

March 13, 2006

TO: CITY COUNCIL MEMBERS

FROM: Alison McFarlane, Senior Advisor for Economic Development
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RE: ECONOMIC DEVELOPMENT UPDATE

WEST SIDE INITIATIVES

West Side Development Potential

- I-15 to Redwood Road, 2300 North to 2100 South
- Executive Summary and Inventory Digest
- Coordination with six Community Councils
- Appointments with 62 real estate agents to date
- Appointments with 10 developers
- Post links on economic development website
- Representation at International Council of Shopping Centers (ICSC)

West Salt Lake City Neighborhood Business Development

- Glendale and Popular Grove pilot program (extend to 4 other districts time and budget permitting)
- Identify targeted business services (greater economic stability and reduction in vacancies)
- Generate business development database including directory of existing businesses and services
- Development of improvement programs including pilot façade program
- Development of neighborhood marketing campaign (enhance sense of community identity)
- Encourage business sustainability (more effective use of community resources)

Potential development

- North Temple and Redwood Road retail development (160,000 s/f neighborhood lifestyle center development)
- Diamond Lil's property on North Temple
- Glendale Plaza

- Onequa Corners
- California Crossing
- Friendly Corners

RECRUITMENT

- USF Reddaways / Yellow Freight (170 jobs, 71,00 s/f, \$8.7 million capital investment)
- Progeny Systems Corporation (6 jobs, 3,000 s/f – Gallivan Avenue space)
- Silicon Valley Bank (300 jobs, 80,000 s/f – Ninigret Park)
- American Distribution Centers (85 jobs, 246,000 s/f, \$8.5 million capital investment)

RETENTION AND EXPANSION

- Letters sent with all business license renewals advising of city loan program and business development assistance
- US Postal Service (600 jobs retained, 700 new jobs, 74,000 s/f)
- Varian Medical Systems (100 jobs, 70,000 s/f, \$15 million capital investment)
- Mrs. Fields Cookies (200 jobs, 158,800 s/f)
- Papa Pita Bakery (34 jobs, 100,000 s/f, \$10 million capital investment)

REVOLVING LOAN FUND

- \$3.2 M cash available with \$600,000 pending loans
- Average monthly payments of approximately \$50,000 are collected in the loan fund

BUSINESS ADVISORY BOARD

- Recent board issues or positions:
 1. Banner ordinance
 2. A-frame amendment to portable sign ordinance
 3. Taxicab ordinance
- Advocacy for Salt Lake City businesses
 - Expansion and retention projects (one-on-one calls and visits)
- Chair: Mary Corporon (Corporan and Williams, and Moriarity Antiques)

I. Salt Lake City's Goal for the West Side

Salt Lake City's West Side is the emerging population hub for the City. With a population of 54,306, it now constitutes roughly 30% of the City's population with the highest ethnic mix of any community.

To serve this emerging population, Salt Lake City has identified the Glendale Plaza, Friendly Corners (400 South 900 West), Onequa Corners (1200 West 500 North), and the North Temple/Redwood Road area as key sites to develop major neighborhood retail centers. Consistent with that goal, in 1995, as part of the City-wide zoning update, the Northwest Corner of North Temple and Redwood Road area was zoned Community Shopping (CS) as a vehicle of implementing this planning. The purpose of this zoning designation is to facilitate a large-scale, planned retail center with an anchor and a variety of complimentary retail shops.

II. Historical Efforts to Attract Economic Development Projects to the West Side

Residents of the Northwest Community have expressed continuing concerns that there are not sufficient retail services in this area. In response to these concerns, the City has identified the Glendale Plaza, Friendly Corners, Onequa Corners, and the North Temple/Redwood Road area as key sites for retail development. Over the years, City staff have attempted to market these sites for an anchor retail tenant. However, because of the perceptions that the market area is weak, there is a lack of disposable income for many retail formulas, and that sites are too difficult to package, anchor retailers have not been willing to develop the site.

III. Description of the Legaspi Company and Its Development Philosophy

The Legaspi Company is a commercial real estate developer based in Montebello, California. The company's goal is to tap into under-served US Hispanic markets that, according to Legaspi, represent a purchasing power greater than Mexico's gross national product. Legaspi has developed projects extensively in California, the Southwest, and Mexico, and worked for clients throughout the United States, Latin America, and Asia.

The company has a record of completing projects successfully that other companies fail to develop. Legaspi's success where others have failed can be credited to their understanding of the Latino customer, employee, and entrepreneur. Legaspi projects have a history of generating enough demand to actually raise rents in previously undesirable areas. For example, the Legaspi Company's work has helped transform Pacific Boulevard in Huntington Park, California.

In an *Inc. Magazine* article published in 1996, Pacific Boulevard is cited as a “model of successful Latinization” because in 15 years’ time the area was transformed from a deserted street with 40-50% vacancy rates to “one of Southern California’s liveliest shopping streets, with weekly sales volumes that rival those on Rodeo Drive.” Over that same time period, rents doubled along Pacific Boulevard.

Legaspi has the capabilities to perform primary marketing research on each project they undertake so that they have a full understanding of the market from the outset. Each project’s site plan is developed in close cooperation with the community and municipalities. The company’s primary research and collaboration with local government provide enhanced potential for successful developments by offering a better mix of services with convenient access provided by a close proximity to public transportation.

Legaspi developments generally feature a large anchor tenant. Current projects include variety stores, grocery stores, or movie theaters. One Legaspi development in California attracted a 10,500 square foot Immigration and Naturalization Service office as the anchor, which changed the center’s designation from retail to convenience/service. The anchor facility is surrounded by smaller businesses based on current market conditions in the project area.

IV. Development Opportunity Proposed by the Legaspi Company

For the past 8 months, the Legaspi Company, headquartered in Los Angeles, California, has been having discussion with the Administration regarding the potential to develop a neighborhood lifestyle and retail center at the corner of North Temple and Redwood Road. The property under consideration consists of 9.65 acres.

V. Details of the Legaspi Company’s Proposal for a Neighborhood Lifestyle Retail Center

The Legaspi Company is proposing a 160,000 square foot neighborhood lifestyle retail center for the site, anchored by a 50,000 square foot Gigante supermarket. Gigante is a successful Latino retailer (headquartered in southern California with locations in neighboring states) featuring products that ensure a strong crossover appeal. Gigante’s marketing and product selection targets customers from diverse socio-economic and ethnic backgrounds.

Additional retail on the site will comprising up to eight pad sites surrounding the grocery anchor. Depending on pad configuration, a total of 10-15 retail stores will compliment the anchor. The developer typically includes a second-level multipurpose center or community rental space. Bilingual medical and dental services are often included on the second floor of the center.

The proposal includes a public transit component, consistent with other centers built by the Legaspi Company which incorporate a transit component, either working with local bus service for a dedicated stop on the public right of way and/or encouraging service directly into the courtyard of the retail center. The site for the proposed project is adjacent to an existing hardware/home improvement store (Sutherlands).

Salt Lake City Proposal Details

Developer: The Legaspi Company, 1611 Paramount Boulevard, Monticello, CA 90640; (323) 728-8455

Owner: José de Jesús Legaspi

Site: Northwest corner of North Temple and Redwood Road – 9.65 acres

Proposed Center: 160,000 square foot Neighborhood Lifestyle Retail Center

Capital Investment: \$28,484,000

Job Creation: 200 + (anchor); 300 + (retail pads)

Employment and Payroll: The center will generate 500 full-time jobs assuming one employee per 400 square feet of non-anchor space.

Annual Payroll total	\$7,862,400
Annual Gigante Payroll	\$1,600,000

Workers range from unskilled (clerks) to semi-skilled and skilled workers (managers, attorneys, accountants, public relations and administration).

Local Vendors: The development will utilize many local vendors including general contractor and subcontractors for construction work, 80% of design and architecture, attorneys, consultants, public relations, and advertising services.

Projected Sales Tax: Annual sales of \$56,500,000. Salt Lake City sales tax \$3,729,000.

Property Tax: Annual property tax of \$427,260 based on increased valuation of \$28,484,000 (calculated on a 1.5% tax rate)

Demographics: The ethnic composition of the Northwest and West Salt Lake communities is mixed. The predominant groups in the Northwest are White (47%) and Hispanic/Latino (28%). In West Salt Lake, the predominant groups are White (40%) and Hispanic/Latino (29%).

- Project Benefits:**
- Economic and community development (neighborhood and region)
 - Neighborhood services, stability, aesthetics
 - Job creation
 - Expanded tax base: sales tax and property tax
 - Stimulation of adjacent or neighboring retail and housing
 - Community retail center in underserved corridor
 - Potential bilingual medical and dental services
 - Development and investment in undeveloped/underutilized property and corridor

There is additional economic benefit potential to be realized from the Gigante development project located in Salt Lake City. The Legaspi Company is also moving forward to place Gigante stores in West Valley City and Ogden. With three stores in the area and one of their major vendors already serving other large stores in the Intermountain West, there is potential to build a 200,000 square foot production and manufacturing facility in Salt Lake City to serve numerous stores in the Intermountain West. (The facility would be for the manufacturing and production of Del Real products that are already being sold in Costco and Wal-Mart stores.) The construction of such a facility would require 20-25 acres of land or the purchase of an existing food production facility, possibly the vacant Fleming Foods facility at I-215 and California Avenue.

For the food production facility, a site in Salt Lake City would be in competition with sites in North Las Vegas and Reno, Nevada. The economic impact would be in property tax and up to 300 employees at the facility.

VI. Site Visit to Legaspi Company Developments – Los Angeles, CA

A site visit to several of the projects developed by the Legaspi Company was conducted on November 22, 2005, by Council members Carlton Christensen and Van Turner,

Community Development Director Louis Zunguze, and Senior Advisor for Economic Development Alison McFarlane.

During the site visit, the president of the Legaspi Company, José de Jesús Legaspi, conducted a six-hour tour of retail projects in south-central, southeast, and east Los Angeles. The developer offered insight into the research and development of successful retail for diverse populations and ethnically-mixed neighborhoods. Listening to the customer and respecting their wishes were key elements of his presentation and of the company's approach to retail development. The site visit covered the following diverse retail centers:

- Traditional downtown retail in the former theater district of downtown Los Angeles, where small, narrow footprints and storefronts at street level with adjacent angled street parking are typical
- A grocery-anchored retail center with up to 15 pad sites of complimentary retail services located in east Los Angeles on a former industrial site. Developers had redlined the property, and at the time the project was proposed there were no grocery or retail services for the neighborhood within five miles. Located in a predominantly Afro-American neighborhood of mostly rental apartments and homes, the center has become a community gathering place in addition to providing sorely needed retail services.
- A neighborhood lifestyle center with grocery or big box electronics and home goods-anchored retail. This center is located in an ethnically-mixed neighborhood and includes entertainment (movie theaters and restaurants) as well as soft goods, such as clothing, shoes, electronics, and personal services.
- Second generation retail in southeast and east Los Angeles consisting of free-standing larger stores including FAMSA, described as a "Circuit City with furniture", is often the first entry to credit for young buyers and is a popular store where furniture and appliance buyers are able to purchase products at the Los Angeles store that can be delivered to family members in Mexico, while the sales tax remains in the local community.
- A neighborhood lifestyle center with a large mercado/marketplace, bilingual medical and dental services, a large second-floor community center, and full service retail. The grounds included a carousel, stages for public entertainment, and walkways and corridors filled with lush landscaping. The mercado was situated in a former Montgomery Ward building that had been subdivided to offer booth space to merchants. The larger center was built around the mercado. The front of the former Montgomery Ward building had been enhanced with a façade depicting a national building in Mexico.

Impressions

- Demonstration of understanding mixed-neighborhood market nuances
- Ability to provide a selection of products with cross-over appeal
- Specialty to work in difficult sites and areas

VII. Recommended Incentives the City Should Consider to Facilitate the Project

There are a number of compelling reasons to offer incentives to help Legaspi to bring the proposed development to the corner of Redwood Road & North Temple, including:

- Meeting area goals has been challenging because of the difficulty in marketing this site
- The development would create additional jobs for the City
- The City would recognize increased revenues from sales and property taxes
- Legaspi has repeatedly demonstrated their ability to thrive in and improve difficult areas
- Legaspi provides a unique opportunity to change the negative market perceptions of this area
- This project is a prime candidate with RLF specifically for job creation, sales and property tax generation, and as spurring development in a market-challenged area

Incentives for Legaspi could include:

- Low interest loans
- Reduction in required parking requirements
- Tenant relocation
- Development agreement regarding the Greek Restaurant

Loan Amount: \$2,250,000

Term: 10 year term with loan payments beginning 1 year from opening of grocery anchor

Interest Rate: 3% for a 10-year period

Payments: Annual payments with accrued interest

Collateral: Fully collateralized with property in Utah or California

Guarantees: Personal or corporate guarantee (corporation only)

Loan Origination Fee: On a \$2,250,000 loan the origination fee would be \$22,500. Waving the fee is recommended to add incentive at no cost to the City.

Examples of Comparable Loans that the City Has Provided to Other Companies

Historically, Salt Lake City Corporation has granted larger loans for substantial projects that have significant economic impact (job creation, neighborhood development, redevelopment of troubled areas, etc.). A \$2,250,000 loan would require City Council approval. If granted, the loan fund would have a balance of \$1,17,974. Examples of substantial projects that have received loans include:

- KUTV – Amount & terms: \$1,200,000 @ 0.00% interest for 15 years to be repaid in annual cash payments of \$33,333.34 and \$700,000 to be repaid in in-kind services, making a total loan of \$1,900,000
- L-3 Communications – Amount & terms: \$750,000 @ 0.00% interest for 5 years with annual payments of \$150,000
- Garff Enterprises – Amount & terms: \$500,000 @ 4.00% interest for 15 years with monthly payments
- Bullen & Wilson – Amount & terms: \$400,000 @ 4.00% interest for 5 years with monthly payments

Revolving Loan Fund Balance

03/10/06 Balance	\$ 3,242,974
<u>Loans Pending</u>	<u>\$ 875,000</u>
Total	\$ 2,367,974
<u>Gigante Loan</u>	<u>\$ 2,250,000</u>

REMAINING BALANCE \$ 117,974

VIII. Overall Recommendation

The Legaspi Company’s proposal for a neighborhood lifestyle retail center, anchored by a Gigante supermarket, supports Salt Lake City’s vision for the area and specific goals for the site located at North Temple and Redwood Road, namely the development of appropriate neighborhood retail establishments to service the growing population in the area. The development of a community shopping center in this locale will affirm the City’s commitment to the revitalization of the West side and will potentially spur additional investment from other corporate entities.

The Department of Community Development and the Mayor's Office for Economic Development recommends that the City Council and Administration favorably review and support the proposed project and the recommended package of incentives.

Financing Options for the City Council to Consider

1. Based on 2006 State legislation effective July 1, 2006, Salt Lake City will have the ability to designate a Community Development Area (CDA), which allows the City to utilize additional local option sales tax generated from the area to assist in financing the project.
2. Use current resources totaling \$2,250,000 from the Revolving Loan Fund. If this option is exercised, the Council needs to be aware that the RLF balance would be significantly reduced and therefore replacement funds will need to be appropriated to continue the RLF program.
3. Use current resources totaling \$2,250,000 from the RLF in a phased approach, dividing the loan into two portions, with an initial loan in the amount of \$1,125,000 in March 2006 and the other 50% or \$1,125,000 in March 2007.

IX. Procedures Necessary to Obtain Building Permits

Development of this site will necessitate several processes. Depending on the specific project design and layout, the development process will include the following steps:

- Planned development approval
- Subdivision approval
- Petition to close public streets within the project area
- Complete construction drawings for permitting processes

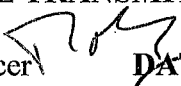
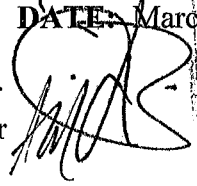
Each of these processes will require coordination with all applicable City and State agencies. The City's Planning and Building Services Divisions coordinate the review processes. The applicant, however, is required to provide all information and documents necessary to facilitate the reviews.

A. LOUIS ZUNGUZE
DIRECTOR
BRENT B. WILDE
DEPUTY DIRECTOR

SALT LAKE CITY CORPORATION
DEPT. OF COMMUNITY DEVELOPMENT
OFFICE OF THE DIRECTOR

ROSS C. "ROCKY" ANDERSON
MAYOR

ADDENDUM TO CITY COUNCIL TRANSMITTAL

TO: Rocky Fluhart, Chief Administrative Officer  **DATE:** March 13, 2006
FROM: Louis Zunguze, Community Development Director
Alison McFarlane, Economic Advisor to the Mayor 
RE: Gigante Supermarket and Neighborhood Lifestyle Retail Center Proposal

STAFF CONTACT: Louis Zunguze, Community Development Director, at 535-7105 or louis.zunguze@slcgov.com
Alison McFarlane, Economic Advisor to the Mayor, at 535-6306 or alison.mcfarlane@slcgov.com

RECOMMENDATION: That the City Council consider an additional project financing option in conjunction with options proposed in the original transmittal of March 9, 2006

DOCUMENT TYPE: Briefing

BUDGET IMPACT: \$2,100,000 from Revolving Loan Fund and \$1,500,000 in tax increment rebates

DISCUSSION:

On page 9 of the City Council Transmittal regarding the Gigante Supermarket and Neighborhood Lifestyle Retail Center Proposal dated March 9, 2006, the Administration presented three financing options for the proposed project and the recommended package of incentives for consideration. Option #1 was to designate a Community Development Area, which allows the City to utilize additional local option sales tax generated from the area to assist in financing the project.

Without the designation of a Community Development Area, Salt Lake City has the ability to utilize the additional local option sales tax generated from the area. This incentive funding mechanism is an option that has been used twice before in Salt Lake City, once for Sutherland Lumber on the adjacent parcel to the proposed development and once for the Fred Meyer (now Smith's Marketplace) development located at 400 South and 500 East. Both agreements are performance-based contracts. The projects must generate sales revenues beyond an agreed upon amount in order to realize any sales tax increment return.

With this addendum to the transmittal, the Administration is recommending that a combination of the Revolving Loan Fund and sales tax increment financing be considered as an additional option which allows for a combination of financing mechanisms. The Administration is in support of this option as an incentive package, specifically that the City use current resources totaling \$2,100,000 from the Revolving Loan Fund. This loan would be a bridge loan, due and payable no later than December 2006. The loan would carry an interest rate of 3%, be fully collateralized, and require a corporate guarantee. In addition to the recommended loan, the Administration recommends an additional local option sales tax generated from the project to assist in financing the project in the amount of \$1,500,000.