

# THE CITY OF



# OWATONNA

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DATE: February 11, 2021  
TO: Mayor and City Council  
FROM: Community Development Dept. - Troy Klecker  
SUBJECT: Approving Tax Increment Financing for 43-unit market rate apartment building.

**Purpose:**

City Council to hold public hearing and adopt Resolution 22-21 approving Development District No. 10, Tax Increment District 10-1 modification and the use of tax increment financing for a 43 unit market rate apartment building on the 100 block of East Pearl Street. The project also requires an interfund loan to be approved by the City Council with approval of Resolution 23-21..

**Background:**

Uptown Development, LLC is requesting the use of tax increment financing to assist with the costs associated with the construction of a 43-unit market rate apartment building on the 100 block of East Pearl Street. The property is currently in a redevelopment TIF district for a previous apartment project. The property was sold to the current property owner who is proposing a different project. The TIF Plan calls for \$1,839,273 in TIF dollars to assist with eligible TIF expenditures on the project. There are substantial soils corrections needed to the site for this project. The City will be reimbursed \$609,500 from the TIF for costs incurred to purchase the property and demolish the homes on those properties for the site. Increment has already been generated from this TIF district and therefore there is only about 23 years left on the district. Because the City has upfronted costs for this project, an interfund loan resolution must be adopted in order to be reimbursed through increment from the TIF.

**Budget Impact:**

The City will be reimbursed \$609,500 for costs already incurred for the development. There are consulting fees for the TIF financing which will be paid by the EDA. Administrative costs have been figured into the TIF plan so that consulting expenses can be reimbursed through the life of the TIF District.

**Staff Recommendation:**

Staff recommends adoption of Resolution 22-21 approving modification to Development District No. 10 and Tax Increment District 10-1 and the use of tax increment financing for this project. Staff also recommends approval of the interfund loan resolution, Resolution 23-21.

NOTICE OF PUBLIC HEARING ON  
MODIFICATION OF TAX INCREMENT FINANCING DISTRICT NO. 10-1 PLAN

TO WHOM IT MAY CONCERN:

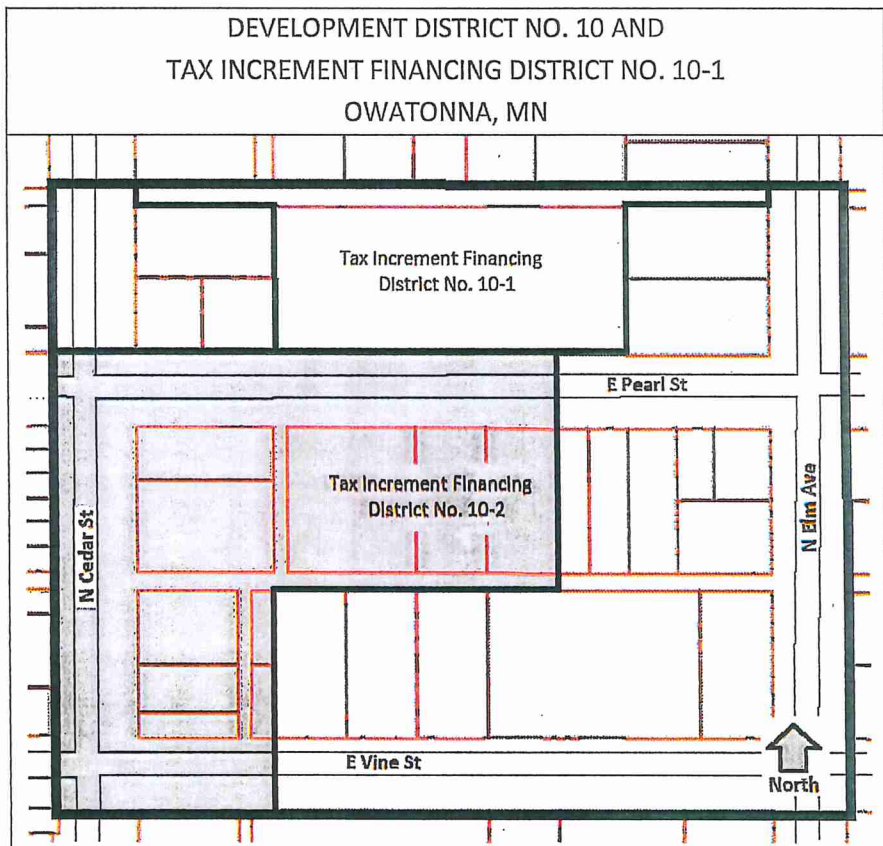
Notice is hereby given that the City Council of the City of Owatonna, Minnesota, will meet in the City Council Chamber at 540 West Hills Circle, Owatonna, Minnesota, at 7:00 p.m. on Tuesday, February 16, 2021, to consider modification of Tax Increment Financing District No. 10-1 pursuant to Minnesota Statutes, Chapter 469.

A map showing the location of Development District No. 10 and Tax Increment Financing Districts No. 10-1 accompanies this notice. Such persons as desire to be heard with reference to the proposed tax increment financing district plan will be heard at this meeting. Copies of the proposed plan are on file in the office of the City Clerk and available for public examination. Written or oral statements will be considered.

Dated: This 5<sup>th</sup> day of January 2021.

BY ORDER OF THE OWATONNA CITY COUNCIL

By *Kris M Busse*  
Kris M. Busse, City Administrator/City Clerk



**TAX INCREMENT FINANCING DISTRICT NO. 10-1  
(43-Unit Apartment Redevelopment Project)**

**Adopted: September 19, 2017  
Modified: February 16, 2021**



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**TAX INCREMENT FINANCING DISTRICT NO. 10-1  
(43-Unit Apartment Redevelopment Project)**

**CITY OF OWATONNA, MINNESOTA**

**ADOPTED SEPTEMBER 19, 2017**

**MODIFIED: FEBRUARY 16, 2021**

PREPARED BY

*Ed Tschida, Development Consultant*

*201 N. Front St. Suite 310*

*Mankato, Minnesota 56001-3569*

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## TABLE OF CONTENTS

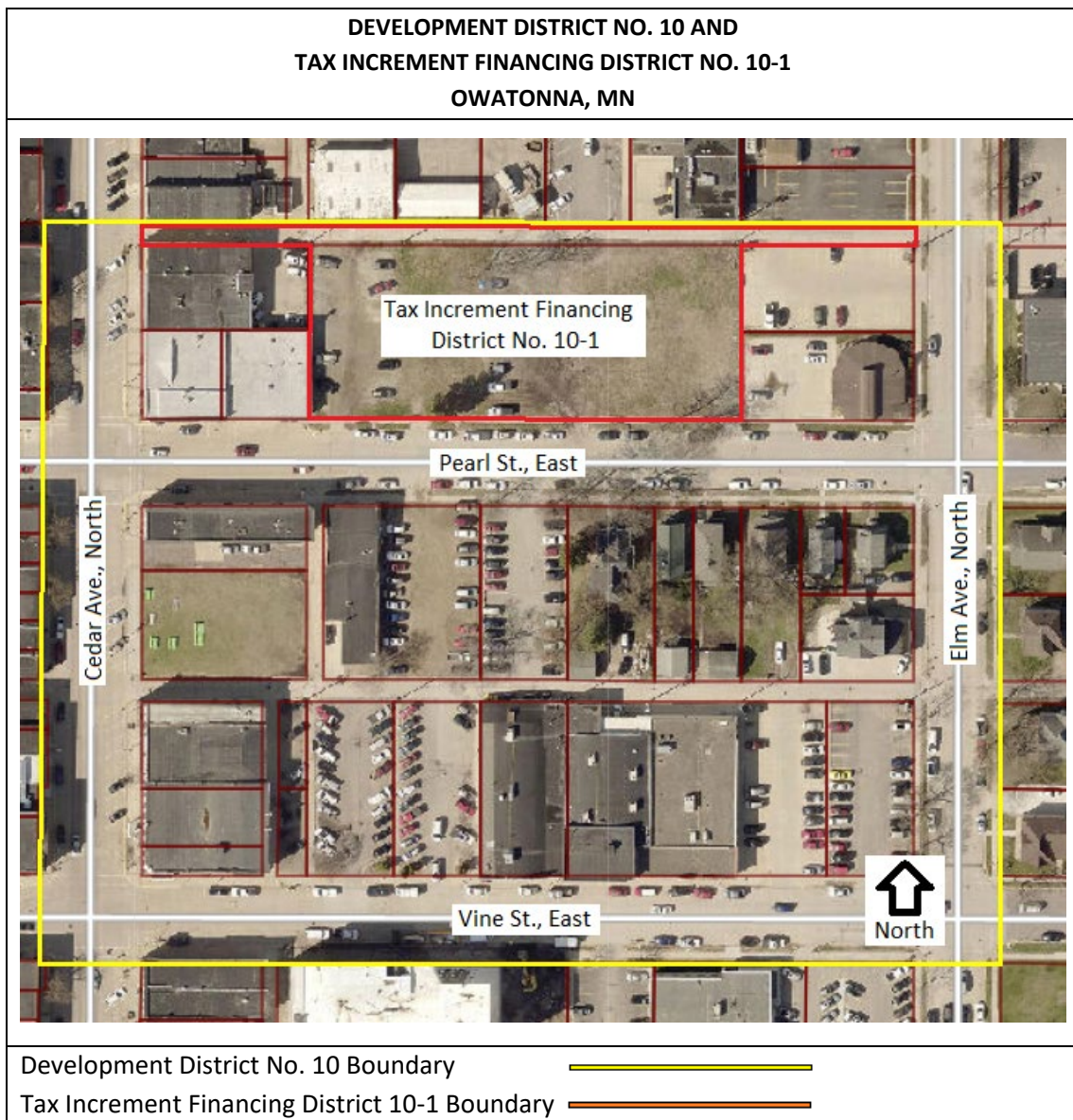
	<b>Page</b>
<b>INTRODUCTION .....</b>	<b>1</b>
BACKGROUND .....	1
MAP OF DEVELOPMENT DISTRICT AND TAX INCREMENT FINANCING DISTRICT .....	1
DEFINITIONS .....	2
PURPOSE OF TAX INCREMENT FINANCING PLAN .....	3
<b>TAX INCREMENT FINANCING PLAN.....</b>	<b>4</b>
TAX INCREMENT FINANCING DISTRICT NO. 10-1 MODIFIED .....	4
RELATIONSHIP OF TAX INCREMENT DISTRICT TO PROJECT AREA.....	4
DEVELOPMENT PROPOSAL .....	4
PARCELS LOCATED IN TAX INCREMENT DISTRICT.....	5
FINDINGS .....	5
DEVELOPMENT PROGRAM FOR DEVELOPMENT DISTRICT NO. 10.....	7
TAX INCREMENT DISTRICT DEVELOPMENT PLAN .....	8
CONFORMANCE WITH PLAN FOR THE CITY .....	8
PROCEDURE FOR MODIFYING AN APPROVED TAX INCREMENT DISTRICT PLAN .....	8
RELOCATION.....	8
PROPERTY ACQUISITION AND DISPOSITION .....	9
NOTIFICATION OF PRIOR PLANNED IMPROVEMENTS.....	9
METHOD OF FINANCE .....	9
FINANCIAL PLAN .....	9
ESTIMATE OF PUBLIC COST .....	9
ESTIMATE OF MARKET VALUE AND TAX INCREMENT .....	10
FINANCING ASSUMPTIONS .....	10
SOURCES OF REVENUE .....	11
BONDED INDEBTEDNESS.....	12
LIMITATION ON USE OF TAX INCREMENT; REDEVELOPMENT DISTRICTS.....	12
TIF BUSINESS SUBSIDY .....	12
IMPACT OF THE USE OF TAX INCREMENT ON TAXING JURISDICTIONS .....	12



**INTRODUCTION**

BACKGROUND

The City of Owatonna created Tax Increment Financing District No. 10-1 to facilitate property redevelopment with a 33-unit, market rate rental apartment project. This proposed project did not go forward. Pursuant to Resolution No. 104-18 adopted November 5, 2018, the City transferred the October 13, 2017 Development Agreement that it had entered into with Stephen M. Nikolai for development of the property to Uptown Owatonna, LLC (the "Developer"). The Developer was to have completed redevelopment of the property by December 31, 2020; however, due to delays caused, in part, by COVID-19 the development has not started. The Developer proposes to construct a higher density project in 2021 contingent upon modification of Tax Increment Financing District No. 10-1. The Developer has requested additional tax increment financing assistance necessitating modification of the tax increment financing plan. The location of Tax Increment Financing District No. 10-1 within Development District No. 10 appears 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, including pay-as-you-go tax increment financing revenue notes and interfund loans.

“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.

“Developer” means Uptown Owatonna, LLC, its successors and assigns.

“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 established 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 Act" or "TIF Act" means Minnesota Statutes, sections 469.174 through 469.1799, as amended.

“Tax Increment Financing Plan” or “Plan” means the plan for Tax Increment Financing District No. 10-1 prepared pursuant to the provisions of Minnesota Statutes, sections 469.174 to 469.179, 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. 10-1” 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.

PURPOSE OF TAX INCREMENT FINANCING DISTRICT

The District was established and is modified pursuant to Minnesota Statutes, Chapter 469, which gives the City Council the authority to use tax increment financing as a funding source. Under Chapter 469, a tax increment district must be established as a housing district, a redevelopment district, a renewal and renovation district, a soils condition district or an economic development district. Because this District qualifies as a “redevelopment district”, pursuant to Minnesota Statutes, section 469.174, subdivision 10(a)(1), it has duration of not greater than twenty-five years from the date of receipt by the City of the first tax increment.

Formation and subsequent modification of the District improves the quality of life in the community by financing eligible Project costs that fosters property redevelopment, creates additional housing and increases the tax base.



## **TAX INCREMENT FINANCING PLAN**

### TAX INCREMENT FINANCING DISTRICT NO. 10-1 MODIFIED

The City approved the establishment of Tax Increment Financing District No. 10-1 on September 19, 2017, as a redevelopment district pursuant to Minnesota Statutes, section 469.174, subdivision 10(a)(1). The current modification constitutes the first amendment of the Plan. All provisions of the Plan adopted on September 19, 2017 are hereby incorporated by reference except to the extent that the TIF Act requires changes and except to the extent that any such provision is explicitly contrary to a provision of this modification. Except as so modified, the previous Plan is hereby adopted and incorporated by reference.

The City may modify the Plan upon providing public notice, conducting a public hearing and making the findings required for approval of the original plan. This Plan modification permits the City to increase the amount of bonded indebtedness to be incurred and to increase in the estimate of the cost of the project, including administrative expenses that will be paid or financed with tax increment from the District.

### RELATIONSHIP OF TAX INCREMENT DISTRICT TO PROJECT AREA

Development District No. 10 was formed to promote redevelopment of certain property, construct additional housing, 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 expending increment funds to pay for these Project activities and improvements. When using tax increment funds, it is necessary to establish a tax increment financing district according to Minnesota Statutes, sections 469.174 to 469.179, inclusive. Approval of this Plan results in the modification of Tax Increment Financing District No. 10-1, which has as its purpose the financing of redevelopment activities authorized by the formation of Development District No. 10.

### DEVELOPMENT PROPOSAL

Following approval of the September 19, 2017 Plan The City of Owatonna purchased the property in the District, demolished the structures, cleared the properties and transferred the properties to a private Developer to facilitate property redevelopment with a 33-unit, market rate rental apartment project. This proposed project did not go forward. The City subsequently transferred the development agreement and property to Uptown Owatonna, LLC (the "Developer"), who proposes going forward with a 43-unit, market rate rental apartment project. The Developer is requesting additional tax increment financing that will offset higher redevelopment expenses, thus necessitating modification of the Plan. Presently, the Developer proposes to construct the higher density project in 2021 contingent upon modification of the Plan.

The Developer's proposal to finance the project consists of Developer equity and debt and tax increments. The project is located on an approximate 1.00-acre parcel, previously occupied by five substandard residential structures that the City demolished to permit property redevelopment. The City will use increment generated by the apartment project to reimburse the Owatonna Economic Development Authority for property

acquisition and demolition and the Developer for site improvements. To the extent that the City loans or advances money from its general fund or any other fund to finance activities in this District, it shall comply with the requirements for establishing interfund loans.

Tax increment generated by the construction of project must be used to finance the cost of correcting conditions that allow designation of redevelopment districts under Minnesota Statutes, section 469.174.

PARCELS LOCATED IN TAX INCREMENT DISTRICT

The map on page 1 outlines the boundaries Tax Increment Financing District No. 10-1. Parcels originally certified in the District included:

<b>Tax Increment Financing District No. 10-1 Parcel Information<sup>1</sup></b>				
Parcel #	Address	Lot Area	Buildings <sup>2</sup>	Property condition
17-100-2003	116 Pearl St. E.	9,900 ft. <sup>2</sup>	1	Structurally substandard
17-100-2004	122 Pearl St. E.	7,564 ft. <sup>2</sup>	1	Structurally substandard
17-100-2005	128 Pearl St. E.	8,756 ft. <sup>2</sup>	1	Structurally substandard
17-100-2006	134 Pearl St. E.	8,762 ft. <sup>2</sup>	1	Structurally substandard
17-100-2007	140 Pearl St. E.	8,768 ft. <sup>2</sup>	1	Structurally substandard
<sup>1</sup> The above five parcels were combined in 2017 and are on record with the County as parcel #17-100-2003.				
<sup>2</sup> Number of buildings on parcel not including outbuildings.				

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, a housing district, and an economic development district – each serving a well-defined need and each 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, as approved September 19, 2017, consisted of five parcels each occupied by a substandard residential building and the adjacent alley between Cedar Ave., North and Elm Ave., North, which is occupied by publicly owned infrastructure. The five parcels and adjacent alley constituted 100% of the area in the

District and were occupied by buildings streets and other improvements; thus exceeding the statutory requirement of 70 percent.

*B. More 50 percent of the buildings in the District, not including outbuildings, are structurally substandard to a degree requiring substantial renovation or clearance.* The District contained five building (which have since been demolished) not including outbuildings. Surveys and inspections of the buildings located within the District were conducted. Five or 100 percent of the buildings were found to be substandard to a degree requiring substantial renovation or clearance; thus exceeding the statutory requirement of 50 percent. The City examined the buildings according to the requirements of Minnesota Statutes, section 469.174, subdivision 10(c) and has retained written documentation thereof. Note: pursuant to City Resolution No. 20-17 parcels #17-100-2003 and #17-100-2005 were separately deemed as being occupied by a structurally substandard building before the demolition of the building and that after demolition and clearance the City intended to include the parcel within the District.

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 contained substandard residential structures. Due to age and lack of use, the property was in substandard condition requiring demolition and redevelopment. Without tax increment financing assistance, it is not financially possible to undertake demolition and redevelopment of this property in a manner consistent with the City's long-term planning and zoning requirements for the area.

*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 within the District cannot be borne by private development; thus impeding private development in its efforts to construct a financially viable project. The City recognizes that these impediments to redevelop requires public assistance, and therefore agrees that tax increment assistance is reasonably necessary for the redevelopment to proceed. Based on its analysis, the City reasonably determines that no other development will occur in the District 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 \$4,156,300. The present value of tax increments from the District is estimated to be \$1,245,320. It is the City's finding that no development with a market value of greater than \$2,910,980 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 eliminates blight, creates housing, strengthens the tax base and promotes 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. By 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. The Financial Plan, on pages 7 through 13 of this Plan, sets forth the City's intent 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 City has acquired property and demolished structures in the District. The Owatonna Economic Development Authority has financed the cost of property acquisition and demolition, which will be reimbursed by tax increments.
2. 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 the City's redevelopment costs of the Project pursuant to Minnesota Statutes, section 469.178, subdivision 7.
3. The Developer has acquired the development site for redevelopment with a 43-unit apartment project. The Developer has requested tax increment assistance to fund eligible redevelopment costs.
4. 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.

The above activities and improvements are within the boundaries of Tax Increment Financing District No. 10-1. For the purposes of budgeting in this Plan, property redevelopment begins in 2021. Redevelopment activities are anticipated to be completed by December 31, 2021.

The above activities are, at the time of preparation of this Plan, the only activities proposed for the Development District because of the formation of the District. The City requires execution of a development agreement with the Developer following Plan approval and before beginning project activities.

## CONFORMANCE WITH PLAN FOR THE CITY

The City Council believes that creation, modification 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 FOR MODIFYING AN APPROVED TAX INCREMENT DISTRICT PLAN

The Tax Increment District Plan may be modified, provided the modification shall be approved by the City Council under provisions of the Minnesota Tax Increment Financing Act 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 Owatonna Economic Development Authority has acquired the five parcels in the District following established EDA/City procedures for property acquisition. This City-owned property has been transferred to the Developer for redevelopment with an apartment project.

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 the September 19, 2017 approval of the Plan. Based on information to be submitted to Steele County, it is estimated that the District tax capacity will be 5,546.

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. Uses of funds within the Project area consist of redevelopment costs, administration and interest thereon. The estimated cost for undertaking these activities is:

A. Property Acquisition and Demolition	\$609,500
B. Site Improvements	1,137,809
C. District Administration	91,964
<b>TOTAL USES OF FUNDS</b>	<b><u>\$1,839,273</u></b>

2. Source of Funds. The City proposes to issue its Bonds in the maximum amount of \$609,500 in the form of an interfund loan to reimburse its eligible project expenses. In addition, the City will execute a \$1,137,809 pay-as-you-go tax increment financing revenue note to reimburse the Developer for its eligible project expenses.



Based upon current information, tax increment in the following amount will become available to repay the Total Uses of Funds:

A. Tax increments	\$1,839,273
<b>TOTAL SOURCE OF FUNDS</b>	<b>\$1,839,273</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 calculations that were used to determine taxes and tax increment.

<b>TABLE 1: PROJECT ESTIMATE OF VALUE AND TAX INCREMENT</b>								
Local Tax Rate = 154.308% (Owatonna, Payable 2018)								
Property Classification: Apartments (4 or more units)								
Completion by December 31, 2021								
Estimated Completion Market Value: \$4,600,000								
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 5.0%	NET ANNUAL TIF
2021	5,546	0	0	0	0	0	0	0
2022	5,546	0	0	0	0	0	0	0
2023	5,546	57,500	51,954	80,169	200	79,968	3,998	75,970
through								
2045	5,546	57,500	51,954	80,169	200	79,968	3,998	75,970
<b>TOTALS</b>				<b>\$1,843,882</b>	<b>\$4,610</b>	<b>\$1,839,273</b>	<b>\$91,964</b>	<b>\$1,747,309</b>
Present value of annual tax increments discounted at 3.0% equals						<b>\$1,245,320</b>		<b>\$1,183,054</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. Construction of the 43-unit market rate, rental apartment project will begin in 2021. The Developer estimates project occupancy for late 2021.

2. Initial financing of project activities occurred in 2017 when the Owatonna Economic Development Authority purchased property and demolished buildings in the District.

3. Pursuant to Minnesota Statutes, section 469.176, subdivision 1b.(4) the City based the District duration on the requirements for statutory decertification of a tax increment financing district which states that no tax increment shall in any event be paid to the City for a redevelopment district after 25 years from the date of receipt by the City of the first increment. Receipt of the first tax increment occurred in 2020 payable from the 2019 tax levy. Increment may be collected for twenty-six years (2020 through 2045). Note: a nominal tax increment payment occurred in 2020 as a result of increased tax capacity in the District even though the proposed development did not occur. The current projection is that the District will receive increment resulting from new development beginning in 2023 and continuing through 2045. The City estimates that sufficient increment will have been generated from taxes payable in 2023 through 2045 to repay all project costs. 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 District certified 2018 local tax rate of 154.308% and 2020 valuation estimates were used to calculate the estimate of increment in this Plan. The project's tax classification is "apartments (4 or more units)". The classification rate for this residential property for taxes payable in 2020 is 1.25% of market value.

5. Increment revenues will be used to finance capital and administrative costs resulting from the Project activities. All tax increment generated by this District will be used to finance the activities of the Plan. Pursuant to Minnesota Statutes, section 469.177, subdivision 2, the City chooses to retain the full captured tax capacity to pay expenditures noted in the Plan or subsequent Plan modifications.

6. The City may use annual tax increments in 2020 through 2045 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. Based upon an annual debt service as per Table 1, the City would be able to finance project costs of \$1,747,309 and administrative costs of \$91,964. The first increment was received by the City in 2020. The District may continue to receive increment through taxes payable 2045.

7. Annual tax increments as per Table 1, generated by the District, will be the source of funds used to finance the Project area activities.

## SOURCES OF REVENUE

The proposed source of revenue to be used to finance public costs associated with the development project 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, as per Table 1, in 2023 through 2045 based on a full assessment.

The District's tax increment will be generated from development of the 43-unit apartment project. The City proposes to issue bonds to fund the cost of site improvements.

## 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 \$1,137,809. In addition, the City will authorize an estimated \$609,500 interfund loan to repay property acquisition and demolition costs. Total bonded indebtedness authorized pursuant to this Plan will not exceed \$1,747,309.

## 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 assistance provided to the Developer, by the City, pursuant to this Plan is not a business subsidy under the provisions of Minnesota Statutes, Section 116J.993 to 116J.995, because tax increment financing provides "assistance for housing", which pursuant to Minnesota Statutes, section 116J .993, subdivision 3(7) is a form of financial assistance that is not a business subsidy.

## 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 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.

**TABLE 2**  
**OWATONNA, MINNESOTA**  
**TAX INCREMENT FINANCING DISTRICT NO. 10-1**

	WITHOUT PROJECT		
	2020 Tax Capacity	Ad Valorem Taxes Generated	2018 Tax Rate
City	21,956,697	\$13,954,359	63.554%
County	42,141,343	\$25,555,353	60.642%
School District	31,714,573	\$9,549,892	30.112%
<b>TOTALS</b>			<u>154.308%</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	51,954	22,008,651	\$13,954,359	63.404%	0.1500%	51,954	\$33,019
County	42,141,343	51,954	42,193,297	\$25,555,353	60.567%	0.0747%	51,954	\$31,506
School	31,714,573	51,954	31,766,527	\$9,549,892	30.063%	0.0492%	51,954	\$15,644
<b>TOTALS</b>					<u>154.034%</u>	<u>0.2739%</u>		<u>\$80,169</u>

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 51,954 the overall local tax rate would be reduced by 0.2739% to a level of 154.034% the captured tax capacity times the original local tax rate of 154.308% would generate \$80,169 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 \$80,169 in increment income annually.