



MEMORANDUM

EUGENE WATER & ELECTRIC BOARD

Rely on us.

TO: Commissioners Mital, Simpson, Helgeson, Manning and Brown

FROM: Steve Newcomb, Environmental Manager & Jeannine Parisi, Community and Local Government Outreach Coordinator

DATE: February 6, 2015

SUBJECT: Riverfront Property Update

OBJECTIVE: Information Only

Issue

This is a progress update on the status of property negotiations with the University of Oregon Foundation (Eugene RiverDistrict LLC).

Background

Last October, the Board of Commissioners selected the UOF as its preferred development team to begin negotiations towards sale of the 17 acres of surplus riverfront property. The Board also agreed to a timeline and specific milestones to track progress towards a mutually acceptable property transaction. The framework for this transaction starts with a non-binding Memorandum of Understanding that describes the key business terms for property sale. The MOU should be in draft form in May for Board review. Assuming the general terms are agreeable, the MOU will be finalized and then converted to a Development and Disposition Agreement (DDA), to be completed later in 2015.

Discussion

Below is a high level review of work in progress. The parties are more than half-way through an extensive due diligence process to investigate and understand site conditions, and are working cooperatively to meet an aggressive timeline. We have established positive and productive relationships and have clear dialogue to establish our common goals and resolve issues as they arise.

Due Diligence:

A Phase II Environmental Site Assessment was completed in December using EPA Brownfield grant money. The investigation did not identify any significant groundwater impacts or evidence of any widespread PCB contamination across the site. It did indicate low levels of petroleum byproducts in much of the shallow soils. This contamination is often associated with vehicle exhaust and incomplete combustion, and is fairly typical of developed urban sites. This soil, however, is not suitable for direct human contact and will need to be managed during site development.

There are two localized areas that appear to have been impacted by EWEB operations that will require additional investigation and cleanup, and another area of contamination likely related to a former lumber treatment facility. EWEB is initiating the work required to resolve these issues; the latter area will be delineated using remaining funds from the EPA grant administered by the City.

The development team has hired a consultant to review existing reports of site soils conditions and has drafted a geotechnical report that identified areas where unsuitable fill materials may be present. Additional investigation is planned where hog fuel was stored, and possibly in the area where the old Mill Race was filled in to build the viaduct.

To limit property encumbrances, a secondary review of the Title Report has been completed and efforts are underway to further reduce the number of reservations on the title. Most of the remaining exceptions can be resolved through the City of Eugene's process, while one involves an old easement granted to the Southern Pacific Railroad. EWEB is also completing boundary survey work and will begin surveying in the location of major utilities, including invert elevations for some of the larger utilities. The survey data will be used to put reservations in the deed to create easements to protect access to its facilities, such as water mains, electric transmission lines and fiber.

Lastly, EWEB is working to quantify the value of potential System Development Charge credits that could be applied. Given the intensity of previous uses, this could be a substantial value.

Negotiations:

Both parties have agreed to an appraisal process to better understand the fair market value of the 17 acres of surplus property. Following informal solicitations of recommended firms and an interview process, EWEB selected Integra Realty Resources while the UOF is using Appraisal & Consulting Group LLC. Both are Portland area firms.

While each party will receive independent analyses, the same property information is being shared with the appraisers to reduce the likelihood of highly divergent valuation results. Recognizing that this is a somewhat complicated appraisal with a variety of unknowns, we have set up a third-party review process to increase our sense of confidence in the property valuations if needed. However, the appraisals, due back in the April/May timeframe, will be used to inform negotiations, not set a purchase price. The actual sale price will reflect agreements negotiated via the DDA that limit risk and increase value to both parties.

As appraisals get underway, the teams are now developing a list of key business terms and potential issues to be addressed in the MOU and/or DDA. These include conditions prior to closing, rights and responsibilities for the property after conveyance, project financing and agreements around infrastructure improvements, and remedies to reduce risks and/or require certain performance. Purchase price and any adjustments for public investments or other considerations is another key business term. Defining the universe of potential issues associated with a fairly complicated transaction without overly burdening the negotiating process is still in its early stages. Most importantly, both parties are working in good faith to get to the best possible agreement that will protect each other's interests and deliver a remarkable project on our downtown riverfront.

Communications

Monthly stakeholder meetings are facilitated by the master developer to help keep representatives from EWEB, the UOF and the City informed and aligned on the numerous tasks that are in progress.

Commissioner Brown has been invited to attend these meetings on behalf of the EWEB Board. External communications are being coordinated through a small subset of staff from all three entities to facilitate consistent messaging and avoid surprises.

City Partnership

The City of Eugene has a critical role in helping ensure that future development meets the Master Plan vision and code provisions. Redevelopment of the EWEB site also supports the fundamental recommendation regarding future population growth and land use from the Envision Eugene process:

Accommodate all of our projected commercial and multi-family needs inside the current urban growth boundary. Focus redevelopment efforts on key transit corridors and in core commercial areas.

The City has a number of financial tools that can be applied to help meet this objective, as well as to finally achieve the long-term aspiration of reconnecting the downtown core to the riverfront. A City Council work session is planned on March 11 for a project update and to discuss the potential public benefits that could be derived in partnership with private development

City staff is working closely with the UOF development team to partner on the various Master Plan implementation components of the project. Of particular note, planning for the riverfront park is underway. Contingent on the property transaction and development plans moving forward, the proposed timeline envisions a conceptual design for the park to emerge towards the end of 2015, with construction in 2016 and completion in 2017.

The City and development team have also been working to identify partnership opportunities associated with redevelopment of the site, including the railroad quiet zone and improved crossing, park access, affordable housing tools, open space, reuse of historic buildings, and other project elements that will maximize the overall benefit to the community. Council will be discussing the railroad quiet zone on March 9.

Recommendation

Negotiations are proceeding as expected and are on target to meet the milestones laid out for the May Board meeting check-in. A number of risks that could impact property sale price or could have negative operational or financial impacts on EWEB have been identified and are being tracked. Most of these can be creatively resolved through the negotiations process and resulting DDA; others require longer term strategic planning on EWEB's part to fully mitigate.

Management recommends that the following topics are addressed via the DDA:

- Inclusion of a soil management plan to minimize costs for off-site disposal of contaminated soil and/or unsuitable fill.
- Steam plant and Operations warehouse maintenance and retrofitting costs
 - A structural engineering assessment of costs to bring the building shell up to basic safety standards will be part of the appraisal process to inform decisions about the building's potential for re-use
 - The warehouse is on a fairly short timeline for updating due to Fire code issues; transfer of maintenance responsibility to address this deficiency is an early priority.
- Existing leases in Midgley and credit union buildings

- It is possible that the UOF may want to assume some leases, however given the level of uncertainty, EWEB is obligated to give notice to all tenants to enable an ample planning horizon. While management has open and on-going conversations with tenants, a formal 12-month notice with the potential for 30-day extensions is planned to go into effect March 1.
- Relocation of EWEB facilities
 - The emergency generator is in conflict with the new “great loop” street that provides for traffic circulation on the development site and will need to be moved.
 - A bundle of utilities run under the bike path, including fiber, and may need to be moved to an interior ROW to serve future development. If the utilities remain in the park area, EWEB can acquire an easement but gaining access to the site for repairs may prove difficult once private development is complete. A cost estimate for relocation is being developed to inform this decision.
- Public investments and off-site improvements
 - There is a wide range of potential public improvements that if committed, would directly affect the cost of development and property value. Although it is anticipated that Urban Renewal funds will be allocated to high value public investments on the property, the amount and timing for any commitments for such funds are unknown.
 - A new railroad crossing near the Steam Plant and the potential for a Quiet Zone are additional significant unknowns in terms of funding sources and timing that impact development potential.

Longer-term strategic issues that are implicated include:

- HQ Parking
 - Once the surplus property is transferred, EWEB will lose the majority of its existing parking for employees and EGI tenants. A short-term parking strategy can be negotiated to park vehicles in areas of the site that will not immediately be developed or needed for staging. However, EWEB will need to think about a longer term parking solution either on-site (under viaduct, @ capped site post-remediation?) or in a shared facility with other area users. Parity among employees if parking is no longer free for HQ staff is another consideration.
- HQ Facility
 - The UOF has indicated continued interest in purchasing the HQ building and establishing a lease back arrangement with EWEB. Long-term space needs, relocation of critical facilities, building maintenance costs, lost revenue from the existing lease, and customer convenience are among the numerous issues that require examination and discussion to determine if such an agreement makes financial and operational sense.

TBL Assessment

None at this time.

Requested Board Action

No action is planned; however the Board may identify policy issues for discussion and possible action at a future meeting.