RALPH BECKER
MAYOR

SALT LAKE CITY CORPORATION

OFFICE OF THE MAYOR

CITY COUNCIL TRANSMITTAL

David Everitt, Chief of Staff

Date Received: 09/17/2009
Date sent to Council: 09/17/2009

TO: Salt Lake City Council
Carlton Christensen, Chair

DATE: September 17, 2009

FROM: David Everitt
Chief of Staff, 801.535.7732

SUBJECT: **North Temple Viaduct Replacement**

STAFF CONTACT: Ben McAdams
Senior Advisor to the Mayor, 801.535.7939

DOCUMENT TYPE: Briefing

RECOMMENDATION: The Administration recommends that the City Council consider adopting a forthcoming resolution authorizing the reconstruction of the North Temple viaduct at a future meeting.

BACKGROUND/DISCUSSION: Salt Lake City and UTA have completed a thorough conceptual evaluation of several bridge types and configurations that could be used to replace the existing North Temple viaduct with an integrated roadway/transit structure. As can be seen from previous architectural renderings (see Exhibit A), any and all of the bridge concepts would touch down at 400 West, instead of approximately 300 West where the existing viaduct currently does, thereby facilitating additional access to the area and providing opportunities for further economic development. Again, any and all of the integrated bridge concepts would carry (in each direction):

- Two lanes of roadway traffic
- East and westbound TRAX trains located on the north side of the viaduct roadway
- A 6' wide bike lane
- 8-10' wide sidwalks on both sides of the bridge

Also, a platform TRAX station on the north side of the viaduct near the top of bridge would be provided, with vertical circulation connection to FrontRunner Trains and adjacent development and neighborhoods. See Exhibit B, which shows a cross-section of such a structure, with all of the associated uses.

The current concept that seems to best balance the concerns of budget, aesthetics, pedestrian movement under the structure, and good urban design is called "Option 4", which is a 3 span bridge with a total "open area" underneath of approximately 510 feet (see Exhibit C). The two open spans of 160' on either side of the existing Union Pacific/FrontRunner tracks would allow for a good flow of vehicles and pedestrians to the north and south, which is especially critical to achieve a positive connection between the existing Gateway and future Gastronomy developments and to provide for a future extension of 500 West to the north. The design also includes a 190' span over the tracks. In addition, with the transit station and vertical transfer elements on the north side of the bridge, both UTA and the City feel that the station can be truly integrated into the surrounding development, as a part of a robust Transit Oriented Development (TOD).

This option includes approximately 330 feet of retaining walls on each side of the bridge as it touches down towards 400 West and 600 West. There are several options for concrete finishes on these walls (ranging from inexpensive to very costly), and the architectural rendering shown in Exhibit D) reveals that the scale of the walls are not overwhelming given the surrounding context.

Estimated Costs and Opportunities for Savings

In July and August of 2009, during the timeframe when the bridge types and configurations were developed, Option 4 was originally estimated by the project team to cost between $70 and $75 million. However, as the scope of the concept is further understood and discussed between the City and UTA, there are several opportunities for reducing this cost and the parties are confident that through mutual cooperation the costs can be reduced to the $65 million "target" that was established during the time that the City received the $20 million from the State Legislature towards the viaduct replacement. It is important to note that in order to succeed on this project given a limited budget, the team would utilize a "design to budget" principle, whereby all the partners would agree that the scope of the project (number and length of bridge spans, architectural finishes, etc.) would need to be continually evaluated and potentially modified in order to stay within budget.

Opportunities for reducing the $70-75 million cost are found in areas prone to risk, which can be averted or reduced with diligent planning and engineering from the project partners. These include areas such as:

- City Creek conduit (pipe): by not relocating the line, $4-5 million could be saved; this decision would involve Salt Lake County, who has flood control jurisdiction over the conduit, and the Salt Lake City Public Utilities Department.
- Foundation design: as design progresses and more data on seismic requirements is collected, $1-2 million could be saved in this area.

- Design costs: as design of the project advances, up to $1 million in savings on the actual engineering and design of the viaduct are available. The ability to realize such savings will largely result from coordination among the various parties to streamline and expedite the respective design decisions.
- Cost of materials: Up to $0.2 million in savings on the cost of steel is available if the project manager is able to order steel by early winter. Final design of the project must be nearly complete in order to the steel, which requires final design of the project to begin immediately.
- Labor costs: UTA estimates the time for completion of the project is approximately 18 months. This estimate requires the contractor to begin demolition of the existing structure as early as possible in 2010 in order to properly time construction windows. Labor costs will vary based on the contractor's ability or inability to take advantage of favorable weather conditions for construction of the viaduct.
- Roadway modifications: modifications to the North Temple roadway design at 400 West could save between $0.2 million and $0.5 million depending on the final configuration.
- Additional general fiscal impacts to Salt Lake City: Based on an estimated 18 month timeline, the parties are optimistic that vehicular traffic across the viaduct can be restored prior to the 2011 holiday shopping season. Any delay in the contractor's ability to begin demolition will risk restoration of vehicular traffic prior to the holiday's, which may have a negative fiscal impact on City sales tax revenues.

UTA and their contractor for the Airport TRAX Line, Stacy Witbeck/Kiewit, utilize an "open book" cost estimating process, so that all parties understand and agree to risks and associated costs as the project progresses. Salt Lake City has been and will continue to be at the table during this process.

<u>Funding Sources</u>

Committed Sources and Amounts:
- UTA: $25 million
- Utah State Legislature: $20 million
- Wasatch Front Regional Council (WFRC): $5 million
  Total Committed Sources: $50 million

Other Possible Additional Sources and Amounts:
- Special Assessment Area involving immediately adjacent
  property owners: $2.5-4.0 million

- Community Development Area involving additional taxing entities: $12.5 million.
  Total Additional Sources: $15-16.5 million

Contingency Sources of Funding if Cost Savings Do Not Materialize and Amounts:

- 1300 East roadway improvements: Salt Lake City has planned roadway improvements on 1300 East from South Temple to 500 South. Such improvements could be delayed and funding shifted to the North Temple viaduct.
- Strategic refinancing of an existing Participation and Reimbursement Agreement between the RDA and Gateway Associates which could result in a net present value savings of $4.5 million. This approach and significant concerns with the viability of this mechanism are discussed below.

Additional Discussion on Certain Financing Options

Limited Purpose Community Development Area (CDA)

One way to generate funds that could contribute to the cost of the viaduct construction is to create a Community Development Area, or CDA, that would include 4-8 blocks immediately north of the viaduct. Because the reconstruction of the viaduct will benefit property values in the area, it makes sense to capture some or all of the incremental values from the respective taxing entities to assist in funding the project.

The CDA option would enable the city to capture incremental property values that have increased due to appreciation, as well as increases from new investments within the area. In particular, Gastronomy, one of the property owners in the area, plans to invest approximately $100 million in new developments north of the viaduct. If these investments occur on schedule and to the degree currently contemplated, and if the School District and Salt Lake County agree to contribute 100% of their shares of the increment, the RDA staff believes the CDA could generate $25-27 million over a 25-year period. The actual increment generated depends on a variety of factors, including which blocks are part of the CDA, how quickly or slowly properties' values increase over time, and how the Salt Lake County Assessor values the Gastronomy project and other new developments in the area and when they are added to the tax rolls. The RDA staff projections assume a $65 million Gastronomy office project completed prior to January 1, 2014, a $35 million Gastronomy residential project completed prior to January 1, 2016, and a 2.5% annual appreciation in property values over the 25-year period. The more conservative financial scenario from a narrow and limited purpose CDA would generate $25 million, or a net present value of $12.5 million. This more narrowly tailored project area would include increment collections from areas 2, 3, and 6 on the attached map (see Exhibit E).

Because of the nature of tax increment, the revenue generated by a CDA is very heavily weighted toward its later years. In the early years, prior to the Gastronomy project or other new developments, the CDA's cash flow would be quite anemic, potentially generating only $9000 the first year, and only $50,000 in the 5th year. Once the Gastronomy projects are completed, however, increment revenues could jump to $700,000-$1,000,000 per year. The net present value of a cash flow with such week early years is a surprisingly low $12.5. Thus, to get the best benefit from a CDA, the city would need to cover most of the debt service payments from another source until the Gastronomy projects were completed, and would need to pledge sales taxes or some other source as a backup throughout the life of the bonds. One source of revenue to pay debt service obligations in the early years of the CDA project area is to use a portion of the $20 million that was directed to the City by the legislature for the viaduct reconstruction.

Several elected officials from Salt Lake City School District have expressed preliminary support for creating such a CDA for the limited purpose of funding the viaduct, with the understanding that excess funds in later years would first be used to repay the city for other sources tapped in the early years, but that additional revenues collected beyond those needed for debt service payments would be returned to the taxing entity. No formal action has yet been taken by the Salt Lake City School District to approve such a CDA. The Administration intends to seek approval of such a CDA from the Salt Lake City School District and is optimistic that such an agreement will be adopted by the District.

The administration has initiated discussions with elected officials and staff from Salt Lake County on their willingness to participate in a CDA for the limited purpose of funding the viaduct. While such discussions are in early phases, the Administration is optimistic that such an agreement will be adopted by Salt Lake County.

<u>Strategic Refinancing of an Existing Participation and Reimbursement Agreement between the RDA and Gateway Associates</u>

Another option for financing the viaduct reconstruction is the refinancing of an existing Participation and Reimbursement Agreement the RDA holds with Gateway Associates. This agreement commits the RDA to repay Gateway Associates for a variety of public improvements they constructed as part of The Gateway. The underlying tenet of the agreement is that the RDA will reimburse Gateway Associates for a portion of its expenditures over time out of tax increment actually generated by the overall development. The long-term nature of this agreement (and others like it) ensures that reimbursements are made only if and only when the project actually generates increases in property values sufficient to create the “increment.”

Generating the increment not only requires completion and maintenance of the development, but also the punctual payment of property taxes. If the taxes are not paid on time, the RDA does not realize the increment, and does not provide a reimbursement for the portion of the increment on which taxes are not paid by the property owner. Furthermore, if the development does not generate sufficient increment to cover the total amount owed to the developer within the time allotted in the agreement, the RDA’s reimbursement obligation ends.

Under this financing scenario, the RDA could consider issuing refinancing the debt obligation to Gateway Associates at lower interest rates than the rates RDA is currently paying under the Participation and Reimbursement Agreement, and use the newly-borrowed funds to fully pay the remaining principal balance owed to Gateway Associates, with the excess revenue available to service a debt obligation of an additional amount for the reconstruction of the North Temple viaduct.

The City Treasurer has estimated that tax increment bonds might be marketable at an interest rate of 5.5%-6.0%. Approximately $6 million of the RDA's remaining obligation to Gateway Associates is financed at a rate of 5.04%, while approximately $8.2 million is financed at 7.5%. Therefore, only the $8.2 million balance would benefit from refinancing at a rate of 5.5% - 6.0%, generating an interest savings over the remaining term of approximately $1.2 million. On the other hand, if the city issue sales tax revenue bonds, a lower rate of approximately 3.0% - 4.0% might be available, according to Kelly Murdock, the city's financial advisor from Wells Fargo. See Exhibit F for this analysis. Mr. Murdock ran such a scenario for a bond issue of $15 million. He estimated that the savings from this refinance would be approximately $6.6 million, or a net present value of approximately $4.5 million based on a discount rate of 5%.

Note that this analysis is based on an assumption that the increment generated by The Gateway will grow at least 3% per year, and that all of the properties included in the Agreement pay property taxes on time each year, such that the City's obligation to pay under the existing agreement will not be mitigated or extinguished.

While this approach appears to realize savings that could be used to support additional debt to benefit the viaduct project, certain policy and precedential considerations must be weighed against the potential benefit.

As a matter of public policy, the RDA's Participation and Reimbursement agreements are carefully crafted to ensure the provision of an ongoing set of public benefits over time. Cashing these agreements out prematurely removes the RDA's ability to require continued compliance, and, therefore, undermines the purposes for entering the agreement. Generally speaking, the Agreement referenced above is set up such that the developer agrees to make certain public improvements; the developer pays for these improvements; and the RDA pays the developer back over time from tax increment that is generated from the project. The RDA's payments over time reimburse the developer (with interest) for a portion of the cost of the improvements, and provide the RDA with the leverage to make sure the developer meets his obligations and commitments. If the developer does not meet those obligations, the RDA may withhold the payment for that year.

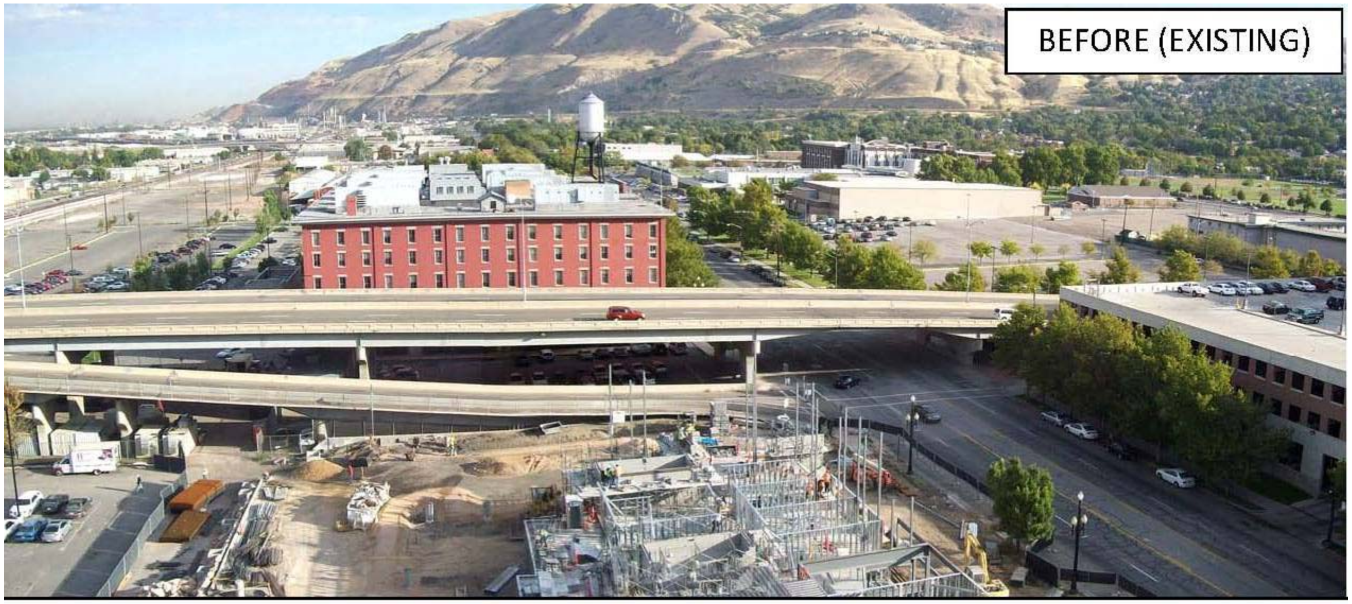
Specifically with regard to the proposal to cash out the developer with proceeds from tax increment or sales tax bonds, the following considerations weigh against the proposal:

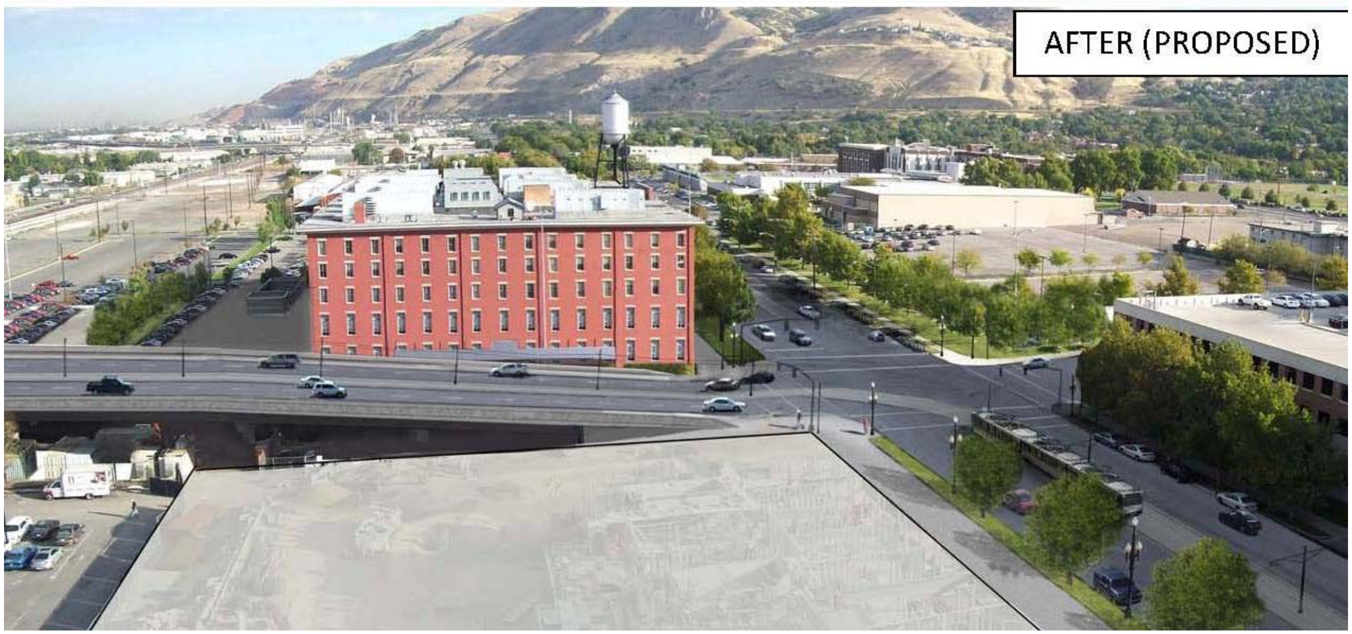
- The developer and all parcels being taxed must pay their property taxes on time. If they do not, then the RDA does not realize the increment. During this past tax year, several condominium owners at The Gateway did not pay their property taxes on time. Consequently, the RDA does not receive the increment, and, accordingly, does not pay the developer back for that portion of the reimbursement. If the RDA cashes out its obligation and pays the developer the remaining principal balance owed, RDA would completely lose that leverage and would end up paying the developer money to which the developer might not otherwise be entitled under the Agreement.

- The RDA does not actually have the money to cash out the developer, thus necessitating the issuance of new debt. Rather, the money comes to RDA through tax increment collections from the County over time and the RDA pays it back to the developer as a percent of what RDA actually receives.
- The Participation and Reimbursement Agreement for Gateway Associates states that the RDA will pay for a period of time until it has paid the base principal amount or a certain period of time elapses, whichever comes first. It is possible that if the project doesn't generate tax increment fast enough, then the developer will not be fully reimbursed, which is a risk the developer understands and accepts from the outset. So, there is a chance with this project that the time will elapse before the developer is fully repaid, in which case the RDA would have no further payment obligation. If the RDA cashes out the developer now, RDA would be paying the developer its full principal amount when the developer may not be entitled to it under the terms of the Agreement.

In conclusion, while the refinancing proposal would generate savings because of lower interest rates, the RDA Director believes doing so would undermine the purposes for which the Participation and Reimbursement Agreement was created in the first place. Such a cash out would benefit the developer, by providing cash now and removing the risk that the RDA may be released from an obligation to pay under the existing agreement if certain contingencies expressed above were to occur. Additionally, prepayment of this debt obligation would effectively remove an additional incentive for the property owners to make timely property tax payments. In this and other Participation and Reimbursement Agreements, a premature cash-out would also remove the developer's incentive to continue to provide and maintain various public benefits assured by the Agreement.

Exhibit A





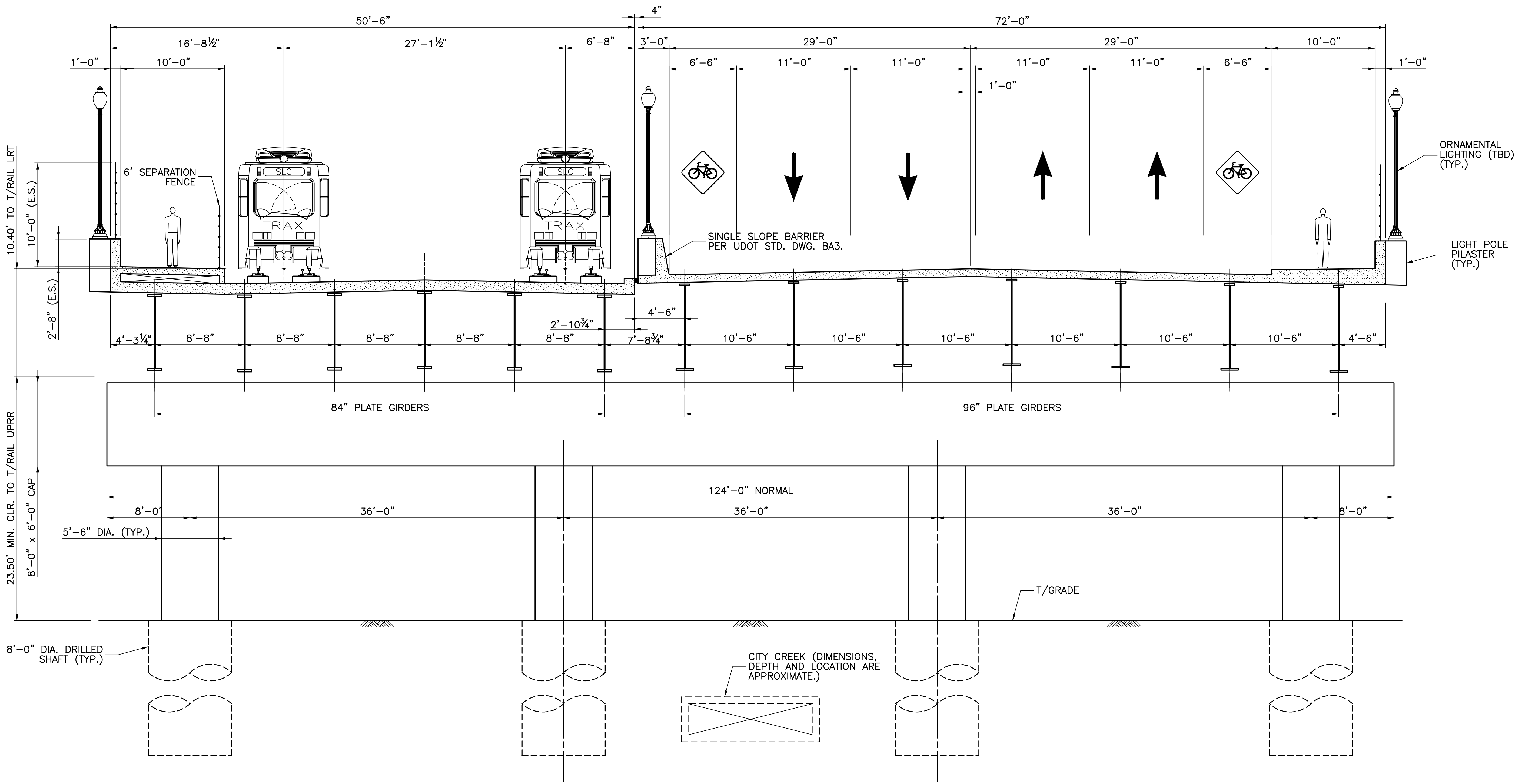
Viaduct on North Temple Street

Viaduct on North Temple Street

Exhibit B

WilburSmith
Wilbur Smith Associates
ENGINEERS PLANNERS ECONOMISTS

SUBJECT UTA – ALRT – UPRR & CRT	JOB NO. 102864	SH	OF
New Viaduct Study – Three Spans	BY MAR	DATE 17-Sep-09	
Trans. Section – Two Structures	CH	DATE	



TRANSVERSE SECTION
AWAY FROM PLATFORM
SPANS 1 & 2
SHOWING PIER ELEVATION

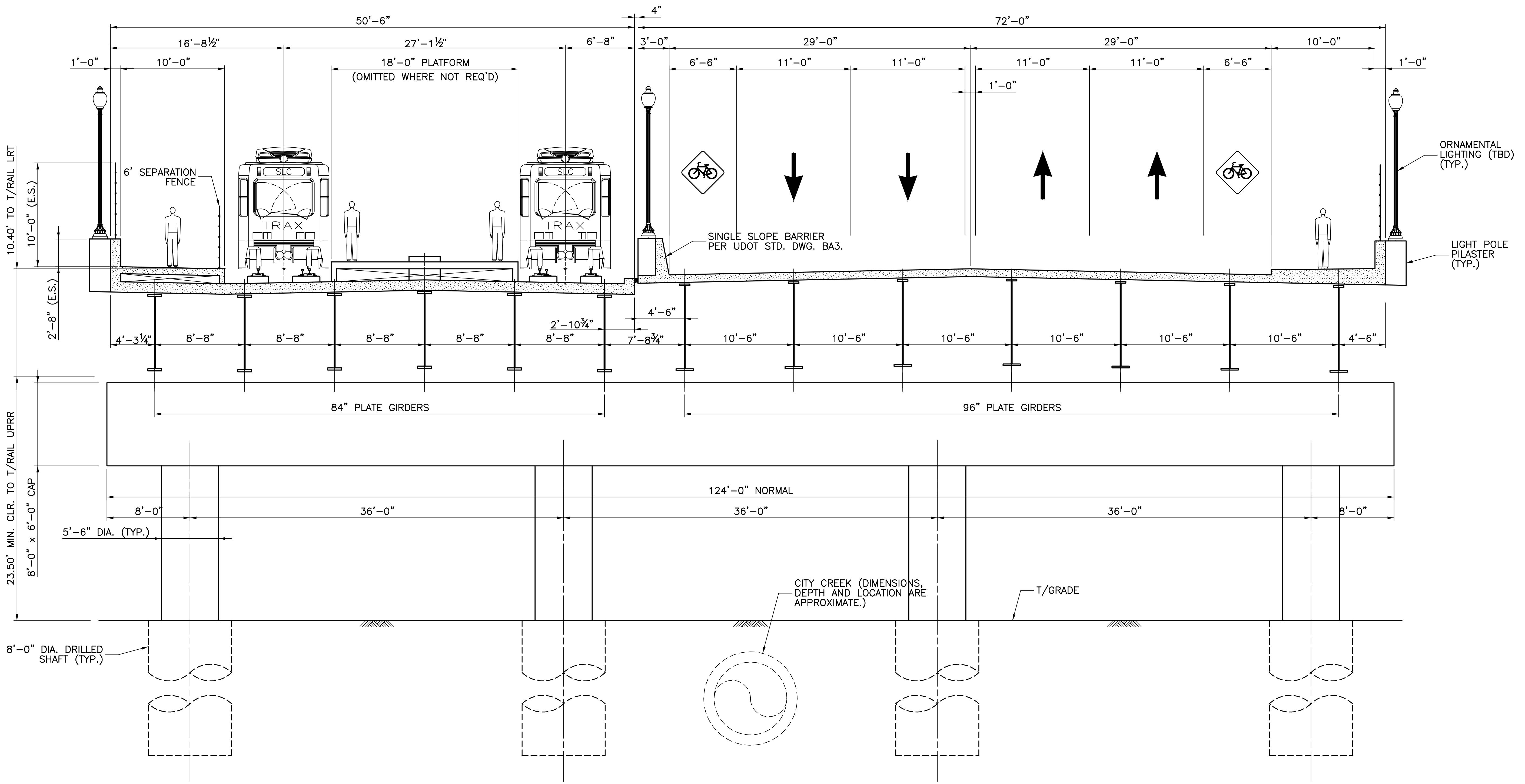
0' 5' 10'
1"=10'

WilburSmith
Wilbur Smith Associates
ENGINEERS PLANNERS ECONOMISTS

SUBJECT UTA – ALRT – UPRR & CRT   JOB NO. 102864   SH ______ OF ______

New Viaduct Study – Three Spans   BY MAR   DATE 17-Sep-09

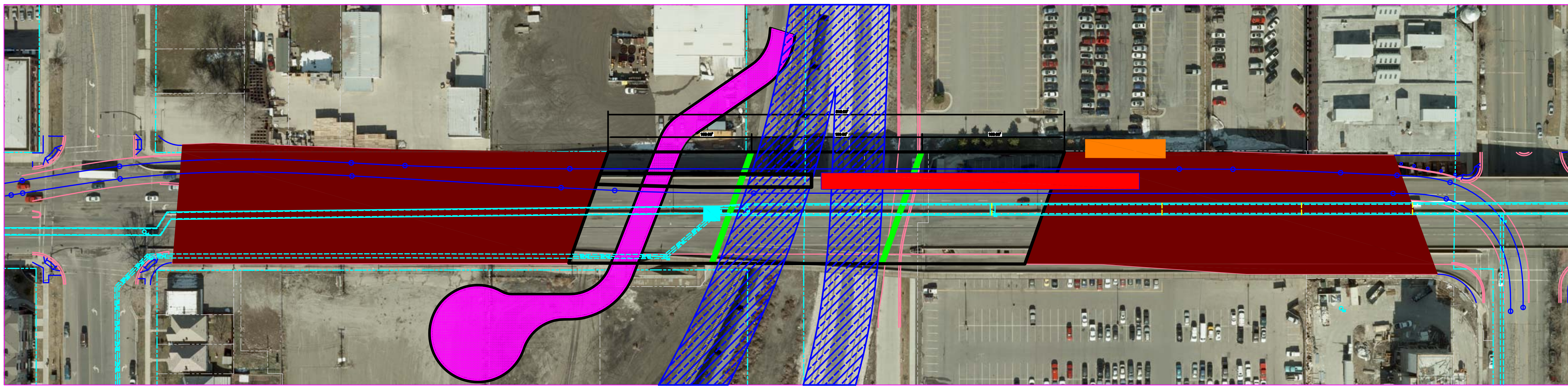
Trans. Section – Two Structures   CH ______   DATE ______

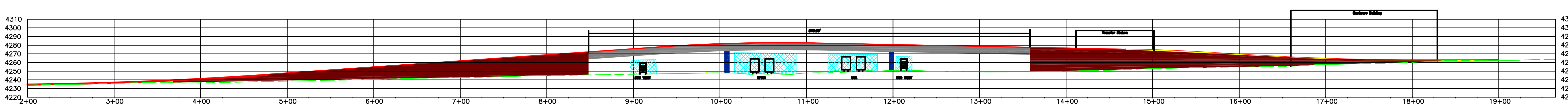


TRANSVERSE SECTION
THROUGH PLATFORM
SPANS 2 & 3
SHOWING PIER ELEVATION

0' 5' 10'
1"=10'

Exhibit C





Option 4: 3–Span
160'/190'/160'

Exhibit D

Exhibit E

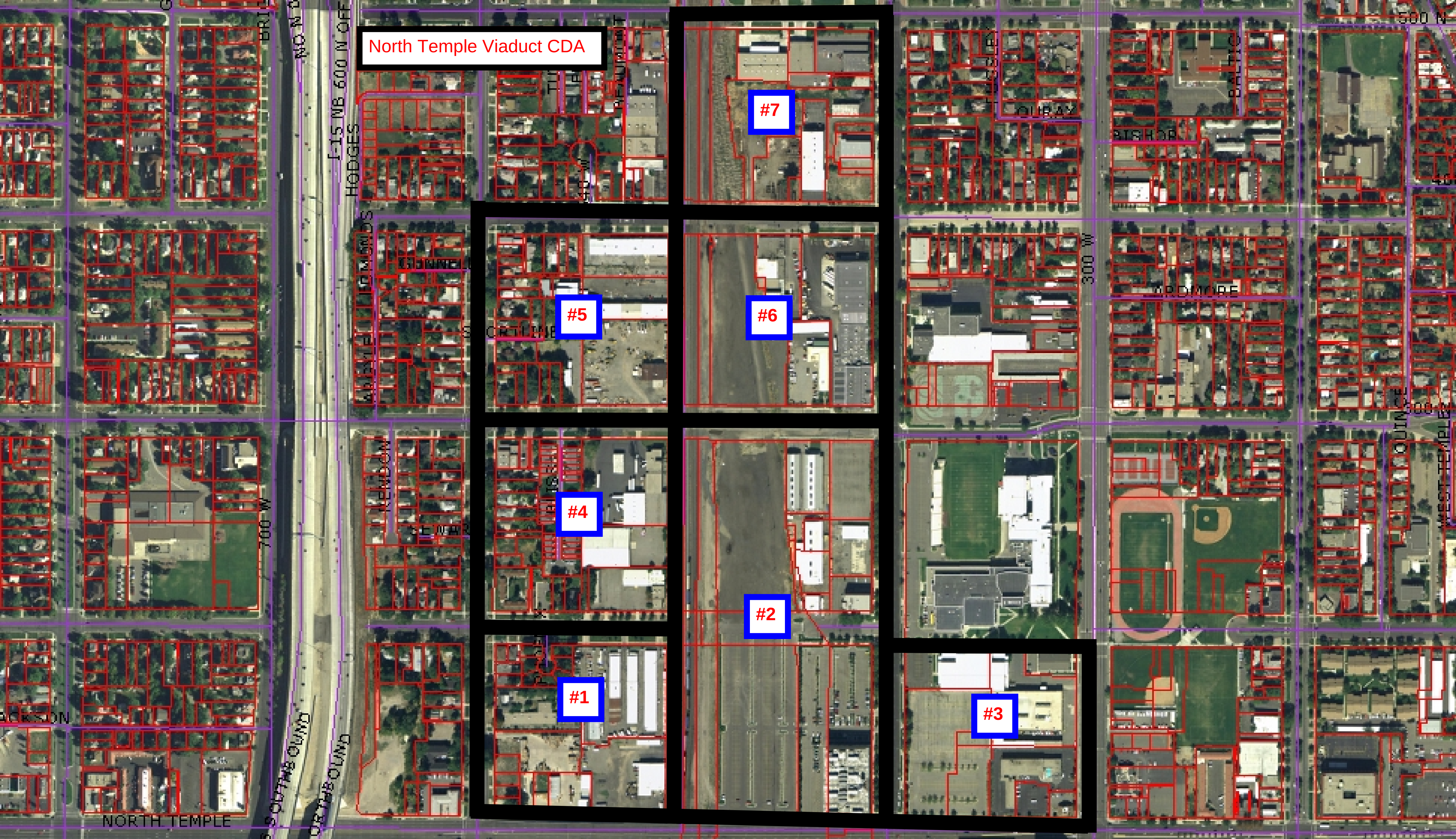

North Temple Viaduct CDA
#1
#2
#3
#4
#5
#6
#7
NORTH TEMPLE
700 W
300 W
HODGES
ARDMORE
BISHOP
OURAY
JACKSON
500 N
600 N OFF
I-15 NB
SOUTHBOUND
NORTHBOUND
WEST TEMPLE
QUINCE

Exhibit F

Public Finance

WELLS FARGO

M E M O R A N D U M

TO:	**Dan Mulé, Salt Lake City Treasurer** **Benjamin McAdams, Senior Advisor for Intergovernmental Relations**
FROM:	**Kelly Murdock**
DATE:	**September 9, 2009**
RE:	**Gateway Associates Payoff Analysis; and Potential Revenues Available for the North Temple Viaduct Project (the "Viaduct Project")**

Wells Fargo was asked to perform an analysis regarding potential debt service savings that could accrue to the Redevelopment Agency of Salt Lake City (the "RDA") if a Sales Tax Revenue Bond were to be issued by Salt Lake City (the "City") and the proceeds from that bond issue were used to pay off the current balance owed by the RDA to Gateway Associates ("Boyer") under the "Amended and Restated Participation and Reimbursement Agreement", dated May 30, 2006, between the RDA and Boyer. Wells Fargo was also asked to show the impact of such savings on a hypothetical second sales tax bond issue, the proceeds of which would be contributed towards the Viaduct Project.

In the spreadsheet attached, the first column of first table ("Gateway Associates Defeasance") reflects RDA revenues available for debt service, assuming a 3-percent annual growth factor. These amounts equal 50 percent of the revenues collected in the Depot District each year by the RDA and the RDA's revenues, in turn, equal 75 percent of the annual total property taxes collected.

Assuming a Boyer payoff of $14,276,700, level annual debt service, a final payment date of October 1, 2022 and today's interest rates, average annual debt service for such a sales tax revenue bond would be approximately $1,355,000. These numbers are reflected in the second column under "Proposed Series 2009B Debt Service."

In the third column—"Difference"—the City can see the potential annual savings that could be generated from this hypothetical transaction.

Moving to the next chart ("North Temple Viaduct Project"), Wells Fargo ran another set of numbers for a second sales tax revenue bond that targets a $15 million deposit to the Viaduct Project. As outlined in the first column ("Proposed Series 2009C Debt Service"), for a 20-year sales tax bond issue, average annual debt service would be approximately $1,070,000 in today's market. When the savings generated from the Boyer defeasance ("Difference") are netted against debt service, the resulting net debt service is shown under the column, "Debt Service to be Covered by Other Sources." Wells Fargo assumes these amounts would have to be satisfied from the Capital Improvement Project fund (the "CIP") or from other legally available sources.

In connection with this analysis, we have also reviewed a spreadsheet prepared by the Boyer Company that shows approximately $10.9 million of proceeds which could be generated from borrowing against Boyer's share of RDA revenues towards the Viaduct Project. We would generally concur with this analysis with one caveat: the analysis assumes 100 percent of these RDA revenues would be available for payment of debt service on this bond. This can only be the case, however, if the amount due Boyer ($14,276,700) has already been satisfied from some other financing source, such as an appropriation from the City's general fund.

One final observation is also in order for the City's consideration. The RDA's Bond Counsel, Blake Wade from Ballard Spahr Andrews and Ingersoll, has raised the question of whether the City can legally issue a sales tax revenue bond and take the proceeds to pay an RDA obligation where the City may not be actually receiving anything in value from the transaction. This question would obviously have to be fully resolved before moving forward with these two sales tax bond transactions.

Salt Lake City, Utah
Sales Tax Revenue Bonds

Revenues Available for Debt Service

	Gateway Associates Defeasance				North Temple Viaduct Project		
Year	RDA Revenue Available	Proposed Series 2009B Debt Service	Difference		Proposed Series 2009C Debt Service	Revenue Available After Payment of Series 2009B D/S	Debt Service to be Covered by Other Sources
2010	1,556,102.00	1,359,598.38	196,503.62		206,402.92	196,503.62	9,899.30
2011	1,602,785.00	1,357,805.50	244,979.50		1,122,847.00	244,979.50	877,867.50
2012	1,650,869.00	1,356,816.50	294,052.50		1,082,024.75	294,052.50	787,972.25
2013	1,700,395.00	1,356,716.50	343,678.50		1,079,192.50	343,678.50	735,514.00
2014	1,751,407.00	1,358,040.50	393,366.50		1,079,050.50	393,366.50	685,684.00
2015	1,803,949.00	1,355,374.00	448,575.00		1,076,649.50	448,575.00	628,074.50
2016	1,858,067.00	1,354,737.50	503,329.50		1,077,145.25	503,329.50	573,815.75
2017	1,913,809.00	1,355,685.50	558,123.50		1,075,687.50	558,123.50	517,564.00
2018	1,971,224.00	1,358,051.50	613,172.50		1,077,096.00	613,172.50	463,923.50
2019	2,030,360.00	1,356,984.00	673,376.00		1,071,458.25	673,376.00	398,082.25
2020	2,091,271.00	1,357,572.00	733,699.00		1,073,812.50	733,699.00	340,113.50
2021	2,154,009.00	1,354,994.00	799,015.00		1,074,129.75	799,015.00	275,114.75
2022	2,218,629.00	1,359,256.00	859,373.00		1,072,510.00	859,373.00	213,137.00
2023					1,068,958.00	-	1,068,958.00
2024					1,068,429.75	-	1,068,429.75
2025					1,065,886.25	-	1,065,886.25
2026					1,066,205.00	-	1,066,205.00
2027					1,064,219.25	-	1,064,219.25
2028					1,064,800.00	-	1,064,800.00
2029					1,062,817.25	-	1,062,817.25
2030					1,063,088.00		
Total	24,302,876.00	17,641,631.88	6,661,244.12		20,629,321.92	6,661,244.12	13,968,077.80

FOR DISCUSSION PURPOSES ONLY

$14,415,000

Salt Lake City, Utah
Sales Tax Revenue Bonds, Series 2009B
(Gateway Associates Defeasance)

Sources & Uses

Dated 11/01/2009 | Delivered 11/01/2009

Sources Of Funds	
Par Amount of Bonds	$14,415,000.00
Total Sources	**$14,415,000.00**
Uses Of Funds	
Total Underwriter's Discount (0.500%)	72,075.00
Costs of Issuance	66,213.00
Deposit to Project Construction Fund	14,276,700.00
Rounding Amount	12.00
Total Uses	**$14,415,000.00**

$15,130,000

Salt Lake City, Utah

Sales Tax Revenue Bonds, Series 2009C

(North Temple Viaduct Project)

Sources & Uses

Dated 11/01/2009 | Delivered 11/01/2009

Sources Of Funds	
Par Amount of Bonds	$15,130,000.00
Total Sources	**$15,130,000.00**
Uses Of Funds	
Total Underwriter's Discount (0.500%)	75,650.00
Costs of Issuance	52,486.00
Deposit to Project Construction Fund	15,000,000.00
Rounding Amount	1,864.00
Total Uses	**$15,130,000.00**