

STAFF REPORT
May 2, 2018

No. 18TIF001 – Application to create Prairie Meadows South Tax Incremental District

GENERAL INFORMATION:

APPLICANT	Freeland Meadows LLC
AGENT	Kale McNaboe, Sperlich Consulting
PROPERTY OWNER	Multiple property owners
PARCEL ACREAGE	Approximately 176 acres
LOCATION	West of 143 rd Avenue, east of W. Nike Road, north and south of Country Road
EXISTING ZONING	Low Density Residential District, Low Density Residential District (PRD), Medium Density Residential District, Medium Density Residential District (PRD) and General Agriculture District
DATE OF APPLICATION	April 2, 2018
REVIEWED BY	Patsy Horton / Nicole Lecy

RECOMMENDATION: Staff recommends denying the application to create a tax incremental district, as it does not meet the statutory requirements of either SDCL 11-9 or the criteria related to the local TIF Policy requirements.

GENERAL COMMENTS: The applicant has submitted a four-phase residential subdivision located on the southern-most forty acres within the proposed TIF boundary. This development is adjacent to Country Road and the future La Crosse Street, both identified as arterials on the City's Major Street Plan.

The applicant is requesting TIF funding approval for subdivision site improvements and a regional drainage detention pond as follows:

**Prairie Meadows South Subdivision
TIF Funded Project Costs**

	Construction	Professional	Contingency
Erosion and Sediment Control	\$93,092.00	\$7,447.36	\$2,792.76
Mass Grading	\$632,077.00	\$50,566.16	\$18,962.31
Drainage (Stormwater)	\$338,529.00	\$27,082.32	\$10,155.87
Non Expansive Granular Material	<u>\$735,000.00</u>	<u>\$22,050.00</u>	<u>\$22,050.00</u>
Subtotal	\$1,798,698.00	\$107,145.84	\$53,960.94
Financing	\$1,150,186.81		
Total Requested	\$3,109,991.59		

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The proposed tax increment district includes 176 acres located generally north and south of Country Road, east of W. Nike Road and west of 143rd Avenue.

STAFF REVIEW: The applicant has submitted a four-phase residential subdivision located on the southern-most forty acres within the proposed TIF boundary. This development is adjacent to Country Road and the future La Crosse Street, both identified as arterials on the City's Major Street Plan.

On November 6, 2017, Council approved the Preliminary Subdivision Plan for Prairie Meadows South (17PL101). As part of that review for compliance with Chapter 16 of the Rapid City Municipal Code, the following public improvements were also needed for the owner obtain Council's approval to plat the property into 105 single family lots or 101 single family lots with 4 apartment lots (99 multi-family units) within the 40-acre property:

1. Improve to Country Road (northern boundary of 40-acre property)
2. Construct La Crosse Street (eastern boundary of 40-acre property)
3. Extend sewer from the existing line in Country Road to connect the subdivision to the lift station (includes oversizing the required pipe from an 8" to a 15" pipe)
4. Construct the regional Detention Cell M848 as identified in the Box Elder Drainage Basin, Middle Basin Design Plan

Items 3 and 4 noted above are the only regional improvements required as part of the subdivision improvements. All other public improvements identified above are required from property owners to plat property and transfer ownership within the City limits.

On December 18, 2017, Council granted an exception to the developer for all improvements associated with Country Road. Additionally, based on the location and preliminary grading plan sheet submitted with the application, the construction of La Crosse Street on the eastern boundary of the subdivision may not occur either, thus creating the need for additional public expenditures to improve and/or construct not only improvements to Country Road but also La Crosse Street.

The TIF funding proposal includes development expenditures identified within Chapter 16 of the Rapid City Municipal Code. The east-west slope appears to be around 4%; as a reference, the maximum slope for a residential street section is 12%. Based on the overall slope associated with the proposal, both the erosion and sediment control measures and the mass grading are required as part of the proposed subdivision requirements. A portion can be attributable to the regional drainage pond.

The applicant is also proposing to construct a regional drainage pond located in the southeastern most portion of the proposed district. In conjunction with the regional drainage pond, there are two associated pipes (one inlet and one outlet) serving the regional pond. However, over half of the pond and half of one outlet pipe are located both outside the proposed district boundary and outside the existing city limits and, therefore, are not eligible for reimbursement through tax increment financing.

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Another portion of the TIF funding proposal includes stockpiling non-expansive granular material for \$735,000, used to address soils-related issues during the construction of the residential structures.

South Dakota Codified Law / Statutory Requirements: The applicant has indicated that the proposed project complies with all applicable statutory requirements as well as the City's adopted Tax Increment Policy.

11-9-8. Findings required as to blighted areas or economic development-- Likelihood of enhanced value from improvements:

- (1) *Not less than twenty-five percent, by area, of the real property within the district is a blighted area or not less than fifty percent, by area, of the real property within the district will stimulate and develop the general economic welfare and prosperity of the state through the promotion and advancement of industrial, commercial, manufacturing, agricultural, or natural resources; and*
- (2) *The improvement of the area is likely to enhance significantly the value of substantially all of the other real property in the district.*

Staff review: The Equalization parcel data dated 2008 identified three parcels within the proposed boundary. Approximately 25 acres within a portion one of the parcels have since been subdivided into 85 single-family lots, 57 of which have existing residential structures or under construction. The chart below identifies the valuation change for the platted and unplatted property located within the proposed boundary. This valuation comparison between 2008 and 2017 identifies that the unplatted property within the proposed district boundary increased in value by 61.25%.

2017 Acres	2017 Value Total	2017 Valuation Per Acre	2008 Acres	2008 Value Total	2008 Cost / Acre	% Increase
119.61	65,600	\$548.45	146.82	36,700	\$229.94	78.75%
40.00	20,300	\$507.50	40.00	9,300	\$232.50	118.28%
2.00	25,200	\$12,600.00	2.00	22,900	\$11,450.00	10.04%
				Unplatted Percentage Increase		61.25%
15.08	7,821,900	\$518,694				
2017 Platted Lots		Average Valuation Per Lot				
55		\$142,216				

Note: The Equalization data identified above for the platted lots is cumulative through year-end 2016. To date, there are 85 platted lots including 28 vacant lots; building permits have been issued for 57 lots.

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Conclusion: The current proposal does not meet the definition identified within SDCL 11-9-8(1) because the property, whether platted or vacant has increased substantially in valuation, not decreased by at least 25% by area as required within SDCL 11-9-8. The second portion of this subpart specifically references non-residential property and therefore does not apply to this situation.

11-9-9. Areas conducive to disease or crime defined as blighted

Any area, including slum area, in which the structures, buildings, or improvements, by reason of:

- (1) Dilapidation, age or obsolescence;*
 - (2) Inadequate provisions for ventilation, light, air, sanitation, or open spaces;*
 - (3) High density of population and overcrowding;*
 - (4) The existence of conditions which endanger life or property by fire and other causes;*
or
 - (5) Any combination of such factors;*
- are conducive to ill health, transmission of disease, infant mortality, juvenile delinquency, or crime, and which is detrimental to the public health, safety, morals, or welfare, is a blighted area.*

Conclusion: The balance of the property within the proposed boundary is vacant and does not meet the definition of blight specified in SDCL 11-9-9.

11-9-10. Developed areas impairing growth defined as blighted

- (1) The presence of a substantial number of substandard, slum, deteriorated, or deteriorating structures;*
 - (2) Predominance of defective or inadequate street layouts;*
 - (3) Faulty lot layout in relation to size, adequacy, accessibility, or usefulness;*
 - (4) Insanitary or unsafe conditions;*
 - (5) Deterioration of site or other improvements;*
 - (6) Diversity of ownership, tax, or special assessment delinquency exceeding the fair value of the land;*
 - (7) Defective or unusual conditions of title;*
 - (8) The existence of conditions which endanger life or property by fire and other causes;*
or
 - (9) Any combination of such factors;*
- substantially impairs or arrests the sound growth of a municipality, retards the provision of housing accommodations, or constitutes an economic or social liability and is a menace to the public health, safety, morals, or welfare in its present condition and use, is a blighted area.*

Conclusion: The balance of the property within the proposed boundary is vacant and does not meet the definition of blight included in SDCL 11-9-10.

11-9-11. Open areas impairing growth defined as blighted.

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Any area, which is predominantly open and which because of obsolete platting, diversity of ownership, deterioration of structures or of site improvements, or otherwise, substantially impairs or arrests the sound growth of a municipality, is a blighted area.

Conclusion: The balance of the property within the proposed boundary is vacant, undeveloped property and does not meet the definition of blight described in SDCL 11-9-11.

TIF Purpose: The applicant has indicated that the proposed project complies with all applicable statutory requirements as well as the City's adopted Tax Increment Policy.

Staff review: The applicant indicated two Policy criterion apply in relation to the Purpose of the proposed district:

Purpose #2: To stimulate economic development in the community by assisting projects that promote the long-term economic vitality of the community.

Conclusion: "Economic development" refers specifically to non-residentially zoned property; this does not apply to the current proposal.

Purpose #3: To stimulate increased private investment in areas that would have otherwise remained undeveloped or under-developed and which will, in the long term, provide a significant source of additional tax revenues to all taxing entities.

Conclusion: A 25-acre portion of the proposed district has been platted into 85 lots within the last two years. As such, this identified TIF Purpose does not apply to the current proposal.

TIF Policy – Local Criteria for Evaluation: In addition to the statutory requirements, staff has reviewed the local evaluation criteria "checked" by the applicant:

Criterion #1: The project must be located within a proposed district in which a minimum of twenty-five percent (25) of the area of the District is determined to be "blighted" and the improvements are likely to enhance the value of substantially all of the other real property in the district. For the purposes of TIF, a "blighted area" is defined as:

- B. An area that substantially impairs or arrests the sound growth of the municipality, retards the provision of adequate housing accommodations or constitutes an economic or social liability and is a menace to the public health, safety, or morals or welfare as a result of substandard, unsafe or deteriorating development;

Staff review: As determined earlier, the proposed district valuations have increased on the vacant unplatted property by 61.25% and 85 residential lots have been created in or adjacent to the proposed district.

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Conclusion: This selection is inconsistent with the criterion requirements and does not meet the intent of the TIF Policy.

Criterion #2: The project must comply with the adopted Comprehensive Plan and all other appropriate plans and regulations.

Staff review: The Future Land Use Map identifies all property located within the proposed boundary as Low Density Neighborhood primarily for single-family and two family residences. Unless the two adjacent arterial streets are constructed and/or improved, identified on the Major Street Plan, the current proposal creates incompliance with the Transportation Element of the Comprehensive Plan.

Conclusion: The development plans submitted with the application comply with this TIF Policy criterion, provided the improvements are constructed in relation to the Major Street Plan.

Criterion #3: The use of TIF for the project will not result in the net loss of pre-existing tax revenues to the City and other taxing jurisdictions.

Staff review: The proposed district valuations have increased on the vacant unplatted property by at least 61.25% and 85 residential lots have been created in or adjacent to the proposed district within the last two years.

Conclusion: The recent residential development within and adjacent to the proposed district boundary and the current increases in taxable property valuations demonstrate compliance with this TIF Policy criterion.

TIF Policy – Additional Local Criteria (two of six required):

Criterion #1: The project must demonstrate that it is not economically feasible without the use of TIF. In addition, if the project has site alternatives, the proposal must demonstrate that it would not occur in Rapid City without TIF.

Staff review: The applicant has submitted a pro forma indicating a 73% loss attributable to Phase I.

Conclusion: Additional information is needed to confirm the pro forma calculations.

Criterion #3: The project will not provide direct or indirect assistance to retail or service businesses competing with existing businesses in the Rapid City trade area.

Staff review: The proposed district includes only residentially zoned property; retail or service businesses are not an allowed use.

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Conclusion: This local criterion does not apply to this proposed residential district.

TIF Policy – Discretionary Local Criteria (should meet several of the ten):

Criterion #9: The project costs are limited to those specific costs associated with a site that exceed the typical or average construction costs (i.e. excessive fill, relocation costs, additional foundation requirements associated with unusual soil conditions, extension of sewer or water mains, on-site or off-site vehicular circulation improvements, etc.).

Staff review: The applicant has provided a geotechnical soils report with the application that indicated additional excavation and fill might be necessary during the construction of the residential structures. The application included a request for \$735,000 to allow for “stored” non-expansive granular material, used for the proposed structures when necessary. This includes associated costs for professional services and contingency costs related to the excavation and fill. With the exception of the regional drainage pond, excluding costs associated with the proposed subdivision, this criterion appears to comply with the discretionary local criteria.

Conclusion: This discretionary criterion appears to be consistent with the intent of the TIF Policy, however, may typically be considered a standard cost associated with development, normally due to the nature of the soils in this area.

STAFF RECOMMENDATION: Staff recommends denying the application to create a tax incremental district as it does not meet the statutory requirements of either SDCL 11-9 or the criteria related to local the TIF Policy requirements. If the TIF Review Committee determines that, the application meets both the intent of the TIF Policy and the statutory requirements, staff then recommends that the applicant revise the proposal as follows:

1. That the regional project costs located within the city limits are eligible for reimbursement, more specifically to provide additional detail related to the oversizing cost for the sewer extension, the regional detention pond and the inlet and outlet pipes for the regional detention pond;
2. That to determine the eligible regional detention pond expenditures and cost certification purposes, the applicant shall provide the city with separate bid schedules for the eligible and ineligible estimates for the regional projects, including the mass grading, topsoil and seeding costs; erosion and sediment control costs; and the drainage (detention and storm sewer) costs, i.e. expenditures inside the boundary and outside the boundary;
3. That a separate bid schedule shall identify all regional improvements including the detention pond quantities and associated expenditures as well as separate schedules for costs associated with the proposed Prairie Meadows South Subdivision development;
4. That the Project Plan shall clarify the additional costs associated with each bid schedule identified above related to the regional detention pond and appurtenances located within

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the City limits, including the associated engineering, contingency costs and financing expenses for the regional improvements; and

5. The if the request to include the non-expansive granular material stockpiled north of Country Road, addressing soils issues during building construction, is determined to be an eligible TIF expenditure, the certification documentation must include the log sheets, quantities used, the location where the material was placed, as well as any other verifiable documentation to determine the applicable TIF funding eligibility.