

City Council STAFF REPORT



Meeting Date: City Council - Sep 19 2022

Agenda Item: Approval of the City of Sturgis Five Year Capital Improvement Plan

Prepared By: Daniel Ainslie, City Manager

BACKGROUND INFORMATION:

In June of 2016, the City Council adopted a five-year Capital Improvement Plan, the "Generation Fund." The plan covered projects within the Capital Improvement Fund, the Sanitary Sewer Fund and the Water Fund. The plan was reviewed and updated in 2018 to reflect the next five years. With several significant projects completed, it is time to review the plan once again. This report is designed to record the progress that has been made on fulfilling the goals that were set in the 2018 update and to document the capital improvements scheduled for the next five years.

DISCUSSION:

Capital Improvement Fund

The majority of the projects included in this report are funded through the Capital Improvement Fund. The Capital Improvement Fund obtains revenue from the general sales tax on most goods and services purchased in the City. The City collects a 2% sales tax on most items and services purchased within the City of Sturgis. The City deposits half of the funds collected into the General Fund. The General Fund provides the revenue needed to support Police, Fire, Library, Parks, Recreation and other needs. The other half of the tax collected is divided with 10% being deposited into the Equipment Replacement Fund and 90% being deposited into the Capital Improvement Fund. As an example, when an individual purchases \$100 worth of groceries in Sturgis a total \$6.50 in sales tax is added to the bill. The sales tax is divided as follows:

- \$4.50 is sent to the State
- \$1.00 is deposited into the City's General Fund
- \$0.10 into the Equipment Replacement Fund
- \$0.90 into the Capital Improvement Fund.

In addition to this funding stream, there are a few other smaller revenue streams that fund capital improvements. A portion of the revenue from the annual Harley Davidson Rally Point naming rights agreement is deposited into this fund. In addition, the City's annual State Transportation Infrastructure Plan (STIP) allotment is deposited into this fund. These two revenue sources supplement the sales tax revenue that serve as the primary sources of funding for improvements made to roads, bridges, parks, the Community Center, storm water and other municipal buildings.

Water Fund

Revenue in this fund originates from the City's Water Utility Charges. The fund receives all revenue from the City's Water utility billing. In return, the funds are used to cover existing debt, operating costs (water operators and water utility billing staff, insurance, electrical costs of the wells, insurances and repairs) and capital costs. The plan seeks to ensure unified development of infrastructure, so that when new utility lines are placed the associated roadway, sidewalks and drainages are also repaired. Though more expensive initially, this ensures long term efficiency within municipal Government.

Waste Water Fund

This fund's sole income stream is the utility rates paid by customers. These funds are collected and used to fund the daily operations, past debt of the fund and future sewer system upgrades. Similar to the water fund, the majority of projects associated with this fund correlate to improvements made to other existing City infrastructure to ensure that unified improvements are made.

TIF Funds

When new development occurs within the City, the community is able to approve a TIF district. This allows for all the property tax paid by the new development to be used to repay the costs incurred when new infrastructure is built in support of the development. This tool can also be used to enhance existing infrastructure that is integral to the new development. Sturgis has made great use of this tool to enhance existing infrastructure and build new improvements. This report includes a review of all existing TIF District projects.

BUDGET IMPACT:

The 2022 and 2023 projects included within this report have been included within the current budget as well as the 2023 City budget that was recently adopted by the City Council. The City's Infrastructure Advisory Committee regularly reviews the projects included within the plan and the final costs. As projects are completed and revenue is received adjustments are made to the project priorities in order to ensure that actual revenue meets final construction costs. As new grant and other financing opportunities arise, some projects may be accelerated in order to ensure that the community receives the greatest improvements for their municipal tax dollars. Each subsequent budget will include a projection of projects to be included five years out. These additionally added projects will then be adopted by the Council during the next Capital Improvement Plan adoption, which will likely occur in 2025.

RECOMMENDATION:

Motion to approve the City of Sturgis Generation Fund Five Year Capital Improvement Plan.

ATTACHMENTS:

[Final 2022 Generation Fund Five Year Infrastructure Plan](#)

Approved By:

Daniel Ainslie, City Manager

Status:

Approved - Sep 13 2022



2022 Update

Capital Improvement Plan

2022-2027

Generation Fund

"To provide an attractive, growing community being served by a professional staff that offers reliable, quality municipal services."

September 19, 2022

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Introduction

In June of 2016, the City Council adopted a five-year Capital Improvement Plan, the “Generation Fund.” The plan covered projects within the Capital Improvement Fund, the Sanitary Sewer Fund and the Water Fund. The plan was reviewed and updated in 2018 to reflect the next five years. With several significant projects completed, it is time to review the plan once again. This report is designed to record the progress that has been made on fulfilling the goals that were set in the 2018 update and to document the capital improvements scheduled for the next five years.

The Capital Improvement Fund

The Capital Improvement fund obtains revenue from the general sales tax on most goods and services purchased in the City. Title 20 of the Sturgis City Ordinance authorizes the City to collect a 2% sales tax on most items and services purchased in the City of Sturgis. The City deposits half of the funds collected into the General Fund. The General Fund provides the revenue needed to support Police, Fire, Library, Parks, Recreation and other needs. The other half of the tax collected is divided with 10% being deposited into the Equipment Replacement Fund and 90% being deposited into the Capital Improvement Fund.

As an example, when an individual purchases \$100 worth of groceries in Sturgis a total \$6.50 in sales tax is added to the bill. The sales tax is divided as follows:

\$4.50 is sent to the State

\$1.00 is deposited into the City’s General Fund

\$0.10 into the Equipment Replacement Fund

\$0.90 into the Capital Improvement Fund.

In addition to this funding stream, there are a few other smaller revenue streams that fund capital improvements. A portion of the revenue from the annual Harley Davidson Rally Point naming rights agreement is deposited into this fund. In addition, the City’s annual State Transportation Infrastructure Plan (STIP) allotment is deposited into this fund. The State made a change in this program several years ago. Previously, municipalities had to save this revenue in a state account. Then once enough revenue had been saved a large road reconstruction project could be paid for. Since these funds originate from the Federal Gas Tax revenue, all projects are required to meet the very costly federal mandates. As such, the state allowed municipalities to receive cash from the state equal to 90% of their federal STIP allocation. Following the completion of the Main Street reconstruction project, the City began using this 90% cash swap. These two revenue sources supplement the sales tax revenue that serve as the primary sources of funding for improvements made to roads, bridges, parks, the Community Center, storm water and other municipal buildings.

Projects Completed since 2018 update

6th Street Park – The City completed the construction of a new park on City owned property on 6th street close to the community center. The park includes a significant amount of equipment

(including ADA compliant) rubberized fall zones, shade covers, new basketball, pickle ball, volleyball and tennis courts. The site for the new playground was selected as it was adjacent to an existing underutilized restroom, had adequate existing parking and could make use of a heavily underutilized grass area.

PALs BMX Park – The Police Athletic League (PALs) lead a fundraising effort to construct a new BMX Park. PALs raised \$80,000 to pay for the design and paving of the new park. The City paid for the new parking lot and completed interior paving. The park is proving to be a fantastic addition to the community and even attracts tourists to our community.

9th Street Bridge reconstruction – The City completed the reconstruction of the 9th Street Bridge in 2019. The new bridge includes a separated sidewalk and is FEMA compliant allowing 100-year floodwaters to flow underneath without causing any damage. In addition, the structure does not increase the floodway upstream.

Reconstruction Roads, Ellen, 1st and Woodland –The City completed the reconstruction of 1st Street between Lazelle and Sherman, Woodland Drive and Ellen Drive. These were complete reconstructions that allowed the road base to be completely replaced. This will greatly increase the longevity of the roads.

Public Works Campus- The City hired a highly experienced architectural firm, Fennel Design, to complete a needs analysis of the department and a master plan for the construction of the facility. The study concluded that it would be most beneficial in the long run for the Public Works, Water and Parks facilities to be combined into one facility. This also coincided with the organizational restructuring of the Parks and Water Department to become divisions within the Public Works Department. The study also included a review of existing facilities and potential sites available within the City to locate the new Public Works campus. There were a few potential sites that were reviewed in addition to the existing Public Works site. Largely due to the age of the available structures, land costs and the limited land size of the other sites, the study concluded that it would be infeasible for the project to proceed if a different site was selected.

Throughout 2017, the architects' work concluded that the longevity, seasonality, and energy efficiency demonstrated that the original plan to construct fabric buildings would be less cost efficient than constructing a metal facility. This change in scope increased the cost estimate. In order to still proceed with the project, the City sought a loan through Rural Development to cover the cost of the construction and development costs and to amortize the loan over a course of 40 years to ensure that the annual payments would leave sufficient capacity to complete other needed annual capital improvement projects.

The project was completed on time and within budget. It now allows all of our Public Works Divisions to operate in one facility. This is allowing equipment to be housed in an appropriate atmosphere prolonging its life and ensuring that is available for greater use by all divisions.

Library & City Hall Remodel and Safety Features – The dual project was funded through private donations and an investment of the Capital Improvement Fund. The project allowed for a significant expansion in the Library's children's space and the inclusion of a new community room. In addition, the outdated HVAC system was replaced, increasing its efficiency and reliability. The City Hall remodel included reducing the square footage dedicated to City

administration and expanding the Library, reorienting offices to reduce wasted hall space, expanded meeting rooms, increased security and increased ADA accessibility.

Community Center – The Armory’s wiring was old and causing numerous false alarms. The wiring has been replaced, alleviating this issue. The Community Center has received numerous improvements, including new flooring in most of the rooms, upgrades in the Paige McPherson Programming room, a new dehumidifier, resurfacing the pool and pool deck and remodeling of the locker rooms.

Projects in Construction or Design

Vanocker Canyon Trail –The 1st Avenue stormwater portions of the project have been completed. The remaining, stormwater and bike path improvements will be completed in 2022. This project was a complex project, using DOT grants, new development TIF funds and City infrastructure funds. When completed, the project will enhance the stormwater in a six block area and install a missing eight block segment of our regional bicycle trail. This will finally connect south Sturgis to the community’s trail system and the community’s trail system with the trailhead that was constructed along with the Canyon View subdivision.

Five Year Project Plan

The five-year plan is designed to provide an overview of the significant projects that the City will design and complete over the coming years. The exact date for the construction of the projects may adjust as grants are made available, engineering is completed and as projected revenues are finalized. However, these are the primary projects that the City will focus on completing in the near term.

Stormwater - The City will make some minor improvements and repairs to the Deadman channel in 2024. The previously completed Anna to Harmon channel is currently being engineered to be completed from Harmon to the Deadman Channel. This project requires concurrence with FEMA and is being designed to alleviate flooding concerns along this floodplain. It is roughly anticipated to be a \$1.4 million project that is anticipated to begin in 2025.

Parks and Recreation - The City will continue its sizeable investments in its park and recreation spaces. The City has received a \$200,000 grant from the state to complete the extension of the City’s regional bike path to the Mountain View Trailer Park along Lazelle (known as the Boulder Trail). This will allow residents to safely travel from their homes to school and jobs located in the vicinity. The City must match this grant with \$200,000 in funding.

The City maintains \$175,000 in funding for eventual improvements to the soccer fields. The soccer association continue to investigate further fundraising efforts to make future improvements. The City has offered to provide additional assistance to the association through no interest loans or additional funding if it is able to raise funds as well for further enhancements.

The City has dedicated another \$800,000 for additional sports fields improvements in future years (2026 and 2027). These improvements will be recommended to the Council by the Parks Board in the future.

There is a total of \$250,000 earmarked for ADA improvements at municipal recreational facilities (2024 and 2027). These improvements will be designed to enhance access for the public and will be recommended to the Council from the Parks Board in the future. This is in addition to the \$150,000 in ADA upgrades that the City Council appropriated from General Fund surpluses in 2021. Those improvements are currently being discussed by the Park board with an anticipation that a final recommendation being made to the Council in early Summer 2022.

There is \$150,000 dedicated towards future recreational upgrades in 2026 and 2027. The Parks Board will be able to begin discussing which projects this should be dedicated towards in the future.

The City will invest \$220,000 in an indoor pitching facility. The softball and baseball associations have stated that they would match this investment with \$60,000 from their own efforts. The City may front those funds and be reimbursed by the programs over a five-year period. This facility will be built along 6th Street, close to existing restrooms, the playground and the Community Center. Its proximity to the Community Center will allow existing staff to monitor and schedule its use. Alternate sites have been studied including the Public Works storage facility on Ballpark (insufficient size and would require new space to be constructed) and the old tennis courts by the baseball fields (site is being requested by the school district for future expansion). The City would own and maintain this facility to ensure that it is available for each program to use.

The Aquatics Committee was formed in the fall of 2019 after residents expressed concern with the City only constructing a proposed splash pad next to the Community Center. The City advertised the Committee on the SIP and on Facebook posts. After months of reviewing numerous alternatives including outdoor public pools, large water parks, indoor/outdoor water parks and other alternatives the Committee recommended the City construct a manmade aquatic recreational area that would include a zero entry sand beach, unique inflatable obstacle and bounce activities, slides, a splash pad, miniature golf and other activities. This project would use a variety of funding sources including the \$200,000 splash pad funds that the City had previously dedicated. The proposal is continuing to be reviewed by the City Council for consideration.

The City is dedicating \$400,000 towards the construction of a bike path link between Holly Court and the Deadman trail (Moose Drive Trail). This area currently has a lack of connectivity for non-motorized travelers from the southwest residential neighborhoods to the community's schools, recreational areas and businesses.

Streets – There is a dedicated funding of \$400,000 within the plan to replace the aging traffic signals along Junction Avenue. The existing signals have reached their life expectancy and it is anticipated that they will require replacement in the near term.

There is a combined project to complete the reconstruction of Hurley Drive. This will complete the final street in the Palisades subdivision and include a bike path spur into this neighborhood. The Capital Improvement Fund will contribute \$190,000 to this project, with the remaining funding coming from the neighboring TIF #18, Senior Independent Living.

The City will continue regular annual road maintenance with an annual expenditure of \$250,000. The annual maintenance will include chip and seal and overlays as is determined to be required

annually by the Public Works Department. In addition, the General Fund annually provides funding for the restriping of roads including Junction, Ball Park and Dolan Creek, the continued maintenance of City owned parking lots and streetlight replacements.

The City has dedicated \$1,000,000 for the reconstruction of Moose Drive from approximately Whitetail to Fox. This area will also include some stormwater improvements. It will be designed in conjunction with the Moose Drive Trail.

Pine Glen Drive is being reconstructed through an agreement with a local developer and the City. The project will replace ageing water lines that were installed by a previous operator. It will install a new sewer main to allow new properties being developed to be tapped into the City's system. It will also allow for the eventual service of adjoining properties that are not in the municipal limits to be served. The total project cost is \$696,035 (\$343,225 split between water and stormwater, 352,810, developer has paid \$180,000 into the Capital Improvement Fund, the remaining costs will be paid by the Capital Improvement Fund).

The last streets project is the largest completed in the City since 2015. This project includes the complete reconstruction of E. Main and E. Sherman Streets from Nellie to the Cemetery. This eight block reconstruction includes the reconstruction of the roadway, undergrounding of the stormwater (eliminating the significant present drainage valley gutters), and new water and sewer lines. The total estimated project cost is \$4,800,000 (\$2.4 million streets, \$719,000 wastewater and \$1.68 million water and stormwater). Additionally, road rehabilitation work will be completed along Flora, Rose and Blanche.

Community Center – The fund continues to provide resources for upgrades to the community center and armory along with needed upgrades to equipment in the cardio and weight rooms. In particular, in 2022 the fund will provide \$160,000 for event carpet and repainting the ceiling at the armory and a new curtain and motor and a new digital sign at the Community Center. The fund will provide another \$104,000 in total funding for the Community Center from 2023-2026 for annual equipment upgrades. Finally, \$500,000 in funding is scheduled in 2027 to fund engineering and the start of construction funding for a plan to expand the Community Center's gym.

Other Projects – The fund also includes set asides for the eventual replacement of the last remaining HVAC unit at the Library (\$250,000). The City will also provide \$60,000 for upgrades at the County's Dispatch Center. Lastly, there is funding for the City's share of upgrades at the airport. Capital improvements at the airport usually require an approximate 10% local match with the FAA reimbursing the City the remaining 90%. It is anticipated that there will need to be taxi lane expansions given the significant increase in use at the airport and demand for additional hangars. There is also anticipated to be upgrades at the FBO building.

Project Financing

Sales Tax Revenue – The total 2% General Sales Tax revenue received in 2021 was approximately \$660,000 higher than was originally budgeted. This was a 13% increase over the record 2020 sales tax collections. The projections included in this updated plan are based off of collections received in 2021 and a 4.0% increase in 2022 and a 3.5% annual increase each year

thereafter. Beginning in 2023, the fund is projected to transfer \$225,000 annually to the General Fund to assist in paying for ongoing operations.

Harley Davidson Rally Point Naming Rights Revenue – The plan includes anticipated revenue of \$150,000 per year from the naming rights portion of the Harley Davidson naming rights and sponsorship agreement.

STIP Funds – Each municipality in South Dakota receives an annual allocation from the State. These funds originate from the Federal Government Gas Tax. The allocation that the State DOT passes onto each municipality is based upon the city's population and miles of roadways. The City is anticipated to receive approximately \$238,000 in 2022. It is projected that this amount will increase by 2.5% each year thereafter.

Debt Obligations – The City received a loan for \$4,437,655 for 40 years at 3.5% for the construction of the Public Works Campus. This loan will be fully repaid in 2058. The City received a loan of \$5,757,000 million for 20 years at 3.5% for the refinancing of \$515,000 in preexisting bonds and \$5,242,000 for the construction of the new 9th Street bridge and other capital improvement projects identified in the 2016 Generation Fund. This loan will be fully repaid in 2040. Lastly, the City's General Fund and Revolving Loan Fund provided an \$810,000 loan to the Capital Improvement Fund to construct HD Rally Point. The Capital Improvement Fund will continue to make repayments of \$100,000 through 2027, when the entire loan will have been fully repaid.

Available Funding – Given the anticipated revenue streams and the debt obligations, the average annual revenue available for capital improvements projects exceeds \$2million. This compares to \$734,568 available for capital improvements in 2011. This 172% increase in annual community infrastructure investments in 11 years is the result of the growth of our community, increased tourism revenue, an increase in the number of local businesses and the higher profitability from the annual City of Sturgis Motorcycle Rally.

Additional Future Projects

Lazelle Corridor Study & Junction Avenue Corridor Study – The Department of Transportation is completing a corridor study of Lazelle through our community. The study will identify numerous improvements that will be made to the corridor in the near future. DOT is anticipating beginning construction of the identified improvements in 2028, 2029 & 2030. Several of the aesthetic improvements will be the responsibility of City to provide financing to complete. The City received a grant from the DOT to complete a study of Junction Avenue from Pine View to Harmon Street. This study will include suggested improvements necessary to enhance safety, improve functionality and enhance the aesthetics of this important roadway. The City will be responsible for all costs associated with these identified improvements. This plan does not set aside any funds for these projects. The funding will need to come from future savings, a bond issuance or future years' capital improvement allocations.

Five Year Financing Plan

	2022	2023	2024	2025	2026	2027
<u>Storm Water</u>						
Deadman Channel Repairs/Stormwater			\$ 75,000			\$383,529
Harmon-Deadman Drainage				\$1,000,000	\$400,000	
<u>Parks</u>						
Boulder Trail Improvements (State 22 or 23)	\$200,000					
Sports Field Improvements					\$400,000	\$400,000
ADA Compliance at Municipal Facilities			\$100,000			\$150,000
Vanocker Canyon Trail	\$187,000					
Recreational Upgrades					\$100,000	\$ 50,000
Softball/Baseball Indoor Pitching	\$220,000					
Splash Park	\$ 50,000	\$150,000				
Moose Drive Trail				\$ 400,000		
<u>Streets</u>						
Junction Avenue Signals			\$400,000			
7th Street Bridge Reconstruction	\$250,000	\$650,000				
Hurley Drive Reconstruction/Bike Path	\$190,000					
Resurface	\$362,000	\$250,000	\$250,000	\$250,000	\$250,000	\$250,000
Reconstruct Moose		\$100,000	\$100,000	\$800,000		
Pine Glen reconstruction	\$352,810					
East Main & East Sherman Reconstruction	\$112,314	\$1,193,157	\$1,090,857			
<u>Community Center</u>						
Comm Center Armory Upgrades	\$160,000	\$ 73,000	\$ 32,000	\$ 12,000	\$ 12,000	\$500,000
<u>Other</u>						
Library HVAC					\$250,000	
Dispatch Control Panels	\$ 60,000					
Airport Projects	\$ 32,000		\$ 45,000		\$ 32,000	
<u>Fire Truck Payment</u>		\$ 16,471		\$ 16,471		\$ 16,471
<u>Total</u>	\$2,186,124	\$2,432,628	\$2,092,857	\$2,478,471	\$1,444,000	\$1,750,000
<u>TIF Projects</u>						
TIF 18 Stormwater at Aspen Grove	\$ 65,000					
TIF 18 Dolan and Moose Reconstruction		\$600,000				
TIF 18 Bike Path and reconstruction Hurley	\$ 350,000					
TIF 21 Hidden Hills Water	\$ 115,464					
TIF 22 Avalanche Road		\$200,000				
Future TIF - Sewer, Avalanche					\$1,500,000	
<u>General Fund Projects</u>						
Banner Pole Replacement	\$370,000					
City Park Entrances	\$200,000	\$900,000				

<u>Water Projects</u>						
Pine Glen Water Line Replacement	\$171,613					
East Main & East Sherman line replacement	\$ 78,620	\$ 835,210	\$ 763,600			
SRF Replacement Well 8 & 9			\$1,200,000			\$1,200,000
SRF New Storage Tank				\$1,000,000		
Avalanche Road Water	\$909,044					
<u>Waste-Water Projects</u>						
SRF Lining					\$1,000,000	
SRF N. Creek Interceptor		\$3,000,000				
Pine Glen Line Extensions	\$171,613					
East Main & East Sherman line replacements	\$ 33,694	\$357,947	\$327,257			
	2022	2023	2024	2025	2026	2027
Starting Cash	\$ 288,806	\$ 550,703	\$ 415,141	\$ 42,520	\$(593,229)	\$(116,284)
Annual Projects	\$(2,186,124)	\$(2,432,628)	\$(2,092,857)	\$(2,478,471)	\$(1,444,000)	\$(1,750,000)
Est. Cap Imp Sales Tax Revenue	\$ 2,085,884	\$ 1,944,319	\$2,012,371	\$2,082,804	\$2,155,702	\$2,231,151
*Additional Revenue	\$ 677,100	\$ 650,000		\$ 46,832	\$ 46,832	\$ 46,832
HD, 2nd Street Lease Revenue	\$ 150,000	\$ 150,000	\$150,000	\$ 150,000	\$ 150,000	\$ 150,000
STIP 90% for Streets	\$ 238,216	\$ 255,927	\$261,045	\$ 266,266	\$ 271,592	\$ 277,024
HD Rally Point Cty Ln Pymnts	\$(100,000)	\$(100,000)	\$(100,000)	\$(100,000)	\$(100,000)	\$(110,000)
Pioneer Loan (pd off 2040)	\$(391,824)	\$(391,824)	\$(391,824)	\$(391,824)	\$(391,824)	\$(391,824)
RD Loan (pd off 2058)	\$(211,356)	\$(211,356)	\$(211,356)	\$(211,356)	\$(211,356)	\$(211,356)
End of Year Total	\$ 550,703	\$415,141	\$ 42,520	\$(593,229)	\$(116,284)	\$125,542

Tax Increment Financing Projects

The City has made use of a State approved tool to assist in the development of infrastructure to assist in the costs associated with new development and enhancements to existing infrastructure. In doing so, the City regularly provides the capital from its own reserves in order to provide a lower interest rate than private financing to allow the TIF District's properties to be placed on the tax roles as quickly as possible while also providing significant additional revenue to the City through an interest income numerous time greater than available through other investments.

TIF 18 Senior Living – The Moose Drive Independent and Assisted Living facility includes some significant infrastructure improvements. These include the reconstruction and widening of Fergusson and Hurley Drives and the reconstruction of the eastern portion of Dolan Creek Road and the associated Bike Path. The developer is paying for more than 50% of the costs of these upgrades. The TIF is providing a total of \$350,000 for the improvements. In addition, the TIF is providing \$65,000 in funding to make some stormwater improvements in the Murray subdivision.

TIF 21 Hidden Hills – The infrastructure for the Hidden Hills subdivision is nearly complete and the construction of the first homes has begun. The TIF has provided \$1,235,000 in funding to assist in paying for the extension of the municipal water system underneath I-90 to the Hidden

Hills subdivision as well as neighboring subdivisions that are currently being designed. To date, the majority of these improvements have been made, though approximately \$115,000 in infrastructure improvements remain.

TIF 22 Avalanche Road – The Harvest Meadows and Valley View subdivision includes \$200,000 in funding to assist in paying for the construction of a wider and new Avalanche Road. This road will be constructed in phases to coincide with the growth of the region.

Future TIF – As previously described, it is anticipated within the five-year time horizon of this plan, additional growth and a new TIF is anticipated to occur in the Avalanche Road area. This growth would lead to a new TIF which would provide additional funding for the continued reconstruction of Avalanche Road and continued expansion of the sewer system.

Future TIF Availability – The state of South Dakota recognizes that TIFs can be an effective tool to assist in the growth and development of a community, however, it guards against too heavy of use by capping the total amount of land values that a community can have within TIF districts. The state caps total assessed value within all TIF Districts at 10%. Currently, the City of Sturgis has a very minimal amount of 1.9% of its base property valuation within a TIF District. As such, the community is well within the parameters set by the state.

The Water Fund

The next fund covered in this report is the Water Fund. Revenue in this fund originates from the City's Water Utility Charges. The fund receives all revenue from the City's Water utility billing. In return, the funds are used to cover existing debt, operating costs (water operators and water utility billing staff, insurance, electrical costs of the wells, insurances and repairs) and capital costs.

Future Projects and Financing

The City has completed a review of the City's wells and storage capacity. The analysis has shown that two of the City's wells (#2 and #4) are approaching or have surpassed life expectancy and are having reduced production capability. As such, it has been recommended that the City replace these two wells with at least one new production well (the ultimate number is dependent upon the productivity achieved which is unknown until the well has been drilled).

Additionally, it is recommended that a community maintain close to one day's worth of storage capacity. The City is approaching this metric. As such, it is prudent for the community to plan for additional storage capacity in the near term.

The City is applying for State Revolving Loan Funds (SRF) to fund these important upgrades. The state has included a historic amount of funding in its latest budget to provide grants for SRF applications. It is anticipated that the City will receive a grant to help cover these costs as part of its application. The remaining portions would be paid for through a loan at a fixed rate of 1.625% fully amortized over 30 years. It is anticipated that this financing would require a surcharge of \$5.01 per month. This would be reduced if the City receives a grant or if additional water utility users are added to the system. As in the past, the City would be able to reduce the monthly minimum by this same amount so that the net monthly cost to the rate payer remains

unchanged. However, in order to be able to apply for this grant and low interest loan financing, the City must identify a surcharge on the monthly utility account.

Lastly, the City is continuing to work with the developer of the Avalanche Road project as previously discussed in the TIF portion of this report. The Water Fund has contributed \$909,044 towards this important project.

In addition to these large projects, the utility will begin focusing on three proactive priorities. The first is to install new water mains in areas where there has been a large history of leaks. The second is completing the installation of new water mains in streets without mains where property owners own long service lines running to adjoin streets. In addition, these projects will enhance reliability through providing a loop system. The third priority is to replace 4" cast iron water mains.

The prioritization of these lines will be determined based on an analysis of the areas of leaks that have been experienced as well as an attempt to coordinate these projects with road projects.

Storm Water

The water fund also includes \$70,000 per year for Storm Water maintenance. These funds are used to hire private contractors to mow and maintain various storm water detention ponds, ditches and channels. In addition, the funds are used to make minor improvements to the City's storm water system. In example, in 2018, the funds were used to install new culverts in the Murray Subdivision. These funds are not sufficient to complete large scale improvements which are needed. However, it does allow for some improvements to this critical City infrastructure. These funds will need to be enhanced if continued improvements are needed.

The Sanitary Sewer Fund

The second fund discussed in this report is the Sanitary Sewer Fund. This fund's sole income stream is the utility rates paid by customers. These funds are collected and used to fund the daily operations, past debt of the fund and future sewer system upgrades. The current system is operating under full compliance of a South Dakota Department of Agricultural and Environmental Resources Operating permit. The system's daily discharges are regularly tested and have continually received results far below the limits set by the federal government. The system as designed can allow for more than a doubling of the existing maximum daily inflows. The collection system capacity was more than doubled at the City Park, where the recent interceptor line more than doubled the previous capacity.

Projects Completed

A significant number of projects funded by the Sanitation fund have been completed since the writing of the first Generation Plan. These projects included:

- The lining of 14 blocks of older sewer lines throughout the community
- The installation of a new Rake Screen at the end of the sewer collection line
- The extension of the City's sewer main along Highway 34 to Kick Start

- The installation of a new main collector line from the City Park to the new Wastewater Treatment Plant
- The completion of a new Waste Water Treatment Plant

Projects in Design

As previously discussed, the Sewer Fund is providing partial funding for the following projects:

- Replacement of 8 blocks of old sewer lines along East Sherman and East Main Street
- Installation of new sewer mains along Pine Glenn

In addition to these previously discussed projects, the City will be working on the following projects in the near term:

- Bear Butte Interceptor Line - This line will ease the capacity along the Lazelle mainline which is known to be close to capacity. The City is working with the developer of the new subdivision along Avalanche Road to ensure that a new sewer (and water line) is constructed from the new development site along the north bank of Bear Butte Creek. This would tie in with the new interceptor lines installed at the City Park. This new line would provide more than adequate capacity for the new Avalanche Road development along with north Sturgis as well as significantly alleviate the capacity of the Lazelle main.
- Systemwide capacity - The City has recently purchased flow meters to complete an analysis of the system's current capacity. This will take more than a year, though it will provide an accurate representation of the system's existing choke points and identify future projects.

Financing

The funding for the new collection line, waste water treatment plant and main line lining projects were funded through the State Revolving Loan Program. The City successfully applied for and received a loan for \$16,247,000. In addition, the City received \$2,000,000 in grants. This reduced the total cost to the City's rate payers by 12.3%. The loan has an exceedingly low fixed rate of 2.5% amortized over 30 years. This loan will be repaid through the surcharge that had been established when the City applied for the grant and loan. The surcharge was originally \$17.63 per month. However, due to the community's growth and the additional rate payers, the surcharge was reduced to \$16.05 per month in 2021. With a continued growth in number of rate payers, this will likely be decreased again in future years.

The City is applying for State Revolving Loan Funds (SRF) to fund the North Sturgis interceptor line. The state has included a historic amount of funding in its latest budget to provide grants for SRF applications. It is anticipated that the City will receive a grant to help cover these costs as part of its application. The remaining portions would be paid for through a loan at a fixed rate of 2.125% fully amortized over 30 years. It is anticipated that this financing would require a surcharge of \$2.21 per month. This would be reduced if the City receives a grant or if additional water utility users are added to the system. In order to be able to apply for this grant and low interest loan financing, the City must identify a surcharge on the monthly utility account.

Summer 2019 Flooding Events

During the Summer of 2019, the City experienced a historical amount of rainfall, culminating in two separate Presidentially Declared Disasters. These disasters caused significant debris to accumulate on City streets, damaged two low water crossings along Deadman debris way, destroyed the crossing into the City's lagoons (twice), destroyed the two crossings (Blanche and Sly) into the City Park, destroyed the 7th Street crossing, damaged several areas of the Bear Butte Creek levee, collapsed part of the Woodland Drive bike path and destroyed the 15th Street crossing next to the City limits.

The City completed the reconstruction of the road into the City's lagoons and the two crossings into the City Park. After these immediate repairs, FEMA flagged the City's lack of previous authority to construct the 7th Street, Blanche and Sly crossings. When the City originally installed these crossings (prior to 2010) it did not acquire necessary permitting from the Army Corps or FEMA and had not completed a hydrological analysis to determine the impact the crossings would have on the flood plain.

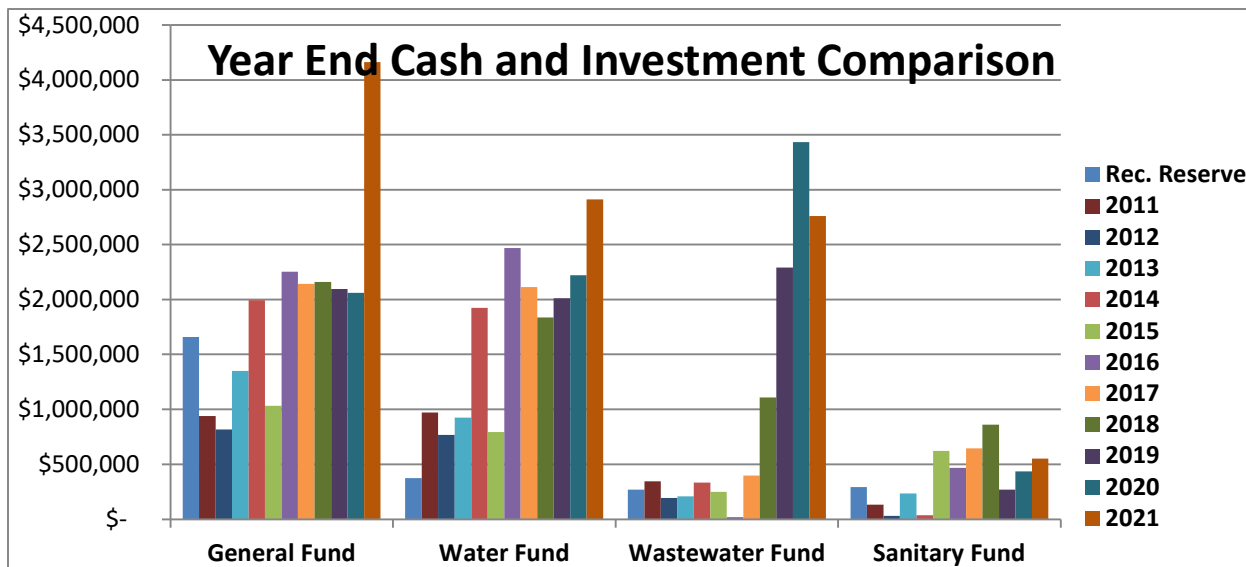
Due to this inadequacy, the City had to begin the hydrological study to close out the Sly and Blanche crossing and a hydrological study to determine if FEMA would allow the reconstruction of the 7th Street crossing. The outside engineering firm has completed this study and a design to reconstruct the 7th Street crossing while not increasing the floodplain upstream. These plans have been approved by FEMA. The City has submitted the necessary funding requests to ask FEMA to provide partial funding for this reconstruction project. In early June, FEMA provided approval for partial reimbursement. As such, the City has awarded a bid to begin reconstruction. The project is scheduled to be completed in the Summer of 2023. The initial findings for the Sly and Blanche crossings indicate a rise in upstream floodplain as well. The outside engineering firm is completing an analysis to determine if these crossing can be modified so that they will not impact any structures upstream. If upon final conclusion of the process no structures are affected, the crossings will be allowed to stay in place and FEMA may reimburse up to 75% of the cost incurred. If no solution is found, the crossings will need to be eliminated.

The 15th Street crossing is located on private land outside the City limits. As such, FEMA is unable to provide any funding towards its reconstruction. Similar to the other crossings, the 15th Street crossing was not properly permitted when it was constructed. As such, a hydrological study and design are necessary to ensure that there is not a base flood elevation rise upstream. The City has provided a proposal to the County residents to assist but the majority of the costs would need to be paid for by the property owners or the County as it is not a City owned crossing. To date, the City has not received acceptance from the residents or the County of this proposal.

Sturgis' Financial Position

Over the past ten years, the City's financial health has improved significantly. This has allowed the City to rebuild its "Rainy Day" fund for nearly every operational fund. The chart below illustrates the yearend cash and investment comparisons for the majority of the City's major operating funds. The light blue bar on the left indicates the recommended minimum reserve

level (rainy day fund). This is equal to 20% of the fund’s annual operating budget. The remaining bars from left to right represent the end of year cash and investment balances from 2011 (burgandy) to 2021 (green).



General Fund

The City’s General Fund is in a very strong position, with a reserve of 41.3% of its annual operational budget. The fund has been increasing for several years as the City’s growth related income (sales tax, development income) have increased and the General Fund’s expenditures have remained stable. There was a significant increase in the Fund’s reserves between 2020 and 2021 due to \$1,300,000 in CARES Act funds that exceeded expenses and \$250,000 in higher sales tax revenue than budgeted.

This completes a ten-year initiative to ensure that the City had adequate savings to respond in case of an emergency. With the General Fund stabilized, the City can now focus on simply maintaining its reserve balance. This stable financial environment has allowed the City’s bond rating (similar to a family’s credit rating) to improve significantly (there is not a more recent rating since the City no longer has outstanding bonds):



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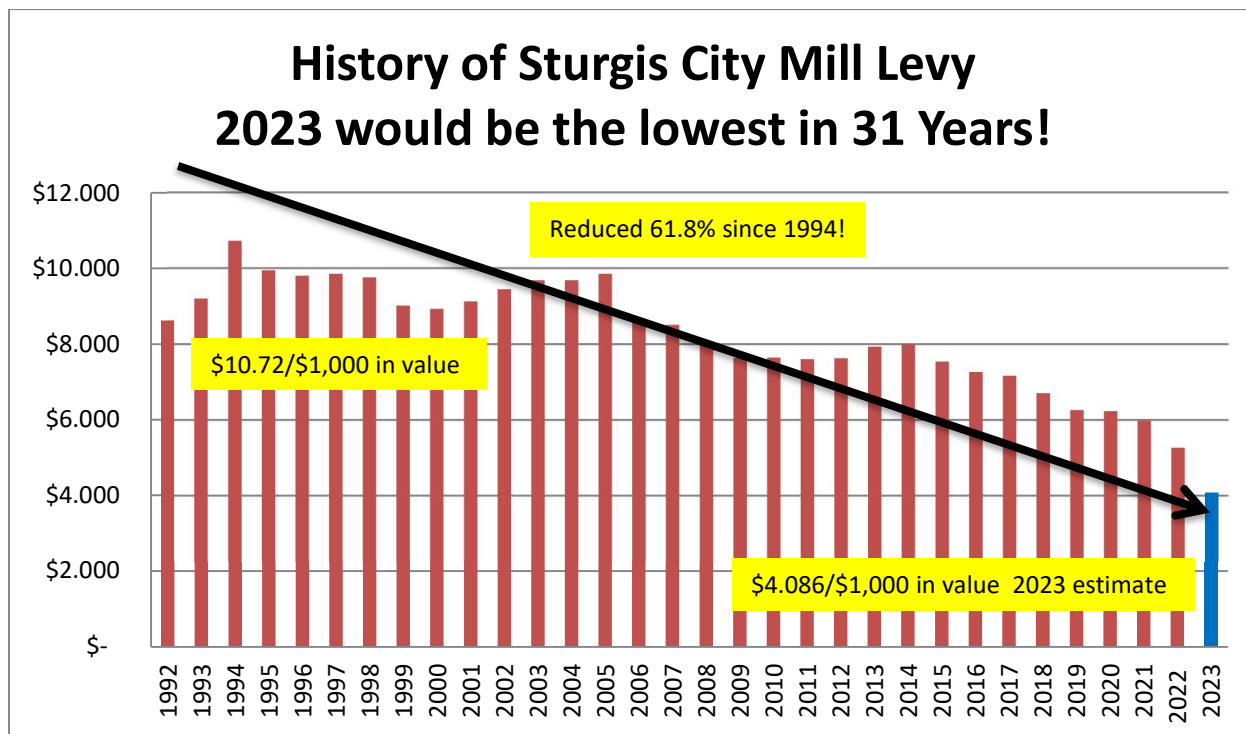
Rating Agency Credit Scale

Moody's	S&P	Fitch	NAIC*	
Aaa	AAA	AAA	1	Investment Grade
Aa1	AA+	AA+	1	
Aa2	AA	AA	1	
Aa3	AA-	AA-	1	
A1	A+	A+	1	
A2	A	A	1	
A3	A-	A-	1	
Baa1	BBB+	BBB+	2	
Baa2	BBB	BBB	2	
Baa3	BBB-	BBB-	2	
Ba1	BB+	BB+	3	Non-Investment Grade
Ba2	BB	BB	3	
Ba3	BB-	BB-	3	
B1	B+	B+	3	
B2	B	B	3	
B3	B-	B-	3	

* National Association of Insurance Commissioners

In addition, this stable financial position has allowed the City to make further enhancements in its infrastructure at far lower interest costs. Over the past 48 months, the various infrastructure financing applications have benefited from this high credit rating from banks and the USRDA. Overtime this rating enhancement will save taxpayers literally millions of dollars over the terms of the loans.

The growth of the community, the continued profitability of the annual City of Sturgis Motorcycle Rally and continued efficiency has allowed the City to continually reduce its property tax rate. In total, in 2022, the City has reduced its property tax rate by 31% since 2010.



Water Fund

As of the end of 2021, the Water Fund retained a reserve balance of 159% of its operational budget. This significant savings is due to retaining revenue for future larger water main replacements and other capital improvements. The Municipal Utility Board (MUB) determined the best course of action for funding future capital improvement projects is to provide payment from water reserves. This compares to the past practice of taking on loans from the US Rural Development which requires additional surcharges to be placed on the monthly utility bill. The MUB has asked for funds to be saved and larger projects to be constructed every 2-4 years. With sufficient revenue now having been saved, the next water main replacement (East Main and East Sherman can be designed and constructed without a new loan).

Wastewater Fund

At the end of 2021, the fund maintained a total reserve of 119% of its operational budget. This tremendous balance was part of the original financing plan for the wastewater treatment plant. The plant has now been completed. The financing package required the City to make the final few construction payments totally approximately \$2.8 million. This has greatly reduced the Wastewater Fund balance in 2022 (as was planned). The initial operation period will be staffed by the contractor, however soon after operations begin, the City will need to increase the wastewater workforce to operate the new facility. The increased labor costs, increased utility costs, savings for equipment replacement and loan repayment will consume the additional revenue that had been collected each year since the surcharge went into effect. With an annual growth rate of 35 new customer units per year, the City should be in a position to maintain or potentially reduce the surcharge in the future. The City has grown faster than this estimate since the financing package was approved. As such, the Council was able to reduce the surcharge and

monthly wastewater fee earlier this year. If growth continues to exceed 35 new customers per year, future reductions could be seen.

Sanitation Fund

The Sanitation Fund has made progress to become more stable. As of the end of 2021, the existing reserve was 38% of its operational expenses. However, more than half of those reserves were used earlier this year to purchase a new sanitation truck. The fund's fixed costs (Belle Fourche landfill fees, truck replacement and insurance) continue to increase faster than the fund's utility fee increases. The Fund's utility rates will need to ensure that it routinely adjusts its rates to match the ongoing operational cost.

Debt Obligations

The City's outstanding debt is as follows:

- \$1,339,951 amortized for 20 years at 3.0% for the construction of the Lazelle water main. This loan will be fully repaid in 2034.
- \$2,883,876 amortized for 20 years at 3.0% for the construction of Well 1 and the rehabilitation of Well 3 and the replacement of several water mains in south Sturgis. This loan will be fully repaid in 2034.
- \$2,426,895 amortized for 20 years at 3.85% for the construction of the automatic rake screen at the Wastewater Treatment Facility and the High School collection line. This loan will be fully repaid in 2040.
- \$5,064,316 amortized for 20 years at 3.5% for the refinancing of preexisting bonds and for the construction of the new 9th Street bridge and other capital improvement projects identified in the 2016 Generation Fund. This loan will be fully repaid in 2040.
- \$14,147,603 amortized for 30 years at 2.5% for the construction of the Wastewater Treatment Facility. This loan will be fully repaid in 2050.
- \$667,758 amortized for 40 years at 4.0% for the construction of the Liquor Store. This loan will be fully repaid in 2050.
- \$4,289,184 amortized for 40 years at 3.5% for the construction of the Public Works Campus. This loan will be fully repaid in 2058.
- \$1,690,423 for TIF #13. This is a privately funded TIF and is expected to be repaid by the properties within the TIF district (not by the City's taxes) within the next 7 years.

The City retains a very healthy balance sheet. This allows the total additional debt availability as of May 31, 2022 to be \$14,050,135. This amount continues to increase as the community grows and as existing debt is repaid. The City has more than adequate ability to acquire additional debt in the event of an emergency or if the City Council determines it is in the community's best interest to complete additional capital projects beyond those included in this report.

Given the anticipated revenue streams and the debt obligations, the average annual revenue available for capital improvements projects exceeds \$2million. This compares to \$734,568 available for capital improvements in 2011. This 172% increase in annual community

infrastructure investments in 11 years is the result of the growth of our community, increased tourism revenue, an increase in the number of local businesses and higher profitability from the annual City of Sturgis Motorcycle Rally.

Black Hills Communities' Cost of Living

The City strives to ensure that it is as affordable as possible for a family to live in Sturgis. Over the last several years, the City of Sturgis' mill levy has been reduced significantly. This has allowed Sturgis to become one of the most affordable communities in Sturgis.

Annually, the City reviews the total cost of living in several communities in the Black Hills. The review includes the total cost for an owner occupied home assessed at \$150,000 using 2,000 gallons of water per month. It is important to know that a \$150,000 assessed home in Sturgis is not the same as a \$150,000 assessed home in Spearfish. However, it is as close to an accurate comparison as is possible.

It is important to note that many communities in the Black Hills have additional tax rates that might be used to fund street lighting, ambulance, fire, road districts or other services. Several communities have various different districts within the same community, so there is not a single tax rate within the community. In these instances, the particular community has told us what the average rate is and that is included in the analysis.

Lastly, many communities are actively reviewing their utility rates, with several increases anticipated to occur throughout 2022.

January 1, 2022

	City Tax	School Tax	County Tax	Other Tax	Sewer*	Water	Garbage	Annual Total
Spearfish	406	1177	612	30	623	254	250	3354
Sturgis	790	1122	581	0	514	273	196	3476
Rapid City	480	1168	703	140	396	324	284	3496
Belle Fourche	802	1163	588	0	451	283	244	3530
Deadwood	813	1075	612	122	324	391	275	3613
Hot Springs	897	1132	595	50	381	369	244	3668
Lead	1238	1075	612	241	396	345	231	4138
Seven City average	\$775.22	\$1,130.19	\$ 614.87	\$ 83.46	\$440.78	\$319.92	\$246.28	\$3,610.72
Sturgis over (under)	\$ 14.68	\$ (8.19)	\$ (34.37)	\$ (83.46)	\$ 73.30	\$(47.04)	\$(49.84)	\$(134.92)