

FINAL

PROJECT PLAN
TAX INCREMENTAL DISTRICT NUMBER TWELVE
CITY OF RAPID CITY

PREPARED BY
RAPID CITY PLANNING DEPARTMENT

OCTOBER, 1988

FINAL

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PART I: INTRODUCTION

Tax Increment Financing (TIF) is a method of financing improvements in an area which has been determined to need them in accordance with criteria established in SDCL 11-9-8. The rationale for TIFs is that without the financing provided with this method there would likely not be any redevelopment in the district and therefore no increase in the tax base. But with the financial incentive provided by tax increment financing there will be an increase in the taxable valuation of the area. Therefore, it is considered an equitable way to finance and encourage redevelopment in an area, without incurring a general obligation for the taxpayers of the entire City.

The principle behind this method of financing is simple. First, the assessed valuation of a district is determined by the Department of Revenue at the time the district is created by the Common Council. This valuation is termed the Tax Incremental Base Valuation for the district, or simply the "Base Valuation." As the property taxes for the property are paid, that portion of the taxes paid on this Base Valuation continue to go to those entities, (City, County, School, etc.), which levy property taxes.

If, in succeeding years, the assessed valuation of the district increases, then the total property taxes paid by the owners of property in the district will increase accordingly. The increase in taxable value over and above the base valuation is the Tax Increment.

When the tax bills are paid, only that portion of the tax bill which results from the Base Valuation is paid to the taxing entities. The remainder of the tax bill, the Tax Increment, is deposited in a special fund. It is the purpose of this plan to determine how these accumulated funds will be used.

This financing method is invaluable for encouraging growth and development in a needy area, since the amount of funds available for use by the project plan is directly related to the increase in valuation which a given project or development will create.

Tax Increment Financing is a unique tool used in financing improvements to a district. This plan will fund improvements for the site grading, curb & gutter construction, water & sewer line replacement, irrigation, paving, lighting, and landscaping improvements in the designated areas. The landscaping improvements along Omaha Street will be in accordance with the Omaha Street Corridor Study.

PART II: EXISTING CONDITIONS

Presently this entire district is zoned General Commercial, with the surrounding three sides (east, south, & west) also zoned General Commercial. Directly north of the district is zoned Floodway. The current land use of this district, along with the adjacent property is represented on the land-use map (page 11).

According to SDCL 11-9-8: "not less than 25%, by area, of the real property within the district must be blighted; and the improvement of the area is likely to enhance significantly the value of substantially all of the other real property in the district." The existing vacant status of both the Milwaukee Railroad Freight House and the Barber Warehouse fulfill the blighted requirement of the statute. The proposed size and extent of investment in the following project plan meets the second aspect of these requirements.

Ownership and Valuation (from Director of Equalization records)

Lot	Owner	Land	Improvements	Totals
1-6	Pridham	\$ 63,000	\$ 62,495	\$125,495
7-16	Freight House Properties	105,000	\$ 92,455	\$197,455
17-19	Barber	\$ 26,250	\$ 33,780	\$ 60,030
20-32	City of Rapid City			Exempt
Totals		\$194,250	\$188,730	\$382,980

PART III: DESCRIPTION OF THE PROPOSED MILWAUKEE FREIGHT HOUSE BUILDING REDEVELOPMENT PROJECT

The project developers, Freight House Partners, propose to develop the Milwaukee Freight House Building, located at 7th and Omaha, into approximately 18,600 square feet of office condominiums. The existing brick structure would undergo major renovations in order to create high quality office space which will be owned by various businesses in a condominium arrangement. Exhibits include photographs of a model of the rehabilitated structure and proposed project site plan. Common space would be maintained by a property owners' association and the cost funded by monthly/annual fees.

The project site plan (page 12) indicates the areas where tax increment funded improvements are proposed. The improvements include: site grading, curb & gutter construction, water & sewer line replacement, irrigation, landscaping, paving, lightening, and contingency expenses. The costs for the pedestrian walkway (areas F & G) improvements are not included in this project plan but are recommended for future improvement at a later date.

Part IV: ECONOMIC FEASIBILITY OF PROJECT

Rapid City currently does not have any office and commercial condominium project in development. This type of project offers the users the opportunity to purchase or lease, with an option to purchase, the business space to suit their needs; as well as a proportional undivided interest in the site. The purchase of space will allow the buyer to participate in a variety of benefits.

In addition to the tax benefits, the buyers will have the benefits of locking in their future cost of business space and capitalizing on whatever inflation may occur prior to their reselling of their property.

Other areas improvements which indicate this project is harmony with recent and planned developments are:

- Knecht Lumber Mart and Albertsons
- Barber Transportation Center
- City and School Administration Building
- addition to Rushmore Plaza Civic Center
- proposed Rushmore Plaza Civic Center Hotel, scheduled to begin construction in February, 1989
- the Omaha Corridor Study
- the current study recommending the modification of Memorial Park from a passive to an active status

PART V: OVERALL COSTS OF MILWAUKEE FREIGHT HOUSE BUILDING REDEVELOPMENT PROJECT

The following outlines estimated total project costs including costs incurred by the private developers and the City of Rapid City.

ESTIMATED PROJECT COSTS

Capital Costs:	
Building	\$ 690,000
Site	127,000
Financing Costs:	
Capitalized Interest	41,000
Construction Financing	50,000
Real Property Assembly Costs:	
Purchase Costs	286,000
Professional Service Costs:	
Legal	5,000
Architect	82,000
Relocation Costs:	
None	-0-
Organizational Costs:	
None	-0-
Necessary and Convenient Costs:	
None	-0-
Imputed Administrative Costs:	
None	-0-
	<hr/>
	\$1,281,000

Proposed funding sources for the project as described above are as follows:

Equity/Permanent Financing		\$1,190,000
Tax Increment District Fund	approx.	91,000

PART VI: DETAILED LIST OF TID FUNDED PROJECT COSTS

As required by SDCL 11-9-13, this project plan will provide a detailed list of all estimated project costs which will be funded from the Tax Increment District fund. All incurred costs shall be in conformance with the requirements of SDCL 11-9-15.

1.	<u>Real Property Assembly Cost</u>	
	Land Acquisition Cost	None
2.	<u>Public/Site Improvements *</u>	
	Area A (see Site Plan: page 12)	\$ 30,000
	Area B	3,500
	Area C	1,500
	Area D	7,500
	Area E	1,500
	Area F (recommended future improvement)	-0-
	Area G (recommended future improvement)	-0-
		<hr/>
		\$ 44,000
3.	<u>Financing Cost</u>	
	Capitalized Interest	\$ 41,000
4.	<u>Professional Service Cost</u>	
	Pro-rated Archetectual & Legal Costs	<u>\$ 6,000</u>
	TOTAL TID FUNDED ACTIVITIES	\$ 91,000

* Site grading, curb & gutter construction, water/sewer line replacement, irrigation, landscaping, paving, lighting, & contingency

PART VII: METHOD OF FINANCING TID FUNDED PROJECT COSTS

As required by SDCL 11-9-20, the City of Rapid City has requested and the South Dakota Department of Revenue needs to determine, the base valuation. From the records of the Director of Equalization the full aggregate assessed value of the District is \$382,980.

The total assessed value of the property to be developed within TID #12, following completion of planned development, will be established through a contractual agreement with the project developers. This agreement shall stipulate that the market value of the Milwaukee Freight House Building land and improvements shall be a minimum of \$665,735. This figure shall also be the minimum assessed valuation for tax purposes and shall have taken into account any applicable sales ratio adjustments. This value shall be the minimum assessed valuation for the duration of TID #12 and is added to the assessed value of the other properties in the District to determine the Total Future Assessed Valuation for the purposes of this plan. The increase in assessed valuation for this project is outlined below:

Future Assessed Valuation of Freight House Prop.	\$ 665,735
Remainder of District Assessed Valuation	<u>185,525</u>
Total Future Assessed Valuation	\$ 851,260
Base Assessed Valuation of District	<u>-382,980</u>
Tax Increment Assessed Valuation	\$ 468,280

Applying the Pennington County assessment ratio of 60 percent and the consolidated levy of 63.20 mills for property located within Rapid City, the annual tax increment payment is projected as follows:

Tax Increment Assessed Valuation	\$ 468,280
Assessment Ration	<u>.60</u>
Taxable Tax Increment	\$ 280,960
Consolidated Mill Levy	<u>.0632</u>
Estimated Annual Tax Increment Payment	\$ 17,756

South Dakota law permits monetary obligations to be incurred during the the period when planned project costs are being expended. SDCL 11-9-30 outlines several options for paying project costs. The magnitude of the proposed TID #12 project plan makes it difficult to issue bonds or notes by the City of Rapid City because the legal and related fiscal advisor costs would reduce the effect of the tax increment substantially. Therefore, this project plan proposes that the source of funds to be used for the project plan activities will be provided by the developers of the Freight House Building. Figure 1 (page 7) demonstrates the method of financing proposed TID #12 funded improvements.

The amount to be borrowed by the developers to cover the costs under this plan will be the maximum amount that can be projected to be retired by the tax increment. The variables include prevailing interest rates, the applicable number of years, and the schedule of expenditures. It is assumed that the annual tax increment of \$17,756 will occur for eleven years and therefore will facilitate a loan of approximately \$50,000.

PART VIII: FISCAL IMPACT STATEMENT:

The fiscal impact of the TID upon all entities levying taxes upon the property in the district is clear:

1. All entities taxing the district will be frozen at the tax valuation base during the entire time there is outstanding debt for which there has been incremental taxes pledged or fifteen years after the last project expenditure; whichever ever comes first.
2. Following termination of the TID, according to the above stated criteria, the entire tax valuation will be divided among the taxing districts according to established levies.

The impact on taxing entities can be derived from determining the approximate increment anticipated during the life of the district and combining that with the applicable mill levy and assessment ratio.

1988 Mill Levies and Assessment Percentages for Taxing Entities

Entity	Mill Levy	Percentage
-----	-----	-----
School	41.63	60%
County	13.27	60%
City	8.17	60%
Water District	0.13	60%
<hr/>		
Total Mill Levy	63.20	
Taxation Ratio		60%

$$\text{Effective Tax Rate} = \frac{(\text{Total Mill Levy}) \times (\text{Taxation Ratio})}{(1000)} = \underline{0.03792}$$

* Following payment of all debt incurred by the improvements outlined in the adopted project plan, or fifteen years after the final project expenditure, whichever is earlier, the positive tax increment generated from the entire assessed value of TID #12 will be available to all entities levying taxes upon property located within the district. While it is difficult to judge the specific impact on future tax revenues, it is safe to predict that the proposed project will increase the assessed valuation on the improved property within TID #12 and therefore implementation of the proposed project plan will result in increased property tax revenues.

PART IX: STATEMENT REGARDING THE PROJECT IMPACT UPON ZONING AND LAND USE

Maps on pages 10 & 11 show current zoning and existing land uses within the TID #12.

The City of Rapid City does not anticipate that the proposed project will necessitate any changes in the comprehensive plan, building codes, or zoning ordinances. The current zoning of this area is General Commercial which permits the development of office buildings. The project will not require any relocation of persons.

FIGURE 1

PROPOSED METHOD OF FINANCING

TAX INCREMENT #12 PROJECT PLAN

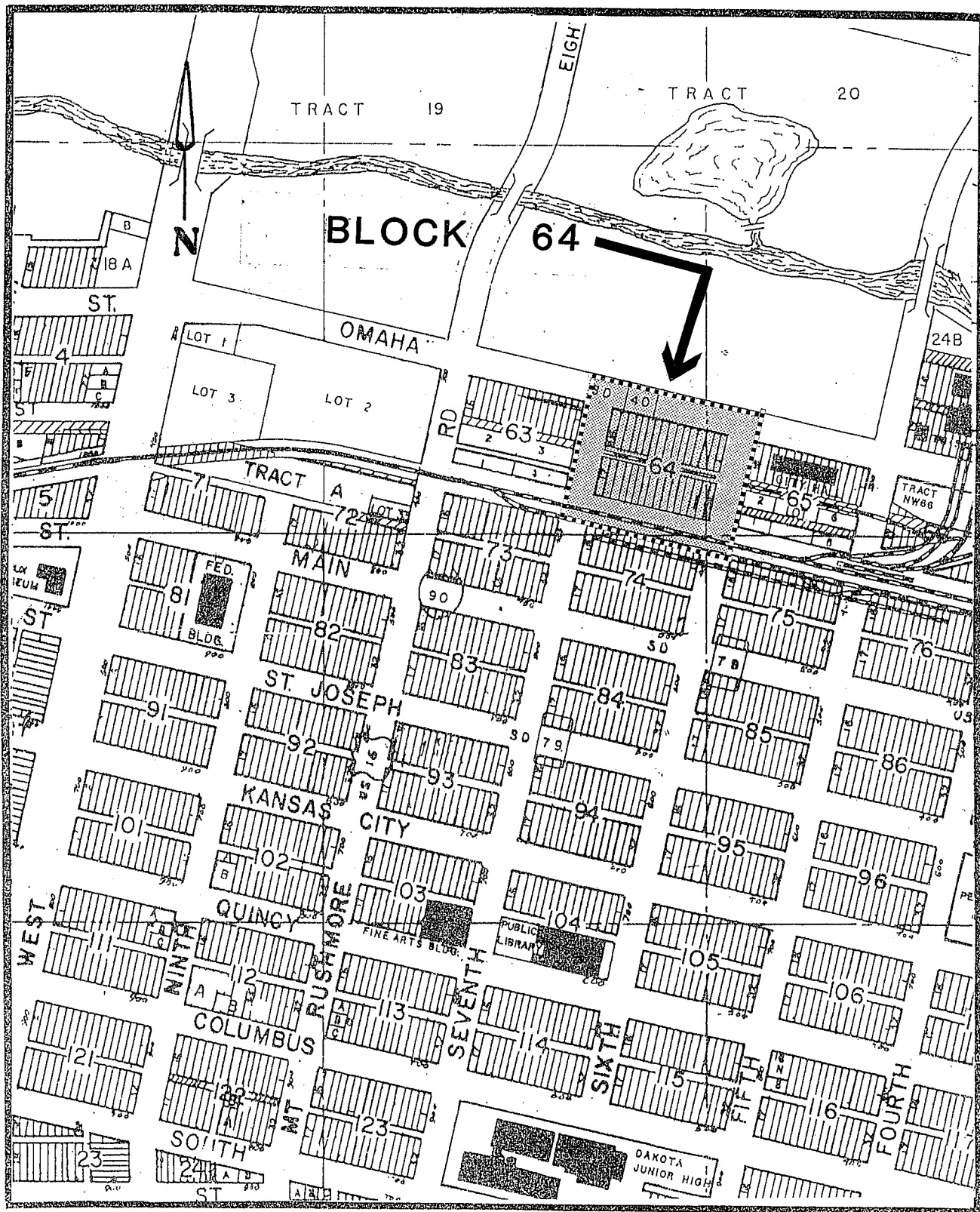
<u>FUND INCURRING</u> <u>DEBT</u>	<u>BORROWED</u> <u>FROM</u>	<u>LOAN</u> <u>AMOUNT</u>	<u>INTEREST</u> <u>RATE</u>	<u>DATE OF</u> <u>OBLIGATION</u>	<u>SOURCE OF</u> <u>REVENUE</u>
TID #12 Fund	Developers Sources	\$91,000	To Be Determined	Dec. 1988	Positive Tax Increment

Estimated
Total
Revenue

\$195,316

Projected
Date of Debt
Retirement

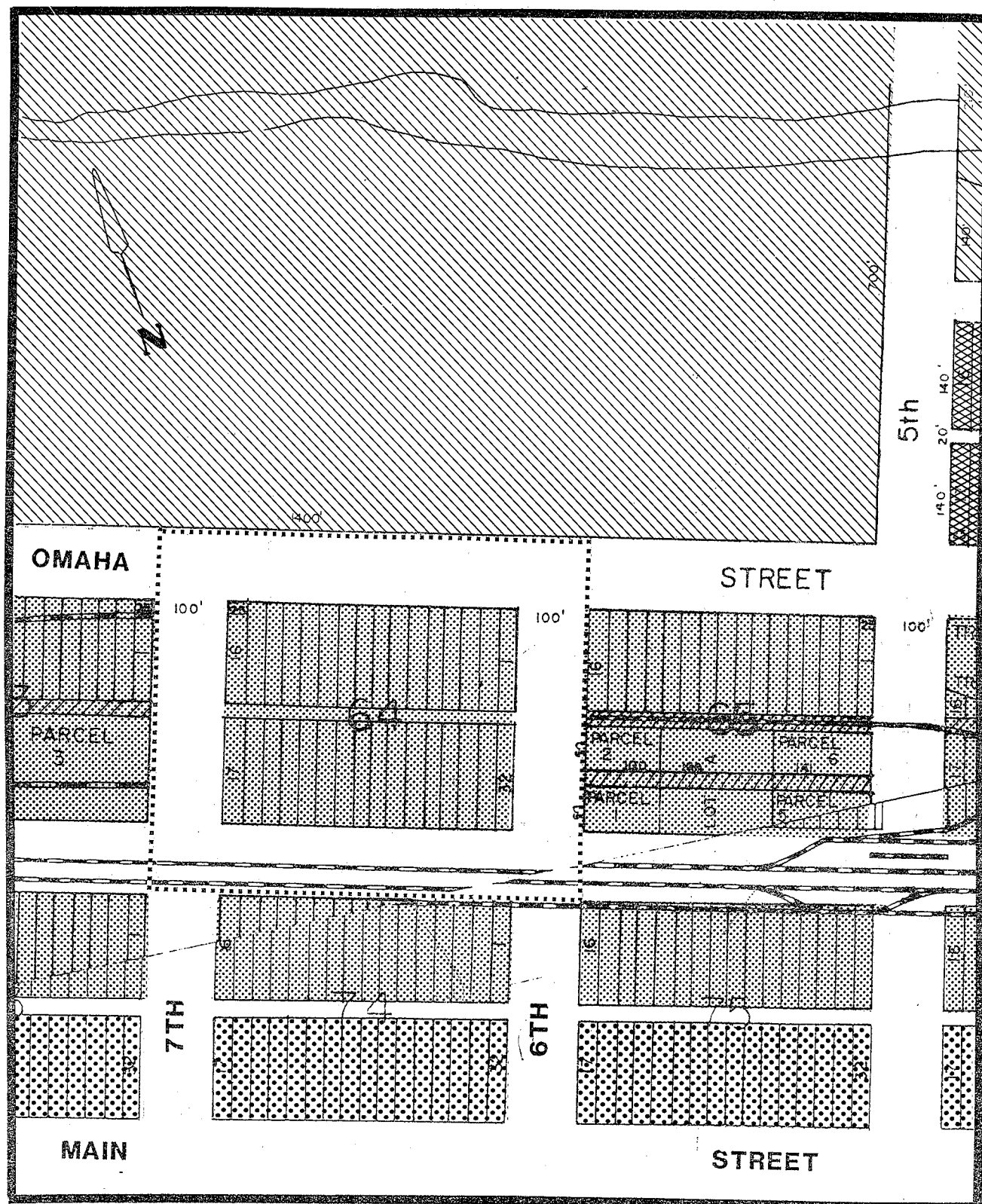
October, 2008



TAX INCREMENT DISTRICT #12

VICINITY MAP



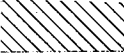

BOUNDARY MAP

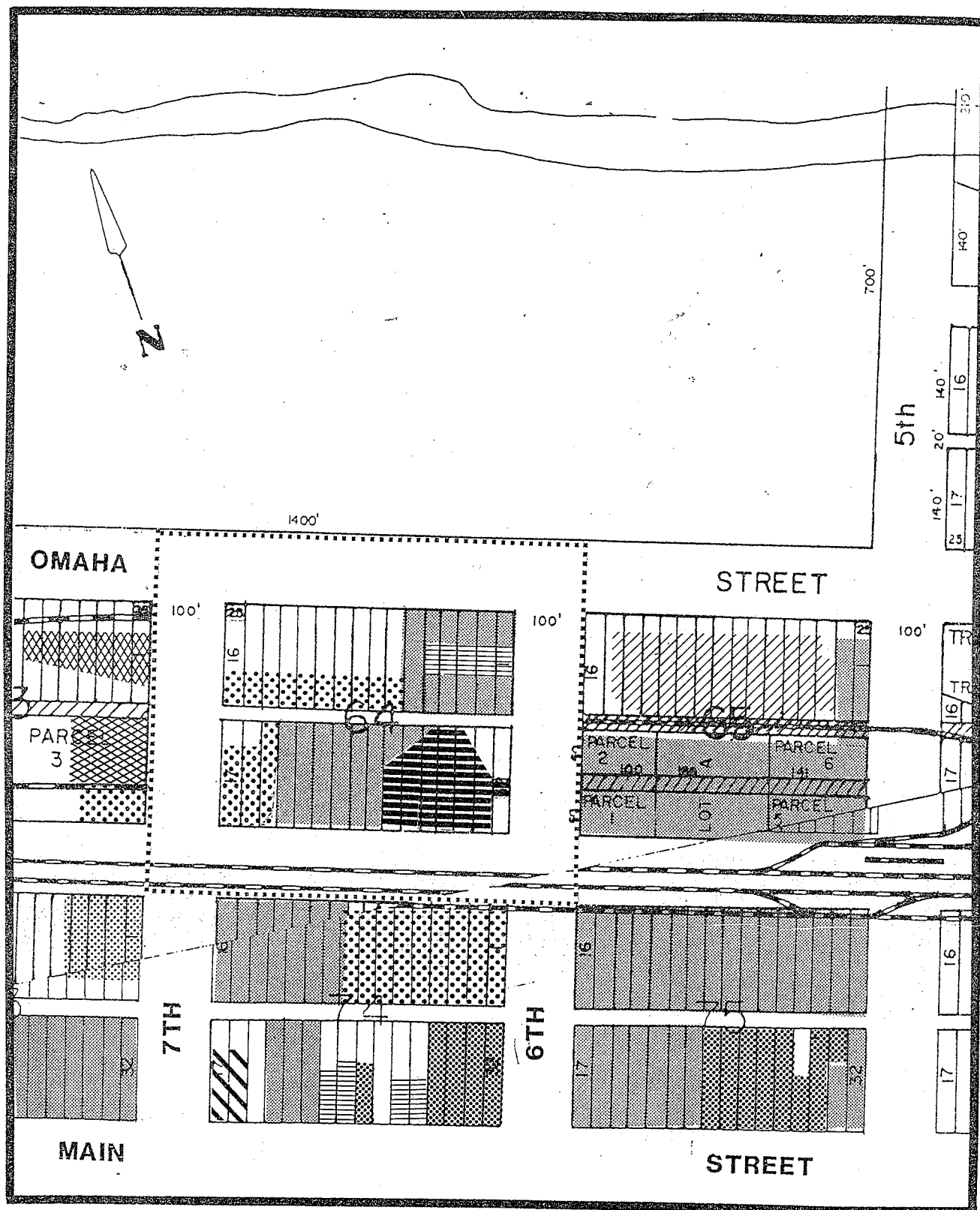


TAX INCREMENT DISTRICT #12

LEGEND

ZONING MAP

-  GENERAL COMMERCIAL
-  CENTRAL BUSINESS
-  FLOODWAY
-  LIGHT INDUSTRIAL

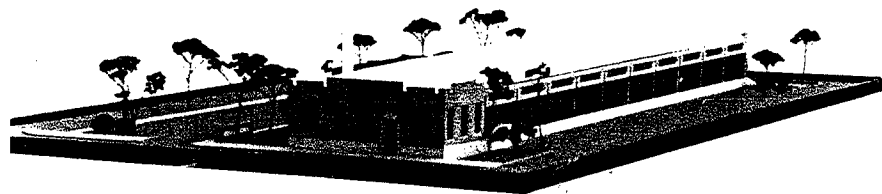


TAX INCREMENT DISTRICT #12 LAND USE MAP

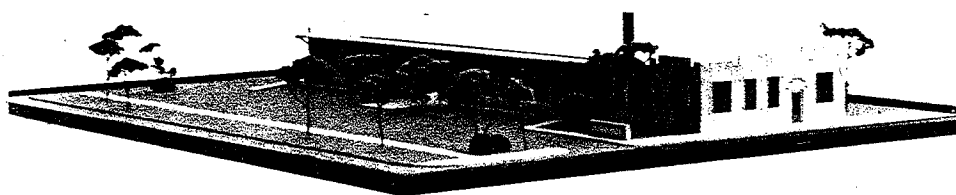
	WHOLESALE		PARKING		TRANSPORTATION
	RETAIL		RESTAURANT		FINANCIAL
	PUBLIC		WAREHOUSE		CONSTRUCTION MAT'L

FINAL

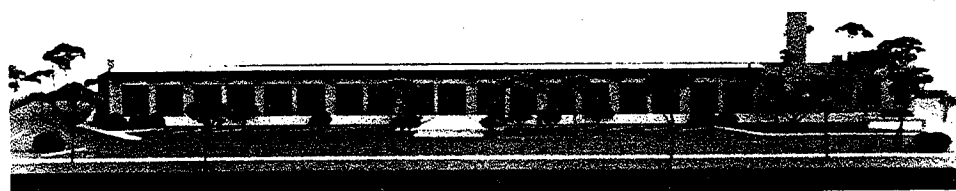
PHOTOGRAPHS OF MODEL OF MILWAUKEE RAILROAD FREIGHT HOUSE BUILDING



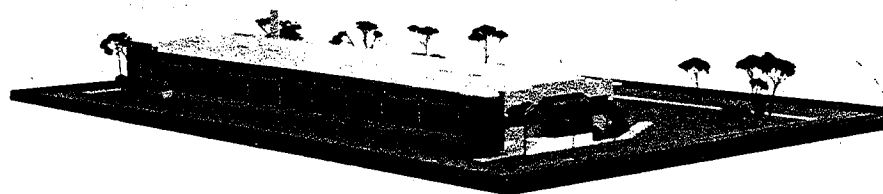
VIEW FROM SOUTHWEST



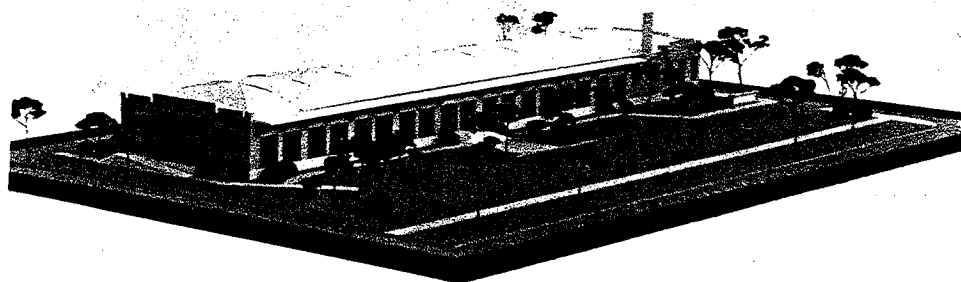
VIEW FROM NORTHWEST



VIEW FROM NORTH FROM OMAHA STREET



VIEW FROM NORTHEAST



VIEW FROM SOUTHEAST