

Staff Report

File #: 20-343**Version:** 1**Date:** 9/14/2020**Item #:** 3.3a.

TO: Urban Renewal Agency Board
THROUGH: Steve Powers, Executive Director
FROM: Kristin Retherford, Urban Development Director

SUBJECT:

Relocating equipment purchased with North Gateway Urban Renewal Area Grant Funds to the McGilchrist Urban Renewal Area (URA)

Ward(s): Ward 5

Board Member(s): Board Members Ausec and Nanke

Neighborhood(s): Northgate and Southeast Salem neighborhood associations

Result Area(s): Strong and Diverse Economy

ISSUE:

Shall the Agency Board authorize an exception to North Gateway URA Grant Guidelines and allow staff to execute an addendum to an agreement with Innovative Manufacturing and Design (IMD) to relocate equipment purchased with North Gateway URA grant funds to the McGilchrist URA?

RECOMMENDATION:

Authorize an exception to North Gateway URA Grant Guidelines and allow staff to execute an addendum to an agreement with Innovative Manufacturing and Design (IMD) to relocate equipment purchased with North Gateway URA grant funds to the McGilchrist URA.

SUMMARY:

Approval of this item will provide a one-time exception to North Gateway URA Grant Guidelines that require capital equipment purchased with North Gateway URA funds to remain in the North Gateway URA for a minimum of ten years.

FACTS AND FINDINGS:

In 2018, Innovative Manufacturing and Design (IMD) received \$277,000 in North Gateway Urban Renewal Area (North Gateway URA) grant funding to purchase manufacturing equipment. IMD is growing and taking on new customers, necessitating their move to a building in the McGilchrist URA.

Section 4.J of the North Gateway URA guidelines (Attachment A) indicates that equipment purchased with grant funds should remain in that URA for 10 years and that if moved prior, funds shall be reimbursed to the Urban Renewal Agency on a proportional basis based on the number of years remaining (example: eight years remaining, 80% of funds to be reimbursed). IMD does not have the funds to reimburse the City \$222,000 and staff would like to support IMD's growth and not require repayment. The addendum to the agreement will provide for a one-time exception to the requirement that IMD pay a penalty to move the equipment out of the North Gateway URA before the ten year period has passed.

Urban renewal funds may be utilized for purchasing capital equipment; however, State law requires that URA funds be expended within the URA boundary. Under the updated Internal Revenue Service's (IRS) regulations, and in accordance the Generally Accepted Accounting Principles (GAAP), a capital asset is a significant piece of equipment with a useful life of longer than one year. The purpose of requiring that the equipment remain within the Urban Renewal Area for 10 years was to provide for a time period that the asset, such as a piece of equipment, could be capitalized or expensed during the useful life of the asset. The relocation of the equipment outside of the URA prior to the 10-year period would not violate state law but would be inconsistent with North Gateway URA policy.

IMD manufactures structural steel components for a variety of industries including agricultural, construction of commercial and industrial buildings (stairs, structure), as well as custom products. They now have an opportunity to work with a new industry, completing equipment and parts involved in rock crushing, adding jobs and requiring additional building square footage. They currently employ seven, and with a move to a property in the McGilchrist URA will increase to between ten and twelve employees adding 28,000 SF to their operation. With the move, IMD will establish itself as the only manufacturer of similar equipment in the Salem area, including for parts used in road construction.

BACKGROUND:

Staff is not aware of other prior requests to move equipment funded with urban renewal area funds outside of an area, and to date IMD is in compliance with the grant agreement and the Urban Renewal Agency has not required repayment of funds. IMD will move equipment from one urban renewal area to another and make additional investments in the McGilchrist URA, so there is an overall benefit to the Urban Renewal Agency and the community.

Annie Gorski
Economic Development Manager

Attachments:

1. North Gateway URA Grant Guidelines