

STAFF REPORT
January 5, 2017

**No. 16TI005 – Resolution approving Revision #2 Project Plan ITEM 15
reallocating Project Costs for Tax Increment District No. 38**

and Northwestern Transportation Company right-of-way in T2N, R8E, BHM, Rapid City, Pennington County, South Dakota; and, the 33 foot section line right-of-way located south of Lot H9 in the S1/2SW1/4 of Section 27, T2N, R8E, BHM, Rapid City, Pennington County, South Dakota; and, all of the S1/2SE1/4 of Section 28 less Lot E of S1/2SE1/4, Section 28, T2N, R8E, BHM, Rapid City, Pennington County, South Dakota; and, Lots H3, H4, H5, H6, & H7 located in the NE1/4SE1/4 of Section 28, T2N, R8E, BHM, Rapid City, Pennington County, South Dakota; and, the existing US Highway 14 & 16 right-of-way prior to 1935 located in the N1/2SE1/4 of Section 28, T2N, R8E, BHM, Rapid City, Pennington County, South Dakota; and, Lot H3 of the SW1/4 of Section 28, T2N, R8E, BHM, Rapid City, Pennington County, South Dakota; and, Lot H1 and Lot H2 in the NW1/4NW1/4 of Section 34, T2N, R8E, BHM, Rapid City, Pennington County, South Dakota; and, Lot H1 and Lot H2 in the SW1/4NW1/4 of Section 34, T2N, R8E, BHM, Rapid City, Pennington County, South Dakota; and, Lot H-1 in the W1/2SW1/4 of Section 34, T2N, R8E, BHM, Rapid City, Pennington County, South Dakota; and, Lot H2 in the N1/2W1/2SW1/4 of Section 34, T2N, R8E, BHM, Rapid City, Pennington County, South Dakota as recorded in Highway Book 9 page 125; and, Lot H3 in the S1/2SW1/4 of Section 34, T2N, R8E, BHM, Rapid City, Pennington County, South Dakota; and, the 33 foot section line right-of-way located north of Lots H1 & H2 in the NW1/4NW1/4 of Section 34, T2N, R8E, BHM, Rapid City, Pennington County, South Dakota; and, the 33 foot section line right-of-way located south Lot H1 in the W1/2SW1/4 and Lot H3 in the S1/2 SW1/4 all located in Section 34, T2N, R8E, BHM, Rapid City, Pennington County, South Dakota; and, Lot H1 & Lot H2 in the E1/2NE1/4 of Section 33, T2N, R8E, BHM, Rapid City, Pennington County, South Dakota; and, Lot H2 in the E1/2SE1/4 of Section 33, T2N, R8E, BHM, Rapid City, Pennington County, South Dakota; and, Lot H1 in the SE1/4 of Section 33, T2N, R8E, BHM, Rapid City, Pennington County, South Dakota; and, the 33 foot section line right-of-way located north of Lots H1 & H2 in the E1/2NE1/4 of Section 33, T2N, R8E, BHM, Rapid City, Pennington County, South Dakota; and, the 33 foot section line right-of-way south of Lot H1 in the SE1/4 of Section 33 and south of Lot H2 in the E1/2SE1/4 of Section 33, all located in T2N, R8E, BHM, Rapid City, Pennington County, South Dakota; and, the 66 foot

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Section line right-of-way located between Sections 33 & 34 in T2N, R8E, BHM, Pennington County, South Dakota; and, Lot H2 in the N1/2 of Government Lot 4 & Lot H3 in the S1/2 of Government Lot 4, located in Section 3, T1N, R8E, BHM, Rapid City, Pennington County, South Dakota; and, Lot H-1 in the NW1/4NW1/4 of Section 3, T1N, R8E, BHM, Rapid City, Pennington County, South Dakota; and, Lot H2 in the W1/2SW1/4NW1/4 of Section 3, T1N, R8E, BHM, Rapid City, Pennington County, South Dakota; and Lot H1 in the SW1/4NW1/4 of Section 3, T1N, R8E, BHM, Rapid City, Pennington County, South Dakota; and the 33 foot section line right-of-way located north of Lot H2 in the N1/2 of Government Lot 4 of Section 3 and Lot H1 in the NW1/4NW1/4 of Section 3, all located in T1N, R8E, BHM, Rapid City, Pennington County, South Dakota; and, Lot H1 in the NE1/4 of Section 4 and Lot H2 in Government Lot 1 of Section 4, T1N, R8E, BHM, Rapid City, Pennington County, South Dakota; and, the 33 foot section line right-of-way located north of Lot H1 in the NE1/4 of Section 4 and Lot H2 in Government Lot 1 of Section 4, T1N, R8E, BHM, Rapid City, Pennington County, South Dakota; and, 66 foot section line right-of-way located between Section 4 and Section 3 all located in T1N, R8E, BHM, Rapid City, Pennington County, South Dakota; and, the 30 foot dedicated right-of-way lying adjacent to Lot A of Lot 1R of Rushmore Regional Industrial Park, Section 4, T1N, R8E, BHM, Rapid City, Pennington County, South Dakota

PARCEL ACREAGE	Approximately 160 acres
LOCATION	Southeast quadrant of Elk Vale Road and Interstate 90
EXISTING ZONING	Office Commercial District
FUTURE LAND USE DESIGNATION	Commercial and Industrial
SURROUNDING ZONING	
North:	Office Commercial District
South:	Low Density Residential District (Planned Development)
East:	General Commercial District
West:	General Commercial District
PUBLIC UTILITIES	City water and sewer

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DATE OF APPLICATION December 9, 2016

REVIEWED BY Patsy Horton / Nicole Lecy

RECOMMENDATION: The Tax Increment Financing Committee recommended denial of the cost reallocation for Heartland Business Center Tax Increment District No. 38. The applicant appealed the decision to the Planning Commission who directed staff to prepare the revision to the Project Plan for TID #38 as presented in 16TI005.

GENERAL COMMENTS: Tax Increment District No. 38 was approved by the City Council on February 17, 2003. The purpose of the District was to facilitate the development of commercial property located east of Elk Vale Road through the construction of public improvements including a water main from Beale Street, a sanitary lift station, a force main sewer extension, gravity sewer extension, two drainage detention dams, Eglin Street road improvements, a deceleration lane, intersection signalization and a 16 inch looped water main on Elk Vale Road.

The completed public improvements included the construction of Eglin Street from Elk Vale Road east just beyond the University Center; construction of two detention ponds, which included a large box culvert near the eastern boundary of the district; and installation of a water main to provide water to properties south along Elk Vale Road, connecting the water main to the new water tower east of Elk Vale Road, and connecting the water main at the Big Sky Business Park for additional water pressure providing a looped water system for fire protection.

Three of the original public improvement items identified for completion in the Project Plan approved in 2003 were not completed as part of the District funded public improvements. Those three included the sanitary sewer lift station, force main sewer extension and the traffic signal at Elk Vale Road and Eglin Street. The traffic signal was installed by the SDDOT at its cost. The sewer improvements were not needed when another developer installed the sewer utilities. The applicant is proposing to incorporate the \$680,000 from these three projects into overrun costs expended for the remaining public improvement items.

The Tax Increment District boundaries incorporate approximately 160 acres located generally in the southeast quadrant of Elk Vale Road and Interstate 90.

STAFF REVIEW: The 2003 base valuation of the District as determined by the South Dakota Department of Revenue is \$3,362,500 and will not change with this Revision. The State Department of Revenue has indicated that the 2016 year end assessed valuation of the District is now at \$37,797,400. This year end valuation provides evidence that the District has stimulated the general economic welfare and prosperity of the state through the promotion and advancement of industrial and commercial development as required in South Dakota Codified Law 11-9-8.

Cost Reallocation: Revision #2 reallocates the project costs by increasing the water main costs to \$386,962.03; Eglin Street Phase I costs to \$589,788.35; increasing the water main

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loop by \$150,943.51; increasing the Water Main from East Anamosa Street by \$8,000; increasing Eglin Street Phase II by \$736,055.48; increasing the Phase II Detention Dam by \$135,887.09; and increasing the Engineering Design, Construction and Administrative costs for Phase II. The costs for the Lift Station (\$350,000), Sewer Force Main (\$210,000), Signaling the Intersection (\$120,000), Phase I Contingency Costs (\$300,400) and Phase II Contingency Costs (\$90,000) have been removed from the Project Plan; those costs have been redirected to the increased construction costs for the previously identified improvements. Additionally, the Financing Costs have been decreased by \$229,050.63.

An additional \$20,000 Imputed Administrative Fee paid to the City has been added in accordance with the Tax Increment Financing Guidelines.

In May 2004, the Council approved an Amendment to the Project Plan to include funding up to \$100,000 for an 880' water main installation from Eglin Street south to Anamosa Street. This water main was installed and provides access to water service for the properties along the west side of Elk Vale Road.

The following table depicts the Project Plan costs for the plan approved in 2003, 2004 and the current proposed changes:

Description	Project Plan 2003	Revision #1 Adjustments	Revision #1 Project Plan Costs - 2004	Revision #2 Adjustments	Revision #2 Project Plan Costs - 2016
Phase I					
Capital Costs:					
Water Main	300,000.00		300,000.00	86,962.03	386,962.03
Eglin Street (Phase I)	460,000.00		460,000.00	129,788.35	589,788.35
Gravity Sewer	132,000.00		132,000.00		132,000.00
Deceleration Lane	30,000.00		30,000.00		30,000.00
Detention Dam (Phase I)	100,000.00		100,000.00		100,000.00
Lift Station	350,000.00		350,000.00	(350,000.00)	0.00
Force Main	210,000.00		210,000.00	(210,000.00)	0.00
Signalization Intersection	120,000.00		120,000.00	(120,000.00)	0.00
Water Main Loop	300,000.00		300,000.00	150,943.51	450,943.51
Water Main from East Anamosa		67,000.00	67,000.00	8,000.00	75,000.00
Road Crossing at Anamosa		25,000.00	25,000.00		25,000.00
Professional Service:					
Engineering Design, Construction Administration (Phase I)	200,200.00		200,200.00	(12,899.29)	187,300.71
Necessary and Conv:					
Contingency Costs (Phase I)	400,400.00	(100,000.00)	300,400.00	(300,400.00)	0.00
Contingency Costs Amendment		8,000.00	8,000.00	(8,000.00)	0.00

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Phase I Construction Total	2,602,600.00	0.00	2,602,600.00	(625,605.40)	1,976,994.60
Financing:					
Financing Interest	1,937,299.48		1,937,299.48		1,937,299.48
Phase I Total	4,539,899.48	0.00	4,539,899.48	(625,605.40)	3,914,294.08
Description	Project Plan 2003	Revision #1 Adjustments	Revision #1 Project Plan Costs - 2004	Revision #2 Adjustments	Revision #2 Project Plan Costs - 2016
Phase II					
Capital Costs:					
Eglin Street (Phase II)	350,000.00		350,000.00	736,055.48	1,086,055.48
Detention Dam (Phase II)	100,000.00		100,000.00	135,887.09	235,887.09
Imputed Admin Fee				20,000.00	20,000.00
Professional Service:					
Engineering Design, Construction Administration (Phase II)	45,000.00		45,000.00	72,713.46	117,713.46
Necessary and Conv:					
Contingency Costs (Phase II)	90,000.00		90,000.00	(90,000.00)	0.00
Phase II Construction Total	585,000.00	0.00	585,000.00	874,656.03	1,459,656.03
Financing:					
Financing Interest	1,685,979.65		1,685,979.65	(229,050.63)	1,456,929.02
Phase II Total	2,270,979.65	0.00	2,270,979.65	645,605.40	2,916,585.05
Construction Cost Totals					
Phase I Total	2,602,600.00	0.00	2,602,600.00	(625,605.40)	1,976,994.60
Phase II Total	585,000.00	0.00	585,000.00	874,656.03	1,459,656.03
Total Construction Costs	3,187,600.00	0.00	3,187,600.00	249,050.63	3,436,650.63
Financing Cost Totals					
Phase I Total	1,937,299.48		1,937,299.48	0.00	1,937,299.48
Phase II Total	1,685,979.65		1,685,979.65	(229,050.63)	1,456,929.02
Total Financing Costs	3,623,279.13		3,623,279.13	(229,050.63)	3,394,228.50
Total Project Plan Costs	6,810,879.13	0.00	6,810,879.13	0.00	6,810,879.13

District Payoff: The original amortization schedule estimated the interest rate at 9% with a cumulative interest expense of \$3,623,279.13. The amortization schedules prepared for this revision utilizes a current interest market rate of 6%.

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The applicant submitted certification documentation for Phase I in 2006 in the amount of \$1,922,223.40. The Finance Office completed the payments for Phase I on December 1, 2016. The TID 38 Fund balance of \$353,501.12 is included in the first payment for Phase II scheduled on June 1, 2017 that is identified on the Amortization Schedule for Phase II.

The total interest expense for Phase I was \$1,937,299.48 and Phase II is projected to be \$1,436,929.02.

The 2016 assessed valuation is anticipated to generate \$822,773.80 per year in tax incremental revenue, payable in 2018. The amortization schedules, however, are based on the \$331,789.11 bi-annual 2015 tax receipts for District 38. If the tax revenues received are higher than the 2015 receipts and additional development occurs, the District will pay off sooner than December 1, 2020 as projected.

Tax Increment Financing Project Review Committee Recommendation: The Tax Increment Financing Committee recommended denial of the cost reallocation for Heartland Business Center Tax Increment District No. 38. The applicant appealed the decision to the Planning Commission and 16TI005 incorporates the project plan cost reallocation request for the Planning Commission's consideration.