

DATE: March 6, 2014
TO: Sonia Andrews, Chief Financial Officer, City of Bend
FROM: Abe Farkas, ECONorthwest and Ken Rust, PFM
SUBJECT: JUNIPER RIDGE DISPOSITION ALTERNATIVES

ECO Project #: 21625

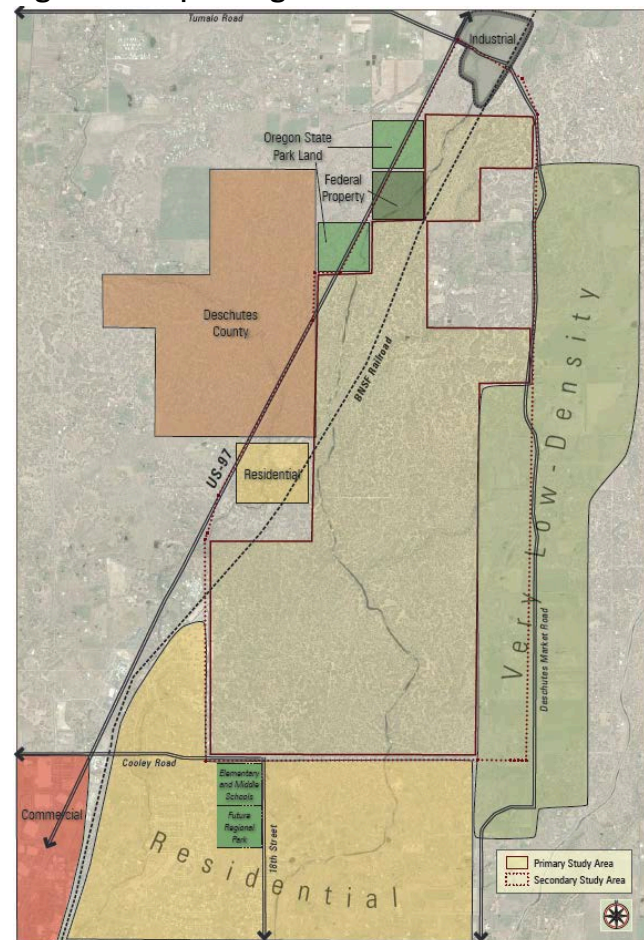
This memorandum describes a set of alternative disposition strategies for the City of Bend's (the "City") Juniper Ridge area, which comprises 1,500 acres of City-owned land and additional lands, as indicated in the Master Plan. The area, shown below in Figure 1, is bounded generally by US-97 to the west, Cooley Road to the south, Deschutes Market Road to the east, and the Tumalo Road interchange with US-97 to the north.

These land disposition alternatives will be presented to a joint meeting of the Bend City Council and the Juniper Ridge Management Advisory Board (JRMAB) on March 11th for review and consideration, along with a facilitated discussion of goals, objectives, and desired outcomes for Juniper Ridge.

Desired Outcomes from this Process

The overall objectives for this process are to gain a full understanding of the City's goals for disposition of Juniper Ridge, options for realizing those goals, and an overall framework plan for realizing those goals. The size and scale of the project area is such that any option that is selected by the City will take many years to fully implement and will necessarily require continued City management in a variety of areas to ensure the plan's success. This long timeframe will also need to recognize the effects that economic cycles have on the pace of development and the land disposition process, urban renewal tax increment generation, along with the risks associated with any City investment obligations that become part of a disposition, or a disposition and development agreement (DDA).

Figure 1. Juniper Ridge Area



Source: Juniper Ridge Master Plan

Juniper Ridge Disposition Alternatives

A. City Acts as Master Developer

In this scenario, the City would provide the oversight and management of development of the property. The City would effectively function as a horizontal developer overseeing responsibilities that could include land use planning, design and construction of horizontal backbone infrastructure, mass grading and rough grading, and marketing. The City would then oversee disposition of parcels to vertical developers on a phased basis.

Development of a project of this size, variety of uses, intensity, and dollar value would require a significant level of experience and management. As horizontal land developer, the City would need to acquire the resources necessary to administer and direct the implementation of any business and operational plan for the project. Outsourcing technical advice, and development and project management support could involve the City hiring a development advisor to provide advice and temporary support staff. Compensation of the development advisory firm could either be commission-based, fee-based, or a combination of these two.

The scope of the City's involvement would be equivalent to that of any other horizontal master developer. The City would be required to provide financing for its horizontal improvements which could be done on a phased basis (grading and infrastructure) and enter into transactions or agreements that would ensure construction of horizontal improvements necessary to support development. The City would offset these costs through a combination of capturing tax increment from taxable vertical development within the urban renewal area portion of the site as well as proceeds from land sales to private developers. The City could select vertical developers through outright sale of planned phases or through a request for qualifications process and subsequent DDA.

B. Solicit Master Developer(s) / Ground Lease

In this alternative, the City would maintain property ownership but would market and ground lease the entire property or significant portions of the property to potential master developers (who would need to collaborate on elements such as transportation connections). The master developer(s) might be horizontal developers or horizontal/vertical developers. The master developer(s) would enter into a DDA with the City that would spell out the binding performance obligations of the developer(s).

By maintaining ownership of the underlying land, the City would continue to receive revenues over the term of the lease. Ground leases typically are for no less than 50 years and most often have extensions that run up to 100 years, with periodic lease rate resets to reflect changes in market conditions. There are a number of ways to structure lease payments. The City could use lease revenues to fund a portion of the continuing infrastructure or management obligations associated with Juniper Ridge, and should there be any excess revenue over time, this could become a general revenue source for the City.

C. Solicit Master Developer / Phased Sale

The overall intent of this alternative would be to make the entire site available to a master developer through a DDA that spells out performance obligations by the City and the master developer, but to only sell the first phase development site to that developer. Remaining future phases would be sold based on actual developer performance in previous phases. This would allow the City to benefit from increases in

the appraised/market value of each successive phase, and would not obligate the City to sell all or most of the land if the master developer's performance is not satisfactory.

D. Solicit Master Developer / Sell Entire Site

This alternative would involve a soliciting a master developer and reaching a DDA for the entire property. Based on that DDA (which spells out City responsibilities that could include certain infrastructure improvements, as well as private development obligations about the types and timing for development throughout the site) the entire property would be transferred to the master developer. To help ensure that the property would be developed the City could impose various kinds of DDA restrictions. The restrictions could include provisions that 1) allow the City to repurchase portions of the property at an agreed upon price or formula to determine price if the developer fails to perform per the DDA, or 2) require that the City gets approval rights if the developer chooses to sell the site to another master developer.

E. Land Sale

In this alternative, the City would sell its Juniper Ridge property without an agreed-upon new master development plan or a DDA. While evaluating this option, the City would need to consider the following questions:

- 1) Will the land be sold as is (allowing for appropriate due diligence by the buyer), or with some improvements provided by the city (which require public investment but also increase the value of the land)?
- 2) Will the City sell the entire site to one developer or sell various portions to different developers?
- 3) Will the City sell the entire site or only the portion that's within the Urban Renewal Area or the portion outside the URA?
- 4) Will this be a straight up sale or a conditioned sale that has provisions such as a buy back if there's no significant performance after a fixed time period, or limitations on allowed uses or building types?
- 5) Would the City be willing to carry a note on the land so that the developer doesn't have to immediately secure private financing for the purchase?
- 6) Would the City be willing to option all or some of the property for a period of time so that a developer can craft a development program prior to actual purchase?

The following table summarizes each of the land disposition options that have been presented in the above narrative. In addition to the summary of each option, the table also includes an assessment of the project roles, revenue, benefits, risks, implementation, and community acceptance aspects of each option, and allows for an easy comparison between each of the options that have been presented. Evaluation of the community acceptance of each option awaits discussions with the Bend City Council and the JRMAB in order to better understand how elected officials and decision makers view each of the disposition methods as it affects this particular evaluation item.

Table 1. Juniper Ridge Disposition Alternatives

Alternative	A. City Acts As Master Developer	B. City Secures Master Developer / Ground Leases Land	C. City Secures Master Developer / Sell Parcels in Phases	D. City Secures Master Developer / Sells Entire Site	E. Land Sale
Description	City would provide the oversight and management of development on the property	City would maintain property ownership but would market the entire property to potential master developers and offer a ground lease as part of the terms of potential development	Secure developer(s) for the entire but dispose of the site by selling off development ready parcels over time This process enables the City to benefit from increases in parcel values over time	Bulk disposition of the property entirely to a private sector purchase through a master developer solicitation process	City would sell its property without an agreed-upon new master development plan or a disposition and development agreement
Alignment with City goals	More patient; can take more time to achieve "vision", not pressured by short-term return (choose to increase quality)	City maintains land ownership; development agreement lays out how City goals are achieved	Development agreement(s) build in how City goals are achieved	Development agreement(s) build in how City goals are achieved	Not certain that would meet City's goals, unless sale is conditioned with something like reversionary rights
ROLES					
Developer solicitation	City may take lead in horizontal development, brings in developers for vertical improvements	City selects developer(s) for horizontal development who then may partner in or sub lease ground for vertical development	City selects developer who plans entire site but City sell parcels in phases to better assure implementation and to gain benefits of increased land values over time	City selects developer to horizontal development who may partner in vertical developments or sell of improved parcels	City markets land. May choose to make some improvements to increase value
Horizontal/ infrastructure development	City can take lead or partner with selected developers	City can take on some responsibility but most falls to Developer	City can take on some responsibility but most falls to Developer	City can take some responsibility but most falls to Developer	City may choose some improvements to increase values
Vertical development	Developer, but City for public buildings	Developer, but City for public buildings	Developer, but City for public buildings	Developer, but City for public buildings	Only if City chooses to retain some land for public buildings
Ground lease or sell land	City can sell or ground lease strategically	City can retain ground leases or sell strategically	City sells or ground leases in phases	City sells entire site	City sells entire site as whole or in pieces.
Structure DDA agreement	For vertical and horizontal development	For vertical and horizontal development	For vertical and horizontal development	For vertical and horizontal development	N/A

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City management requirement	Maintains control of project phasing / team Very high level of ongoing performance oversight	City manages solicitation process, but not development team High level of ongoing performance oversight	City manages solicitation process, but does not manage development team Moderate level of ongoing performance oversight	City manages solicitation process, but does not manage development team Lower level of ongoing performance oversight	If conditioned sale or City carries note Lowest level of ongoing performance oversight unless conditioned sale
REVENUE					
Total City revenue potential from disposition	Higher; City will need to invest up front funds to help prepare sites and reduce barriers City has greater control over timing for public and private investments	Higher; Revenues would come in over longer time period and in varying amounts depending on how ground lease(s) are structured	Higher; City should benefit from increased revenues as private sector creates more value for successive parcels	Lower; Likely a bulk sale discount Selective public improvements would enhance returns	Lower; Likely a bulk sale discount Selective public improvements would enhance returns
Return of/return on City investment, including property taxes, business and franchise fee revenues, etc.	City revenues could be higher due to more control over development type and timing Higher public investment costs/timing affects returns to City	City revenues could be higher but ground lease revenues/timing affects cash flow present value Higher public investment costs/timing affects returns to City	City revenues could be higher due to more control over development type and timing	Revenue potential likely to be lower due to lower initial sale values and less control over actual development type	Revenue potential likely to be lower due to lower initial sale values and less control over actual development type
Development funding implications	Access to potential TIF, EB5, and other eligible funding tools Adequacy of existing Urban Renewal District needs to be evaluated—could require modifications to ensure adequate resources to incentivize needed private investments	Some lenders don't like ground leases (could vary by use); otherwise, access to TIF, EB5 and other funding tools Adequacy of existing Urban Renewal District needs to be evaluated—could require modifications to ensure adequate resources to incentivize needed private investments	Access to potential TIF, EB5, and other eligible funding tools Adequacy of existing Urban Renewal District needs to be evaluated—could require modifications to ensure adequate resources to incentivize needed private investments	Access to potential TIF, EB5, and other eligible funding tools Adequacy of existing Urban Renewal District needs to be evaluated—could require modifications to ensure adequate resources to incentivize needed private investments	Access to potential TIF, EB5 and other eligible funding tools Adequacy of existing Urban Renewal District needs to be evaluated—could require modifications to ensure adequate resources to incentivize needed private investments

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Timing of revenue	Can secure lease and/or sale revenue upfront or over time	Can secure lease payments over time or up front via pre-pay (for a discount) Flexibility to sell portions strategically (e.g., single family housing areas)	Can secure payments up front, or carry note Future parcel sales should bring greater returns	Can secure payment up front or carry note	Land sale revenues at the front end, though City could carry a note and be paid over time
BENEFITS					
Benefits to City	City has more influence over project momentum; provide orderly approach to planning/dev't; can adjust land costs to enable development Early successful dev't can accelerate property tax and other city revenues as well as assist with infrastructure funding Development produces property tax, franchise fees, permit fees	Preserves City land ownership and provides ongoing revenue stream Potential to structure leases that further increase revenues as well as own improvements over period of time Lowers land cost at front end for developers Potential to vary ground lease rates to encourage preferred development Development produces property tax, franchise fees, permit fees	Performance based land sales increases land values and returns on land for City Developer performance triggers future sales Infrastructure phased in with development Development produces property tax, franchise fees, permit fees	Removes land from many city responsibilities (e.g., maintenance, insurance) Provides upfront sales proceeds or payments over time if City carries note Development produces property tax, franchise fees, permit fees	Removes land from most City responsibility assuming development happens in timely manner City still has permitting, possible infrastructure and potential development assistance roles Development produces property tax, franchise fees, permit fees
RISK ASSESSMENT					
Drawbacks/risks to City	City has ongoing operating costs and shares in capital costs Expensive and time consuming to solicit bids for vertical development Would need multiple developers, given site size and varied product types Less flexibility to reduce	Expensive and time consuming to solicit bids City has ongoing operating costs Would need multiple developers, given site size and varied product types Developer interest and private financing may be more limited with ground leases	Expensive and time consuming to solicit bids Would need multiple developers, given site size and varied product types	Expensive and time consuming to solicit bids Safeguards needed to prohibit developer from flipping the site, and giving City first rights option in case of bankruptcy Bulk sale discount on large acreage would reduce City revenues	Lose ability to monitor developer's ability to meet guiding principles, unless there are reversionary rights

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	infra. costs (i.e. prevailing wage req's) More public /political process for actual development Shift in City mindset to a “revenue-generating” mentality Limit on the ability to establish a special entity to limit City liability	Master lease not suitable for SF homes or condos			
IMPLEMENTATION					
Implementation process	Go through one of the multiple solicitation processes. In this case for various vertical developers: RFP, RFQ, RFI. Select Developer(s) and negotiate DDA	Determine ground lease preferences and flexibilities. Go through one of the multiple solicitation processes: In this case for master developer. RFP, RFQ, RFI Select Developer(s) and negotiate DDA	Go through one of the multiple solicitation processes. In this case for master developers: RFP, RFQ, RFI Select Developer(s) and negotiate DDA	Go through one of the multiple solicitation processes. In this case for master developers: RFP, RFQ, RFI Select Developer(s) and negotiate DDA	Work with brokers and advertize property and sale terms.
Examples	West Valley City, UT Tualatin Commons	University of Oregon (Eugene); Lane County 5 th Street Market deal	River Place, Portland	Yards at Union Station, Portland	Industrial parcels at Airport Way
LEGAL FRAMEWORK					
Developer performance	To be integrated into DDA's or sale agreements Include claw back language that enables City to ensure performance or to have	To be integrated into DDA's or sale agreements Include claw back language that enables City to ensure performance or to have beneficial property reversion rights	To be integrated into DDA's or sale agreements Include claw back language that enables City to ensure performance or to have beneficial property	To be integrated into DDA's or sale agreements Include claw back language that enables City to ensure performance or to have	To be integrated into DDA's or sale agreements Include claw back language that enables City to ensure performance or to have beneficial property

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	beneficial property reversion rights		reversion rights	beneficial property reversion rights	reversion rights
Compliance with existing IGA's and property CC&R's	Compliance requirements needs to be integrated into DDA's or sale agreements	Compliance requirements needs to be integrated into DDA's or sale agreements	Compliance requirements needs to be integrated into DDA's or sale agreements	Compliance requirements needs to be integrated into DDA's or sale agreements	Compliance requirements needs to be integrated into DDA's or sale agreements
COMMUNITY ACCEPTANCE					
Ability to address key public goals and expectations	TBD based on discussions with City Council and JRMAB	TBD based on discussions with City Council and JRMAB	TBD based on discussions with City Council and JRMAB	TBD based on discussions with City Council and JRMAB	TBD based on discussions with City Council and JRMAB
Political acceptability	TBD based on discussions with City Council and JRMAB	TBD based on discussions with City Council and JRMAB	TBD based on discussions with City Council and JRMAB	TBD based on discussions with City Council and JRMAB	TBD based on discussions with City Council and JRMAB