

STAFF REPORT
September 22, 2016

No. 16TI004 – Create Tax Increment District and approve Project Plan ITEM 8

GENERAL INFORMATION:

APPLICANT	KTM Design Solutions, Inc for Yasmeen Dream, LLC
PROPERTY OWNER	Yasmeen Dream, LLC
REQUEST	16TI004 - Resolution to Create the Unnamed Tributary Channel Tax Increment District and Approve Project Plan
LEGAL DESCRIPTION	Tracts A, B, C, D, E and H, Tract 1, Lots 2 thru 8 of Block 1, Lots 10 thru 13 of Block 1, Lots 1 thru 4 of Block 2, Lot 6 of Block 2, Lots 9 thru 10 of Block 2, Lots 11A and 11B, 12A and 12B, 13A and 13B, 14A and 14B, 15A and 15B, 16A and 16B of Block 2, Lots 1 thru 2 of Block 3, Lot 1 of Block 4, Lot 1 of Block 5, Lots 1A and 1B of Block 6, all of Orchard Meadows; Lot 1 less Tract A and Tract B of Orchard Meadows of the Wally Byam Addition; Lot 1 less Lot H1 and less dedicated right-of-way of the Well Addition; Lot 2 of Tract A of the NE1/4 of the SW1/4; the N1/2 of the SW1/4 of the NE1/4 less the Stekl Subdivision, less Orchard Meadows, less right-of-way, less Lot H1 and Lot H2; the Balance of Tract A of the E1/2 of the SW1/4 and of the W1/2 of the SE1/4 less Lot H1; and the S1/2 of the SW1/4 of the NE1/4 less Lot 1 of the Wally Byam Addition, less the railroad right-of-way, less Orchard Meadows, less Lot H1 and H2, less right-of-way, the S1/2 of the SE1/4 of the NW1/4 less Lot H1; the unplatted Balance of NE1/4 of the SW1/4 Less Lot H1, the unplatted Balance of W1/2 of the SE1/4 less Lot H1; and Lot C of the NE1/4 of the NW1/4 and Lot X of Lot B of the NE1/4 of the NW1/4; and the dedicated public right of way and dedicated railroad right-of-way adjacent to said lots, all located in Section 9, T1N, R8E, BHM, Rapid City, Pennington County, South Dakota
PARCEL ACREAGE	Approximately 253.04 acres
LOCATION	East and west of Elk Vale Road between E. Highway 44 and the current terminus of East Fairmont Street
EXISTING ZONING	Low Density Residential District, Low Density Residential 2 District, Medium Density Residential District, General Commercial District, General Commercial District w/ PD, General Agriculture District, Flood Hazard District and Public District

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SURROUNDING ZONING

North:	Light Industrial District and Suburban Residential District (PC)
South:	General Agriculture District and Limited Agriculture District (PC)
East:	Suburban Residential District (PC)
West:	Floodway, Mobile Home Residential, Medium Density Residential, General Agriculture and Suburban Residential District (PC)

DATE OF APPLICATION 6/22/2016

REVIEWED BY Patsy Horton / Ted Johnson

RECOMMENDATION: The Tax Increment Financing Committee recommended creating the Unnamed Tributary Channel Tax Increment District in order to stimulate economic development along SD Highway 44 east of Elk Vale Road.

GENERAL COMMENTS: The applicant has requested the creation of a tax increment district to stimulate job creation by expanding employment, retail and medical opportunities, and assist in the realignment of a portion of the Unnamed Tributary Channel by reconstructing Element #8 identified in the Unnamed Tributary Drainage Basin Design Plan. This channel realignment will maximize the development potential of the property located at the northwest portion of Orchard Meadows Subdivision.

The Tax Increment Funds would be utilized for the construction of portions of a 100 foot wide grass lined section of the Unnamed Tributary Channel from SD Highway 44 south to Rapid Creek, portions of the channel maintenance road adjacent to the channel, crossing(s) of channel for future development road(s), and installation of a traffic signal at SD Highway 44 and Elderberry Way. The Project Plan will be funded by the developer.

On July 12, 2016, the Tax Increment Review Committee recommended approval of the applicant's request to create a ten year tax increment district and directed staff to prepare the associated Project Plan.

The City Finance Officer will review and analyze the proposed financing terms and forward a recommendation for approval or disapproval to the City Council along with the development agreement. For purposes of development of the project plan, the applicant has requested utilizing a 7.0 percent annual interest rate in lieu of the adopted Tax Increment Financing Guidelines identifying a fixed rate not to exceed 9 percent annual. This interest amount shall be included in the project plan and at no time during the term of the project shall the actual interest expense exceed the amount budgeted in the project plan. The applicant has also agreed to include the Finance Officer in the interest rate negotiations with the developer's financial institution.

The approved Tax Increment Guidelines state that an Imputed Administrative Fee in the amount of \$20,000 shall be charged by the City of Rapid City to every tax increment district

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for which a Project Plan is approved. Such fee shall be paid to the City as a project cost from the tax increment fund balance in year five of the tax increment district.

It is anticipated that one or more of the properties in this proposed tax increment district will be used for commercial purposes. The property is currently identified for both residential and non-residential land uses. As such, the creation of this economic development tax increment district will not require an additional levy to make up for the School District's share of the property taxes included in the Tax Increment. Over twenty percent (21.80%) of the real property within the proposed district is anticipated to stimulate and develop the economic welfare and prosperity of the state through the promotion and advancement of commercial resources as well as improve the area by enhancing significantly the value of all the other real property within the district. The balance of the property has been identified as residential development.

As of 9/15/2016, the proposed traffic signal is located outside the City limits. Per SDCL 11-9-1(7), the costs associated with the proposed traffic signal are ineligible expenses unless an annexation resolution incorporating the applicable rights-of-way into the City becomes effective before the resolution creating the tax increment district. If the annexation resolution fails, the allowable costs are reduced by \$360,000, plus the associated interest expenses, and the district area is reduced to approximately 245.3 acres. An application to annex the right-of-way was submitted on August 26, 2016 (16AN003).

The proposed District boundary incorporates approximately 253.04 acres located in the southeast quadrant of the intersection of Elk Vale Road and SD Highway 44.

STAFF REVIEW: On July 12, 2016, the Tax Increment Financing Review Committee recommended approving the creation of the Unnamed Tributary Channel Tax Increment District (also known as Orchard Meadows). Based on this recommendation, staff has prepared the associated Project Plan to implement the proposal.

Statutory Requirements: SDCL § 11-9-8 details the findings required for determining whether the proposed district meets the definition of blighted areas or economic development and what the likelihood is for enhancing the value from proposed improvements, wherein:

- (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 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.

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The proposed district does not appear to meet the blight definition; however, over 40% of the 253.04 acres located within the proposed district is occupied by public uses, i.e., public rights-of-way and drainage. The land use percentages are as follows:

Residential:	37.13%
Commercial (including apts):	21.80%
Drainage:	9.20%
Right-of-way:	31.87%

Excluding the public land use designations, commercial land use accounts for 37.13% of the residential and commercial land uses, all used to stimulate and develop the economic welfare of the state through commercial development.

Local Criteria: In addition to the statutory requirements, staff has reviewed the information provided by the applicant and the proposal met two of the six local criteria:

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; and

Criterion #4: The project will bring new or expanded employment opportunities.

Discretionary Criteria: Additionally, staff has reviewed the following discretionary criteria submitted by the applicant that meets the adopted Tax Increment Policy:

Criterion #1: The project will generate at least one full-time job for each \$10,000 in principal value of the tax increment financing proposal, or would create a minimum of 50 new jobs.

The Developer anticipates bringing more than 50 full time jobs to the community with the proposed development.

Criterion #2: All TIF proceeds are used for the construction of public improvements.

The Developer indicated that the TIF funds will be used to realign and reconstruct the 100 foot grass-lined channel and install a traffic signal, when warranted, at Elderberry Way and SD Highway 44.

Project Costs: The following table identifies both the estimated Total Project Costs and those costs anticipated to be paid utilizing funds generated from the proposed tax increment:

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Project Cost Description	Total Estimated Project Costs	TIF Funded Project Costs	TIF Funded %
Developer Capital Costs			
Local Streets	\$6,520,000.00		
Grading and storm water	\$360,000.00		
Lift station upgrade and off-site sanitary sewer	\$170,000.00		
Turn Lanes at SD Highway 44	\$120,000.00		
Channel Construction		\$929,182.70	
Traffic signal at SD Highway 44 and Elderberry		\$300,000.00	
Total Developer Capital Costs	\$7,170,000.00	\$1,229,182.70	17.14%
Developer Professional Fees			
Non-TIF Professional Fees	\$680,000.00		
Channel component (Design and Const Adm)		\$200,580.59	
Traffic signal component		\$30,000.00	
Total Developer Professional Fees	\$680,000.00	\$230,580.59	33.91%
Developer Contingency Costs			
Channel component		\$64,534.35	
Traffic signal component		\$30,000.00	
Total Developer Contingency Costs		\$94,534.35	
Developer Amount Financed		\$1,554,297.64	
Developer Necessary and Convenient Costs	\$0	\$0	
Developer Financing Costs	\$2,355,000.00	\$682,714.41	
Total Developer Costs	\$10,205,000.00	\$2,237,012.05	
City Capital Costs			
Channel Construction – Oversizing		\$361,504.30	
City Professional Fees			
Design & Construction Administration		\$28,920.34	
City Contingency Costs			
Channel Component		\$72,300.86	
City Amount Financed		\$462,725.50	
Financing Costs		\$130,906.35	
Total City Costs		\$593,631.85	

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TOTAL DEVELOPMENT COSTS			
Capital Costs (Developer and City)			
Local Streets	\$6,520,000.00		
Grading and storm water	\$360,000.00		
Lift station upgrade and off-site sanitary sewer	\$170,000.00		
Turn Lanes at SD Highway 44	\$120,000.00		
Channel Construction		\$1,290,687.00	
Traffic signal at SD Highway 44 and Elderberry		\$300,000.00	
Total Capital Costs	\$7,170,000.00	\$1,590,687.00	
Professional Fees (Developer and City)			
Non-TIF Professional Fees	\$680,000.00		
Channel component (Design and Const Adm)		\$229,500.93	
Traffic signal component		\$30,000.00	
Total Professional Fees	\$680,000.00	\$259,500.93	
Contingency Costs (Developer and City)			
Channel component		\$166,835.21	
Traffic signal component		\$30,000.00	
Total Contingency Costs		\$196,835.21	
Necessary and Convenient Costs (Developer and City)	\$0	\$0	
Total Financing Costs	\$2,355,000.00	\$813,620.76	
TOTAL DEVELOPMENT COSTS	\$10,205,000.00	\$2,830,643.90	27.74%
Imputed Administrative Costs*		\$20,000	
City of Rapid City			

RECOMMENDATION: The Tax Increment Review Committee directed staff to prepare the Project Plan for consideration by the Planning Commission.