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Our File No. 011750-0001

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LAND CONSERVATION AND DEVELOPMENT

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Urban and Rural Reserves Specialist
Department of Land Conservation and Development
635 Capitol Street N.E., Suite 150
Salem, OR 97301

Reference: Objections to Adoption of Urban and Rural Reserves by Metro and Clackamas, Multnomah, and Washington Counties (Metro Ordinance No. 10-1238A; Clackamas County Ordinance No. ZDO-233; Multnomah County Ordinance No. 2010-1161; Washington County Ordinance No. 733)

Dear Sir or Madam:

We represent the Coalition for a Prosperous Region (the "Coalition"), a consortium of business and labor organizations that includes the Columbia Pacific Building Trades Council, The Commercial Real Estate Association (NAIOP), Commercial Real Estate Economic Coalition, Home Builders Association of Metropolitan Portland, Portland Metropolitan Association of Realtors®, Portland Business Alliance, and Westside Economic Alliance. The Coalition appreciates the significant effort undertaken by Metro and Clackamas, Multnomah, and Washington Counties, participating cities, other local and state agencies, and the public in reaching the above-referenced decision (the "Reserves Decision").[1] However, the Coalition believes there are fundamental errors in the analysis used in making the Reserves Decision as well as failures to comply with applicable administrative rules and statewide planning goals. These errors and failures result in a decision that not only is legally flawed, but also fails to attain the objective of the urban and rural reserves planning process, which is to find

[1] Although separately adopted by each government, the decision, findings, and record are consolidated for review. Thus, the Coalition refers to the ordinances collectively as the "Reserves Decision." Similarly, Exhibit E of Metro Ordinance No. 10-1238A contains the consolidated findings of the four governments, referred to herein as the "Reserves Findings." Finally, for ease of reference and because the objections focus on the amount of urban reserves designated, we refer to Metro as the decision-maker.

a balance of urban and rural reserves that "best achieves livable communities, the viability and vitality of the agricultural and forest industries, and protection of the important natural landscape features that define the region for its residents." OAR 660-027-0005(2).

I. Participation

The Coalition and its member organizations participated in the urban and rural reserves process through the submission of written and oral testimony to Metro, the counties, and workgroups, including the Clackamas County Board of Commissioners, Clackamas County Urban/Rural Reserves Policy Advisory Committee, Washington County Urban and Rural Reserves Coordinating Committee, Washington County Board of Commissioners, Reserves Steering Committee, Core 4 Committee, and Metro Council. Copies of select testimony are attached in the Appendix of this submission.[2]

II. Timely Filed

Under OAR 660-025-0140(2)(a), any objections must be filed with the Department of Land Conservation and Development (the "Department") within 21 days of the date the notice of decision was mailed to participants. The Notice of Adoption of Metro Urban Reserve Areas was mailed on June 23, 2010. These objections are being filed with the Department on July 14, 2010, within the 21-day period allowed for appeals, with a copy to Metro and Clackamas, Multnomah, and Washington Counties.

III. Overview

The next 50 years are projected to bring significant changes to the Metro region, with a near doubling of population and employment.[3] The objective of this reserves process is to address the resulting needs – both urban and rural – in a manner that "best achieves livable communities, the viability and vitality of the agricultural and forest industries, and protection of the important natural landscape features that define the region for its residents." OAR 660-027-0005(2).

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[2] The documents included in the Appendix to these objections are provided for the Department's convenience. Each of the documents were submitted into the records of Clackamas County, Washington County, and/or Metro, but do not appear to have been included in the respective jurisdiction's submittal record.

[3] Metro's population and employment forecasts project the region's population to be between 3.6 – 4.4 million in 2060, an increase of 1.4 – 2.2 million people. By 2060, it is estimated that the region will support between 1.7-2.4 million jobs, an increase of 600,000 – 1.3 million. *See* Metro Rec. 598, 605.

Underlying the process created to achieve this objective is the premise that providing more certainty about the location of development will result in more livable communities, greater opportunities for economic investment, greater opportunities for agricultural and timber production, and better protection of important natural features. Predicting which lands will best serve these needs and objectives 50 years in the future, however, is a difficult task, imprecise at best. Thus, while worthwhile, even the most rigorously-justified technical analysis and projection is just an educated guess.

This lack of certainty as to how the region will *actually* grow requires balancing the desire for certainty with a capacity for flexibility, should Metro's assumptions and predictions prove to be in error. This need for flexibility to adjust to changing circumstances is particularly acute here where the reserves process does not just designate urban reserves for future urban development; it also designates rural reserves within which future urban development is prohibited for the next 50 years. Given this inherent uncertainty, the ability to make adjustments is a relevant factor in deciding whether the designated amount of urban reserves "best achieves" the desired outcome.

While the Reserves Decision leaves *some* land undesignated and thus available for future consideration as additional urban reserves over the 50-year planning horizon, the amount of designated land is far too little, and too lop-sided in allocation around the region (it is mostly in Clackamas County, even though more growth is projected for Washington County). As a consequence, there is little margin of error should the projections, or the assumptions on which those projections are built, be wrong. The Reserves Findings underscore this point:

> "If the region's effort to contain urban development within the existing UGB and these urban reserves for the next 50 years is successful, the UGB will have accommodated an estimated 74 percent increase in population on an 11-percent increase in the area of the UGB. *No other region in the nation can demonstrate this growth management success. Most of the borders of urban reserves are defined by a 50-year "hard edge" of 266,954 acres designated rural reserves* * * *."

Metro Rec. 16 (emphasis added). These conclusions bear repeating: No one else has been successful in what Metro is attempting to achieve. Nonetheless, the decision builds in little margin for error due to the "hard edge" of rural reserves.

As described in the objections below, the Coalition believes that the Reserves Decision is flawed because several of Metro's assumptions about capacity and future

development (both within the existing Urban Growth Boundary and urban reserves) are faulty, the decision improperly applies the reserves factors and statewide land use planning goals, and the decision is without an adequate factual base. OAR 660-027-0080(4). The Coalition believes these errors should be corrected and the amount of urban reserves increased to achieve a better balance of urban and rural reserves designations.

However, and perhaps even more importantly, the Coalition believes additional land should be left undesignated to provide the necessary safety value for the uncertainty inherent in this 50-year decision. Since so little urban reserve acreage was designated relative to projected population and employment growth, and since the assumptions relied upon to meet this projected growth were so aggressive compared to past experience, retaining more undesignated land will require a reduction in the amount of rural reserve. Such a reduction, however, is not the threat to rural needs that it might at first appear to be. If Metro's current projected land needs are correct, the designated urban reserves will suffice, no additions will be necessary, and the undesignated lands will protect rural needs under existing resource zoning. But if the projections fall short of actual performance, future decision-makers will have the flexibility to look to undesignated lands to adjust the urban reserve acreage upward to accommodate demand that would have been met by initial urban reserves acreage if the projections were more accurate.[4]

The Coalition does not believe the need for additional undesignated lands to provide flexibility is simply a policy choice. Rather, as explained in the objections below, such flexibility is a necessity for finding a "balance" that "best achieves" urban and rural needs as required by OAR 660-027-0050(2).

IV. Objections

Objection 1: The Reserves Decision fails to designate sufficient urban reserves to achieve the balance of urban and rural reserves required by OAR 660-027-0005(2).

Explanation: SB 1011 and the administrative rules adopted in OAR 660-027 recognize the competing needs of enhancing the agricultural and timber industries, promoting community development (housing, employment, and associated services), and protecting natural landscape features. The requirement to balance these interests is stated in OAR 660-027-0005(2), which provides in relevant part:

> "The objective of this division is a *balance* in the designation of urban and rural reserves that, in its entirety, best achieves livable

[4] As noted earlier, most of the urban reserves border a "hard edge" of rural reserves, so without additional undesignated acreage there is no future expansion area. Metro Rec. 16.

> communities, the viability and vitality of the agricultural and forest industries and protection of the important natural landscape features that define the region for its residents."

(Emphasis added).[5] While the rule does not require mathematical parity in the designation of urban and rural reserves (which would be meaningless given the divergent needs of the urban and rural sectors), it does require that the needs of one sector do not dominate over the other.

The applicable statutes and administrative rules provide direction as to the factors that must be considered in determining the amount, type, and characteristics of the lands to be designated. ORS 195.141(3) (stating that certain factors "shall" be considered in the designation of rural reserves); ORS 195.145(5) (stating that certain factors "shall" be considered in the designation of urban reserves); *see also* OAR 660-027-0040(8) and (9). The required considerations for determining and evaluating urban and rural reserves are set forth in OAR 660-027-0050 and OAR 660-027-0060. The application of these factors and considerations, however, cannot ignore that the totality of the decision must represent a balance between urban and rural reserve area designations and that that balance must "best achieve" the region's urban and rural needs.

Such balancing tests and weighing of factors is common in land use decisions, and numerous cases discuss the process a local government undertakes in reaching a decision. *See, e.g, City of West Linn v. LCDC*, 201 Or App 419, 438, 119 P3d 285 (2005) (finding it is reasonable to expect an explanation of how Metro arrived at a decision that an area is "better than alternative sites" for inclusion within the UGB); *Citizens Against Irresponsible Growth v. Metro*, 179 Or App 12, 17 n6, 38 P3d 956 (2002) (even where findings are not explicitly required, there must be enough to show that the applicable criteria were applied and that the required considerations were considered); *D.S. Parklane Development, Inc. v. Metro*, 35 Or LUBA 516, 556-60, *aff'd* 165 Or App 1, 26, 994 P2d 1205 (2000) (describing required findings). At a minimum, a local government must show that it has actually *considered* the required factors and applied them in making the decision. Such effort must go beyond simply *listing* the factors. Rather, the decision-maker must consider relevant information and testimony, describe how such facts and circumstances are weighed and evaluated against the required factors, and then offer an explanation of how it reached its decision. *Id.* Admittedly this can be a large task, particularly in cases such as this one, but that fact does not obviate the need to comply with the requirements of OAR 660-027-0080(4) to provide findings of fact and conclusions of law that the decision

[5] The term "livable communities" is defined to encompass the needs of the urban community, including housing, employment, public services and infrastructure. *See* OAR 660-027-0010(4) (defining "livable communities" as "communities with development patterns, public services and infrastructure that make them safe, healthy, affordable, sustainable and attractive places to live and work").

complies with these reserves rules, applicable statewide planning goals and other applicable administrative rules..

The Reserves Findings, however, do not go through this exercise, at least not with respect to the designation of urban reserves. For example, the five-page section titled "Overall Conclusions" in the Reserves Findings is almost exclusively devoted to a discussion of the trade-offs and considerations related to the designation of rural reserves. *See* Metro Rec. at 14-19. At no point does it describe the trade-offs or considerations of its designation of urban reserves. Even more to the point, the Reserves Decision does not describe how it "balanced" the designation of urban and rural reserves to "best achieve" the region's urban and rural needs: the rule itself is cited only once; and the only two statements concerning balance are purely conclusory. *See* Reserves Findings, Metro Rec. 2, 18, 22.

The absence of such analysis and explanation might be reasonable if this was a case where no conflicting evidence was submitted, and where all agreed there were no competing interests between the designation of urban and rural reserves.[6] Perhaps then it could be said – and supported – that the decision-makers were able to "balance" the urban and rural needs without making reference to tradeoffs or explaining why they reached the decision they did. But this is not the case here. Instead, there is considerable testimony (including reports from Washington County), not even mentioned in the Reserves Findings, which argue that urban needs are not met and disproportionately suffer in comparison with rural needs. *See e.g.,* Joint State Agency Letter dated October 14, 2009, and resubmitted January 22, 2010, Metro Rec. 1370 and 1638 (suggesting that Metro should evaluate and reconcile the differing estimates of land needs for Washington County); Port of Portland Letter dated October 15, 2009, Metro Rec. 1322-1325 (outlining key criteria for the industrial lands and providing comments on proposed reserves designations); NAIOP Letter dated September 4, 2009, Metro Rec. 1326-1328 (describing the economic trade-offs); Washington County Lands Need Estimates Memorandum dated June 2009, WashCo Rec. 3011, 3586-3609 (undertaking land needs analysis and projected a need for 47,000 acres of urban reserves); Clackamas County Business Alliance Letter dated September 8, 2009, ClackCo Rec. 4205 (reserves recommendations relating to urban needs); Johnson Reid Memorandum re UGR Report dated June 15, 2009, Appendix A (the "Johnson Reid UGR Memo"); Johnson Reid Memorandum re Large Lot Analysis dated July 13, 2009, Appendix B (the "Johnson Reid Large Lot Memo"); Johnson Reid Memorandum re Employment Land dated June 30, 2009, Appendix C (the "Johnson Reid Employment Memo"); Home Builders Association of Metropolitan Portland Memorandum dated June 16, 2009, Appendix D

[6] For example, a case where reliable analysis showed there were 300,000 acres available; and that 240,000 acres were needed for rural reserves and 50,000 were needed for urban reserves. Even then, however, one can imagine trade-offs and discussion over which lands were designated for which purpose.

(describing urban housing needs and trade-offs based on assumptions in Metro's Urban Growth Report); Group Mackenzie Memorandum dated October 22, 2008, Appendix E (peer review of Metro Infrastructure Study); Coalition for a Prosperous Region Letter dated January 21, 2010, Appendix F (testimony explaining why the proposed urban reserves were insufficient).

The requirement for a discussion of how the balance was reached, the choices made in determining that balance, and the rationale for the decision-maker's ultimate choice, is more than a formality and requires more than lip-service or conclusory statements. *Any* designation of urban and rural reserves could be said to implicitly represent some sort of balance between the two. But the Reserves Decision requires more; it requires a balance that "best achieves" a mix of urban and rural goals. For the requirement to "best achieve" the balance to have any meaning, there must be some explanation in the findings of how the balance was made and why that balance "best achieves" the desired mix, including why the option chosen is better than other reasonable options (which also should have been considered). The Reserves Decision also requires findings that the balance – *in its entirety* – best achieves the urban and rural goals. Thus, the Reserve Findings concerning tradeoffs for individual urban reserve areas – while helpful and ultimately critical to the decision-making process are not enough. Without findings as discussed above, there is no demonstration that the requirement of OAR 660-027-0005(2) has been met.[7]

An example of the significance of these required findings and the related analysis is relevant. The Coalition and others believe (and have testified) that the Reserves Decision designates too few urban reserves, or retains too few undesignated areas. As is discussed more fully below, there are a number of assumptions made in the technical analysis used in calculating needs and capacity that could prove inaccurate over a 50-year period.[8] If one or more of those assumptions prove to be wrong, will there be sufficient urban reserves to provide the "best balance"? Is there sufficient flexibility in the decision to adapt to such changes in actual performance? Can there be a balance that "best achieves" the desired mix if the decision doesn't demonstrate that such questions have been considered and doesn't explain how the choice was made?

Finally, the provisions related to review of a reserves decision under OAR 660-027 explicitly require "findings of fact and conclusions of law" to demonstrate that the

[7] It is curious that despite explicit language in OAR 660-027-0080(4) that Metro's decision include findings of fact and conclusions of law that demonstrate compliance with OAR 660-027-0005(2), the Reserves Findings only mention that section in three places, and then only to baldly state the balance has been achieved. *See* Reserves Findings, Metro Rec. 2, 18, 22.

[8] Many of these assumptions have never been met in practice, and result in an assumed intensity of development that leads to a projected need for fewer urban acres in the future.

designation of urban and rural reserves complies with the applicable administrative rules and statewide planning goals. OAR 660-027-0080(4). The failure to actually consider and apply the factors, and explain how these needs were "balanced" violates both the substantive requirements in OAR 660-027-0005(2), OAR 660-027-0050, and OAR 660-027-0060, as well as the procedural requirements of OAR 660-027-0080(4).

Proposed Remedy: Remand the Reserves Decision with directions to determine whether the proposed reserves balance the urban and rural needs consistent with OAR 660-027-0005(2) and the factors set forth in OAR 660-027-0050 and 660-027-0060, specifically focusing on whether and how the decision also "best achieves" urban needs.

Objection 2: Metro's adoption of the top end of the "middle third"[9] of the population and employment forecast is arbitrary and thus violates the Goal 2 requirement that decisions be supported by an adequate factual base. *See also* OAR 660-027-0080(4)(a). Further, because these forecasts are the basis for the projected urban needs, the Reserves Decision also fails to comply with OAR 660-0005(2), or demonstrate that the urban reserves factors in OAR 660-027-0050(2) and (6) were correctly applied.

Explanation: The Reserves Findings do not describe how Metro arrived at its decision to use the "middle third" of its population and employment projections. *See*, Metro Rec. 22-24. Rather, the Reserves Findings simply state Metro's estimated demand for new dwelling units (485,000 to 532,000 dwelling units) and new jobs (624,300 to 834,100). *See* Metro Rec. 22-23. The accompanying Metro June 9, 2010 Staff Report states that the "partner governments ended up using the middle third of this forecast to increase the probability of it being accurate." Metro Rec. 118. That statement, however, directly contradicts the conclusions in the Technical Methodology Used to Define the Regional Scale of Residential Lands within Urban Reserves in Appendix 3E-C of the Chief Operating Officer's Recommendations (the "Reserves Residential Range Methodology"). Metro Rec. 597-603. Instead, the Reserves Residential Range Methodology states it "is estimated that there is a 90 percent chance that the rate of growth will fall within this forecasted range, *but high confidence comes at the price of larger variability*." Metro Rec. 598 (emphasis added).

Thus, the effect of narrowing the population projections to the "middle third" is an *increase* in the likelihood that the projections will be incorrect. This fact is demonstrated by Figure C-1 in the Reserves Residential Range Methodology, which shows that the farther out one looks on the planning horizon, the more difficult it is to predict population growth with accuracy. Thus, using the "middle third" actually leads to more uncertainty in the projections, and, if used,

[9] For ease of reference, we use the term "middle third" in the remainder of these objections.

requires that additional lands remain undesignated to compensate for the increased probability of error. Nor is the potential deficit small: if the high-range population growth is used, the Reserves Residential Range Methodology calculates the residential land need to be an additional 7,000 acres. Metro Rec. 603.

The same issue is present with the Reserves Employment Range Methodology, where Metro has again elected to use the "middle third" of the employment projections without any reasoning or discussion. Metro Rec. 604-610. Here again, the graph showing the employment forecast through 2060 shows the difficulty in predicting employment growth with accuracy. Reserves Employment Range Methodology, Figure D-1, Metro Rec. 606. Metro's only explanation is that "the large variability may make it more difficult to arrive at a reserves conclusion." Metro Rec. at 598. While this point may be accurate as a political calculus, it does not provide an adequate factual base for the Reserves Decision, nor does it satisfy the requirements in OAR 660-207-0050(2) and (6) to provide sufficient land to support a healthy economy and range of needed housing types.

Proposed Remedies: Remand the decision with direction to use the full range of population forecasts in projecting housing and employment needs, and add to the acreage of urban reserves.

Alternatively, acknowledge the urban reserves designated in the Reserves Decision, but remand the remainder of the decision with direction to use the full range of population projections, and remove rural reserves designations so that there are sufficient lands in the urban reserves and undesignated categories to meet those projected needs. As is obvious, such additional undesignated acres must be appropriate in location and site characteristics for urban development. In addition, such remand should require the adoption of a periodic adjustment schedule for designating additional urban reserves if the population or employment growth is significantly greater[10] than the "middle third" adopted by Metro in this Reserves Decision, based on the analysis during the prior two urban growth boundary decisions.[11]

Objection 3: The Reserves Decision overestimates the development capacity within the existing UGB and relies on faulty assumptions to dramatically increase projected development efficiency and density, the consequence of which is a Reserves Decision that fails to designate enough urban reserves to balance urban and rural needs as required by OAR 660-

[10] A 10% difference would be appropriate to trigger the requirement to add additional urban reserves.
[11] For example, population and employment forecasts are part of the analysis for UGB decisions, which Metro must undertake every five years. Thus, the trigger could be that if the actual population and/or employment growth significantly exceeds the "middle third" (e.g., by more than 10%), Metro must begin the process to designate additional urban reserves.

027-0005(2). Likewise, as a result of the reliance on erroneous assumptions, the Reserves Decision fails to properly apply the urban reserves factors, particularly OAR 660-027-0050(2) and (6), an to satisfy the requirements of Goals 2, 9, 10, and 14. *See also* OAR 660-027-0080(4) (requiring findings demonstrating compliance with the reserves rule and applicable statewide planning goals).

Explanation: Metro's Urban Growth Report (the "UGR"), Reserves Residential Range Methodology, and Reserves Employment Range Methodology rely on overly optimistic and never-achieved refill rates and underbuild rates, which results in an overestimation of the capacity within the existing UGB and an underestimation of reserves land needed to accommodate housing and employment demand through the 2060 planning horizon. *See* Reserves Findings, Metro Rec. 23-24 (noting that Metro's assumptions for higher residential densities and greater efficiencies and different types of employment lands). This is implicit in Metro's assertion that by 2060 the region can absorb a 74% increase in population with only an 11% increase in geographic area. Metro Rec. 16. The reliance on aggressive refill rates, availability of housing subsidies, and decreased underbuild rates also correlate to a higher per unit cost, affecting the range of housing types that will be built.

a. Refill Rates

Specifically, the UGR adopts a refill rate for residential development of 37.9%-41.2% for the 2009-2030 period, and the Reserves Residential Range Methodology adopts a refill rate of 40% for the 2030-2060 period. Metro Rec. 738-739; Metro Rec. 602. However, the actual refill rate experienced in the UGB between 1997 and 2006 varied from 15.6%-34.2%. Metro Rec. 720, 738; *see also* Home Builders Association of Metropolitan Portland Memorandum dated June 16, 2009 Appendix D-3. Adopting an assumption that the refill rate will increase substantially – with little to no explanation or factual support as to why – does not satisfy the Goal 2 requirements for an adequate factual base. *See also* ORS 197.296(5) (requiring analysis based on density and housing mix that has actually occurred); ORS 195.145 (requiring that the population and employment growth first 20-years of the reserves period be based on projections completed consistent with ORS 197.296). It also contradicts Metro's assessment that a refill rate somewhere between 30-35% is most likely. Metro Rec. at 738. Given the magnitude of the assumed increase – roughly 68% over past experience – Goal 2 demands a more thorough explanation of the factors, new policies to remove barriers to refill, and other strategies Metro will employ to reach this refill rate.

The only apparent reason for this increase in the refill rate is the delay of infrastructure to serve development in new UGB expansion areas, such as Damascus (which Metro projects will not be available until 2030). But even there, Metro acknowledges that the

higher refill rate results from a decrease in the UGB capture rate (and thus not an increase in the feasibility or market conditions for refill), and that the projections may "ignore the possibility of additional losses of residential growth to areas outside the seven-county area." Metro Rec. at 738. First, to the extent that Metro relies on an inability to effectively develop areas within the existing UGB, such rationale should be rejected as a basis for not making other land available. Second, it is noteworthy that this is not a case where Metro is arguing there is no need for land. Finally, as acknowledged by Metro, the failure to provide infrastructure necessary for development simply results in driving development elsewhere.[12] Not one of these outcomes are consistent with the requirement that the designation of urban reserves achieve livable communities as required under OAR 660-027-0005(2), provide sufficient development capacity for a healthy economy under OAR 660-027-0050(2), or provide sufficient land suitable for a range of housing types under OAR 660-027-0050(6).

Finally, Metro's analysis does not adequately consider or acknowledge the higher cost of housing, and the effect such additional costs will have on actual refill rates.[13] Instead, Metro assumes that these higher costs will be offset by $3.5 billion of housing subsidies, without which the 40% refill rate could not be achieved. Metro Rec. 600. Without some explanation, it is not possible to find that Metro appropriately considered the applicable urban reserves factors, particularly that of OAR 660-027-0050(6) to provide a range of housing types, the corollary requirements in Goals 10 and 14, or the requirements of Goal 2 to provide an adequate factual base.

Increased refill rates were also applied to employment lands, ignoring the market's demand for location, site size, building type, and infrastructure needs. There was considerable testimony – left unaddressed in the findings – that Metro's refill analysis was overly optimistic and without sufficient technical analysis. *See, e.g.,* Johnson Reid Employment Memorandum dated June 30, 2009, Appendix C (review of Metro's urban growth report for employment land); Port of Portland Letter dated October 15, 2009, Metro Rec. 1398-1405 (outlining key criteria for the industrial lands and providing comments on proposed reserves designations). Given the above, it is not apparent from the Reserves Findings that Metro designated enough urban reserves achieve livable communities as required under OAR 660-027-

[12] A reduction in the UGB capture rate results in a variety of spillover effects that will have negative effects on the region's development patterns, transportation infrastructure, and livability, as articulated in the June 15, 2009 memorandum from Johnson Reid to Metro regarding the 2009-2030 Urban Growth Report. Appendix A.

[13] In this regard it is also important to note that Metro's assumption that infrastructure costs are necessarily less in for infill and redevelopment is not accurate. For example, upsizing existing infrastructure in already-developed areas is more expensive and disruptive than comparable costs in greenfield sites. *See* Group Mackenzie Memorandum dated October 22, 2008, Appendix E (peer review of Metro's Infrastructure Study).

0005(2), or provide sufficient development capacity for a healthy economy under OAR 660-027-0050(2), or meet the corollary requirements in Goals 9 and 14.

b. Underbuild Rates.

Metro's analysis suffers from the same deficiency with respect to the projected underbuild rates. For example, for residential development, Metro has projected an underbuild rate of 5% for the 50-year planning period, although the current rate is 20%. Metro Rec. at 737; *see also* Home Builders Association of Metropolitan Portland Memorandum dated June 16, 2009 Appendix D-3. Metro's only justification is that "several cities" reported substantially smaller underbuild rates. While more success may have been realized in Hillsboro, Wilsonville, and Clackamas County (the three local governments from which data was collected), it is not clear that such success is indicative of a larger trend or that the lands in these jurisdictions are similar with respect to development potential as other land remaining in the UGB or designated for urban reserves.

As above, the Coalition does not object to greater aspirations of reducing the underbuild rate. However, recent experience of three communities does not provide the basis for reducing the underbuild rate, and particularly not by 75%. Without more analysis and explanation, Metro's adoption of a 5% underbuild rate it not supported by an adequate factual base as required by Goal 2 and violates ORS 197.296(5).

c. Floor Area Ratios

Because it uses unreasonably high and untested refill and underbuild rates, Metro's FAR assumptions for employment land are also very aggressive, and result in an inadequate consideration of the second urban reserves factor: whether the urban reserves designated provide sufficient development capacity for a healthy economy (OAR 660-027-0050(2)). For example, Metro assumes a 20% increase in FARs for centers and corridors without any assessment or explanation of how this could be achieved. *See, e.g.,* Johnson Reid Employment Memorandum dated June 30, 2009, Appendix E, particularly E-11-15 (analyzing Metro's FAR assumptions).

d. Housing Types

The requirement to provide sufficient land for housing is for "needed housing types." OAR 660-027-0050(6). However, infill housing to date includes a narrow range of dwelling types and higher per unit cost, due to a combination of costs related to higher land value, demolition and/or environmental remediation, up-sizing of infrastructure capacity and/or

higher construction costs associated with building type and structured parking. Thus, the assumption that there will be a higher proportion of infill housing affects housing choice (both by unit type and location) and affordability. An equitable distribution of new housing units throughout the region (including on the edges of the UGB), is necessary both to maintain and provide sub-regional housing/jobs balance and to achieve "livable communities," defined in relevant part in OAR 660-027-0010(4) as "attractive places to live and work."

e. Goals 9, 10, and 14

The Reserves Findings have only cursory findings for Goals 9, 10, 14, and the other statewide land use planning goals. It is apparent from these findings and the supporting documents that Metro believes it has little or no obligation to apply Goals 9, 10, or 14, at least in part because the Reserves Decision does not affect or change current zoning designations. *See* Metro Rec. 98-102. However, Goals 9, 10, and 14 – and the ability of Metro and the region to meet the requirements of those goals in the future – are directly implicated by the Reserves Decision. In the most extreme, surely Metro couldn't argue that these goals were not violated if it designated no urban reserves despite knowing the region would be unable to meet the demand for urban land in the future? While the Metro is correct that the Reserves Decision may not immediately change zoning designations, it does set the framework for future changes – or the inability to respond to future changes – and in that way has Goal implications which must be addressed. Thus, if the Reserves Decision is to satisfy Goals 9, 10, 14 and the statutory counterparts, it must be able to demonstrate that the region will be able to meet those requirements over the 50-year period.

Furthermore, Metro's projections for housing and employment needs are based on Metro's Urban Growth Report, which states it was completed to comply with certain statutory requirements, as well as Goals 9, 10, and 14. *See* Metro Rec. at 626, 704.[14] Thus, the underlying analysis – if not the decision itself – must comply with Goals 9, 10, and 14.

Proposed Remedy: The decision should be remanded with direction to revise the refill rates, underbuild rates, FARs, and limitations on housing types to reflect historical norms for residential and employment lands, and to designate additional urban reserves warranted by such revised calculations consistent with the requirements of the urban reserve rules, and Goals 9, 10, and 14.

[14] The Reserves Decision uses the Urban Growth Report to project housing and employment needs for the planning period through 2030. For all practical purposes, the Urban Growth Report is used for the period between 2030 and 2060, as almost all of the assumptions developed for the Urban Growth Report are carried through the Reserves Residential Range Methodology and Reserves Employment Range Methodology. *See* Metro Rec. at 597 and 604.

However, mindful that Metro and the region will benefit from having designated urban reserves for its upcoming UGB decision at the end of 2010, the Coalition alternatively recommends that the urban reserves designated in this Reserves Decision be acknowledged and that the rural reserves portion of the decision be remanded with direction to adjust the rural reserves designations to provide additional undesignated lands appropriate for development. Finally, as above, such remand should require the adoption of a periodic adjustment schedule for designating additional urban reserve if the actual refill rates, underbuild rates, and FARs are significantly different from the assumptions Metro has made in making the Reserves Decision. For efficiency and consistency, we recommend that the periodic adjustment schedule be based on the analysis prepared for Metro's urban growth boundary decisions, with the requirement to designate additional urban reserves triggered by a the failure to meet such projections during the prior two urban growth boundary decisions. Such remand directions are necessary to bring the Reserves Decision into compliance with the urban reserves rules and Goals 2, 9, 10, and 14.

Objection 4: In making the Reserves Decision, Metro failed to allocate land needs by geographic subarea to meet long-term needs for population and employment, and as such failed to balance urban needs as required by OAR 660-027-0005(2), failed to adequately consider the urban reserves factors requiring sufficient development capacity for a healthy economy and sufficient land suitable for a range of housing choices, and failed to comply with applicable statewide planning goals. *See* OAR 660-027-0050(2) and (6); Goals 9, 10, and 14.

In making this objection it is important to recall that the Coalition's primary concern is that insufficient urban reserves and undesignated lands have been provided to meet the region's needs over the next 50 years. This objection is therefore focused on the need to increase urban reserves in Washington County consistent with its subregional growth needs. It does not argue that the 28,615 acres of urban reserves or undesignated lands should be reallocated from Clackamas County and added to Washington County because the Coalition believes that the overall amount of land potentially available to Clackamas County – including the lands designated for urban reserves, the lands left undesignated, and the undeveloped lands within the current UGB – appears to at least more closely reflect what will be needed for Clackamas County over the next 50 years.

Explanation: The three counties that comprise the Metro region are projected to grow at different rates, yet the Reserves Decision does not allocate land needs by geographic area, or even allow sufficient flexibility to address such sub-regional growth rates. This failure is discussed in the Reserves Findings, which provide great detail about the process by which Washington County determined an urban reserves need of 34,300 acres, but ultimately only received about 13,000 acres, but do not reconcile or otherwise explain how the decision is justified. *See* Metro Rec. at 71-72.

Washington County did undertake a growth allocation analysis, and completed population and employment allocations, based on historic growth rates. This analysis projected Clackamas County's population share as 16.52%, Multnomah County's population share as 12.90%, and Washington County's population share as 32.38% (based on a historic UGB capture rate of 61.8% of the seven-county PMSA population growth). *See* Washington County Lands Need Estimates Memorandum dated June 2009, WashCo. Rec. The allocations related to employment growth are: Clackamas County 19.05%; Multnomah County 30.27%; Washington County 30.56% (based on a 79.9% county share of the PMSA employment growth). *See, id.*, WashCo Rec.

The Coalition notes that this issue also was raised specifically by the state agencies, both in of their letters of October 14, 2009, and January 22, 2010. *See* Metro Rec. 1370 and 1638, respectively. In those letters, the state agencies noted that "Metro has the responsibility to allocate land needs by geographic area" and that "Metro and the counties need to keep both housing equity (Goal 10) and employment (Goal 9) considerations (including the aspirations of individual communities) in mind as well as economic and environmental justice in determining how to distribute urban reserve areas across the region." Joint State Agency Comments, October 14, 2009, resubmitted January 22, 2010; Metro Rec. at 1375. It is not apparent that Metro considered the above comments in reaching the Reserves Decision or that Metro undertook such analysis on its own. Rather, Metro allocated approximately the same number of acres of urban reserves for Washington and Clackamas Counties despite the significant difference in population and employment growth projections for each county.[15]

As a related matter, the failure to allocate growth among the counties means that the Reserves Decision failed to properly apply the first urban reserves factor, requiring that lands designated for urban reserves can be developed in a way that makes efficient use of existing and future infrastructure investments. *See* OAR 660-027-0050(1). As one example, the City of Hillsboro has developed sophisticated infrastructure to support substantial industrial development. Given the costs of infrastructure, and the repeated findings that communities need available sites to compete for economic development, additional urban reserves should have been designated in the Hillsboro area.

Proposed Remedy: As noted elsewhere in these objections, the Coalition's primary concern is that the Reserves Decision fails to provide an adequate supply of land for

[15] As above, this argument is not directed at simply reallocating the 28,615 already designated urban reserves, but rather at the need to increase the urban reserve acreage and undesignated acreage in Washington County to meet its population and employment forecasts for the next 50 years. To that end, it should also be noted that Washington County only left about 6,000 acres undesignated, whereas Clackamas County left significantly more giving Clackamas County a margin for error.

projected population and employment needs over the next 50 years. Thus, the Coalition does not propose redistributing the 29,615 acres of urban reserves, but rather proposes that additional land in Washington County be designated for urban reserves based on this unmet need in a process that considers all relevant factors (including historic population growth, economic aspirations of the individual communities, and housing equity). The focus of this objection is on Washington County because the amount of urban reserves designated in Clackamas County, particularly when considered together with the amount, location, and suitability of undesignated areas in the county and the amount of undeveloped land already inside the county UGB, appears to at least more closely reflect what is likely to be needed over the 50-year reserves period. The Coalition notes that such process is consistent with the state agencies' recommendation. *See* Joint State Agency Comments, October 14, 2009, resubmitted January 22, 2010; Metro Rec. at 1375.

However, as discussed in more detail in the Remedies discussion under Objection 3, the Coalition recognizes there is benefit to having urban reserves available for the upcoming UGB decision. Therefore, an alternative recommendation is to acknowledge those urban reserves designated by the Reserves Decision (for all three counties), but remand the decision with direction to remove rural reserve designations in Washington County such that there is sufficient land available to accommodate possible increases to the urban reserves, or to retain these as undesignated until they may be needed for conversion to urban reserves at a later time.

Objection 5: The Reserves Decision fails to provide for a diversity of employment sites necessary for a healthy economy. While the Coalition supports the effort to address the need for large-lot industrial sites, the 3,000-acre target for large lot industrial sites is not sufficient to meet employment land needs. Accordingly, the Reserves Decision does not comply with OAR 660-027-0005(2), OAR 660-027-0050(2), or Goal 9.

Explanation: The urban reserve factor relating to employment lands requires a demonstration that the land proposed for urban reserves include "sufficient development **capacity** to support a healthy economy." OAR 660-027-0050(2) (emphasis added). This is a qualitative, not simply quantitative, requirement, requiring an assessment of capability and suitability. Throughout the reserves decision-making process numerous parties, including cities, the Port of Portland, the state agencies, and Coalition members, presented evidence that to have a healthy economy – i.e., be able to attract new employers and support the growth of existing employers – it was necessary to have enough diversity of sites to provide for varying needs (e.g., infrastructure; access to labor force; size; proximity to customers, suppliers, and like companies; market choice, etc.). *See, e.g.,* Port of Portland Letter dated October 15, 2009, Metro Rec. 1398-1405 (outlining key criteria for the industrial lands and providing comments on proposed reserves designations); Johnson Reid Large Lot Memo, Appendix B (reviewing Metro's large lot

employer analysis and offering additional considerations); Johnson Reid Employment Memorandum Appendix C (reviewing Metro's preliminary urban growth report for employment land). The need for such diversity is underscored by the likelihood of significant changes in the region's economy over the next 50 years; even Metro assumes that there will be significant changes with uncertain impacts on size and location of the urban land supply. *See, e.g.*, Reserves Findings, Metro Rec. at 24.

However, the Reserves Decision fails to account for the needed diversity of employment sites, instead assuming a shift from production to more research and development and administration/marketing, which have more employees per square foot and demand a higher proportion of office space. In so doing it ignores current and future planning for economic development, such as whether sufficient acreage exists proximate to the Port of Portland for targeted sustainable energy systems or whether sufficient industrial acreage is available in Washington County that is both proximate to the existing high-tech workforce and suitable for such development (e.g., seismically stable, adequate water and power capacity). As elsewhere, Metro's reliance on new assumptions without an explanation of how existing sites provide the necessary diversity is inadequate to demonstrate that it correctly applied OAR 660-027-0050(2) to provide for a healthy economy, or OAR 660-027-0005(2) to "best achieve" urban needs. For the same reasons, the Reserves Decision does not comply with Goal 9.

Remedy: As recommended for Objection 4, the decision should be remanded with direction to either: (1) designate additional urban reserves to meet the full range and diversity of employment needs, or (2) acknowledge the urban reserves designated by the Reserves Decision, but remand the remainder to reduce the amount of rural reserves so that there are available lands on which to meet employment needs, should Metro's assumptions prove to be incorrect.

V. Conclusion

While described in some detail under each objection, it is useful to repeat collectively what the Coalition believes should be done, understanding that its primary concerns are the lack of development capacity to meet employment and housing needs over the next 50 years and the lack of ability to make adjustments should Metro's overly optimistic assumptions prove to be in error.

The first proposed remedy is to remand the decision with directions to correct the identified errors, and designate additional urban reserves such that the requirement to balance the urban and rural reserve designation in a manner that "best achieves" urban and rural needs.

An alternative remedy is also proposed which recommends acknowledging those urban reserves that have been designated by Metro and the three counties, but remanding the rural reserves decision to add to the acreage of undesignated lands so that there is the ability to make adjustments if Metro's assumptions prove to be in error. To serve this purpose, such additional undesignated lands will need to be appropriate for development in terms of size, location, and characteristics, but would remain in their current resource zoning unless and until additional need was identified. Finally, because this alternative leaves a currently inadequate amount of urban reserves, the Coalition believes it is necessary to also require a periodic review and adjustment period based on Metro's current UGB expansion decisions. Specifically, as explained in more detail in the individual objections, an increase in the amount of urban reserves would be required if the UGB expansion studies showed that for the past two expansion periods (i.e., every 10 years) the actual population or employment growth, or refill, underbuild and/or FAR rates, or other key assumptions were significantly different than projected for this Reserves Decision.

Very truly yours,

Stark Ackerman

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cc: Ms. Laura Dawson Broder
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Our File No. 011750-0001

July 14, 2010

HAND-DELIVERED

Urban and Rural Reserves Specialist
Department of Land Conservation and Development
635 Capitol Street N.E., Suite 150
Salem, OR 97301

Reference: Objections to Adoption of Urban and Rural Reserves by Metro and Clackamas, Multnomah, and Washington Counties (Metro Ordinance No. 10-1238A; Clackamas County Ordinance No. ZDO-233; Multnomah County Ordinance No. 2010-1161; Washington County Ordinance No. 733)

Dear Sir or Madam:

We represent the Coalition for a Prosperous Region (the "Coalition"), a consortium of business and labor organizations that includes the Columbia Pacific Building Trades Council, The Commercial Real Estate Association (NAIOP), Commercial Real Estate Economic Coalition, Home Builders Association of Metropolitan Portland, Portland Metropolitan Association of Realtors®, Portland Business Alliance, and Westside Economic Alliance. The Coalition appreciates the significant effort undertaken by Metro and Clackamas, Multnomah, and Washington Counties, participating cities, other local and state agencies, and the public in reaching the above-referenced decision (the "Reserves Decision").[1] However, the Coalition believes there are fundamental errors in the analysis used in making the Reserves Decision as well as failures to comply with applicable administrative rules and statewide planning goals. These errors and failures result in a decision that not only is legally flawed, but also fails to attain the objective of the urban and rural reserves planning process, which is to find

[1] Although separately adopted by each government, the decision, findings, and record are consolidated for review. Thus, the Coalition refers to the ordinances collectively as the "Reserves Decision." Similarly, Exhibit E of Metro Ordinance No. 10-1238A contains the consolidated findings of the four governments, referred to herein as the "Reserves Findings." Finally, for ease of reference and because the objections focus on the amount of urban reserves designated, we refer to Metro as the decision-maker.

a balance of urban and rural reserves that "best achieves livable communities, the viability and vitality of the agricultural and forest industries, and protection of the important natural landscape features that define the region for its residents." OAR 660-027-0005(2).

I. Participation

The Coalition and its member organizations participated in the urban and rural reserves process through the submission of written and oral testimony to Metro, the counties, and workgroups, including the Clackamas County Board of Commissioners, Clackamas County Urban/Rural Reserves Policy Advisory Committee, Washington County Urban and Rural Reserves Coordinating Committee, Washington County Board of Commissioners, Reserves Steering Committee, Core 4 Committee, and Metro Council. Copies of select testimony are attached in the Appendix of this submission.[2]

II. Timely Filed

Under OAR 660-025-0140(2)(a), any objections must be filed with the Department of Land Conservation and Development (the "Department") within 21 days of the date the notice of decision was mailed to participants. The Notice of Adoption of Metro Urban Reserve Areas was mailed on June 23, 2010. These objections are being filed with the Department on July 14, 2010, within the 21-day period allowed for appeals, with a copy to Metro and Clackamas, Multnomah, and Washington Counties.

III. Overview

The next 50 years are projected to bring significant changes to the Metro region, with a near doubling of population and employment.[3] The objective of this reserves process is to address the resulting needs – both urban and rural – in a manner that "best achieves livable communities, the viability and vitality of the agricultural and forest industries, and protection of the important natural landscape features that define the region for its residents." OAR 660-027-0005(2).

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[2] The documents included in the Appendix to these objections are provided for the Department's convenience. Each of the documents were submitted into the records of Clackamas County, Washington County, and/or Metro, but do not appear to have been included in the respective jurisdiction's submittal record.

[3] Metro's population and employment forecasts project the region's population to be between 3.6 – 4.4 million in 2060, an increase of 1.4 – 2.2 million people. By 2060, it is estimated that the region will support between 1.7-2.4 million jobs, an increase of 600,000 – 1.3 million. *See* Metro Rec. 598, 605.

Underlying the process created to achieve this objective is the premise that providing more certainty about the location of development will result in more livable communities, greater opportunities for economic investment, greater opportunities for agricultural and timber production, and better protection of important natural features. Predicting which lands will best serve these needs and objectives 50 years in the future, however, is a difficult task, imprecise at best. Thus, while worthwhile, even the most rigorously-justified technical analysis and projection is just an educated guess.

This lack of certainty as to how the region will *actually* grow requires balancing the desire for certainty with a capacity for flexibility, should Metro's assumptions and predictions prove to be in error. This need for flexibility to adjust to changing circumstances is particularly acute here where the reserves process does not just designate urban reserves for future urban development; it also designates rural reserves within which future urban development is prohibited for the next 50 years. Given this inherent uncertainty, the ability to make adjustments is a relevant factor in deciding whether the designated amount of urban reserves "best achieves" the desired outcome.

While the Reserves Decision leaves *some* land undesignated and thus available for future consideration as additional urban reserves over the 50-year planning horizon, the amount of designated land is far too little, and too lop-sided in allocation around the region (it is mostly in Clackamas County, even though more growth is projected for Washington County). As a consequence, there is little margin of error should the projections, or the assumptions on which those projections are built, be wrong. The Reserves Findings underscore this point:

> "If the region's effort to contain urban development within the existing UGB and these urban reserves for the next 50 years is successful, the UGB will have accommodated an estimated 74 percent increase in population on an 11-percent increase in the area of the UGB. *No other region in the nation can demonstrate this growth management success. Most of the borders of urban reserves are defined by a 50-year "hard edge" of 266,954 acres designated rural reserves* * * *."

Metro Rec. 16 (emphasis added). These conclusions bear repeating: No one else has been successful in what Metro is attempting to achieve. Nonetheless, the decision builds in little margin for error due to the "hard edge" of rural reserves.

As described in the objections below, the Coalition believes that the Reserves Decision is flawed because several of Metro's assumptions about capacity and future

development (both within the existing Urban Growth Boundary and urban reserves) are faulty, the decision improperly applies the reserves factors and statewide land use planning goals, and the decision is without an adequate factual base. OAR 660-027-0080(4). The Coalition believes these errors should be corrected and the amount of urban reserves increased to achieve a better balance of urban and rural reserves designations.

However, and perhaps even more importantly, the Coalition believes additional land should be left undesignated to provide the necessary safety value for the uncertainty inherent in this 50-year decision. Since so little urban reserve acreage was designated relative to projected population and employment growth, and since the assumptions relied upon to meet this projected growth were so aggressive compared to past experience, retaining more undesignated land will require a reduction in the amount of rural reserve. Such a reduction, however, is not the threat to rural needs that it might at first appear to be. If Metro's current projected land needs are correct, the designated urban reserves will suffice, no additions will be necessary, and the undesignated lands will protect rural needs under existing resource zoning. But if the projections fall short of actual performance, future decision-makers will have the flexibility to look to undesignated lands to adjust the urban reserve acreage upward to accommodate demand that would have been met by initial urban reserves acreage if the projections were more accurate.[4]

The Coalition does not believe the need for additional undesignated lands to provide flexibility is simply a policy choice. Rather, as explained in the objections below, such flexibility is a necessity for finding a "balance" that "best achieves" urban and rural needs as required by OAR 660-027-0050(2).

IV. Objections

Objection 1: The Reserves Decision fails to designate sufficient urban reserves to achieve the balance of urban and rural reserves required by OAR 660-027-0005(2).

Explanation: SB 1011 and the administrative rules adopted in OAR 660-027 recognize the competing needs of enhancing the agricultural and timber industries, promoting community development (housing, employment, and associated services), and protecting natural landscape features. The requirement to balance these interests is stated in OAR 660-027-0005(2), which provides in relevant part:

> "The objective of this division is a *balance* in the designation of urban and rural reserves that, in its entirety, best achieves livable

[4] As noted earlier, most of the urban reserves border a "hard edge" of rural reserves, so without additional undesignated acreage there is no future expansion area. Metro Rec. 16.

> communities, the viability and vitality of the agricultural and forest industries and protection of the important natural landscape features that define the region for its residents."

(Emphasis added).[5] While the rule does not require mathematical parity in the designation of urban and rural reserves (which would be meaningless given the divergent needs of the urban and rural sectors), it does require that the needs of one sector do not dominate over the other.

The applicable statutes and administrative rules provide direction as to the factors that must be considered in determining the amount, type, and characteristics of the lands to be designated. ORS 195.141(3) (stating that certain factors "shall" be considered in the designation of rural reserves); ORS 195.145(5) (stating that certain factors "shall" be considered in the designation of urban reserves); *see also* OAR 660-027-0040(8) and (9). The required considerations for determining and evaluating urban and rural reserves are set forth in OAR 660-027-0050 and OAR 660-027-0060. The application of these factors and considerations, however, cannot ignore that the totality of the decision must represent a balance between urban and rural reserve area designations and that that balance must "best achieve" the region's urban and rural needs.

Such balancing tests and weighing of factors is common in land use decisions, and numerous cases discuss the process a local government undertakes in reaching a decision. *See, e.g, City of West Linn v. LCDC*, 201 Or App 419, 438, 119 P3d 285 (2005) (finding it is reasonable to expect an explanation of how Metro arrived at a decision that an area is "better than alternative sites" for inclusion within the UGB); *Citizens Against Irresponsible Growth v. Metro*, 179 Or App 12, 17 n6, 38 P3d 956 (2002) (even where findings are not explicitly required, there must be enough to show that the applicable criteria were applied and that the required considerations were considered); *D.S. Parklane Development, Inc. v. Metro*, 35 Or LUBA 516, 556-60, *aff'd* 165 Or App 1, 26, 994 P2d 1205 (2000) (describing required findings). At a minimum, a local government must show that it has actually *considered* the required factors and applied them in making the decision. Such effort must go beyond simply *listing* the factors. Rather, the decision-maker must consider relevant information and testimony, describe how such facts and circumstances are weighed and evaluated against the required factors, and then offer an explanation of how it reached its decision. *Id.* Admittedly this can be a large task, particularly in cases such as this one, but that fact does not obviate the need to comply with the requirements of OAR 660-027-0080(4) to provide findings of fact and conclusions of law that the decision

[5] The term "livable communities" is defined to encompass the needs of the urban community, including housing, employment, public services and infrastructure. *See* OAR 660-027-0010(4) (defining "livable communities" as "communities with development patterns, public services and infrastructure that make them safe, healthy, affordable, sustainable and attractive places to live and work").

complies with these reserves rules, applicable statewide planning goals and other applicable administrative rules..

The Reserves Findings, however, do not go through this exercise, at least not with respect to the designation of urban reserves. For example, the five-page section titled "Overall Conclusions" in the Reserves Findings is almost exclusively devoted to a discussion of the trade-offs and considerations related to the designation of rural reserves. *See* Metro Rec. at 14-19. At no point does it describe the trade-offs or considerations of its designation of urban reserves. Even more to the point, the Reserves Decision does not describe how it "balanced" the designation of urban and rural reserves to "best achieve" the region's urban and rural needs: the rule itself is cited only once; and the only two statements concerning balance are purely conclusory. *See* Reserves Findings, Metro Rec. 2, 18, 22.

The absence of such analysis and explanation might be reasonable if this was a case where no conflicting evidence was submitted, and where all agreed there were no competing interests between the designation of urban and rural reserves.[6] Perhaps then it could be said – and supported – that the decision-makers were able to "balance" the urban and rural needs without making reference to tradeoffs or explaining why they reached the decision they did. But this is not the case here. Instead, there is considerable testimony (including reports from Washington County), not even mentioned in the Reserves Findings, which argue that urban needs are not met and disproportionately suffer in comparison with rural needs. *See e.g.,* Joint State Agency Letter dated October 14, 2009, and resubmitted January 22, 2010, Metro Rec. 1370 and 1638 (suggesting that Metro should evaluate and reconcile the differing estimates of land needs for Washington County); Port of Portland Letter dated October 15, 2009, Metro Rec. 1322-1325 (outlining key criteria for the industrial lands and providing comments on proposed reserves designations); NAIOP Letter dated September 4, 2009, Metro Rec. 1326-1328 (describing the economic trade-offs); Washington County Lands Need Estimates Memorandum dated June 2009, WashCo Rec. 3011, 3586-3609 (undertaking land needs analysis and projected a need for 47,000 acres of urban reserves); Clackamas County Business Alliance Letter dated September 8, 2009, ClackCo Rec. 4205 (reserves recommendations relating to urban needs); Johnson Reid Memorandum re UGR Report dated June 15, 2009, Appendix A (the "Johnson Reid UGR Memo"); Johnson Reid Memorandum re Large Lot Analysis dated July 13, 2009, Appendix B (the "Johnson Reid Large Lot Memo"); Johnson Reid Memorandum re Employment Land dated June 30, 2009, Appendix C (the "Johnson Reid Employment Memo"); Home Builders Association of Metropolitan Portland Memorandum dated June 16, 2009, Appendix D

[6] For example, a case where reliable analysis showed there were 300,000 acres available; and that 240,000 acres were needed for rural reserves and 50,000 were needed for urban reserves. Even then, however, one can imagine trade-offs and discussion over which lands were designated for which purpose.

(describing urban housing needs and trade-offs based on assumptions in Metro's Urban Growth Report); Group Mackenzie Memorandum dated October 22, 2008, Appendix E (peer review of Metro Infrastructure Study); Coalition for a Prosperous Region Letter dated January 21, 2010, Appendix F (testimony explaining why the proposed urban reserves were insufficient).

The requirement for a discussion of how the balance was reached, the choices made in determining that balance, and the rationale for the decision-maker's ultimate choice, is more than a formality and requires more than lip-service or conclusory statements. *Any* designation of urban and rural reserves could be said to implicitly represent some sort of balance between the two. But the Reserves Decision requires more; it requires a balance that "best achieves" a mix of urban and rural goals. For the requirement to "best achieve" the balance to have any meaning, there must be some explanation in the findings of how the balance was made and why that balance "best achieves" the desired mix, including why the option chosen is better than other reasonable options (which also should have been considered). The Reserves Decision also requires findings that the balance – *in its entirety* – best achieves the urban and rural goals. Thus, the Reserve Findings concerning tradeoffs for individual urban reserve areas – while helpful and ultimately critical to the decision-making process are not enough. Without findings as discussed above, there is no demonstration that the requirement of OAR 660-027-0005(2) has been met.[7]

An example of the significance of these required findings and the related analysis is relevant. The Coalition and others believe (and have testified) that the Reserves Decision designates too few urban reserves, or retains too few undesignated areas. As is discussed more fully below, there are a number of assumptions made in the technical analysis used in calculating needs and capacity that could prove inaccurate over a 50-year period.[8] If one or more of those assumptions prove to be wrong, will there be sufficient urban reserves to provide the "best balance"? Is there sufficient flexibility in the decision to adapt to such changes in actual performance? Can there be a balance that "best achieves" the desired mix if the decision doesn't demonstrate that such questions have been considered and doesn't explain how the choice was made?

Finally, the provisions related to review of a reserves decision under OAR 660-027 explicitly require "findings of fact and conclusions of law" to demonstrate that the

[7] It is curious that despite explicit language in OAR 660-027-0080(4) that Metro's decision include findings of fact and conclusions of law that demonstrate compliance with OAR 660-027-0005(2), the Reserves Findings only mention that section in three places, and then only to baldly state the balance has been achieved. *See* Reserves Findings, Metro Rec. 2, 18, 22.

[8] Many of these assumptions have never been met in practice, and result in an assumed intensity of development that leads to a projected need for fewer urban acres in the future.

designation of urban and rural reserves complies with the applicable administrative rules and statewide planning goals. OAR 660-027-0080(4). The failure to actually consider and apply the factors, and explain how these needs were "balanced" violates both the substantive requirements in OAR 660-027-0005(2), OAR 660-027-0050, and OAR 660-027-0060, as well as the procedural requirements of OAR 660-027-0080(4).

Proposed Remedy: Remand the Reserves Decision with directions to determine whether the proposed reserves balance the urban and rural needs consistent with OAR 660-027-0005(2) and the factors set forth in OAR 660-027-0050 and 660-027-0060, specifically focusing on whether and how the decision also "best achieves" urban needs.

Objection 2: Metro's adoption of the top end of the "middle third"[9] of the population and employment forecast is arbitrary and thus violates the Goal 2 requirement that decisions be supported by an adequate factual base. *See also* OAR 660-027-0080(4)(a). Further, because these forecasts are the basis for the projected urban needs, the Reserves Decision also fails to comply with OAR 660-0005(2), or demonstrate that the urban reserves factors in OAR 660-027-0050(2) and (6) were correctly applied.

Explanation: The Reserves Findings do not describe how Metro arrived at its decision to use the "middle third" of its population and employment projections. *See*, Metro Rec. 22-24. Rather, the Reserves Findings simply state Metro's estimated demand for new dwelling units (485,000 to 532,000 dwelling units) and new jobs (624,300 to 834,100). *See* Metro Rec. 22-23. The accompanying Metro June 9, 2010 Staff Report states that the "partner governments ended up using the middle third of this forecast to increase the probability of it being accurate." Metro Rec. 118. That statement, however, directly contradicts the conclusions in the Technical Methodology Used to Define the Regional Scale of Residential Lands within Urban Reserves in Appendix 3E-C of the Chief Operating Officer's Recommendations (the "Reserves Residential Range Methodology"). Metro Rec. 597-603. Instead, the Reserves Residential Range Methodology states it "is estimated that there is a 90 percent chance that the rate of growth will fall within this forecasted range, *but high confidence comes at the price of larger variability*." Metro Rec. 598 (emphasis added).

Thus, the effect of narrowing the population projections to the "middle third" is an *increase* in the likelihood that the projections will be incorrect. This fact is demonstrated by Figure C-1 in the Reserves Residential Range Methodology, which shows that the farther out one looks on the planning horizon, the more difficult it is to predict population growth with accuracy. Thus, using the "middle third" actually leads to more uncertainty in the projections, and, if used,

[9] For ease of reference, we use the term "middle third" in the remainder of these objections.

requires that additional lands remain undesignated to compensate for the increased probability of error. Nor is the potential deficit small: if the high-range population growth is used, the Reserves Residential Range Methodology calculates the residential land need to be an additional 7,000 acres. Metro Rec. 603.

The same issue is present with the Reserves Employment Range Methodology, where Metro has again elected to use the "middle third" of the employment projections without any reasoning or discussion. Metro Rec. 604-610. Here again, the graph showing the employment forecast through 2060 shows the difficulty in predicting employment growth with accuracy. Reserves Employment Range Methodology, Figure D-1, Metro Rec. 606. Metro's only explanation is that "the large variability may make it more difficult to arrive at a reserves conclusion." Metro Rec. at 598. While this point may be accurate as a political calculus, it does not provide an adequate factual base for the Reserves Decision, nor does it satisfy the requirements in OAR 660-207-0050(2) and (6) to provide sufficient land to support a healthy economy and range of needed housing types.

Proposed Remedies: Remand the decision with direction to use the full range of population forecasts in projecting housing and employment needs, and add to the acreage of urban reserves.

Alternatively, acknowledge the urban reserves designated in the Reserves Decision, but remand the remainder of the decision with direction to use the full range of population projections, and remove rural reserves designations so that there are sufficient lands in the urban reserves and undesignated categories to meet those projected needs. As is obvious, such additional undesignated acres must be appropriate in location and site characteristics for urban development. In addition, such remand should require the adoption of a periodic adjustment schedule for designating additional urban reserves if the population or employment growth is significantly greater[10] than the "middle third" adopted by Metro in this Reserves Decision, based on the analysis during the prior two urban growth boundary decisions.[11]

Objection 3: The Reserves Decision overestimates the development capacity within the existing UGB and relies on faulty assumptions to dramatically increase projected development efficiency and density, the consequence of which is a Reserves Decision that fails to designate enough urban reserves to balance urban and rural needs as required by OAR 660-

[10] A 10% difference would be appropriate to trigger the requirement to add additional urban reserves.

[11] For example, population and employment forecasts are part of the analysis for UGB decisions, which Metro must undertake every five years. Thus, the trigger could be that if the actual population and/or employment growth significantly exceeds the "middle third" (e.g., by more than 10%), Metro must begin the process to designate additional urban reserves.

027-0005(2). Likewise, as a result of the reliance on erroneous assumptions, the Reserves Decision fails to properly apply the urban reserves factors, particularly OAR 660-027-0050(2) and (6), an to satisfy the requirements of Goals 2, 9, 10, and 14. *See also* OAR 660-027-0080(4) (requiring findings demonstrating compliance with the reserves rule and applicable statewide planning goals).

Explanation: Metro's Urban Growth Report (the "UGR"), Reserves Residential Range Methodology, and Reserves Employment Range Methodology rely on overly optimistic and never-achieved refill rates and underbuild rates, which results in an overestimation of the capacity within the existing UGB and an underestimation of reserves land needed to accommodate housing and employment demand through the 2060 planning horizon. *See* Reserves Findings, Metro Rec. 23-24 (noting that Metro's assumptions for higher residential densities and greater efficiencies and different types of employment lands). This is implicit in Metro's assertion that by 2060 the region can absorb a 74% increase in population with only an 11% increase in geographic area. Metro Rec. 16. The reliance on aggressive refill rates, availability of housing subsidies, and decreased underbuild rates also correlate to a higher per unit cost, affecting the range of housing types that will be built.

a. Refill Rates

Specifically, the UGR adopts a refill rate for residential development of 37.9%-41.2% for the 2009-2030 period, and the Reserves Residential Range Methodology adopts a refill rate of 40% for the 2030-2060 period. Metro Rec. 738-739; Metro Rec. 602. However, the actual refill rate experienced in the UGB between 1997 and 2006 varied from 15.6%-34.2%. Metro Rec. 720, 738; *see also* Home Builders Association of Metropolitan Portland Memorandum dated June 16, 2009 Appendix D-3. Adopting an assumption that the refill rate will increase substantially – with little to no explanation or factual support as to why – does not satisfy the Goal 2 requirements for an adequate factual base. *See also* ORS 197.296(5) (requiring analysis based on density and housing mix that has actually occurred); ORS 195.145 (requiring that the population and employment growth first 20-years of the reserves period be based on projections completed consistent with ORS 197.296). It also contradicts Metro's assessment that a refill rate somewhere between 30-35% is most likely. Metro Rec. at 738. Given the magnitude of the assumed increase – roughly 68% over past experience – Goal 2 demands a more thorough explanation of the factors, new policies to remove barriers to refill, and other strategies Metro will employ to reach this refill rate.

The only apparent reason for this increase in the refill rate is the delay of infrastructure to serve development in new UGB expansion areas, such as Damascus (which Metro projects will not be available until 2030). But even there, Metro acknowledges that the

higher refill rate results from a decrease in the UGB capture rate (and thus not an increase in the feasibility or market conditions for refill), and that the projections may "ignore the possibility of additional losses of residential growth to areas outside the seven-county area." Metro Rec. at 738. First, to the extent that Metro relies on an inability to effectively develop areas within the existing UGB, such rationale should be rejected as a basis for not making other land available. Second, it is noteworthy that this is not a case where Metro is arguing there is no need for land. Finally, as acknowledged by Metro, the failure to provide infrastructure necessary for development simply results in driving development elsewhere.[12] Not one of these outcomes are consistent with the requirement that the designation of urban reserves achieve livable communities as required under OAR 660-027-0005(2), provide sufficient development capacity for a healthy economy under OAR 660-027-0050(2), or provide sufficient land suitable for a range of housing types under OAR 660-027-0050(6).

Finally, Metro's analysis does not adequately consider or acknowledge the higher cost of housing, and the effect such additional costs will have on actual refill rates.[13] Instead, Metro assumes that these higher costs will be offset by $3.5 billion of housing subsidies, without which the 40% refill rate could not be achieved. Metro Rec. 600. Without some explanation, it is not possible to find that Metro appropriately considered the applicable urban reserves factors, particularly that of OAR 660-027-0050(6) to provide a range of housing types, the corollary requirements in Goals 10 and 14, or the requirements of Goal 2 to provide an adequate factual base.

Increased refill rates were also applied to employment lands, ignoring the market's demand for location, site size, building type, and infrastructure needs. There was considerable testimony – left unaddressed in the findings – that Metro's refill analysis was overly optimistic and without sufficient technical analysis. *See, e.g.,* Johnson Reid Employment Memorandum dated June 30, 2009, Appendix C (review of Metro's urban growth report for employment land); Port of Portland Letter dated October 15, 2009, Metro Rec. 1398-1405 (outlining key criteria for the industrial lands and providing comments on proposed reserves designations). Given the above, it is not apparent from the Reserves Findings that Metro designated enough urban reserves achieve livable communities as required under OAR 660-027-

[12] A reduction in the UGB capture rate results in a variety of spillover effects that will have negative effects on the region's development patterns, transportation infrastructure, and livability, as articulated in the June 15, 2009 memorandum from Johnson Reid to Metro regarding the 2009-2030 Urban Growth Report. Appendix A.

[13] In this regard it is also important to note that Metro's assumption that infrastructure costs are necessarily less in for infill and redevelopment is not accurate. For example, upsizing existing infrastructure in already-developed areas is more expensive and disruptive than comparable costs in greenfield sites. *See* Group Mackenzie Memorandum dated October 22, 2008, Appendix E (peer review of Metro's Infrastructure Study).

0005(2), or provide sufficient development capacity for a healthy economy under OAR 660-027-0050(2), or meet the corollary requirements in Goals 9 and 14.

b. Underbuild Rates.

Metro's analysis suffers from the same deficiency with respect to the projected underbuild rates. For example, for residential development, Metro has projected an underbuild rate of 5% for the 50-year planning period, although the current rate is 20%. Metro Rec. at 737; *see also* Home Builders Association of Metropolitan Portland Memorandum dated June 16, 2009 Appendix D-3. Metro's only justification is that "several cities" reported substantially smaller underbuild rates. While more success may have been realized in Hillsboro, Wilsonville, and Clackamas County (the three local governments from which data was collected), it is not clear that such success is indicative of a larger trend or that the lands in these jurisdictions are similar with respect to development potential as other land remaining in the UGB or designated for urban reserves.

As above, the Coalition does not object to greater aspirations of reducing the underbuild rate. However, recent experience of three communities does not provide the basis for reducing the underbuild rate, and particularly not by 75%. Without more analysis and explanation, Metro's adoption of a 5% underbuild rate it not supported by an adequate factual base as required by Goal 2 and violates ORS 197.296(5).

c. Floor Area Ratios

Because it uses unreasonably high and untested refill and underbuild rates, Metro's FAR assumptions for employment land are also very aggressive, and result in an inadequate consideration of the second urban reserves factor: whether the urban reserves designated provide sufficient development capacity for a healthy economy (OAR 660-027-0050(2)). For example, Metro assumes a 20% increase in FARs for centers and corridors without any assessment or explanation of how this could be achieved. *See, e.g.,* Johnson Reid Employment Memorandum dated June 30, 2009, Appendix E, particularly E-11-15 (analyzing Metro's FAR assumptions).

d. Housing Types

The requirement to provide sufficient land for housing is for "needed housing types." OAR 660-027-0050(6). However, infill housing to date includes a narrow range of dwelling types and higher per unit cost, due to a combination of costs related to higher land value, demolition and/or environmental remediation, up-sizing of infrastructure capacity and/or

higher construction costs associated with building type and structured parking. Thus, the assumption that there will be a higher proportion of infill housing affects housing choice (both by unit type and location) and affordability. An equitable distribution of new housing units throughout the region (including on the edges of the UGB), is necessary both to maintain and provide sub-regional housing/jobs balance and to achieve "livable communities," defined in relevant part in OAR 660-027-0010(4) as "attractive places to live and work."

e. Goals 9, 10, and 14

The Reserves Findings have only cursory findings for Goals 9, 10, 14, and the other statewide land use planning goals. It is apparent from these findings and the supporting documents that Metro believes it has little or no obligation to apply Goals 9, 10, or 14, at least in part because the Reserves Decision does not affect or change current zoning designations. *See* Metro Rec. 98-102. However, Goals 9, 10, and 14 – and the ability of Metro and the region to meet the requirements of those goals in the future – are directly implicated by the Reserves Decision. In the most extreme, surely Metro couldn't argue that these goals were not violated if it designated no urban reserves despite knowing the region would be unable to meet the demand for urban land in the future? While the Metro is correct that the Reserves Decision may not immediately change zoning designations, it does set the framework for future changes – or the inability to respond to future changes – and in that way has Goal implications which must be addressed. Thus, if the Reserves Decision is to satisfy Goals 9, 10, 14 and the statutory counterparts, it must be able to demonstrate that the region will be able to meet those requirements over the 50-year period.

Furthermore, Metro's projections for housing and employment needs are based on Metro's Urban Growth Report, which states it was completed to comply with certain statutory requirements, as well as Goals 9, 10, and 14. *See* Metro Rec. at 626, 704.[14] Thus, the underlying analysis – if not the decision itself – must comply with Goals 9, 10, and 14.

Proposed Remedy: The decision should be remanded with direction to revise the refill rates, underbuild rates, FARs, and limitations on housing types to reflect historical norms for residential and employment lands, and to designate additional urban reserves warranted by such revised calculations consistent with the requirements of the urban reserve rules, and Goals 9, 10, and 14.

[14] The Reserves Decision uses the Urban Growth Report to project housing and employment needs for the planning period through 2030. For all practical purposes, the Urban Growth Report is used for the period between 2030 and 2060, as almost all of the assumptions developed for the Urban Growth Report are carried through the Reserves Residential Range Methodology and Reserves Employment Range Methodology. *See* Metro Rec. at 597 and 604.

However, mindful that Metro and the region will benefit from having designated urban reserves for its upcoming UGB decision at the end of 2010, the Coalition alternatively recommends that the urban reserves designated in this Reserves Decision be acknowledged and that the rural reserves portion of the decision be remanded with direction to adjust the rural reserves designations to provide additional undesignated lands appropriate for development. Finally, as above, such remand should require the adoption of a periodic adjustment schedule for designating additional urban reserve if the actual refill rates, underbuild rates, and FARs are significantly different from the assumptions Metro has made in making the Reserves Decision. For efficiency and consistency, we recommend that the periodic adjustment schedule be based on the analysis prepared for Metro's urban growth boundary decisions, with the requirement to designate additional urban reserves triggered by a the failure to meet such projections during the prior two urban growth boundary decisions. Such remand directions are necessary to bring the Reserves Decision into compliance with the urban reserves rules and Goals 2, 9, 10, and 14.

Objection 4: In making the Reserves Decision, Metro failed to allocate land needs by geographic subarea to meet long-term needs for population and employment, and as such failed to balance urban needs as required by OAR 660-027-0005(2), failed to adequately consider the urban reserves factors requiring sufficient development capacity for a healthy economy and sufficient land suitable for a range of housing choices, and failed to comply with applicable statewide planning goals. *See* OAR 660-027-0050(2) and (6); Goals 9, 10, and 14.

In making this objection it is important to recall that the Coalition's primary concern is that insufficient urban reserves and undesignated lands have been provided to meet the region's needs over the next 50 years. This objection is therefore focused on the need to increase urban reserves in Washington County consistent with its subregional growth needs. It does not argue that the 28,615 acres of urban reserves or undesignated lands should be reallocated from Clackamas County and added to Washington County because the Coalition believes that the overall amount of land potentially available to Clackamas County – including the lands designated for urban reserves, the lands left undesignated, and the undeveloped lands within the current UGB – appears to at least more closely reflect what will be needed for Clackamas County over the next 50 years.

Explanation: The three counties that comprise the Metro region are projected to grow at different rates, yet the Reserves Decision does not allocate land needs by geographic area, or even allow sufficient flexibility to address such sub-regional growth rates. This failure is discussed in the Reserves Findings, which provide great detail about the process by which Washington County determined an urban reserves need of 34,300 acres, but ultimately only received about 13,000 acres, but do not reconcile or otherwise explain how the decision is justified. *See* Metro Rec. at 71-72.

Washington County did undertake a growth allocation analysis, and completed population and employment allocations, based on historic growth rates. This analysis projected Clackamas County's population share as 16.52%, Multnomah County's population share as 12.90%, and Washington County's population share as 32.38% (based on a historic UGB capture rate of 61.8% of the seven-county PMSA population growth). *See* Washington County Lands Need Estimates Memorandum dated June 2009, WashCo. Rec. The allocations related to employment growth are: Clackamas County 19.05%; Multnomah County 30.27%; Washington County 30.56% (based on a 79.9% county share of the PMSA employment growth). *See, id.,* WashCo Rec.

The Coalition notes that this issue also was raised specifically by the state agencies, both in of their letters of October 14, 2009, and January 22, 2010. *See* Metro Rec. 1370 and 1638, respectively. In those letters, the state agencies noted that "Metro has the responsibility to allocate land needs by geographic area" and that "Metro and the counties need to keep both housing equity (Goal 10) and employment (Goal 9) considerations (including the aspirations of individual communities) in mind as well as economic and environmental justice in determining how to distribute urban reserve areas across the region." Joint State Agency Comments, October 14, 2009, resubmitted January 22, 2010; Metro Rec. at 1375. It is not apparent that Metro considered the above comments in reaching the Reserves Decision or that Metro undertook such analysis on its own. Rather, Metro allocated approximately the same number of acres of urban reserves for Washington and Clackamas Counties despite the significant difference in population and employment growth projections for each county.[15]

As a related matter, the failure to allocate growth among the counties means that the Reserves Decision failed to properly apply the first urban reserves factor, requiring that lands designated for urban reserves can be developed in a way that makes efficient use of existing and future infrastructure investments. *See* OAR 660-027-0050(1). As one example, the City of Hillsboro has developed sophisticated infrastructure to support substantial industrial development. Given the costs of infrastructure, and the repeated findings that communities need available sites to compete for economic development, additional urban reserves should have been designated in the Hillsboro area.

Proposed Remedy: As noted elsewhere in these objections, the Coalition's primary concern is that the Reserves Decision fails to provide an adequate supply of land for

[15] As above, this argument is not directed at simply reallocating the 28,615 already designated urban reserves, but rather at the need to increase the urban reserve acreage and undesignated acreage in Washington County to meet its population and employment forecasts for the next 50 years. To that end, it should also be noted that Washington County only left about 6,000 acres undesignated, whereas Clackamas County left significantly more giving Clackamas County a margin for error.

projected population and employment needs over the next 50 years. Thus, the Coalition does not propose redistributing the 29,615 acres of urban reserves, but rather proposes that additional land in Washington County be designated for urban reserves based on this unmet need in a process that considers all relevant factors (including historic population growth, economic aspirations of the individual communities, and housing equity). The focus of this objection is on Washington County because the amount of urban reserves designated in Clackamas County, particularly when considered together with the amount, location, and suitability of undesignated areas in the county and the amount of undeveloped land already inside the county UGB, appears to at least more closely reflect what is likely to be needed over the 50-year reserves period. The Coalition notes that such process is consistent with the state agencies' recommendation. *See* Joint State Agency Comments, October 14, 2009, resubmitted January 22, 2010; Metro Rec. at 1375.

However, as discussed in more detail in the Remedies discussion under Objection 3, the Coalition recognizes there is benefit to having urban reserves available for the upcoming UGB decision. Therefore, an alternative recommendation is to acknowledge those urban reserves designated by the Reserves Decision (for all three counties), but remand the decision with direction to remove rural reserve designations in Washington County such that there is sufficient land available to accommodate possible increases to the urban reserves, or to retain these as undesignated until they may be needed for conversion to urban reserves at a later time.

Objection 5: The Reserves Decision fails to provide for a diversity of employment sites necessary for a healthy economy. While the Coalition supports the effort to address the need for large-lot industrial sites, the 3,000-acre target for large lot industrial sites is not sufficient to meet employment land needs. Accordingly, the Reserves Decision does not comply with OAR 660-027-0005(2), OAR 660-027-0050(2), or Goal 9.

Explanation: The urban reserve factor relating to employment lands requires a demonstration that the land proposed for urban reserves include "sufficient development **capacity** to support a healthy economy." OAR 660-027-0050(2) (emphasis added). This is a qualitative, not simply quantitative, requirement, requiring an assessment of capability and suitability. Throughout the reserves decision-making process numerous parties, including cities, the Port of Portland, the state agencies, and Coalition members, presented evidence that to have a healthy economy – i.e., be able to attract new employers and support the growth of existing employers – it was necessary to have enough diversity of sites to provide for varying needs (e.g., infrastructure; access to labor force; size; proximity to customers, suppliers, and like companies; market choice, etc.). *See, e.g.,* Port of Portland Letter dated October 15, 2009, Metro Rec. 1398-1405 (outlining key criteria for the industrial lands and providing comments on proposed reserves designations); Johnson Reid Large Lot Memo, Appendix B (reviewing Metro's large lot

employer analysis and offering additional considerations); Johnson Reid Employment Memorandum Appendix C (reviewing Metro's preliminary urban growth report for employment land). The need for such diversity is underscored by the likelihood of significant changes in the region's economy over the next 50 years; even Metro assumes that there will be significant changes with uncertain impacts on size and location of the urban land supply. *See, e.g.,* Reserves Findings, Metro Rec. at 24.

However, the Reserves Decision fails to account for the needed diversity of employment sites, instead assuming a shift from production to more research and development and administration/marketing, which have more employees per square foot and demand a higher proportion of office space. In so doing it ignores current and future planning for economic development, such as whether sufficient acreage exists proximate to the Port of Portland for targeted sustainable energy systems or whether sufficient industrial acreage is available in Washington County that is both proximate to the existing high-tech workforce and suitable for such development (e.g., seismically stable, adequate water and power capacity). As elsewhere, Metro's reliance on new assumptions without an explanation of how existing sites provide the necessary diversity is inadequate to demonstrate that it correctly applied OAR 660-027-0050(2) to provide for a healthy economy, or OAR 660-027-0005(2) to "best achieve" urban needs. For the same reasons, the Reserves Decision does not comply with Goal 9.

Remedy: As recommended for Objection 4, the decision should be remanded with direction to either: (1) designate additional urban reserves to meet the full range and diversity of employment needs, or (2) acknowledge the urban reserves designated by the Reserves Decision, but remand the remainder to reduce the amount of rural reserves so that there are available lands on which to meet employment needs, should Metro's assumptions prove to be incorrect.

V. Conclusion

While described in some detail under each objection, it is useful to repeat collectively what the Coalition believes should be done, understanding that its primary concerns are the lack of development capacity to meet employment and housing needs over the next 50 years and the lack of ability to make adjustments should Metro's overly optimistic assumptions prove to be in error.

The first proposed remedy is to remand the decision with directions to correct the identified errors, and designate additional urban reserves such that the requirement to balance the urban and rural reserve designation in a manner that "best achieves" urban and rural needs.

An alternative remedy is also proposed which recommends acknowledging those urban reserves that have been designated by Metro and the three counties, but remanding the rural reserves decision to add to the acreage of undesignated lands so that there is the ability to make adjustments if Metro's assumptions prove to be in error. To serve this purpose, such additional undesignated lands will need to be appropriate for development in terms of size, location, and characteristics, but would remain in their current resource zoning unless and until additional need was identified. Finally, because this alternative leaves a currently inadequate amount of urban reserves, the Coalition believes it is necessary to also require a periodic review and adjustment period based on Metro's current UGB expansion decisions. Specifically, as explained in more detail in the individual objections, an increase in the amount of urban reserves would be required if the UGB expansion studies showed that for the past two expansion periods (i.e., every 10 years) the actual population or employment growth, or refill, underbuild and/or FAR rates, or other key assumptions were significantly different than projected for this Reserves Decision.

Very truly yours,

Stark Ackerman

SA:ckm
320224_6

cc: Ms. Laura Dawson Broder
Ms. Maggie Dickerson
Mr. Chuck Beasley
Mr. Steve Kelley
Clients

JOHNSON REID
LAND USE ECONOMICS

MEMORANDUM

DATE: JUNE 15, 2009

TO: John Williams and Malu Wilkinson
METRO

FROM: Jerry Johnson
JOHNSON REID LLC

SUBJECT: 2009-2030 URBAN GROWTH REPORT

Johnson Reid was asked to review the Urban Growth report for a coalition of business groups.[1] The primary purpose of our review was to clarify and evaluate the methodologies used in deriving the report. As our analysis progressed, it was our opinion that the policy implications of the alternative scenarios evaluated were significant. As a result, we felt that the ongoing dialog with respect to the housing UGR should include a more complete discussion of implications associated with the alternatives presented. This memorandum summarizes our reading of some of the policy issues we feel should be discussed. The bulk of information utilized in our review is contained in public documents published or commissioned by Metro.

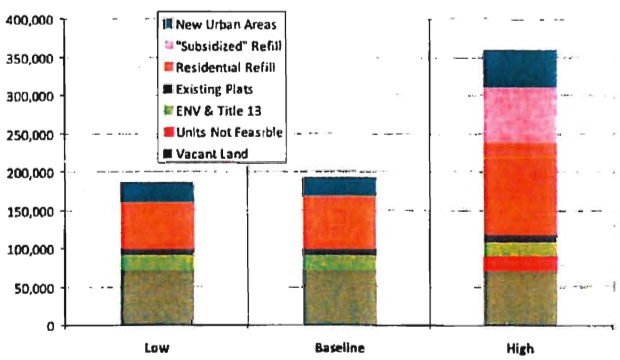
SUMMARY URBAN GROWTH REPORT

The Preliminary Urban Growth report addresses the demand for residential units, as well as the capacity within the current UGB to accommodate new units. On the demand side, the projected new dwelling unit range is between 224,000 and 301,500 new units over the planning horizon. While it must be recognized that there is a significant differential between these two numbers, we believe the methodology used to derive this aggregate number is relatively clear.

The capacity range outlined in the report is what we are primarily concerned with clarifying. The range between alternative scenarios in this case is almost 2:1, with the high capacity scenario reflecting a number of aggressive assumptions that are either highly questionable or entail significant policy trade offs that should be addressed.

It is our opinion that areas of policy significance are anticipated impacts on housing affordability, infrastructure, livability and economic development.

PRELIMINARY UGR RESIDENTIAL CAPACITY



[1] Home Builders Association of Metropolitan Portland, Commercial Real Estate Economic Coalition, NAIOP, Associated General Contractors, Portland Business Alliance, Westside Economic Alliance, Portland Metropolitan Association of Realtors, Clackamas County Business Alliance and the East Metro Economic Alliance.

AFFORDABILITY

A key component of the capacity calculations in the UGR is an expectation of future policy choices that will increase refill rates as well as the market feasibility of vacant lands. Higher density residential developments are seen under this assumption to provide for a greater share of marginal housing production. To the extent that future housing capacity is in higher density developments, the economics of this type of housing should be understood.

As noted in previous studies, the per square foot cost of building higher density development forms rises significantly once densities exceed 25 units per acre. Cost increases are a result of quantifiable factors above and beyond underlying land values. This additional cost must be passed on to consumers in the form of higher rents or sales prices, or offset by direct subsides to developers to reduce the cost of construction. An example of this would be a typical Pearl District condominium, which sells for close to $500 per square foot with homeowners association dues of almost $500 per month. Wood frame homes in suburban communities area typically priced well below $200 per square foot, allowing for lower prices and/or a greater range of amenities such as usable square footage.

It is our understanding that the price inflation associated with a marginal shift to higher densities is reflected in MetroScope output, which is alluded to in other studies but not clearly outlined. We would be very interested in the implied housing price and characteristic assumptions in the MetroScope output, but were unable to find them. As noted in 2008 PSU Institute of Portland Metropolitan Studies report, significant impact on affordability are anticipated, but this is largely not discussed in the UGR. This would seem like an area of obvious policy interest.

While increasing the marginal density of new development will likely have an inflationary impact on housing prices, it also affects the range of choices available to the market. Urban condominium living is highly desirable to a subset of households, but not appropriate for the full spectrum of the market. The ability of this type of housing to serve market demand is more limited when financial ability is considered, as these units tend to be unaffordable for a wide swath of the market.

A policy facilitating a significant escalation in housing values will also have a largely regressive impact, as the outcome will inflate real property assets, which are disproportionately held by more affluent households. The markets most likely to be negatively impacted are market-rate renter households, who represent a large portion of workforce housing.

INFRASTRUCTURE COSTS

A primary objective that higher density assumptions appear intended to address is infrastructure costs, which are purported to be lower in Centers than on more peripheral development areas. The benefits cited are cheaper infrastructure, reduced automobile commutes and more complete walkable communities. While the objectives are good, it appears unclear based on existing research that this relationship is necessarily the case.

It would appear that the underlying assumption is consistent with a hub and spoke model of urban form, in which employment is concentrated in a central area and then transportation costs increase as distance from the core increases. As noted in the E.D. Hovee study, the Central and inner ring areas in the metropolitan area have been losing jobs over the last decade, while outer ring areas have added jobs at an average annual rate of over 3.0%. The study's associated focus groups, organized and funded in part by Metro, included industrial and institutional employers. These groups indicated a continuing preference for the outer rings, where land is cheaper and sites are larger. With employment increasingly concentrated in suburban areas, housing in those same areas will tend to offer shorter commutes and decrease the pressure on infrastructure.

In general, available information does not indicate that infill development is inherently less costly to serve than development on the periphery. Metro commissioned a study in 2008 entitled "Comparative Infrastructure Costs: Local Case Studies", which evaluated the cost of providing infrastructure to a range of sites in the metropolitan area. The study found significant variety in estimated costs across urban and suburban locations, with costs for refill projects ranging from both the least and most expensive. The results of this analysis were inconclusive regarding the marginal costs of refill versus greenfield development, but did highlight the significant differential in costs on a site by site basis. In Metro's "Regional Choices" discussion guides published in 2008, the differential in infrastructure costs under alternative assumptions with respect to density and development form were also not significant.

The rationale that increased densities yield clear savings in infrastructure investment is not well supported at this time. Our review of secondary literature is more supportive of a view that infrastructure investment generally drops as density increases to a certain point, and then increases again. In infill locations, infrastructure investments can be extremely high, particularly when the existing infrastructure was not designed to handle the new densities. Infrastructure costs can also be very high in peripheral locations, but that can be mitigated by considering the ability to serve an area with infrastructure when evaluating new development areas.

LIVABILITY

We see two areas in which the issue of livability needs to be discussed in terms of the alternative scenarios outlined in the UGR, outside of affordability. The first of these is the assumed rate of "refill", which is assumed at the historic rate of 27% in the Low and Baseline scenarios, and increased to 40% in the High scenario. Additionally, the high scenario assumes an additional 71,000 "subsidized refill" units. Under each scenario, the recent rate of refill is assumed to continue over the next 20 years. We find this assumption somewhat questionable, as it would appear reasonable to assume that the most viable redevelopment sites would be developed first, and that there would be a general loss of appropriate sites over time. This may be offset by a price affect, in which rising home prices encourage a greater degree of redevelopment.

Our primary problem with the assumption is under the high growth scenario, under which 53.5% of net new housing capacity is accounted for by "refill" and "subsidized refill". We feel that this level of development pressure in existing neighborhoods will be viewed as reducing livability, and highly contested by the targeted neighborhoods. In addition, increasing residential densities in existing neighborhoods provides challenges to providing new parks, schools and public facilities, as sites will be both scarce and expensive. The extensive assumption of urban renewal investment necessary to realize the "subsidized refill" will also limit funding of other city services, schools, county and other taxing jurisdictions.

The preference for higher density development forms has not been established, particularly at the level of production assumed.

ECONOMIC DEVELOPMENT

Metro has defined a successful region as "Current and future residents benefit from the region's sustained economic competitiveness and prosperity". Housing choice and its impact on the area's economic competitiveness is substantial. To the extent that regional land use planning efforts for housing and jobs do not reflect employer location preferences, our competitiveness and subsequent prosperity are compromised. Metro's current models assume economic growth levels as a given, and don't acknowledge that employers have the choice to locate elsewhere if they can't find the sites they need or want in the Portland metro area.

A loss of economic vitality in the area affects affordability by reducing wage levels and household incomes. The future success of centers and corridors will be highly dependent upon a vital local economy.

SUMMARY

While this memo primarily addresses more general policy issues, we feel that a number of the assumptions underlying the capacity calculations are unsupported, particularly in the high capacity scenario. These include the following:

- The increase in "refill" capacity to 40% appears to be baseless
- The "subsidized refill" assumption reflects an extension of a large number of urban renewal districts as well as a change in policy with respect to what they will subsize
- The assumption that units assumed to be not feasible will become feasible under the high capacity scenario does not appear to be supported, unless an undisclosed change in assumed housing prices is also assumed. As noted in the 2002 ECONorthwest review of the previous UGR, the real cost of housing under the "tight UGB" scenario was predicted to rise 47% to 72% by 2025. I am assuming a similar assumption is made under the current scenarios, but was unable to find it.
- The availability of all new "urban areas" under the high growth scenario is also dubious without more advanced planning and finding mechanisms for infrastructure financing.

THE U.G.R. & HOUSING CHOICE:

ECONOMIC AND MARKET-BASED CONSIDERATIONS

May 2009

Jerry Johnson
Principal
Johnson Reid, LLC

THE U.G.R. & HOUSING CHOICE

BASIC QUESTIONS

- REVIEW METHODOLOGIES USED TO ESTABLISH RESIDENTIAL URBAN GROWTH REPORT
- REVIEW HOUSING NEEDS ANALYSIS
- FRAME IMPLICATIONS OF POTENTIAL POLICY CHOICES

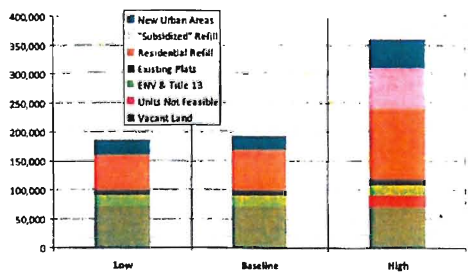
REFERENCES REVIEWED

- "Choices" Discussion Guide: Land Use Scenarios
- "Choices" Discussion Guide. Transportation Scenarios
- "Housing Needs Study"
- "Employment Demand Factors & Trends"
- "Comparative Infrastructure Costs: Local Case Studies"
- "Metro Urban Centers: An Evaluation of the Density of Development"
- Metroscope Documentation
- Preliminary 2009-2030 Residential Urban Growth Report
- Preliminary Housing Needs Analysis

KEY CONCLUSIONS

- URBAN GROWTH REPORT OUTLINES A RANGE OF POTENTIAL CONCLUSIONS UNDER VARYING ASSUMPTIONS
- POLICY IMPLICATIONS OF ALTERNATIVE ASSUMPTIONS ARE HIGHLY SIGNIFICANT

PRELIMINARY UGR
RESIDENTIAL CAPACITY

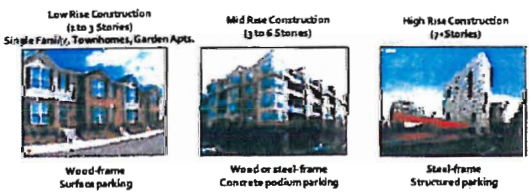


AREAS OF DISCUSSION

- ECONOMICS OF DENSITY
- IMPACTS ON AFFORDABILITY
- INFRASTRUCTURE COSTS
- "LIVABILITY"
- ECONOMIC DEVELOPMENT

ECONOMICS OF DENSITY/ IMPACTS ON AFFORDABILITY

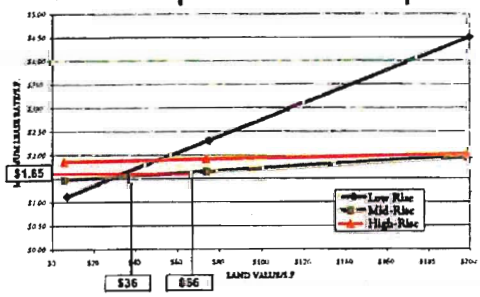
ECONOMICS OF DENSITY



ECONOMICS OF DENSITY

- COST FACTORS OF INCREASING DENSITY
  - MATERIALS AND HARD COSTS
  - SURFACE PARKING VS. STRUCTURED PARKING
  - SPECIAL FEATURES: ELEVATORS, FIREWALLS, ETC.
  - ENTITLEMENTS AND COMMUNITY OPPOSITION
- DENSITY IS DRIVEN BY ACHIEVABLE PRICE/RENT LEVELS
  - HIGHEST RENTS TEND TO BE IN THE CENTER OF A METRO AREA
  - RENTS FALL AS ONE MOVES OUTWARDS, MAKING HIGHER DENSITIES LESS FEASIBLE

ECONOMICS OF DENSITY
Rental Apartment Example



Recent Sales: Center vs. West Linn
2008 Sales, $650,000

Condo flat (Pearl)
- 2 bed/2 bath
- 1,306 s.f.
- 1 car garage
- $498/s.f.
- HOA dues: $482/mo.

Detached home (West Linn)
- 4 bed/2.1 bath
- 3,521 s.f.
- 7,500 s.f. lot
- 3 car garage
- $184/s.f.

AFFORDABILITY CONSIDERATIONS

- Higher density requires higher prices to be feasible
- Affordability is a major factor, if not the most important factor, in housing choices
- Unaffordable housing, or insufficient housing choice, may displace growth outside of UGB
- Land scarcity further raises home prices
- If housing supply is constrained in high-employment areas, prices will rise

AFFORDABILITY CONSIDERATIONS

Metro Housing Needs Study:

- Analyzes Metroscope base case for 2035
- Estimates Housing Price Escalation of 80%
- Households paying >30% of income for housing increases to almost 50% of households
- Largest increases occur in center of region
- Nearly 100% of low-income singles, and working class households who rent will pay >30%

(Metro, PSU Institute of Portland Metropolitan Studies, 2008)

- Consideration of housing choice, including affordability is required by state law

ORS 197.303, 197.307(3)(a); OAR 660-027-0050(6), 660-007-0033, 660-008-0000(1)

INFRASTRUCTURE COSTS

URBAN VS. SUBURBAN DEVELOPMENT:

Purported benefits of denser redevelopment in Centers:

- Cheaper infrastructure
- Reduced automobile commutes
- Complete walkable communities: Jobs, housing, recreation

FUTURE HOUSEHOLD LOCATION: Where will new jobs be?

"Metro Employment Demand Factors and Trends":

- Central and inner ring areas have lost jobs at .2% to .5% annually
- Outer ring areas have added jobs at over 3% annually
- Industrial and institutional employers will continue to favor the outer rings where land is cheaper, and sites are larger

(Metro, E.D. Hovee & Company, 2008)

- Housing for the labor force must be evaluated when assessing economic development potential

OAR 660-009-0015(4)(d)

URBAN VS. SUBURBAN DEVELOPMENT: Infrastructure Costs

"Comparative Infrastructure Costs: Local Case Studies"

- Significant variety in estimated costs across urban and suburban locations
- Infrastructure costs of refill projects fell across the spectrum from least expensive to most expensive
- Analysis is inconclusive
- Infrastructure costs must be considered in the urban reserve designation process

OAR 660-027-0050(1)

URBAN VS. SUBURBAN DEVELOPMENT: Infrastructure Costs

Metro's 5 Land Use Scenarios, Range of Results:

- By 2035, differences are not large among the scenarios
- Total estimated infrastructure costs: $54.9 - $56.1 billion
- Average infra. cost per new HH: $68,000 - $70,000
- Avg. annual cost of hsg. & transport: $26.6k - $27.7k
  As % of income: 46.8% - 47.5%

(Metro "Regional Choices" discussion guides, 2008)

URBAN VS. SUBURBAN DEVELOPMENT: Infrastructure Cost Summary

- At this time, public cost benefits per unit of refill vs. new area development are inconclusive at best.
- Must quantify the cost of additional public subsidy (i.e. Urban Renewal contributions).
- Public costs of density may be U-shaped: medium average density may be cheaper than low or high

URBAN VS. SUBURBAN DEVELOPMENT: Transportation Costs

- Metro's "Regional Choices" study did find variation in the predicted overall system cost among the 5 Transportation scenarios.
- High Capacity Transit scenario had the highest projected public costs.
- **Little variation in the resulting annual cost of housing and transportation for individual households.**
- Study finds that all scenarios result in "significantly more congestion and traffic delay" which will "compromise the economy in the future."
- Urban reserve process must consider transportation efficiency, variety and cost.

OAR 660-027-0050(1),(4)

URBAN VS. SUBURBAN DEVELOPMENT: Other Transportation Cost Considerations

- Little conclusive evidence of the "Centers effect" on transportation
- Unknown how many people who live in a Center actually work in that same Center.
- Housing growth in Portland with job growth outside
- 35% of inner Portland residents who are employed work outside of Portland (Census)

URBAN VS. SUBURBAN DEVELOPMENT: Transportation Costs

	Mean Commute Time (Min.)	% of Workers, Commuting Alone by Auto
Portland	24	62%
Lake Oswego	22	79%
Gresham	26	71%
Oregon City	25	75%
Tualatin	22	78%
Beaverton	24	72%
Hillsboro	24	72%
Forest Grove	22	73%

Source: Latest Census data available per geography

LIVABILITY

LIVABILITY
Refill

- Metro "Urban Growth Report" estimates that 27% to 40% of new housing units will be accommodated through "Refill"
- Refill = Infill and Redevelopment in "existing neighborhoods"
- Existing neighborhoods are defined as "largely single-family"

("Choices" Discussion Guide: Land Use Scenarios, 2008)

- Refill can further narrow the range of housing choices, by reducing the supply of *existing* single-family homes

LIVABILITY
Public Services

- Challenge to find land for new parks, schools, and public facilities in centers. Sites more expensive.
- Use of Urban Renewal districts limits the funding for other city services, schools, county and other taxing jurisdictions, even as households are added to the area.
- Preference for denser forms of housing is unsubstantiated. Surveys tend to show strong preference for detached single-family homes.

OAR 660-027-0050(3)

ECONOMIC DEVELOPMENT

ECONOMIC DEVELOPMENT CONSIDERATIONS

"Current and future residents benefit from the region's sustained economic competitiveness and prosperity."
(Metro Council: Definition of a Successful Region)

- Growth is not a given.
- Competition for employers is not between "Centers" and "Suburbs". It is between Metro, the nation, and the globe.
- Regional land use planning efforts for housing and jobs must reflect employer location preferences.
- Housing choice means offering the full range of options and affordability levels near employment.

OAR 660-027-0050(6)

SUMMARY

- FOCUS ON TIGHT UGB
  - Reduced Housing Choice
  - Reduced Affordability
  - Greater Displacement
- ASSUMPTIONS UNDER HIGH CAPACITY SCENARIO
  - No Discount for High-Density Products not feasible
  - Increase in Refill Rate to 40%
  - Additional 71,100 Units in "Subsidized Refill"

SUMMARY

- INCREASING DENSITIES UNABLE TO ACCOMMODATE FULL SPECTRUM OF MARGINAL NEED
  - Affordability
  - Configuration
- INFRASTRUCTURE AND TRANSPORTATION COSTS ARE NOT INHERENTLY LOWER WITH ALTERNATIVE PATTERNS
  - "U" shaped model with infrastructure
  - Marginal employment and housing not a central spoke model
- ARGUMENTS BASED ON "LIVABILITY" POORLY SUPPORTED
  - Public opposition to refill

JOHNSON REID
LAND USE ECONOMICS

MEMORANDUM

DATE: July 13, 2009

TO: Malu Wilkinson, Metro
Joint MTAC / ECAC Committee

CC: CREEC, CAR, NAIOP, PBA, CCBA, SIOR, ICSC, & Davis Wright Tremaine

FROM: Bill Reid, Principal
JOHNSON REID, LLC

SUBJECT: Review of Metro's June 2009 Large Lot/Large Employer Analysis Addendum to the Preliminary Urban Growth Report for Employment Land

JOHNSON REID was retained jointly by the above-listed parties ("the Consortium") to provide a review of Metro's June 2009 Preliminary Large Lot/Large Employer Analysis ("large lot analysis") in supplement to the May 2009 Employment Urban Growth Report. The large lot analysis is intended to remedy omitted consideration of large-parcel employment land demand and supply in the May 2009 Preliminary Urban Growth Report.

This memorandum is intended as a summary of JOHNSON REID's review of analytical documentation in the large-lot analysis and resulting findings. In general, we find the large parcel employment land demand analysis to be a welcome remedy to a critical omission in the Preliminary UGR. However, broadly speaking we also find significant shortfalls in this preliminary analysis due to:

1. Extremely narrow definition of large parcel demand solely from "large employers"; and
2. Complete silence on the basic suitability of individual large parcel supply for the uses required through 2030, i.e. location, configuration, infrastructure, brown-field/constraints, industry clustering, and other factors except for sheer parcel size.

Before detailed treatment of the above concerns, we would note that all comments about demand estimation methodology for all industries, building types, and assumptions that were provided by JOHNSON REID for the Preliminary UGR are valid and applicable to methodology in the large-lot analysis. Accordingly, any UGR analysis refinements to demand analysis would have parallel revision implications for this large-lot analysis.

This memorandum is organized into three sections:

1. SUMMARY OF METRO LARGE LOT FINDINGS
2. DETAILED CRITICAL EVALUATION OF STUDY METHODOLOGY
3. EMPLOYMENT DEVELOPMENT FORM APPENDIX

SUMMARY OF METRO LARGE LOT FINDINGS

In the executive summary of the document, the Metro large-lot analysis finds the following:

319 SE WASHINGTON AVE. PORTLAND, OR 97204 503/295-7832 V 503/295-1107 F

- Not all large employers use large parcels of land (25 acres or bigger); 66% of large parcel users are "home-grown" and existing employers "should not be forgotten amongst efforts to attract new employers."
- Large parcel users "accounted for about eight percent of employment in the UGB in 2006," commonly assemble tax lots for larger sites, and hold land for future business expansion.
- Large parcel demand under the High growth scenario (UGR employment forecast) is estimated as follows:

High-Growth Large Parcel Demand (Metro, June 2009)

Lot size (acres)	Ware./ Dist.	Gen. Ind.	Tech Flex	Office	Retail	Institution	Total
25 to 50	11	4	2	1	0	5	23
50 to 100	3	1	1	0	0	7	12
100 plus	2	0	0	0	0	0	2

- Large parcel demand under the Low growth scenario (UGR employment forecast) is estimated as follows:

Low-Growth Large Parcel Demand (Metro, June 2009)

Lot size (acres)	Ware./ Dist.	Gen. Ind.	Tech Flex	Office	Retail	Institution	Total
25 to 50	5	0	1	1	0	4	11
50 to 100	3	0	1	0	0	6	10
100 plus	2	0	0	0	0	0	2

- Comparison of the above demand tables and supply analysis summarized in the UGR indicate the following demand/supply reconciliation by Metro staff assuming no tax lot assembly:

Large Lot Demand & Supply Comparison with No Tax Lot Assembly (Metro, June 2009)

Lot size (acres)	Lots Available	Lot Demand High Growth	Lot Demand Low Growth
25 to 50	36	22	11
50 to 100	7	13	10
100 plus	1	2	2

- Metro concludes that without tax lot assembly for larger employers, there appears to be sufficient land within the UGB to accommodate all demand for 25 to 50-acre sites through 2030, but a "potential deficit" may exist for tax lots over 50 acres in size.
- Alternatively, assuming tax lot assembly potential, comparison of the above demand tables and supply analysis summarized in the UGR indicate the following demand/supply reconciliation by Metro staff:

Large Lot Demand & Supply Comparison with Tax Lot Assembly (Metro, June 2009)

Lot size (acres)	Lots Available	Lot Demand High Growth	Lot Demand Low Growth
25 to 50	26	22	11
50 to 100	10	13	10
100 plus	2	2	2

- Metro staff concludes that with tax parcel assembly, the current UGB has sufficient inventory in large parcels (25+ acres) to meet all demand through 2030 *except* for potential "high growth" demand for parcels between 50 acres and 100 acres in size.

As indicated in the introduction to this memorandum, it is the conclusion of JOHNSON REID that analysis of large parcel demand is significantly incomplete, supply analysis continues to be flawed consistent with our 6/30/09 review of the Preliminary UGR, and related findings and conclusions about large-lot demand are flawed as well. The following section provides a more thorough treatment of our concerns with Metro's large-lot analysis and resulting conclusions.

DETAILED CRITICAL EVALUATION OF STUDY METHODOLOGY

The following summarizes JOHNSON REID's primary concerns with the large-lot analysis, in sequence with the document's organization.

1. Questionable Definition of "Large Employers" Driving Large-Lot Demand

Beginning on Page 6 of the analysis, Metro defines "large employer" and conducts rather detailed analysis of firms that would qualify as large employers based on a minimum 20-acre-equivalent employment level for various building types and space utilization per employee. For example, "Flex" large employers must have at least 600 employees or more based on a methodology qualitatively described in the report.

It is our recommendation that Metro should provide the rationale and methodology that form the basis for the definition of "large employer":

- Why was "large employer" not defined by sector, industry or even cluster? It is not clear that building space definitions provided (e.g., flex, general industrial) correspond meaningfully to individual employers because of important industry differences as well as the ability for firms to use a mix of building types; for example, a typical high-tech firm can use flex space, general industrial or, in some cases, office space.
- Calculations themselves are questionable. For instance, to qualify as a large employer, a flex-space concern has to have at least 600 employees, according to the Metro analysis. Based on comments by Alwin Turiel, City of Hillsboro Long-Range Planning Supervisor, at the June 24, 2009 Joint MTAC/ECAC workshop, Hillsboro/ Washington County high-tech flex employers utilize an average of 1,000 square feet or more per employee because of extensive capital equipment usage. JOHNSON REID would then calculate a large "flex" or tech employer having as few as 200 employees as follows:

  20 Gross Acre Parcel * **0.75** Gross to Net Factor = **15 Net Acres**

  15 Net Acres * **0.3** FAR * **43,560** square feet = **196,020 square foot building size**

  196,020 square feet / **1,000** sq. ft. per tech flex job = **196 flex jobs**

  This difference in "large" flex employer from the 600-employee definition inexplicably cited in large-lot analysis Table 5 should be reconciled as there will be far more firms in the 200-job to 599-employee size range that will undoubtedly add to the demand analysis for 20+ acre parcels.
- Either Metro staff should re-evaluate and possibly revise its definition of "large employers" for other use types based on the potential flaw demonstrated for tech/flex above, or at least describe the methodology used for these employment sectors in sufficient detail.
- Large "Office" employers are not defined at all because 20 acres is cited by Metro as having far more employees than meaningful to estimate. Therefore, office/office campus parcel

demand is either not estimated or dramatically understated, necessarily rendering the analysis of large-parcel need incomplete.

- Unfortunately, the large retail employer analysis misses the mark as retail is largely based on multi-tenant or multi-establishment centers which combine concerns of various, total employment sizes. We can think of no single retail employer that remotely approaches 700 full-time employees in a single retail building format without some kind of accessory headquarter/administration and/or manufacturing functions. Accordingly, the definition of large retail parcel demand in terms of a non-existent, minimum retail employer size of 700 jobs unreasonably leads to no demand for retail parcels of 25 acres or more in the analysis. Again, shopping centers 25 acres or larger have been excluded entirely due to the parcel demand methodology relying on single-employer definition.
- Finally, we would note that the 20-acre, minimum employer size does not necessarily factor in the lower effective FARs in high-tech and other expanding industries due to land banking activity for cost-effective employment expansion over time. Again, to cite the tech-flex example above, if a 25% land banking factor is added based on observed firm behavior, only 15 of the parcel's 20 acres are committed for a development footprint resulting in a minimum firm size of 147 employees (75% * 196 flex jobs). Additional discussion of land banking is reserved for later in this document.

2. Troubling Comparison of "Home-grown" and New Large Firms for Policy Implications

Beginning on Page 8 of the large-lot analysis, a description of the 89 identified large employers within the UGB occurs. In addition to a summary of large employers by likely building type, there is surprisingly detailed analysis regarding the history of large employers in the region, specifically the year of company founding. Although interesting, JOHNSON REID interprets this historical analysis, specifically identifying the ratio of "home-grown" large employers to non-native firms, as somewhat subtle implication that recruitment of new firms is either not necessary or is of less importance in terms of large-parcel land provision. This is a highly troubling implication, whether subtle or not, from an economic development and land use perspective.

- "Local Industry Only" or even "primarily" flies directly in the face of local, regional and state-wide economic development interests and efforts. Whether out-of-state investment origin (i.e. Intel), or international investment (i.e. port cargo facilities, Vestas, and SolarWorld), these are important investments for the region and the State and it is at best inappropriate and at worst counter-productive to balance against the importance of "home-grown" firms.
- "Home-grown" firms frequently owe their origin and expansion to external investment, rendering the comparison not useful. As a primary example, the Institute for Metropolitan Studies at Portland State University has produced or funded extensive research into the business and economic relationships between high-tech anchor firm Intel and its profound, fundamental role in shaping the workforce, business networks and investment mechanisms that have enabled large "home-grown" firms to exist and thrive, along with Tektronix, such as FEI, TriQuint, Merix, Mentor Graphics, not to mention numerous other firms of various sizes. Therefore, to de-emphasize external investment relative to home-grown industry is to deny the frequently ultimate driver of opportunity for home-grown firms to be established and thrive.

3. Large-Parcel Demand Driven Solely by Large Employers

Beginning on Page 10 of the large-lot analysis, Metro staff identifies existing large-lot users and sets the stage for demand assumptions for large parcels based on known large lot users and large lot/parcel assemblies.

Accordingly, future demand for large parcels or assembly of parcels in the remainder of the analysis is driven solely by large employers as defined by Metro, which as noted above it significantly under-

counts. Whether or not one accepts the definition of "large employer" based on a minimum 20-acre size and related assumptions, the large-lot analysis is rendered seriously incomplete without consideration of multi-user / multi-tenant land use such as office, industrial and tech-flex business parks and retail commercial centers of various sizes, all frequently greater than 20 acres in size. Not only are land use efficiencies gained with various park and commercial center development in terms of parking, multi-purpose trips, transit potential and development costs, but multi-user configurations are integral to the economic viability of the vast majority of small businesses that could not take on owner-occupied real estate risk in additional to operational risks. This fact is not only the foundation of commercial real estate but industrial organization in general.

JOHNSON REID would recommend significant reconsideration of large-parcel need to include multi-tenant / multi-user needs. As an initial recommendation, the final section of this report is an appendix of various office, industrial, retail and institutional development forms and typical site/parcel acreages that our firm has recommended to western Washington County jurisdictions during their economic opportunities' analysis process, as well as experience from other jurisdictions statewide involved in periodic Goal 9 compliance. We would further recommend that Consortium members also continue to provide input on industry-specific standards and regional project examples to assist Metro in its analytical efforts.

Second, we echo our UGR concern about Metro's UGB employment capture rate of 75% - 80% for the seven-county metropolitan area:

- Does this reflect a Metro policy of forgoing 25% of potential employment opportunity for the region?
- Accordingly, does this also not reflect a policy choice to encourage a full 25% of future employment opportunity to adversely affect the growth of the UGBs of neighboring cities, e.g., Newberg, Sandy and North Plains, outside of the purview of Metro?

4. Previously-Documented Land Banking and Market Choice Factors Altogether Unconsidered

Over the past fifteen years, a considerable amount of effort has been put into economic and planning analysis of the unique nature of large employment parcel demand and supply, particularly regarding:

- "Land banking," or purchase of land capacity beyond immediate need to ensure future business expansion ability; and
- Market choice, or market factor, the inventory of land that is available and transacted, intended for improvement investment but may or may not realize development.

The resulting body of research created in these efforts has captured not only the key assets and challenges of the area's industrial land inventory but has established an important history of discourse regarding these issues. Below is a non-exhaustive list of reports related to these subjects particularly relevant to this memorandum:

Hobson Johnson & Associates, 2040 Means Business: Industrial Market Working Paper, November 1996

Port of Portland, Regional Industrial Land Study, Phase 1, December 1999

OTAK, Regional Industrial Land Study, Phase 2, October 2001

Portland State University, Regional Industrial Land Study, Phase 3, 2002

Metro, 2002-2022 Urban Growth Report: An Employment Land Need Analysis, August 2002

Johnson Gardner, Aggregate Industrial Land Needs, December 2002

E.D. Hovee & Company, Greater Portland Metropolitan Employment Land Study, June 2004

Land Banking

Although discussed by Metro as a potential policy implication, land banking by firms that expect to expand over the long-term in the metropolitan area is a crucial assumption to include in any large-parcel demand analysis. While holding land vacant for potential future development may be viewed as objectionable from a planning theory perspective, retaining the capacity to "expand in place" is an integral part of industrial land provision and business location decision-making, especially in a region that has a traditionally tight land supply. To ignore, underplay or forbid such an important business ingredient is both to increase key facility input costs as well as reduce certainty and confidence in business expansion planning dramatically.

In our review of industry FARs utilized in the preliminary UGR, it was indicated that Westside/suburban industrial FARs were as low as 0.19 compared to the assumed 0.3 FAR. This discrepancy is greatly explained by land purchase and banking patterns by technology-related industry and others that seek to guarantee/ensure predictability and flexibility for future expansion and may serve as a model example of land banking rates that can be assumed for land demand. We invite Metro to review the methodology used in the *2040 Means Business: Industrial Market Working Paper* as a potential model for estimating land banking within industrial land demand. Below is a summary of the discussion regarding land banking from previous work:

- High-tech firms in the area have demonstrated a propensity for "land banking", or purchasing property in excess of their anticipated immediate term needs in order to assure on-site expansion potential.
- The 2040 Means Business Industrial Working Paper sampled 18 owner/user occupied buildings, totaling 8,460,328 square feet of space on 1,505 acres of land. The average coverage ratio for these users was only 12.9%, reflecting the impact of land banking for potential future expansion on land consumption.
- Without this land banking/expansion capability, owner/users may be hesitant to locate in this region for several reasons. First, they hold the land for future expansion, frequently expand rapidly when the decision is made, and do not want to be faced with the inefficiencies of multiple locations in the future. Second, they often desire a campus environment with major landscaping and open space, frequently either for aesthetics, employee benefit, or very frequently for facility security reasons.
- Operational characteristics of high-tech employers also contribute to a relatively high propensity to land bank in the industry. The cost of holding industrial land is more than off-set by the benefit of being able to plan future expansion predictably and rapidly. Also, such firms frequently prefer to purchase land for later expansion at lower initial holding cost due to frequently, unpredictably expensive, innovation-driven capital investment needs.

Market Choice / Transaction Demand

A factor of demand must be included that reflects transaction demand need for healthy commercial real estate market activity. Not all land available will be developed over a twenty-year period, but may be purchased or optioned by interests that intend to develop. Absence of such supply provides fewer choices for business to purchase and expand, whether home-grown or external investment, which in turn tends to drive up the cost of employment land, creating disincentive to economic development. Under-provision of retail land, for instance, can put price pressure on industrial land that will frequently have freeway/transportation access and visibility upon which retail also depends, undermining the policy to preserve industrial land for industrial development.

The importance of the market factor was first raised in the *2040 Means Business Industrial Market Working Paper* and then was further elaborated and quantified in Phase 2 of the

Regional Industrial Land Study. Below is a summary of the discussion regarding the market factor from previous work.

- An efficient land market requires a range of site options during any particular period. Typically, local jurisdictions and metropolitan regions provide 50 to 300 percent more industrial land than the forecasted demand for a 20-year planning period. Although it is not used locally, such a market factor is sound economic policy as it reflects the fact that demand numbers driven purely by projected absorption will consistently understate the need for available and developable land.
- The sale of land is not equivalent to the net absorption, that is, the use of that land, and, for this reason, transaction volume will typically exceed net absorption. Nonetheless, the level of transaction activity speaks to the need for an adequate supply to allow the market to function properly. Both end-user firms and speculative developers purchase land in advance of their intended use of the property.
- Market pricing and availability of industrial land is a function of the land supply available in the market during any discrete period. As a result, simplistic ledger-style planning models that compare aggregate demand to aggregate supply do not adequately replicate the actual function of the land market.

5. Concern About Conversion of Industrial Land to Non-Industrial Uses: Lack of Empirical Evidence

The large-lot analysis poses an interesting policy question regarding assurances for industrial land to be used for job-generating industrial purposes "to protect public investments" in Metro's own phrasing. Here, though not expressed, public investment is likely in infrastructure. The implicit concern is that industrial land has been or is being used for non-industrial purposes.

Although there has been extensive discussion of this issue over the past several years, including Metro's expansion of its Title 4 design types to include Regionally-Significant Industrial Areas (RSIAs), we are unaware of any robust body of evidence that industrial land conversion has occurred on any significant scale, particularly in the Portland metropolitan area. To this end, we would invite Metro to review the 2004 Department of Land Conservation and Development (DLCD) report, *Promoting Prosperity: Protecting Prime Industrial Land for Job Growth.*

The report identified only five jurisdictions within Oregon that experienced industrial land conversion to other uses between 1986 and 2004. Of those five, only two of the conversions were considered by DCLD to be detrimental to industrial land supply. Moreover, the report documents Metro's input that not only was conversion over-estimated but at times can be beneficial, particularly when due to accommodating the rapidly-changing industrial work place.

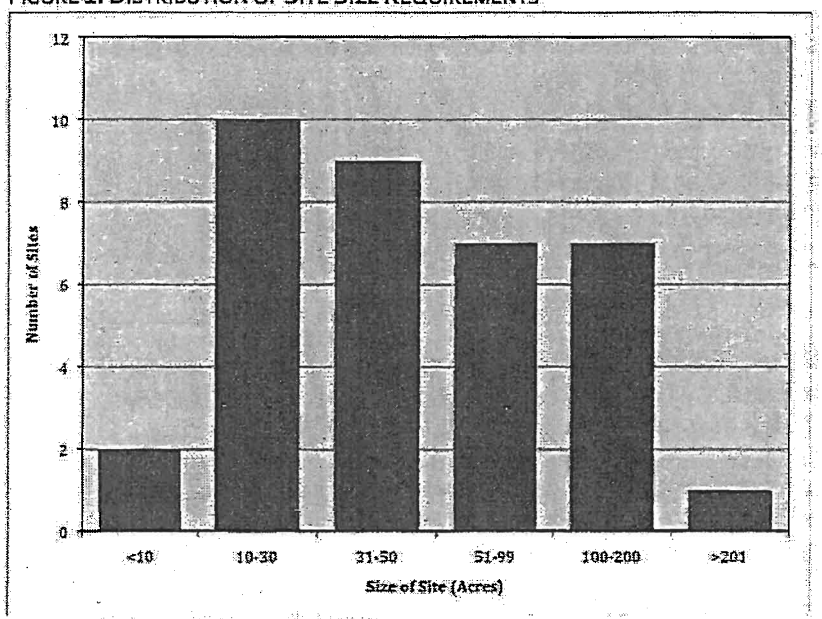
While Metro's concern that admitting too much industrial land into the UGB may create pressure for that industrial land to convert to retail or institutional use is understandable, we would recommend greater documentation of the issue beyond anecdote for purposes of a better informed discussion of large-lot industrial land need concerns.

6. Municipal, Regional, & State Economic Development Policies & Aspirations Not Considered

The Metro analysis provides no discussion of economic development aspirations, targeted industry need and unique large-site quality information reflective of regional economic development agents such as the Port of Portland, Regional Economic Partners and private economic development interests or Metro's 28 constituent local jurisdictions that are required by State law to implement Goal 9 strategies in their comprehensive plans. This is of particular concern, given considerable effort and resource expenditure by the various jurisdictions and stakeholders on targeted business recruitment efforts upon which targeted, large employer and industry cluster attraction particularly depends.

To illustrate the potential demand for large employment sites throughout the Portland metro area, a JOHNSON REID memorandum is attached to this review document describing specific industry recruitment land demand and related, specific land quality needs of those employers. The information is a summary of industry "leads" pursued by the Oregon Department of Business Development ("OBDD" formerly "OECDD") over the past nine months in partnership with various city, county, and other economic development partners. Although confidential in nature and generally summarized for this document, parcel size and quality among the 36 firms seeking Pacific Northwest locations in the nine-month period indicated the following parcel size characteristics:

FIGURE 1: DISTRIBUTION OF SITE SIZE REQUIREMENTS



Source: OBDD and Johnson Reid LLC

As is demonstrated, the vast majority of firms seeking opportunities to locate or expand in the Portland metropolitan area, required parcels greater than 30 acres in size; and this was over only a nine-month period and during the worst recession since the Great Depression of the 1930s. Over 20% (eight) are seeking parcels over 100 acres in size. Although we do not assert that the Portland metro area can and will recruit all potential leads successfully, the information about firms seeking a potential location here indicates that not only do local, regional and State economic development efforts matter, but that they should be quantified and modeled formally as part of potential long-term land need given such evidence. The reader is invited to review the attached memorandum for additional information about the range of industries and users and specific infrastructure, labor, and site quality needs.

Accordingly, based on all preceding comments about Metro's large-lot demand methodology, we point out that such demand estimates by parcel size and building space type as expressed on Page 18 of the large-lot analysis report, as well as cited in the first section of this memorandum, are incomplete and potentially under-estimate large lot need significantly over the next twenty years.

7. Large Parcel Supply Analysis Ignores All Supply Factors but Parcel Size and Adjacent Assembly

Beginning on Page 19, an analysis of sites of 25 acres or more is conducted to identify potential supply to accommodate estimated large-parcel demand. We would first note that all critical shortcomings of the industrial supply analysis that JOHNSON REID discussed in its Preliminary UGR review have similar implications for supply analysis in this analysis.

Perhaps even more fundamentally, however, we point out that 25+ acre supply indicated in this large-lot analysis and related assembly potential is analyzed from a parcel supply size perspective with only very basic consideration of several critical factors. In other words, according to this analysis, if a 25+ acre parcel exists somewhere in the metro region, no matter its physical suitability including site orientation, configuration, location, zoning compatibility and existing infrastructure; proximity to suppliers, customers and like companies (industrial cluster); brown-field/redevelopment constraints; owner intention; and/or expense or financial tools necessary for assembly, the parcel still is considered suitable for meeting large-parcel need.

In our view, this implausibly and critically over-simplifies the large-lot supply issue and falls short of being a reasonable basis to discuss large-lot parcel supply for demand/need reconciliation. A significant revision to this supply methodology to more seriously reflect large user suitability is paramount to understand the true regional need for employment land of all types.

8. Demand and Supply Reconciliation Flawed

Accordingly, though much analytical effort by Metro staff in the document is obvious, we would be remiss not to conclude formally that the supply and demand reconciliation of large sites is flawed and requires significant revision, based on all methodological concerns raised.

We would further ask the following:

- Who is responsible for land assembly of constrained sites and by what means is this financed?
- Similarly, who is responsible for brown-field remediation and by what means is this financed? How does that affect the plausibility of various refill/infill assumptions? Metro staff is invited to review the 2004 *Brownfield/Greenfield Development Cost Comparison Study* co-funded by Metro, PDC, Port of Portland and City of Portland to identify critical financial and physical constraints for key sectors and end users' ability to utilize remediated brown-field sites altogether.
- Metro staff also is invited to review both *Employment Opportunity Sites Portfolio*(s) from 2004, commissioned by the Portland Development Commission, that identify in great detail the specific physical and financial constraint considerations for the majority of key redevelopment/infill sites throughout the City of Portland. We would further note that redevelopment will have higher perceived financial risk from a lending perspective and will require greater cost of borrowing, potentially rendering opportunities identified in that document as infeasible.
- How does the allocation of urban renewal subsidies in the Residential Urban Growth Report to residential infill, rather than support of economic development, constrain or render refill/infill assumptions inoperative?
- Finally, how does this and future large-lot demand analysis relate to or affect existing employment land findings? Large-lot users frequently anchor clusters and create ripple effects that then create demand for various other employment types including retail commercial indirectly via employed household spending. Does this and revised analysis change existing UGR findings in total?

JOHNSON REID
LAND USE ECONOMICS

MEMORANDUM

DATE: June 30, 2009

TO: Malu Wilkinson, Metro
Joint MTAC / ECAC Committee

CC: CREEC, CAR, NAIOP, PBA, CCBA, SIOR, ICSC, & Davis Wright Tremaine

FROM: Bill Reid, Principal
Johnson Reid, LLC

SUBJECT: Review of Metro's May 2009 Preliminary Urban Growth Report for Employment Land

JOHNSON REID was retained jointly by the above-listed parties ("the Consortium") to provide a review of Metro's May 2009 Preliminary Urban Growth Report on Employment Land ("the UGR"). Specifically, the Consortium has significant concerns about the validity of the following five conclusions expressed on Page 1 of the UGR:

1. *"There is sufficient capacity within the current urban growth boundary to meet the low end of the regional forecasted employment demand in the 5- and 20-year time frames."*
2. *"There is sufficient capacity to meet the high end of industrial demand..."*
3. *"But policy or investment changes must be made to meet the high end of the non-industrial demand."*
4. *There is "...a potential gap in the capacity of the existing UGB to meet unique industry needs."*
5. *"The report illustrates a potential disparity between the location of certain types of land supply and current employment location trends."*

This memorandum is intended as a summary of JOHNSON REID's review of policy and analytical documentation in the UGR and the resulting findings that lead to these five conclusions. We have identified issues of particular concern to the Consortium that we recommend the Consortium focus efforts to further coordinate with Metro to refine, correct, and improve the UGR as appropriate. Johnson Reid notes, however, that the draft large parcel need analysis released on June 24, 2009 also warrants review as its findings are integral to adequate assessment of employment land need in the Portland metro area. JOHNSON REID will provide another

memorandum to Metro by July 15, 2009 expressing any concerns about the large parcel need analysis and suggested methodological refinements as necessary. Please note that comments methodology suggestions for large parcel should not be viewed in a vacuum and may add to or refine our own comments in this memorandum.

General Methodology Comments

Metro methodology for determining demand and supply for employment land basically comprises the following three-step process:

i. **What is Forecasted Demand?** - Metropolitan area employment is forecasted exogenously (independent) of regional land supply, location and quality under a high and low growth scenarios along with an implicit middle-point or medium growth scenario.

ii. **What is Regional Land Supply?** – Assuming various policy preferences as well as refill and floor area ratio (FAR) trends for *currently known* industries, the capacity of the existing supply of land is estimated within the urban growth boundary generally regardless of specific industry needs and locational considerations.

iii. **Does the Existing Supply of Land Under Metro's Capacity Assumptions Meet Forecasted Demand?** – Existing capacity is estimated by Metro less forecasted demand for land under each growth scenario.

In the document, Metro clearly indicates the report is meant to shape regional planning discussion and is not meant to be a final, conclusive study of the region's employment land need.

However, a number of fundamental issues arise in a detailed reading of the report that indicate it quite reasonable to question not only the five critical findings summarized on the first page of this document, but the three-step methodology utilized by Metro as well.

Following are general comments regarding the basic methodology utilized by Metro for reaching its employment land need findings for the planning period through 2030.

1. A Basic Confusion of the Roles of Land Supply and Demand in Economic Growth

Despite a well-documented employment growth forecast for the metro region, in actuality job growth will only materialize if the location, type and quality of buildings and land are available as specifically required by various industry sectors. In other words, growth capacity *starts* with a thorough understanding of the nature of land supply within the UGB as determined by key industries and the regional

jurisdictions planning for economic development as required by Statewide Planning Goal 9. For example:

- *Is there sufficient industrial acreage in East Multnomah County proximate to the Port of Portland for targeted sustainable energy industries (wind turbines, etc.) as well as potential alternative fuels vehicle manufacturing as currently being pursued by the Governor's Office?*
- *Is there sufficient industrial acreage suitable for photovoltaic solar manufacturing in Washington County that is seismically stable, provides adequate water and power capacity, and is proximate to the County's existing high-tech workforce?*

To the extent that Metro fails to understand these types of employment lands and does not provide for the needs of specific uses, promising industries targeted by State, counties and local governments will not materialize, leading to far greater economic stagnation in the region.

Rather, we find the first questions to reasonably be: How Much and What Types of Employment Growth Does the Current Inventory of Land Indicate Based on the Needs of Existing and Targeted Industries? Does This Meet Regional Needs and Goals? If Not, What Else & How Might It Be Required?

2. The Urban Growth Report is Not Consistent with Statewide Planning Goal 9 – Employment Land

On page 8 of the UGR, it is made clear that the document was:

- "...completed to comply with state statutory requirements in Oregon statewide planning goal 14."
- Further, "...While Metro is not required to comply with planning goal 9, much of the work completed to analyze employment demand and supply can support the cities and counties in the region that are addressing the requirements of goal 9 in their periodic review work plans."

Thereafter follows statutory language for both Oregon Goals 14 ("Urbanization") and 9 ("Economic Development")..To paraphrase for the uninitiated:

- Goal 14 requires planning jurisdictions to adequately answer the question of whether urbanized development can be reasonably located within the existing UGB and, if not, where it is best situated.
- Goal 9 requires planning jurisdictions to identify the specific economic opportunities to be pursued and match this to the specific inventory of employment land necessary to successfully achieve economic development goals.

Based on our own experience of conducting analyses of both Goals 9 and 14 for various jurisdictions throughout the state, JOHNSON REID is unsure how exactly a Goal 14 analysis can adequately be conducted *without* well-considered, Goal 9-consistent documentation.

In other words, Metro indicates it has answered the question "Can all expected growth reasonably go inside the existing UGB?" But we find it reasonable to question whether "expected growth" is even fundamentally understood from an industry sector and economic development perspective as required by planning Goal 9.

Indeed, the Urban Growth Report acknowledges Metro does not need to comply with planning Goal 9, and Metro staff has indicated that it is not within its purview to take into account individual jurisdictions' Goal 9 documentation. One can appreciate the difficulty of such a jurisdiction-by-jurisdiction undertaking. But this renders significant aspects of various City and County Goal 9 requirements meaningless and guarantees silence on the following crucial issues among others, and an incomplete portrait of "expected growth" for Goal 14 consistency purposes:

- The nature and characteristics of existing industries with regional presence as well as new or emerging industries targeted for public investment as determined by the local jurisdictions themselves and their State agency partners including Oregon Department of Land Conservation and Development (DLCD) and Oregon Economic & Community Development Department (OECDD), among others.
- The unique land needs of industries targeted by jurisdictions, including size, location, transportation, power, water/wastewater, geological quality, workforce proximity, need for land capacity beyond immediate employment plans ("land banking"), and a host of other qualities.
- Specifically, the ability of the City of Portland's employment land capacity to physically accommodate Metro's projections of refill and industry location needs as Portland's own Goal 9 process is incomplete, but soon coming to a close.
- Specifically, the ability of western Washington County and eastern Multnomah County to adequately pursue PV solar panel manufacturing firms, the only industry currently being recruited with OECDD programmatic resources, as well as wind energy manufacturers and service providers, other alternative energy initiatives, and specifically in the case of western Washington County, bio-pharmaceuticals-related industry.

Contrary to the Urban Growth Report's contention, it is our opinion that Metro is subject to conformance with Goal 9, if not the associated rules. At the very least, as

with its election to conduct a metro area-wide Goal 5 analysis of environmentally sensitive lands consistent with State requirements, analysis of economic need and documentation of both local and regional economic development plans as they determine land need quality consistent with State requirements would be preferred.

3. The "New Paradigm" Focus on Building Types Critically Mischaracterizes Industry Land Demand

The UGR adopted what it calls a "New Paradigm" to characterize employment land need and capacity sufficiency within the current urban growth boundary. Specifically, the "New Paradigm" focuses on the built environment that accommodates employment uses, and potential trends in built retail, office, and industrial uses. This differs with past consideration of land need where employment density per acre by broad industry groups was of Metro analytical emphasis. Resulting methodology assessing employment land need for broad employment space types utilizes the following algorithm:

Employment Forecast X Built Space per Job / Building Floor Area Ratio = Land Demand

With a well-documented statistical employment forecast and significant past work to determine average space usage per employed person by different broad uses, Metro focused new analytical resources for this UGR on the issue of floor area ratios as a measure of building foot print and as a barometer of long-term land use efficiency. Specifically, increasing FARs over time are an indicator of more efficient use of land as there is an increase in building footprint relative to parking/impervious surface to serve the building's economic function. Metro's efforts, via its consultant team, included a number of focus groups to discuss sector-specific FARs and built environment trends, recent real estate and built environment trends by specific use types, and potential direction for building efficiencies over time by use type.

While all of the above are constructive additions to understanding land usage by regional industry, we point out the following shortcomings of the approach in fully understanding regional employment land need:

- Analytical efforts by Metro's consulting team on the built environment produced over-emphasis on various real estate trends and potential outlook issues of measurable developed speculative space as measured by CoStar, Inc., a commercial real estate database. Based on our experience, CoStar is an important tool for space and land brokerage, but its databases for office, industrial, and retail uses are not comprehensive and overwhelmingly reflect speculative, or for-lease, space. These spaces are predominantly smaller, more flexible buildings that can meet the needs of a broad range of tenants (in-line retail, flex business park, etc.) with shared parking and provide a

skewed picture of built environment factors that Metro then utilizes to inform land need over 20 years and potentially inform 50-year need as well.

- Alternatively, Co-Star is far less complete in its information regarding owner-occupied space characteristics because the latter is built-to-suit and not marketed for occupancy transaction. Such uses frequently do not follow a consistent or flexible pattern due to the unique economic function of the facility (i.e. Intel's Ronler Acres) and long-term investment requirements of the firm. This is also true for larger owner-occupied commercial and office development, which may require unique freight/merchandise transportation accommodation and security provisions, respectively.
- The report acknowledges absence of analysis of "large industrial lot" demand issues including characteristics, industry specifics, and land banking need among others. Because both existing and emerging industrial clusters, which the UGR credits as major drivers of future economic opportunity, are usually anchored by larger users and their unique, long-term land needs, the absence of large-lot demand is of particular concern. This is underscored with the comment made by a focus group participant that "For sites of 20+ acres, an increasing need to look outside the metro region" exists (p. 22).
- The report focuses on commercial real estate *space* rents and occupancy, but ignores the importance of the non-residential land market, including recent transaction prices and their signal as to the lack of availability of a diverse array of suitable industrial sites for specific industry needs throughout the metro region.

4. Metro Policy Assumptions and Impact Upon Findings Are Not Clearly Explained

Although a technical appendix of Metroscope model policy assumptions is provided at Metro's UGR website, key policy details are not clearly spelled out or explained based upon our reading. We seek further explanation and refinement of the following:

- In a February 5 Metro Council work session, it was noted that the Metro Policy Advisory Committee (MPAC) recommended a "tight urban growth boundary" to further shape development and redevelopment patterns within the existing UGB. Early February also roughly times with the near-completion of background document preparation by Metro's consulting team. When exactly and how did the MPAC policy recommendation of a "tight boundary" shape analysis by the Metro consulting team, as well as analytical findings summarized in the UGR by Metro staff utilizing consultant team findings?

- How does infrastructure cost and reinvestment policy get modeled and affect findings? The technical appendix states that Metroscope models the effect of policy choices and that infrastructure costs are based on national statistics, but it is far from clear how exactly these costs determine specific locations of future economic growth, particularly within the existing UGB.
- What infrastructure costs are assumed to be borne by the private sector and what percent by the public?
- How are different infrastructure costs modeled given different cost realities in different areas? Washington County lands are flatter with significant, existing infrastructure suitable for high-tech industry adjacent and efficiently extended only in part by the public. Does the recent transportation bill that funds widening of Highway 26 to 185th, expansion of interchange capacity at Shute Road and Glencoe Road, and significant additional resources for arterial and other expansion within Washington County change infrastructure policy assumptions and/ or study findings? Are model assumptions and study findings accurate given the funding of the Dundee Bypass given Yamhill County inclusion in the Metroscope model?
- Do national statistics accurately reflect the cost of retrofitting existing infrastructure in core urban areas for dramatic increases in commercial retail and office (re)development intensity predicted by the model?
- How exactly does assumed residential unit subsidy schedule, as expressed in the Second Appendix of the UGR, shape future commercial retail geographic allocation? If infrastructure policy assumptions are sensitive to cost considerations, is it reasonable to assume nearly 90,000 residential units within the current UGB will individually receive up to $50,000 in direct subsidy, presumably via numerous urban renewal districts throughout the metro region.
- The appendix notes that officials of Metro member counties and the City of Portland reviewed the information, but were the urban renewal districts, frequently even independent of City Council bodies, consulted? Which urban renewal districts would require voter approval for what would most likely amount to significant plan amendments for these subsidy schedules? Is Metro aware ORS 457 will likely be amended to reduce loss in incremental revenues to affected service providers, thus reducing urban renewal maximum indebtedness over the long term? How does all of this factor into the analysis of commercial retail demand and geographic location over the planning period?
- The appendix notes that candidate urban growth expansion areas modeled largely do not include candidate industrial areas identified

by economic stakeholders and western Washington County jurisdictions as most suitable for regional cluster growth, and buildable, cost-effective quality. How does modeling their exclusion differ from results if modeling their consideration for inclusion?

SPECIFIC METHODOLOGY AND FINDINGS COMMENTS - DEMAND

Given the above comments about broad methodological and policy issues that shape the UGR, this section of the document provides a list of questions about specific methodology and policy assumptions that we recommend the Consortium pursue given their economic interests.

Page 28 – SolarWorld in Hillsboro has indicated a commitment to hire 2,000 employees, many before 2015. The Low forecast for the entire metro area indicates 2,700 manufacturing jobs in five years then a loss of 300 to 2,400 new jobs in 20 years. The SolarWorld figure does not include manufacturing ripple effects, or any other manufacturing firms in the seven-county area. In light of the discrepancy, should the employment forecast take into account documented, near-term employment commitments from employers, including emerging clusters?

Page 28 – Manufacturing jobs, in the Employment Report, include Computer Electronics (growth projected) and non-Computer Electronics (decline projected). Since solar panel manufacturing is not computer electronics, but is categorized in the silicon-based microprocessor NAICS category, where is the emerging Solar Cluster accounted for in the forecast scenarios? If western Washington County was not considered for reasons of policy assumptions, where will this employment go?

Page 29, Figure 3 – As the chart clearly verifies, significant employment growth, greatly driven by high-tech in Washington County and Multnomah County, occurred between 1984 and 2000. It must also be noted, however, that industrial land availability during the 1980s and 1990s was significantly greater, more diverse, and less expensive than presently. Is it reasonable to assume these key industries can, much less will expand in the region given far less inventory selection for firms that need to plan for rapid expansion with site diversity and flexibility need?

Pp. 33-34 – Estimates of Metro area UGB capture of 7-county employment growth indicate declining share over the past several years and a fixed, 2006 level for future projections. Doesn't a declining capture signal the lack of suitable employment land within the Metro UGB and the increasing movement of that demand to Clark County in particular? Is this a trend Metro should continue to plan, or should workforce and industry use of freeway infrastructure be rethought and reduced?

Page 35 – We would note that all building types in Table 5, based on Metro consultant team work and extensive use of CoStar for built environment trends, are speculative space terms and reflect their skewed supply characteristics compared to

owner-occupied and end users, with the exception of Institution use. For example, what categorization would Ronler Acres get? General Industrial? Office?

Page 37+ - In the Economic Trends report conducted by the Metro consulting team, it was reported that the Central & Inner Metro area Subrings lost roughly 25,000 industrial jobs between 2000 and 2006 (Appendix 1, Figure 6). Alternatively, the Outer Ring Subareas (Appendix 1, Figure 7) reported gaining roughly 15,000 jobs during the same period. Starting on Page 37 of the UGR, however, it is found that the Portland metro region will undergo a rather dramatic reversal regarding where industrial jobs can be expected to locate through 2015 and 2030. Despite losing the second-largest number of industrial jobs over the past six years, Inner north and northeast are expected to see over 3 million square feet in industrial space demand through 2015, the second highest total barely behind Outer Westside (Figure 10). Central is expected to see roughly 750,000 square feet of industrial demand through 2015 despite dramatic losses over the previous six years, signaling dramatic changes in industrial sectors and need in the central city area. Through 2030, the reversal is even more dramatic, with Inner North and northeast leading the metro region in industrial employment demand for space (13 million square feet) followed more distantly by Outer Westside at below 10 million square feet of demand. Land inventories, fiscal tools, emerging industries, etc. will not be dramatically different through 2015 than they have been in the last few years. How exactly does Metro explain this rather remarkable, if not improbable, change from trend? Has the City of Portland verified that type of capacity or consistency with their comprehensive planning efforts? We would ask similar questions for other jurisdictions.

Page 37+ - A similar reversal in non-industrial space demand from E.D. Hovee's findings has been allocated to Central and Inner Rings compared to Outer Ring subareas with similarly lacking explanation for economic rationale for the dramatic change from trend. An explanation is warranted. "High" demand for non-industrial appear to be missing from Figures 11 and 13.

Page 43+ - Development trends information greatly relies on CoStar data, which as earlier expressed provides much greater detail and information for speculative space to serve the needs of commercial real estate brokerage services. This information is not at all clear how owner-occupied, end user data is accounted for at all and, therefore, how these findings may skew analysis of future land need accordingly.

Pp. 45-46 – Discussion of FARs is provided and compared for descriptive purposes and a comparison of FAR trend findings by the Metro consultant team is given. Although this information is useful in general description, it falls short of identifying the range of FARs by employment use in affecting *demand*. Greater FAR discussion is given later in the report, but only in support of estimating potential capacity of supply, not characteristics of demand. We further point out that FARs for commercial retail and office are combined and jointly discussed, even though the two broad uses exhibit very different building forms in all parts of the metro area.

Depending upon employment density, office can build out completely as high-rise, while new retail in central city usually occupies ground floor/store front in a single story or up to four stories in a regional center such as Pioneer Place. As demonstrated later in this document, retail commercial rarely achieves more than a single story in more suburban settings.

Pp. 45-46 - There is no discussion about the translation of FARs into land demand via the size of the user or tenant in determining building size and resulting relationship to land demand. This crucial link, in terms of demand for parcel size in relationship to building space by firm/user/tenant(s) size is a critical omission as ultimately the supply of land available can only reasonably support demand if all user sizes are accounted. Figure 20 on p. 45 unintentionally illustrates this critical flaw – illustration of FARs varies greatly, but in each example the size of the land parcel is the same. Obviously, parcel size need varies by industry type and user just as FARs do.

SPECIFIC METHODOLOGY AND FINDINGS COMMENTS - SUPPLY

Although it is clear much time and effort has been put into identifying the total inventory of buildable employment land within the current Urban Growth Boundary, the analysis of existing supply capacity has critical flaws that in our opinion require significant additional analysis and explanation.

Specifically, the buildable land supply analysis makes no effort to discuss the size of existing, buildable parcels other than to classify sites "buildable" if, among other things, they are greater than one (1) acre in size. A review by Johnson Reid of all employment parcels included in the published inventory, regardless of parcel ratings as established by Metro, indicates the following:

- Gross Acreage
    i. Median Size – 2.2 acres
    ii. Mean Size – 4.9 acres
    iii. Modal Size (most common) – 1.05 acres
- Net Buildable Acreage
    i. Median Size – 1.8 acres
    ii. Mean Size – 4.0 acres
    iii. Modal Size – 0.9 acres

In other words, the vast majority of the employment land inventory – regardless of quality rating - as published is predominantly very small and unsuitable for the vast majority of employment land development types regardless of potential FAR realized on site. In fact, the most common net buildable individual parcel acreage

was less than one acre (0.9), throwing the entire grading system of "at least one acre" into question.

Despite the details of FARs and potential refill/infill rates, the critical absence of discussion of parcel sizes and their suitability to accommodate the nature of future growth needs to be remedied. Without such a discussion, it is our own view that the Urban Growth Report fails to address whether or not future employment land demand and need can be met "reasonably" within the existing urban growth boundary.

Specific Methodology and Findings Comments – Floor Area Ratios

Members of the Consortium have expressed strong concern at the assumed refill rates, as well as some of the Inner Ring FARs utilized for long-term projection purposes. Dennis Yee has graciously worked with Consortium members to seek common ground and refine his analysis if necessary. Reasonable changes to assumed FARs for retail have occurred as a result of coordination between Consortium members and Dennis Yee.

To independently verify FAR assumptions for retail and industrial in particular, Johnson Reid conducted its own review of CoStar building inventory data for Industrial, Warehouse/Distribution, and Flex building types as well as various categories of retail to ground-truth modeling assumptions utilized by Metro. The following two tables summarize our findings.

Industrial

As comprehensive CoStar data indicate for all of the above submarket areas and general building types, average FARs across the region barely average 0.19. That would indicate that assumed FARs for industrial development of all three categories utilized by Metro are very aggressive. As the data also indicate, FARs that generally exceed 0.3 across all building types barely comprise 2.7% of all industrial, warehouse/distribution, and flex space constructed since 2005. We would, therefore, recommend review and significant reconsideration of assumed FARs based on the CoStar data set also utilized by Metro.

SUMMARY OF AVERAGE FLOOR AREA RATIOS (FARs)
COSTAR INVENTORY OF INDUSTRIAL BUILDINGS SINCE 1995

	Developed Acreage	Rentable Area	% of Region	Average FAR
Central				
Industrial	1.38	35,800	0.2%	0.60
Warehouse/Distribution	3.16	83,652	0.4%	0.61
East Multnomah County				
Industrial	33.16	433,028	2.3%	0.30
Warehouse/Distribution	684.50	5,696,489	30.2%	0.19
Flex	14.37	121,070	0.6%	0.19
Inner Clackamas				
Industrial	17.89	281,142	1.5%	0.36
Warehouse/Distribution	171.09	1,796,783	9.5%	0.24
Flex	2.30	32,500	0.2%	0.32
Inner North & East				
Industrial	44.00	239,517	1.3%	0.12
Warehouse/Distribution	187.98	2,463,896	13.1%	0.30
Flex	1.10	40,091	0.2%	0.84
Outer I-5/205				
Industrial	4.54	70,062	0.4%	0.35
Warehouse/Distribution	127.58	1,251,973	6.6%	0.23
Flex	27.34	210,979	1.1%	0.18
Outer Westside				
Industrial	229.58	1,557,769	8.3%	0.16
Warehouse/Distribution	413.20	2,017,025	10.7%	0.11
Flex	305.22	2,533,463	13.4%	0.19
TOTAL	2,268.38	18,865,239	100.0%	0.19
Industrial	330.55	2,617,318	13.9%	0.18
Warehouse/Distribution	1,587.49	13,309,818	70.6%	0.19
Flex	350.34	2,938,103	15.6%	0.19

SOURCE: CoStar and Johnson Reid LLC

Retail

The figure on the following page provides a similar analysis of retail commercial development inventory since 1995 as documented by the CoStar database. Based on the CoStar data set, a review of FARs suggests that modifications discussed by Consortium members and Dennis Yee were very appropriate.

- Average, metro area-wide FARs for retail commercial built since 1995 is 0.17.
- Only 82.4% of space identified in CoStar has a related entry for land acreage.
- 88.6% of retail inventory constructed since 1995 and reporting acreage has an average FAR of 0.3 or below.
- The Regional Mall category in the CBD, displaying FAR of 13.57 reflects a single building observation.

SUMMARY OF AVERAGE FLOOR AREA RATIOS (FARs)
COSTAR INVENTORY OF RETAIL BUILDINGS SINCE 1995

	Developed Acreage	Rentable Area	% of Region	Average FAR
CBD				
Regional Mall	0.16	94,558	0.9%	13.57
Unclassified	2.23	37,163	0.4%	0.38
Unreported Acreage	n/a	308,502	3.0%	n/a
I-5 CORRIDOR				
Community	25.00	207,564	2.0%	0.19
Neighborhood	59.20	244,034	2.4%	0.09
Strip Center	37.44	242,421	2.4%	0.15
Unclassified	76.81	128,816	1.3%	0.04
Unreported Acreage		303,970	3.0%	n/a
LLOYD DISTRICT				
Strip Center	1.11	24,631	0.2%	0.51
Super Regional Center	2.02	62,996	0.6%	0.72
Unclassified	4.20	140,818	1.4%	0.77
Unreported Acreage		97,031	1.0%	
NORTHEAST				
Community	116.45	1,043,173	10.3%	0.21
Neighborhood	92.91	243,524	2.4%	0.06
Power Center	17.84	337,000	3.3%	0.43
Regional Center	71.84	322,506	3.2%	0.10
Strip Center	10.61	83,606	0.8%	0.18
Unclassified	52.76	583,508	5.8%	0.25
Unreported Acreage		353,111	3.5%	
NORTHWEST				
Strip Center	0.85	47,308	0.5%	1.28
Unclassified	1.04	14,200	0.1%	0.31
Unreported Acreage		28,200	0.3%	
SOUTHEAST				
Community	56.48	750,266	7.4%	0.30
Neighborhood	79.93	403,352	4.0%	0.12
Power Center	57.24	145,430	1.4%	0.06
Regional Center	42.00	477,000	4.7%	0.26
Strip Center	8.28	123,789	1.2%	0.34
Unclassified	24.29	221,938	2.2%	0.21
Unreported Acreage		130,014	1.3%	
SOUTHWEST				
Community	99.42	454,921	4.5%	0.11
Neighborhood	7.76	88,357	0.9%	0.26
Strip Center	7.45	87,949	0.9%	0.27
General	8.65	101,942	1.0%	0.27
Unreported Acreage		118,767	1.2%	
WESTSIDE				
Community	100.29	619,116	6.1%	0.14
Neighborhood	17.42	286,323	2.8%	0.38
Power Center	25.38	235,679	2.3%	0.21
Strip Center	1.75	21,600	0.2%	0.28
Unclassified	54.04	485,407	4.8%	0.21
Unreported Acreage		445,083	4.4%	
TOTAL	n/a	10,145,573	100.0%	n/a
Reported Acreage	**1,162.84**	**8,360,895**	**82.4%**	**0.17**

SOURCE: CoStar and Johnson Reid LLC

Office

Based on reviews of CoStar data for Retail and Industrial space built since 1995, JOHNSON REID concludes that Office FARs as utilized by Metro for projecting demand and supply capacity through 2030 should similarly be revisited upon the suspicion that FAR assumptions in the UGR are very aggressive.

FAR Conclusions

Despite the above findings upon inspection of CoStar databases for industrial and retail space throughout the Portland metro area, we also caution consistent with earlier in this document that CoStar data is not comprehensive, can be inaccurate, and overemphasizes speculative space versus owner-occupied space. For instance, FARs below 0.15 for retail built since 1995 may be in error as land prices have made it cost inhibitive to develop at such low efficiency. Still, it is clear that among data points recorded by CoStar, FARs across different retail and industrial types exhibit lower levels than assumed by Metro based on consultant findings.

Additional input and feedback, as well as alternative Metroscope scenario modeling has been requested by the Consortium, and is in our opinion appropriate given the nature of identified issues and concerns expressed in this memorandum.

SPECIFIC METHODOLOGY AND FINDINGS COMMENTS – REFILL & INFILL

The refill rate utilized in the UGR appears to be based merely on "professional expertise", with no apparent technical analysis supporting the assumptions used. As a significant share of future industrial and non-industrial capacity is accounted for by "refill", determination of these ratios should be quantitatively supported. It is the understanding of JOHNSON REID that the Consortium would happily discuss an alternate methodology for refill/infill assumptions after a better understanding or explanation of how the Metro consultant team determined current rates.

While we recognize that redevelopment is likely to occur throughout the planning period, we are less certain that the redevelopment will yield a net increase in employment capacity. For redevelopment, a substantive increase in capacity would need to be assumed if substantive demand was to be met by redevelopment, such as a single story building with a 0.25 FAR being replaced with a four story building with a 0.50 FAR. Even in this case, the net increase would be only the 0.25 FAR differential.

- As an example, Metro's redevelopment and subsequent occupancy of the Sears Building yielded a net loss in both square footage and employment relative to the previous use. If marginal land development patterns are expected to change substantively, acceptable parking ratios and achievable lease rates will need to rise as well.

If we are to assume substantive levels of redevelopment of existing buildings, a significant level of assumed price escalation again will likely be necessary. Older

buildings retain economic value for an extended period of time, making redevelopment less likely. Downtown Portland, with among the highest achievable lease rates in the area, retains an extensive mix of old Class C/Rehab space (over 3.5 million square feet). In areas with lower achievable lease rates, the likelihood for redevelopment will be generally lower.

The retail assumptions appear unrealistically high, with retail having little ability to change the basic configuration of single story space and surface parking under current rent levels. While retail redevelops at a rapid pace, our experience is that this redevelopment typically does not reflect a net increase in leasable area. It is more associated with a change in tenant and center configuration to reflect ever changing tenant types and needs. Structured parking for retail has only occurred in very limited instances without public subsidy.

Finally, we would further point out that much of the "low hanging fruit" redevelopment opportunities in various parts of the metro area have undergone some redevelopment or infill activity. With many of those sites seeing new investment and value, it is far from clear how quickly and how many redevelopment opportunities with higher cost and viability issues will occur over the next twenty years. We would note that certainly over the next ten years, availability and terms of redevelopment project financing will be very different from the past ten years given profound changes in the financial sector. The upshot will likely be fewer financing options and greater perceived risk of redevelopment projects. We also note that unlike the Residential UGR, there are no assumptions whatsoever about how urban renewal districts throughout the Portland metro area will fund infrastructure, parcel assembly, remediation, provide matching funds, etc. to enable employment-related redevelopment and infill over the next twenty years.

In summary, the refill rates used represent a very substantive level of assumed capacity, and derivation of these rates should be more quantitatively based.

Specific Methodology and Findings Comments – Reconciliation (Demand & Supply)

After review of the UGR, it is clear that Metro staff and the Metro consultant team have put significant effort into refinement of its methodologies since the 2002 Urban Growth Report. Johnson Reid and the Consortium recognize and applaud many improvements and a significant increase in modeling sophistication.

However, in light of all of the comments and concerns about policy assumptions, methodology assumptions and other factors listed in this review, Johnson Reid is highly skeptical of the reconciliation conclusion that existing supply capacity, via Greenfield, brownfield redevelopment, increasing FARs, refill, etc. is sufficient for future employment land demand.

Accordingly, all findings and conclusions in this section are drawn with incomplete and likely inaccurate information. We would encourage Metro to further coordinate

with the Consortium regarding all of the above comments made in this document to ensure a accurate analysis of regional employment land need and supply.

1. *"There is sufficient capacity within the current urban growth boundary to meet the low end of the regional forecasted employment demand in the 5- and 20-year time frames."*

As expressed above, significant policy questions as well as methodological omissions, errors, and opportunities for refinement render Conclusion 1 premature at best.

2. *"There is sufficient capacity to meet the high end of industrial demand..."*

Similarly, concerns expressed in this review document indicate Conclusion 2 also premature at best. More accurately, Conclusion 2 is false as the UGR admits that large lot demand analysis has been omitted and only recently has a draft study been released after preliminary UGR publication.

3. *"But policy or investment changes must be made to meet the high end of the non-industrial demand."*

We find merit in this statement, though at a policy level we find that the picture is incomplete without consideration of urban growth boundary expansion alternative(s) to fully understand this conclusion. Analytically, the picture is incomplete as large lot need analysis and its implications have not been included in this preliminary document

4. *There is "...a potential gap in the capacity of the existing UGB to meet unique industry needs."*

We also find merit in this statement, but the conclusion is incomplete without largely lot analysis, alternative boundary expansion policy scenarios, and opportunity to clarify, revise and correct issues raised in this document

5. *"The report illustrates a potential disparity between the location of certain types of land supply and current employment location trends."*

Our findings indicate a similar opinion of Conclusion 5 as for Conclusion 3 and Conclusion 4.

Home Builders Association
of Metropolitan Portland

HBA's positions and comments on Metro's Preliminary Urban Growth Report

In March, 2009, the Metro Council released the residential element of the preliminary Urban Growth Report (UGR). The UGR, which Metro is required to update every five years by Oregon law, analyzes the capacity of the region's current Urban Growth Boundary (UGB) to accommodate anticipated growth over the next 20 years under various scenarios. This report was later followed by the draft Preliminary Housing Needs and Employment Needs Analyses.

Metro has asked for feedback on its reports, stating that their intent is to spark discussion and debate about the local and regional policy and investment choices that will influence the growth management decisions anticipated for 2010.

HBA has reviewed the UGR reports and has discussed them extensively within internal policy review meetings and in conjunction with other organizations and groups. HBA was part of a broad housing and employment coalition that commissioned Group Mackenzie to review and provide feedback on Metro's draft Infrastructure Study, which was released in the fall of 2008. In addition, this coalition also commissioned Johnson Reid to clarify and evaluate methodologies used in the UGR itself. The Johnson Reid and Group Mackenzie work was intended to provide further substantive feedback to Metro. Summary white papers are attached for both studies.

There is clearly much more work still to be done to help shape this important regional policy discussion. This document has been submitted to outline HBA's general position on the assumptions made in the UGR. It asks some specific questions and it raises concerns and makes recommendations regarding the UGR and the housing needs analysis. While our focus is on the residential housing needs, we will provide some comment on the employment needs data as well, primarily in areas where assumptions have been made that impact our region's ability to accommodate for growth.

HBA's general positions on accommodating growth successfully in our region

1) **HBA supports the region's desire to grow smart, to have vibrant urban centers and close-in neighborhoods, and to protect and enhance the livability of our area.** We need solutions that keep our core areas economically viable and prosperous and that provide good connections between our urban and rural resources. This should be part of a balanced approach to handling growth needs related to housing and employment

2) **HBA is not advocating for a specific amount of UGB expansion (or Urban Reserves) nor for specific locations.** We just want to be certain that the expansion review process is done based on accurate data, that it uses realistic market-based approaches, and that it allows our industry to provide housing that meets various price, location, size and style needs of the individuals and families in our region.

3) **We can meet our region's livability goals in ways that go beyond just focusing on urban centers.** Adding land on one side of the region for housing, and adding land on a completely opposite side for jobs, only worsens our transportation, sustainability and livability impacts. We also now have growing percentages of people commuting from Portland to the suburbs – a reverse of traditional trends. Ensuring the proper connection between

residential, industrial and commercial lands can greatly help us achieve goals – and still provide people with choices on where and how they want to live.

4) **Underestimating or incorrectly accommodating for residential growth in the current UGB will create greater problems for our region.** People will leapfrog to towns outside of the Metro UGB or into Washington, creating even greater transportation, environmental, and livability concerns. We can't simply think about our own tri-county area or create a one-size-fits-all mandate that will cause people to look elsewhere to get the home price, size, lot, or neighborhood that works best for them.

5) **We must think about employment and job growth as a region competing against other states and even other countries.** We need to look at what areas in our region are the most attractive to provide business sites for potential employers. Businesses look at a variety of livability factors when determining whether or not to select a specific location. A variety of housing options is clearly one of those livability factors. The availability of targeted workforce housing is another. Also of tremendous importance for attracting new industry is a significant number of suitable site options. An organization should have options from which to choose so they can then select the parcel that best suits their needs. This is an attractive scenario for new businesses or companies looking to relocate.

6) **Our region must place a higher priority on housing affordability as well as choice.** Certain levels of density can improve affordability. However, when density reaches a certain tipping point, much higher costs per square foot are realized. In addition, a constrained land supply will drive up land acquisition costs. Simply addressing affordability issues by mandating/forcing increased densities, smaller lots and smaller home sizes does not provide the range of housing choice the region needs to be economically prosperous and meet the needs of future homebuyers. So far, there has been little incorporation of data on how different decisions might affect housing affordability and the ability of our region to "...allow for flexibility of housing location, type and density." This latter part must also be addressed as part of the process as mandated by Statewide Planning Goal 10, but page 57 of the Preliminary UGR leaves out this important component when it quotes Planning Goal 10.

Specific points regarding Metro's Urban Growth Report and related studies

1. **Too much emphasis is placed on increased residential subsidies.** The HBA recommends that Metro reduce the UGR's reliance on the use of public subsidy tools. Although the Region should be able to count on the use of these strategies to some degree, we believe that the preliminary UGR has relied upon them to a fault. We are interested in finding out how the reduction of these subsidies will impact Metro's housing needs analysis, and how it may make expansion area growth more desirable than it has been presented throughout the report.
   a. Appendix 3 (page 97) of the preliminary UGR discusses the report's use of residential subsidies and assumptions that have been made with regard to their use. The greatest of those assumptions is that public subsidy tools such as urban renewal and tax abatement will indeed be readily available in the future, that their use will be widespread, and that these tools will successfully generate billions of dollars for development located primarily in centers and corridors. No consideration is given to the fact that public support for such subsidies is waning, or to the possibility that local policy makers may be unwilling to make use of these tools, even in areas where they are currently active.
   b. Within the table found in Appendix 3 (page 97) Metro has presented some supporting data for the UGR showing the potential for an investment of approximately $3.5 billion in public subsidy for approximately 86,000 housing units through 2030. Metro's draft Residential Capacity Range Assessment found on page 62 relies upon 71,100 of these subsidized units in addition to a dramatically exaggerated refill rate of 40% in order to demonstrate that adequate capacity is available for the projected high capacity scenario. This public investment will benefit approximately 24% of the anticipated high demand estimate of needed households at the tune of approximately $40,300 for each and every one of these subsidized units.

c. This monumental assumption is found only in the appendices of the UGR, yet its potential for negative impact is tremendous. What is the impact of the loss of $3.5 billion that would otherwise have been spent on social services, schools, fire departments and other infrastructure needs? Are all regional partners going to be in favor of using these tools if as shown in Appendix 3, approximately 71% or $2.5 billion in subsidy is going to be used in the Central City over the next 15 years? If there is no public support for the use of these tools, what is plan B? If growth doesn't actually materialize in the areas that you have targeted for investment, what then? Metro's preliminary infrastructure analysis certainly didn't consider this subsidy as a cost, if it is considered, what new conclusions can be drawn?

d. Currently, HB3056 ("Amendments to Oregon Urban Renewal Statutes") is winding its way through the state legislature. Assuming this becomes statute, the revised UGR will need to determine the impact it will have on assumptions made regarding the use of Urban Renewal funds for future subsidized development.

2. **The refill rate Metro uses for "attainable high capacity" is 50% higher than historical figures (40% versus 27%), appears to be overly reliant on increased public subsidies (addressed above), and flies in the face of current public opposition to increasing zoning capacity in current areas.**

   a. There are many who would argue even maintaining the current refill rate would be extremely hard. The "low hanging fruit", or lands more easily open to refill, are the ones that have largely helped the Metro region achieve the current refill rate. It's likely that most future areas will be more difficult and costly to refill.

   b. Also, current neighborhood and city opposition to redevelopment and increased densification of existing housing areas is high, yet Metro claims that rezoning lands to mixed-use residential and adding capacity for over 18,000 is "critical for protecting the character of existing, single-family neighborhoods." Our industry sees just the opposite – existing neighborhoods and communities view increased densities and redevelopment as changing the character of their neighborhoods, furthering traffic and congestion problems, and reducing open space around them.

   c. Metro's own public survey shows that a significantly high percentage of those surveyed (57%) rated "encouraging development where I live" as their least desired outcome, and almost 60% stated that "preserving open space where I live" was their most desired outcome. What justification is Metro relying on to assume that such a significantly higher refill rate can actually occur?

3. **The justifications for the underbuild rate are not substantiated and result in a huge reduction in potential future housing land need.** In 2002 there was a 20% reduction in housing capacity of vacant land due to physical constraints that made 100% of zoned capacity unfeasible. The current UGR reduces this to 5% based on "an assumption synthesized from oral communication provided by MTAC members." The 20% reduction in 2002 amounted to a 23,800 housing unit loss for capacity within the current UGB; a 5% reduction amounts to a 2,300 unit loss. This is a big assumption and runs contrary to ORS 197.296(5) which requires that the determination of housing capacity and need "must be based on data relating to land within the urban growth boundary that has been collected since the last periodic review or five years, whichever is greater." Also, what reduction in buildable land inventory is Metro including for areas that have been targeted for expansion, but where voters have not approved local annexations needed to carry the expansions forward, or for the Damascus area, which Metro has stated will not be able to be fully developed for at least twenty years.

4. **The land being deducted for future parks and schools needs further examination and justification.**

   a. The 1,100 acres deducted from the buildable land supply for parks is the exact same amount used in the 2002 UGR. However, since that time, almost every city now charges a park SDC and there are additional parks districts that also charge. Park SDC amounts have increased dramatically during the last seven years and Metro and THP&RD both have passed major bond measures that will result in major acreage purchases.

b. Most importantly, based on Metro's own expected capture rate of future population growth, planning to only acquire an additional 1,100 acres of park land would translate into between 1.7-2.4 acres per thousand of population—an amount far less than the park service levels of 10-20 acres per thousand that many local government park master plans and SDC methodologies are based within our region. Unless Metro is assuming far fewer parks and open spaces as the region grows, its projections grossly underestimate the amount that needs to be deducted from the buildable land supply and will add to the shortage of land needed for housing. We would like to see a breakdown of the amounts used by Metro to justify the same 1,100-acre amount used in 2002.
c. Regarding schools, no additional land is projected because of the current amount of land (1,000 vacant acres) owned by school districts. However, has any research been done on who owns the land and whether that will be in the locations that future growth and schools will be needed?

5. **Recent UGB expansion areas shouldn't be used as indicators of future UGB expansion needs.** Just because most new housing has been built on land within the UGB for 30 years doesn't negate the need for good expansion land areas. Metro's point that "94.5 percent of all new residential development in the last ten years occurred on land that was already within the boundary 30 years ago" is misleading and shouldn't be used to frame the discussion.
   a. The major UGB expansion occurred in 2002. It was supposed to bring in land that would be needed for the next twenty years, so it is way too early to determine its true impact or eventual use. These expansion lands were under appeal for three years, so that added delays and little to no planning progress was made during that time to get them ready for development
   b. The bulk of that expansion occurred in the Damascus area. That was the worst possible area to bring in from a development standpoint. Metro acknowledged that at the time, but stated it had to bring in that land due to current land hierarchy rules even though it recognized most of the land wouldn't be built on for at least 10-20 years.
   c. The 2002 expansion represented a transition to a new paradigm, both in the regional real estate market and in the way that local governments fund infrastructure for new development. Because of drastic changes within the housing market, coupled with increased expectations for a developer's contribution to infrastructure costs, build-out of these new areas will inevitably take longer. It would be a mistake, however, to point to these delays and conclude that all future UGB expansions will be the same.
   d. HBA understands that Metro operates with the assumption that UGB expansion areas will not realize on the ground development/construction until 10 years after inclusion into the UGB. This lag time is meant to resolve planning related and politically driven issues. Based upon that assumption, it appears that <u>some</u> significant expansion areas are well on their way as Metro had anticipated.
   e. Even with the above challenges, it still appears inaccurate to term the expansion areas as failures. If *the 28,000 acres of expansion land brought in since 1998 represents 11% of total UGB area, and in ten years (or much less for the bulk of the area) it's responsible for 5.5% of permitted units, then it is actually performing incredibly well*, especially given the infrastructure and economic challenges we've had the last several years. Much of it wasn't planned to be fully developed until closer to 2022.

6. **Infrastructure needs and costs for urban development versus suburban/rural development have not been accurately researched and vary based upon the location being examined.** Metro refers to its "2008 infrastructure study" on the costs needed to accommodate growth. That study used very limited data sets to make a case for urban redevelopment. HBA conducted an independent analysis of Metro's infrastructure study by Group Mackenzie (attached as a supplement to this letter) in the fall of 2008 and Metro has since admitted to several flaws in that report. It can be very easy to use less expensive urban redevelopment areas and more expensive expansion areas to make a case for higher density redevelopment only. Infrastructure costs are truly a critical component of any plan for handling future growth. There are urban locations and potential areas for urbanization that make logical sense for handling our future growth. We must make the right choices among both locations, rather than choosing one over the other.

7. **The data used to support a major trend toward urban centers is narrowly used and is overly focused on limited housing types.**

   a. Metro's stated point that "the trends are moving away from suburban style housing and more to urban centers and close-in neighborhoods" is based on one poll conducted of retired people. That is not a complete picture of what the public needs and wants. Even so, 19% of those polled chose conventional suburbs.
   b. In addition, Metro's apparent intent to provide a mix of housing types is to focus significantly more attention on multi-family housing, including rental housing (p.5 and p.10 of the preliminary housing needs analysis executive summary). While we agree multi-family housing should be a part of the mix, this does not provide for a true mix of housing types as needed and required for our region.
   c. We also question the accuracy of the statement that increased rental housing is "generally associated with healthy economic activity...and a shift in housing demand towards more central urban locations." We believe the region's goal, and what really helps healthy economic activity while creating stronger neighborhoods and prosperity for residents, is increasing the homeownership rate. What data is Metro using to show how its policy decisions affect homeownership rates in the future?
   d. Regardless of how much we can grow within urban centers and redevelopment areas, we still need to ensure that there are a variety of options to support all kinds of family and lifestyle choices. In addition, as previously stated, a range of housing types is needed to attract economic development from outside of the region, in fulfillment of Metro's obligations under statewide land use planning Goal 9.

The only way the case can be made to reach Metro's High Supply assumption is if almost all of their desired higher density, refill and subsidized development rates are met – a goal that has never been realized and that faces serious economic, political and public challenges. In addition, several issues mentioned above do not appear to be accurately reflected or the assumptions put into the Metroscope model are incorrect, which would lead to further serious problems with the housing needs analysis and related information. Regardless of best intentions, trying to achieve everything through infill, refill and higher density development has a high likelihood of making development harder or not feasible while increasing the cost of housing significantly, providing fewer choices to people and negatively impacting livability in the region.

In summary, we believe the following issues should be examined and included in a revised or final version of the UGR:

1) The 2008 draft Infrastructure Study should be revised to address the errors already acknowledged and to further explore the merits of issues raised in the analysis provided by Group Mackenzie. Underestimating the true costs of development will have a huge impact on affordability and will also dictate erroneous policy decisions that will have big implications for the future economic prosperity and livability of our region.
2) Evaluation and further justification needs to be provided for Metro's assumptions in the UGR and related housing studies regarding the increased use of residential subsidies, increased refill rates, and decreased underbuild rates. We do not believe these can be supported at their high capacity levels, and the residential subsidy issue in particular will create huge economic challenges for our region.
3) The deductions for net buildable land need to be re-evaluated, especially as it relates to parks. It appears as though Metro's assumptions are based on future levels far lower than what are currently provided for within the region.
4) The UGR shows a high emphasis on more limited housing types, and does not appear to show a balance that would be required under Oregon Statewide Planning Goal 10, which states that we must "...allow for flexibility of housing location, type and density." Metro's own statistics show increasing reliance on multi-family housing, smaller lot sizes and smaller house sizes to achieve its goals. Its focus on centers and corridors also doesn't take into account current employment and transportation trends and could negatively affect job growth, transportation issues, housing affordability, economic prosperity and livability in our region.

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MEMORANDUM

PROJECT NUMBER: 2080413 DATE: October 22, 2008
PROJECT NAME: Metro Infrastructure Study

TO: Associated General Contractors
Clackamas County Business Alliance
Columbia Corridor Association
Commercial Real Estate Economic Coalition
East Metro Economic Alliance
Home Builders Association of Metro Portland
National Association of Industrial and Office Properties
Portland Business Alliance
Portland Metro Association of Realtors
Westside Economic Alliance

FROM: Matthew Butts, PE LEED AP
Associate Principal / Director of Civil Engineering

SUBJECT: Review of Materials and Findings

At the request of the above listed business organizations, Group Mackenzie and Johnson-Gardner have reviewed a Metro document entitled "Comparative infrastructure cost: local case studies, Regional Infrastructure Analysis, Discussion Draft" (Discussion Draft) dated July 9, 2008. We believe this document is part of the support for a policy document issued by Metro within a similar timeline, entitled "Regional Infrastructure Analysis," which is currently being used to focus infrastructure funding priorities.

Based on our review, we find the Discussion Draft has significant limitations that can be grouped into three categories: the selection of dissimilar case studies, restrictions due to the approach or methodologies utilized within the case studies, and the purported conclusions, based on the study. It is our determination that the Discussion Draft fails to support its conclusions and should not be used as a foundation for policy recommendations.

It is important to note we have not prepared alternative recommendations as part of this summary, and do not have specific opposition to the supposition that infrastructure costs may be lower for centrally-located development. We caution, however, that more detailed analysis is required in order to make policy conclusions.

PROBLEMS WITH THE CASE STUDY APPROACH

The case studies are grouped in two categories: the first category is urban areas, with five examples that tend to be development projects, most 2 to 5 acres in size, with South Waterfront the largest at 130 acres; the second category is urbanizing areas, which are entire development areas that range between 200 and 12,000 acres. Costs were divided between local/community and regional. This was done to create comparative averages between the categories and is identified as being representative of the seven-county area.

We question the ability to draw comparisons between individual mixed-use projects, for example the 2.39-acre Lakeview Village in Lake Oswego, which is in the urban category, and a large-scale single-use UGB expansion, such as the 431-acre SW Tualatin Concept Area or the 12,000-acre mixed use Damascus

urbanizing area. The method used to accomplish this comparison is a conversion into a general EDU figure for comparison between, what we see as dissimilar projects.

Regional infrastructure costs appear to be compared against a seven-county average taken from an external source, while local/community infrastructure costs are compared against a selected average of the 17 case studies, less individually considered outliers. With this, the case studies are located only in the Metro service area and not the larger seven-county area.

It is our opinion that a case study approach provides anecdotal information and should not be used to draw final conclusions. Local/community infrastructure costs in the 12 urbanizing areas were based on preliminary estimates from the concept plans of those areas, rather than measurable actualized costs. The preliminary cost estimates from the concept plans utilized as the case studies were developed with differing methodologies and underlying assumptions, making it difficult to compare across averages.

The cost findings that are presented show that the local/community costs vary widely for both urban and urbanizing projects. Despite what the averages purport to show, a look at the individual data points show that the cost of providing local/community infrastructure for urban redevelopment projects can be just as high or higher than in urbanizing areas. Reviewed individually, the local/community costs for three of the five selected urban project case studies showed costs close to, or greater than, the urbanizing average.

It should also be noted that the case studies represent a mix of land use goals. The Shute Road and SW Tualatin areas are almost exclusively designated for employment uses, with specific restrictions placed on them as to the type and size of uses. These compare with other urbanizing case studies that are either a mix of uses to create complete communities, such as Damascus, and other areas that are predominately residential in nature, such as North Bethany. The urban case studies are either exclusively residential projects, with some support retail (e.g. Lake Oswego Village, North Main Village), or mixed use with a combination of housing, office and retail (e.g. Brewery Blocks). These differing land use goals need to be considered in a policy discussion on regional infrastructure, not simply the costs of providing infrastructure.

The caution of projecting conclusions from the case studies is acknowledged in the Discuss Draft on Page 11, where it state's that "the small number of case studies included herein places limitations on drawing firm conclusions". However, the study, in numerous places, goes on to draw the conclusion that costs of providing infrastructure to urban redevelopment is less expensive than urbanizing areas. Specifically, this is stated on Page 8, "when all public costs, including regional costs...are added up, urban redevelopments are less expensive per EDU than developments in urbanizing areas."

METHODOLOGY ISSUES

Regional Costs

The most glaring methodological issue is the use of commute distances as a proxy for regional costs. As stated on Page 8, "a good proxy for gauging regional infrastructure consumption is household commute distance." The report lists a number of costs that should be included in the regional category, including "highways, light rail, bridges, and marine and air terminals," but does not attempt to quantify these costs, rather defaulting to commute distances. There is no discussion of alternative or additional elements (other than commute distance) for comparison. Using commute distances therefore results in the urban redevelopment projects having a much smaller impact on regional facilities than urbanizing development. The study assumes that urban residents will have an average commute distance of 5 miles, compared to 17 miles in new urbanizing plan areas.

The report cites an article by Jonathan Miller of the Urban Land Institute, also on Page 8, wherein he recommends a full infrastructure cost analysis for developments and states his conclusion that, if this were done, "central, transit-oriented locations" would be favored. This article does not reference commute distances as a measure of impact.

Using commute distances and assuming that future patterns will "increase in concentric rings around the region's core" (Page 9 graphic) does not seem to match the current available data. The most recent Census data for a range of locations around the Portland Metro area show that commute times, and the percentage of employed residents who commute alone by automobile are remarkably consistent from urban to suburban locations:

	Mean Commute Time (Minutes)	% of Commuters, Alone by Auto
97209	22	71%
97212 (Inner Eastside)	21	61%
Portland	23	60%
Lake Oswego	22	78%
Gresham	27	71%
Oregon City	25	77%
Tualatin	22	77%
Hillsboro	24	72%
Forest Grove	24	70%
Source: US Census Data		

In other words, it remains far from proven that residents in an urban redevelopment area such as the Brewery Blocks are not commuting to a suburban location for employment, and thus using the regional transportation system. According to the Census, an estimated 60% of Portland residents commute to the suburbs for work.

Therefore, if commute distance is used as the proxy for regional costs between development locations, it seems likely that the regional infrastructure impact of urban redevelopment projects is under-estimated in this analysis.

Also, many residents in new urbanizing plan areas will likely be employed elsewhere in the suburbs or outside the CBD. In other words, it may be as likely a Brewery Blocks resident commutes to the suburbs as it is likely a Witch Hazel or Springwater resident commutes into Beaverton or the Columbia Corridor, respectively. If this is the case, transportation impacts may be mainly a localized cost, rather than a regional one. The use of commute distance alone fails to acknowledge the creation of mixed uses (particularly jobs) outside of the City Center and within the urbanizing areas.

Full Impact of Urban Redevelopment

In assessing the true cost per EDU of redevelopment in urban areas, it is important to fully consider the costs of added congestion from the increased density. As central Portland and inner neighborhoods grow more dense, the existing infrastructure system must be retro-fitted and upgraded to accommodate more people, employees, vehicle trips, energy use, waste, etc.

The public method for recovering a portion of these costs is through the assessment of System Development Charges (SDC). These costs are paid by the developer, builder, or end user, and are carefully calculated for both reimbursement for existing infrastructure and new infrastructure needed to serve the development.

Increasing inner-city growth necessitates the sometimes extraordinary costs of retrofit projects such as the Big Pipe, the bus mall redesign, extended street car and MAX, the Aerial Tram, bridge repair, arterial redesigns, plus the increased maintenance of all existing facilities.

It is far from clear that the methodology used in this study estimates the total costs of the private and public investments, as well as the cost of congestion, in assessing the impacts of urban redevelopment.

Public Subsidy of Urban Development
While the study acknowledges that urban redevelopment projects often include public subsidies, the cost estimates of individual case studies (e.g., Lake Oswego Village Center, North Main Village, Brewery Blocks) were shown to have "zeroes" for infrastructure cost while these developments did benefit from public investment (e.g. parking, streetcar, parks).

Supportive Citations
There is also a general lack of citations in the report. Much of the data and assumptions in the Discussion Draft go without citation, while the citations provided center on Urban Land Institute articles and editorial articles from the Atlantic Monthly and American Planning Association. The data used to create these articles may well be relevant to the general discussion, but they do not offer rationale toward direct comparison between averaged groups of case studies.

CONCLUSIONS

While the draft report does not have a section for conclusions, there are statements throughout the report that can be read as conclusions. Our thoughts and conclusions follow:

- The sample of urbanizing projects used demonstrates a great variety in infrastructure costs. This implies that it isn't urbanizing per se that is cost inefficient, but perhaps large scale suburban development in poorly chosen areas. Areas nearer the existing infrastructure grid, in the natural path of development, should carry lower costs. The conclusion of the data as presented may be only that the infrastructure cost of new urbanizing areas or redevelopment in urban areas can vary widely depending on the suitability of the location and its proximity to existing core infrastructure, regardless of a designation of urban or urbanizing and a projected commute distance.

- The cost of increased congestion on existing urban systems needs to be fully factored into cost estimates and regional impacts are under-represented for the urban redevelopment projects considered in this study. There is no inclusion of cost for large-scale urban infrastructure improvements in part due to increased density (streetcar, water and sewer systems, bridge repair, etc.). This also relates to the stated inability to link a particular development to regional costs, while the analysis then does so only to projects in the urbanizing areas.

- It seems likely that the regional infrastructure impacts of urban redevelopment have been under-estimated in this analysis (based on commute distance as the proxy). The fact is that residents of dense urban redevelopment are still quite likely to commute by car out of the immediate area. Likewise, employees in the redeveloped urban area may well live in the suburbs and commute into the city. Thus the regional infrastructure costs for these developments shouldn't be as great as those presented in this study.

In conclusion, due to the small sample size and variety of methodologies used among the examples, the results of this study should not be used to state the conclusion that it is more expensive to serve urbanizing areas at the edge of the UGB, than mixed use urban projects. Again, while this may generally be acknowledged, more detailed analysis is required to provide the quantifiable analysis necessary to make infrastructure funding decisions.

c: Jerry Johnson – Johnson-Gardner
Mark Clemons, Chris Clemow – Group Mackenzie

Coalition *for a* Prosperous Region

Clackamas County Business Alliance

Columbia Corridor Association

Columbia Pacific Building Trades Council

The Commercial Real Estate Association (NAIOP)

Commercial Real Estate Economic Coalition

East Metro Economic Alliance

Home Builders Association of Metropolitan Portland

Portland Metropolitan Association of Realtors ®

Portland Business Alliance

Westside Economic Alliance

TRANSMITTAL

DATE: *January 21, 2010*

TO: *President David Bragdon*
Councilor Carlotta Collette
Councilor Kathryn Harrington
Councilor Robert Liberty
Councilor Rod Park

FROM: *Coalition for a Prosperous Region (CPR)*

SUBJECT: *CPR RESERVES MAP PROPOSAL AND SUMMARY OF TECHNICAL AND LEGAL CONCERNS RELATED TO METRO RESERVES PROCESS*

The ten business and labor organizations listed on this letterhead have been active in the Metro Reserves Process since its inception. These organizations recently formed the Coalition for a Prosperous Region (CPR) as a platform from which to continue participating collectively in the process. The purpose of CPR is to support regional growth that balances urban development and natural resource protection while promoting a vibrant regional economy. This applies directly to our position that the Reserves Process should result in a map for the planning horizon with an adequate supply of urban reserves and sufficient undesignated rural acreage to permit future decision-makers to designate additional urban reserves if required.

To this end, CPR is pleased to present to the public record the following:

- *The CPR alternative reserves map that proposes:*
  - *Approximately 40,790 gross acres of urban reserves;*
  - *Approximately 27,850 gross acres of undesignated rural land contiguous to either the existing regional Urban Growth Boundary (UGB) and/or proposed urban reserves, and therefore, available for future urban expansion if required.*
  - *Approximately 224,590 gross acres of rural reserves.*

  This submission includes a brief cover memorandum summarizing acreages, region-wide summary map, sub-region key, and five detailed sub-regional maps.

- *"Summary of Legal and Technical Concerns Related to the Metro Reserves Process" that describes CPR's concerns about the integrity of Metro's technical analysis and legal compliance with OAR 660-027 governing the reserves process in the Portland metropolitan area. In large measure, CPR's alternative reserves map is designed to correct these deficiencies. An executive summary is attached to this transmittal.*

- *A copy of the ten technical studies and mapping exercises that CPR member organizations either individually or collectively have helped to fund in the past two years. This work serves as the technical underpinning for the coalition's position. Most of these have been submitted to Metro's public record in the past and now are being consolidated into a single notebook for ease of review by decision-makers.*

Thank you for the continuing opportunity to participate in this process.

COALITION FOR A PROSPEROUS REGION (CPR)
SUMMARY OF TECHNICAL AND LEGAL CONCERNS
RELATED TO METRO RESERVES PROCESS (1/21/10)

Introduction. *Founded in late 2009, the Coalition for a Prosperous Region (CPR) represents 10 business and labor organizations:*

- *Clackamas County Business Alliance*
- *Columbia Corridor Association*
- *Columbia Pacific Building Trades Council*
- *The Commercial Real Estate Association (NAIOP)*
- *Commercial Real Estate Economic Coalition*
- *East Metro Economic Alliance*
- *Home Builders Association of Metropolitan Portland*
- *Portland Metropolitan Association of Realtors®*
- *Portland Business Alliance*
- *Westside Economic Alliance*

The coalition was established to provide a platform from which business and labor leaders can participate collectively in the current Metro Reserves Process to support regional growth that balances urban development and natural resource protection within the framework of a vibrant regional economy.

Although CPR was founded only recently, representatives of its constituent organizations have participated in the Reserve Process since its inception, including:

- *Providing representation on the Metro Steering Committee for formulation of SB 1011; Department of Land Conservation and Development (DCLD) Task Force to develop the administrative rules for the process (OAR Chapter 660-027); and Reserves Steering Committee (RSC).*

- *Monitoring of and participating in work related to the 2010 Periodic Review for possible expansion of the Regional Urban Growth Boundary (UGB) and corollary 2035 Regional Transportation and Regional Infrastructure Plans.*

- *Testifying at public hearings on the Reserves Process before the respective Clackamas, Multnomah and Washington County Reserves Coordinating Committees and Boards of Commissioners, Core 4 and Metro Council.*

- *Underwriting the cost of numerous technical studies and mapping exercises presented as an attachment to this submission; all these documents have been submitted individually to the public record at various times but this is the first time that they have been assembled in a single notebook.*

Current Proposals. *Metro and representatives of Clackamas, Multnomah and Washington Counties (Core 4) are participating in a process to adopt a reserves map governing the development of the region for 40 – 50 years; the exact planning horizon has yet to be determined. Under the process established in Oregon Administrative Rules (OAR) 660-027, the four parties must agree unanimously with the simultaneous adoption of the designated urban reserves by Metro and their respective rural reserves by each county.*

As an initial step of the Reserves Process, Metro prepared "range" forecasts for population and employment in 2060. At the 90th percentile of reliability, it is projected that the region's population will be between 3.6 – 4.4 million, an increase of between 1.7 – 2.5 million people over the 2000 population of 1.9 million. It is estimated that the region will support between 1.7 – 2.4 million jobs, an increase of 727,000 – 1,427,000 new jobs from the 2000 employment base of 973,000 jobs in 2000[1]. In summary, both population and employment are expected to at least double in the 60-year period between 2000 and 2060.

[1] *"20- and 50-Year Regional Population and Employment Range Forecasts" (Metro, Draft 3/09).*

By 1/21/10, Metro will have completed a series of open houses and public hearings to solicit public testimony prior to finalizing the reserves map and associated draft intergovernmental agreements (IGAs) to be signed between Metro and each of the three counties. Presumably, the final map will be based upon the recommendations of the Core 4 as modified by this public input. The proposed final map and model IGA will be reviewed in a round of public hearings tentatively set for the end of February. Final adoption of the whole package, including legal findings, is slated for May 2010, triggering a final set of hearings. Metro's request for acknowledgement of the reserves package tentatively is scheduled for review by the Land Conservation and Development Commission (LCDC) review at a hearing this summer.

The governing map appears to be the Core 4 Public Comment Proposal (12/6/09), which features 23,540 gross acres of urban reserves, including 5,900 acres in Clackamas, 1,040 acres in Multnomah, and 16,600 acres in Washington Counties, respectively. In addition, there are 229,820 gross acres of rural reserves, an undetermined amount of undesignated rural land, and 10,780 gross acres in seven discussion areas ("under consideration") yet to be distributed among the three categories[2]. As currently proposed, there are nearly 10 gross acres of rural reserves for every gross acre of urban reserves. This may change slightly as the remaining 10,780 acres is redistributed. As proposed, this plan provides only a 9% increase in land area beyond the existing UGB, which contains approximately 260,000 gross acres. Again, this may increase slightly when the acreage still under consideration is redistributed.

In attempt to influence the Core 4, two factions of the Metro Council developed their own proposals, the Bragdon/Hosticka (B/H) map (12/8/09) and the Liberty/Park/Burkholder (L/P/B) map (12/15/09). The B/H map features 28,540 gross acres of urban reserves and 241,790 gross acres of rural reserves with minimal undesignated urban acreage; this results in a rural/urban ratio of 8.5:1 and an expansion of the existing UGB by 11%. In his presentation of the map to the Washington County Board of Commissioners in mid-December 2009, Councilor Hosticka explicitly noted that the B/H map is based on the 50-year planning period and that the amount of urban reserve acreage would have to be reduced proportionately if the a 40-year planning period were selected.

In the L/P/B proposal, urban reserves are reduced to approximately 18,900 acres of total acreage in the study area, with most if not all of the difference assigned to rural reserves. This would result in a rural/urban reserve ratio of nearly 13:1. This option appears to have been adopted from Metro COO Michael Jordan's Recommendation on Making the Greatest Places (9/09) in which the 40-year (2050) version of the likely 50-year (2060) urban land need, 29,100 gross acres, was 18,800 gross acres. During the current discussion the two plans are being presented as a range, which suggests that these are options within the same planning period, i.e., 2060. If so, the L/P/B plan reduces urban reserves by 30%, equal to only a 7% increase in the region's size, without any technical analysis that this is justified.

In early January, the Metro Council voted 4-2-1 to adopt the B/H version as its preference. Although the Core 4 and B/H maps appear to be somewhat similar, they vary in some important ways. For example, the B/H map designates only 13,700 gross acres of urban reserves in Washington County, while the Core 4 map already has designated 16,600 gross acres, which may increase slightly when the remaining acreage under discussion is assigned. The B/H map also has significantly more rural reserves, nearly 242,000 gross acres, compared with nearly 230,000 gross acres on the Core 4 map.

Lack of comparability among various maps and uncertainty about the planning horizon make it difficult for stakeholders to participate in the process in a meaningful way. For purposes of this testimony, CPR considers the 12/6/09 Draft Core 4 map and 50-year planning process to be the operative assumptions.

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[2] *The Public Comment draft contains a total of 23,150 gross acres still under consideration. The latter includes a new 12,370-acre area (Discussion Area 8) somewhat north of the Multnomah/Washington County border near the Columbia River community of Scappoose. As the latter is separated from the regional UGB by a band of proposed rural reserves and contains steep slopes, there is little likelihood that this will be available for future urban development, and, therefore, has been eliminated from this analysis. This leaves 10,780 gross acres for redistribution.*

Summary of the Coalition's Concerns. *Broadly stated, CPR has the following concerns:*

1. *The process has lost sight of its purpose. With the consensus of a broad range of stakeholders, Metro pressed the Legislature for passage of SB 1011 to allow the Portland metropolitan region to substitute the Reserves Process for the traditional soils classification methodology to: 1) achieve a better balance between urban development and rural land protection; and 2) provide more certainty for all stakeholders about the location of future development. Although it is critical to have a strong policy framework for this decision-making process, ideological mantras to "save prime farmland at all costs" and "discourage development anywhere else but existing centers and corridors" have trumped technical analysis in projecting the amount of urban reserves that will be needed over the planning horizon. Because of this explicit bias, increased density through redevelopment/infill ("refill") is "desirable" and development at the fringes – "sprawl" – is "undesirable".*

2. *The technical analysis is flawed. Relying on its own economic model, Metro staff has under-estimated the future need for urban land for homes and jobs by making flawed assumptions about future refill rates; comparative costs of infrastructure by location; availability of housing subsidies and tax increment financing,; likelihood of brownfield site reclamation; high-density building types and the like. Metro has discounted the economic analysis of other stakeholders, most notably Washington County which undertook extensive technical work. Although "economic prosperity" is the third leg of the "Making the Greatest Places" stool, the other two legs, "compact growth" and "preserving farm and forest land" are given a higher collective priority.*

3. *There is no margin of error. On the Core 4 map, a disproportionate amount of the total acreage under study is proposed for rural reserves, which would protect these properties from urban development for the full term of 50-year planning period. In Washington County, where urban/rural uses are in greatest conflict, rural reserves abut up against proposed urban reserves in virtually all areas, land-locking future development if and when these urban reserves are depleted. There is simply no way to predict accurately what will happen in 50 years so that even the most rigorously-justified technical analysis of urban land need is a projection at best. The Core 4 map provides little room for error or flexibility by future decision-makers to make mid-course corrections.*

4. *There should be more undesignated ("white") space. To provide the necessary safety valve, there needs to be more undesignated acreage between urban and rural reserves. Assuming Metro's projected land need is correct, which CPR believes is highly unlikely, the designated urban reserves will suffice and expansion into undesignated areas will not be necessary. However, if the projection falls short of actual performance, future decision-makers will have the flexibility to re-designate undesignated rural lands for urban reserves, using the similar methodology and process that have guided this round of decision-making.*

We believe that some of the issues in this letter rise to the level of legal defects. We articulate these here in the hope that the Core 4 and Metro Council will give them due consideration as the process proceeds. CPR proposes an alternative reserves map that it believes will remedy these deficiencies.

Specific Statements of Concerns

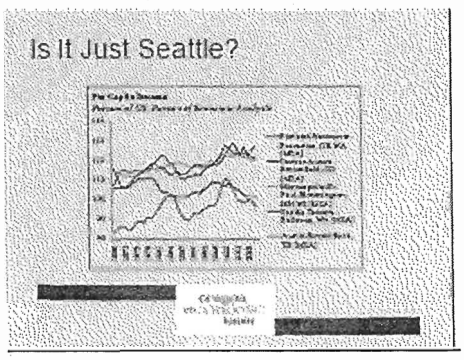
1. *Metro fails to account for the fragility of the regional economy. One need only to look at current indicators – the 8th highest rate of unemployment (11%)[3] in the nation – to conclude that the region's economy is fragile. For example, between September 2008 and September 2009, the regional economy shed 54,900 jobs, according to WorkSource Oregon. As of November 2009, there are currently 90,860 unemployed workers in the tri-county area, which does not account for the many thousands more who are working reduced hours, are underemployed, or have given up looking for work altogether.*

[3] *Oregon State Employment Department, 1/20/10.*

Moreover, one only needs to look at a myriad of national data to underscore how poorly the regional economy performs vis-à-vis other US metropolitan areas, many of which are Portland's competitors for new companies. A selection of this data includes:

- *According to the 2006 – 2008 American Community Survey, median family income is $24,000 higher in Seattle, $88,000 compared to $64,000 in Portland. Significantly more Seattle residents have at least four years of college (54%) compared to only 40% of Portlanders. At the same time, Seattle residents are 50% more likely to take transit to work (18% compared to 12%). As noted by University of Oregon Economics Professor Tim Duy, who presented this data at a recent Westside Economic Alliance (WEA) forum notes: "How come Seattle gets to be a green city with high incomes, while Portland just seems content to be a green city?"*

- *Data provided by the Oregon Economic Forum[4], per capita income in the Portland metropolitan area has declined substantially in inflation-adjusted dollars in the 25-year period between 1970 – 2005, comparing unfavorably to the Denver, Seattle and Minneapolis metropolitan regions, as illustrated in the graph below.*



Duy concludes that the Portland metropolitan area's economic performance is at best average, placing the region at a competitive disadvantage to more economically-vibrant regions.

- *According to urban planning expert, Aaron M. Rein, despite the region's innovative planning orientation, its future vitality is clouded by its serious economic weaknesses[5]:*

> *Portland's GDP [gross domestic product] per capita ($47,811) is comparable to Indianapolis ($46,450) and Milwaukie ($45,591). It trails talent hubs like San Francisco ($60,873) and Boston ($57,916), and even Seattle ($55,982).....Part of the challenge is effectively deploying its talent. Portland's unemployment rate exceeds the national average. The problem of underemployment among many high-talent people who have moved to Portland for its amenities also has been extensively written about. This is notable given that Portland's population growth rate, while healthy, is half that of the talent hubs such as Austin, Texas, and Raleigh, N. C. But those cities added many more jobs than Portland. From the first quarter of 2001 until the first quarter of 2009, Austin created 79,000 jobs (11.8 percent growth) and Raleigh 55,000 (12.8 percent) while Portland created just 10,000 (1.1 percent).*

Rein concludes: "...to take advantage of its [Portland's] justly famous high-quality, sustainable lifestyle, you first need a job. It is not livable if you can't live there."

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[4] *Source: U of O Professor Tim Duy at presentation at WEA forum on 12/17/09.*

[5] *"Picture-Perfect Portland?", Aaron M. Rein, Sunday Oregonian, 1/17/09.*

These indicators spell serious trouble for the region's households and, by extension, the ability of local and state government to provide needed public services. Professor Duy cites five ingredients or a successful economy, over which Metro has significant impact through planning:

- *Highly-trained labor supply*
- *Adequate infrastructure*
- *Good transportation networks*
- *Pro-business climate*
- *Adequate land supply*

Yet, Metro continues to develop assumptions for the region's economy that attempt to:

- *Control which industrial sectors should be encouraged, e.g., "green", high/bio-tech and specialty food manufacturing, at the expense of less "attractive" sectors, e.g., warehousing.*

- *Direct development to locations it selects, e.g., within the existing UGB at the expense of Washington County, without consideration of the locational and site requirements of potential new and expanding businesses; and*

- *Dictate design and development characteristics including job density, FAR and building types that may not reflect the realistic needs of such companies.*

Metro does so with the assumption that the Portland metropolitan region is so attractive that these disadvantages and obstacles will not deter the selection of region for new jobs. In fact, there is ample evidence collected by such agencies as Regional Economic Partners, Port of Portland, and Portland Development Commission documenting that companies are bypassing the region in large numbers due to its reputation for an inadequate land supply, particularly for large-lot users; under-funded education system; dysfunctional tax system; and regulatory burden. At best, these companies will go to Newberg or Bend, so at least the state reaps the economic benefits, but it is more likely that these jobs go out of state, including to Vancouver, Washington, along with the economic benefits of which accrue to Washingtonians rather than Oregonians.

2. *Metro fails to acknowledge the inter-relationship of the urban and rural economies. Although the purpose of the Reserves Process was to provide stakeholders with a better platform for building consensus, the process continues to pit urban and rural interests without acknowledging the inter-relationship of the two economies. This problem is exacerbated by pressure from farm and natural resource interests to reduce urban reserves further, as illustrated by the L/P/B plan. The only way its proponents can justify this technically is to modify the assumptions about urban land need and "squeeze" them down to "fit" with the lower number of acres, in this case 19,800. It is also not accidental that in the L/P/B version, the acreage taken out of the urban reserves is then assigned to rural reserves, suggesting that the needs of the rural economy take precedence over the needs of the urban economy. Such a philosophy fails to recognize that rural families rely on a robust urban economy to:*

   - *Provide its customer base for its produce, nursery stock and other agricultural products;*

   - *Provide the non-farm jobs that many farm families must take to supplement their farm income;*

   - *Generate the tax revenues from the urbanized portion of the region's counties to subsidize rural families' public services -- roads, schools, fire/police protection and social services.*

   In short, if the urban economy is not vibrant, the quality of life will deteriorate for all regional residents.

3. *Metro over-estimates the capacity within the existing UGB to absorb projected demand.* *In its push to increase the density of development within the existing UGB as a means of minimizing the need for outward expansion, Metro has set an unreasonably high employment refill rate of 40%, which ignores the market's demand for location, site size, building type and infrastructure needs. Conversely, such a refill rate can only be attained by making unreasonable assumptions about the availability of tax increment financing, reclamation of brownfield sites, high-density building types and employment densities, feasibility of structured parking, and comparative infrastructure costs. With regard to the latter, Metro falsely assumes that that infrastructure costs always are lower in existing areas than on the urban fringe and on greenfield sites. This is only true when there is excess capacity. The cost of "up-sizing" water, sewer and streets in already-urbanized areas is disproportionately higher than building new and is significantly more disruptive[6].*

Metro also makes overly-optimistic assumptions when it comes to housing choice, location and affordability. To this end, Metro uses a 50% ("attainable high capacity") and 40% ("aspirational") in its high- and mid-range projections in its Urban Growth Report – Residential, when only a 27% refill rate has been achieved to date, without considering the adverse impacts of such densification on established inner-city neighborhoods or acknowledging the higher cost of such housing, due to a combination of costs related to higher land value, demolition and/or environmental remediation, up-sizing of infrastructure capacity and/or higher construction costs associated with building type and structured parking. To achieve these refill rates, Metro assumes that these higher per-unit costs will be offset by $3.5 billion of housing subsidies for 86,000 inner-city housing units, $40,300/unit subsidy, by 2030. It also assumes that the under-build rate, that is, the number of units actually built compared to the zoned capacity, will decrease from the current 20% to only 5%. Finally, residential infill to date has focused on only a narrow range of dwelling types, affecting consumer choice as well as affordability[7]. According to PMAR's most recent customer preference study, 78% of recent home buyers have expressed a preference for free-standing homes on lots 5,000 sf and greater, and 45% prefer a suburban rather than central city location[8]. Inner-city residential refill alone cannot meet the needs of all the region's residents.

Housing location also is an important consideration. Land for residential, retail, civic, institutional and open space activities must be located near employment areas to achieve Metro's goal of "complete communities" where people can live, work, study, shop and recreate. Such adjacencies require achieving and maintaining a good housing/jobs balance with the corollary benefits of reducing the number and length of auto trips and providing options for alternative transportation modes. Despite Metro's bias to encourage and/or drive new employment into existing centers, corridors and employment/ industrial areas, the market still wants siting options including on the fringes of the UGB. This is particularly true in Washington County, which included land for these non-employment functions within its 60,000-acre projection.

At the same time, Metro's constituent local jurisdictions continue to make decisions that undermine development/redevelopment opportunities. Two years ago, Clackamas County/City of Happy Valley approved a new public park and two schools on 80 acres of the 400-acre Rock Creek Employment Area. Located just east of the junction of Highways 212 and 224, most of the area is designated as a Regionally-Significant Industrial Area (RSIA) on Metro's Title 4 Map. Although this underscores another significant problem – lack of sites for new schools and parks – this decision has reduced significantly the employment capacity of this area, which is needed to address a serious jobs/housing imbalance in the county.

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[6] *"Peer Review of Metro Infrastructure Case Study Report" (Group Mackenzie/Johnson Reid LLC, 10/08).*

[7] *"HBA's Positions and Comments on Metro's Preliminary Urban Growth Report (Group Mackenzie, 6/09)*

[8] *PMAR Survey of Homebuyer Preferences, 2009.*

The City of Portland, which is on record supporting significant restriction of urban reserves, is the most egregious example of this. Last year, the Portland City Council re-designated the 140-acre developable portion of the Colwood Golf Course as open space despite its location in the Columbia Boulevard Industrial Area and adjacency to the south side of Portland International Airport, making the site a prime location for industrial development. Moreover, the latest draft of its "River Plan: North Reach" requires all industrial concerns to vegetate 15% of their sites, an effective reduction of 15% of industrial capacity in the Portland Harbor[9]. This is despite the fact that the harbor is one of the region's most important economic advantages. At the same, the city is under pressure by environmental groups to leave the western end of Hayden Island in its natural state despite the fact that it is the only remaining opportunity to expand the Port of Portland's marine terminals.

4. *Metro has not designated a sufficient supply of proposed urban reserves to meet estimated population and employment growth. As a result of the foregoing, Metro significantly under-estimates the need for urban land for next 50 years, with little or no flexibility to make mid-course corrections. For example, on the Core 4 map, only 16,600 gross acres of urban reserves are designated in Washington County, although this may increase slightly when the land in the "discussion areas" is redistributed. In contrast, economic analysis undertaken by the county and several of its local cities project a 50-year need of more than 60,000 gross acres. Given political pressure, the Washington County Board of Commissioners reduced this to 34,340 gross acres, of which the Core 4 discussion draft provides less than 50%.*

   Moreover, in an effort to protect prime farmland at all costs, Metro discounts the findings of the recent Economic Mapping Pilot Project funded by Business Oregon, which illustrates that an acre of land in industrial use is exponentially more economically productive than an acre in agricultural use. The study estimated that if the 3,530-acre Title 4 study area in Hillsboro fully developed, it would have a total market value of $2.7 billion ($800,000/acre); would generate an average annual payroll of $2 billion ($616,000 an acre); and would yield property taxes of $21 million ($6,220 an acre) (2005 dollars). As a whole, the study area supported a total of nearly 26,900 jobs with an average wage of about $77,000 and an average employee density of 8.9 employees per gross acre, or 15.2 employees per productive (net) acre[10]. Thus, appropriately sited, a relatively small amount of acreage set aside for industrial development could have an enormous regional economic benefit with minimal reduction of the acreage in agricultural production.

   Despite its importance to the state's overall economy, the farm sector is neither a growth industry nor does it provide family-wage jobs; the average family income of farm households is between $10,000 $11,000[11]. In contrast, Metro's projections suggests there will be demand for between 727,000 – 1,427,000 new jobs over the 973,000 jobs documented in the 2000 Census, only a tiny proportion of which will be in the urban agricultural sector.

   Instead of using the studies by Washington County, Business Oregon, HBA and others to sharpen its own methodology, Metro has systematically discounted this data. Moreover, as the analysis has been undertaken using gross acres, there is no accurate estimate of the actual net acreage available for development. Many urban reserve areas contain extensive flood plain, wetlands and steep slopes. In Washington County, these have been excluded for the Oregon Department of Agriculture's Foundational Land Study as not farmable for the same reasons that they are not suitable for urban development. As a result, when comparing gross acreages in urban and rural reserves, there may be a significant unreported "penalty" on the urban development side of the equation.

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[9] *"River Plan: North Reach" (Portland Bureau of Planning, Recommended Draft, 11/09).*

[10] *Economic Productivity of Employment and Industrial Land: Economic Pilot Project (Business Oregon et. al., June 2009.*

[11] *"Farmland Supports Few Jobs" (Hillsboro Argus, 1/5/10)*

To compound this problem, the Core 4 map does not provide a sufficient supply of undesignated rural land as a cushion between urban and rural reserves. If Metro's projected land need is correct, which CPR believes is highly unlikely, the designated urban reserves will suffice and expansion into undesignated areas will not be necessary. However, if the projection falls short of actual performance, future decision-makers will have the flexibility to re-designate undesignated rural lands for urban reserves, using the same methodology and process that have guided this round of decision-making. Unless and until this undesignated land is re-designated, it remains in natural resource use, -- Exclusive Farm Use (EFU) in Washington County -- with virtually the same protections as rural reserves save the guaranteed 50-year time limit. However, in all fairness, these property owners and their heirs must be forewarned that the status of their properties will be reviewed periodically.

5. *The urban reserves factors contained in OAR 660-027-0050 have not been properly applied. Criteria for designating urban reserves include:*

   i. *Can be developed at urban densities in a way that makes efficient use of existing and future public and private infrastructure investments. In its current reserve projections, Metro has failed to take advantage of existing and future infrastructure investments. For example, the City of Hillsboro has developed sophisticated infrastructure to support industrial development that has capacity to accommodate substantial additional employment growth. Yet, for political and policy reasons, Metro chooses to limit expansion in the northwest portion of the region. In contrast, it approved a major UGB expansion in 2002 to bring in the 12,000-acre Damascus/Boring area, development of which is at a near standstill due to a combination of a lack of infrastructure and on-going political opposition to urbanization.*

   The current reserve projections also do not take into account development constraints, e.g., wetlands, stream buffers, inadequate infrastructure, that makes development at urban densities cost prohibitive or impossible to achieve. This problem is exacerbated by the fact that the projections are in gross (not net) acreage. One way to address this issue is to not skimp on the designation of urban reserves. In addition, as suggested elsewhere, leaving land "undesignated" can provide a safety valve if the urban development in certain areas cannot achieve desired densities due to development constraints.

   ii. *Includes sufficient development capacity to support a healthy economy. As described in detail above, this is the factor for which Metro's technical analysis is least adequate in that Metro:*

   - *Has failed to account for the fragility of the regional economy;*
   - *Has failed to acknowledge the inter-relationship between the urban and rural economies;*
   - *Because it over-estimates the capacity within the existing UGB to absorb demand, Metro does not propose sufficient urban reserves to accommodate an anticipated doubling of population and employment growth during the 50-year planning period.*
   - *Has not provided sufficient undesignated rural land to provide a cushion in the event that its projection falls short of actual performance.*
   - *Has failed to take into account the Goal 9 obligations of its local jurisdiction constituents, including the Cities of Hillsboro, Cornelius and Forest Grove.*

   iii. *Can be efficiently and cost-effectively served with public schools and other urban-level public facilities and services by appropriate and financially capable service providers. Businesses pay for more than its proportionate share of the cost of public services, including roads, schools, fire and police protection and social services, than either urban residences or farms. This is why it is short-sighted to undermine the region's competitive edge to retain existing employers and recruit new ones. Metro's analysis of employment need assumes that government can pick the industrial sectors the region will encourage, direct these employers to the locations it selects, and dictate their design characteristics in marked disregard to market trends. Instead, an increasing number*

of new businesses are bypassing the region altogether based on its reputation for an inadequate land supply, particularly for large-lot users; under-funded education system; dysfunctional tax system; and regulatory burden. This is short-sighted as an ailing regional economy impairs the ability of state and local government to provide public services.

There is insufficient evidence that the urban reserve designations are based upon an adequate consideration of the practical availability of schools and other public facilities and services. As was discussed in subsection i. above also, this analysis makes a significant difference in whether land is simply designated on a map as available for urban development or whether it actually will be developed.

iv. *Can be designed to be walkable and served with a well-connected system of streets, bikeways, recreation trails and public transit by appropriate service providers. Although it is critical to have a strong policy framework for this decision-making process, ideological mantras to "save prime farmland at all costs" and "discourage development anywhere else but existing centers and corridors" have trumped technical analysis in projecting the amount of urban reserves that will be needed over the planning horizon. Because of this explicit bias, increased density through refill is "desirable" and development at the fringes – "sprawl" – is "undesirable". In fact, in response to regional mandates, all of Metro's 28 local jurisdictions have modified their zoning codes to increase densities, promote more mixed-use development, restrict parking ratios, and provide pedestrian- and transit-supportive design, development and amenities. Thus, development at the fringe will in many ways mirror development/redevelopment in the urban core, although at slightly lower housing and employment densities, the latter due to land value, market forces, consumer preference and other non-regulatory factors.*

v. *Can be designed to preserve and enhance natural ecological systems. Whether contained in urban or rural reserves or undesignated areas, the protection of natural ecological systems is a wash, since wetlands, floodplains, steep slopes and other special areas of environmental value are either undevelopable or protected as Goal 5 and Title 13 resources. Given the degree to which stormwater manuals for the various cities and counties have been made increasingly rigorous in recent years, it can be argued that new urban development/redevelopment regardless of location is significantly more sustainable than existing urban development.*

vi. *Includes sufficient land suitable for a range of needed housing types. Metro makes a serious technical error when it assumes that all housing regardless of location or cost is fungible. As a result, it has adopted highly aggressive refill rates of 40%-50%, significantly higher than the 27% rate achieved in recent years. By using higher refill rates and unrealistic assumptions about the availability of housing subsidies and decreased under-build rates, it assumes a higher-than-likely proportion of new housing units will be built within the existing UGB. Infill housing to date also includes a narrow range of dwelling types and higher per/unit cost, due to a combination of costs related to higher land value, demolition and/or environmental remediation, up-sizing of infrastructure capacity and/or higher construction costs associated with building type and structured parking. Thus, a higher proportion of infill housing affects housing choice (both by unit type and location) and affordability. An equitable distribution of new housing units throughout the region (including on the edges of the UGB), is necessary both to provide/maintain sub-regional housing/jobs balance and to achieve "livable communities," defined in relevant part in OAR 660-027-0010(4) as "attractive places to live and work." In addition, such sub-regional housing/jobs balance produces the corollary benefits of reducing the number and length of auto trips and encouraging use of alternative transportation modes.*

vii. *Can be developed in a way that preserves important natural landscape features included in urban reserves. See v. above.*

viii. *Can be designed to avoid or minimize adverse effects on farm and forest practices, and adverse effects on important natural landscape features, on nearby land including land designated as rural reserves. Buffering the adverse impacts of urban development on rural uses and rural uses upon urban development remains an on-going challenge. The best way to minimize impact on farm and forest activities is to minimize the incursion of urban uses into the countryside. That is why the Reserves Process is designed to calibrate the 40 – 50 year urban land need and locate it in places throughout the region where it will have the least impact particularly on farming. CPR does not disagree with intent of the Reserves Process, many of its member organizations having been involved since its inception, but the coalition does object to the technical analysis that it believes significantly under-estimates the amount of urban reserves required and provides no safety valve if this projection falls short of actual performance. Even with the most technically-sound projection, 50 years is a long time.*

6. *Metro's analysis for the Reserves Process fails to meet Statewide Planning Goal 9, Economy of the State. Ironically, Metro claims that it is not charged by the state with regional economic planning and, therefore, is not obligated to comply with Goal 9. But the agency's decision-making related to land use, transportation and infrastructure planning affects the regional economy by:*

   - *Manipulating the land supply including the size and location of expansion areas, by using unrealistic assumptions about the capacity of the area within the existing UGB to accommodate residential and employment refill.*

   - *Making decisions about where major transportation and infrastructure investments will be made, thus, influencing where and what type of development realistically can occur.*

   - *Imposing top-down land use regulations restricting certain uses and mandating parking ratios, densities and development patterns to which its constituent local jurisdictions must demonstrate compliance[12].*

   Moreover, as it is charged with administering the regional UGB, it deprives its constituent local jurisdictions from independently making decisions about land supply to implement their individual Goal 9 elements. For example, in this round of the Reserves Process, Metro has trumped the efforts of the Cities of Hillsboro, Cornelius and Forest Grove to implement their respective Goal 9 economic development plans. This is evident when comparing the Core 4 map to the proposed designated urban reserves by these cities on Washington County's initial request.

7. *Metro fails to meet the objective of the applicable administrative rules. As contained in OAR 660-027-005 (2), the overarching objective of the Reserves Process, is to achieve:*

   > *.....a balance in the designation of urban and rural reserves that, in its entirety, best achieves livable communities, the viability and vitality of the agricultural and forest industries and protection of the important natural landscape features that define the region for its residents.*

   CPR believes that the Metro Reserves Process has failed to achieve the urban/rural balance to the significant disadvantage of urban development.

   - *Although the rule does not establish numerical parity, it can be assumed that this is an indicator of qualitative parity. In the Public Comment Draft of the Core 4 map, there are 10 gross acres of rural reserve for every gross acre of urban reserve; this may be reduced slightly when the rest of the 10,780 acres under discussion is redistributed. In contrast, the CPR alternative reserves map presented below offers a more reasonable rural/urban reserve ratio of 5.5:1. By providing a combination of more urban reserves and undesignated rural land, the CPR map reduces rural reserves by only 5,200 gross acres (2%) from 229,820 to 224,600 gross acres within the three-mile study area over a 50-year period. Even if this combined urban reserves/undesignated land*

[12] *Urban Growth Management Functional Plan (Chapter 3.07, 4/25/07).*

is fully used, which is not necessarily the case, there is no evidence that the overall impact on the agricultural industry's economic viability especially over this long time period. Although this means that individual farmers whose property lies within this area are at risk of urban development at some time in the next 50 years, the rule calls for balance of the industry as whole.

- *From the very beginning, Metro has been biased, explicitly favoring redevelopment and infill in existing centers, corridors and employment/industrial areas as "desirable" and development on the urban fringe – "sprawl" – as "undesirable". As a result, it has distorted its analysis using unrealistic and historically unsubstantiated assumptions and ignoring market realities. This is demonstrated by the fact that on the draft Core 4 map, proposed urban reserves represent only a 9% increase in land area beyond the existing UGB even though the 2060 range forecast predicts about a doubling of the region's population and employment base.*

- *The process has become increasingly polarized and politicized by pressure from farm and environmental interests to ratchet down urban reserves even further in favor of increasing rural reserves. In response to this, the L/P/B plan reduces the urban reserves by 30%, equal to only a 7% increase in the size of the region, without any technical analysis that this is reasonable and justified. Although the L/P/B is no longer officially on the table, it is indicative of the downward pressure on the ultimate urban reserves supply.*

- *The most serious concern is that the draft Core 4 plan provides relatively little undesignated acreage, particularly in Washington County where urban/rural conflicts are most intense, to provide a safety valve in the event that Metro's 50-year land need forecast falls short of actual performance. This leaves no room for error in Metro's 50-year projection and little flexibility for future decision-makers to make mid-term corrections. To achieve appropriate balance, the program must serve urban development needs for the entire planning period, something that is unlikely to happen without the opportunity to designate additional urban reserves if needed.*

8. *Undesignated rural land has legal status. Although there is no explicit reference to undesignated rural land, it is not required by nor was it contemplated in OAR 660-027 that all land within the Metro study area would be placed in either urban or rural reserves. The rule permits Foundational Agricultural Land as defined in the Department of Agriculture's report, "Identification and Assessment of the Long-Term Commercial Viability of Metro Region Agricultural Lands" (1/07) to be designated as rural reserves without further justification. However, OAR 660-027-0040(11), permits such land to be designated for urban reserves by making findings of fact using the eight factors in 660-027-0050 that the land is needed for future urban development.*

   This being the case, such foundational agricultural lands can certainly remain undesignated as a cushion between urban and rural reserves, as necessary to guarantee the "balance" required in OAR 660-027-005 (2), by creating the safety valve for the extension of urban reserves if necessary until the end of the 50-year planning period. Undesignated rural lands retain their underlying natural resource designation, in most cases Exclusive Farm Use (EFU), which ensures their continued protection unless and until needed for urban development. Thus, appropriately-located undesignated lands play a major role in ensuring the success of the Reserve Process for both urban and rural interests.

CPR's Proposed Remedy. *CPR proposes an alternative reserves map that it believes remedies the shortcomings of Metro's proposed reserves program. Directly comparable to the Draft Public Comment version of the Core 4 map, the CPR map includes:*

- *Approximately 40,790 gross acres of urban reserves, including approximately 17,960 gross acres in Clackamas County, 1,630 gross acres in Multnomah County, and 21,200 gross acres in Washington County, respectively. This represents a 16% increase in land area beyond the existing UGB, which contains approximately 260,000 gross acres. This is still a conservative amount of land to accommodate a projected doubling of population and employment by 2060. Currently, the Draft Core 4 map calls for only 23,540 gross acres of urban reserves, which is likely to increase slightly as the acreage under discussion is distributed. This represents about a 9% increase in the existing UGB's land area.*

- *Approximately 27,850 gross acres of undesignated rural land either contiguous to the existing UGB and/or proposed urban reserves, and therefore, available for future urban expansion if needed. This is distinct from non-designated rural land that either lies in isolated pockets within rural reserves or at the outside edge of the three-mile reserves study area, and, therefore, not feasible for urban development. If fully utilized for urban development, this represents a 10% increase in the land area of the existing UGB. Thus, the combined urban reserves and undesignated rural areas account for 68,640 gross acres, or a total of 26% of the total acreage in the study area.*

- *Approximately 224,590 gross acres of rural reserves, compared to 229,820 gross acres in the draft Core 4 map. This produces a rural/urban reserve ratio of 5.5:1, a far more balanced outcome that the ratio of nearly 10:1 on the Draft Core 4 map.*

This submission includes a brief cover memorandum summarizing acreages, region-wide summary map, and five detailed sub-regional maps.

Conclusion. *In closing, CPR thanks the Metro Council for this continuing opportunity to participate in this important regional planning endeavor and to hopefully influence the outcome in a technically-sound and politically-acceptable manner.*

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