

STAFF REPORT
February 25, 2016

No. 16TI002 – Create Tax Increment District and Project Plan

ITEM 15

GENERAL INFORMATION:

APPLICANT	KS West, LLC and SK East, LLC
PROPERTY OWNER	KS West, LLC and SK East, LLC
REQUEST	16TI002 - Resolution to Create Rushmore Gateway Corridor Tax Increment District and Project Plan
LEGAL DESCRIPTION	Tract 1 of the Waterslide Addition, located in Section 26, T1N, R7E, BHM, Rapid City, Pennington County, South Dakota; the unplatted balance of the S1/2SE1/4NW1/4; the unplatted balance of the NE1/4SW1/4, located in Section 26, T1N, R7E, BHM, Rapid City, Pennington County, South Dakota; and a portion of the Catron Boulevard dedicated right-of-way extending from the eastern boundary of South Dakota State Highway 16 dedicated right-of-way to the eastern boundary of Wellington Drive dedicated right-of-way, located in the NW 1/4 of Section 26, T1N, R7E, BHM, Rapid City, Pennington County, South Dakota
PARCEL ACREAGE	Approximately 58.63 acres
LOCATION	Southeast corner of the intersection of S. US Highway 16 and Catron Boulevard
EXISTING ZONING	General Commercial District w/ PD, Office Commercial District w/ PD, Medium Density Residential District w/ PD, Low Density Residential 2 District w/ PD
SURROUNDING ZONING	
North:	General Commercial District w/ PD
South:	General Commercial District w/ PD and Low Density Residential District w/ PD
East:	Low Density Residential District w/ PD and Limited Agriculture District (PC)
West:	General Commercial District w/ PD and General Commercial District
DATE OF APPLICATION	12/18/15
REVIEWED BY	Patsy Horton / Ted Johnson

RECOMMENDATION: The Tax Increment Financing Committee recommended creating Tax Increment District No. 77. Staff recommends approving the associated Project Plan to stimulate economic development along the US Highway 16/Catron Boulevard corridor.

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GENERAL COMMENTS: The applicant has requested the creation of a tax increment district to stimulate job creation by expanding employment, retail and medical opportunities, 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 and storm water, road construction, traffic signal and the construction of a turn lane to accommodate the adjacent residential neighborhood. The developer will secure funding for the project costs identified in the tax increment district with repayment by the incremental revenues generated.

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 7.0 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.

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 for residential and non-residential land uses. As such, the creation of this economic development tax increment district will not require an additional levy to make up for the School District's share of the property taxes included in the Tax Increment. Fifty-five percent of the real property within the proposed 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 balance of the property has been identified as residential development.

The proposed District boundary incorporates approximately 58.63 acres located in the southeast quadrant of the intersection of US Highway 16 / Catron Boulevard.

STAFF REVIEW: On January 14, 2016, the Tax Increment Financing Review Committee recommended approval of creating the Rushmore Redevelopment Corridor Tax Increment District (also known as Buffalo Crossing). Based on this recommendation, staff has also prepared the associated Project Plan to implement the proposal.

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Statutory Requirements: SDCL § 11-9-8 details the findings required for determining whether the proposed district meets the definition of blighted areas or economic development and what the likelihood is for enhancing the value from proposed improvements, 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.

The proposed district does not appear to meet the blight definition; however, of the 58.63 acres located within the proposed district, 54.82% of the property is identified to stimulate and develop the economic welfare of the state through commercial development.

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.

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 bringing more than 400 full time jobs to the community with the proposed development.

Criterion #2: All TIF proceeds are used for the construction of public improvements.

The Developer indicated that the TIF funds will be used to construct Healing Way, a turn lane onto Wellington Drive, a traffic signal and water and storm sewer extension within Healing Way.

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:

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Project Cost Description	Total Estimated Project Costs	TIF Funded Project Costs
Capital Costs:		
Local Streets Caregiver Court, Daugaard Court, Reyelts Court and Addison Avenue	\$2,000,000	\$0
Grading/Regional Storm Water	\$950,000	\$0
Billboard buyout and removal	\$120,000	\$0
Medical and Professional Offices	\$40,000,000	\$0
Hotels	\$12,000,000	\$0
Restaurants	\$1,500,000	\$0
Residential	\$17,500,000	\$0
Transitional Physical Rehab Facility	\$14,000,000	\$0
Collector Street Healing Way Street Improvements	\$1,980,000	\$1,980,000
Turn Lane at Wellington Drive	\$180,000	\$180,000
Traffic signal Traffic signal/electrical (Healing Way)	\$440,000	\$440,000
Traffic Signal Installation	\$80,000	\$80,000
Lights and Control	\$150,000	\$150,000
Professional Fees		
Roadway components	\$216,000	\$216,000
Traffic Signal components	\$54,000	\$54,000
Financing Costs		
Interest	\$1,938,525	\$1,938,525
Contingency Costs		
	\$0	\$0
Necessary and Convenient Costs		
	\$0	\$0
TOTAL	\$93,108,525	\$5,038,525
Imputed Administrative Costs* City of Rapid City		\$20,000

*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 #77 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 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.

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STAFF RECOMMENDATION: Staff recommends approving the Resolution to Create Tax Increment District No. 77 and recommends approving the Resolution to approve the Project Plan for Tax Increment District No. 77 in order to stimulate economic development within the southeast quadrant of US Highway 16/Catron Boulevard.