



MEMORANDUM

EUGENE WATER & ELECTRIC BOARD

Rely on us.

TO: Commissioners Simpson, Brown, Helgeson, Manning and Mital
FROM: Steve Newcomb, Environmental Manager & Jeannine Parisi, Community & Local Government Outreach Coordinator
DATE: April 24, 2015
SUBJECT: Riverfront Property Update
OBJECTIVE: Board Action

Issue

This is a progress update on the status of property negotiations with the University of Oregon Foundation (Eugene RiverDistrict LLC). Management is also requesting Board approval to extend the Exclusive Negotiation Agreement by 30 days.

Background

In selecting its preferred development team to begin negotiations, the Board agreed to a timeline and specific milestones to track progress towards a mutually acceptable transaction for the 17 acres of surplus property. The first check-in occurred in February; at that time management reported that negotiations were proceeding as expected and were on target to meet the benchmarks necessary to complete a transaction later this summer.

Discussion

Development of the Memorandum of Agreement (MOA), a precursor document laying out the general business terms for the transaction, is in progress but behind schedule. Board approval of the MOA was targeted for the June meeting, but it now appears this benchmark will slip until July. The development team has made adjustments to its process to avoid any further delays, and the teams are now making faster progress in working through the MOA.

Below is a high level review of work in progress.

Due Diligence:

Additional soils testing has been conducted in two areas of concern identified during the Phase II Environmental Site Assessment and preliminary results have been received. While analysis is not yet complete, it appears that the scope of contamination in both areas is limited. Staff are also working to quantify the potential costs of removing abandoned steam pipes encountered during construction. Responsibility for these expenses is a topic of negotiations.

Another issue identified during the earlier stages of due diligence involved decommissioning of hog fuel storage piles. It was uncertain if the hog fuel piles were simply covered over rather than fully excavated and removed off-site when EWEB converted the steam plant to natural gas. Large

pockets of organic material like hog fuel is not only an unsuitable fill material for roads and buildings, it could cause methane to build-up and potentially ignite. Environmental staff have since conducted an extensive file review to determine that the hog fuel was fully excavated and replaced with compacted bar run fill.

Removal of Title Report exceptions is underway and EWEB expects to have the Southern Pacific railroad easement removed shortly. The property boundary survey has been filed with the County, and locates of major utilities that will remain in place are now being mapped. Our survey contractor (OBEC) will work with the City to convert existing public utility easements and record new reservations for facilities that will remain. OBEC will also assist in creating the lot line adjustments necessary to transfer legal parcels to the buyer; as a first step, OBEC has submitted the paperwork for legal lot verification to the City.

System Development Charge credits have been calculated and submitted to the City of Eugene for review. Management will be asking for a Letter of Intent from the City documenting the projected value of these credits under new development.

Negotiations:

The due diligence period is largely complete, and appraisals to inform negotiations as to the fair market value of the property are well underway. The appraisal firms now have all relevant information to finalize their analyses. In addition to appraised value, the purchase price will reflect other agreements that limit risk and increase value to both parties. Key factors in this calculus include the amount of public investment committed to the project, strategies to minimize environmental liabilities, and development of realistic long-term parking solutions for the area. These issues will feature prominently in the MOA business terms.

Last December, the parties signed an agreement to work in good faith for a minimum of six months to create a mutually acceptable Development and Disposition Agreement. While parties are making progress towards this goal, an extension of the exclusive negotiations period will be necessary to bring a set of business terms to the Board for its approval. The proposed timeline has the MOA coming to the Board for approval in July (rather than June) and for the Development and Disposition Agreement (DDA) to be ready by September 15. These new dates reflect a 30-day extension from the earlier timelines.

Management is continuing to track and develop strategies to manage a number of risks that could impact property sale price or could have negative operational or financial impacts on EWEB.

- Environmental: The uncertainties about environmental contamination are largely resolved via the Level I – III analyses and resolution of the hog fuel issue. However, low level contamination from fuel and combustion by-products will need to be addressed. There is conceptual agreement to utilizing a soils management plan to minimize costs for off-site disposal of contaminated soil and/or unsuitable fill. This document would be an attachment to the DDA. The parties are also assessing the value of an insurance policy to cover unknown environmental liabilities uncovered during re-development.
- Tenants: Management has met with representatives from the Credit Union and responded to their request for embedded banking services at our existing buildings for EWEB employees to complement a new main branch. Formal notice to all tenants is not anticipated until a signed MOA is in hand.

- Existing Facilities: Until a development program is provided, it is challenging to fully assess cost impacts associated with moving existing utilities, but at a minimum, EWEB is aware that the emergency generator will likely need to be moved and is considering relocation options. Security and maintenance of buildings to remain for adaptive reuse is another issue that will be addressed in the MOA.
- Parking: An interim parking plan for HQ employees will be part of the DDA. While management is confident that a short-term plan can be achieved (5 - 7 years), once the site is fully developed, options for the 150 or more spaces needed become very limited. Parking in the Courthouse District is already constrained with the new Northwest Community Credit Union, Core Campus Housing, and the soon-to-be- built Whole Foods, so the potential for an area-wide solution may be most promising. Alternately, EWEB may explore use of the MGP (capped site) once the agreed upon environmental remedy is complete.

City Partnership

The City of Eugene has a vital role in ensuring that future development meets the Master Plan vision and code provisions, as well as implementing Envision Eugene. There are a number of financial tools that can be applied in support of these objectives, as well as to finally achieve the long-term aspiration of reconnecting the downtown core to a new neighborhood on the riverfront.

A City Council work session is planned on May 13 to discuss the potential public benefits that could be derived in partnership with private development, with a focus on the early investments needed to jumpstart redevelopment. A triple bottom line analysis will be used to frame this conversation. The development team is requesting a Letter of Intent from the City to formalize financial commitments to the project.

Discussions around the future riverfront park area have begun with the City starting a technical review of potential permits that would be needed to do work in the greenway and funding options for different key components (new bike path for example). EWEB has been invited to join representatives from the development team at these planning meetings; our main interests include ensuring a coordinated approach to timing of construction to avoid conflicts with remediation at the MGP site, park design and programming approaches that reduce attractive nuisances and long-term maintenance costs, and mitigation strategies to reduce impacts to EWEB facilities in both the park and green finger areas that connect to the river.

Recommendation

Most of the significant milestones in the earlier agreement are on track, such as due diligence and property appraisal. There is also positive progress in quantifying the City's role in redevelopment as well as momentum on the new park and railroad quiet zone. The development team has invested heavily in site investigations and continues to actively seek potential uses to refine a viable development program. While the MOA is behind schedule, conversations remain productive. Management believes a draft of key issues will be prepared in the next 4 - 6 weeks, and recommends continued negotiation towards a DDA.

TBL Assessment

None at this time.

Requested Board Action

Management recommends Board approval of the ENA extension (to be provided at the meeting).