

## Preliminary Review of Proposed Tax Increment Project

**Applicant:** Block 5, LLC

**Proposed Project Title:** Block 5 Project

**Purpose of Tax Increment District:** The proposed Block 5 project is a mixed-use development focused on the prominent corner of 6<sup>th</sup> Street and Saint Joseph Street in downtown Rapid City. The Project includes a mix of commercial space, residential units, and hotel components to bring excitement and activity to an underutilized site currently used as a surface parking lot. The purpose of the proposed district is to encourage redevelopment, stimulate economic growth, and stimulate private investment leading to significant additional tax revenues in the long-term.

The proposed 10-story structure is oriented to the intersection of 6<sup>th</sup> and St. Joseph Street, with a building cut-out and retail spaces promoting walkability in alignment with the 6<sup>th</sup> Street Promenade Plan. The hospitality component will bring an additional 117 hotel rooms as part of a Hyatt Place brand upscale hotel and event space. The residential component will add 131 apartment units to the downtown core. The parking structure will include approximately 330 parking stalls to support the added density brought by the project. The City's Parking Enforcement Division is working on a plan with existing leaseholders of the surface parking lot to be re-located within the City's public parking system.

The applicant is requesting up to \$8,750,000 in Tax Increment District funding for Project Costs, and interest costs estimated at a maximum \$5,954,052.95. The amount of interest paid will depend on the timeline of the project being paid off. The TIF proposal is structured as a grant pursuant to South Dakota Codified law 11-9-15; however, many of the project components qualify in the traditional TIF policy. The following table identifies costs incurred by the project which are proposed to be covered in part or in whole through TIF in an amount not to exceed \$8,750,000, plus interest accrued. Note that the identified costs are higher than the TIF request, because the TIF request is only being made for the amount needed to make the project feasible. Refer to Appendix G, which identifies the Necessity of the TIF to make the project feasible. The interest rate is anticipated to be approximately 4.5%.

| Proposed Project Cost Description  | TID Funded Project Costs   |
|--|----------------------------|
| Site Preparation including cleaning of contaminated site including soil remediation and excavation | \$1,172,050                |
| Design, Engineering, Testing, Legal, and Administrative Costs of the TID                           | \$850,000                  |
| Utility Re-location  | \$362,515                  |
| Parking Structure Construction   | \$11,410,058               |
| Streetscaping and Street Construction  | \$245,300                  |
|  |                            |
| <b><u>Total Project Costs Related to TID Eligible Expenditures</u></b>                             | <b><u>\$14,039,923</u></b> |
| <b><u>Maximum TID Project Costs</u></b>  | <b><u>\$8,750,000</u></b>  |

| Proposed Project Cost Description | TID Funded Project Costs     |
|-----------------------------------|------------------------------|
| <b><u>Financing Interest</u></b>  | <b><u>\$5,954,052.95</u></b> |

**TOTAL MAXIMUM TID COSTS: \$14,704,052.95**

**Proposed Boundary:** The proposed boundary includes the 1.37 acre City owned lot located at 525 Saint Joseph Street and the adjacent right-of-way where street improvements will be provided. The subject property is located south of St. Joseph on the north side of block between 5<sup>th</sup> Street and 6<sup>th</sup> Street.

**Estimated Base Valuation:** Upon creation of the Tax Increment District, the City will submit a written request to the Department of Revenue to certify the base valuation of the TIF District. The estimated base valuation is \$0.

**2020 4D RC Tax Levy:**

|                                 |
|---------------------------------|
| 19.435 Non-Agriculture Tax Levy |
| 15.917 Owner-Occupied Tax Levy  |
| 14.098 Agriculture Tax Levy     |

**Anticipated Time Frame:** The applicant has made conservative estimates regarding the timeline for project pay-off in order to have a high degree of confidence of full repayment within 20 year. Refer to Exhibit 3, Amortization Table. If higher incremental revenues are generated than projected, then the TIF District will pay off early.

**Recommendation:** Staff recommends that the Committee direct staff to prepare a Resolution to Create a Tax Increment District and a Project Plan for the proposed District.

**Policy Review:** This section of the report will identify where the proposed project aligns with State statute, the TIF Policy, and other adopted plans.

The proposed district is proposed to be structured as a TIF grant, which is authorized under SDCL 11-9-15(8). This statute identifies items included in project costs and reads as follows:

(8) Payments and grants made, at the discretion of the governing body, 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.

The City's TIF Policy was adopted after this provision in State Law was allowed. As such, the City's TIF Policy does not directly address the use of funds for purposes of the grant. However, the proposed project meets several goals of adopted City master plans including the Comprehensive Plan and the Downtown Area Master Plan.

#### **SDCL 11-9-8**

- (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 development; and
- (2) The improvement of the area is likely to significantly enhance the value of substantially all other real property in the district.

The proposed TIF District complies with State Statute.

#### **Tax Increment Policy**

##### *Purpose of TIF*

The proposed project meets several of the City's Purposes for use of TIF. This includes:

- To encourage the redevelopment of deteriorated, or otherwise blighted real property in Rapid City through investment of public funds;
- To stimulate economic development in the community by assisting projects that promote the long term economic vitality of the community; and,
- To facilitate the reconstruction, maintenance and completion of the City's existing infrastructure network to support the existing growth and guide future growth of the City.

### *Uses of TIF*

The proposed project aligns with several of the identified Uses for TIF. This includes:

- Reconstruction of existing streets, water, sewer, sidewalks or other public infrastructure;
- Imputed administrative fees due to the City;
- Removal and replacement of contaminated soils;
- Professional service fees limited to engineering, design, survey, and construction management associated with the allowable project costs; and,
- Costs, at the discretion of the governing body, which are found to be necessary or convenient to the creation of the Tax Increment District or the implementation of the Project Plan.

### Criteria for Evaluation

The proposed project meets several of the Criteria for Evaluation, including:

- 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 (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, of otherwise is determined to be blighted, substantially impairs or arrests the sound growth of the community;
- The project must comply with the adopted Comprehensive Plan and all other appropriate plans and regulations; and,
- The use of the project will not result in the net loss of pre-existing tax revenues to the City and other taxing jurisdictions.

In addition, the TIF Policy requires at least two of the six options for Additional Criteria must be met. The proposed projects exceeds the minimum Additional Criteria as follows.

- The project must demonstrate that it is not economically feasible without the use of TIF.
- The project will eliminate actual or potential hazard to the public.
- The project will result in additional development in the TIF Target area of downtown Rapid City.

The TIF Policy also outlines several Discretionary Criteria that a TIF proposal should meet. The proposed project meets the Discretionary Criteria as follows:

- The building or site that is to be redeveloped itself displays conditions of blight as established by the provisions of SDCL 11-9.
- 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 cost, additional foundation requirements associated with unusual soil conditions, extension of sewer or water mains, on-site or off-site vehicular circulation improvements, etc.)

### **Rapid City Comprehensive Plan**

The proposed project fulfills several of the goals of the City's adopted Comprehensive Plan as

summarized below.

- Balanced Pattern of Growth Actions, BPG-A2: Infill and Redevelopment Incentive Programs: Encourage infill development and redevelopment using a comprehensive toolbox of incentives including Tax Increment Financing.
- Economic Growth and Stability Actions, EC-A10: Redefine the criteria and standard uses for approval of TIF requests to increase the burden of proof of project feasibility, limit use in green-field areas, tie the use of TIF to achieving comprehensive plan goals, and only use TIF in priority growth or employment areas.
- Livable Community Actions, LC-A14: Identify potential catalyst sites for housing in the downtown area. Solicit or partner with a developer to build a multi-family housing project to generate an expanded housing supply in Downtown and to help momentum for additional projects.
- Livable Community Goals, LC-4.2B: Support infill development and targeted redevelopment in the area adjacent to the downtown core to maximize infrastructure investments, provide greater diversity in uses, enhance activity levels, promote synergy between unique destinations, and support a more cohesive environment.
- Balanced Pattern of Growth Goals, BPG-1.1B: Prioritize and invest in infrastructure maintenance and improvements within established portions of the community before investing in new infrastructure to serve outward growth areas.
- Balanced Pattern of Growth Goals, BPG1.2A: Highly desirable areas for infill development include Downtown areas.

#### **Downtown Area Master Plan**

- Economy: Use Tax Increment Financing as a tool to support the downtown goal of “Housing Everywhere” which encourages the development of new housing in a variety of types and price points throughout the downtown.
- Vision for 5<sup>th</sup> and Saint Joseph Street City Parking Lot: The proposed TIF project is located on a site specifically identified in the City’s Downtown Master Plan as a location with significant opportunity to have an immediate and lasting impact on the shape of downtown. The City-owned surface parking lot site is called out as a key piece in the growth of the central core of Downtown Rapid City.