

DRAFT

CITY OF OWATONNA, MINNESOTA

**MODIFIED DEVELOPMENT PROGRAM FOR DEVELOPMENT
DISTRICT NO. 3**

**AND TAX INCREMENT FINANCING PLAN FOR
TAX INCREMENT FINANCING (ECONOMIC DEVELOPMENT)
DISTRICT NO. 3-18 (SPUTTERING COMPONENTS)**

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PLAN APPROVED: _____, 2025

REQUEST FOR CERTIFICATION: _____, 2025

TIF DISTRICT CERTIFIED: _____, 2025



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ARTICLE I – INTRODUCTION AND DEFINITIONS

SECTION 1.01 INTRODUCTION

The City of Owatonna propose to provide tax increment financing assistance through the establishment of Tax Increment Financing (Economic Development) District No. 3-18 within Development District No. 3 to assist with the financing of certain project costs for the construction of an approximate 9,000 square feet expansion to an existing manufacturing facility by a private developer.

The Development District serves as the “project area” for tax increment financing districts established within its boundaries. The Development Program describes the City’s objectives for the development of the area within the Development District and the use of tax increment financing within. This document contains the Modified Development Program for achieving the objectives of Development District No. 3 through the adoption of a Tax Increment Financing Plan for Tax Increment Financing (Economic Development) District No. 3-18.

Below is a summary of the municipal action that has been taken in connection with Development District No. 3 and establishment of tax increment financing districts therein to date and as proposed:

- Development District No. 3 was created by the City on November 18, 2000, amended July 5, 2006, September 18, 2007, September 2, 2008, June 19, 2012, February 19, 2013, December 17, 2013, April 15, 2014, June 7, 2016, August 14, 2017, September 3, 2019 (for the Costco warehouse/distribution project), September 3, 2019 (for the Daikin Applied Americas, Inc. warehouse project), April 7, 2020 (for the Bosch Automotive warehouse/distribution project), May 17, 2022 (for the AMP Automation Manufacturing Project), and September 19, 2023 (for the FoamCraft Manufacturing Expansion Project), and is hereby amended.
- This modification constitutes the fifteenth amendment of the Development District Plan.
- All provisions of the Development District Plan adopted November 18, 2003, and amended July 5, 2006, September 18, 2007, September 2, 2008, June 19, 2012, February 19, 2013, December 17, 2013, April 15, 2014, June 7, 2016, August 14, 2017, September 3, 2019, April 7, 2020, May 17, 2022, and September 19, 2023 are hereby incorporated by reference. The purpose of this amendment is to increase the boundaries of the Development District by the addition of the property described in Section 3.03.2 and shown on the map in Exhibit V of this Plan.

Tax increment financing districts previously established and the tax increment financing plans related thereto, within Development District No. 3, remain in full force and effect and are not modified.

SECTION 1.02 DEFINITIONS

The terms defined below, for purposes hereof, and for purposes of Development District No. 3 and the Modified Development Program related thereto and for Tax Increment Financing District No. 3-18 and the Tax Increment Financing Plan related thereto which is established and approved within Development District No. 3, shall have the following respective meanings, unless the context specifically requires otherwise.

1. “City” means the City of Owatonna, Minnesota.
2. “City Council” means the City Council of the City.
3. “County” means Steele County, Minnesota.

4. "Developer" means the private party undertaking construction within the TIF District.
5. "Development" means the construction of an approximate 9,000 square foot addition to an existing approximate 29,514 square foot manufacturing facility in the City.
6. "Development District" means Development District No. 3 in the City, created and established pursuant to and in accordance with the Development District Act.
7. "Development District Act" means Minnesota Statutes, Sections 469.124 through 469.133, as amended and supplemented from time to time.
8. "Development Program" means the Development Program for the Development District, as amended and supplemented from time to time.
9. "Public Development Costs" means the cost of the Development, including administrative expenses, and interest as a financing cost, which will be paid or financed with tax increments from the TIF District, but not to exceed the estimated tax increment generated by the development activity expected to occur within the Development District and TIF District.
10. "Property" means the approximate 4.24 acre site within the TIF District as described in Section 3.03.2 of the TIF Plan.
11. "Project Area" means the geographic area of the Development District.
12. "Project Costs" means Public Development Costs.
13. "School District" means Owatonna Public Schools, Independent School District 761.
14. "State" means the State of Minnesota.
15. "Tax Increment Bonds" means any tax increment bonds as defined in Section 469.174, subd. 3 of the TIF Act, issued by the City to finance Public Development Costs, and any obligations issued to refund such bonds, pursuant to Section 469.178 of the TIF Act.
16. "TIF Act" means Minnesota Statutes, Sections 469.174 through 469.1794 as amended, both inclusive.
17. "TIF District" means Tax Increment Financing (Economic Development) District No. 3-18 (Sputtering Components).
18. "TIF Plan" means the tax increment financing plan for the TIF District (this document).

SECTION 1.03 EXHIBITS

The following exhibits are attached to and by reference made a part of the Development Program and Tax Increment Financing Plan:

- Exhibit I: Present Value Analysis.
- Exhibit II: Projected Tax Increment
- Exhibit III: Impact on Other Taxing Jurisdictions
- Exhibit IV: Estimated Tax Increment Over Life of District
- Exhibit V: Maps of Development District and TIF District

SECTION 1.04 PLAN PREPARATION

This document was prepared for the City by Northland Public Finance, part of Northland Securities, Inc.

ARTICLE II - DEVELOPMENT PROGRAM

SECTION 2.01 OVERVIEW

The City hereby modifies Development District No. 3 and the related Development Program as a tool to achieve the objectives described in Section 2.02. The Development District serves as the “Project Area” for the tax increment financing districts established within its boundaries. The Development Program describes the City’s objectives for the development of this area and the use of tax increment financing.

SECTION 2.02 STATEMENT OF OBJECTIVES

The establishment and modification of the Development District pursuant to the Development District Act is necessary and in the best interests of the City and its residents and is necessary to give the City the ability to meet certain public purpose objectives that would not be obtainable in the foreseeable future without intervention by the City in the normal development process.

The City intends, to the extent permitted by law, to accomplish the following objectives through the implementation of the Development Program:

1. Provide for the acquisition of land and construction and financing of the private development in the Development District which are necessary for the orderly and beneficial development of the Development District and adjacent areas of the City.
2. Encourage the redevelopment of blighted and under-utilized areas of the City.
3. Facilitate the removal of deteriorated structures and encourage redevelopment in commercial areas providing high levels of property maintenance and private investment.
4. Provide parking needed to support development and encourage use of shared parking to promote additional private development.
5. Build, maintain improve, and reconstruct public improvements and utilities needed to support development.
6. Promote and secure the prompt and unified development of certain property in the Development District, which property is not now in productive use or in its highest and best use, with a minimum adverse impact on the environment, and thereby promote and secure the desirable development of other land in the City.
7. Promote and secure additional employment opportunities within the Development District and the City for residents of the City and the surrounding area, thereby improving living standards and reducing unemployment and the loss of skilled and unskilled labor and other human resources in the City.
8. Secure the increase in values of property subject to taxation by the City, the School District, the County, and other taxing jurisdictions in order to better enable such entities to pay for governmental services and programs that they are required to provide.
9. Promote the concentration of new unified development consisting of desirable industrial and other appropriate development in the Development District so as to maintain these areas in a manner compatible with its accessibility and prominence in the City.
10. Encourage the expansion and improvement of local business, economic activity and development, whenever possible.
11. Create a desirable and unique character within the Development District through quality land use alternatives and design quality in new buildings.

SECTION 2.03 BOUNDARIES OF DEVELOPMENT DISTRICT

The boundaries of the Development District are coterminous with the boundaries of the following tax increment financing districts, as shown in the map in Exhibit V.

- Tax Increment Financing District No. 3-6 (Viracon)
- Tax Increment Financing District No. 3-7 (Kerry)
- Tax Increment Financing District No. 3-8 (Daikin)
- Tax Increment Financing District No. 3-9 (Cybex)
- Tax Increment Financing District No. 3-10 (Pro-Pet)
- Tax Increment Financing District No. 3-11 (Cemstone)
- Tax Increment Financing District No. 3-12 (Costco)
- Tax Increment Financing District No. 3-13 (Daiken #2)
- Tax Increment Financing District No. 3-14 (Bosch)
- Tax Increment Financing District No. 3-15 (CDI)
- Tax Increment Financing District No. 3-16 (Kamp)
- Tax Increment Financing District No. 3-17 (FoamCraft)
- Tax Increment Financing District No. 3-18 (Sputtering Components)

SECTION 2.04 DEVELOPMENT ACTIVITIES

The City will perform or cause to be performed, to the extent permitted by law, all project activities pursuant to the Development District Act, the TIF Act, and other applicable state laws, and in doing so anticipates that the following may, but are not required, to be undertaken by the City:

1. The making of studies, planning, and other formal and informal activities relating to the Development Program.
2. The implementation and administration of the Development Program.
3. The rezoning of land within the Development District.
4. The acquisition of property, or interests in property, by purchase or condemnation, which acquisition is consistent with the objectives of the Development Program.
5. The preparation of property for use and development in accordance with applicable Land Use Regulations and the Development Agreement, including demolition of structures, clearance of sites, placement of fill and grading.
6. The resale of property to private parties.
7. The construction or reconstruction of site improvements to property within a tax increment financing district.
8. The construction, improvement and maintenance of parking facilities.
9. The construction, improvement and maintenance of streets, sidewalks, alleys, and public utilities.
10. The issuance of Tax Increment Bonds to finance the Public Development Costs of the Development Program, and the use of tax increment revenue available to the City to pay or finance the Public Development Costs of a tax increment financing district, as provided in a tax increment financing plan, incurred or to be incurred by it pursuant to the Development

Program.

11. The use of tax increment revenue to pay debt service on the Tax Increment Bonds or otherwise pay or reimburse with interest the Public Development Costs of a tax increment financing district, as provided in a tax increment financing plan.

SECTION 2.05 PAYMENT OF PUBLIC DEVELOPMENT COSTS

Public Development Costs and the plan for their payment are described in each tax increment financing plan for each tax increment financing district established within the boundaries of the Development District. Public Development Costs of the Development Program will be paid primarily from tax increment revenues from tax increment financing districts within the Development District. The City may utilize other available sources of revenue which the City may apply to pay a portion of the Public Development Costs.

SECTION 2.06 ENVIRONMENTAL CONTROLS; LAND USE REGULATIONS

All municipal actions, public improvements and private development shall be carried out in a manner consistent with existing environmental controls and all applicable land use regulations.

SECTION 2.07 PARK AND OPEN SPACE TO BE CREATED

Park and open space within the Development District, if created, will be created in accordance with the City's Comprehensive Plan and zoning and subdivision ordinances.

SECTION 2.08 PROPOSED REUSE OF PROPERTY

The Development Program provides that the City may acquire property and reconvey the same to another entity. All parcels in the Development District are eligible for acquisition. In acquiring land, the City will require the execution of a binding development agreement with respect thereto and evidence that tax increment revenues or other funds will be available to repay the costs associated with the proposed acquisition of property. It is the intent of the City to negotiate the acquisition of property whenever possible. Appropriate restrictions regarding the reuse and redevelopment of property shall be incorporated into any development agreement to which the City is a party.

SECTION 2.09 ADMINISTRATION AND MAINTENANCE OF DEVELOPMENT DISTRICT

Maintenance and operation of the Development District will be the responsibility of the City Administrator who shall serve as administrator of the Development District. Each year the Administrator will submit to the City Council the maintenance and operation budget for the following year. The Administrator will administer the Development District pursuant to the provisions of Section 469.131 of the Development District Act; provided, however, that such powers may only be exercised at the direction of the City Council. No action taken by the Administrator pursuant to the above-mentioned powers shall be effective without authorization by the City Council.

SECTION 2.10 AMENDMENTS

The City may alter and amend the Development Program or enlarge or reduce the size of the Development District all pursuant to the Development District Act.

ARTICLE III - TAX INCREMENT FINANCING DISTRICT AND PLAN

SECTION 3.01 STATUTORY AUTHORITY

Tax Increment Financing (Economic Development) District No. 3-18 and the TIF Plan therefor are established and adopted under the authority of the TIF Act.

SECTION 3.02 PLANNED DEVELOPMENT

3.02.1 Statement of Objectives

The objectives which the City seeks to achieve through the implementation of the TIF District are set out in the Development Program.

3.02.2 Development Description

The Development within the TIF District includes the construction of an approximate 9,000 square foot addition to an existing approximate 29,514 square foot manufacturing facility in the City.

3.02.3 City Plans and Development Program

In addition to achieving the objectives of the Development Program, the Development is consistent with and works to achieve the development objectives of the City. The TIF Plan for the TIF District conforms to the general plan for development of the City as a whole.

3.02.4 Property Acquisition

The City does not plan to acquire property within the TIF District.

3.02.5 Development Activities

As of the date of approval of the TIF Plan, there are no development activities proposed in the TIF Plan that are subject to contracts.

3.02.6 Need for Tax Increment Financing

The Development would not occur solely through private investment within the reasonably foreseeable future and, therefore, the use of tax increment financing is deemed necessary. The Developer has represented to the City that it could not proceed with the proposed construction of the Development in the TIF District without tax increment assistance to offset the high cost of the site improvements for the Development. The Developer has further represented that the expansion planned in the Development is necessary for the Developer to retain its current operations in the State, as well as to expand its business and increase jobs and the tax base in the State.

The TIF Plan conforms with the general development plan of the City and will generally complement and serve to implement policies adopted in the City's comprehensive plan. The Development is in accordance with the existing zoning for the property and the City's Planning Commission has determined that the Development is consistent with the comprehensive plan.

The TIF Plan will afford maximum opportunity consistent with the sound needs of the City as a whole for the development of the TIF District by private enterprise. The proposed Development will be used by the Developer, a private enterprise, for warehousing and distributing products and will afford maximum opportunity for the development of the applicable parcels consistent with the needs of the City. The Development will maximize the potential of an underutilized site and will increase the taxable market valuation of the City and the available warehouse and distribution facilities in the City.

A comparative analysis of estimated market values both with and without establishment of the TIF District and the use of tax increments has been performed as described above and is

shown in Exhibit I. This analysis indicates that the increase in estimated market value of the proposed development (less the present value of the projected tax increments for the maximum duration permitted by the TIF Plan) exceeds the estimated market value of the site prior to the establishment of the TIF District.

SECTION 3.03 TAX INCREMENT FINANCING DISTRICT

3.03.1 Designation

The TIF District is designated as Tax Increment Financing (Economic Development) District No. 3-18 (Sputtering Components).

3.03.2 Boundaries of TIF District

The boundaries of the TIF District are shown in the maps included in Exhibit V.

The TIF District boundaries includes the area of parcel identified as PID 17-479-0201, an approximate 4.24 acre site (the "Property"), and all adjacent rights-of-way and abutting roadways to the Property.

3.03.3 Type of District

The TIF District is established as an "economic development" district pursuant to Sections 469.174 subd. 12, and 469.176, subd. 4c, of the TIF Act.

The TIF Act allow tax increments from an economic development district as a tax increment financing district that consists of any project or portions of a project which the City finds to be in the public interest because:

- (1) it will discourage commerce, industry, or manufacturing from moving their operations to another state or municipality;
- (2) it will result in increased employment in the state;
- (3) it will result in preservation and enhancement of the tax base of the state; or
- (4) it satisfies the requirements of a workforce housing project under Section 469.176, subd. 4c, paragraph (d) of the TIF Act.

The City finds the Development to be in the public interest because it will discourage commerce, industry, or manufacturing from moving their operations to another state or municipality, it will result in increased employment in the state and it will result in preservation and enhancement of the tax base of the state.

Revenue derived from tax increment from an economic development district may not be used to provide improvements, loans, subsidies, grants, interest rate subsidies, or assistance in any form to developments consisting of buildings and ancillary facilities, if more than 15 percent of the buildings and facilities (determined on the basis of square footage) are used for a purpose other than:

- (1) the manufacturing or production of tangible personal property, including processing resulting in the change in condition of the property;
- (2) warehousing, storage, and distribution of tangible personal property, excluding retail sales;
- (3) research and development related to the activities listed in clause (1) or (2);
- (4) telemarketing if that activity is the exclusive use of the property;
- (5) tourism facilities;
- (6) space necessary for and related to the activities listed in clauses (1) to (5) or
- (7) a workforce housing project that satisfies the requirements of Section 496.176, subd. 4c, paragraph (d) of the TIF Act.

The Development will be used for the purpose of manufacturing and 100% of the planned building will be used for this purpose. The Development is a qualified facility and meets the requirements in the TIF Act.

SECTION 3.04 PLAN FOR USE OF TAX INCREMENT

3.04.1 *Estimated Tax Increment*

The original tax capacity of value of the TIF District will be set by the County Auditor upon request for certification. The original tax capacity value may change over time based on the use and tax classification of each parcel.

For the purposes of the TIF Plan, the estimated original tax capacity is \$32,402 based on the total current estimated market value of \$1,657,600 of the Property as described in Section 3.03.2.

The estimated total tax capacity value of the property after completion of the Development is \$52,632. This amount is based on a total estimated taxable market value of \$2,706,600 classified as commercial property. The taxable market value is an estimate for purpose of estimating tax increment for the TIF Plan. The actual market value, as will be assessed by the County Assessor, may vary from this estimate.

The difference between the total tax capacity value and the original tax capacity value is the captured tax capacity value for the creation of tax increment. It is the City's intent to retain 100% of the captured tax capacity value for the life of the TIF district.

The original tax rate for the TIF District, as certified by the auditor of the County, will be the sum of all the local tax rates excluding that portion of the school rate attributable to the general education levy (under Minnesota Statutes Section 126C.13) that apply to property in the district.

Tax increment estimates included in the TIF Plan are based on an estimated combined local tax rate of 129.64% (Pay 2024 tax rate). The original tax rate for the District will be based on the current tax rate based on the actual certification date for the TIF District and will vary from the estimated tax rate.

Pursuant to Section 469.177, subd. 2 of the TIF Act, it is found and declared that all of the captured tax capacity generated within the TIF District is necessary to finance or otherwise make permissible expenditures authorized by Section 469.176, subd. 4 of the TIF Act.

Under these assumptions, the estimated annual tax increment upon completion of the Development is \$26,131 (after deducting the State Auditor's Office fee of 0.36% of the tax increment distribution) in the first year of tax increment collection. The actual tax increment will vary according to the certified original tax capacity value and original tax rate, the actual property value produced by the proposed development and the changes in property value and state laws that govern calculation of property taxes over the life of the district. Exhibit II contains the projected tax increment over the life of the TIF District.

3.04.2 *Public Development Costs*

The City plans to use tax increment to pay the Public Development Costs. The Public Development Costs eligible for reimbursement from tax increment pursuant to the TIF Act may include land acquisition, site improvements and preparation costs, utilities, other qualified costs, and costs related to the establishment of the TIF District and other administration costs.

3.04.3 *Estimated Sources and Uses of Funds*

The estimated sources of revenue, along with the Public Development Costs of the TIF District, are itemized in Figure 3-1. These estimates are based on the best available information for the sources and uses of funds. Such costs are eligible for reimbursement from tax increment from the TIF District. The City reserves the right to administratively adjust the amount of any of the Project Cost line items listed in Figure 3-1, so long as the "Total Estimated Project Costs" is not increased, not including interest expense.

Figure 3.1
City of Owatonna
Tax Increment Financing District No. 3-18
TIF Plan Estimated Sources and Uses of Funds
Sputtering Components Expansion

	Total
Estimated Tax Increment Revenues (from tax increment generated by the district)	
Tax increment revenues distributed from the county	\$260,946
Interest and investment earnings	\$0
Total Estimated Tax Increment Revenues	\$260,946
Estimated Project/Financing Costs (to be paid or financed with tax increment)	
Project costs	
Land/building acquisition	
Site improvements/preparation costs	\$176,063
Utilities	\$0
Other qualifying improvements	\$0
Administrative costs	\$26,095
Estimated Tax Increment Project Costs	\$202,158
Estimated financing costs	
Interest expense	\$58,789
Total Estimated Project/Financing Costs to be Paid from Tax Increment	\$260,946
Estimated Financing	
Total amount of bonds to be issued	\$202,158

3.04.4 Administrative Expense

Tax increment shall be used to pay documented administrative expenses of the City for administration of the TIF District. The tax increment used to pay administrative expenses will not exceed 10% of the total estimated tax increment expenditures included in Figure 3-1. Increments used to pay the county's administrative expenses are not subject to the 10% limit. The City will use these monies to pay for and reimburse the City for costs of administering the TIF District, pursuant to the limitation in the TIF Act. Section 469.174, subd. 14 of the TIF Act defines administrative expenses or administrative costs.

3.04.5 County Road Costs

The Development will not substantially increase the use of county roads and necessitate the need to use tax increments to pay for county road improvements.

3.04.6 Bonded Indebtedness

Tax Increment Bonds issued in connection with "any project for which tax increment financing has been undertaken" must be one of the types of bonds expressly authorized by Section 469.178 of the TIF Act. The types of bonds include general obligation bonds supported by tax increment, revenue bonds (including "pay-as-you-go" obligations); and interfund loans or advances.

The total amount of bonds estimated to be issued to pay Public Development Costs is shown in Figure 3.1. The City will not issue general obligation bonds as a result of the TIF Plan. The City plans to use tax increments to reimburse itself for administrative expense and to reimburse the Developer on a pay-go basis through issuance of a Tax Increment Financing Revenue Note, payable solely from tax increment from the TIF District, for certain Public Development Costs, with interest.

The City may approve an interfund loan to reimburse itself for administrative expense it will incur for the TIF District. The City may advance or loan money to finance expenditures, under Section 469.176, subd. 4 of the TIF Act, from the general funds of the City or any other legally authorized fund to finance qualified expenditures, subject to the provisions defined in this section of the TIF Act.

3.04.7 Duration of TIF District

The duration to collect and spend tax increments on eligible purposes is set at the maximum duration of eight (8) years after the date of receipt of the first tax increment or nine (9) years of tax increment collection. The estimated first year of tax increment collection is 2027. The estimated decertification date is 12/31/2035.

3.04.8 Estimated Impact on Other Taxing Jurisdictions

Exhibits III and IV show the estimated impact on other taxing jurisdictions if the maximum projected retained captured net tax capacity of the TIF District was hypothetically available to the other taxing jurisdictions. The City finds that there will be no adverse impact on other taxing jurisdictions during the life of the TIF District, since the proposed development would not have occurred without the establishment of the TIF District and the provision of public assistance. A positive impact on other taxing jurisdictions will occur when the TIF District is decertified and the development therein becomes part of the general tax base.

The City anticipates minimal impact of the proposed development on city-provided services. A slight increase in water and sewer usage is expected. It is anticipated that there may be a slight but manageable increase in police and fire protection duties due to the development.

3.04.9 Prior Planned Improvements

There have been no building permits issued in the last 18 months in conjunction with any of the properties within the TIF District. The City will include this statement with the request for certification to the County Auditor. If building permits had been issued during this time period, then the County Auditor would increase the original net tax capacity of the TIF District by the net tax capacity of each improvement for which a building permit was issued.

ARTICLE IV – ADMINISTERING THE TIF DISTRICT

SECTION 4.01 FILING AND CERTIFICATION

The filing and certification of the TIF Plan consists of the following steps:

1. Upon adoption of the TIF Plan, the City shall submit a copy of the TIF Plan to the Minnesota Department of Revenue and the Office of the State Auditor.
2. The City will request that the County Auditor certify the original net tax capacity and net tax capacity rate of the TIF District. To assist the County Auditor in this process, the City shall submit copies of the TIF Plan, the resolution establishing the TIF District and adopting the TIF Plan, and a listing of any prior planned improvements.

SECTION 4.02 MODIFICATIONS OF THE TAX INCREMENT FINANCING PLAN

The City reserves the right to modify the TIF District and the TIF Plan. Pursuant to the TIF Act, the following actions can only be approved after satisfying all the necessary requirements for approval of the original TIF Plan (including notifications and public hearing):

- Reduction or enlargement in the geographic area of the Development District or the TIF District.

- Increase in the amount of bonded indebtedness to be incurred.
- Increase in the amount of capitalized interest.
- Increase in that portion of the captured net tax capacity to be retained by the City.
- Increase in the total estimated Project Costs.
- Designation of additional property to be acquired by the City.

Other modifications can be made by resolution of the City Council. In addition, the original approval process does not apply if (1) the only modification is elimination of parcels from the TIF District and (2) the current net tax capacity of the parcels eliminated equals or exceeds the net tax capacity of those parcels in the TIF District's original net tax capacity, or the City agrees that the TIF District's original net tax capacity will be reduced by no more than the current net tax capacity of the parcels eliminated.

The City must notify the auditor of the County of any modification that reduces or enlarges the geographic area of the TIF District. The geographic area of the TIF District may be reduced but not enlarged after five years following the date of certification.

SECTION 4.03 FOUR-YEAR KNOCKDOWN RULE

Pursuant to Section 469.176, subd. 6 of the TIF Act, the Four-Year Knockdown Rule requires that if after four years from certification of the TIF District no demolition, rehabilitation, renovation or site improvement, including a qualified improvement of an adjacent street, has commenced on a parcel located within the TIF District, then that parcel shall be excluded from the TIF District and the original net tax capacity shall be adjusted accordingly. Qualified improvements of a street are limited to construction or opening of a new street, relocation of a street, or substantial reconstruction or rebuilding of an existing street. The City must submit to the auditor of the County, by February 1 of the fifth year, evidence that the required activity has taken place for each parcel in the TIF District.

If a parcel is excluded from the TIF District and the City or owner of the parcel subsequently commences any of the above activities, the City shall certify to the auditor of the County that such activity has commenced and the parcel shall once again be included in the TIF District. The auditor of the County shall certify the net tax capacity of the parcel, as most recently certified by the Commissioner of Revenue of the State, and add such amount to the original net tax capacity of the TIF District.

SECTION 4.04 FIVE YEAR RULE AND SIX YEAR RULE

Pursuant to Section 469.1763, subd. 2 of the TIF Act at least 80% of the total revenue derived from tax increments paid by properties in the TIF District must be expended on activities in the in the TIF District or to pay bonds, to the extent that the proceeds of the bonds were used to finance activities in the district or to pay, or secure payment of, debt service on credit enhanced bonds.

Not more than 20% of the total revenue derived from tax increments paid by properties in the TIF District may be expended, through a development fund or otherwise, on activities outside of the TIF District but within the defined geographic area of the project except to pay, or secure payment of, debt service on credit enhanced bonds. All administrative expenses for the TIF District will be considered to be expenditures for activities outside of the TIF District pursuant to requirements within the TIF Act.

Five Year Rule

Revenues derived from tax increments paid by properties in the TIF District that are expended on an activity within the district will instead be considered to have been expended on an activity outside the district for purposes of Section 469.1763, subd. 2 of the TIF Act unless:

(1) before or within five years after certification of the district, the revenues are actually paid to a third party with respect to the activity;

(2) bonds, the proceeds of which must be used to finance the activity, are issued and sold to a third party before or within five years after certification of the district, the revenues are spent to repay the bonds, and the proceeds of the bonds either are, on the date of issuance, reasonably expected to be spent before the end of the later of (i) the five-year period, or (ii) a reasonable temporary period within the meaning of the use of that term under section 148(c)(1) of the Internal Revenue Code, or are deposited in a reasonably required reserve or replacement fund;

(3) binding contracts with a third party are entered into for performance of the activity before or within five years after certification of the district and the revenues are spent under the contractual obligation;

(4) costs with respect to the activity are paid before or within five years after certification of the district and the revenues are spent to reimburse a party for payment of the costs, including interest on unreimbursed costs; or

(5) revenues are spent for housing purposes as described by Section 469.1763, subd. 2 of the TIF Act, paragraph (b).

(b) For purposes of this subdivision, bonds include subsequent refunding bonds if the original refunded bonds meet the requirements of paragraph (a), clause (2).

It is anticipated that all tax increments collected in the TIF District will be spent or obligated before within five years after certification of the TIF District.

Six Year Rule

Pursuant to Section 469.1763, subd. 4 of the TIF Act, beginning with the sixth year following certification of the TIF District, the use of tax increment derived from property within the TIF District is further limited. The general concept of the Six Year Rule provides that the TIF District must be decertified when the product of the applicable in-district percentage multiplied by cumulative revenues derived from tax increments paid by properties in the district that have been collected through the end of the calendar year, equals or exceeds an amount sufficient to pay costs and obligations. The City will administer the TIF District in compliance with the Six Year Rule.

SECTION 4.05 FINANCIAL REPORTING AND DISCLOSURE REQUIREMENTS

The City will comply with the annual reporting requirements of state law pursuant to the guidelines of the Office of the State Auditor. Under current law, the City must prepare and submit a report on the TIF District on or before August 1 of each year. The City must also annually publish in a newspaper of general circulation in the City an annual statement for each tax increment financing district.

The reporting and disclosure requirements outlined in this section begin with the year the district was certified, and shall end in the year in which both the district has been decertified and all tax increments have been spent or returned to the county for redistribution. Failure to meet these requirements, as determined by the State Auditors Office, may result in suspension of distribution of tax increment.

SECTION 4.06 BUSINESS SUBSIDY COMPLIANCE

The City will comply with the business subsidies requirements specified in Minnesota Statutes, Sections 116J.993 to 116J.995.

Exhibit I
City of Owatonna
Tax Increment Financing District No. 3-18
Present Value Analysis As Required By Section
469.175(3)(2) of the TIF Act

1	Estimated Future Market Value w/ Tax Increment Financing	2,930,860 ¹
2	Payable Pay 2024 Market Value	<u>1,657,600</u>
3	Market Value Increase (1-2)	1,273,260
4	Present Value of Future Tax Increments	<u>195,626</u>
5	Market Value Increase Less PV of Tax Increments	1,077,634
6	Estimated Future Market Value w/o Tax Increment Financing	1,794,943 ¹
7	Payable Pay 2024 Market Value	<u>1,657,600</u>
8	Market Value Increase (6-7)	<u>137,343</u>
9	Increase in MV From TIF	<u><u>940,291</u></u> ²

¹ Assume 1.00% annual appreciation over 9 year life of district.

² Statutory compliance achieved if increase in market value from TIF (Line 9) is greater than or equal to zero.

Exhibit II
City of Owatonna
Tax Increment Financing District 3-18 (Economic Development)
Sputtering Components Expansion
Projected Tax Increment Financing (TIF) Cash Flow

TIF District Year	Taxes Payable Year	Taxable Market Value	Tax Capacity	Base Tax Capacity	Captured Tax Capacity for TIF	Original Tax Rate	TIF from District	PV Available TIF from District
1	2027	2,706,600	52,632	32,402	20,230	129.64%	26,131	23,871
2	2028	2,733,666	53,173	32,402	20,771	129.64%	26,830	47,199
3	2029	2,761,003	53,720	32,402	21,318	129.64%	27,537	69,988
4	2030	2,788,613	54,272	32,402	21,870	129.64%	28,250	92,241
5	2031	2,816,499	54,830	32,402	22,428	129.64%	28,970	113,962
6	2032	2,844,664	55,393	32,402	22,991	129.64%	29,698	135,155
7	2033	2,873,110	55,962	32,402	23,560	129.64%	30,432	155,826
8	2034	2,901,842	56,537	32,402	24,135	129.64%	31,174	175,980
9	2035	2,930,860	57,117	32,402	24,715	129.64%	31,925	195,626
TOTAL =							260,946	195,626

Key Assumptions for Cash Flow:

- 1 Taxable market value (TMV) is assumed to increase by 1.0% annually.
- 2 Original Tax Capacity Rate estimated based on Taxes Payable Year Pay 2024.
- 3 Election for captured tax capacity is 100.00%.
- 4 Base Tax Capacity is calculated based on estimated taxable market value of \$1,657,600 for PID 17-479-0201.
- 5 Present Value (PV) calculated based on semi-annual payments, interest rate 5.0%, dated date 1/1/2026.
- 6 TIF from District is after deduction of State Auditor fee of 0.36%.
- 7 Taxable Market Value (TMV) includes estimated value of all property in district, including existing building, and construction of an approximate 9,000 SF expansion of the qualified facility at estimated TMV of \$1,049,000 (in today's dollars).
- 8 TIF to City for Admin equals 10% of the TIF from District.

Exhibit III
City of Owatonna
Tax Increment Financing District No. 3-18
Impact on Other Taxing Jurisdictions
(Taxes Payable Pay 2024)

Annual Tax Increment

Estimated Annual Captured Tax Capacity (Full Development)	\$24,715
Payable Pay 2024 Local Tax Rate	129.635%
Estimated Annual Tax Increment	\$32,040

Percent of Tax Base

	Net Tax Capacity (NTC)	Captured Tax Capacity	Percent of Total NTC
City of Owatonna	33,651,269	24,715	0.07%
Steele County County	67,134,131	24,715	0.04%
ISD #761	49,709,839	24,715	0.05%

Dollar Impact of Affected Taxing Jurisdictions

	Net Tax Capacity (NTC)	% of Total	Tax Increment Share	Added Local Tax Rate
City of Owatonna	58.752%	45.321%	14,521	0.043%
Steele County County	45.308%	34.950%	11,198	0.017%
ISD #761	25.575%	19.728%	6,321	0.013%
Other	0.000%	0.000%	0	
Totals	129.635%	100.000%	32,040	

NOTE NO. 1: Assuming that ALL of the captured tax capacity would be available to all taxing jurisdictions even if the City does not create the Tax Increment District, the creation of the District will reduce tax capacities and increase the local tax rate as illustrated in the above tables.

NOTE NO. 2: Assuming that NONE of the captured tax capacity would be available to the taxing jurisdiction if the City did not create the Tax Increment District, then the plan has virtually no initial effect on the tax capacities of the taxing jurisdictions. However, once the District is established, allowable costs paid from the increments, and the District is terminated, all taxing jurisdictions will experience an increase in their tax base.

Exhibit IV**City of Owatonna****Tax Increment Financing (Economic Development) District No. 3-18****Estimated Tax Increments Over Maximum Life of District**

Based on Pay Pay 2024 Tax Rate = 129.635% 58.752% 45.308% 25.575%

TIF District Year	Taxes Payable Year	New Taxable Market Value	New Tax Capacity	Base Tax Capacity	Captured Tax Capacity	Estimated Total Tax Increments	City TIF Related Share	County TIF Related Share	School TIF Related Share
1	2027	2,706,600	52,632	32,402	20,230	26,225	11,886	9,166	5,174
2	2028	2,733,666	53,173	32,402	20,771	26,927	12,204	9,411	5,312
3	2029	2,761,003	53,720	32,402	21,318	27,636	12,525	9,659	5,452
4	2030	2,788,613	54,272	32,402	21,870	28,352	12,849	9,909	5,593
5	2031	2,816,499	54,830	32,402	22,428	29,075	13,177	10,162	5,736
6	2032	2,844,664	55,393	32,402	22,991	29,805	13,508	10,417	5,880
7	2033	2,873,110	55,962	32,402	23,560	30,542	13,842	10,675	6,026
8	2034	2,901,842	56,537	32,402	24,135	31,287	14,180	10,935	6,172
9	2035	2,930,860	57,117	32,402	24,715	32,040	14,521	11,198	6,321
Total						261,889	118,692	91,532	51,666

Note: The Estimated Total Tax Increment shown above is before deducting the State Auditor's fee, which is payable at a rate of 0.36% of the Total Tax Increment collected. Exhibit II provides Estimated Total Tax Increment after deducting for the State Auditor's fee.

Exhibit V

Boundaries Map for Development District and TIF District

