

MINUTES
TAX INCREMENT FINANCE COMMITTEE
August 24, 2004

Members Present: Malcom Chapman, Bob DeMersseman, Dan Dryden, Marcia Elkins, Jason Green, Sam Kooiker, Jim Preston, Ethan Schmidt

Others Present: Pat Wyss, Karen Bulman, Ted Vore, Sharlene Mitchell

Elkins called the meeting to order at 11:45 a.m.

Tower Road Tax Increment District

Wyss addressed the proposed district boundaries and improvements for the Tower Road project. Wyss addressed the deteriorated condition of Tower Road and the reconstruction recommendations of the geotechnical study. Wyss stated that the proposed Tax Increment District will provide the opportunity to properly reconstruct Tower Road.

Wyss provided the following criteria from the Tax Increment Guidelines as support for the proposed district:

Mandatory Criteria

1. The project is located in an area that substantially impairs or arrests the sound growth of the municipality because of the deteriorating condition of Tower Road. The blighted condition of this existing collector street limits growth in this south portion of Rapid City and is very unsafe for existing traffic.
2. This blighted road, if allowed to deteriorate further could significantly depress property values in the area.
3. The property is surrounded by existing residential and commercial development.
4. Tower Road apparently was never built correctly in the first place. The September 14, 1998 FMG, Inc. Geotechnical Evaluation for Tower Road states on page 8 "The data obtained from the site indicates that many of the excessive movements observed at the site may potentially be attributed to poor compaction of the existing fill materials". The TIF funding could correct a problem that has persisted on Tower Road for decades.
5. The project complies with the adopted Comprehensive Plan for the Rapid City area.
6. The land is currently open land and is taxed as unimproved land. There will be no net loss of pre-existing tax revenues to the City or other jurisdictions if the project is developed and granted a 15-year TIF district.

Additional Selection Criteria

1. First and foremost, this is an economic development project including the startup of new commercial businesses that will bring new employment opportunities to Rapid City. During construction, there will be many local contractors hired to construct the project and many local merchants who will provide construction materials and equipment. After construction, the project could employ one hundred to two hundred full and part time people.
2. The project is unfeasible without financing from this TIF district. Proceeds from the future sale of properties are insufficient and a supplementary source of funding is required to reconstruct Tower Road to current collector street standards.
3. The majority of the property on the North side of Tower Road is Open Space and Drainage Easement, making it cost prohibitive for the development land to fund the entire utility corridor. This utility corridor will benefit the region by offering environmentally safe water and sewer access to existing City residents. This will reduce the reliance on septic systems within this region of the City.

4. This project will result in the construction of elderly assisted living, independent living and retirement housing units for the area. The project will provide medical office space located near the Rapid City Regional Hospital medical campus.
5. This infill project will efficiently expand existing urban infrastructure and encourage growth within the current City limits.
6. The site costs related to this project are higher than we typically experience at other sites due to the step terrain conditions and the blighted condition of Tower Road.
7. Development of this project should assist in developing the surrounding property, all within the existing City limits.
8. This project eliminates an actual safety hazard to the public.
9. All money from this TID will be used for public improvements.

Wyss indicated that the proposed commercial development will qualify as an economic development tax increment district. He addressed the safety concerns associated with the current status of Tower Road noting that the proposed reconstruction will permit the road to function at its designated "collector street" standard. Wyss indicated that the project is in "infill" project.

In response to a question, Elkins stated that the City would fund the proposed development costs noting that reimbursement of those costs would be realized from the capture of the project increment. Elkins concurred with Wyss that the proposed District would qualify under the economic development criteria.

Bulman presented the preliminary project evaluation noting the manner in which the Health Care Center has been addressed in the increment and revenue calculations. Bulman indicated that District repayment is estimated at seven (7) years based on the projected increment. She indicated that the initial year cost to tax payers is estimated at fifty-two cents per one-hundred thousand.

Elkins clarified that there would be no additional tax levy on local tax payers because of the economic development classification of the proposed district. In response to a question from DeMersseman, Elkins reviewed the tax increment district requirements regarding the initiation of construction.

In response to a question from Kooiker, Green indicated that he concurred with Elkins regarding the "economic development" classification for the District. In response to a question from Kooiker, Green stated that it is the opinion of the City Attorney's Office that the area does not meet the blighted criteria for open space or developed areas as defined by state statute and he would therefore not support the request.

Kooiker concurred with the need to improve Tower Road expressing his concern with the utilization of tax increment financing to facilitate the project. He suggested that more appropriate funding sources for the project would be the Capital Improvements and Vision 2012 programs.

Elkins addressed the issues associated with utilizing Capital Improvement funding to facilitate the Tower Road reconstruction project. Vore concurred that the project cost has been the major determining factor in the prioritization of the Tower Road project.

[Dryden entered the meeting at this time (12:00 p.m.)]

In response to a question from Kooiker, Elkins reviewed the proposed infrastructure improvements noting that the tax increment district will facilitate recapture of these expenditures. Kooiker expressed concern with the inability to identify a project funding source. Elkins stressed that, regardless of funding source, utilization of tax increment as the financing vehicle will permit the City to recapture the project costs for utilization on future projects.

Kooiker suggested that it would be reasonable to seek Capital Improvement Committee review of the Tower Road project noting his preference to fund the project from the Capital Improvements or Vision 2012 programs instead of the tax increment program.

In response to a question from Dryden, Elkins confirmed that the Tower Road project would be classified as an economic development Tax Increment District.

Wyss addressed the benefit derived by utilizing tax increment financing in that the project costs can be recaptured for use on future projects. Wyss suggested that the habitual vandalism of the area and the safety issues and suppressed property values associated with the road conditions should be sufficient to support the "blighted" criteria. Discussion followed regarding the criteria utilized to determine blight. In response to a question from Schmidt, Wyss suggested that deteriorated roads create a perceived deterioration in property values. Discussion followed regarding the determination of the inflation factor provided in the cost breakdown.

In response to a question from Dryden, Elkins reviewed the past road construction and reconstruction projects that have been funded by Tax Increment District projects. Wyss clarified that Tower Road was not correctly constructed initially making this a complete reconstruction for the purpose of improving the road to "collector street" standards.

Preston voiced support for the project and for utilization of tax increment financing based on the economic development classification of the project. Preston addressed the Capital Improvement funding issues and the time frame for Vision 2012 funding to be available. Preston indicated he would support placing the Tower Road project on the Vision 2012 project list. Vore indicated that funding the project through the Capital Improvement program would require reprioritization of the current projects.

In response to a question, Wyss indicated that the construction of the Health Care Center is scheduled to start in 2006 with project completion in 2007. Discussion followed regarding the impact of creating the District now with the intent of identifying a project funding source at a future date. Wyss suggested that the increment that will be realized with the town home development can be captured to assist in funding the road development project.

In response to a question from DeMersseman, Wyss addressed the ability to secure private financing noting that the road reconstruction costs are prohibitive for private financing.

Schmidt expressed concern with approving an unfunded Tax Increment Districts. In response to a question from Schmidt, Elkins indicated that private financing versus City financing would not affect the total project cost.

Vore addressed the funding issues associated with the Capital Improvements program and suggested the development of a revolving loan program for these types of projects.

Kooiker expressed concern with approving an unfunded Tax Increment District and the use of property tax funds for road construction projects. He recommended forwarding the request to the Capital Improvement Committee for discussion.

Kookier moved to forward the Tower Road request to the September 17, 2004 Capital Improvement Committee meeting and to continue the Tower Road Tax Increment District application to a date to be determined after September 17, 2004. Schmidt seconded the motion.

Vore reviewed the project re-prioritization required by the Capital Improvements Committee in order to fund the Tower Road project. Kooiker clarified that he was seeking input on the Tower Road project and an estimated timeframe for construction only from the Capital Improvement Committee. Kooiker clarified that he did not want projects such as Elm Avenue and malfunction junction to be re-prioritized in order to accommodate the Tower Road project.

Elkins stated that she felt the Capital Improvements Committee was aware of the status and issues associated with the Tower Road project and had struggled with finding adequate funding for the project. She expressed her opinion that the Vision 2012 fund would be a more realistic funding source. She indicated that the benefit of the Tax Increment program allows the City to utilize the same tax dollars twice.

Wyss commented on the major commitment this project brings to the City noting that a recommendation supporting the proposed District, even if unfunded, would have more merit than taking the request to the Capital Improvements Committee. Wyss indicated that the Tax Increment District would be a pro-active approach noting that it allows the City to expend its tax dollars twice. Discussion followed regarding the District repayment structure with and without the inclusion of the Health Care Center.

In response to a question from Schmidt, Elkins indicated that the Committee recommendation would be forwarded to the Planning Commission and City Council for final action. Elkins concurred with Vore's recommendation regarding development of a revolving loan fund.

Green addressed the time frame for approval of the Tax Increment District with regard to securing the current assessed valuation for increment purposes. In response to a question, Elkins clarified that the Vision 2012 funding would not be available until spring 2005. Discussion followed regarding the appropriate venue for identification of a project funding source.

Kooiker called the question. Elkins called for a vote to suspend debate. The vote to suspend debate failed.

Preston voiced support for the Tax Increment District provided that applicant is aware that a funding source cannot be identified at this time. Preston commented on the economic support and growth provided by the project.

DeMersseman moved a substitute motion to find the Tower Road Tax Increment District consistent with the adopted criteria as outlined by the applicant and to recommend approval of the Tower Road Tax Increment District in the amount of \$2,135,147 with the understanding that the funding source for the project is unidentified. Preston seconded the motion.

In response to a question from Schmidt, Elkins addressed the five year construction time frame noting that should a funding source not be identified within the initial five years the District can be disbanded.

Kooiker stated that the Committee's responsibility with regard to the application is not complete as the funding source has not been identified. He indicated that failure to identify a funding source is unfair to the applicant. Kooiker stated that his purpose in recommending the request be forwarded to the Capital Improvements Committee was to permit further discussion on the funding alternatives.

In response to a question, Elkins identified the past Tax Increment Districts which have been approved without an identified funding source. Discussion followed regarding the Committee's responsibilities with regard to identification of funding sources.

Wyss stated that establishment of the District will create a funding source not previously available. He indicated that he would also apply for the Vision 2012 funding and would attend the September Capital Improvement Committee meeting to discuss the Tower Road project.

Chapman concurred with Kooiker's concerns regarding the inability to identify a funding source. In response to a question from Chapman, Elkins indicated that the Committee has historically recommended approval of Districts both with and without identified funding sources. Discussion followed on the past road construction and reconstruction projects that have utilized tax increment funding. Dryden commented on the unfunded status noting that approval of the District creates the option to capture the increment.

The substitute motion to find the Tower Road Tax Increment District consistent with the adopted criteria as outlined by the applicant and to recommend approval of the Tower Road Tax Increment District in the amount of \$2,135,147 with the understanding that the funding source for the project is unidentified carried with Chapman, Schmidt, Dryden, DeMersseman and Preston voting Yes and Kooiker and Green voting No.

Approve Minutes

Green moved, DeMersseman seconded and carried unanimously to approve the minutes of the August 16, 2004 meeting.

Adjourn

There being no further business the meeting was adjourned at 12:40 p.m.