

STAFF REPORT  
November 9, 2017

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**No. 17TI004 – Create Tax Increment District and Project Plan**

**ITEM 5**

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GENERAL INFORMATION:

APPLICANT KTM Design Solutions, Inc for North Atlantic Developers, LLC

REQUEST **17TI004 - Resolution to Create Promise Road Tax Increment District and Project Plan**

LEGAL DESCRIPTION A tract of land lying in portions of Sections 22, 23, 26 and 27, T1N, R7E of the B.H.M. Rapid City, Pennington County, South Dakota and being more particularly described as follows: Commencing at the southwest corner of the E1/2N1/2NE1/4 of said Section 27, being the point of beginning; Thence northerly with the west boundary of said E1/2N1/2NE1/4 to the northwest corner of said E1/2N1/2NE1/4, being on the section line between aforementioned Sections 22 and 27; Thence easterly with said section line to the point of intersection with the southerly right of way of Golden Eagle Drive; Thence on a line perpendicular to said right of way, across said drive to a point on the northerly right of way of Golden Eagle Drive; Thence easterly with said northerly right of way to the point of intersection with the westerly right of way of Promise Road; Thence northerly and northeasterly with said westerly right of way to the southeast corner of Lot 2 of Owen Hibbard Subdivision; Thence southerly across Promise Road to a point on the southerly right of way of said road, being at the northeast corner of Lot 3 of Owen Hibbard Subdivision; Thence southerly with the east boundary of Lots 3 and 4 of said subdivision to the northwest corner of Lot 5 of Owen Hibbard Subdivision; Thence easterly with the northerly boundary of said Lot 5 to the northeast corner of Lot 5, also being on the westerly right of way of Mount Rushmore Road; Thence easterly on the projection of said northerly boundary of Lot 5 across Mount Rushmore Road to a point on the easterly right of way of said road; Thence southerly with the easterly right of way of Mount Rushmore Road to an angle point in said right of way; Thence southeasterly along said easterly right of way of to an angle point on said right of way, also being on the northerly right of way of Catron Boulevard; Thence southerly across Catron Boulevard to an angle point on the southerly right of way of said boulevard, also being on the easterly right of way of aforementioned Mount Rushmore Road; Thence westerly across Mount Rushmore Road to the point of intersection of the westerly right of way of said road and the southerly right of way of Catron Boulevard; Thence westerly with said southerly right of way to a point on the

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	southerly boundary of aforementioned E1/2N1/2NE1/4 Section 27; Thence westerly with said southerly boundary to the southwest corner of the E1/2N1/2NE1/4 of said Section 27 and the point of beginning
PARCEL ACREAGE	Approximately 105.72 acres
LOCATION	Northwest corner of the intersection of Catron Boulevard and Mt. Rushmore Road
EXISTING ZONING	General Commercial District w/ PD, Office Commercial District w/ PD, General Agriculture District
SURROUNDING ZONING	
North:	Public District, Office Commercial w/ PD and General Commercial District w/ PD
South:	General Commercial District w/ PD
East:	General Commercial District w/ PD
West:	General Agriculture District, Public District w/ PD and General Commercial District w/ PD and Suburban Residential (County)
DATE OF APPLICATION	August 31, 2017
REVIEWED BY	Patsy Horton / Dan Kools

**RECOMMENDATION:** The Tax Increment Financing Committee recommended creating the Promise Road Tax Increment District. Staff recommends approving the associated Project Plan to stimulate economic development along the Mt. Rushmore Road/Catron Boulevard corridor.

**GENERAL COMMENTS:** The applicant has requested the creation of a tax increment district to stimulate job creation by expanding employment, retail and office / medical opportunities, and assist in the development of critical public infrastructure to serve the general public as well as new commercial development along south Mount Rushmore Road / Catron Boulevard. The Tax Increment Funds will be used to extend public infrastructure including road construction, traffic signal adjustments and the vertical realignment of an existing intersection to ensure connectivity of an existing utility system. The developer will secure funding for the project costs identified in the tax increment district with repayment by the incremental revenues generated.

On September 28, 2017, the Tax Increment Review Committee recommended approval of the applicant's request to create a 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 or proposal for refinancing. For purposes of development of the

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project plan, the applicant submitted information regarding an interest rate between 5-7%. This project plan incorporates 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, or as soon thereafter as the incremental funds are in the TID account.

It is anticipated that one or more of the properties in this proposed tax increment district will be used for commercial purposes. Residential uses are identified on a portion of the property within the proposed district. The balance of the property is vacant, non-residential land uses. As such, the creation of this economic development tax increment district will not require an additional Rapid City School District levy to make up for the School District's share of the property taxes included in the Tax Increment. Sixty-three percent 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.

The proposed District boundary incorporates approximately 105.72 acres located in the northwest quadrant of the intersection of Mt. Rushmore Road / Catron Boulevard.

STAFF REVIEW: On September 28, 2017, the Tax Increment Financing Review Committee recommended approval of creating the Promise Road Tax Increment District. Based on this recommendation, staff has also 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, of the 105.72 acres located within the proposed district, 62.16% of the property is identified 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 at least 300 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 construct Promise Road, vertically adjust Promise Road and Golden Eagle Drive, install a drainage crossing, and adjust a traffic signal.*

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:

<b>Project Cost Description</b>	<b>Total Estimated Project Costs</b>	<b>TIF Funded Project Costs</b>
<b>Capital Costs</b>		
Local Streets	\$500,000	
Grading and storm sewer	\$950,000	
Promise Road		\$2,262,470
Reconstruct roads / utilities (Promise Rd/ Golden Eagle)		\$500,000
Traffic signal adjustments		\$100,000
<b>Public Improvements Total</b>	<b>\$1,450,000</b>	<b>\$2,862,470</b>
<b>Other Development Costs</b>		
Convenience Store	\$2,000,000.00	

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Hotels	\$10,000,000.00	
Restaurants	\$4,000,000.00	
Retail	\$2,000,000.00	
Professional Offices	\$30,000,000.00	
Land	\$4,300,000.00	
Billboard purchase and removal	\$100,000.00	
Professional Fees	\$2,692,500.00	\$286,247.00
Contingencies	\$1,346,250.00	\$286,247.00
Financing Costs	\$8,683,312.50	\$3,217,451.36
<b>TOTAL</b>	<b>\$66,572,062.50</b>	<b>\$6,652,415.36</b>
Imputed Administrative Costs*		\$20,000.00
City of Rapid City		
<b>Identified Funding Sources:</b>		
Financed by the developer		

\*The imputed administrative costs are interest-free, are not included in the total project costs, and are to be paid from the balance remaining in the Promise Road Tax Increment District fund available to the City Finance Officer on December 4, 2022.

**Overlapping Tax Increment Districts:** The proposed district is also located within Tax Increment District #70. The Project Plan for TID #70 provided funding for the sewer main extension from Catron Boulevard south to Moon Meadows Drive on the east side of US Highway 16. Funding was also identified for the extension of Moon Meadows Drive to the east and a traffic signal at US Highway 16 and Moon Meadows Drive, along with turning lane improvements within the US Highway 16 right-of-way.

Any tax increment revenues generated by property located within Tax Increment District #70 are applied first to the certified costs within District #70 until those certified costs identified in the District #70 Project Plan are repaid in full. Based on the existing and proposed revenue projections for the TID #70 overlapping districts, it is anticipated that TID #70 will be repaid by June 2023, with the proposed district repaid by December 2028. Any and all developers associated with subsequent districts created after District #70 are responsible for any approved project costs if anticipated revenues fall short within the statutory 20 year tax increment district life cycle.

**STAFF RECOMMENDATION:** Staff recommends approving the Resolution to Create the Promise Road Tax Increment District and recommends approving the Resolution to Approve the Promise Road Tax Increment District Project Plan in order to stimulate economic development within the southeast quadrant of Mt. Rushmore Road/Catron Boulevard.