

SOUTH JORDAN CITY
CITY COUNCIL STUDY SESSION

June 2, 2015

Present: Mayor David Alvord, Councilman Steve Barnes, Councilman Chuck Newton, Councilman Chris Rogers, Councilman Mark Seethaler, Councilman Don Shelton, CM Gary Whatcott, City Attorney Ryan Loose, PIO Tina Brown, Interim Police Chief Jason Knight, City Commerce Director Brian Preece, IS Director Jon Day, CEO Paul Cunningham, Police Chief Jeff Carr, City Council Secretary MaryAnn Dean

Others: See Attachment A

**POLICE TRAINING ROOM
4:00 PM – STUDY SESSION**

A. Invocation

Councilman Shelton offered the invocation.

CM Whatcott introduced Jeff Carr, the new Police Chief. He will start officially on July 1st.

Mr. Carr reviewed his background and experience. He is a community policing advocate. He believes his role is to serve and support. He lives in Murray. He wanted this position because South Jordan is a wonderful and thriving city with a relatively low crime rate. With their growth, the crime issues will have to be addressed. The challenge of the job brought him here.

B. Discussion Item: Continuation of RDA Project Area #9
(By City Commerce Director Brian Preece)

City Commerce Director Preece recognized Mike Christensen (Thackaray Garn Group) and Steve Peterson (Millrock Development). They are trying to make this project palatable for the city, developers, and UTA. The unknowns with this project are mostly with UTA. They don't want an untaxable parking lot on the most valuable property in the city. The worst case scenario would be a project that failed. UTA is donating the land but also taking about a 20 percent equity interest in the project. It is based on their property value. He feels UTA is hyper inflating their value because they aren't considering their request for 500 parking stalls. They feel it should be about a 5 percent equity interest. He said they would like to work with UTA. He said the city waived certain requirements for UTA because they knew the parking lot would happen later. The city helped UTA get the front runner stop going. UTA has made assurances and promises in the past.

Laura Lewis, financial advisor, reviewed some financing options. She said it would be ideal if UTA took the tax increment and UTA agreed to finance the project, and if UTA agreed to pay

cash for their parking stalls. She has not known UTA to use their finance authority to finance projects like this, so that is unlikely to happen. UTA has participated in projects in other ways, but not the way this option outlines.

Councilman Newton asked what if the County transportation sales tax passes? CM Whatcott said they have been told that UTA has those funds well defined for bus service and connectivity. Mr. Preece said UTA could use it to backstop the bond.

Ms. Lewis outlined another option that uses all the projected area Tax Increment Financing (TIF). She said they are not going after housing money.

Councilman Newton asked if they use all the TIF money, will that tie their hands in helping others that may come to the project area? Mr. Preece said the budget only approved a parking structure. He said UTA wants this land developed because it will drive ridership, and they would gain some revenue off the land.

Councilman Newton expressed frustration that UTA is not putting in anything except land but they are proposing to be an equity partner above the value of the land in the parking structure and the building itself. Mr. Preece said UTA is expecting the city to take the risk. CM Whatcott said UTA's argument is that they are donating the land. RDA Attorney Smith said UTA is getting their equity from the land.

Ms. Lewis said one major challenge with the ideal scenario is time. There is a clock ticking for the city to be able to take the full 15 years of TIF. They have a developer and tenant ready to go. There are time pressures on both sides. She said the anticipated TIF from phase 1 is \$797,000 per year. She reviewed the cash flow to help fund the gap for the parking structure for phase 1.

Ms. Lewis said there is always the option of giving the developer the TIF only. The first challenge the developer will have is that they can't get as low of an interest rate as the city. That will widen the gap that the developer needs to make this work.

Ms. Lewis said option 2 is for the city to issue TIF bonds with no credit support. That will further widen the gap. This option is difficult because TIF bonds are viewed as risky.

Mr. Preece said option 1 is the least risky. He said that is how all of the RDA's are done, except the District.

They reviewed a 3rd option including a TIF bond with city credit support (sales tax pledge, energy tax pledge). It will use their capacity. Councilman Newton agreed that it eliminates some head room. He does not believe they will exceed capacity, but it will come close to it. Mayor Alvord said they should see how close UTA is to their capacity.

CM Whatcott said UTA previously agreed to participate in the cost and they are not. They need to hold them to their word. It was an around the table deal, not in a contract.

RDA Attorney Smith said he agrees with Ms. Lewis's analysis. Under the law, if they are addressing the affordable housing needs, they should be able to get a waiver of the 20 percent housing requirement. They don't feel this is a great time to take it to the Taxing Entity Committee (TEC). They can make a good argument to Olene Walker and Pamela Atkinson folks. For the TEC, if they were under contract, and had an agreement with the developer, they could consider cutting a year or two off the tax increment. Then there is a good chance the TEC would vote for it. CM Whatcott said that scenario would more likely happen with Phase 2.

Mayor Alvord asked what tax are they using for KLN? CM Whatcott said that is a special assessment bond and it does not affect this.

Ms. Lewis presented another option.

- RDA issue bonds for \$4.5 million approximately with sales tax support
- RDA would loan developer \$1.5 + million with remaining TIF and guarantee
- Remaining T1 to developer.

Steve Peterson said even with scenario 3, they are still short \$2.5 million. The biggest concern for the city is the construction risk. They, as developers, take on that risk. They are proposing to verify with the city that they have the equity in their account required for the project. Also, they will show the preleasing requirement for the lender has been achieved, and the loan documents approved. They would also provide the contract awarded to their construction partner, which would likely be Jacobsen construction. This RDA has been long envisioned as the gateway for the community and to bond for the parking structure.

Councilman Barnes asked if the verification of the equity in the account would be specific to a project? Mr. Peterson said yes, it is dedicated to the project. They believe the risk left to the city is small. They believe the numbers presented are conservative.

Mr. Peterson said they are pushing for UTA to take the value of the land to pay for their parking stalls? They don't know if UTA would be willing to do that. Mike Christensen said they have had a number of discussions with UTA on this issue. UTA feels they should have some capital account. He said staff's position makes their argument with UTA stronger. He said providing the credit enhancement makes the bonds sellable.

Mr. Peterson said they like plan 3. Mr. Christensen said the real risk is that the project not being on the tax rolls for the projected amount. Mr. Peterson said option 4 would require more capital. He said for their bank financing, they would have to put a certain amount of equity for the project. It would require them to come up with more equity for the project. He said the best case for them is option 3 and then an additional \$1.5 million. It was noted that rent inflation was not factored into these numbers.

Ms. Lewis said as property values go up, they force the tax rate down. Mr. Preece said they don't get an inflation factor. Mr. Preece said they are talking about the tax rate itself.

Councilman Shelton said this is half of the parking structure. Mr. Peterson said it is a little more than half. He said the second building will come on line in 2019, at the latest, and that will help pay for it. That would be separate financing. The hotel is included in phase 1.

Councilman Rogers said the estimated tax increment is conservative. Option 1 is very conservative.

Councilman Shelton said they can find ways to mitigate the risk to the city and allow the project to go forward. He said the city is investing a lot in this deal and there hasn't been one word about what the city gets out of this investment.

Mr. Christensen said South Jordan is a beautiful community with the highest income per capita. The front runner is a very attractive component to this site. When they bring in the fortune 500 companies, it brings a tenant base with high paying jobs. Some of those employees will want to live in South Jordan. It will also spark economic development around this project. They project almost 2000 people coming to this site daily. They believe it will be a beautiful landmark and gateway to the city. If they have to cut back on the quality and size of the buildings, they will lose the real value and distinction to the community.

Mayor Alvord said in 15 years, South Jordan will receive additional tax increment financing.

Councilman Shelton asked if there was a way to quantify what the city will get out of this in dollars. Ms. Lewis said yes, they can give estimates. CM Whatcott said some of the value to the project is hard numbers; some are intangible. Ms. Lewis said the sales tax is harder to quantify because of the location of this project. She said she would get the City an estimate.

Mr. Christensen said they feel that the proposal is the highest and best use on this parcel.

Councilman Rogers said option 1 gives the developer the incentive to make sure the project is successful. Mr. Christensen said the issue is the timing of cash flow.

Mayor Alvord said they still need to determine what UTA is willing to do. They need that answered. He said they should ask UTA for the ideal scenario. Could they do option 3, where both the city and UTA contribute \$4.2 million? His concern with hitting capacity is that they can't do another project. Councilman Rogers said they need to make UTA live up to their promises.

Mr. Preece said the UTA representatives that they have asked have said they are only providing the land. That is why they went to the Board.

Mr. Peterson said they have a tenant that wants an answer this month. He figures each week that passes, it affects the TIF by \$20,000. Mr. Christensen said if they don't build the building until 2018, they will only have a 14 year TIF, rather than 15 years. Mr. Peterson said the demand is there right now. We are competing with other cities. The other cities are not offering this product so they will be able to attract the Fortune 500 companies.

Mr. Christensen said once they understand what the city is willing to do, they can work with UTA to see what concessions they will give and move forward.

Mr. Christensen said he would be meeting with UTA representatives (Mr. Myers) tomorrow. After the meeting tomorrow, they can call a meeting with the Board and possibly some city staff. They are also working with Legislators on some state issues as well because they are faced with this same issue on all of their projects.

Mr. Christensen recommended that the city outline that they are willing to do “Y”, if UTA does “X”. If they can’t get up to the amount that they are seeking, they will have to go back to the drawing board and make the development less.

Councilman Seethaler said this comes down to risk, benefit, structure, and timing. The clock is running for the city as well. If they want this development, they need to work through the financing issues. They are also competing with other cities for their TOD projects.

Mr. Smith asked why did UTA go to the Legislature to get powers, but then they are not exercising them? Mr. Christensen said they didn’t understand how hard it would be financially to get it all to come together.

The City Council discussed doing a work meeting next Tuesday on this issue and item C.

C. Discussion Item: Draft policies regarding RDA Housing Fund Programs
(By City Commerce Director Brian Preece)

This item was not discussed due to lack of time.

ADJOURNMENT

The meeting adjourned at 6:00 p.m.

This is a true and correct copy of the June 2, 2015 Council Study meeting minutes, which were approved on June 16, 2015.


South Jordan City Recorder

