



Advanced Engineering & Surveying, Inc.

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December 27, 2007

City of Rapid City
Growth Management Department
300 6th Street
Rapid City, SD 57701

Attn: Marcia Elkins

Re: Green Valley Annexation

Dear Marcia:

There was considerable discussion regarding the annexation of Green Valley at the November 27, 2007 Public Works Committee meeting with staff being asked to provide additional information to the Public Works Committee for the January 29, 2008 Public Works meeting. Per our discussion on December 11, 2007, Green Valley is providing this letter to assist in providing the Public Works Committee Green Valley's position and concerns regarding annexation.

Over the last year, the perception regarding annexation has dramatically shifted for various reasons; the current Board has been providing information on annexation, impacts of taxes and responses to residential questions regarding annexation. They have been committed to public education to provide residents correct information on annexation. Residents in the District have mixed feelings regarding annexation at this time. As always, some residents are in favor of it and some are opposed to annexation. The annexation of Morningstar has certainly affected the thought process of the residents and the realization that Rapid City is just "next door" has been heard in a number of conversations in the District.

Green Valley currently has two (2) projects on the State Water Plan;

1. Water Improvement project to provide potable drinking water to all current residents of the Sanitary District.
2. A sewer project to provide municipal sewer services to all current residents of the Sanitary District.

These projects have substantial costs associated with them and the Sanitary District is committed to securing complete funding and installation of both projects in the short term future.

One of the major concerns of immediate annexation of Green Valley is the negative impact annexation would have on the potential grant and loan sources Green Valley would lose if they annexed into Rapid City prior to completion of the referenced projects.

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**Rapid City Growth
Management Department**

State Funding Impacts:

In discussion with Black Hills Council of Local Governments (BHCLG), annexation would have the following impacts:

Community Development Block Grant (CDBG): The potential for funding from CDBG would likely be lost with any discussion of annexation. BHCLG's understanding is that annexation could not occur for at least five years after the time the CDBG would be closed out (this could be 6 or 7 years after project completion). Simply having future annexation agreements in place before the 5-year mark or even discussions about future annexation could be problematic with the penalty for non-compliance being payback of all the grant funds.

Consolidated Water Facilities Construction Program (CWFCP) Grants: If Green Valley is annexed, and then the likelihood of receiving a CWFCP grant would diminish greatly *unless* as a condition of the annexation, the Green Valley Sanitary District would continue to exist and would be entirely responsible for its own project financing. As long as Green Valley is responsible for all of its own project financing, then the likelihood of a CWFCP grant is much better *but*, at some level, the State Staff or the BWNR could still consider the District less in need of a grant if they know that the City is in the picture somewhere.

Our belief is the BEST prospects for receiving a CWFCP grant would be if Green Valley was totally on its own, no annexation and self-financed. The worst-case scenario with respect to grant prospects would be if they were annexed and Rapid City was basically financing the project. It is not currently Green Valley's understanding that the City would finance any such project.

State Revolving Fund Loan (SRF) Program: Again, the feasibility of this program is directly related to whether or not Green Valley undertakes its own project financing. If the City annexes Green Valley AND also becomes responsible for project financing, then there is an excellent chance the City could receive SRF funding for the project. However, if Green Valley (whether it is annexed or not) stays responsible for its own project financing, then the ability of receiving an SRF would be dependent upon the debt repayment ability and other factors of Green Valley only.

USDA Rural Development Impacts:

In discussion with Midwest Assistance, annexation would have the following impacts: Green Valley would lose the ability to obtain funding from USDA Rural Development and the RCAP Low Interest Loan Fund.

Green Valley would like to see annexation be tied to the rate structure. For example, as previously discussed with Growth Management and Engineering and outlined in my letter dated November 21, 2007, Green Valley would like to see the water rates at the same level as the Rapid City rates with the following conditions. The rate would be 100% of the Rapid City rate for a period of 10 years (or some negotiated term) or until such time the proposed water and sewer projects were funded, constructed and operational (this assumes that Green Valley continues to actively work toward completion of the projects), if Green Valley has not voluntarily annexed by the end of the negotiated period, the water rate would increase to 150% of the Rapid City rate for an additional period of 10 years (or some negotiated term), if Green Valley has not annexed by the end of the second negotiated period, the water rate would increase to 300% of the Rapid City rates.

Green Valley feels this allows the District adequate time to secure funding, design and construct the proposed projects and maximizes all possible funding sources open to Green Valley. It also provides an incentive for annexation, maintains affordable rates for the residents, but if the decision of the residents is to not annex, the rates will be increased as a result of that decision. This also insures that Rapid City

would not be providing water outside the municipal boundaries at the same rate as City residents, if Green Valley chooses not to annex.

Green Valley believes this is an equitable solution for both Green Valley and Rapid City while Green Valley actively pursues financing which provides the solution to a significant contamination issue and eliminates the septic systems within Green Valley Sanitary district. By eliminating the septic systems, it eliminates continued contamination of ground water and eliminates Rapid City having to deal with a major issue, if annexed. Additionally, if Green Valley Sanitary district were to vote on voluntary annexation today, it is uncertain if adequate votes are there for approval.

Please contact me if you need any additional information.

Sincerely,

Advanced Engineering & Surveying, Inc.



Ronald A. Bengs, PE
President

Green Valley Sanitary District



Ron England
President