SALT LAKE COUNTY REGIONAL DEVELOPMENT

TO: Salt Lake County Council
FROM: Jevon Gibb, Economic Development Director
Catherine Kanter, Deputy Mayor of Regional Operations
DATE: Aug. 22, 2022
RE: South Salt Lake Central Pointe URA, Recommended ILA Terms

RECOMMENDED TERMS

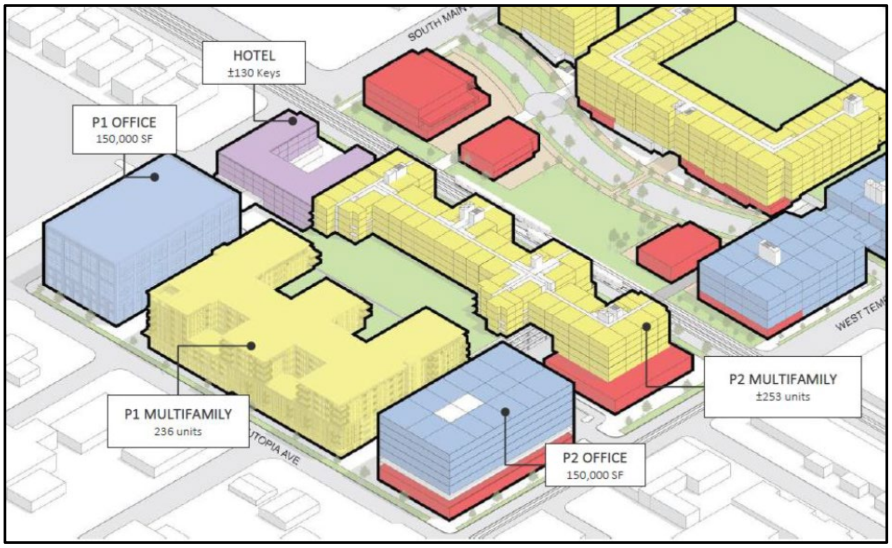
Terms	Agency Request	Recommendation
Size	108 acres	40-45 acres (Agency plans to amend size prior to trigger)
Base Year	2019	2019
Base Year Value	$73,121,213	$73,121,213
Term	20 Years	20 Years
Trigger Year	2023	2023
Collection Area	Project Area	Project Area
Participation Rate	75%	75%
Cap	$5,992,667. ($4,184,908 County and $1,160,430 Library)	$1,479,776 (excludes Library levy)
Performance Benchmarks	None	Frequent, planned financial assessments in Years 3, 6, and 9 to evaluate project performance against market conditions. County negotiates future ILA amendments according to these reviews to correctly size any public assistance needed.
Agency Admin Fee	5%	5%
County Admin Fee	5% of County increment	5% of County increment
Housing allocation	20% to city at large	20% to city at large
Allowable Uses of Increment	Admin budget, affordable housing, redevelopment activities	Affordable housing and admin budget at this time. Future ILA amendments could expand allowable uses to cover developer incentives limited to a verified gap.

BACKGROUND

The Central Pointe TIF project from South Salt Lake Redevelopment Agency ("the Agency") sits between 2200 South and I-80, and between Main Street and West Temple. The project area budget proposes $22 million over 20 years for developer incentives, and an additional $7.6 million over 20 years for administrative expenses and future, undefined affordable housing. The $22 million in incentives would flow directly to Gardner Batt and Dakota Pacific Real Estate companies.

Their development includes two market-rate office buildings, two parking garages, two market-rate apartment buildings, and a hotel. Without TIF in place, the companies have built one office tower and one parking garage and are under construction on one apartment building. South Salt Lake has agreed to participate, but no other taxing entities have as of yet.

PROJECT AREA MAP



The blue "P1 Office" building shown at left is the already-built office building on the corner of Main Street and Utopia Ave.

The yellow "P1 Multifamily" is under construction and sits on the already-built parking garage.

The blue "P2 Office" and yellow "P2 Multifamily" are not yet under construction. The red bases signify street-level retail spaces.

The additional phases to the upper right (across the TRAX S-line) are future phases not requesting tax increment financing participation at this time.

POLICY 1155 ALIGMENT

Favorable project area considerations:

Policy number	Policy goal	Consideration
4.1.1	"But for"	Analysis is dependent upon revenue projections. Currently, the project is proceeding without public assistance, and the due diligence process determined that developers could potentially close the gap. See below for more detail.
4.1.2	Required terms and conditions	Yes.
4.1.3	Reimbursement focuses on environmental remediation, infrastructure or site preparation	No. The bulk of proposed budget flows to developer incentives to bridge a stated gap in market conditions. The Agency has referenced using increment to pay for environmental work, parking structures or site preparation, but the proposed "gap" is not created by those expenses. Again, this proposal relies upon revenue projections.
4.1.4	Project areas that promote economic prosperity among a range of income levels and (i) will create a net increase of new high-wage jobs and/or (ii) include opportunities for small business expansion,	Mixed. Possibility of high-wage jobs in office phases, but not the residential or other phases of the project. Agency has not indicated any "opportunities for small business expansion, apprenticeships, and/or skills development programs." Most office developments will involve high-wage jobs. To avoid incentivizing

	apprenticeships, and/or skills development programs.	zero-sum competition within the County for those jobs, "new" jobs should come from outside the region
4.1.4.1	"New high wage jobs" are >125% of SLCo average wage or >110% of industry average	The Bureau of Labor Statistics reports a 2021 Q4 average wage in Salt Lake County as $73,788; 125% of that is $92,235. Existing anchor office tenants' average annual salaries are $90,000-$100,000 and $150,000, as self-reported by the Agency. Although these statistics suggest the attainment of the "high wage" portion of the jobs criteria, as noted above, the "net new" element does not appear to have been met.
4.1.5	No excess land for yet-to-be-defined projects	Yes. Well-defined project area and development.
4.1.6	Transit-oriented development	Mixed. The nearby transit infrastructure is a significant public investment intended to attract exactly this type of development. However, the development itself does not add additional infrastructure or transportation-related public goods.
4.1.6.1	Housing units are affordable at 80%, 50%, and 30% AMI	No. No affordable housing in the project area.
4.1.7	Opportunity Zone, strategic growth area, or smart growth outcome area	Yes. Project area is in an Opportunity Zone, and within a designated city center in Wasatch Choice 2050 Vision.
4.1.8	Reactivate an area	Yes. Resolves a blight designation from 2011. Of note, the area may not currently meet a blight designation, although that change might be due to construction that has already taken place. Other construction projects also began before this project.
4.1.9	$500 million+ capital investment without increasing cost of services	No. Total investment estimated at $300 million while adding residents and users.
4.1.10	Plan for affordable housing funds	Not yet. Agency is open to the County requiring a plan as part of participation in this project area.
4.1.11	Municipality matches County	Not at proposed terms, where County contribution is proposed at $5.9 million and City is at $3.71 million. Yes, at the recommended terms, where County contribution is proposed at $1.48 million.
4.1.12	LEED Gold new construction	No.
4.1.13	Admin fee to County	Yes.

Unfavorable project area considerations:

Policy number	Policy Goal	Consideration
4.2.1	Fails 4.1 (any of the above)	Mixed. Fails 5 considerations. Questions on 3 others.
4.2.2	Predominately housing, detached single-family or market rate	Mixed. The development proposes two office buildings and a hotel, in addition to two residential buildings. A

		substantial portion of the developer's profits will come from the high-density, market-rate housing.
4.2.3	Predominately retail	No. Street-level retail is included, but not a large portion of the developer budget or estimated profits.
4.2.4	Zero-sum	Mixed. While housing might be considered zero sum, Salt Lake County is currently experiencing a housing shortage that this additional housing may help address. The hotel is zero sum, and the office could be considered zero sum.
4.2.5	Sensitive land	No.
4.2.6	Requests County sales tax	No.

ANALYSIS

County staff and an outside consultant spent several months working with the Agency and developer representatives to better understand the underlying assumptions for the project and the circumstances that have allowed the project to move forward thus far without public assistance. Based on that analysis, we concluded that the originally provided project assumptions did not accurately reflect current market conditions and were based on highly conservative projections. With the assistance of nationally recognized experts, we updated those assumptions to better reflect current market conditions and more reasonable projections.

Summary of adjustments to revenue expectations			
Factor	**Proposal Assumption**	**Adjusted for Market Conditions**	**Reason**
Office 1 and 2 vacancy rate	10%	6%	County-wide office vacancy is at 6%.[1]
Office 1 and 2 cap rate at sale	8.0%	7.3%	Market average is 7.3%.[1]
Multifamily P1 rents	\$2.01/SF	\$2.30/SF	Most accurate comparable properties support the adjustment.[1] Includes inflation for 2023 delivery.
Multifamily P2 rents	\$2.16/SF	\$2.45/SF	Most accurate comparable properties support the adjustment.[1] Includes inflation for 2024 delivery.
Multifamily vacancy rate	MFP1: 5.5% MFP2: 6%	5%	5% is standard vacancy rate for multifamily pro formas. County average is currently below 2%.[1]
Multi-family annual rent escalations	2%	2.5%-3%	Apartment rents escalate at varying YOY rates, but the last ten years support a growth rate of 3%. See below for further discussion.

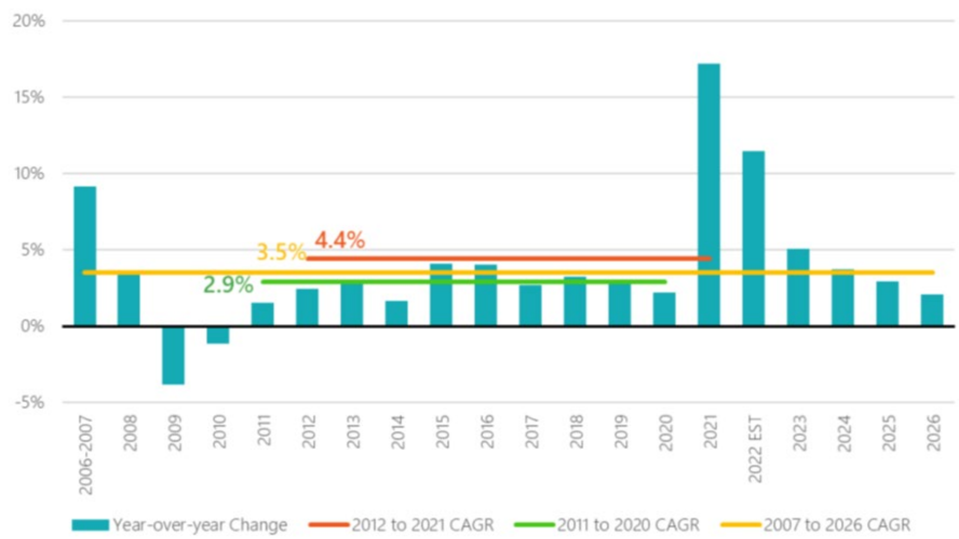
1: CoStar, SB Friedman.

One of the biggest adjustments during analysis was the market rent charged for apartments, which changed dramatically in 2020-2022. Multifamily rents in the greater market climbed roughly 15-17% in 2021 alone, a dramatic spike from previous years that ranged from 3% to 5% year-over-year escalations.

While it is not reasonable to assume that multi-family rents will continue on their current, steep trajectory, it is reasonable to assume that rental rates for this project will be in alignment with the market at delivery – i.e., renters will not be charged 2019 apartment rental rates in a 2023 market with substantially higher average rents. The developers agreed to update their financial models after discussion with County staff to reflect these higher average rents.

In addition, third-party consultant SB Friedman assisted with the analysis of historical and projected annual rent increases.

Annual Apartment Rent Escalation Rates	
Date Range	**Average year-over-year rent escalation**
2011-2020	2.9%
2006-2026 (including projection)	3.5%
2012-2021	4.4%



With these updated revenue assumptions, the "financial gap" consideration for when public assistance is appropriate appears to diminish or disappear. Much of the difference comes down to how quickly multi-family rents escalate. We acknowledge that it is possible to conservatively estimate those rent escalations, but we feel confident that the development teams will work to capture the maximum escalation the market allows when they rent their apartments. The spectrum of supportable escalations ranges from 2.9% on the low end to 4.4% on the high end for our market. We are confident that our assumption of 3% is reasonably conservative and supported by market data. When the proposal is adjusted per these revised assumptions, the project appears to fail to meet the "but for" condition referenced in Policy 1155 regarding a financial gap that warrants public assistance.

Outside of the "but for" condition, County staff continued its analysis in considering whether the project creates enough public benefits or public goods to warrant participation with County increment. As part of this analysis, the Agency has requested the County consider various public benefits not specifically referenced in County policy that relate to the unique circumstances of South Salt Lake, including the municipality's need for high-end market-rate housing vs. affordable housing, prior County history with South Salt Lake, high-impact services sited within city boundaries, and the creation of a downtown core for the municipality.

Select demographics within the project area and South Salt Lake City show lower median household incomes, lower per capita incomes, a greater percentage of households below the poverty level, and lower median home values compared to the County as a whole.

	Central Pointe URA	South Salt Lake City	Salt Lake County
2021 Total Population	63	27,775	1,207,807
2021 Median Household Income	$41,337	$47,502	$80,897
2021 Per Capita Income	$18,619	$23,881	$33,888
2019 Households Below the Poverty Level (%)	16.67%	17.53%	8.84%
2021 Unemployment Rate	2.9%	3.7%	3.3%
2021 Median Home Value	$300,000	$334,092	$406,810

Source: ArcGIS Business Analyst (ESRI).

These factors could indicate that South Salt Lake is in need of concentrated investment and economic development, as suggested by the Agency. The County jail, a Homeless Resource Center, and a planned mental health receiving center several miles southwest from this project area also suggest a need for additional mitigation around these high-impact social services within South Salt Lake.

However, County staff struggle to identify a direct link between this project area – and the reimbursements proposed in the budget – and those high-impact social service providers or the under-performing demographic factors. The social service providers are separated from this project area by more than three miles and two major freeways. Efforts to improve the area around the jail, HRC, and receiving center should concentrate on the property adjacent to those providers. The ongoing discussion about County-owned property in the area near those social-service providers could include development studies, outside expertise, and a plan to bring taxable value back to those properties that would enhance the City's budget. All of that discussion would focus directly on the impacted property and neighborhoods closer to those providers. Of note, County staff are working on a plan to support areas around all HRCs in Salt Lake County based on a proposal received from another city.

This development could claim an indirect impact on the demographic factors above. County staff expect property values will rise as the development comes onto tax rolls and continues improving the City's downtown district, meeting the initial promise of the URA project. In addition, some employees in the development's office phases may choose to live within the City, potentially contributing to a rise in incomes and a drop in the percentage of households below the poverty level and unemployment. The Agency's request, however, does not focus on employment or these broader demographic trends, as its analysis and proposal focus on the cost of development, projected rental revenues, and developer reimbursement.

Based on the totality of the reasons noted above, however, County staff continue to recommend a limited participation in this project area – primarily because the bulk of the tax increment flows to the development companies as a reimbursement for their construction, rather than to public benefits accessible by the community at large.

If, however, the Agency adjusts the project area budget and planned reimbursements to address economic inequities instead of focusing on developer reimbursements, the County could re-evaluate its participation cap and contribute to public benefits line items.

RECOMMENDATIONS/DISCUSSION:

In summary, County staff recommend contributing toward affordable housing with a "wait-and-see" approach on the remainder of the project. While we are not currently comfortable recommending a contribution amount in the full amount of the request, we recognize historical disinvestment in South Salt Lake and, in turn, recommend full participation toward the affordable housing request.

We also recommend that the Agency consider additional opportunities to create public goods. This could, for example, include an expansion of Parley's Trail or creation of public space relevant to the "Downtown South Salt Lake" vision put forth by this project. Funding for these activities could come from TIF or other sources. While it would not be proper for the County to dictate any such proposals, we note our potential interest in any such opportunities.

In addition, a County ILA could include provisions for future participation toward developer incentives if market conditions change in such a way to warrant public assistance. This analysis is based on an acknowledgment of unique circumstances of the proposal. The developers began construction in an arguably blighted area with an expectation of public assistance. For many reasons, decisions on public assistance have been slow to develop. In this case, it would be reasonable to "bridge" any financing gap if it should emerge in the future. Any such future participation would need to undergo an appropriate due diligence process. We recommend a re-evaluation of options for that potential additional increment at years 3, 6 and 9 of the ILA, while recommending the initial participation for affordable housing and administration.