INFRASTRUCTURE CASE STUDY:

Portland Airport MAX Red Line

SUMMARY

PROJECT TYPE	YEAR	DEAL STRUCTURE
Light rail transit	2001	Design-build (plus transfer of development rights to public land)

TOTAL COST
$125.8 million construction cost

FINANCING
Private equity and TIF (Tax Increment Financing)

FUNDING
Airport passenger facility charge and TriMet general funds

PUBLIC BENEFIT
Connects downtown to the airport and encourages economic development of the Cascade Station area

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Background

The Portland Airport MAX Red Line, located in Portland, Oregon, is a light rail line that connects downtown Portland to the Portland International Airport.[1] It was financed and constructed through a private-public partnership (P3) agreement, and is operated by TriMet, Portland's regional transit agency.[2] It opened to the public in September 2001, and now provides more than 8 million trips per year, with 3,200 people getting on or off at the Portland Airport stop each weekday.[3]

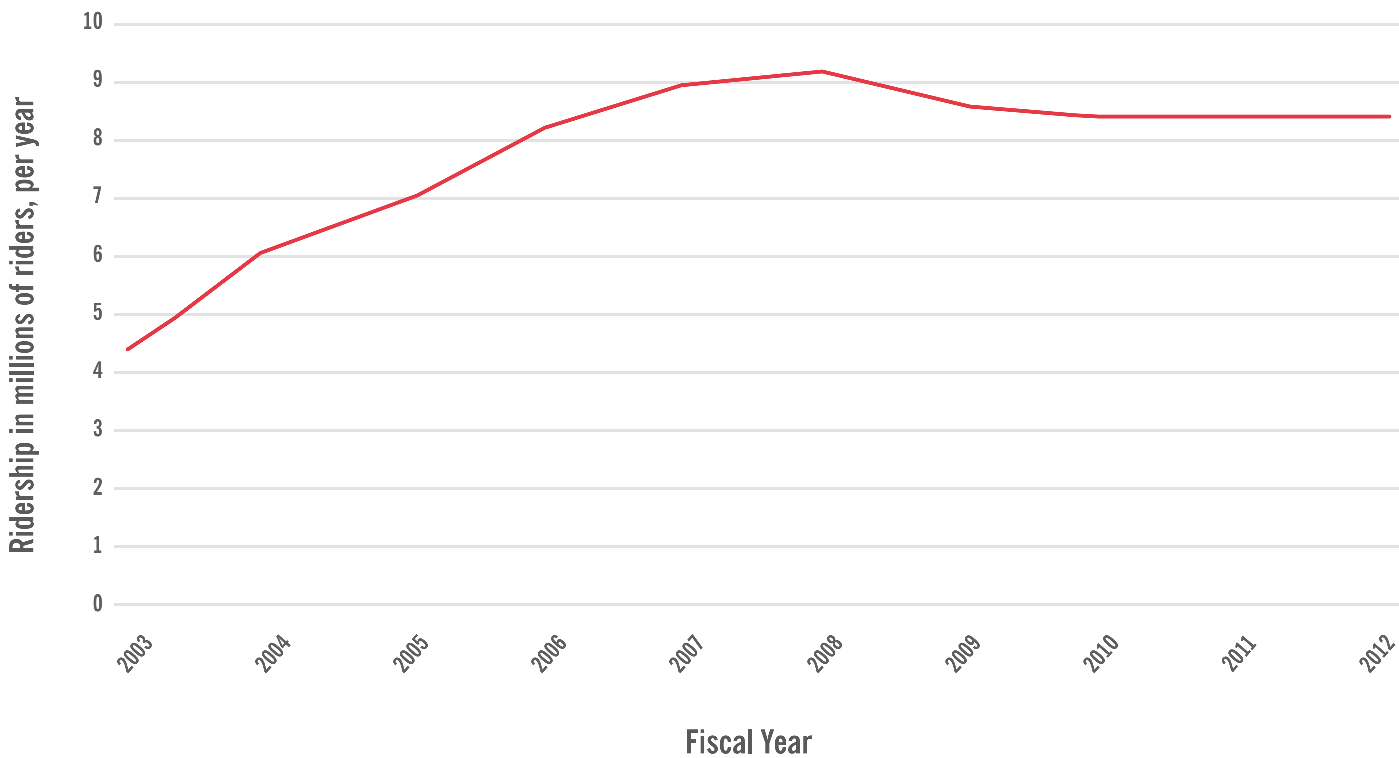
Project Description

The private-public partnership agreement for the Airport MAX Red Line came about through an unsolicited proposal from the private construction and engineering company Bechtel.[4] Their proposal was $28.2 million in funding in return for sole rights to the $125 million design-build contract, and development rights for 85 years to 120 acres of land near the airport.[5] This land would come to be known as Cascade Station. The original owner of the land was the Port of Portland, and the 120 acres were part of 458 acres earmarked for development as a mixed-use business park called the Portland International Center.[6] TriMet's unsolicited proposal policy allowed Bechtel to initiate the project. TriMet was able to proceed to direct negotiations with Bechtel after providing a limited opportunity for other firms to propose alternatives. Bechtel's interest in the project stemmed from their perception that they could make more than $28.2 million in profit from the developed land over the course of the 85-year lease. Anticipated property taxes, hotel/motel taxes, utility franchise fees, and business license fees from the developments Bechtel would be making were an incentive for the city of Portland.[7] The partnership also accelerated plans for this rail line by ten years.[8]

Financing for the project came from Bechtel, the Port of Portland, the City of Portland, and TriMet. The Port of Portland invested $28.3 million into the project, which was funded through a Passenger Facility Charge (money that the airlines pay the port for each passenger that boards a plane at the Portland International Airport).[9] The City of Portland funded $23.8 million, making use of Tax Increment Financing (TIF) for its portion.[10] Tax Increment Financing is a strategy where bonds are repaid with money from future growth in property taxes in a developing area. In other words, the City of Portland was "borrowing against future growth in property taxes" in the area that they expected this agreement to develop.[11] TriMet paid $45.5 million out of its own general fund towards the project, in anticipation of the revenue that they would be collecting on the project.[12] TriMet also issued tax-exempt bonds to Bechtel, which financed Bechtel's contribution.[13] The group did not apply for federal funding, which expedited the process.[14] Bechtel entered into a joint venture with Trammell Crow (a real estate firm) known as Cascade Station Development Company (CSDC) to complete the project.[15]

The rail project was completed rapidly. Initial agreements were finalized in October 1998, construction began in June 1999, and the line opened on September 10, 2001.[16] The terrorist attacks of September 11, 2001, and the ensuing economic recession, impacted the project's start. Ridership of the Airport MAX Red Line steadily increased from 2003 (see Figure 1), but the development of the Cascade Station land never took off.[17] In 2006, CSDC restructured after struggling to develop the area for five years. Thirty-six acres were re-attained by the Portland Development Commission (PDC), and Bechtel sold its interest in the joint venture to Trammell Crow Company (now the sole owner of CSDC).[18] PDC contracted with Grubb & Ellis Company to market the 36 acres it took in the restructuring.[19] Five years later, development was considered successful. In 2005, zoning laws were changed to attract larger retail stores.[20] Between 2005 and 2011, the area had attracted two large "anchor stores" (IKEA and Target), which were accompanied by 43 commercial buildings, and three hotels.[21] The area has the potential to create "7,600 more jobs, and $2.4 million in additional revenue annually for the City of Portland" if development continues.[22] Cascade Station will also be the home of the Portland headquarters of the FBI.[23]

Figure 1. **Ridership of the Airport MAX Red Line** [28]



Benefits and Criticisms

This project was innovative, in that a design-build agreement for a rail line and a development agreement for publicly-owned land were part of the same agreement. The speed with which this agreement was undertaken (five years from initial proposal to opening day), is worthy of note.[24] This important development came ten years ahead of original plans thanks to the public-private partnership—a gain for the public.[25]

There is a compelling argument that the strained development of Cascade Station was out of the hands of any of the partners. Much of it is attributable to economic downturn in 2001, making the plan simply "ill-timed."[26] It is also possible that the transit-oriented development strategy was not appropriate for the area.[27] This is supported by the fact that development really kicked off once zoning laws for the area encouraged "big-box" stores like IKEA and Target to enter.

Takeaways

The Portland Airport Red Line project shows that public-private partnerships may help expedite infrastructure projects. P3s can also avoid the use of state and federal funds by drawing on private equity and other creative financing techniques such as tax increment financing. However, when negotiating deal structure, loan payments, and determining expectations, parties should consider that projects sometimes take time to show results. It took ten years for the development of Cascade Station to start to thrive. Further, project deal structure should consider that macroeconomic trends, including unpredictable events, can threaten the initial success of projects. One key takeaway from this project is that public-private partnership agreements can creatively use public assets (such as land) in the negotiation of deals.

Endnotes

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