Business Subsidy Policy

This Business Subsidy Policy (BSP) serves as the overarching framework and governing document for all business subsidies provided by the City of Hermantown, Minnesota and its related entities, including the Economic Development Authority (EDA). Because the EDA assumes primary responsibility for development activities within the City of Hermantown, the EDA will serve as the administrator of the BSA and all other program-specific subsidy policies. All program-specific policies, such as the Tax Abatement Financing (TAF) and Tax Increment Financing (TIF) Policies, are addendums to this BSP and must comply with the principles and requirements of the BSP in addition to applicable state statutes.

The intent of this policy is to establish the City of Hermantown's guidelines for providing Business Subsidy to a business or developer. Meeting the criteria within this policy does not guarantee a project will be approved, nor does it create any contractual rights on the part of the business or developer requesting assistance. Any Business Subsidy identified under Minnesota Statutes, Sections 116J.993 through 116J.995 as a "Business Subsidy" is covered under this policy.

A. Definitions

Benefit Date: means the date that the recipient receives the Business Subsidy. If the Business Subsidy involves the purchase, lease, or donation of physical equipment, then the Benefit Date begins when the recipient puts the equipment into service. If the Business Subsidy is for improvements to property, then the Benefit Date refers to the earliest date of either:

- when the improvements are finished for the entire project; or
- when a business or developer occupies the property.

Business Subsidy: means as defined in the Business Subsidy Act, including a City or EDA 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 governmental facilities given to a business. Certain forms of financial assistance set forth in Section 116J.993, subd. 3 of the Business Subsidy Act are not considered a Business Subsidy, including any of the items listed above that result in a subsidy of less than $150,000 shall not be considered a Business Subsidy under this policy.

Business Subsidy Act: means Minnesota Statutes, Sections 116J.993 to 116J.995, as amended.

City: means the City of Hermantown.

Criteria: means those elements considered by the Grantor as a guide in the consideration of each requested Business Subsidy. Meeting the Criteria does not mean that a project will automatically be approved nor does it create any contractual rights on the part of any applicant.

Development Agreement: means a document between the Grantor and Recipient outlining the terms and conditions under which the Business Subsidy will be provided.

Grantor: means the City or EDA as defined herein.

EDA: means the Economic Development Authority in and for the City of Hermantown.

Recipient: means any for-profit business entity or any nonprofit business entity meeting the requirements of Section 116J.993, subd. 6 of the Business Subsidy Act that receives a Business Subsidy.

Subsidy Agreement: means an agreement between a Grantor and a Recipient that meets the requirements of Section 116J.994, subd. 3 of the Business Subsidy Act. The Subsidy Agreement may be incorporated into a broader Development Agreement for a project.

B. Business Subsidy Criteria

The Criteria set forth in this section establishes minimum requirements that a Recipient must meet in order to be eligible to receive a Business Subsidy. Meeting all or a majority of the criteria, however, does not mean that a Business Subsidy will be awarded or denied by the Grantor.

Grantor reserves the right to approve or reject a Business Subsidy at its discretion, based on the merits of the project and the overall benefit to the community, using the criteria as a means of measuring overall benefit.

Criteria are as follows:

- The request for Business Subsidy must meet a "public purpose." The public purpose may not be limited to an increase in tax base. Examples of public purposes are contained in Section I.
- The project is not financially feasible without the Business Subsidy.
- The Recipient's request for Business Subsidy must be for the minimum amount of subsidy and duration of time required to make the project financially feasible.
- Developers or businesses receiving a Business Subsidy shall be in compliance with the requirements of state and local law, including conformance with the Comprehensive Plan and zoning ordinance of the City.

- A Grantor can conditionally approve a request for Business Subsidy if changes in the Comprehensive Plan, the zoning ordinance or other local laws or policies are under active consideration by the Grantor.
- The Recipient must demonstrate the ability to develop the type and size of project proposed to the satisfaction of the Grantor.
- Upon request, the Recipient must provide a pro forma showing all sources and uses of funds, market and financial feasibility studies, appraisals, environmental reports (if applicable), information provided to private lenders regarding the project, or other information or data that the Grantor, or its financial advisor, requests in order to independently determine the need for a Business Subsidy.
- The project will not significantly and adversely increase the demands for public services or public facilities in the City unless plans to mitigate the project's impact are approved.
- The granting or denial of a request for Business Subsidy is at the sole discretion of the Grantor.

C. Job and Wage Goals

Unless the creation of jobs is removed from a particular project pursuant to the requirements of the Business Subsidy Act, the creation of jobs is a public purpose for granting a subsidy.

Creation of at least *5 Full-Time Equivalent (FTE)* jobs (retained or created) is a minimum requirement for consideration of assistance. The goals for the number of jobs to be created or retained must result in job creation or retention by the Recipient within the Grantor's jurisdiction overall.

Notwithstanding the above, the wage and job goals may be set at zero if the Grantor determines that creation or retention of jobs is not a public purpose objective for the project.

The floor for wages to be paid in jobs created shall be *not less than 135% of Minnesota State minimum wage*. The City will seek to create jobs with higher wages as appropriate for the overall public purpose of the subsidy.

Wage goals may also be set to enhance existing jobs through increased wages, which increase must result in wages higher than the minimum under this Section.

The wage and job goals set forth in this section must be satisfied within two years of the Benefit Date.

D. Requirements for Business Subsidy Recipients

The Recipient of a Business Subsidy must satisfy the following requirements:

- The Recipient must retain ownership of the project at least until the project is completed, a certificate of occupancy is obtained (as applicable), and the business is operational.
- The Recipient or successor must continue operations at the site where the Business Subsidy is used for at least five years from the Benefit Date.
- The Recipient of a Business Subsidy or its successor must meet the wage and job goals set forth above.
- Recipients are subject to recapture provisions in case of default or non-compliance with the terms of the Business Subsidy Agreement (as outlined below) or policy and potentially further specified in program-specific policies (e.g., TAF Policy). Default or non-compliance considerations may include but are not limited to:
    - Sale or refinance of a facility that does not comply with the terms of this policy or the executed Business Subsidy Agreement.
    - Closure of the business that results in departure of the company from the jurisdiction.
    - Significant change in the use of a facility and/or the business activities of the company.
    - Significant employment reductions not reflective of the company's (normal) business cycle and/or local and national economic conditions.
    - Failure to achieve the minimum number of net new jobs and wage levels as specified in the BSP, or Business Subsidy Agreement,
    - Failure to comply with annual reporting requirements.

E. Application Process

- Businesses or developers seeking a Business Subsidy must complete an application for assistance. The specific required documentation may vary depending on the type of subsidy sought and are subject to the program-specific policies.
- The Grantor may request additional information from the developer or business to determine whether the request for a Business Subsidy is consistent with the Grantor's policies. Failure to provide requested information may result in denial of the request for a Business Subsidy.
- For a Business Subsidy subject to Section 116J.994, subd. 5 of the Business Subsidy Act (those Business Subsidies exceeding $150,000), the Grantor must hold a public hearing with a public notice published in the official newspaper at least ten days before the public hearing.

F. Business Subsidy Agreements

Any Recipient receiving a Business Subsidy is required by the Business Subsidy Act to enter into a Subsidy Agreement with the Grantor outlining the terms and conditions under which the Business Subsidy will be provided.

The Business Subsidy Agreement must be approved by the governing body of the Grantor. Because the EDA assumes primary responsibility for development activities within the City of Hermantown, the EDA will serve as the recommending body for City Council's approval for subsidies where the City is the Grantor.

The Business Subsidy Agreement must be executed by both the Grantor and the Recipient and comply with the provisions of Section 116J.994, subdivisions 3 and 6 of the Business Subsidy Act.

G. Fees

All applicants will be responsible for any legal, financial, consultant and other costs associated with the review of the application. Specific application fees or escrow requirements may be detailed in program-specific policies. The City will provide the applicant with an estimate of the potential costs attributable to the project prior to submittal of the application.

H. Reports

The Recipient and Grantor must comply with the annual reporting requirements set forth in Section 116J.994, subd. 7 and 8 of the Business Subsidy Act.

I. Examples of Subsidy Public Purposes

Grantors may consider the following public purposes, among others, when considering the applicant's request:

- The project will preserve or increase the City's tax base.
- The project provides a service or meets a consumer need not currently met or which is underserved in the City.
- The project represents a significant investment in an area of the City that is economically depressed.
- Encourage the removal of blight or the rehabilitation of a high profile or priority site.
- The project will enhance the value of surrounding properties, stabilize the area, or foster a "sense

of place" improvements requested by the City.

- The project will anchor a needed commercial center in the City.
- The project will enhance the viability of other businesses in the City.
- The project will assist in the orderly growth of the City and generate significant economic spin off.
- The project will prevent the closure of businesses due to merger, physical expansion, change in market or economic factors, downsizing, and other factors of business needed in the community.
- A Business Subsidy will permit the project to be of a higher quality, employ more people, pay higher wages, or in some way be of more value to the City.
- The project will include or offset the costs associated with necessary environmental clean-up or other increased costs of redevelopment (i.e., contaminated site clean-up, demolition expenses, etc.) over and above the costs normally incurred in development.
- To enhance and diversify the City of Hermantown's economic base.
- To facilitate the development process to achieve development on sites which would not be developed without assistance or would not be developed at a level of quality acceptable to the Council and the Community.
- To encourage (re)development of commercial and industrial areas in the City that result in high quality (re)development and private investment.
- To create housing opportunities.
- To retain local jobs or increase the number and diversity of jobs that offer stable employment and/or attractive wages and benefits, in accordance with the job and wage goals set forth in Section C of the Business Subsidy Policy.
- To finance the costs associated with public infrastructure and public facilities.
- To contribute to the implementation of other public policies or goals as adopted by the City, such as the promotion of quality architectural design, enhanced recreational opportunities, and decreasing capital and/or operating costs of local government.

NOTE: By state law, increasing the tax base may not be solely used as a public purpose, nor can job retention be used unless job loss is specific and demonstrable.

Tax Abatement Policy

This Tax Abatement Policy (TAF Policy) is an addendum to the City of Hermantown's Business Subsidy Policy (BSP) and is specifically applicable to the use of tax abatement as a form of Business Subsidy. The BSP is the governing and ruling policy for all Business Subsidies provided by the City and/or the EDA. Please refer to the BSA for definitions, general criteria, job and wage goals, general requirements, and examples of subsidy public purposes.

This TAF Policy outlines the specific criteria, process, and requirements for Tax Abatement Financing (TAF) projects, which must also comply with all general requirements set forth in the BSP, as well as applicable state statutes, including the Minnesota Tax Abatement Act (Minnesota Statutes, Section 469.1812 to 469.1815, as amended) and the Business Subsidy Act (Minnesota Statutes, Section 116J.993 to 116J.995, as amended).

In the City of Hermantown, the City is the Grantor (as defined in the BSP) for TAF projects and the Economic Development Authority for the City of Hermantown (EDA) is the recommending body. Administration of this policy shall be the responsibility of the EDA. The term “City” as used in this policy shall include both the City of Hermantown and the EDA.

TAF in this context is a rebate of taxes, rather than an exemption from paying property taxes. TAF will be provided to private developers as a reimbursement upon receipt of taxes by the City, otherwise referred to as the “pay-as-you-go” method.

The City retains the sole and absolute discretion to grant or deny any request for TAF for any reason. The City shall have the option of amending or waiving sections of this policy if it has determined that the total economic benefit exceeds this policy’s intent, provided such waivers do not conflict with state law.

A request for TAF meeting this policies criterion does not guarantee the award of TAF to a project. Approval or denial of one project is not intended to set precedent for approval or denial of another project.

As a matter of adopted policy, TAF will be limited to priority geographies within the City of Hermantown. Priority areas are identified in **Exhibit A (TAF Eligible Area).**

Evaluation Criteria

The decision to use TAF for a project will be based on the following criteria, in addition to meeting all the general Business Subsidy Criteria outlined in Section B of the governing Business Subsidy Policy:

- The project shall comply with all provisions set forth in Minnesota's Tax Abatement Law, (Minnesota Statutes 469.1812 to 469.1815) as amended.
- The use of tax abatement will be limited to:
    - Industrial, manufacturing, & commercial development, expansion, redevelopment, or rehabilitation;
    - Retail
    - Housing
        - For sale single family housing with ownership availability of 115% of statewide median income.
        - Multi-family housing of 4 or more units
- Public infrastructure
- In any given calendar year, the total amount of property taxes abated by the City may not exceed ten percent (10%) of the net tax capacity of the City or other applicable limitations existing in current law.
- Tax abatement cannot be granted for any period while the property is located in a tax increment financing district.

Application Process

Businesses or developers seeking TAF must follow the application process outlined in Section G of the Business Subsidy Policy. Applications must identify it as an application for TAF.

All TAF applications must include:

- A letter formally requesting TAF from the City of Hermantown.
- A completed application for tax abatement with all supporting material attached.
- A nonrefundable application fee of $500.

The actual cost of searches, credit reports, filing fees, and legal fees will be paid directly by the applicant. A Reimbursement Agreement for cash escrow may be required.

Fees will be waived if the City serves as developer.

An independent financial analysis by the City's public financing consultant may be requested, the cost of

which will be the responsibility of the applicant.

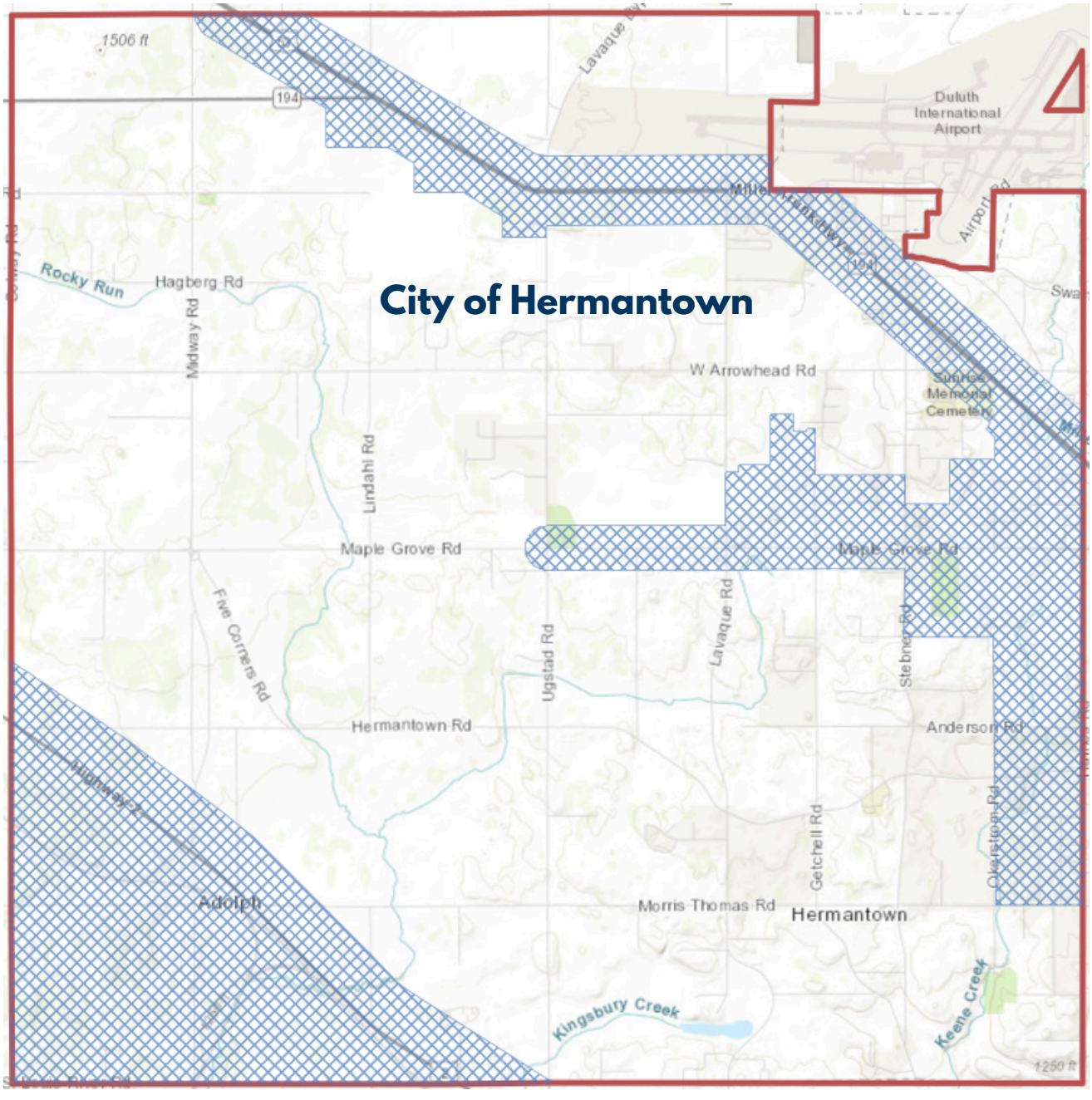
Approval Process

The approval process for TAF follows the general process and requirements outlined in Section E of the governing Business Subsidy Policy and must adhere to the requirements of Minnesota Statutes 469.1813 as amended.

Subsidy Agreement and Annual Reporting Requirements

Projects granted TAF are subject to the Subsidy Agreement requirements (Section E) and Annual Reporting Requirements (Section I) as set forth in the governing Business Subsidy Policy and Minnesota Statutes 116J.993 and 116J.994, as amended. See the City's Business Subsidy Policy for additional information.

Exhibit A
TAF Eligible Area

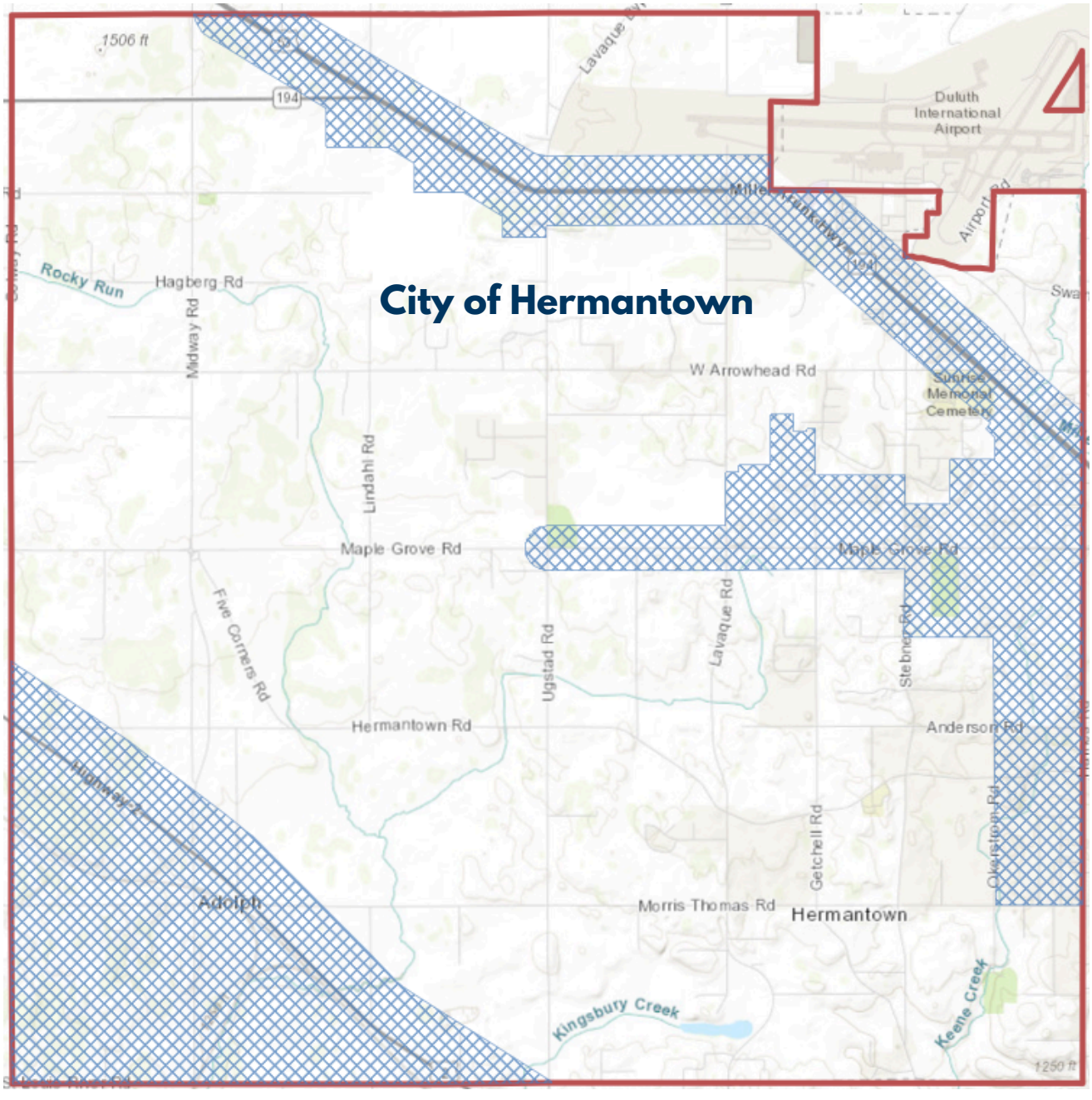


Legend:

TAF Eligible Area

City Boundary

Exhibit A
TAF Eligible Area



Legend:

TAF Eligible Area

City Boundary

Tax Increment Financing Policy

This Tax Increment Financing Policy (TIF Policy) is an addendum to the City of Hermantown's (the "City") Business Subsidy Policy (BSP) and is specifically applicable to the use of tax increment financing as a form of Business Subsidy. The BSP is the governing and ruling policy for all Business Subsidies provided by the City and/or the Economic Development Authority for the City of Hermantown (the "EDA"). Please refer to the BSP for general criteria, job and wage goals, general requirements, and examples of subsidy public purposes.

This TIF Policy outlines the specific criteria, process, and requirements for projects seeking Tax Increment Financing (TIF), which must also comply with all general requirements set forth in the BSP, as well as applicable state statutes, including the Minnesota Tax Increment Financing Act (Minnesota Statutes, Sections 469.174 to 469.1794, as amended) and the Business Subsidy Act (Minnesota Statutes, Sections 116J.993 to 116J.995, as amended).

In the City of Hermantown, the City is responsible for all TIF districts, including approving, establishing and managing all TIF districts (defined below) within its jurisdiction; Because the EDA assumes primary responsibility for development activities within the City of Hermantown, the EDA is the recommending body for TIF districts and associated projects. Administration of this policy shall be the responsibility of the EDA.

TIF is a method of financing associated with public improvements and real estate development by capturing the increase in property taxes resulting from new development within a defined geographic area (a "TIF district"). These captured increases in property tax, referred to as tax increment, are used to pay for TIF-eligible costs of development or redevelopment. The City may issue public bonds, dedicating the tax increment toward repayment, or it may elect to provide TIF through the "pay-as-you-go" method, where TIF will be provided to private developers as a reimbursement upon receipt of taxes by the City. The amount of TIF available, the uses of tax increment, and other details regarding the terms of any proposed TIF district will be contemplated in a TIF Plan, which must be approved by City Council.

The City retains the sole and absolute discretion to grant or deny any request for TIF for any reason. The City shall have the option of amending or waiving sections of this policy if it has determined that the total economic benefit exceeds this policy's intent, provided such waivers do not conflict with the governing Business Subsidy Policy or state law. Meeting this policy's criterion does not guarantee the award of TIF to a project. Approval or denial of one project is not intended to set precedent for approval or denial of another project.

As a matter of adopted policy, the creation of TIF districts and the use of TIF will be limited to priority

geographies within the City of Hermantown. Priority areas are identified in **Exhibit A (TIF Eligible Area)**.

Evaluation Criteria

The decision to use TIF for a project will be based on the following criteria, in addition to meeting all the general Business Subsidy Criteria outlined in Section B of the governing Business Subsidy Policy:

- The project shall comply with all provisions set forth in the Minnesota Tax Increment Financing Act (Minnesota Statutes, Sections 469.174 to 469.1794), as amended.
- The use of tax increment financing will be considered for projects that align with the authorized types of TIF districts and eligible activities under Minnesota Statutes, Sections 469.174 to 469.1794. These may include:
    - **Redevelopment Districts:** To finance costs associated with the redevelopment of blighted areas, requiring that a significant percentage of the land parcels and buildings meet specific criteria for substandard conditions (Minn. Stat. § 469.174, Subd. 10).
    - **Housing Districts:** To assist with projects intended for occupancy, in part, by persons or families of low and moderate income, with limitations on the amount of nonresidential space (Minn. Stat. § 469.174, Subd. 11).
    - **Economic Development Districts:** To assist with projects that increase the tax base and create employment, typically for manufacturing, processing, warehousing, storage, distribution, telemarketing, and tourism facilities (Minn. Stat. § 469.174, Subd. 12).
    - **Renewal and Renovation Districts:** Similar to redevelopment districts but with different criteria focused on inappropriate and obsolete land use (Minn. Stat. § 469.174, Subd. 10a).
    - **Soils Condition Districts:** To finance costs associated with the remediation of hazardous substances, pollution, or contaminants (Minn. Stat. § 469.174, Subd. 19).
    - **Public Infrastructure:** TIF can be used to finance public improvements that are directly related to the development project and are eligible under the specific TIF district type (Minn. Stat. § 469.176).

The creation of a TIF district requires certification of the original tax capacity and the capture of increased property taxes (tax increment) resulting from the development (Minn. Stat. § 469.177). The use of tax increment is subject to limitations on expenditure and duration as specified in Minnesota Statutes, Sections 469.174 to 469.1794 (Minn. Stat. § 469.176).

Application Process

Businesses and developers seeking TIF must follow the application process outlined in Section E of the

Business Subsidy Policy. Applications must identify it as an application for TIF.

All TIF applications must include:

- A letter formally requesting TIF from the City of Hermantown.
- A completed application for tax increment financing with all supporting material attached.
- A nonrefundable application fee of $2,000. A Reimbursement Agreement for cash escrow will be required, and the actual cost of searches, credit reports, filing fees, and legal fees will be paid directly through escrow funds. Fees will be waived if the City or EDA serves as the applicant.
- An independent financial analysis by the City's public financing consultant may be requested, the cost of which will be the responsibility of the applicant.

Approval Process

The approval process for TIF follows the general process and requirements outlined in Section E of the governing Business Subsidy Policy and must adhere to the requirements of Minnesota Statutes, Sections 469.174 to 469.1794, including the requirements for establishing and modifying TIF plans. The City Council must have final approval in the creation of the TIF district and the TIF Plan (Minn. Stat. § 469.175). Applicant will reimburse the City for the cost of creating a TIF Plan, unless this requirement is waived; the City will secure approval from the applicant before proceeding with the TIF Plan.

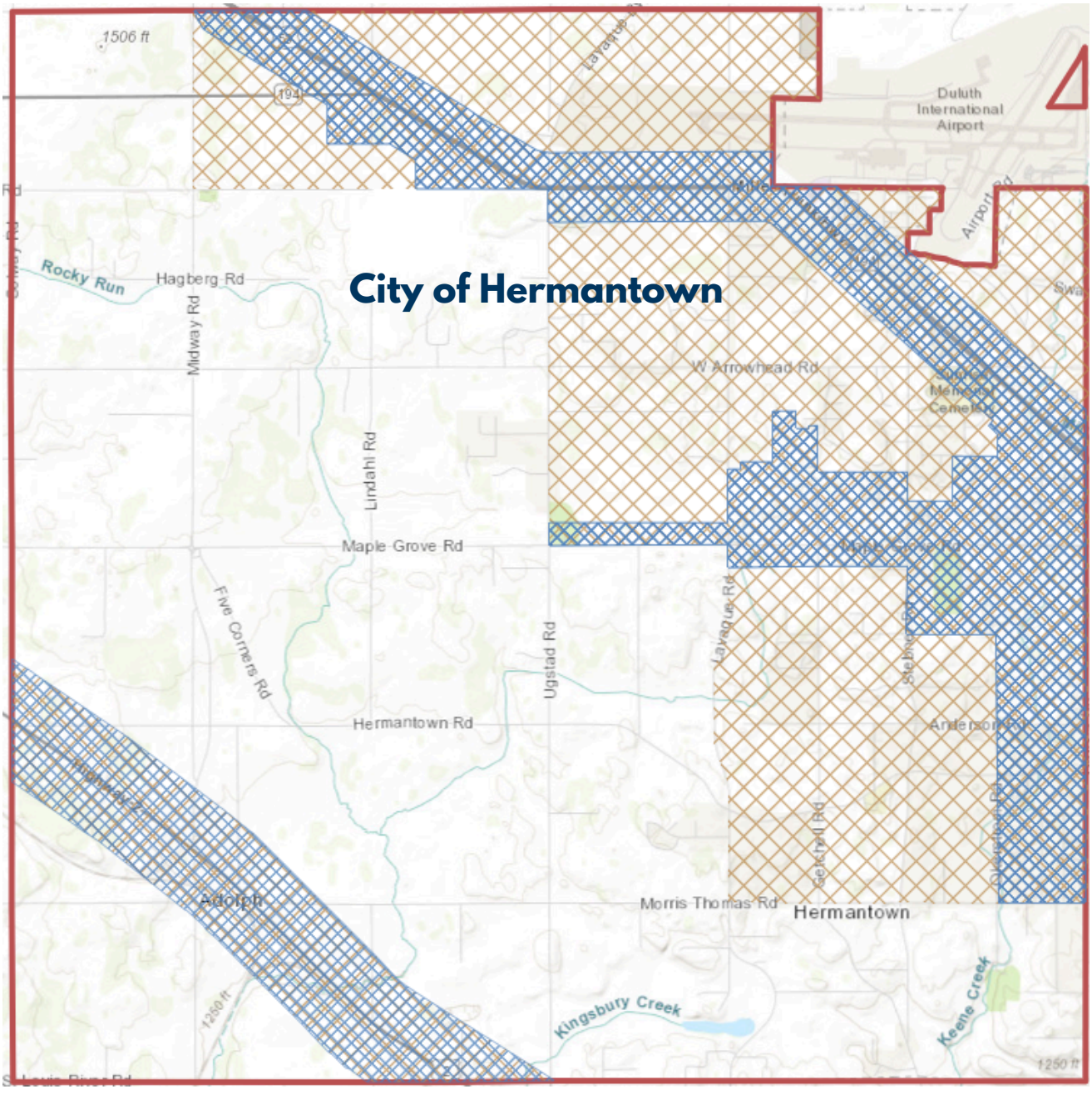
Subsidy Agreements and Annual Reporting Requirements

Projects granted TIF are subject to the Subsidy Agreement requirements (Section F of the BSP) and Annual Reporting Requirements (Section H of the BSP) as set forth in the governing Business Subsidy Policy and Minnesota Statutes, Sections 116J.993 and 116J.994, as amended.

Additionally, all TIF districts are subject to annual financial reporting requirements to the State Auditor in accordance with Minnesota Statutes, Section 469.175, subdivision 1. The State Auditor also has the authority to examine and audit the use of TIF to ensure compliance with the law (Minn. Stat. § 469.1771).

See the City's Business Subsidy Policy for additional information.

Exhibit A
TIF Eligible Area



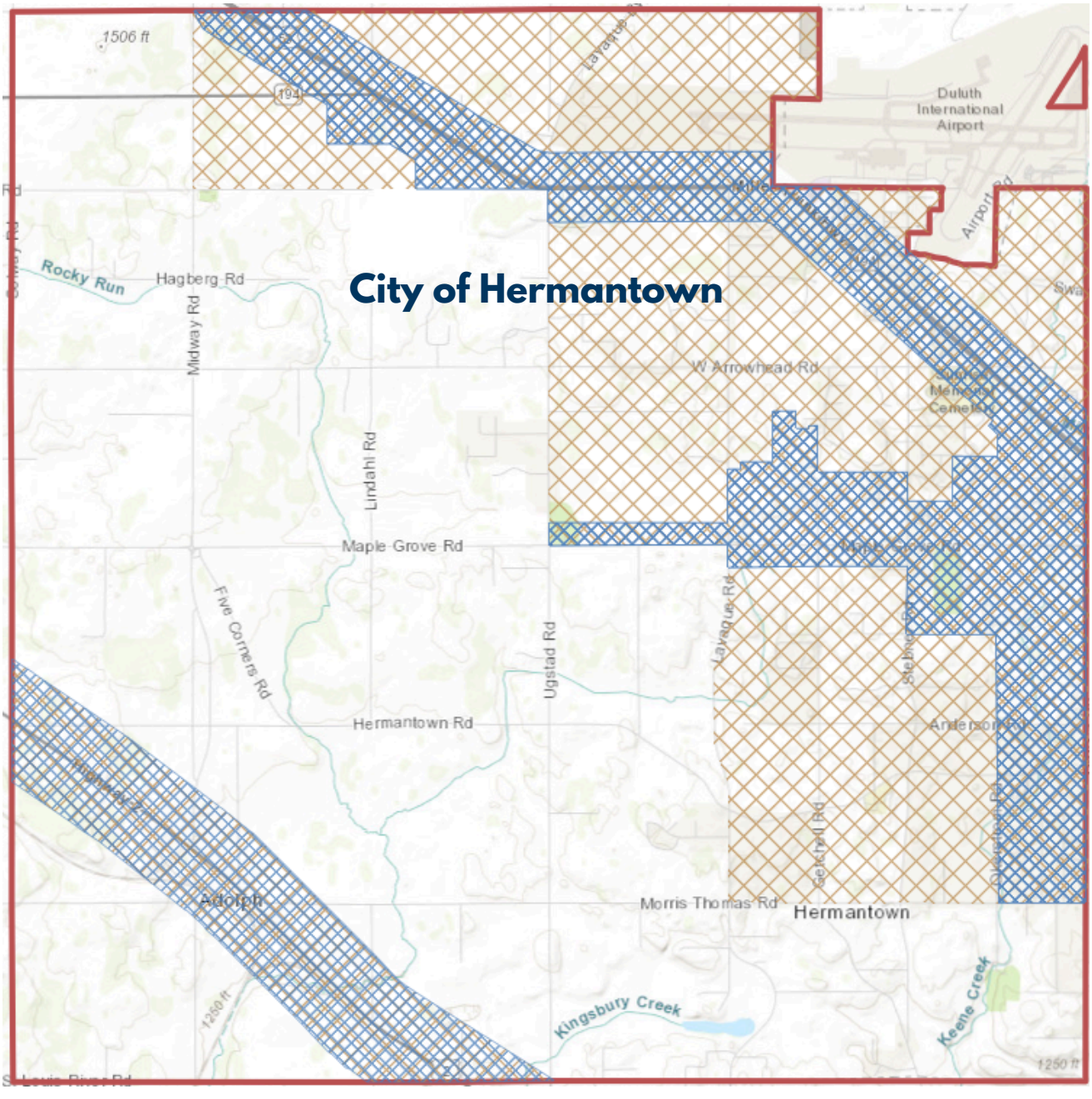
Legend:

Development District 1

TIF Eligible Area

City Boundary

Exhibit A
TIF Eligible Area



Legend:

Development District 1

TIF Eligible Area

City Boundary