

The Economic Impact of the
Powder House Pass

Community Improvement District
in Lawrence County, South Dakota
as Proposed by
BH Development, LLC

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Executive Summary

This report is submitted to the County Commissioners of Lawrence County, South Dakota, in compliance with requirements set forth to create a Community Improvement District (CID).

The Economic Impact Statement measures certain effects on Lawrence County of the formation of the Powder House Pass Community Improvement District (the “District”), a proposed 1,000-acre residential and commercial development with park-like amenities located approximately three miles south of Lead. The project will result in numerous economic benefits, including job creation, expanded personal income and increased government tax resources, and this report provides estimates of these positive effects.

CIDs are the local unit of special-purpose government as established by South Dakota Codified Law 7-25A, dealing with Improvement Districts. This law has been in effect since 1989. While CIDs exist throughout the United States, South Dakota currently has only one other – the very successful and highly regarded Dakota Dunes project in southeastern Union County.

The District will provide for its own water and water-treatment systems, sewer and waste processing, roads and related infrastructure, utilities, and cable/Internet access. Due to advanced planning and cluster design, the residential development’s “footprint” will be minimally intrusive, both environmentally and visually.

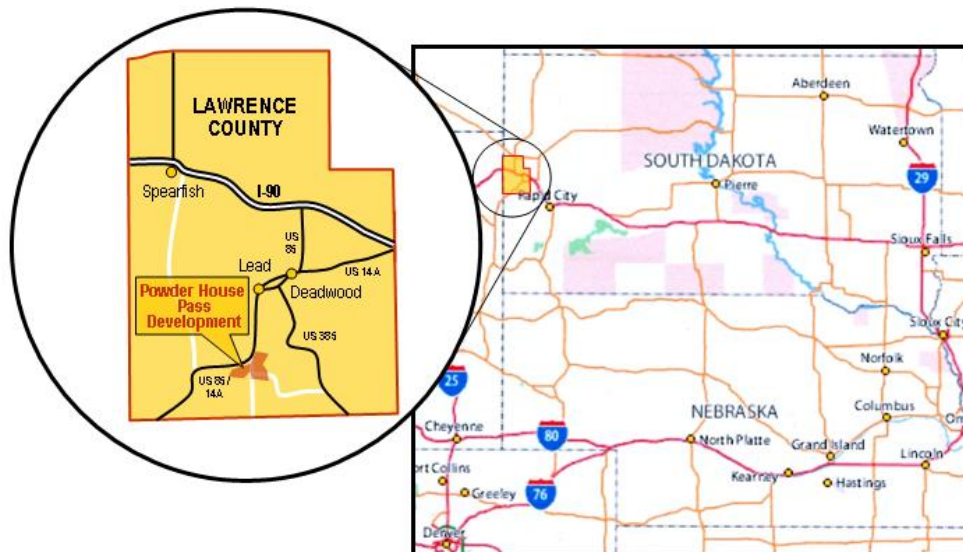
Overview

Lawrence County is located in the scenic northern Black Hills of South Dakota. Major transportation access is provided by Interstate Highway 90, US Highways 14A, 85 and 385, South Dakota Highway 34, and a network of County, Township and Forest Service roads. Commercial air service is available through a number of carriers at Rapid City Regional Airport, approximately 50 miles to the southeast. The county population is approximately 30,000 people. Towns include Central City, Deadwood (the County Seat), Lead, St. Onge, Whitewood and Spearfish.

The County is known for its extraordinary scenery, as evidenced by the majestic Spearfish Canyon; history, including the great gold rush of 1876 and the Old West color and notoriety of Deadwood; industry, including tourism, gaming, mining, forestry, agriculture, higher education, advanced particle physics research; and outdoor recreation, including mountain and trail bicycling, motorcycling, downhill and cross-country skiing, hiking, fishing, camping and other popular and rewarding pastimes.

The CID is located just off US-14A/85 in the heart of Lawrence County, about three miles south of Lead, four miles northeast of Cheyenne Crossing, an entrance to Spearfish Canyon, one mile from the Mystic Miner Ski Resort, six miles from Terry Peak Ski Resort, and about one mile from the nearest access point of the Mickelson Trail, a 109-mile “rails to trails” biking and hiking path.

Illustration 1. Map of Region



Project Description

The Powder House Pass Community Improvement District encompasses approximately 1,000 acres of land suitable for a combination of single-family, multi-family and commercial development. The District includes park-like amenities and will utilize minimally intrusive design elements to retain the natural beauty and aesthetics of the land. The District also would incorporate most of an existing development called Wilderness Estates. The parcel is located about 3 miles south of Lead, near the intersection of US 14A/85 and Rochford Road. Other existing roadways include Brownsville/Englewood Road, Black Forest Road, Powderhouse Trail and Frosty Meadows Road. All these roads provide for easy access to the development.

A planned unit development (PUD) for the District is being designed and prepared by the renowned Minneapolis-based Rick Harrison Site Design Studio. This team has been involved with more than 600 projects over many years. Their staff has estimated that the PUD can accommodate 1,900 residences, including 900 single-family and 1,000 multi-family dwellings. The topography of the land allows for relatively uncomplicated and economical development, and the natural contours are conducive to quality lots permitting both a degree of privacy and easy access to main roads. As an efficiently arranged cluster development, the PUD plan's reduced "footprint" will respect the natural beauty of the surrounding area. Other amenities provide additional "green" space to the surroundings and will augment the appeal of the development.

Further enhancing the PUD's aesthetics, the developers intend to donate a conservation easement to the South Dakota Game, Fish and Parks Department to preserve highway beauty. Shared recreational facilities also are envisioned such as clubhouses, ponds, connected walkways, paths and trails, and access to a nearby snowmobile trail system and the Mickelson Trail. Commercial retail, restaurant and service facilities are planned to provide for daily needs and social outlets of residents.

The District intends to be self-sufficient in the provision of key public services, including water, sewer, water and waste treatment. Natural gas, electricity, telephone, cable and Internet services will also be available. All roadways within the District will be fully improved and paved, and maintained by the District. Fire hydrants will be installed according to public standards.

The cluster design of the PUD allows for high density living while eliminating or minimizing environmental or aesthetic intrusion. In combination with ideal topography and generous greenways, this efficient use of land is advantageous for many reasons, including the following:

- Lower construction costs (reduced site preparation and better building access);
- Ease of access due to ideal land contours;
- Ability to accomplish real estate development in phases; and
- A compatible mix of both affordable housing units and higher-end custom housing is attainable.

To preserve the integrity, environmental safeguards and aesthetics of the PUD and to protect the investment of its homeowners, the developers intend to enforce constructive, protective and strict covenants on the property. Chief among the covenants' objectives will be to ensure quality structures with architectural integrity are built, plus fire prevention and forest health promotion. A fire break will become part of the District's design, in cooperation with the US Forest Service and the Wildland Fire Suppression Division of the SD Department of Agriculture.

The overall benefits of a Community Improvement District are compelling. As the local unit of a special-purpose government as allowed under South Dakota law, nearly all public services are self-contained and pose no burden on neighboring city governments or Lawrence County. Fire departments, emergency service entities and schools will be required to provide services to the PUD. However, increased assessed property valuation for tax purposes resulting from the build-out of this property would generate significant tax revenue for these entities to provide such services.

A Comment on Inflation

Price inflation, or a general rise in prices over a considerable array of goods and services, is a common occurrence in modern economies. It is believed to be caused primarily when increases in the banking system's money supply are not closely matched by increases in an economy's productivity, or ability to produce those goods and services. Economic disruptions, such as significant shortages in the supply of goods or services, too, can lead to widespread inflation, as occurred during the OPEC oil embargo of the 1970s. The U.S. has experienced considerable and varying inflationary effects since the country was established. The 20th Century witnessed both hyper-inflation, where annual price changes reached double digits for several years in a row, and also periods of deflation – when overall prices actually fell.

Relevant to this economic impact report is evaluating the more recent experience with inflation and then incorporating that information into reasonable depictions of how inflation can affect this project. In the 24-year period ending in 2009, the broadest measure of inflation in the U.S. economy, the Gross Domestic Product Deflator, increased an average of about 2.4% compounded annually. Over that course of time, annual price changes were as low as 1.1% (1998) and as high as 3.9% (1990). The GDP deflator was selected for this study because housing activity affects so many other aspects of the economy.

Inflation also has a compounding effect; that is, over time its effect increases more quickly. For example, inflation of 5% over five years results in a price increase of 28%, and over 10 years raises prices 63% – or more than double the effect of the 5-year interval.

This study's benchmark calculations depict results including a moderate 1.5% compound annual inflation rate. Also included are figures with 2.4% inflation, matching recent historical experience of the U.S. economy, and no inflation (or constant "2009 dollars"). While predicting the inflation factor is extremely imprecise and difficult, incorporating its effect nonetheless can contribute to the appropriate portrayal of this project.

For reference, the following list shows wages and housing prices adjusted for a nominal 1.5% annual inflation rate, as averaged over the six-year phases of the project:

Average Wages and Housing Prices by Project Phase

	Initial value	Phase 1	Phase 2	Phase 3	Phase 4
Wages and salaries	\$ 28,345	\$ 29,429	\$ 32,179	\$ 35,186	\$ 38,474
Multi-family homes	\$ 180,000	\$ 185,482	\$ 202,814	\$ 223,445	\$ 244,324
Single-family homes	320,000	328,107	348,293	369,720	392,465
Single-family estate homes	750,000	778,694	851,458	931,021	1,018,018
Commercial housing	250,000	259,565	283,819	310,340	339,339

The Economic Impact of the Powder House Pass Community Improvement District on Lawrence County

Significant economic growth in Lawrence County will be attributable to the development of this project. This report examines two types of economic impacts: the direct economic activities related to the construction and build-out of the project, and the consequential expanded, ongoing economic activity that results from the creation of this project.

In brief, the economic benefits of this project to Lawrence County are job creation, additional personal income, and increased government revenues. The analysis relies on reputable studies and economic models produced by the National Association of Home Builders (NAHB). This NAHB work tapped the substantial data and research resources of the US Bureau of Economic Analysis and US Bureau of the Census. This body of knowledge has been adapted to incorporate and reflect regional economic factors. Because many underlying assumptions can change and likely cannot be controlled by the developers, actual results of this development project may vary from the findings of this report. Accounting for inflationary effects is one such assumption.

For purposes of this study, the project is to be completed in four, six-year phases of construction for a total projected development span of 24 years. While individual homeowners will govern the final costs associated with their residences, this analysis assumes that, initially, multi-family structures will cost \$180,000 each; single-family homes – \$320,000; single-family estate homes – \$750,000; and commercial structures – \$250,000. Land and infrastructure development – including streets, water, sewer, utilities, and park amenities – are reflected in those final costs. These costs are based on average costs on a per-acre and per-square foot basis for comparable site prep and construction projects.

This report provides a benchmark scenario that assumes a moderate price inflation of 1.5% compounded annually. In addition, this analysis also includes results assuming a 2.4% rate of inflation (which is equivalent to the actual experience during the previous 24 years) and results if no inflation were to occur (which is highly unlikely).

The foundation of this economic impact report is the scenario that includes a nominal inflation rate of 1.5% compounded annually.

This analysis is based on four construction phases, each of six-year duration. A total of 465 family dwellings along with 15 commercial structures would be built in Phase 1. Phase 2 represents the busiest expected schedule of construction, with about one-third, or 625 structures, of the plan completed during that time interval. For Phase 3, the completion of 520 structures is expected. Construction activity is the lightest in the final phase, with the completion of 310 structures.

**Chart 1. Construction Schedule
BY TYPE OF STRUCTURE**

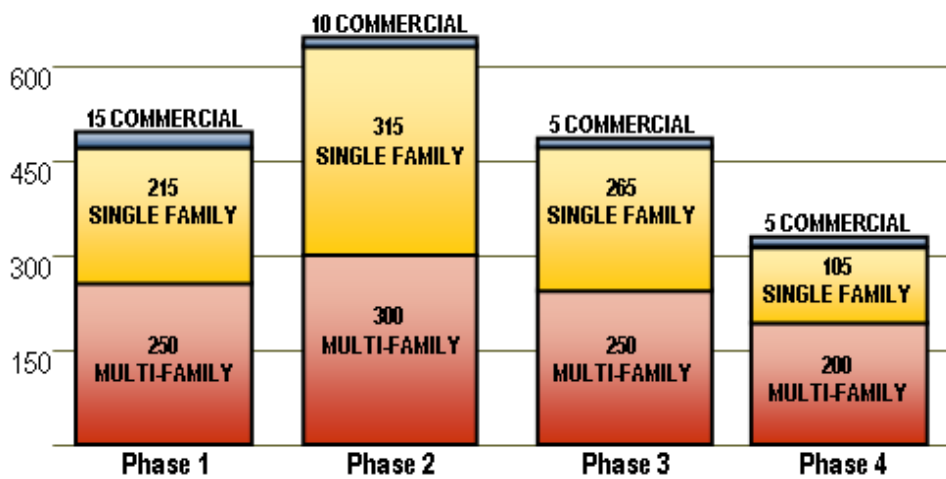
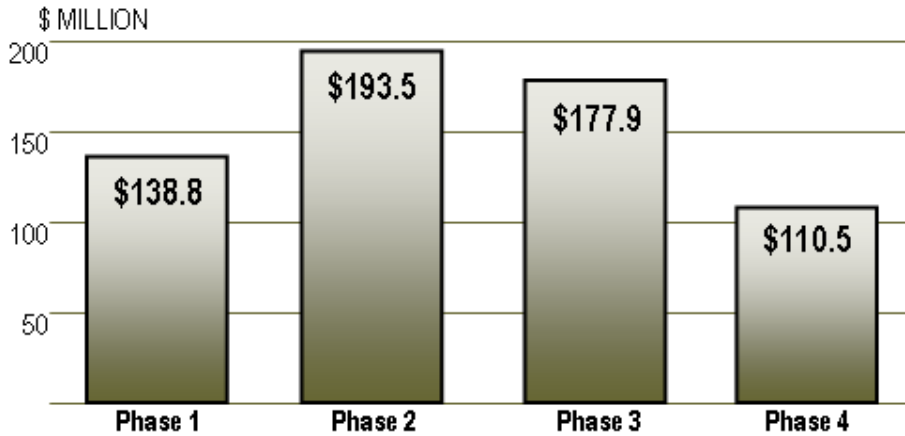


Table 1. Construction Plan Summary

Number of structures by type	Phase 1	Phase 2	Phase 3	Phase 4	Total
Multi-family homes	250	300	250	200	1,000
Single-family homes	175	275	225	75	750
Single-family estate homes	40	40	40	30	150
Total number of residences	465	615	515	305	1,900
Commercial buildings	15	10	5	5	35
Total number of structures	480	625	520	310	1,935

Source: Company.

Chart 2. Project Revenue



Revenue generated from the development follows the pattern of expected construction activity, with project revenue peaking during Phase 2.

Table 2. Estimated Revenue Generation from Project Construction

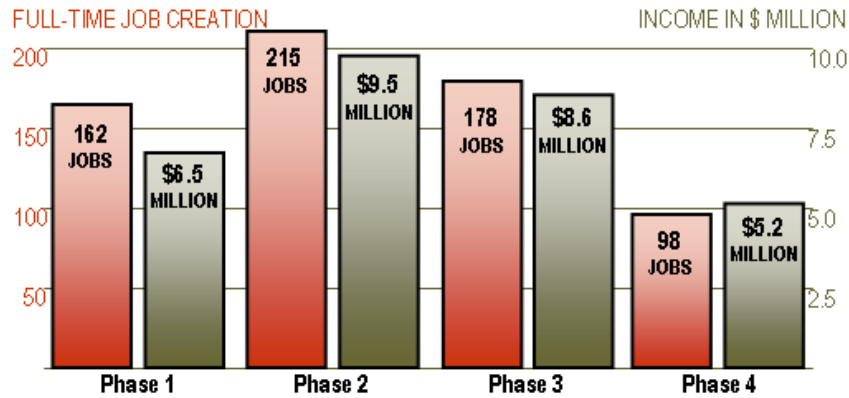
In \$ Million	Phase 1	Phase 2	Phase 3	Phase 4	Total
Multi-family homes	\$ 46.4	\$ 60.8	\$ 55.9	\$ 48.9	\$ 211.9
Single-family homes	57.4	95.8	83.2	29.4	265.8
Single-family estate homes	31.1	34.1	37.2	30.5	133.0
Commercial structures	3.9	2.8	1.6	1.7	10.0
Total revenue from construction	\$138.8	\$193.5	\$177.9	\$110.5	\$620.7
Total revenue with 2.4% inflation	142.5	212.9	209.3	136.3	700.9
Total revenue with 0% inflation	134.8	174.5	148.3	83.8	541.3

Source: Company and author's calculation.

Over the project life, using typical regional prices for housing structures and other building information, the project is expected to generate total revenues of \$620.7 million.

According to the NAHB, approximately 63% of the personal income component derived from construction activity of such development projects goes to worker wages and salaries. Another 17% of personal income goes to proprietors and self-employed workers involved in housing projects. Corporate entities account for about 19% of the personal income created by this kind of project.

Chart 3. Job Creation and Annual Personal Income



Sustained job creation comes both from direct employment with the development project and indirect employment stemming from additional economic activity originating in Lawrence County. Personal income includes wage and salary, proprietors’ and corporate income. See Tables 3 and 4.

Table 3. Estimated Annual Job Creation Resulting from Project

	Phase 1	Phase 2	Phase 3	Phase 4
Annualized full-time employee count from construction	85	112	93	52
Annualized full-time employee count from other sectors	77	103	85	46
Total jobs, annualized full-time	162	215	178	98

Source: NAHB 2008 Economic Impact Study and author’s calculation. Note: The actual number of construction workers likely is seasonally higher. That calculation is then adjusted to represent the number of full-time equivalent jobs on an annual basis.

According to extensive NAHB research, total job creation associated with the construction industry is significant. Over the anticipated 24 years of the project, the equivalent of up to 215 full-time, year-around jobs are sustained due to the new economic activity created by this housing development. This employment calculation includes both direct construction employment and indirect employment effects due to an expanding local/regional economy.

Table 4. Estimated Annual Personal Income Generation

In \$ Million	Phase 1	Phase 2	Phase 3	Phase 4	Total
Wages and salaries	\$ 4.8	\$ 6.9	\$ 6.3	\$ 3.8	\$ 130.3
Proprietors' income	0.8	1.2	1.1	0.7	22.9
Corporate income	0.9	1.4	1.2	0.7	25.5
Total annual personal income	\$ 6.5	\$ 9.5	\$ 8.6	\$ 5.2	\$ 178.7
Personal income (2.4% inflation)	6.7	10.2	9.8	6.2	197.3
Personal income (0% inflation)	5.9	7.9	6.5	3.6	143.5

Source: Original figures from NAHB's analysis (2009) of US Bureau of Economic Analysis reports (2008).

Note: The analysis incorporates prevailing wages and salaries in Lawrence County (source – Spearfish Chamber of Commerce Wage Study, 2005) revised to approximate 2009 levels).

Personal income attributed to this project is estimated to peak at \$7.9 million per year during the second phase of construction. Over the 24 years of the project, the Lawrence County and surrounding regional economy would benefit strongly from its share of an estimated \$178.7 million of personal income generated from the development project.

Chart 4. Average Annual Tax Capacity

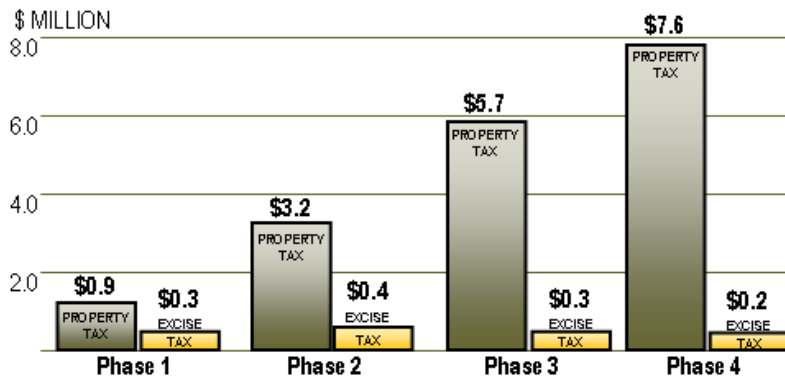


Table 5. Estimated Annual Contractors' Excise Tax

In \$ Million	Phase 1	Phase 2	Phase 3	Phase 4	Total
Estimated taxable revenue	\$ 81.8	\$ 114.0	\$ 104.7	\$ 65.1	\$ 365.6
Annual contractors' excise tax	\$ 0.3	\$ 0.4	\$ 0.3	\$ 0.2	\$ 7.3
Excise tax (2.4% inflation)	0.3	0.4	0.4	0.3	8.3
Excise tax (0% inflation)	0.3	0.3	0.3	0.2	6.4

Source: NAHB methodology and author's calculation.

The NAHB estimates that taxable construction expenditures represent 58.9% of total revenue generated by new housing construction. The South Dakota construction excise tax rate is 2%. This estimate assumes each phase experiences a uniform construction build-out over the time period. Annual excise tax collections would range from a high of approximately \$0.4 million to a low of \$0.2 million. Approximately \$7.3 million would be collected from the contractors' excise tax during the 24-year construction period.

Table 6. Estimated Average Annual Property Tax Capacity

In \$ Million	Phase 1	Phase 2	Phase 3	Phase 4
Full and true value of property	\$ 69.4	\$ 235.6	\$ 421.3	\$ 565.5
Estimated assessed value	62.5	212.0	379.1	508.9
Average annual property tax capacity	\$ 0.9	\$ 3.2	\$ 5.7	\$ 7.6
Property tax (2.4% inflation)	1.0	3.4	6.2	8.5
Property tax (0% inflation)	0.9	3.0	5.2	7.3

Note: Author's calculation of property tax capacity is based on the cumulative value of a uniform build-out of the project. Assessed value is estimated at 90% of full value; a property tax levy of 15 mills was used.

The calculation of estimated annual property tax revenue assumes uniformity of construction build-out during each phase of development. In reality, of course, development can be uneven or erratic from year to year, depending on weather and other factors. As this project expands through time, the cumulative property valuation grows. At the end of the first year, for example, the actual property tax capacity is estimated to be under \$0.3 million, and at the end of the sixth year, the estimated revenue potential is \$1.9 million. At the end of the 12th year, the property tax is estimated at \$4.8 million; after the 18th year, the property tax capacity is estimated at \$7.6 million.

While the Community Improvement District intends to be mostly self-sufficient in the provision of public services, Lawrence County would be the beneficiary of significant property tax revenue from this project. **When completed at the end of the 24th year, the project could raise an estimated \$9.5 million in annual property taxes, based on a levy of 15 mills.**

Summary

Powder House Pass, being proposed by BH Development, LLC, would result in multiple positive economic effects that would benefit all of Lawrence County:

- 1,900 new, quality residential dwellings/units along with 35 commercial structures would become available to Lawrence County residents.
- Up to 215 full-time jobs would be created during the busiest phase of construction, and full-time equivalent employment exceeding 100 throughout most of the development period.
- \$178.7 million in personal income would be earned during the 24-year construction period.
- \$7.3 million in contractors' excise taxes would be collected during the construction period.
- Annual property tax revenue capacity could approach \$9.5 million **per year** at completion, contributing significantly to Lawrence County public services.

The Powder House Pass Community Improvement District incorporates a non-intrusive visual and environmental “footprint” and the cluster design concept, along with greenways and park-like amenities integrate the development into their surroundings. Since the Community Improvement District provides for most public services, including streets, water, waste and sewage systems, and other infrastructure, the imposition of this development on other aspects of Lawrence County government appear to be minimal, even if the property tax potential of the project is significant.

Lawrence County also will benefit from having another state-of-the-art housing and commercial development near other prominent attractions, including ski resorts, the Mickelson Trail, other recreational amenities, the Sanford Laboratory, and Deadwood. The project should help to distinguish the County's reputation as a progressive, appealing and comfortable place to be.

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