



Redevelopment Agency of Sandy City

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MEMORANDUM

To: Sandy City Council
From: Redevelopment Agency of Sandy Staff
Date: 4/10/2024
RE: RedSky Sandy, LLC Participation Agreement

In 2022, the Redevelopment Agency of Sandy City (the “Agency”) was approached by RedSky Sandy, LLC (the “Developer”) on the Agency’s willingness to create a Housing and Transit Reinvestment Zone (“HTRZ”) that encompassed their residential mixed-use development (the “Development”) on 2.52 acres within Sandy’s Cairns District. The purpose of the request was to help offset a **\$4.7M** funding gap caused rising construction costs, the existing building exclusion zone, and other development impediments including the challenge of financing parking structures in the existing financial market. Sandy successfully created the state’s first HTRZ in September 2022. The HTRZ Committee approved up to **\$1.5M** in TIF funding over the 25-year lifespan of the HTRZ. The Committee’s rationale for partially funding the gap was due to the Development not entirely fitting the requirements of an HTRZ, as envisioned by some Committee members, including the Commuter Rail Station location across I-15 (no direct connection), and the limited acreage of the HTRZ. Since 2022, the market has continued to decline to the point the HTRZ funding is even more insufficient to offset the Development’s impediments.

The Agency has worked diligently with the Developer to identify and pursue alternative funding sources, this includes assisting the Developer to submit and successfully gain approval for HUD financing. Additionally, the Development is within the expired City Center Redevelopment Project Area (the “Project Area”), which has funds reserved for capital facilities projects that must be spent within the Project Area by 2029. To offset the current financing gap, the Agency recommends a one-time payment of **\$3.0M** from the City Center Redevelopment Project Area.

The Agency staff concludes that the **\$3.0M** payment is justified by market economics, financing constraints, and projected revenues anticipated to be created by this Development. The following sections outline the specific variables and financing components used to evaluate and derive this conclusion.

DEVELOPMENT GAP AND PARTICIPATION REQUEST

LRB Public Finance Advisors (“LRB”), the Agency’s financial advisor, completed an HTRZ Application and Gap Analysis of the Development in June 2022. That analysis discussed the various constraints of the Development, including market conditions (construction costs, debt service coverage ratios, yield on costs, and cap rates), site boundary restrictions, parking structure costs, and other urban infill costs. In total, the Development had a funding gap of approximately **\$8.0M** in 2022. The Developer informed the Agency that approximately **\$4.7M** of Agency funds (over time as per the HTRZ) would be sufficient to begin construction.

Table 1: 2022 Development Gap

Description	Cost
Structured parking in lieu of surface parking	\$3,600,000
Increased construction cost since 2021	\$2,460,000
Increased Cairns Standards	\$1,000,000
Boundary Restrictions	\$554,000
Urban Infill	\$175,000
Total	\$7,789,000

Since the submission of the HTRZ, notable shifts have continued to occur within the real estate market. Specifically, cap rates for development have risen by nearly two percentage points. Consequently, a significantly larger amount of additional equity is now required to secure construction financing. In exploring strategies to move the project forward, Agency staff discussed the option of providing a **\$3.0M**, one-time payment at the time of construction loan closing to satisfy the needed equity to receive financing and alleviate other development impediment costs previously discussed. While less than the \$4.7M request, this one-time payment, coupled with HUD financing provides the needed equity to close on the loan, as opposed to receiving the entire request over a much longer period (20-25 years).

PARTICIPATION REQUEST JUSTIFICATION

As outlined earlier, inflationary pressures have significantly influenced the real estate landscape, resulting in heightened interest rates, escalating construction expenses, and elevated cap rates. These factors, in conjunction with other development impediments, underscore the necessity and reasoning for Agency involvement. Furthermore, the proposed Development is poised to yield approximately \$60,000 or more annually in direct fiscal benefits for Sandy City, with the likelihood of even greater gains when factoring in additional indirect and induced benefits. The ripple effects of this endeavor will extend beyond the immediate vicinity, fostering increased vibrancy throughout the Cairns District through the influx of new residents to RedSky.

CONCLUSION

Based on the current market conditions and completed analysis, Agency Staff believes the Agency participation request of **\$3.0M** is justified and necessary to move the project forward. Without Agency participation, the Development will continue to be put on hold for the foreseeable future.

SUMMARY & NOTABLE TERMS OF PARTICIPATION AGREEMENT

- The Agency will, one time only, pay up to \$3.0M. The Payment will be made to the account of the Participant’s construction lender for the Project, to be disbursed by that lender according to the lender’s requirements as work on the Project progresses.
- The Agency will match dollar for dollar, up to a maximum of \$3.0M, the value of all contributions. If the Company Contribution is less than \$3.0M, then the Payment will match that lesser amount.
- Agency has no obligation to make payment unless and until each of the following has occurred first:
 - Company has obtained a building permit for commencement of work.
 - Company has obtained a construction loan to finance the full construction of the Project on or before October 15, 2024, with finalization of that loan conditional only upon receipt of the Payment proceeds from the Agency.
 - The Company has provided to the Agency’s Redevelopment Director and legal counsel a

copy of the construction loan documents, and the Agency's Redevelopment Director and legal counsel are reasonably satisfied with the terms of such loan documents regarding use of the Payment proceeds for the Project.

- The Company has contributed to the lender's construction loan account the Company Contribution.
- The Company shall commence construction within sixty (60) days of the effective date of the construction loan documents.
- In the event the parking structure on the Project is not completed within thirty-two (32) months of the effective date of the construction loan documents, then the Company shall repay to the Agency the Payment.