Unoccupied Sites</td>
<td>9</td>
<td>110</td>
</tr>
<tr>
<td>Non-Sites (r.o.w., etc.)</td>
<td>--</td>
<td>115</td>
</tr>
<tr>
<td>(submerged taxlot area)</td>
<td></td>
<td>59</td>
</tr>
<tr>
<td>Total</td>
<td>69</td>
<td>751</td>
</tr>
</tbody>
</table>


B. Streets, Utilities and Infrastructure

This description of infrastructure conditions is based upon visual observations as well as consultation with staff from various City agencies, including the Portland Office of Transportation, the Bureau of Environmental Services, and the Bureau of Parks & Recreation.

Street Classifications

Streets within the proposed URA have the following classifications in the City’s Transportation System Plan:

- Basin Avenue in Mocks Bottom is a neighborhood (traffic) collector street, community transit street, City bikeway, City walkway (as are all streets in that section of Mocks Bottom lying east of the Union Pacific main line), and major emergency response street.
- Lagoon Avenue and Channel Avenue, running parallel to each other in Swan Island, are classified as neighborhood (traffic) collector streets, transit access streets, City bikeways, City walkways, and major emergency response streets.
- Dolphin Street, towards the northern end of Swan Island, has the same classifications as Lagoon and Channel, except that it is not a Major Emergency Response Street.
- Front Avenue which runs through the West Bank-South sub-area and terminates immediately north of the Railroad Bridge, is classified as a neighborhood collector street, community transit street, City bikeway, and major emergency response street.
- Finally, the entire proposed URA is classified as a freight district.
The following describes the intended purpose of these street classifications (taken from the Transportation System Plan):

- **Freight Districts** are intended to provide for safe and convenient truck movement in areas serving large numbers of truck trip ends and to accommodate the needs of intermodal facilities.

- **Neighborhood Collectors** are intended to serve as distributors of traffic from Major City Traffic Streets or District Collectors to Local Service Streets and to serve trips that both start and end within areas bounded by Major City Traffic Streets and District Collectors.

- **Transit Access Streets** are intended for district-oriented transit service serving main streets, neighborhoods, and commercial, industrial, and employment areas.

- **Community Transit Streets** are intended to serve neighborhoods and industrial areas and connect to citywide transit service.

- **City Bikeways** are intended to serve the Central City, regional and town centers, station communities, and other employment, commercial, institutional, and recreational destinations.

- **City Walkways** are intended to provide safe, convenient, and attractive pedestrian access to activities along major streets and to recreation and institutions; provide connections between neighborhoods; and provide access to transit.

- **Major Emergency Response Streets** are intended to serve primarily the longer, most direct legs of emergency response trips.

*Street Conditions*

- In the Swan Island sub-area, there appears to be adequate road, rail, and ship access for current uses. There is limited road access to certain undeveloped portions at the northern end of the sub-area, however.

- The Mocks Bottom sub-area appears to have adequate transportation infrastructure for current uses, including road and rail access.

- On the West Bank North sub-area, Siltronic appears to have good transportation access to the developed portions of the property. Undeveloped portions will require additional access, however. There is rail access also just beyond the western edge of the property.

- The West Bank South sub-area has good road and ship access for the eastern portions of the sub-area. However, the tax lots in the western section of this sub-area have limited street access. There is a rail line just beyond the western edge of the sub-area.
In short, the transportation infrastructure is generally sufficient for existing development. However, future new development on vacant properties, and more intensive utilization of existing developed parcels, will need additional infrastructure due to added impacts. The existing streets are inadequate for significant increases in employment levels implicit in the Plan. Absent specific redevelopment plans for most of the potential redevelopment parcels within the URA, it is difficult to forecast specific additional street requirements (additional capacity, signalization, and so forth) which will be necessary to support new business investment. Therefore, the Plan anticipates the likelihood of such infrastructure investments by including future street improvements as a Plan project. The Plan also recognizes the importance of effectively integrating transportation demand management programs into facility planning, to reduce reliance on single occupancy vehicles and to thereby reduce transportation system demands.

The zoning maps for some properties within the URA include a trail designation – certain levels of redevelopment or private properties will trigger construction of public trails to standards set forth in the regulations of the Willamette Greenway overlay zone. As with other public improvement requirements, the Plan anticipates the need to assist in the funding of required trails.

Utilities

As with streets, it is difficult to predict the exact nature of utility requirements for future business investment within the URA. The Plan anticipates the likelihood that urban renewal funds will be needed to assist businesses with infrastructure improvements such as water service, sewers and stormwater detention and treatment. Few if any of the existing uses in the URA have been developed to current City standards regarding stormwater treatment and detention. As properties are redeveloped, urban renewal funds will likely be necessary to assist in financing utility improvements.

C. Land and Improvement Values

Table 3 (below) indicates the 2003 improvement to land value ratio. This ratio is a useful indicator of the degree of utilization of a property or area. Areas with low improvement to land value ratios are characterized by low density development and/or vacant sites. Areas with high ratios are characterized by high density development. A ratio of at least 4:1 is considered to be indicative of a healthy development density for industrial areas, based on comparison with existing developed industrial properties, although this ratio is obviously lower for some distribution and logistics businesses which rely on exterior truck storage and other low improvement value features. As Table 3 demonstrates, all of the sub-areas within the proposed URA fall short of this minimally desirable ratio, with the exception of the West Bank-North sub-area, which is anomalous due to the existing Siltronic facility. Even this property, however, will accommodate more intensive investment and is therefore considered under-utilized, given the possible new $466,000,000 fabrication plant that Siltronic is considering building at this site. The
Siltronic property includes even more opportunities for redevelopment both regard to the older fabrication plants on this site as well as the approximately 20 acre vacant land on the western edge of the site.

It is important to note that in order to achieve a higher improvement to land value ratio, the Plan does not generally contemplate replacement of existing “under-utilized” businesses; instead the Plan anticipates that higher improvement values will be achieved by modernizing or expanding businesses. Therefore, an important component of the Plan is financial and other assistance in modernization or expansion.

Table 3: 2003 Improvement to Land Value Ratios

<table>
<thead>
<tr>
<th>Subarea</th>
<th>Land Area Acres</th>
<th>Total Real Market Value (RMV)</th>
<th>Improvement $</th>
<th>Land $</th>
<th>I:L Ratio</th>
<th>RMV: Land Value $ per Acre</th>
</tr>
</thead>
<tbody>
<tr>
<td>Swan Island</td>
<td>192</td>
<td>$7,693,230</td>
<td>$9,822,900</td>
<td>0.78</td>
<td>$50,634</td>
<td></td>
</tr>
<tr>
<td>Mocks Bottom</td>
<td>360</td>
<td>$180,175,000</td>
<td>$78,491,650</td>
<td>2.30</td>
<td>$215,046</td>
<td></td>
</tr>
<tr>
<td>West Bank North</td>
<td>79</td>
<td>$183,813,130</td>
<td>$8,431,240</td>
<td>21.80</td>
<td>$105,391</td>
<td></td>
</tr>
<tr>
<td>West Bank South</td>
<td>120</td>
<td>$8,057,040</td>
<td>$3,685,810</td>
<td>2.19</td>
<td>$30,973</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>751</td>
<td>$379,738,400</td>
<td>$100,431,600</td>
<td>3.78</td>
<td>$132,496</td>
<td></td>
</tr>
</tbody>
</table>

Source: Multnomah County Assessment and Taxation, 2004.

* Note that this table uses Real Market Values, as opposed to Taxable, or Assessed, Values, shown in Table 4. The values are therefore not comparable. Note also that approximately 60 acres in the Swan Island sub-area are submerged, resulting in a distorted real market land value per acre.

There are in excess of 100 acres of vacant land within the proposed industrial URA. Much of this is in small lots, and all of it faces some constraints on new development due to factors such as known or potential environmental contamination, limitations related to LCDC Goal 5 and other environmental resource policies, access, and diverse ownership.

In addition to the vacant land, there are a number of parcels within the proposed URA that are relatively underutilized, as suggested in Table 3 above. Some of these sites have significant redevelopment potential, particularly in light of the severe shortage of industrial sites in Portland’s harbor area. Redevelopment of these under-utilized sites can entail either completely new structures and uses. More likely, redevelopment will entail the expansion and modernization of existing facilities, i.e. distribution and logistic facilities. For instance, urban renewal funds can be used to assist in the construction of structured, multi-level parking, thereby allowing for more intensive use of surface parking lots. Some new appreciation in value may be due to increases in personal as opposed to real property, i.e., equipment.

The Portland Harbor Industrial Lands Study (2003) notes that “in the Region as well as in the City of Portland, there is a shortage of available, ready-to-develop land to accommodate industrial growth”. This Study projects a regional demand of 6,310 acres for industrial development by the year 2020 (813 acres in Multnomah County alone).
And yet the Study identifies only 33 acres of “Tier A” (ready to build) riverfront industrial land (all of it outside of the proposed URA). Industrial lands near the riverfront are considered particularly desirable because of their access to all modes of transportation – rail, truck, and, of course, the River. The Study includes an exhaustive list of harbor industrial properties, noting that virtually every property in the general area faces one or more constraints, which render these sites unfeasible for new industrial investment at this time.

The Portland Harbor Industrial Lands Study identifies the challenge of addressing environmental and other regulatory constraints which further diminishes the financial feasibility of new industrial development, in addition to the issue of the shortage of available industrial land in the harbor area. For this reason, formation of the URA is critical to provide resources to facilitate redevelopment of these unused/underutilized sites. Once again, while new investment may entail a change to a more intensive use, it is more likely that increased utilization will be in the form of plant expansion and modernization of existing businesses.

Formation of the URA will also provide the means by which to assemble property so as to create adequately sized and configured sites for new or expanded manufacturing investment. Facilitation of site assembly, site preparation, and site remediation by PDC will greatly improve the economic viability of property located within the proposed URA, by increasing the amount of “shovel ready” developable industrial land within the region, allowing existing transportation infrastructure to be fully utilized while simultaneously increasing the City’s tax base.

D. Environmental Conditions

Perhaps the greatest single impediment to new investment within the URA is environmental contamination. Many properties are or may be contaminated. Within the proposed URA boundaries, there are currently 13 DEQ (Department of Environmental Quality) cleanups or investigations underway. At least two of these sites (comprising 67 acres) are totally unoccupied, and many of the rest are highly underutilized. All properties within the URA on the west bank of the Willamette are sites with known or suspected contamination such as gasoline, diesel, oil, metals, coal tar, PCB’s, pesticides and herbicides. Several of these sites have been remediated but may require additional assistance before the sites are ready to be redeveloped. Some properties on Swan Island are currently being evaluated by DEQ for the presence and extent of contamination. In the Mocks Bottom area there are several properties that have known or suspected contamination; additional sites may be identified as DEQ continues its investigations.

The challenge with most of these contaminated properties is that they may not be redeveloped by the private sector without some additional public financial assistance, as it is currently not financially feasible to redevelop through conventional (private) financing sources. While the cost of remediation varies considerably depending on the level and type of contamination, it is common for clean-up costs to be so high that
redevelopment does not provide a sufficient rate of return with respect to private financing. Even with urban renewal funding assistance, the costs of remediation can be so high that it is unfeasible to take the necessary remediation actions to return a contaminated site to productive use. However, the strategic use of urban renewal funds in some cases can make the difference in whether a contaminated site is redeveloped. PDC assistance is not intended to remove the obligations, financial or otherwise, of parties responsible for contaminated conditions.

The Atofina property, located in the West Bank – South sub-area of the URA, illustrates the effects of contamination on property values and redevelopment potential. At one time this property was one of the ten highest tax revenue sources in the City. In 2002 the Tax Assessor re-assessed this site in light of its contaminated condition, leading to a dramatic decline in tax revenues received by local taxing jurisdictions, including the City’s General Fund, as depicted in the following graph:

**Figure 1: Property Tax Decline: Atofina Site**

Based on a $60 million drop in market value, this site’s annual contribution to property taxes fell by over $1 million in just one year.

Formation of an industrial URA is a major component of a comprehensive strategy to facilitate industrial brownfield redevelopment, thereby restoring once productive land that has become a financial and environmental liability. Urban renewal funds can be used for financial and technical assistance related to the assessment, mitigation, and/or remediation of these sites. As noted elsewhere, however, urban renewal funds are not intended to assume the obligations of responsible parties.
III. SOCIAL AND ECONOMIC CONDITIONS

A. Population, Income and Employment

Unlike most urban renewal areas, the land within the proposed Willamette Industrial URA is zoned exclusively for industrial uses. As such, there is no existing or proposed residential development within the URA boundary.

There is considerable employment within the proposed URA. The most recent estimates (2002) show approximately 7,000 jobs within the boundary. Typically these jobs are quality, high-paying positions. For instance, according to the Portland Harbor Industrial Lands Study (2003), a typical employee in the manufacturing sector earns about $51,800 per year, compared with a city-wide average for all jobs of about $36,700. As a result, manufacturing jobs have a stronger “multiplier effect” – higher paying jobs result in more discretionary income, thereby creating more secondary jobs. The aforementioned study notes that the 34,270 jobs in the harbor industrial areas (this comprises a much larger area than the proposed URA) generate an additional 46,890 jobs throughout the metropolitan area.

In light of the benefits of manufacturing jobs to the general economy, one of the primary goals of the Plan is the encouragement of new business investment that will result in a higher density of well-paying jobs.

B. Economic Conditions

Many properties within the proposed URA are not achieving their full economic potential. Sections II-C and II-D describe the under-utilization of these properties, with a particular focus on the contaminated condition of some properties.

As noted above, there were approximately 7,000 jobs within the boundaries of the proposed URA in 2002. This number represents a significant decrease since 1996 and 2000, when there were approximately 9,900 and 10,800 jobs, respectively. This drop in job numbers can probably be attributed in part to factors far beyond the influence of urban renewal (such as the recession in the national economy over the last several years). However, the reduction in job count can be attributed in part to conditions identified in this Report, conditions which urban renewal can address, such as the contaminated condition of certain sites.

The redevelopment of vacant or under-utilized sites represents an opportunity to generate increased employment numbers within the URA boundary. To the extent that it can help spur new private investment in the area, urban renewal is critical to the significant improvement of economic conditions within the proposed URA.
C. Service Impacts

The Willamette Industrial Urban Renewal Plan is not anticipated to have significant impacts on most services, in as much as there will be no residential development. Increase in residential population can require additional City services, such as parks and schools. Because there are no residually zoned properties within the URA, this issue is largely moot.

As noted earlier in the Plan (Section II B), it is anticipated that new development could trigger the need for additional infrastructure such as street improvements and utilities. The Plan allows for expenditures on these improvements to accommodate new development which is supportive of the Plan goals.

IV. CONFORMANCE WITH LAND AREA AND ASSESSED VALUE LIMITS

ORS 457.420(2)(a)(A) provides that the assessed value of an urban renewal area, when added to the total assessed values previously certified by the assessor for all other active urban renewal areas, may not exceed 15% of the total assessed value of the municipality (i.e. the City of Portland), exclusive of any increased assessed value for other URA’s.

ORS 457.420 (2)(a)(B) provides that the total land area of a proposed urban renewal area, when added to the land area of existing active urban renewal plans, may not exceed 15% of the City’s total land area.

Data assembled from the Multnomah County Assessor indicates that the 2003 total assessed valuation for real property within the proposed urban renewal area boundary is $377,623,620. Staff estimates that the value it will carry at the time of certification of the frozen base will total $381,399,856, and that when Personal Property accounts are added, the certified frozen base will total approximately $423,777,618. Table 4 shows the certified values and acreage for all of Portland’s renewal areas, and how values and acreage in the proposed industrial URA would influence the 15% limits.
Table 4 – Indication of Compliance with 15% Acreage and Assessed Value Requirements

<table>
<thead>
<tr>
<th>Urban Renewal Area</th>
<th>Acreage</th>
<th>Assessed Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oregon Convention Center</td>
<td>601</td>
<td>$247,728,838</td>
</tr>
<tr>
<td>Downtown Waterfront</td>
<td>309</td>
<td>$70,866,644</td>
</tr>
<tr>
<td>Airport Way</td>
<td>2,780</td>
<td>$129,701,177</td>
</tr>
<tr>
<td>South Park Blocks</td>
<td>161</td>
<td>$378,055,680</td>
</tr>
<tr>
<td>Central Eastside</td>
<td>681</td>
<td>$224,605,349</td>
</tr>
<tr>
<td>Lents Town Center</td>
<td>2,472</td>
<td>$640,177,922</td>
</tr>
<tr>
<td>River District</td>
<td>310</td>
<td>$358,684,364</td>
</tr>
<tr>
<td>Gateway Regional Center</td>
<td>653</td>
<td>$307,174,681</td>
</tr>
<tr>
<td>North Macadam</td>
<td>409</td>
<td>$180,450,967</td>
</tr>
<tr>
<td>Interstate Corridor</td>
<td>3,744</td>
<td>$1,033,372,876</td>
</tr>
<tr>
<td><strong>Total Current URA</strong></td>
<td>12,120</td>
<td><strong>$3,570,818,498</strong></td>
</tr>
<tr>
<td>Proposed Industrial URA</td>
<td>751</td>
<td>*</td>
</tr>
<tr>
<td><strong>Total with Proposed URA</strong></td>
<td>12,871</td>
<td><strong>$3,994,596,116</strong></td>
</tr>
<tr>
<td><strong>Total City of Portland</strong></td>
<td>92,614</td>
<td><strong>$37,695,449,753</strong></td>
</tr>
<tr>
<td><strong>Total Percentage URA Acreage</strong></td>
<td>13.91%</td>
<td>10.60%</td>
</tr>
</tbody>
</table>


* Preliminary Estimates.
** 2003 Tax Year.

V. REASONS FOR SELECTION OF THE AREA

The area of the proposed Willamette Industrial Urban Renewal Plan was chosen in order to remove blighting conditions within the four sub-areas constituting the Plan. This proposed URA represents a tremendous opportunity for the City of Portland to fulfill over-arching economic development goals related to the attraction and retention of industrial enterprises which provide good paying jobs, as well as capitalizing on the transportation infrastructure provided by the urban growth boundary, which concentrates industrial uses in order to optimize transportation investment. This Plan is necessary to fully realize this opportunity and to achieve the above goals.

This Report addresses the core issues that drive the selection of the area – environmental contamination and under-utilization of key industrial opportunity parcels, particularly in light of the City’s severe lack of developable industrial land. The boundary includes sites on both the east and west sides of the River that are likely to remain in their current blighted condition without formation of the proposed URA. Inclusion of these properties within the URA will allow the area to achieve its potential, through the provision of important funding tools that are...
necessary to make new development, including re-investment in existing facilities, financially feasible.

Each of the four sub-areas is characterized by the blighted conditions (environmental contamination and/or under-utilization of land) which urban renewal can help to ameliorate, thereby justifying inclusion in the URA boundary:

- The 192 acre Swan Island sub-area features several major vacant parcels, including a 30 acre Port-owned property on the main channel of the Willamette River, and the Cascade General property which has experienced a major decline in employment due to changing market conditions and industry trends. As noted earlier, there are infrastructure deficiencies associated with the Cascade General property – a major redevelopment is likely to trigger substantial public infrastructure requirements.

- The Mock’s Bottom sub-area, at 360 acres, is the largest of the four sub-areas, is fairly well developed, though some properties are developed at relatively low improvement to land value ratios and/or include buildings that are functionally obsolete. Urban renewal represents a means by which to more fully utilize this existing development, though plant modernization and expansion. There are vacant properties in Mock’s Bottom which with urban renewal assistance can be redeveloped.

- West Bank North is partially developed with the Siltronic facility. However, Siltronic’s ownership includes major opportunities for reinvestment, reinvestment that will not occur without inclusion of this property in the proposed URA. Urban renewal funds are essential to re-investment in Siltronic’s existing fabrication plants as well as the approximately $466,000,000 fabrication plant Siltronic is contemplating developing on this site, which would generate about 500 good-paying jobs. The site also includes an additional 25 acres that could accommodate further expansion, if urban renewal funding is available to assist.

- West Bank South faces arguably the greatest challenges to redevelopment among the four sub-areas. As noted earlier in this report, the major holdings in this sub-area suffer from severely environmental contamination, and it is very unlikely that major new development will occur on these properties without the funding assistance that urban renewal provides. Even with urban renewal funding, it may not be possible to return some of these sites to productive use, but without urban renewal the restoration of these sites appears unfeasible.

The proposed URA includes numerous river-front parcels. Formation of the urban renewal area will provide funding sources to upgrade the river-front, to assist with enhancing fish and wildlife habitat and with greenway trail improvements where required.

The proposed URA does not include the Willamette River, except as private parcels extend into the River. The River has not been included in the URA study boundary for the following reasons:
• Inclusion of non-privately held river “lands” would not serve the essential purposes of the proposed URA, i.e. to assist in new industrial/manufacturing investment which will create new quality jobs.

• The non-privately held River area is not taxable property, and therefore would not generate any tax increment, which is related to the aforementioned purpose of the URA (i.e. new increment to assist in new job-generating private investment).

• Inclusion of the River would add a considerable amount of non-taxable acreage. This is a concern because of the statutory limitation on the total acreage in the City that may fall within an Urban Renewal Area (see Section IV).

• Even if non-privately held portions of the Willamette River were included in the proposed URA, direct contamination clean-up costs in the Willamette River (bank to bank, as opposed to the adjacent developable shores) are not TIF eligible expenses because such a project would not prevent or eliminate blight in the proposed URA as required by ORS Chapter 457. Contamination in the Willamette River is not one of the constraints that has created blight and prevented development of the properties in the proposed URA. Absent that link, TIF may not be used to clean up the Willamette River.

VI. RELATIONSHIP BETWEEN PROJECTS TO BE UNDERTAKEN AND EXISTING CONDITIONS IN AREA

The projects to be undertaken under the Plan are designed to remove blighted conditions within the District. The projects are directly related to conditions within the District. The major expenditure categories include business assistance, addressing environmental contamination, infrastructure investment, and land acquisition.

The Portland Development Commission’s various financial assistance programs for businesses include the Quality Jobs Program, the Economic Opportunity Fund, Deferred Loan Program and the Industrial Development Opportunity Services Program. Use of these various funding programs in the URA will allow PDC to assist existing businesses to expand, and new businesses to locate in the URA. Financial assistance to new business investment, such as the proposed $466,000,000 Siltronic fabrication plant, is the primary impetus for the URA. Urban renewal is essential to attracting new investment on vacant and under-utilized properties within the URA boundary.

Environmental contamination in the proposed URA is another major challenge that urban renewal funds could remedy. As noted in this Report, there are numerous properties within the proposed URA that are constrained by environmental contamination. The proposed URA will provide a possible funding source to assist in the redevelopment of these properties, through the assessment, remediation, and/or mitigation of environmental conditions. Without this assistance, these properties could remain abandoned or underutilized, which not only prevents increased tax revenue but also continues to endanger the health and safety of humans and of wildlife.
Infrastructure development (streets, water, sewer, storm drainage, habitat improvements pedestrian amenities) will occur as an incentive to private development. New development will require additional infrastructure, and in some cases will also trigger public improvement requirements related to the Willamette Greenway.

The Plan authorizes a comprehensive set of projects to eliminate blight in the area and to generate a significant amount of jobs and private business investment, in accordance with the aspirations set forth in the Plan.

VII. ESTIMATED COSTS AND REVENUES

Estimated revenues and costs, including capital and operating costs, are shown on Exhibit 2, Project Revenue and Expenditure Summary. Costs were estimated in 2004 dollars and converted to year of expenditure dollars assuming annual inflation of 3%. Revenues are obtained from urban renewal bond proceeds and the proceeds of short term urban renewal notes.

The capacity for urban renewal bonds and notes is based upon projected tax increment, which in turn is based upon projections related to development within the proposed URA. Development projections represent moderately conservative assumptions regarding new investment on vacant and under-utilized properties, as well as growth in the assessed value (AV) for existing development.

Specifically, tax increment revenues are assumed to derive from three separate sources, or categories of tax generating activity. These sources are:

A. Redevelopment of low valued lots. This includes more intensive utilization of existing businesses which would remain in place.

B. Appreciation from lots that are not projected to completely redevelop but some of which are likely to experience new investment due to plant expansion and modernization.

C. Increment generated through Siltronic investment.

Annual assessed value appreciation of existing properties that are not projected to be redeveloped (generally, all properties with a total Real Market Value for land plus improvements of $6.50 per square foot or greater) is estimated at 1.5% initially, growing to 3% over time. This is a “blended” rate, consisting of commercial-assessed properties which are assumed to grow in assessed value at 3% annually (the maximum rate allowed under Measure 50), as well as industrial-assessed development, which appreciates in value at a lower rate, due to depreciation and other factors. The increase in the projected growth rate accounts for business expansion facilitated through formation of the district.

Appreciation in value of land due to redevelopment was estimated by assuming that some sites with a total (land and improvements) Real Market Value of less than $6.50 per square foot would redevelop. The mix of redevelopment would vary by sub-area based on their particular characteristics, according to the following divisions:
Table 5: Redevelopment Assumptions (includes plant modernizations) by Sub-area with Urban Renewal

<table>
<thead>
<tr>
<th>Sub-area</th>
<th>Redevelopment Potential (Acreage)</th>
<th>Warehouse %</th>
<th>Factory %</th>
<th>Office %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Swan Island</td>
<td>110.9</td>
<td>35%</td>
<td>50%</td>
<td>15%</td>
</tr>
<tr>
<td>Mocks Bottom</td>
<td>13.3</td>
<td>45%</td>
<td>40%</td>
<td>15%</td>
</tr>
<tr>
<td>West Bank North</td>
<td>24.7</td>
<td>60%</td>
<td>40%</td>
<td>0%</td>
</tr>
<tr>
<td>West Bank South</td>
<td>108.0</td>
<td>75%</td>
<td>25%</td>
<td>0%</td>
</tr>
</tbody>
</table>


For these redevelopment projections, a non-build factor of .25 was assumed, meaning that of the lots projected to be redeveloped, 25% would remain vacant after 20 years. The table above indicates acreage slated for redevelopment before this non-build factor is applied. Of the three development types, warehouse developments are estimated to have a total value of $22.96 per square foot of site area, factory developments are estimated at $46.80 per square foot of site area, and office developments are estimated at $74.75 per square foot of site area. Note that any new office development in the URA is assumed to be ancillary to adjoining industrial development, in accordance with zoning restrictions. These redevelopment assumptions result in a total new development/redevelopment value of $300.3 million over 20 years. These figures do not include the proposed Siltronic silicon wafer fabrication plant.

Based on these assumptions, total revenues of $105.7 million are expected to be available for projects from the bond and note proceeds, not including Siltronic. In nominal dollars, costs total $101.9 million. In addition, the Siltronic investment would require business assistance of approximately $65.3, based on revenues of $66 million.

Total costs for the URA (including Siltronic) would therefore total $167.1 million, and revenues total $171.7. Based on these projections, revenues are sufficient to cover expenditures, and the Plan is therefore financially feasible.

VIII. ANTICIPATED PROJECT SCHEDULE

The anticipated schedule of each urban renewal activity is shown on Exhibit 2. Projects are anticipated to be complete when the last expenditure is undertaken as indicated on Exhibit 2. Activities are anticipated to be undertaken starting in FY 2005/2006 and ending in FY 2024/2025.
IX. FINANCIAL ANALYSIS

Exhibit 2 indicates that projected revenues are sufficient to cover projected expenditures and that the Plan, therefore, is financially feasible.

Exhibit 3 indicates that projected urban renewal taxes are sufficient to support bonded indebtedness to the extent necessary to provide project revenues. Additional revenues are provided by short term urban renewal notes, repaid on an annual basis from the ending fund balances. It is projected that all indebtedness pursuant to this plan will be retired or otherwise provided for 2028-2029.

X. FISCAL IMPACT STATEMENT

The amendments to the Oregon Constitution passed by voters in May, 1997 resulted in a shift in Oregon’s property tax valuation system. The existing tax bases and most continuing levies by taxing districts were subsequently reduced and then converted to “permanent rates.” These permanent rates were sufficient to levy the amount of revenue that each taxing district was authorized to levy in 1997-98.

Since FY 98/99, the maximum revenues for each taxing district that maintains a permanent rate is determined by applying the permanent rate to the assessed value within the taxing district. Under this revised taxation system, the fiscal impact of urban renewal consists primarily of tax revenues foregone by taxing districts.

To a lesser extent, impacts in terms of increased tax rates to tax payers will result from any levy other than permanent rates. For example, if a local option levy or exempt bond levy is approved by voters, the tax rate necessary to raise the amount approved may be higher as a result of the existence of the Plan.

It is projected that $101.9 million of tax increment funds will be required to implement the Plan (other than the proposed Siltronic project). In addition, the Siltronic project would require another $65.3 million of tax increment funds. It is projected that by the end of FY 2027/2028, sufficient urban renewal tax revenues will have been collected to retire all outstanding bonded indebtedness necessary to finance the Plan. Urban renewal tax collections would therefore be projected to cease in 2028. Table 5 shows the projected revenues foregone by the taxing districts that levy taxes within the Area through FY 2028. The permanent rates are based on FY 2003/2004 rates. No other rate adjustments were made since many of them require voter approval or will not exist for a significant duration of the plan. Also, bond rates may be different due to changes in debt service requirements.

The foregone revenues are those revenues resulting from taxes on the level of development that would occur without urban renewal. Based on recent trends, PDC projects that new investment within the proposed URA will be limited if the URA is not formed. For instance, the proposed Siltronic investment ($466,000,000) will not occur without urban renewal. Moreover, some
properties will actually lose value (or at least not appreciate in value) due to such factors as environmental contamination and depreciation of existing plant and equipment. The example of Atofina illustrates this scenario (see Section II.D). In addition, it is projected that appreciation of existing lots will be lower without urban renewal, due to less business growth and expansion.

To estimate investment in the area without formation of the proposed URA, significantly less redevelopment is expected to occur compared to redevelopment projections with urban renewal. Moreover, the mix of uses is assumed to be more heavily weighted toward lower value uses (e.g., warehouse and flex space). Redevelopment assumptions that are projected without formation of the URA are shown below by sub-area and development types:

<table>
<thead>
<tr>
<th>Sub-area</th>
<th>Redeveloped Acreage</th>
<th>Warehouse %</th>
<th>Factory %</th>
<th>Office %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Swan Island</td>
<td>110.9</td>
<td>70%</td>
<td>20%</td>
<td>10%</td>
</tr>
<tr>
<td>Mocks Bottom</td>
<td>13.3</td>
<td>70%</td>
<td>20%</td>
<td>10%</td>
</tr>
<tr>
<td>West Bank North</td>
<td>24.7</td>
<td>80%</td>
<td>20%</td>
<td>0%</td>
</tr>
<tr>
<td>West Bank South</td>
<td>108.0</td>
<td>80%</td>
<td>20%</td>
<td>0%</td>
</tr>
</tbody>
</table>


For the non-urban renewal scenario, a non-build factor of 50% was assumed for Swan Island, Mocks Bottom, and West Bank North. Given the significantly contaminated properties in the West Bank South sub-area, a much higher 80% non-build factor was assumed.

With these assumptions, these areas are expected to generate a total incremental Assessed Value of $331.8 million over 20 years assuming that the urban renewal area is not formed. This compares to a total incremental Assessed Value of $720.7 million assuming the URA is formed.

Consequently the foregone revenues to tax-affected jurisdictions are relatively modest. Exhibit 4 indicates the foregone revenues for these jurisdictions on a year by year basis. Table 7 below is extracted from Exhibit 4; it indicates total estimated losses to permanent rate authorities over the 20 year life of the URA:

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1 This only includes permanent rates.
Table 7: Impacts to Local Taxing Jurisdictions; Foregone Revenues

<table>
<thead>
<tr>
<th>Tax Affected Districts</th>
<th>Rate</th>
<th>20 yr NPV at 3%</th>
<th>Average/yr, Current $</th>
</tr>
</thead>
<tbody>
<tr>
<td>Port of Portland Permanent</td>
<td>0.0701</td>
<td>156,245</td>
<td>7,102</td>
</tr>
<tr>
<td>City of Portland Permanent</td>
<td>4.577</td>
<td>10,201,600</td>
<td>463,709</td>
</tr>
<tr>
<td>Metro Permanent</td>
<td>0.0966</td>
<td>215,310</td>
<td>9,787</td>
</tr>
<tr>
<td>Multnomah County Permanent</td>
<td>4.3434</td>
<td>9,680,933</td>
<td>440,042</td>
</tr>
<tr>
<td>Multnomah County ESD Permanent</td>
<td>0.4576</td>
<td>1,019,937</td>
<td>46,361</td>
</tr>
<tr>
<td>PCC Permanent</td>
<td>0.2828</td>
<td>630,328</td>
<td>28,651</td>
</tr>
<tr>
<td>SD1 PPS Permanent</td>
<td>4.7743</td>
<td>10,641,359</td>
<td>483,698</td>
</tr>
<tr>
<td><strong>Totals:</strong></td>
<td><strong>14.6018</strong></td>
<td><strong>32,545,713</strong></td>
<td><strong>1,479,351</strong></td>
</tr>
</tbody>
</table>


Because of the increased assessed value that is projected to occur within the proposed URA as a result of urban renewal through FY 2025, even with minimal growth in assessed value after 2025 (4% annually), in present value terms the taxing districts are projected to recoup all foregone revenues within 11 years from the cessation of collection of urban renewal taxes (in FY 2027/28), or by FY 2038/39.

XI. RELOCATION REPORT

ORS 457.085 (3) (i) requires a relocation report as part of the Report to an Urban Renewal Plan. The following addresses the components of the relocation report.

A. Analysis of Existing Residents or Businesses Required to Relocate

No properties have been specifically identified for acquisition in the Plan. Therefore, there are no existing residents or businesses which will be required to relocate. Any residents or businesses which are required to relocate as a result of Commission-sponsored projects will be eligible for relocation assistance in accordance with the Commission’s Relocation Policy, adopted by Resolution 5169 on September 16, 1998.

B. Methods to be used for the temporary or permanent relocation of persons living in, and businesses situated in, the urban renewal area in accordance with ORS 281.045 to 281.105

Again, the Commission has adopted a Relocation Policy which conforms to the requirements of ORS 35.500 to 35.530. The Portland Development Commission Relocation Policy is incorporated herein by reference.

An enumeration, by cost range, of the existing housing units in the urban renewal areas of the plan to be destroyed or altered and new units to be added.

There are no housing units within the area, and zoning regulations prohibit new housing development. Therefore this provision does not apply.