

STAFF REPORT  
February 25, 2016

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**No. 16TI001 – Create Tax Increment District and Project Plan**

**ITEM 14**

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GENERAL INFORMATION:

APPLICANT	Chris Anderson, Black Hills Energy (fka Black Hills Corporation)
PROPERTY OWNER	Black Hills Energy
REQUEST	<b>16TI001 - Resolution to Create Rushmore Gateway Corridor Tax Increment District and Project Plan</b>
LEGAL DESCRIPTION	Lot 1 of C2B Addition located in Sections 26 and 27 of T1N, R7E, BHM and that portion of vacated Catron Boulevard right-of-way adjacent to Lot 1 of C2B Addition located in Section 27, T1N, R7E, BHM, Rapid City, Pennington County, South Dakota, as shown on Plat filed as Document A201307411 in the Office of the Pennington County Register of Deeds; Lot 2 of TLC Subdivision located in the NE1/4 of Section 27, T1N, R7E, BHM, Rapid City, Pennington County, South Dakota, as shown on Plat filed in Book 35 of Plats on Page 43 in the Office of the Pennington County Register of Deeds; and Catron Boulevard right-of-way adjacent to Lot 1 of C2B Addition located in the SW1/4SW1/4 of Section 26 and the 27 and Lot 2 of TLC Subdivision located in the NE1/4 of Section 27 all located in T1N, R7E, BHM, Rapid City, Pennington County, South Dakota
PARCEL ACREAGE	Approximately 30.7 acres
LOCATION	Southwest corner of the intersection of S. US Highway 16 and Catron Boulevard
EXISTING ZONING	General Commercial District
SURROUNDING ZONING	
North:	General Commercial District w/ PD and General Agriculture District
South:	Suburban Residential District (PC), Highway Service (PC), and General Commercial (PC)
East:	General Commercial District / General Commercial District w/ PD
West:	Suburban Residential District (PC)
DATE OF APPLICATION	12/16/15
REVIEWED BY	Patsy Horton / Ted Johnson

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RECOMMENDATION: The Tax Increment Financing Committee recommended creating Tax Increment District No. 76. Staff recommends approving the associated Project Plan to stimulate economic development along the US Highway 16/Catron Boulevard corridor.

GENERAL COMMENTS: The applicant has requested the creation of a tax increment district to stimulate job creation by expanding employment opportunities as demonstrated by the proposed wage scales, employee benefits and the additional full-time employees, 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 / US 16 Highway Corridor. The Tax Increment Funds will be utilized to extend public infrastructure including water, sewer and storm water, road construction, traffic signal and the construction of sidewalk/bike path. The developer will fund the project costs of the tax increment district and be repaid from increment revenues.

On January 14, 2016, 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 project plan, the applicant has requested utilizing a 5.5 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.

The Tax Increment Financing Committee met on January 14, 2016 to discuss the proposal for the Rushmore Gateway Corridor aka Black Hills Energy Corporate Headquarters. The recommendation to create a new tax increment district was based on the requirements of SDCL 11-9-8, 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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It is anticipated that one or more of the properties in this proposed tax increment district will be used for commercial purposes. The property is currently zoned General Commercial District. As such, 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. One hundred percent of the real property within the 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 proposed District boundary incorporates approximately 30.7 acres located in the southwest quadrant of the intersection of US Highway 16 / Catron Boulevard.

STAFF REVIEW: On January 14, 2016, the Tax Increment Financing Review Committee recommended approval to create the Rushmore Gateway Corridor Tax Increment District (also known as Black Hills Energy Corporate Headquarters). Based on this recommendation, staff has also prepared the associated Project Plan to implement the proposal.

Statutory Requirements: The applicant has indicated that the proposed project complies with all applicable statutory requirements as well as the City's adopted Tax Increment Policy.

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 as demonstrated by proposed wage scales, employee benefits and an additional 150 full time employees.

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 an estimated 150 additional employee workspaces created directly from the tax increment financing.*

Criterion #8: The project involves the expansion of an existing business located within Rapid City.

*The Developer anticipates relocating 500 existing employees into the new district and*

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*creating workspaces for an additional 150 employees.*

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:

Project Cost Description	Total Estimated Project Costs	TIF Funded Project Costs
<b>Capital Costs:</b>		
Land acquisition (30.7)	\$4,869,513	\$0
Building Construction (200,000 sf)	\$50,000,000	\$0
Furniture/Fixtures/Equipment (550 seats)	\$7,878,333	\$0
Additional office/Seating capacity (150 seats)	\$2,475,000	\$0
Public Utilities (storm/sewer/water)	\$601,078	\$601,078
Water Main Oversizing	\$26,769	\$26,769
Traffic Signal (Les Hollers Way/Catron Boulevard)	\$393,570	\$393,570
Roadway Grading/Base/Curb/Asphalt/ Lighting/Landscape	\$2,133,636	\$2,133,636
Sidewalks/Bike Path	\$66,566	\$66,566
<b>Professional Costs:</b>		
Project Management and Administrative Fees	\$5,256,369	\$254,508
<b>Financing Costs</b>		
Interest (5.5%)	\$3,351,194	\$3,351,194
<b>Contingency Costs</b>		
	\$433,074	\$0
<b>Necessary and Convenient</b>		
<b>TOTAL</b>	<b>\$77,485,102</b>	<b>\$6,827,321</b>
Imputed Administrative Costs*		\$20,000
City of Rapid City		

\*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 #76 fund available to the City Finance Officer on March 22, 2021.

Overlapping Tax Increment Districts: The proposed district is also located within Tax Increment District #70. The Project Plan for District #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 costs identified in the District #70 Project Plan are repaid in full. Any and all developers associated with subsequent

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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 Tax Increment District No. 76 and recommends approving the Resolution to approve the Project Plan for Tax Increment District No. 76 in order to stimulate economic development within the southwest quadrant of US Highway 16/Catron Boulevard.