

DATE: July 16, 2015
TO: Board of Commissioners
FROM: Patrick Quinton, Executive Director
SUBJECT: Report Number 15-50

Authorizing the Executive Director to Execute a Leasehold Purchase and Sale Agreement to Convey 2.82 Acres of Leased Property in the Airport Way Urban Renewal Area to Cook Security Group for \$1,035,000

BOARD ACTION REQUESTED

Adopt Resolution No. 7138

ACTION DESCRIPTION

This action by the Portland Development Commission (PDC) Board of Commissioners (Board) will authorize the PDC Executive Director to execute an Agreement for a Leasehold Purchase and Sale (Leasehold PSA) between PDC and Cook Security Group (Buyer) for the conveyance of Cascade Station Parcel L (Property), a 122,996 square foot (SF) PDC-leased parcel. The purchase price is \$1,035,000. Of particular note, the Buyer has agreed to a comprehensive Public Benefits Agreement (PBA) as a condition of purchasing the Property (summarized in more detail below).

The Buyer is purchasing the Property to construct an approximately 30,000 SF, two-story office building that will serve as its new headquarters with more than 100 jobs. The construction of the building shall be subject to PDC's Equity and Green Building Policies. In addition, the Buyer anticipates applying for a property tax exemption through the City of Portland's (City) Enterprise Zone program, which is administered by PDC. The Property is located at 9109 NE Cascades Parkway in the Airport Way Urban Renewal Area (URA) (see Property Map in Attachment A).

BACKGROUND AND CONTEXT

In 1999, PDC partnered with TriMet, the City, Port of Portland (Port), and Bechtel Corporation to extend light rail to the Portland International Airport (PDX) and to facilitate the development of a major retail, hotel, and office development on approximately 120 acres of Port-owned property at what is now known as Cascade Station. PDC provided \$14,000,000 in urban renewal funding in support of the light rail extension and provided an additional \$14,000,000 to help fund the public infrastructure at Cascade Station (streets, sidewalks, drainage improvements, lighting, etc.). As a condition of the infrastructure funding, Bechtel Corporation pledged repayment to PDC once the cash flow reached a certain defined level after the other investors were paid off.

Because of the economic slowdown from 1999 to 2002 which adversely affected retail and other commercial development, and zoning limitations which prohibited any retail user of more than 60,000 SF, the Cascade Station redevelopment project stalled and no development took place for the next six years. In 2005, the Bechtel Corporation approached PDC, the Port, and the City with a plan to

restructure the development requirements and financing. Thereafter, a comprehensive agreement was reached which included a change in zoning requirements and a restructure of \$14,000,000 in debt owed to PDC. In satisfaction of the PDC loan, the leasehold rights to 36 acres of the 120-acre site were transferred to PDC. The appraised value of those 36 acres was at least \$14,000,000. The land that PDC acquired is zoned for office and/or hotel uses only; retail was and remains a prohibited use on the PDC parcels.

Cascade Station Master Plan. The Property is a part of the Cascade Station Master Plan, comprising 120 acres located just east of PDX. PDC acquired the Property in 2006 as part of a larger 36-acre transaction described above, which was partitioned into separate parcels, including the Property. Previous PDC dispositions and subsequent developments within Cascade Station include the Federal Bureau of Investigation (FBI) Building and a proposed hotel (scheduled to close in August 2015). Due to the restrictions in place by the Cascade Station Master Plan, the only authorized development use on the remaining PDC-owned parcels is office; hotel and industrial use are no longer permitted.

Property Details. The Property, part of the larger Parcel A, has been maintained by PDC as an unimproved site. Along with the FBI Building disposition, PDC is in the process of closing on a second carve-off of Parcel A for the last permitted hotel development. The final remainder of Parcel A is the Property. It is triangular in shape and located adjacent to the Cascade Station MAX stop.

Environmental Conditions. A recent Environmental Site Assessment was conducted on the Property and no outstanding environmental issues were found.

DISPOSITION PROCESS

On December 30, 2014, PDC received an unsolicited proposal from the Buyer to purchase the Property and develop an office headquarters building. Since the Property had been listed with a broker for over a year without receiving any offers, PDC staff proceeded with direct negotiations. In order to ensure the competitiveness of the Buyer's proposed sale price, PDC ordered an appraisal of the Property. In February 2015, the Property was appraised at \$1,000,000.

Given the long period of time the Property has been unsuccessfully marketed and the multiple benefits of the proposed sale outlined herein, PDC staff recommends selling the Property to Buyer.

COMMUNITY AND PUBLIC BENEFIT

Terms of the Leasehold PSA include that the Buyer commits to an innovative PBA that ensures broad public benefits from this transaction and the construction of the Buyer's headquarters. PBA provisions include requirements to:

- Host youth (ages 16 to 24) college internship opportunities annually from programs which support equity and inclusion;
- Develop, in close consultation with PDC, a comprehensive hiring plan designed to ensure, as well as can be reasonably obtained, a broad-based job pool for new job opportunities at Buyer's headquarters, mirroring the demographics of Portland;
- Hire all new employees at no less than \$15.00 per hour;
- Partner with local workforce development providers and non-profits to actively seek out local candidates and offer employment opportunities to workers still developing their skills through programs such as on-the-job training through WorkSource Oregon; and
- Participate in or sponsor events every year in partnership with groups that represent underrepresented populations and engage with technology clubs from high schools.

In addition, the proposed transaction will have a number of other community benefits, including:

- The Property will be developed as an office building in order to further stimulate the Portland economy and provide space for a new and expanding business.
- The Project will complete the street frontage of NE Cascades Parkway, providing an active streetscape at the western entrance to the Cascade Station shopping center;
- The Project will promote both construction and permanent employment jobs in the Airport Way URA;
- The Property will provide office space in the Airport Way URA and further establishes Cascade Station as an attractive and vibrant place to do business;
- The Property will be developed as a privately-owned commercial building that will generate approximately \$30,000 per year in property tax revenues;
- Sale of the Property will provide PDC with resources to invest in future projects in the Airport Way URA;
- PDC's Equity Policies will apply to this transaction; and
- Development of the Property will further implement the Airport Way Urban Renewal Plan.

PUBLIC PARTICIPATION AND FEEDBACK

There was no public participation specific to this proposed transaction. However, the Columbia Corridor Association is supportive of PDC's efforts in the Airport Way URA, including efforts to stimulate development at Cascade Station.

BUDGET AND FINANCIAL INFORMATION

The Airport Way URA Fiscal Year (FY) 2015-16 Approved Budget and Five Year Forecast currently include funds for ongoing ownership and maintenance of the Property (see Attachment B). The Approved Budget does not anticipate conveyance of the Property in FY 2015-16; therefore, the FY 2015-16 Budget and Five Year Forecast will need to be amended in fall 2015 to acknowledge closing proceeds of approximately \$980,000 (the difference in gross/net proceeds represents brokerage fees and transactional costs).

RISK ASSESSMENT

Entering into this Leasehold PSA creates minimal risks. The primary risk for PDC is that the proposed development would not be realized in accordance with the terms of the Leasehold PSA as follows:

1. **Developer May Terminate the Transaction.** There is a risk that Buyer will terminate the transaction during the 120-day due diligence period. This is within their rights according to the Leasehold PSA. A related risk is that Buyer will terminate the transaction subsequent to the end of the due diligence period but prior to closing. This risk is mitigated by Buyer providing a \$100,000 earnest money payment; this payment is non-refundable after the end of the due diligence period.
2. **Buyer May Not Redevelop the Property Successfully.** There is a risk that Buyer will not succeed in developing the Property as an office complex, as stipulated in the Leasehold PSA. This risk is partially mitigated by a provision that requires application to design review within 120 days of the effective date, and another provision that permits PDC to repurchase the Property if the Buyer does not commence construction within one year of closing.

ALTERNATIVE ACTIONS

The PDC Board could decide to:

- Direct staff to incorporate new terms into the Term Sheet;
- Direct staff to renegotiate specific terms and conditions;
- Reject the proposal in its entirety and direct PDC staff to remarket the Property; or
- Reject the proposal in its entirety and direct PDC staff to discontinue the disposition process.

ATTACHMENTS

- A. Property Map
- B. Airport Way URA Financial Summary

Property Map



Airport Way URA Financial Summary

Five-Year Forecast Program Requirements Detail

	Revised- 3 FY 2014-15	Adopted FY 2015-16	Forecast FY 2016-17	Forecast FY 2017-18	Forecast FY 2018-19	Forecast FY 2019-20
Airport Way URA						
Resources						
Beginning Fund Balance	5,033,626	3,133,652	2,313,298	2,110,150	4,067,788	6,957,143
Fees and Charges	200	100	100	100	100	100
Interest on Investments	10,000	10,000	10,000	10,000	10,000	10,000
Loan Collections	100,603	86,580	87,012	163,539	112,062	72,337
Property Income	79,100	79,100	500,856	2,394,944	3,137,471	79,100
Total Resources	5,223,529	3,309,432	2,911,266	4,678,733	7,327,421	7,118,680
Requirements						
Program Expenditures						
Administration						
Financial Administration						
A45101385 Debt Management-APW	4,150	4,150	3,647	3,647	3,647	3,647
Total Administration	4,150	4,150	3,647	3,647	3,647	3,647
Business Development						
Business Lending						
L00210385 BL -General-AIR	225,000	225,100	25,100	225,100	25,100	225,100
Traded Sector Business Dev						
T01069385 Lean Manufacturing-APW	30,000	30,000	30,000	30,000	30,000	30,000
B15100385 Cluster Development-APW	25,000	25,000	25,000	25,000	25,000	25,000
Total Business Development	280,000	280,100	80,100	280,100	80,100	280,100
Property Redevelopment						
Commercial Property Redevelopm						
P38550445 Cascade Stn-Prcl G-APW-Adm	1,444,968	10,000	10,000	10,000	10,000	10,000
P38550455 Cascade Station-Prcl K-APW-ADM	33,076	1,700	1,700	0	0	0
P38562015 Real Estate Mgmt-APW-Adm	1,000	5,000	5,000	5,000	5,000	5,000
P38550415 Cascade Station-APW-Adm	57,446	65,281	65,281	65,281	10,281	0
Total Property Redevelopment	1,536,490	81,981	81,981	80,281	25,281	15,000
Total Program Expenditures	1,820,640	366,231	165,728	364,028	109,028	298,747
Personal Services	40,291	49,492	44,683	46,917	49,263	51,726
Transfers - Indirect	228,946	580,411	590,704	200,000	211,988	234,239
Total Fund Expenditures	2,089,877	996,134	801,115	610,945	370,279	584,712
Contingency	3,133,652	2,313,298	2,110,151	4,067,788	6,957,142	6,533,968
Ending Fund Balance	0	0	0	0	0	0
Total Requirements	5,223,529	3,309,432	2,911,266	4,678,733	7,327,421	7,118,680