PDC | PORTLAND DEVELOPMENT COMMISSION
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DATE: January 13, 2016

TO: Board of Commissioners

FROM: Patrick Quinton, Executive Director

SUBJECT: Report Number 16-04

Authorizing a Purchase and Sale Agreement with the United States Postal Service to Acquire 13.4 Acres of Real Property Located at 715 NW Hoyt Street in the River District Urban Renewal Area for $88,000,000 and Authorizing an Interfund Loan Agreement

BOARD ACTION REQUESTED

Adopt Resolution No. 7163.

ACTION DESCRIPTION

This action will authorize the Portland Development Commission (PDC) Executive Director to execute a Purchase and Sale Agreement (PSA) between PDC and the United States Postal Service (USPS) to acquire USPS's Processing and Distribution Center (P&DC) at 715 NW Hoyt Street, Portland, Oregon (Downtown Property) according to the terms set forth as Attachment A, for a purchase price of $88,000,000. In addition, in order to fund the full acquisition of the Downtown Property, PDC staff is requesting the PDC Board of Commissioners (Board) authorize an interfund loan for an amount not to exceed $75,000,000 from the River District Urban Renewal Area (URA) Fund to the Business Management Fund for a term not to exceed 10 years at zero interest. The Business Management Fund will use the loan funds to purchase the Downtown Property and will repay the River District URA fund with land sale proceeds. The City of Portland (City) Portland Housing Bureau (PHB) will contribute a minimum of $13,000,000 to the purchase price. The Downtown Property is located in the River District URA and is bounded by NW Hoyt Street, NW 9th Avenue, NW Lovejoy Street, and NW Broadway (see project summary in Attachment B).

BACKGROUND AND CONTEXT

The 13.4-acre Downtown Property has been identified as perhaps the most significant redevelopment opportunity within Portland's Central City through multiple Portland City Council (City Council) adopted land use and development plans. The 1988 Central City Plan and 2001 Pearl District Development Plan state that the City should seek to reach an agreement with USPS permitting PDC to redevelop and re-use portions of the Downtown Property and encourage relocation of the P&DC facility while retaining a retail postal facility to serve the River District URA. The Central City 2035 West Quadrant Plan, adopted by City Council on March 5, 2015, calls for PDC to work on behalf of the City to relocate the P&DC and redevelop the Downtown Property with a wide mix of urban uses (including affordable and market rate housing, office, and retail) and new city attractions (including the provision of civic parks, open space amenities, and signature connections). Most recently, the Broadway Corridor Framework Plan (Framework Plan), which was adopted by the PDC Board on October 14, 2015, and by City Council on November 5, 2015, supports the goal of redeveloping the Downtown Property and adjacent PDC properties with mixed private uses, renovation of Union Station, affordable housing, and public realm enhancements.

Acquisition Negotiations. PDC staff initiated active negotiations with USPS in 2007, resulting in the PDC Board's approval of a Letter of Intent (LOI) and Escrow Agreement in 2008 under which PDC released $500,000 to USPS to conduct due diligence on a potential relocation of the P&DC facility and negotiate a PSA. Market conditions and an impasse regarding contract terms slowed momentum for negotiations and the LOI and Escrow Agreement expired in 2013 without further transfer of funds or execution of a PSA.

PDC staff continued to work with USPS and in 2015 reached agreement on several key issues regarding the acquisition and relocation of the P&DC. In May 2015, PDC and USPS entered into an Agreement to Pursue Exclusive Negotiations and Escrow Agreement. As part of this agreement, PDC deposited an additional $500,000 into an escrow account to be used by PDC and USPS to examine the feasibility of locating, financing, and constructing a Replacement Facility. To date, $134,606 of these funds has been spent on feasibility and design work. Through this work and as a result of USPS interests, PDC and USPS evaluated several site alternatives as well as different sizes for the Replacement Facility, including a one-to-one Replacement Facility or a larger Replacement Facility that consolidates the P&DC with other existing USPS operations in the Portland metropolitan area.

As a result of these efforts, PDC and USPS have determined the preferred solution is to locate a larger, consolidated Replacement Facility at the 47.5 acre property located at the northwest corner of NE Alderwood Road and NE Cornfoot Road near Portland International Airport and within city limits. This preferred site is owned by Colwood Industrial Park LLC (Trammell Crow) (Colwood Property). The Replacement Facility will include approximately 789,837 square feet (SF) of processing, distribution, and office space and a 27,569 SF vehicle maintenance facility and is estimated to cost approximately $157,000,000, including land, construction, mechanical equipment, and relocation costs. PDC and USPS considered alternate sites for a Replacement Facility which had total project costs well in excess of the $157,000,000.

As part of this proposed PDC Board action, PDC will purchase the Downtown Property for $88,000,000, at least $13,000,000 of which will be contributed by PHB for future affordable housing development rights. USPS will use funds from the purchase price together with $69,000,000 of federal funds to purchase the Colwood Property and construct and relocate to the Replacement Facility. USPS will complete the construction of and relocate to the Replacement Facility within 24 to 30 months of closing. The existing retail facility will continue to operate in the current location until such time as PDC provides a replacement retail facility that meets USPS requirements within one mile of the existing site. Of the alternatives evaluated over the past eight months, this approach represents the lowest-cost alternative for PDC to acquire the Downtown Property.

Downtown Property Description. The 13.4-acre Downtown Property is located between Portland's Old Town/Chinatown neighborhood and Pearl District. The Downtown Property includes three structures:

- The main four-story, 420,000 SF building contains 15,973 SF retail space, 262,000 SF mail processing workroom, 108,000 SF office space, and a 34,440 SF basement;
- A 10,000 SF vehicle maintenance facility; and
- A 98,000 SF, 300-space parking structure.

The Downtown Property also includes more than four acres of surface parking and circulation currently used for USPS truck loading and storage.

The Downtown Property is zoned Employment District (EX) with Design Review overlay and has a maximum building height of 75 feet and a base maximum floor area ratio of 4 to 1. Based on these existing conditions, a 2015 appraisal determined the Fair Market Value of the Property to be $63,420,000. The Framework Plan forecast future land sales of the Downtown Property could be approximately $113,000,000, taking into consideration increases in entitlements, the mix of uses contemplated in the Framework Plan, and the public/private allocation of costs related to infrastructure, parking, and environmental obligations.

Since the Downtown Property is publicly-owned, no property taxes are generated by the current use and ownership.

Overall, the Downtown Property is the approximate equivalent of 12 city blocks if existing street patterns, including the park blocks, were fully developed within its boundaries.

PSA Terms. Key terms of the PSA include:

- PDC to purchase the Downtown Property for a Purchase Price not to exceed $88,000,000. All amounts deposited in the Escrow Account prior to Closing shall be applicable to the Purchase Price. Should the total project cost of purchasing the Downtown Property, building the Replacement Facility on the Colwood Property, and moving USPS's P&DC operations, be less than the current $157,000,000 project budget, 20 percent of the savings up to a maximum $6,000,000 shall be refunded to PDC. PDC shall not be responsible for any additional amounts should the project costs exceed $157,000,000.
- PDC to deposit $2,500,000 to the Escrow Account, to be used by USPS to fund a non-refundable option payment for the Colwood Property, which payment to be made within 30 days subject to the following conditions:
    - USPS and Trammell Crow have executed an Option Agreement for USPS to purchase the Colwood Property with terms acceptable to PDC;
    - PDC and USPS have executed a final PSA for the acquisition of the Downtown Property materially in conformance with the Term Sheet;
    - PDC has received a peer review completed by an independent consultant of USPS cost estimates for the Replacement Facility opining that the total project cost estimate of $157,000,000 is sound and reasonable;
    - USPS has provided a written statement that the condition of the Colwood Property is satisfactory and this determination is subject to change only by identification of new and previously unknown conditions through environmental and geotechnical studies to be subsequently commissioned by USPS; and
    - Receipt of written assurances from USPS that all conditions to closing the sale of the Colwood Property can reasonably be finalized prior to the closing date contained in the Option Agreement.
- PDC to deposit up to an additional $400,000 into the Escrow Account which will be used by USPS to fund additional due diligence and design of the Replacement Facility. The $400,000 will be applicable to the purchase price. PDC previously deposited $500,000 into the Escrow Account for these same purposes. This, with the $2,500,000 option payment, will bring the total deposit applicable to the purchase price up to $3,400,000.
- PDC to provide the balance of the purchase price of and obtain title to the Downtown Property at closing, which shall occur within six months of the effective date of the PSA subject to the following conditions:
    - Execution of a Prospective Purchaser Agreement (PPA) with the Oregon Department of Environmental Quality (DEQ), in form and substance satisfactory to PDC;

  - USPS has entered into a guaranteed maximum price construction contract for the Replacement Facility, within budget;
  - USPS has received all final budgetary approvals necessary to construct and relocate to the Replacement Facility; and
  - The closing of the sale of the Colwood Property shall have occurred at or before closing of the Downtown Property.

- PDC to lease the Downtown Property back to USPS for a term of no more than 30 months after closing. During this period, USPS will be responsible for all operations and maintenance costs. No base rent shall be charged for the first 30 months of the lease term. If USPS has not been able to relocate the P&DC functions to the Replacement Facility within this time period, USPS shall pay a base rent to PDC equal to the fair market value of the Property (estimated to be approximately $5,400,000 per year).

- PDC shall take the Downtown Property as is. The deed to the Downtown Property shall prohibit PDC or any subsequent purchaser from making environmental claims against USPS, and PDC shall indemnify USPS against third party claims. The indemnity shall be secured by a $3,000,000 deposit into an environmental holdback account, which payment shall be made prior to the commencement of redevelopment. The deposit shall be returned pro rata to PDC upon DEQ confirmation that each redevelopment site within the Downtown Property has met the cleanup standard in the PPA.

- The USPS retail facility will continue to operate at the existing site until such time as PDC provides a replacement retail facility.

Environmental Condition of Downtown Property and Mitigation of Liability. The USPS has conducted extensive environmental investigations of the Downtown Property and determined the presence of subsurface soil contamination. The subsurface contamination is consistent with the impacts found on other former railyard lands previously acquired and developed by PDC in the vicinity with the exception of a more impacted area in the northwest portion of the Downtown Property. The northwest portion of the Downtown Property contains higher concentrations of contamination associated with a former coal gasification plant. USPS has coordinated with DEQ and a Record of Decision (ROD) has been issued by DEQ. The ROD allows the site to remain as-is under a cap-in-place scenario. DEQ has also issued a No Further Action letter to confirm to USPS that the existing paving and concrete foundations are an adequate cap of the underlying contamination including the northwest portion.

Cleanup costs will be dependent upon the degree to which new caps are utilized and excavation of below-surface parking is reduced on the development pads. Structural foundations, sidewalks, or roads may constitute the new caps and above-ground parking is a preferred site concept. Costs for public street and park improvements and related environmental excavation will carry an incremental cost based on code requirements.

To address environmental concerns, PDC is negotiating a PPA with DEQ. The PPA will effectively settle the potential environmental cleanup liability to the state that PDC will face as a future owner of the contaminated soils within the Downtown Property. The PPA will establish a roadmap for cleanup and greater predictability of cleanup costs for prospective developers of the Downtown Property.

Redevelopment Potential and Approach. PDC is purchasing the Downtown Property for redevelopment purposes with the potential for the Downtown Property to return value above and beyond the $88,000,000 purchase price with revenues made available for public benefits, including public infrastructure improvements on site. PDC anticipates selecting preferred development partner(s) through a competitive solicitation and preparing a more detailed master plan, building upon the findings of the Framework Plan prior to commencing redevelopment of the Downtown Property. Selling the

Downtown Property for private development will generate property tax revenues for the taxing jurisdictions, which are currently not realized due to federal ownership. It is estimated that at full build-out, approximately $10,000,000 (net present value) will be returned to the taxing jurisdictions on an annual basis.

Key attributes of the preferred Framework Plan concept as reviewed and approved by the PDC Board in October 2015 (see Attachment C for a preferred site layout) include:

- Program Mix: The total forecasted development is 3,800,000 gross SF and is currently programmed one-third commercial and two-thirds residential. Thirty percent of residential SF is reserved for affordable housing. Interim reuse of the existing P&DC building and parking structure is assumed in the first phase. All parking is assumed to be above-grade to minimize risk and expense associated with environmental remediation.
- Development Entitlement: The preferred redevelopment concept reflects an increased floor area ratio from 4:1 to 7:1 and increased height in certain portions of site from 250 feet to up to 400 feet. The Central City 2035 West Quadrant Plan recommends increasing the current height limit from 75 feet up to 250 feet; additional height increases would be realized through a master plan process in coordination with partner City bureaus.
- Urban Design: The proposed public realm currently includes two new park blocks (65,000 SF); an extension of Johnson Street and a portion of Park Avenue through the site (80-foot width, 104,000 SF); access from the Broadway Bridge into the site via extension of the Green Loop bike and pedestrian path through the site; and activation of the Broadway bridgehead, viaducts, and Union Station public space.

PHB Partnership. As part of the recent amendments to the City's Set-Aside policy, PHB will co-invest with PDC using River District Set-Aside tax increment financing (TIF) to acquire development rights on the Downtown Property and further affordable housing goals for the River District URA. PHB will acquire development rights to approximately 30 percent of the residential development modeled in the Framework Plan, or approximately 629,000 SF. This represents an approximately at least a $13,000,000 investment by PHB and involves PHB pursuing significant additional non-TIF resources to subsidize unit construction within those development rights.

Per the recent Set Aside policy action via City Council Ordinance No. 187415, PHB may elect to acquire additional market rate development rights up to a maximum investment of $20,000,000 or elect to invest the remaining set-aside funds (approximately $6,000,000) towards affordable housing unit subsidy on the Downtown Property or elsewhere in the River District URA. Under any scenario, pursuant to City Council approval of the Line of Credit Intergovernmental Agreement (IGA) between PDC and the Office of Management and Finance (Ordinance No. 187434), the City will have first claim on Downtown Property sales proceeds. Should PHB elect to acquire additional market rate development rights, it would result in a market blend of commercial and residential uses and land values, and carry an applicable proportion of public improvement and related environmental remediation costs.

Joint PDC/PHB ownership and terms for redevelopment of the Downtown Property will be memorialized in a separate IGA related to the Set-Aside policy administration and, eventually, land disposition roles, rights, and responsibilities. PDC will partner with PHB on future development solicitations and planning activities. PHB's development rights may result in a stand-alone land acquisition or be imbedded in a larger mixed-use, mixed-income development.

COMMUNITY AND PUBLIC BENEFIT

The public benefits of the acquisition and redevelopment of the Downtown Property and relocation of the USPS outside the Central City are significant and include:

- Providing the opportunity for the City to deliver on a community-supported vision for this signature 13.4-acre site in the Central City that leverages public benefits, including synergy with renovation of Union Station as a regional transit hub;
- Converting a large, underutilized industrial site within the Central City to provide mixed-use development with substantial economic development uses that will create jobs for Portland's residents;
- Enhancing circulation through extension and connection of the public street network;
- Enhancing recreational opportunities through provision of public parks and the Green Loop;
- Providing up to 700 units of affordable housing;
- Generating significant additional property taxes upon redevelopment;
- Creating opportunities to strengthen the local and regional economy;
- Activating the Union Station vicinity as a gateway and connect the Pearl District and Old Town/Chinatown neighborhoods; and
- Implementing the 1988 Central City Plan, the 2001 Pearl District Development Plan, 2015 West Quadrant Plan, and 2015 Broadway Corridor Framework Plan.

PUBLIC PARTICIPATION AND FEEDBACK

PDC's efforts to acquire and redevelop the Downtown Property have generally been supported by community stakeholders. Recent public actions which have supported acquisition of the Downtown Property include:

Preparation and Adoption of the City's Central City 2035 West Quadrant Plan. The West Quadrant Plan, prepared as part of the City's Central City 2035 process to update the 1988 Central City Plan, directs PDC's efforts to acquire the Downtown Property and prepare a master plan for redevelopment. Adoption of the West Quadrant Plan by City Council on March 5, 2015, followed a two-year planning process in which the City hosted numerous public outreach meetings and a diverse 33-member Stakeholder Advisory Committee worked with interested community members and land use and transportation planners to craft the plan.

Broadway Corridor Framework Plan. The Framework Plan, as adopted by the PDC Board and City Council, was crafted with significant public and partner engagement, including a Technical Advisory Committee comprised of partner City staff, and a Stakeholder Advisory Committee composed of public, non-profit, and private partners. PDC staff also solicited input through a series of regional, innovative public engagement efforts, including public open houses; online and social media advertising; a series of online surveys; and one-on-one interviews conducted regionally at major public transportation stations. These interviews aimed to capture a broader range of feedback on the project, particularly from those communities who may be underrepresented in traditional public participation forums. The Framework Plan represents initial steps towards preparing a master plan for the Downtown Property.

PDC's Fiscal Year (FY) 2015-16 Adopted Budget and Five Year Forecast. The FY 2015-16 Adopted Budget and Five-Year River District URA Forecast (see Attachment D), which included $35,000,000 for acquisition of the Downtown Property, was reviewed by the Central City Budget Advisory Committee and approved on May 27, 2015, by City Council acting as PDC's Budget Committee. Following adoption of the budget and subsequent discussions with USPS, estimates were updated in the PDC FY 2015-16 Revised Budget to reflect $28,000,000 in current year estimated expenditures. PDC staff is currently drafting the second budget revision for FY 2015-16 as well as the draft FY 2016-17 Budget and Five-Year Forecast which will include current estimates for total cost and timing. These estimates will be shared with the Central City Budget Advisory Committee and the PDC Board later in January 2016 prior to being submitted as part of the FY 2016-17 PDC Requested Budget to City Council in February 2016.

BUDGET AND FINANCIAL INFORMATION

The Business Management Fund will acquire PDC's interest in the Downtown Property and will fund the majority of the acquisition price, with the remainder coming from PHB. Several budget amendments and actions will be required in order to facilitate this transaction and fund other projects in the River District URA. Changes include increasing the Housing appropriations in the FY 2015-16 River District URA budget to reflect approximately $13,000,000 (15 percent of Downtown Property acquisition price being associated with affordable housing) and a 10-year not to exceed $75,000,000 interfund loan from River District URA Fund to the Business Management Fund. The Business Management Fund will repay the interfund loan to the River District URA Fund when sale proceeds are realized, and will record the property as an asset in its balance sheet and retain any residual value after repayment of the interfund loan. The terms of the interfund loan are consistent with Oregon Revised Statutes 294.468, and the funds are an eligible use of River District URA TIF proceeds since the purpose of the interfund loan will be to acquire and redevelop property within the River District URA.

Based on project timing, it is currently anticipated that an interim line draw of up to $35,000,000 may be required between FY 2015-16 and FY 2019-20. It is currently forecast that repayment of the interfund loan from the Business Management Fund will be sufficient to repay this line by FY 2020-21.

If the PSA and interfund loan are authorized, the PDC Board will need to adopt the FY 2015-16 Revised 2 Budget that includes increases in current year TIF draws. City Council approval and adoption of the FY 2016-17 budget will be required to facilitate the estimated transaction amounts in FY 2016-17. Furthermore, the City's Office of Management and Finance must establish the two authorized lines of credit by spring 2016 to ensure all projects in the budget and forecast have adequate funding.

RISK ASSESSMENT

Approving these transactions involves the following risks:

- It is anticipated that approximately $3,400,000 will ultimately have been deposited into an Escrow Account (applicable to the Purchase Price) to fund pre-closing due diligence and design costs of USPS, and to fund the Colwood Property Option Payment. These payments will be made before USPS has purchased the Colwood Property, bid for and signed a guaranteed maximum price construction contract, or has received final budgetary approvals to construct the Replacement Facility. There is a risk the Colwood Property cannot be secured and that USPS final budget approvals will not be made, due to final project costs being higher than the currently anticipated estimate of $157,000,000 project budget, or unanticipated due diligence problems. These risks will be mitigated by PDC receiving, prior to funding the Option Payment, independent assurances that the current project budget is reasonable and sound, and other assurances described in the Term Sheet have been received.
- PDC will be taking the Downtown Property as is, with all environmental costs of the Downtown Property being assumed by PDC or its future developers. This risk is mitigated by the extensive known environmental condition of the Downtown Property, a third party review of the environmental documents, and by PDC's requirement of reaching an acceptable PPA with DEQ prior to closing. In addition, the Framework Plan model assumes all above grade redevelopment and that the private sector would carry private development related environmental remediation costs.
- The purchase of the Downtown Property is based upon projections the Downtown Property will increase in value and will be attractive to private investors following a change in entitlements that will allow a significant increase in development than currently allowed. While there is a risk that PDC will be unable to obtain necessary governmental approvals for changes in entitlements, this risk is mitigated by City Council's adoption of the Framework Plan, which

contemplates those necessary changes in entitlements, and ongoing collaboration with the Bureau of Planning and Sustainability to integrate these changes in the Central City 2035 Plan scheduled for City Council adoption in 2016.

- Cleanup of contaminated soils may generate higher than estimated costs; PDC has based the maximum estimate on a worst-case scenario that assumes all soils on the site are removed to a depth of 10 feet. More realistic cleanup scenarios and the PPA anticipate that the construction of new streets and building foundations may fulfil the role of a new site cap. Under this approach, a substantially lower volume of soils will require removal from the site. In addition, parks and other infrastructure will generate lower levels of soil removal and, thus, lower overall costs.

ALTERNATIVE ACTIONS

The PDC Board could decide to:

- Direct staff to incorporate new terms or changes to the terms and conditions into the PSA;
- Direct staff to renegotiate specific terms and conditions; or
- Terminate the negotiation process.

ATTACHMENTS

A. Term Sheet for Purchase of USPS P&DC
B. Project Summary
C. Preferred Development Concept from Broadway Corridor Framework Plan
D. River District URA Financial Summary

TERM SHEET FOR PURCHASE OF USPS P&DC

1. Parties:

 1.1. Buyer: Portland Development Commission, the duly authorized urban renewal agency of the City of Portland (PDC).

 1.2. Seller: United States Postal Service, an independent establishment of the Executive Branch of the Government of the United States ("USPS").

2. Property: Approximately 13.4 acres and approximately 528,000 square feet of improvements at 715 NW Hoyt Street, Portland, Oregon (the "Property") The Property currently houses a Processing and Distribution Center and a Retail Facility.

3. Overview:

 3.1. PDC will purchase the Property for a Purchase Price of $88 million.

 3.2. USPS will purchase a replacement site for its Processing and Distribution Center at the northwest corner of NE Alderwood Road and NE Cornfoot Road, Portland, Oregon ("the Replacement site") and commence building a replacement facility ("the Replacement Facility").

 3.3. The Closing of the purchase of the Property and the purchase of the Replacement Site shall occur on or before August 1, 2016.

 3.4. On and after Closing, PDC will lease the Property back to USPS for the period of time necessary to build the Replacement Facility (approximately two years) ("the Lease").

 3.5. Prior to expiration of the Lease, PDC will locate a satisfactory replacement Retail Facility either on the Property, or within one mile of the Property, and pay for (or have others assume the responsibility to pay for) the replacement Retail Facility.

4. Purchase Price:

 4.1. The Purchase Price for the Property shall be $88 million. The entire Purchase Price shall be used by USPS to pay for USPS's costs of purchasing the Replacement Site, building the Replacement Facility, and relocating its employees and equipment to the Replacement Facility.

 4.2. On April 8, 2015, PDC's Board of Commissioners approved the establishment of a certain escrow account ("the Escrow Account") to pay certain pre-Closing costs of USPS for identified due diligence on alternative replacement sites and facilities, including contracting for design work of a Replacement Facility. PDC shall add up to an additional $400,000 to cover additional pre-closing costs of USPS. All funds deposited by PDC into the Escrow Account prior to Closing shall be applied to the Purchase Price.

4.3. If the total Project costs for purchasing the Replacement Site, building the Replacement Facility and moving employees and equipment to the Replacement Facility ends up to be less than $157 million, the Purchase Price shall be reduced by an amount equal to 20% of the cost savings, as described in Section 6 below.

5. Purchase of the Replacement Site:

5.1. On or before February 1, 2016, USPS shall enter into an Option Agreement to purchase the Replacement Site. The Option Agreement shall be in form and substance acceptable to PDC.

5.2. Upon satisfaction of the conditions identified in Section 5.3 below, USPS shall pay a non-refundable Option Price of $2.5 million. Prior to the payment of the Option Price, PDC shall deposit a like amount into the Escrow Account to be applied to the Purchase Price. USPS may use the deposited funds in the Escrow Account to pay the Option Price.

5.3. PDC shall deposit $2.5 million into the Escrow Account if each of the following conditions have been met:

5.3.1. USPS has obtained conditional internal approval of a total project budget of $157 million, with approval for USPS to pay up to $69 million of the cost for purchasing the Replacement Site, building a Replacement Facility, and relocating its employees and equipment to the Replacement Facility.

5.3.2. PDC has received a Report from an independent consultant hired by PDC, in form and substance satisfactory to PDC, opining that the estimate of total project costs of $157 million is reasonable and sound.

5.3.3. PDC has reviewed and approved the terms of the Option Agreement.

5.3.4. PDC and USPS have executed a definitive Purchase and Sale Agreement for the purchase of the Property, materially in conformance with the provisions of this Term Sheet.

5.3.5. USPS has provided PDC with written confirmation that they have reviewed and approved the following documents, and that they will approve the subsequent independent due diligence reports on the same subjects provided they are materially similar:

5.3.5.1. Preliminary Title Report for the Replacement Site.

5.3.5.2. Existing Environmental Reports on the Replacement Site,

5.3.5.3. Existing Geotechnical Reports on the Replacement Site.

5.3.6. PDC has reviewed and approved the Preliminary Title Report for the Property.

5.3.7. PDC has received reasonable written assurances from USPS that USPS can and will finalize prior to the Closing date, the due diligence described in Section 8 below.

6. <u>Project Budget and Cost Savings:</u>

6.1. The total estimated Project budget is currently $157 million. This budget includes a 20% contingency.

6.2. If at the end of the project, the actual project costs are less than $157 million, USPS shall refund PDC in an amount equal to 20% of the cost savings, up to a maximum refund of $6 million.

6.3. Any increased costs due to USPS initiated change orders to the general construction contract that increase the cost of the Replacement Facility (such as scope changes, acceleration of work changes and/or additive changes) shall not be considered "Project Costs" for the purpose of calculating the actual project costs under Section 6.2 above.

6.4. During construction and relocation, i) USPS shall provide PDC with regular updates and reports as reasonably requested by PDC and ii) USPS and PDC shall meet periodically to discuss any material changes to the Project budget.

7. <u>PDC Conditions to Closing:</u>

7.1. PDC is satisfied with any due diligence it desires to conduct with respect to the Property.

7.2. PDC has agreed with DEQ upon: (i) a Prospective Purchaser Agreement; (ii) an accompanying Remedial Action Plan; and (iii) an accompanying Easement and Equitable Servitude and, if desired by PDC, these have been judicially approved by the applicable Oregon Circuit Court through a Stipulated Order (the "DEQ Documents").

7.3. USPS has bid for the construction work for the Replacement Facility and has entered into a guaranteed maximum price contract of not greater than $122 million, or if greater, USPS has agreed to increase its budget to pay any excess costs above $122 million.

7.4. PDC has received satisfactory evidence that USPS has received final approvals to pay for USPS's portion of the Project Costs as estimated at the time of Closing.

7.5. PDC and USPS have agreed upon, and will contemporaneously sign, a Leaseback Agreement for the Property, as described in Section 9 below.

8. USPS Conditions to Closing:

8.1. USPS is satisfied with respect to its due diligence on the Replacement Site, as described in the Option Agreement.

8.2. USPS has obtained all approvals necessary to acquire the Replacement Site and convey the Property to PDC under: The National Environmental Protection Act, the National Historic Preservation Act and the IGN.

8.3. USPS has bid for the construction work for the Replacement Facility and has entered into a guaranteed maximum price contract of not greater than $122 million.

8.4. USPS has reviewed and approved of the DEQ Documents described in Section 7.2.

8.5. USPS has received final budget approval for the Project.

8.6. PDC and USPS have agreed upon, and will contemporaneously sign, a Leaseback Agreement for the Property, as described in Section 9 below

9. Lease Back Terms:

9.1. From and after Closing, PDC shall Lease the Property back to USPS.

9.2. The term of the Lease for all portions of the Property, other than the Retail portion of the Property, shall end on the date that USPS has completed and moved to the Replacement Facility.

9.3. The term for the Retail portion of the Property shall end on the date that PDC has provided USPS with temporary or permanent replacement retail premises as described in Section 13 below.

9.4. During the term of the Lease, USPS shall pay all costs related to the operation and maintenance of the Property, including but not limited to: utilities, insurance, repairs, maintenance, security, alterations, and replacements.

9.5. USPS shall pay no base rent for the Property for the first 2 ½ years. Thereafter, if USPS has not vacated the non-retail portion of the Property by such date, USPS shall pay base rent equal to the fair rental value of the Property (which is estimated to be approximately $450,000/month).

10. Closing:

10.1. Closing shall consist of the following: (i) the payment by PDC of the remainder of the Purchase Price; (ii) the closing of the acquisition of the Replacement Site by USPS; (iii) the mutual execution by PDC and USPS of the Lease; (iv) the delivery by USPS of the deed in favor of PDC for the Property.

10.2. Closing shall occur through a mutually acceptable escrow and shall occur on a mutually acceptable date not later than August 1, 2016.

11. Construction of Replacement Facility: USPS agrees to cause the Replacement Facility to be built and obtain a certificate of occupancy for the Replacement Facility as soon as is reasonably possible, subject only to force major events.

12. As Is Sale:

12.1. PDC will acquire the Existing Facility “As Is” subject to USPS’s removal of equipment to be relocated to the Replacement Facility

12.2. USPS shall provide PDC with all documents and reports in its possession related to the condition of the Property and the buildings, including without limitation environmental reports, geotech reports and building condition reports.

13. Replacement Retail Facility:

13.1. PDC agrees to provide USPS with a retail post office facility either on the Property, after redevelopment, or within a one (1) mile radius of the Property.

13.2. The Replacement Retail Facility shall include at least 10,000 gross square feet and access within one (1) block of approximately 37 parking spaces which may include on-street spaces, (the “Replacement Retail Facility”).

13.3. USPS shall not be responsible for the costs of acquiring and building the Replacement Retail Facility. All such costs (estimated at approximately $4 million) shall be borne by PDC or an assignee developer or property owner.

13.4. In the event that i) the Replacement Retail Facility will be located within the Property, after redevelopment, or ii) A Replacement Retail Facility has been acquired outside the boundaries of the Property, but will not be ready for occupation before anticipated redevelopment, PDC may provide USPS with a temporary Retail Facility, which may include modular buildings.

14. Environmental Conditions:

14.1. PDC agrees to defend, indemnify and hold USPS harmless from any claim, loss, penalty, or liability asserted by third parties or any governmental authority on account of on or off-site environmental contamination due to: (i) the pre-Closing activities of PDC on the site of the Property; (ii) PDC's activities in dealing with soils or ground water on the site of the Property, or (iii) the conduct of purchasers of the Property from PDC in dealing with soils or ground water on the Property.

14.2. The indemnity shall exclude any claims, losses, penalties or liability related to off-site contamination caused by the off-site migration of hazardous materials from the Property that occurred prior to the conveyance of the Property to PDC.

14.3. PDC will agree to include in every subsequent deed conveying any portion of the Property to a third party a waiver, release and covenant not to sue USPS on account of the presence of any hazardous substances within the site of the Property.

14.4. As security for the above indemnity, PDC shall deposit $3.0 million into an escrow account, subject to a mutually acceptable escrow agreement. The funds shall be deposited into the escrow account prior to PDC commencing any demolition of any portion of the Property including disturbing the asphalt parking and passage ways within the Property. Unless otherwise agreed, USPS need not deliver the Property back to PDC under the Lease prior to the deposit of these funds into escrow. The escrow agreement shall provide for a release of funds back to PDC, on a pro-rata basis based on acreage, when DEQ has confirmed that a site of demolition has been redeveloped in accordance with the DEQ Documents.

15. Development Assurances: PDC shall represent that it is acquiring the Property to redevelop in accordance with public goals established by the PDC Board of Commissioners, after extensive consultation with the Portland City Council and the public.

PROJECT SUMMARY

Project Name: USPS Purchase & Sale Agreement

Description: Acquisition of US Postal Service property for $88,000,000

Location: 715 NW Hoyt Street, Portland, Oregon

URA: River District

Current Phase: Acquisition

Next Milestone: Closing

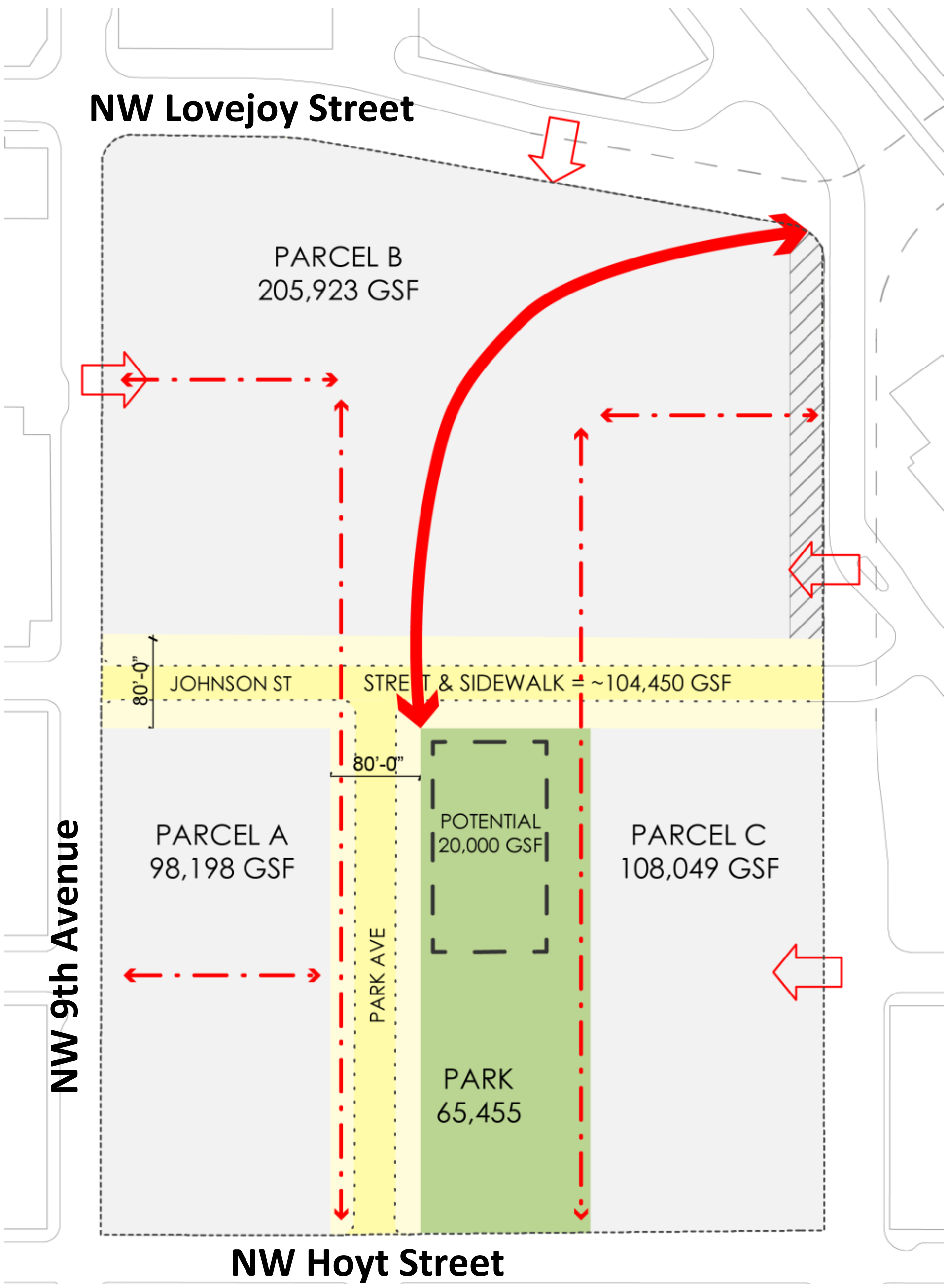
Completion Target: July 2016

Outcome: Redevelopment of underutilized industrial site to include high-density, mixed-use development, affordable housing, public parks, and extension of public street network.

Downtown Property

Colwood Property

Preferred Downtown Property Site Layout from Broadway Corridor Framework Plan



URA Financial Summary

Five-Year Forecast Program Requirements Detail

	Revised- 3 FY 2014-15	Revised FY 2015-16	Forecast FY 2016-17	Forecast FY 2017-18	Forecast FY 2018-19	Forecast FY 2019-20
River District URA						
Resources						
Beginning Fund Balance	49,258,181	52,655,293	16,489,814	5,850,288	1,782,873	265,476
Fees and Charges	16,900	8,000	1,324	2,937	2,110	2,110
Interest on Investments	200,000	200,000	150,000	50,000	25,000	5,000
Intergovernmental Revenues	1,983,620	1,983,620	0	0	0	0
Loan Collections	14,664,000	5,359,380	704,564	1,214,497	940,948	4,516,616
Long Term Debt	0	11,000,000	21,066,380	9,000,000	2,900,000	0
Miscellaneous	0	5,000	0	0	0	0
Property Income	2,769,168	2,767,040	11,945,115	2,470,115	6,116,995	2,466,015
Reimbursements	918,311	0	0	0	0	0
Short Term Debt	20,472,169	19,948,515	12,542,954	16,575,087	17,437,825	18,543,087
Total Resources	**90,282,349**	**93,926,848**	**62,900,151**	**35,162,924**	**29,205,751**	**25,798,304**
Requirements						
Program Expenditures						
Administration						
Financial Administration						
A45101330 Debt Management-RVD	71,055	77,435	65,000	65,000	65,000	65,000
Total Administration	**71,055**	**77,435**	**65,000**	**65,000**	**65,000**	**65,000**
Business Development						
Business Lending						
L00210330 BL -General-RIV	50,000	500,100	500,100	500,100	500,100	500,100
Small Business & Community Dev						
B55005330 OT/CT Action Plan-RVD	155,000	145,000	125,000	0	0	0
Traded Sector Business Dev						
B15100330 Cluster Development-RVD	50,000	50,000	50,000	50,000	50,000	0
Total Business Development	**255,000**	**695,100**	**675,100**	**550,100**	**550,100**	**500,100**
Housing						
PHB Housing						
H15137330 The Abigail-RVD	9,254,109	0	0	0	0	0
H15430330 Affordable Housing-RVD	0	8,630,070	8,369,756	3,253,533	2,428,468	0
H15900330 PHB Staff & Admin-RVD	858,960	0	0	0	0	0
H15930330 Fairfield Apartments-RVD	46,738	0	0	0	0	0
H15931330 Block 26-RVD	1,402,138	0	0	0	0	0
H15136330 Erickson-Fritz-RVD	2,804,275	0	0	0	0	0
Total Housing	**14,366,220**	**8,630,070**	**8,369,756**	**3,253,533**	**2,428,468**	**0**
Infrastructure						
Parks						
N33011915 Nbrhd Prk(The Fields)-RVD-Adm	9,170	0	0	0	0	0
Public Facilities						
N33022015 Union Station Grant-RVD-Adm	2,461,889	2,461,889	3,500,500	0	0	0
Transportation						
N33033415 Pearl District Cir-RVD-Adm	1,841,465	0	0	0	0	0
Total Infrastructure	**4,312,524**	**2,461,889**	**3,500,500**	**0**	**0**	**0**
Property Redevelopment						
Commercial Property Redevelopm						
P33050315 Broadway Corridor-RVD	65,000	310,000	125,000	0	0	0
A45997330 Superfund-RVD	25,000	0	0	0	0	0
P33050015 Post Office-RVD-Adm	250,000	28,000,000	10,000,000	10,000,000	14,000,000	0
P33060525 Station Place Lot 5-RVD-Adm	21,300	204,000	4,000	0	0	0

Five-Year Forecast Program Requirements Detail

	Revised- 3 FY 2014-15	Revised FY 2015-16	Forecast FY 2016-17	Forecast FY 2017-18	Forecast FY 2018-19	Forecast FY 2019-20
P33092015 Real Estate Mgmt-RVD-Adm	8,069	10,250	2,000	2,000	2,000	2,000
P33060815 Old Fire Station Mgmt-RVD-Adm	80,086	31,247	0	0	0	0
P33060715 One Waterfront North-RVD-Adm	16,083	7,187	7,187	0	0	0
P33050115 Dtwn Retail Strat-RVD-Adm	30,000	30,000	30,000	0	0	0
P33060545 Station Place Prkng-RVD-Adm	278,165	351,106	271,106	271,106	271,106	271,106
P33050215 4th and Burnside-RVD	1,559,662	46,400	0	0	0	0
P33060415 Centennial Mills-RVD-Adm	3,883,713	9,750,476	12,766,287	0	0	0
P33060315 Grove Hotel-RVD-Adm	43,037	0	0	0	0	0
P33060115 Block Y-RVD-Adm	48,404	45,400	45,100	45,100	45,100	45,100
P33055115 Multnomah County-PDV-Adm	0	16,948,460	0	0	0	0
P33054315 RD Enviro Reimb-RVD	1,000	4,500	0	0	0	0
P33052815 PNCA Contract-RVD	9,049	0	0	0	0	0
P33052715 PNCA-RVD-Adm	7,907	22,000	0	0	0	0
P33052215 CC 2035-RVD-Adm	175,990	32,772	0	0	0	0
P33052115 10th & Yamhill Redev-RVD-Adm	50,000	3,250,000	1,750,000	0	0	0
P33060215 Union Station-RVD-Adm	1,541,484	1,395,544	1,156,747	1,156,747	1,156,747	1,156,747
P33060615 Block R-RVD-Adm	10,550	8,750	8,750	8,750	8,750	0
Commercial Real Estate Lending						
R01100330 CPRL-General-RVD	18,220,000	10,500,000	12,002,000	11,002,000	3,002,000	2,002,000
Community Redevelopment Grants						
G04100330 GFGP-General-RVD	0	25,000	0	0	0	0
G03100330 SIP-General-RVD	308,000	300,000	300,000	300,000	300,000	300,000
G02100330 DOS-General-RVD	100,000	100,000	100,000	100,000	100,000	100,000
G01100330 CLG-General-RVD	138,000	100,000	100,000	100,000	100,000	0
Total Property Redevelopment	**26,870,499**	**71,473,092**	**38,668,177**	**22,985,703**	**18,985,703**	**3,876,953**
Total Program Expenditures	**45,875,298**	**83,337,586**	**51,278,533**	**26,854,336**	**22,029,271**	**4,442,053**
Personal Services	532,505	624,464	595,584	625,363	656,632	689,463
Transfers - Indirect	6,028,370	5,085,559	5,175,747	5,900,352	6,254,373	6,066,742
Total Fund Expenditures	**52,436,173**	**89,047,609**	**57,049,864**	**33,380,051**	**28,940,276**	**11,198,258**
Contingency	37,846,176	4,879,239	5,850,287	1,782,873	265,475	14,600,046
Ending Fund Balance	0	0	0	0	0	0
Total Requirements	**90,282,349**	**93,926,848**	**62,900,151**	**35,162,924**	**29,205,751**	**25,798,304**