

Tax Incremental District Number 20  
City of Sioux Falls

# WASHINGTON SQUARE PROJECT PLAN

Owner: Washington Square, LLC

Prepared by Sage Consulting, in conjunction with the City of Sioux Falls



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## EXECUTIVE SUMMARY



Washington Square, LLC aims to construct a mixed-use building at 120 West 12<sup>th</sup> Street, Sioux Falls, SD, and respectfully requests the Sioux Falls Planning Commission and Sioux Falls City Council to designate Parcel 43038 (120 West 12<sup>th</sup> Street) as a tax incremental district on the merits of providing economic stimulus and improving a blighted area.

Tax Incremental Financing (TIF) is critical for the project to succeed. Using conservative assumptions, the annual return on equity for Washington Square is projected to be negative in Year 5 without the use of TIF. However, with TIF, the return on investment increases to an acceptable, positive rate. The owners of the project have explored all financing options, and the use of TIF as a financing element is integral for the project to move forward. Refer to the attached pro forma, modeling 20 years of cash flow projections, for detailed assumptions surrounding financial return for the project.

Eligible costs for tax increment financing are \$6,410,100. Washington Square, LLC is requesting \$2,500,000 - \$2,900,000 in TIF assistance, plus costs of financing. The property will generate an incremental \$400,000 in property taxes per year after payout. The project payout is calculated to be 10 - 15 years.

### *Benefits to the Community*

Washington Square provides several key benefits to the City of Sioux Falls:

- ✓ **Economic development.** The addition of the project's retail, office, and parking leases in downtown Sioux Falls are estimated to increase the net value in GDP across all industries by up to \$586,744 per year. When taking into account assumptions regarding the increases in revenue from the tenants of the building the project has the potential to increase GDP by between \$29 and \$88 million per year, and the potential to add up to 150 new jobs to the Sioux Falls MSA.
- ✓ **Job creation.** More than 500 jobs are projected to be added during the construction period, and between 50 to 150 permanent jobs are projected to be created as a result of this project.
- ✓ **Alignment with City's Strategic Vision.** The project fulfills objectives of the Shape Sioux Falls 2035 Plan and 2025 Downtown Plan through the addition of parking, retail, office and residential space.
- ✓ **Southern Downtown Development.** Although the 2025 Downtown Plan is achievable, vertical construction is expensive in this downtown location as there is no place to lay down materials or store concrete or soil removed from the site. The proposed project will be constructed with high end materials and aesthetically beautiful. Two elevator bays, including parking, will make the entire facility ADA

accessible. The project will enhance the Main Avenue Diet by adding landscaping such as boulevard planting pots and trees.

- ✓ **Utility upgrades.** The utility companies are poised to upgrade the infrastructure in the alley to not only support the proposed project but the existing buildings on the block.
- ✓ **Accessible public parking.** The multi-use building will include 125 parking spaces made available for public use. The building includes two elevator bays that span all floors, including the parking structure, thereby making the ramps ADA accessible and safe for public use. During the work week (Monday through Friday; 8 a.m. – 5 p.m.), some spaces (60) will be reserved for office tenants. The retail level will also feature 30 spaces that will be free for patrons of those businesses during the business day. Free public parking will be available during peak need in the downtown area (5 p.m. – 8 a.m. Monday through Friday and throughout the weekend) for the remaining spaces. The location of this project will be instrumental in handling parking for performances at the Washington Pavilion, Sioux Falls State Theatre, and Downtown Sioux Falls events. ***The owners will absorb all costs associated with the maintenance and operation of the parking facilities, thereby relieving the City of Sioux Falls of costs associated***

## 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 Number 20, City of Sioux Falls, as specified in SDCL Chapter 11-9. The Plan describes the boundaries, estimated costs, feasibility and fiscal impact of the district, in addition to conformance with City policies related to TIF. A number of key terms found in this Plan are defined below:

**“Base” or “Tax Incremental Base”** 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.

**“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 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 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”** means all real taxable property located in a Tax Incremental District.

**“Tax Incremental District”** means a contiguous geographic area within a City defined and created by resolution of the governing body.

**“Tax Increment Valuation”** means the total value of the Tax Incremental District minus the tax incremental base pursuant to 11-9-19.

## PROPERTY WITHIN TAX INCREMENT DISTRICT 20

The property within Tax Increment District 20 is situated in the western half of a downtown block bordered by South Main Avenue to the west, West 12<sup>th</sup> Street to the south, and West 11<sup>th</sup> Street to the north. The property is directly east of the Washington Pavilion. The adjacent figures reflect the property, courtesy of the City of Sioux Falls Parcel Finder (accessed 3-15-2015), in a close-up rendering as well as in broader context with surrounding city blocks to the proposed District.

Figure 1. Proposed Tax Incremental District,

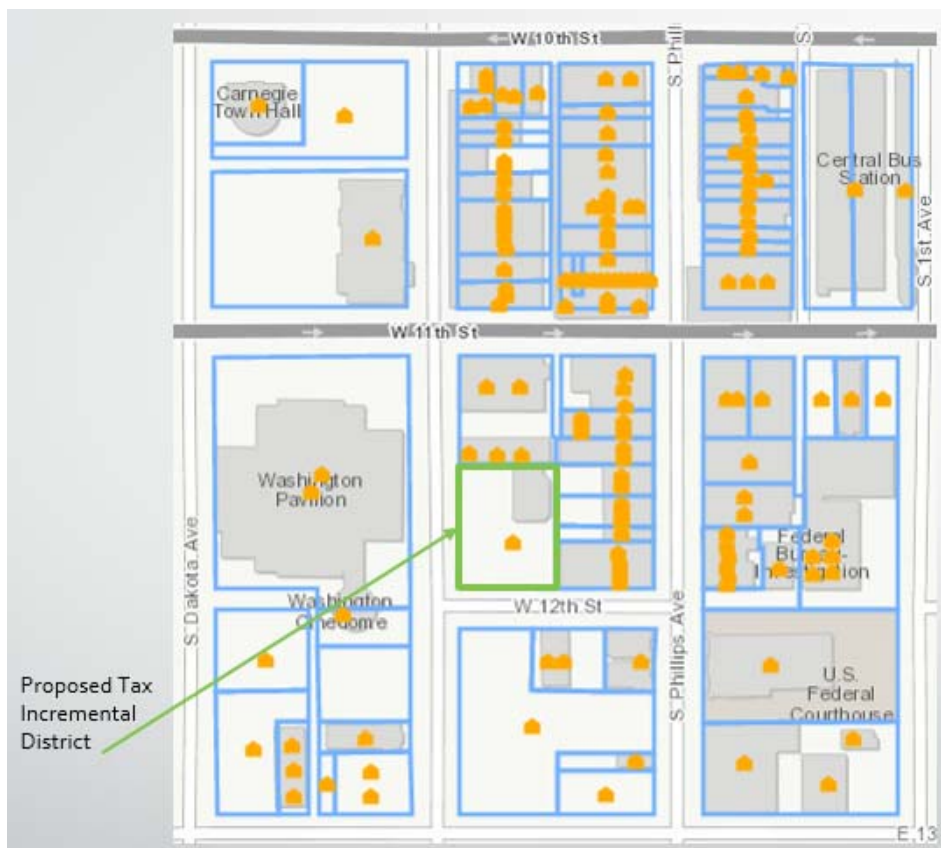


Figure 2. Proposed Tax Incremental District, Washington Square

Legal description, physical address, and tax parcel information for the property is highlighted below:

**Table 1. Parcel information, 120 West 12th Street (#43038)**

<b>Legal Description:</b>	Lots 1, 2 & 3 Gales Sioux Falls & W1/2 Vac Alley Lying Adj & Lot 5 Blk 18. J.L. Phillips Addn to City of Sioux Falls City
<b>Address</b>	120 West 12 <sup>th</sup> Street; Sioux Falls, SD 57105
<b>Tax Parcel Information:</b>	
Address	120 W 12 <sup>th</sup> St
City Parcel ID	012216361017000
County/County Parcel ID	MINNEHAHA / 43038
Legal	LOTS 1, 2 & 3 BLK 3 GALES SIOUX FALLS & W1/2 VAC ALLEY LYING ADJ & LOT LOT 5 BLK 18 JL PHILLIPS ADDN TO CITY OF SIOUX FALLS
Acres / Square Feet	0.70 / 30,400.00
Current Land Use Activity	35 – Office and Public Service, Public service facility
Owner Name(s) & Address	H4J1 DEVELOPMENT COMPANIES LLC 200 S PHILLIPS AVE STE 200 SIOUX FALLS, SD 57104
<b>2014 – 2015 Taxes:</b>	\$7,917.17

#### KIND, NUMBER, AND LOCATION OF IMPROVEMENT

In accordance with SDCL 11-9-13 the following is the kind, number, location and dollar amount of estimated Project Costs:

<b>Capital Costs</b>	Cost to demolish existing parking lot, clear and grade land and, construct parking garage.
<b>Financing Costs</b>	The estimated cost of financing is up to 6% annually.
<b>Professional Fees</b>	Costs incurred for architectural, planning, engineering, and legal services related to public improvements and extraordinary site conditions.
<b>Discretionary Costs</b>	The estimated contingency costs are 5% of total improvement costs.

**Table 2. Eligible Estimated Project Costs**

Project Cost	Kind	Location	Total Eligible Value (\$)
Soil Borings and Environmental Testing	Professional	Site	\$25,000
Site Work	Capital	Site	\$750,000
Soil Remediation & Site Preparation	Capital	Site	\$60,000
Structural Engineering	Capital	Building	\$185,000
Parking Structure Construction	Capital	Building	\$2,572,500
Exterior Façade Enhancement	Capital	Building	\$462,000
Window and Metal Overhang	Capital	Building	\$150,000
Elevator Bank, Separated	Capital	Building	\$125,000
Vertical Construction (site constraint)	Capital	Building	\$285,000
Sheet Piling	Capital	Building & Site	\$290,000
ADA Accessibility	Capital	Building	\$25,000
Utility Connections and Tie-in	Capital	Site	\$50,000
Boulevard and Streetscape	Capital	Site	\$75,000
Professional Fees (Legal)	Professional	Site	\$150,000
Contingency	Discretionary	Site	\$216,000
Financing Costs*	Financing	Site	\$374,400
Architectural, Civil Engineering	Professional	Building	\$115,200
<b>Identified TIF-eligible costs**:</b>			<b>\$5,910,100</b>
<b>Total TIF Requested:</b> <i>(42% - 45% of costs associated with public benefit)</i>			<b>\$2,500,000 - \$2,900,000</b>

\*Financing costs list interim financing costs during the construction period. Permanent financing costs of up to 6% on TIF-approved expenses are in addition to this amount.

\*\* The cumulative expenses allowed by this plan are controlled by this number. If the cumulative reimbursed costs exceed this amount, an amendment to the plan will be required.

The costs for works or improvements are defined in SDCL 11-9-14 as "Project Costs," and include:

*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 11-9-14.*

Specific items which are included as Project Costs may 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 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 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, the implementation of project plans, or to stimulate and develop the general economic welfare and prosperity of the state. SDCL 11-9-15.

All Project Costs listed may be expended as Grants.

Site utility upgrade work provided by the utility at their expense could include the following:

- Replacement of the existing single phase overhead power line in the alley with a three-phase underground system, using the underground feeder that is in the street to the south of the project site.
- Coordination with project engineer to estimate load.
- Installation of a pad mount transformer in the alley at an agreed upon location.
- Special modifications or design specifications may have incremental costs associated with them per final design plans.



## OBJECTIVES

The City is working to develop an economic and competitive base to benefit the City and the State as a whole. All the Project Costs, land acquisition, and professional fees are found to be necessary and convenient to the creation and implementation of the Tax Increment District. The project constitutes a proper public purpose. Improvements are made under the powers expressly stated and inferred by SDCL 11-9-2(2) and 11-9-15. All contracts shall be entered into in accordance with South Dakota law.

### OBJECTIVE A: PUBLIC PARKING

The proposed project adds a net 125 parking spaces to the heart of downtown. Washington Square will be constructed directly across the street from the Washington Pavilion and within one block of the Sioux Falls State Theatre. Both venues will have a combined seating capacity of 3,000 (Washington Pavilion with 2,200 seats, and Sioux Falls State Theatre with future seating capacity of 800 once operational). While the addition of public parking options in downtown is of benefit to all visitors to the area, it will be especially helpful to these entertainment venues during performances.

In 2014, the City of Sioux Falls contracted Walker Parking Consultants to conduct a comprehensive parking study of Downtown Sioux Falls. The report concluded that while current parking capacity was sufficient, the present parking capacity will not support future growth. The following excerpt from the report's executive summary states up to 2,124 additional spaces are needed to support additional growth in the downtown area.

*"If 190,000 square feet of commercial space and 1.0 million square feet of office space are added to Downtown Sioux Falls over the next twenty years, then a baseline deficit of 1,124± spaces is projected with a need for approximately 2,104± long-term spaces for weekday employees and approximately 20± spaces for short-term visitors. Up to 2,124± spaces will need to be strategically added to downtown over the next twenty years. This conclusion is based on the assumption that new commercial and office development would be distributed throughout downtown and future parking needs would be partially addressed by the current surplus of public and private parking supply."<sup>1</sup>*

The parking study sub-divided Downtown Sioux Falls into eight areas. Washington Square will be in sub-area 5 which is defined by Minnesota Avenue to the west, 2<sup>nd</sup> Avenue to the east, 14<sup>th</sup> Street to the south, an 10<sup>th</sup> street to the north. The proposed tax incremental district is in the southwestern portion of Block 14 within sub-area 5. Current parking statistics utilized in the study are featured in Table 3.

**The proposed project will increase the total public parking in sub-area 5 by 7% and the public off-street parking by 10%.**

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<sup>1</sup> *City of Sioux Falls Downtown Parking Demand and Site Planning Analysis*; Walker Parking Consultants; October 2, 2014

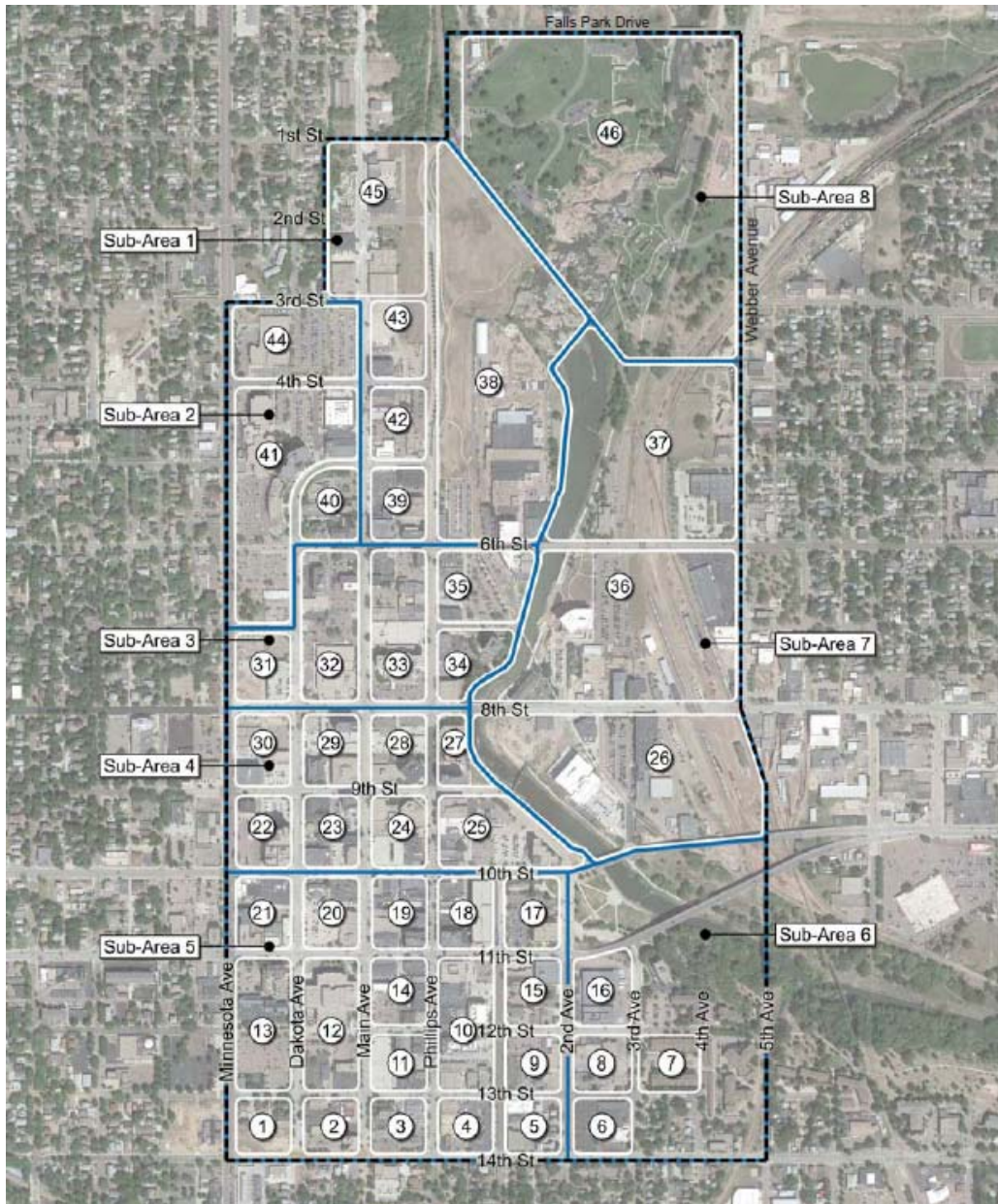


Figure 3. Study Area (Exhibit 3, Parking Needs and Site Planning Analysis; Walker Parking Consultants 2014)

**Table 3. Sub-Area 5 Private and Public Spaces**

Block	Private Off-Street	Public Off-Street	Public On-Street	Total Supply	Total Public Supply
1	40	0	0	40	0
2	123	0	8	131	8
3	126	0	22	148	22
4	21	118	31	170	149
5	47	0	15	62	15
6	126	0	0	126	0
9	76	50	30	156	80
10	85	0	66	151	66
11	47	288	37	372	325
12	157	59	40	256	99
13	287	0	27	314	27
<b>14</b>	<b>62</b>	<b>0</b>	<b>53</b>	<b>115</b>	<b>53</b>
15	124	29	35	188	64
17	237	0	28	265	28
18	0	630	27	657	657
19	0	0	41	41	41
20	157	72	31	260	103
21	16	0	14	30	14
<b>TOTAL:</b>		<b>1246</b>	<b>505</b>		<b>1751</b>

The City of Sioux Falls issued a Request for Proposals to increase parking at the city-owned 1<sup>st</sup> Avenue and 10<sup>th</sup> Street location in Sub-Section 4. The RFP is in line with the Sioux Falls Capital Improvement Plan (CIP) 2015 – 2019. CIP Project 19002 which designates \$10M in 2016 to “Projected additional public parking that will be needed to meet the demand for downtown parking.” Although the City’s proposed project will make an additional impact on parking capacity, this project alone will not cover the future parking demand of downtown constituents and users, particularly in areas adjacent to performing arts venues (Washington Pavilion, currently, and the Sioux Falls State Theatre). These venues stand to significantly benefit from additional parking access for their patrons within short walking distance to their respective locations. At the Pavilion, Co-President Larry Toll noted the increased parking options Washington Square would bring for patrons. “When the Pavilion hosts multiple events, it can be challenging to park,” stated Toll. “We had about 3,500 people in the building [on a] First Friday; downtown was full, and people would come in and say they had to park really far away,” he further stated. “This [Washington Square] will be another great, great asset for us and the city itself.”

The Sioux Falls State Theatre, which will seat 800, will likely have events such as movie premiers, overlapping Washington Pavilion or other Downtown Sioux Falls events. Stephen Williamson, Sioux Falls State Theatre Executive Director, noted, “When we work with funding agencies and donors, their concern over nearby parking is continually an issue. Washington Square public parking will help alleviate those concerns.”

The additional parking will also ease the burden during Downtown Sioux Falls closures for special events including but not limited to parades, Hot Harley Nights, and Hot Summer Nights.

## OBJECTIVE B: COMMUNITY REDEVELOPMENT

A combination of private investment and tax increment financing will assist progress toward the following additional objectives:

- To address and remedy conditions in the area that impair or arrest the sound growth of the City;
- To implement the Downtown 2025 strategic plan;
- To implement the Sioux Falls' Shape Sioux Falls 2035 Plan;
- To implement the recommendations of the 2014 Downtown Sioux Falls parking study;
- To redevelop and rehabilitate the area in a manner which is compatible with and complementary to the neighborhood, particularly the Washington Pavilion and Sioux Falls State Theatre;
- To effectively utilize undeveloped and underdeveloped land;
- To ultimately contribute to increased revenues for all taxing entities;
- To encourage the voluntary rehabilitation of improvements;
- To watch for market and/or project opportunities to eliminate blight, and when such opportunities exist, to take action within the financial, legal, and political limits of the City to acquire land, demolish and remove structures, provide relocation benefits, and pursue redevelopment, improvement and rehabilitation projects; and
- To improve areas that are likely to significantly enhance the value of property in the district.

In 2015, ArLand Land Use Economics issued the *Sioux Falls Downtown Market Study*<sup>2</sup>. The study concluded, there is a demand for the following spaces through 2035:

*Residential 1,900-3,200 multifamily units including apartments and condos*

*Retail 190,000 to 475,000 square feet of future retail and restaurants*

*Office 1.0 to 1.6 million square feet of additional office space*

The project fulfills objectives of the Sioux Falls' Shape Sioux Falls 2035 Plan and 2025 Downtown Plan through the addition of retail space, office space, and residential housing.

## DESCRIPTION OF NON-ELIGIBLE PROJECT COSTS

The total cost of all improvements within the boundaries of the TIF District in excess of \$30,000,000. Of these costs, \$5,900,000 is identified as TIF eligible project costs with the remainder of approximately \$24,000,000 as non-eligible project costs.

**PARTICIPATION RATE:** up to 9.5% (TIF requested –up to \$2,900,000 ÷ total project costs \$30,000,000)

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<sup>2</sup> *Sioux Falls Downtown Market Study*; ArLand Land Use Economics; July 2, 2014

## ECONOMIC FEASIBILITY STUDY

Washington Partners, LLC requests the consideration of a Tax Increment Finance District to support project eligible costs which are listed above. The site is currently assessed at \$324,059. 2014- 2015 property taxes, which will be the base, were \$7,917.

The estimated annual tax increment resulting from the improvements with a 1% annual escalator is shown in Table 4. The assumptions for the tax increment calculations are below:

1. **2014 - 2016 Values.** Based on 2014 – 2015 property tax statements with a 1% escalator for 2015. The property assessment value is determined on November 1<sup>st</sup> of each year. That assessment then takes effect two years after the assessment (e.g. November 1, 2015 value will be the basis of the 2017 property tax).
2. **Estimated Value.** The construction costs will be in excess of \$30,000,000. The Director of Equalization had three independent assessors estimate value based on limited data provided in a draft copy of the project plan. The Director of Equalization, project team, and Community Development representatives estimate the range of the valuation of the project to be between \$16,000,000 and \$21,000,000, with a high level of confidences the valuation will be at \$18,000,000 or higher. Therefore, \$18,000,000 is the assumed value in evaluating the financial feasibility and fiscal impact of the project. The value is escalated at 1% point forward.
3. **Non-Ag Valuation Adjustment.** The value is based on the 2014 Minnehaha County non-agricultural adjustment value. Please note the adjustment value is re-calculated each year. For the purposes of this study, the 2014 value will be used for each year. The developer is aware this value will change each year.
4. **Assessed Value.** The assessed value is the estimated, conservative market value multiplied by the non-agricultural valuation adjustment.
5. **Base Value.** The base value is the 2014 value per the 2014 – 2015 property tax statements for the proposed tax incremental district (County Parcel 43038).
6. **Increment.** The increment value is the difference between the assessed and base value.
7. **Levy per \$1,000.** The levy is based on the 2014 – 2015 property tax statement. Again, the developer understands the levy will be re-calculated each year. For the purposes of this study, the levy assumption is based on 2014 values.
8. **Taxes Payable for TIF.** The taxes payable for TIF are the increment value multiplied by the levy. The base property tax of \$7,917 will continue to go to the four entities (County, City, School, and School District) levying taxes upon the property until project payout. After project payout, the full tax amount will be allocated to the four entities.

Table 4. Projected Tax Revenue

Year	Estimated Value	Non-Ag Valuation Adjustment	Assessed Value	Base Value	Increment	Levy per \$1,000	Taxes Payable for TIF
2014	\$357,287			\$324,059			
2015	\$357,287			\$324,059			
2016	\$357,287			\$324,059			
2017	\$580,573	0.907	\$526,579	\$324,059	\$202,520	22.796	\$4,617
2018	\$8,336,378	0.907	\$7,561,095	\$324,059	\$7,237,036	22.796	\$164,975
2019	\$18,419,742	0.907	\$16,706,706	\$324,059	\$16,382,647	22.796	\$373,459
2020	\$18,603,940	0.907	\$16,873,773	\$324,059	\$16,549,714	22.796	\$377,267
2021	\$18,789,979	0.907	\$17,042,511	\$324,059	\$16,718,452	22.796	\$381,114
2022	\$18,977,879	0.907	\$17,212,936	\$324,059	\$16,888,877	22.796	\$384,999
2023	\$19,167,657	0.907	\$17,385,065	\$324,059	\$17,061,006	22.796	\$388,923
2024	\$19,359,334	0.907	\$17,558,916	\$324,059	\$17,234,857	22.796	\$392,886
2025	\$19,552,927	0.907	\$17,734,505	\$324,059	\$17,410,446	22.796	\$396,889
2026	\$19,748,457	0.907	\$17,911,850	\$324,059	\$17,587,791	22.796	\$400,931
2027	\$19,945,941	0.907	\$18,090,969	\$324,059	\$17,766,910	22.796	\$405,014
2028	\$20,145,401	0.907	\$18,271,878	\$324,059	\$17,947,819	22.796	\$409,138
2029	\$20,346,855	0.907	\$18,454,597	\$324,059	\$18,130,538	22.796	\$413,304
2030	\$20,550,323	0.907	\$18,639,143	\$324,059	\$18,315,084	22.796	\$417,511
2031	\$20,755,826	0.907	\$18,825,535	\$324,059	\$18,501,476	22.796	\$421,760
2032	\$20,963,385	0.907	\$19,013,790	\$324,059	\$18,689,731	22.796	\$426,051
2033	\$21,173,019	0.907	\$19,203,928	\$324,059	\$18,879,869	22.796	\$430,385
2034	\$21,384,749	0.907	\$19,395,967	\$324,059	\$19,071,908	22.796	\$434,763
2035	\$21,598,596	0.907	\$19,589,927	\$324,059	\$19,265,868	22.796	\$439,185
<b>TOTAL</b>							<b>\$7,063,171</b>

As highlighted in Table 4, the projected tax revenue for the project will complete the TIF payback in 2026, or just over 10 years from the start of the district. If the tax reduction program is utilized for this project and/or the valuation of the property is higher or lower, the payback period will correspondingly change in an inverse relationship. However, there is not an anticipated scenario in which the TIF payback period would exceed 15 years, much less the statutory limit of 20 years.

#### METHOD OF FINANCING

Project Costs shall be paid by the proceeds of tax increment revenue. There shall be no advances by the City. The City may reimburse for administrative costs from the tax increments as defined by the development agreement between the City and Washington Partners, LLC. These improvements will require private financing by each respective property owner. The City will enter into a development agreement with the property owner to

reimburse expenses identified within the plan. The maximum amount payable will be determined based on the actual amount of increment generated or total eligible expenses, whichever is less.

## ESTIMATED IMPACT OF TIF ON REVENUES OF TAXING JURISDICTION

During this reimbursement phase, the anticipated annual increase in taxes is expected to pay project costs and have a positive fiscal impact on all entities levying taxes upon property in the proposed TIF.

**Table 5. Total Tax Levy**

<b>Total Tax Levy</b>	<b>22.796</b>	<b>% of Levy</b>
Minnehaha County	3.424	15.03%
Sioux Falls School District	14.381	63.09%
Water District	0.027	00.10%
City of Sioux Falls	4.964	21.78%

*Source: Minnehaha County Treasurer; 2014 Property Tax Statement*

Upon fulfillment of the TIF reimbursable period, it can be estimated that the property will be valued at approximately \$20,000,000 in 2027. For the purposes of this study, we assume the 2014 effective tax rates for Downtown Sioux Falls will be 2.2796%<sup>3</sup> which would generate the following annual property tax revenue (see table below, middle column). Of note, we have also modeled forecasted tax revenues for the property if no additional development was undertaken by the owners. The same assumptions for escalation rate for property valuation and effective tax rate have been used (see table below, right column). Development of this property yields significantly higher tax revenues than otherwise would be afforded to the respective constituents.

**Table 6. Total Tax Payments (with and without development)**

<b>Total Tax Payment, Year 2027</b>	<b>FORECASTED, with TIF \$412,402</b>	<b>FORECASTED, no additional development \$8,407</b>
Minnehaha County	\$61,984	\$1,264
Sioux Falls School District	\$260,184	\$5,304
Water District	\$412	\$8
City of Sioux Falls	\$89,821	\$1,831

Readers should take into consideration that tax rates are adjusted annually. However, the above table provides an estimate of the project's benefit to the City, County, water district, and school district.

## AGGREGATE VALUE OF TAX INCREMENT DISTRICTS

Under SDCL 11-9-7, the aggregate assessed value of the TIF District may not exceed 10% of the total assessed value of taxable property in Sioux Falls. Per the Minnehaha County Department of Equalization, the total value of

<sup>3</sup> Effective tax rate table was attained from the Minnehaha County Department of Equalization on March 25, 2015. Rate is dictated by school district 49-5.

all active TIF districts in Sioux Falls is significantly less than 10%. The base value of all TIF districts is \$23,000,000, which is significantly less than \$1B. The total valuation of property in Sioux Falls exceeds \$10 billion.<sup>4</sup>

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<sup>4</sup> Per interview with Director of Equalization on March 25, 2015.



## ECONOMIC DEVELOPMENT

The Washington Square project will introduce \$30 million dollars of capital expenditures into the Sioux Falls economy over the 1 to 2 year construction period. In addition, the project will introduce long-term economic development impacts to the Sioux Falls Metropolitan area as new jobs and spending are projected to be created from the expansion of commercial and retail space. These impacts can be quantified and measured using the U.S. Bureau of Economic Analysis' (BEA) Regional Input – Output Modeling System II (RIMS II).

The BEA has been collecting data and helping developers understand the bigger picture of changes in economic activity since the 1970's. The most current version of the BEA's model, RIMS II, is the standard in quickly identifying and understanding the impacts to a region's economy when considering any type of major build out of activities that will generate construction, long-term new business and an increase in employment.

"The idea behind the results of RIMS II is that an initial change in economic activity results in other rounds of spending—for example, building a new road will lead to increased production of asphalt and concrete. The increased production of asphalt and concrete will lead to more mining. Workers benefiting from these increases will spend more, perhaps by eating out at nicer restaurants or splurging more on entertainment." (RIMS II Manual, page 1-1).

The BEA has developed mathematical relationships by industry for these incremental downstream changes or economic impacts. The relationships are provided in the form of RIMS II Multipliers that are used with the project's projected cost, revenue and/or employment impacts. The most recent Type II multipliers available are from data collected in 2010.

Type II Multipliers were used for the Washington Square project to best estimate economic impacts. The Type II Multipliers best account for all inter-industry impacts from construction and direct employment as well as the change to household spending. A concern with using Type II multipliers to model the effects of an impact is that one must take into account the potential for household spending to take place outside the region of study. As well, one must take into account only the incremental business generation from the project. Therefore, we deducted the existing revenue streams from leased parking. However, we allowed 100% of the retail lease income as it is assumed tenants will be new business in line with the Sioux Falls Downtown 2025 Strategic Plan indicating the growth in demand for retail space. Direct Effect multipliers were not used because the project does not intend to employ material amounts of labor.

The Washington Square project falls within the U.S. Office of Budget and Management's Sioux Falls Regional Metropolitan Statistical Area (MSA). This MSA consists of Minnehaha, Lincoln, Turner and McCook Counties in South Dakota. Per the BEA's recommendation, and because we believe the majority of household level economic impacts will be within the MSA, we have used RIMS II multipliers calculated specifically for the Sioux Falls MSA. These multipliers are featured in Table 7.

**Table 7. RIMS II Multipliers (2010/2010)**

RIMS II Multipliers (2010/2010)						
Total Multipliers for Output, Earnings, Employment, and Value Added by Industry Aggregation Sioux Falls, SD Metropolitan Statistical Area 2010 (Type II)						
Industry	Multiplier				Direct Effect	
	Final Demand			Value-added	Earnings (\$)	Employment
	Output (\$)	Earnings (\$)	Employment (jobs)	(\$)		(jobs)
7. Construction	1.8305	0.6326	17.7785	1.0154	1.6287	1.7222
47. Rental and leasing services and lessors of intangible assets	1.7055	0.5016	13.4330	1.1654	1.7161	1.8457

Source: RIMS II Multipliers (2010/2010)

The industry from the RIMS II Type 2 Sioux Falls MSA Multiplier table that best represents the lease income from the project is 46. Real Estate. It is intended to include rent and lease income. Note, Industry 47, although seemingly related is intended for equipment, software and other business-to-business leasing enterprises. Results can be found in the tables below.

**Table 8. Projected economic gains of Washington Square from rental/leasing services**

Final Demand Multiplier Type II 2010 <i>Real Estate Industry</i>		Incremental Project Output	Annual Economic Development Gain	10 Year Economic Gain
<b>Total Output Increase Within MSA</b>	1.4983	\$590,583	\$884,871	\$8,848,705
<b>Earnings Portion Increase Within MSA</b>	0.1784	\$590,583	\$105,360	\$1,053,600
<b>GDP (Value Added) Increase Within MSA</b>	0.9935	\$590,583	\$586,744	\$5,867,442

According to the BEA, \$590,583 of new lease income from the project will generate a total of \$884,871 of new business per year from all industries in the Sioux Falls MSA (including the \$590,583). Included is \$105,360 of direct new household earnings. The net value add or increase in GDP across all industries may reach \$586,744 per year. As with all models, these projections are only estimates and actual results may vary considerably given potential for changes in project design and long term economic conditions.

The industry from the RIMS II Type 2 Sioux Falls MSA Multiplier table that best represents the construction expenditures from the project is 7, Construction. Only one (1) year of impact is provided which matches the material construction events of the project. The results can be found in Table 9.

**Table 9. Projected economic gains of Washington Square from construction**

Final Demand Multiplier Type II 2010 <i>Construction Project</i>		Incremental Project Output	1 Year Project Development Gain
<b>Total Output Increase Within MSA</b>	1.8305	\$30,633,615	\$56,075,000
<b>Earnings Portion Increase Within MSA</b>	0.6326	\$30,633,615	\$19,370,000
<b>GDP (Value Added) Increase Within MSA</b>	1.0154	\$30,633,615	\$31,105,000
<b>Employment Jobs Created Within MSA</b>	17.7785	\$30,633,615	533

According to the BEA, \$30 million of new construction expenditures from the project will generate a total of over \$56 million of new business from all industries in the Sioux Falls MSA (including the \$30 million). Included is \$19.4 million of direct new household earnings. The net value add or increase in GDP across all industries may reach \$31 million. Finally, it is projected based on information provided that there is a potential to generate 533 new full and or part-time jobs in the Sioux Falls MSA during the construction period. As with all models, these projections are only estimates and actual results may vary considerably given potential for changes in project design and long term economic conditions.

The analysis above is intended to calculate the impact to the local economy from the increase in rent and lease revenue from the project. Additionally, there is an overwhelming potential for the occupants or renters to provide new outputs (revenues) for the Sioux Falls MSA. However, it is difficult to project these economic development gains due to the unknowns of not having the project constructed and leases signed. Nonetheless, with the potential impacts being large, we have projected a range of assumptions as to what type of business (defines RMS II category) and their level of revenue for the MSA.

The most important and most sensitive variable is the amount of new revenue versus existing revenue. We are comfortable using a range of between 25% and 75%. For example, if the new renter is moving from another location in the Sioux Falls MSA, one might only include 25% of their revenue. However, if it is a new business coming from outside of Sioux Falls, one might assume 75% of the revenue could be new to the area. Results can be found in Table 10.

**Table 10. Projected total economic development gain as a result of constructing Washington Square**

<b>Final Demand Multiplier Type II 2010 <i>Total Economic Development Add (Projected)</i><sup>5</sup></b>		<b>Incremental Project Output</b>	<b>Annual Economic Development Gain</b>	<b>10 Year Economic Gain</b>
<b>Total Output Increase Within MSA</b>	Mixed	\$2,586,375 to \$7,759,125	\$4,496,907 to \$13,490,722	44,969,072 to \$134,907,218
<b>Earnings Portion Increase Within MSA</b>	Mixed	\$2,586,375 to \$7,759,125	\$1,683,171 to \$5,049,513	\$16,831,711 to \$50,495,133
<b>GDP (Value Added) Increase Within MSA</b>	Mixed	\$2,586,375 to \$7,759,125	\$2,928,266 to \$8,784,800	\$29,282,667 to \$87,848,003
<b>Employment Jobs Created Within MSA</b>	Mixed	\$2,586,375 to \$7,759,125	50 to 151	

According to the BEA and based on a range of assumptions of new renter generated revenue of between \$2.6 and \$7.8 million per year, the project will generate between \$45.0 and \$135.0 million of new downstream business from all industries in the Sioux Falls MSA. Included is \$16.8 to \$51.0 million of new household earnings. The net value added or increase in GDP across all industries may reach between \$29.3 to \$87.8 million. Finally, it is projected based on information provided that there is a potential to generate or maintain between 50 to 151 full and/or part-time jobs in the Sioux Falls MSA. As with all models, these projections are only estimates and actual results may vary considerably given potential for changes in project design and long term economic conditions.

<sup>5</sup> Assuming 25% to 75% new business to the MSA.

## BLIGHTED PROPERTY

### HISTORY

The proposed Tax Incremental District encompasses land entirely owned by the same entity – H4J1 Development Companies LLC. There is an alley between properties owned by H4J1 and properties on the east half of the lot.

H4J1 Development Company purchased the property in addition to two adjacent properties to the north in 1999 from the Borgen family. The original H4J1 Development Company property boundaries are bordered in green (see Figure 5).

A new entity, Washington Square, LLC, has been formed for the purpose of constructing and operating a multi-use building on the property as noted in red below.



Figure 4. Proposed site of Washington Square

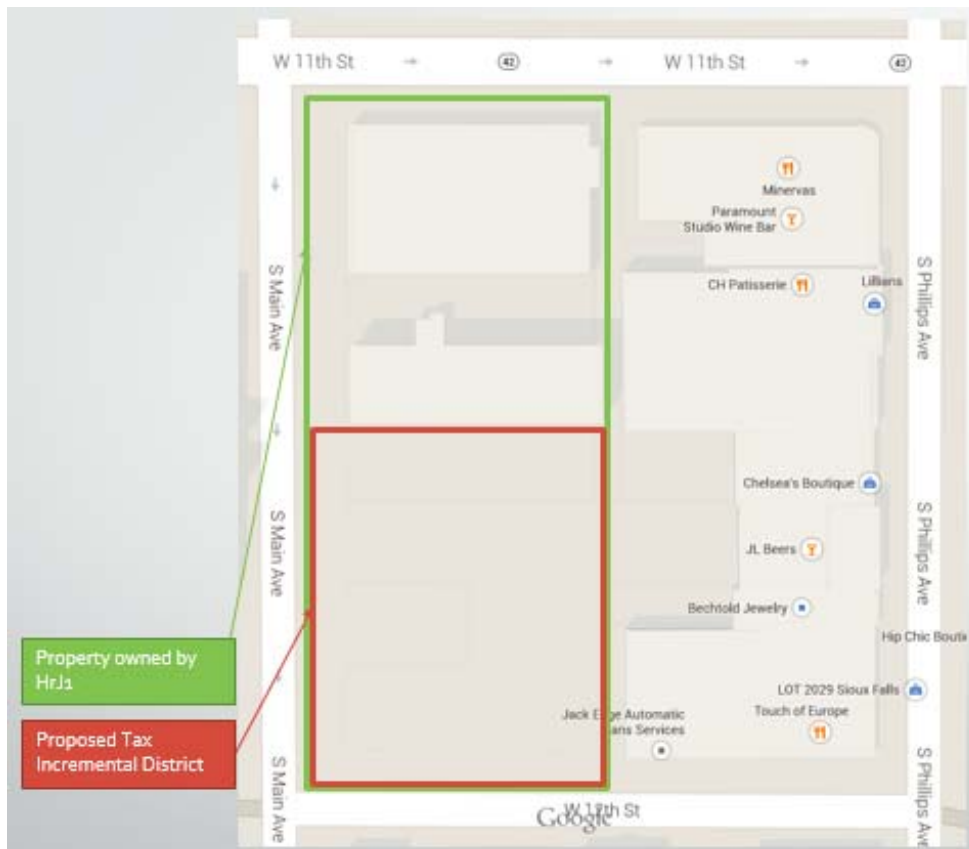


Figure 5. Property ownership relative to proposed TIF District

Since purchasing the property, H4J1 Development Company has demonstrated its commitment to improve not only the historical and architectural quality of downtown structures, but also the economic viability of downtown Sioux Falls. The original property consisted of the existing parking lot (future location of Washington Square), and two additional buildings at 300 and 314 South Main Avenue respectively. Both of these structures have been significantly renovated and refaced, creating an aesthetically pleasing façade adjacent to cultural and performing arts venue, The Washington Pavilion, and other businesses.



Figure 6. 300 S Main, Before



Figure 7. 300 S Main, After

**Adjacent Property 1 - 300 South Main Avenue:** For several decades (1928 ~1980), this property was home to Chevrolet dealerships. In 1983, Pat Beckman remodeled the building and leased it to various commercial tenants. H4J1 Development Company purchased the property in 2008, and renovated it in 2011. Post-renovation, the building is now being leased to the Boyce Law Firm. Figures 6 and 7 highlight the owners' community investment and interest in developing attractive, well-constructed structures on the property.

**Adjacent Property 2 – 314 South Main Avenue.** In addition to the building at 300 South Main as just described, H4J1 Development Company completed significant renovations to the structure at 314 South Main in 2008. See figures 8 and 9 below. Prior to the renovation, the property was an adult video store. Post-renovation, it is now being leased to the federal government.



Figure 8. 314 S Main, Before



Figure 9. 314 S Main, After

**Study Property – 120 West 12<sup>th</sup> Street.** During the development of downtown Sioux Falls in the 1920's, wood-framed retail buildings were constructed on the property. The buildings were torn down in the 1990s due to abandonment and resulting structural deterioration. Subsequently the land was graded and a parking lot was constructed in 2008. Presently, there are 80 spaces which are being leased to area businesses.



Figure 10: 120 W. 12 Street. Published March 1, Emily Spartz Weerheim, Argus Leader - Main and 12<sup>th</sup>



Figure 11: 120 W. 12 Street. Published March 3, Sioux Falls Business Journal, Argus Leader, submitted photo

## ESTABLISHMENT OF BLIGHT

Prior to the removal of the original buildings, there was a risk of safety concerns. Due to the efforts of the owners, the property no longer causes safety or disease concerns with the removal of the original buildings; however, the resulting parking lot still qualifies for blight under SDDC 11-9-11 under subsection (c) in that it is an open area that impairs growth.

## WASHINGTON SQUARE PROJECT PLAN



Figure 12 Aerial photo of project site

*"Any area which is predominantly open and which because of obsolete platting, diversity of ownership, deterioration of structures or of site improvements, or otherwise, substantially impairs or arrests the sound growth of a municipality, is a blighted area."*

As evidenced in the aerial representation of the project site, the existing parking lot appears blighted; compared to neighboring properties, the lot is not attractive, inefficient in its use, and adds no character to the landscape of the city, notably to Downtown. Directly across the street from the Washington Pavilion, the current space does not contribute to the aesthetic beauty or functionality of parking for the Pavilion or other area businesses and restaurants.



**Figure 13. Rooftop features proposed for Washington Square**

An often unintentional consequence of property redevelopment is creation of street-level surface parking that fails to be developed into something more useful to the community; cities including Minneapolis, Salt Lake City, and San Diego have embraced policies that encourage new residential and/or multi-use construction on areas that otherwise might be more conveniently left as surface parking only. Surface parking is arguably an eyesore in a community, as compared to architecturally pleasing store fronts or landscape. Even if mitigated with strips of grass and/or trees, parking lots are aesthetic dead zones in an urban

landscape.

Washington Square owners view the proposed project as an opportunity to turn an otherwise lackluster property into an asset for the community. While the north end of the downtown district has seen developmental growth –



particularly buildings and housing that invite residents and visitors to visit and live in downtown – the south end has not seen significant economic growth, especially at this scale. The area in question does not pose physical, financial, or legal distress as often associated with blighted neighborhoods, yet the existing use of the property as a parking lot would be considerably improved with the development of Washington Square. The construction and ultimate occupancy of this building with retail, office, and residential tenants will directly contribute to the revitalization of downtown Sioux Falls. With its modern façade, innovative interior design, and incorporation of green and other natural elements, it will clearly be an asset to the Sioux Falls community. Making this area home to the proposed mixed-use building as described will put this space to much better use, and will better serve the surrounding neighborhood with expanded public parking availability and overall visual appeal.

**Figure 14. Landscape features proposed for Washington Square**

Neighboring property director, Washington Pavilion's Larry Toll recently reflected on the design plans for Washington Square in an interview with the Sioux Falls Business Journal: "It looks spectacular.

When you look across the street today and see a hole, to think something could rise up out of that would be just gorgeous."<sup>6</sup> Further, neighboring business Home Federal has noted a shortage of public parking in the immediate vicinity. President and CEO Steve Bianchi stated (April 6, 2015): "There is a shortage of convenient public parking in the immediate vicinity of Washington Pavilion, Embe and YMCA. We know this because we make available the top portion of our structured private parking during weekday evenings and all day weekends. At times our parking (84 spots) become filled during weekdays because of non-bank business making it an inconvenience to those who work for us and bank with us. While we have remained a good neighbor in making our space available to the community, we know firsthand there is insufficient public parking in our area of downtown."

#### RELOCATION OF AFFECTED PERSONS

There are no families or persons residing on the premises and therefore no relocation plan is needed.

#### ZONING AND PROPERTY USE IMPACT

##### EXISTING USES AND CONDITIONS OF THE PROPERTY

The proposed property is currently used as an office and public service space (land activity use code 35, public service facility) due to the parking lot infrastructure in place. Neighboring properties are zoned as similar buffer spaces to the north (other offices), and commercial (low, moderate, and high intensity) to the east.

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<sup>6</sup> \$25M Condo/Retail/Office planned for Main Avenue. Argus Leader, Jodi Schwan, March 3, 2015.



Figure 15. Existing Land Use Activity of the Proposed District and Adjacent Property



Adjacent property within the same city block as the proposed Tax Incremental District is zoned as indicated in Figure 15, with the majority of property to the east classified as commercial property with varying levels of intensity as noted. The property to the north of the proposed district of same owner is classified as "other offices".

**Table 11. Land use and tenants/occupants of adjacent properties**

Land Use Activity Code	City Parcel ID	Owner	Lease/Occupant Information
33	012216361019000	HRJ1 Development Company LLC	Boyce Law Firm Government tenant
51	012216361018000	DDSP LLC	Minerva's Paramount Studio
53	012216361006000	Telford CO	CH Patisserie Amanda's Imagery Lillian's Commercial offices for lease
51	012216361015000	Meierhenry, Mark V & Todd & Sabrina	Meierhenry Sargent Law
51	012216361016000	Howe Investment Company LLC	The Bead Company Atoley Salon Chelsea's Boutique
52	012221103003000	Brenkevco Properties LLC	Chedd's Gourmet Grilled Cheese JL Beers
52	012221103004000	Bechtold, Phillip J Etal C/O Steven I Bechtold	Bechtold Jewelers
52	012221103005000	Egge, Evelyn M	Vacant (formerly Touch of Europe) Taqueria Tacos and Burritos Lot 2029 Clothing Automatic Transmission Service

**PROPOSED IMPROVEMENTS AND USES OF THE PROPERTY**

A 7-story urban-style, mixed-use \$30 million building that would combine retail, offices, parking and condominiums is planned on the corner of Main Avenue and 12<sup>th</sup> Street in the current location of the parking lot. There will be 69 underground parking spaces followed by one level of retail. Two stories of above-ground parking would offer 125 spaces, which would be available to the public for free during non-business hours. The plan calls for one or two floors of office space, depending on demand. The top three floors are planned as 18 residential units that would share a rooftop patio. The target audience for the condominiums are those who are in retirement or are getting close to retirement and want to be in a more vibrant area where they can be more social.

The owners looked at mixed-use projects from California to Kansas City, Chicago and Des Moines before deciding to work with Minneapolis-based architect BKV Group for conceptual drawings. The company has worked on similar projects for the past decade, according to partner Mike Krych. "It's been gaining a lot of momentum in the past 10 years, so now it's a pretty common element in metro areas," he said. "The mixed-use projects collect a lot of different uses under a smaller land area, and by combining these multiple functions vertically, it's really a green solution to providing multiple things that cities and downtowns need." In preparing conceptual drawings for Washington Square, BKV tried to relate to the existing fabric of the city, he said. "The first thing that comes to mind is Sioux quartzite stone, so that was an important component," Krych said. "A lot of glass with the streetscape to allow you to see in and out of the building, to try to make it very welcoming and open. We wanted

this to be fresh and new and modern and yet using local materials, so the project will be a high-quality structure using high-quality materials."<sup>7</sup>

## PROPOSED CHANGES OF ZONING ORDINANCES

Once constructed, Washington Square will be a mixed use building, reflecting the following activity codes:

- #35, Buffers, public service facility (parking garage/ramp)
- #22, Residential, multi-family 9-24 units (condos)
- #33, Buffers, other offices
- #51, Commercial, low intensity (retail)

## ALIGNMENT WITH SIOUX FALLS MASTER PLANS

The project easily conforms to Sioux Falls' Shape Sioux Falls 2035 Plan and its 2025 Downtown Plan, as both plans are geared toward increasing the city's economic development. Project alignment with the goals in each plan, respectively, are highlighted below.

### PROJECT ALIGNMENT WITH 2025 SIOUX FALLS DOWNTOWN PLAN

The table below documents the 2025 Sioux Falls Downtown Plan in the left column and the proposed project's alignment to the plan on the right hand column.

**Table 12. Project Alignment with 2025 Sioux Falls Downtown Plan**

<b>Economy 1: Stimulate economic growth through strategic use of public resources and attracting private sector investment.</b>	With the assistance of tax increment financing, the Washington Square project will introduce \$30 million dollars of capital expenditures into the Sioux Falls economy over the 1 to 2 year period of construction. In addition, the project will introduce long-term economic development impacts to the Sioux Falls Metropolitan area as new jobs and spending is projected to be created from the expansion of commercial and retail space.
<b>1.1: Utilize tax abatement, tax increment financing, and the business improvement district and façade easement programs and determine where increased funding is needed.</b>	The eligible TIF costs are \$6,410,000 and the property will generate an incremental \$400,000+ taxes per year after payout. The project payout is calculated to be 10 – 15 years.  Tax incremental financing is critical for this project to succeed. The return on investment is -2% without TIF, yet increases to 5% with utilization of TIF.
<b>1.3: Identify surface parking lots for potential redevelopment sites.</b>	Addition of 125 parking spaces which will be free to public after weekday business hours and on weekends. Of the 125 spaces, 30 will be free to retail consumers.
<b>Economy 2: Increase the residential base and encourage a greater diversity of living options.</b>	Addition of 18 condominiums
<b>2.1: Utilize the Downtown Design Standards to encourage integration of</b>	Mixed use including retail, office, and residential

<sup>7</sup> \$25M Condo/Retail/Office planned for Main Avenue. Argus Leader, Jodi Schwan, March 3, 2015.

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mixed-use into developments.

**Environment 3. Develop design standards that enhance the aesthetic appeal of downtown.**

Refer to BVK drawings

**Environment 5: Ensure that downtown continues to be attractive, clean, and safe.**

Upgrading existing parking lot and underutilized land to vibrant, attractive mixed-use building.

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## PROJECT ALIGNMENT WITH SHAPE SIOUX FALLS 2035 PLAN

The project fulfills objectives of the Sioux Falls' Shape Sioux Falls 2035 Plan through the addition of parking, retail space, office space, and residential units in a mixed use building.

Mixed use planned unit development is in Chapter 4 of the Shape Sioux Falls 2035 Plan. Below is the excerpt that addresses the objective:

### ***Chapter 4 – Shape Transitions***

#### ***Option C – Mixed Use Planned Unit Developments***

*As another option, developers may look to the mixed-use planned unit development (PUD) option to afford additional design options. Mixed-use employment centers are also an option with this plan. Increased density, added land use flexibility, and the addition of residential uses are advantages with this option. As an example, the Sioux Falls **downtown area** is a mixed-use area and should be afforded the same PUD design options.*

*The intent of the **mixed-use PUD option** is to allow landowners and the City to be responsive to and accommodate changing market demands, allowing for new sustainable options, while mitigating known impacts. Rather than primarily regulating the use of a property, the mixed-use PUD areas are intended to emphasize the form, design, and function of development on the site, rather than the particular uses that occur in a building. (For more information, see "Mixed Use Options," later in this chapter.)*

*Mixed-use options allowed within residential areas with the following standards:*

- (1) Evidence can be shown that a high employment generator is nearby and that the market requires such.*
  - (2) Nearby employment center allocations are being underutilized.*
  - (3) Transitions can be maintained.*
  - (4) Commercial uses are very limited and not accessory in nature to the residential neighborhood.*
- c. The downtown mixed-use area is existing and shall be maintained as vertical mixed-use area.*