

Tax Incremental District

Number 2

Town of Hermosa, SD

Economic Development Project Plan

In conjunction with

H2O Clear Solutions LLC, Security Storage & Properties LLC, Developers



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Introduction and Purpose

The purpose of this Plan, to be implemented by the Town of Hermosa, Custer County, South Dakota, is to satisfy the requirements for Tax Incremental District Plan Number 2, Town of Hermosa, Custer County as specific in SDCL Chapter 11-9. There are 11 mandated requirements of the Plan, each to be addressed in this Plan. The principal purpose of this Plan is to define eligible property and to define a Tax Incremental Plan for funding eligible activities in the eligible area of the town.

This Plan was prepared for adoption by the Town Planner, Neil Putnam AICP and the Town Board in recognition that the area requires a coordinated, cooperative strategy, with financing possibilities, to promote economic development through the construction of a new Grease Processing Depot in Hermosa, South Dakota. The project seeks to stimulate growth of a commercial district surrounding the defunct Roy's Drive-In Theater in hopes of creating a downtown area for the Town. The project will consist of building a new sewer extension from the proposed Depot at the western end of Tenaya Street and connecting to the existing sewer main at the intersection of Walter and Marie Street. The concept is the creation of 9 new commercial lots with water and sewer connections to the public utility, the improvement of Tenaya Street and the delineation of national wetlands inventory and appropriate management of floodplain development in the Billover Creek reaches. Attraction of businesses that provide local banking services, medical services, and essential supplies like hardware and automotive parts, to the town and surrounding area, is a priority. The project will consist of the construction of a new 4,000 square foot building to house the unloading station and outdoor heated tanks for storage. The project will include the construction of a sewer line and road directly to the northeast of the facility. The facility will be located within the Town of Hermosa, South Dakota, near the intersections of Highway 79, Highway 40 and Highway 36. This location allows for minimum haul times for grease waste processors serving the following locations:

On Highway 79: Rapid City, 18.5 miles north

Hot Springs, 39.2 miles south

On Highway 40: Keystone 15.7 miles West, Hill City 27.7 miles West

Badlands National Park (<1 hour to the east)

On Highway 36: Custer 34.7 miles West.

The future commercial district will be situated in a key area serving all traffic entering Rapid City from the south, all Black Hills tourism coming from the west and all Badlands tourism coming from the east. This area has developed slowly over the past number of years. With the resolution of wetland inventory and floodplain issues, new restaurant businesses could bracket the existing big screens and serve as a revival of “Roy’s Drive-In”, which was long regarded as a cornerstone of the Hermosa, South Dakota entertainment scene and a unique destination for nostalgic drive-in movie enthusiast and motorcyclists alike.

The depot facility is estimated for completion in August of 2026. In conjunction with the construction of the depot facility and associated sewer line, the developer will contribute to the further development of Tenaya Street, which currently remains undeveloped along Lot PID: 009339 and Lot PID: 015402. This infrastructure improvement will support broader development in the commercial district and enhance accessibility from Tenaya Street and travel along Highway 79. The project described in this Project Plan will not proceed and is not economically feasible but for the use of tax increment financing.

Within the proposed TIF boundaries lies Lot PID: 015402, which is currently bare land located on the west side of Tenaya Street. While the scope of this project plan is intended to focus on the construction of a new depot facility on an 8.5-acre portion of that land and adjoining sewer line discussed above, it is important to note that the Developers intend to make provisions in the building design for the land’s future use as a car and truck wash facility. The development of a car and truck wash facility will accommodate both business and leisure travelers, thereby increasing visitor engagement and economic activity in the vicinity. The development of a car and truck wash facility is estimated for completion in the Spring of 2030.

In addition to the planned improvements for Lot PID: 009339 and Lot PID: 015402, Lot PID: 015895—an undeveloped parcel within the TIF boundaries—is also designated for future development. While the primary focus of this Project Plan is the construction of a new depot facility and accompanying sewer line, other Developers have indicated plans for further enhancement of the adjacent Lot PID: 015895 as part of the broader vision of the commercial district. Specifically, Lot PID: 015895 has been designated for the development of an office and retail center, which will complement the overall commercial use of the district. Development of an office/retail center will provide convenient commercial rental options and will diversify the commercial offerings within the Town of Hermosa. Although not included in the immediate scope of this Project Plan, the anticipated development of Lot PID: 015895 represents a strategic component

of the long-term revitalization efforts within the TIF district. The Developer estimates the construction of the office and retail center will cost around \$2M and be completed by November of 2027.

Despite the planned improvements being TIF eligible in nature, developers on Walter Street will not seek reimbursement for the costs associated with the development of Lot PID: 015895 into an office and retail center and 510/500 Walter Street into an Electrical Contractor main office. As a result, the TIF amount sought from this Project is solely associated with the costs stemming from the new depot facility to be located in Lot PID: 015402.

The driving interest in the establishment of this Plan is to offer tax increment financing as a tool to stimulate and leverage private sector development to promote economic development throughout the TIF District and the Town of Hermosa.

Development in the area is anticipated to start in the Spring of 2026, with the potential for tax increment financing to provide the impetus and means to undertake this development at a faster pace than might occur otherwise, but more importantly to ensure that one of the Town's long-standing business landmarks comes back to life (Roy's), while adding new employment opportunities and needed sewer rate payers to the Town of Hermosa's sewer fund, which recently experienced two surcharges to residents sewer bills to pay for critical infrastructure upgrades. It is important to note that most properties proposed in the current Tax Incremental District (i.e., Custer County TID Number 2) were previously in Custer County TID Number 1. However, Custer County TID Number 1 was paid in full prior to December 31, 2025. For the sake of clarity, the only tax increment from the Town of Hermosa TIF Number 2 that would be applied to Custer County TID Number 2 would be that increment generated by Lot PID: 015402.

Brief Description of Project:

The proposed development involves the construction of a new depot facility, sewer line, and road extension with the objective of reviving a celebrated Hermosa landmark—"Roy's Drive-In Movie Theater" With tax increment financing, the Developers are planning on the construction of the new depot facility and provide water and sewer hook-ups for 8 additional commercial businesses. In addition to the primary depot development, the project will catalyze infrastructure improvements, specifically the enhancement and further development of Tenaya Street, contributing to improved access and functionality of the surrounding area. The project will also include the construction of office/retail space and an Electrical Contractor's main office. While

those Developers will not seek reimbursement for the office/retail spaces, the improvements will be made within the TIF area.

Brief Description of Project's Public Benefits:

To stimulate and leverage private sector development and redevelopment, and to promote economic development throughout the TIF District by constructing a new sewer line and road extension. The project may also contribute additional tourism options within the Town of Hermosa, attracting visitors, particularly considering the return of the drive-in theater. The inclusion of a car and truck wash into the future use of the project plan property would offer a convenient full-service option for both residents and visitors of the Town of Hermosa's 24-hour Corner Pantry Truckstop, given the site's strategic location along Highway 79, a heavily trafficked route that connects Rapid City to the Southern Black Hills and Badlands. The project is to be located on the highway located on the west side of the Town of Hermosa, which will continue the progress being made in the area for economic growth.

The property upon which this Tax Incremental District (TID) is in the Town limits of the Town of Hermosa, Custer County, South Dakota.

The establishment of the Town of Hermosa TIF #2 shall be approved by resolution, and the establishment of the TID boundaries and approval of the TID Project plan by the Town of Hermosa Board of Trustees.

The purpose of this Plan is to comply with the requirements for a Tax Increment District Number #2 pursuant to SDCL Chapter 11-9. The primary purpose of the Plan is to establish eligible property and to state the funding eligible activities in an eligible area of the Town. The Plan will provide for the boundary, eligible costs, feasibility, and fiscal impact of the district.

General definitions as used in this plan

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

"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 following criteria:

Any area, including slum area, in which the structures, buildings, or improvements, by reason of:

- (1) dilapidation, age, or obsolescence;
- (2) inadequate provisions for ventilation, light, air, sanitation, or open spaces;
- (3) high density of population and overcrowding;
- (4) the existence of conditions which endanger life or property by fire and other causes; or
- (5) any combination of such factors; are conducive to ill health, transmission of disease, infant mortality, juvenile delinquency, or crime, and which is detrimental to the public health, safety, morals, or welfare, is a blighted area.¹

The term blighted area² means an area that substantially impairs or arrests the sound growth of the political subdivision, inhibits housing development, constitutes an economic or social liability, or is a danger in its present condition and use to the health, safety, morals, or welfare of the public because of:

- (1) the presence of a substantial number of substandard, slum, deteriorated, or deteriorating structures;
- (2) predominance of defective or inadequate street layouts;
- (3) faulty lot layout in relation to size, adequacy, accessibility, or usefulness;
- (4) insanitary or unsafe conditions;
- (5) the deterioration of site or other improvements;
- (6) a diversity of ownership, tax, or special assessment delinquency exceeding the fair value of the land;
- (7) defective or unusual conditions of title;
- (8) the existence of conditions which endanger life or property by fire and other causes; or
- (9) a predominance of open space with obsolete platting, diversity of ownership, or deterioration of structures of site improvements.

"Town of Hermosa" means Hermosa, South Dakota.

"Department of Revenue" means the South Dakota Department of Revenue.

"Developers" means H2O Clear Solutions LLC, a South Dakota limited liability company and Security Storage & Properties LLC, a Montana limited liability company.

"Developer's Agreement" means the agreement between H2O Clear Solutions LLC, Security Storage & Properties LLC and Town of Hermosa concerning this Tax Incremental District.

"District" means the Tax Incremental District.

"Economic Development" means all powers expressly granted and reasonably inferred pursuant to SDCL Ch. 9-54.

"Fiscal year" means that fiscal year for Town of Hermosa.

"Generally Applicable Taxes" shall have the same meaning as set forth in 26 CFR § 1.141-4(e).

"Governing body" means the Hermosa Town Board, South Dakota.

"Grant" means the transfer for a governmental purpose of money or property to a transferee that is not a related party to or an agent of the municipality.

"Infrastructure Improvements" means a street, road, sidewalk, parking facility, pedestrian mall, alley, bridge, sewer, sewage treatment plant, property designed to reduce, eliminate, or prevent the spread of identified soil or groundwater contamination, drainage system, waterway, waterline, water storage facility, rail line, utility line or pipeline, or other similar or related structure or improvement, together with necessary easements for the structure or improvement, for the benefit of or for the protection of the health, welfare, or safety of the public generally.

"Municipality" means any incorporated city or county in this state.

"Owner" means Security Storage and Properties LLC, a Montana limited liability company and H2O Clear Solutions LLC, a South Dakota limited liability company.

"Planning Commission" Board of Trustees of the Town of Hermosa

"Plan" means this Project Plan.

"Project Costs" means any expenditure or monetary obligations by Developer, 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 Developer in connection with the implementation of this Plan.

¹ SDCL § 11-9-9

² SDCL § 11-9-10

"Project Plan" means a properly approved Plan for the development or redevelopment of a tax incremental district including all properly approved amendments thereto as recommended pursuant to SDCL § 11-9-1 3.

"Public Works" means the Infrastructure Improvements, the acquisition by purchase or condemnation of real and personal property within the Tax Incremental District and the sale, lease, or other disposition of such property to private individuals, partnerships, corporations, or other entities at a price less than the cost of such acquisition which benefit or further the health, safety, welfare and economic development of the County 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 County defined and created by resolution of the governing body and named Town of Hermosa Tax Incremental District #2.

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

"Tax Increment Law" means South Dakota Codified Laws Chapter 11-9.

Property within the Tax Increment District

The real property to be located within the Tax Increment District is legally described as follows:

PID: 015402 HERMOSA HILLS TRACT REVISED (FORMERLY A PT OF OUTLOT 1)
(CONTAINING ALL OF HERMOSA HILLS TR) HERMOSA TOWN.

PID: 015169 DRIVE IN TRACT (FORMERLY PT OF OUTLOT 1) IN SE4 SEC 30 T2 R8 16.60 AC, HERMOSA.

PID: 009339, CHAPEL HILL SUBD - LOT POLLY IN SE4SE4 SEC 30 T2 R8 3.435 AC, HERMOSA.

PID: 012306, CHAPEL HILL SUBD - NORTH 2.8 AC OF OUTLOT M(R) IN SE4SE4 SEC 30 T2 R8 2.8 AC, HERMOSA.

PID: 009338, CHAPEL HILL SUBD - BALANCE OF OUTLOT M(R) IN SE4SE4 SEC 30 T2 R8 2.862 AC, HERMOSA

PID: 009347, J & B SUBD - LOT NELSON IN SE4SE4 SEC 28 T2 R8 .297 AC, HERMOSA

PID: 015193, HERMOSA HILLS ADDITION - LOT 24 IN SE4 SEC 30 T2 R8 0.73 AC, HERMOSA

PID: 015192, HERMOSA HILLS ADDITION - LOT 23 IN SE4 SEC 30 T2 R8 0.74 AC, HERMOSA

PID: 015895, PARK TRACT 2 IN NW4NW4NE4SE4, W2NE4NW4NE4SE4 & S2N2NE4SE4 LESS SD HWY 79 ROW SEC 30 T2 R8, 1.93 AC, HERMOSA TOWN.

PID: 011978 N1/2NE1/4SE1/4 & E1/2NE1/4NW1/4N1/4SE1/2 (LESS WILES ADDITION LOT 1 =1.18 AC) (INCLUDING ROAD ROW=.48 AC) SECTION 30, T2 R8 3.49 AC

PID: 004135, PARK TRACT 1 IN NW4NW4NE4SE4, W2NE4NW4NE4SE4 & S2N2NE4SE4 LESS SD HWY 79 ROW SEC 30 T2 R8, 10.99 AC, HERMOSA TOWN

PID: 015566, WILES ADD - LOT 1 (OF N2NE4NE4SE4 & E2NE4NW4NE4SE4), HERMOSA

The area making of the Tax Increment District #2 is shown on the boundary map attached to the following page.

KIND, NUMBER, LOCATION, AND DETAILED COSTS OF PROPOSED PUBLIC WORKS AND IMPROVEMENTS – SDCL § 11-9-13(1)

In order to implement the provisions of SDCL Chapter 11-9, the following are Project Costs and expenditures made or estimated to be made, and the monetary obligations incurred or estimated to be incurred. The Project Costs include capital costs, financing costs, real property assembly costs, professional fee costs, imputed administration costs, relocation

costs, organizational costs, discretionary costs and grants, plus any costs incidental thereto.

All Project Costs are found to be necessary and convenient for the creation of the Tax Incremental District and its implementation. The project constitutes economic development which is a proper public purpose of the Town. The Town exercises the powers expressly stated in and reasonably inferred by SDCL §11-9-15 and Chapter 9-54.

Kind of Project	Location	Amount	Reference
Capital	District	0	11-9-15(1)
Financing	District	0	11-9-15(2)
Property Assembly	District	0	11-9-15(3)
Professional fees	District	0	11-9-15(4)
Administrative	District	0	11-9-15(5)
Relocation	District	0	11-9-15(6)
Organizational	District	0	11-9-15(7)
Discretionary grant	District	\$850,000	11-9-15(8)

District shall mean the Tax Increment District. 2 SDCL §11-9-15

(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 or notes 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 or notes 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 or the implementation of project plans.

- Any owners of real property located within the TIF District will waive their right to the discretionary tax abatement.

Expenditures Exceeding Estimated Cost

Any expenditure, which in sum would exceed the total amount of the TID amount of \$850,000 will require an amendment of this Plan. All amendments would be undertaken pursuant to SDCL §11-9-23.

When the expenditures within the Plan are increased more than 35 percent of the total above, the Department of Revenue will be required to reset the base, in accordance with SDCL §11-9-23

If the Project Costs are not provided for in the original plan, the governing body would be required to amend the plan which requires the South Dakota Department of Revenue to re-determine the tax increment base when additional Project Costs are added to the plan. SDCL §11- 9-23.

Detailed List of Estimated Project Costs

Attached as Schedule 1 is a detailed list of estimated Project Costs for the project as per SDCL § 11-9-13(3). No expenditure for Project Costs has been provided for more than five years after the District is created.

Feasibility Study

An official feasibility study has not been completed by a Third Party.

Economic Development Study is a Fiscal Impact Statement showing the impact of the Tax Increment District, until and after the bonds are repaid, upon all entities levying property taxes in the district. Required as per SDCL § 11-9- 13(4).

Fiscal Impact Statement

A Fiscal Impact Statement showing the impact of the Tax Increment District, until and after the bonds are repaid, upon all entities levying property taxes in the district. Required as per SDCL § 11-9- 13(4).

METHOD OF FINANCING, TIMING OF COSTS AND MONETARY OBLIGATIONS

The payment of Project Costs is anticipated to be made by the Town to Developer from the special fund of the Tax Incremental District. SDCL § 11-9-13(5). Pursuant to the Developer’s Agreement, the Town will pay to the Developer all available tax increment funds it receives from the District.

Maximum Amount of Tax Increment Revenue

The maximum amount of tax increment revenue bonds or monetary obligations to be paid through TID #2 shall be the amount sufficient to reimburse the Town for the payments made for Project Costs and pay all tax increment bonds or monetary obligations in an amount not to exceed \$850,000 principal and interest or such lesser amount as may be feasible with the estimated revenue generated by the Tax Increment District. The final terms and conditions will be set forth in the Developer’s Agreement.

Estimates TID Eligible of Project Costs Requested Town of Hermosa has determined that this will be an economic development Tax Increment District, thus the eligible developer costs will be in the form of an infrastructure grant that will not exceed \$850,000. This is permitted use under SDCL 11-9-15.

SCHEDULE 2 ECONOMIC FEASIBILITY STUDY & TAXABLE VALUE

The Town has been asked to create a Tax Increment District to help offset the expansion associated with this project. This feasibility study provides that the Project Costs can be financed through tax increment financing under South Dakota Tax Incremental District Law (South Dakota Codified Laws Chapter 11-9).

In tax increment financing, the current real property tax assessed value of all properties in a designated project area (“tax increment financing district”) is established as the “base value.” As development in the tax increment financing district increases the assessed values of the redeveloped properties, a portion of the additional tax revenue generated by

the increase in assessed value over the base value is set aside and committed by the Town to the reimbursement of approved project costs.

All of the project costs are found to be necessary and convenient for the creation of the Tax Incremental District and the implementation of the project.

The Town's role is to simply act as a conduit for the revenue and pass on all positive increment to the Developer or to reimburse the Town for their expenses, of which, will never exceed \$850,000 in total payments, or 20 years, whichever comes first.

It is assumed that all obligations incurred would be adequately secured as to allow the payment of principal and interest when due, whether by means of a taxable bond or loan. The actual repayment schedule may change, but all principal and interest shall be paid within the life of the TID. Utilizing the information regarding expected increment valuation and tax generation, it is possible to estimate an expected revenue stream that can be utilized to retire debt that will be created as a result of implementing the Project Plan.

Town of Hermosa TID #2 is proven feasible based upon the projections made by the Developer, projecting a total in excess of the \$850,000 grant request in tax revenue during the life of the 20-year TIF.

SCHEDULE 3 ECONOMIC DEVELOPMENT STUDY

The Town of Hermosa has been approached concerning the creation of a tax increment district (TID) located within the town limits. Per South Dakota Codified Law 11-9-8, the governing body must make a finding that not less than 50%, by area, of the real property within the district will stimulate and develop the general economic welfare and prosperity of the State through the promotion and advancement of industrial, commercial, manufacturing, agricultural and natural resources, and the improvement of the area is likely to enhance significantly the value of substantially all of the other real property in the district.

Study Area Boundary

The Project boundaries are described and depicted on the maps in Attachments 1 and 2 of this Plan.

Establishing Economic Development South Dakota law describes economic development as an activity that stimulates and develops the general economic welfare and prosperity of the state through the promotion and advancement of industrial, commercial, manufacturing, agricultural, or natural resources. The definition of Economic Development for State Aid to Education Formula purpose is any area where there is or will be one or more

businesses engaged in any activity defined as commercial or industrial. The proposed Town of Hermosa #2 meets both criteria.

Finding that the Improvements to the Area are Likely to Enhance Significantly the Value of Substantially All of the Other Real Property in the District

It is definitively found that once the improvements set forth within the Project Plan are initiated, the improvements will enhance significantly the value of substantially all the other real property in the district. The Town of Hermosa #2 will have a tremendous economic impact on the town's infrastructure advancement and the labor force.

Conditions Within The Study Area: Land Use and Planning Land Use, Planning and Comprehensive Plan

The Town of Hermosa Comprehensive Plan is consistent with the proposed use of the District.

Findings within the Project Area Analysis

It is found that not less than 50%, by area, of the real property within the District will stimulate and develop the general economic welfare and prosperity of the State of South Dakota through the promotion and advancement of industrial, commercial, manufacturing, agricultural, and natural resources. It is also found that the improvement of the area is likely to enhance significantly the value of substantially all the other real property in the District in accordance with SDCL 11-9-8.

The investment of about \$850,000 in the Project area will stimulate and develop the general economic welfare and prosperity of the State through the promotion of employment and advancement of commerce during the construction period. The Project will enhance the community of Hermosa by creating additional jobs and will have a substantial annual economic impact on the region and state.

SCHEDULE 4 FISCAL IMPACT STATEMENT FOR TOWN OF HERMOSA TID #2

A fiscal impact statement shows the impact of the TID, both until and after the bonds or obligations are repaid, upon all entities levying taxes upon property in the district. The following fiscal impact statement is intended to provide only a brief analysis of the estimated impact of the Tax Increment District to the public pursuant to SDCL § 11-9- 13(4). It is not intended to challenge a more detailed, complete financial analysis.

Definitions

“Assumptions” means factors or definitions used in the fiscal analysis. Assumptions may include facts and figures identified by the district and educated guesses that are

sometimes necessary when not all the information is available. Assumptions are often used to extrapolate an estimate. Assumptions may include an estimate of tax levies of each taxing entity, the school aid formula contribution, the value of the real property, etc.

"Base Revenues" means the taxes collected on the base value.

"Fiscal Impact" means the increase or decrease in revenues and generally refers to an impact to revenues caused by the district.

"Revenue" means ad valorem taxes.

"Tax Increment District" means TOWN OF HERMOSA Tax Increment District Number 2

"Taxing Districts" means all political subdivisions of the state which have ad valorem taxing power over property within the boundaries of the Tax Increment District.

"Tax Increment Revenues" means all revenues above the Base Revenues

Assumptions

- 1. The projects will have improvements, which at completion, are estimated at taxable purposes up to \$850,000.*
- 2. The average tax levy of all taxing districts will be \$12.738 per thousand dollars of taxable valuation.*
- 3. Tax increment will start to be collected in 2027 and end prior to 2047.*
- 4. The discretionary formula will be waived by Developer.*

SCHEDULE 5 ESTIMATED CAPTURED TAXABLE VALUES

For purposes of this Project Plan, The Town assumes that Developer will elect not to use any real property tax discretionary formula currently utilized in Custer County, pertaining to payment of real property taxes (i.e., 20% Year 1; 40% Year 2; 60% Year 3; 80% Year 4; and 100% Year 5).

** Actual valuation shall depend upon the value determined by the Custer County Director of Equalization when assessed, with the application of dollars-per-thousand from local taxes. All tax increment revenues shall be from Generally Applicable Taxes attributable to the improvements to be constructed in the TID. The potential for total increment collections is estimated to be at the maximum range of \$850,000 covering a span of captured tax years not to exceed 20. Collection is anticipated to begin in 2027, and the schedule carries out the tax captured 20 years from the date of Plan adoption.*

The following dollars-per-thousand rates are the current taxing rates of the local taxing jurisdictions for NonAG Other property types:

The property tax rate for 2024 taxes payable 2025 is 12.738; 7.741 to Custer School District, 2.114 Custer County, 2.227 Town of Hermosa, .656 Battle Creek Fire District.

Utilizing the information regarding expected increment valuation and tax generation, it is possible to generate an expected revenue stream that can be utilized to retire debt that will be created as a result of implementing the Project Plan.

Creation of Town of Hermosa TID Number 2

H2O Clear Solutions LLC & Security Storage and Properties LLC, desire to create a Tax Incremental Financing District (“TID”) to assist in the construction of public infrastructure and other TID eligible expenses on land located within the corporate limits of Town of Hermosa, Custer County, South Dakota. As presented by the Developer, the TID will consist of one (1) phase, as follows: Site preparation (grading and utilities), and other TID eligible expenses for the Economic Development area proposed for the TID area. The construction of 4,000 square foot building is located within Lot PID: 015402. The development will further include the construction of a sewer line to the northeast side of the building. Once completed, the building and site improvements will allow Developer to construct a new depot facility, which will contribute approximately 5,500 GPD of sewer flow to the town’s sewer system and pay subsequent fees. The construction of the new building and associated sewer fees will not happen without the TIF being approved. It is also projected that an office/retail center and electrical contractor main office will be built on the 2 remaining lots contained within the TIF District, which if completed will generate more tax increment. Timing and weather permitting, Developer intends to begin construction on the new building in the Spring of 2026 with a substantial completion date on or before August 1, 2026.

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Figure 1. TID 2 Boundary

Hermosa TIF District 2 Boundary Map

-outlined in Red.



Listing of kind, Number, Location and Detailed Costs of proposed Public Works and Improvements³

To implement the provisions of SDCL Chapter 11-9, the following are Project Costs and expenditures made or estimated to be made, and the monetary obligations incurred or estimated to be incurred by the Developer. The Town is working to develop an economic and competitive base to benefit the Town and the state as a whole. All project costs are found to be necessary and convenient for the creation of the Tax Incremental District and its implementation. The project constitutes an Economic Development Project and is a proper public purpose for the Town. The Town exercises the powers expressly stated in and reasonably inferred by SDCL §11-9-15 and Chapter 9 54. The Developer or its assignee shall enter into all contracts in accordance with South Dakota law.

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 Town;
- To develop and rehabilitate the area in a manner which is compatible with and complementary to unique circumstances in the area;
- To effectively utilize undeveloped and underdeveloped land;
- To ultimately contribute to increased revenues for all taxing entities;
- To encourage the voluntary construction of buildings, improvements, and conditions;
- To watch for market and/or project opportunities to promote economic development, and when such opportunities exist, to take action within the financial, legal and political limits of the Town to acquire land, pursue redevelopment, improvement and construction projects; and
- To improve areas that are likely to significantly enhance the value of substantially all property in the district.

³ SDCL §11-9-16(1)

Taxable Value of Hermosa

State law requires that tax increment districts cannot exceed ten percent of the taxable value of the Town of Hermosa. The value for Hermosa is approximately \$51,547,991. The base value of the taxable property for inclusion into this Tax Incremental District, as per the Director of Equalizations records, is \$5,106,387 as set forth on the following page.

The base value of PID: 015402, PID: 015169, PID: 009339, PID: 012306 and PID: 011408 were requested from the Director of Equalizations. The above number \$5,106,387 was calculated based on that information as follows:

PID	Current Tax Value		Increment (\$)
Tenaya Street Area			
009339	\$136,162		51,741
015402	\$3,750 *		228,600
015169	\$664,035		252,333
012306	\$47,568		18,076
West Main Street Area			
009338	\$1,622,860	Corner Pantry	616,687
009347	\$116,506	Nelson's Oil and Gas Services	44,272
Walter Street Area			
015193	\$62,962		23,925
015192	\$63,824		24,253
015895	\$17,659		6,710.42
015566	\$1,549,367	Dollar General	588,759
004135	\$426,903	Southern Hills RV	162,223
011978	\$394,791		150,020
Total	\$5,106,387		2,167,599.42

*taxed as ag land

Assuming an annual increase of 2% annual increase over 19 years.

Land Increment: $2,167,599.42 \times 12.738/1000 \times 19 = 524,606.75$

Depot Increment: $1,000,000 \times 12.738/1000 \times 19 = 242,022.00$

Total: \$766,628.75

TIF 2 Base Valuations

(insert legal descriptions)

Full & True Base Value:

Total base value of active TIF Districts in Hermosa is as follows: none

The total value of all active TIF districts in Hermosa is less than 10% of total taxable value in the Town. Using the base values provided above with the inclusion of the proposed TIF #2, the total Tax Increment Districts combined is less than 1.5% when compared to the 2024 Taxable Valuation. The proposed Tax Incremental District will promote economic growth and enhancements in Town of Hermosa. It is anticipated that a majority of properties within the district will see increases in their property valuation as a result of improvements made possible through creation of the proposed Tax Incremental District.

[REMAINDER OF PAGE LEFT INTENTIONALLY BLANK]

Cost of Public Works or Improvements

In accordance with SDCL § 11-9-16 the following are the kind, number, location and dollar amount of estimated Project Costs, costs of public works and improvements:

Estimated costs for non-project costs and TIF eligible costs may vary from actual costs incurred during construction. The grant to Developer is not controlled by the individual line items for TIF eligible costs.

⁴ District shall mean the Tax Increment District.

⁵ SDCL §11-9-14

(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 or notes 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 or notes 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 or the implementation of project plans.

proceeds may flow through to Developer for certified TIF eligible expenses, without respect to a particular line item, based on the actual costs incurred for those TIF eligible expenses up to the total authorized TIF request amount of \$850,000.

Expenditures Exceeding Estimated Cost

Any expenditures which in sum would exceed the total amount stated above will require an amendment to this plan. All amendments are undertaken pursuant to SDCL §11-9-23.

Developer's Agreement

The Town of Hermosa will enter into a Developer's Agreement with Developer with the following as the guidelines for the Agreement:

Financing Terms:

- ♣ Amount. The total amount of the TIF will not exceed \$850,000.
- ♣ Interest Rate. There will be no interest rate applicable to the total authorized TIF Request of \$850,000. Any reported interest arising from Developer project financing may be classified as a Non Project Cost or TIF Eligible Cost, dependent on the details of the financing package, in the project cost breakdown.
- ♣ Length. The TIF will not exceed 20 calendar years from the year of creation.
- ♣ Expiration. The TIF will expire at the end of 20 years or when \$850,000 has been paid out in tax payment to the Developer from the taxes generated within the District, whichever comes first.

Legal Terms:

♣ Any owners of real property located within the TIF District will waive their right to the discretionary tax abatement.

♣ Should the State of South Dakota not classify the TIF as economic development, the TIF will not be finalized and will cease to exist.

Conditions of the Developer Agreement relating to Constitutional Debt:

The exclusive funding mechanism for this TID will be a grant pass-through of positive tax increment from the TID receipted into the TIF Fund. It is specifically a condition of the proposed Developer's Agreement that the Town's obligation to pay is limited to the proceeds of the positive tax increment from the TID receipted into the TIF Fund. The Town shall have no obligation to commit any Town funds from any other source into the TIF Fund other than the positive tax increment from the TID receipted into the TIF Fund. It is also to be specifically agreed that the Town has made no representation that the proceeds from the TIF Fund shall be sufficient to retire any indebtedness incurred by Developer. The parties further acknowledge that SDCL 11-9-25 limits the duration of allocation of the positive tax increment payments and the fund created by the TID to 20 years from the year of creation. As such, it is further understood that the amount of \$850,000 will be the maximum amount the Town will ever pass on acting as a conduit for TIF #2 for eligible project costs.

All TIF revenue will be passed onto the Developer as a grant until the full amount has been paid or 20 years from the year of creation, whichever happens first. The payment of tax increment funds under this Agreement is a grant under SDCL Chapter 11-9 (the "Grant"). The Grant is a personal property right vested with the Developer on the effective date of the Developer Agreement. The Town will grant this amount to the Developer and thus not have to account for any assets on the Town's financial statement. The Developer will be responsible for obtaining their financing and the Town will not be liable for any Developer debt.

Upon completion of the construction of the project involving eligible project costs, the Developer shall certify to the Town's Finance Officer the eligible project costs in sufficient detail to determine that payment of grant funds is solely for eligible project costs. The Developer shall provide contractor/supplier invoices or other supporting documentation upon request of the Finance Officer. Upon certification and verification of eligible project costs, the Town shall pass-through all available tax increment fund revenues not to exceed \$850,000 in a manner consistent with this section.

Given that the exclusive funding mechanism for this TID is the grant pass-through of positive tax increment from the TIF Fund, that no tax increment bonds will be issued in

relation to this TID, and that the Town shall have no obligation to commit other Town funds, the Town's obligation hereunder shall not in any way be construed to be a debt of the Town in contravention of any applicable constitutional or statutory limitation or requirement concerning the creation of indebtedness by the Town, nor shall anything contained herein constitute a pledge of the general credit, tax revenues, funds or moneys of the Town. In recognition that the Town cannot have appropriate funds that have not accrued, the Town's exclusive obligation shall be to budget and appropriate the positive tax increment from the TID receipted into the TIF Fund on an annual basis during the Town's then current fiscal year, as may be required. Notwithstanding anything to the contrary contained in the proposed Agreement, the Town hereby acknowledges and agrees that the obligations of the Town under this Agreement are a material inducement for Developer to incur various development and construct improvements upon the TID property and the failure to pay tax increment to Developer will be financial detrimental to future improvements on said property.

If at any time during the term of this Agreement, the governing body of the Town shall fail or refuse to approve or authorize the funds due hereunder, and if the TID is eligible to be terminated pursuant to SDCL 11-9-46, then the Agreement shall terminate upon the end of the fiscal year for which funds were approved or authorized, without penalty to the Town.

Developer Terms:

- ♣ H2O Clear Solutions LLC and Security Storage and Properties LLC, will act as the Developer and all TIF proceeds will flow to Developer.
- ♣ Developer will certify the costs to the Town for reimbursement.
- ♣ The Developer shall submit a report to the Town no later than November 15 of each calendar year on a form provided by the Town.
- ♣ The Developer agrees to waive the discretionary formula for all construction within the TIF.

Method of Financing, Timing of Costs and Monetary Obligations⁹

Project Costs shall be paid by the proceeds of tax increment revenue. The Town may reimburse for administrative costs from the tax increments at the end of the Plan after payment of all approved reimbursable costs.

Maximum Amount of Tax Incremental Revenue

The maximum amount of monetary obligations to be paid through Tax Increment Number 2 shall not to exceed \$850,000, or such lesser amount as may be feasible with the estimated revenue generated by the Tax Increment District plus interest. In the alternative or in combination therewith, the Town may issue one or more tax increment bond series or may enter into one or more development agreements whereby the tax increment revenues would be used in accordance with the terms and conditions of the development agreements (the “monetary obligation”).

Duration of Tax Incremental Plan

The duration of the Plan will extend to the number of years it will take for the extinguishment of any bonds or monetary obligations; however, in no event may the positive tax increments be allocated longer than twenty (20) years after the calendar year of creation.

Estimated Impact of Tax Increment Financing on Revenues of Taxing Jurisdictions

The site will generate taxes to the local jurisdictions at or above the assessed value of the Base. All taxing districts shall receive that base which will be the value set for 2024 taxes payable in 2025 and thereafter. The tax increment will be available to the taxing jurisdictions at or before 20 years after the creation of the District. Schedule 2 details the tax capture implications to each of the local taxing jurisdictions. After the repayment of the bonds or monetary obligations, taxing entities will receive their proportionate share of tax dollars for the base value plus the tax incremental values.

⁷ SDCL §11-9-16(3)

⁸ SDCL § 11-9-16(4)

⁹ SDCL § 11-9-13(5)

PLACEHOLDER for new levees.

The Custer County Director of Equalization estimated the facility and land to be worth about \$1,000,000 for the Grease Depot.

Conditions Map¹⁰, Improvements Map¹¹, Zoning Change Schedule¹²

The conditions map is attached as Attachment 1. The Improvements map is attached as Attachment 2. The Zoning Change Schedule is attached as Attachment 3.

Changes to the Town of Hermosa Master Plan, Map, Building Codes and Town Ordinance¹³

The Town has made or will make such changes in the master plan, map, building codes and Town ordinances as indicated on Attachment 3.

The 8.5-acre parcel will need to be rezoned to industrial if the project plan is approved.

List of estimated non-project Costs¹⁴

The following is a list of the non-Project Costs. All costs are listed as taxable value; actual non-project costs will exceed the following amounts.

Findings within the Project Area Analysis

It is found that not less than 50%, by area, of the real property within the District will stimulate and develop the general economic welfare and prosperity of the State of South Dakota through the promotion and advancement of industrial, commercial, manufacturing, agricultural, and natural resources. It is also found that the improvement of

the area is likely to enhance significantly the value of substantially all the other real property in the District in accordance with SDCL 11-9-8.

The investment of about \$1,000,000 in the Project area will stimulate and develop the general economic welfare and prosperity of the State through the promotion of employment and advancement of commerce during the construction period. The Project will enhance the community of Hermosa by creating additional jobs and will have a substantial annual economic impact to the region and state.

Statement of Displacement and Relocation Plan¹⁵

No residents or families will be displaced by the Project. There are no families or persons residing on the premises. Therefore, no relocation Plan is needed.

Performance Bond, Surety bond or Other Guaranty

As security for its fulfillment of the agreement with the governing body, a purchaser or lessee of redevelopment property may furnish a performance bond, with such surety and in such form and amount as the governing body may approve or make such other guaranty as the governing body may deem necessary in the public interest. This additional security may be provided for in a Developer's Agreement.

¹⁰ SDCL § 11-9-16(1)

¹¹ SDCL § 11-9-16(2)

¹² SDCL § 11-9-16(3)

¹³ SDCL § 11-9-16(4)

¹⁴ SDCL § 11-9-16(5)

¹⁵ SDCL § 11-9-16(16)

LIST OF SCHEDULES

SCHEDULE 1 Detail of Project Costs

SCHEDULE 2 Estimated Captured Taxable Values

ATTACHMENTS

Attachment 1. Map and Legal Description and existing uses and conditions

Attachment 2. Map of Real property/Improvement

Attachment 3. List of proposed changes in zoning ordinances

ATTACHMENT TWO – IMPROVEMENT AREA

NEW SEWER LINE PROPOSED ROUTE



ATTACHMENT THREE – PROPOSED AREA TO BE ZONED “INDUSTRIAL”

