



DATE: February 10, 2016
TO: Board of Commissioners
FROM: Patrick Quinton, Executive Director
SUBJECT: Report Number 16-10

Authorizing Amended Terms for the Purchase and Sale Agreement with the United States Postal Service to Acquire 13.3 Acres of Real Property Located at 715 NW Hoyt Street, Portland, Oregon in the River District Urban Renewal Area for \$88,000,000

BOARD ACTION REQUESTED

Adopt Resolution No. 7171

ACTION DESCRIPTION

This action will authorize the Portland Development Commission (PDC) Executive Director to negotiate and execute a revised 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) for consideration of \$88,000,000. The Downtown Property is located in the River District Urban Renewal Area (RDURA) and is bounded by NW Hoyt Street, NW 9th Avenue, NW Lovejoy Street, and NW Broadway (see project summary in Attachment A).

The PDC Board of Commissioners (Board) approved key terms for the PSA on January 13, 2016, including an \$88,000,000 purchase price, making a \$2,500,000 non-refundable payment on or before February 1, 2016, and closing on the Downtown Property on or before August 1, 2016. Since that approval, PDC staff has negotiated the following amended terms regarding the timing and amount of option payments, the timing of closing on the Downtown Property, and the potential use of condemnation to acquire the site to relocate the P&DC:

- First Option Payment of \$2,500,000 to be made upon satisfaction of the conditions outlined in the Term Sheet;
- Second Option Payment of \$875,000 to be made on July 16, 2016;
- If Closing has not occurred by August 1, 2016, a Third Option Payment of \$875,000 to be made on or before August 15, 2016, which will extend Closing to September 30, 2016.
- PDC shall enter into an agreement with the seller (Seller) of the Replacement Site (Colwood Property) stating that PDC will not seek to condemn the Colwood Property before the Option Agreement expires or is terminated. If the Option Agreement is terminated and PDC files a condemnation action related to the Colwood Property prior to October 1, 2016, PDC agrees, notwithstanding the actual fair market value of the Colwood Property or the requirements of Oregon Revised Statutes (ORS) 35.346(1) and (2), to pay \$34,700,000, less the amounts of any non-refundable deposits made by USPS or PDC under the Option Agreement. If PDC files a

condemnation action related to the Colwood Property after October 1, 2016 but prior to July 1, 2017, PDC agrees, notwithstanding the actual fair market value of the Colwood Property or the requirements of ORS 35.346(1) and (2), to pay \$34,700,000, less the amounts of any non-refundable deposits made by USPS or PDC under the Option Agreement plus any verifiable defined costs incurred by Seller after the date the Option Agreement expires and prior to the commencement of condemnation, with regard to the sale or development of the Colwood Property (need to define specific, documented costs paid to further develop the property). Seller will not oppose the condemnation action nor seek additional compensation for the Colwood Property. Further, Seller waives its rights under ORS 35.346 regarding a 40-day offer letter and an accompanying appraisal before the City of Portland (City) can file its condemnation action.

The Option Payments are all non-refundable and applicable to the Purchase Price. All other PSA terms previously approved by the PDC Board remain the same.

BACKGROUND AND CONTEXT

The 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 approved by the Portland City Council state that the City of Portland should seek to reach an agreement with USPS permitting PDC to redevelop and re-use portions of the Property and encourage relocation of the regional distribution facility while retaining a retail postal facility to serve the RDURA. 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 has conducted negotiations with USPS since 2007. Acquisition of the P&DC is contingent upon the feasibility of locating, financing, and constructing a Replacement Facility. In 2015, PDC and USPS evaluated several site alternatives as well as different sizes for a Replacement Facility, including a one-to-one P&DC 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 (Colwood Property, see Attachment B). 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.

On January 13, 2016, the PDC Board approved key terms for the acquisition of the Downtown Property, including:

- PDC will purchase the Downtown Property for \$88,000,000, at least \$13,000,000 of which will be contributed by the Portland Housing Bureau 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 the Replacement Facility.
- PDC will provide a \$2,500,000 Option Payment on or before February 1, 2016, and close on the Downtown Property on or before August 1, 2016.

Since that approval, PDC staff has negotiated the following amended terms regarding the timing and amount of option payments, the timing of closing on the Downtown Property, and the potential use of condemnation to acquire the site for the Replacement Facility:

- First Option Payment of \$2,500,000 to be made upon satisfaction of the conditions previously outlined in the Term Sheet;
- Second Option Payment of \$875,000 to be made on July 16, 2016;
- If Closing has not occurred by August 1, 2016, a Third Option Payment of \$875,000 to be made on or before August 15, 2016, which will extend Closing to September 30, 2016.
- PDC shall enter into an agreement with the seller of the Replacement Site stating that PDC will not seek to condemn the Colwood Property before the Option Agreement expires or is terminated. If the Option Agreement is terminated and PDC files a condemnation action related to the Colwood Property prior to October 1, 2016, PDC agrees, notwithstanding the actual fair market value of the Colwood Property or the requirements of ORS 35.346(1) and (2), to pay \$34,700,000, less the amounts of any non-refundable deposits made by USPS or PDC under the Option Agreement. If PDC files a condemnation action related to the Colwood Property after October 1, 2016 but prior to July 1, 2017, PDC agrees, notwithstanding the actual fair market value of the Colwood Property or the requirements of ORS 35.346(1) and (2), to pay \$34,700,000, less the amounts of any non-refundable deposits made by USPS or PDC under the Option Agreement plus any verifiable defined costs incurred by Seller after the date the Option Agreement expires and prior to the commencement of condemnation, with regard to the sale or development of the Colwood Property (need to define specific, documented costs paid to further develop the property). Seller will not oppose the condemnation action nor seek additional compensation for the Colwood Property. Further, Seller waives its rights under ORS 35.346 regarding a 40-day offer letter and an accompanying appraisal before the City can file its condemnation action.

All Option Payments are non-refundable and applicable to the Purchase Price.

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

- The main four-story, 420,000 SF building containing 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.

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.

Specific to this proposed action, the public benefit of the amended terms include enabling PDC to extend the Closing Date from August 1, 2016 to September 30, 2016. This provides more time and flexibility for PDC and USPS to complete the Design Build package for the Replacement Facility and to receive bids, receive budgetary approvals, and award a Design Build contract with a guaranteed maximum price for the Replacement Facility prior to Closing on the Replacement Site.

PUBLIC PARTICIPATION AND FEEDBACK

There has been no public participation related to these proposed amended terms. However, the key terms were presented to the PDC Board on January 13, 2016. 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 C), 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 revising the FY 2016-17 Requested Budget and Five-Year Forecast which will be released as the FY 2016-17 Proposed Budget in April and will include current estimates for total cost and timing.

BUDGET AND FINANCIAL INFORMATION

This proposed action does not change any of the budgetary or financial information previously described in the January 13, 2016 PDC Board Report.

RISK ASSESSMENT

The amended terms anticipate PDC will make a non-refundable Second Option Payment of \$875,000 on July 13, 2016, and if Closing has not occurred by August 1, 2016, a non-refundable Third Option Payment of \$875,000 on or before August 15, 2016. These non-refundable Option Payments increase PDC's risks because they may be made before completion of all due diligence and design work and receipt of budgetary approvals. These risks are mitigated by the timing of the Option Payments which enable PDC and USPS to complete due diligence and design work in accordance with agreed upon schedules regarding acquisition of the Downtown Property and construction of the Replacement Facility.

By July 13, 2016, USPS and PDC anticipate having completed:

- Receipt and review of contractor bids for the Replacement Facility and review and approval by the USPS Investment Review Committee;
- Publication of the Environmental Assessment and closing of the associated public comment period; and
- Prospective Purchaser Agreement with the Oregon Department of Environmental Quality for the acquisition of the Downtown Property.

By August 15, 2016, USPS and PDC anticipate having received all USPS budgetary approvals and awarded a Design Build contract with a guaranteed maximum price for the Replacement Facility.

The scheduled due diligence and design work is intended to inform PDC's decision whether to make the Option Payments and close on the Downtown Property. There is a risk the ongoing due diligence and design efforts will take longer than currently scheduled and the anticipated information will not be available at the time the Option Payments are scheduled. In addition, it is possible ongoing due diligence and design efforts may identify insurmountable challenges with the acquisition of the Downtown Property or with the design and construction of the Replacement Facility. In the event these significant delays or insurmountable challenges are encountered, PDC may elect to not make the Option Payments or close on the Downtown Property.

ALTERNATIVE ACTIONS

The PDC Board could decide to:

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

ATTACHMENTS:

- A. Project Summary
- B. Colwood Property
- C. RDURA Financial Summary

PROJECT SUMMARY

Project Name:	USPS Purchase and 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:	September 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

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

June 4, 2014

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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 Dwn 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