

RESOLUTION NO. 2-21  
RESOLUTION APPROVING INCREMENT FINANCING DISTRICT NO. 10-2  
AND THE USE OF TAX INCREMENT FINANCING

WHEREAS, the City Council of the City of Owatonna, Minnesota (the "City"), has previously approved Development District No. 10 (the "Development District") and in connection therewith adopted a development program; and

WHEREAS, the City has reviewed "Tax Increment Financing District No. 10-2, dated January 5, 2021" (the "Plan"), which sets forth a proposal to use tax increments to finance, in whole or in part, capital and administrative costs therein; and

WHEREAS, it is desirable and in the public interest that the City undertake and carry out a tax increment financing plan for Tax Increment Financing District No. 10-2 pursuant to Chapter 469 of Minnesota Statutes, encompassing the area described in the Plan (which area is herein called the "District"); and

WHEREAS, the Plan sets forth the City's estimate of the fiscal and economic impact of the District on the tax capacities of all taxing jurisdictions in which the District is located; and

WHEREAS, the County Auditor of Steele County, Minnesota, has been notified of the public hearing for the review of the Plan; and

WHEREAS, the Clerk of the School Board of Independent School District No. 761 has been notified of the public hearing for the review of the Plan; and

WHEREAS, the City has received and considered the comments of Steele County and Independent School District No. 761 as regards the Plan; and

WHEREAS, the City on January 5, 2021, after having published a notice of public hearing in the official newspaper of the City, conducted a public hearing on the Plan and received public comments on the same.

NOW THEREFORE, BE IT RESOLVED by the City Council of the City of Owatonna as follows:

Sec. 1. The City finds and determines that there is a need for the activities of the Development District to be financed in part by the tax increments from the District.

Sec. 2. The City finds and determines that the activities to be financed by the District will carry out the objectives of the Development District and District Plans by preventing/eliminating blight, creating jobs and enhancing the City's tax base.

Sec. 3. The City finds and determines that property redevelopment, creating jobs and enhancing the tax base within the Development District are in the public interest of the City and the expenditures of the District are a public purpose, which promotes the health, safety and welfare of the community.

Sec. 4. The City finds and determines that the tax increment financing plan as set forth in the Plan having been duly reviewed and considered is hereby approved and adopted, and the area

described in the Plan is hereby designated as a Redevelopment District pursuant to Minnesota Statutes, section 469.174, subdivision 10(a)(1).

Sec. 5. The City finds and determines that the District is a Redevelopment District because parcels consisting of 70% of the area of the District are occupied by buildings, streets, utilities, paved or gravel parking lots, or other similar structures and more than 50% of the buildings, not including outbuildings, are structurally substandard to a degree requiring substantial renovation or clearance.

Sec. 6. That it is hereby found and determined, in the opinion of the City:

A. The proposed development or redevelopment would not reasonably be expected to occur solely through private investment within the reasonably foreseeable future; and

B. The increased market value of the site that could reasonably be expected to occur without the use of tax increment financing would be less than the increase in the market value estimated to result from the proposed development after subtracting the present value of the projected tax increments for the maximum duration of the District permitted by the Plan.

Sec. 7. The City finds and determines that the tax increment financing plan will afford maximum opportunity, consistent with the sound needs of the City as a whole, for the development of the District by private enterprise.

Sec. 8. The City finds and determines that the tax increment financing plan set forth in the Plan conforms to the general plan for the development of the City as a whole.

Sec. 9. The reasons and supporting facts for findings 5, 6, 7 and 8 as set forth in the Plan are by this reference confirmed, approved and adopted.

Sec. 10. The City Clerk shall request the Auditor of Steele County to certify the original tax capacity and original local tax rate of the District approved by this resolution.

Sec. 11. The City Clerk is hereby directed to file a copy of this resolution with a copy of the Plan with the Minnesota Department of Revenue and Office of the State Auditor.

Sec. 12. The City hereby states its intention to use all of the captured tax capacity for purposes of tax increment financing as per the conditions set forth in the Plan.

Passed and adopted this \_\_\_\_\_ day of \_\_\_\_\_, 2021, with the following vote:

Aye \_\_\_\_\_; No \_\_\_\_\_; Absent \_\_\_\_\_.

Approved and signed this \_\_\_\_\_ day of \_\_\_\_\_, 2021.

ATTEST:

\_\_\_\_\_  
Thomas A. Kuntz, Mayor

\_\_\_\_\_  
Kris M. Busse, City Administrator/City Clerk

**TAX INCREMENT FINANCING DISTRICT NO. 10-2  
(N. Cedar Ave. Redevelopment Project)**

**Adopted: January 5, 2021**



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**TAX INCREMENT FINANCING DISTRICT NO. 10-2  
(N. Cedar Ave. Redevelopment Project)**

**CITY OF OWATONNA, MINNESOTA**

**January 5, 2021**

PREPARED BY

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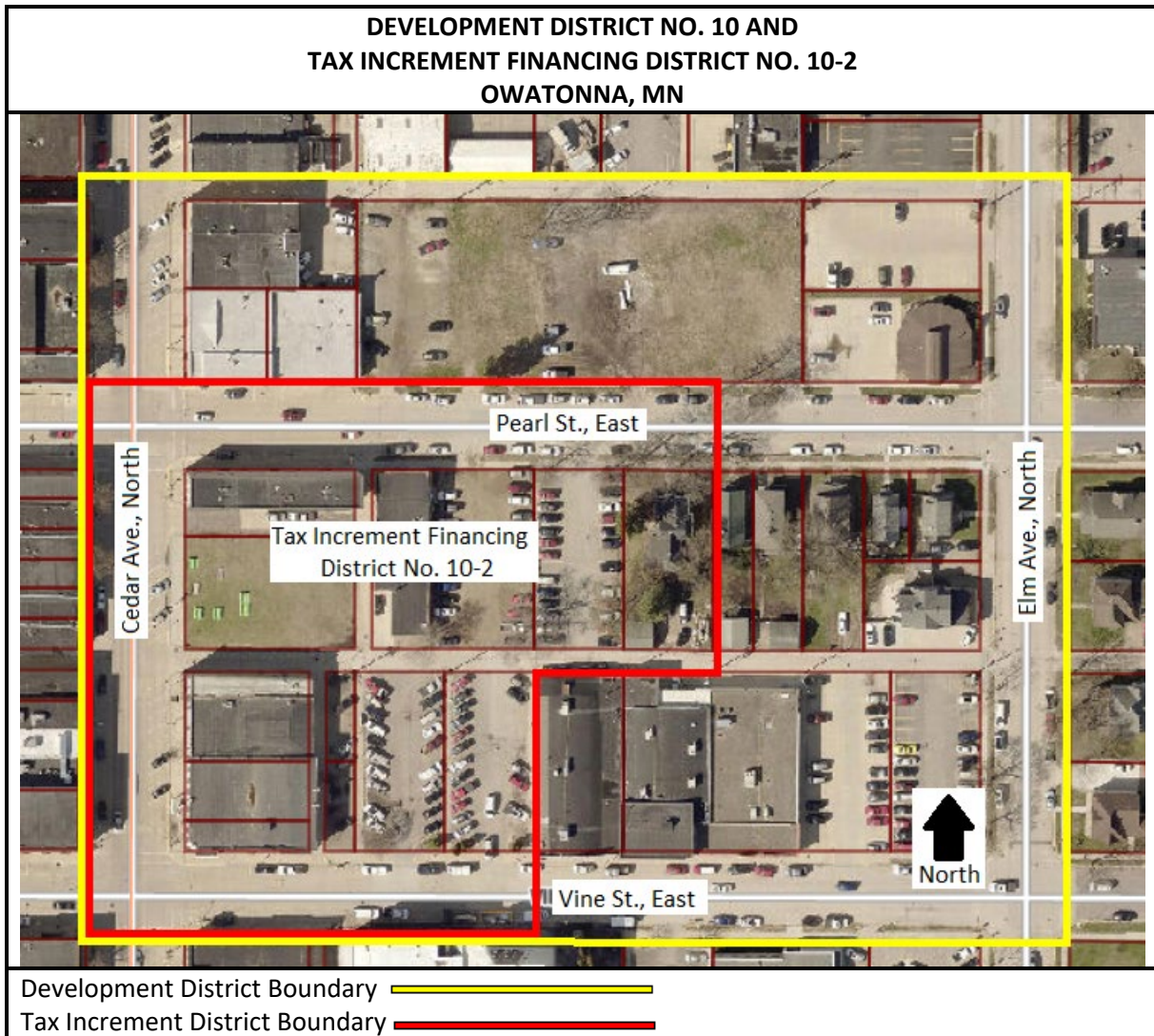
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## INTRODUCTION

### BACKGROUND

The City of Owatonna proposes to modify Development District No. 10 and create Tax Increment Financing District No. 10-2, which enables private redevelopment of property fronting on the 200 block of N. Cedar Ave. with a 106-room, four-story hotel, restaurant and retail space project. The City will provide financial assistance to the developer to finance eligible redevelopment costs. The location of Development District No. 10 and Tax Increment Financing District No. 10-2 appear below.



### DEFINITIONS

The following capitalized terms used and not otherwise defined herein shall have the following meanings:

“Bonds” means any bonds or other obligations as defined in Minnesota Statutes, section 469.174, subdivision 3.

“City” means the City of Owatonna, a political subdivision of the State of Minnesota.

“City Council” means the Owatonna City Council.

“County” means Steele County, State of Minnesota.

“Development” means the redevelopment of several downtown properties with 106-room, four-story hotel, restaurant and retail space project within the Development District.

“Development District” means a specific area within the corporate limits of a municipality that has been so designated and separately numbered by the governing body. Development District” also means Development District No. 10 adopted on September 19, 2017 and modified January 5, 2021 by resolution of the City Council.

“Project” is a development district as defined in, section 469.125, subdivision 9.

“Redevelopment District” means a type of tax increment financing district consisting of a project, or portions of a project, within which the City finds by resolution that the following conditions, reasonable distributed throughout the District, exist: Parcels consisting of 70 percent of the area of the District are occupied by buildings, streets, utilities, or other improvements and more than 50 percent of the buildings, not including outbuildings, are structurally substandard to a degree requiring substantial renovation or clearance.

“Tax Increment Financing Plan” or “Plan” means the plan for Tax Increment Financing District No. 10-2 prepared pursuant to the provisions of Minnesota Statutes, sections 469.174 to 469.1794, which provides a statement of objectives, the development program, a list of development activities, project timing, budget estimates, estimated impact on affected taxing jurisdictions, identification of studies or analysis used to determine need for financing and identification of parcels to be included in the District.

“Tax Increment Financing District No. 10-2” or “District” means a contiguous or noncontiguous geographic area within a project delineated in the tax increment financing plan, as provided by Minnesota Statutes, section 469.175, subdivision 1, for the purpose of financing redevelopment, housing or economic development in municipalities through the use of tax increment generated from the captured net tax capacity in the tax increment financing district.

#### DISTRICT DURATION AND PURPOSE OF TAX INCREMENT FINANCING PLAN

Minnesota Statutes, Chapter 469 authorizes the City Council to establish the District and to use tax increment financing as a funding source, to pay eligible Project expenses. Under Chapter 469, a tax increment district has to be established as a housing district, a redevelopment district, a renewal and renovation district, a soils condition district or an economic development district. Tax Increment Financing District No. 10-2 qualifies as a redevelopment district, pursuant to Minnesota Statutes, section 469.174, subdivision 10(a)(1), which

permits district duration of not greater twenty-five years from the date of receipt by the City of the first tax increment.

It is the City's intention to support the redevelopment of vacant, substandard and underdeveloped properties to facilitate community redevelopment, job creation and tax base enhancement.



**TAX INCREMENT FINANCING PLAN**

RELATIONSHIP OF TAX INCREMENT DISTRICT TO PROJECT AREA

Development District No. 10 was formed in order to promote development of certain property, secure additional commercial and residential development opportunities, increase property subject to taxation, provide improvements to development properties, and designate methods for the financing of activities in the Development District. Development District law authorizes the use of tax increment funds to pay for these Project activities and improvements.

When using tax increment funds, it is required to establish a tax increment financing district according to Minnesota Statutes, sections 469.174 to 469.1794, inclusive. Approval of this Plan results in the formation of Tax Increment Financing District No. 10-2, which has the identified purpose of financing development activities authorized by the creation of Development District No. 10.

DEVELOPMENT PROPOSAL

The developer has submitted a proposal to the City requesting tax increment financing assistance that makes possible redevelopment of property fronting on the 200 block of N. Cedar Ave. The developer has assembled an approximately 1.64-acre site that will be redeveloped with a 106-room, four-story hotel, restaurant and retail space project. The Development site consists of eight parcels and an adjacent public alley that will be vacated and transferred to private ownership as part of the Development site. The Development property is zoned B-3 Central Business District, which permits commercial uses. The development proposal consists of two major components (1) construction of a new 106-unit hotel project that requires property demolition and site clearance and (2) substantial renovation of existing structures with a restaurant and bagel shop. Table 1 provides a parcel-by-parcel summary of the projects’ property conditions and development proposal.

<b>TABLE 1: SUMMARY OF PROPERTY CONDITIONS AND DEVELOPMENT PROPOSAL</b>					
Proposed Use	Parcel Number	Current Use	Parcel Size	Property Condition	Substantial Renovation Or Clearance
Restaurant and Bagel Properties	17-100-1001	Commercial	7,932-ft. <sup>2</sup>	Substandard	Renovation
	17-100-1002	Commercial	4,048-ft. <sup>2</sup>	Substandard	Renovation
	17-100-1003	Commercial	3,480-ft. <sup>2</sup>	Substandard	Renovation
Hotel Properties	17-100-1017	Residential	8,712-ft. <sup>2</sup>	Substandard	Clearance
	17-100-1018	Municipal Parking	8,683-ft. <sup>2</sup>	Standard	Not required
	17-100-1019	Commercial	15,840 ft. <sup>2</sup>	Substandard	Clearance
	17-100-1020	Commercial	6,174-ft. <sup>2</sup>	Substandard	Clearance
	17-100-1021	Municipal Vacant	10,458 ft. <sup>2</sup>	Standard	Not required
	Vacated Alley	Public right-of-way	6,400-ft. <sup>2</sup>	Standard	Not required

Downtown redevelopment requires extensive coordination to deal with complex property acquisition, site development and infrastructure issues that permit making the commercial uses denser, meaning more commercial square footage per acre. The City believes the proposed project will enhance Owatonna’s

downtown through new construction on previously occupied land and through substantial renovation of existing structures. The City recognizes that the scope of the project merits public participation due to the difficulties associated with assembling property and making ready a suitable project site in downtown Owatonna. Redevelopment at this location must address the extraordinary costs of property acquisition, demolition, site clearance, provision of adequate off-street parking and public infrastructure upgrades to accommodate significant downtown redevelopment.

A combination of public and private financing consisting of up-front and pay-as-you-go tax increment financing assistance, lender debt and developer equity will fund property redevelopment. Financing of specific activities using tax increment revenues will occur following project review and City approval. At least 90 percent of the revenues derived from tax increments from the District must be used to finance the cost of correcting conditions that allow designation of a redevelopment tax increment financing district under Minnesota Statutes, Section 469.174 and the allocated administrative expenses of the City. The City requires that the developer enter into an agreement specifying development terms and conditions in advance of receiving tax increment assistance.

PARCELS LOCATED IN TAX INCREMENT DISTRICT

The map on page 1 outlines the boundaries Tax Increment Financing District No. 10-2. Table 2 summarizes District parcel information.

<b>TABLE 2: TAX INCREMENT FINANCING DISTRICT NO. 10-2 PARCEL INFORMATION</b>		
Proposed Use	Parcel Number	Property Address
Restaurant and Bagel Properties	17-100-1001	207 Cedar Ave. N.
	17-100-1002	203 Cedar Ave. N.
	17-100-1003	203 Cedar Ave. N.
Hotel Properties	17-100-1017	133 Pearl St. E.
	17-100-1018	127 Pearl St. E.
	17-100-1019	113 Pearl St. E.
	17-100-1020	223 Cedar Ave. N.
	17-100-1021	215 Cedar Ave. N.
	Vacated Alley	Not applicable
Public Parking	17-100-1004	114 Vine St. E.
	17-100-1005	115 Vine St. E.

FINDINGS

Before a municipality approves a tax increment financing plan, the statutory findings of Minnesota Statutes, section 469.175, subdivision 3, must be made and the reasons for those findings must be set forth in writing along with supporting facts for each determination. The findings and supporting facts for the District are as follows:

1. FINDING. That the proposed tax increment financing district is a redevelopment district.

SUPPORTING FACTS. Minnesota Statutes, Chapter 469, provides for five types of districts – a redevelopment district, renewal and renovation district, soils condition district, housing district, and economic development district – each serving a well-defined need and having different qualifying standards. Tax Increment Financing District No. 10 -1 is established as a “Redevelopment District”. Minnesota Statutes, section 469.174, subdivision 10(a)(1), defines “Redevelopment District”. This definition is also set forth on page 2 of this Plan. In order to qualify as a “Redevelopment District” the property must meet the following requirements:

A. *Parcels consisting of 70 percent of the area of the District must be occupied by buildings, streets, or other improvements.* The District consists of ten parcels, which are 100 percent occupied by buildings, streets, or other improvements; thus exceeding the statutory requirement of 70 percent.

B. *More than 50 percent of the buildings in the District, not including outbuildings, are structurally substandard to a degree requiring substantial renovation or clearance.* The District contains six buildings not including outbuildings. The City has conducted a survey and inspection of the buildings located within the District. Six or 100 percent of the buildings have been found to be substandard to a degree requiring substantial renovation or clearance; thus exceeding the statutory requirement of 50 percent. The City has examined the buildings according to the requirements of Minnesota Statutes, section 469.174, subdivision 10(c) and has retained written documentation thereof.

2. FINDING. That, in the opinion of the City:

A. The proposed development or redevelopment would not reasonably be expected to occur solely through private investment within the reasonably foreseeable future; and

B. The increased market value of the site that could reasonably be expected to occur without the use of tax increment financing would be less than the increase in the market value estimated to result from the proposed development after subtracting the present value of the projected tax increments for the maximum duration of the District permitted by the Plan.

SUPPORTING FACTS. *In the opinion of the City, the proposed development or redevelopment would not reasonably be expected to occur solely through private investment within the reasonably foreseeable future.* This finding is supported by the fact that the District is comprised of property in an area of the City that is in need of redevelopment. This property contains six substandard structures. Remediating this situation requires demolition of three of the structures and substantial renovation of the remaining three structures. Without tax increment financing assistance, it would not be possible to redevelop this property.

*Furthermore, the City has determined that the increased market value of the site that could reasonably be expected to occur without the use of tax increment financing would be less than the increase in the market value estimated to result from the proposed development after subtracting the present value of the projected tax increments for the maximum duration of the district permitted by the Plan.* The City supports this finding because the extraordinary redevelopment costs cannot be borne by private development and still deliver a financially viable project; therefore, impeding private redevelopment efforts. The City recognizes the impediments to redevelop in the absence of public assistance, and agrees that tax increment assistance is reasonably necessary for the

redevelopment to proceed. Based on this analysis, the City reasonably determines that no other development of any kind is anticipated in this area without substantially similar assistance being provided to the redevelopment project. Accordingly, the increased market value anticipated without tax increment assistance is \$0.

A comparative analysis of the estimated market values both with and without establishment of the District and the use of tax increments has been performed. If all proposed development that is to be assisted with tax increments occurs in the District, the total increased market value would be up to \$8,548,000. The present value of tax increments from the District is estimated to be \$4,560,880. It is the City's finding that no development with a market value of greater than \$3,987,120 would occur without tax increment assistance in the reasonably foreseeable future. This finding is based upon general past experience wherein the extraordinary costs of redevelopment hamper and discourage public/private redevelopment efforts. The City believes this project qualifies for tax increment financing and is prepared to commit this resource to the project.

3. FINDING. That the tax increment financing plan conforms to the general plan for the development or redevelopment of the municipality as a whole.

SUPPORTING FACTS. The tax increment financing plan conforms to the general plan of the City for the following reasons:

A. The City supports the Development because it will eliminate blight, create employment opportunities, strengthen the tax base and promote the health, safety and welfare of the community through planned development within the District.

B. The project conforms to the City's comprehensive plan and zoning ordinance.

4. FINDING. That the tax increment financing plan will afford maximum opportunity, consistent with the sound needs of the municipality as a whole, for the development or redevelopment of the project by private enterprise.

SUPPORTING FACTS. As a result of adopting the Development District No. 10 development program, the City approved a blueprint for development and redevelopment within the community. The Development District plan encourages cooperation with private enterprise. Information contained in the development program along with other City plans and reports has been used in the preparation of this Plan. Based upon the objective of cooperation and upon the guidance provided by City plans and ordinances, the City has determined Project costs that will be paid for by tax increment revenues. As the Financial Plan, on pages 9 through 13 of this Plan, demonstrates the City intends to concentrate the use of tax increment revenue on those improvements that would not reasonably be expected to occur solely through private action. Private enterprise will be responsible for the vast majority of the expenses and activities normally associated with land development.

#### DEVELOPMENT PROGRAM FOR DEVELOPMENT DISTRICT NO. 10

Minnesota Statutes, section 469.175, subdivision 1(2) requires "A statement as to the development program for the project, including the property within the project, if any, which the authority intends to acquire".

The development program for Development District No. 10 is delineated in a report entitled “Development District No. 10” adopted September 19, 2017 and modified January 5, 2021, copies of which are on file in the City Administrator’s office. By this reference, said Development Program is incorporated as part Plan.

#### TAX INCREMENT DISTRICT DEVELOPMENT PLAN

Activities to be financed, in whole or in part, because of the implementation of the District include:

1. The development proposal consists of two major components (1) construction of a new 106-unit hotel project that requires property demolition and site clearance and (2) substantial renovation of existing structures with a restaurant and bagel shop. The developer will carry out various redevelopment activities, including building demolition, site clearance, substantial renovation of the existing structure and construction of off-street parking to facilitate the proposed redevelopment project. The developer has requested tax increment assistance to fund eligible redevelopment costs.
2. The City will execute a pay-as-you-go, tax increment, revenue note that will reimburse the developer for the redevelopment costs of the District subject to the limitations of Minnesota Statutes, section 469.176, subdivision 4j.
3. The City will use tax increment financing revenues to finance public improvements in support of the private redevelopment within the District.
4. The City will advance or loan money from the City's general fund or any other fund from which such advances may be legally made, to finance eligible public improvements of the Project pursuant to Minnesota Statutes, section 469.178, subdivision 7.

The above activities and improvements are within the boundaries of Development District No. 10 and Tax Increment Financing District No. 10-2. For the purposes of budgeting in this Plan, the Development will begin in 2021. The Development will be substantially completed by December 31, 2021. The City requires execution of a development agreement with the developer following approval of the Plan and before beginning project activities.

#### CONFORMANCE WITH PLAN FOR THE CITY

The City Council believes that creation and implementation of the District meets the intent of the plan for the City, by maintaining the quality of existing development, and improving the quality of life through orderly planned improvements.

#### PROCEDURE MODIFYING AN APPROVED TAX INCREMENT DISTRICT PLAN

The City Council may modify the Tax Increment District Plan pursuant to provisions of Minnesota Statutes, section 469.175, subdivision 4.

RELOCATION

The Plan for the District does not envision that the relocation of persons or businesses will be required to implement this Plan. However, if in the future the City determines that relocation is required, the City shall implement procedures that comply with the Uniform Relocation Act and any person or business affected shall be treated according to those laws, rules and regulations.

PROPERTY ACQUISITION AND DISPOSITION

The Plan does not anticipate that the public purchase of or disposition of any property is required to implement the development. If future development activities require the use of tax increment funds for property acquisitions, the Plan shall be modified and the City will follow its policies and procedures for property acquisition.

NOTIFICATION OF PRIOR PLANNED IMPROVEMENTS

Minnesota Statutes, section 469.177, subdivision 4 requires that the request for certification of original tax capacity be accompanied by a listing of properties within the tax increment district for which building permits have been issued in the 18 months preceding approval of the tax increment financing plan. The City has searched its records and determined that no building permits have been issued for properties in the District in the 18 months immediately preceding approval of the Plan. Based on information provided by Steele County, the most recent tax capacity estimate is 24,290.

METHOD OF FINANCE

The City Council elects to use Tax Increment Financing pursuant to Minnesota Statutes, Chapter 469, to finance all or part of the costs of the Project. By electing this method of financing, the City Council is not precluding the use of other methods provided by State law.

FINANCIAL PLAN

ESTIMATE OF PUBLIC COST

The following is an estimate of public cost, including cost of District indebtedness, source of revenue, most recent tax capacity and estimate of captured tax capacity.

1. Uses of Funds. The estimated project/financing costs to be paid or financed with tax increment include:

A. Developer Property Acquisition	\$1,850,000
B. Developer Site Improvements	1,514,580
C. City Public Improvements	500,000
D. Interest	3,179,881*
E. Administration	180,627
<b>TOTAL USES OF FUNDS</b>	<b><u><u>\$7,225,088</u></u></b>

\*Interest. Developer project costs include property acquisition and site improvements estimated at \$3,364,580. Developer project costs will be reimbursed with 4.5% interest. Estimated interest to be paid to the developer is \$2,911,820. City project costs include public improvements estimated at \$500,000. City project costs will be reimbursed with 3.0% interest. Estimated interest to be paid to the City is \$268,061.

2. Source of Funds. The City proposes to issue its Bonds in the maximum amount of \$3,864,580. An estimated \$3,364,580 pay-as-you-go, tax increment revenue note will reimburse eligible project expenses to the Developer. An estimated \$500,000 interfund loan will repay City public improvement costs. Based upon current information, tax increment in the following amount will become available to repay the Total Uses of Funds:

A. Tax increments	\$7,225,088
<b>TOTAL SOURCE OF FUNDS</b>	<b>\$7,225,088</b>

The above represents an estimate of the cost of the Project activities, including administrative expenses, and the sources of revenue to finance or otherwise pay public costs. The City reserves the right to amend individual line items insofar as total estimated tax increment expenditures are not increased. If such an increase is proposed, the City shall seek a public hearing on the increase pursuant to Minnesota Statutes, section 469.175, subdivision 4.

**ESTIMATE OF MARKET VALUE AND TAX INCREMENT**

Table 1 shows the assumptions and calculations used to determine taxes and tax increment.

<b>TABLE 1: PROJECT ESTIMATE OF VALUE AND TAX INCREMENT</b>								
Local Tax Rate = 162.953% (Owatonna, Payable 2020)								
Property Classification: Commercial								
Completion by December 31, 2021								
Estimated Completion Market Value: \$9,800,000								
YEAR TAXES PAYABLE	BASE TAX CAPACITY	PROJECT'S TAX CAPACITY	CAPTURED TAX CAPACITY	PROJECT'S ANNUAL TIF	LESS OSA FEE OF 0.250%	ADJUSTED TAX INCREMENT	LESS ADMIN. OF 2.50%	NET ANNUAL TIF
2021	24,290	0	0	0	0	0	0	0
2022	24,290	0	0	0	0	0	0	0
2023	24,290	195,250	170,960	278,584	696	277,888	6,947	270,941
2048	24,290	195,250	170,960	278,584	696	277,888	6,947	270,941
<b>TOTALS</b>				<b>\$7,243,196</b>	<b>\$18,108</b>	<b>\$7,225,088</b>	<b>\$180,627</b>	<b>\$7,044,460</b>
Discounted present value of annual tax increments:								<b>\$3,864,580</b>
Total estimated amount of interest expense to be paid from tax increment on bonds, loans (including interfund loans), notes, and pay-as-you-go obligations:								<b>\$3,179,881</b>

**FINANCING ASSUMPTIONS**

Tax increment will be used to finance activities in the Project area. The following information and assumptions were used to calculate financing costs for the activities in the Project area.

1. All public and private project activities are anticipated to commence in 2021 with substantial completion by December 31, 2021.

2. Financing of the Project activities will be undertaken in 2021.

3. Pursuant to Minnesota Statutes, section 469.176, subdivision 1b.(3) the City is basing the District duration on the requirements for statutory decertification of a tax increment financing district. Receipt of the first tax increment occurs in 2023 payable from the 2022 tax levy. Increment may be collected for twenty-six years (2023 through 2048) should it be required to repay redevelopment costs and District administrative expenses approved in this Plan. It is the City's intention to decertify the District upon repayment of project costs. The estimated increments for the District appear on Table 1.

4. The estimated 2020 local tax rate of 162.953% and 2020 tax values were used to calculate the estimate of increment in this Plan. The project's tax classification is "commercial". The classification rate for this commercial property for taxes payable in 2020 is 1.5% on the first \$150,000 of market value and 2.0% on market value in excess of \$150,000.

5. Increment revenues will be used to finance capital and administrative costs resulting from the Project activities. Tax increments generated by the District will be used to finance eligible Project costs approved in this Plan. The City elects to use 100% of the available tax increment over the total life of the District to finance activities in the District.

6. The City may claim up to 10% of the annual increment for administrative expenses. Owatonna's policy is to collect for actual administrative expenses only. In this instance, due to the size of the project increment, this Plan budget assumes retaining 2.50% of the increment for administrative purposes.

7. The City may use annual tax increments in 2023 through 2048 to service Project costs. "Project costs" means all expenditures of the City or reimbursement of eligible developer costs for the purchase of land or amounts paid to contractors or others providing materials and services, including architectural and engineering services, directly connected with the physical development of the real property in the District, including interest thereon. Project costs also include all administrative expenses as defined in Minnesota Statutes, section 469.174, subdivision 14. The column labeled "Adjusted Tax Increment" in Table 1 provides the estimated increment expected to be generated by improvements in the District. This information demonstrates that the City could finance the estimated project costs of \$3,864,580, interest of \$3,179,881 and administrative costs of \$180,627. The first increment would be available to the City in 2023 and may continue through 2048.

## SOURCES OF REVENUE

The proposed source of revenue to be used to finance public costs associated with the Development in the District is tax increment generated because of the taxation of the land and improvements in the District. Tax increment financing refers to a funding technique that uses increases in assessed valuation and the property taxes attributed to new development to finance, or assist in the financing of development costs. The improvements resulting from development of the property by private business within the District will generate



an anticipated annual tax increment in 2023 through 2048 based on a full assessment. The District's tax increment will be generated from the Development.

#### LIMITATION ON USE OF TAX INCREMENT; REDEVELOPMENT DISTRICTS

Pursuant to Minnesota Statutes, section 469.176, subdivision 4j, "At least 90 percent of the revenues derived from tax increments from a redevelopment district or renewal and renovation district must be used to finance the cost of correcting conditions that allow designation of redevelopment and renewal and renovation districts under section 469.174. These costs include, but are not limited to, acquiring properties containing structurally substandard buildings or improvements or hazardous substances, pollution, or contaminants, acquiring adjacent parcels necessary to provide a site of sufficient size to permit development, demolition and rehabilitation of structures, clearing of the land, the removal of hazardous substances or remediation necessary to development of the land, and installation of utilities, roads, sidewalks, and parking facilities for the site. The allocated administrative expenses of the authority, including the cost of preparation of the development action response plan, may be included in the qualifying costs."

#### TIF BUSINESS SUBSIDY

The project is exempted from the provisions of the Minnesota statutes, sections 116J.993 to 116J.985 (The Business Subsidies Act) pursuant to section 116J.993, subdivision 3(17), which requires that the recipient's investment in the purchase of the site and in site preparation is 70 percent or more of the assessor's current year's (2020) estimated market value. The Developer's \$3,364,580 investment in the purchase of the site and in site preparation is equal to 269% of the assessor's current year's estimated market value (\$1,250,000), which exceeds the threshold requirement of 70% of the assessor's current year's market value.

#### BONDED INDEBTEDNESS

Upon approval of this Plan, the City will execute a development agreement with the Developer that provides pay-as-you-go tax increment financing assistance to finance the eligible costs of this District, in the estimated amount of \$3,364,580. In addition, the City will authorize an estimated \$500,000 interfund loan to repay public improvement costs. Total bonded indebtedness authorize pursuant to this Plan will not exceed \$3,864,580.

#### IMPACT OF THE USE OF TAX INCREMENT ON TAXING JURISDICTIONS

Minnesota Statutes, section 469.175, subdivision 1(6), requires, "statements of the authority's alternate estimates of the impact of tax increment financing on the net tax capacities of all taxing jurisdictions in which the tax increment financing district is located in whole or in part. For purposes of one statement, the authority shall assume that the estimated captured net tax capacity would be available to the taxing jurisdictions without creation of the district, and for purposes of the second statement, the authority shall assume that none of the estimated captured net tax capacity would be available to the taxing jurisdictions without creation of the district or subdistrict".

Table 2, on page 12, shows the impact of tax increment financing on the tax capacity of the affected taxing jurisdictions assuming (1) none of the increment would be available, and (2) the increment would be available to the tax jurisdictions.

Statement 1: The current tax capacity times the local tax rate produces current taxes generated. If the captured tax capacity were available to each taxing jurisdiction, the result would be a lower or adjusted local tax rate to produce the same amount of taxes. Thus, with the addition of captured value of 170,960 the overall local tax rate would be reduced by 0.9416% to a level of 162.011%. The captured tax capacity times the original local tax rate of 162.953% would generate \$278,584 in increment income, which represents the loss of new tax revenues if the development had occurred without inclusion in a tax increment district.

Statement 2: If no captured tax capacity is available to each of the taxing jurisdictions without creation of the District, there is no impact on the taxes heretofore levied and therefore no impact on local tax rates. The captured tax capacity at the original local tax rate would generate \$278,584 in increment income annually.

**TABLE 2**  
**OWATONNA, MINNESOTA**  
**TAX INCREMENT FINANCING DISTRICT NO. 10-2**

	WITHOUT PROJECT		
	2020 Tax Capacity	Ad Valorem Taxes Generated	2020 Tax Rate
City	21,956,697	\$13,718,764	62.481%
County	42,141,343	\$25,477,392	60.457%
School District	31,714,573	\$12,690,586	40.015%
<b>TOTALS</b>			<u>162.953%</u>

	WITH PROJECT							
	2020 Tax Capacity	Projected Captured Tax Capacity	Projected Tax Capacity	Ad Valorem Tax Generated	Adjusted Local Tax Rate	Tax Rate Impact	Projected Captured Tax Capacity	Projected Increment Income
City	21,956,697	170,960	22,127,657	\$13,718,764	61.998%	0.4827%	170,960	\$106,818
County	42,141,343	170,960	42,312,303	\$25,477,392	60.213%	0.2443%	170,960	\$103,357
School	31,714,573	170,960	31,885,533	\$12,690,586	39.800%	0.2145%	170,960	\$68,410
<b>TOTALS</b>					<u>162.011%</u>	<u>0.9416%</u>		<u>\$278,584</u>