RAPID CITY
TAX INCREMENT FINANCING POLICY
SUMMARY OF PROPOSED CHANGES
OVERVIEW OF SIOUX FALLS TIFS

• Total of 21 TIF districts, 18 in core areas, 12 active
• Focus on improving downtown and core neighborhoods
• TIF Guidelines:
  • Encourage redevelopment of blighted, deteriorated areas
  • Stimulate economic development with long term vitality
  • Stimulate private investment in areas that would otherwise remain un-developed or underdeveloped
  • Offset extraordinary development costs
  • Dedicated to reimbursement of eligible costs considered to be necessary
OVERVIEW OF SIOUX FALLS TIFS

• Projects must show a financial gap necessitating TIF, pass the “but for” test
• Third party review of project costs
• Agreement based on the financial gap, listing and capping the amount of eligible expenses
• Certification based on actual costs as listed in the agreement
WHY ARE POLICY REVISIONS NEEDED?

1. To focus on promoting new infill development and redevelopment within the core areas of the community.

2. To improve and simplify the staff review and certification processes.

3. To ensure that the TIF public financing tool is used responsibly and only when determined necessary, i.e. the project could not be built without TIF.
“CHANGE” HIGHLIGHTS

- TIF Chart description
- Updated verbiage throughout
- Base requirements

The yellow area represents the captured value of the tax increment, used to fund public improvements.
TARGETED AREAS

- Priority Areas
  - Community Core plus one mile
  - One to two mile buffer from Community Core
- Revitalization nodes
- Revitalization corridors
TARGETED USE

- Priority Use
- BOTH Blight and Affordable Housing

<table>
<thead>
<tr>
<th>2018 Data</th>
<th>2018 Annual Household Income (four person household unless otherwise noted)</th>
<th>Maximum Home Purchase Price</th>
<th>Monthly Mortgage / Rent Max (including ~ 15% for utilities)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Affordable Housing</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>HUD Extremely Low Income</td>
<td>$25,100</td>
<td>$51,141</td>
<td>$627.50</td>
</tr>
<tr>
<td>HUD Low Income (50% of AMI)</td>
<td>$35,050</td>
<td>$70,668</td>
<td>$876.25</td>
</tr>
<tr>
<td>HUD Low Income (80% of AMI)</td>
<td>$56,100</td>
<td>$146,692</td>
<td>$1,402.50</td>
</tr>
<tr>
<td>Workforce Housing Range</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>First-time homebuyer max price</td>
<td>$71,300</td>
<td>$168,973</td>
<td>$1,782.50</td>
</tr>
<tr>
<td>Income – 2 Person or less</td>
<td>$81,995</td>
<td>$179,911</td>
<td>$2,049.88</td>
</tr>
<tr>
<td>Income – 3 Person or more</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
MAP OF RAPID CITY TIF DISTRICTS
TARGETED USE

Refined “Blight” definition proposed for Rapid City TIF’s:

• Residential areas with at least twenty percent (20%) eight year taxable valuation decrease; or

• Non-residential areas with stagnant growth determined by less than thirty percent (30%) increase in eight year taxable valuations
PROPERTIES OF DECREASED VALUE
TARGETED USE

- **Priority Use**
  - BOTH Blight and Economic Development

- Enhanced the “Economic Development” definition

- “New or expanded wealth generating industries targeting healthcare and life sciences, research, financial and insurance, professional business services (including engineering and IT), metals manufacturing, energy and small-scale food and beverage manufacturing. The project will generate at least one new fulltime job from at least one of these industries for each $75,000 in principal value of the Tax Increment Financing; or would create a significant number of new jobs that meet or exceed the targeted hourly rate by Rapid City Economic Development.”

Source: 2017 Rapid City Economic Development Foundation Annual Report
**TARGETED USE**

**Priority Use** – Master plan implementation tasks and/or needs

- Plan Rapid City, Rapid City’s Comprehensive Plan
- Downtown Master Plan
- Utility System Master Plan
- Community Development Block Grant Consolidated Plan
PROJECT MANAGEMENT

- TIF Review Team – Finance, Community Development, Public Works, Economic Development Partnership President
- TIF Review Team shares and presents TIF information to School District and County
- Applicant meets with TIF Review Team to discuss proposal prior to submittal
- Project Plan and agreements prepared
- City manages public improvement projects including design, construction and construction management
GUIDING PRINCIPLES

• No guarantee of approval
• Necessity of TIF as an incentive
• Payoff within 10 years encouraged
• Affordable Housing Development tool
• Economic Development tool
• TIF Use for Blight and Excessive Development Costs
• Private Funding
• Financing Costs Based on Increased Value
• Compliance with Regulations
• Taxation Waiver
• Overlapping District Boundaries
• Performance Measures / Clawbacks
• Economic Development Grants
• TIF Project Costs
REVISED ELIGIBLE COSTS

• Eligible costs tied to public infrastructure needs
• Admin Fee is $20,000 or .05% of the total TIF costs, whichever is greater
• City will refine Developer’s project costs as necessary
• Overlap allowed of 2 districts (exceptions), may not have identical boundaries
• Maximum 3 year time frame for the City to accept the public improvements (addressed through performance measures)
EVALUATION CRITERIA

Base Requirements

• Determination of necessity

• Financial feasibility and fiscal impact

• Cost projections

• Market analysis

• Legal Review
PROJECT CRITERIA

A Project Criteria Score of at least “10” is required in order to qualify for TIF approval. A score of “12” is required in order to qualify for a TIF time frame exceeding ten (10) years.

1. The project will develop infill areas within priority areas.
   2 points: First Priority - the area within one (1) mile and inside of the Original Town, between East and West Boulevards and North and South Streets, or Areas in revitalization nodes or corridors, and certain identified mobile home parks eligible for redevelopment.
   1 point: Secondary Priority Area - the area between the one (1) mile and two (2) mile area from the inside of the Original Town, between East and West Boulevards and North and South Streets.
2. The project will eliminate actual or potential hazard(s) to the public.

3. The project will result in the redevelopment of blighted areas and/or provides new economic development. (2 points if both met)

4. The project involves the start-up of an entirely new business in a targeted economic development industry within Rapid City. (2 points if met)

5. The project involves the expansion of an existing business located within Rapid City.

6. The project will bring new or expanded employment opportunities as demonstrated by proposed wage scales, employee benefits and mixture of full and part-time employees.
7. The project will generate at least one full-time job for each $75,000 in principal value of the Tax Increment Financing; or would create a significant number of new jobs that meet or exceed the targeted minimum wage rate used by the Rapid City Economic Development Partnership.

8. The project will result in additional redevelopment in the Targeted Areas and Uses, as defined in Section III of the TIF Policy.

9. The project will result in the construction of affordable housing units, as defined in Section IV of the TIF Policy.

   1 point = up to 115% of AMI (workforce housing)
   2 points = 80% of AMI
   3 points = 50% of AMI

10. The project will result in the construction of public improvements as identified in the current Capital Improvements Plan.
11. The developer agrees to waive any discretionary formula for reduced taxation, if applicable, for the life of the district.

12. The project includes regional infrastructure improvements located in or near the TID that are determined beneficial to the community.

13. Participation rate (ratio of the amount of developer provided capital used in a project relative to the entire investment in a project)
   - 1 point = 85% to 89%
   - 2 points = 90% or higher

14. All Tax Increment Financing proceeds are to be used for the construction of public improvements.

15. The project involves the rehabilitation of a building listed on or eligible for listing on the National Register of Historic Places.

16. The building or site identified for redevelopment itself displays conditions of blight, as defined in the Rapid City TIF Policy.
17. The project site has displayed a recent pattern of declining real property assessments, as measured by the Pennington County Director of Equalization.

18. 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.)
TIF CERTIFICATION PROCESS

Tax Increment Certification Process

1. Project Plan / Developer’s Agreement approved
2. Staff provides spreadsheet for tracking expenditures
3. Construction complete - City accepts Public Improvements
4. Pre-application meeting to review Certification Checklist
5. Submit Certification documentation
6. TIF Team Review / work with applicant for clarification / documentation
7. Resubmit certification documentation / Final Review
8. Project Plan Amendment if necessary / Finance begins payments as revenue occurs
EXAMPLES

- Qualifying TIF costs and developer paid expenses
- Existing or proposed TIF projects and how they might qualify under the new policy.
# Sample Proposal for Housing Project

<table>
<thead>
<tr>
<th></th>
<th>1) Pro Forma w/ Total Costs</th>
<th>2) Developer Cost w/o TIF - no sidewalk</th>
<th>3) Developer Cost w/ 100% TIF Proposal</th>
<th>4) Developer Cost w/ TIF - Local Drainage</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Lot Sales</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lot Type A</td>
<td>$570,000.00</td>
<td>$570,000.00</td>
<td>$570,000.00</td>
<td>$570,000.00</td>
</tr>
<tr>
<td>Lot Type B</td>
<td>$350,000.00</td>
<td>$350,000.00</td>
<td>$350,000.00</td>
<td>$350,000.00</td>
</tr>
<tr>
<td>Lot Type C</td>
<td>$50,000.00</td>
<td>$50,000.00</td>
<td>$50,000.00</td>
<td>$50,000.00</td>
</tr>
<tr>
<td><strong>Total Revenue</strong></td>
<td>$970,000.00</td>
<td>$970,000.00</td>
<td>$970,000.00</td>
<td>$970,000.00</td>
</tr>
<tr>
<td>Local Street network</td>
<td>$580,468.00</td>
<td>$580,468.00</td>
<td>$580,468.00</td>
<td>$580,468.00</td>
</tr>
<tr>
<td>Professional Fees</td>
<td>$34,828.08</td>
<td>$34,828.08</td>
<td>$34,828.08</td>
<td>$34,828.08</td>
</tr>
<tr>
<td>Contingencies</td>
<td>$17,414.04</td>
<td>$17,414.04</td>
<td>$17,414.04</td>
<td>$17,414.04</td>
</tr>
<tr>
<td>Landscaping/seeding</td>
<td>$227,475.00</td>
<td>$227,475.00</td>
<td>$0.00</td>
<td>$0.00</td>
</tr>
<tr>
<td>Professional Fees</td>
<td>$13,648.50</td>
<td>$13,648.50</td>
<td>$0.00</td>
<td>$0.00</td>
</tr>
<tr>
<td>Contingencies</td>
<td>$6,824.25</td>
<td>$6,824.25</td>
<td>$0.00</td>
<td>$0.00</td>
</tr>
<tr>
<td>Off-site sidewalk</td>
<td>$91,600.00</td>
<td>$0.00</td>
<td>$0.00</td>
<td>$0.00</td>
</tr>
<tr>
<td>Professional Fees</td>
<td>$5,496.00</td>
<td>$0.00</td>
<td>$0.00</td>
<td>$0.00</td>
</tr>
<tr>
<td>Contingencies</td>
<td>$2,748.00</td>
<td>$0.00</td>
<td>$0.00</td>
<td>$0.00</td>
</tr>
<tr>
<td>Relocated street section</td>
<td>$91,600.00</td>
<td>$91,600.00</td>
<td>$0.00</td>
<td>$0.00</td>
</tr>
<tr>
<td>Professional Fees</td>
<td>$5,496.00</td>
<td>$5,496.00</td>
<td>$0.00</td>
<td>$0.00</td>
</tr>
<tr>
<td>Contingencies</td>
<td>$2,748.00</td>
<td>$2,748.00</td>
<td>$0.00</td>
<td>$0.00</td>
</tr>
<tr>
<td>Drainage</td>
<td>$122,300.00</td>
<td>$122,300.00</td>
<td>$0.00</td>
<td>$79,495.00</td>
</tr>
<tr>
<td>Professional Fees</td>
<td>$7,338.00</td>
<td>$7,338.00</td>
<td>$0.00</td>
<td>$4,769.70</td>
</tr>
<tr>
<td>Contingencies</td>
<td>$3,669.00</td>
<td>$3,669.00</td>
<td>$0.00</td>
<td>$2,384.85</td>
</tr>
<tr>
<td>Grading</td>
<td>$255,000.00</td>
<td>$255,000.00</td>
<td>$0.00</td>
<td>$0.00</td>
</tr>
<tr>
<td>Professional Fees</td>
<td>$15,300.00</td>
<td>$15,300.00</td>
<td>$0.00</td>
<td>$0.00</td>
</tr>
<tr>
<td>Contingencies</td>
<td>$7,650.00</td>
<td>$7,650.00</td>
<td>$0.00</td>
<td>$0.00</td>
</tr>
<tr>
<td><strong>Amount Financed</strong></td>
<td><strong>$1,491,602.87</strong></td>
<td><strong>$1,391,758.87</strong></td>
<td><strong>$632,710.12</strong></td>
<td><strong>$719,359.67</strong></td>
</tr>
<tr>
<td>Interest Expense</td>
<td>$291,686.94</td>
<td>$219,851.22</td>
<td>$63,332.92</td>
<td>$82,897.87</td>
</tr>
<tr>
<td>Closing fees</td>
<td>$40,000.00</td>
<td>$40,000.00</td>
<td>$40,000.00</td>
<td>$40,000.00</td>
</tr>
<tr>
<td>Land costs</td>
<td>$92,700.00</td>
<td>$92,700.00</td>
<td>$92,700.00</td>
<td>$92,700.00</td>
</tr>
<tr>
<td>Unpaid balance</td>
<td>$933,289.81</td>
<td>$945,610.09</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total Expenses</strong></td>
<td>$2,849,279.63</td>
<td>$2,689,920.18</td>
<td>$828,743.04</td>
<td>$934,957.54</td>
</tr>
<tr>
<td><strong>Total Income</strong></td>
<td>$970,000.00</td>
<td>$970,000.00</td>
<td>$970,000.00</td>
<td>$970,000.00</td>
</tr>
<tr>
<td><strong>Profit Percentage</strong></td>
<td><strong>-193.74%</strong></td>
<td><strong>-177.31%</strong></td>
<td><strong>14.56%</strong></td>
<td><strong>3.61%</strong></td>
</tr>
<tr>
<td><strong>Net Income/Loss</strong></td>
<td><strong>($1,879,279.63)</strong></td>
<td><strong>($1,719,920.18)</strong></td>
<td><strong>$141,256.96</strong></td>
<td><strong>$35,042.46</strong></td>
</tr>
<tr>
<td>Participation Rate</td>
<td>100.00%</td>
<td>100.00%</td>
<td>45.46%</td>
<td>51.69%</td>
</tr>
</tbody>
</table>