SALT LAKE COUNTY
REGIONAL DEVELOPMENT

TO: Salt Lake County Council
FROM: Mayor Jenny Wilson
Jevon Gibb, Economic Development Director
DATE: September 7, 2021
RE: Midvale Main Street CDA Project, Recommended Interlocal Agreement Terms

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TABLE A, RECOMMENDED TERMS:

Terms	Agency Request	SLCo Recommendation
Base Year	2019	the year preceding the Trigger Date identified on the Agency's notification of intent to trigger
Base Year Value	$58,774,598	the assessed taxable value of all Property within the Project Area for the Base Tax Year
Term	20 Years	20 Years
Trigger Year	TBD	TBD
Collection Area	Project Area	Project Area
Participation Rate	60%	75%
Cap	$2,198,847	$2,198,847
Performance Benchmarks	None	None
Administrative Fee	Up to 3% of the Total Budget	Up to 3% of the Total Budget
County Admin Fee	None	3% of the County's Contribution
Allowable Uses of Increment	As set forth in Project Plan	As set forth in Table A below
Housing Allocation	20% of the Total Budget	20% of the Total Budget, to be spent within the Project Area

BACKGROUND: The Redevelopment Agency of Midvale (the "Agency") is requesting up to approximately $2.2 million in tax increment financing (TIF) over 20 years at 60% participation from Salt Lake County and the Salt Lake County Library to support redevelopment efforts connected to an approximately $11.7 million tax increment financing project for Main Street Midvale (the "Project"). We recommend participating in the Project due to the clear plans provided by the Agency, the demonstrated financial gap for potential developments, the opportunity to catalyze investment in an underperforming area of the County, and the accompanying positive public policy implications of revitalizing the area.

Over the last 11 years, despite the unique character of Midvale Main Street, property values within the Project have stagnated (see Attachment A). Many of the storefronts are vacant and the area has experienced both underinvestment and high property crime rates. This raises the issue whether these trends are the result of natural market factors or whether some market failure exists that could be solved through public assistance. The Agency argues that an infusion of capital primarily focused on infrastructure projects would unlock the potential of this Project and reverse the negative historical trends.

Figure 1 - Project Area Map (Project in Red, Main Street Highlighted, Proposed Office in Blue)

The Agency proposed two budgets: a Primary Budget and Contingency Budget. The Primary Budget (~$2.2m cap) is intended to fund the revitalization of Main Street. The Contingency Budget (~$3.8m cap) is intended to attract an office development to the area north of Main Street.

The Agency cooperated with the County to produce additional due diligence to support the "but for" requirement and identifying any financial gaps. Those materials are provided in Attachment B and C. This research shows that market rents in the Project are not sufficient to make development feasible (see pp. 14-16 of Attachment C). In addition, certain capital projects and parking infrastructure would be required to support additional density, which further exacerbates the financial gaps.

Of note, some members of Salt Lake County's TIF Ad Hoc Committee raised concerns about the portion of the budget going toward public art. The Agency has provided a memo – Attachment D – to support this expense. In short: "The key to success with Main Street is about placemaking. An active vibrant street will be inviting to residents, visitors, and businesses. The City envisions this area as a unique destination for local residents across the Salt Lake Valley. Public art, in every form, will be a key to making the street feel alive, safe and a memorable experience."

TABLE B, PROPOSED BUDGET:

Use	Budget Amount	Condition
Parking	$5,100,000	Range of +/- 20%
Relocation, demolition, land acquisition, infrastructure, etc	$1,000,000	Range of +/- 20%
Capital Projects	$1,500,000	Range of +/- 20%
Professional Services	$150,000	Range of +/- 20%
Developer Reimbursements	$1,500,000	Range of +/- 20%
Public Art	$1,945,250	Range of +/- 20%
Bingham Junction Reimbursement for previous expenses toward relocation, demolition, land acquisition, infrastructure, etc.	$541,667	Exact
Housing	$2,239,050.0	Minimum
Agency Admin Fee	$403,029.0	Maximum
County Admin Fee	$65,965.41	Projected
Total	$14,444,961	Projected

APPLICATION OF COUNTY POLICY 1155

4.1.1 – "But for": Yes. Attachment C identifies a gap of between $5 and $62 per square foot, with a significant amount of that gap created by parking. The budget in Table A corresponds with that analysis.

4.1.2 – Required terms and conditions: Yes

4.1.3 – Reimbursement focuses on infrastructure or site preparation: Yes. While some of the budget will fund other expenses, a majority of the budget focuses on parking infrastructure, other infrastructure, and capital projects.

4.1.4 – High-wage jobs, small business expansion, apprenticeships, or skill development programs: Yes. The retail envisioned for this Project would include substantial small businesses.

4.1.5 – No excess land for yet-to-be-defined projects: Yes.

4.1.6 – TOD or, if residential component, affordable housing: While TOD is not the focus, this Project has substantial connection to public transit. It also has a 20% allocation to affordable housing.

4.1.7 – OZs or strategic growth areas: Yes. This is in an Opportunity Zone.

4.1.8 – Reactivate an area: Yes

4.1.9 – $500mn+ capital investment without increasing cost of services: No, but not a significant concern.

4.1.10 – Plan for affordable housing funds: Plan remains somewhat unclear. The RDA Board has already adopted a forgivable loan program limited to the Main Street CDA's boundaries, the Main Street Upper-Floor Housing Program. Also, Housing Allowance must be spent within the Project Area.

4.1.11 – Municipality matches county: No. Midvale has a smaller tax base.

4.1.12 – LEED Gold new construction: No, but most recently with the Zions Technology HQ in Jordan Bluffs RDA, the Agency included environmentally-friendly construction practices that were tied to benchmarks in the Agency's Tax Increment Reimbursement Agreements.

4.1.13 – Admin fee to County: Yes, under Recommendation.

<u>Unfavorable Project Area Considerations</u>

4.2.1 – Fails 4.1 (any above): Fails 3 of 13. This is more positive than most projects.

4.2.2 – Predominately housing, detached single-family, or market rate: No

4.2.3 – Predominately retail: No

4.2.4 – Zero-sum: Yes, but mitigated by Policy considerations to activate underperforming areas

4.2.5 – Sensitive land: No

4.2.6 – Requests County sales tax: No

RECOMMENDATIONS/DISCUSSION:

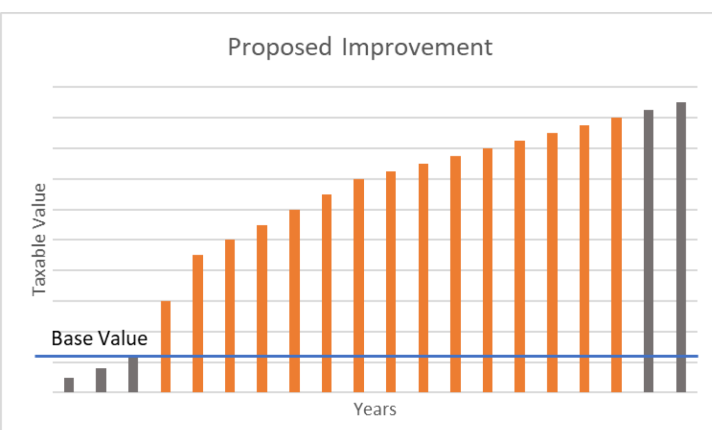
We recommend participating toward the Project's Primary Budget following the terms provided in Table A and the budget in Table B. Discussion of proposed terms is below. Of note, we do not recommend participating toward the Contingency Budget due to Zero-Sum concerns. While subsidies might make Midvale a more attractive Office location than locations in Utah County, it would most likely absorb demand from other cities within Salt Lake County. We want to avoid funding incentives competition within the County.

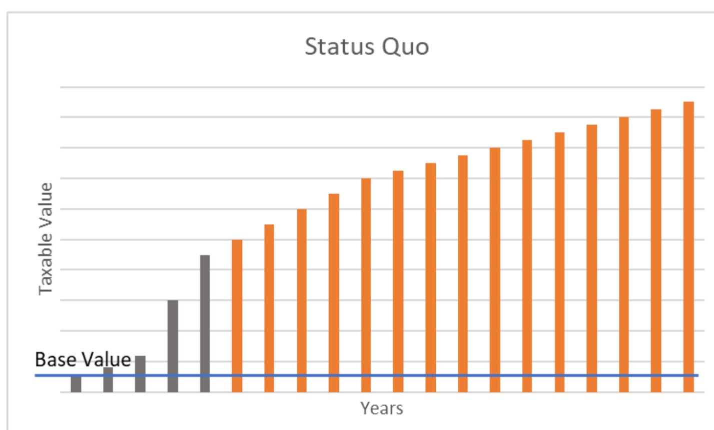
- **Floating Base Year:** The Base Year language we have proposed is a compromise to allow flexibility for municipal agencies while safeguarding the interests of taxpayers. Ideally, an agency would trigger a project the year it was approved. In practice, most agencies wait multiple years so that in Year 1 of a Project, it uses a Base Year from multiple years prior and captures a much larger amount of increment. In turn, it captures an even larger amount of increment in the final years of a Project, when it would have ceased collecting if it had triggered earlier.

  The goal of TIF is to solve market failures by leveraging the increment that development within a project generates. Projects "eat what they catch." Creating an artificial gap between the base year and the trigger year, while beneficial to a developer or agency, violates the premise of "eat what you catch" and takes more money away from taxpayers.

  On the other hand, municipal agencies in Salt Lake County are accustomed to the previous practice. Rather than forcing all agencies to begin triggering quicker, we propose a floating base year, so that whenever an agency is eventually prepared to trigger, the project still is limited to the increment it creates and the County protects taxpayer dollars.

  Illustration of Proposed Change
  (Orange is years where increment is collected, Gray is years where increment not collected)





- **Base Year Value:** Because we propose a floating base year, we propose a similar setup for base year value. This has been discussed with and approved by the Salt Lake County District Attorney's Office.

- **Participation Rate:** Whereas the Agency proposed a 60% Participation Rate, we recommend approving a 75% Participation Rate. This does not affect the Project cap, it helps the Agency by providing funds quicker, and it makes the County hit its cap quicker.

  Many Agencies in Salt Lake County have expressed concern about what participation rate the Council would prefer and some have strategically proposed lower rates in the hopes of receiving more favorable treatment. We recommend shifting the emphasis away from participation rates and toward the project cap - justified by the "but for" and financial gap- and the permissible uses within the budget. While we would rarely recommend a participation rate above 75% due to the deficit that would create for the cost of ongoing services combined with projected growth, we recommend focusing on solving the gap.

- **County Admin Fee:** We request a 3% admin fee to the County from the County's Contribution to support the cost of administering TIF projects. Our goal is that TIF projects should pay for themselves. But for this fee, the cost of administering these projects comes from the General Fund.

- **Allowable Uses of Increment:** The ranges and conditions attached to the Proposed Budget in Table B are somewhat unique for our Interlocal Agreements (ILAs). This is a proposed process improvement. Whereas we recommend focusing on the gap for TIF deals, we want to make sure that the gap is what gets funded. Without this language, agencies and developers have overly broad latitude on how and how much County dollars get spent. While we do not have any concerns regarding this Agency or this Project, adding this language would be valuable precedent for all projects moving forward.