



CITY OF PORTLAND

Portland Utility Board

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To: Mayor Charlie Hales
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From: Portland Utility Board

Subject: Disposition of Terminal 1 North by the Bureau of Environmental Services

Date: August 8, 2016

The Portland Utility Board (PUB) was established to advise City Council on matters related to the City's water, sewer, stormwater, and watershed services, on behalf of the citizens of Portland. Its creation was in part, a response to previous Council decisions where ratepayer funds were used for non-ratepayer purposes and not sufficiently vetted. The PUB can assist the Council in determining when expenditures and activities of the Bureau of Environmental Services and the Portland Water Bureau are appropriate and help restore trust with the City's ratepayers. With these two charges in mind, the PUB has reviewed the background regarding the Terminal 1 North site and the proposal before Council to repurpose the property for other City services. While the PUB acknowledges the seriousness of the housing emergency facing the City, the PUB has several concerns regarding the timing of this proposal, the process, and yet-to-be determined details of a negotiated agreement for repurpose.

Moving forward with resolution without additional analysis could impact the return on the ratepayers' investment for this asset, potentially jeopardize its sale, and negatively impact the public's trust in Portland's public utility agencies. As a large piece of industrial land on the river, Terminal 1 North holds the potential for job creation, economic growth, and increasing the tax base. Taking the site out of industrial use, even temporarily, means the potential loss of this alternative.

Timing of Proposal

Over the last two years, BES has worked through the City's established surplus property process to dispose of an asset purchased with ratepayer resources to serve a temporary – albeit long-term – ratepayer purpose during the construction of the CSO tunnels. This process will culminate with the receipt of bids from potential buyers on August 15. The disposition of the Terminal 1 North property during the current, robust industrial real estate market would provide value to BES customers. It is anticipated that the bids will not only cover the property's original purchase

price, but the subsequent costs incurred over the last several years necessary to prepare it for resale. If the City Council chooses to take action on August 10th, five days before the bid deadline for this property, it will effectively undermine the opportunity for BES to determine the fair market value of the property.

The PUB therefore ***encourages the City Council delay any action regarding Commissioner Saltzman's proposal to allow the fair market value of the property to be determined by the sale process.*** This will set a baseline for future negotiations while respecting the disposition process and prior commitments to BES customers. Failing to meet these prior commitments is detrimental to improving trust between City bureaus and the citizens of Portland. Disrupting the process at this late junction erodes the trust of the business community with regard to the disposition of property by the utilities; it could impact the value of City property by increasing perceived risks and transaction costs.

The Process and Details

BES no longer needs Terminal 1 North to service its customers, and has followed proper disposal processes according to the City's surplus property policy. Any proceeds from the immediate sale would be returned to the BES Construction Fund, to comply with bond requirements and best practices. These added construction fund resources will allow BES to delay or decrease future bond sales for construction projects and address much needed investment in aging infrastructure, helping to delay or slightly reduce rate increases.

Should the City Council take action to proceed with a proposal to lease Terminal 1 North to the Portland Housing Bureau rather than sell it through the surplus property process underway, the PUB recommends City Council address the following issues in order to protect BES customer interests:

- Most importantly, the PUB urges the Council to ensure that BES customers will be held harmless and fully compensated for the use of the property at market rates. The currently proposed floor of \$10,000 per month is well below the current market analysis.
- If the property is to be leased, articulate the terms and what benefit BES customers would receive including: the length of lease, amount, who pays upgrade costs, and liabilities (such as appropriate use of utility resources for other City bureau activities).
- Identify if there are additional insurance, bond, legal, or safety risks that require consideration, and if so, who bears those costs/risks.
- Identify impacts on other currently scheduled work, if the utilities are directed to prioritize improvements at the site.
- Articulate how existing City requirements and other obligations will be met and paid for with this proposal in both the short and long term including: industrial land use zoning conflicts, infrastructure or site improvements, consistency with the comprehensive plan, availability of industrial employment lands, loss of a water accessible terminal, and replacement of use without impacting existing natural/green waterfront in the future.
- Provide a cost-benefit analysis of the use of Terminal 1 North vs other options in the Portland Metro area to meet the immediate and long term needs identified in the proposal. Identify what would happen when the current state of emergency used to justify the proposal is lifted or extended.

The PUB would welcome the chance to review such information and offer further advice. It is critical to avoid any perceived or real conflict in the use of utility funds for City activities unrelated to provisioning of utility services.