

TO: Salt Lake County Council
FROM: Mayor Jenny Wilson
 Jevon Gibb, Economic Development Director
DATE: April 7, 2021
RE: Herriman Innovation District CRA Project, Recommended Interlocal Agreement Terms

RECOMMENDED TERMS:

Terms	Herriman CRA Request	SLCo Recommendation
Base Year	2018	2018
Base Year Value	\$696,711	\$696,711
Term	15 Years	15 Years
Trigger Year	2022	2022
Collection Area	Project Area	Project Area
Participation Rate	75%	75%
TIF Cap	\$1,726,198	The greater of \$437,901 or the combined contribution of Herriman City, Unified Fire Service Area, and Herriman City Safety Enforcement Area, but not to exceed \$832,352
Performance Benchmarks	None	None
Administrative Fee	2.9%	2.9%
County Admin Fee	None	A portion of the County's collected increment –3% annually—is paid to the Office of Regional Development for costs associated with evaluating county participation in the project area and ongoing administration of the Interlocal Agreement.
Allowable Uses of Increment	Pass-through to the South Valley Sewer District for the sewer line	Allowable uses of County tax increment are limited to sewer line improvements, county administrative fee, and agency administrative costs directly related to the administration of this project area.

BACKGROUND: The Community Development and Renewal Agency of Herriman is requesting 75% property tax increment over 15-years from Salt Lake County for infrastructure improvements for the Herriman Innovation District Community Reinvestment Project Area.

The Agency has been seeking County participation for years and all other taxing entities who have agreed to participate entered into interlocal agreements in the second half of 2019. The Agency created its Project Plan before securing Bullfrog Spas' location in the Project Area.

The project area is 37.97 acres, of which 10 acres are already developed by Bullfrog Spas. It is located directly south of 11800 South at approximately 7000 West and is bordered by an unnamed service road on the east.

The Agency's stated goal is to locate more jobs near population centers in the County's southwest. The financing gap is directly related to infrastructure improvements. The Agency argues that a manufacturer will not bear these costs, and "but for" this subsidy, the only market-rate use for this property would be residential.

The Agency has already acquired right of way and built out the roads and water line infrastructure. The remaining expense is the \$3 million sewer line.

While Bullfrog Spas has already occupied 10 acres of the Project Area, the Agency argues that the sewer line is necessary to make the remaining parcel a competitive "shovel-ready" site for a manufacturer. The sewer line could also be leveraged for future developments in the adjacent land.

AGENCY BUDGET: (also provided in Attachment A)

Total Project Costs as estimated in Project Budget: \$7,100,000

- City Waterline: \$2,700,000
- Right-Of-Way: \$600,000
- 11800 South Improvements \$800,000
- Sewer Line \$3,000,000

The actual costs so far are:

- Roads & a portion of Right-Of-Way: \$1,256,679
- City Waterline: \$1,445,652

Remaining costs:

- Sewer Line: \$3,000,000

FAVORABLE AREA CONSIDERATIONS – Section 4.1 of SLCo Policy 1155: County Participation in Tax Increment Financing Project Areas:

- 4.1.1 – "But for": Yes. To be competitive for attracting manufacturers, sites need to be "shovel ready". The Agency argues persuasively that "but for" this subsidy, the only market-rate investment in the Project Area would be residential.
- 4.1.2 – Required terms and conditions: Yes
- 4.1.3 – Reimbursement focuses on infrastructure or site preparation: Yes
- 4.1.4 – High-wage jobs, small business expansion, apprenticeships, or skill development programs: No. Jobs pay ~\$32,000. There is some discussion of skill development, but not covered in budget.

- 4.1.5 – No excess land for yet-to-be-defined projects: Yes. Project defined by proposed development area
- 4.1.6 – TOD or, if residential component, affordable housing: No. TOD or affordable housing.
- 4.1.7 – OZs or strategic growth areas: No. Not an Opportunity Zone or strategic growth area.
- 4.1.8 – Reactivate an area: No. Greenfield development.
- 4.1.9 – \$500mn+ capital investment without increasing cost of services: No. Less than \$500m, but potentially will decrease cost of services by reducing commuting distances.
- 4.1.10 – Plan for affordable housing funds: Yes, as required by State.
- 4.1.11 – Municipality matches county: Yes, if County approves Recommendation. In original proposal from Agency, the County’s contribution is ~\$1.7m at 75% participation rate and the City is ~\$350k at 100%. Because Unified Fire Service Area and Herriman City Safety Enforcement Area are not currently participating, the potential total contribution is significantly reduced.
- 4.1.12 – LEED Gold new construction: No
- 4.1.13 – Admin fee to County: Yes, under Recommendation.

Unfavorable Project Area Considerations

- 4.2.1 – Fails 4.1 (any above): Passes 7 of 13.
- 4.2.2 – Predominately housing, detached single-family, or market rate: No
- 4.2.3 – Predominately retail: No
- 4.2.4 – Zero-sum: No
- 4.2.5 – Sensitive land: No
- 4.2.6 – Requests County sales tax: No

RECOMMENDATIONS/DISCUSSION:

Pre-existing development and expenses do not satisfy the “but for” requirement. The remaining expense of \$3 million for a sewer line does satisfy the “but for” requirement – a financing gap exists to make this parcel competitive for future manufacturing projects. As such, the County should only participate toward expenses that have not yet occurred.

As set forth in the Project Budget, the County accounts for approximately 15% of total tax revenues.¹ In turn, 15% of \$3 million is \$437,901. This amount is still higher than Herriman City's contribution of \$348,933. See Attachment A for a summary of proposed contributions and current interlocal agreements.

The Agency asked that the County participate up to the proposed \$1.76 million cap, with the caveat of all those funds going toward the Sewer Line. Because this caveat merely shift expenses, it does not address the concern that pre-existing development and expenses do not satisfy the "but for" requirement.

If the County participated in the current actual costs plus the expected sewer line, that amount would be about \$2.7million. 15% of that amount would be \$832,352. We hesitate to set any precedent that requires us to go back in time, as this higher amount would require.

We are, however, concerned by any potential inability by the Agency to fund the sewer line given a reduced contribution. Considering the high potential cap for Jordan School District, even with its low participation rate, any shortfall in funds from other taxing entities will likely eventually be covered by the School District.

As such, the County proposes the following cap: "the greater of \$437,901 or the combined contribution of Herriman City, Unified Fire Service Area and Herriman City Safety Enforcement Area, but not to exceed \$832,352." With this language, we can partner with Herriman to address this issue, while reducing the potential burden on Jordan School District.

¹ This is the total expenses excluding the Salt Lake County Library, which we do not currently include in TIF projects due to budget challenges. The library has been excluded here for fairness. Excluding it causes the county's percent of total to increase by around 1%. As such, it is a fairer deal to Herriman.