

City of Riders



City Manager

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Council Report

April 16, 2018

Daniel Ainslie, City Manager

Consideration to approve Resolution 2018-26 Approving Creation of Tax Increment District Number Fifteen and

Consideration to approve Resolution 2018- 27 Approving Project Plan for Tax Increment District Fifteen

Background

On June 27, 2016, the City Council approved the Generation Fund, five-year capital improvement plan. Included within the plan was a commitment to enhance the community's parks while divesting of some small parcels in order to reduce the total amount of acreage the City needs to maintain to allow for increased maintenance in other areas and to increase the community's tax rolls. The plan also included a reconstruction of Woodland Drive from roughly the Sturgis RV Park to the 6th Street bridge.

The City Engineer began the design process for the road reconstruction in the Fall of 2017. Part of that process included a realignment of the bicycle path. Currently the path crosses Woodland Drive twice before coming to the intersection with 6th Street. In order to widen the roadway to a traditional 22 foot width and reduce the likelihood of potential flooding it was determined that the bicycle path should be relocated entirely to the north bank of Bear Butte Creek. This provides an easier path of travel for the roadway, reduces potential flooding impacts to the roadway and eliminates the two crossings of Woodland Drive.

After further design it became apparent that the remaining City owned property north of Woodland Drive allows for four single-family home sites. The sites would fit the neighboring residential zoning standards and would place additional property onto the tax rolls while reducing maintenance costs which in turn can be reinvested in maintenance of the Community Center Park area that is currently being developed.

Discussion

The total project costs is anticipated to be \$563,000. This includes the reconstruction of the roadway, bicycle path and the extension of the utilities needed to prepare the four single-family home sites for development. The City would prepare the four home lots. In addition, the City would move the existing Public Works Administrative Office to one of the lots and rehab the building to make it appropriate for residential living. Once completed, the house and the remaining three single-family lots would be sold via a local Realtor. The homes would be required to be sold at levels established by the South Dakota Housing Authority (currently \$250,200 or less).

The Council is being asked to consider the establishment of a Tax Increment Finance District (TID) to assist in the payment of a portion of the infrastructure costs. When a City establishes a TID, the total assessed value of the parcels within the established boundaries is recorded. The tax revenues generated from that base value continues to be sent to the taxing agencies as before. Upon the completion of the infrastructure and other improvements, the total assessed value increases. The added tax revenue

generated from this increased in taxable value is then used to pay off the loans that are established to fund the infrastructure. Once the loans are fully repaid, the added tax revenue is provided to the taxing agencies. This financing allows for future growth in tax value without threatening existing revenues.

Resolution 2018-26 establishes a new TID district, TID #15. Resolution 2018-27 approves the project plan for TID #15. The project plan includes the current assessed value (\$0) and projects the future assessed value upon the completion of the residential housing project (\$600,000). The plan also projects the annual tax revenue that is projected to be generated upon the completion of the project (\$11,207). The project plan limits the total value of the loan that can be taken out to fulfill the projects (\$125,000). Furthermore, the plan identifies that the total loan proceeds can only be used to pay for the utility improvements, Woodland Creek Road reconstruction costs, bicycle path reconstruction costs, administrative costs to the City of Sturgis and financing costs. To be as thrifty as possible with the tax payer funds, the City would fully fund the loan. The City would provide a below market guaranteed loan rate of 5% with no origination fees. This would allow the loan to be repaid as quickly as possible. Given the anticipated total future assessed value of \$600,000 and a total annual tax rate of 1.87%, the loan would be fully repaid within 10 years, which is half of the maximum time allowed by the state.


Budget Impact

The total project cost is anticipated to be \$563,000. The TID would provide \$85,000 towards this cost. The remaining \$478,000 would be paid through the City’s Capital Improvement and utility funds. These costs are included in the City’s Five-Year Capital Improvement plan.

Beyond the initial \$10,000 the City would be repaid through the Project Plan for the administrative costs associated with forming and implementing the TID, the City would receive a small annual interest revenue stream. This would equal \$4,590 over the first 12 months decreasing slightly each year until the loan is fully repaid. Since this TID loan is funded entirely by the City, it would not be counted towards the total City debt limit.

Recommendation

At the April 3, 2018 Planning and Zoning Commission Public Hearing, the Commission unanimously recommended approval of the TID boundaries and approval of the Project Plan.

Approved:	 _____ Daniel Ainslie, City Manager
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**RESOLUTION 2018-26
CREATION OF TAX INCREMENTAL DISTRICT NUMBER FIFTEEN**

WHEREAS, the Common Council of the City of Sturgis deems it necessary to create a tax incremental district, pursuant to SDCL 11-9-5, to be designated as Tax Incremental District Number Fifteen (TID #15) City of Sturgis on May 1, 2018 and includes the real property as more particularly described herein; and

WHEREAS, the Council has reviewed and considered the recommendation provided to the Council by the Sturgis Planning and Zoning Commission; and

WHEREAS, the property within the following described District meets the qualifications and criteria set forth in SDCL 11-9-8 for a tax incremental district due to not less than twenty-five percent of the proposed district being blighted as defined in SDCL 11-9-11 by the site including open space with deteriorate site improvements which hinders the prospects of future development; and

WHEREAS, the Council finds that the use of tax increment financing to promote this development is authorized by the statutes of the State of South Dakota; and

WHEREAS, the Council finds that the total assessed value of all existing Tax Increment Districts in the City of Sturgis in 2017 is \$6,314,479 and represents 1.6% of the total assessed value within the City of Sturgis; and

WHEREAS, the Council finds that the total future assessed value of TID #15 is \$750,000 or less and as such the total assessed value of all Tax Increment Districts within the City of Sturgis will be less than 10% of the total assessed value within the City of Sturgis; and

WHEREAS, the Council finds improvement of the area is likely to significantly enhance the value substantially of all the other real property in the district.

NOW, THEREFORE, BE IT RESOLVED by the City of Sturgis that the real property legally described below shall constitute the final boundaries of Tax Incremental District Number Fifteen (TID #15):

Tract E-1, a Subdivision of Tract E of Lot 5 in Section 4, Township 5 North, Range 5 East of the Black Hills Meridian, City of Sturgis, Meade County, South Dakota, as shown on the plat filed in Plat Book 3 on Page 201, EXCEPTING therefrom Lot E-1-A in the SW¼SE¼ of Section 4, T5N, R5E, BHM, as shown on the plat filed in Plat Book 5 on Page 206

BE IT FURTHER RESOLVED that said Tax Incremental District Number Fifteen, City of Sturgis, described above shall upon passage and publication be forwarded to the State of South Dakota Department of Revenue to set the aggregate assessed value pursuant to SDCL 11-9-20.

Dated at Sturgis, Meade County, South Dakota, this 16th day of April, 2018.

CITY OF STURGIS

By: _____
Mark Carstensen, Mayor

ATTEST:

Fay Bueno, Finance Officer

(SEAL)

Published: _____

Effective: _____

**RESOLUTION 2018-27 RESOLUTION APPROVING
PROJECT PLAN FOR
TAX INCREMENTAL DISTRICT NUMBER FIFTEEN**

BE IT RESOLVED by the Common Council of the City of Sturgis, as follows:

WHEREAS, the Common Council has established Sturgis Tax Incremental District Number Fifteen by Resolution 2018-26 on April 16, 2018; and

WHEREAS, the Common Council deems it in the best interests of the City to promote the creation of affordable housing developments within the City; and

WHEREAS, the Project Plan approval helps make such affordable housing development feasible by assisting with various public works improvements including streets, bicycle path, utility connections and earthwork within the tax increment district; and

WHEREAS, the use of tax increment financing to promote this development is authorized by the statutes of the State of South Dakota; and

WHEREAS, the lack of available affordable housing hinders workforce development within the community and the growth in customer base which in turn hampers economic growth and sales tax revenue growth within the community.

NOW, THEREFORE, BE IT RESOLVED BY THE CITY OF STURGIS that the Project Plan for Tax Incremental District Number Fifteen be, and is hereby, approved as presented by the Sturgis Planning Commission.

Dated this 16th day of April, 2018.

CITY OF STURGIS

Mark Carstensen, Mayor

ATTEST:

Fay Bueno, Finance Officer

Published:

Effective:

**PROJECT PLAN FOR
TAX INCREMENTAL DISTRICT NUMBER FIFTEEN**

CITY OF STURGIS, SOUTH DAKOTA

April 16, 2018

PARTIES:

The plan is written, accepted and adopted by CITY OF STURGIS, a municipal corporation organized under the laws of the State of South Dakota, hereinafter called CITY. The CITY shall serve as DEVELOPER of this Tax Increment Financing District.

PURPOSE:

The City of Sturgis has identified affordable housing development as a community need to expand the community’s workforce and increase the customer base for existing and new retailers. The 2014 Housing Study indicated a need for affordable housing and detailed the required use of Tax Increment Financing to encourage this development. In addition, the study encouraged the use of underutilized land parcels throughout the community as a potential way to help encourage development of affordable housing.

To catalyze the development of this needed source, the CITY has authorized the use of tax increment financing through the creation of Sturgis Tax Incremental District Number Fifteen. Tax increment financing is authorized by South Dakota Law, as specified in SDCL 11-9. The CITY finds that the long-term vacancy of the subject property, the lack of adequate utilities and the degradation of the roadway impairs the economic growth of the area as defined in SDCL 11-9-11.

TID #15 IMPROVEMENTS (SDCL 11-9-13(1)):

The CITY shall:

- Complete and bid plan set to reconstruct Woodland Drive, the bicycle path and install utility mainlines and taps required to sell four single family homes;
- Complete a rezone and replat of the area to allow for four single-family homes to be built on the property;
- Complete the relocation of the Public Works administration building and complete the rehabilitation of the structure to a single-family home;
- Contract with a Realtor to sell the rehabilitated single-family home and three single family home sites at a cost to be consistent with affordable housing standards set by the South Dakota Housing Authority;
- Complete and record covenants on the properties to ensure a continued high-quality neighborhood that is consistent with the standards established by the South Dakota Housing Authority.

Attachment B, “TID #15 Public Improvements” illustrates the location of these improvements. TID #15 shall provide \$125,000 towards the completion of these improvements, interest and administration of the TID #15. The City shall pay for the remaining costs of the improvements through other municipal resources.

ECONOMIC FEASIBILITY STUDY (SDCL 11-9-13(2)):

The fiscal impact statement is modeled after the following assumptions:

- Four Single-family homes lots \$15,000/per lot
- One Single-family home rehabilitated from Public Works \$135,000
- Three Single-family homes built privately after improvements made \$135,000/per home
- All four homes would make their first tax payment in 2021
- \$80,000 in TID #15 funds available for improvement costs
- \$10,000 in TID #15 funds available for administrative costs
- \$35,000 in TID #15 funds available for interest payments payable to the City of Sturgis
- 5% annual interest charged to TID #15

If the assumptions are correct, TID #15 would be fully repaid within 10.5 years.

ESTIMATED PROJECT COSTS (SDCL 11-9-13(3)):

The total estimated costs for the associated improvements and fees which the CITY shall complete are as follows:

Utility Improvements (incl. main, taps for water, sewer, private) (SDCL 11-9-15 (1 & 4))	\$133,000
Woodland Creek Road Reconstruction (paving and improvements) (SDCL 11-9-15 (1 & 4))	\$250,000
Bicycle Path Reconstruction (SDCL 11-9-15 (1 & 4))	\$135,000
Financing Costs for 5 Years and Reserves (SDCL 11-9-15 (2))	\$ 35,000
Administrative Costs (SDCL 11-9-15 (5))	\$ 10,000
Total	\$563,000

The CITY agrees that subsequent to the adoption and signing of this plan, the various improvement costs may be reallocated based upon final construction costs, however the total costs to complete the project plan shall not exceed the total included in this plan.

FISCAL IMPACT STATEMENT (SDCL 11-9-13(4)):

Parcel Number	Property Value	Structure Value	Total Value	City General 6.703	School General 7.862	County General 4.113
01.70.04.14 Before	0	0	0	0	0	0
01.70.04.14 After	60,000	540,000	600,000	4,022	4,717	2,468
Total Before	0	0	0	0	0	0
Total After TIF Repayment	60,000	540,000	600,000	4,022	4,717	2,468

The current assessed value of the property is \$0. Upon completion of the project and the subsequent sale of the lots and construction of the affordable single-family homes the total assessed valuation of the project is anticipated to increase by \$600,000. During the period of debt repayment, each taxing agency will retain their existing revenue (City \$0, County \$0 and School Total \$0). Upon the completion of the repayment of the indebtedness the total tax revenue raised to be distributed to the three taxing agencies is \$11,207. This is anticipated to be divided as follows:

1. City: \$4,022
2. School: \$4,717
3. County: \$2,468

METHOD OF FINANCING (SDCL 11-9-13(5)):

The City will secure financing to fund the TID portion of the estimated project costs identified in the ESTIMATED PROJECT COSTS Section of this Plan. All positive tax increments received from TID Number Fifteen shall, upon receipt by the City, be deposited in a special fund to be known as the "Tax Incremental District Number Fifteen Fund." The City shall, within thirty (30) days after receipt of each tax increment payment from the Meade County Treasurer, disburse

all amounts in the fund to the underlying City funds which will provide the initial financing for the “Tax Incremental District Number Fifteen Fund.”

As identified in this plan, all project costs exceeding the \$125,000 TID #15 funds shall be paid for by the City through its Capital Improvement Fund, Sanitary Sewer Fund and Water Fund.

TERMS OF PLAN (SDCL 11-9-13(5)):

This plan includes all work efforts to redevelop this property which will be performed by the CITY to effectuate Sturgis Tax Incremental District Number Fifteen. These efforts shall be completed by April 30, 2023 or sooner. The City shall provide the upfront funds necessary to finance the obligations identified in this plan and to provide the financing necessary to make annual debt payments for up to six years after the start of this plan. The City shall account for all expenses paid in relation to this plan in a separate fund. Annual repayment of debt from the tax increment shall be used to retire the City’s prefunded expenses when originating the TIF 15 fund.

PROJECT PLAN STATUTORY REQUIRED STATEMENTS (SDCL 11-9-16 (4,5,6)):

(4)

The proposed development does not require a change to the City’s adopted comprehensive plan or building codes. The Zoning Ordinance will need to be amended after the completion of the platting process to authorize single-family housing.

(5)

Estimate of Rehabilitation and Moving of PW Office paid by City	\$ 85,000
Estimate of Private Construction Costs for three new homes	\$ 135,000
Total	\$ 490,000

(6)

No relocation of residential or commercial entities is anticipated as a result of this project plan.

MODIFICATION OF PLAN:

This plan constitutes the entire agreed upon proposal by the City of Sturgis for Tax Increment District #15. No amendment or modification changing its scope or terms shall have any force or effect unless it is in writing and approved by the Sturgis Common Council.

Executed this 16th of April, 2018.

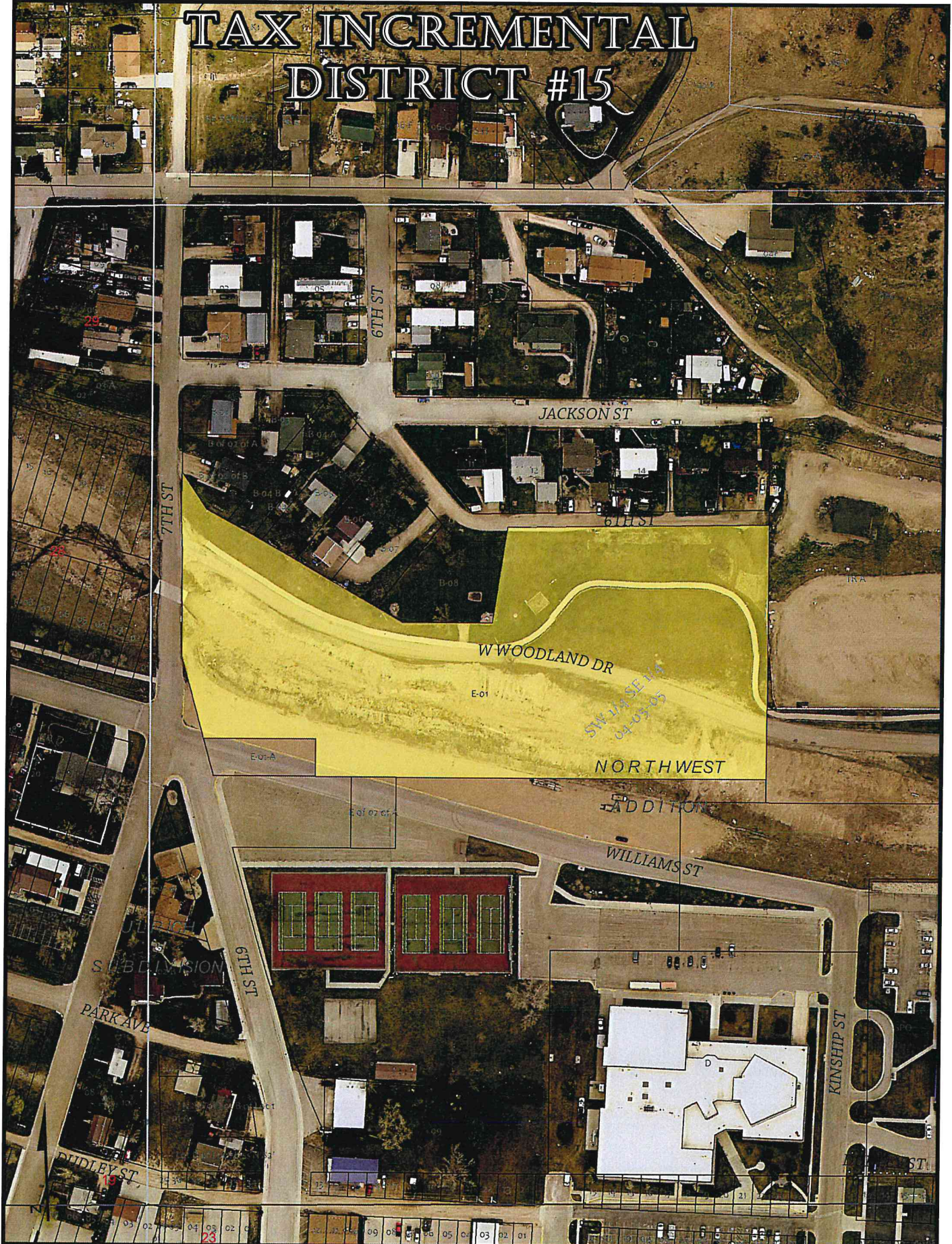
CITY OF STURGIS

Daniel Ainslie, City Manager

Executed this 16th day of April, 2018.

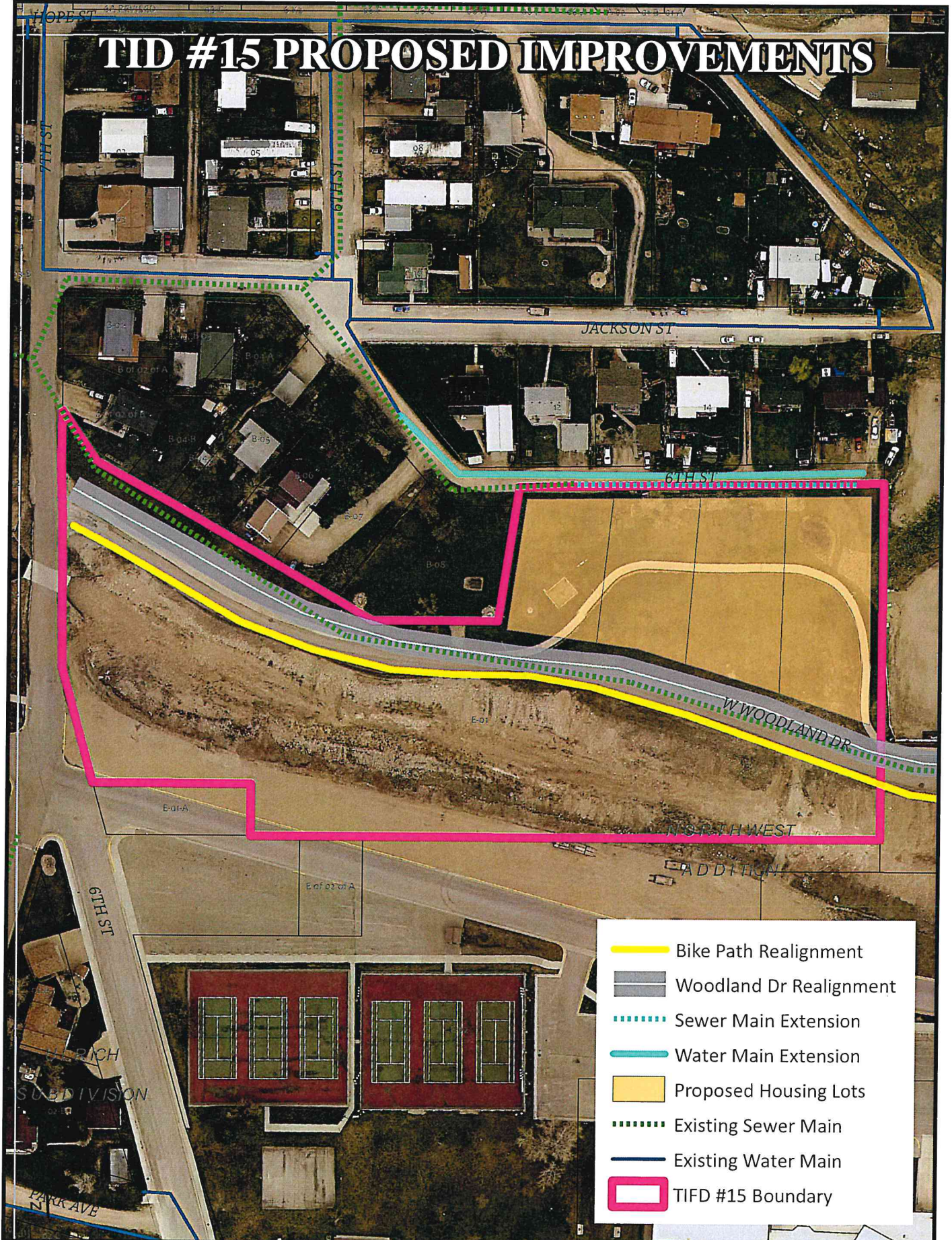
Attachment A

TAX INCREMENTAL DISTRICT #15



Attachment B

TID #15 PROPOSED IMPROVEMENTS



Attachment D

