CITY COUNCIL MEETING
STAFF REPORT

<table>
<tr><td colspan="3">Meeting Date: July 21, 2025</td><td colspan="2">Subject: Coffee Creek Land Aggregation Strategy

Staff Member: Matt Lorenzen, Econ. Dev. Mgr.

Department: Community Development</td></tr>
<tr><td colspan="3">Action Required</td><td colspan="2">Advisory Board/Commission Recommendation</td></tr>
<tr><td colspan="3" rowspan="2">☐ Motion
☐ Public Hearing Date:
☐ Ordinance 1st Reading Date:
☐ Ordinance 2nd Reading Date:
☐ Resolution
☐ Information or Direction
☐ Information Only
☒ Council Direction
☐ Consent Agenda</td><td colspan="2">☐ Approval
☐ Denial
☐ None Forwarded
☒ Not Applicable</td></tr>
<tr><td colspan="2">Comments: Any decisions related to purchasing an interest in real estate will come at a later date and will in all cases be made by Council. Directing staff to advance this strategy does not authorize staff to expend funds that have not been budgeted nor to purchase any interest in real estate.</td></tr>
<tr><td colspan="5">Staff Recommendation: Staff requests Council direction to continue taking administrative steps to further the land aggregation strategy discussed in this report.</td></tr>
<tr><td colspan="5">Recommended Language for Motion: Not applicable.</td></tr>
<tr><td colspan="5">Project / Issue Relates To:</td></tr>
<tr><td colspan="2">☐Council Goals/Priorities:</td><td colspan="2">☒Adopted Master Plan(s):
Coffee Creek Master Plan
Urban Renewal Strategic Plan</td><td>☐Not Applicable</td></tr>
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ISSUE BEFORE COUNCIL:
Shall Economic Development staff, with support from Legal and Community Development, begin taking administrative steps to effectuate the land aggregation strategy outlined in this report?

EXECUTIVE SUMMARY:

Introduction

Economic Development staff is responsible for supporting the growth of industry and private capital investment (development) in the City, with the end goal of bolstering and growing the tax base, which is the lifeblood of most City services and the General Fund.

The Coffee Creek Industrial Area ("Coffee Creek" or the "Area") is a high-opportunity area where land is "development-ready" from a regulatory standpoint. The City has an adopted Master Plan, which includes infrastructure alignments, zoning and development code, and an established urban renewal area to support the construction of infrastructure in order to spur private development and investment.

Notwithstanding these foundational pieces, it has been clear for a number of years that land aggregation (the purchase and combination of small parcels into a larger contiguous site) is needed to facilitate development. Ideally, in development areas, the private sector purchases, aggregates and develops land, with the City acting as a regulatory agency only. However, this ideal pattern has not occurred in Coffee Creek, as was anticipated.

Background

While development activity in Coffee Creek has picked up in recent years, the pace and scale of development—as well as job density and capital investment levels—have fallen short of the vision outlined in the Coffee Creek Master Plan.

In 2016, following an advisory vote of the Wilsonville electorate, the City established an urban renewal area in Coffee Creek to spur and support private development through strategic infrastructure investments. Development, and therefore increment generation, have not kept pace with forecasts developed in conjunction with the Coffee Creek urban renewal plan.

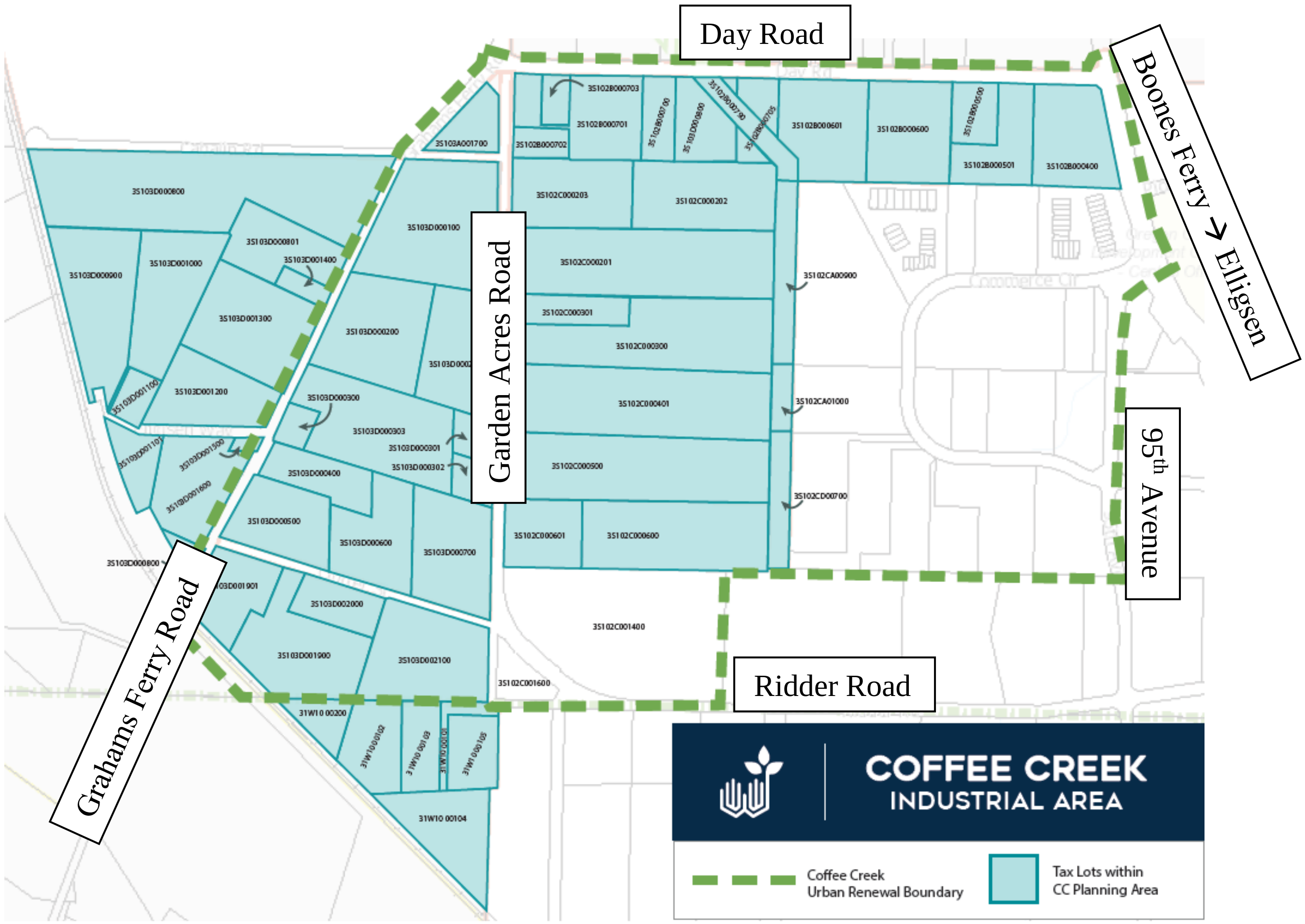
In 2020, the City used urban renewal debt proceeds, together with other funding sources, to construct Garden Acres Road (2/3 width) to urban industrial standards, with the goal of catalyzing development—particularly along the east side of the road. While this project has achieved measured success in spurring development, including the Precision Countertops project currently under construction, overall development activity still does not reflect the level of demand for industrial sites in the Portland Metro market, nor does it meet community and regional expectations for this "Regionally Significant Industrial Area" (RSIA).

This raises the question: why? At least three primary factors are at play:

1. **Land Parcelization**

Figure A. shows the configuration of parcels in the area. Many are irregularly shaped or configured, and few are large enough on their own to accommodate industrial-scale development. Moreover, these parcels are typically owned by disparate parties with differing motivations and timelines for selling. This places a heavy burden on developers and businesses seeking to build in Coffee Creek, who must coordinate with multiple property owners and, in many cases, "bank" land for extended periods while waiting for adjacent parcels to become available. This activity ties up capital that could be deployed elsewhere—capital that tends to follow the path of least resistance. Consequently, we see very little land aggregation taking place.

Figure A.



2. **Contractor Establishments**

Figure B. (next page) shows a recent aerial photograph of the area. Contractor establishments—sites cleared of vegetation and used as outdoor laydown yards for heavy equipment, materials, and other storage—are prevalent. Contractor establishments often, but not always, include structures of minimal value, such as former residences-turned-offices, and/or pole barns. See **Figure C.** They are approved under Washington County codes, as this area is still mostly outside city limits. These properties are often, though not always, owned by one party and leased to another. They function as income properties, often producing strong returns with minimal management for owners. These "sticky" uses are financially attractive to both tenants and owners, who are both generally content with the status quo.

Figure B.

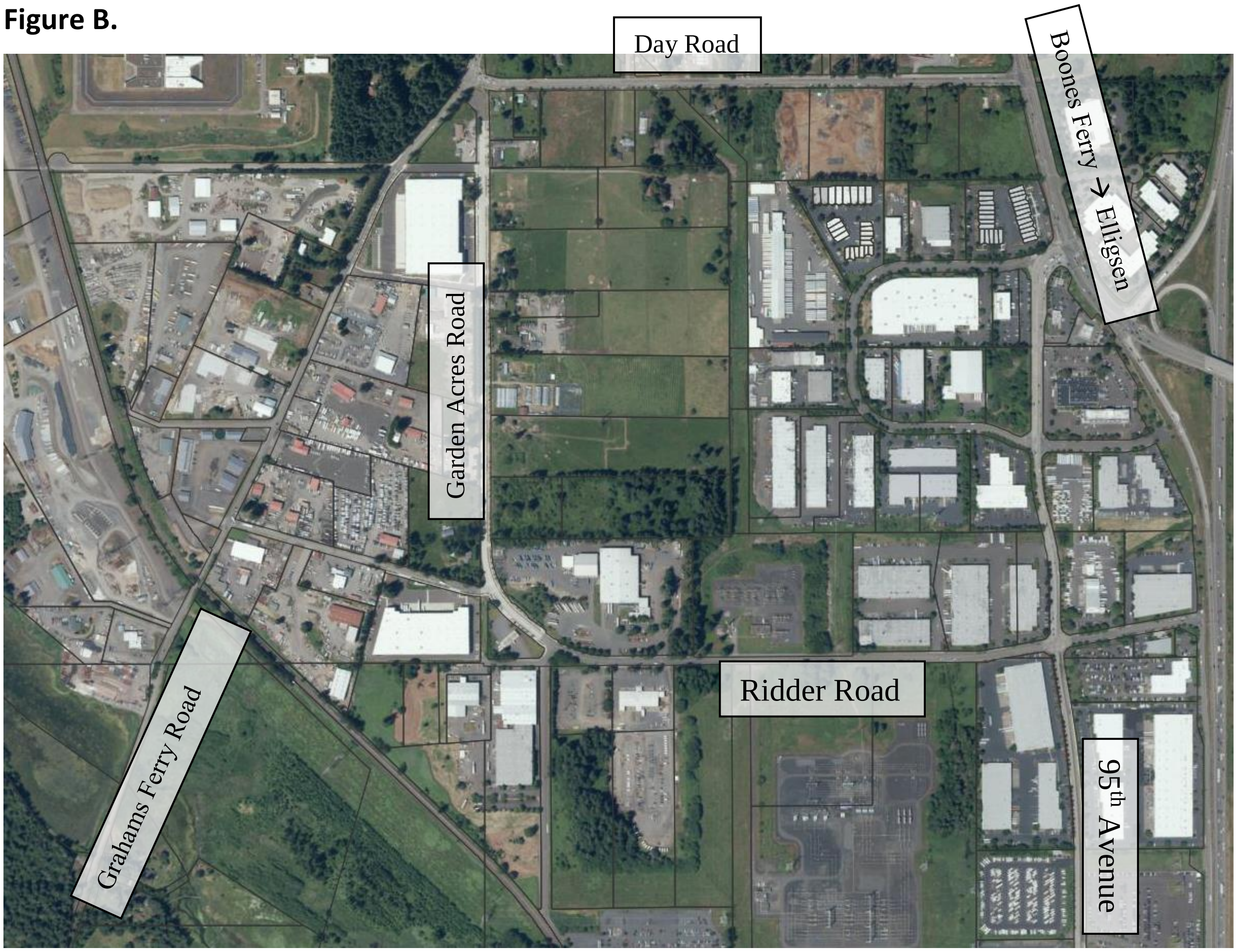


Figure C.

3. **Land Value Discrepancies**

This is perhaps the most significant inhibitor of land sales and urban industrial development, though also the most complex. Commercial land valuation is both an art and a science. Appraisers rarely assign a single value; rather, they present a value range, depending on the method used. Two common methods are the "income approach" and the "residual land value" approach.

> The **income approach** values a property as a mathematical function of the net income it generates—treating it like an income-producing asset.
>
> The **residual land value** approach is standard in development analysis. It works backward from the projected value of a completed development, subtracting all hard and soft costs (construction, permitting, design, engineering, capital carry costs, etc.), to arrive at the maximum price a developer can pay for land while still meeting profitability requirements.

Developers often rely on equity investors and debt financing. Both investors and lenders impose strict performance metrics—such as required profit margins, net operating income, and debt service coverage ratios—to ensure loan repayment and return-on-investment. As a result, developers are constrained in what they can offer for land.

Often, there is a significant gap between the income-based value a landowner expects and the price a development pro forma can support. **When that gap is too large and cannot be bridged, the property remains in its current state, and development stalls.**

Proposed Strategy

Bridge the gap.

Using urban renewal funds, the City can strategically purchase or option property of a desirable size and configuration from willing sellers (several adjacent parcels, perhaps), paying the income approach value that most sellers demand. The City can then develop a request for proposals (RFP) and issue the development offering, with development standards and use requirements that align with the vision of the Coffee Creek Master Plan. Responses to the RFP should indicate a price a developer is willing to pay for the land, together with a rough vision for the private development of the site if the exact use or user is unknown. The City will select a winning proposal that combines an acceptable price with a desirable vision for development. The property will then be sold to the winning developer/proposer through a Disposition & Development Agreement (DDA). The City Attorney's office would be involved with every step described above.

Almost certainly, there will be a gap between the price the City paid for the property and the price a buyer/developer pays the City. Fortunately, the City and its urban renewal agency do not have to assume the cost of that gap. Here's how that's possible:

In 2023, several areas of the city, including Coffee Creek, were approved under Business Oregon's Regionally Significant Industrial Sites (RSIS) program. RSIS is a performance-based economic development program that reimburses RSIS project sponsors (the City) for approved site improvement expenditures. The state shares a portion of state income tax generated by employment on RSIS sites for industrial land site readiness activities beginning the year after a project's employment thresholds are reached. Such thresholds are outlined in the RSIS program guidelines.

Eligible costs that can be reimbursed through the program include:

- **Land assembly**
- Site preparation
- Utility and transportation improvements
- Environmental remediation and mitigation
- Financing costs

So, the City can be reimbursed for “the gap” over time, after well-paying jobs are established on the site. Business Oregon staff responsible for the administration of the RSIS program have confirmed this. Both the City of Hillsboro and the Port of Portland have utilized the RSIS program to be reimbursed for eligible site preparation costs under their jurisdiction.

Next Steps & Important Considerations

The next step is to bring more information and specificity back to Council for further consideration, if that is desired. The purpose of this report and the initial discussion with the City Council is to simply gauge interest and appetite to explore further before additional staff time is invested.

If Council is interested in exploring further, near-term next steps for staff include, but are not limited to:

- Formally request an amendment to the City’s contract with Business Oregon under the RSIS program, to add Land Assembly as a reimbursable expense.
    - This amendment obligates the City to nothing. It simply allows the City to recoup funds for expenses related to Land Assembly.
- Finalize and sign any such RSIS contract amendment.
- Draft a template for a minor amendment to the Coffee Creek Urban Renewal Plan, to be used if and when property is identified for purchase by the Agency. An amendment would add the identified property acquisition as an eligible project under the Plan, when adopted.

Considerations

- **Few alternatives besides the status quo.** Staff has looked at the challenge of land aggregation in Coffee Creek from many angles over the past 5+ years, and has not been able to identify an alternative method to address this challenge. This appears to be an appropriate opportunity for government intervention, where the market and regulation alone are not producing desired community development outcomes.

- **Net zero impact on urban renewal spending capacity possible.** Maximum indebtedness in the Coffee Creek Urban Renewal Plan is $67 Million. Those funds are currently planned for infrastructure projects exclusively. If funds are used for property acquisition, after a plan amendment, that means less funding is available for infrastructure projects, *theoretically*. In practice, however, the City's spending capacity is not affected materially.
  - While maximum indebtedness capacity is reduced by a purchase of interest in real property, that doesn't mean the Agency's total spending capacity in the area is reduced. When an urban renewal agency has income (from a land sale, for example) those funds are recognized as "Program Income" as defined by Oregon Revised Statutes. Program Income can be re-expended on other eligible projects in the urban renewal plan and does not get counted a second time against maximum indebtedness.
  - In an example where the City purchases property for $10M, sells it for $7M, and recoups $3M through the RSIS program, the City may spend those same $10M on other approved projects in the urban renewal plan, effectively allowing the City to spend those dollars multiple times. That said, during the period when funds are expended and outstanding, they would be unavailable.
- **Manageable risk.** While risk would be mitigated to the greatest extent possible by using the method described in this report, through solid contracts and by seeking Council authorization before taking any action toward a purchase, the risk is *not* zero. There are a couple areas of specific risk, however small:
  - If the City purchases and aggregates property, and then fails to identify an interested buyer/developer to purchase such property, the funds associated with such a purchase would be tied up until a sale is realized.
  - If the City sells property it owns through a DDA, and the jobs eventually created by new development/industry do not meet eligibility requirements under the RSIS program, the City would be unable to claim a reimbursement for the monetary gap between the property purchase price and the sale price. However, the City would seek to obligate any potential purchaser to create eligible jobs on the property through the DDA, shifting such risk to the purchaser/developer, rather than the City.
- **No eminent domain.** Public entities are barred by law from taking property through eminent domain/condemnation for private redevelopment. If the Council directs to continue exploring this aggregation strategy, land purchases would only be made from willing sellers after Council so authorizes.
- **There is risk in the status quo.** While there are some manageable risks associated with this strategy, there is also risk in maintaining the status quo. The City can continue to invest in infrastructure in this area, limited by modest tax increment growth, but if private development doesn't occur as envisioned, what has the city accomplished by building first class infrastructure only to serve the existing low-value development pattern?

The City's general fund depends on property tax, and expenses for public services regularly exceed the 3% annual growth allowed by Oregon property tax law. This means new development in the City is needed in order to maintain, and ideally improve, public services in the long-term. Industrial development is efficient, in that it does not have the same public service demands (public safety, emergency services, schools, library, etc.) that new residential has. By spurring growth in this area, the City is future-proofing its job base and its long-term tax revenue stream, to serve future generations.

Conclusion

The Coffee Creek area was added to the urban growth boundary (UGB) in the early 2000s. Despite standard approaches and best efforts to facilitate development in this area, the pace of development has been slow, due mainly to the lack of large, contiguous sites served by utilities. Private investment can do the work of extending utilities and building roads, but not if they don't have a site of sufficient size and configuration to work with. In most cases, the private sector alone has not been willing or able to aggregate property and pay the premium needed in order to motivate current owners to sell. The approach prescribed in this report has been proven in other jurisdictions, and the addition of the RSIS reimbursement makes this approach even more viable. To be sure, this area will continue to struggle without some entity, whether private or public, intervening to proactively orchestrate desired outcomes. The potential of this area is great, but it is locked up. This land aggregation and disposition approach serves to unlock that potential to the benefit of local and state budgets through job creation and new, taxable capital investment.

EXPECTED RESULTS:

By making strategic interventions—purchasing, aggregating, and disposing of property—the pace and scale of private development will improve in the Coffee Creek area, creating a stronger return-on-investment for the urban renewal agency, and for taxing districts in the long-term.

TIMELINE:

There is no prescribed timeline for the implementation of this strategy. If the Council directs staff to continue advancing the administrative steps required to make an authorized land acquisition possible, such steps would probably take us into the fall of 2025. After those pieces are in place, Staff would begin conversations with brokers and property owners to identify potential acquisitions.

CURRENT YEAR BUDGET IMPACTS:

Any costs associated with the administrative actions needed (amending the Coffee Creek urban renewal plan and amending the City's RSIS contract with Business Oregon) will be paid through funds already included in the City Budget.

COMMUNITY INVOLVEMENT PROCESS:

The Coffee Creek Master Plan and the Urban Renewal Strategic Plan were both public processes that involved stakeholder and public engagement, through task force meetings and public City Council meetings where the draft plans were considered and eventually adopted.

POTENTIAL IMPACTS OR BENEFIT TO THE COMMUNITY:
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ALTERNATIVES:
Alternatives are discussed above.

CITY MANAGER COMMENT:
N/A

ATTACHMENTS:
N/A