

MINUTES
TAX INCREMENT FINANCE COMMITTEE
June 11, 2004

Members Present: Dan Dryden, Marcia Elkins, Jason Green, Alan Hanks, Jeff Hoffmann, Martha Rodriguez, Coleen Schmidt

Others Present: Joe Muth, Chad Myers, Karen Bulman, Joel Landeen, Ted Vore, Dan Coon, Sharlene Mitchell

Elkins called the meeting to order at 11:38 a.m.

Mallow Street Request

Muth presented the proposal to develop an eight-plex apartment complex on the Mallow Street property. Muth outlined the area water pressure issues and the Fire Department requirement that the apartment complex be fully sprinkled. Muth indicated that the requested funding is for the sprinkler system cost only and does not include installation and electrical costs. Muth addressed the projected increase in tax base with the proposed development noting that the requested funding is needed in order to complete the project.

Bulman reviewed the financial breakdown of the request including the existing valuation, the anticipated increment and revenue. She indicated that based on the current interest rates the project should amortize out in six years.

In response to a question from Elkins, Muth addressed the "blighted" status of the neighborhood noting the value and condition of the residential properties in the area. Muth stated that the proposed residential development would focus on South Dakota Housing clientele.

In response to a question from Elkins, Muth clarified that the majority of the residential structures in the area are between 70-80 years old, small, deteriorating and in bad repair. He indicated that 90-95% are rental properties that are not being maintained.

In response to a question from Rodriguez, Elkins indicated that the project does not qualify for Community Development Block Grant funding and she reviewed the eligibility requirements of that program.

Discussion followed regarding the costs involved in establishing a Tax Increment District. Elkins clarified with Muth that the applicant would secure private financing for the project with the Tax Increment District being used to repay the private financing.

Discussion followed regarding the current fire flows and the cost to upgrade the neighborhood infrastructure to support the required fire flows and the available funding sources for the project.

Rodriguez moved to recommend approval of the Mallow Street Tax Increment Financing request. Motion died for lack of a second.

Hoffmann addressed the manner in which prior housing projects have utilized the Tax Increment Financing program. He recommended that support for the proposed project should be based on whether the project is a "good investment of the citizens' monies". In response to a question from Hoffmann, Elkins addressed the use of Tax Increment Financing for "public" and "private" improvements.

Elkins directed the Committee's attention to the Eiesland letter addressing the proposed project's compliance with the Tax Increment Financing criteria including the "blighted" criteria.

Hanks addressed the Committee's recent denial of an application as the proposed costs were for on-site improvements. He indicated that he could not support a request for on-site improvements due to the resulting impact to City taxpayers. Hanks expressed concern with the applicant's statement that the project cannot proceed without approval of the requested financing. Hanks addressed the recent changes to the Tax Increment Financing statues noting that low income housing projects result in the costs being transferred to the taxpayers.

Elkins indicated that the Committee's preference would be to fund the public improvements required to bring adequate fire flows to the entire neighborhood. She then addressed the lack of funding source, the time frame for completing those improvements and the resulting impact on the proposed project.

Hanks expressed concern that approval of this project would establish a precedent for funding on-site improvements.

Green indicated that the issues addressed by the project would support the "blighted" criteria. Green expressed concern that by statue tax increment financing may not be used for the construction of residential structures. Elkins indicated that she was under the impression that there is an Attorney General opinion classifying residential structures in excess of a four-plex as commercial properties based on the property tax classification.

Rodriguez voiced support for the project noting the increased tax revenue to be generated by the project and the short financing term. She suggested that the project could provide possible encouragement for others to do improvements in the area.

Rodriguez moved to recommend approval of the Mallow Street Tax Increment Financing request. Motion died for lack of a second. Rodriguez left the meeting at this time.

Hank recommended that the applicant review the project to determine if there were other "public" costs which could be funded under the tax increment program. Muth acknowledged the Committee's concern with establishing a precedent by funding the on-site improvements. He expressed concern with the Fire Department's recommendation to classify the area a "no build zone" noting the impact the classification would have on securing insurance coverage and mortgage financing for area properties.

Discussion followed regarding the infrastructure improvements required to address fire flows to the area. In response to a question from Muth, Schmidt indicated that the work required by both the City and County to create and maintain a tax increment district is the same regardless of the dollar cost of the district. Discussion followed regarding other public site improvement costs that could be substituted for the proposed on-site costs.

Hoffmann moved to recommend denial of the Mallow Street Tax Increment Financing request. Green seconded the motion.

Discussion followed regarding the Fire Department's allowance of the sprinkler system in the area.

Hoffmann indicated that the Committee acknowledges that the problem does exist but that tax increment financing is not the vehicle for resolving the issue.

Green voiced support for denial of the request noting that by allowing accommodations such as this a property owner would have no incentive to participate in an assessment project.

In response to a question from Vore, Elkins indicated that they have been advised that due to the condition of the existing water lines, the lines may be unable to handle the increased pressure should the area be moved to a new water pressure zone.

The motion to recommend denial of the Mallow Street Tax Increment Financing request carried unanimously.

Elkins indicated that the request can be forwarded to the Planning Commission for their review and recommendation. Discussion followed regarding the availability of State funding for low income projects.

Discussion followed regarding the use of tax increment financing for on-site improvements. In response to a question from Hoffmann, Hanks indicated that the Infrastructure Development Partnership fund is structured to provide infrastructure in undeveloped areas noting that a developed area would have no avenue with which to repay the loan. Discussion followed regarding other possible funding revenue sources. Hanks suggested that the 2012 fund would be a possible funding source for the infrastructure improvement project.

Myers expressed frustration with the constantly changing rules noting the financial investment they have in the property. Elkins suggested that the applicant review their options with the Fire Chief or move the tax increment request forward for Planning Commission and City Council action.

Discussion followed regarding the Fire Code requirements. Vore indicated that property owner support for an assessment project would be questionable in the area. Discussion followed regarding the required infrastructure improvements and projected installation costs.

Discussion followed regarding expansion of the Tax Increment District boundaries to support the needed infrastructure upgrades.

Approval of Minutes

Hanks moved, Hoffmann seconded and carried unanimously to approve the Minutes of the March 12, 2004 meeting.

Adjourn

There being no further business the meeting was adjourned at 12:25 a.m.