

PDC

PORTLAND DEVELOPMENT COMMISSION

DATE: March 25, 2009

TO: Board of Commissioners

FROM: Bruce A. Warner, Executive Director

SUBJECT: Report Number 09-35

Approve the Second Amendment for the Letter of Intent and Escrow Agreement for Acquisition of the United States Postal Service Processing and Distribution Center, 715 NW Hoyt Street, Portland, Oregon

EXECUTIVE SUMMARY

BOARD ACTION REQUESTED

Adopt Resolution No. 6687

ACTION SUMMARY

This proposed action will approve the Second Amendment to 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, extending the Exclusive Negotiation Period by 365 days to March 31, 2010. It will authorize the Executive Director to execute those documents on behalf of PDC. The action will also change the date anticipated for execution of a 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 to March 31, 2010. The Project Summary and Site Map are attached (Attachment A).

PDC staff has been working diligently with USPS and their broker, Jones Lang LaSalle (JLL), since October 2007 to negotiate a LOI that quantifies how the purchase price would be calculated and other terms and considerations that will be considered in a PSA. The PDC Board of Commissioners (Board) approval of the LOI and Escrow Agreement (Resolution 6565, March 28, 2008) directed PDC to place up to \$2,000,000 in escrow as earnest money, to be disbursed to USPS at specific points in the process. Extending the timeline for the LOI and PSA to March 31, 2010, provides additional time to complete due diligence, which requires property appraisals, environmental studies and demolition reports, and to set a purchase price for the USPS property.

PUBLIC BENEFIT

Extending the timeline for 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:

- Provide the opportunity to establish a City vision for this signature 13.4 acre site in North Downtown;

- Provide an opportunity to focus on a mixed use development with substantial economic development uses that will create jobs for Portland's future;
- Provide the ability to integrate the site into the fabric of the city;
- Further the relocation of the USPS P&DC from the CBD to a site that will support co-location of mail business;
- Eliminate conflicts of USPS large truck traffic in CBD;
- Eliminate security challenges based on USPS current location;
- Turn the contaminated Brownfield on the USPS P&DC site into higher productive uses;
- Provide the opportunity to generate millions of dollars of property tax upon redevelopment; and
- Create opportunities to strengthen the regional economy.

This action will support the following PDC goals:

- Sustainability and Social Equity
- Healthy Neighborhoods
- A Vibrant Central City
- Strong Economic Growth and Competitive Region
- Effective Stewardship over our Resources and Operations, and Employee Investment

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. No outreach has been conducted specific to this action to extend the LOI.

COMPLIANCE WITH ADOPTED PLANS AND POLICIES

The amended LOI will lead to negotiating a definitive and binding PSA with USPS that will comply with the following adopted plans and policies:

- Implement the job creation goal of the 1988 **Central City Plan** and the recently amended **River District Urban Renewal Plan** specifically, to meet 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 2008-2009 Budget and Forecast Years (Attachment B). The parcel is not development ready. It is likely PDC will partner in the future with one or more private developers, and additional investment in infrastructure will likely be necessary. Extending the LOI does not change this.

RISK ASSESSMENT

As indicated in past reports, , 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 to PDC based on how the LOI and Escrow Agreement are structured. Per the initial LOI, PDC placed \$2 million in escrow and that money 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, the money will be transferred to USPS from escrow. 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. This transfer occurred in March 2008.
- \$500,000 Upon receipt of the appraisals and joint agreement to Purchase Price. This transfer has not yet occurred.
- \$1,000,000 Upon execution by Seller and Purchaser of a definitive Agreement for the purchase and sale of the USPS Property. This transfer has not yet occurred.

The USPS has insisted that the funds from escrow will be nonrefundable, as the relocation of the USPS P&DC site is a costly endeavor and is not currently on USPS's priority list for facility redevelopment/upgrading. Extending the LOI and Escrow Agreement will secure exclusive negotiations between PDC and USPS through March 31, 2010, 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. However, extending the timeline to March 31, 2010, provides additional time to complete the transaction.

WORK LOAD IMPACT

Implementing the terms of the LOI will set 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 Full Time Employee (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 Urban Renewal Area (URA) teams. Because this is a high priority project, we will continue this approach.

ALTERNATIVE ACTIONS

The Board can elect not to extend the timeline for the LOI and Escrow Agreement. Then the USPS may elect not to dispose of the property at this time or may issue a Request for Proposals directly to the private development community.

CONCURRENCE

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. Extending the timeline does not change the confidentiality agreement between USPS and PDC.

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, will be a priority as the 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 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, but the USPS was not interested in negotiations and relocation of the P&DC facility.

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. PDC staff, Port Executive Directors and staff, 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 with the terms outlined previously in this report.

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 and consistent with the site's highest and best use.

Although there is the potential financial risk for the \$2 million in escrow, this is a significant, long term development opportunity for the City, and may be the only opportunity to acquire 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.

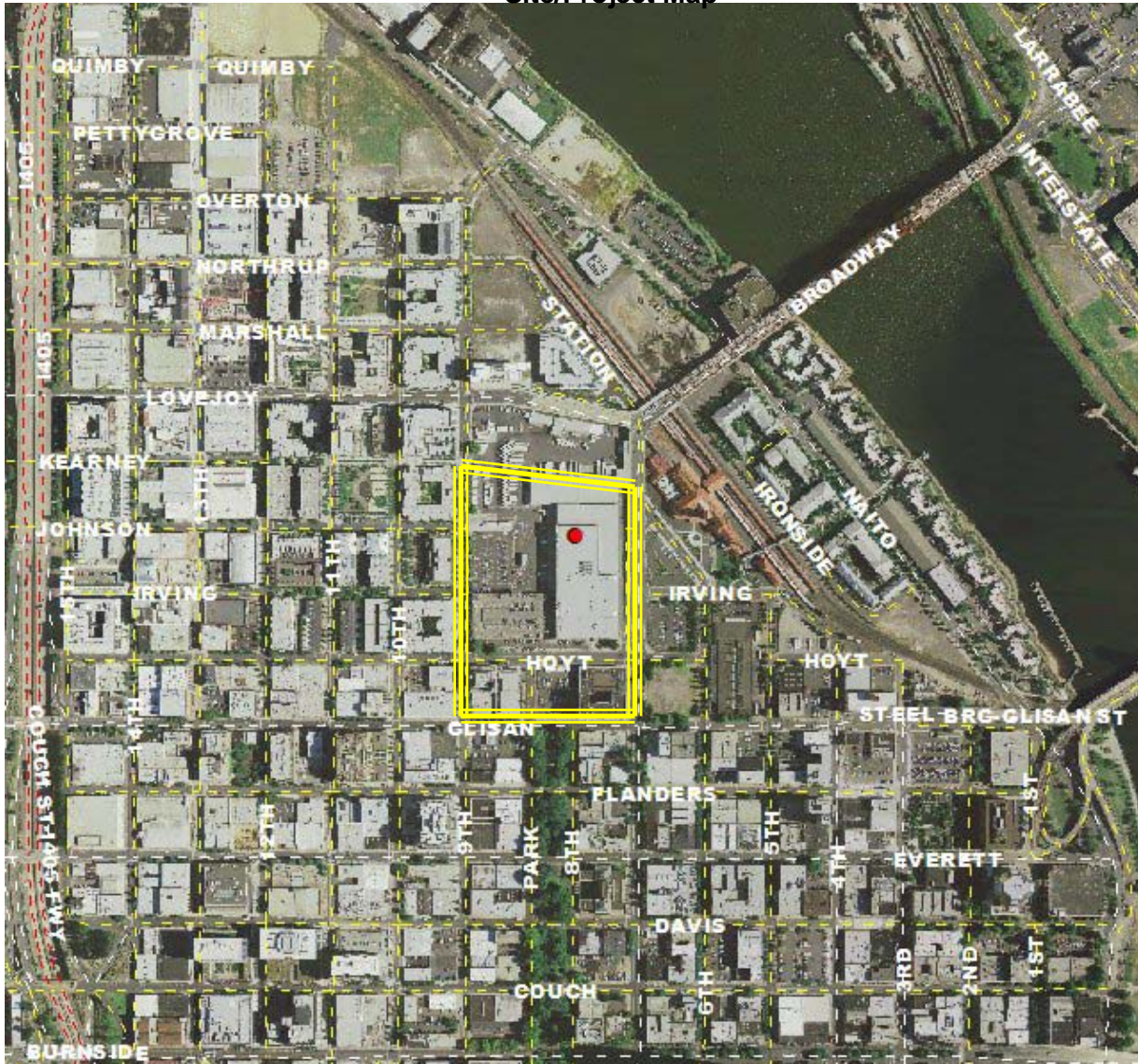
ATTACHMENTS:

- A. Project Summary with Site Map
- B. River District URA Financial Summary

PROJECT SUMMARY

Project Name: Post Office Acquisition
Description: Extend Letter of Intent and Escrow Agreement with USPS and negotiate a definitive and binding Purchase and Sale Agreement
Location: 715 NW Hoyt Street
URA: River District
Current Phase: Letter of Intent and Escrow Agreement
Outcome: Definitive and Binding Purchase and Sale Agreement with USPS by 03/31/09

Site/Project Map



URA FINANCIAL SUMMARY
ADOPTED FY 2008-2009 BUDGET WITH FIVE YEAR FORECAST

Financial Summary

Fund Summary - Five-Year Budget Projections

	<i>Revised FY 2007-08</i>	<i>Adopted FY 2008-09</i>	<i>FY 2009-10 Forecast</i>	<i>FY 2010-11 Forecast</i>	<i>FY 2011-12 Forecast</i>	<i>FY 2012-13 Forecast</i>
River District URA						
Resources						
Beginning Fund Balance	10,316,420	10,550,506	10,277,571	211,899	1,032,771	237,278
Interest - City Invest Pool	300,000	50,000	50,000	50,000	50,000	50,000
Loans - Interest Earned	285,000	335,000	335,000	335,000	335,000	335,000
Loans - Principal Collection	300,000	2,290,000	290,000	290,000	290,000	290,000
Real Property Sales	1,500,000	0	0	0	0	0
Reimbursement	200,000	1,025,000	125,000	125,000	125,000	0
Rent and Property Income	0	200,000	200,000	200,000	200,000	200,000
Tax Increment - L-T Debt	0	27,219,465	48,951,000	13,986,000	22,018,279	14,485,500
Tax Increment - S-T Debt	10,112,492	13,986,000	13,986,000	12,202,544	13,803,900	9,621,427
Total Fund Resources	23,013,912	55,655,971	74,214,571	27,400,443	37,854,950	25,219,205

Requirements

Project Expenditures (does not include Personal Services or Indirect Cost)

Development

10225 - RD Retail Loan Program	200,000	600,000	750,000	750,000	750,000	515,000
10226 - Meier&Frank Redevelopment	3,000,000	0	0	0	0	0
10227 - RD Historic Preservation	75,000	0	0	0	0	0
10234 - RD Park Ave Redev	100,000	0	0	0	0	0
11263 - RD Public Site Imprv	250,000	250,000	0	0	0	0
11264 - RD Burns/Couch Trans	500,000	1,100,000	0	0	0	0
13104 - RD Centennial Mill	800,000	585,000	4,560,000	5,775,000	0	0
13112 - RD North Pearl Planning	200,000	200,000	0	0	0	0
13113 - RD One Waterfront	500,000	4,000,000	4,000,000	0	0	0
13115 - RD Station Place Redev	50,000	0	0	0	0	0
13117 - RD Dev Loan Program	500,000	0	0	0	0	0
13119 - RD Neighborhood Park	500,000	350,000	4,900,000	0	0	0
13135 - RD Seismic Loans	350,000	0	0	0	0	0
13136 - RD DOS Program	100,000	0	0	0	0	0
13137 - RD Eastside Streetcar Connect	0	7,500,000	5,000,000	4,500,000	0	0
13138 - RD Post Office	2,750,000	1,200,000	2,550,000	2,000,000	25,500,000	0
13143 - RD Environmental	125,000	0	0	0	0	0
13144 - RD Pedestrian Bridge	150,000	0	0	0	0	0
60005 - RD Transit Mall Redev	500,000	0	0	0	0	0
60017 - RD Signage & Lighting	88,000	0	0	0	0	0
60020 - Union Station Mgt & Crit Impr	0	725,000	3,150,000	4,325,000	0	0
60021 - RD 10th & Yamhill	0	4,000,000	4,000,000	0	0	0
60024 - RD Multnomah County	0	0	0	0	0	10,000,000
60026 - RD Satellite Districts	0	0	0	0	500,000	4,500,000
Development Total	10,738,000	20,510,000	28,910,000	17,350,000	26,750,000	15,015,000

Economic Development

13088 - RD Storefront Grants	401,499	350,000	150,000	150,000	150,000	150,000
70003 - RD Business Finance Tools	2,673,000	1,100,000	1,100,000	1,100,000	1,100,000	1,100,000
70013 - RD Business Retention	107,000	0	0	0	0	0
70753 - RD Target Industry Devel	0	0	0	2,000,000	3,000,000	3,000,000
Economic Development Total	3,181,499	1,450,000	1,250,000	3,250,000	4,250,000	4,250,000

Housing

32129 - RD Rental/Preservation	128,143	9,000,000	3,750,000	0	0	0
37923 - RD Hsg Policy/Planning	10,000	0	0	0	0	0
37926 - RD HSP Affordable Rental Hsg	0	500,000	0	0	1,000,000	0
37927 - RD Station Place - Lot 5	250,000	0	0	0	0	0
37935 - Yards at Union Station	0	3,700,000	0	0	0	0

March 25, 2009

Financial Summary**Fund Summary - Five-Year Budget Projections**

	<i>Revised FY 2007-08</i>	<i>Adopted FY 2008-09</i>	<i>FY 2009-10 Forecast</i>	<i>FY 2010-11 Forecast</i>	<i>FY 2011-12 Forecast</i>	<i>FY 2012-13 Forecast</i>
River District URA						
37937 - Access Center/Aff Hsg	0	750,000	27,250,000	0	0	0
37938 - Blanchet House Redev	0	1,000,000	1,000,000	0	0	0
37939 - Fairfield Preservation	0	0	2,000,000	0	0	0
37940 - New Avenues For Youth	0	1,200,000	0	0	0	0
60014 - RD Affordable Homeownership	500,000	0	3,900,000	0	0	0
60015 - RD Community Facilities	600,000	0	0	0	0	0
60027 - Grove Apartments	0	300,000	150,000	150,000	0	0
Housing Total	1,488,143	16,450,000	38,050,000	150,000	1,000,000	0
Central Services						
59156 - RD Debt Management	50,000	50,000	50,000	50,000	50,000	50,000
Central Services Total	50,000	50,000	50,000	50,000	50,000	50,000
Executive						
60002 - RD Westside/Central City	202,209	233,000	175,000	0	0	0
Executive Total	202,209	233,000	175,000	0	0	0
Total Project Expenditures	15,659,851	38,693,000	68,435,000	20,800,000	32,050,000	19,315,000
Personal Services	31,791	0	0	0	0	0
Indirect Cost	2,499,164	6,685,400	5,567,672	5,567,672	5,567,672	5,567,672
Total Fund Expenditures	18,190,806	45,378,400	74,002,672	26,367,672	37,617,672	24,882,672
Contingency	1,200,000	10,277,571	211,899	1,032,771	237,278	336,533
Ending Fund Balance	3,623,106	0	0	0	0	0
Total Requirements	23,013,912	55,655,971	74,214,571	27,400,443	37,854,950	25,219,205