



# CITY OF SALEM

585 Liberty St SE  
Salem, OR 97301

## Staff Report

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File #: 19-343

Date: 8/12/2019

Version: 1

Item #:

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**TO:** Urban Renewal Agency Board  
**THROUGH:** Steve Powers, Executive Director  
**FROM:** Kristin Rutherford, Urban Development Director

**SUBJECT:**

Riverfront-Downtown Urban Renewal Grant Program Exception for KOZ on State Street LLC

Ward(s): Ward 1

Board Member(s): Kaser

Neighborhood(s): CANDO

Result Area(s): Strong and Diverse Economy

**ISSUE:**

Shall the Agency Board approve an exception to the maximum grant amount for the Riverfront-Downtown Urban Renewal Area (RDURA) Capital Improvement Grant Program for a mixed-use housing project to be developed by KOZ on State Street LLC on the southwest corner of State Street and Commercial Street?

**RECOMMENDATION:**

Approve an exception to the maximum grant amount for the RDURA Capital Improvement Grant Program for a mixed-use housing project to be developed by KOZ on State Street LLC on the southwest corner of State Street and Commercial Street.

**SUMMARY:**

Agency Board action is needed to approve an exception to the maximum grant amount to partially fund the costs to construct a mixed-use project, including 148 of micro-housing units at 260 State Street and 129 Commercial St. SE.

**FACTS AND FINDINGS:**

The Riverfront-Downtown Urban Renewal Plan, Section 1105, Core Area Redevelopment, identifies grants as an eligible project for funding.

The proposed project will provide an affordable rental housing option that is currently unavailable in downtown Salem.

KOZ on State Street LLC members include Managing Member, KOZ Development, a Washington Limited Liability Company of which Cathy Reines is the Chief Executive Officer; Linda Nishioka member of State Street Square LLC; and Jason Tokarski, Manager of Mountain West - KOZ on State Street.

The KOZ on State Street LLC project meets the Capital Improvement Grant Program Exception Criteria for projects requesting more than the \$300,000 maximum grant allowed within the program guidelines.

If approved, the FY 2019-20 Capital Improvement Grant Program Budget of \$7M will be reduced by \$749,000

## **BACKGROUND:**

KOZ on State Street LLC submitted a letter on March 7, 2019, (Attachment 1) requesting an exception to the Capital Improvement Grant Program maximum grant amount. The proposed project is new construction of a six-story mixed use building, including 148 rental housing micro-units, 5,300+ square feet of ground floor retail, and 15 parking spaces. The project will include a common laundry area, outdoor gathering area on the second floor roof top, and 44 secured bike parking spaces on the first floor.

In August 2006, the former McMahon's Furniture store and an adjacent building with the tenant Les Newman burned to the ground, leaving an empty gravel lot in a key location in downtown. Since then, the property ownership has changed several times. The most recent purchasers, the Nishiokas, have worked with local architects and realtors to develop a project concept that would be financially feasible and contribute to the economic vibrancy of downtown. KOZ Development brings experience in new construction development and management of micro-housing units. They have worked closely with the property owner to implement a project that meets an unmet housing need in downtown Salem and removes the long-term blight of the gravel lot.

On May 8, 2017, the Agency Board approved the "Exception Criteria" (attachment 2) to determine eligibility for grant requests greater than \$300,000.

The KOZ on State Street LLC project meets the following Capital Improvement Grant Program Exception criteria:

### Mandatory Requirements

*1) Project must meet a minimum of two Capital Improvement Grant Program Objectives:*

KOZ satisfies this requirement through the following two Capital Improvement Grant Program

**Objectives:**

- New Construction
- Housing

*2) 4:1 Leverage of Private/Public Funds*

KOZ satisfied the 4:1 Leverage of Private/Public Funds based on the following analysis:

Estimated Total Project Cost:	\$18M+
City Funding Request:	\$749,999
Leverage:	\$23.00:1

*3) Project must meet one of the following "Other Criteria"*

KOZ satisfies the "Other" criteria of:

- Project site is characterized as blight due to its undeveloped status

KOZ has funding commitments from lenders and investors that total more than \$17M. With approval of this grant exception, this project will address a blighted property and provide housing options for Salem residents at a highly visible key corner location in downtown.

All grants are conditioned upon confirmation of financial feasibility, final construction costs, a qualified contractor, and meeting all of the City of Salem's building requirements.

Sheri Wahrgren  
Downtown Revitalization Manager

Attachments:

1. KOZ on State Street LLC Letter
2. Capital Improvement Program Grant Exception Criteria