

STAFF REPORT  
May 4, 2017

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**No. 17TI002 – Resolution create Village on Monroe Tax Increment District and a Resolution approving the Project Plan**      **ITEM 20**

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GENERAL INFORMATION:

APPLICANT	Joy McCracken for NeighborWorks Dakota Home Resources
PROPERTY OWNER	Peggy Beardsley
REQUEST	<b>17TI002 - Resolution to create the Village on Monroe Tax Increment District and a Resolution to approve the Project Plan</b>
LEGAL DESCRIPTION	Lots 14 thru 16 of Block 37 of North Rapid, located in Section 36, T2N, R7E, BHM, Rapid City, Pennington County, South Dakota
PARCEL ACREAGE	Approximately 0.24 acres
LOCATION	Southeast corner of Dilger Avenue and Monroe Street
EXISTING ZONING	Medium Density Residential District
SURROUNDING ZONING	
North:	Medium Density Residential District
South:	Medium Density Residential District
East:	Medium Density Residential District
West:	Medium Density Residential District
DATE OF APPLICATION	4/7/2017
REVIEWED BY	Patsy Horton / Nicole Lecy

RECOMMENDATION: If the Planning Commission finds that the criteria identified in SDCL 11-9-8 regarding blight and/or economic development have been met, and that the application meets the intent of the Rapid City Tax Increment Policy, staff recommends creating the Village on Monroe Tax Increment District and approving the associated Project Plan to provide five work force housing townhomes.

GENERAL COMMENTS: **(Update, May 4, 2017. All revised and/or added text is shown in bold print.)** The applicant has requested the creation of a \$90,000 tax increment district to assist in providing five work force housing townhomes to be located at the southeast quadrant of Dilger Avenue and Monroe Street. The estimated purchase price of the three 2-bedroom townhomes is \$139,900 and the estimated priced for the two 1-bedroom townhomes is \$109,900. The project plan includes land acquisition costs for the townhome development. **Those funds will be used as part of a zero interest down payment loan program to decrease the mortgage by \$12,000 for each prospective buyer.** This provides homeownership opportunities for individuals with a yearly income between \$28,500 and \$47,000. Financial lenders generally base loan decisions on a maximum 30%

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monthly housing cost, including utilities. For the projected income range the maximum housing cost is estimated at \$712 to \$1,174.

**Creating a residential district requires an additional tax levy to ensure that the School District receives its \$5,060 yearly portion of the increment. All property owners within the School District are assessed an additional tax levy, estimated at 0.000742 per \$1,000 in property valuation. The estimated cost, based on the additional levy, for a \$200,000 home within the School District is \$0.15 per year or \$2.00 for the 13 year life of the proposed Tax Increment District.**

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 6.0 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 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 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.

The residential structure on the property was demolished in December 2016 and is currently void of any development. The property is currently located within an established residential neighborhood and zoned Medium Density Residential District.

On March 29, 2017, the Tax Increment Review Committee denied recommending approval of the applicant's request to create a residential tax increment district. Upon appeal, on April 6, 2017, the Planning Commission directed staff to prepare the associated Project Plan.

The proposed District boundary incorporates approximately 0.24 acres located in the southeast quadrant of the intersection of Dilger Avenue and Monroe Street.

STAFF REVIEW: On March 29, 2017, the Tax Increment Review Committee denied recommending approval of the applicant's request to create a residential tax increment district. Upon appeal, on April 6, 2017, the Planning Commission directed staff to prepare the associated Project Plan.

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

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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.

In 2008, the total property valuation was \$84,600. By year-end 2016, the valuation was \$78,200, a decrease of 8.18%. The current valuation is \$26,000, a decrease of 69.28% from 2008. The fire damaged structure on the lot was demolished in December 2016. Construction of the five townhomes is estimated to increase the total valuation of the District to \$639,500.

Local Mandatory Criteria: In addition to the statutory requirements, staff has reviewed the information provided by the applicant and the proposal meets the following:

**Mandatory Criteria:**

1. 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:
  - B. The vacant site substantially impairs or arrests the sound growth of the municipality, retards the provision of adequate housing accommodations, constitutes an economic or social liability and is a menace to the public health, safety, morals, and welfare as a result of substandard, unsafe or deteriorating development.

*The Developer anticipates constructing five new townhomes, increasing the total valuation from \$26,000 to \$639,500.*

- C. The vacant lot is appropriate for infill development and a cost effective use of existing utilities and services.

*With the exception of the Developer's cost to extend approximately 120 feet of an eight (8) inch public sanitary sewer main to serve the increased residential use, the existing utilities and other public services currently provided will remain the same. This infill development provides an effective use of the existing services provided to the proposed District.*

2. The project complies with the adopted Comprehensive Plan and all other appropriate plans and regulations.

*The proposed District meets the following Policies within Plan Rapid City:*

BPG-1.2A: Priority Infill Areas: *Other highly desirable areas for infill development*

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*include Urban Neighborhoods.*

*NR-NA-1.1: Residential Neighborhoods: Encourage reinvestment and promote targeted infill development and/or redevelopment to add vitality to the area's established neighborhoods. Support the development of new residential neighborhoods that increase the variety of housing options.*

3. The use of TIF for the project will not result in the net loss of pre-existing tax revenues to the City and other taxing jurisdictions.

*The Developer anticipates constructing five new townhomes, increasing the total valuation from \$26,000 to \$639,500.*

**Additional Mandatory Criteria (two of six required):**

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.

*The residential construction will not compete with retail and/or service businesses.*

6. The project will result in the construction of affordable housing units defined as housing where the occupant is paying no more than thirty percent (30%) of gross income for housing costs including utilities and complies with the following requirement:

- B. Affordable housing is required to remain affordable as defined above for ten (10) years. If affordability is less than ten (10) years, repayment of prorated share of increment benefit will be due and payable to the City.

*The Developer anticipates offering each of the five buyers an interest free loan of \$12,000. When the buyer sells the property, the loan proceeds will repay the loan. Subsequent buyers are provided with the same interest free loan offer opportunity, thus continuing the home's affordability feature.*

**Discretionary Criteria:**

5. The building or site that is to be redeveloped itself displays conditions of blight as established by the provisions of SDCL 11-9 (not less than 25%, by area, within the district is blighted).

*In 2008, the total property valuation for the 0.24 acre lot was \$84,600. By year-end 2016, the valuation was \$78,200, a decrease of 8.18%. The current estimated 2017 valuation is \$26,500, a decrease of 69.28% from 2008, thus creating a 100%, by area, blighted condition on the property.*

10. The developer agrees to waive the five-year tax abatement.

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Project Costs: The following table **as submitted** identifies both the estimated Total Project Costs and anticipated expenses utilizing funds generated from the proposed tax increment:

Project Cost Description	Total Estimated Project Costs	TIF Funded Project Costs	TIF Funded %
<b>Developer Capital Costs</b>			
Property Acquisition	\$60,000.00	\$60,000.00	100.0%
Site Improvements	\$65,800.00		
New Construction	\$425,800.00		
General Requirements	\$11,000.00		
Contractor Profit	\$32,600.00		
Contractor Overhead	\$10,000.00		
Building Fees & Permits	\$5,000.00		
<b>Total Developer Capital Costs</b>	<b>\$610,000.00</b>	<b>\$60,000.00</b>	<b>9.84%</b>
<b>Developer Professional Fees</b>			
Architectural Fee	\$3,500.00		
Attorney Fee	\$1,500.00		
Engineer / Survey	\$3,000.00		
Land Appraisal Fees	\$2,000.00	\$2,000.00	100.0%
Other - Inspections	\$1,750.00		
<b>Total Developer Professional Fees</b>	<b>\$11,750.00</b>	<b>\$2,000.00</b>	<b>17.02%</b>
<b>Financing Costs</b>			
Construction Insurance	\$4,000.00		
Origination Fee	\$4,150.00		
Title and Recording	\$700.00		
TIF Loan Interest Expense	\$27,359.40	\$27,359.40	100.0%
<b>Total Developer Financing Costs</b>	<b>\$36,209.40</b>	<b>\$27,359.40</b>	<b>75.56%</b>
<b>Developer Other Costs and Fees</b>			
TIF Application Fee	\$1,000.00		
Other - Marketing	\$5,000.00		
<b>Total Developer Professional Fees</b>	<b>\$6,000.00</b>		
<b>TOTAL ASSOCIATED DEVELOPMENT COSTS</b>	<b>\$664,159.40</b>	<b>\$89,359.40</b>	<b>13.45%</b>
Imputed Administrative Costs*		\$20,000.00	
City of Rapid City			

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RECOMMENDATION: If the Planning Commission finds that the criteria identified in SDCL 11-9-8 regarding blight and/or economic development have been met and that the application meets the intent of the Rapid City Tax Increment Policy, staff recommends approval of creating the Village on Monroe Tax Increment District and approval of the associated Project Plan to provide five workforce housing townhomes.