

Frequently Asked Questions: Tax Increment Financing (TIF)

Q. What is Tax Increment Financing (TIF)?

A. TIF is a financial tool that cities use to attract new industrial development, create jobs, redevelop declining areas or clean up environmentally contaminated sites.

Q. What is a TIF District?

A. The City can designate an area as a TIF District to attract development which, over time, increases the tax base and creates jobs.

Q. What qualifications must be met to create a TIF District?

A. The area must meet specific legal criteria described in state legislation to qualify as a TIF District. In addition, the City must determine that little or no investment has been made in the area in recent years and private investment will not occur without a creating a TIF District. In Minnesota, there are three types of TIF Districts:

1. Redevelopment Districts and Renewal and Renovation Districts - generally, for a city to create either of these districts, the area must be blighted within the meaning of the statutes. The area must be at least partially developed and a percentage of the buildings must be structurally substandard.
2. Housing Districts - for housing projects intended for occupancy in part by persons of families of low and moderate income.
3. Economic Development Districts - when 85 percent or more of the new buildings in the district will be used for manufacturing, storage, distribution (but not retail sales), certain research and development, telemarketing or tourism.

Q. How is a TIF District formed?

A. First, the City determines if the area qualifies under state law as a TIF District. Then, City staff prepare a TIF Plan and notify Steele County and the Owatonna Public Schools District. A public hearing is held before the City Council approves the creation of a district.

Q. What is a TIF Plan?

A. TIF Plans are legal documents describing why the area is eligible to be a TIF District and the proposed redevelopment projects and activities for the area. The TIF Plan also lists the projected cost of the redevelopment activities and describes how they will be paid for.

Q. How does TIF work?

A. When a city creates a TIF District, the additional taxes generated from the increased valuation of the project are reimbursed to the developer on an annual basis to pay for TIF-eligible expenses. TIF can also be used to pay for public improvements needed for the project.

Q. Does a private developer receive funding from the City through a TIF District?

A. No. a TIF District gets its money from the increased property taxes generated by private development projects. There is no funding without new private investment in development or redevelopment projects in the TIF District. Private developers receive financial assistance from increased property taxes generated through property improvements in TIF Districts. Without these private investments which improve properties, those taxes would not be generated. These private investments improve properties thereby increasing tax values allowing TIF Districts to generate an ongoing funding source for the proposed development.

Q. How long can a TIF District exist?

A. The length of a TIF District varies by type. Economic development TIF Districts can be in place for up to nine years. A redevelopment or housing TIF District can exist for up to 25 years.

Q. How does a TIF District create development?

A. Establishing a TIF District encourages developers to invest by removing financial barriers and enhancing feasibility for expanding in or relocating to Owatonna.

Q. What can TIF funds be used for?

A. TIF funds can be only used for physical improvements such as infrastructure, buying land or demolishing buildings. TIF funds cannot be used for loans to businesses for working capital or machinery or equipment.

Q. Are all property taxes forgiven with a TIF?

A. No, property owners in TIF Districts pay property taxes at the rate of the increased value of the property. Within a development agreement, a property owner may be rebated a portion of their property taxes. Only the increased portion of the property taxes are eligible to be rebated for a specific amount of time as determined within the development agreement and per state statute.

Q. How does a developer qualify to be granted a TIF District?

A. Developers applying for TIF Districts need to submit a pro forma to demonstrate that, without TIF assistance, the project would not be feasible. The City reviews the pro forma along with construction estimates and other documents to consider if the development meets the City's strategic goals for development and growth. If it meets the criteria, the developer may be granted a TIF District through City Council action following a public hearing.

Q. Are all TIF Districts granted for the full duration allowed?

A. Cities strive to provide the minimum amount of assistance necessary to support each project. This leads to many districts being capped at a dollar amount which reduces the duration of the TIF District.

Q. How does the City support development with TIF agreements?

A. The City may provide support to developers in various ways including reimbursement for eligible expenses such as building public infrastructure and land acquisition costs and by providing tax rebates for a limited timeframe.

Q. What are the benefits to the City in granting a TIF District?

A. The City realizes numerous benefits by granting TIF Districts. All TIF Districts increase the City's tax capacity. They also create new jobs and support the City's long-term growth goals. Creating new jobs helps diversify the workforce and the local economy. Redevelopment Districts remove blight and help drive new development. Housing Districts help provide affordable housing.

Q. How does TIF align with the City's long-term planning?

A. Economic and community development is planned based on long-term projections indicating where growth will occur and where opportunities for redevelopment exist. In some cases, City staff use TIF proactively to initiate redevelopment projects to repurpose blighted properties.

Q. How does TIF help Owatonna attract developers from outside the area?

A. The City's planning staff uses TIF as an incentive when submitting proposals for industrial projects to offer a specific parcel where redevelopment is needed. TIF, along with Owatonna's

comparatively low utility rates and highly regarded Midwest workforce values, creates an attractive environment for developers. Combined, these assets create recognition for Owatonna as business-friendly community that appeals to companies looking to relocate or expand.

Q. How is TIF used to help existing businesses in Owatonna expand?

A. Existing Owatonna businesses interested in expanding in their current location or relocating to a new location within the city limits can leverage TIF in the same way as businesses that are interested in relocating to Owatonna.

Q. How does the City track the benefits promised by developers when granting TIF Districts?

A. The terms in each TIF District development agreement specify the benefits the project will create. These terms vary greatly and could include jobs requirements for economic development TIFs (industrial projects) stating the number of jobs that will be added and a timeframe that must be met for creating them. Other terms that may be included in TIF agreements are building size, installing public infrastructure such as streets, regional storm ponds, utilities, etc. City staff monitors TIF District agreement terms to ensure developers meet the criteria established. The City may recollect TIF if the terms aren't met.

Q. How are financial transactions resulting from TIF Districts reported?

A. The City is required to file TIF District reports annually with the Office of the State Auditor and to publish data related to each district in its newspaper of record, the *Owatonna People's Press*. The City Finance Department also submits an annual summary of TIF Districts to the City Council in July and posts it at Owatonna.gov/Finance.

Q. What happens when a TIF District agreement is fulfilled?

A. Upon expiration of a TIF District agreement, the TIF district is de-certified. When TIF Districts are de-certified, the City's net tax capacity increases which lightens the tax burden on all City taxpayers. For example, in December 2022, two TIF Districts expired for agreements with Sputtering (began in 2014) and Cedar Run/Metro Plains (began in 1998). This resulted in approximately \$32,649 in additional net tax capacity for the City as well as tax capacity increases for the other local taxing jurisdictions (School District and County). Then, in December 2023, the TIF District established in 1998 for Viracon's expansion will expire and result in an additional \$300,648 in additional net tax capacity for the City of Owatonna.

Q. What is the value of the taxes that have been rebated in Owatonna due to establishing TIF Districts?

A. This amount fluctuates as new TIF Districts are established and others are de-certified upon expiration. The property improvements made in TIF Districts increases tax base when projects are completed. Over the next few years, the cumulative effect of decertifying TIF districts as scheduled will result in more than \$685,000 being added to the City of Owatonna's tax capacity.

Q. Where is additional information about TIF Districts available?

A. Visit Owatonna.gov to view the City of Owatonna's Strategic Plan. The Minnesota Office of the State Auditor facilitates TIF Districts. Visit: [What are the Different Types of TIF Districts? | Office of the State Auditor \(OSA\)](#).