

ANALYSIS

Oregon Liquor and Cannabis Commission Agency Warehouse and Headquarters Relocation

Analyst: Michelle Deister

Request: Acknowledge receipt of a report from the Oregon Liquor and Cannabis Commission as directed by a budget note on plans for disposition of its Milwaukie-area facilities and relocation information.

Analysis: HB 5006 (2019) contained a budget note directing the Oregon Liquor and Cannabis Commission (OLCC) to report to the Joint Committee on Ways and Means on information relating to the sale and disposition of its current headquarters and warehouse locations, as well as its new location. The full text of the budget note reads as follows:

OLCC Headquarters Transition Report:

Prior to disposition of its existing properties adjacent to McLoughlin Boulevard in Milwaukie, the Oregon Liquor Control Commission is directed to the Joint Committee on Ways and Means on plans for the sale and disposition of its distribution center, office headquarters, and Milport Road warehouse. The report shall include information on the zoning of the properties; submitted offers; real estate fees and commissions paid to contractors and real estate professionals engaged; conditions of sale; and listing price of the properties. In addition, the OLCC will provide on the new warehouse and headquarters location, purchase price, construction, and relocation schedule; its interim operations plan including new leases and estimated costs; an overview of measures OLCC will be taking to minimize disruption to licensees, contract liquor agents and other stakeholders; and summary of efforts to secure financial systems and data during the transition.

Real estate professionals have been engaged by the Department of Administrative Services, Enterprise Asset Management, with whom OLCC partnered with the intention to use a master contract for property services. Entities engaged to date include BBG, Inc. for appraisal of current headquarters and warehouse properties; and Cushman and Wakefield for purchase and market analysis of the Canby purchase site.

The existing land and facilities adjacent to McLoughlin Boulevard and the nearby Milport Warehouse have a collective estimated value of \$29.6 million. Approximately 2.66 acres of land that OLCC owns is currently leased by Clackamas County, which has a correctional facility located there. That piece of property is valued at \$560,000 (exclusive of County improvements). Rather than sell it, OLCC, the Department of Administrative Services, and Governor Brown facilitated negotiations to transfer this portion of property to Clackamas County, waiving any fair market value on the land unless or until the County sells or repurposes the property for a function other than law enforcement.

Since construction on a new facility is unlikely to begin until 2025 and OLCC will continue to occupy the existing headquarters and warehouses for the majority if not entire 2023-25 biennium, the property has not been listed for sale, and no attendant listing price, offers, commission rates, or conditions of sale is yet available.

OLCC completed the purchase of 33.77 acres in Canby in July of 2022, at a cost of \$40.5 million. The

agency currently plans \$400,000 square feet of warehouse space and approximately 35,000 square feet of adjoining office space. The Department of Administrative Services required that the contracts for land purchase and for facility design/build would have to be issued separately, and OLCC has a target date of engaging a contractor for the design and construction of the facilities of April 2023. Revenue Bonds in the amount of \$131,880,000 to fund the sale of land and construction of the facility were approved in the current (2021-23) biennium, and are to be repaid with liquor revenue over a term of 25 years. Approximately \$91.4 million remains to accommodate design and construction, and the timing of completion is dependent on how long it takes to finalize negotiations, plan and permit the facilities, and acquire materials and labor. Given possible delays, the facility may not be complete and ready to occupy until the 2025-27 biennium. Operations will need to be maintained in Milwaukie to minimize disruption to licensees and contract store owners while the logistics of moving, stocking, and testing and integrating new warehouse management software are underway. Specific management tactics and logistics aimed at minimizing disruption will be developed as timelines for project completion become clearer.

Legislative Fiscal Office Recommendation: The Legislative Fiscal Office recommends acknowledging receipt of the report.

Oregon Liquor and Cannabis Commission Brickman

Request: Acknowledge receipt of a report regarding the sale/disposition of the Oregon Liquor and Cannabis Commission's warehouses and headquarters in Milwaukie and the new warehouse/headquarters property purchase.

Recommendation: Acknowledge receipt of the report.

Discussion: Per the following budget note contained in the agency's budget report for House Bill 5006 (2021), the Oregon Liquor and Cannabis Commission (OLCC) is submitting a report.

Prior to disposition of its existing properties adjacent to McLoughlin Boulevard in Milwaukie, the Oregon Liquor Control Commission is directed to report to the Joint Committee on Ways and Means on plans for the sale and disposition of its existing distribution center, office headquarters, and Milport Road warehouse. The report shall include information on the zoning of the properties, submitted offers, real estate fees and commissions paid to contractors and real estate professionals engaged, conditions of sale, and listing price of the properties. In addition, the OLCC shall report on the new warehouse and headquarters location, purchase price, construction and relocation schedule; its interim operations plan including new leases and estimated costs; an overview of measures the agency will take to minimize disruption to licensees, contract liquor agents, and other stakeholders; and a summary of efforts to secure financial systems and data during the transition.

Soon after the 2021 Legislative Session OLCC began working with the Department of Administrative Services (DAS), Enterprise Asset Management - Real Estate Services team, as well as the appraisal company BBG Real Estate Services and the real estate firm of Cushman & Wakefield on finding a location for purchase. Presently, these real estate companies estimate a selling price for OLCC's warehouse and headquarters of approximately \$19 million. In addition, the estimated selling price for the Milport warehouse is approximately \$10 million.

OLCC, working closely with Cushman & Wakefield and DAS, finalized a property purchase in Canby, Oregon in July 2022. This will be the new location for the OLCC's new warehouse and headquarters. The total purchase price for this new location was \$40.5 million and will provide the space necessary to build out a larger warehouse to meet the agency's projected future needs. OLCC has been working with DAS-Procurement on the Construction Manager/General Contractor (CMGC) request for procurement (RFP). The RFP was posted earlier this month and the agency is targeting a signed contract in April 2023.



Oregon

Tina Kotek, Governor

Liquor & Cannabis Commission

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January 23, 2023

The Honorable Senator Elizabeth Steiner, Co-Chair
The Honorable Representative Tawna D. Sanchez, Co-Chair
Joint Committee on Ways and Means
900 Court Street NE
H-178 State Capitol
Salem OR, 97301-4048

Dear Co Chairs Steiner and Sanchez:

Nature of the Request: The Oregon Liquor and Cannabis Commission (OLCC) respectfully requests acknowledgement of the agency's report on the following budget note in HB 5006 (2021):

Prior to disposition of its existing properties adjacent to McLoughlin Boulevard in Milwaukie, the Oregon Liquor Control Commission is directed to report to the Joint Committee on Ways and Means on plans for the sale and disposition of its existing distribution center, office headquarters, and Milport Road warehouse. The report shall include information on the zoning of the properties, submitted offers, real estate fees and commissions paid to contractors and real estate professionals engaged, conditions of sale, and listing price of the properties.

In addition, the OLCC shall report on the new warehouse and headquarters location, purchase price, construction and relocation schedule; its interim operations plan including new leases and estimated costs; an overview of measures the agency will take to minimize disruption to licensees, contract liquor agents, and other stakeholders; and a summary of efforts to secure financial systems and data during the transition.

Agency Action/Need:

Since the 2021 legislative session the OLCC has undertaken a number of items in relation to the construction of a new warehouse and headquarters location. Those steps have included the engagement of the following real estate professionals: the Department of Administrative Services (DAS), Enterprise Asset Management – Real Estate Services, the appraisal company BBG, Inc., and through DAS the real estate firm Cushman & Wakefield. These real estate

professionals have helped the agency determine the potential sale price of our existing properties in Milwaukie/Portland and navigate the purchase of our new warehouse/headquarters location in Canby.

At this time, based on the discussions with these real estate professionals the estimated selling price of OLCC's warehouse/headquarters location at 9079 McLoughlin Blvd. in Portland is approximately \$19 million. In addition, the estimated selling price of our Milport warehouse, located at 1777 SE Milport Rd. in Portland, is approximately \$10 million. Based on a 2-4% commission rate, the real estate commission sales expense is currently assumed to be roughly \$1 million combined for these two properties. In total, the estimated net proceeds for the sale of these two properties would be approximately \$28 million. It is important to note these estimates are preliminary and could be subject to change due to changing market conditions and/or other selling expenses (e.g. necessary repairs, etc.).

The OLCC is also in the process of finalizing an agreement with Clackamas County to transfer a portion, 2.66 out of 14.17 acres overall, of the 9079 McLoughlin Blvd. property to the County. The land has been valued at ~\$560,000 and the County community corrections facilities have existed on this 2.66 acres for more than 40 years. The buildings on this 2.66 acre parcel are owned by Clackamas County. The agency and the County have agreed to transfer the property to the County, with the County paying all transfer related costs. If the County ever changes the use of the property from its current law enforcement use, or seeks to sell the property then they would need to pay the OLCC the fair market value of the property at that time.

The Department of Administrative Services and Cushman & Wakefield have also worked closely with the OLCC regarding the property purchase that was finalized in July 2022 for our new warehouse/headquarters location in Canby. The total purchase price for this new location was \$40.5 million and will provide the space needed to build out a larger warehouse to meet the agency's projected future needs. The OLCC has been working with DAS-Procurement on our Construction Manager/General Contractor (CMGC) request for procurement (RFP). The RFP was posted earlier this month and the agency is targeting a signed contract in April 2023. The ability to hire a CMGC vendor will be important as the OLCC continues to move towards our planned move date in the spring/summer of 2025. This move date is tentative since there are a number of items that could occur during construction that could impact this timeline.

The OLCC will be continuing to plan for maintaining efficient warehouse operations during the move, minimizing disruptions to our licensees and stakeholders, and protecting financial and other agency data.

Action Requested:

The Oregon Liquor and Cannabis Commission respectfully requests acknowledgement of the agency's report regarding this 2021 budget note.

Thank you for your consideration

Sincerely,

A handwritten signature in blue ink that reads "Steve Marks". The signature is fluid and cursive, with the first name "Steve" and last name "Marks" clearly distinguishable.

Steve Marks
Executive Director
Oregon Liquor and Cannabis Commission

CC: Michelle Deister Legislative Fiscal Office
 Tamara Brickman DAS/Chief Financial Office