

DATE: April 8, 2015
TO: Board of Commissioners
FROM: Patrick Quinton, Executive Director
SUBJECT: Report Number 15-18

Authorizing Execution of an Agreement to Pursue Exclusive Negotiations with the United States Postal Service Related to the Possible Acquisition of the 13.4-acre Property Located at 715 NW Hoyt Street, Portland, Oregon, in the River District Urban Renewal Area

BOARD ACTION REQUESTED

Adopt Resolution No. 7105

ACTION DESCRIPTION

The Portland Development Commission (PDC) and the United States Postal Service (USPS) have recently recommenced discussions concerning the possible acquisition by PDC of USPS's Processing and Distribution Center at 715 NW Hoyt Street, Portland, Oregon (the Downtown Property) (see Attachment A). The parties realize that any such purchase would require USPS to relocate to a new facility elsewhere in the Portland Metro Area.

The parties mutually believe that more definitive information about the viability of finding and financing a replacement facility (the Replacement Facility) is necessary before the parties can contemplate moving forward with all regulatory and statutory requirements for, or enter into a formal Purchase and Sale Agreement (PSA) with respect to, the sale of the Downtown Property by the USPS to the PDC. This proposed action by the PDC Board of Commissioners (Board) will authorize the Executive Director to negotiate and execute an Agreement to Pursue Exclusive Negotiations (Agreement) whereby:

1. PDC agrees to make a payment to USPS in the amount of \$500,000 as consideration for USPS agreeing to conduct exclusive negotiations with PDC to see if in the next three months the parties can reach a mutually acceptable agreement for PDC to acquire the Downtown Property and for USPS to be provided with, and relocate to, an acceptable Replacement Facility, with such payment to be applicable to the Purchase Price of the Downtown Property, in the event a formal PSA is agreed upon and a closing occurs, provided that either PDC or USPS may terminate such negotiations at any time for any reason, without liability.
2. The \$500,000 payment shall be placed in an escrow account for the benefit of the USPS, with the funds to be used exclusively for mutually-acceptable costs associated with determining the feasibility of (i) building a Replacement Facility in the Portland Metro Area and (ii) PDC's acquisition of the Downtown Property. Currently, the parties contemplate that the escrowed funds will be used to pay for the costs of 30 percent design documents for an acceptable Replacement Facility and for other similar due diligence costs.

Although this proposed action will provide information about the feasibility of entering into a formal PSA, neither party shall be obligated to proceed further with respect to a sale of the Downtown Property or the acquisition of the Replacement Facility.

BACKGROUND AND CONTEXT

The Downtown Property has been identified as a significant redevelopment opportunity within Portland's Central City through adopted land use and development plans. The 1988 Central City Plan and 2001 Pearl District Development Plan approved by the Portland City Council (City Council) state that the City of Portland (City) should reach an agreement with the 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 River District Urban Renewal Area (URA).

2008-2013 Letter of Intent, Escrow Agreement, and Due Diligence. PDC staff has participated in negotiations with USPS since 2007, resulting in the PDC Board's approval of a Letter of Intent (LOI) and Escrow Agreement through Resolution No. 6565 on March 28, 2008. The LOI expressed an intent for PDC and USPS to conduct due diligence and negotiate a binding PSA. The Escrow Agreement provided for PDC to deposit into an escrow account \$2,000,000, with \$500,000 of these funds released to USPS upon execution of the LOI and Escrow Agreement. Market conditions and an impasse regarding contract terms slowed momentum for negotiations. On March 31, 2013, the LOI and Escrow Agreement expired without further transfer of funds or execution of a PSA. Thus, there is currently no agreement between the USPS and PDC regarding any purchase and sale of the Downtown Property. The remaining funds in the Escrow Agreement account (\$1,500,000) are to be returned to PDC.

2013-2015 Negotiations and Proposed Deal Terms. Although the LOI and Escrow Agreement expired, over the past two years PDC staff continued to work with USPS. Recently, these efforts culminated in a meeting that took place at the USPS headquarters office in Washington, D.C. PDC and USPS teams discussed several key issues and a potential path forward to proceed with further negotiations regarding a possible purchase and sale of the Downtown Property. However, the parties realized that more definitive information about a potential Replacement Facility was necessary before proceeding further. Critical to this effort is the completion of the 30 percent design documents which will provide more accurate estimates of the costs of a Replacement Facility. The approval of this action is recommended to advance the negotiations of this important project.

COMMUNITY AND PUBLIC BENEFIT

The primary public benefits of authorizing the Agreement for the \$500,000 payment is to reestablish the framework for negotiations of an agreement between PDC and USPS, for PDC to purchase the Downtown Property, to jointly determine the general size, layout, configuration, and pricing for any Replacement Facility, and to determine other parameters which might be included in any potential PSA between USPS and PDC.

The public benefits of the larger effort for PDC to acquire the Downtown Property and relocate the USPS outside the Central City include:

- Providing the opportunity to establish a City vision for this signature 13.4-acre site in the Central City and integrate it into the fabric of the city;
- Providing an opportunity to focus on a mixed-use development with substantial economic development uses that will create jobs for Portland's future;
- Facilitating the relocation of the USPS Processing and Distribution Center from the Central City to a site acceptable to the USPS;
- Enabling conversion of a low-density industrial use into higher-density and more productive use;

- Generating significant additional property taxes upon redevelopment;
- Creating opportunities to strengthen the local and regional economy;
- As part of the Broadway Corridor Framework Plan, 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, and advance the Central City 2035 Plan currently underway.

PUBLIC PARTICIPATION AND FEEDBACK

Historically, PDC's acquisition and redevelopment of the Downtown Property has received public support. PDC's fiscal year (FY) 2014-15 Revised Budget and Five Year Forecast (see Attachment B) includes \$34,750,000 to support acquisition and redevelopment of the Downtown Property. Preparation and adoption of the budget included involvement of the Central City Budget Advisory Committee, review and approval by City Council in May 2014, and adoption by the PDC Board in June 2014. The FY 2015-16 Requested Budget and Five Year Forecast includes \$34,500,000 to support acquisition and redevelopment of the Downtown Property, which reflects stakeholder input for PDC to invest in key sites like the Downtown Property that offer an opportunity to shape the future of the Central City.

In addition, the Downtown Property has been discussed with a broad stakeholder Advisory Committee and at public events as part of the City's Central City 2035 process to update the 1988 Central City Plan. The Central City 2035's West Quadrant Plan identifies the Downtown Property as a key opportunity site for a wide mix of urban uses included employment and improved connectivity and further requires a master plan to guide redevelopment of the Downtown Property prior to development. The West Quadrant Plan was the subject of numerous stakeholder advisory committee meetings, public meetings, and review and adoption by City Council on March 5, 2015.

As described by staff at the April 8, 2015, PDC Board meeting, PDC anticipates preparing a Framework Plan for the Broadway Corridor Area, which includes the Downtown Property as well as other adjacent PDC-owned sites, including Union Station. The Framework Plan process, described in the briefing provided to the PDC Board, will involve significant public involvement and feedback opportunities including a stakeholder committee and public events. With regards to the potential acquisition of the Downtown Property, PDC staff will return to the PDC Board for action on subsequent agreements and terms offering additional opportunities for public discussion on whether or how to proceed with negotiations of the acquisition and financing of the Downtown Property and Replacement Facility.

BUDGET AND FINANCIAL INFORMATION

This action does not require any further appropriation. The \$500,000 payment authorized by this action will be made from the \$1,500,000 in funds remaining from the original 2008 escrow amount under the Escrow Agreement (now expired) previously authorized by the PDC Board.

The FY 2014-15 River District Revised Budget and Five Year Forecast includes \$34,750,000 budgeted to support possible acquisition and redevelopment of the Downtown Property. Approval of this action will not come from currently budgeted funds and will not affect the FY 2014-15 River District Adopted Budget.

After payment of the above described \$500,000, the \$1,000,000 remaining in the original escrow account can, with PDC Board approval, be applied to future efforts to acquire and redevelop the Downtown Property, or for other purposes.

It is possible that USPS may desire to hire PDC to do some of the feasibility work on the Replacement Facility. The proposed Budget Amendment to be presented to the PDC Board on April 8, 2015, includes

budget adjustments to the Business Management Fund to reflect potential income and expenses to permit PDC to enter into such contract(s) if desired.

The total projected cost of acquiring the Downtown Property and providing USPS with, and relocating USPS to, the Replacement Facility, should this be agreed upon with the USPS, is currently unknown, but will likely exceed the \$34,750,000 currently budgeted for acquisition and redevelopment of the Downtown Property. Completion of the 30 percent design documents for the Replacement Facility, financed by a portion of the \$500,000 payment, will allow PDC to more accurately refine these costs. While the 30 percent design documents are being prepared, PDC will investigate and identify financial sources to fund the anticipated gap.

RISK ASSESSMENT

There is no assurance that PDC can or will succeed in its negotiations with the USPS to acquire the Downtown Property, in which case the \$500,000 payment will not be returned. In the event PDC does not reach an agreement with the USPS to acquire the Downtown Property, any unspent funds of the \$500,000 payment will be refunded to PDC. While the \$500,000 payment is at risk, this is a necessary first step to advance the negotiations over the project and reach an agreement concerning the Downtown Property between PDC and USPS.

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. River District URA Financial Summary

PROJECT SUMMARY

Project Name:	USPS Agreement to Pursue Negotiations
Description:	\$500,000 Payment to be exclusively used by USPS to prepare 30 percent design of Replacement Facility and to complete additional due diligence work and comply with regulatory requirements
Location:	Central City at 715 NW Hoyt Street, Portland, Oregon
URA:	River District
Current Phase:	Negotiation for Acquisition
Next Milestone:	Completion of 30 percent design drawings, pricing, and identification of preferred location for Replacement Facility
Completion Target:	July 2015
Outcome:	Negotiations potentially leading to one or more agreements with USPS



URA Financial Summary

Five-Year Forecast Program Requirements Detail

	Revised- 2 FY 2014-15	Requested 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	24,453,729	17,658,338	17,586,380	7,367,948	1,881,993
Fees and Charges	16,900	6,000	1,324	2,937	2,110	2,110
Interest on Investments	200,000	0	0	0	0	0
Intergovernmental Revenues	1,983,620	1,983,620	0	0	0	0
Loan Collections	14,664,000	927,653	505,486	1,015,420	741,870	432,174
Long Term Debt	0	21,000,000	39,380,465	5,000,000	1,000,000	0
Property Income	2,769,168	1,600,290	9,597,540	1,597,540	5,244,420	1,593,440
Reimbursements	918,311	0	0	0	0	0
Short Term Debt	20,472,169	18,362,631	7,070,697	14,876,231	15,654,541	16,607,383
Total Resources	90,282,349	68,333,923	74,213,850	40,078,508	30,010,889	20,517,100

Requirements

Program Expenditures

Administration

Financial Administration

A45101330 Debt Management-RVD

67,655 65,000 65,000 65,000 65,000 65,000

Total Administration

67,655 65,000 65,000 65,000 65,000 65,000

Business Development

Business Lending

L00210330 BL-General-RIV

50,000 500,000 500,000 500,000 500,000 500,000

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

255,000 695,000 675,000 550,000 550,000 500,000

Housing

PHB Housing

H15137330 The Abigail-RVD

9,254,109 0 0 0 0 0

H15430330 Affordable Rental Hsg-RVD

0 14,817,490 8,069,756 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 Hoyt Street-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 14,817,490 8,069,756 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

P33050115 Dwn Retail Strat-RVD-Adm

30,000 30,000 30,000 0 0 0

A45097330 Superfund-RVD

25,000 0 0 0 0 0

P33050215 4th and Burnside-RVD

1,559,662 0 0 0 0 0

P33060525 Station Place Lot 5-RVD-Adm

21,300 4,000 4,000 0 0 0

P33092015 Real Estate Mgmt-RVD-Adm

8,069 2,000 2,000 2,000 2,000 2,000

Five-Year Forecast Program Requirements Detail

	Revised- 2 FY 2014-15	Requested FY 2015-16	Forecast FY 2016-17	Forecast FY 2017-18	Forecast FY 2018-19	Forecast FY 2019-20
P33060815 Old Fire Station Mgmt-RVD-Adm	80,086	17,747	0	0	0	0
P33060715 One Waterfront North-RVD-Adm	16,083	7,187	7,187	0	0	0
P33050015 Post Office-RVD-Adm	250,000	500,000	10,000,000	10,000,000	14,000,000	0
P33060545 Station Place Prkng-RVD-Adm	278,165	248,820	248,820	248,820	248,820	248,820
P33060415 Centennial Mills-RVD-Adm	3,883,713	1,000,000	12,766,287	0	0	0
P33060315 Grove Hotel-RVD-Adm	43,037	0	0	0	0	0
P33052115 10th & Yamhill Redev-RVD-Adm	50,000	3,250,000	1,750,000	0	0	0
P33060615 Block R-RVD-Adm	10,550	8,750	8,750	8,750	8,750	0
P33050315 Broadway Corridor-RVD	65,000	0	0	0	0	0
P33060215 Union Station-RVD-Adm	1,541,484	1,108,689	1,108,689	1,108,689	1,108,689	1,108,689
P33052215 CC 2035-RVD-Adm	175,990	0	0	0	0	0
P33052715 PNCA-RVD-Adm	7,907	0	0	0	0	0
P33052815 PNCA Contract-RVD	9,049	0	0	0	0	0
P33054315 RD Enviro Reimb-RVD	1,000	0	0	0	0	0
P33060115 Block Y-RVD-Adm	48,404	45,100	45,100	45,100	45,100	45,100
Commercial Real Estate Lending						
R01100330 CPRL-General-RVD	18,220,000	20,450,000	12,000,000	11,000,000	3,000,000	2,000,000
Community Redevelopment Grants						
G01100330 CLG-General-RVD	138,000	100,000	100,000	100,000	100,000	0
G02100330 DOS-General-RVD	100,000	100,000	100,000	100,000	100,000	100,000
G03100330 SIP-General-RVD	308,000	300,000	300,000	300,000	300,000	300,000
Total Property Redevelopment	26,870,499	27,172,293	38,470,833	22,913,359	18,913,359	3,804,609
Total Program Expenditures	45,871,898	45,211,672	50,781,089	26,781,892	21,956,827	4,369,609
Personal Services	552,505	567,223	595,584	625,363	656,632	689,463
Transfers - Indirect	6,028,370	4,896,690	5,250,797	5,303,305	5,515,437	5,736,055
Total Fund Expenditures	52,452,773	50,675,585	56,627,470	32,710,560	28,128,896	10,795,127
Contingency	37,829,576	17,658,338	17,586,380	7,367,948	1,881,993	9,721,973
Ending Fund Balance	0	0	0	0	0	0
Total Requirements	90,282,349	68,333,923	74,213,850	40,078,508	30,010,889	20,517,100