

# PDC

## PORTLAND DEVELOPMENT COMMISSION

**DATE:** March 26, 2008  
**TO:** Board of Commissioners  
**FROM:** Bruce A. Warner, Executive Director  
**SUBJECT:** Report Number 08-38

Approve Terms of the Letter of Intent and Escrow Agreement with the United States Postal Service (USPS) and Authorize Executive Director to enter into Negotiations for a Definitive and Binding Purchase and Sale Agreement with USPS for the property located at 715 NW Hoyt Street, Portland, Oregon

### EXECUTIVE SUMMARY

#### BOARD ACTION REQUESTED

Adopt Resolution No. 6565

#### ACTION SUMMARY

This proposed action will approve the terms of the Letter of Intent (LOI) between the United States Postal Service (USPS) and Portland Development Commission (PDC) and the terms of the Escrow Agreement between the USPS, PDC and Chicago Title Insurance Company, and will authorize the Executive Director to execute those documents on behalf of PDC. The action will also authorize the Executive Director to enter into negotiations for a binding and definitive Purchase and Sale Agreement (PSA) with USPS for the 13.4 acre main Processing and Distribution Center (P&DC) at 715 NW Hoyt Street, Portland, Oregon. The Project Summary and Site Map are attached (Attachment A).

PDC staff has been working with USPS and their broker, Jones Lang LaSalle (JLL), diligently since October 2007 on negotiating a LOI that quantifies how the purchase price would be calculated and other terms and considerations that will be considered in a PSA. PDC Board of Commissioners (Board) approval of the LOI and Escrow Agreement is required because those documents require PDC to place \$2,000,000 in escrow as earnest money and this amount exceeds the Executive Director's authority.

#### PUBLIC BENEFIT

Authorizing the LOI and Escrow Agreement with USPS will increase the likelihood that PDC will be able to acquire the largest parcel available for redevelopment in Portland's Central Business District (CBD). This will benefit the public in the following ways:

- Provides the opportunity to establish a City vision for this signature 13.4 acre site in North Downtown
- Provides an opportunity to focus on a mixed use development with substantial economic development uses that will create jobs for Portland's future

- Provides the ability to integrate the site into the fabric of the city
- Furthers the relocation of the USPS P&DC from the CBD to a site that will support co-location of mail business
- Eliminates conflicts of USPS large truck traffic in CBD
- Eliminates security challenges based on USPS current location
- Turns the contaminated Brownfield on the USPS P&DC site into higher productive uses
- Provides the opportunity to generate millions of dollars of property tax upon redevelopment
- Creates opportunities to strengthen the regional economy

**This action will support the following PDC goals:**

- Develop healthy neighborhoods
- Provide access to quality housing
- Help businesses to create and sustain quality jobs
- Support a vibrant Central City (urban core)
- Contribute to a strong regional economy

## **PUBLIC PARTICIPATION AND FEEDBACK**

USPS has requested confidentiality to date. However, PDC's acquisition of the USPS P&DC has received substantial public support historically and recently during the Urban Renewal Advisory Group and PDC/City Council Budget Work Group meetings. The PDC Directors Collaborative supported moving forward with an LOI after a detailed briefing in January 2008, they reconvened on March 18 to review the executed LOI and the draft Escrow Agreement and continue to support this effort. The PDC Investment Committee convened on March 18, 2008, and approved this initiative to proceed.

## **COMPLIANCE WITH ADOPTED PLANS AND POLICIES**

The LOI will lead to negotiating a definitive and binding PSA with USPS which complies with the following adopted plans and policies:

- Implementing job creation goal of the 1988 **Central City Plan** and the 1998 **River District Urban Renewal Plan** specifically, the following objectives:
  - Promote the development of commercial uses that create jobs
  - Strengthen downtown as the heart of the region
- Implement the 2001 **Pearl District Development Plan** specifically Objective 6: *Reduce the dominance of the Post Office and integrate it into the fabric of the community.* The city should reestablish a partnership with the U.S. Postal Service to redevelop and re-use portions of the site, especially the parking areas along NW Ninth Avenue. Over the long term, encourage the relocation of the regional distribution facility, while retaining a postal facility to serve the River District.

## FINANCIAL IMPACT

PDC has budgeted approximately \$2.75 million in the Revised River District Fiscal Year 2007-2008 Budget and forecast years (Attachment B). Approximately \$30,750,000 million for this project is currently included as part of the Requested River District Fiscal Year 2008-2009 Budget and forecast years as reviewed by the PDC/City Council Budget Work Group and Urban Renewal Advisory Group. The parcel is not development ready. It is likely we will partner in the future with one or more private developers, but additional investment in infrastructure will likely be necessary.

## RISK ASSESSMENT

Currently, the USPS P&DC would not vacate the site for approximately five years and it is possible that USPS will choose not to complete this transaction. There is potentially substantial financial risk based on how the LOI and Escrow Agreement are structured. PDC will be placing \$2 million in escrow and all those dollars could potentially be at risk. The site is 13.4 acres and represents a risk of approximately \$149,000 per acre. This cost is typical of a market rate transaction. Based on specific events, money will be transferred to USPS from escrow and if PDC is ultimately not able to reach agreement with USPS on the purchase of the property, the money transferred to USPS is non-refundable to PDC. If agreement is reached, the escrow funds will be credited to the purchase price at closing of the transaction.

The transfers to USPS from escrow are as follows:

- \$500,000      Upon Board approval and subsequent execution of the Escrow Agreement
- \$500,000      Upon receipt of the appraisals and joint agreement to Purchase Price
- \$1,000,000      Upon execution by Seller and Purchaser of a definitive Agreement for the purchase and sale of the USPS Property

The USPS has insisted on the nonrefundability of the funds transferred to it from escrow because the relocation of the USPS P&DC site is a costly endeavor not currently on USPS's priority list for facility redevelopment/upgrading. Entering into the LOI and Escrow Agreement will secure exclusive negotiations between PDC and USPS through December 31, 2008, subject to earlier termination if the parties fail to reach agreement on a purchase price within 60 days after receipt of appraisals. It will also assure USPS that PDC is sincerely committed to the acquisition and redevelopment of this site. Furthermore, the escrow funds, once transferred, will enable USPS to engage in appropriate due diligence and other expenses associated with upgrading and relocating the P&DC facilities.

After each transfer of funds to USPS, there is a chance that the negotiations may end without an agreement on the purchase and sale of the USPS Property or without the closing of the purchase and sale, in which case all moneys transferred to USPS from the escrow agreement will be non-refundable to PDC. Not until such time as PDC closes on the PSA,

when the earnest money is a credit against the purchase price, will the risk of the non-refundable disbursements be eliminated.

Local public and elected officials have shown significant interest and support for acquiring the USPS P&DC. Nevertheless, there is risk associated with Board action to proceed with negotiations with the USPS on the terms and conditions of the LOI and Escrow Agreement.

### **WORK LOAD IMPACT**

Implementing the terms of the LOI sets the stage for subsequent work to negotiate and perform required due diligence. This will require substantial staff time. The Development Department's FY 2008-09 budget request for an additional FTE to work in the River District was not approved. To date, we have brought on a temporary worker and have borrowed parts of FTE time from other URA teams. Because Post Office is a high priority project, we will continue this approach.

### **ALTERNATIVE ACTIONS**

The Board can elect not to approve the terms of the LOI and Escrow Agreement and not authorize the Executive Director to enter into negotiations with USPS for a definitive and binding PSA with USPS. Then the USPS may elect not to dispose of the property at this time or might issue a Request for Proposals directly to the private development community.

### **CONCURRENCE**

This action has the support of the PDC Directors Collaborative and the PDC Investment Committee. The PDC internal, cross-departmental Post Office team has convened and team members are supportive of this action. As this project moves forward into the planning phase team members will be thoroughly involved. Collaboration between the team and other city agencies, specifically, the Bureau of Planning, is a priority as this project develops.

## **BACKGROUND**

Relocation and acquisition of the USPS P&DC at 715 NW Hoyt Street has long been envisioned by the general public, elected officials, and adopted land use and development plans. In May 1995, former Mayor Vera Katz wrote a letter to the USPS requesting that it engage in negotiations to relocate the P&DC to another location freeing up the site for redevelopment, and work cooperatively with the City to realize the vision of the River District.

There have been various other efforts to encourage the USPS to move forward on relocation: from the efforts of supporters of Major League Baseball to site a baseball stadium at the USPS P&DC site, to coordinated efforts of PDC and the Port of Portland (Port) to relocate the USPS P&DC to their Portland International Center (PIC) at the Portland airport. The USPS was not interested in negotiations and relocation of the P&DC facility at these times.

The most current effort to engage USPS in considering to move forward in incremental steps was initiated by PDC in concert with the Port of Portland. The Port worked with their government relations officers and the offices of Congressman Blumenauer to send a letter signed by members of the Oregon congressional delegation early in 2006 to Postmaster General Potter. After this letter was dismissed by USPS, PDC and the Port, working through the offices of Congressman Blumenauer and Senator Smith, were able to schedule a meeting in December 2006 in Washington DC with Tom Samra, Vice President, Facilities and Stephen Roth, Manager, Realty Asset Management of the USPS.

This meeting resulted in an agreement on specific activities that PDC and the Port would complete in furtherance of the USPS's interest in the site. PDC commissioned an appraisal of the site. It was conducted by Integra Realty Resources in February 2007 and identified a value of \$45,500,000, assuming a clean site. The Port forwarded a new term sheet to the USPS for a potential P&DC relocation to the PIC site. In July 2007, after the completion of these activities, PDC Executive Director Warner accompanied by PDC staff met with USPS Postmaster General Potter while he was in town speaking at a conference, expressing the city's keen interest in moving forward in acquiring the site.

In August 2007, Mr. Samra and Mr. Roth met and toured the City of Portland and the P&DC facility. The Executive Directors of both PDC and the Port, staff from both PDC and the Port, and Congressman Blumenauer attended this meeting. After this meeting, PDC worked extensively to convince the USPS to agree to pursue a Letter of Intent with PDC.

The general terms of the LOI are that the PDC would place \$2 million into an escrow account with certain amounts released from the escrow account to USPS upon the occurrence of the following events:

- \$500,000            Upon Board approval and subsequent execution of the Escrow Agreement
- \$500,000            Upon receipt of the appraisals and joint agreement to Purchase Price
- \$1,000,000        Upon execution by Seller and Purchaser of a definitive Agreement for the purchase and sale of the USPS Property

The purchase price is to be determined by two appraisals based on current zoning and existing conditions, one commissioned by USPS and one by PDC. Based on the results of those appraisals (to be obtained within 120 days of signing the LOI) the purchase price will be 150% of the current appraised value. The premium above appraised value takes into consideration the long-term nature of the acquisition and the potentially increased value of the site should zoning be updated to reflect a mixed-use, high density designation consistent with that of the Central Business District consistent with the site's highest and best use.

While there is the potential financial risk of \$2 million in escrow, this is a significant, long term development opportunity for the City and may be the only opportunity for acquisition of this site for quite some time. As decade's long attempts to engage USPS in negotiations have been unsuccessful, this unique opportunity could redefine not only the CBD, but the City of Portland.

**ATTACHMENTS:**

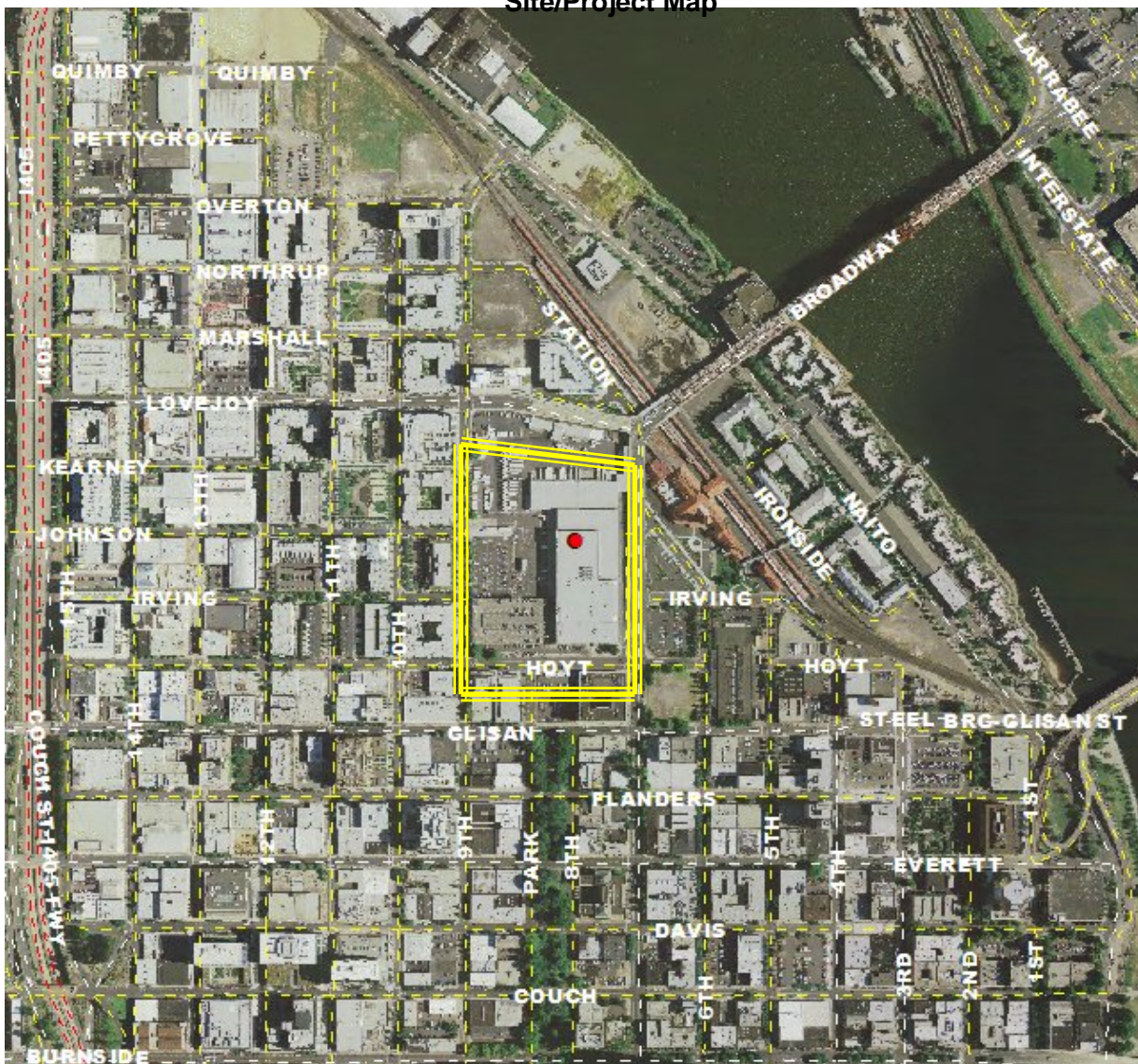
- A. Project Summary with Site Map
- B. River District URA Financial Summary (Revised FY 2007-08 and Draft FY 2008-09)

**CC:** C. Twete, Development Department Director  
S. Shain, Development Manager  
J. Cody, Chief Financial Officer  
M. Baines, General Counsel  
J. Jackley, Executive Operations Manager

### PROJECT SUMMARY

<b>Project Name:</b>	Post Office Acquisition
<b>Description:</b>	Implement Letter of Intent and Escrow Agreement with USPS and negotiate a definitive and binding Purchase and Sale Agreement
<b>Location:</b>	715 NW Hoyt Street
<b>URA:</b>	River District
<b>Current Phase:</b>	Letter of Intent and Escrow Agreement
<b>Next Milestone:</b>	Sign Escrow Agreement, negotiate appraisal instructions and order appraisals
<b>Completion Target:</b>	Appraisal received 120 days after signing LOI
<b>Outcome:</b>	Definitive and Binding Purchase and Sale Agreement with USPS by 12/31/08

Site/Project Map









**330 - River District Seven Year Forecast**

Requirements	Seven-Year Budget and Forecast Total							Total	
	Current Year FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13	FY 2013-14		FY 2014-15
<b>Dev and Ec Dev</b>									
13115 - RD Station Place Redev	50,000	0	0	0	0	0	0	0	0
13117 - Development Loan Program	500,000	0	0	0	0	0	0	0	0
13135 - River District Seismic Loan Program	350,000	0	0	0	0	0	0	0	0
13136 - RD DOS	100,000	0	0	0	0	0	0	0	0
13143 - RD Environmental	125,000	0	0	0	0	0	0	0	0
60005 - RD Transit Mall Redev	500,000	0	0	0	0	0	0	0	0
60006 - RD Burns/Couch Streetcar	0	0	0	0	0	0	0	0	0
60016 - RD Signage and Lighting	88,000	0	0	0	0	0	0	0	0
13088 - RD Storefront Grants	401,499	0	0	0	0	0	0	0	0
70013 - RD Business Retention	107,000	0	0	0	0	0	0	0	0
<b>Dev and Ec Dev Total</b>	<b>15,788,159</b>	<b>26,550,000</b>	<b>13,150,000</b>	<b>12,500,000</b>	<b>31,000,000</b>	<b>36,265,000</b>	<b>9,000,000</b>	<b>11,000,000</b>	<b>139,465,000</b>
<b>Housing (Set Aside)</b>									
New - Yards at Union Station PhC	0	3,700,000	0	0	0	0	0	0	3,700,000
New - Affordable Rental Hsg	1,000,000	7,000,000	3,750,000	0	0	0	0	0	10,750,000
New - Access Center/Aff Hsg	0	750,000	10,250,000	17,000,000	0	0	0	0	28,000,000
New - Blanchet House Redev	0	1,000,000	1,000,000	0	0	0	0	0	2,000,000
37927 - Lot 5 Aff Family Housing	50,000	0	0	0	0	0	0	0	0
37926 - HSP Aff Rental Housing A	0	500,000	0	0	1,000,000	0	2,000,000	3,000,000	6,500,000
37926 - HSP Aff Rental Housing B	0	0	0	0	0	0	0	0	0
New - Fairfield Preservation	0	0	0	0	500,000	0	0	0	500,000
New - New Avenues For Youth	0	1,200,000	0	0	0	0	0	0	1,200,000
60014 - Affordable Homeownership	500,000	0	6,500,000	0	0	0	0	3,000,000	9,500,000
<b>Housing Total</b>	<b>1,550,000</b>	<b>14,150,000</b>	<b>21,500,000</b>	<b>17,000,000</b>	<b>1,500,000</b>	<b>0</b>	<b>2,000,000</b>	<b>6,000,000</b>	<b>62,150,000</b>
<b>Other Direct Expenses</b>									
Central Services	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	350,000
Executive	202,209	200,000	0	0	0	0	0	0	200,000
<b>Other Direct Expenses Total</b>	<b>252,209</b>	<b>250,000</b>	<b>50,000</b>	<b>50,000</b>	<b>50,000</b>	<b>50,000</b>	<b>50,000</b>	<b>50,000</b>	<b>550,000</b>
<b>Total Direct Expenditures</b>	<b>17,590,368</b>	<b>40,950,000</b>	<b>34,700,000</b>	<b>29,550,000</b>	<b>32,550,000</b>	<b>36,315,000</b>	<b>11,050,000</b>	<b>17,050,000</b>	<b>202,165,000</b>
<b>Fund Expenditures</b>									
Total Direct Expenditures	17,590,368	40,950,000	34,700,000	29,550,000	32,550,000	36,315,000	11,050,000	17,050,000	202,165,000
Personal Services Costs	31,791	0	0	0	0	0	0	0	0
Staffing and Administrative ( Indirect Costs)	2,493,724	5,404,494	5,567,672	5,567,672	5,567,672	5,567,672	4,000,000	4,000,000	35,675,182
Contingency	1,500,000	0	2,079,512	789,000	432	0	0	0	0
<b>Total Requirements</b>	<b>21,615,883</b>	<b>46,354,494</b>	<b>42,347,184</b>	<b>35,906,672</b>	<b>38,118,104</b>	<b>41,882,672</b>	<b>15,050,000</b>	<b>21,050,000</b>	<b>237,840,182</b>
Ending Balance	2,577,159	2,302,624	4,823,254	3,890,012	6,270,723	(1,751,545)	(740,963)	(191,766)	(191,334)