



RAPID CITY AREA ECONOMIC DEVELOPMENT CORPORATION

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**HI-QUAL MANUFACTURING INC.
PROJECT PLAN**

TAX INCREMENT DISTRICT NUMBER TWENTY-TWO

CITY OF RAPID CITY

Prepared by

RAPID CITY AREA ECONOMIC DEVELOPMENT PARTNERSHIP

August, 1992

FINAL

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PROJECT PLAN
TAX INCREMENT DISTRICT NUMBER TWENTY-TWO
CITY OF RAPID CITY

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Introduction

Tax Increment Financing is a method of financing improvements and development in an area which has been determined to be blighted according to the criteria set forth in SDCL 11-9. All this is done without incurring a general obligation for the taxpayers of the entire City.

The assessed valuation of a district is determined by the Department of Revenue at the time the district is created by the Common Council. This valuation is termed the Tax Increment Base Valuation for the district, or simply the "Base Valuation." As the property taxes for the property are paid, that portion of the taxes paid on this Base Valuation continue to go to those entities, (City, County, School, etc.), which levy property taxes.

When, in succeeding years, the assessed valuation of the district increases, then the total property taxes paid by the owners of property in the district will increase accordingly. That increase in taxable valuation is the "increment". When the tax bills are paid, only that portion of the tax bill which results from the Base Valuation is paid to the taxing entities. The remainder of the tax bill, known as the Tax Increment, is deposited in a special fund. It is this plan which determines how these accumulated funds will be used.

This financing method is invaluable for encouraging growth and development in areas with special development problems, since the amount of funds available for use by the project plan is directly related to the increase in valuation which a given project or development will create.

Overview

This Plan proposes that a portion of the tax increment created by the construction of a new 24,000 square foot manufacturing facility for Hi-Qual Manufacturing be used for land acquisition, site preparation, building construction and landscaping costs. Hi-Qual Manufacturing is the leading manufacturer of animal handling equipment in Canada. The use of tax increment financing, in conjunction with other financing from the REDI fund, will help ensure Hi-Qual locates their new manufacturing facility in Rapid City.

The facility will be built on a twelve (12) acre site in South Creek Industrial Park. The project will elverage a \$400,000 State Department of Transportation roadway grant for the extension of Creek Drive to the site. The project will also increase Rapid City's employment base. Hi-Qual is expected to create 43 full time jobs.

Without the financial assistance proposed in this Plan, there is a strong possibility that this Canadian firm would choose not to relocate in Rapid City. That would not only delay the increase in taxable valuation of the property within the this proposed tax increment district but also cast doubt on the likelihood of this firm moving to and expanding its employment base in Rapid City.

This project would result in infill development within the area. Infill development provides for the more cost effective use of vacant land where water, sewer, and other public services are already in place. There is a considerable fiscal advantage to the City for the City to use existing infrastructure to its full capacity rather than encouraging development in peripheral areas where the extension of those improvements would be required.

The stated economic goal of the Rapid City Area 2000 Comprehensive Plan is "to improve economic stability through the promotion of a broader economic base." A sub-goal, listed under the broader economic goal in the Area 2000 Comprehensive Plan, is to promote the Rapid City area as a regional wholesale and manufacturing center. Providing the assistance proposed in this Plan would further the economic goals of the adopted Rapid City Area 2000 Comprehensive Plan.

Project Plan Summary

This Plan establishes the proposed total project costs, as well as the Tax Increment District funded costs.

Elements of the Project Plan

This Project Plan, as required by SDCL 11-9-13, will address the following elements:

- 1) Public Works Improvements
- 2) Economic Feasibility Study
- 3) Project Costs
- 4) Fiscal Impact Statement
- 5) Financing Method Description

Additionally, the following exhibits are offered:

- I. General Vicinity Map
- II. Tax Increment District Boundary Map
- III. Map of Existing Zoning
- IV. Map of Generalized Land Use

The Map of Proposed Improvements; Statement of Method for Relocating Displaced Persons; and Statement of Changes Needed in Master Plan, Building Codes and Ordinances do not apply to this Project Plan and have not been included in this document.

1. PUBLIC WORKS IMPROVEMENTS

There are no public works improvements proposed with this project plan.

2. ECONOMIC FEASIBILITY STUDY

Current Valuation

Tax Increment District #22 is proposed for creation in accordance with SDCL 11-9-2 to 11-9-11, inclusive. As of this date, Pennington County Director of Equalization's records show an assessed valuation of approximately \$55,800. In accordance with SDCL 11-9-20, certification of that value will be requested from the South Dakota Department of Revenue following creation and approval of the District by the Common Council. The State Department of Revenue has indicated the certified base valuation will be the same as the current assessed value.

ANTICIPATED CERTIFIED BASE VALUATION OF PROPERTY IN TID #22

Block 1, less Lots 1 & 2, of South Creek Industrial Park and Lots H-1 & H-2 of South Creek Industrial Park #2 all located in the West 1/2 of Section 8, T1N, R8E, BHM, Rapid City, Pennington County, South Dakota. (referred to in this Project Plan as Tax Increment District #22)

Anticipated Certified Base Valuation \$55,800

Expected Increase in Valuation

The figures for the following estimated increases in valuation are based upon construction costs of \$502,750. In consultation with the Pennington County Director of Equalization, it was determined that the average property in Rapid City is now assessed at one hundred per cent (100%) of its actual value.

ESTIMATED FUTURE VALUATION OF PROPOSED
HI-QUAL MANUFACTURING FACILITY

Current Assessed Value of District	\$ 55,800
Estimated Assessed Value of Improvements	\$ 502,750
Estimated Increase in Assessed Value of Land	\$ 61,400
Estimated Total Valuation	\$ 576,750
Incremental Increase	\$ 564,150

Income Estimates from Tax Increments

The State of South Dakota has an automatic tax abatement on all new industrial structures over \$30,000 in value. This effectively reduces the taxes paid on those structures by a total of 40% over the first five years following completion of construction. The taxes due are reduced by the percentages listed below. The table given below assumes that the development proposed will be completed by December 31, 1992.

<u>Year Tax Due</u>	<u>Percent of Total Tax Due</u>
1993	25%
1994	50%
1995-1997	75%
thereafter	100%

In an effort to reduce the total costs of this Project Plan, Hi-Qual manufacturing has agreed to waive this abatement to shorten the duration of the proposed district and plan to include no more than thirty (30) semi-annual payments over fifteen (15) years. The potential negative short term impact on the various taxing entities will be reduced while affording all taxing entities an increase in the tax base for future years.

1992 Tax Levies and Percentage of Total Levy

<u>Taxing Entity</u>	<u>Tax Levy</u>	<u>Percentage of Total Levy</u>
Rapid City Area School District	19.3472	69.8%
Pennington County	5.0547	18.2%
City of Rapid City	3.2665	11.8%
West River Water District	0.0523	0.2%
Total Tax Levy	27.7207	100.0%

Anticipated 1992 Tax Rate 0.0277207

The actual Tax Increment available to pay for project costs in this Plan can be calculated by multiplying the effective tax rate by the increment in valuation. These calculations result in the following Tax Increments, which become available as taxes for the applicable periods are paid. Note that values for the increments due and payable in the future are estimates based upon one hundred percent (100%) of the anticipated 1992 mill levy

Property in Pennington County is assessed January 1 of each year and are due May 1 and November 1 of the following year. The amortization schedule in this Project Plan has the payments from the tax increment fund payable on June 1 and December 1 of the year they are due.

TAX INCREMENT SCHEDULE

YEAR ASSD	DUE	BASE VALUATION	NEW DVLPMNT	TOTAL	INCREMENT IN VALUATION	TAX INCREMENT PAYMENT
1993	1994	\$55,800	\$564,150	\$576,750	\$564,150	\$ 15,638.64
1994	1995	\$55,800	\$564,150	\$576,750	\$564,150	\$ 15,638.64
1995	1996	\$55,800	\$564,150	\$576,750	\$564,150	\$ 15,638.64
1996	1997	\$55,800	\$564,150	\$576,750	\$564,150	\$ 15,638.64
1997	1998	\$55,800	\$564,150	\$576,750	\$564,150	\$ 15,638.64
1998	1999	\$55,800	\$564,150	\$576,750	\$564,150	\$ 15,638.64
1999	2000	\$55,800	\$564,150	\$576,750	\$564,150	\$ 15,638.64
2000	2001	\$55,800	\$564,150	\$576,750	\$564,150	\$ 15,638.64
2001	2002	\$55,800	\$564,150	\$576,750	\$564,150	\$ 15,638.64
2002	2003	\$55,800	\$564,150	\$576,750	\$564,150	\$ 15,638.64
2003	2004	\$55,800	\$564,150	\$576,750	\$564,150	\$ 15,638.64
2004	2005	\$55,800	\$564,150	\$576,750	\$564,150	\$ 15,638.64
2005	2006	\$55,800	\$564,150	\$576,750	\$564,150	\$ 15,638.64
2006	2007	\$55,800	\$564,150	\$576,750	\$564,150	\$ 15,638.64

TOTAL TAX INCREMENT EXPECTED TO ACCRUE BY 12-01-07 \$218,941.00

NOTE: Tax increment payments are calculated using 100% of estimated future property valuation and 100% of expected 1992 mill levy.

3. PROJECT COSTS

Capital Costs

The capital costs for this site include site preparation, site work, building construction, and landscaping.

Financing Costs

The financing costs for this Project Plan are dependent on the interest rate obtained by the developer. For the purposes of this Plan an interest rate of 9.5% has been used. The five year tax abatement for new industrial structures over \$30,000 in value, amounting to 40% of what normally would be payable without the abatement, will be voluntarily waived by Hi-Qual Manufacturing Inc.

Real Property Assembly Costs

The real property costs are the cost of acquisition of the site for the project.

Professional Service Costs

The professional service costs are included in this Project Plan. These include Engineering, Legal, and other professional fees.

Relocation Costs

No relocation costs are anticipated in this Project Plan as the land is currently vacant.

Organizational Costs:

No organizational costs are anticipated in this Project Plan.

Necessary and Convenient Payments:

Additional costs not elsewhere classified are not anticipated in the implementation of this Project Plan.

Imputed Administrative Costs:

All Tax Increment District actions require municipal staff time to prepare and enact. The City shall be reimbursed on August 1, 1997 for its administrative expense in an amount not more than \$2,050. However, in no case shall the City be reimbursed less than \$1.00 on August 1, 1997.

ESTIMATED PROJECT COSTS

Capital Costs:	
Building Construction	\$237,000
Site Development	\$248,500
Real Property Assembly Costs:	
Land purchase	\$ 72,000
Fees Related to Purchase	\$ 2,000
Professional Fees:	\$ 15,200
Relocation Costs:	
None	\$ 0
Organizational Costs	
None	\$ 0
Necessary and Convenient Costs	
None	\$ 0
	<hr/>
TOTAL	\$574,700
Imputed Administrative Costs*	
City of Rapid City	\$ 2,050
Financing Costs:	
Financing Interest (TID only)	\$106,459

TAX INCREMENT DISTRICT FUNDED COSTS

Capital Costs:	
Real Property Assembly Costs	
Land	\$ 72,000
Fees Related to Purchase	\$ 2,000
Site Development	
Utilities Connections, Paving	
Excavation & Engineered Fill Expenses	\$ 34,000
Financing Costs:	

Financing Interest (TID only)	\$ 106,459
Last payment adjustment	\$ 4,482
	<hr/>
TOTAL	\$ 218,941
Imputed Administrative Costs*	
City of Rapid City	\$ 2,050

*The imputed administrative costs are interest-free, are not included in the total project costs, and are to be paid from the balance remaining in the TID #22 fund available to the City Finance Officer on August 1, 1997.

4. FISCAL IMPACT STATEMENT

The impact on taxing entities can be derived from determining the approximate increment anticipated during the life of the district. The true impact on taxing entities of this Plan is the increase in valuation of the property within the Tax Increment District. The taxing entities are only foregoing that income during the life of the district and will realize that income as soon as the debt from the project costs in this Plan is retired. The purpose of this Plan is to encourage that increase in valuation.

At first glance it may appear that the negative impact on the various entities is notable. But when it is considered that without the use of the Tax Increment Financing proposed in this Plan it is very likely that there would be no increase in the taxable value of the property within this district or, at least, any increase would be significantly delayed, the impact can be considered truly positive.

IMPACT ON TAXING ENTITIES

<u>Year</u>	<u>Valuation Increment</u>	<u>Schools</u>	<u>County</u>	<u>City</u>	<u>Water</u>	<u>Total Tax Increment</u>
1994	\$564,150	\$10,916	\$2,846	\$1,845	\$31.27	\$15,638.64
1995	\$564,150	\$10,916	\$2,846	\$1,845	\$31.27	\$15,638.64
1996	\$564,150	\$10,916	\$2,846	\$1,845	\$31.27	\$15,638.64
1997	\$564,150	\$10,916	\$2,846	\$1,845	\$31.27	\$15,638.64
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2004	\$564,150	\$10,916	\$2,846	\$1,845	\$31.27	\$15,638.64
2005	\$564,150	\$10,916	\$2,846	\$1,845	\$31.27	\$15,638.64
2006	\$564,150	\$10,916	\$2,846	\$1,845	\$31.27	\$15,638.64
2007	\$564,150	\$10,916	\$2,846	\$1,845	\$31.27	\$15,638.64
TOTALS		\$152,824	\$39,844	\$25,830	\$437	\$218,941.00

5. FINANCING METHOD

The financing method to be used in the funding of this Plan is to be obtained by the developer. Following approval of this Project Plan and when the funding for the construction of the proposed Hi-Qual Manufacturing Inc. facility is secured, it is anticipated that a bond or note in the amount necessary to cover applicable project costs will be issued separately.

The City and Hi-Qual Manufacturing Inc. will enter into a Contract for Private Development. That agreement will establish that the debt on the Project Costs covered in this Plan will be retired by deposits made in the Tax Increment District #22 fund as taxes are paid on the property in succeeding years. The City of Rapid City Finance Officer will make the disbursements from that fund in accordance with this Plan and the Contract for Private Development. According to SDCL 11-9-25, positive tax increments will be allocated to that fund until the debt from the Project Costs is retired or fifteen years following the last expenditure from the Project Plan, whichever comes first. The final payment from this Plan is scheduled to be made on December 1, 2007

PROJECTED AMORTIZATION SCHEDULE ON NEXT PAGE

PROJECT: Hi-Qual Manufacturing, Inc.

TAX INCREMENT FINANCING WORKSHEET--NO TAX ABATEMENT TAKEN

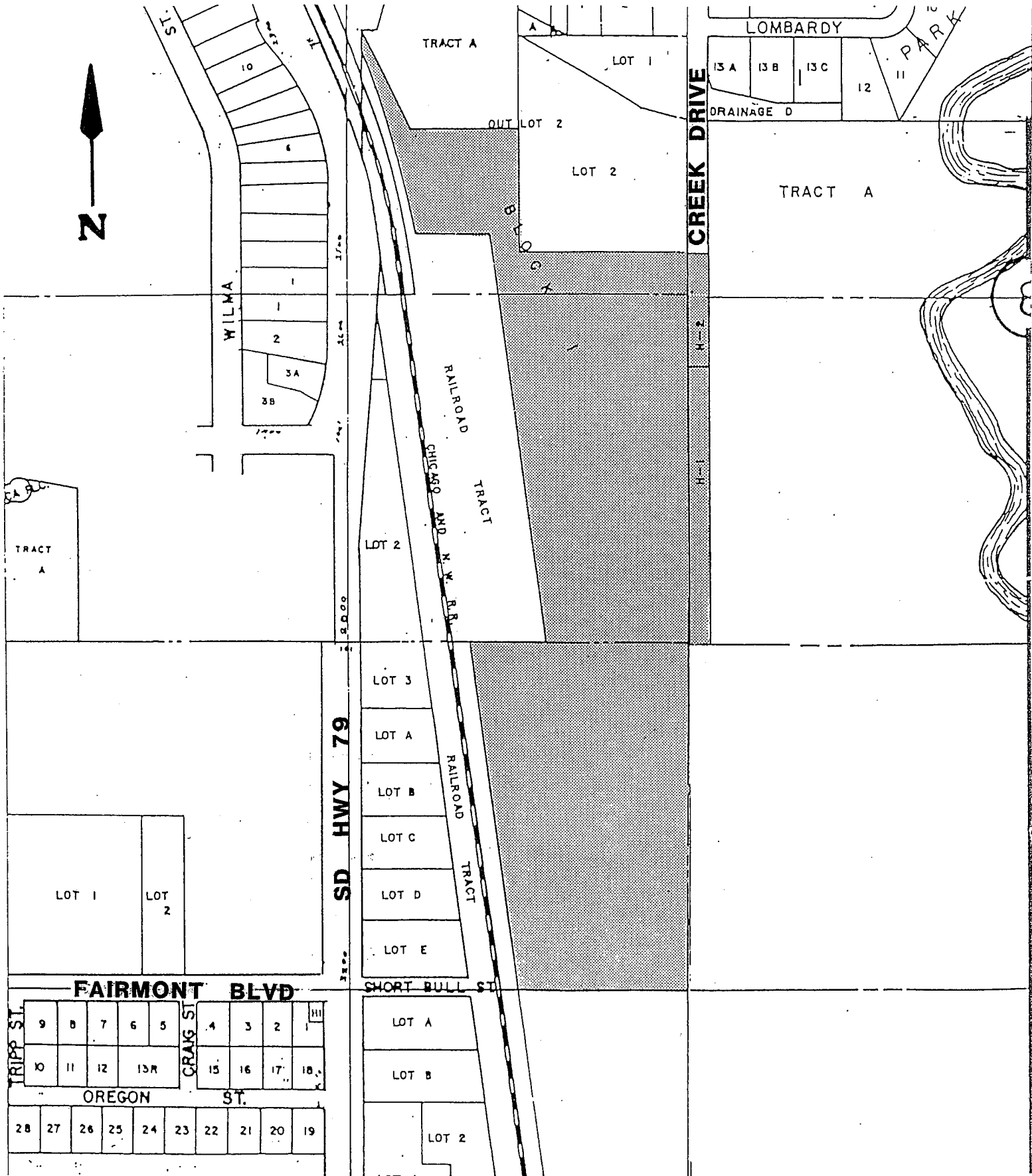
UPDATED 8/20/92

- * 0 payment month is month finished project is assessed (each January as to percent of project completion)
- * Payment periods are on or before May 1 and December 1, the following year after project is assessed.
- * Initial funds may be advanced prior to final assessment.
- * It is recommended that the TIF be used as takeout financing at time of assessment.
- * Interest is calculated on six month periods from the time of assessment
- * Accumulated interest to date does not include interest expense for costs funded prior to assessment

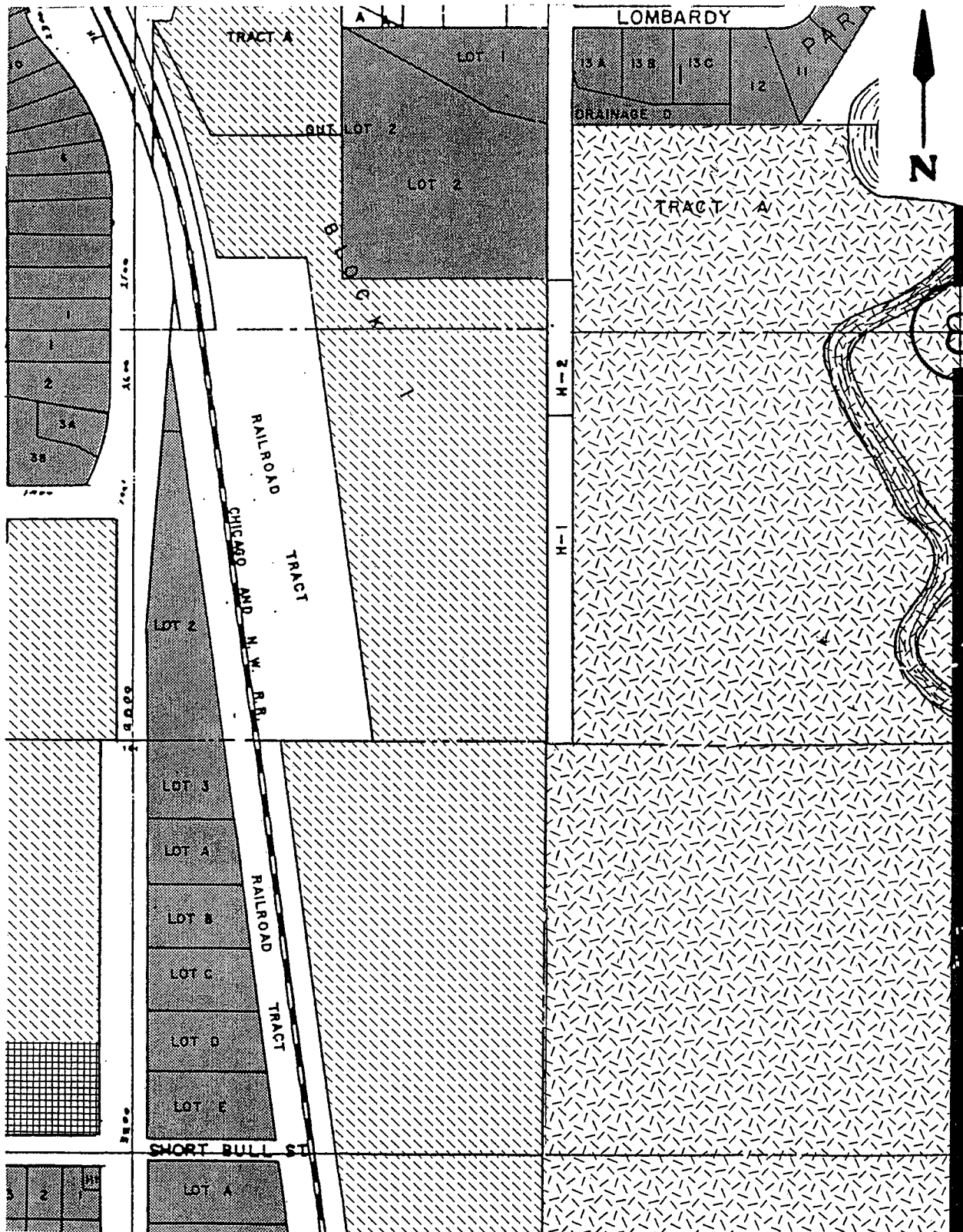
Current Valuation	\$55,800	TIF Revenue (new tax revenues)	\$15,639
Developed Valuation	\$619,950	Term of TIF (years)	15
Increment Value	\$564,150	Payments per year	2
Percent of Value	100.00%	Total TIF Payments	30
Adjusted Valuation	\$564,150	TIF Interest Rate	9.50%
Mill Levy	0.027721	Land & Site Improvements	\$108,000

Pmts	Funds Advanced	For	Principal Balance	Accumulated Interest To Date	Tax Income	Capitalized Interest	Interest Payments	Principal Payments
0	\$108,000	Allowable Costs	\$108,000					
1	\$5,130	Capitalized Interest	\$108,000	\$5,130	\$0	\$5,130	\$5,130	\$0
2	\$5,374	Capitalized Interest	\$113,130	\$5,374	\$0	\$5,374	\$5,374	\$0
3	\$0	Accumulated Interest	\$118,504	\$5,629	\$7,819	\$0	\$5,629	\$2,190
4	\$0	Accumulated Interest	\$116,313	\$5,525	\$7,819	\$0	\$5,525	\$2,294
5	\$0	Accumulated Interest	\$114,019	\$5,416	\$7,819	\$0	\$5,416	\$2,403
6	\$0	Accumulated Interest	\$111,615	\$5,302	\$7,819	\$0	\$5,302	\$2,518
7	\$0	Accumulated Interest	\$109,098	\$5,182	\$7,819	\$0	\$5,182	\$2,637
8	\$0	Accumulated Interest	\$106,461	\$5,057	\$7,819	\$0	\$5,057	\$2,762
9	\$0	Accumulated Interest	\$103,698	\$4,926	\$7,819	\$0	\$4,926	\$2,894
10	\$0	Accumulated Interest	\$100,805	\$4,788	\$7,819	\$0	\$4,788	\$3,031
11	\$0	Accumulated Interest	\$97,773	\$4,644	\$7,819	\$0	\$4,644	\$3,175
12	\$0	Accumulated Interest	\$94,598	\$4,493	\$7,819	\$0	\$4,493	\$3,326
13	\$0	Accumulated Interest	\$91,273	\$4,335	\$7,819	\$0	\$4,335	\$3,484
14	\$0	Accumulated Interest	\$87,789	\$4,170	\$7,819	\$0	\$4,170	\$3,649
15	\$0	Accumulated Interest	\$84,139	\$3,997	\$7,819	\$0	\$3,997	\$3,823
16	\$0	Accumulated Interest	\$80,317	\$3,815	\$7,819	\$0	\$3,815	\$4,004
17	\$0	Accumulated Interest	\$76,312	\$3,625	\$7,819	\$0	\$3,625	\$4,194
18	\$0	Accumulated Interest	\$72,118	\$3,426	\$7,819	\$0	\$3,426	\$4,394
19	\$0	Accumulated Interest	\$67,724	\$3,217	\$7,819	\$0	\$3,217	\$4,602
20	\$0	Accumulated Interest	\$63,122	\$2,998	\$7,819	\$0	\$2,998	\$4,821
21	\$0	Accumulated Interest	\$58,301	\$2,769	\$7,819	\$0	\$2,769	\$5,050
22	\$0	Accumulated Interest	\$53,251	\$2,529	\$7,819	\$0	\$2,529	\$5,290
23	\$0	Accumulated Interest	\$47,961	\$2,278	\$7,819	\$0	\$2,278	\$5,541
24	\$0	Accumulated Interest	\$42,420	\$2,015	\$7,819	\$0	\$2,015	\$5,804
25	\$0	Accumulated Interest	\$36,615	\$1,739	\$7,819	\$0	\$1,739	\$6,080
26	\$0	Accumulated Interest	\$30,535	\$1,450	\$7,819	\$0	\$1,450	\$6,369
27	\$0	Accumulated Interest	\$24,166	\$1,148	\$7,819	\$0	\$1,148	\$6,671
28	\$0	Accumulated Interest	\$17,495	\$831	\$7,819	\$0	\$831	\$6,988
29	\$0	Accumulated Interest	\$10,506	\$499	\$7,819	\$0	\$499	\$7,320
30	\$0	Accumulated Interest	\$3,186	\$151	\$7,819	\$0	\$151	\$7,668
					\$218,941	\$10,504	\$106,459	\$122,986

T.I.C. #22 VICINITY



T.I.D. #22 AREA LAND USE



COMMERCIAL



AGRICULTURAL

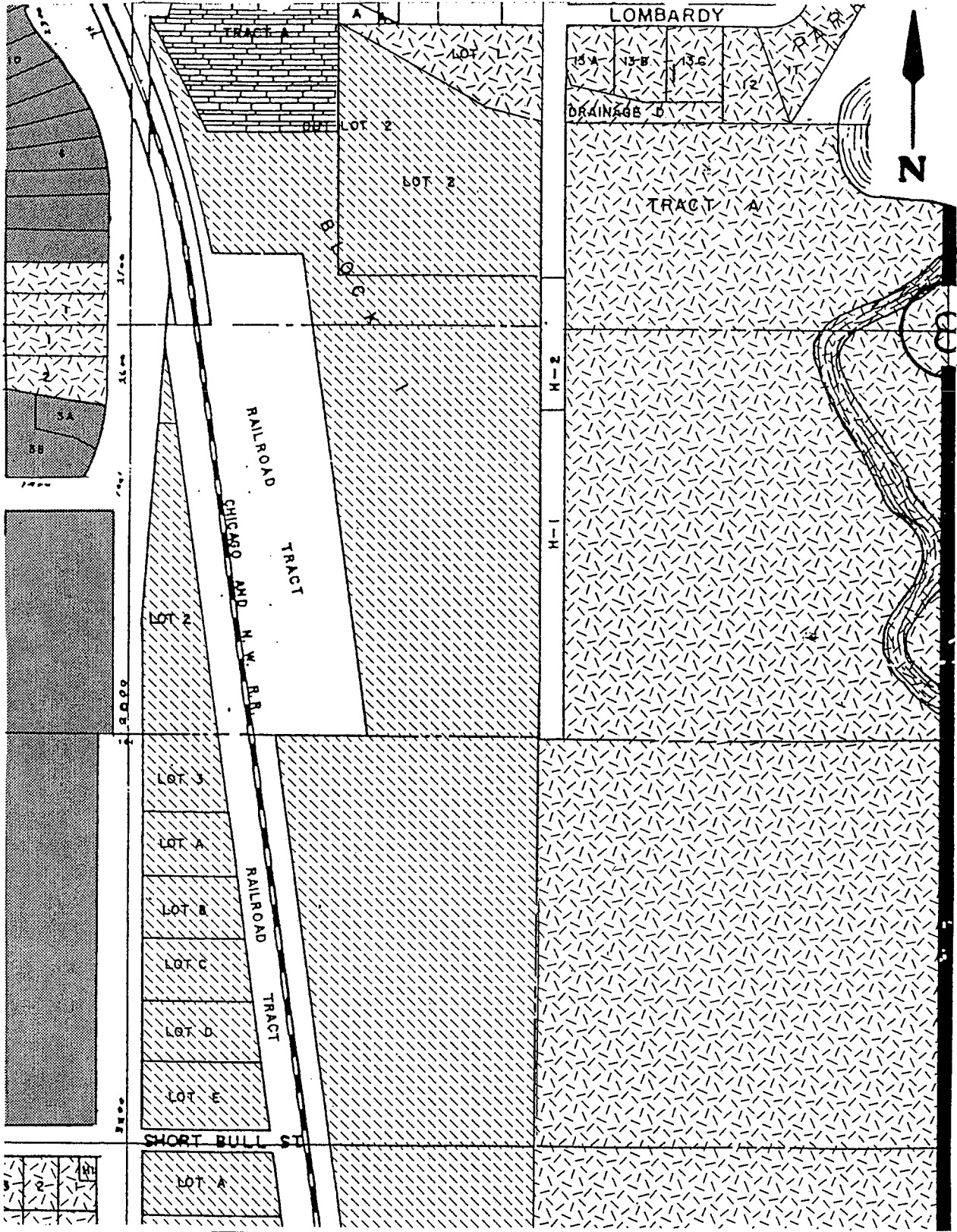






INDUSTRIAL



VACANT

T.I.D. #22 AREA ZONING



-  MEDIUM DENSITY RESIDENTIAL
-  GENERAL COMMERCIAL
-  LIGHT INDUSTRIAL
-  HEAVY INDUSTRIAL