



MEMORANDUM

TO: JOHN DAY CITY COUNCIL
FROM: NICHOLAS GREEN, CITY MANAGER
SUBJECT: MAIN STREET REVITALIZATION GRANT
DATE: JUNE 13, 2017
CC: GRANT COUNTY CHAMBER OF COMMERCE

EXECUTIVE SUMMARY

The City has received an award for \$100,000 to purchase and restore the 12,000 SF mixed-use commercial building located at 131 W. Main Street. I have negotiated with the property owner to allow the city to purchase the building for the grant plus closing costs. The building would be sold as-is and the City would assume the responsibility to bring it up to an acceptable fire safety standard.

The most important question facing the Council is not whether we should invest in this property or another, but whether public investment in Main Street revitalization in general is in the best interest of the city and our residents. In either event, the building in question must be restored to an acceptable fire safety condition to bring it into compliance with state and local ordinances.

BACKGROUND

In late February 2017, I was asked by several downtown merchants to apply for a Main Street Revitalization Grant. The City of John Day is the local affiliate member of the Oregon Main Street Network and as such is the only entity eligible to apply for the grant. The program was created through state lottery funding and provides awards up to \$100,000 for purchase, construction or rehabilitation of Main Street buildings. Funds must be expended by 2020.

I held an initial meeting with the interested merchants on March 2 at the John Day Fire Hall. A second meeting was held with additional merchants on March 6, and a third meeting was held on March 13. Options for revitalization were discussed during all three meetings, including the need for additional parking (not in the scope of the grant), façade improvements, structural improvements and business renovations.

There was a common refrain from nearly every tenant that occupies a Main Street business space. Many of our buildings are in very poor condition with tenants frequently complaining of electrical issues, water drainage issues, concerns over fire safety and the high cost of capital to improve buildings they do not own. Property owners also expressed frustration about low loan-to-value ratios and their lack of access (or lack of understanding) about capital financing sources to improve their buildings.

Most acknowledged that while a few of the projects identified in the 2007 *John Day Downtown Plan* have been implemented, the majority have not.

Business owners requested that the City apply for a Main Street Revitalization Grant to take advantage of State lottery funds available through this program. The group agreed that the City should apply for a grant to purchase and restore the building owned by Jim and Mary Weaver, located at 135 W. Main Street. The roughly 12,000 SF building is mixed-use and currently has four commercial tenants on the ground floor and one residential tenant on the second floor. It has been actively listed on the commercial real estate market since November 2014 for \$299,000 (Exhibit A).

On March 14, I briefed the City Council about the funding opportunity and our proposed approach. There was a consensus to apply for the grant and to conduct due diligence on the property if the city received the award, with a decision to be made following our due diligence. The City received the award for the full amount requested on May 9. I began conducting due diligence the same week.

DUE DILIGENCE FINDINGS

I requested an inspection of the building by the State Fire Marshal on May 9. His report is enclosed (Exhibit B). A second inspection of the external structure was conducted by the City's architect (Peter Baer, Pinnacle Architecture) on May 11. A third and final inspection of the second story interior and roof was conducted by the Fire Marshal, City Architect and City staff on May 25.

The building is believed to be 122 years old and has likely existed in its current form since at least the 1930s when it was the Sprouse-Reitz Company store (Figure 1).



Figure 1. 135 W. Main Building pre-1937 as Sprouse-Reitz Co. nickel and dime store (left) and today (right)

The building is actually four separate structures that merged together over time. The original building was erected on the western end. A second structure was added to its east, followed by a third. The rear addition may have been added at the same time as the third addition. The building shares a common roof, but where a single structure would normally have interior walls, this building has exterior walls on the inside of the structure. Electrical utilities are located in an interior hallway on the second floor and the original stairwell for the second building has been moved to the east and is now located in the third building (Figure 2).



Figure 2. Interior stairwell (left); exterior walls and windows on interior of structure (middle); exposed interior electrical paneling and power meters (right)

Due to the materials used in the construction, the manner in which the structures were merged and the building's current condition, it is not in compliance with state fire code or the City of John Day public nuisance ordinance. As noted in the OSFM Inspection Report, the lath and plaster construction and numerous penetrations in the ceiling and walls create a fire hazard that would likely result in the loss of the entire building as well as nearby businesses. Exposed electrical wiring does not appear to have been modernized and numerous interstitial spaces allow for the free passage of air (and fire) between the ground floor tenants and the second floor residence.

On May 31, I met with the property owners and their realtor to discuss the City's findings. I provided a copy of the Fire Marshal's inspection report and we discussed options to bring the building into compliance. I provided the owners with the option to work with the Fire Marshal to remediate the dangerous conditions in the building and bring it into compliance with state and local ordinances. Alternatively, I told them I would discuss with the Council the option of having the City purchase the property as-is and bring the building into compliance as part of its proposed renovation.

Because of the condition of the building and the uncertainty about the cost to bring it to an acceptable fire safety condition, I told the owners I could not advise the City Council to purchase the structure for more than the value of the grant. The owners deliberated and their realtor contacted me on June 2 indicating their willingness to accept an offer from the City for \$100K to purchase the building as-is, provided the City pays all associated closing costs (estimated at \$6K).

DISCUSSION

This is a complex restoration made more difficult by the current condition of the building. Should the City purchase the property, we will need to work with the Fire Marshal and City Architect to analyze the fire safety properties of the design, operation and use of the building and determine an acceptable set of changes to bring it into compliance with state requirements.

This will likely require a complete demolition of the second story interior, also known as a “gut and stuff.” All non-load bearing walls will be removed and dismantled. Chimneys and exposed interstitial spaces will then be sealed with fire resistant material. Air handling systems and electrical systems will be inspected and re-routed as needed to minimize disruption of service to the commercial tenants on the main floor. Prior to demolition, any asbestos abatement and lead paint will need to be tested and removed from the premise and any other hazardous materials removed.

Following the interior demolition, the City will develop a plan to restore the second story to residential use. Four to six condominium residences can be created on the second floor. External walls will be modified to meet current code requirements and the external façade will be renovated according to the standards outlined in the Secretary of the Interior's Standards for Rehabilitation (codified in 36 CFR 67).

POLICY VERSUS POLITICS

Some have argued that property development should be left to the private sector. This is a political argument. While it is true that private capital has fewer constraints, there has been very little investment of any kind in our mixed-use Main Street buildings. Private sector investors seek an internal rate of return (IRR) that matches or exceeds stock market investments (typically 12-15% annually). According to the Cambridge Associates Impact Investing Benchmark, even social impact investment funds with a community development focus returned a net IRR of 9.5% to investors in 2015.

Today, Grant County has the second lowest real market property values in Oregon. As a result, it is extremely difficult for private sector or social impact investors to realize a market rate of return by investing in our Main Street infrastructure. It is also difficult for private investors to raise sufficient capital to cover their gap financing due to high loan-to-value ratios and low appraised values.

These conditions are not unique to Grant County. They can be seen throughout eastern Oregon and in rural communities across the United States. For these reasons, many public agencies have made the policy decision to invest public funds, either through direct investment or through some form of public private partnership.

For example, the City of Pendleton has created an urban renewal district that since 2006 has provided \$1.3 million to building owners for façade restorations, interior improvements, building renovations and funding for demolition of derelict structures. The Pendleton Development Commission (PDC) that oversees the district also offers

financing to accelerate startups and to assist businesses with expansions. Gilliam County is also investing in urban renewal and housing development programs and is currently working with the Oregon Solutions team to explore revolving loan funds and special tax districts to accelerate growth and revitalize local communities. Other communities in eastern Oregon are looking to do the same.

INVESTMENT CONSIDERATIONS

Several of the structures on our Main Street are in a severe state of decline. These structures reduce property values for the rest of the City and can pose a safety risk to their neighbors. It is in the best interests of the city and its residents to take advantage of existing state and federal development programs to begin restoring our Main Street infrastructure. However, we have to recognize that most of these programs are designed to create low-to-moderate income housing and are not designed for mixed-use buildings.

The City can realize enough rental income to cover the cost of the fire restoration and make the building in question safe, but restoring and improving this or any other building on our Main Street will require dedicated local financing. The City would need to explore creating an urban renewal district or other local improvement district to locally finance redevelopment of our infrastructure.

Urban renewal and tax increment financing are ways for local governments to focus investments on a particular area in order to bring about public and private improvements. They require an urban renewal plan and creation of an urban renewal agency. Once the plan and agency are approved, the tax base for the urban renewal area is “frozen.” Tax jurisdictions continue to receive the base funding from the date the district is created, but any future increase in property tax revenue is ceded to the renewal agency for improvement of properties within the district.

Renewal agencies then deliberately accelerate the growth in property tax value by issuing bonds or incurring debt to finance public improvements in the district. Once the district is retired, the increased value of the area is returned to the tax rolls and all taxing jurisdictions gain the benefit of the increased taxes, while property owners benefit from increased land and building values.

Oregon Revised Statute Chapter 457 describes how the urban renewal system works. According to the Oregon Department of Revenue, as of 2016 there were 106 urban renewal districts in Oregon in 55 communities, based in 23 of 36 counties. Seventy-seven urban renewal plan areas increased the amount of revenue they received in FY2015-16, while twenty-nine plan areas raised less revenue than the previous year.

NEXT STEPS

OAR 837-041-0050, provides the owner, lessee, agent or occupant of a dangerous building with sixty (60) days after receipt of such findings to propose the method of improvement to the State Fire Marshal or deputy, who shall have sixty (60) days thereafter to approve or disapprove of the proposed method of improvement.

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I have notified the Main Street Revitalization program coordinator that the City Council has not yet reached a decision on whether to purchase the building. Additional cost estimates with regard to the fire safety and code compliance will be needed. An engineering assessment is also needed to verify that the building is structurally sound. The City Architect is coordinating cost estimates for these assessments with at least two construction firms that have expertise in these areas.

These additional verifications will not reduce the purchase price of the building but may ultimately determine whether the building can be restored. If the Council chooses, I will work with the City Attorney to sign a purchase and sale agreement with the current property owners to acquire the building. Alternatively, the City Council can wait for further information or decline the grant and the responsibility for remediation and compliance will remain with the current owners.