No. 18TI002 – Application to create Park Hill Tax Increment District and approved Project Plan

GENERAL INFORMATION:

APPLICANT: Park Hill Development, Inc.

AGENT: Kale McNaboe, Sperlich Consulting

PROPERTY OWNER: Park Hill Development, Inc.

PARCEL ACREAGE: Approximately 13 acres

LOCATION: Northwest of the intersection of Sydney Drive and Bridgeview Drive

EXISTING ZONING: Medium Density Residential District

DATE OF APPLICATION: July 30, 2018

REVIEWED BY: Patsy Horton / Todd Peckosh

RECOMMENDATION: Staff recommends approving the application to create a tax incremental district provided the developer agrees to a covenant agreement and that the proposed TIF eligible costs are limited to the landscaping, off-site sidewalk and street improvements and that portion of the drainage costs related to regional drainage. (Changes in bold made on December 19, 2018.) Staff recommends creating the district and approving the project plan, to include the irrigation costs to support the landscaping that were identified in the project cost total but the associated costs were inadvertently omitted. (Changes in bold made on March 15, 2019. Staff updated the Project Plan to reflect the 2018 Tax Levies.)

GENERAL COMMENTS: The applicant is proposing a two-phase, affordable housing subdivision located on the southern-most portion of the proposed TIF boundary (16PL024 and revised with 17PL137). This proposed infill development is adjacent to the existing Park Meadows Subdivision located just northwest of the intersection of Sydney Drive and Bridgeview Drive. The master plan identifies 15 duplex lots, 10 townhome lots and one apartment lot.

After the August 21, 2018, TIF Committee meeting, the applicant submitted a revised proposal to include the sidewalk connection on the south side of Sydney Drive ensuring walkability, along with providing additional information in order to comply with the state and city affordable housing provisions. The applicant is requesting TIF funding approval for costs related to subdivision grading/site improvements, drainage improvements, off-site sidewalk and street improvements and landscaping/screening as follows:

<table>
<thead>
<tr>
<th>Item Description</th>
<th>Construction</th>
<th>Professional</th>
<th>Contingency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Plantings, Topsoil, Irrigation and Fence</td>
<td>$104,600.00</td>
<td>$6,276.00</td>
<td>$3,138.00</td>
</tr>
<tr>
<td>Off-site Sidewalk</td>
<td>$29,600.00</td>
<td>$1,776.00</td>
<td>$888.00</td>
</tr>
<tr>
<td>Off-site Street Improvements</td>
<td>$91,600.00</td>
<td>$5,496.00</td>
<td>$2,748.00</td>
</tr>
</tbody>
</table>
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<table>
<thead>
<tr>
<th>Item 11</th>
<th>Drainage Improvements</th>
<th>$122,300.00</th>
<th>$7,338.00</th>
<th>$3,669.00</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grading Costs</td>
<td>$255,000.00</td>
<td>$15,300.00</td>
<td>$7,650.00</td>
<td></td>
</tr>
<tr>
<td><strong>Total Capital Costs</strong></td>
<td><strong>$603,100.00</strong></td>
<td><strong>$36,186.00</strong></td>
<td><strong>$18,093.00</strong></td>
<td></td>
</tr>
<tr>
<td>Financing Expenses</td>
<td>$343,362.00</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total Proposed TID Costs</strong></td>
<td><strong>$1,000,741.00</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The proposed tax increment district includes 13 acres located generally north of Sydney Dr, east of Smith Avenue, south of East Meade Street and west of Bridgeview Drive (west of Campbell Street).

**STAFF REVIEW:** On January 16, 2018, the applicant received Council approval for a two-phase residential subdivision (17PL137) and is now requesting public assistance through the tax increment financing process in order to move forward with the proposed affordable workforce housing development. The development is located within the southern-most area of the proposed TIF boundary, northwest of the intersection of Sydney Drive and Bridgeview Drive.

**South Dakota Codified Law (SDCL) / Statutory Requirements / Rapid City Tax Increment Policy Guidelines:** The applicant has indicated that the proposed project complies with all applicable statutory requirements as well as the City’s adopted Tax Increment Policy.

**SDCL 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 two parcels within the proposed boundary.

In 2012, the applicant subdivided approximately 9 acres of the northern most parcel into 12 single-family lots. A building permit was issued in August 2018 for the remaining vacant lot. The chart below identifies the valuation change for two parcels identified for development with the proposed boundary. This valuation comparison between 2008 and 2018 identifies that the property within the proposed district boundary decreased in value by 55.18%.

<table>
<thead>
<tr>
<th>2018 Acres</th>
<th>2018 Value Total</th>
<th>2018 Valuation Per Acre</th>
<th>2008 Acres</th>
<th>2008 Value Total</th>
<th>2008 Cost / Acre</th>
<th>% Increase/Decrease</th>
</tr>
</thead>
<tbody>
<tr>
<td>4.27</td>
<td>38,100</td>
<td>$8,923</td>
<td>4.33</td>
<td>80,000</td>
<td>$19,475</td>
<td>-52.38%</td>
</tr>
</tbody>
</table>
Conclusion: The current proposal does meet the definition identified within SDCL 11-9-8(1) because all of the property within the proposed district has decreased substantially in valuation 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.

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

SDCL 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 property within the proposed boundary is vacant and does not meet the definition of blight included in SDCL 11-9-10.
SDCL 11-9-11. Open areas impairing growth defined as blighted.

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 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 four Policy criterion apply in relation to the Purpose of the proposed district:

**Purpose #1:** To encourage the redevelopment of deteriorated, or otherwise blighted real property in Rapid City through the investment of public funds.

**Conclusion:** In 2008, the parcel currently identified as an “unplatted balance” was previously part of a 13-acre parcel that was subdivided in 2012 into twelve single-family home lots. However, both parcels included in the proposed boundary experienced a decrease in valuation by over 50%. As such, the proposal meets the intent of TIF Purpose #1.

**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:** By stimulating increased investment in this area, the proposal also then meets the intent of Plan Rapid City’s SDP-N6 goal targeting Residential Infill and Redevelopment. When the Comprehensive Plan was adopted, the Plan included specific goals intended to encourage infill development and utilize existing public infrastructure more efficiently. As such, this identified TIF Purpose applies to the current proposal.

**Purpose #4:** To stimulate the construction of safe and affordable housing units for low and moderate income residents and workers in the community.

**Conclusion:** The developer has indicated that the development will include both affordable housing and will meet the requirements defined within state law and the TIF Policy. As such, this identified TIF Purpose applies to the current proposal.

**Purpose #5:** To facilitate the reconstruction, maintenance and completion of the City’s existing infrastructure network to support the existing growth and guide of the future growth of the community.
Conclusion: The developer has indicated that the construction includes off-site sidewalk connections to provide an extension of existing infrastructure for pedestrian connectivity. As such, this identified TIF Purpose applies 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:

Local 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; or

C. An open area which because of the need for infill development and cost effective use of existing utilities and services, obsolete platting, diversity of ownership, deterioration of structures or site improvements, or otherwise is determined to be blighted, substantially impairs or arrests the sound growth of the community.

Staff review: As determined earlier, the proposed district valuations have decreased on the vacant property by 55.18%. However, the two parcels that will create the boundary for the proposed TIF are the remaining balance of property that now includes a combination of over 270 single family, townhome and duplex lots. It also appears that the northern most portion of the parcel may remain vacant indefinitely because of numerous development challenges specifically related to future street extensions to the north.

Conclusion: As noted previously, both parcels included in the proposed boundary experienced over 50% decrease in valuation. As such, these selections are consistent with the criterion requirements and meet the intent of the TIF Policy.

Local 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 Urban Neighborhood primarily for a range of medium to high-density housing types, including townhomes, apartments, small lot single-family and duplexes. Additionally, the proposal addresses SDP-N6 included in the Supplemental Design Principles for Urban Neighborhoods by providing infill development to utilize existing public infrastructure more efficiently. As such, this identified TIF Criterion applies to the current proposal.
Conclusion: The development plans submitted with the application comply with this TIF Policy criterion.

Local 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 decreased on the two parcels by 55.18%. It is anticipated that property values will increase once the proposed development occurs.

Conclusion: The residential development adjacent and to the west of the proposed district boundary demonstrates compliance with this TIF Policy criterion once the proposed development occurs.

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

Additional Local 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 147% loss attributable to the proposed development.

Conclusion: Based on the pro forma provided, the application as submitted complies with this criterion.

Additional Local 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.

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

Additional Local Criterion #6: The project will result in the construction of affordable housing units defined as housing where the occupant is paying no more than thirty percent (30%) of gross income for housing costs including utilities and complies with the following requirements:

A. Affordable housing projects must target residents at or below eighty percent (80%) of median income with rents at thirty percent (30%) of the tenants income or the Fair Market Rent (FMR) for the Section 8 Program whichever is greater. A minimum of 51% of the dwelling units of the proposed development shall be occupied by households meeting this income guideline;
B. Affordable housing is required to remain affordable as defined above for ten (10) years. If affordability is less than ten (10) years, repayment of pro rata share of increment benefit will be due and payable to the City.

**Staff review:** This local requirement varies from the “affordable” housing definition identified in SDCL 13-13-10.10 relating to how a TIF is classified as part of the state aid to schools formula. State law allows affordable housing TIF classifications if the first time homebuyer housing cost ($250,200 or less with $71,300 household income) or the rental amount complies with the South Dakota Housing Development Authority (SDHDA) standards at the time the TIF district is created. The SDHDA target those families at approximately 115% of the annual median income (AMI). The local requirement as referenced above is intended to provide housing for families at or below the 80% AMI. The current 2018 Rapid City Metro Area HUD 80% AMI is $56,100. Additional clarification on the new state TIF classification occurs after the TIF policy review.

**Conclusion:** The developer indicated concurrence with supplying housing units to meet this local criterion and staff recommends including this within restrictive covenants to identify both the state’s TIF classification requirements and the local TIF defined affordable housing requirements.

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

**Discretionary Local Criterion #5:** The building or site that is to be redeveloped itself displays conditions of blight as established by the provisions of SDCL 11-9.

**Staff review:** As determined earlier, the proposed district valuations have decreased on the vacant property by 55.18%.

**Conclusion:** As noted previously, both parcels included in the proposed boundary experienced over 50% decrease from an eight-year valuation comparison. As such, these selections are consistent with the discretionary local criterion requirements and meet the intent of the TIF Policy.

**Discretionary Local Criterion #8:** The project site has displayed a recent pattern of declining real property assessments, as measured by the Pennington County Director of Equalization.

**Staff review:** As determined earlier, the proposed district valuations have decreased on the vacant property by 55.18%.

**Conclusion:** As noted previously, both parcels included in the proposed boundary experienced over 50% decrease from an eight-year valuation comparison. As such, these selections are consistent with the discretionary local criterion requirements and meet the intent of the TIF Policy.

**Discretionary Local 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 $116,860 to allow for non-expansive granular material to be added to a majority of the site work. This proposal is intended to meet the intent of RCMC 15-13-410 requiring additional geotechnical information for one and two family dwellings. The Building Services Division noted that as long as the geotechnical report confirmed testing of each building site, this requirement could be met. However, there may be locations within the proposed development where this higher cost non-expansive granular material would not be required, thus creating potential situations for unnecessary taxpayer funds.

**Conclusion:** This discretionary criterion appears to be consistent with the intent of the TIF Policy, however, staff does not recommend including this non-expansive soil cost as an eligible TIF expenditure.

**Discretionary Local Criterion #10:** The developer agrees to waive the five-year tax abatement.

**Staff review:** The applicant has agreed to waive any right to tax abatements that may be available for the proposed structures.

**Conclusion:** This discretionary criterion appears to be consistent with the intent of the TIF Policy.

The revised TIF funding proposal includes that portion of the drainage improvements attributable to the private development costs. The applicant’s engineering cost estimate identifies that only 35% of the drainage improvements are associated with regional drainage. Additionally, as part of the grading cost proposal, the developer has proposed to place approximately $117,000 for non-expansive soil to ensure that the residential foundations are located on suitable soils based on the building code requirement in Section 15.13.410 of the Rapid City Municipal Code. However, this is not a typical developer cost and including the proposed project plan line item as an eligible TIF expenditure will not guarantee a reduced selling price for the proposed lots.

**Affordable Housing.** Changes to SDCL 13-13-10.10 became effective in July 2018 as those changes relate to the definition of affordable housing in relation to tax increment financing, and how the state school aid to education formula is calculated. The new language reads as follows:

**SDCL 13-13-10.10 (effective 7/1/2018)** Industrial, economic development, and affordable housing purposes defined for purposes of § 13-13-10.9. For the purposes of § 13-13-10.9, the terms, industrial, and, economic development, include only those areas where there is or will be one or more businesses engaged in any activity defined as commercial or industrial
by the governing body that has zoning authority over the real property contained within the tax increment financing district.

For the purposes of § 13-13-10.9, affordable housing is only those tax increment financing districts where:

(1) The original selling price of any house in the district will be at or below the first-time homebuyer purchase price limit being used by the South Dakota Housing Development Authority as of the date the house is sold; or

(2) The monthly rental rate of all multifamily housing units in the district will be at or below the calculated rent for the state’s eighty percent area median income, being used by the South Dakota Housing Development Authority, as of the date the district is created, for a minimum of five years following the date of first occupancy.

This section applies to tax increment financing districts created after June 30, 2018.


According to the South Dakota Housing Development Authority, the first-time homebuyer purchase price maximum for 2018 is $250,200. The 2018 home valuations for properties within the proposed subdivision (17PL137) range between $200,000 to $210,000 for the proposed duplexes and townhomes. The current proposal appears to meet the first-time homebuyer purchase limit.

**STAFF RECOMMENDATION:** Staff recommends approving the application to create a tax incremental district based on the projects costs that follow, provided that the applicant enter into a restrictive covenant agreement to ensure that the affordable housing requirements are met by all future property owners until the TID is dissolved. The TIF Committee approved the irrigation costs that support the landscaping buffer, but were inadvertently omitted from the following cost table. The changes are highlighted. The interest expense was adjusted to accommodate the change in the amortization schedule starting date, based on the anticipated April 15, 2019 Council approval date.

<table>
<thead>
<tr>
<th>Staff Recommended Park Hill Proposed TIF Project Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Construction</td>
</tr>
<tr>
<td>---------------</td>
</tr>
<tr>
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<td><strong>Total Capital Costs</strong></td>
</tr>
<tr>
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</tr>
<tr>
<td>Financing Expenses</td>
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| Total TID Costs | $987,393.72 |