



Mission Statement

To provide exemplary experiences, services & spaces that create opportunities for everyone to learn, engage and thrive.

YANKTON BOARD OF CITY COMMISSIONERS

Work Session Meeting beginning at 6:00 P.M.

Monday, August 28, 2023

City of Yankton Community Meeting Room

Located at the Career Manufacturing Technical Education Academy formerly known as Technical Education Center • **1200 W. 21st Street • Room 114**

If you would like to watch the City Commission meeting you can do so by accessing the City of Yankton's YouTube Live Channel.

<https://www.youtube.com/channel/UCD1a1hf1dIkiLVSXnmdRQg/live>

Rebroadcast Schedule: Tuesday following meeting at 1:00 p.m. and Monday following meeting at 7:03 p.m. on Midco Channel 3 and Bluepeak Channel 98.

- 1. Roll Call**
- 2. Public Appearances**
- 3. Development Incentives and Development Processes**
- 4. Other Business**

Other business is a time for City Commissioners to address the commission regarding matters not on the agenda. These items will be deliberated by the governing body and will not be acted upon at this time. Items mentioned may be added to a future City Commission meeting or work session for deliberation or action.

- 5. Adjourn the Work Session of August 28, 2023**



MEMORANDUM

To: City Commission
From: Amy Leon *hnl*
Subject: Development Incentives and Development Processes
Date: August 22, 2023

Over the course of spring and summer, we have had a lot of inquiries regarding how economic development projects transpire and the rationale the City Commission uses for incentivizing economic development projects.

Attached is a memo from Dave Mingo, Director of Community and Economic Development. The memo discusses the process used for how we work with economic development leads and the various tools we use to incentivize economic development projects.

During the work session we will discuss these tools with the Commission and answer any questions you may have.

As a result of this work session, we would like to have direction from the City Commission on some of the following topics.

- **Should the City of Yankton change or expand any of the existing economic development incentives? (providing we are within the confines of SDCL)**
- **Should the City of Yankton continue to utilize the existing economic development incentives?**
- **Should any new economic development incentive programs be created for specific types of commercial or industrial use?**
- **Should staff continue with confidential processes involved with property development?**
- **Should background checks on individuals that are developing property in Yankton be a part of the process?**

Direction on these topics will be useful to staff in better defining our next steps. Once direction is given, we may need additional time to create a process associated with your direction. In addition, we may need to have further discussion with the Commission associated with structuring and funding any new or expanded incentive programs.

To: Amy Leon, City Manager
From: Dave Mingo, AICP Community and Economic Development Director
Subject: Development Incentives and Development Processes
Date: August 22, 2023

Economic Development is a complex, multi-variable process, including recruitment, retention and expansion, and applicable incentives. Each project is its own puzzle to be assembled. Because of this, the process many times ends up being an art as much as it is a science. Different tools are available based on the details of any given project and variables also include less quantitative things like evolving policy direction and prospect needs and wishes. Projects involving government processes take longer. Economic Development is not a cookie cutter process either. The discussion by nature, crosses over into City property ownership and management actions like acquisitions and dispersal, even though those things aren't typically thought of as incentives. All processes are required to follow the provisions of South Dakota Codified Law (SDCL).

Trust building is an important part of the economic development process. This works both ways. The prospect is attempting to gather information and determine the level of confidence they have in the community. Most of the time, initial inquiries come with explicit confidentiality requests. City staff approach confidentiality similar to the way bankers, attorneys and doctors view confidentiality with their clients and patients. Prospects reference competitive market advantages, investor confidence, and sometimes issues related to their current location as the reasons they require our staff to keep information confidential. At the same time, our staff and partners are determining whether or not we have trust and confidence in the prospect being able to execute the project they are considering.

Based on policy direction over time, the City's role is to help facilitate private investment in applicable instances. It must be acknowledged that the vast majority of private investment and projects occur without City involvement related to incentives or publicly owned land. Ideally, the City would not need to be involved in land ownership aside from public uses like parks, streets and utilities. However, there are circumstances when the City's inclusion in the chain of title on development property is the most practical means of facilitating development in a manner that reflects the community's vision. Instances like the acquisition of property from the State South Dakota of Human Services Center property (both Fox Run and the Mead Additions) and on east 15th Street south of Hydro are good examples.

Most prospect contacts are interested in locations owned by the private sector, and in those cases, it is infrequent that staff hears from them more than a couple times while assisting with their site analysis. In those instances, the primary questions relate to land use planning and zoning considerations.

Contacts from private sector investors and project developers come in many forms. They include but are not limited to:

- Direct contact with City staff.
- Contact with Yankton Thrive.
- Requests for Proposals from the Governor's Office of Economic Development (typically go to Thrive as the local Economic Development Corporation).

- From realtors.
- From site location consultants.
- Local citizen contact/referrals.

Each of these examples typically includes a significant amount of crossover with multiple local partners being involved to answer a prospect's questions. Initial discussions include gathering information from the prospect in an effort to help match proposed project needs and desires with sites that serve their purpose. The questions from our staff to the prospect create a path that identifies (hopefully) several locations that could suit the prospect's needs. In some instances, a prospect calls about a specific site and the focus then becomes a dialogue to determine if the site is a fit for both parties.

During the first contact, prospects describe their project, sometimes without naming names. They may identify the type of business, but not a brand chain name if it is new to town, or if it is an expansion of an existing business or a relocation. The answers to those questions help our staff begin consideration of the possibilities for providing assistance. Initial questions that are discussed typically include:

- Is it a full subdivision proposal or a single business?
- What type of business is it? (light commercial – heavy industrial)
 - This helps determine many things including helping to identify what funding tools may be available to help (state grants, TID, sales tax rebate etc).
- How much land is needed?
- Does the business need a high visibility location?
 - Most times, the answers to this questions lead to others like – do you need truck access? And what kind of a traffic generator do you expect the project to eventually be?

The answers to these questions help our staff determine what tools may be in the toolbox to help the project come to fruition. Sometimes there are no tools that fit, and the project finds its own path to completion. Sometimes there are applicable tools but for other reasons (interest rates, etc.) the prospect chooses not to proceed. The main thing staff is trying to determine is if there is a locational fit and if there are in fact incentive options that can be discussed based on past policy direction from the Commission. For example, certain sectors have been approved for sales tax rebates so that can become part of the conversation if it applies.

The Commission provides direction for development strategies through past strategic planning discussions and actions on development projects that have provided a framework for what staff is able to discuss with prospects. We also need to consider what the community can support at this time. Right now, the situation with housing shortages and labor availability have put Yankton in a tough spot. In the past, economic development recruiting efforts focused on attracting new major employers. While we remain open to working through the challenges if such an opportunity arises, a steady path of supporting the incremental expansion of current businesses and recruiting new businesses needing a modest number of employees is a better fit right now.

There is always risk with every project, and the risk varies based on specific circumstances. Through the course of building a relationship with the prospect, our staff and/or officials at Yankton Thrive consider the information available and weigh the risks involved. If the project seems viable, it is brought forward for consideration. There are many times when the developer chooses not to proceed based on factors beyond the City's control. There are other times where the project does not appear to be a fit from the City's perspective. In those instances, staff provides guidance based on the vision in place including direction from past similar types of considerations. If the prospect wishes to continue, the project will be brought to the City Commission's attention.

Incentives and Property Transactions

Facade Grant

The Downtown Yankton Facade Grant Program is a 50% public/50% private matching funds grant available to owners and tenants of existing commercial properties in the downtown area. The facade grant program began in 2016 in part due to efforts at that time to focus attention and resources on supporting the revitalization of the downtown area. The goal of the program is to stimulate private investment in downtown Yankton and improve the economic vibrancy of the area through fostering an attractive environment and preserving the architectural features of the downtown properties. Grant funds are available for the purpose of upgrading the appearance of the publicly visible exterior of structures.

Owners and tenants of existing commercial property excluding single family residences located in the Meridian District (an area south of 5th Street between Linn Street and Burleigh Street) are eligible to apply for assistance. Grant funds must be at least a 50/50 match with private investment. Often the property owner contributes more, in some cases much more in private dollars. The funds must be used to enhance the public facing building facade, with priority given to historic preservation and restoration projects. Since inception, the facade grant program has supported 23 projects. Grant funds of \$221,550.13 have been approved for a project improvements valued at more than \$567,000. Those figures only capture the eligible exterior portion of building renovations, not interior renovations or other remodeling and improvement efforts. This is funded through the 3rd penny Bed, Board and Booze Tax.

Sales Tax Rebate

The use of sales tax rebates as a tool has focused on sectors where the City is experiencing retail leakage. The best example of this is the home improvement sector before Menard's came to town. This tool is not typically used where the City has an economic pull factor. An example of a sector where Yankton has a pull factor would be grocery sales. The rebates are set up to be performance based. The only rebates provided are from those taxes generated by the specific business. They have two sunsets built into the agreements in the form of a maximum time limit (typically 10 years) and a cap on the total amount that can be rebated.

Tax Increment Districts

The City of Yankton has been historically conservative in its use of Tax Increment Districts (TIDs). TIDs are provided for in SDCL under the provisions described in Tax Increment Financing (TIF) law. The City typically considered TIDs based on the "but for" rule/policy.

As in, the development is valuable to the community and wouldn't happen "but for" the use of a TID as a development tool.

TIDs created in partnership with a private developer or Yankton Thrive are designed to be performance based. As such they are designed so the City is held harmless if the TID does not perform as planned. The City, through a contract, essentially serves as a pass-through agent of the increment, up to a certain amount, and for a maximum of 20 years per SDCL.

The City has more risk involved in instances where we act as the developer. That is unavoidable in instances like Fox Run or the Mead's Addition where the TID proceeds will not cover the costs of infrastructure because of the proximity / inclusion of non-taxable property.

The goal of a TID is to help facilitate the creation of taxable, private development on property, sooner rather than later, in an effort to recover the TID eligible costs associated with the project. When a TID is created, it is also important to remember that in most cases, we require private projects to waive the County's Discretionary Tax Formula. That means the project developer will pay fully valued taxes from the beginning rather than having the discounts that are automatically available to commercial and industrial projects outside the TID. This is a significant commitment by the private project developer that helps ensure the success of the TID by generating more increment in the early stages of the 20 year window.

One little understood aspect of some TID's is that there ends up being private properties that indirectly benefit from the TID eligible infrastructure improvements. For example, the Menards TID is paying for the Douglas Avenue and 33rd Street improvements that were constructed at the beginning of the TID process. Although out of the district, properties like the location of Wilson Trailer, Northwestern Energy's location and others on the east side of Douglas Avenue have benefited because that land did not need to carry half the cost of developing the street and other utilities.

City Owned Land and Transactions / Sales

As mentioned, ideally the real estate market would proceed without the City being in the chain of title. However, there are times, mostly based on outside influences, where it makes sense for the City to acquire land. For example, the land on the north side of East 15th Street, south of Hydro, was acquired by the City as a part of a larger plan that facilitated an expansion of the manufacturing plant. Also, areas like Fox Run and the Mead's Addition were acquired by the City to help plan the future use of the property. When those areas were acquired, they were outside the corporate limits and there were no land use controls (zoning). The community acquired those parcels from the state as the only tool the City had available to help influence the vision of development at that location.

The City uses multiple processes to sell land. Determining which process to use has depended largely on the community's vision for the eventual use of the property. They have included:

- The Request for Proposal (RFP) process includes the development of a set of specifications, and advertising for bids that include detailed development proposals.

This process was used for the land south of Fire Station Number 2 where Cole Drive is now. It requires an appraisal and a minimum bid of 90 percent of the appraised value. There are multiple ways of determining an appraised value.

- Sites best suited for commercial and manufacturing occupancies are typically sold through a negotiated economic development process that involves a transfer through Yankton Thrive. The process could result in a sale at what is estimated to be market rate, or the land could be sold at a lower price (incented) to help facilitate economic development. This has been the process used a majority of the time that the City has sold properties around the community in Fox Run, at East 15th Street, in Airport Addition, etc. Past actions related to this type of sale, when the City owned many more properties, have also included the use of a multiple listing agreement whereby realtors were involved. The City could also use an RFP process for this type of sale.
 - Recent Example. A recent example of an incented land sale is the sale to Paradigm Technologies. The Mead's Addition is an infrastructure intensive, expensive subdivision to develop, and the City is serving as the developer. Most of the property adjacent to the infrastructure is tax exempt so it was important to have the first taxable development in the addition be significant enough to maximize the TID increment created in the early stages of the 20 year window. This specific project also made the City eligible for a state grant that would not have been available for most other projects. Paradigm was required to waive the discretionary tax formula thereby subjecting itself to significantly higher property tax payments in the first four years on the tax rolls. Lowering the land price was one way of enticing Paradigm to agree to assist the City with obtaining the grant and waive the discretionary formula.
- Remnant Transfers. SDCL includes provisions that allow the transfer of remnant, undevelopable properties to adjacent landowners. This process has been used at times to help liquidate irregular shaped bits of property that the City no longer has a use for. For example, when Whiting Drive was reconstructed and the intersecting streets were realigned, there were multiple small triangle lots the City had no use for, so they were transferred to the adjoining property owners.

All of the methods are based in the provisions of South Dakota Codified Law.

Land purchases require a 2/3 vote by the full City Commission.

Land Price Comparables (Comps) as a Tool to Help Determine Value

The market is what the market is. Comps are one part of it. When land sales are compared, we need to be aware that there are many variables involved. For example, smaller lots sell for a greater amount per square foot than larger lots. Locations even a few blocks one way or the other makes a difference. There are recent examples when an incoming business targeted a specific location. In that type of situation, what they paid for the property has more to do with their business model and what they want in a location, than it does market comps. Many times, properties like that are never actually listed on the open market.



DEVELOPMENT PROCESSES AND INCENTIVES

City of Yankton

Work Session

Things to Keep in Mind During this Discussion

- Economic development, recruitment of new businesses, retention and expansion of existing local businesses includes many variables.
- Each project is its own puzzle to be assembled. Because of this, the process many times ends up being an art as much as it is a science.
- Different tools are available based on the details of any given project and variables also include less quantitative things like evolving policy direction, and prospect needs and wishes.
- Information about any initial transaction is only one piece of the puzzle. Long term impacts play an even larger role.
- Most streets and included infrastructure are installed by the private sector and accepted by the City (land development carries the cost).

More Things to Keep in Mind

- Projects involving government processes take longer.
- Economic Development is not a cookie cutter process.
- Sometimes the discussion by nature, crosses over into city property management actions like acquisitions and sales even though those things aren't always thought of as incentives.
- In many cases, prospects are looking for reasons not to go to a community rather than a reason to go... process of elimination and trust building.
- Almost every prospect requests the discussions remain confidential.
- One thing to remember when we analyze past projects that have received incentives, we are only reviewing the ones that would be considered a success. That is the minority of total prospect contacts.

Very Important Things to Understand

- Every piece of property in Yankton (or any city) has benefited from some type of development incentive.
 - Grants or below market rate loans for water (including the treatment plant), sanitary sewer (including the treatment plant), storm water management, streets, parks, programming, etc...
 - Because of that, it is a very complicated process to try and determine where this discussion begins and ends.

Development Process

- How prospects get in contact.
 - Coordination with Yankton Thrive (GOED)
 - Direct contact with Staff (E. 15th - Mead's - Airport Addition)
 - Some contacts are local businesses considering expansion and others are new businesses considering relocating or expanding.
 - Contact through a site locating consultant (Walgreens - UPS)

The Conversation Begins

- Is it a full subdivision proposal or a single business?
- What type of business is it? (light commercial – heavy industrial)
 - This helps determine many things including helping to identify what funding tools may be available to help (state grants, TID, sales tax rebate etc).
- How much land is needed?
- Does the business need a high visibility location?
 - Most times, the answers to these questions lead to others like – do you need truck access? And what kind of a traffic generator do you expect the project to eventually be?

The Conversation Continues

The Commission has given direction on development strategies through past strategic planning discussions and actions on development projects that have provided a framework for what staff is able to discuss with prospects.

We also need to consider what the community can support at this time. Right now, the situation with housing and labor shortages have put Yankton in a tough spot. In the past, economic development recruiting efforts focused on attracting new major employers and that is not practical now.

- Commission provides direction for development strategies.
- Property incentives vs. business incentives.
- The vast majority of contacts are interested in private property and in those cases, it's infrequent that we hear from them more than a couple times.

Why does the City acquire property?

- Ideally, there is not a need for local government to be in the chain of title of development property.
- Unique situation with HSC adjacent to corporate limits.
- Property acquired for municipal infrastructure projects (streets airport, water, wastewater etc.)
- Property located adjacent to existing municipal facilities.
- Other circumstances like the agreement with the Soccer Association.

A few examples to help paint the picture:

Acquisitions

- Human Services Center property.
- Fox Run Development.
- Former 40/30 Property.
- Property South of Hydro.
- Property by airport but not in the clear zone.
- Downtown Brownfields sites.

A few examples to help paint the picture:

Property Sales

- JoDean's
- Wendy's
- United Collision (formerly Justra Body Shop)
- Drain Masters
- Aune Trucking
- UPS
- USPS

Downtown Yankton Façade Grant

- Commercial properties in the Meridian District.
- Historic restoration and general façade improvements eligible.
- Matching fund grants (50% minimum matching).
- Application and committee review process.

Example: Façade Grant

Anderson Realty

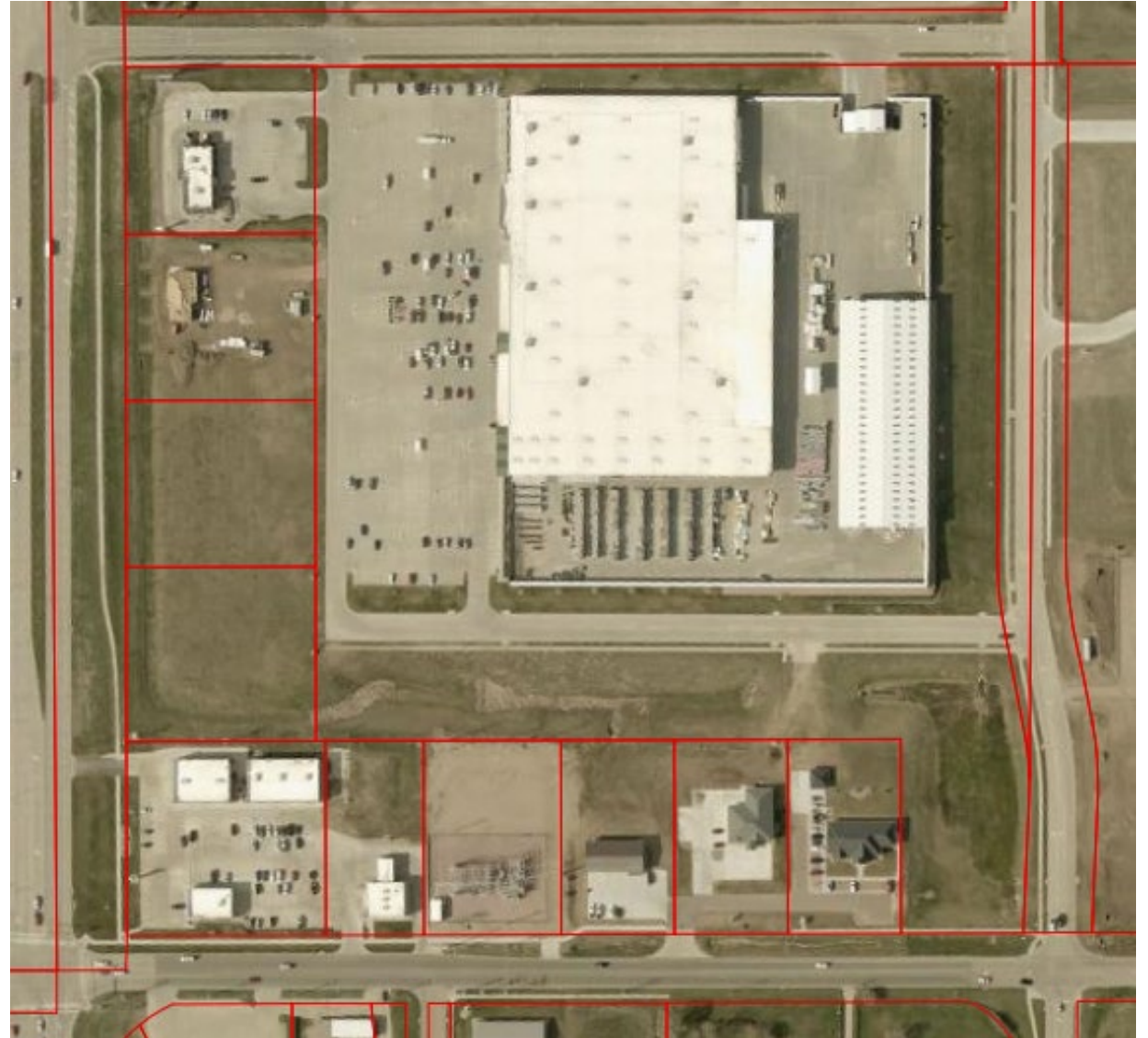


Sales Tax Rebate

- Performance based.
- Historically provided 1 percent of the city 2+ percent.
- Focused on sectors where the city is experiencing retail leakage.
- Not where there is a pull factor.

Example: Sales Tax Rebate

- Menards
- Ace Hardware
- Fast Casual Restaurants
- Manitou



Tax Increment Districts (TID)

- Facilitate the creation of taxable, private development sooner rather than later.
- Helps produce increment for infrastructure.
- Subtypes
 - City as Developer
 - City is responsible for infrastructure.
 - TID is a component of the infrastructure funding and sometimes not able to carry all infrastructure costs.
 - City as Conduit
 - Private developer. The City, through a contract is a pass-through of the increment up to a certain amount, for a maximum of 20 years.
 - Performance based where any minor City expenditures the City has like legal fees, are recovered by the City first before the developer begins to be reimbursed for their infrastructure expenditures.
 - If there is a shortfall, the developer is responsible for the difference.

TID Example: City As Developer

- Fox Run
- Mead's Addition
 - Expenditures included Land acquisitions, grading, streets, utilities, stormwater management.



City as Developer

Mead's Addition TID as a more specific example.



- Sequence of Decisions (acquisition, lease)
- A majority of the property adjacent to the needed infrastructure is publicly owned (even after sale).
 - 67% of the infrastructure front footage is adjacent to non-taxable property (state and city-owned soccer lease site).
 - 22% is adjacent to city-owned land for sale.
 - 11% is adjacent to private land (previously city owned).
- The reality is that the private sector would not be very interested in a development that had to carry a \$5 million infrastructure cost on the front end.
- Even based on front footage only, the potentially taxable property would have had to carry \$1.65 million in infrastructure costs. A majority of the land is not taxable.
- First project had to be large to maximize the TID.
- The strategy selected was developed to help reduce the long-term impact to the taxpayer as much as possible over the 20-year life of the TID.

TID Example: City As Conduit

- Morgan Square
 - Former Morgen Manufacturing
- Westside Townhomes
 - Former Circle-C Mobile Home Park
- Westbrook Estates
- Land acquisitions, grading, utilities, stormwater management.



Other noteworthy info about TID's

- The City has been conservative in using TIDs - The “but for” Test.
- South Dakota Codified Law changed a few years back in regard to the use of TIDs for housing.
- If things work out as planned, TIDs benefit the entire community by facilitating a higher level of more private investment sooner which helps reduce the tax burden for all.
- Other properties outside the TID benefit from the TID / Bystander Beneficiaries
 - Example: Menards TID/Douglas Avenue improvements

City-Owned Land Sales

- City would prefer not to be in the chain of title. Ideally, the private marketplace addresses all the needs.
- There are instances when there is a compelling reason for the City to be involved as a landowner. Hopefully, this is short term.
- Sales can be at an incented price to be more competitive and / or to get the land on the tax rolls ASAP. The land sale price is a one-time factor. The perpetual benefit to the community has been big part of the discussion (property tax, sales tax, leveraging infrastructure improvements).
- By ordinance, all purchases and sales of land by the City require the approval of a super majority of the City Commission.
- Although reviewing history/past actions is valuable, it is difficult and does not provide the full picture if we compare the actions of past City Commissions related to land sales to what may be happening now.
- Outside influences, local plans and priorities change, there are always other factors involved at the time of the decision.
- The City protects its interest as much as possible utilizing claw-back provisions and other provisions to avoid land speculation.
- The market is what the market is. Comps are one part of it.

Land Sale by Request for Proposal (RFP)

- Process used when the City Commission would like to gauge the private sector interest in developing a subdivision based on the vision of the community.
- This process is typically used when the eventual private development can carry the cost of infrastructure.
- Property is appraised.

Example: Sale by RFP

- South of Fire Station #2
Drotzmann's Addition
- Some areas of Fox Run



Transfer to Local Economic Development Corporation

- SDCL is very specific and prescriptive about how public property is transferred.
- SDCL outlines the process to transfer to a “local economic development corporation” (Yantkon Thrive) for specific purposes.
- For the purposes of providing and assisting in growth and development of businesses.
- Many times, include incented land prices.

Transfer to EDC

- Includes a majority of sales for commercial and manufacturing projects.
- Purchase Agreements include reference to the third-party purchaser/eventual developer of the project.



Example: Incented Land Price

- East 15th Street (UPS and others)
- Paradigm
- The many others listed back on slide #10 plus more



Remnant Property

- SDCL allows transfers of remnant (undevelopable) parcels to adjacent landowners.

Example: Remnant Property

- 4th Street and Burleigh Street “Triangle”
- A value is established





DEVELOPMENT --- INCENTIVES

Work Session