



CITY OF NORTH BRANCH, MINNESOTA

Update to the City's Business Subsidy, Tax Increment and Tax Abatement Policies

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Business Subsidy Policy

Introduction

This Policy is adopted for the purposes of the business subsidies act (the “Act”), which is Minnesota Statutes, Sections 116J.993 through 116J.995, as amended. Terms used in this Policy are intended to have the same meaning as used in the Act, and this Policy shall apply only with respect to subsidies granted under the Act if and to the extent required thereby.

To effectively promote economic development within the city, be competitive with other communities and meet the diverse and continued needs of business and industry, the City of North Branch (the “City”) and Economic Development Authority (the “EDA”) have determined to make use of all available local and state economic development incentives and tools. The use of these incentives and tools generally cannot be analyzed and reviewed using a single measurement but must rather be evaluated in terms of community needs and objectives, market trends, job creation, capital outlay and installation of public improvements.

Intent to Retain Flexibility

It is not always possible to anticipate every type of project that may provide benefit to the City. The City shall retain the option to amend or waive sections of this policy when it is determined to be necessary and/or appropriate based on the changing needs of the community. Minnesota Statute 116J.994, Subd. 2 allows the City to deviate from its criteria by documenting in writing the reason for the deviation and attaching a copy of the document to its next annual report to the State.

Business Subsidy Public Purpose

Business Subsidies may be provided in order to achieve the following public purposes:

1. Enhance the economic diversity of the city
2. Create a variety of housing options
3. Job retention and growth
4. Create high quality jobs
5. Stabilization of the community
6. Increase of tax base

The public purpose(s) of the Business Subsidy may include, but not be limited to, increasing the tax base of the community. Job retention may only be used as a public purpose in cases where job loss is specific and demonstrable.

This policy is adopted in compliance with M.S. § 116J.994 Subd. 2.

Definitions

“**Business Subsidy**” means a state or local government agency grant, contribution of personal property, real property, infrastructure, the principal amount of a loan at rates below those commercially available to the recipient, any reduction or deferral of any tax or any fee, any guarantee of any payment under any loan, lease, or other obligation, or any preferential use of government facilities given to a business, and as defined by the Business Subsidy statute M.S. §§ 116J.993 - 116J.995.

Business Subsidies **do not** include the following:

1. Assistance of less than \$150,000.
2. Assistance that is generally available to all businesses or to a general class of similar businesses, such as a line of businesses, size, location or similar general criteria;

3. Public improvements to buildings or lands owned by the City of North Branch that serve a public purpose and do not principally benefit a single business or defined group of businesses at the time the improvements are made;
4. Property polluted by contaminants being redeveloped as defined in M.S. § 116J.552, Subd. 3.
5. Assistance provided for the sole purpose of renovating old or decaying building stock or bringing it up to code and assistance to designated historic preservation sites or districts, provided that the assistance is equal to or less than 50% of the total cost of the development;
6. Assistance to provide job readiness and training services;
7. Assistance for housing;
8. Assistance for pollution control or abatement, including assistance from a TIF hazardous substances sub-district;
9. Assistance for energy conservation;
10. Tax reductions resulting from conformity with federal tax law;
11. Workers compensation and unemployment compensation;
12. Benefits derived from regulation;
13. Indirect benefits derived from assistance to educational institutions;
14. Funds from bonds allocated under M.S., Chapter 47A refunding bonds and 501(c)(3) bonds;
15. Assistance for collaboration between a Minnesota higher education institution and a business;
16. Assistance from a tax increment financing soils condition district as defined under M.S.469.174, subd.19;
17. Redevelopment when the Recipients or Qualified Business' investment in the purchase of the site and in site preparation is 70 percent or more of the assessor's current years estimated market value;
18. General changes in tax increment financing law and other general tax law changes of a principally technical nature;
19. Federal assistance until the assistance has been repaid to and reinvested by the local governmental unit;
20. Funds from dock or wharf bonds issued by a seaway port authority;
21. Business loans and guarantees of \$150,000 or more,
22. Federal loan funds provided through United States Department of Commerce, Economic Development Administration and
23. Property tax abatements granted under MN Statutes 469.18 to property that is subject to valuation under Minnesota Rules, chapter 8100.

“Business Subsidy Report” means the annual reports submitted each year for each business receiving a business subsidy in the community. The report is submitted by the local government unit in order to comply with M.S. § 116J.994 Subd. 7. (b).

“Criteria” means the equitably applied, uniform standards by which the Economic Development Agency and /or the City bases its decision to award any business subsidy to a private business or development project establishing a business and creating jobs in the City of North Branch.

“DEED” means Minnesota Department of Employment and Economic Development.

“Economic Development Agent” means the city department, local or regional economic development agency or other authorized entity that is empowered to solicit, negotiate and form business subsidy agreements on behalf of the City of North Branch. The Economic Development Agent for the **City of North Branch** shall be the North Branch Economic Development Authority (EDA), hereinafter “Agent”.

“Recipient” means any business entity that receives a business subsidy as defined by M.S. § 116J.993, and that has signed a Business Subsidy Agreement with a city.

Business Subsidy Policies and Requirements

The City of North Branch adopts the following:

1. Any time the City of North Branch provides a business subsidy to a Recipient, that business is subject to the wage levels, job creation and other criteria set forth in this policy and specified in the Business Subsidy Agreement made with the city.
2. The City of North Branch may authorize the Economic Development Authority (EDA) to act as its Economic Development Agent for certain types of projects for purposes of marketing the city, initiating & negotiating Business Subsidy Agreements, and executing Business Subsidy Agreements on its behalf.
3. Job Creation/Retention & Wage Requirements

A. Job Creation/Retention Requirement

If the City determines that job creation is a goal of the project, at least 1 full-time or full-time-equivalent job must be created when assistance is provided.

Retention of existing jobs is acceptable, provided that the applicant can document that, absent the business subsidy, the job loss would be specific and demonstrable.

If the City determines that the creation or retention of jobs is not a goal of a specific project, the job creation goal may be set to zero (0).

B. Wage Requirement

Wages paid (exclusive of benefits) for jobs created as a result of the Business Subsidy must be at least equal to 120% state minimum wage levels as of the date the business subsidy is approved.

4. The City of North Branch may deviate from the wage and job criteria in this section by documenting the reason in writing for the deviation and attaching a copy of this reason to the next annual Business Subsidy Report submitted to DEED.
5. A public hearing shall be held by the City of North Branch or EDA as provided by M.S. § 116J.994, when the value of the subsidy exceeds or is expected to exceed \$150,000 from local sources.

The purpose of the hearing is to identify and define the criteria that the recipient shall meet in order to be eligible to receive a business subsidy. The hearing shall specify all information required to be included in the Business Subsidy Agreement as listed in section 7 (a) (below).

As provided by M.S. 116J.994, Subd. 5., a public notice shall be published in print and if possible, on the internet, more than 10 days prior to the hearing identifying the location, date, and time of the hearing and providing information about the business subsidy proposed, including a summary of the terms of the subsidy.

6. Business Requirements

The business must enter into a "Business Subsidy Agreement" with the City that includes:

- a. Description of the subsidy, including the amount and type of subsidy, and the type of district if the subsidy is tax increment financing;
- b. Statement of the public purpose(s) of the subsidy;

- c. Measurable, specific and tangible goals for the subsidy;
- d. Description of the financial obligation of the recipient if the goals are not met;
- e. Statement as to why the subsidy is needed;
- f. Commitment to continue operations in the jurisdiction where the subsidy is used for at least five years after the benefit date.
- g. Name and address of the parent corporation of the recipient, if any; and,
- h. A list of all financial assistance by all grantors for the project

Businesses failing to meet the goals agreed to in the Business Subsidy Agreement must repay the assistance provided with interest, which is set at no less than the implicit price deflator as defined in the Business Subsidy Statute, M.S. §§ 116J.993 - 116J.995. Repayment may be prorated to reflect partial fulfillment of goals.

Tax Increment Financing Policy

Purpose

The purpose of this policy is to ensure development receiving Tax Increment Financing (TIF) is consistent with the City's long-term goals and objectives. This is intended to be a guide for processing and reviewing TIF applications. The City of North Branch shall utilize TIF to encourage desirable development or redevelopment that would not otherwise occur but for TIF.

The City is authorized to use TIF through Minnesota Statutes 469.174 through 469.1794. The City's goal is to provide the minimum amount of TIF at the shortest term required for a project to proceed. The City reserves the right to approve or reject projects on a case-by-case basis, taking into consideration established policies, project criteria, and demand on city services in relation to the potential benefits from the project. Projects meeting policy criteria are not guaranteed the award of TIF. Approval or denial of a certain project is not a precedent for approval or denial of another project.

The City Council and Economic Development Authority can deviate from this policy for projects that supersede the objectives identified herein. The City Council and Economic Development Authority intend to focus the use of Tax Increment Financing for projects that provide additional benefits to the community that may include public improvements and other amenities.

Authority

Minnesota Statutes 469.174 through 469.1794 govern the use of TIF and exceed any issues that conflict with this policy.

Public Purpose

The City of North Branch will consider TIF for projects that achieve one or more of the following:

1. Demonstrate long-term benefits to the community.
2. Provide additional public amenities as project enhancements.
3. Retain local jobs and/or increase the number and diversity of jobs that offer stable employment and/or attractive wages and benefits through:
 - a. Diversification of the local economy
 - b. Significant addition of permanent, high-wage, full-time jobs
 - c. Addition of jobs attractive to those unemployed or underemployed
4. Significantly increases the city's commercial and industrial tax base.
5. Demonstrates the ability to encourage unsubsidized private development through "spin off" development.
6. Facilitates the development process and achieves development on sites that would not develop "but for" the use of TIF.
7. Removes blight and/or encourages redevelopment of commercial and industrial areas resulting in high quality redevelopment and private reinvestment.
8. Offsets redevelopment costs (i.e. contaminated site cleanup) over and above the costs normally incurred in development.

Policy Statements

1. The primary intent of TIF is funding for public improvements and secondarily for developer assistance.
2. The use of TIF shall be in accordance with state law. The more restrictive language will apply when a conflict exists between this policy and state law.
3. Projects must be consistent with the Comprehensive Plan.
4. Preferred projects promote the completion of major public improvement projects within the city such as the installation of trunk sewer and water lines and major transportation projects.
5. The level of assistance provided will be determined on a case-by-case basis as referenced in Public Purpose.

Based on the extent to which the project achieves the policy statements (1-5 above), the city will consider TIF for projects in the following categories:

- a. Manufacturing
 - b. Major office warehouse/production facilities
 - c. Research and development
 - d. Commercial projects encouraging substantial redevelopment of substandard properties
 - e. Housing needs identified in the most recent city housing study
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1. Assistance for TIF is required to meet the uses identified by statute including, but not limited to the following:
 - a. Public improvements
 - b. Land acquisition and land write down
 - c. Loans
 - d. Site preparation and improvement
 - e. Demolition
 - f. Legal, administration, and engineering
 2. The preferred method of TIF is pay-as-you-go for eligible costs as reimbursement, upfront financing may be considered on a case-by-case basis.
 3. A maximum of ten percent (10%) of any tax increment received from the district shall be retained by the city to reimburse administrative costs.
 4. All TIF assistance must be accompanied by a signed development agreement including a minimum assessment value. The developer must provide additional financing guarantees to ensure completion of the project, including, but not limited to: letters of credit, personal guarantees, corporate guarantees, etc.
 5. TIF Districts shall be limited to the minimum term necessary to meet the project needs. Only projects exceeding the objectives identified in this policy will be considered to exceed the following general thresholds:
 6. Policy Considerations
 - a. Each project is required to meet the “but-for” test to determine the need for and level of assistance. This test and the amount of tax increment generated determines the district’s term. It is difficult to facilitate a redevelopment, housing or soils condition district for less than the maximum term as the extraordinary costs involved are usually significant. The term of the district could coincide with the amount of tax increment the city has to spend on its priorities within a project area.
 - b. Of all the TIF districts, the Economic Development District is most often the one limited to a lesser term. Economic Development Districts are really “incentive” districts where it is not so much the extraordinary costs as it is an “incentive” to get a business to locate in a community. In the other districts, the costs are easily identifiable and usually significant such as demolition, relocation, environmental remediation, and the cost differential between market rate and income/rent restricted housing.

7. Developers receiving TIF assistance shall provide a minimum of ten percent (10%) cash equity investment in the project. TIF will not be used to supplant cash equity.
8. TIF will not be used in circumstances where land and/or property price is in excess of fair market value. A third-party appraiser agreed upon by the city and developer will determine the fair market value of the land.
9. The developer shall demonstrate a market demand for a proposed project. TIF shall not be used to support purely speculative projects.
10. The developer shall adequately demonstrate, to the city's sole satisfaction, an ability to complete the proposed project based on past development experience, general reputation, and credit history, among other factors, including the size and scope of the proposed project.
11. For the purposes of underwriting the proposal, the developer shall provide any requested market, financial, environmental, or other data requested by the city or its consultants.
12. The City of North Branch shall only use TIF to encourage economic growth and development within the city limits.

Application Process

1. Applicant submits a complete application and application deposit consistent with the City's adopted fee schedule. The application deposit will be used toward the cost of services provided in the evaluation of financial feasibility, establishment or modification of the district, and preparation of legal documents and agreements. An additional deposit of \$5,000 shall be required for projects requiring statutory redevelopment substandard tests. The applicant shall reimburse the city for professional services in excess of the initial deposit. Deposit portions not utilized shall be refunded.
2. City staff reviews the application for completeness and submits the application to the city's financial consultant for review and preparation of a financial analysis.
3. The EDA (as necessary) reviews the proposal and the recommendation to determine conformance with this policy. The authority makes a recommendation to the City Council.
4. After meeting the statutory requirements for establishing the Tax Increment District, the City Council holds a Public Hearing and takes action on the proposal (Approximately 45-60 days). Increment Financing Policy

Tax Abatement Policy

Purpose

The purpose of this policy is to establish the City of North Branch's position relating to the use of Tax Abatement for private development above and beyond the requirements and limitations set forth by State Law. This policy shall be used as a guide in the processing and review of applications requesting Tax Abatement assistance. The fundamental purpose of providing Tax Abatement in North Branch is to encourage desirable development or redevelopment that would not otherwise occur but-for the assistance provided through the Tax Abatement.

The City of North Branch is granted the power to utilize Tax Abatement by Minnesota Statutes, Sections 469.1812 to 469.1815 (the "Minnesota Tax Abatement Act"), as amended. It is the intent of the city to provide the minimum amount of Tax Abatement, as well as other incentives, at the shortest term required for the project to proceed. Preference is given to projects in which the total amount of Tax Abatement request includes participation from the county. The city reserves the right to approve or reject projects on a case by case basis, taking into consideration established policies, project criteria, and demand on city services in relation to the potential benefits from the project. Meeting policy criteria does not guarantee the award of Tax Abatement to the project. Approval or denial of one project is not intended to set precedent for approval or denial of another project

Difference between Tax Abatement and Tax Increment Financing

The primary difference between Tax Abatement and Tax Increment Financing (TIF) is the way in which the dollars are awarded to the project. When TIF is awarded to a project by the city, the other taxing jurisdictions (the school district and the county) are required to contribute their portion of the increased taxes to the project. Conversely, when Tax Abatement is requested, each political subdivision has the option of granting

its portion of the increased taxes to the project. Subsequently, the dollars generated for the project with Tax Abatement are generally less than the dollars generated with TIF.

Objectives of Tax Abatement

As a matter of adopted policy, the city will consider using Tax Abatement to assist private development projects to achieve one or more of the following objectives: •

- To retain local jobs and/or increase the number and diversity of jobs that offer stable employment and/or attractive wages and benefits as defined in the city's Business Subsidy Policy. •
- To enhance and diversify the city of North Branch's economic base. •
- To encourage additional unsubsidized private development in the area, either directly or indirectly through "spin off" development.
- To facilitate the development process and to achieve development on sites which would not be developed without Tax Abatement assistance. •
- To remove blight and/or encourage redevelopment of commercial and industrial areas in the city that result in high quality redevelopment and private reinvestment. •
- To offset increased costs of redevelopment (i.e. contaminated site clean-up) over and above the costs normally incurred in development. •
- To create opportunities for affordable housing. •
- To contribute to the implementation of other public policies, as adopted by the city from time to time, such as the promotion of quality urban or architectural design, energy conservation, and decreasing capital and/or operating costs of local government. •
- To significantly increase the City of North Branch's tax base.

Policy Statement

1. Tax Abatement assistance will generally be provided to the developer upon receipt of taxes by the city, otherwise referred to as the pay-as-you-go method. Requests for up front financing will be considered on a case-by-case basis.
2. Any developer receiving Tax Abatement assistance shall provide a minimum of ten percent (10%) owner cash equity investment in the project.
3. Tax Abatement will not be used in circumstances where land and/or property price is in excess of fair market value.
4. Developer shall be able to demonstrate a market demand for a proposed project.
5. Tax Abatement will not be utilized in cases where it would create an unfair and significant competitive financial advantage over other projects in the area.
6. Tax Abatement shall not be used for projects that would place extraordinary demands on city services or for projects that would generate significant environmental impacts.
7. The developer must provide adequate financial guarantees to ensure completion of the project, including, but not limited to: agreements, letters of credit, personal guaranties, etc.
8. The developer shall adequately demonstrate, to the city's sole satisfaction, ability to complete the proposed project based on past development experience, general reputation, and credit history, among other factors, including the size and scope of the proposed project.
9. For the purpose of underwriting the proposal, the developer shall provide any requested market, financial, environmental, construction plans or other data requested by the city or its consultants.
10. Tax Abatement proposals shall not be used to support speculative office projects. Speculative projects are defined as those projects which have preleasing agreements or letters of intent for less than 50% of the available space.
11. All Tax Abatement proposals shall optimize the private development potential of a site.

Project Qualifications

All Tax Abatement projects considered by the City of North Branch must meet each of the following requirements:

- The project shall meet at least one of the objectives set forth in this document.
- The use of Tax Abatement will be limited to:

- Industrial development, expansion, redevelopment, or rehabilitation; or
- Commercial redevelopment or rehabilitation; or
- Office facilities with a minimum new construction of 25,000 square feet
- Workforce housing
- The developer shall demonstrate that the project is not financially feasible without Tax Abatement. Evaluation of the project's financial feasibility without Tax Abatement shall be provided by the city's financial advisor on all requests of over \$25,000 total public investment.
- The project must be consistent with the city's Comprehensive Plan, Land Use Plan, and Zoning Ordinances.
- The project shall serve at least two of the following public purposes:
 - Job creation or job retention.
 - Significantly increase the tax base.
 - Enhancement or diversification of the city's economic base.
 - Development or redevelopment that will spur additional private investment in the area.
 - Fulfillment of defined city objectives.
 - Removal of blight or the rehabilitation of a high profile or priority site.

Subsidy Agreement and Reporting Requirements

All developers/businesses receiving Tax Abatement assistance from the City of North Branch shall be subject to the provisions and requirements set forth by the city's Business Subsidy Policy as amended and Minnesota Statutes Sections 116J.993 to 116J.995 (the "Minnesota Business Subsidy Law"), if applicable.

Application Process

1. Applicant submits the completed application along with an application deposit consistent with the City's adopted fee schedule, to be refunded for any portions not utilized if the project does not proceed. The application deposit will be used toward the cost of services provided in the evaluation of financial feasibility and preparation of legal documents and agreements. Projects that demand professional services in excess of the initial deposit shall be required to reimburse the city for the additional expenses.
2. City staff and consultant review the application.
3. Results of the review are submitted to the appropriate governing authority (EDA) for recommendation to the City Council of approval or denial of the request.
4. If preliminary approval is granted, all necessary notices, resolutions and agreements are prepared by city staff and/or consultants.
5. Public hearing(s) on the proposed request are held.
6. The City Council grants final approval or denial of the request.

Applications to other Taxing Entities

It is recommended that applicants intending to seek Tax Abatement from the County and/or School District make their applications to those bodies concurrent with their application to the City of North Branch.