

RESOLUTION NO. 69-20
APPROVING TAX INCREMENT FINANCING DISTRICT NO. 14-1
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. 14 (the "Development District") and in connection therewith adopted a development program; and

WHEREAS, the City has reviewed "Tax Increment Financing District No. 14-1, dated May 19, 2020" (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. 14-1 pursuant to Chapter 469 of Minnesota Statutes, encompassing the area described in Exhibit A attached hereto (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 relating to the contents of the Plan; and

WHEREAS, the City on May 19, 2020, 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 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, adding to the housing stock and enhancing the City's tax base.

Sec. 3. The City finds and determines that property redevelopment, adding to the housing stock 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 100% 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 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 on pages 4, 5 and 6 of 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 _____, 2020 with the following vote:

Aye __; No __; Absent __.

Approved and signed this __ day of _____, 2020.

Thomas A. Kuntz, Mayor

ATTEST:

Kris M. Busse, City Administrator/City Clerk

EXHIBIT "A"

TO RESOLUTION NO. 69-20 OF THE CITY COUNCIL OF THE CITY OF OWATONNA
APPROVING TAX INCREMENT FINANCING DISTRICT NO. 14-1
AND THE USE OF TAX INCREMENT FINANCING

Tax Increment Financing District No. 14-1 encompasses the following parcels containing approximately 1.36-acres.

Parcel #	Address
17-122-0501	403 Cherry St. NE
17-122-0502	409 Cherry St. NE
The West 30 feet of 17-122-0513	Pine Ave. N
17-122-0514	301 Cherry St. NE
17-010-4211	231 Mineral Spring Rd. NE
17-010-4212	231 Mineral Spring Rd. NE

**TAX INCREMENT FINANCING DISTRICT NO. 14-1
(Eastgate Housing Redevelopment Project)**

Adopted: May 19, 2020



**TAX INCREMENT FINANCING DISTRICT NO. 14-1
(Eastgate Housing Redevelopment Project)**

CITY OF OWATONNA, MINNESOTA

MAY 19, 2020

PREPARED BY

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INTRODUCTION

BACKGROUND

The City of Owatonna proposes creating a development district and a tax increment financing district, which facilitates the transfer of City-owned property for subsequent development with a 36-unit, rental apartment project for occupancy by persons of low and moderate income. The location of Development District No. 14 and Tax Increment Financing District No. 14-1 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, including interfund loans or advances qualifying under Minnesota Statutes, section 469.178, subdivision 7.

“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 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. 14 established May 19, 2019 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. 14-1 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. 14-1” 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 is established 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 of the District improves the quality of life in the community by financing eligible Project costs that fosters property redevelopment, creates additional housing for various age and income groups in proximity to necessary goods and services and increases the tax base.

TAX INCREMENT FINANCING PLAN

RELATIONSHIP OF TAX INCREMENT DISTRICT TO PROJECT AREA

Development District No. 14 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 469.1794, inclusive. Approval of this Plan results in the creation of Tax Increment Financing District No. 14-1, which has as its purpose the financing of redevelopment activities authorized by the formation of Development District No. 14.

DEVELOPMENT PROPOSAL

LWO Development, LLC (the “Developer”) proposes to develop an affordable workforce, rental apartment project. The project will begin construction in August of 2020 and consist of 36 units, with a mix of one, two and three bedroom apartments to serve singles and families. Additional features will include underground parking, community room, office and workout space.

In addition to Developer equity, lender debt and tax increments, project financing includes the Minnesota Housing Finance Agency’s Low-Income Housing Tax Credit (HTC) Program that is a financing program for qualified residential rental properties. The HTC program offers investors a 10-year reduction in tax liability in exchange for capital to build eligible affordable rental housing units.

Six parcels comprising approximately 1.36 acres make up the development site. The site is zoned B-2 Community Business District, which permits multifamily housing.

Tax increment generated by property redevelopment may 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 will establish an interfund loan to finance eligible project costs. The City requires the Developer to enter into a Development Agreement that specifies development terms. Financing of specific activities using tax increment revenues will occur following project review and City approval.

PARCELS LOCATED IN TAX INCREMENT DISTRICT

The map on page 1 outlines the boundaries Tax Increment Financing District No. 14-1. Parcels included in the district are:

Tax Increment Financing District No. 14-1 Parcel Information				
Parcel #	Address	Lot Area	Buildings ¹	Property condition
17-122-0501	403 Cherry St. NE	8,713 ft. ²	0	Vacant land
17-122-0502	409 Cherry St. NE	8,712 ft. ²	1	Structurally substandard
17-122-0513 ²	Pine Ave. N.	5,200 ft. ²	0	Vacant land
17-122-0514	301 Cherry St. NE	22,575 ft. ²	1	Structurally substandard
17-010-4211	231 Mineral Spring Rd. NE	9,235 ft. ²	1	Structurally substandard
17-010-4212	231 Mineral Spring Rd. NE	4,979 ft. ²	0	Vacant land
¹ Number of buildings on parcel not including outbuildings				
² Only the west 30 feet of parcel 17-122-0513 is included in the District.				

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. 14 -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. 100% or six parcels constituting the District are occupied by buildings, streets or other improvements thus exceeding the statutory requirement for occupancy by buildings, streets or other improvements 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 contains three buildings not including outbuildings. Survey and inspection of the buildings has been conducted. Three or 100 percent of the buildings are substandard to a degree requiring substantial renovation or clearance thus exceeding the statutory requirement of 50 percent. The City has examined the building 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 substandard structures. Due to age and lack of use, the property is 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 consequently 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 \$2,534,400. The present value of tax increments from the District is estimated to be \$536,099. It is the City's finding that no development with a market value of greater than \$2,518,076 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 redevelopment project 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. 14 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 8 through 12 of this Plan, 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. 14

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. 14 is delineated in a report entitled "Development District No. 14" adopted May 19, 2019, 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 controls the property within the District, which consists of five parcels occupied by three substandard structures that due to the age and condition of the buildings require demolition and site clearance before private redevelopment can take place. Upon completion of property acquisition, demolition and site clearance, the City will sell the property to the Developer for redevelopment with a 36-unit affordable workforce, rental apartment project.

2. The City will use tax increment financing revenues generated by property redevelopment within the District to repay an interfund loan use to finance redevelopment costs 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. 14-1. For the purposes of budgeting in this Plan, property redevelopment begins in August 2020. Property redevelopment is anticipated to be approximately 25% complete at the end of 2020 with substantial project completion 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 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 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 City will acquire the six parcels in the District following established City procedures for property acquisition. The City has been awarded a Redevelopment Grant from the Minnesota Department of Employment and Economic Development to assist in redeveloping the property. The City will match the grant funds to pay redevelopment activities including asbestos abatement, building demolition, and public infrastructure upgrades. Upon completion of these activities the City will sell the property to the Developer at the estimated sales price of \$135,000.

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 to be submitted to Steele County, it is estimated the most recent tax capacity will be 1,664.

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 site improvements and administration. The estimated cost for undertaking these activities is:

A. Property acquisition	\$482,489
B. Interest	257,631
C. Administration	82,236
TOTAL USES OF FUNDS	<u>\$822,356</u>

2. Source of Funds. The City proposes to issue its Bonds in the maximum amount of \$1,934,297 in the form of an interfund loan to reimburse eligible project expenses incurred by the City. Based upon current information, tax increment in the following amount will become available to repay the Total Uses of Funds:

A. Tax increments	\$822,356
TOTAL SOURCE OF FUNDS	<u>\$822,356</u>

The above represents an estimate of the cost of the Project activities, including administrative expenses, interest 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 on page 9 shows the assumptions and calculations used to determine taxes and tax increment.

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.

TABLE 1: PROJECT'S ESTIMATED VALUE AND TAX INCREMENT

Local Tax Rate = 162.953% (Owatonna, Payable 2020)

Property Classification: Low Income Apartments

25% Completion by December 31, 2020; 100% Completion by December 31, 2021

Estimated Completion Market Value: \$2,900,000

YEAR TAXES PAYABLE	BASE TAX CAPACITY	PROJECT TAX CAPACITY	CAPTURED TAX CAPACITY	PROJECT ANNUAL TIF	LESS OSA FEE OF 0.250%	ADJUSTED TAX INCREMENT	LESS ADMIN. OF 10%	NET ANNUAL TIF
2020	1,664	0	0	0	0	0	0	0
2021	1,664	0	0	0	0	0	0	0
2022	1,664	5,438	3,774	6,149	15	6,134	613	5,520
2023	1,664	21,750	20,086	32,731	82	32,649	3,265	29,384
Through and including tax years payable								
2047	1,664	21,750	20,086	32,731	82	32,649	3,265	29,384
TOTALS				\$824,418	\$2,061	\$822,356	\$82,236	\$740,121
Present value of annual increment discounted at 3.00% equals						\$536,099		\$482,489

FINANCING ASSUMPTIONS (continued from page 8)

1. Construction of the 36-unit affordable workforce, rental apartment project will begin in August 2020. The Developer estimates project occupancy in 2021.

2. Financing of the Project activities commences in 2020.

3. Pursuant to Minnesota Statutes, section 469.176, subdivision 1b.(4) the City is basing 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 occurs in 2022 payable from the 2021 tax levy. Increment collections may occur for twenty-six years (2022 through 2047). The City estimates that sufficient increment will have been generated from taxes payable through 2047 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 2020 local tax rate of 162.953% and 2020 tax values were used to calculate the estimate of increment in this Plan.

5. The property classification for taxation purposes is 4d Low Income Rental Housing. The classification rate for this property is 0.75% of the first \$150,000 of market value and 0.25% for market value in excess of \$150,000 1.25% of market value calculated on a per unit basis.

6. A present value of the annual increment is determined by discounting the increment cash flow at 3.00%.

7. 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. This analysis assumes retaining 10% of the increment for administrative purposes.

8. The project qualifies as a “redevelopment district” tax increment financing district. The maximum duration of a “redevelopment district” is 26-years after the date of receipt by the city of the first tax increment. Depending on the exact construction timing, this project could receive up to 26-years tax increment assistance.

9. 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.

10. The City may use annual tax increments in 2022 through 2047 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 \$482,489, interest of \$257,631 and administrative costs of \$82,236. The first increment would be available to the City in 2022 and may continue through 2047.

11. 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 2022 through 2047 based on a full assessment.

Development of the 36-unit affordable workforce, rental apartment project generates the District's tax increment. The City proposes to issue bonds to fund eligible redevelopment costs.

BONDED INDEBTEDNESS

Upon approval of this Plan, the City will execute a development agreement with the Developer that provides issuance of its Bonds in the form of an interfund loan, which will finance the eligible costs of this District, in an estimated amount not to exceed \$482,489.

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, 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.

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TABLE 2
OWATONNA, MINNESOTA
TAX INCREMENT FINANCING DISTRICT NO. 14-1

	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%
TOTALS			<u>162.953%</u>

	WITH PROJECT							
	2020 Tax Capacity	Projecte Captured Tax Capacity	Projected Tax Capacity	Ad Valorem Tax Generated	Adjusted Local Tax Rate	Tax Rate Impact	Projecte Captured Tax Capacity	Projected Incremen Income
City	21,956,697	20,086	21,976,783	\$13,718,764	62.424%	0.0571%	20,086	\$12,550
County	42,141,343	20,086	42,161,429	\$25,477,392	60.428%	0.0288%	20,086	\$12,143
School	31,714,573	20,086	31,734,659	\$12,690,586	39.990%	0.0253%	20,086	\$8,037
TOTAL					<u>162.842</u>	<u>0.1112%</u>		<u>\$32,731</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 20,086 the overall local tax rate would be reduced by 0.1112% to a level of 162.842%. The captured tax capacity times the original local tax rate of 162.953% would generate \$32,731 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 \$732,731 in increment income annually.