



Study Session

SS

Milwaukie City Council



MILWAUKIE CITY COUNCIL STUDY SESSION

City Hall Conference Room
10722 SE Main Street
www.milwaukieoregon.gov

AGENDA FEBRUARY 20, 2014

A light dinner will be served.

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|----|-----------|---|--------------|---|
| 1. | 5:00 p.m. | Joint Session with the North Clackamas School District #12 Board | Bill Monahan | |
| 2. | 6:00 p.m. | Moving Forward Milwaukie | ECONorthwest | 1 |
| 3. | 8:00 p.m. | Adjourn Study Session | | |

Information

Executive Session: The City Council may meet in executive session pursuant to ORS 192.660(2). All discussions are confidential and those present may disclose nothing from the Session. Representatives of the news media are allowed to attend Executive Sessions as provided by ORS 192.660(3) but must not disclose any information discussed. No Executive Session may be held for the purpose of taking any final action or making any final decision. Executive Sessions are closed to the public.

Public Notice

- The Council may vote in work session on non-legislative issues.
- The time listed for each discussion item is approximate. The actual time at which each item is considered may change due to the length of time devoted to the one previous to it.
- The Council requests that mobile devices be set on silent or turned off during the meeting.
- The City of Milwaukie is committed to providing equal access to information and public meetings per the Americans with Disabilities Act. For special accommodations, please call 503-786-7502 or email ocr@milwaukieoregon.gov at least 48 hours prior to the meeting.



MILWAUKIE CITY COUNCIL
STAFF REPORT

SS 2.
2/20/14

To: Mayor and City Council
Through: Bill Monahan, City Manager
Subject: **Moving Forward Milwaukie – Briefing #5**

From: Li Alligood, Associate Planner
Ryan Marquardt, Senior Planner
Dennis Egner, Planning Director
Date: February 14, 2014, for February 20, 2014, Study Session

ACTION REQUESTED

No action requested. This is a briefing for Council to learn about and discuss public investment tools that can be used to encourage private development concepts. The Moving Forward Milwaukie project team requests direction from Council about what tools should be further evaluated for the Downtown and Central Milwaukie Action and Implementation Plan.

HISTORY OF PRIOR ACTIONS AND DISCUSSIONS

Recent decisions and key points of direction are presented below. A full listing of prior actions can be found in the February 18, 2014 worksession staff report for the Moving Forward Milwaukie Project.

February 18, 2014: Council discussed the financial information related to the development concepts for the 7 opportunity sites.

May 7, 2013: Council approved an intergovernmental agreement (IGA) with Metro to accept Construction Excise Tax (CET) grant funds for the Commercial Core Enhancement Program (CCEP), and authorized the Council President to sign the agreement on behalf of the Mayor (Res. 36-2013). The IGA was executed on May 21, 2013.

January 20, 2010: Council directed staff to request grant funds from Metro's Construction Excise Tax planning grant program, based in part on the recognition of the need for targeted site-specific planning for opportunity sites (Res. 06-2010).

BACKGROUND

During the last several months, the Moving Forward Milwaukie (MFM) project has been heavily focused on the 7 opportunity sites and the development concepts being studied for each site. At the February 20th study session, the project team intends to inform and engage Council in a discussion about public investment tools to encourage development in Milwaukie.

While the discussion will include details of what mechanisms can be used to encourage development, it is important to remind project participants why Milwaukie wishes to encourage development. Development or redevelopment projects are not, by themselves, the end to which

Milwaukie aspires. Rather, these projects are a means to an end in that they provide quality spaces for Milwaukians to live, work, recreate, and build a strong community. Development projects bring vitality to an area by creating new and rehabilitated spaces that can be enjoyed by current and future residents, employees, and businesses. The focus of this project from its outset has been on bringing this vitality to Milwaukie's commercial areas. As the Moving Forward Milwaukie project turns to challenging discussions about the City's role in the development process, it is critical that we remember and reaffirm the reason why Council undertook this project.

The major phases of the MFM project are based on the project scope of work in the intergovernmental agreement authorized by Council in Resolution R36-2013 on May 7, 2013. A summary of these phases is:

1. Opportunity Sites and Development Concepts
 - Selection of key opportunity sites that can be catalytic development or redevelopment opportunities in downtown and central Milwaukie.
 - Creation of and testing of 3 different development concepts for each site. The function of the development concepts are to:
 - Model the height, placement, and design of buildings to allow the public an opportunity to see and comment on the concepts.
 - Evaluate if there are zoning or regulatory obstacles that need to be reconsidered in order to allow development or redevelopment to occur.
 - Test the financial performance of the development concepts in current market conditions to determine if the development concepts are financially feasible.
2. Downtown and Central Milwaukie Action and Implementation Plan
 - Upon completion, the plan will be acknowledged by City Council. It will identify what actions the City will take to encourage development and redevelopment in downtown and central Milwaukie. The plan will not take any action by itself, and will instead give direction about initiative, amendments, and other steps the City should pursue.
 - Examples of strategies and steps that might be recommended in the Action and Implementation plan are:
 - Updates or revisions to policies related to the City's commercial areas:
 - Removal of code barriers, and
 - Recommending the establishment of funding mechanisms that can help make development in Milwaukie's commercial areas more financially feasible.
3. Comprehensive Plan and Zoning Amendments
 - Amendments to the downtown zoning regulations with the focus on removing obstacles to development and redevelopment.
 - Amendments to the Comprehensive Plan for land use and transportation policy in Central Milwaukie, and associated zoning amendments focused on removing obstacles to development and redevelopment.
 - Amendment to zoning for the Neighborhood Main Street areas on 32nd and 42nd Avenue to allow better neighborhood scale commercial uses.

The February 20th study session is the initial step in the Action and Implementation portion of the Moving Forward Milwaukie project. The strategies discussed at this study session will provide essential guidance on which funding mechanisms can be combined with upcoming code amendments to encourage new development in Milwaukie.

Study Session Presentation Topics

The MFM project consultant will lead the presentation and discussion of this topic at the study session. Two developers that participated in the MFM Developer Roundtable have also been invited to provide insight about development projects from their perspective. The presentation and discussion is expected to follow these discussion points:

- Transforming market conditions to create vibrant places: Case studies from other areas within the Metro region will be presented to highlight the steps these areas have taken to turn from struggling markets into lively centers and districts. Related points in this topic are the role of catalyst projects, changing demographics, role of public investment, and effects of light rail.
- Investing public resources in private development: The consultant will provide a description of the desired outcomes of public agencies in backing private development projects, such as bringing desired services and amenities into an area. Benefits that accrue from this investment can include improving overall real estate market conditions and increasing the tax base. Risks and fears associated with this investment include unsuccessful project outcomes, unnecessary public subsidy to private parties, and lack of resources to devote to such projects.
- Description of available public investment tools: The consultant will address the broad types of tools available and describe specific tools and programs, including benefits and drawbacks for Milwaukie, and what role these tools have played in other areas of the Metro region. The tools that will be discussed are in Attachment 1 of this staff report.
- Discussion about public investment tools: Time will be available for questions and discussion with Council about the appropriateness of the tools and programs, the benefits and risks of the programs, and to identify additional information that may be needed.

CONCURRENCE

This is the first focused discussion of this topic in the Moving Forward Milwaukie project. The public investment options have been reviewed by the Community Development Department and Planning Department.

FISCAL IMPACTS

No additional fiscal impacts for the Moving Forward Milwaukie project. The fiscal impacts of these public investment options are described generally in Attachment 1 and will be discussed more thoroughly during the study session.

WORK LOAD IMPACTS

No additional work load impacts expected to result from this discussion. The Moving Forward Milwaukie project continues to require the equivalent of more than 1 FTE of staff time. Per the Planning Department work plan, this is expected to continue through December 2014.

ALTERNATIVES

N/A

ATTACHMENTS

1. Memorandum from Abe Farkas, ECONorthwest, "Moving Forward Milwaukee: Potential Development Incentives"

DATE: FEBRUARY 5, 2014

ECO Project #: 21485

TO: Milwaukie City Council

FROM: Abe Farkas, Director of Development Services

SUBJECT: MOVING FORWARD MILWAUKIE: POTENTIAL DEVELOPMENT INCENTIVES

ECONorthwest is assisting the City of Milwaukie with the *Moving Forward Milwaukie* project. This project includes the creation and evaluation of hypothetical development concepts. Recent analysis of these development concepts shows substantial financing gaps for most potential development concepts in Milwaukie. Subsequent tasks on this project include creating an Action and Implementation Plan, which will identify specific steps the City can take to overcome these financing gaps and achieve successful development in Downtown and Central Milwaukie.

The Action and Implementation Plan will consider numerous options for public-private partnerships to provide incentives for new development. This cover memo accompanies a matrix (Appendix A) describing the numerous tools that are available to the City of Milwaukie, and how they could be used to provide incentives for private development.

We will be looking for input from City Council on which of these tools merit further consideration for potential inclusion in the Action and Implementation Plan.

Appendix A includes a discussion of several categories of development incentives used in other communities:

- A. Tools to reduce development costs
- B. Low interest grants/loans
- C. Property tax abatements and credits
- D. Tools that spur development in specific areas

Appendix A: Potential Development Incentives

Incentive name	What it is and how it works	Fund sources/ fund impacted	Potential benefits	Potential drawbacks
A. Tools to reduce development costs				
1. Land assembly	<p>Assistance with the process of acquiring private parcels for redevelopment or combining parcels together into one developable site.</p> <p>Sometimes takes the shape of technical assistance or expedited process. Other times, the public sector acquires the parcel(s), combines them, and sells to a private party.</p>	CDBG/HUD 108; TIF; EB-5; LIHTC	<ul style="list-style-type: none"> • Can help overcome development feasibility challenges by creating more viable redevelopment sites. • Public ownership of assembled land makes land write-downs or ground leases more viable. • Increases development feasibility by reducing development costs. • Gives the public sector leverage to achieve its goals for the development via development agreement process with developer. 	<ul style="list-style-type: none"> • Public agencies sometimes buy land at the appraised value or higher because they want to achieve multiple goals – which can impact costs of future public and private acquisitions. • Requires careful underwriting and program administration to reduce public sector risk and ensure program compliance.
2. Property price buy down	Publicly owned parcels can often be disposed of at lower costs or more flexible terms to induce redevelopment.	General fund	<ul style="list-style-type: none"> • Increases development feasibility by reducing development costs. • Gives the public sector leverage to achieve its goals for the development via development agreement process with developer. 	<ul style="list-style-type: none"> • Requires careful underwriting and program administration to reduce public sector risk and ensure program compliance.

Incentive name	What it is and how it works	Fund sources/ fund impacted	Potential benefits	Potential drawbacks
A.				
A. Tools to reduce development costs (cont'd)				
3. Reduced/waived building permit/planning fees	Reduces or waives various development fees as an incentive to induce qualifying types of development or building features.	General Fund or dedicated enterprise fund, respectively	<ul style="list-style-type: none"> Increases development feasibility by reducing soft costs for developers. Fee cost structures are within City control and can be easier to manipulate than other components of the development cost structure. 	<ul style="list-style-type: none"> Reduces revenues to provide permitting and compliance services. If development fees are reduced for some developments, that revenue burden will be shifted to other developments. Perception of favoring certain developments.
4. Reduced/Waived Systems Development Charges (SDCs)	Reduces fees for infrastructure capacity upgrades as an incentive to induce qualifying types of development.	Capital project funds for City and other infrastructure providers.	<ul style="list-style-type: none"> Increases development feasibility by reducing costs for developers. 	<ul style="list-style-type: none"> Reduces or eliminates funds necessary to improve infrastructure, resulting in a greater burden on new development elsewhere. The majority of SDCs are levied by other jurisdictions or districts (CCSD #1, NCPRD), which means the City does not have control over these SDCs.

Incentive name	What it is and how it works	Fund sources/ fund impacted	Potential benefits	Potential drawbacks
5. SDC fee financing or credits	SDC financing enables developers to stretch their SDC payment over time, thereby reducing upfront costs. Alternately, allows developers to make necessary improvements to the site in lieu of paying SDCs.	SDC fund / general fund. In some cases, there may be no financial impact.	<ul style="list-style-type: none"> • Reduced up-front costs for developers can enable quicker development timeframe and availability of property to generate additional taxes. 	<ul style="list-style-type: none"> • Reduces availability of SDC funds over the short term. • Most large residential Milwaukie SDCs are controlled by Clackamas County
A. Tools to reduce development costs (cont'd)				
6. Reduced/Waived Frontage Improvements/ Public Area Requirements (PARs)	Reduces City fees for frontage improvements (PARs in downtown) as an incentive to induce qualifying types of development.	City funds; LID; use of collected fees	<ul style="list-style-type: none"> • Increases development feasibility by reducing costs for developers. • Fee cost structures are within City control and can be easier to manipulate than other components of the development cost structure. 	<ul style="list-style-type: none"> • Reduces or eliminates funds necessary to improve the streetscape adjacent to new development, resulting in a less attractive streetscape. • If enhanced streetscapes are desired, alternative public or private funding sources would need to be considered.
7. Pre-development assistance	Grants or low interest loans for pre-development (evaluation of site constraints and opportunities, development feasibility, conceptual planning, etc.) to reduce pre-development costs.	CDBG; TIF; EB-5; General fund	<ul style="list-style-type: none"> • Reduces what are often risky pre-development costs for developments that fulfill community goals. • Enables developers and communities to explore wider range of project possibilities, particularly those that can meet more community as well as private sector objectives. 	<ul style="list-style-type: none"> • Can be perceived as favoring particular developers or property owners. • CDBG is only available in eligible areas. • EB-5 can only be used for projects that meet timing and job requirements, and are in TEAs.

Incentive name	What it is and how it works	Fund sources/ fund impacted	Potential benefits	Potential drawbacks
8. Expedited / fast-tracked building permits	Expedite building permits for pre-approved development types or green buildings.	Limited costs.	<ul style="list-style-type: none"> • Can be targeted to a specific development type or areas that are incented. • Can save projects time in development process, which produces financial savings. 	<ul style="list-style-type: none"> • May not have a large enough impact on development bottom line to change financial viability of project.
B. Low interest grants/loans				
1. Metro TOD Program	Grants for development project funding to stimulate construction of higher-density and mixed-use projects near transit.	Metro	<ul style="list-style-type: none"> • Funds are fairly flexible in their use. • Direct public investment into private projects. • Does not impact City funds. 	<ul style="list-style-type: none"> • Competitive process. • Must be located within close proximity to transit. • Must generate additional transit trips as a result of more intensive use of site. • Must reduce regional Vehicular Miles Traveled (VMT). • Numerous other requirements.

Incentive name	What it is and how it works	Fund sources/ fund impacted	Potential benefits	Potential drawbacks
2. CDBG grants	Community Development Block Grants provide communities with resources to address a wide range of community development needs, including infrastructure improvements, housing and commercial rehab loans and grants as well as other benefits targeted to low- and moderate-income persons.	Federal HUD funds	<ul style="list-style-type: none"> Funds are fairly flexible in application. Program has been run since 1974, and is seen as being fairly reliable. 	<ul style="list-style-type: none"> Competitive process to secure loans/grants for individual projects. Administration and projects must meet federal guidelines such as Davis Bacon construction requirements. Amount of federal funding for CDBG has been diminishing over the past few years. CDBG program is run through Clackamas County and is not in the control of the City.
B.				
3. Industrial Development Bonds	Tax-exempt bonds issued by the state of Oregon that provides long-term financing for land, buildings and equipment for manufacturers. Can be used for construction of flex space.	Bonds are purchased by institutional investors	<ul style="list-style-type: none"> Lower interest rates and tax-exempt status assist in reducing capital expenses. Generally provide the greatest benefit to the borrower for bonds of \$5 million or more. The Oregon Express Bond program is available for loans between \$500,000 and \$5 million. Can pay for up to 100% of project's development costs. 	<ul style="list-style-type: none"> Requires State backing Must have identified end user (can't be used for speculative development)
C. Low interest grants/loans (cont'd)				

Incentive name	What it is and how it works	Fund sources/ fund impacted	Potential benefits	Potential drawbacks
4. HUD Section 108	HUD Section 108 is a mechanism that increases the capacity of block grants to assist with economic development projects, by enabling a community to borrow up to 5 times its annual CDBG allocation.	Federal HUD funds	<ul style="list-style-type: none"> Funds are fairly flexible in application. Program has been run since 1974, and is seen as being fairly reliable. Enables a larger amount of very low interest rate subordinate funding for eligible projects 	<ul style="list-style-type: none"> Competitive process to secure loans/grants for individual projects. Administration and projects must meet federal guidelines such as Davis Bacon construction requirements. Amount of federal funding for CDBG has been diminishing over the past few years. CDBG program is run through Clackamas County and is not in the control of the City.
5. EB-5 (Downtown only)	<p>Investment dollars for new commercial enterprises that will benefit the US economy primarily by creating new jobs for US citizens.</p> <p>There are two versions of the program: 1) the original program that requires foreign investor to commit \$1 million for eligible projects that create at least 10 full-time direct jobs, and 2) the newer program that allows foreign investors to commit \$500,000 in eligible projects within Targeted Employment Areas that create at least 10 direct and/or indirect jobs. In return for these investments, foreigners seek US citizenship and can live anywhere in the US.</p>	Foreign investors	<ul style="list-style-type: none"> Relatively low-cost source of equity for appropriate projects. Projects can be construction (new or rehabilitation), or direct investments into businesses that will create required jobs. EB-5 can be bundled with many other funding sources. Downtown Milwaukie is currently a certified Target Employment Area 	<ul style="list-style-type: none"> \$500,000 program investor projects must be in an EB-5 eligible “targeted employment area” (TEA). TEAs are established and adjusted by the governors of each state and Milwaukie’s will be up for reexamination with all the others. Must meet job generation requirements within 2.5 years. Investors expect to get their equity investment repaid in five or six years. It takes added time to secure EB-5 funds due to federally required process steps.

C. Property tax abatements and credits

Incentive name	What it is and how it works	Fund sources/ fund impacted	Potential benefits	Potential drawbacks
1. Vertical and Multi-family Housing Development Abatements	Temporarily reduces or eliminates property tax bills for qualifying development. These programs benefit denser, market rate development housing projects	Local taxing jurisdictions' general funds—cities, school districts, counties, etc.	<ul style="list-style-type: none"> • Targeted tool to support urban multi-family and mixed-use development in places with locational advantages • City controlled 	<ul style="list-style-type: none"> • Reduces general fund revenues for all overlapping taxing districts.
2. Low Income Housing Tax Credits (LIHTCs)	Provides tax credits for acquisition, rehabilitation, and new construction of rental housing targeted to lower-income households. At least 20% of residential units must be restricted to low income residents with income less than 50% median gross income of the area— or at least 40% of the units must be restricted to low income residents with income of 60% or less of the median gross income of the area.	Private and institutional investors/Federal government	<ul style="list-style-type: none"> • Because they provide much of the equity needed for a project, they can make mixed income or affordable housing projects viable • Can be used to fund mixed-income projects. • Can increase the supply of affordable housing in an area. <p>There are two types of LIHTCs, 4% (less money and less competitive) and 9% (more money but highly competitive).</p>	<ul style="list-style-type: none"> • States allocate federal housing tax credits through a competitive process. • Property must maintain compliance with program requirements to remain eligible. • There is known public opposition to additional affordable housing in Milwaukee. • Affordable housing projects do not provide good “comps” to prove that higher rents are achievable in the market.
C.				
3. Federal historic rehabilitation tax credits	Encourages private sector rehabilitation of income-producing historic buildings. The program allows a 20% tax credit for certified rehabilitation of certified historic structures. It also allows a 10% tax credit for rehabilitation of non-historic, non-residential buildings built before 1936. The rehabilitation must be substantial and must involve a depreciable building.	Private and institutional investors/Federal government	<ul style="list-style-type: none"> • The 10% tax credit is available for the qualified rehabilitation of non-historic buildings placed in service before 1936. • HTC's are effective equity in projects. • Can be bundled with historic property tax freeze and other tax credits to significantly reduce rehab costs of historic buildings for adaptive re-use. 	<ul style="list-style-type: none"> • Long designation and certification process. • Buildings must be rehabilitated for commercial uses (including apartments). • An owner that is allocated the tax credits must remain in title for at least 5 years after the project is placed in service. • Potential pitfalls involving the allocation of the tax credits by the investor party.

Incentive name	What it is and how it works	Fund sources/ fund impacted	Potential benefits	Potential drawbacks
D. Property tax abatements and credits (cont'd)				
4. 221d4 Housing program	Provides market rate multi-family housing developers with reduced equity requirements (20%), which can make some residential projects more feasible.	Federal HUD funds	<ul style="list-style-type: none"> • Can provide preferential financing particularly in times when market rate borrowing requires high levels of equity. 	<ul style="list-style-type: none"> • Lengthy process to secure federal approval for project as well as ongoing documentation

Incentive name	What it is and how it works	Fund sources/ fund impacted	Potential benefits	Potential drawbacks
E. Tools that spur investment in a specific area				
1. Façade improvement grants/loans	Commonly used as part of the Main Street approach to economic development, these are low or no interest loans, or matching grant funds to improve the façade of a building.	CDBG; TIF loans or grants	<ul style="list-style-type: none"> • A relatively low-cost approach to assisting property owners with improvements that creates a stronger environment for retail. 	<ul style="list-style-type: none"> • Can be perceived as favoring some businesses or business areas over others. • Previous storefront improvement program in downtown Milwaukie was undersubscribed.
2. Directed Sole Source Impact Fees	Retains SDCs paid by developers within a limited geographic area that directly benefits from new development, rather than being available for use city-wide.	SDC funds	<ul style="list-style-type: none"> • Enables SDC-eligible improvements within smaller areas, which can enhance catalytic and redevelopment value of area. 	<ul style="list-style-type: none"> • Reduces resources for SDC-funded projects in a broader geography. • Small geographic areas may not have sufficient SDC revenues to support bonds. • Largest SDC are controlled by other taxing districts.
3. Tax Increment Financing Grants, Loans, and/or Technical Assistance	<p>Tax Increment Financing (TIF) allows the City to capture the normal property tax generated by new taxable development and increases in existing development within a designated area, and reinvests those dollars within that area for a variety of improvements through loans and grants. City's often float TIF bonds to bring larger sums to a project and pay those back with annual TIF collected.</p> <p>An urban renewal area or district would need to be established to qualify the city to generate and use TIF.</p>	Local taxing jurisdictions' permanent rate property tax impacts	<ul style="list-style-type: none"> • Can be used to help pay for infrastructure improvements (including parking garages) • Can be used to provide loans/grants for adaptive re-use and new development. • Can be used to provide technical/business assistance to property or business owners. • Among the most flexible incentives. 	<ul style="list-style-type: none"> • Defers property tax accumulation by the City and County until the urban renewal district expires or pays off bonds. • Perception of negative effects on other taxing districts, such as school districts. • Timing of funds may not align with desired timeline for public investment. • Negative perceptions about this financing tool.

Incentive name	What it is and how it works	Fund sources/ fund impacted	Potential benefits	Potential drawbacks
D. Tools that spur investment in a specific area (cont'd)				
4. Project/site-specific TIF Grants, Loans, and/or Technical Assistance (aka Urban Renewal)	Same as #3	Same as #3	<ul style="list-style-type: none"> • Can be used to help pay for site/development infrastructure improvements • Can provide loans/grants for adaptive re-use and new development. • Can be used to provide technical/business assistance • Among the most flexible incentives. 	<ul style="list-style-type: none"> • Defers property tax accumulation by the City and County until the urban renewal project expires or pays off bonds. • Perception of negative effects on other taxing districts. • Timing of funds may not align with desired timeline for public investment. • Negative perceptions about this financing tool.
5. Tenant Improvement Grants/Loans	Assist property owners and new business owners with tenant improvements to the interiors of commercial spaces. Used for office and industrial assistance in addition to retail.	TIF; CDBG; HUD 108; loans or grants; tax exempt revenue bonds	<ul style="list-style-type: none"> • Reduces costs of tenant improvements. 	<ul style="list-style-type: none"> • Often tied to job goals. • In some cases prevailing wage would apply, which could increase the cost of development.