

TAX INCREMENT FINANCING IN RAPID CITY

A Guide for Applicants

INTRODUCTION

In 1978, the South Dakota Legislature approved the use of Tax Increment Financing (TIF) by municipalities to help finance redevelopment projects. Tax Increment Financing is a method of funding public investments in an area by capturing, for a time, all of the increased tax revenue that results when public investment stimulates private investment.

TIF is one of the few economic development and community redevelopment tools currently available to municipalities in South Dakota. Rapid City has effectively used TIF since the creation of the first district in 1983. However, as with any technique, TIF should be used according to carefully specified criteria. These criteria will assure that projects help fulfill the City's objectives for economic development and redevelopment and avoid unnecessary subsidies. This guide outlines criteria and procedures for evaluating proposals for the use of TIF. These criteria should be considered guidelines only and do not guarantee approval of a request for Tax Increment Financing.

Purpose of TIF. The City of Rapid City recognizes the following purposes for the use of Tax Increment Financing:

1. To encourage the redevelopment of deteriorated, or otherwise blighted real property in Rapid City through the investment of public funds;
2. To stimulate economic development in the community by assisting projects that promote the long term economic vitality of the community;
3. To stimulate increased private investment in areas that would have otherwise remained undeveloped or under-developed and which will, in the long term, provide a significant source of additional tax revenues to all taxing entities; or
4. To stimulate the construction of safe and affordable housing units for low and moderate income residents of the community and expand the general housing stock in the community.

Uses of TIF. Tax Increment Financing may be used for the following purposes in Rapid City:

1. Capital costs, including the actual costs of construction or reconstruction of public works or improvements, buildings, structures, and permanent fixtures;
2. The clearing and grading of land;
3. The acquisition of equipment;
4. Financing costs;
5. Real property assembly costs;

6. Professional services;
7. Imputed administrative costs;
8. Organizational costs, including costs of appropriate studies and public notification; and,
9. Other payments found to be necessary or convenient to the creation of the Tax Increment District or implementation of the Project Plan.

PROJECT SELECTION

TIF Project Review Committee. Each project seeking to use TIF must submit a complete application to the Growth Management Department which will be forwarded to the TIF Project Review Committee for evaluation. The TIF Project Review Committee will make recommendations on the use of TIF to the Planning Commission and City Council. The Project Review Committee consists of the following members: Finance Director or his/her representative; Growth Management Director or his/her representative; City Attorney or his/her representative; Economic Development Partnership President or his/her representative; two Planning Commission members appointed by the Mayor; two City Council members appointed by the Mayor; and, one representative of the Rapid City Area School District appointed by the Superintendent.

A majority of the Project Review Committee members present at the meeting where the TIF proposal is evaluated must concur for a project to receive a positive recommendation. All recommendations of the Project Review Committee will be transmitted to the Planning Commission for a recommendation and on to the City Council for a final decision.

Application Requirements. An application for the use of TIF must include the following information, and the TIF Project Review Committee may waive any required information:

1. A detailed project description;
2. A development financing plan, including sources of funds and loan terms;
3. A preliminary commitment for financing and/or equity;
4. A proforma, if appropriate, indicating projected costs and revenues;
5. If required, a statement and demonstration that the project would not proceed without the use of TIF;
6. Evidence that the project meets evaluation criteria;
7. Preliminary plans for the project;
8. A development schedule;

9. If applicable, a list of public improvements which will be constructed along with the project;
10. Corporation or partnership papers if applicable;
11. An audited financial statement of the corporation, partnership, or individual for the most recent five calendar year(s) or the life of the company if appropriate;
12. A copy of the proposed wage scale, employee benefits package, and full and part time employment levels unless waived by the Tax Increment Financing Project Review Committee or, in the case of an affordable housing project, a copy of the applicable federal housing grant program; and,
13. Other information that may be required by the Project Review Committee.

All applications for TIF must be submitted to the Growth Management Department. The TIF Project Committee will schedule a meeting, at which the applicant will present his/her project, within two weeks of submission.

Criteria for Evaluation. Projects applying for assistance through TIF must qualify by meeting certain criteria. Some criteria are mandatory and must be met in order for the Committee to consider the project for assistance. Others are discretionary, and enable the Committee to determine the benefits of the project. The project application must demonstrate how the project meets the required criteria.

Mandatory Criteria. In order to be considered for TIF, a project must meet each of the following three 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". For the purposes of TIF, a "blighted area" is defined as:
 - A. An area in which the structures, buildings, or improvements are conducive to ill health, the transmission of disease, infant mortality, juvenile delinquency, or crime, and which is detrimental to the public health, safety, morals, or welfare; or,
 - B. An area that substantially impairs or arrests the sound growth of the municipality, retards the provision of adequate housing accommodations, or constitutes an economic or social liability and is a menace to the public health, safety, or morals, or welfare as a result of substandard, unsafe or deteriorating development; or,
 - C. An open area which because of the need for infill development and cost effective use of existing utilities and services, obsolete platting, diversity of ownership, deterioration of structures or site improvements, or otherwise is determined to be blighted, substantially impairs or arrests the sound growth of the community.

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

In addition, a project must meet two of the following six criteria:

1. The project must demonstrate that it is not economically feasible without the use of TIF. In addition, if the project has site alternatives, the proposal must demonstrate that it would not occur in Rapid City without TIF.
2. The project will eliminate actual or potential hazard to the public. Hazards may include condemned or unsafe buildings, sites, or structures.
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.
4. The project will bring new or expanded employment opportunities as demonstrated by proposed wage scales, employee benefits and mixture of full and part-time employees.
5. The project will result in additional redevelopment in the following Tax Increment Financing Target Areas:
 - A. Downtown District (see Appendix A for description)
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 requirements:
 - A. Affordable housing projects must target residents at or below eighty percent (80%) of median income with rents at thirty percent (30%) of the tenants income or the Fair Market Rent (FMR) for the Section 8 Program whichever is greater. A minimum of 51% of the dwelling units of the proposed development shall be occupied by households meeting this income guideline;
 - 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 prorata share of increment benefit will be due and payable to the City.

Discretionary Criteria. In addition, the project should meet several of the following criteria. The project will be evaluated relative to the criteria outlined below. The extent to which a project meets these criteria will be used in evaluation of the project including the length of time a district may run.

1. The project will generate at least one full-time job for each \$10,000 in principal value of the TIF; or would create a minimum of 50 new jobs.

2. All TIF proceeds are used for the construction of public improvements.
3. The project involves the rehabilitation of a building listed on or eligible for listing on the National Register of Historic Places.
4. The project will directly benefit low and moderate income people, as defined by the U.S. Department of Housing and Urban Development as applied to the Community Development Block Grant Program. A project will meet this criterion if at least 51% of the jobs created will be held by or available to low and moderate income people.
5. The building or site that is to be redeveloped itself displays conditions of blight as established by the provisions of SDCL 11-9.
6. The project involves the start-up of an entirely new business or business operation within the City of Rapid City.
7. The project involves the expansion of an existing business located within Rapid City.
8. The project site has displayed a recent pattern of declining real property assessments, as measured by the Pennington County Director of Equalization.
9. The project costs are limited to those specific costs associated with a site that exceed the typical or average construction costs (i.e. excessive fill, relocation costs, additional foundation requirements associated with unusual soil conditions, extension of sewer or water mains, on-site or off-site vehicular circulation improvements, etc.)
10. The developer agrees to waive the five-year tax abatement.

TIF APPROVAL PROCESS

If after reviewing the application the Project Review Committee recommends approval of the TIF assistance, the following approval process shall be initiated:

1. Preparation of a Project Plan. The City Staff shall prepare a project plan for the proposal. The plan must meet certain statutory requirements including information about the use of the TIF funds. It shall also include a resolution defining the proposed Tax Increment District.
2. Approval of the Project Plan. The Resolution creating the Tax Increment District and Project Plan is then submitted to the Planning Commission for its recommendation. Following Planning Commission review and recommendation, the Resolution and Project Plan is then submitted to the Common Council for its approval.
3. Approval of the Development Agreement. Following approval of the Resolution creating the Tax Increment District and the Project Plan, the City and the Developer

negotiate a Development Agreement. The Agreement sets forth the mutual responsibilities of both parties. The Development Agreement is reviewed by the Common Council who must authorize the Mayor and Finance Officer to sign the agreement.

If the TIF Project Review Committee does not recommend approval of the TIF assistance the applicant may appeal that decision to the Planning Commission and City Council. Upon approval by the City Council, City Staff shall prepare the resolution creating the district and the Project Plan and the proposal shall be reviewed as outlined above in Steps 2 and 3.

GENERAL RULES OF THE TIF PROGRAM

All approved projects must comply with the following general rules.

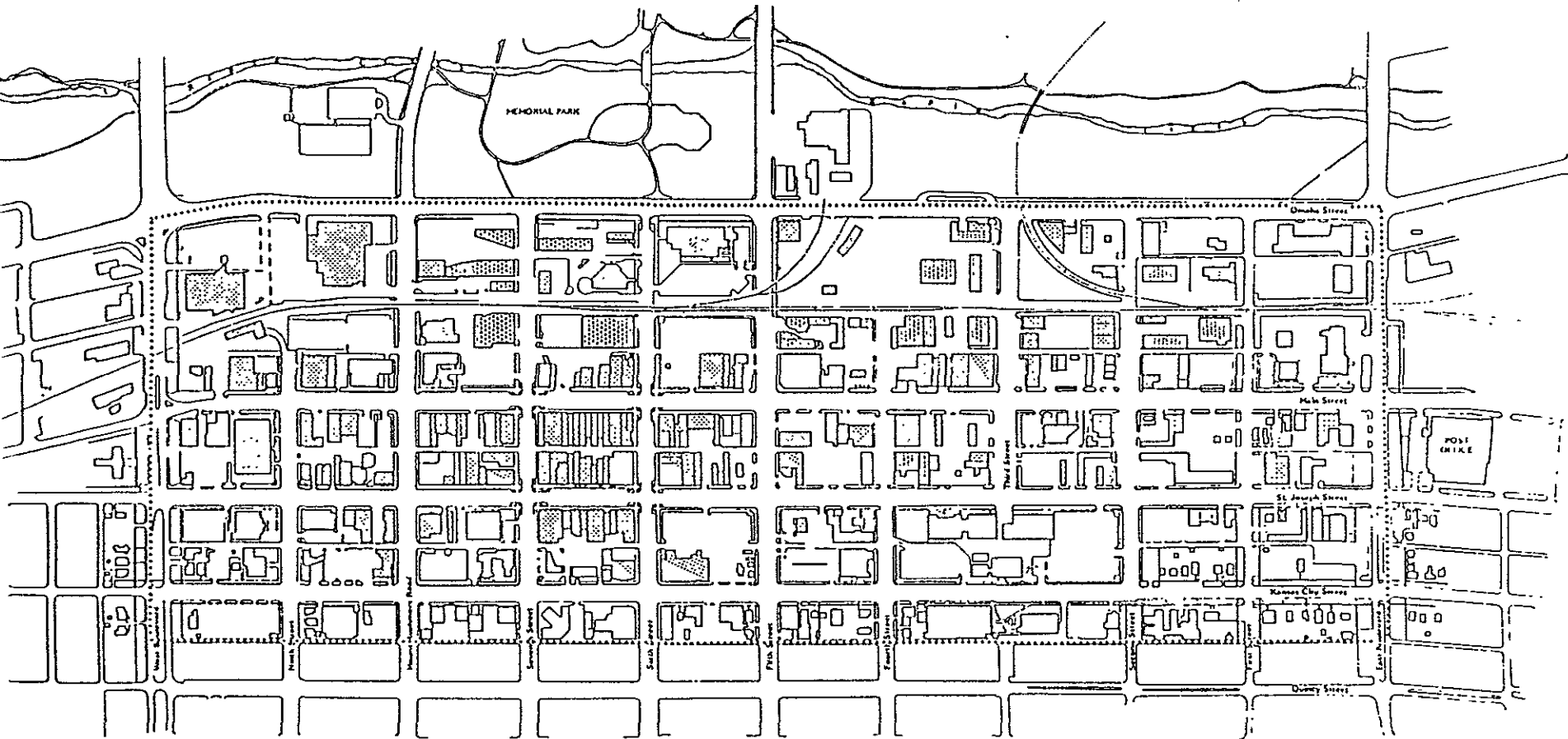
1. TIF shall not be used for the construction of residential structures.
2. Any TIF assisted rehabilitation within a National Historic District must be carried out according to the Secretary of the Interior's Standards for Rehabilitation. Plans must be complete and must receive the approval of the TIF Project Review Committee prior to the release of funds.
3. The Developer is responsible for acquiring all necessary financing. The City assumes no responsibility for the repayment of any loan or bond beyond the tax allocations outlined in the Project Plan.

COUNCIL APPROVED December 2, 1991.

COUNCIL AMENDED AND APPROVED March 21, 1994.

COUNCIL AMENDED AND APPROVED April 18, 2005.

Appendix A

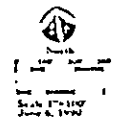


LEGEND

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|----------------------------------|---------------------------|
| OFFICE | COMMERCIAL Entertainment |
| OFFICE Parcel | INSTITUTIONAL/ GOVERNMENT |
| COMMERCIAL Retail | LIGHT INDUSTRIAL |
| COMMERCIAL Auto / Transportation | RESIDENTIAL |
| COMMERCIAL Lodging | OPEN SPACE |

Land use types in the Downtown are a combination of those listed in other comparable areas on the downtown district. Generally, these are distributed on the study area as follows: Retail use is a mix of Auto, Service and other uses along the length of Main Street, Office use is a mix of Office, Retail, and other uses along Omaha Street and the downtown block. Commercial uses are shown in a mix of light industrial uses that extend over the downtown portion of the study area, and very little Open Space.

The density of structures in these areas could be altered in order to create a more pleasant area. The greatest number of structures would be placed on the main street to create a more pleasant area. The most desirable use would be a mix of office, retail, and other uses along the main street and other downtown streets.



TAX INCREMENT FINANCING TARGET AREAS

Downtown Development District

Rapid City, South Dakota