

## TAX INCREMENT PARTICIPATION RIVERFRONT DEVELOPMENT

### **BACKGROUND:**

In 2014, the South Salt Lake Redevelopment Agency created the 3900 South Community Development Project Area. As part of that creation they adopted a project area budget, that outline the potential tax Increment that the project would produce and the amount of that increment that would be provided to the developer for the infrastructure costs associated with the development. That adopted budget provides the developer 75% of the available tax increment for a 15-year period. The Riverfront estimated assessed value, which would be created by 413,000 square feet of flex-warehouse, 288 apartment units, and 56 town homes, was estimated to be \$60,748,708 upon completion. This assessed value was estimated to produce \$871,805 in property tax. The city's portion of this new property tax would be \$156,246 annually.

In December of 2015, the agency and the city approved an interlocal agreement for tax increment participation for the Riverfront development. The terms of this agreement allowed 75% of the city's property tax to flow to the agency for a 15- year period. Assuming the assessed value upon completion would be \$60,748,708, the city portion of the total property tax would be \$156,246, and the 75% participation would provide \$117,185 annually. The total amount provided over 15 years for the developer incentive would be \$1,757,768. Therefore, under the approved budget and interlocal agreement the maximum incentive that would come from the city would be \$1,757,767. This incentive was for the estimated \$7,500,000 for the infrastructure the total development required, and \$1,500,000 for property acquisition, for the flex warehouse development.

The agency met with the other taxing entities (county, school district) to obtain their participation of providing tax increment. The county agreed to provide 60% of their increment for a 15-year period, subject to participation by the school district. The school district did not agree to participate. Therefore, no increment was passed to the developer.

The project area still exists and the interlocal agreement between the city and agency has not been terminated. We still could pass to the developer 75% of city produced tax increment for a 15- year period.

### **CURRENT SITUATION**

In order to compensate for the lost of the tax increment, the developer approached to city in 2018 regarding amending their development agreement to scrap the residential development, and to build 150 townhouses that could be rented. This would provide the developer with a higher return on his investment along with a better and longer revenue stream. In the presentation the city council asked what type of incentive could be provided to encourage the development of the single- family homes. The developer indicated the amount would need to be \$1-2 million to assist with the infrastructure and the land write down that would be required for a single- family residential lots. The council requested that the RDA administration work with the developer on the incentive needed and bring the request back to the agency for consideration.

In our discussions with the developer they have indicated that the infrastructure improvements would be \$980,000 and the estimated land write down would be an estimated 1.5 million, for a total amount of \$2,480,000.

Today, the assessed value of the project area is \$73,248,795. Utilizing the current certified tax rate of the city, the property tax generated for the city is \$116,978, which is less than the adopted budget. The reason is because the city certified tax rate is less than the rate in 2015. If the same terms are applied (75% participation, 15 -year period), then the increment that would flow to the agency for an incentive would be \$87,733 annually. Paid over 15-years, this would result in a total incentive of \$1,315,995. This incentive is adequate to cover the infrastructure and a small portion of the land write down. It should also be mentioned the developer has moved forward with the single- family development, based on the understanding that the agency/city would provide an incentive. In discussing the progress of the development 90% of the single-family lots have been sold. The average price for these homes is \$375,000 which are great for the workforce housing market.

## **RECOMMENDATION**

The developer has met the request of the city and proceeded with a single -family development. The agency and city have approved an interlocal agreement, which provides 75% of the tax increment for a 15-year period. It is the recommendation of the RDA staff that this agreement be amended to reflect the new assessed value, a new date to trigger the increment, and to include a new cap of \$1,400,000 for the total increment to be paid for the incentive from the city. This amended agreement would be prepared for adoption by both the agency and city. It is also recommended, that we provide in the tax increment participation agreement with the developer that in the event we are successful in obtaining any additional increment from other taxing entities ( county), that increment will be passed through to the developer up to a total participation of \$2,480,000. It should be clear that the developer is not guaranteed any other increment, other than the 75% amount produce by the city portion of the property tax.

In summary, the developer receives 75% of the tax increment collected by the agency from the city, for a period of 15 years, or up to a cap of \$1,400,000. This incentive compensates the developer for the cost of the infrastructure (road, water, sewer, storm water, fencing), and a portion of the land write down cost for a single- family development. The developer will be required to provide the agency documentation of these costs as part of the tax increment agreement.