

# Tax Increment Finance District (Proposed TIF 26) Project Plan

Prepared by:

Planning & Development Services Department

City of Sioux Falls

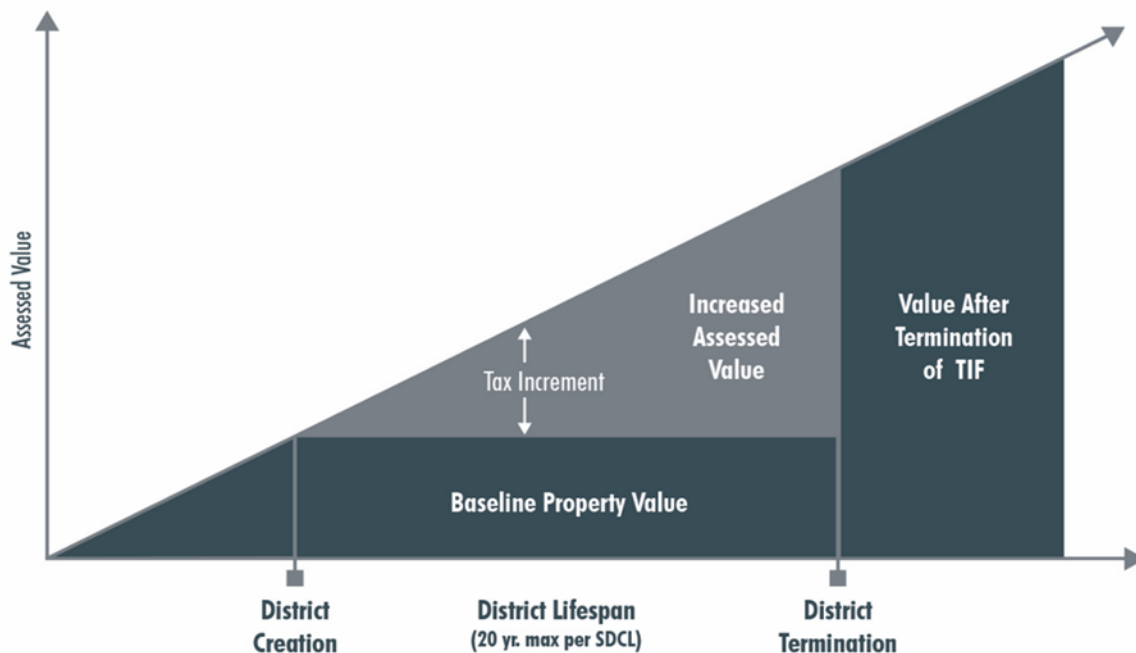
August 2022

## I. INTRODUCTION:

Tax Increment Financing (“TIF”) is an incentive utilized by local governments to attract private development and investment. New investment creates new jobs, more customers, and in turn, more investment opportunity. TIF can also retain existing businesses that might otherwise find more attractive options elsewhere. The jobs and additional investment, both private and public, mean more revenue for the community. TIF helps to overcome the extraordinary costs that often prevent redevelopment and private investment from occurring in less desirable or difficult to develop areas of the community. As a result, the TIF District itself improves and property values increase.

Specifically, money for improvements and other incentives is generated from the growth in property tax revenues — the “tax increment”. A tax increment is the difference between the amount of property tax revenue generated from property within the TIF District before TIF District designation and the amount of property tax revenue generated from the same property within the TIF District after TIF Designation and improvements occur. Property taxes collected on properties included in the TIF at the time of its designation continue to be distributed to the school districts, county, and all other taxing entities in the same manner as if the TIF District did not exist. Only property taxes collected as a result of the incremental increase in the value of these properties after formation of the TIF District are available for use by the City to fund project costs in the TIF District. The graph that follows depicts this concept.

**Tax Increment Finance Diagram**



Historically in Sioux Falls, TIF funding has been used for the following purposes: to encourage the redevelopment of deteriorated, or otherwise blighted real property; to stimulate economic development in the community by assisting projects that promote the long-term economic vitality of Sioux Falls; and, to stimulate increased private investment in areas that would have otherwise remained undeveloped or under-developed and which will, in the long-term, provide a significant source of additional tax revenues to all taxing entities.

In 2021, a Sioux Falls Housing Needs Assessment was conducted and summarized the population growth has increased pressure on the housing market to keep up with the increasing demand. Expounded by the more recent escalation in construction costs and available workforce to build homes, the cost of housing has risen, thus making housing less affordable. The 2026 Housing Action Plan, established by the Sioux Falls Accessible Housing Advisory Board, laid out the necessary steps to combat the Accessible Housing needs of Sioux Falls. One such action was to establish TIF guidelines that focused on development of more Accessible Housing units for Sioux Falls.

“Accessible Housing” for the purposes of TIF in Sioux Falls is defined as the availability of housing options sold at varied price points between 60 and 100 percent of the maximum purchase price for the South Dakota First Time Home Buyer Program.

In addition to increasing the property valuation, creating a TIF District for the benefits of supporting Accessible Housing is critical to retaining and creating more jobs in Sioux Falls. Available Accessible Housing is a key economic development tool when attracting and retaining companies to the community. The intention of the TIF project is to provide Accessible Housing in accordance with the Sioux Falls Accessible Housing TIF Policy. This project will provide Accessible Housing to the City of Sioux Falls, which will support both the housing and economic development needs within Sioux Falls.

As set forth in South Dakota Codified Law, Chapter 11-9, a local government can designate a specific area within its boundaries as a redevelopment area appropriate for a TIF district and prepare a plan for development. TIF projects must be approved by the City Planning Commission and the City Council.

## **II. PURPOSE OF THE PLAN AND GENERAL DEFINITIONS:**

The purpose of this Plan, to be implemented by the City of Sioux Falls, is to satisfy the requirements for a Tax Increment Finance District as specified in SDCL Chapter 11-9. The Plan will describe the boundaries of the TIF District, estimated costs, feasibility and fiscal impact of the Tax Increment Finance District, and conformance with development guidelines of the City of Sioux Falls relating to TIFs in general.

The following terms found in this Plan are defined as the following:

**“Accessible Housing”** means the availability of housing options sold at varied price points between 60 and 100 percent of the maximum purchase price for the South Dakota First Time Home Buyer Program.

**“Base Value” or “Tax Incremental Base Value”** means the aggregate assessed value of all taxable property located within a Tax Incremental District on the date the District is created, as determined by SDCL § 11-9-20.

**“Blighted”** means property that meets any of the criteria as defined and established by SDCL § 11-9-9 through 11-9-11.

**“Developer”** means any individual or entity responsible for carrying out any portion of the projects listed in the TIF plan, including both expenses considered eligible for TIF reimbursement and any other costs associated with private projects within the plan.

**“Developer Project Development Agreement”** means any agreement which is binding between the City and one or more Developers and which specifies the duties, responsibilities, and obligations of all parties relative to the implementation of this plan. The agreement commits the Developer to complete listed projects, and commits the City to payments of tax increment revenues to the developer(s), among other items. The agreement can include contingency and performance provisions.

**"Project Costs"** means any expenditure or monetary obligations by the City of Sioux Falls, whether made, estimated to be made, incurred or estimated to be incurred, which are listed as Project Costs herein will include any costs incidental thereto but diminished by any income, special assessments, or other revenues, other than tax increments, received, or reasonably expected to be received, by the City of Sioux Falls in connection with the implementation of this Plan.

**"Public Works"** means the Infrastructure Improvements, the acquisition by purchase or condemnation of real and personal property within the Tax Incremental District and the sale, lease, or other disposition of such property to private individuals, partnerships, corporations, or other entities at a price less than the cost of such acquisition which benefit or further the health, safety, welfare and economic development of the City and Project Costs.

**"Taxable Property"** all real taxable property located in a Tax Incremental District.

**"Tax Incremental District"** a contiguous geographic area within the City of Sioux Falls defined and created by resolution of the governing body and named "City of Sioux Falls Tax Incremental District Number Twenty-Six" ("TIF #26").

**"Tax Increment Valuation"** is the total value of the Tax Incremental District minus the tax incremental base pursuant to § 11-9-19.

All other definitions in SDCL 11-9 shall apply.

### **III. THE ADDRESSES, PARCEL NUMBERS AND LEGAL DESCRIPTIONS OF THE PROPERTIES WHICH WILL BE INCLUDED WITHIN TIF #26 ARE AS FOLLOWS:**

**(Parcel Number 10295)** - E1/2 SW1/4 (EX H-2 & EX TR 1 STRUNK ADDN) 7-101-48 SPLIT ROCK TOWNSHIP 101-48.

The proposed district includes portions of future street right-of-way.

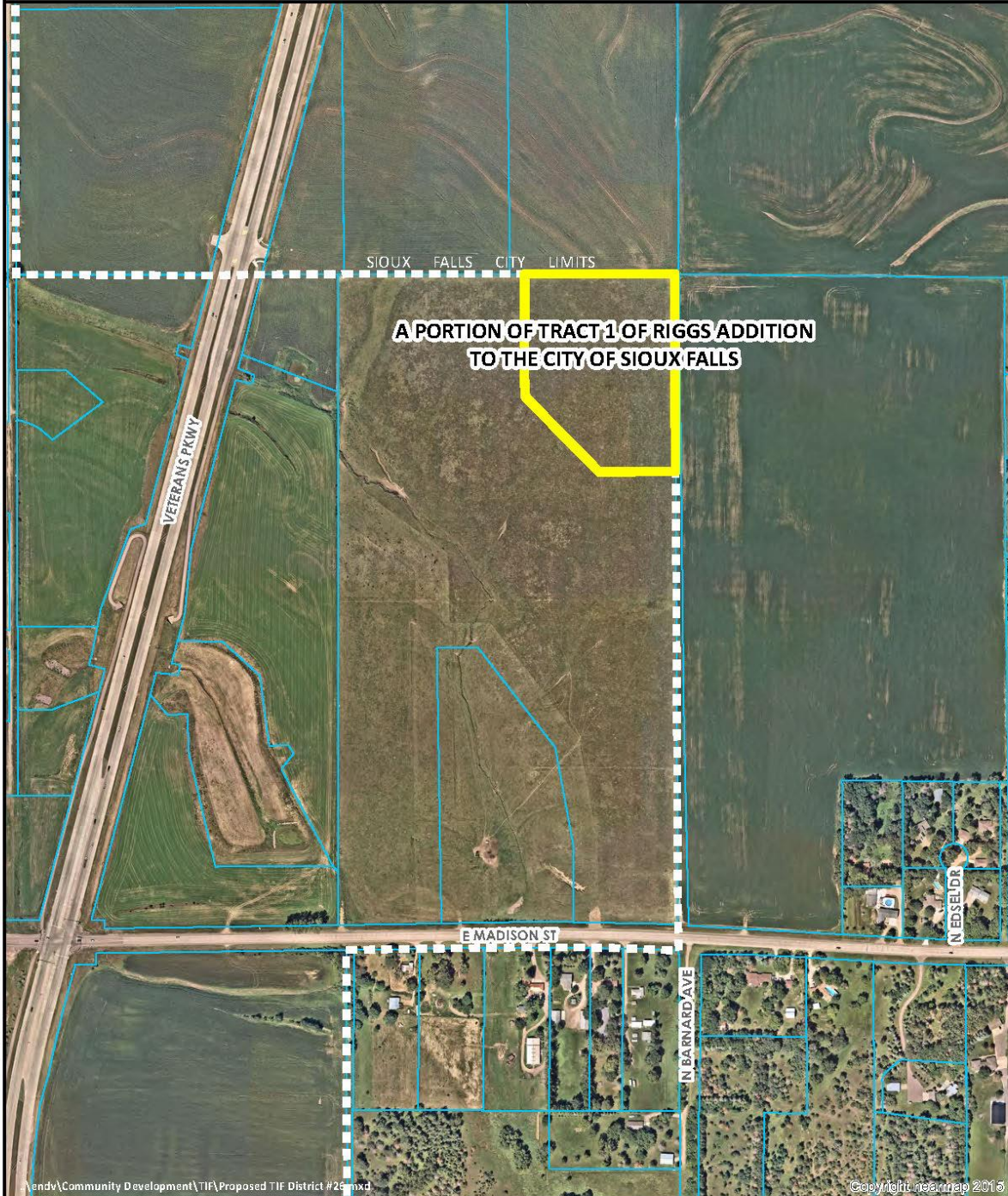
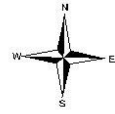
The boundaries of TIF #26 do not overlap any other Tax Increment Districts.

Please note: Parcel IDs and legal descriptions will change after the approval of this document once the property is platted and subdivided to build the Project. The original parent parcel ID and legal description used for the creation the District and Base Value is listed in above and in Section VI.



## Proposed TIF #26

~9.74 total acres / 424,446 sq ft / Total Assessed Value: \$11,053  
Map Date: July 25, 2022 Image Date: August 1, 2021



#### **IV. TAXABLE VALUE OF SIOUX FALLS:**

State law requires that the cumulative base value of all Tax Incremental Districts in the City of Sioux Falls cannot exceed ten percent (10%) of the taxable value of all taxable property within the corporate limits of the City of Sioux Falls. The total assessed value of taxable property in Sioux Falls is approximately \$15.6 billion. The Base Value of the taxable property in TIF #26, as set forth in Director of Equalizations records, is \$11,053. Further, the cumulative Base Value of active TIF Districts in Sioux Falls is as follows:

TIF District #10	\$ 778,651
TIF District #11	\$ 295,270
TIF District #12	\$ 11,514,076
TIF District #13	\$ 4,571,705
TIF District #14	\$ 1,691,952
TIF District #15	\$ 271,775
TIF District #16	\$ 258,187
TIF District #18	\$ 770,775
TIF District #20	\$ 357,287
TIF District #21	\$ 396,256
TIF District #23	\$ 3,522,542
TIF District #24	\$ 1,760,000
TIF District #25	\$ 24,102,300
TIF District #26	\$ 11,053
TOTAL	\$ 50,301,829

The Cumulative Base Value of all active TIF Districts in Sioux Falls is significantly less than ten percent (10%) of total taxable value in the City. Using the estimates provided, significantly less than one percent (1%) of the Cumulative Base Value of the City is located within an active TIF District.

Proposed TIF #26 will promote economic growth and development through the development of Accessible Housing units. It is anticipated that all of property within the District will see increase in the property valuation as a result of improvements made possible through creation of TIF #26.

#### **V. IDENTIFICATION, NUMBER, AND LOCATION OF PUBLIC WORKS OR IMPROVEMENTS:**

In accordance with SDCL § 11-9-13 the following is the kind, number, location and dollar amount of estimated Project Costs and the costs of Public Works.

Project	Kind	Number	Location	Amount
Site Work	Capital	1	Site	\$ 198,880
Street Improvements / Sidewalks	Capital	1	Site	\$ 792,495
Public Utilities	Capital	1	Site	\$ 684,750
Private Utilities	Capital	1	Site	\$ 207,900
Professional Services and Fees (A&E)	Professional	1	Site	\$ 218,295
Platting	Professional	1	Site	\$ 173,250
Land Acquisition	Real Estate	1	Site	\$ 494,700
Professional/Legal Fees (City Expenses)	Professional	1	Site	\$ 20,000



<b>Contingency on Costs</b>	Capital			\$ 300,000
<b>Financing Costs (5.2%)</b>	Financing	1	Site	\$ 877,500
	<b>Identified TIF-Eligible Expenses</b>			<b>\$ 3,967,770</b>
	<b>Total TIF Requested*</b>			<b>\$ 2,140,000</b>

\*Permanent Financing Costs of up to 5.2% on the TIF-approved expenses are in addition to this amount.

The chart above represents identified construction and development activities expected to be incurred for the development to occur and for which this TIF District and Project Plan is created. They are considered eligible Project Costs. Only such amounts as are feasible will be financed by a monetary obligation. This chart is a summary of eligible Project Costs. All eligible Project Costs are expected to be expended by the Developer(s) within five (5) years of the establishment of TIF #26 by the City Council.

When creating the Project Plan, effort was taken to identify all possible eligible expenses that may occur within the district to provide single-family Accessible Housing units. Given today's market conditions, and the escalation of construction cost, the City and Developer understand that the project could be at risk if project costs continue to escalate or if there is a change in the housing market. In order to reduce the risk of the project not being viable, two tools are being built into the Project Plan and Development Agreement. A contingency fund of up to 15% of the TIF request is being added to cover escalation of costs or reduction of sale prices due to marketability for this housing product. The Development Agreement would also allow for up to a 5% increase in the original purchase price to cover increases in project costs without increasing the total TIF Amount. The mechanism for the Developer to access these tools will be discussed within the Development Agreement.

Eligible expenses are intended to be expended as grants as allowed by SDCL § 11-9-32 and set forth in an approved Development Agreement between the City and Developer. The total eligible costs for tax increment financing are \$3,967,770. Nielson Development LLC is requesting up to \$2,140,000 in TIF assistance, plus costs of financing. The property is expected to generate an increment of \$300,000 in property taxes per year after payout. The project payout is calculated to be 15 years. All obligations of the City are subject to the creation of District and Development Agreement becoming effective.

If eligible Project Costs, in sum, exceed the total value set forth above, an amendment to the Plan in accordance with SDCL §11-9-23 will be required.

## **VI. ECONOMIC FEASIBILITY STUDY:**

Nielson Development LLC has requested the consideration of a Tax Incremental Finance District to support eligible Project Costs which are listed above in Section V. The table below establishes the current Base Value of the properties located in the proposed TIF #26 District, identified in Section III.

<b>County ID</b>	<b>Address</b>	<b>Taxable Assessed Value</b>	<b>Sq. Feet</b>	<b>Legal Description</b>
<b>10295</b>	NO ADDRESS	\$11,053	424,446	See Article III
<b>TOTAL ASSESSED BASE VALUE</b>		<b>\$ 11,053</b>		

## **VII. PROJECTS AND PROJECTED TAX REVENUE:**

The proposed development would result in the new construction of 65 single-family homes on 39 single-family lots and 13 twin home lots, all of which will have an original purchase price at or below the South Dakota Housing Development Authority's first time homebuyer pricing limits, and effectively meets the criteria for Affordable Housing defined in SDCL 13-13.10.10.

- 1.) Unit Type A: 978 square foot single-family home with 2 bedrooms, 1 bathroom, a 1-stall garage, a 2-stall driveway, and no lower level.
  - a. Goal for purchase price to be at or below = \$232,000.00
- 2.) Unit Type B: 1200 square foot single-family home with 3 bedrooms, 2 bathrooms, a 1-stall garage, a 2-stall driveway, and no lower level.
  - a. Goal for purchase price to be at or below = \$308,000.00
- 3.) Unit Type C: 1094 square foot twin home with 2 bedrooms, 2 bathrooms, a 2-stall garage, and a future lower-level finish (2 bedrooms, 1 bathroom).
  - a. Goal for purchase price to be at or below the \$323,000.00

Based upon the recommendations set for within the Accessible Housing TIF Policy, all units must meet the following criteria for a minimum of 5 years following the Original Purchase Date:

- Must be a primary residence;
- Must not be rented;
- Shall only be sold at or below the Original Purchase Price, plus annual increases as allowed by the Federal Housing Finance Agency (FHFA) Housing Price Index.

The project cost is expected to exceed \$20,250,000.

The property included within TIF #26 District is currently assessed at \$11,053. The improvements to be made to the property included within the TIF #26 District are estimated to add approximately \$18,000,000 to the assessed valuation of the property within TIF #26 District. The estimated annual tax increment is expected to be fully realized to occur in tax year 2027 (payable in 2028) with a 1% annual escalator in assessed values as evidenced by the table below.

**NOTES:** The tax levy for TIF #26 is computed at \$16.03 per \$1,000.00 of value during the term of TIF#26. The buildings included within TIF #26 are being placed in service in 2024 (first "assessment year", with increased taxes being payable in 2025).



Tax Valuation Year-Jan. 1	Taxes Payable Year	Estimated Adjusted Taxable Value	Adjusted Base Value	Adjusted Increment Value	Increment Taxes Payable (rate .0160)	Cumulative
2022	2023	\$10,357	\$10,357	\$0	\$ -	\$ -
2023	2024	\$10,357	\$10,357	\$0	\$ -	\$ -
2024	2025	\$5,500,190	\$10,357	\$5,489,833	\$ 87,837	\$ 87,837
2025	2026	\$10,142,088	\$10,357	\$10,131,731	\$ 162,108	\$ 249,945
2026	2027	\$13,978,166	\$10,357	\$13,967,809	\$ 223,485	\$ 473,430
2027	2028	\$17,699,930	\$10,357	\$17,689,573	\$ 283,033	\$ 756,463
2028	2029	\$17,876,929	\$10,357	\$17,866,573	\$ 285,865	\$ 1,042,328
2029	2030	\$18,055,699	\$10,357	\$18,045,342	\$ 288,725	\$ 1,331,054
2030	2031	\$18,236,256	\$10,357	\$18,225,899	\$ 291,614	\$ 1,622,668
2031	2032	\$18,418,618	\$10,357	\$18,408,261	\$ 294,532	\$ 1,917,200
2032	2033	\$18,602,804	\$10,357	\$18,592,448	\$ 297,479	\$ 2,214,680
2033	2034	\$18,788,832	\$10,357	\$18,778,476	\$ 300,456	\$ 2,515,135
2034	2035	\$18,976,721	\$10,357	\$18,966,364	\$ 303,462	\$ 2,818,597
2035	2036	\$19,166,488	\$10,357	\$19,156,131	\$ 306,498	\$ 3,125,095
2036	2037	\$19,358,153	\$10,357	\$19,347,796	\$ 309,565	\$ 3,434,660
2037	2038	\$19,551,734	\$10,357	\$19,541,378	\$ 312,662	\$ 3,747,322
2038	2039	\$19,747,252	\$10,357	\$19,736,895	\$ 315,790	\$ 4,063,112
2039	2040	\$19,944,724	\$10,357	\$19,934,367	\$ 318,950	\$ 4,382,062
2040	2041	\$20,144,171	\$10,357	\$20,133,815	\$ 322,141	\$ 4,704,203
2041	2042	\$20,345,613	\$10,357	\$20,335,256	\$ 325,364	\$ 5,029,567

The information in the above tables establishes a total increase assessed property value of approximately \$17,699,930, as of the estimated stabilized year of 2027 generating a total of \$5,029,567 in increment payable to TIF #26 over 20 years. Nielson Development LLC has requested support for \$2,140,000, plus the costs of financing. Therefore, it is feasible to fund a TIF District for the entire amount listed in the Project Costs, which includes both principal and financing costs.

## **VIII. METHOD OF FINANCING:**

The City may enter into a Development Agreement with the Developer(s) to reimburse the Developer for incurred expenses identified within the Plan. TIF eligible Project Costs and expenditures will be paid out of the developer's funds, or by financing secured by the developer as they are initially incurred. There shall be no advances by the City, unless contemplated in a Developer Agreement. The City may reimburse itself for administrative and professional costs from the tax increments as defined in the Development Agreement between the City and the Developer. Eligible Project Costs incurred by the Developer(s) shall be paid by the proceeds of tax increment revenue as Discretionary Costs and Grants.

## **IX. FISCAL IMPACT TO TAXING AUTHORITIES:**

According to SDCL 13-13-10, the TIF will be classified as Affordable Housing; therefore, any lost local effort of the General Fund will be covered through the State Aid to Education Formula.

During the reimbursement phase (that can last up to twenty years from the date TIF #26 is created), the anticipated annual increase in taxes is expected to reimburse Developer(s) and is expected to have a positive fiscal impact on all entities levying taxes upon property in TIF #26 District.

<b>Total Tax Levy</b>	<b>16.028</b>	<b>% of Levy</b>
Minnehaha County	3.249	20.27%
Brandon Valley School District	8.526	53.20%
Water District	0.023	00.14%
City of Sioux Falls	4.230	26.39%

The Project would likely generate the following anticipated annual property tax revenue (as showed cumulatively and by taxing entity), and be allocated to the TIF District. A mid-course average revenue in 2027 is used for illustration.

<b>Total Tax Payment</b>	<b>\$280,000.00</b>
Minnehaha County	\$56,756.00
Brandon Valley School District	\$148,960.00
Water District	\$392.00
City of Sioux Falls	\$73,892.00

Beyond property taxes, the Project will generate sales tax on approximately \$20M in development activities. The sales tax on construction materials alone is reflected below. Additional taxes beyond property and sales tax will be collected through normal collection methods.

<b>Total Sales Tax Payment</b>	<b>\$1,300,000</b>
State of South Dakota	\$900,000
City of Sioux Falls	\$400,000

## **X. FINDINGS OF BLIGHT/ECONOMIC BENEFITS:**

### **ESTABLISHMENT:**

Pursuant to SDCL Section 11-9-5, the City of Sioux Falls must “adopt a resolution which ... describes the boundaries ... of a tax incremental district, creates the district on a given date, and assigns a name to the district for identification purposes”. Further, pursuant to SDCL Section 11-9-8, the City of Sioux Falls must include findings in the aforementioned resolution: (a) 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 general economic welfare and prosperity of the state through the promotion and advancement of industrial, commercial, manufacturing, agricultural, or natural resources development”; **and** (b) that the planned improvements within the District are “likely to enhance significantly the value of all of the other real property in the District”. The purpose of the foregoing process is to determine if impediments to economic development and/or other issues of blight exist which, pursuant to state law, are sufficient enough to warrant the creation of a tax incremental district.

### **DESCRIPTION OF PROPERTY:**

There will be 65 single-family units constructed as described in Section VII that will create a new Accessible Housing development that will significantly enhance the values of the property within the proposed District.

### **RELOCATION OF AFFECTED PERSONS:**

There are no families or persons residing in the proposed District and therefore no relocation plan is needed.

### **SUMMARY OF FINDINGS – BLIGHT AND ECONOMIC DEVELOPMENT:**

**Findings of Blight.** The 9.7 acres of property contained within the District is open ground. It currently has no site improvements, public or private infrastructure, or connections for transportation. An open area as described within the city limits of Sioux Falls substantially impairs and arrests the sound growth of the City as defined by SDCL 11-9-11, which details open areas as blighted. The approval of this TIF will provide a way for the Developer to finance the required infrastructure improvements, while supporting the City's goals of providing Accessible Housing for the community.

**Findings of Economic Development.** In order for economic development to be successful in South Dakota communities, Accessible Housing supply must be available within the community. All homes within this District will have an original selling price at or below the first-time homebuyer's purchase price established by the South Dakota Housing Development Authority. The intent of this Project is to create new Accessible Housing ownership opportunities to support the City's efforts to continue to grow the Sioux Falls economy, which supports the general economic welfare and prosperity of the State of South Dakota. More Accessible Housing units in Sioux Falls supports the retention of existing jobs and workforce, as well as supports creation of new jobs and business within Sioux Falls and the State of South Dakota.

**Findings of Enhanced Value.** It is specifically found that once the improvements set for within the Project Plan are completed, this Project will significantly enhance the value of substantially all of the property within the District.

**Summary of Findings.** The statutory requirements are met because the property within the proposed District satisfies the requirements established in SDCL 11-9-8 in that it will "stimulate and develop the general economic welfare and prosperity of the state", by providing Accessible Housing units that support the economic development activities of the City of Sioux Falls. Further, the site meets the definition of blight established by SDCL 11-9-11, and this District will provide for sound growth within Sioux Falls.

## **XI. CURRENT PLANS, CODES, AND CONDITIONS:**

The Plan conforms to the "Shape Sioux Falls 2040 Comprehensive Plan", and supports the recommendations of the "2021 Sioux Falls Housing Needs Assessment", and "2026 Housing Action Plan". Proposed uses within boundaries of TIF #26 are allowed within the Shape Sioux Falls Zoning Ordinance and future rezoning will reflect the proposed uses.

Proposed structures and improvements within the boundaries of TIF #26 District shall be in compliance with all applicable building, fire and zoning codes of the City of Sioux Falls.

Maps reflecting current zoning, current conditions and proposed improvements are shown within this Plan.

District Conditions: The property included in the district is currently non-developed agricultural land.

**Zoning:**





**Project (Section VII):**

