

STAFF REPORT
April 21, 2022

No. 22TI002 – Resolution to create Black Hills Industrial Center Tax Increment District and Approve Project Plan **Item # 11**

GENERAL INFORMATION:

APPLICANT	Black Hills Industrial Center LLC
PROPERTY OWNER	Multiple
REQUEST	22TI002 – Create Black Hills Industrial Center Tax Increment District and Approve Project Plan

LEGAL DESCRIPTION	<p>The N ½ of Section 29, T1N, R8E lying east of Highway 79; Highway 79 right-of-way located in the N ½ of Section 29, T1N, R8E; the SW ¼ SE ¼ of Section 20, T1N, R8E; that part of the E ½ SE ¼ lying southwest of Railroad right-of-way in Section 20, T1N, R8E; Old Folsom Road right-of-way and railroad right-of-way located in the E ½ SE ¼ of Section 20, T1N, R8E; the SE ¼ NW ¼ less Lots 1A, 2A, Lot H1, Lot H2 and ROW in Section 20, T1N, R8E; The E ½ SW ¼ of Section 20, T1N, R8E; that portion of the NW ¼ SE ¼ lying southwest of Old Folsom Road right-of-way and Railroad right-of-way in Section 20, T1N, R8E; that portion of the SW ¼ NE ¼ lying southwest of Old Folsom Road right-of-way and Railroad right-of-way in Section 20, T1N, R8E; Old Folsom Road and Railroad right-of-way located in the SE ¼ NW ¼; the SW ¼ NE ¼ and NW ¼ SE ¼ of Section 20, T1N, R8E; The W ½ SW ¼ less Lot B, less Lots H2, H3, H4, H5, H6, less Gruenig Addition and less Lot 1 of Lot A in Section 20, T1N, R8E; The East ½ of Lot P (aka Old Highway 79) located in Section 20, T1N, R8E; Old Folsom Road right-of-way located in the W ½ SW ¼ of Section 20, T1N, R8E; Highway 79 right-of-way located in the SW ¼ NW ¼ and W ½ SW ¼ of Section 20, T1N, R8E; Highway 79 right-of-way located in the SE ¼ NE ¼ and E ½ SE ¼ of Section 19, T1N, R8E; Tract A of Wasteland Subdivision, located in Section 19, T1N, R8E, Rapid City; Highway 79 right-of-way and Lots H1, H2 and H3 of the NE ¼ NE ¼ of Section 30, T1N, R8E, Rapid City; Highway 79 right-of-way located in the NE ¼ NE ¼ of Section 19, T1N, R8E, Rapid City; Highway 79 right-of-way located in the NW ¼ NW ¼ of Section 20, T1N, R8E, Rapid City; The 1000' of Elk Vale Road right-of-way lying east of the Cambell Street and Highway 79 intersection located in Sections 17 and 20, T1N, R8E, Rapid City; the 700' of Cambell Street right-of-way lying north of the intersection of Elk Vale Road and Catron Boulevard located in Sections 17 and 18, T1N, R8E, Rapid City; Catron Boulevard (Highway 16B) right-of-way located in Section 19, T1N,</p>
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R8E, Rapid City; The 350' of Catron Boulevard right-of-way lying west of the 5th Street intersection and within the City of Rapid City located in Section 24, T1N, R7E; the 300' of 5th Street right-of-way lying north of the Catron Boulevard intersection located in Section 24, T1N, R7E and in Section 19, T1N, R8E, Rapid City; All in the Black Hills Meridian, Pennington County, South Dakota

PARCEL ACREAGE	912 acres
LOCATION	South of E. Catron Boulevard and east of S. Highway 79
EXISTING ZONING	Light Industrial District, Heavy Industrial District, Public, General Commercial District
SURROUNDING ZONING	
North:	General Agricultural District, General Commercial District, Heavy Industrial District
South:	Agriculture – Pennington County; Public – Pennington County; General Commercial District – Pennington County; Heavy Industrial District – Pennington County
East:	Heavy Industrial – Pennington County; Light Industrial – Pennington County; Agriculture – Pennington County
West:	Light Industrial – Pennington County; Light Industrial District; General Commercial District
DATE OF APPLICATION	January 12, 2022
REVIEWED BY	Sarah Hanzel / Todd Peckosh

RECOMMENDATION: On March 1, 2022 the Tax Increment Financing (TIF) Committee reviewed an earlier version of the project application and determined that the proposal meets the intent of the TIF Policy. The committee directed staff to develop the associated Project Plan for review and action by the Planning Commission. If the Planning Commission recommends approval of creating the district and adopting the Project Plan then staff recommends that the stipulations at the end of the report be incorporated into the Developer's Agreement.

GENERAL COMMENTS: The applicant has submitted a TIF Application to support the development of an Industrial Center to be known as Black Hills Industrial Center. The purpose of this Tax Increment District is to extend and develop a regional economic center for the community and provide expanded City infrastructure into the south side of Rapid City.

Following review by the TIF Committee, the applicant received additional comments from City Staff with recommendations regarding infrastructure pricing estimates, and the likely need for looping and other infrastructure to ensure the soundness of the City's water system as a result of the development within the proposed District.

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The applicant responded to those comments with a revised application to account for the comments. At the same time, the applicant updated the cost estimates to respond to price changes in the market as a result of current inflation. As a result, the total project cost has increased from about \$46 million to about \$78 million dollars; however, the overall scope of the project has not changed substantially despite the nearly 70% increase in costs. Of the \$32 million of increased costs, about \$20 million is due to the increase in Financing, Professional Fees and Contingencies. Approximately \$5 million results from City staff comments regarding low cost estimates for water mains and the booster station. Approximately \$5 million results from grading revisions for Phase I and Phase II. Approximately \$2 million is due to increasing cost estimates for roadway work to reflect increasing costs.

Between the original and revised application, the applicant identified an additional \$90 million dollars in anticipated valuation from development that was not previously identified. Without this added valuation figure, the District would not pay off based on the projections from the original application. A summary of the changes between the applications is summarized at the end of the report.

The area is over 900 acres in size and includes properties zoned Heavy Industrial District and Light Industrial District. It is located south of Catron Boulevard, east of SD Highway 79, and south and west of Old Folsom Road. On March 7, 2022 the City Council approved a Preliminary Subdivision Plan for the subject property to create 20 lots. The increment generated from this district is proposed to fund extension of a 16” water main; construction of new utility networks and streets, construction of regional drainage detention ponds, the study, design, and construction of a booster station, and construction of new rail facilities.

The anchor tenant of the Industrial Center is the Aesir Battery Plant. Other projected future businesses within the District as identified on the application materials include a food processing plant, steel yard, mega box, and plastic/medical manufacturing facility.

STAFF REVIEW: The purpose of this Tax Increment District is to support the development of an industrial center with rail access. The project is proposed to occur in three phases.

State Law: South Dakota Codified Law requires a finding for creating a TIF District that *“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 the improvement of the area is likely to significantly enhance the value of substantially all other real property in the district.”*

The TIF Committee agreed that the project meets the required findings in State Law.

City’s TIF Policy: Rapid City’s Tax Increment Financing Policy has the following Criteria for Evaluation: *“The project must be located within a proposed district in which a minimum of 25%*

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of the area of the District is determined to be blighted and the improvements are likely to enhance the value of substantially all other real property in the district and the project must comply with the Comprehensive Plan and all other appropriate plans and regulations.” The justification given for the blight criteria by the applicant is severe terrain and lack of existing infrastructure, using the State’s definitions for blight. The applicant referenced compliance with the Major Street Plan, Future Land Use Plan, and the Utility System Master Plan. Staff concurs that the City’s Comprehensive Plan encourages employment growth in targeted community locations, including the Old Folsom Road Industrial Area.

Additional Criteria in the City’s Tax Increment Financing Policy include demonstration of need, removal of blight, whether the development in the district will compete with existing businesses, and that the project will bring new or expanded employment opportunities. The applicant indicated in their written narrative that the project cannot be completed without TIF due to major abnormal grading, major arterial streets, large water mains crossing into two water pressure zones, and large regional detention ponds. Exhibit E, “Preliminary Estimated Probably Costs” submitted with the application shows the Phase I rate of return on the project without the TIF as 6.12% whereas the rate of return with the TIF is 7.5%. According to the Exhibit, Phase II would have negative net proceeds without the TIF exceeding \$20 million dollars.

The application makes multiple references to anticipated jobs creation, stating that up to 2,450 jobs could be created, with at least 2,000 new jobs forecasted.

The TIF committee found the proposal to conform to the City’s Tax Increment Financing Policy.

Proposed Costs

The City’s TIF Policy identifies the eligibility of different types of project costs. The following are eligible costs representative of this application:

- Extension of off-site sewer, water, street, and public improvements to the development site;
- Regional lift stations, pump stations or other public facilities to be owned by the City of Rapid City;
- Interest and financing fees;
- Imputed administrative fees due to the City; and,
- Professional service fees limited to engineering, design, survey and construction management associated with the allowable project costs

In their review, staff noted that the applicant has identified improvements for Old Folsom Road; however, the applicant has submitted an Exception not to install curb and gutter on this road. In addition, the applicant has indicated that the road is expected to remain a rural section, despite the increased truck and employee traffic it is expected to accommodate. Without further elaboration in the application, it is unclear what, if any, improvements are proposed besides asphalt overlay.

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The following proposed uses of TIF are eligible only at the discretion of the governing body, which are found to be necessary or convenient to the creation of the Tax Increment District or implementation of the Project Plan. The following are proposed costs within that category:

- Rail lines. The rail infrastructure will be privately owned infrastructure by the developer. These lines are to be used solely by the development and not the community at large.
- Rail switches. The rail infrastructure will be privately owned infrastructure by the developer. These line are to be used solely by the development and not the community at large.
- Whereas the TIF policy identifies oversizing as an eligible expense, this proposal requests not oversizing, but all of the typical developer costs for streets, utilities, and grading. The applicant did not identify the proposed costs with typical developer costs, exceptional costs, and oversizing costs itemized.

Lastly, the following costs are identified in the TIF policy as being allowed only upon authorization by the Rapid City Council. Over lot grading is typically considered a private site improvement, and not prioritized for TIF funding because these improvements lack a regional benefit component.

- Street grading
- Over lot grading

Of the \$78 million TIF request, about \$11 million could potentially be considered eventual City costs if not included in a TIF District. These costs include about \$6.2 million for off-site water mains, \$500,000 for regional drainage ponds, \$500,000 for a traffic signal at Old Folsom Road, and about \$3.6 million for a booster station. A summary of the proposed project costs by phase are summarized in the table below.

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DESCRIPTION OF ITEM	TIF Funded Project Costs	Non-TIF Funded ¹	Total Project Costs	% TIF Funded
Phase I				
Capital Costs				
Grading	\$6,500,000.00			
Drainage Facilities	\$1,000,000.00			
Old Folsom Road Improvements	\$1,700,000.00			
Turn Lane(s) on S. Highway 79	\$400,000			
Rail Switches	\$1,000,000.00			
Rail Line	\$1,600,000.00			
Offsite Sanitary Sewer	\$500,000.00			
Traffic Signal	\$500,000.00			
Other Utilities Relocation	\$200,000.00			
Offsite Water	\$400,000.00			
Total Construction Costs	\$13,800,000.00	1,250,000		
Other Development Costs				
Professional / Construction Admin Fees	\$1,242,000	\$1,886,610		
Contingency	\$1,104,000	\$1,886,610		
Financing	\$7,436,626.00	\$7,761,857.62		
Land	\$0	\$2,000,000		
Subtotal	\$23,582,626.00	\$14,785,077.62	\$38,367,703.62	61%
Phase II				
Capital Costs				
Aesir Boulevard	\$5,300,000			
Rail Line	\$800,000.00			
Offsite Water	\$400,000.00			
Traffic Signal	\$500,000.00			
Turn Lane(s) on Highway 79	\$400,000.00			
Other Utilities Relocation	\$200,000.00			
Old Folsom Improvements	\$1,000,000			

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Creek Drive	\$1,750,000			
Offsite Sewer	\$500,000			
Rail Switches	\$400,000			
Total Construction Costs	\$11,250,000	\$1,650,000		
Other Development Costs				
Professional / Construction Admin Fees	\$1,012,500.00	\$148,500		
Contingency	\$900,000.00	\$132,000		
Financing	\$11,070,654.00	\$1,212,200		
Land		\$1,100,000		
Subtotal	\$24,233,154.00	\$4,242,700.00	\$28,475,854.49	85%
Phase III				
Capital Costs				
Creek Drive	\$920,000.00			
Grading and Drainage	\$900,000.00			
Offsite Water	\$5,800,000.00			
Traffic Signal	\$500,000.00			
Other Utilities Relocation	\$200,000.00			
Booster Station	\$3,640,000.00			
Total Construction Costs	\$11,960,000	\$1,650,000		
Other Development Costs				
Professional / Construction Admin Fees	\$1,076,400.00	\$148,500		
Contingency	\$956,800.00	\$132,000		
Financing	\$16,290,466.00	\$1,212,200		
Land		\$1,100,000		
Subtotal	\$30,283,666.00	\$4,242,700.00	\$34,526,366.07	88%
TOTAL TIF COSTS	\$78,099,446.00			76%

¹ For Phase I, the applicant included \$90,000,000 in costs for structures under Non-TIF Funded project elements which were removed for the purposes of this analysis. If included, then Phase 1 is 18% TIF funded, and the total of all three phases is 41% TIF funded.

Base Valuation

The parcels within the TID District currently have a 2022 assessed valuation of \$1,050,700. The actual base valuation will be certified by the SD Department of Revenue but it is expected to be near to the current assessed valuation.

Projections and Financing

An analysis of the anticipated impact to the taxing agencies is identified in the Project Plan. Over the life of the TID, tax revenue will be diverted for purposes of paying back the project costs. While the impact to the taxing agencies is sizable for a District of this size, it is understood by the decision makers at the time that the development will only occur *but for*

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the Tax Increment District. With this assumption, the long term benefit of the development to the taxing agencies diminishes the hardship of the unavailability of the revenue over the base valuation during the life of the District.

A summary of the impact on taxing agencies is included in the Project Plan. The impact to the School District is noted as \$0 because the State of South Dakota uses a formula to calculate the amount of general funding distributed to a school district each year. A portion of the money going into the formula is funded by taxes collected by the State, and a portion is funded by local property taxes. The formula is designed to hold the school district harmless when a TIF District is created. The total impact on the taxing agencies will depend on the length of time the District takes to pay off. If it takes the full 20 years, the taxing agencies will forgo the following revenue during the life of the District.

The developer anticipates a valuation of \$500,000,000 at full build out and a pay-off period of 20 years. The interest rate is estimated using 6% at the developer's request; however, the actual financing terms will be reviewed by the Finance Department and will not exceed 9%. The developer has projected financing costs totaling \$34,797,746.00 which is comprised of \$7,436,626.00 in Phase 1, \$11,070,654.00 in Phase 2, and \$16,290,466 in Phase 3. The amortization table showing projected financing costs is included in the Project Plan.

Percent of Total City Valuation

South Dakota Codified Law 11-9-7 restricts the aggregate assessed value of the taxable property in the district, plus the Tax Increment base of all other existing districts to not exceed ten percent of the total assessed value of all taxable property in the municipality. As of the 2021 TID Annual Report, the current percent of total valuation in Tax Increment Districts is 3.03%.

Summary of Changes Between TIF Committee And Planning Commission Review

Phase 1

- Grading was expanded to allow for additional areas to be served by the low level water loop, and price increases due to inflation.
- Drainage facilities costs were updated to reflect the expanded grading and inflation.
- Offsite water costs were added per discussion with city staff to provide low level water looping with Phase I.

Phase II

- Aesir Boulevard was expanded in the Phase 2 costs to complete the low level water loop and support additional development anticipated within the District. The overall cost is unchanged from the original application.
- Old Folsom Improvements were added to complete low level water loop and support additional development needed to support the TIF. The costs increased to account for additional asphalt overlay to support industrial traffic per engineering investigation and account for inflation.

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- Creek Drive costs were added to complete low level water loop and support additional development needed to support the TIF. Cost increased due to additional street length and inflation.
- Off-site water costs were updated to allow for the extension of low level water from Old Folsom/Hwy 79 intersection to Aesir Boulevard/Hwy 79 intersection.
- Off-site sewer costs were added to extended sewer from Old Folsom/Hwy 79 intersection to Aesir Boulevard/Hwy 79 intersection.

Phase III

- Creek Drive costs added a portion of Creek Drive that will be served by the Palo Verde high water level. Cost increases resultant from additional street length and inflation were also added.
- Grading and Drainage costs were revised to reflect grading of areas served by Palo Verde high water level and Creek Drive
- Aesir Boulevard was modified to be constructed in full with Phase II.
- Old Folsom Road improvements were modified to be constructed in full with Phase II.
- Rail Switches costs were modified to be constructed in full with Phase II.
- Rail Line costs were modified to be constructed in full with Phase II.
- Off-site water costs were increased to reflect construction of a tie to the Palo Verde water system through the Black Hills Industrial Center needed to serve the higher elevations. Though a water tank site was identified on the property in the TIF Improvements map, it is only shown to notate a potential location for future development down the Highway 79 corridor. No water tank is proposed with this TIF District.
- The booster station prices increased to reflect updated costs as identified by city staff through an independent consultant from the Anamosa Street Project.

RECOMMENDATION: If the Planning Commission recommends approval of creating the district and adopting the project plan, staff recommends that the following stipulations be incorporated into the Developer's Agreement:

STIPULATIONS:

- 1) The City shall review and approve the proposed booster station lot. The booster station lot shall meet the requirements of the booster station design guidelines.
- 2) A Feasibility Study shall be required as part of Phase I to verify the location of the booster station, analyze impacts to the existing system, identify additional infrastructure needs necessary, etc. The estimate for the feasibility study is \$50,000 to be paid by the developer.
- 3) The off-site water shown as Item 3 in Phase 3 of the application is needed to supply water from the regional booster station to the Palo Verde water main near Catron/5th Street. Due to this need, installation of the entire water main from 5th Street shall be constructed prior to any reimbursement for the booster station.
- 4) The Developer's Agreement shall include language identifying that any funding deficiency in the Project Plan shall be the responsibility of the developer to fully fund and construct.

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- 5) The Developer's Agreement shall address maintenance of the private owned railroad crossings.