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December 16, 2015

Todd Bailey
South Dakota Department of Revenue
445 East Capitol Avenue
Pierre, SD 57501-3185

Dear Mr. Bailey:

This letter is being sent to document the central assessment, TIF certification and TIF repayment process that will be associated with a potential new TIF, called Rushmore Gateway, currently being applied for in Rapid City.

Black Hills Power, as a public utility, is assessed by the South Dakota Department of Revenue. Each tax year, Black Hills Power files its annual report to the state which contains schedules showing the cost and location of its property down to the tax district level within each county along with five years of historical net operating income. One overall unit value, the assessed value, is determined by the state assessor based on the weighting of a cost approach and an income approach calculation using the company's data in their annual report.

The cost approach calculation utilizes the gross cost of plant in service, subtracts accumulated depreciation and adds to that the cost of construction work in progress and inventories to get to a total net book value. That total net book value is adjusted for any obsolescence (subtracted) or enhancements (added) to get to the Cost Indicator of Value. The income approach calculation starts with a net operating income amount selected by the assessor based on the five years of historical net operating income as reported by the company. Typically, the assessor calculates a three and five year simple average and a three and five year weighted average, along with a next year trended net operating income and then selects one of these at his/her discretion. An estimated income from construction work in progress is added to the assessor selected net operating income and this total is divided by the annually determined South Dakota electric utility capitalization rate to get to the Income Indicator of Value. The Cost and Income Indicators are weighted to determine a system market value and then a state allocation percentage is applied to companies like Black Hills Power that have property in more states than just South Dakota to get to a state market value or state assessed valuation.

The assessed valuation is determined and finalized by the state assessor by around the first of August each year. On the fourth Monday in August, the state sends a certification of values to the counties that includes a distributed value for each tax district as well as any new construction during the prior calendar year. The state assessor uses the cost of the company's property by tax

district in their annual report to distribute the overall assessed value and taxable value (85% of assessed value) down to the tax district level.

Also in August, the state sends TIF certification worksheets to the counties. The counties are required to complete them as soon as possible and return them to the state. The state then compares their values to the values reported on the TIF worksheets, to the values on the county abstract and also makes sure they agree with the base value, increment value and the total value in the TIF district. In October, the state sends TIF certification letters along with this TIF worksheet. If the TIF is located in a city, the TIF certification letter is sent to the city, but one is also sent to the County Department of Equalization and the County Auditor.

The following process will be implemented in order to track the amount of Black Hills Power's annual increase in taxable value to assure that project TIF revenues are identified and credited appropriately:

All costs related to the TIF project will be reported in a new tax district on Black Hills Power's annual report to the state assessor. When the assessor calculates the distribution of value based on costs reported, the apportioned amount of taxable value will be allocated to this new tax district each year. This will allow for the year over year taxable value increase associated with this TIF project to be easily determined. This amount will be included in the certified values that are sent to the counties on the fourth Monday in August as described above and will be on the TIF certification letter sent to Rapid City each October. Black Hills Power will pay the tax increment as a piece of their normal property tax payments to Pennington County and as such it will be passed on as part of the County's remittance to Rapid City.

You can reach me at (605) 718-2815 with any questions or comments.

Sincerely,

Paula Brinker
Property Tax Manager
Black Hills Corporation

cc: Pauline Sumption, Rapid City Finance Officer
Shannon Rittberger, Pennington County Director of Equalization
Julie Pearson, Pennington County Auditor