



CITY OF RAPID CITY

RAPID CITY, SOUTH DAKOTA 57701-2724

Office of the Mayor

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December 23, 2016

Rapid City Common Council
300 6th Street
Rapid City, SD 57701

Re: 500 block St. Joseph Street parking lot (formerly the President's Plaza building site)

Dear Council Member:

Attached is a letter from City Attorney Joel Landeen articulating our legal options for moving forward with a new development project in the 500 block of St. Joseph Street.

I believe Mr. Landeen has done a good job providing options as well as pros and cons from the City perspective. The purpose of this letter is to inform you that I will be placing an item on the next City Council agenda to discuss options and determine the next step in moving forward.

In my own opinion, I believe the option that is best suited for the needs of the community is option number four (4). Today, the City is armed with a good comprehensive plan as well as a downtown master plan that will enable us to view proposals on a future project through a new lens. Since the Council agreed to terminate the contract with Presidents Plaza, I have had a number of inquiries regarding potential projects at that site. I have not viewed any plans, nor have I met with developers to discuss details of any such project.

As you might imagine, there is much to discuss on this topic, and one City Council meeting may not be the appropriate venue. I would at least hope to have from you, some direction or suggestion as to the next step in this process. Perhaps, it could be a working session or some other interaction between Council and staff that might get us moving in a positive direction.

Thank you for taking time to read this letter and attachment. If you have any questions or would require further information prior to the next council meeting please do not hesitate to contact me.

Sincerely,

Steve Allender, Mayor
Rapid City, South Dakota





Joel P. Landeen, City Attorney
City web: www.rcgov.org

CITY OF RAPID CITY

RAPID CITY, SOUTH DAKOTA 57701-2724

OFFICE OF THE CITY ATTORNEY

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MEMORANDUM

TO: Mayor & City Council

FROM: Joel P. Landeen, City Attorney

DATE: 11/09/2016

RE: Options for Parking Lot Located at the southwest Corner of 5th Street and St. Joseph Street.

Now that the City has terminated its agreements with President's Plaza L.L.C., the Mayor requested City staff identify options for the future of the City owned parking lot located on the corner of 5th Street and St. Joseph Street. In order to fulfill the Mayor's request, I met with Finance Officer Pauline Sumption, City Engineer Dale Tech, and Community Planner Sarah Hanzel. As a result of this meeting we identified the following options for the site:

1. **The City could choose to leave the site as a surface parking lot.** This option would maintain the status quo. The City would continue to lease spots to businesses and the public and the lot would continue to meet the need for parking downtown.

Pros: This option would cost nothing and be the easiest course of action. Since this option requires no funding, the approximately \$2 million in remaining Vision Funds previously allocated to construct a parking ramp at this site could be reallocated for other needs.

Cons: This is a prime corner in the downtown core. Keeping the site as a publicly owned parking lot that generates no tax revenue and limited revenue from leased parking does not appear to be the highest or best long term use for the property. The City's recently commissioned Downtown Master Plan specifically identifies this parcel as one of three potential redevelopment locations in downtown that could have an immediate and lasting impact on the shape of downtown. Pursuing a course of action that leaves this parcel as a surface parking lot would be inconsistent with the downtown plan and the City would be

passing up an opportunity to redevelop a site in a way that has the potential to make a significant positive impact on the downtown. (If property taxes were currently paid on the appraised value of the lot, without any other improvements and assuming that it was classified as non-owner occupied, the estimated tax generated would be approximately \$23,600 annually of which approximately \$3,500 would be the City's share. According to the City Finance Office the parking lot generates \$4,900 a month/\$58,800 a year in revenue.)

- 2. The City could choose to build a publicly owned ramp on the site.** The original plan for this location was to use the Vision Fund to construct a second publicly owned parking ramp for downtown. After working with a consultant on ways to improve downtown and a trip by City leaders to Boise Idaho, the City was decided to try and combine the proposed parking ramp with a private development in order to achieve a final product that would have a more positive impact on the downtown than could be achieved solely by construction of a parking ramp. One of the issues with this proposal is that if the City were to build a new parking ramp in downtown it is unclear this is the location where additional parking is needed. The proposal for constructing a ramp at this site seems to be based primarily on the fact that the City already owns the land and parking is what the site is currently being used for. Before this option is pursued, a more comprehensive analysis of where additional parking is needed should be performed. Even if it is ultimately decided that this is the appropriate site for a publicly owned ramp, the City could look at purchasing neighboring properties and orienting the ramp along 5th street rather than St. Joseph Street. This alternative would allow the City to sell a lot on the corner of 6th and St. Joseph Street for development.

Pros: This option would provide additional parking downtown and by not attempting to partner with a private developer it should speed up and simplify the process.

Cons: Parking ramps cost between \$18,000 to \$20,000 per stall. Based on these amounts, even a small ramp would cost several million dollars more than the City currently has allocated for construction of a parking ramp at this site. A public parking ramp would also need to be subsidized since the market will not support lease rates that would make the ramp profitable. Without any private development as a component of the project, the City would not be able to rely on a tax increment financing to fund the additional cost of the ramp. Nor does this option address concerns about whether to use of a prime corner in downtown for public parking is the highest and best use for this parcel. Once the City invests a large amount of money in a parking ramp, it will be much more difficult to change course or redevelop the site at a later date.

- 3. The City could choose to declare the lot surplus and list it with a realtor or sell it at a public auction.** The most recent appraisal of this property was conducted in June of 2014. The appraiser determined the fair market value of the property to be \$1,090,000. If the City lists the property with a realtor we are required by state law to sell the land at 90% of the appraised value. There are other methods by which the City could dispose of the property, but unless the Council wants to explore those options, listing the property with a realtor appears to be the most sensible course of action. Since the money generated

from this parking lot is currently part of the revenue used to repay the City's 2014/2015 refinancing of its parking bonds, the City will need to either replace the lost revenue or pay off the parking bonds in order to be in compliance with the current bond covenants if the City were to sell or transfer title to the site. The balance left on the parking bond is approximately \$1,865,000. While we can repay the bond at any time, if the City pays it off prior to 5/31/2021 there is a 1% penalty plus any accrued interest. A potential source to pay off the parking bonds would be the remaining Vision Funds originally allocated to the President's Plaza Project. There are approximately \$2,072,000 in Vision Funds remaining for this project.

Pros: It seems reasonable to assume that anyone paying a million dollars for a property is going to do so only if they have a plan to build something. Based on that assumption, this option would appear to be the fastest way to get something built on the property and return it to the tax rolls. If the City lists the property with a realtor it could retain a limited degree of control over what is built there by deciding who to sell the property to. However, if the City attempts to overly regulate or restrict what can be done with the property it will likely decrease the marketability and value of the property.

Cons: Once the title is transferred, the City would have only a limited say in how the property is developed. The City's potential profit for selling the property would likely be consumed by the cost of replacing the lost revenue for the parking bonds or paying the bonds off.

4. **The City could issue a new Request for Proposals seeking developers to design and build a project on the site.** When the City solicited the first request for proposals this was a new process and no one on staff had any experience with such projects. A mistake the City made when this project was originally conceived was not retaining an outside expert with experience in marketing and putting together the complicated agreement necessary for these types of projects to be successful. A second mistake was the request for proposals was not marketed nationally and basically drew interest from local groups that had no previous experience designing or constructing similar projects of this scale. The consultants the City retained to prepare our Downtown Master Plan expressed that they believed groups from Denver, Minneapolis, and Kansas City would potentially be interested in developing this site. If we could attract a developer from outside the area that had successfully completed similar projects it would increase the chances a mixed use project could successfully be constructed. While the staff has learned a lot of lessons over the years, I would advocate that if the City goes down this path again a consultant with expertise in these projects be retained to make sure that we have a better chance for success than we did with President's Plaza. As part of this process, the City could explore other options such as looking at entering into a long term lease with a developer rather than transferring title to the property or a structuring it as a disposition and development agreement that allows the City to retain ownership of the land until the project is completed. Both of these mechanisms would foster more of a partnership relationship than existed under the previous agreements and give the City more say in the final product that is produced.

Pros: This option allows the City the most input in the final project. It would also achieve private development which would generate tax revenue and be beneficial to continued downtown renewal while still allowing the City the opportunity to address public parking.

Cons: Due to the length of time spent on the last project and the lack of results many people are likely weary and skeptical of this type of partnership. This option is most likely the slowest to achieve a completed project. Even if the City is able to attract interested developers, the process of seeking proposals, entering into agreements, and starting construction will probably take well over a year. If the City goes down this path there is also the risk that none of the proposals it receives are acceptable and have it would have to start back at square one which would further delay any development at this site.

5. **Rather than issue a new request for proposals, the City could approach specific hotels, business, or developers to partner with the City and develop the site.** This is really just a hybrid of the previous option. Rather than soliciting proposals through an RFP open to anyone who is interested, the City could target specific developers or businesses and attempt to enter an agreement for sale and or development of the site.

Pros: This option is a potentially faster way to achieve the same benefits as identified in Option #4. This option would free the Council from having to do an extensive public review proposals that have no chance of approval.

Cons: While this option would likely shorten the time to work through the process and potentially avoid some of the pitfalls of the RFP process, it would also have the potential to look like the decision was based on favoritism or inside dealing and also cause resistance to the project from the competitors of the entity which was chosen or those who feel that they should have been provided with the opportunity to develop the property.