



CITY OF SALEM

585 Liberty St SE
Salem, OR 97301

Staff Report

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Date: 4/25/2022

Item #: 3.3a.

TO: Urban Renewal Agency Board
THROUGH: Kristin Retherford, Interim Executive Director
FROM: Norman Wright, Community Development Director

SUBJECT:

Riverfront-Downtown Urban Renewal Area grant program

Ward(s): 1

Councilor(s): Stapleton

Neighborhood(s): CANDO

Result Area(s): Welcoming and Livable Community

SUMMARY:

Riverfront-Downtown Urban Renewal Area (RDURA) Grant to DD Salem Center Two, LLC upon completion of a to-be-built 157-unit mixed use/mixed-income building located at 420 Center Street NE, to secure a ten-year rental affordability term for five percent of the development's housing units. The grant amount will be equivalent to the annual cost of real estate property taxes not exempted through the Multiple Unit Housing Tax Exemption Program for a maximum of ten years.

ISSUE:

Shall the Agency Board approve a RDURA grant to DD Salem Center Two, LLC upon completion of a to-be-built 157-unit mixed use/mixed-income building located 420 Center Street NE, to secure a ten-year rental affordability term for five percent of the development's housing units, and authorize staff to execute a grant agreement with the developer/property owner consistent with this approval and the RDURA Plan? The grant amount will be equivalent to the annual cost of real estate property taxes not exempted through the Multiple Unit Housing Tax Exemption Program for ten years.

RECOMMENDATION:

Approve a RDURA grant to DD Salem Center Two, LLC upon completion of a to-be-built 157-unit mixed use/mixed-income building located 420 Center Street NE, to secure a ten-year rental affordability term for five percent of the development's housing units, and authorize staff to execute a grant agreement with the developer/property owner consistent with this approval and the RDURA

Plan?

FACTS AND FINDINGS:

Redevelopment grants are an eligible project under Section 1105 - Core Area Redevelopment of the Riverfront-Downtown Urban Renewal Area Plan.

On June 28, 2021, the Agency Board approved an exception to the Capital Improvement Project Grant guideline maximum grant amount to grant \$749,999 to DD Salem Center Two, LLC, to be used to partially fund construction costs. One of the exception criteria that was satisfied by the proposed project was the elimination of blight in downtown.

On November 22, 2021, City Council approved a 10-year property tax exemption to DD Salem Center Two, LLC for a to-be-built 157-unit apartment development to be located at the former Nordstrom building site (420 Center Street NE). This approval was based on the five public benefits that the project will be providing:

- Maintain the central core area as a dominant center for regional retail and office development;
- Improve pedestrian flow and protection for pedestrians between retail activities, offices, public facilities, parking, and related areas through improvements at street level as well as grade-separated pedestrian ways;
- Encourage private restoration, rehabilitation, development, both within and adjacent to project areas, through public improvements in project areas;
- Encourage the development of new housing through the use of available measures, such as the tax abatement provisions; and
- Increase the total housing supply adjoining the retail core.

BACKGROUND:

During the development of the financing for the project, the proforma for the building upon completion did not generate sufficient revenue to cover the operating costs of the building without securing a ten-year property tax exemption. The City approved their portion of the property tax exemption, but the developer was unsuccessful in getting support from other taxing districts to exempt their property tax burden. This resulted in a situation where the developer is unable to secure the permanent financing needed to move forward with the project without the infusion of a significant amount of additional equity.

The developer is continuing to work with the school board to obtain their approval for a ten-year abatement, but the issue may not be resolved in a timely manner or resolved at all. With the

volatility of demolition and construction costs and rising interest rates, staff is requesting Board approval of a redevelopment grant to be paid over ten years that will be structured as an annual rebate to the property owner from the RDURA tax increment generated from the completed project.

The amount of the annual grant would be equivalent to the difference between the City's approved MUHTIP exemption and the amount of a full abatement, estimated to be approximately \$215,000 in the first year (\$286,084 total taxes, less \$71,521 City approved MUHTIP exemption). The rebate would be paid to the developer annually following their payment of property taxes each November. If approved, a grant agreement will be developed and executed by the Interim City Manager that will include, at a minimum, that the following conditions must be satisfied in order to receive an annual property tax rebate grant:

- Confirmation of approved MUHTIP benefits
- Maintaining Affordable rents at 80% MFI on 5% of the housing units
- Confirmation that property taxes were paid
- Developer obtains BOLI Determination that property tax rebate grant does not make the project subject to prevailing wage
- Project is in compliance with any City building requirements

Sheri Wahrgren
Downtown Revitalization Manager

Attachments:
None