

PROJECT PLAN

TAX INCREMENT DISTRICT NUMBER TWENTY-NINE
CITY OF RAPID CITY

Prepared by the

PENNINGTON COUNTY-RAPID CITY PLANNING DEPARTMENT
September 1998

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 value of a district is determined by the South Dakota Department of Revenue at the time the district is created by the City 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 the 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 the tax increment created by the construction of a new manufacturing facility be used to pay for a portion of the costs associated with the site improvements for the proposed manufacturing plant. The new manufacturing plant will house the production facilities for FiberSwitch Technologies and its subsidiary, D-Tek, Inc. The use of tax increment financing will assist the facility in expanding this existing manufacturing operation.

FiberSwitch Technologies is a start up company that began operation in Rapid City in 1992 with production activities commencing in 1996. This plant will be the manufacturing facility for fiber optic switches, sensors, and aerospace products. Engineering and research personnel will also be located in the building. This building will house the only microscopic electronic die attach and wire bonding facility in the state of South Dakota. FiberSwitch has indicated that they conservatively estimate they will employ 23 new employees through the year 2001.

The tax increment financing will support site development improvements assisting in the development of the manufacturing plant.

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Project Plan

Without the financial assistance proposed in the Plan, there is a possibility that this local firm would not be able to expand their manufacturing operation in Rapid City. That would not only delay the increase in taxable valuation of the property within this proposed tax increment district but could hinder this firms' expansion of it's employment base in Rapid City.

This project would result in additional industrial development within the Deadwood Avenue area. There is considerable economic advantage to the community for the City to leverage various sources to fund the costs of this plant construction within the municipal limits.

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 Rapid City Area 2000 Comprehensive Plan, is to promote the Rapid City area as a regional wholesale and manufacturing center. Providing the assistance proposed in the Plan would further the economic goals of the adopted Rapid City Area 2000 Comprehensive Plan.

PROJECT PLAN SUMMARY

This Plan establishes the total projects 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 and Other Improvements;
- 2) Economic Feasibility Study;
- 3) Project Costs;
- 4) Fiscal Impact Statement; and,
- 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; and,
- V. Map of Public and Other Improvements.

The Statement of Method for Relocating Displaced Persons, as well as 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.

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 Project Plan

ELEMENTS OF THE PROJECT PLAN

1. PUBLIC WORKS AND OTHER IMPROVEMENTS

The Project Plan includes capital costs associated with the extension of a six inch water line and installation of an on-site hydrant, asphalt paving for the parking lot, and installation of curb, gutter and sidewalks, site cleaning and excavation and approach improvements.

2. ECONOMIC FEASIBILITY STUDY

Current Valuation - Tax Increment District Number Twenty-nine is proposed for creation in accordance with SDCL 11-9-2 to 11-9-11, inclusive. As of this date, the Pennington County Director of Equalization's records do not show an assessed valuation for this parcel as it was recently subdivided. For purposes of this plan, the sales price of the property has been assumed to be the base valuation. 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.

ANTICIPATED CERTIFIED BASE VALUATION OF PROPERTY IN TID #29

\$100,000

Expected Increase in Valuation - The figures for the following estimated increases in valuation are based upon construction costs of approximately \$300,000 for the building and site work. Based on the estimated construction costs, the following valuation for the proposed manufacturing plant has been estimated.

ESTIMATED FUTURE VALUATION OF PROPOSED
 FIBERSWITCH TECHNOLOGIES MANUFACTURING FACILITY

| | |
|--|------------|
| Estimated Assessed Value of District | \$ 100,000 |
| Estimated Assessed Value of Improvements | \$ 300,000 |
| Estimated Increase in Assessed Value of Land | \$ -0- |
| Estimated Total Valuation | \$ 400,000 |
| Estimated Increment in Valuation | \$ 300,000 |

Revenue 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. In an effort to reduce the total costs of the Project Plan, FiberSwitch Technologies has agreed to waive this abatement to shorten the duration of the proposed district. The Plan anticipates 21 semi-annual payments over 11 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.

1997 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 | 20.5669 | 68.4% |
| Pennington County | 5.8171 | 19.3% |
| City of Rapid City | 3.6386 | 12.1% |
| West Dakota Water District | .0427 | 0.1% |
| Total Mill Levy | 30.0653 | 100.0% |

Anticipated 1997 Tax Rate: 0.0300653

The estimated tax increment available to pay for project costs in the Plan can be calculated by multiplying the anticipated tax rate by the increment in valuation. These calculations result in the following tax increments, which become available as taxes for the applicable periods.

PROJECTED TAX INCREMENT INCOME

| ASS'D DATE | YEAR TAXES PAID | BASE VALUATION | NEW VALUATION | INCREMENT IN VALUATION | TAX INCREMENT PAYMENT |
|------------|-----------------|----------------|---------------|------------------------|-----------------------|
| Nov. 1999 | 2001 | \$ 100,000 | \$ 400,000 | \$ 300,000 | \$ 9,020 |
| Nov. 2000 | 2002 | \$ 100,000 | \$ 400,000 | \$ 300,000 | \$ 9,020 |
| Nov. 2001 | 2003 | \$ 100,000 | \$ 400,000 | \$ 300,000 | \$ 9,020 |
| Nov. 2002 | 2004 | \$ 100,000 | \$ 400,000 | \$ 300,000 | \$ 9,020 |
| Nov. 2003 | 2005 | \$ 100,000 | \$ 400,000 | \$ 300,000 | \$ 9,020 |
| Nov. 2004 | 2006 | \$ 100,000 | \$ 400,000 | \$ 300,000 | \$ 9,020 |
| Nov. 2005 | 2007 | \$ 100,000 | \$ 400,000 | \$ 300,000 | \$ 9,020 |
| Nov. 2006 | 2008 | \$ 100,000 | \$ 400,000 | \$ 300,000 | \$ 9,020 |
| Nov. 2007 | 2009 | \$ 100,000 | \$ 400,000 | \$ 300,000 | \$ 9,020 |
| Nov. 2008 | 2010 | \$ 100,000 | \$ 400,000 | \$ 300,000 | \$ 9,020 |
| Nov. 2009 | 2011 | \$ 100,000 | \$ 400,000 | \$ 300,000 | \$ 9,020 |

TOTAL TAX INCREMENT EXPECTED TO ACCRUE BY 6/1/11 \$94,710.06

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Project Plan

NOTE: Tax increment payments are calculated using 100% of estimated future property valuation and 100% of expected 1997 mill levy. The schedule anticipates that the project will be completed by November 1, 1999.

3. PROJECT COSTS

Capital Costs - The capital costs for this Project Plan include the installation of a new six inch water line and installation of an on-site hydrant, asphalt paving for the parking lot, installation of curb, gutter and sidewalks, site cleaning and excavation and installation of approach improvements.

Financing Costs - The financing costs for this Project Plan are dependent on the interest rate obtained by the developer. The anticipated interest rate is 9.5% and that is the rate that has been used for the purposes of the Plan. It is estimated that the financing costs will total \$40,480. 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 the property owner.

Real Property Assembly Costs - There are no real property assembly costs for the project.

Professional Service Costs - There are no professional service costs included in the Project Plan.

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 the Project Plan.

Necessary and Convenient Payments - No contingency costs are anticipated in the Project Plan.

Imputed Administrative Costs - All Tax Increment District actions require municipal staff time to prepare and enact. The City shall be reimbursed on September 20, 2003 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 September 20, 2003.

ESTIMATED PROJECT COSTS

| | |
|--|-----------|
| <u>Capital Costs:</u> | |
| Building Construction | \$252,886 |
| Site Preparation, Excavation and Grading | \$ 4,767 |
| Utilities | \$ 8,777 |
| Parking and Landscaping Improvements | \$ 24,500 |
| Curb, Gutter and Sidewalk | \$ 9,070 |

Tax Increment District #29
Project Plan

TAX INCREMENT DISTRICT FUNDED COSTS

Capital Costs

| | |
|---|----------|
| New 6" water line including on-site hydrant | \$ 8,777 |
| Asphalt paving for parking lot | \$22,500 |
| Curb, gutter and sidewalks | \$ 9,070 |
| Site Cleaning and Excavation | \$ 4,767 |
| Approach Improvements | \$ 4,886 |

Financing Costs:

| | |
|-------------------------------|----------|
| Financing Interest (TID Only) | \$40,480 |
| Professional Fees | \$ -0- |

Relocation Costs:

| | |
|------|--------|
| None | \$ -0- |
|------|--------|

Organizational Costs

| | |
|------|--------|
| None | \$ -0- |
|------|--------|

Necessary and Convenient Costs

| | |
|-------------|--------|
| Contingency | \$ -0- |
|-------------|--------|

TOTAL \$90,480

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 #29 fund available to the City Finance Officer on September 21, 2003.

4. FISCAL IMPACT STATEMENT

The impact on taxing entities can be derived from determining the tax increment anticipated during the life of the district. The true impact on taxing entities of the 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.

Tax Increment District #29
Project Plan

NET IMPACT ON TAXING ENTITIES

| <u>Year Due</u> | <u>Valuation Increment</u> | <u>Schools</u> | <u>County</u> | <u>City</u> | <u>Water</u> | <u>Tax Increment</u> |
|-----------------|----------------------------|----------------|---------------|-------------|--------------|----------------------|
| 1999 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| 2000 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| 2001 | \$ 300,000 | \$ - | \$ 1,745 | \$ 1,092 | \$ 13 | \$ 9,020 |
| 2002 | \$ 300,000 | \$ - | \$ 1,745 | \$ 1,092 | \$ 13 | \$ 9,020 |
| 2003 | \$ 300,000 | \$ - | \$ 1,745 | \$ 1,092 | \$ 13 | \$ 9,020 |
| 2004 | \$ 300,000 | \$ - | \$ 1,745 | \$ 1,092 | \$ 13 | \$ 9,020 |
| 2005 | \$ 300,000 | \$ - | \$ 1,745 | \$ 1,092 | \$ 13 | \$ 9,020 |
| 2006 | \$ 300,000 | \$ - | \$ 1,745 | \$ 1,092 | \$ 13 | \$ 9,020 |
| 2007 | \$ 300,000 | \$ - | \$ 1,745 | \$ 1,092 | \$ 13 | \$ 9,020 |
| 2008 | \$ 300,000 | \$ - | \$ 1,745 | \$ 1,092 | \$ 13 | \$ 9,020 |
| 2009 | \$ 300,000 | \$ - | \$ 1,745 | \$ 1,092 | \$ 13 | \$ 9,020 |
| 2010 | \$ 300,000 | \$ - | \$ 1,745 | \$ 1,092 | \$ 13 | \$ 9,020 |
| 2011 | \$ 300,000 | \$ - | \$ 88 | \$ 55 | \$ 0 | \$ 457 |

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 manufacturing 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 FiberSwitch Technologies will enter into a Contract for Private Development. That agreement will establish that the debt on the Tax Increment District Project Costs covered in the Plan will be retired by deposits made in the Tax Increment District #29 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 June 1, 2011.

PROJECTED AMORTIZATION RATE

| No. | Payment Date | Beginning Balance | Interest | Principal | Ending Balance | Cumulative Interest |
|-----|--------------|-------------------|----------|-----------|----------------|---------------------|
| 1 | 12/1/99 | 50,000.00 | 2,375.00 | 0.00 | 52,375.00 | 2,375.00 |
| 2 | 6/1/00 | 52,375.00 | 2,487.81 | 0.00 | 54,862.81 | 4,862.81 |
| 3 | 12/1/00 | 54,862.81 | 2,605.98 | 0.00 | 57,468.79 | 7,468.80 |
| 4 | 6/1/01 | 57,468.79 | 2,729.77 | 1,770.23 | 55,698.56 | 10,198.56 |
| 5 | 12/1/01 | 55,698.56 | 2,645.68 | 1,854.32 | 53,844.24 | 12,844.24 |
| 6 | 6/1/02 | 53,844.24 | 2,557.60 | 1,942.40 | 51,901.84 | 15,401.85 |
| 7 | 12/1/02 | 51,901.84 | 2,465.34 | 2,034.66 | 49,867.18 | 17,867.18 |
| 8 | 6/1/03 | 49,867.18 | 2,368.69 | 2,131.31 | 47,735.87 | 20,235.87 |
| 9 | 12/1/03 | 47,735.87 | 2,267.45 | 2,232.55 | 45,503.32 | 22,503.33 |

Tax Increment District #29
Project Plan

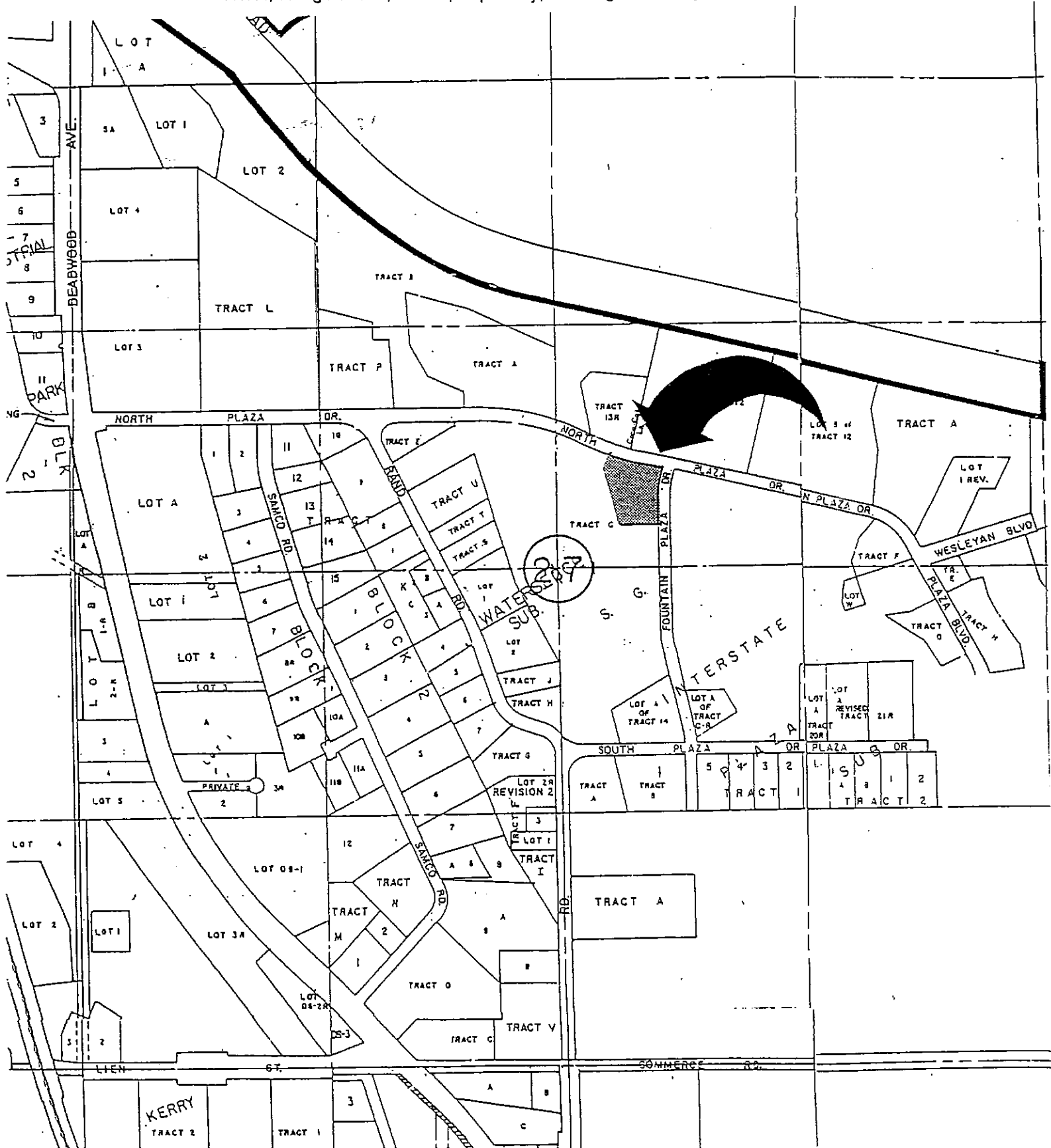
| | | | | | | |
|----|---------|-----------|----------|----------|-----------|-----------|
| 10 | 6/1/04 | 45,503.32 | 2,161.41 | 2,338.59 | 43,164.73 | 24,664.74 |
| 11 | 12/1/04 | 43,164.73 | 2,050.32 | 2,449.68 | 40,715.05 | 26,715.06 |
| 12 | 6/1/05 | 40,715.05 | 1,933.97 | 2,566.03 | 38,149.02 | 28,649.03 |
| 13 | 12/1/05 | 38,149.02 | 1,812.08 | 2,687.92 | 35,461.10 | 30,461.10 |
| 14 | 6/1/06 | 35,461.10 | 1,684.40 | 2,815.60 | 32,645.50 | 32,145.51 |
| 15 | 12/1/06 | 32,645.50 | 1,550.66 | 2,949.34 | 29,696.16 | 33,696.17 |
| 16 | 6/1/07 | 29,696.16 | 1,410.57 | 3,089.43 | 26,606.73 | 35,106.74 |
| 17 | 12/1/07 | 26,606.73 | 1,263.82 | 3,236.18 | 23,370.55 | 36,370.56 |
| 18 | 6/1/08 | 23,370.55 | 1,110.10 | 3,389.90 | 19,980.65 | 37,480.66 |
| 19 | 12/1/08 | 19,980.65 | 949.08 | 3,550.92 | 16,429.73 | 38,429.74 |
| 20 | 6/1/09 | 16,429.73 | 780.41 | 3,719.59 | 12,710.14 | 39,210.15 |
| 21 | 12/1/09 | 12,710.14 | 603.73 | 3,896.27 | 8,813.88 | 39,813.88 |
| 22 | 6/1/10 | 8,813.88 | 418.66 | 4,081.34 | 4,732.53 | 40,232.54 |
| 23 | 12/1/10 | 4,732.53 | 224.80 | 4,275.20 | 457.33 | 40,457.34 |
| 24 | 6/1/11 | 457.33 | 21.72 | 457.33 | 0.00 | 40,479.06 |

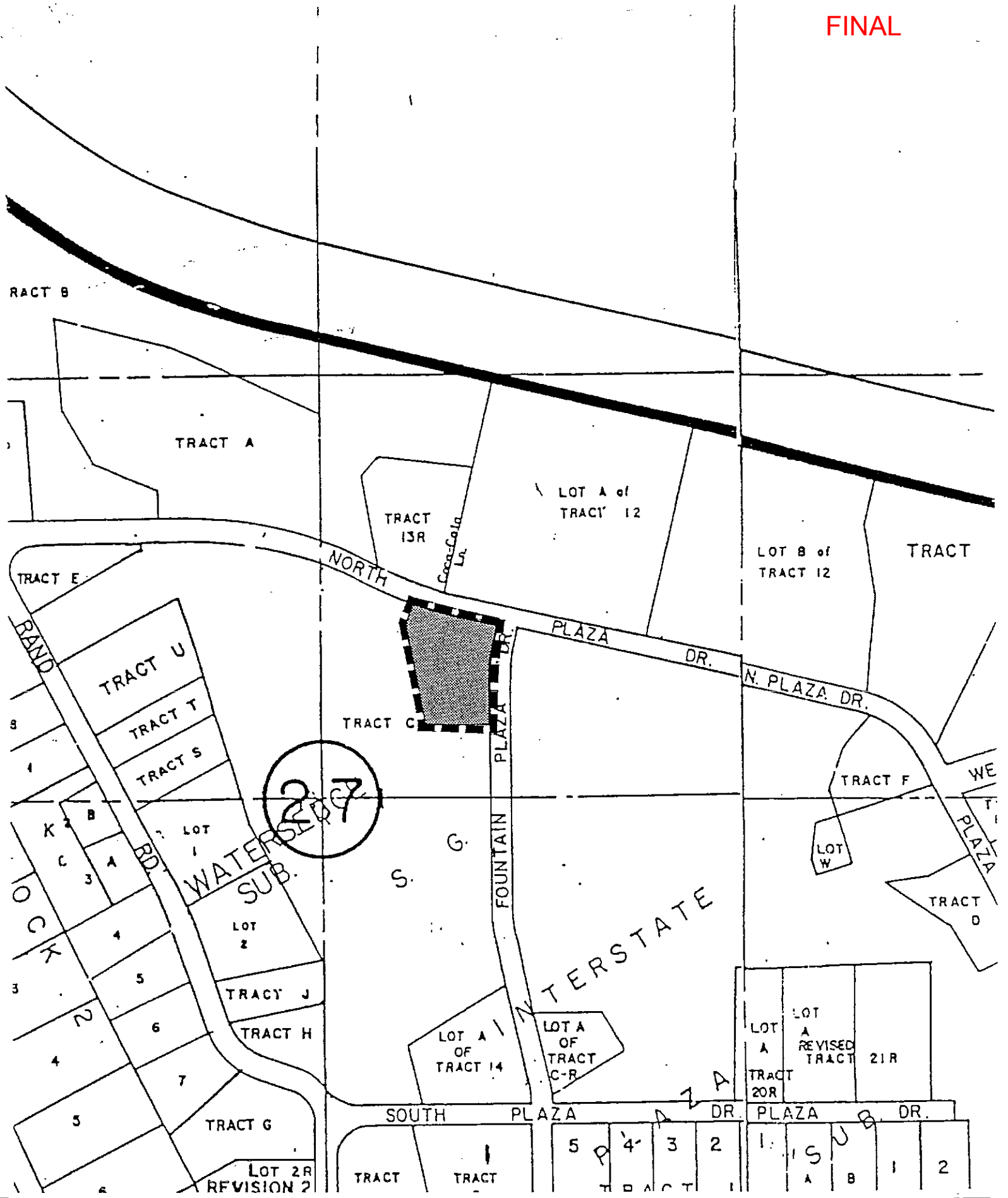
Based on a 9.5% interest rate.

TID #98TD004 - North Plaza Drive Area

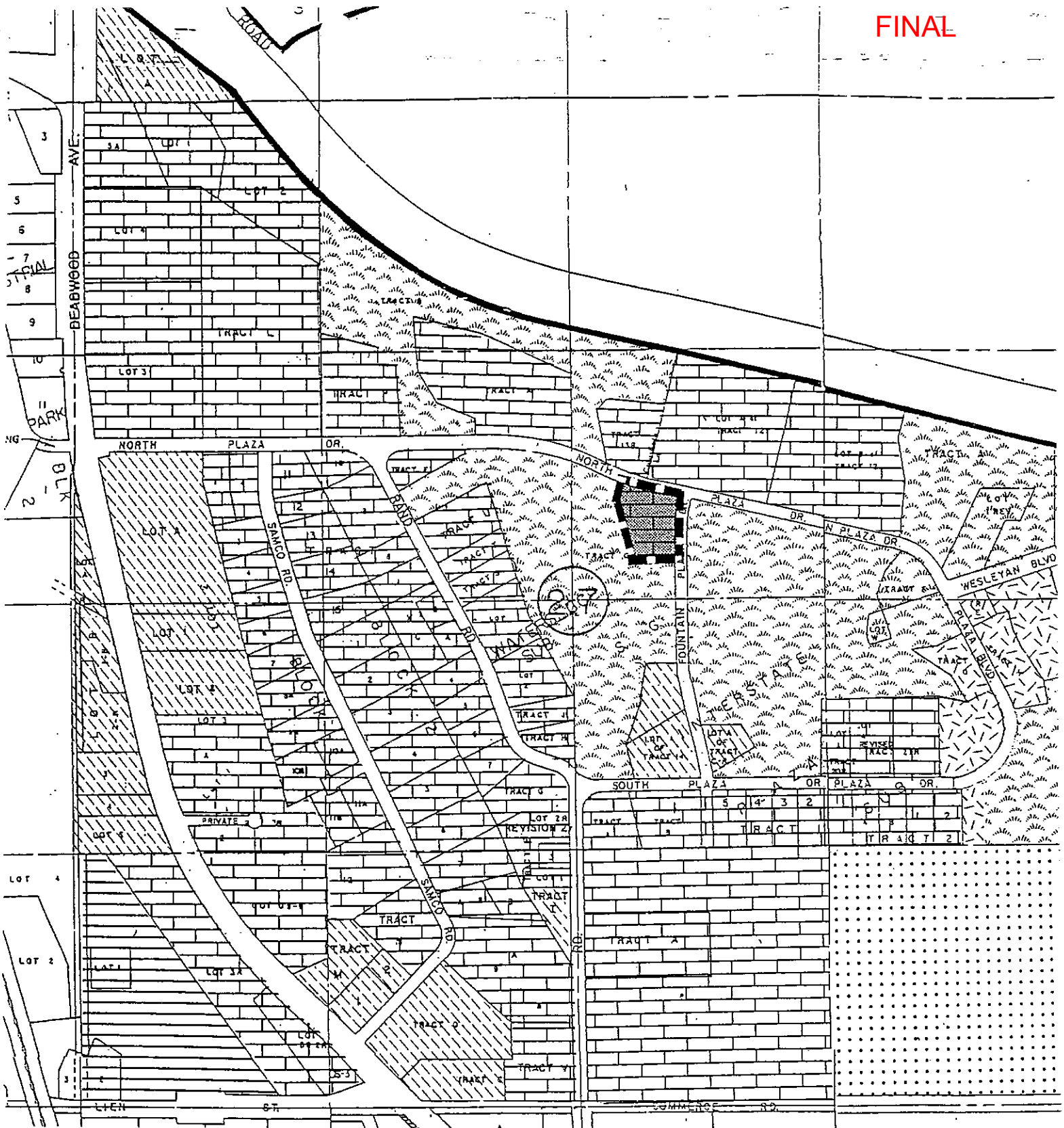
Tax Increment District #29 Project Plan

Tract L, Fountain Springs Business Park located in the SW1/4 of the NE1/4, Section 27, Township 2 North, Range 7 East, B.H.M., Rapid City, Pennington County, South Dakota



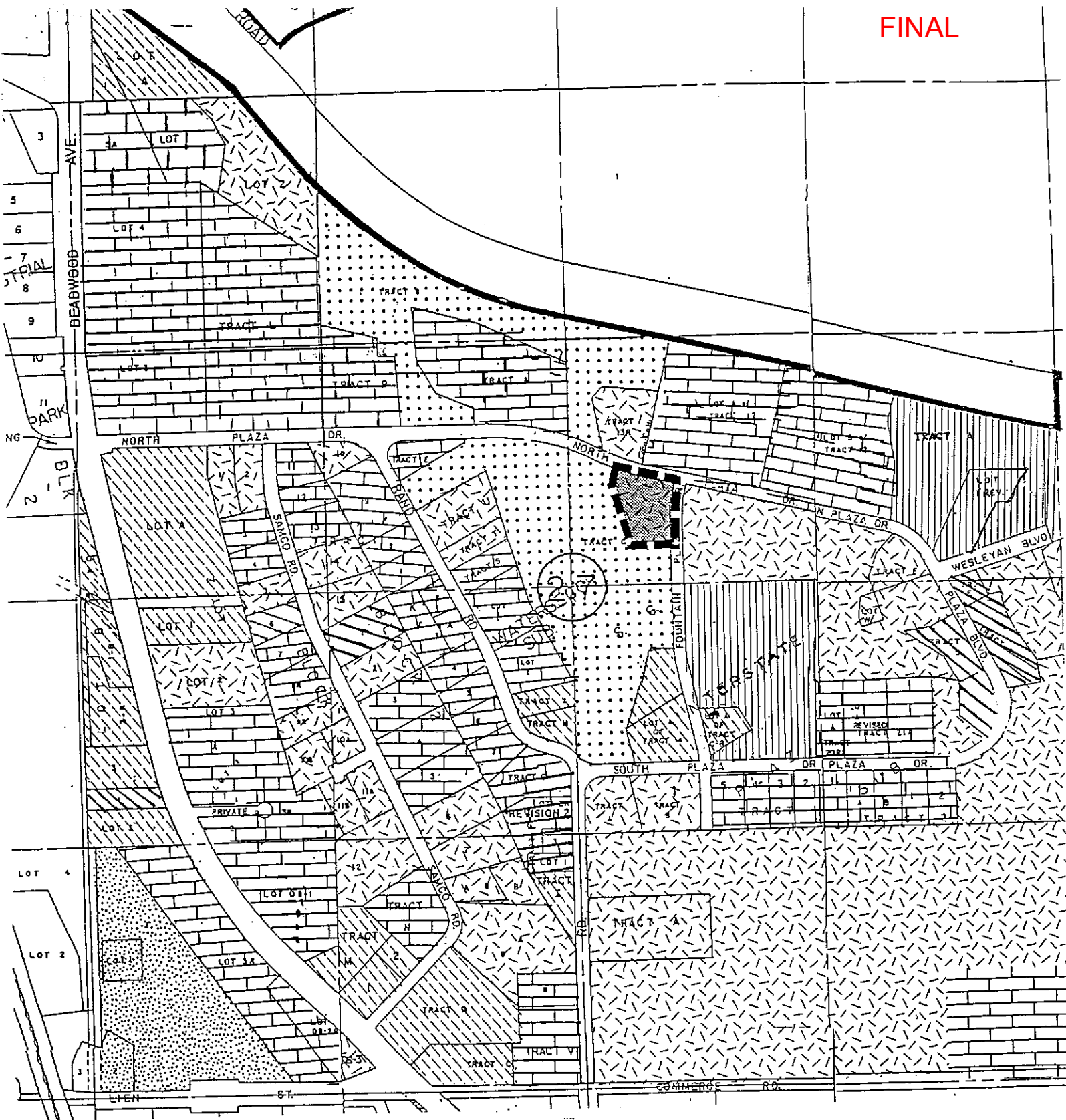


BOUNDARY MAP



- | | | | | | |
|----------------------------|--|---------------------|--|--------|--|
| MEDIUM DENSITY RESIDENTIAL | | LIGHT INDUSTRIAL | | PUBLIC | |
| OFFICE COMMERCIAL | | HEAVY INDUSTRIAL | | | |
| GENERAL COMMERCIAL | | GENERAL AGRICULTURE | | | |

AREA ZONING MAP



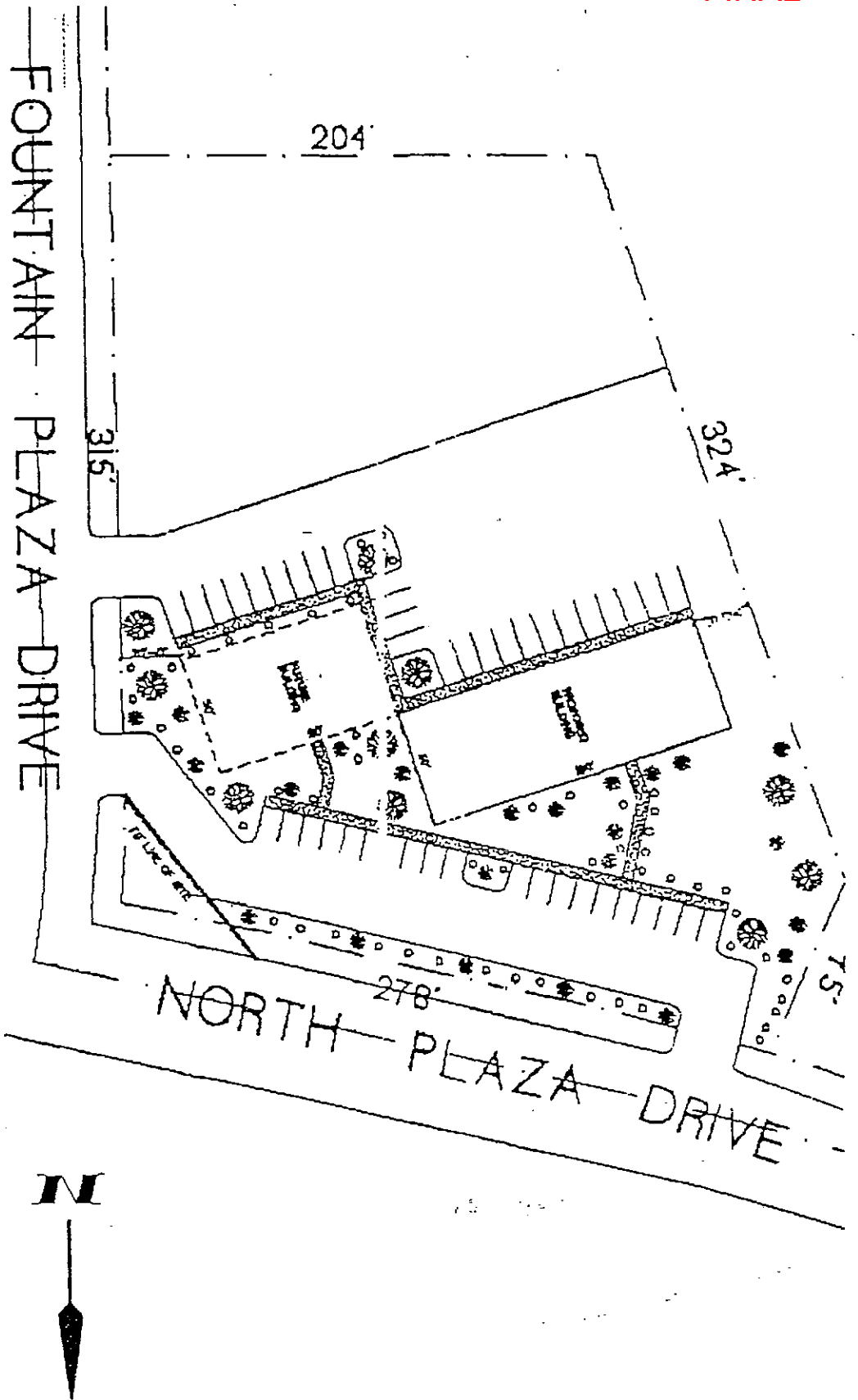
- VACANT
- OFFICE COMMERCIAL
- GENERAL COMMERCIAL
- LIGHT INDUSTRIAL
- HEAVY INDUSTRIAL
- GENERAL AGRICULTURE
- PUBLIC

LAND USE MAP

SURVEYED AS OF JULY 1997

MAP OF PUBLIC AND OTHER IMPROVEMENTS

SITE PLAN



CENTURY BUILDERS, INC
1840 SAMCO ROAD/RC, SD
PHONE: (605) 343-7117

PROPOSED BUILDING FOR
FIBERSWITCH TECHNOLOGIES