

STAFF REPORT  
March 10, 2016

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

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GENERAL INFORMATION:

APPLICANT	Chris Anderson, Black Hills Energy (fka Black Hills Corporation)
PROPERTY OWNER	Black Hills Corporation
REQUEST	<b>16TI001 - Resolution to approve Rushmore Gateway Corridor Tax Increment District 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 the Rushmore Corridor Gateway Tax Increment District on January 14, 2016. The Planning Commission recommended creating the District on February 25, 2016. Staff recommends approving the associated Project Plan to stimulate economic development and add 150 additional workspaces at the Black Hills Corporation Headquarters along the US Highway 16/Catron Boulevard corridor.

GENERAL COMMENTS: The applicant has requested the approving the Project Plan for a tax increment district to stimulate job creation by expanding employment opportunities. The Tax Increment Grant Funds will be utilized to complete the interior shell space for an additional 150 work spaces, including interest. 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 Planning Commission approved creating the district on February 25, 2016.

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 Tax Increment District. 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 550 existing employees into the new district and creating workspaces for an additional 150 employees.*

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Site Construction Costs: The following table identifies the estimated Total Site Construction Costs and those costs anticipated to be paid utilizing funds generated from the proposed tax increment:

Black Hills Corporation Headquarters Site Cost Description	Total Estimated Site Costs
<b>Capital Costs:</b>	
Land acquisition (30.7)	\$5,147,675
Building Construction (200,000 sf)	\$50,000,000
Furniture/Fixtures/Equipment (550 seats)	\$7,878,333
Additional office/Seating capacity (150 seats)	\$3,204,839
Public Utilities (storm/sewer/water)	\$489,462
Water Main Oversizing	\$26,769
Traffic Signal (Les Hollers Way/Catron Boulevard)	\$355,544
Roadway Grading/Base/Curb/Asphalt/ Lighting/Landscape	\$1,722,524
Sidewalks/Bike Path	\$62,022
<b>Professional Costs:</b>	
Third Party Project Management	\$5,256,369
<b>Financing Costs</b>	
Interest (5.5%)	\$2,843,126
<b>Contingency Costs</b>	
	\$433,074
<b>Necessary and Convenient</b>	
<b>TOTAL</b>	<b>\$77,419,737</b>

Costs of Public Works or Improvements. In accordance with SDCL § 11-9-13, the following is the kind, number, location and dollar amount of estimated Tax Increment District Funded Project Costs.

DETAIL OF PROJECT COSTS

Kind of Project	Number of Projects	Location <sup>(1)</sup>	Amount	Reference <sup>(2)</sup>
Capital Costs			0	11-9-15(1)
Financing Costs			0	11-9-15(2)
Real Property Assembly			0	11-9-15(3)
Professional Fees			0	11-9-15(4)
Imputed Administrative Costs	1		\$20,000	11-9-15(5)
Relocation Costs			0	11-9-15(6)
Organizational Costs			0	11-9-15(7)
Discretionary Costs and Grants <sup>(3)</sup>	1	District	\$6,047,965*	11-9-15(8)
Eligible Project Costs			\$6,067,965	

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In 2011, several requirements were amended in South Dakota Codified Law regarding Tax Increment Financing, specifically including §11-9-15(8). In order to secure the additional 150 occupants, over and above the existing 550 employees anticipated to be relocated to the new Headquarters, the current proposal identifies tying the tax increment funds specifically to the new work spaces, thereby utilizing the new language in §11-9-15(8). A description of the anticipated grant funds follows as well as the new language.

**\*Description of costs to provide 150 additional seats**

Rushmore Gateway Corridor				
Shell Office Space (Interior Buildout Cost)	\$3,204,839	39,640 sf	\$80.85/sf	150 Seats

**Interior buildout cost includes:**  
Completion of 39,640 sf of interior office space (from concrete warm/dry shell space to fully occupiable Class-A office space); complete with floor coverings, finished walls, ceiling systems, lighting, safety, communications, data, security, furniture and all associated third party professional services (construction management, project management, architectural design, mechanical/electrical/plumbing engineering and design). The space will provide seating for an additional 150 occupants.

Professional fees are prorated for this portion of the work as follows: 205,000 (total sf of building) / 39,640 (sf of the Office Shell Space) = 19%. This portion of the professional services is attributed to the completion of the shell office space.

The following costs are specifically excluded from the calculation of professional fees: Structural/Civil engineering, exterior landscape design services, all legal fees and all internal labor expenses.

<sup>(1)</sup>District shall mean the Tax Increment District

<sup>(2)</sup>**SDCL §11-9-14. Project costs defined.** "Project costs" are any expenditures made or estimated to be made, or monetary obligations incurred or estimated to be incurred, by a municipality which are listed in a project plan as grants, costs of public works, or improvements within a tax incremental district, plus any costs incidental thereto, diminished by any income, special assessments, or other revenues, other than tax increments, received, or reasonably expected to be received, by the municipality in connection with the implementation of the plan.

**SDCL §11-9-15. Specific items included in project costs.** Project costs include:

- (1) Capital costs, including the actual costs of the construction of public works or improvements, buildings, structures, and permanent fixtures; the demolition, alteration, remodeling, repair, or reconstruction of existing buildings, structures, and permanent fixtures; the acquisition of equipment; the clearing and grading of land; and the amount of interest payable on tax incremental bonds or notes issued pursuant to this chapter until such time as positive tax increments to be received from the district, as estimated by the Project Plan, are sufficient to pay the principal of and interest on the tax incremental bonds or notes when due;
- (2) Financing costs, including all interest paid to holders of evidences of indebtedness issued to pay for Project Costs, any premium paid over the principal amount thereof because of the redemption of such obligations prior to maturity and a reserve for the payment of principal of and interest on such obligations in an amount determined by the governing body to be reasonably required for the marketability of such obligations;
- (3) Real property assembly costs, including the actual cost of the acquisition by a municipality of real or personal property within a tax incremental district less any proceeds to be received by the municipality from the sale, lease, or other disposition of such property pursuant to a Project Plan;
- (4) Professional service costs, including those costs incurred for architectural, planning, engineering, and legal advice and services;
- (5) Imputed administrative costs, including reasonable charges for the time spent by municipal employees in connection with the implementation of a Project Plan;
- (6) Relocation costs;
- (7) Organizational costs, including the costs of conducting environmental impact and other studies and the costs of informing the public of the creation of tax incremental districts and the implementation of project plans; and
- (8) Payments and grants made, at the discretion of the governing body, which are found to be necessary or convenient to the creation of tax incremental districts or the implementation of project plans.

<sup>(3)</sup>Grant funds include \$3,204,839 actual costs to provide 150 additional seats and \$2,843,126 in interest expense.

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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 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.

With the revenues from TID #70, Buffalo Crossing and the Rushmore Gateway Corridor revenues, it is anticipated that all three Districts will be repaid within 20 years.

STAFF RECOMMENDATION: Staff recommends approving the Resolution to approve the Project Plan for Rushmore Gateway Corridor Tax Increment District in order to stimulate economic development within the southwest quadrant of US Highway 16/Catron Boulevard.