

PDC

PORTLAND DEVELOPMENT COMMISSION

DATE: March 10, 2010

TO: Board of Commissioners

FROM: Bruce A. Warner, Executive Director

SUBJECT: Report Number 10-29
Third 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. 6780

ACTION SUMMARY

This action will authorize the Executive Director to execute the following agreements, thereby extending the Exclusive Negotiation Period for the Portland Development Commission's (PDC) acquisition of the 13.4 acre United States Postal Service Processing and Distribution Center (USPS P&DC) at 715 NW Hoyt Street, Portland, Oregon, by 365 days to March 31, 2011:

- Third Amendment to the Letter of Intent (LOI) between the USPS and PDC; and
- Third Amendment to the Escrow Agreement between the USPS, PDC, and Chicago Title Insurance Company.

The execution of the above agreements changes the date anticipated for execution of a Purchase and Sale Agreement (PSA) to March 31, 2011. 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, including having negotiated an 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) approved the LOI and Escrow Agreement (Resolution No. 6565) on March 28, 2008. Although Resolution No. 6565 also provided authority for the Executive Director to approve changes to the LOI and Escrow Agreement, the Board's concurrence is being sought for this action. Board approval will also be required before the execution of the PSA.

Extending the timeline for the LOI and PSA to March 31, 2011, provides additional time to complete due diligence and negotiations, including: obtaining a No Further Action (NFA) determination from the Department of Environmental Quality (DEQ) by USPS; obtaining a Prospective Purchaser Agreement (PPA) from DEQ by PDC; negotiating an environmental remediation cost sharing agreement with Portland Terminal Railroad (PTRR) by PDC; and identifying and approving a relocation site by USPS.

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 and integrate it into the fabric of the city;
- Provide an opportunity to focus on a mixed use development with substantial economic development uses that will create jobs for Portland's future;
- Facilitate the relocation of the USPS P&DC from the CBD to a site that will support co-location of mail business, and eliminate security challenges and conflicts of USPS large truck traffic in the CBD;
- 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 Committee and PDC/City Council Budget Work Group meetings. No outreach has been conducted specific to this action to extend the LOI. Local public and elected officials have shown significant interest and support for acquiring the USPS P&DC.

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; and
 - 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 USPS 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.

- Implement the **Portland Development Commission 2010 Strategic Plan**, most specifically Goal 4: A Vibrant Central City, to meet the following objectives:
 - Jobs - The Central City is the economic and employment core of the region;
 - Investment - The Central City is a magnet for ongoing public and private investment to drive employment, enhance quality of life and generate tax revenue;
 - Regional Asset - The Central City is a global and regional destination which offers unique urban amenities, opportunities, and experiences; and
 - Great Places - The Central City is a shining example of walkable urbanism because of the number of unique areas that encourage people to work, play, and especially live in the core.

- Implement the **Portland Economic Development Strategy**, most specifically Objective 2.2 and Action 2.2.1:
 - Objective 2.2: Enhance the vitality and distinctiveness of the Central City to showcase our sustainable way of life and attract creative class talent.
 - Action 2.2.1: Invest in catalytic Westside redevelopment projects, including Post Office, Centennial Mills, PSU, Con-Way and Goose Hollow.

FINANCIAL IMPACT

The Revised River District Fiscal Year 2009-2010 Budget and Forecast Years (Attachment B) includes \$200,000 for due diligence and legal expenses related to the acquisition of the USPS P&DC. The Requested River District Fiscal Year 2010-2011 Budget and Forecast Years include an additional \$64,092,500 for the acquisition of the property, spread over FY 2010-11 through FY 2012-15. The funding in the requested budget has not yet been approved, and therefore is not included in 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, site preparation, and/or environmental remediation will likely be necessary. Extending the LOI does not change this.

As indicated in past reports, the USPS P&DC would not vacate the site for approximately five years following acquisition by PDC. Additionally, public outreach and the creation of a vision for redevelopment have not commenced. Therefore, it is difficult to project the most likely redevelopment scenario and quantify the potential need for additional investment by PDC. However, staff is working with a consultant team, including Lloyd Lindley ASLA and URS, Inc, to identify a spectrum of potential infrastructure needs and associated costs.

RISK ASSESSMENT

It is possible that USPS and/or PDC will choose not to complete this transaction. There is potentially 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 successful negotiation of an environmental remediation cost sharing agreement between PTRR and PDC. This transfer has not yet occurred.
- \$1,000,000 Upon execution by Seller and Purchaser of a PSA. 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, 2011. Risks to successfully negotiating a PSA, and therefore PDC's forfeiture of any escrow funds provided to USPS, include the inability to complete the following: obtaining a NFA determination from the DEQ by USPS; obtaining a PPA from DEQ by PDC; negotiating an environmental remediation cost sharing agreement with PTRR by PDC; identifying and approving a relocation site by USPS. Not until such time as PDC and USPS execute the PSA, when the earnest money is a credit against the purchase price, will the risk of the non-refundable disbursements be eliminated. Extending the timeline to March 31, 2011, provides additional time to complete the transaction and does not increase the risks already assumed by PDC to date.

WORK LOAD IMPACT

Staff time necessary to negotiate and perform required due diligence is included in the work plans of staff in the Urban Development Department. The transaction also requires the assistance of staff in the Legal and Central Services Departments.

ALTERNATIVE ACTIONS

The Board can elect not to extend the timeline for the LOI and Escrow Agreement, and forfeit the \$500,000 paid to the USPS to date. With the termination of exclusive negotiations, 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, 2008, to review the executed LOI and the draft Escrow Agreement and continued to support this effort. The PDC Investment Committee also convened on March 18, 2008, and approved this initiative to proceed.

The Executive Team and Urban Leadership Team held a forum on March 1, 2010, to reach consensus to support this specific action to amend the LOI and Escrow Agreement.

Extending the timeline does not change the confidentiality agreement between USPS and PDC. However, as the project moves forward, public outreach and collaboration between the PDC internal cross-departmental team and other City agencies, specifically the Bureau of Planning and Sustainable Development, will be a priority.

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 moving forward in incremental steps was initiated by PDC in concert with the Port. 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 an LOI with PDC.

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, the purchase price will be 150% of the current appraised value, with a to-be-determined reduction for environmental remediation. 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 CBD 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 decades-long attempts to engage USPS in negotiations have been unsuccessful, this unique opportunity could redefine not only the CBD, but also the City of Portland.

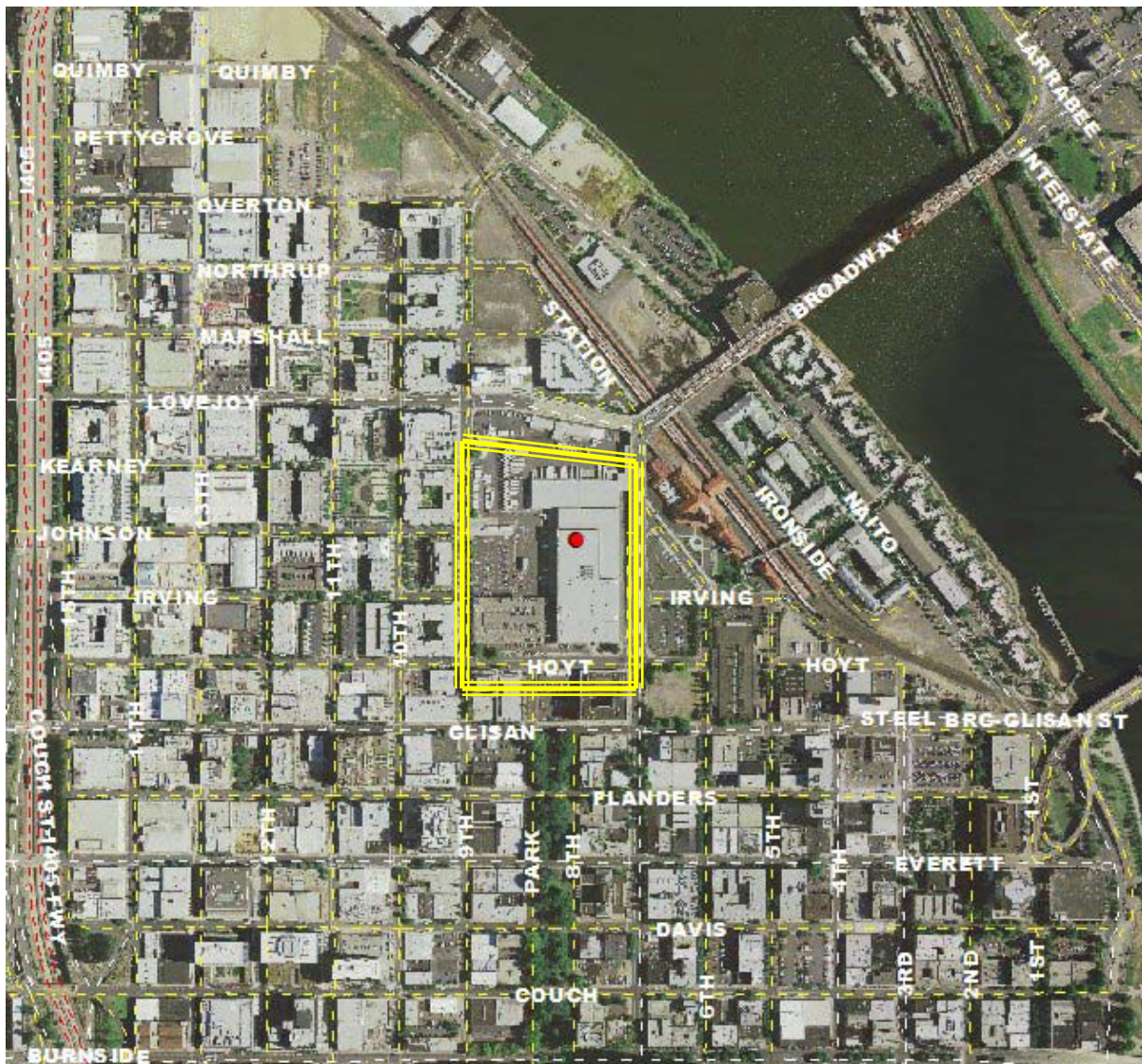
ATTACHMENTS:

- 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 March 31, 2011

Site/Project Map



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URA FINANCIAL SUMMARY
ADOPTED FY 2009-2010 BUDGET WITH FOUR YEAR FORECAST

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

	Revised FY 2008-09	Revised FY 2009-10	Forecast FY 2010-11	Forecast FY 2011-12	Forecast FY 2012-13	Forecast FY 2013-14
River District URA						
Resources						
Beginning Fund Balance	16,879,294	27,660,830	3,414,718	7,580,135	4,655,385	3,271,635
Interest on Investments	320,000	1,000,000	200,000	50,000	50,000	50,000
Loan Collections	625,000	1,300,000	300,000	300,000	300,000	300,000
Property Income	200,000	200,000	200,000	200,000	200,000	200,000
Reimbursements	1,452,500	125,000	125,000	125,000	0	0
TIF Proceeds	18,944,960	25,218,829	50,416,817	0	0	0
Total Resources	38,421,754	55,504,659	54,656,535	8,255,135	5,205,385	3,821,635
Requirements						
Program Expenditures						
Business and Industry						
General Business Assistance						
H79020 Business Finance	1,100,000	1,995,000	3,100,000	0	0	1,100,000
h79023 Materials Lab	0	100,000	0	0	0	0
h79024 Oregon Manifest	0	5,000	0	0	0	0
Business and Industry Total	1,100,000	2,100,000	3,100,000	0	0	1,100,000
Housing						
Multi-Family - Rental Housing						
h12030 Fairfield Apartments	0	82,000	0	0	0	0
H32138 Pearl Family Housing	900,000	12,000,000	7,000,000	0	0	0
H37937 Access Center - Afford Housing	850,000	16,200,000	0	0	0	0
H37938 Blanchet House Redev	465,000	265,000	0	0	0	0
H37940 New Avenues for Youth	0	1,200,000	0	0	0	0
H80036 Yards at Union Station	50,000	0	0	0	0	0
H80037 Grove Apartments	500,000	100,000	0	0	0	0
H89030 Affordable Rental Housing	0	500,000	4,000,000	0	0	0
Portland Housing Bureau						
H28025 Administration	0	62,297	751,640	0	0	0
Housing Total	2,765,000	30,409,297	11,751,640	0	0	0
Infrastructure						
Facilities						
H60020 Union Station	725,000	425,000	0	0	0	0
Parks						
H13119 Neighborhood Park	350,000	350,000	2,450,000	0	0	0
Transportation						
H11233 Public Site Improvements	0	200,000	0	0	0	0
H11234 Westside Burnside-Couch Couplet	1,100,000	764,663	0	0	0	0
H11263 RD Public Site Improvements	250,000	79,000	0	0	0	0
H13137 Streetcar Loop Project	2,100,000	9,797,730	4,500,000	0	0	0
Infrastructure Total	4,525,000	11,616,393	6,950,000	0	0	0

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

	Revised	Revised	Forecast	Forecast	Forecast	Forecast
	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13	FY 2013-14
Revitalization						
Plans and Strategies - Revitalization						
H13112 North Pearl District Plan	200,000	0	0	0	0	0
H92110 Westside/Central City Study	233,000	335,331	0	0	0	0
Redevelopment						
H10221 Transit Mall Revitalization	657,450	0	0	0	0	0
H10226 Meier & Frank Redevelopment	12,000	0	0	0	0	0
H11244 One Waterfront Place	400,000	350,000	7,350,000	600,000	0	0
H12101 Downtown Retail Strategy	5,000	27,500	0	0	0	0
H13104 Centennial Mills Redevelopment	585,000	200,000	9,335,000	800,000	0	0
H13143 RD Environmental	570,000	124,000	0	0	0	0
H22500 Post Office	1,200,000	200,000	0	0	0	0
H27001 Storefront Grants	200,000	200,000	200,000	0	0	0
H27050 DOS Grants	100,000	75,000	75,000	75,000	75,000	75,000
H28030 Redevelopment Loan Projects	0	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000
H60021 10th and Yamhill Redevelopment	100,000	0	0	0	0	0
Revitalization Operations						
H13142 RD Project Management	25,000	0	0	0	0	0
Revitalization Total	4,287,450	3,011,831	18,460,000	2,975,000	1,575,000	1,575,000
Administration						
Finance						
H98001 Debt Management	50,000	50,000	50,000	50,000	50,000	0
Administration Total	50,000	50,000	50,000	50,000	50,000	0
Total Program Expenditures	12,727,450	47,187,521	40,311,640	3,025,000	1,625,000	2,675,000
Personal Services	1,315,358	1,086,995	826,804	91,960	49,400	81,320
Internal Expenditures	4,506,911	4,115,425	5,937,956	482,790	259,350	426,930
Total Fund Expenditures	18,549,719	52,389,941	47,076,400	3,599,750	1,933,750	3,183,250
Contingency	19,872,035	3,114,718	7,580,135	4,655,385	3,271,635	638,385
Ending Fund Balance	0	0	0	0	0	0
Total Requirements	38,421,754	55,504,659	54,656,535	8,255,135	5,205,385	3,821,635