

PROJECT PLAN

TAX INCREMENT DISTRICT #75
E. ST. JOSEPH STREET HOUSING 2

Prepared by the

Rapid City Community Planning
and Development Services Department

November 2014

INTRODUCTION

Tax Increment Financing is a method of financing improvements and development in an area which has been determined to be blighted according to the criteria set forth in SDCL 11-9. All this is done without incurring a general obligation for the taxpayers of the entire City.

The assessed value of a district is determined by the South Dakota Department of Revenue at the time the district is created by the City Council. This valuation is termed the tax increment base valuation for the district, or simply the “base valuation.” As the property taxes for the property are paid, that portion of the taxes paid on the base valuation continue to go to those entities, (City, County, School, etc.), which levy property taxes.

When in succeeding years, the assessed valuation of the district increases, the total property taxes paid by the owners of property in the district will increase accordingly. That increase in taxable valuation is the “increment.” When the tax bills are paid, only that portion of the tax bill which results from the base valuation is paid to the taxing entities. The remainder of the tax bill, known as the tax increment, is deposited in a special fund. It is this plan which determines how these accumulated funds will be used.

It is anticipated that one or more of the properties in this proposed Tax Increment District will be used for commercial purposes. The creation of this Tax Increment District for economic development purposes will not require an additional levy to make up for the School District’s share of the property taxes included in the Tax Increment.

This financing method is invaluable for encouraging growth and development of blighted properties with special re-development problems, since the amount of funds available for use by the project plan is directly related to the increase in valuation which a given project or development will create.

OVERVIEW

This plan proposes that the approved Tax Increment District will assist in the development of commercial property located along E. St. Joseph Street through the demolition of blighted property, public infrastructure improvements, and the development of a 96 unit apartment building, with 192 beds for rent. The Tax Increment Funds will be utilized for property acquisition, demolition, alley reconstruction, and engineering, contingency, and necessary and convenient costs. The Tax Increment Guidelines do not allow land acquisition and clearing and grading of land as an allowable cost without the approval of the City Council. On August 18, 2014, the City Council approved the land acquisition and clearing and grading of the land as an allowable cost for this Project Plan. The Tax Increment boundary is located along the south side of E. St. Joseph Street from Myrtle Avenue to Maple Avenue and includes

the alley between E. St. Joseph Street and Kansas City Street. The estimated project cost of the improvements is \$1,062,000.

The Tax Increment Financing Committee met on September 23, 2014 to discuss this proposed Project Plan for the E. St. Joseph Street Housing 2 Tax Increment District and denied creating the District. Upon appeal, the Planning Commission approved creating the District on October 23, 2014. The Tax Increment District will be financed by the Developer.

The redevelopment of blighted property and the public improvements will enhance the ability for new development to occur in this area increasing the community's economic vitality and expanding the City's property tax base.

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 Developer's Agreement or proposal for refinancing. For purposes of developing the project plan, all interest expenses shall be calculated utilizing a fixed rate not to exceed 9 percent annual interest as directed by the adopted Tax Increment Financing Guidelines. 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. 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. This 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. All project expenditures must be completed within five years of the creation of the district. Should the tax increment revenues exceed the anticipated loan payments, the district debt would be retired early resulting in the full value of the property being returned to the tax rolls more quickly.

PROJECT PLAN SUMMARY

This plan establishes the total project costs, as well as the Tax Increment District funded costs.

Elements of the Project Plan

This Project Plan, as required by SDCL 11-9-13, will address the following elements:

- 1) Public Works and Other Improvements;
- 2) Method for Relocating Displaced Persons;
- 3) Economic Feasibility Study;
- 4) Project Costs;
- 5) Fiscal Impact Statement; and,
- 6) Financing Method Description.

Additionally, the following exhibits are offered:

- I. General Vicinity map;
- II. Tax Increment District Boundary Map;
- III. Map of Existing Zoning;
- IV. Map of Existing Land Use; and,
- V. Map of Public and Other Improvements.

The Statement of Changes Needed in Master Plan, Building Codes and Ordinances do not apply to this Project Plan and have not been included in this document.

ELEMENTS OF THE PROJECT PLAN

1. PUBLIC WORKS AND OTHER IMPROVEMENTS

The project plan includes \$1,062,000 in capital costs associated with funding the costs for the land acquisition, structural demolition, clearing and grading the land, alley pavement costs, and costs associated with burying the power lines in the public alley immediately adjacent and south of the property. In addition, the project plan includes \$30,000 in professional services for engineering costs.

2. METHOD FOR RELOCATING DISPLACED PERSONS

The developer worked with the seller to provide ample notice to the occupants regarding the potential property sale. Additionally, the Building Official has ordered the demolition of two structures based on the debilitated condition of the structures.

3. ECONOMIC FEASIBILITY STUDY

Current Valuation

Tax Increment District #74 has been created in accordance with SDCL 11-9-2 to 11-9-11. A vicinity map as well as a boundary map is attached. As of this date, the assessed valuation for the proposed district is projected at \$491,900. In accordance with SDCL 11-9-20, the certification of the base value will be requested from the South Dakota Department of Revenue following creation and approval of the district by the City Council.

ANTICIPATED CERTIFIED BASE VALUATION OF PROPERTY

\$491,900

Expected Increase in Valuation

ESTIMATED FUTURE VALUATION OF PROPOSED DISTRICT

Estimated assessed value of district less the value of the demolished buildings	\$171,000
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Estimated assessed value of project (year 20)	\$9,699,000
Other anticipated increases in assessed value	\$0
Estimated increase in assessed value of land*	\$0
Estimated Total Valuation (year 20)	\$9,870,000

*For purposes of this Tax Increment District, the increase in land value is not included in these estimates. Any additional value will pay off the loan earlier than anticipated.

Revenue Estimates from Tax Increments

The Plan anticipates 22 semi-annual payments over 11 years, based on a 9% interest rate as identified in the Guidelines. The potential negative short-term impact on the various taxing entities will be offset by the increase in the tax base in future years.

2013 Non Agriculture Tax Levies and Percentage of Total Levy

<u>Taxing Entity</u>	<u>Percentage of Tax Levy</u>	<u>Total Levy</u>
Rapid City Area School District	14.453	62.7%
Pennington County	5.210	22.6%
City of Rapid City	3.361	14.6%
West Dakota Water District	0.031	0.1%
Total Mill Levy	23.055	100.0%

Anticipated 2013 Non Agriculture Tax Rate: 0.023055

The estimated tax increment available to pay for the Plan project costs can be calculated by multiplying the anticipated tax rate by the increment in valuation. This calculation results in the following tax increments, which become available as taxes are paid for the applicable periods.

PROJECTED TAX INCREMENT INCOME

<u>ASSESSMENT DATE</u>	<u>YEAR TAXES PAID</u>	<u>PROJECTED INCREMENT IN VALUATION</u>	<u>TOTAL TAX INCREMENT PAYMENTS</u>	<u>6 MONTH TOTAL</u>
Nov. 2015	2017	\$9,378,100	\$194,590	\$97,295
Nov. 2016	2018	\$9,378,100	\$194,590	\$97,295
Nov. 2017	2019	\$9,378,100	\$194,590	\$97,295
Nov. 2018	2020	\$9,378,100	\$194,590	\$97,295
Nov. 2019	2021	\$9,378,100	\$194,590	\$97,295
Nov. 2020	2022	\$9,378,100	\$194,590	\$97,295

Nov. 2021	2023	\$9,378,100	\$194,590	\$97,295
Nov. 2022	2024	\$9,378,100	\$194,590	\$97,295
Nov. 2023	2025	\$9,378,100	\$194,590	\$97,295
Nov. 2024	2026	\$9,378,100	\$194,590	\$97,295
Nov. 2025	2027	\$9,378,100	\$194,590	\$97,295

TOTAL TAX INCREMENT EXPECTED TO ACCRUE BY 12/31/27:

\$2,140,490

NOTE: Tax increment payments are calculated using 90% of estimated future property valuation and 100% of expected 2013 mill levy.

4. PROJECT COSTS

Capital Costs – The capital costs of \$1,062,000 included in the Project Plan are for a land acquisition, the appraisal fee, demolition and cleanup, and alley pavement reconstruction, to include burying overhead power lines.

Financing Costs – The financing costs for this Project Plan are dependent on the interest rate obtained. The interest rate used for this project plan is 9.0%, although the developer anticipates a project lifetime rate less than 7.5%. It is estimated that the financing costs will total \$1,031,847 based on the construction value of \$9,870,000 (less the estimated base value) and the increment revenues generated from the 2013 mill levy, with semi-annual payments. If a lower interest rate is obtained, the project costs will be repaid more quickly and the property will be returned to the tax rolls sooner.

Professional Service Costs – Professional service costs for Engineering and Professional fees in the amount of \$30,000 are anticipated in the Project Plan.

Relocation Costs – No relocation costs are anticipated in the Project Plan.

Organizational Costs – No organizational costs are anticipated in the Project Plan.

Contingency Costs – Contingency costs in the amount of \$30,000 are anticipated in the Project Plan.

Necessary and Convenient Payments – Necessary and convenient costs in the amount of \$2,000 are anticipated in the Project Plan.

Imputed Administrative Costs – All Tax Increment District actions require municipal staff time to prepare and enact. The City shall be reimbursed on February 15, 2019, for its administrative costs in the amount of \$20,000. However, in no case shall the City be reimbursed less than \$1 on February 15, 2019.

TOTAL ESTIMATED PROJECT COSTS

Capital Costs:	
Construct 96 apartment units, with 192 beds	\$9,870,000.00
Property Acquisition	\$800,000.00
Environmental Cleanup & Demolition	\$100,000.00
Alley Reconstruction	\$100,000.00
Professional Costs:	
Engineering	\$30,000.00
Financing Costs:	
Interest	\$1,031,847.00
Contingency Costs:	\$30,000.00
Necessary and Convenient Costs:	<u>\$2,000.00</u>
 TOTAL	 \$11,963,847.00

Total Proposed TID Project Costs

Capital Costs:	
Property Acquisition	\$800,000.00
Environmental Cleanup & Demolition	\$100,000.00
Alley Reconstruction	\$100,000.00
Professional Costs:	
Engineering	\$30,000.00
Financing Costs:	
Interest	\$1,031,847.00
Contingency Costs:	\$30,000.00
Necessary and Convenient Costs:	<u>\$2,000.00</u>
 TOTAL	 \$2,093,847.00

Imputed Administrative Costs*	
City of Rapid City	\$20,000.00

*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 Tax Increment District #75 fund available to the City Finance Officer on February 15, 2017.

5. FISCAL IMPACT STATEMENT

The impact on taxing entities can be derived from determining the tax increment anticipated during the life of the district. The true impact on taxing entities of the Plan is the increase in valuation of the property within the Tax Increment District. The taxing entities are only foregoing that income during the life of the district and will realize that income as soon as the debt from the project costs in the Plan is retired. The purpose of this Plan is to encourage that increase in valuation.

Based on the 2013 mill levy, the taxing entities will continue to collect the following property tax revenues for the property included in the District at the current valuation of \$491,900 until the district is paid in full or the end of the 20-year statutory time frame:

Schools	\$7,109
County	\$2,563
City	\$1,653
Water	\$15
Total	\$11,340

At first glance it may appear that the negative impact on the various entities is notable. But when it is considered that without the use of the Tax Increment Finance proposed in this plan it is very likely that there would be no increase in the taxable value of the property within this district or, at least, any increase would be significantly delayed, the impact can be considered truly positive.

NET IMPACT ON TAXING ENTITIES

Year Paid	Valuation Increase	Schools	County	City	Water	Total
2017	\$9,378,000	\$0	\$48,859	\$31,519	\$290	\$80,668
2018	\$9,378,000	\$0	\$48,859	\$31,519	\$290	\$80,668
2019	\$9,378,000	\$0	\$48,859	\$31,519	\$290	\$80,668
2020	\$9,378,000	\$0	\$48,859	\$31,519	\$290	\$80,668
2021	\$9,378,000	\$0	\$48,859	\$31,519	\$290	\$80,668
2022	\$9,378,000	\$0	\$48,859	\$31,519	\$290	\$80,668
2023	\$9,378,000	\$0	\$48,859	\$31,519	\$290	\$80,668
2024	\$9,378,000	\$0	\$48,859	\$31,519	\$290	\$80,668
2025	\$9,378,000	\$0	\$48,859	\$31,519	\$290	\$80,668
2026	\$9,378,000	\$0	\$48,859	\$31,519	\$290	\$80,668
2027	\$9,378,000	\$0	\$48,859	\$31,519	\$290	\$80,668

*The Plan anticipates 22 semi-annual payments over 11 years.

5. FINANCING METHOD

The financing method to be used in the funding of this Plan is to be obtained by the applicant. The applicant will be responsible for any interest payments due that are not available from Tax Increment District #75. If the tax increment revenues exceed the anticipated loan payments, the debt will be retired early.

The debt on the Tax Increment District Project Costs covered in the Plan will be retired by deposits made in the Tax Increment District as taxes are paid on the property in succeeding years. The City of Rapid City Finance Officer will make the disbursements from that fund in accordance with this Plan. According to SDCL 11-9-25, positive tax increments will be allocated to that fund until the debt from the project costs is retired or

fifteen years following the last expenditure from the Project Plan whichever comes first. The final payment from this Plan is scheduled to be made on December 1, 2026.

The projected amortization rate schedule is listed below showing the amount to be borrowed by the Developer using a 9.0% interest rate.

PROJECTED AMORTIZATION RATE

TABLE

No.	Payment Date	Beginning Balance	Interest	Total Due	Capital Int Payment	Tax Inc Payment	Total Pay	Loan Balance	Cumulative Interest
1	12/1/2014	1,062,000.00	47,790.00	1,109,790.00	47,790.00	0.00	47,790.00	1,109,790.00	47,790.00
2	6/1/2015	1,109,790.00	49,940.55	1,159,730.55	49,940.55	0.00	49,940.55	1,159,730.55	97,730.55
3	12/1/2015	1,159,730.55	52,187.87	1,211,918.42	52,187.87	0.00	52,187.87	1,211,918.42	149,918.42
4	6/1/2016	1,211,918.42	54,536.33	1,266,454.75	54,536.33	0.00	54,536.33	1,266,454.75	204,454.75
5	12/1/2016	1,266,454.75	56,990.46	1,323,445.22	56,990.46	0.00	56,990.46	1,323,445.22	261,445.22
6	6/1/2017	1,323,445.22	59,555.03	1,383,000.25	0.00	97,295.00	97,295.00	1,285,705.25	321,000.25
7	12/1/2017	1,285,705.25	57,856.74	1,343,561.99	0.00	97,295.00	97,295.00	1,246,266.99	378,856.99
8	6/1/2018	1,246,266.99	56,082.01	1,302,349.00	0.00	97,295.00	97,295.00	1,205,054.00	434,939.00
9	12/1/2018	1,205,054.00	54,227.43	1,259,281.43	0.00	97,295.00	97,295.00	1,161,986.43	489,166.43
10	6/1/2019	1,161,986.43	52,289.39	1,214,275.82	0.00	97,295.00	97,295.00	1,116,980.82	541,455.82
11	12/1/2019	1,116,980.82	50,264.14	1,167,244.96	0.00	97,295.00	97,295.00	1,069,949.96	591,719.96
12	6/1/2020	1,069,949.96	48,147.75	1,118,097.71	0.00	97,295.00	97,295.00	1,020,802.71	639,867.71
13	12/1/2020	1,020,802.71	45,936.12	1,066,738.83	0.00	97,295.00	97,295.00	969,443.83	685,803.83
14	6/1/2021	969,443.83	43,624.97	1,013,068.80	0.00	97,295.00	97,295.00	915,773.80	729,428.80
15	12/1/2021	915,773.80	41,209.82	956,983.62	0.00	97,295.00	97,295.00	859,688.62	770,638.62
16	6/1/2022	859,688.62	38,685.99	898,374.61	0.00	97,295.00	97,295.00	801,079.61	809,324.61
17	12/1/2022	801,079.61	36,048.58	837,128.19	0.00	97,295.00	97,295.00	739,833.19	845,373.19
18	6/1/2023	739,833.19	33,292.49	773,125.69	0.00	97,295.00	97,295.00	675,830.69	878,665.69
19	12/1/2023	675,830.69	30,412.38	706,243.07	0.00	97,295.00	97,295.00	608,948.07	909,078.07
20	6/1/2024	608,948.07	27,402.66	636,350.73	0.00	97,295.00	97,295.00	539,055.73	936,480.73
21	12/1/2024	539,055.73	24,257.51	563,313.24	0.00	97,295.00	97,295.00	466,018.24	960,738.24
22	6/1/2025	466,018.24	20,970.82	486,989.06	0.00	97,295.00	97,295.00	389,694.06	981,709.06
23	12/1/2025	389,694.06	17,536.23	407,230.29	0.00	97,295.00	97,295.00	309,935.29	999,245.29
24	6/1/2026	309,935.29	13,947.09	323,882.38	0.00	97,295.00	97,295.00	226,587.38	1,013,192.38
25	12/1/2026	226,587.38	10,196.43	236,783.81	0.00	97,295.00	97,295.00	139,488.81	1,023,388.81
26	6/1/2027	139,488.81	6,277.00	145,765.81	0.00	97,295.00	97,295.00	48,470.81	1,029,665.81
27	12/1/2027	48,470.81	2,181.19	50,652.00	0.00	50,652.00	50,652.00	0.00	1,031,847.00
28	6/1/2028	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1,031,847.00

* Reflects estimated property valuation after development of \$9,870,000. Increment calculated as follows:

Estimated valuation	\$9,870,000
Estimated Base valuation	(\$491,900)
Increment valuation	\$9,378,100
Tax rate - 23.055/\$1,000*.9 (factored value)	
Tax increment payment/year	\$194,590.89
Tax increment payment/biannual	\$97,295.44