

# **Draft** RAPID CITY TAX INCREMENT FINANCING POLICY



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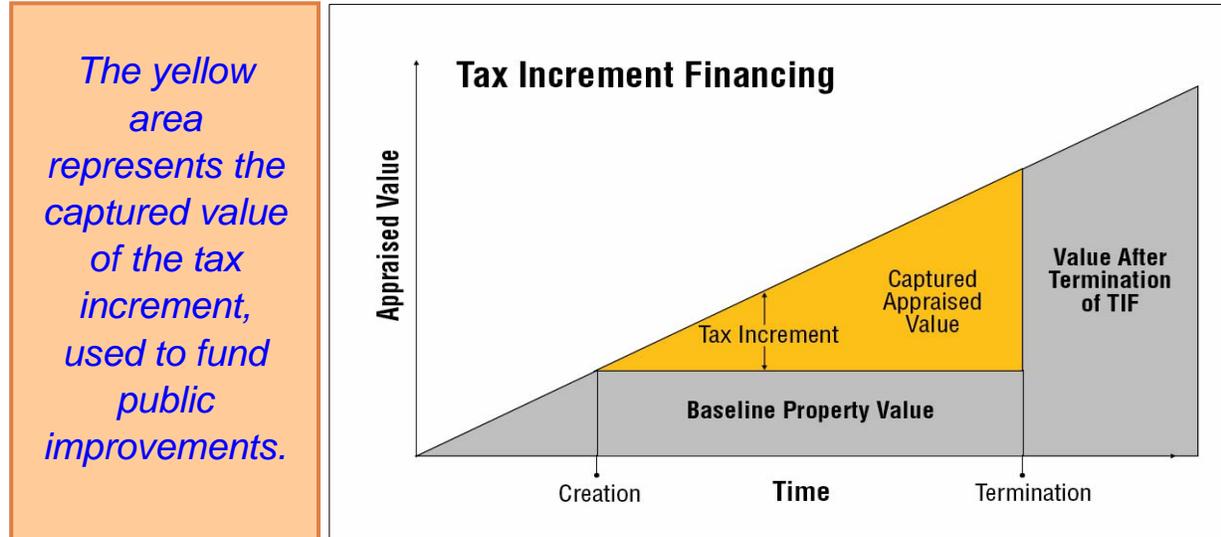
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# Rapid City Tax Increment Financing Policy

## 1. INTRODUCTION

In 1978, the South Dakota Legislature approved the use of Tax Increment Financing (TIF) by municipalities to help finance redevelopment projects. TIF is a method of funding public investments in an area by capturing, for a time, all of the increased tax revenue that results when public investment stimulates private investment.



TIF is one of the few economic development and community redevelopment tools used by the City and private development groups to enhance and enable development projects that provide substantial public benefit by generating economic development, restoring historic buildings and areas, redeveloping blighted areas and cleaning up environmental concerns.

In order to ensure a comprehensive and reasonable review of TIF proposals, the City has established this policy for the review and determination of TIF use in the City. Each proposed TIF project must demonstrate necessity and meet base requirements, and shall be rated as to how well it meets several identified project criteria. The evaluation chart included within this guide provides direction to City Council as to whether a project specifically meets the requirements and criteria established herein.

Implementing TIF often requires a negotiation process between the City and the beneficiaries of the district. The City reserves its right to negotiate terms and implement restrictive covenants to implement policy provisions. The City may apply any requirements or criteria in a flexible manner to meet the overall intent of this policy. The application will be reviewed by the Planning Commission and City Council if the proposal meets all of the provisions of this policy.

## 2. PURPOSE

The City of Rapid City recognizes the community value in utilizing TIF to further the goals contained in *Plan Rapid City*, the City's Comprehensive Plan, Utility System Master Plan, Downtown Master Plan, Capital Improvements Program, Community Development Block Grant Consolidated Plan, and other master planning documents as adopted by the City Council. The following are goals for utilizing this tool:

1. To encourage infill development within the Community Core and other established areas to more efficiently utilize existing public infrastructure; (see [\*Plan Rapid City\* "Fiscal Impact of Development," Appendix \\_\\_](#))
2. To encourage redevelopment of deteriorated, or otherwise blighted real property, including limited life safety improvements to rehabilitated nonresidential structures;
3. To stimulate the construction of safe and affordable housing units disbursed throughout the community for low and moderate-income residents;
4. To encourage transit-oriented development or development otherwise planned to reduce the amount of urban sprawl and the associated need for additional public infrastructure, thereby creating livable, sustainable, walkable, bike-able, and transit accessible growth providing good connectivity with surrounding areas;
5. To stimulate economic development in the community by assisting projects that promote the long-term economic vitality of the community; and
6. To facilitate the reconstruction, maintenance and completion of the City's existing infrastructure network in priority growth or employment areas that support existing growth and guide the future growth of the community.

## 3. TARGETED USES AND AREAS

The City of Rapid City has determined specific TIF project priorities in various targeted areas and/or uses as well as community planning documents addressing transportation needs, capital improvements, land use recommendations, utility extension master plan priorities, housing or other planning documents, including updates, as follows:

1. Priority Use: *Plan Rapid City* or other City Master Plans
  - a. *Plan Rapid City*

Targeted improvements to address plan objectives (see [\*Plan Rapid City\* "Focus Area Policies," Appendix \\_\\_](#))

- 1) Future Land Use Plan Elements related to Places and Corridors, with emphasis on revitalization corridors (Chapter 10, *Plan Rapid City*) for economic development TIF proposals; or
- 2) Specific neighborhood area goals and policies (Chapter 11, *Plan Rapid City*); or
- 3) Immediate Actions as identified in the Implementation Plan Strategies (Near-Term Actions may be considered if all previous Immediate Action items have been completed within each goal (Chapter 12, *Plan Rapid City*); or
- 4) Infill areas identified in *Plan Rapid City*; or
- 5) Priority affordable housing areas; or
- 6) Priority workforce housing areas; or
- 7) Priority redevelopment areas.

b. City Master Plans

Targeted improvements to address the objectives and priorities of the Downtown Master Plan, the Utility System Master Plan, the Capital Improvements Program, and/or the Community Development Block Grant Consolidated Plan.

2. Priority Use: Blight Redevelopment for Housing or Economic Development

A higher priority use and emphasis for TIF shall be assigned to project proposals that include BOTH the redevelopment of blighted areas and provides for additional low to moderate housing units, workforce housing or economic development.

- a. For Rapid City, “blight” is defined as:
  - 1) Residential areas with at least 20% decrease in taxable structural valuation over an 8-year period; ~~or~~
  - 2) Non-residential areas with stagnant growth determined by a 5% or less increase in taxable valuations over an 8-year period;
  - 3) Property located within the red or orange crime density areas as identified within Rapid City’s Community Crime Map; or
  - 4) Visible signs of structural deterioration located within priority areas.
- b. For Rapid City, “affordable” and “workforce” housing is defined as:
  - 1) Affordable housing offered to households at or below 80% of US Housing and Urban Development’s (HUD) Rapid City Metro Area Average Median Income (AMI), where housing costs, including utilities, are no higher than 30% of AMI as of the date the TIF district is created; or
  - 2) Workforce housing where the original selling price of any house in the district will be at or below the first-time homebuyer purchase price limit used by the South Dakota Housing Development Authority (SDHDA) as of the date the house is sold; or

- 3) The monthly rental rate of all multi-family housing units in the TIF district for affordable housing rental rates, based on the number of bedrooms, shall meet HUD Fair Market Rent rates; the workforce housing rental rates will be at or below the calculated rent for the state's 80% area median income, used by the SDHDA, as of the date the TIF district is created, until the TIF is dissolved. ([South Dakota Codified Law](#) (SDCL) states minimum of 5 years); and
  - 4) All residential TIF districts or economic development TIF districts that include any residential units shall include affordable housing on at least 30% of the single-family lots or multi-family units within each development phase. At least 5% of the affordable housing lots and/or units shall target households at or below 30% of HUD's AMI.
- c. For Rapid City, "economic development" is defined as:
- 1) 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 is demonstrated to do one of the following:
    - a) 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 financed project costs (excluding interest),
    - b) Create a significant number of new jobs that meet or exceed the targeted hourly rate by Elevate Rapid City (however, the targeted industry hourly rate shall be no less than 75% of the US Census Bureau's American Community Survey (ACS) five-year household median income); or
    - c) Cause significant economic impact to the community, defined in evidence submitted with the application.
  - 2) 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 financed project costs (excluding interest) or would create a significant number of new jobs that meet or exceed the targeted hourly rate by Elevate Rapid City.
  - 3) Job count required in item (c)(1)(a) above may not include economic considerations related to the cost of construction for public improvements proposed or the cost of construction for structures within the proposed district.
3. Priority Use: *Transit-oriented Development*

A higher priority use and emphasis for TIF shall be assigned to project proposals that include transit-oriented development that includes site plans targeting compact, walkable, pedestrian, [multi-modal](#) and transit oriented uses, [generally located within one-quarter to one-half mile from a transit stop](#),

that also includes mixed use communities centered around shared transportation options.

4. Priority Areas (Appendix 1, TIF Priority Areas Map)

- a. First priority and emphasis for TIF shall be for projects located in infill areas and areas needing redevelopment within the Core Community, defined as the area within one (1) mile and inside of the Original Town, between East and West Boulevards and North and South Streets.
- b. First priority is also given to projects located within existing city boundaries along or within revitalization corridors and nodes, and to certain identified mobile home parks eligible for redevelopment, based on code compliance issues and/or a decrease in property value.
- c. Secondary priority is given to projects located between one (1) and two (2) miles of the Original Town boundaries.
- d. The creation of tax increment districts in green fields and areas on the outskirts of the community should only occur when the project falls within other targeted uses and areas listed herein. A project area must be annexed into the City prior to TIF approval application. The Resolution of Annexation is effective when SDCL 9-19-13 is met.

#### 4. PRINCIPLES

1. Project Management. The TIF Review Team (TRT) shall manage and coordinate the application process, project plan development and certification. The Public Works Department shall ~~manage~~ coordinate the approval, design and construction management of all public infrastructure projects within the district similar to any other city Capital Improvements Program sponsored public infrastructure project. The TRT shall also be responsible for drafting the Project Plan to ensure consistency and to provide accessible information necessary for decision-making.
2. No Guarantee of Approval. Although all applications for TIF shall be reviewed and considered for approval based on merit and how the proposal meets the requirements and criteria listed in this policy, there is no applicant's right to or guarantee of approval. The proposal to create a TIF district must meet the minimum scoring criteria before presented to the Planning Commission. The Planning Commission must recommend designating the district boundary before the proposal can be forwarded to City Council for consideration. The City Council has final approval of any TIF district and takes a conservative approach in utilizing TIF.
3. Necessity of TIF as an Incentive. The primary consideration in creating a TIF district is the necessity of TIF as an incentive. TIF is not to be considered a

land entitlement; it is only to be used when it can be shown as necessary. The City can and will consider using TIF when a worthy and desired project has *presented evidence* of the necessity of TIF, without which the project would not occur due to extraordinary site or development constraints.

- a. Examples of supporting evidence may include submission of recent cost comparisons for subdivision expenditures, site excavation, grading, environmental remediation, as well as detailed review of other significant factors regarding the available labor force, access to air transportation, education system and quality of life for primary workers as well as their spouses/family members, etc.
- b. Evaluation methods may include examining whether a project will experience excessive or extraordinary site development costs, a project has a capitalization shortfall, there are short-term operational deficits, or the cost of business recruitment or expansion is higher in Rapid City than comparable cities.
- c. The evidence presented must demonstrate how the TIF district will result in one or more of the following:
  - 1) Creating a special public benefit,
  - 2) Causing significant economic impact to the area and building the local tax base (excludes the construction costs for the TIF funded public improvements),
  - 3) Reducing the prevalence of blight, and
  - 4) Addressing extreme topography issues, soils contamination or other environmental concerns.
- d. Cost comparisons shall include a two-year comparison for similar projects, or cost estimates shall be based on state bid unit prices.
- e. For economic development projects, factors in determining necessary use may include an independent analysis of available labor force, access to air transportation, education system and quality of life for labor as well as spouses/family members.
- f. The use of TIF should be limited to only the amount necessary for a desired project to become possible. Some eligible costs may possibly be determined as unnecessary.
- g. A component of properly using TIF is determining what participation rate is necessary for the project to occur. Although the acceptable participation rate may vary from project to project, points can be scored on the evaluation chart when the developer participation rate is at least 85%, or a higher score if the rate is at least 90%. For Rapid City, this participation rate calculation may include the following:

- 1) Subdivision improvement expenditures required in Chapter 16 of the Rapid City Municipal Code (RCMC);
  - 2) Cost efficiencies realized for the concurrent installation of private services during construction of TIF funded public improvements;
  - 3) Interest expense for that amount over the U.S. Federal Prime Rate plus one percent. city paid interest rate, with a maximum of 4% over current city rate. The loan origination fee and escrow fees may also be included as part of the participation rate; or
  - 4) Developer expense to provide the base requirement information for third party review documentation may also be included as part of the participation rate.
- h. A development agreement shall accompany the approval of the TIF project plan, and may stipulate a lower reimbursement amount than what is eligible based on the determination of necessity.
4. Housing Development Tool:
- a. Any TIF District that includes residential lots and/or housing units shall include affordable housing on at least 30% of the single-family lots or multi-family units within each development phase. At least 5% of all single-family lots or multi-family units in each development phase shall include lots or apartments at a reduced price for persons making less than 30% of median income; in lieu of this 5% lot/unit requirement, the developer may contribute a certain dollar amount, to be determined, into a housing trust fund in perpetuity, to be used to develop affordable housing. This option assists homebuyers in purchasing the structure only, thus decreasing housing costs.
  - b. Any Tax Increment District proposed for workforce housing shall comply with the income and purchase price limits for first-time homebuyers as defined by the South Dakota Housing Development Authority.
  - c. The monthly affordable housing rental rate for housing units in a multi-family housing structure, including duplexes, shall meet HUD's Fair Market Rent bedroom rental rates; the workforce multi-family housing rental rates as identified above shall be at or below the calculated rent for the state's 80% area median income, as determined by the South Dakota Housing Development Authority, as of the date the TIF district is created, for the life of the TIF district.
  - d. Affordable housing development as part of a TIF proposal must be located on a transit service line.
  - e. Any TIF District that includes residential lots and/or housing shall include restrictive covenants to ensure compliance with these provisions.

5. Economic Development Tool. The City recognizes there are certain development projects that would not occur without the use of economic development tools. TIF is one of the powerful tools at the City’s disposal to provide a necessary financial catalyst to ensure those projects can occur. While the City maintains a strategy of utilizing TIF primarily for excessive development costs, it recognizes that some projects can merit the use of TIF by other justification. Some examples of when it may be recommended to use TIF for special economic development incentives include:
  - a. Projects that benefit the fiscal health of the City, County and School District; or
  - b. Business retention and recruitment efforts; or
  - c. Projects that meet a desired economic development goal of the City related to job creation, industry diversification, infill development or similar goals.
6. TIF Use for Blight and Excessive Development Costs. If TIF is requested because of high site development costs, it *shall be demonstrated* that the site costs are extraordinary relative to comparable sites in the City, or contributes to the removal and prevention of blight. Extending infrastructure to the site, as required for developments, does not constitute high site development costs.
7. Private Funding. Private funding is required for TIF within Rapid City; requests for city funding participation will not be accepted. If additional public infrastructure is determined beneficial to enhance the neighborhood area within close proximity of the project proposal, the developer shall also secure private funding for this additional public infrastructure. Both the additional public infrastructure and the associated interest expense shall be reimbursable from available revenues generated within the TID.
8. Financing Costs Based on Increased Value. New construction and development increase the taxable value of property thereby increasing the taxes generated on that property and the City’s overall tax base. TIF allows these new taxes, called incremental taxes, to pay for certain project costs associated with bringing the development to fruition. These incremental taxes can statutorily be used to repay the project costs for up to twenty (20) years. However, the City encourages TIF proposals to achieve full repayment within ten (10) years or less. The developer’s amount financed is repaid as the incremental taxes are generated by the new development.
9. Code and Policy Compliance. Any developer awarded TIF must comply with provisions of [the RCMC, Infrastructure Design Criteria Manual \(IDCM\), Standard Specifications](#), SDCL 6-1-1 and the City’s conflict of interest policy per Resolution 2016-096.

10. Waive Reduced Taxation. The developer, including subsequent property owners, shall waive any discretionary formula for reduced taxation by any taxing agency for the life of the district.
11. Overlapping Districts. The overlapping of more than two (2) active TID boundaries shall only be permitted when evidence of necessity is demonstrated.
12. Performance Measures / Clawbacks. As part of any agreement for the use of TIF, the City may require and include performance measures and subsequent remedies as a condition of utilizing TIF.
13. Economic Development Grants. State code allows TIF proceeds to be awarded as grants for economic development purposes (SDCL 11-9-15). The City may elect to consider any use of TIF as an economic development grant award when applicable. However, the City will substantiate the need for, and amount of, any TIF grant award through a thorough evaluation of all project costs and projections, based on the criteria listed in this policy and the findings of an analysis of the project's financial feasibility and fiscal impact (see Section VI. Evaluation Process, below).
14. TIF Project Costs. Each project cost estimate submitted with the application shall be prepared following a bid item format and displayed on the proposed public improvements map prepared and submitted with the application. The project descriptions shall also include detailed references to adopted master plans. Cost estimates shall include separate bid schedules for TIF funded projects and non-TIF funded projects. All public improvements approved within the Project Plan shall be constructed as proposed unless a Plan Amendment is approved.
15. Infrastructure Compliance. Improvements and infrastructure installed as part of projects approved for TIF must comply with the minimum standards and requirements found in the Rapid City Infrastructure Criteria Manual and Standard Specifications, without exceptions and/or variances.

## 5. COSTS

### Eligible Costs

1. Capital costs for the construction of oversizing public works improvements. Cost efficiencies may be realized for private services during construction of public improvements; however, costs associated with the private services are not eligible for reimbursement with tax increment funding. Water main oversizing costs, if upsizing the water main in association with residential fire sprinkler protection systems, may also be eligible for reimbursement.

2. Capital costs for additional regional public infrastructure determined beneficial to enhance the neighborhood area where the regional public infrastructure is located within close proximity of the original project proposal and within the TID boundary; interest expenses for the regional public infrastructure may be reimbursed from available revenues generated within the TID. However, the associated private development costs utilizing the regional public infrastructure are not reimbursable. (For example, storm water flows and the required detention for a new development are excluded from reimbursement.)
3. Regional storm drainage detention and transmission facilities to accommodate storm water runoff as identified in the adopted drainage basin (on-site detention required for development purposes shall be deducted from eligible regional improvements; on-site detention costs may be used for participation rate calculation).
4. Reconstruction of existing streets, water, sewer, sidewalks or other public infrastructure located within an infill priority area.
5. Regional city-owned water towers and/or reservoirs, lift stations, pump stations, extensions of off-site sewer, water, street and other public infrastructure identified in the adopted *Utility System Master Plan*.
6. Land acquisition in conjunction with an associated regional public infrastructure project (requires third party appraisal) and land ownership agreement prior to inclusion within the TIF application.
7. Land acquisition in conjunction with an affordable housing project located within an infill priority area, provided the land is donated to a land trust.
8. Relocation costs in conjunction with an affordable housing project located within an infill priority area (must follow SDCL 5-2-18).
9. An economic development TIF project may include costs specific to investments that are demonstrated to increase project output capacity, job creation, the finishing of work-spaces, and/or land acquisition.
10. Demolition costs for the removal of existing structures or infrastructure for infill development and redevelopment sites, provided the demolition does not create a negative tax increment district for no more than two years.
11. Removal and replacement of contaminated soils for infill development sites or along revitalization corridors.
12. City-owned public playgrounds, parks and recreational improvements.
13. Professional service fees limited to public improvements engineering, design, surveying and construction management associated with the eligible project

costs. The combined professional and construction administration fees shall be limited to a total of 17% of certified public improvements construction cost or based on two-year average of municipal design and construction administration costs, whichever is greater.

14. Traffic signal expenses and the associated traffic impact study for collector/collector, collector/arterial or arterial/arterial intersecting streets as identified on the Major Street Plan shall be eligible for reimbursement if the intersecting streets warrant signal installation on or before the fourth year after the district is created. Signal apparatus shall be accepted by jurisdiction before the end of the fifth year of district creation.
15. Alteration, remodeling, repair or reconstruction of existing non-residential buildings or structures located within a high priority area, within a revitalization node or along a revitalization corridor. The eligible reimbursement is limited to is only includes portions of the installation of fire sprinkler protection systems, inclusive of the associated water service lines and ~~associated~~ fire alarm system features.
16. TIF assisted non-residential structural rehabilitation within a National Historic District or eligible for listing on the National Register of Historic Places completed according to the Secretary of the Interior's Standards for Rehabilitation.
17. Contingency costs shall be capped at 10% each of certified public improvements construction costs. The Project Plan shall be amended to reallocate contingency to capital costs only.
18. Interest expense eligibility ~~restricted to shall be no more than U.S. Federal Prime Rate plus one percent current interest rate paid by City~~ (developer shall be responsible for interest expense over U.S. Federal Prime Rate City rate, including loan origination fees). See [www.fedprimerate.com](http://www.fedprimerate.com) for current rate. Additional interest expense may be eligible based on the additional project cost provisions of SDCL 11-9-23 if market volatility creates a shortage in the original interest expense projection.
19. Imputed administrative fee (\$20,000 or 0.5% of the total TIF Costs, whichever is greater) shall be included as a project cost for every Tax Increment District for which a Project Plan is approved.
20. Residential development public infrastructure costs, provided the project meets the objectives of a-multi-modal, transit-oriented development.
21. Landscaping, including irrigation and design by a professional landscape architect with review and approval by the Parks and Recreation Department, for locations adjacent to a revitalization corridor and/or node. The developer shall be responsible for the live vegetative landscaping / irrigation

maintenance for the life of the TIF; thereafter, the Parks and Recreation Department shall be responsible for the landscaping installed adjacent to revitalization corridors and/or nodes in accordance with City ordinance requirements.

22. Costs relating to the development of extreme topography issues, including the grading and preparation of sites having large swales, deep ravines, steep slopes and hillsides, or other significant topographic situations. Grading on a limited basis may be an allowable expense provided the grading occurs in conjunction with redevelopment sites.
23. Third party professional services deemed necessary to review the application, including financial feasibility, market analysis, legal review and appraisal for associated real property assembly costs, identified in the Project Plan as a city developer expense.
24. Acquisition of equipment or other permanent fixtures associated with regional public infrastructure facilities.
25. Payments and grants made, at the discretion of City Council, which are found to be necessary or convenient to the creation of a district, the implementation of project plans, or to stimulate and develop the general economic welfare and prosperity of the state. No payment or grant may be used for any residential structure pursuant to SDCL 11-9-42.

### **Ineligible Costs**

1. Public improvements and site improvements including but not limited to parking lots, landscaping, driveways, site lighting, sidewalks, signs, grading and fill as required in RCMC Chapter 16.
2. Non-native site development grading costs.
3. Financing and interest expenses shall not be reallocated to capital expenditures or any other purpose, unless otherwise noted above.
4. Any project cost that is located outside the TIF boundary that may otherwise be considered eligible.
5. Organizational costs.
6. Legal and developer fees.
7. Financing and interest expenses (over U.S. Prime Rate plus one percent city rate).
- ~~8. Unconstructed capital costs are ineligible for any other purpose reallocation.~~

## 6. PROGRAM PROCEDURES

To achieve the highest and best community benefit from tax increment financing, the TIF Review Team (TRT) will negotiate with developers to provide the best possible project before the application is submitted for review and consideration. In addition to the opportunities and/or restrictions detailed in SDCL 11-9, Rapid City TIFs must also comply with the following general program procedures:

### Application Requirements

The applicant meets with the TRT to discuss the proposal to offer guidance regarding the targeted uses of TIF.

All applicants must submit a completed application, with required supplemental information as noted herein, and a nonrefundable application fee as set by Council resolution. The application submittal shall include the following information or suspended until submittal is complete:

1. A detailed project description, including how the project / application meets the purpose of the TIF Policy;
2. Itemized list of all project costs, both developer funded infrastructure and TIF funded infrastructure (used for calculating participation rate), in a spreadsheet format similar to an engineer's estimate /bid tab used for public infrastructure;
3. A preliminary development financing plan, including sources of funds, identification of lender, interest rates, financing costs and loan terms. Developer agrees that submitting an application for tax increment financing allows the Finance Director to participate in negotiation with the proposed financial institute when securing the TIF loan terms;
4. The applicant shall identify all persons and entities that have an interest in the project and/or in the entity applying for the tax increment financing district. The disclosures shall require identification of all members of an LLC or LLP, other partners, investors, shareholders and directors of a corporation or any other person who has a financial interest in the project or in the entity applying for the tax increment financing. This provision requires identification of all persons who have an interest in the project, including those whose interest exists through, an LLC, LLP or corporation (whether as a director or shareholder) or other legal entity. The applicant shall be under a continuing obligation to update this disclosure within thirty (30) days of any changes throughout the application process and throughout the life of the developer's agreement. If the applicant is a publicly traded company, the applicant shall be deemed to have complied with this provision if it has provided the City a copy of its most recent annual report with the application;

5. A pro forma indicating projected costs and revenues. Developer will be provided the spreadsheet following the TRT discussions. Revenue and cost estimate projections shall include historical data for similar projects (i.e., building permit construction costs, structural valuation, etc.) An incomplete spreadsheet submission shall be justification for suspending an application;
6. Demonstration that each project criteria creating the need for the use of tax increment financing has been met;
7. Conceptual and/or approved master plans, sketches, maps or site plans for the project;
8. A development time schedule including specific phasing of improvements and project costs;
9. Corporation, LLC, partnership papers or other business documents identifying the parties with ownership interest in the corporation and property involved in the project, including land ownership, contract for deed or other contractual information relating to control of the property and the applicant's ability to complete the project; and,
10. A financial statement of the corporation, partnership, or individual for the most recent five years or life of the company. If financial statement not available for newly organized entity, confidential personal financial information shall be provided to Finance Officer to ensure personal guarantee of newly organized entity;
11. A copy of the proposed wage scale, employee benefits package, and full and part time employment levels or, in the case of an affordable housing project, a copy of the applicable federal housing grant program;
12. Application fee as identified per City Council resolution;
13. Other information that may be required by the TRT, Planning Commission or City Council.

(see TIF Application Checklist, Appendix \_\_\_\_\_)

#### Project Plan, Amendments and Agreements

1. The City may, on a case-by-case basis, establish public purpose requirements specific to an application that must be met for the project. Such requirements shall be described in the project plan, development agreement or other binding document between the City and the applicant, which may be in addition to the scope of applicable city ordinances or policies. Such items which may be included and if included would require performance by the applicant. These items may include but are not limited to: prescribed valuation

- of a home or building, vacant infill land use absorption, acreage or building sizes, wages, number of jobs created/retained, property valuation increases, sales tax generating capacity, historic preservation, environmental improvements, transportation improvements, blight remediation, parking improvements, restrictive covenants, rental income verification, etc.
2. Project Plan reimbursable expenditures shall be tied to developer's estimated revenue projections and included in all agreements utilized in carrying out Project Plan improvements. Reimbursements ~~shall~~ may be ~~issued on a declining scale-reduced~~ in relation to developer's revenue projections compared to actual revenues generated. All TIF funded projects identified within the Project Plan shall be constructed unless Council approves an amendment removing the project from the Project Plan. The City shall have the right to refuse all TID fund reimbursements unless those improvements are installed and constructed within the required timeframe.
  3. A project plan amendment adding capital costs or reallocating capital or contingency costs shall be reviewed and approved in the same manner as the initial project plan. (SDCL 11-9-18)

## 7. EVALUATION PROCESS

The TIF Review Team (TRT) will evaluate and score each TIF application as the proposal relates to the TIF purpose, targeted areas and uses and project criteria identified herein. The application / proposal must meet the Base Requirements and score a minimum Project Criteria rating of "10" on the TIF Evaluation Chart to be eligible for consideration by the Planning Commission and City Council. (TIF Evaluation Chart, Appendix \_\_\_\_).

Base Requirements. Evaluation of TIF project applications shall include a review of the following requirements:

1. Eligibility. The TIF proposal shall demonstrate that the minimum eligibility requirements as described herein have been clearly demonstrated.
2. Public Benefit / Interest. The proposal sufficiently demonstrates that the project will a) eliminate actual or potential hazard to the public, b) provide a tangible benefit for the community, and/or c) directly or indirectly contribute to the public interest.
3. Demonstration of Necessity. The TIF proposal shall demonstrate that its use is a prudent, practical and necessary use of the TIF incentive program. The project application shall demonstrate that the project would not be able to move forward without (but for) the assistance of TIF, and shall determine the level of TIF necessary for the project to move forward (see Principle 3 in Section IV, above). The City may contract with outside professionals to

evaluate the proposal to determine necessity; such expenditures shall be considered a developer cost and will be included in the project plan as an eligible expenditure.

4. Financial Feasibility and Fiscal Impact. The TIF proposal shall demonstrate the financial feasibility and fiscal impact of the proposed project. The City may contract with a prepared by licensed finance professional (Certified Public Accountant or other certified and licensed financial consulting professional), ~~and shall include an to~~ evaluate ~~ion of~~ projected costs versus benefits, financial feasibility and fiscal impact, the stability of the TIF revenue projections, and the necessity for utilizing TIF. The City's expenditures shall be considered a developer cost and will be included in the project plan as an eligible expenditure.
5. Cost Projections. The TIF proposal shall include actual cost projections, including TIF eligible costs and overall project costs, to ascertain all costs are reasonable. The development and TIF cost estimates shall be provided in a format similar to estimating oversize costs for city projects and provided at the time of the application submittal.
6. Market Analysis. The TIF proposal shall include a market analysis to determine how the project fits within the Rapid City market. ~~The City may contract with outside professionals to evaluate the proposal to determine compliance with South Dakota Codified Laws; such expenditures shall be considered a developer cost and will be included in the project plan as an eligible expenditure.~~
7. Legal Review. The TIF proposal shall include a legal review of project eligibility, project costs, and compliance with South Dakota Codified Laws. Under no circumstances are projects submitted for consideration that do not comply with the provisions of SDCL 11-9. The City may contract with outside professionals to evaluate the proposal to determine compliance with South Dakota Codified Laws; the City's expenditures shall be considered a developer cost and will be included in the project plan as an eligible expenditure.

Project Criteria. Evaluation points will be assigned for how the proposed project meets the following criteria:

1. Project improvements address the objectives and priorities of found in Plan Rapid City, Downtown Master Plan, Utility System Master Plan, the Capital Improvements Program, and the Community Development Block Grant Consolidated Plan.
2. The project will reduce or eliminate actual or potential hazard(s) to the public.
3. The project will result in the redevelopment of blighted areas.

4. The project provides new economic development.
5. The project is a transit-oriented development or otherwise development plans that reduce the amount of urban sprawl and the associated need for additional public infrastructure, creating livable, sustainable, walkable, bikeable, and accessible growth with connectivity to surrounding areas.
6. A majority of the project land will develop infill areas within priority areas.
  - a. 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
  - b. Areas in revitalization nodes or corridors, and certain identified mobile home parks eligible for redevelopment; or
  - c. 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.
7. The project involves the start-up of an entirely new business in a targeted economic development industry within Rapid City.
8. The project involves the expansion of an existing business located within Rapid City.
9. The project will bring new or expanded targeted economic development industry employment opportunities as demonstrated by proposed wage scales, employee benefits and mixture of full and part-time employees.
10. The project will accomplish one of the following:
  - a. Generate at least one full-time job for each \$75,000 in principal value of the Tax Increment funded capital costs;
  - b. Create a significant number of new jobs that meet or exceed the targeted minimum wage rate used by Elevate Rapid City; or
  - c. Cause significant economic impact to the community, defined by evidence submitted with the application (excluding public infrastructure costs)
11. The project will result in additional redevelopment in the Targeted Uses, as defined in Section III of the TIF Policy.

12. The project will result in the construction of affordable housing or workforce housing units, as defined in Section IV of the TIF Policy.
  - a. 1 point: up to 115% of AMI (workforce housing), or
  - b. 2 points: 80% of AMI, or
  - c. 3 points: 50% of AMI, or
  - d. 3 points: At least ½ of total units at 50% of AMI, and remainder within the other 2 categories listed above.
13. The project will result in the construction of public improvements as identified in the current Capital Improvements Plan.
14. The developer agrees to waive any discretionary formula for reduced taxation, if applicable, for the life of the district.
15. The project includes regional infrastructure improvements located in or near the TID that are determined beneficial to the community. (Regional infrastructure located outside the TIF boundary is ineligible for reimbursement.)
16. The developer participation rate (ratio of the amount of developer provided capital used in a project relative to the entire investment in a project) is at least:
  - a. 1 point: 85%
  - b. 2 points: 90%
17. All Tax Increment Financing proceeds are to be used for the construction of public improvements.
18. TIF assisted non-residential structural rehabilitation within a National Historic District or eligible for listing on the National Register of Historic Places completed according to the Secretary of the Interior's Standards for Rehabilitation. ~~The project involves the rehabilitation of a building listed on or eligible for listing on the National Register of Historic Places.~~
19. The building or site identified for redevelopment itself displays conditions of blight, as defined ~~herein in the Rapid City TIF Policy.~~
20. The project site has displayed a recent pattern of declining real property assessments, as measured by the Pennington County Director of Equalization, based on Rapid City's blight definition herein.
21. 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.).

County and School District Review. Following the TRT's evaluation of the project application ~~and the receipt of the analysis of financial feasibility and fiscal impact~~, the TRT will present the project ~~for informational purposes will be presented to the for the review of~~ Pennington County Commission and the Rapid City Area School ~~District Board~~.

Official Review and Approval. With the completion of the above evaluation process, the project plan and development agreement will be prepared stipulating the TIF amount determined as necessary. The application will be reviewed by the Planning Commission, with emphasis on determining whether the project area includes appropriate land uses and the existence of blight. An affirmative Planning Commission recommendation ~~regarding approval will then be~~ is forwarded to the City Council for consideration. (SDCL 11-9-4 requires an affirmative vote by the Planning Commission to create the district.)

## 8. TIF PROCESS

~~After the applicant meets with the TRT to discuss the proposal to offer guidance regarding the targeted uses of TIF (pre-scoping meeting),~~ The following describes the TIF process from beginning to end:

Pre-scoping. Pre-scoping meeting with TRT to offer guidance regarding the uses of TIF

Scoping / Pre-Application Conference. Scoping / Pre-Application Conference with TRT to review draft application, pre-submittal information, proposed scope changes, etc. (if requested for additional TRT review before submitting application)

Application Submittal. Submit Final Application and Fee as set by Council resolution. (See TIF Application Checklist, Appendix \_\_\_\_)

### TRT Review/Evaluation Score

1. The TRT shall have 15 working days from receipt of the application to complete their review and evaluation score. The TRT shall provide the applicant a copy of the TRT score on or before the last available review day.
2. If the TRT determines that the TIF application does not contain the specified and required information, the review and/or evaluation score timeline shall be suspended and the owner and/or designated agent shall be notified of the deficiency.
3. When complete and sufficient information is provided by the owner and/or designated agent, the review timeline shall be re-engaged, with an additional 3 working days added to the remaining balance of the review timeline. Applications suspended for more than 90 consecutive days shall be denied.

4. TRT Appeal. If the TRT evaluation score is less than 10, the applicant may appeal that score to the Planning Commission within 7 working days of receiving the TRT evaluation score. The TRT shall continue moving the application forward as described below only if the Planning Commission members score the application at 10 or more.

District Creation and Project Plan. If the evaluation score is at least 10, staff shall prepare the resolutions and project plan to implement the proposal in compliance with SDCL 11-9.

Notice to Taxing Agencies. Notice is provided to taxing agencies in compliance with SDCL 11-9-3.

Pennington County and Rapid City Area School Board Review. The TRT will present the application information to the Pennington County Commission and Rapid City Area School District Board for informational purposes only.

Planning Commission Hearing. The public hearing is scheduled in compliance with SDCL 11-9-3. The Planning Commission's recommendation is forwarded to City Council. The Planning Commission's decision to create the district shall be final (SDCL 11-9-4).

TIF Developer's Agreement. Agreement is prepared to implement provisions of Project Plan pursuant to SDCL 11-9-2(5).

TIF Developer's Assignment Agreement. An Assignment Agreement is prepared to authorize incremental payments made directly to developer's financial institution.

City Council Hearing. The public hearing is scheduled in compliance with SDCL 11-9-3. Council may approve the proposal as presented, approve with changes, continue for additional information or deny the proposal, including approval of the developer's agreement and assignment agreement.

Annual Expense/Progress Report. Developer submits to Department of Community Development on anniversary of district creation to provide developer accountability to taxpayers and taxing agencies foregoing tax revenue. Staff shall upload the annual expense/progress report shall be added to the TIF webpage.

#### Certification

1. Certification is required before any incremental payment is disbursed to the TIF loan. The Certification Process Checklist (see Appendix \_\_\_\_ ) provides direction for requesting increment revenue reimbursements.

2. The developer will receive a certification spreadsheet as part of the final approval step, tracking the expenditures associated with development inside the district.
3. Final project costs for certification shall be submitted to the Department of Community Development for certification review no later than one hundred twenty (120) days after acceptance of the final project and receipt of warranty surety.

Plan Amendment. ~~(if necessary)~~ All plan amendments, including cost reallocation, shall follow the creation and project plan procedure referenced above, excepting therefrom the evaluation chart score requirements.

TIF Fund payments disbursed, with Council approval of first payment; thereafter, fund payments distributed semi-annually, typically May and November

District dissolved when the provisions of SDCL 11-9 fully met.

## 9. DEFINITIONS

The following definitions are for use within this Tax Increment Finance Policy:

Affordable Housing –housing that provides for the occupants to pay no more than 30% of their gross income for housing costs, including utilities, and complies with the following requirements:

1. Affordable housing projects must target residents at or below 80% of median income with housing costs no higher than 30% of the tenants' income or the Fair Market Rent (FMR) for the HUD Section 8 Program. Thirty percent of housing units within the proposed development shall meet this income guideline. At least 5% of the affordable housing lots and/or units shall target households at or below 30% of HUD's AMI.
2. Affordable housing is required to remain affordable as defined above for the life of the TIF. ~~If affordability is less than 10 years and certification is complete, repayment of pro-rata share of increment benefit will be due and payable to the City.~~
3. Affordable housing development as part of a TIF proposal must be located on an existing transit service line.

Base Value – the value of all property in the TIF district on the date of the creation of the district.

Blight – property within a proposed district where the most recent 8-year taxable property valuation has decreased by at least 10% for the entire proposed district. Rapid City TIFs are required to meet additional blight standards, over and above those

otherwise defined by South Dakota Codified Law, 11-9. For Rapid City, “blight” is defined as:

1. Residential areas with at least 20% decrease in taxable valuation over an 8-year period; or
2. Non-residential areas with stagnant growth determined by a 5% or less increase in taxable valuations over an 8-year period.

Conflict of Interest – for purposes of this Policy, no member, the member’s spouse, or any other person with whom the member lives, commingles assets or any successor in interest to the TIF developer’s agreement may have an interest in or derive a direct benefit from any owned or managed property identified for purchase as part of any real property assembly cost. This provision shall not apply if property purchased below property valuation when purchased.

Contingency costs – a project plan may include a lump sum line item for contingencies and shall not exceed ten percent of the total capital cost line items. No expenditure may be charged to this item but such item may be transferred by reallocation amendment to any other capital cost line item in which insufficient amounts were estimated. Contingency costs shall not exceed ten percent of the capital cost line item to which the funds are reallocated.

Core Community – those areas within of one mile and inside of the platted area known as the Original Town of Rapid City, bounded between West Boulevard, East Boulevard, South Street, and North Street (map attached).

Economic Development – for Rapid City, “economic development” is new or expanded wealth generating industries targeting research, finance and insurance, professional business services (including engineering and IT), metals manufacturing, energy and small-scale food and beverage manufacturing. The project generates at least one new fulltime job from 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.

Incremental Taxes – the new property taxes created because of an increase in property value due to development.

Incremental Value – the value of all property in the TIF district less the base value. The “incremental” value occurs when the value of the property increases due to improvements or appreciation.

Infill Development – development of underutilized or vacant parcels that are connected to or able to take advantage of existing infrastructure, typically urban in nature, often mixed-use multi-story structures, within the existing city limits, and designed and constructed to be compatible with existing neighborhoods while providing amenities that

enhance Rapid City's quality of life that supports live, work and play facilities, while reducing the reliance on the automobile as a means of transportation.

Negative Tax Increment District – the change in assessed valuation resulting in a lower assessed value of the property.

Participation Rate – the ratio of the amount of TIF capital used in a project relative to the entire investment in a project. A 10% participation rate, for example, would mean a total project costing \$10 million, is using TIF to offset \$1 million of that cost.

Project Plan – a statutorily-required document outlining the structure of the TIF and its components. TIF project costs, methods of financing, development details, and fiscal impacts are among the items required in a TIF Project Plan.

Real Property Assembly Costs – land purchase costs associated with the process of forming a single site from a number of existing platted properties in order to encourage infill development of blighted or underdeveloped property. Assembly costs include the cost of property acquisition provided there is no conflict of interest associated with the property transaction. The applicant shall provide a copy of the purchase agreement and the settlement agreement if the property is under \$50,000. If the purchase is over \$50,000 and financed through a financial institution, the settlement agreement and the appraisal required through the financing process shall be submitted with certification. If the purchase is over \$50,000 and not financed through a financial institution, an independent third party appraisal shall be provided with certification. Legal services fees and/or real estate commissions are excluded from real property assembly costs.

TIF Developer's Agreement – in a reimbursable TIF, the written agreement between the developer, or private entity, and City that outlines the terms for the use of TIF revenues, payment from the TIF fund, annual progress report and all other conditions.

TIF District (TID) – an area of one or more properties designated by the City Council, in which incremental taxes are deposited into a special fund for use outlined in the project plan.

TIF Capital – the initial collected capital used to pay for TIF project costs up front. The capital is paid back to its source over time through TIF incremental revenues.

TIF Project Costs – the eligible costs incurred in a project paid using TIF Revenues.

TIF Revenues – the incremental taxes generated by the district.

TIF Review Team (TRT) – a group established to perform evaluation of TIF project applications and the management of approved TIF projects. The TRT is comprised of the Mayor, the City Finance Officer, the Community Development Director, the City Attorney, the City Engineer, the Long Range Planning Manager, the Development Engineering Project Manager and the Elevate Rapid City CEO/President Economic Development Partnership President, or their designees.

Third Party Appraisal – appraisal shall contain an analysis of “as is” value from and an “as renovated” value based on TIF development proposal. The appraisal shall be prepared in accordance with the Code of Professional Ethics and the Standards of the Professional Appraisal Practice of the Appraisal Institute.

Transit-Oriented Development – a mixed-use residential and commercial area designed to maximize access to public transport, and often incorporates features to encourage transit ridership.

Workforce Housing – the original selling price of any house in the district sold at or below the first-time homebuyer purchase price and housing income limit used by SDHDA as of the date the house is sold.

## 10. APPENDICES

1. TIF Priority Areas Map
2. Application (available after policy adopted)
3. TIF Evaluation Chart
4. Pro Forma Format
5. Amortization Schedules
6. Public Infrastructure Cost Estimate Form (Bid Tab Format)
7. Preliminary Review Format
8. Project Plan Format
9. Affordable and Workforce Housing Cost Maximums
10. Single Family Residential Housing Cost Estimate Form
11. Multi-Family Housing Pro Forma Format
12. TID Project Plan, Amendment and Certification Flowchart
13. Financing Requirements
14. TID Certification Process
  - a) Certification Checklist
  - b) Certification Affidavit
  - c) Certification Expenditure Tracking Submittal
15. City Website Links ([www.rcgov.org](http://www.rcgov.org))
  - a) Plan Rapid City, Chapter 10, 11 and 12
  - b) Utility System Master Plan
  - c) CDBG Consolidated Plan / Annual Action Plan
  - d) Drainage Basin Plans
16. State Statute References

- a) SDCL 5-18B – Procurement of Public Improvements
- b) SDCL 11-9 – Tax Increment Financing