
Downtown Olympia Community Renewal Area Feasibility Study

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Prepared for:
City of Olympia

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Introduction and purpose

The City of Olympia asked ECONorthwest (ECO), together with Berk & Associates (BERK), to conduct an analysis of the feasibility of establishing a Community Renewal Area (CRA) to assist with implementation of economic and redevelopment goals in Downtown Olympia.

Specifically, the City has asked the ECO team, in collaboration with staff and a committee of Council policy directors (called “the Ad Hoc Committee”) to explore the following questions in its analysis and report:

- Should Olympia use Community Renewal? What benefits could it bring to improve redevelopment outcomes in Downtown?
- What are the technical, legal, or political challenges to creation of a CRA?
- What would be the best structure for Community Renewal governance?
- Are there key opportunity sites that could benefit from Community Renewal in the near term?
- What other tools can be used to help achieve the community vision for those opportunity sites and the downtown area?
- How can these tools be blended and/or sequenced to optimize their effectiveness?

This document provides findings from ECO’s analysis and summarizes recommendations from the ECO team and from the Ad Hoc Committee.

What is Community Renewal? What problems can it solve?

Cities across the United States have, from their start, been players in shaping where and how they develop. Some activities that cities undertake indirectly affect private development outcomes, such as development code and zoning policy, construction and maintenance of infrastructure, provision of public services, and the establishment of tax and fee structures that provide incentives for various types of development. However, especially as our urban areas grow and age and development becomes more challenging, many cities find that these indirect tools are insufficient for achieving their desired outcomes.

Cities that are directly involved in real estate development often partner directly with the private sector on key opportunity sites. In some cases they will work with the existing property owners and provide various forms of assistance to redevelop or rehabilitate those sites. In other cases the public will acquire sites, lead the community in articulating a vision for them, and select development teams to turn that vision into reality. In many cases, public sector incentives are used to ensure that various public benefits accrue from these developments. By controlling the property disposition process, the public sector is able to influence private development outcomes in much more direct ways.

In Washington, however, cities do not have the authority to acquire private property and transfer it to private parties for development. The State's "lending of credit" provisions, and definition of "public purpose" related to condemnation do not allow Olympia to acquire and dispose of property to private developers, if City or State funds are involved. Without this critical power, cities in Washington have a more limited ability to implement their land use and economic development plans as a property owner.

Washington's Community Renewal Law, however, provides cities with an option to overcome the State's other restrictions on transferring publically acquired property to private developers in certain circumstances, and when sufficient community process has been undertaken to ensure need, as outlined in RCW 35.81. This process includes: identifying a specific CRA based on detailed findings of blight, establishing a Community Renewal Plan by adoption of a Council ordinance and resolution after notification of the public, defining specific Community Renewal Projects to be carried out in the Urban Renewal Area for the purpose of alleviating blight through redevelopment and rehabilitation, and specifically identifying any properties to be acquired or disposed of if needed for implementation of a Community Renewal Project. Community Renewal law also provides the other tools for overcoming blight, such as the ability to change zoning and to bond against certain revenues to fund development when the legal conditions set forth in the statutes are met. Table 1 shows the City powers to affect redevelopment with and without Community Renewal as a tool.

If these conditions are all met and a CRA formed in a community, the public sector has access to a few additional tools to help shape development in the areas that need the most assistance.

Table 1: City powers with and without Community Renewal

Property ownership by City	Without CRA	Additional abilities with CRA in place
Buy, lease, condemn, acquire real property	Allowed, but not with intent to be resold to private party for economic development	Allowed with preference to resale to private parties*
Hold, clear, or improve real property	Allowed, but only for public facilities	Allowed for both public or eventual private use
Dispose of real property	Allowed, but not with intent to be resold to private party for economic development	Allowed with preference to resale to private parties*
Zoning changes	Without CRA	Additional abilities with CRA in place
Rezone property	Allowed as a Planned Area	Allowed as a spot zone regardless of GMA/Comprehensive Plan cycle
Use resources to master plan private property	Not allowed since it can be construed to benefit private property	Allowed
Create special districts with unique rules	Allowed in a limited way as part of the Planned Area zoning	Allowed
Private partnerships	Without CRA	Additional abilities with CRA in place
Enter into a developer agreement	City can only sell property it owns through competitive bid without strings attached.	Before purchasing property, the city can identify partners to develop all or some. City can also dictate to buyers how the property will be used.
Select buyer who agrees to further CRA goals	Not allowed	Allowed after some kind of competitive process or any non-profit buyer without competitive process
Execute contracts and other instruments	Allowed to carry out City purposes only	Allowed to carry out CRA purposes as well
Provide incentives to tenants who help fulfill the Community Renewal Plan	Allowed with limitations	Allowed with more flexibility
Building infrastructure	Without CRA	Additional abilities with CRA in place
Build and repair roads, parks, utilities	Allowed	Allowed
Close, vacate & rearrange streets and sidewalks	Allowed for city purposes	Allowed to promote economic development as well
Borrow money and accept grants to carry out Community Renewal	Not allowed	Allowed
Form Local Improvement Districts to finance	Allowed	Allowed
Incentives and impacts	Without CRA	Additional abilities with CRA in place
Provide loans, grants, or other assistance to property owners or tenants affected by the Community Renewal process	Not allowed, except in aid of lower income persons	Allowed
Provide financial or technical incentives for job creation or retention	Not allowed	Allowed
Relocate persons affected by Community Renewal	Not allowed except for persons affected by condemnation for public facilities	Allowed

Source: City of Shoreline Washington, adapted by ECONorthwest

Key findings from analysis

Our findings are drawn from a variety of sources, including interviews with key stakeholders (property owners, city officials, informed citizens); discussions with the Citizens Advisory Committee; market studies conducted by BERK for Downtown Olympia, as well as other areas

of the City as part of this process; and research about other Washington cities' experience with Community Renewal.

Opportunities

Our analysis found consensus among all stakeholders that there are development opportunities in Downtown. Specifically:

- Many sites in Downtown are underutilized and have potential to accommodate new development. There are 3.5 vacant acres and 49.4 redevelopable acres in Downtown.¹
- Downtown boasts significant infrastructure and public facilities that are amenities for new development, including: Heritage Park, Percival Landing, Sylvester Park, Historic Downtown, Transit Center, Greyhound Bus Depot, Capitol Lake, Budd Inlet, waterfront access, Capitol Theater, Washington Center for Performing Arts, WET Science Center, Hands-On Children's Museum, public library, post office, and Capitol Campus.
- Low vacancy rates and recent modest growth in rents for multi-family residential units citywide suggest that there is near-term demand for multi-family housing or mixed-use development in Downtown. Citywide rental rates have increased for three straight years, from \$785 per unit in 2010 to \$855 in 2013. Vacancy rates have remained low in recent years, including 3.9% in 2013. There is interest among the development community in new multi-family housing development that could capitalize on easy access to services, transit, and the waterfront.
- Adaptive reuse of existing buildings is a particularly attractive opportunity in the short term, as it has potential to provide space at a lower cost than new construction, and avoids creating additional inventory of office space in a relatively weak market. Recent adaptive reuse projects, including the Cunningham Building on Fourth Avenue and Brian Kolb's conversion of second and third floor office space into residential units, provide concrete evidence of this trend. In addition, there are opportunities for technical assistance and incentives for developers exploring adaptive reuse.

Challenges

There is also consensus that there are many challenges for Downtown development. Overall, the market analysis conducted as part of this research found that demand drivers for the downtown (particularly state government) are not growing in the near-term. Further, land is more expensive and, in many cases, development costs are higher in downtown. Properties therefore have a higher redevelopment hurdle than sites elsewhere in the city and county, where there are plenty of lower cost vacant and/or greenfield sites to build on. Table 2 on the next page identifies a number of more specific challenges, includes a list of tools that Olympia could use to address them, and describes the potential role that Community Renewal could play if the City chooses to move forward.

¹ Thurston Regional Planning Council, 2011; BERK, 2013.

Table 2. Challenges and tools in Olympia

Key challenges	Notes or details	Tools	CRA role?
Blighted and / or abandoned buildings	Isthmus site, Griswold's, and F&W site are all examples of abandoned or underutilized buildings that should be demolished and /or redeveloped to improve Downtown.	The City has authority to remove blighted structures in preparation for development for a public use, and does not require any special tools for that process. Community Renewal, however, is the only tool that addresses blighted buildings to allow for private development.	Community Renewal would allow Olympia to acquire properties with blighted buildings for the purpose of transferring the property to private developers. In a Community Renewal context, the City can also use the disposition process to incent development that achieves public vision. A Public Development Authority could assist in the redevelopment process, or provide an alternative approach, especially if significant federal or other non-local funding and/or public-private partnerships are involved.
Lack of public control / involvement in dev't process	State laws prohibit Olympia from acquiring property for the purpose of transferring to private parties for development.	Currently, indirect methods are available to the City (zoning and code, tax structure and incentives, infrastructure provision). The City can use Community Development Block Grants or Section 108 to acquire property and then sell it for private development—not via condemnation however. <i>(Note: this statement needs legal review)</i>	Without City ownership of a site, RFPs or RFQs from the City are unlikely to be successful in attracting quality developers. Community Renewal allows the City to acquire property for this purpose, providing the City with power to have more direct involvement in the development process.
Environmental contamination	Some downtown sites are “brownfields,” with lingering soil contamination from the pollution of previous land uses.	Numerous tools, including Local Improvement Districts (LIDs), Community Revitalization Financing, CERB/LIFT grants, and General Obligation (GO) bonds can be used to fund environmental cleanup.	Community Renewal specifically authorizes cities to undertake environmental cleanup, though it does not create new funding sources to fund these cleanup efforts. It would allow the City to partner with private development interests to affect cleanup of private property.
Construction costs due to fill	Much of Downtown built on fill; construction costs are high because deep pilings are needed.	Can use Section 108 to help offset construction costs, as well as New Market Tax Credits and EB-5, under the right circumstances	Some tools (Section 108 in particular) give the City a seat at the table without transferring the property to the City. Community Renewal gives the City a better opportunity to control the disposition process through site acquisition.
Flooding and sea level rise	The risk of flooding, particularly in the light of rising sea levels, could lead to more costly development conditions for shoreline properties.	Numerous tools, including LIDs, Community Revitalization Financing, CERB/LIFT grants, and GO bonds can be used to fund infrastructure improvements to protect against flooding.	Community Renewal does not have a specific role in addressing this challenge.
High office vacancy / low rental rates	Vacancy rates for office have risen for four consecutive years, reaching 9.7% in 2013. Office rents have fallen over that same period of time from \$19.61 to \$15.69 per SF.	Tax abatements, Tax Credits (including New Market, Historic), Section 108, Business Improvement Areas, can be used to improve the financial pro forma for new office development.	Community Renewal does not have a specific role in addressing this challenge, except that, for key sites that are public priorities or in public ownership, CRA can allow the public sector to work more directly with a developer on a redevelopment strategy and potentially write down land costs to overcome some of these challenges.
Negative perception of downtown	Stakeholder interviews revealed many concerns about crime, cleanliness, and homelessness.	Parking and Business Improvement Areas, Main Street Program, and Main Street Tax Incentive Program can be used to promote Downtown.	Community Renewal does not have a specific role in addressing this challenge.
Property ownership	There are few prime parcels available for redevelopment; many are Port owned.	Where Port or some other public agency already owns a site, there is opportunity to partner with City and blend tools like Section 108, NMTCs, EB5, etc. On private prime sites, the city can work with willing existing owners and help apply tools above.	Community Renewal allows the City to acquire property for this purpose, providing the City the opportunity to incentivize new private development in Downtown. Ports are allowed to transfer land to private parties for commercial development.

*For Glossary of Terms, see Appendix A

Findings regarding use of Community Renewal in Olympia

It is technically feasible to use Community Renewal in downtown Olympia. The primary requirement for technical feasibility of creating a CRA is that the area be “blighted.” RCW defines blight as any of a long list of potential characteristics. We have found that several of the characteristics of blight can be found in portions of Downtown Olympia, including: physical obsolescence of buildings, faulty lot layout, insanitary or unsafe conditions, existence of hazardous soils, diversity of property ownership, and conditions that endanger life or property by fire or other causes.

At the same time, our research and interviews identified stakeholder concerns and regarding key aspects of Community Renewal:

- As stated earlier, adopting a CRA requires a finding of “blight.” Some stakeholders expressed concerns about the perception that a formal finding of blight in downtown might have on the ability to attract private investment and support economic development goals. In practice, “blight” is a common part of most urban or Community Renewal statutes around the country.
- Many stakeholders expressed concerns about the ability to use condemnation authority through Community Renewal. Through its ongoing research, ECO is continuing to explore the ways in which other communities in Washington have used (or chosen not to use) this authority, and the implications it has had on redevelopment options.
- Community conversations around development in Olympia in general have been contentious.

Given these concerns, we find that while adoption of a CRA is technically feasible, it is likely to spur many community conversations and may face political challenges in adoption and implementation.

Consultant recommendations

Based on these key findings, we make the following recommendations:

- **The City of Olympia should pursue the adoption of a CRA for Downtown.** Community Renewal significantly enhances the City’s redevelopment tool kit by adding a critical acquisition tool. Private property acquisition and the ability to dispose of that land for private redevelopment gives the City a powerful tool for key opportunity sites in Downtown. It positions the City to take action on other sites in the future as the City moves through its downtown master planning process that will identify strategic and catalytic redevelopment needs. Community Renewal gives the public sector a more formidable seat at the development table that should enable more viable and better-quality private redevelopment while achieving a greater public good and overcoming blight.
- **More detailed site or area planning would be helpful.** To create a workable plan, it is necessary to describe the activities that will be undertaken in the CRA to overcome blight.

To get agreement among stakeholders on these important plan details, additional community conversation would be helpful. Much of the early conversation about CRA has centered on the Isthmus properties. The fact that a large portion of this area is under public ownership, that health and safety blight exist there, and that other public investments in Percival Landing and public open space are contemplated and should be coordinated suggest the Isthmus as a logical focal area.

- **A coming master plan process will be complimentary to this effort.** The City intends to create a Downtown Master Plan starting in 2014 that clearly defines a vision for downtown, including goals, objectives, and specific actions to be taken to implement the vision. This Master Plan will help provide focus and purpose to Community Renewal efforts. The Master Plan should identify and prioritize the complimentary public infrastructure needed to support the redevelopment efforts that could be supported with Community renewal, including connectivity for pedestrians, open space needs, and other public amenities.
- Because Community Renewal can be a controversial tool, it is important to **work with key stakeholders and the general public to ensure that this tool has broad support.** We recommend the City address these political challenges with a clear and honest conversation about Community Renewal and its abilities to influence Downtown development efforts. This will require clarification from City staff and leadership regarding the purpose of CRA, the specific project activities, boundary, and other key components of a new CRA. Ideally, these questions will be answered in a collaborative process that includes stakeholders.
- Downtown is a high priority area for Olympia, but it is just one among many areas of the City that can benefit from public sector involvement in the development process. **The City should consider Downtown's place with in a larger portfolio of development opportunities,** using the current research and recommendations conducted as part of the ECO team's contract as a starting place. Downtowns are complex, with diverse property ownership, building types and uses, public space and other elements that require special and ongoing attention. For most cities, downtowns are a top priority but not the only priority. Olympia needs to focus resources like Community Renewal and complimentary tools Downtown, but it should continue to make progress with planning and development efforts and appropriate tools elsewhere, including Division/Harrison, Sleater-Kinney and Martin, and Kaiser/Harrison.
- **Community Renewal, by itself, will not solve the challenges of Downtown.** The City should pursue Community Renewal as one tool out of many that the City can use to implement its downtown revitalization efforts. The challenges table, provided earlier in the introduction, highlights some of these potential tools.

Ad Hoc committee recommendations

Because the Ad Hoc committee was involved in a detailed review of the ECO team's evaluation and facilitated a number of more in-depth conversations with stakeholders, they developed a separate set of recommendations on key Community Renewal elements to guide the Council in their decision-making.

Boundary and properties of interest

The Ad Hoc Committee discussed several boundary options, and selected the option in

Figure 1 below. They felt that that boundary option best aligned with the City's intent for the creation of a new CRA: to remove or address barriers to redevelopment, as outlined in the statutes guiding the use of CRA, and to initiate new partnerships on the Port properties. The following barriers are hindering the ability of the private sector to invest in downtown Olympia, can be addressed through a new CRA, and are found throughout boundary Option #3:

- Blighted buildings (that meet statutory "health and safety" blight requirements).
- Soil contamination.
- Liquefaction.
- Sea level rise / storm surge.
- Aging infrastructure.
- High ground water and soils (increases development costs, complicates parking development).
- Diversity of property ownership.

In its discussion of projects, the Ad Hoc Committee discussed the following five properties that should be further evaluated in the Community Renewal Plan process.

- Reliable Steel property on West Bay Drive.
- Former Health Department property on the Isthmus.
- Former Thurston County Housing Authority property on the Isthmus.
- Capital Center property including vacant lot north of 4th Avenue on the Isthmus.
- Griswald's Property on 4th Avenue.

Figure 1. Preferred Downtown Olympia Community Renewal Area boundary



Source: ECONorthwest.

Approach to use of condemnation

The Ad Hoc Committee discussed the use of condemnation for economic development purposes, an authority that the state grants to the governing body of a CRA. Recognizing that the use of condemnation is contentious, the Ad Hoc Committee wants to add a set of binding criteria to the Community Renewal Plan that will limit the ability of a future CRA governing body to use condemnation except in compliant circumstances.

The Ad Hoc Committee discussed the following potential criteria for consideration of condemnation: for any property or building the City must find that the property meets the statutory definition of health and safety blight (a higher standard than “economic blight”) and has been vacant and economically unproductive for a period of five years or longer.

Governance

Ad Hoc committee recommends that the Council serve as the Community Renewal agency board. By doing so, the City retains control over the Community Renewal process, since all actions must be approved by the City Council directly.

Process for creating a Community Renewal Plan

CRAs require a workable plan that outlines uses of public and private funds to eliminate or prevent the spread of blighted areas, steps to encourage redevelopment, and activities that will achieve the goals of the plan. The plan must:

- Conform to the comprehensive plan.
- Indicate with some specificity what land is to be acquired, buildings demolished or redeveloped, and what improvements are to be carried out.
- Outline the plan’s relationships to appropriate land uses, improved traffic and transportation, public utilities, recreation and community facilities.
- Address the need for replacement housing.

As a next step, the Mayor and staff wish to initiate a design workshop focused on the Isthmus area to further community conversations about community development in downtown. The design workshop would engage the CAC and Isthmus area property owners in a design process that will serve the following dual purposes:

- Develop and test an engagement methodology that can be used for other complex community development projects in the future, serving as a model for involving stakeholders in productive decision making; and
- Evaluate community-supported opportunities for Isthmus area redevelopment, and potentially to advance the Community Renewal process by identifying the activities that might be included in a Community Renewal Plan.

Adoption steps

- The plan is drafted, consistent with the provisions of the Growth Management Act

- The Council holds a public hearing on the plan after publishing notice in the newspaper and giving written notice to all property owners in the area
- The Council may adopt the plan if it finds that the plan:
 - Is feasible.
 - Conforms to the comprehensive plan (which may be amended to accommodate the Community Renewal Plan).
 - Involves private enterprise as much as feasible.
 - Is financially sound.
 - Designates an area of concern that is blighted.

Attachments

- A. Market conditions summary
- B. Detailed blight findings
- C. Development incentives glossary