

HOUSE OF REPRESENTATIVES**EIGHTY-SEVENTH SESSION****H. F. No. 2690**

03/05/2012 Authored by Davids, Runbeck and Loon

The bill was read for the first time and referred to the Committee on Taxes

04/02/2012 Adoption of Report: Pass as Amended and Read Second Time

A bill for an act

1.1 relating to taxation; making technical, administrative, and clarifying changes to
 1.2 individual income, corporate franchise, estate, property, sales and use, special,
 1.3 mineral, and various taxes and tax-related provisions; amending Minnesota
 1.4 Statutes 2010, sections 16C.16, subdivision 7; 41A.036, subdivision 2; 117.025,
 1.5 subdivision 10; 216C.436, subdivisions 7, 8; 270B.14, subdivision 3; 272.02,
 1.6 subdivision 77; 273.13, subdivision 24; 273.1398, subdivision 4; 276A.01,
 1.7 subdivision 3; 289A.10, by adding a subdivision; 289A.12, by adding a
 1.8 subdivision; 289A.18, by adding a subdivision; 289A.20, subdivision 3, by
 1.9 adding a subdivision; 290.01, subdivision 29; 290.067, subdivision 1; 290.0921,
 1.10 subdivision 3; 373.40, subdivisions 1, 2, 4; 469.015, subdivision 4; 469.033,
 1.11 subdivision 7; 469.166, subdivisions 3, 5, 6; 469.167, subdivision 2; 469.171,
 1.12 subdivisions 1, 4, 7, 9, 11; 469.172; 469.173, subdivisions 5, 6; 469.174,
 1.13 subdivisions 20, 25; 469.176, subdivision 7; 469.1763, subdivision 6; 469.1764,
 1.14 subdivision 1; 469.177, subdivision 1; 469.1793; 469.1813, subdivision 6b;
 1.15 473F.02, subdivision 3; 474A.02, subdivision 23a; 475.521, subdivisions 2, 4;
 1.16 475.58, subdivision 3b; Minnesota Statutes 2011 Supplement, sections 290.01,
 1.17 subdivision 19b; 290.06, subdivision 2c; 290.0671, subdivision 1; 290.091,
 1.18 subdivision 2; 290.0922, subdivisions 2, 3; 291.03, subdivisions 8, 9, 10, 11;
 1.19 297A.75, subdivision 1; repealing Minnesota Statutes 2010, sections 272.02,
 1.20 subdivision 83; 290.06, subdivisions 24, 32; 297A.68, subdivision 41; 469.042,
 1.21 subdivisions 2, 3, 4; 469.043; 469.059, subdivision 13; 469.129; 469.134;
 1.22 469.162, subdivision 2; 469.1651; 469.166, subdivisions 7, 8, 9, 10, 11, 12;
 1.23 469.167, subdivisions 1, 3; 469.168; 469.169, subdivisions 1, 2, 3, 4, 5, 6,
 1.24 7, 8, 9, 10, 11, 13; 469.170, subdivisions 1, 2, 3, 4, 5, 5a, 5b, 5c, 5d, 5e, 6, 7,
 1.25 8; 469.171, subdivisions 2, 5, 6a, 6b; 469.173, subdivisions 1, 3; 469.1765;
 1.26 469.1791; 469.1799, subdivision 2; 469.301, subdivisions 1, 2, 3, 4, 5; 469.302;
 1.27 469.303; 469.304; 469.321; 469.3215; 469.322; 469.323; 469.324; 469.325;
 1.28 469.326; 469.327; 469.328; 469.329; 473.680.

1.30 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:

ARTICLE 1

ESTATE TAXES

Section 1. Minnesota Statutes 2010, section 289A.10, is amended by adding a subdivision to read:

Subd. 1a. **Recapture tax return required.** If a disposition or cessation as provided by section 291.03, subdivision 11, paragraph (a), has occurred, the qualified heir, as defined under section 291.03, subdivision 8, paragraph (c), or personal representative of the decedent's estate must submit a recapture tax return to the commissioner.

EFFECTIVE DATE. This section is effective for estates of decedents dying after June 30, 2011.

Sec. 2. Minnesota Statutes 2010, section 289A.12, is amended by adding a subdivision to read:

Subd. 18. **Returns by qualified heirs.** Within 24 months and within 36 months after a decedent's death, a qualified heir, as defined under section 291.03, subdivision 8, paragraph (c), must file a return with the commissioner relating to the qualified property received from the decedent.

EFFECTIVE DATE. This section is effective for estates of decedents dying after June 30, 2011.

Sec. 3. Minnesota Statutes 2010, section 289A.18, is amended by adding a subdivision to read:

Subd. 3a. **Recapture tax return.** A recapture tax return is due within six months after the date of the disposition or cessation as provided by section 291.03, subdivision 11, paragraph (a).

EFFECTIVE DATE. This section is effective for estates of decedents dying after June 30, 2011.

Sec. 4. Minnesota Statutes 2010, section 289A.20, subdivision 3, is amended to read:

Subd. 3. **Estate tax.** Taxes imposed by ~~chapter 291~~ section 291.03, subdivision 1, take effect at and upon the death of the person whose estate is subject to taxation and are due and payable on or before the expiration of nine months from that death.

3.1 **EFFECTIVE DATE.** This section is effective for estates of decedents dying after
3.2 June 30, 2011.

3.3 Sec. 5. Minnesota Statutes 2010, section 289A.20, is amended by adding a subdivision
3.4 to read:

3.5 Subd. 3a. **Recapture tax.** Taxes imposed by section 291.03, subdivision 11,
3.6 paragraph (b), are due and payable on or before the expiration of six months from the date
3.7 of disposition or cessation as provided by section 291.03, subdivision 11, paragraph (a).

3.8 **EFFECTIVE DATE.** This section is effective for estates of decedents dying after
3.9 June 30, 2011.

3.10 Sec. 6. Minnesota Statutes 2011 Supplement, section 291.03, subdivision 8, is
3.11 amended to read:

3.12 Subd. 8. **Definitions.** (a) For purposes of this section, the following terms have the
3.13 meanings given in this subdivision.

3.14 (b) "Family member" means a family member as defined in section 2032A(e)(2) of
3.15 the Internal Revenue Code or a trust whose present beneficiaries are all family members as
3.16 defined in section 2032A(e)(2) of the Internal Revenue Code.

3.17 (c) "Qualified heir" means a family member who acquired qualified property ~~from~~
3.18 upon the death of the decedent and satisfies the requirement under subdivision 9, clause
3.19 ~~(6)~~ (7), or subdivision 10, clause ~~(4)~~ (5), for the property.

3.20 (d) "Qualified property" means qualified small business property under subdivision
3.21 9 and qualified farm property under subdivision 10.

3.22 **EFFECTIVE DATE.** This section is effective for estates of decedents dying after
3.23 June 30, 2011.

3.24 Sec. 7. Minnesota Statutes 2011 Supplement, section 291.03, subdivision 9, is
3.25 amended to read:

3.26 Subd. 9. **Qualified small business property.** Property satisfying all of the following
3.27 requirements is qualified small business property:

3.28 (1) The value of the property was included in the federal adjusted taxable estate.

3.29 (2) The property consists of the assets of a trade or business or shares of stock or
3.30 other ownership interests in a corporation or other entity engaged in a trade or business.

3.31 ~~The decedent or the decedent's spouse must have materially participated in the trade or~~
3.32 ~~business within the meaning of section 469 of the Internal Revenue Code during the~~

4.1 ~~taxable year that ended before the date of the decedent's death.~~ Shares of stock in a
4.2 corporation or an ownership interest in another type of entity do not qualify under this
4.3 subdivision if the shares or ownership interests are traded on a public stock exchange at
4.4 any time during the three-year period ending on the decedent's date of death. For purposes
4.5 of this subdivision, an ownership interest includes the interest the decedent is deemed to
4.6 own under sections 2036, 2037, and 2038 of the Internal Revenue Code.

4.7 (3) During the decedent's taxable year that ended before the decedent's death, the
4.8 trade or business must not have been a passive activity within the meaning of section
4.9 469(c) of the Internal Revenue Code and the decedent or the decedent's spouse must have
4.10 materially participated in the trade or business within the meaning of section 469(h) of the
4.11 Internal Revenue Code, excluding section 469(h)(3) of the Internal Revenue Code and
4.12 any other provision provided by Treasury Department regulation that substitutes material
4.13 participation in prior taxable years for material participation in the taxable year that ended
4.14 before the decedent's death.

4.15 ~~(3)~~ (4) The gross annual sales of the trade or business were \$10,000,000 or less for
4.16 the last taxable year that ended before the date of the death of the decedent.

4.17 ~~(4)~~ (5) The property does not consist of cash ~~or~~ cash equivalents, publicly traded
4.18 securities, or assets not used in the operation of the trade or business. For property
4.19 consisting of shares of stock or other ownership interests in an entity, the ~~amount~~ value of
4.20 cash ~~or~~ cash equivalents, publicly traded securities, or assets not used in the operation of
4.21 the trade or business held by the corporation or other entity must be deducted from the
4.22 value of the property qualifying under this subdivision in proportion to the decedent's
4.23 share of ownership of the entity on the date of death.

4.24 ~~(5)~~ (6) The decedent continuously owned the property, including property the
4.25 decedent is deemed to own under sections 2036, 2037, and 2038 of the Internal Revenue
4.26 Code, for the three-year period ending on the date of death of the decedent. In the case of
4.27 a sole proprietor, if the property replaced similar property within the three-year period,
4.28 the replacement property will be treated as having been owned for the three-year period
4.29 ending on the date of death of the decedent.

4.30 ~~(6)~~ A family member continuously uses the property in the operation of the trade or
4.31 business for three years following the date of death of the decedent.

4.32 (7) For three years following the date of death of the decedent, the trade or business
4.33 is not a passive activity within the meaning of section 469(c) of the Internal Revenue
4.34 Code and a family member materially participates in the operation of the trade or business
4.35 within the meaning of section 469(h) of the Internal Revenue Code, excluding section
4.36 469(h)(3) of the Internal Revenue Code and any other provision provided by Treasury

5.1 Department regulation that substitutes material participation in prior taxable years for
5.2 material participation in the three years following the date of death of the decedent.

5.3 ~~(7)~~ (8) The estate and the qualified heir elect to treat the property as qualified small
5.4 business property and agree, in the form prescribed by the commissioner, to pay the
5.5 recapture tax under subdivision 11, if applicable.

5.6 **EFFECTIVE DATE.** This section is effective for estates of decedents dying after
5.7 June 30, 2011.

5.8 Sec. 8. Minnesota Statutes 2011 Supplement, section 291.03, subdivision 10, is
5.9 amended to read:

5.10 Subd. 10. **Qualified farm property.** Property satisfying all of the following
5.11 requirements is qualified farm property:

5.12 (1) The value of the property was included in the federal adjusted taxable estate.

5.13 (2) The property consists of agricultural land as defined by section 500.24,
5.14 subdivision 2, paragraph (g), and owned by a farm meeting the requirements of person
5.15 or entity that is not excluded from owning agricultural land by section 500.24, and was
5.16 classified for property tax purposes as the homestead of the decedent or the decedent's
5.17 spouse or both under section 273.124, and as class 2a property under section 273.13,
5.18 subdivision 23.

5.19 (3) For property taxes payable in the year of decedent's death, the decedent's interest
5.20 in the property was classified as the homestead of the decedent or the decedent's spouse or
5.21 both under section 273.124, and as class 2a property under section 273.13, subdivision 23.

5.22 (4) The decedent continuously owned the property, including property the decedent
5.23 is deemed to own under sections 2036, 2037, and 2038 of the Internal Revenue Code, for
5.24 the three-year period ending on the date of death of the decedent either by ownership of
5.25 the agricultural land or pursuant to holding an interest in an entity that is not excluded
5.26 from owning agricultural land under section 500.24.

5.27 ~~(4)~~ A family member continuously uses the property in the operation of the trade or
5.28 business (5) The property is classified for property tax purposes as class 2a property under
5.29 section 273.13, subdivision 23, for three years following the date of death of the decedent.

5.30 ~~(5)~~ (6) The estate and the qualified heir elect to treat the property as qualified farm
5.31 property and agree, in a form prescribed by the commissioner, to pay the recapture tax
5.32 under subdivision 11, if applicable.

5.33 **EFFECTIVE DATE.** This section is effective for estates of decedents dying after
5.34 June 30, 2011.

6.1 Sec. 9. Minnesota Statutes 2011 Supplement, section 291.03, subdivision 11, is
6.2 amended to read:

6.3 Subd. 11. **Recapture tax.** (a) If, within three years after the decedent's death and
6.4 before the death of the qualified heir, the qualified heir disposes of any interest in the
6.5 qualified property, other than by a disposition to a family member or qualifying entity,
6.6 or a family member ceases to ~~use the qualified property which was acquired or passed~~
6.7 ~~from the decedent~~ satisfy the requirement under subdivision 9, clause (7); or 10, clause
6.8 (5), an additional estate tax is imposed on the property. In the case of a sole proprietor, if
6.9 the qualified heir replaces qualified small business property excluded under subdivision 9
6.10 with similar property, then the qualified heir will not be treated as having disposed of an
6.11 interest in the qualified property.

6.12 (b) The amount of the additional tax equals the amount of the exclusion claimed with
6.13 respect to the qualified interest disposed of by the estate under subdivision 8, paragraph
6.14 (d), multiplied by 16 percent.

6.15 ~~(c) The additional tax under this subdivision is due on the day which is six months~~
6.16 ~~after the date of the disposition or cessation in paragraph (a).~~

6.17 (c) For purposes of paragraph (a), "qualifying entity" means a corporation or other
6.18 entity owned by a family member or family members that is not excluded from owning
6.19 agricultural land under section 500.24.

6.20 **EFFECTIVE DATE.** This section is effective for estates of decedents dying after
6.21 June 30, 2011.

6.22 ARTICLE 2

6.23 OBSOLETE PROVISIONS

6.24 Section 1. Minnesota Statutes 2010, section 16C.16, subdivision 7, is amended to read:

6.25 Subd. 7. **Economically disadvantaged areas.** (a) Except as otherwise provided in
6.26 paragraph (b), the commissioner may award up to a six percent preference in the amount
6.27 bid on state procurement to small businesses located in an economically disadvantaged
6.28 area.

6.29 (b) The commissioner may award up to a four percent preference in the amount bid
6.30 on state construction to small businesses located in an economically disadvantaged area.

6.31 (c) A business is located in an economically disadvantaged area if:

6.32 (1) the owner resides in or the business is located in a county in which the median
6.33 income for married couples is less than 70 percent of the state median income for married
6.34 couples;

7.1 (2) the owner resides in or the business is located in an area designated a labor
7.2 surplus area by the United States Department of Labor; or

7.3 (3) the business is a certified rehabilitation facility or extended employment provider
7.4 as described in chapter 268A.

7.5 (d) The commissioner may designate one or more areas designated as targeted
7.6 neighborhoods under section 469.202 or as border city enterprise zones under section
7.7 ~~469.167~~ 469.166 as economically disadvantaged areas for purposes of this subdivision
7.8 if the commissioner determines that this designation would further the purposes of this
7.9 section. If the owner of a small business resides or is employed in a designated area, the
7.10 small business is eligible for any preference provided under this subdivision.

7.11 (e) The Department of Revenue shall gather data necessary to make the
7.12 determinations required by paragraph (c), clause (1), and shall annually certify counties
7.13 that qualify under paragraph (c), clause (1). An area designated a labor surplus area
7.14 retains that status for 120 days after certified small businesses in the area are notified of
7.15 the termination of the designation by the United States Department of Labor.

7.16 Sec. 2. Minnesota Statutes 2010, section 41A.036, subdivision 2, is amended to read:

7.17 Subd. 2. **Small business development loans; preferences.** The following eligible
7.18 small businesses have preference among all business applicants for small business
7.19 development loans:

7.20 (1) businesses located in rural areas of the state that are experiencing the most
7.21 severe unemployment rates in the state;

7.22 (2) businesses that are likely to expand and provide additional permanent
7.23 employment in rural areas of the state, or enhance the quality of existing jobs in those
7.24 areas;

7.25 (3) businesses located in border communities that experience a competitive
7.26 disadvantage due to location;

7.27 (4) businesses that have been unable to obtain traditional financial assistance due to
7.28 a disadvantageous location, minority ownership, or other factors rather than due to the
7.29 business having been considered a poor financial risk;

7.30 (5) businesses that utilize state resources and reduce state dependence on outside
7.31 resources, and that produce products or services consistent with the long-term social and
7.32 economic needs of the state; and

7.33 (6) businesses located in ~~designated~~ border city enterprise zones, as described in
7.34 section ~~469.168~~ 469.166.

8.1 Sec. 3. Minnesota Statutes 2010, section 117.025, subdivision 10, is amended to read:

8.2 Subd. 10. **Public service corporation.** "Public service corporation" means a
8.3 utility, as defined by section 216E.01, subdivision 10; gas, electric, telephone, or cable
8.4 communications company; cooperative association; natural gas pipeline company;
8.5 crude oil or petroleum products pipeline company; municipal utility; municipality when
8.6 operating its municipally owned utilities; joint venture created pursuant to section 452.25
8.7 or 452.26; or municipal power or gas agency. Public service corporation also means a
8.8 municipality or public corporation when operating an airport under chapter 360 or 473, a
8.9 common carrier, a watershed district, or a drainage authority. ~~Public service corporation~~
8.10 ~~also means an entity operating a regional distribution center within an international~~
8.11 ~~economic development zone designated under section 469.322.~~

8.12 Sec. 4. Minnesota Statutes 2010, section 270B.14, subdivision 3, is amended to read:

8.13 Subd. 3. **Administration of enterprise, job opportunity, and biotechnology**
8.14 **and health sciences industry zone programs.** The commissioner may disclose return
8.15 information relating to the taxes imposed by chapters 290 and 297A to the Department of
8.16 Employment and Economic Development or a municipality ~~receiving an~~ with a border
8.17 city enterprise zone ~~designation as defined under section 469.169~~ 469.166, but only as
8.18 necessary to administer the funding limitations under section 469.169, ~~subdivision 7~~, or
8.19 to the Department of Employment and Economic Development and appropriate officials
8.20 from the local government units in which a qualified business is located but only as
8.21 necessary to enforce the job opportunity building zone benefits under section 469.315, or
8.22 biotechnology and health sciences industry zone benefits under section 469.336.

8.23 Sec. 5. Minnesota Statutes 2010, section 272.02, subdivision 77, is amended to read:

8.24 Subd. 77. **Property of housing and redevelopment authorities.** Property of
8.25 projects of housing and redevelopment authorities are exempt to the extent permitted by
8.26 ~~sections~~ section 469.042, subdivision 1, ~~and 469.043, subdivisions 2 and 5.~~

8.27 Sec. 6. Minnesota Statutes 2010, section 273.13, subdivision 24, is amended to read:

8.28 Subd. 24. **Class 3.** ~~(a)~~ Commercial and industrial property and utility real and
8.29 personal property is class 3a.

8.30 (1) Except as otherwise provided, each parcel of commercial, industrial, or utility
8.31 real property has a class rate of 1.5 percent of the first tier of market value, and 2.0 percent
8.32 of the remaining market value. In the case of contiguous parcels of property owned by the
8.33 same person or entity, only the value equal to the first-tier value of the contiguous parcels

9.1 qualifies for the reduced class rate, except that contiguous parcels owned by the same
 9.2 person or entity shall be eligible for the first-tier value class rate on each separate business
 9.3 operated by the owner of the property, provided the business is housed in a separate
 9.4 structure. For the purposes of this subdivision, the first tier means the first \$150,000 of
 9.5 market value. Real property owned in fee by a utility for transmission line right-of-way
 9.6 shall be classified at the class rate for the higher tier.

9.7 For purposes of this subdivision, parcels are considered to be contiguous even if
 9.8 they are separated from each other by a road, street, waterway, or other similar intervening
 9.9 type of property. Connections between parcels that consist of power lines or pipelines do
 9.10 not cause the parcels to be contiguous. Property owners who have contiguous parcels of
 9.11 property that constitute separate businesses that may qualify for the first-tier class rate shall
 9.12 notify the assessor by July 1, for treatment beginning in the following taxes payable year.

9.13 (2) All personal property that is: (i) part of an electric generation, transmission, or
 9.14 distribution system; or (ii) part of a pipeline system transporting or distributing water, gas,
 9.15 crude oil, or petroleum products; and (iii) not described in clause (3), and all railroad
 9.16 operating property has a class rate as provided under clause (1) for the first tier of market
 9.17 value and the remaining market value. In the case of multiple parcels in one county that
 9.18 are owned by one person or entity, only one first tier amount is eligible for the reduced rate.

9.19 (3) The entire market value of personal property that is: (i) tools, implements, and
 9.20 machinery of an electric generation, transmission, or distribution system; (ii) tools,
 9.21 implements, and machinery of a pipeline system transporting or distributing water, gas,
 9.22 crude oil, or petroleum products; or (iii) the mains and pipes used in the distribution of
 9.23 steam or hot or chilled water for heating or cooling buildings, has a class rate as provided
 9.24 under clause (1) for the remaining market value in excess of the first tier.

9.25 ~~(b) Employment property defined in section 469.166, during the period provided~~
 9.26 ~~in section 469.170, shall constitute class 3b. The class rates for class 3b property are~~
 9.27 ~~determined under paragraph (a).~~

9.28 Sec. 7. Minnesota Statutes 2010, section 273.1398, subdivision 4, is amended to read:

9.29 Subd. 4. **Disparity reduction credit.** (a) Beginning with taxes payable in 1989,
 9.30 class 4a, and class 3a, ~~and class 3b~~ property qualifies for a disparity reduction credit if: (1)
 9.31 the property is located in a border city that has an enterprise zone ~~designated pursuant to~~
 9.32 ~~section 469.168, subdivision 4,~~ as defined in section 469.166; (2) the property is located
 9.33 in a city with a population greater than 2,500 and less than 35,000 according to the
 9.34 1980 decennial census; (3) the city is adjacent to a city in another state or immediately
 9.35 adjacent to a city adjacent to a city in another state; and (4) the adjacent city in the

10.1 other state has a population of greater than 5,000 and less than 75,000 according to the
10.2 1980 decennial census.

10.3 (b) The credit is an amount sufficient to reduce (i) the taxes levied on class 4a
10.4 property to 2.3 percent of the property's market value and (ii) the tax on class 3a ~~and class~~
10.5 ~~3b~~ property to 2.3 percent of market value.

10.6 (c) The county auditor shall annually certify the costs of the credits to the
10.7 Department of Revenue. The department shall reimburse local governments for the
10.8 property taxes forgone as the result of the credits in proportion to their total levies.

10.9 Sec. 8. Minnesota Statutes 2010, section 276A.01, subdivision 3, is amended to read:

10.10 Subd. 3. **Commercial-industrial property.** "Commercial-industrial property"
10.11 means the following categories of property, as defined in section 273.13, excluding that
10.12 portion of the property (i) that may, by law, constitute the tax base for a tax increment
10.13 pledged pursuant to ~~section 469.042 or 469.162~~ or sections 469.174 to 469.178,
10.14 certification of which was requested prior to May 1, 1996, to the extent and while the tax
10.15 increment is so pledged; or (ii) that is exempt from taxation under section 272.02:

10.16 (1) that portion of class 5 property consisting of unmined iron ore and low-grade
10.17 iron-bearing formations as defined in section 273.14, tools, implements, and machinery,
10.18 except the portion of high voltage transmission lines, the value of which is deducted from
10.19 net tax capacity under section 273.425; and

10.20 (2) that portion of class 3 and class 5 property which is either used or zoned for
10.21 use for any commercial or industrial purpose, including property that becomes taxable
10.22 under section 298.25, except for such property which is, or, in the case of property under
10.23 construction, will when completed be used exclusively for residential occupancy and
10.24 the provision of services to residential occupants thereof. Property must be considered
10.25 as used exclusively for residential occupancy only if each of not less than 80 percent
10.26 of its occupied residential units is, or, in the case of property under construction, will
10.27 when completed be occupied under an oral or written agreement for occupancy over a
10.28 continuous period of not less than 30 days.

10.29 If the classification of property prescribed by section 273.13 is modified by
10.30 legislative amendment, the references in this subdivision are to the successor class or
10.31 classes of property, or portions thereof, that include the kinds of property designated
10.32 in this subdivision.

10.33 Sec. 9. Minnesota Statutes 2011 Supplement, section 290.01, subdivision 19b, is
10.34 amended to read:

11.1 Subd. 19b. **Subtractions from federal taxable income.** For individuals, estates,
11.2 and trusts, there shall be subtracted from federal taxable income:

11.3 (1) net interest income on obligations of any authority, commission, or
11.4 instrumentality of the United States to the extent includable in taxable income for federal
11.5 income tax purposes but exempt from state income tax under the laws of the United States;

11.6 (2) if included in federal taxable income, the amount of any overpayment of income
11.7 tax to Minnesota or to any other state, for any previous taxable year, whether the amount
11.8 is received as a refund or as a credit to another taxable year's income tax liability;

11.9 (3) the amount paid to others, less the amount used to claim the credit allowed under
11.10 section 290.0674, not to exceed \$1,625 for each qualifying child in grades kindergarten
11.11 to 6 and \$2,500 for each qualifying child in grades 7 to 12, for tuition, textbooks, and
11.12 transportation of each qualifying child in attending an elementary or secondary school
11.13 situated in Minnesota, North Dakota, South Dakota, Iowa, or Wisconsin, wherein a
11.14 resident of this state may legally fulfill the state's compulsory attendance laws, which
11.15 is not operated for profit, and which adheres to the provisions of the Civil Rights Act
11.16 of 1964 and chapter 363A. For the purposes of this clause, "tuition" includes fees or
11.17 tuition as defined in section 290.0674, subdivision 1, clause (1). As used in this clause,
11.18 "textbooks" includes books and other instructional materials and equipment purchased
11.19 or leased for use in elementary and secondary schools in teaching only those subjects
11.20 legally and commonly taught in public elementary and secondary schools in this state.
11.21 Equipment expenses qualifying for deduction includes expenses as defined and limited in
11.22 section 290.0674, subdivision 1, clause (3). "Textbooks" does not include instructional
11.23 books and materials used in the teaching of religious tenets, doctrines, or worship, the
11.24 purpose of which is to instill such tenets, doctrines, or worship, nor does it include books
11.25 or materials for, or transportation to, extracurricular activities including sporting events,
11.26 musical or dramatic events, speech activities, driver's education, or similar programs. No
11.27 deduction is permitted for any expense the taxpayer incurred in using the taxpayer's or
11.28 the qualifying child's vehicle to provide such transportation for a qualifying child. For
11.29 purposes of the subtraction provided by this clause, "qualifying child" has the meaning
11.30 given in section 32(c)(3) of the Internal Revenue Code;

11.31 (4) income as provided under section 290.0802;

11.32 (5) to the extent included in federal adjusted gross income, income realized on
11.33 disposition of property exempt from tax under section 290.491;

11.34 (6) to the extent not deducted or not deductible pursuant to section 408(d)(8)(E)
11.35 of the Internal Revenue Code in determining federal taxable income by an individual
11.36 who does not itemize deductions for federal income tax purposes for the taxable year, an

12.1 amount equal to 50 percent of the excess of charitable contributions over \$500 allowable
12.2 as a deduction for the taxable year under section 170(a) of the Internal Revenue Code,
12.3 under the provisions of Public Law 109-1 and Public Law 111-126;

12.4 (7) for individuals who are allowed a federal foreign tax credit for taxes that do not
12.5 qualify for a credit under section 290.06, subdivision 22, an amount equal to the carryover
12.6 of subnational foreign taxes for the taxable year, but not to exceed the total subnational
12.7 foreign taxes reported in claiming the foreign tax credit. For purposes of this clause,
12.8 "federal foreign tax credit" means the credit allowed under section 27 of the Internal
12.9 Revenue Code, and "carryover of subnational foreign taxes" equals the carryover allowed
12.10 under section 904(c) of the Internal Revenue Code minus national level foreign taxes to
12.11 the extent they exceed the federal foreign tax credit;

12.12 (8) in each of the five tax years immediately following the tax year in which an
12.13 addition is required under subdivision 19a, clause (7), or 19c, clause (15), in the case
12.14 of a shareholder of a corporation that is an S corporation, an amount equal to one-fifth
12.15 of the delayed depreciation. For purposes of this clause, "delayed depreciation" means
12.16 the amount of the addition made by the taxpayer under subdivision 19a, clause (7), or
12.17 subdivision 19c, clause (15), in the case of a shareholder of an S corporation, minus the
12.18 positive value of any net operating loss under section 172 of the Internal Revenue Code
12.19 generated for the tax year of the addition. The resulting delayed depreciation cannot be
12.20 less than zero;

12.21 (9) job opportunity building zone income as provided under section 469.316;

12.22 (10) to the extent included in federal taxable income, the amount of compensation
12.23 paid to members of the Minnesota National Guard or other reserve components of the
12.24 United States military for active service, excluding compensation for services performed
12.25 under the Active Guard Reserve (AGR) program. For purposes of this clause, "active
12.26 service" means (i) state active service as defined in section 190.05, subdivision 5a, clause
12.27 (1); or (ii) federally funded state active service as defined in section 190.05, subdivision
12.28 5b, but "active service" excludes service performed in accordance with section 190.08,
12.29 subdivision 3;

12.30 (11) to the extent included in federal taxable income, the amount of compensation
12.31 paid to Minnesota residents who are members of the armed forces of the United States
12.32 or United Nations for active duty performed under United States Code, title 10; or the
12.33 authority of the United Nations;

12.34 (12) an amount, not to exceed \$10,000, equal to qualified expenses related to a
12.35 qualified donor's donation, while living, of one or more of the qualified donor's organs
12.36 to another person for human organ transplantation. For purposes of this clause, "organ"

13.1 means all or part of an individual's liver, pancreas, kidney, intestine, lung, or bone marrow;
13.2 "human organ transplantation" means the medical procedure by which transfer of a human
13.3 organ is made from the body of one person to the body of another person; "qualified
13.4 expenses" means unreimbursed expenses for both the individual and the qualified donor
13.5 for (i) travel, (ii) lodging, and (iii) lost wages net of sick pay, except that such expenses
13.6 may be subtracted under this clause only once; and "qualified donor" means the individual
13.7 or the individual's dependent, as defined in section 152 of the Internal Revenue Code. An
13.8 individual may claim the subtraction in this clause for each instance of organ donation for
13.9 transplantation during the taxable year in which the qualified expenses occur;

13.10 (13) in each of the five tax years immediately following the tax year in which an
13.11 addition is required under subdivision 19a, clause (8), or 19c, clause ~~(16)~~ (15), in the case
13.12 of a shareholder of a corporation that is an S corporation, an amount equal to one-fifth
13.13 of the addition made by the taxpayer under subdivision 19a, clause (8), or 19c, clause
13.14 ~~(16)~~ (15), in the case of a shareholder of a corporation that is an S corporation, minus the
13.15 positive value of any net operating loss under section 172 of the Internal Revenue Code
13.16 generated for the tax year of the addition. If the net operating loss exceeds the addition for
13.17 the tax year, a subtraction is not allowed under this clause;

13.18 (14) to the extent included in the federal taxable income of a nonresident of
13.19 Minnesota, compensation paid to a service member as defined in United States Code, title
13.20 10, section 101(a)(5), for military service as defined in the Servicemembers Civil Relief
13.21 Act, Public Law 108-189, section 101(2);

13.22 (15) ~~international economic development zone income as provided under section~~
13.23 ~~469.325;~~

13.24 ~~(16)~~ to the extent included in federal taxable income, the amount of national service
13.25 educational awards received from the National Service Trust under United States Code,
13.26 title 42, sections 12601 to 12604, for service in an approved Americorps National Service
13.27 program;

13.28 ~~(17)~~ (16) to the extent included in federal taxable income, discharge of indebtedness
13.29 income resulting from reacquisition of business indebtedness included in federal taxable
13.30 income under section 108(i) of the Internal Revenue Code. This subtraction applies only
13.31 to the extent that the income was included in net income in a prior year as a result of the
13.32 addition under section 290.01, subdivision 19a, clause (16); and

13.33 ~~(18)~~ (17) the amount of the net operating loss allowed under section 290.095,
13.34 subdivision 11, paragraph (c).

13.35 Sec. 10. Minnesota Statutes 2010, section 290.01, subdivision 29, is amended to read:

14.1 Subd. 29. **Taxable income.** The term "taxable income" means:

14.2 (1) for individuals, estates, and trusts, the same as taxable net income;

14.3 (2) for corporations, the taxable net income less

14.4 (i) the net operating loss deduction under section 290.095;

14.5 (ii) the dividends received deduction under section 290.21, subdivision 4;

14.6 (iii) the exemption for operating in a job opportunity building zone under section

14.7 469.317; and

14.8 (iv) the exemption for operating in a biotechnology and health sciences industry

14.9 zone under section 469.337; ~~and~~

14.10 ~~(v) the exemption for operating in an international economic development zone~~

14.11 ~~under section 469.326.~~

14.12 Sec. 11. Minnesota Statutes 2011 Supplement, section 290.06, subdivision 2c, is

14.13 amended to read:

14.14 Subd. 2c. **Schedules of rates for individuals, estates, and trusts.** (a) The income

14.15 taxes imposed by this chapter upon married individuals filing joint returns and surviving

14.16 spouses as defined in section 2(a) of the Internal Revenue Code must be computed by

14.17 applying to their taxable net income the following schedule of rates:

- 14.18 (1) On the first \$25,680, 5.35 percent;
- 14.19 (2) On all over \$25,680, but not over \$102,030, 7.05 percent;
- 14.20 (3) On all over \$102,030, 7.85 percent.

14.21 Married individuals filing separate returns, estates, and trusts must compute their

14.22 income tax by applying the above rates to their taxable income, except that the income

14.23 brackets will be one-half of the above amounts.

14.24 (b) The income taxes imposed by this chapter upon unmarried individuals must be

14.25 computed by applying to taxable net income the following schedule of rates:

- 14.26 (1) On the first \$17,570, 5.35 percent;
- 14.27 (2) On all over \$17,570, but not over \$57,710, 7.05 percent;
- 14.28 (3) On all over \$57,710, 7.85 percent.

14.29 (c) The income taxes imposed by this chapter upon unmarried individuals qualifying

14.30 as a head of household as defined in section 2(b) of the Internal Revenue Code must be

14.31 computed by applying to taxable net income the following schedule of rates:

- 14.32 (1) On the first \$21,630, 5.35 percent;
- 14.33 (2) On all over \$21,630, but not over \$86,910, 7.05 percent;
- 14.34 (3) On all over \$86,910, 7.85 percent.

15.1 (d) In lieu of a tax computed according to the rates set forth in this subdivision, the
15.2 tax of any individual taxpayer whose taxable net income for the taxable year is less than
15.3 an amount determined by the commissioner must be computed in accordance with tables
15.4 prepared and issued by the commissioner of revenue based on income brackets of not
15.5 more than \$100. The amount of tax for each bracket shall be computed at the rates set
15.6 forth in this subdivision, provided that the commissioner may disregard a fractional part of
15.7 a dollar unless it amounts to 50 cents or more, in which case it may be increased to \$1.

15.8 (e) An individual who is not a Minnesota resident for the entire year must compute
15.9 the individual's Minnesota income tax as provided in this subdivision. After the
15.10 application of the nonrefundable credits provided in this chapter, the tax liability must
15.11 then be multiplied by a fraction in which:

15.12 (1) the numerator is the individual's Minnesota source federal adjusted gross income
15.13 as defined in section 62 of the Internal Revenue Code and increased by the additions
15.14 required under section 290.01, subdivision 19a, clauses (1), (5), (6), (7), (8), (9), (12),
15.15 (13), and (16) to (18), and reduced by the Minnesota assignable portion of the subtraction
15.16 for United States government interest under section 290.01, subdivision 19b, clause (1),
15.17 and the subtractions under section 290.01, subdivision 19b, clauses (8), (9), (13), (14),
15.18 ~~(15), (17), (16)~~, and ~~(18)~~ (17), after applying the allocation and assignability provisions of
15.19 section 290.081, clause (a), or 290.17; and

15.20 (2) the denominator is the individual's federal adjusted gross income as defined in
15.21 section 62 of the Internal Revenue Code of 1986, increased by the amounts specified in
15.22 section 290.01, subdivision 19a, clauses (1), (5), (6), (7), (8), (9), (12), (13), and (16) to
15.23 (18), and reduced by the amounts specified in section 290.01, subdivision 19b, clauses (1),
15.24 (8), (9), (13), (14), ~~(15), (17)~~ (16), and ~~(18)~~ (17).

15.25 Sec. 12. Minnesota Statutes 2010, section 290.067, subdivision 1, is amended to read:

15.26 Subdivision 1. **Amount of credit.** (a) A taxpayer may take as a credit against the
15.27 tax due from the taxpayer and a spouse, if any, under this chapter an amount equal to the
15.28 dependent care credit for which the taxpayer is eligible pursuant to the provisions of
15.29 section 21 of the Internal Revenue Code subject to the limitations provided in subdivision
15.30 2 except that in determining whether the child qualified as a dependent, income received
15.31 as a Minnesota family investment program grant or allowance to or on behalf of the child
15.32 must not be taken into account in determining whether the child received more than half
15.33 of the child's support from the taxpayer, and the provisions of section 32(b)(1)(D) of
15.34 the Internal Revenue Code do not apply.

16.1 (b) If a child who has not attained the age of six years at the close of the taxable year
16.2 is cared for at a licensed family day care home operated by the child's parent, the taxpayer
16.3 is deemed to have paid employment-related expenses. If the child is 16 months old or
16.4 younger at the close of the taxable year, the amount of expenses deemed to have been paid
16.5 equals the maximum limit for one qualified individual under section 21(c) and (d) of the
16.6 Internal Revenue Code. If the child is older than 16 months of age but has not attained the
16.7 age of six years at the close of the taxable year, the amount of expenses deemed to have
16.8 been paid equals the amount the licensee would charge for the care of a child of the same
16.9 age for the same number of hours of care.

16.10 (c) If a married couple:

16.11 (1) has a child who has not attained the age of one year at the close of the taxable
16.12 year;

16.13 (2) files a joint tax return for the taxable year; and

16.14 (3) does not participate in a dependent care assistance program as defined in section
16.15 129 of the Internal Revenue Code, in lieu of the actual employment related expenses paid
16.16 for that child under paragraph (a) or the deemed amount under paragraph (b), the lesser of
16.17 (i) the combined earned income of the couple or (ii) the amount of the maximum limit for
16.18 one qualified individual under section 21(c) and (d) of the Internal Revenue Code will
16.19 be deemed to be the employment related expense paid for that child. The earned income
16.20 limitation of section 21(d) of the Internal Revenue Code shall not apply to this deemed
16.21 amount. These deemed amounts apply regardless of whether any employment-related
16.22 expenses have been paid.

16.23 (d) If the taxpayer is not required and does not file a federal individual income tax
16.24 return for the tax year, no credit is allowed for any amount paid to any person unless:

16.25 (1) the name, address, and taxpayer identification number of the person are included
16.26 on the return claiming the credit; or

16.27 (2) if the person is an organization described in section 501(c)(3) of the Internal
16.28 Revenue Code and exempt from tax under section 501(a) of the Internal Revenue Code,
16.29 the name and address of the person are included on the return claiming the credit.

16.30 In the case of a failure to provide the information required under the preceding sentence,
16.31 the preceding sentence does not apply if it is shown that the taxpayer exercised due
16.32 diligence in attempting to provide the information required.

16.33 In the case of a nonresident, part-year resident, or a person who has earned income
16.34 not subject to tax under this chapter including earned income excluded pursuant to section
16.35 290.01, subdivision 19b, clause (9) ~~or (15)~~, the credit determined under section 21 of the
16.36 Internal Revenue Code must be allocated based on the ratio by which the earned income

17.1 of the claimant and the claimant's spouse from Minnesota sources bears to the total earned
17.2 income of the claimant and the claimant's spouse.

17.3 For residents of Minnesota, the subtractions for military pay under section 290.01,
17.4 subdivision 19b, clauses (10) and (11), are not considered "earned income not subject to
17.5 tax under this chapter."

17.6 For residents of Minnesota, the exclusion of combat pay under section 112 of the
17.7 Internal Revenue Code is not considered "earned income not subject to tax under this
17.8 chapter."

17.9 Sec. 13. Minnesota Statutes 2011 Supplement, section 290.0671, subdivision 1,
17.10 is amended to read:

17.11 Subdivision 1. **Credit allowed.** (a) An individual is allowed a credit against the tax
17.12 imposed by this chapter equal to a percentage of earned income. To receive a credit, a
17.13 taxpayer must be eligible for a credit under section 32 of the Internal Revenue Code.

17.14 (b) For individuals with no qualifying children, the credit equals 1.9125 percent of
17.15 the first \$4,620 of earned income. The credit is reduced by 1.9125 percent of earned
17.16 income or adjusted gross income, whichever is greater, in excess of \$5,770, but in no
17.17 case is the credit less than zero.

17.18 (c) For individuals with one qualifying child, the credit equals 8.5 percent of the first
17.19 \$6,920 of earned income and 8.5 percent of earned income over \$12,080 but less than
17.20 \$13,450. The credit is reduced by 5.73 percent of earned income or adjusted gross income,
17.21 whichever is greater, in excess of \$15,080, but in no case is the credit less than zero.

17.22 (d) For individuals with two or more qualifying children, the credit equals ten
17.23 percent of the first \$9,720 of earned income and 20 percent of earned income over
17.24 \$14,860 but less than \$16,800. The credit is reduced by 10.3 percent of earned income
17.25 or adjusted gross income, whichever is greater, in excess of \$17,890, but in no case is
17.26 the credit less than zero.

17.27 (e) For a nonresident or part-year resident, the credit must be allocated based on the
17.28 percentage calculated under section 290.06, subdivision 2c, paragraph (e).

17.29 (f) For a person who was a resident for the entire tax year and has earned income
17.30 not subject to tax under this chapter, including income excluded under section 290.01,
17.31 subdivision 19b, clause (9) ~~or (15)~~, the credit must be allocated based on the ratio of
17.32 federal adjusted gross income reduced by the earned income not subject to tax under
17.33 this chapter over federal adjusted gross income. For purposes of this paragraph, the
17.34 subtractions for military pay under section 290.01, subdivision 19b, clauses (10) and (11),
17.35 are not considered "earned income not subject to tax under this chapter."

18.1 For the purposes of this paragraph, the exclusion of combat pay under section 112
18.2 of the Internal Revenue Code is not considered "earned income not subject to tax under
18.3 this chapter."

18.4 (g) For tax years beginning after December 31, 2007, and before December 31,
18.5 2010, the \$5,770 in paragraph (b), the \$15,080 in paragraph (c), and the \$17,890 in
18.6 paragraph (d), after being adjusted for inflation under subdivision 7, are each increased by
18.7 \$3,000 for married taxpayers filing joint returns. For tax years beginning after December
18.8 31, 2008, the commissioner shall annually adjust the \$3,000 by the percentage determined
18.9 pursuant to the provisions of section 1(f) of the Internal Revenue Code, except that in
18.10 section 1(f)(3)(B), the word "2007" shall be substituted for the word "1992." For 2009,
18.11 the commissioner shall then determine the percent change from the 12 months ending on
18.12 August 31, 2007, to the 12 months ending on August 31, 2008, and in each subsequent
18.13 year, from the 12 months ending on August 31, 2007, to the 12 months ending on August
18.14 31 of the year preceding the taxable year. The earned income thresholds as adjusted
18.15 for inflation must be rounded to the nearest \$10. If the amount ends in \$5, the amount
18.16 is rounded up to the nearest \$10. The determination of the commissioner under this
18.17 subdivision is not a rule under the Administrative Procedure Act.

18.18 (h) For tax years beginning after December 31, 2010, and before January 1, 2012,
18.19 the \$5,770 in paragraph (b), the \$15,080 in paragraph (c), and the \$17,890 in paragraph
18.20 (d), after being adjusted for inflation under subdivision 7, are each increased by \$5,000
18.21 for married taxpayers filing joint returns. For tax years beginning after December 31,
18.22 2010, and before January 1, 2012, the commissioner shall annually adjust the \$5,000
18.23 by the percentage determined pursuant to the provisions of section 1(f) of the Internal
18.24 Revenue Code, except that in section 1(f)(3)(B), the word "2008" shall be substituted for
18.25 the word "1992." For 2011, the commissioner shall then determine the percent change
18.26 from the 12 months ending on August 31, 2008, to the 12 months ending on August
18.27 31, 2010. The earned income thresholds as adjusted for inflation must be rounded to
18.28 the nearest \$10. If the amount ends in \$5, the amount is rounded up to the nearest \$10.
18.29 The determination of the commissioner under this subdivision is not a rule under the
18.30 Administrative Procedure Act.

18.31 (i) The commissioner shall construct tables showing the amount of the credit at
18.32 various income levels and make them available to taxpayers. The tables shall follow
18.33 the schedule contained in this subdivision, except that the commissioner may graduate
18.34 the transition between income brackets.

19.1 Sec. 14. Minnesota Statutes 2011 Supplement, section 290.091, subdivision 2, is
19.2 amended to read:

19.3 Subd. 2. **Definitions.** For purposes of the tax imposed by this section, the following
19.4 terms have the meanings given:

19.5 (a) "Alternative minimum taxable income" means the sum of the following for
19.6 the taxable year:

19.7 (1) the taxpayer's federal alternative minimum taxable income as defined in section
19.8 55(b)(2) of the Internal Revenue Code;

19.9 (2) the taxpayer's itemized deductions allowed in computing federal alternative
19.10 minimum taxable income, but excluding:

19.11 (i) the charitable contribution deduction under section 170 of the Internal Revenue
19.12 Code;

19.13 (ii) the medical expense deduction;

19.14 (iii) the casualty, theft, and disaster loss deduction; and

19.15 (iv) the impairment-related work expenses of a disabled person;

19.16 (3) for depletion allowances computed under section 613A(c) of the Internal
19.17 Revenue Code, with respect to each property (as defined in section 614 of the Internal
19.18 Revenue Code), to the extent not included in federal alternative minimum taxable income,
19.19 the excess of the deduction for depletion allowable under section 611 of the Internal
19.20 Revenue Code for the taxable year over the adjusted basis of the property at the end of the
19.21 taxable year (determined without regard to the depletion deduction for the taxable year);

19.22 (4) to the extent not included in federal alternative minimum taxable income, the
19.23 amount of the tax preference for intangible drilling cost under section 57(a)(2) of the
19.24 Internal Revenue Code determined without regard to subparagraph (E);

19.25 (5) to the extent not included in federal alternative minimum taxable income, the
19.26 amount of interest income as provided by section 290.01, subdivision 19a, clause (1); and

19.27 (6) the amount of addition required by section 290.01, subdivision 19a, clauses (7)
19.28 to (9), (12), (13), and (16) to (18);

19.29 less the sum of the amounts determined under the following:

19.30 (1) interest income as defined in section 290.01, subdivision 19b, clause (1);

19.31 (2) an overpayment of state income tax as provided by section 290.01, subdivision
19.32 19b, clause (2), to the extent included in federal alternative minimum taxable income;

19.33 (3) the amount of investment interest paid or accrued within the taxable year on
19.34 indebtedness to the extent that the amount does not exceed net investment income, as
19.35 defined in section 163(d)(4) of the Internal Revenue Code. Interest does not include
19.36 amounts deducted in computing federal adjusted gross income;

20.1 (4) amounts subtracted from federal taxable income as provided by section 290.01,
20.2 subdivision 19b, clauses (6), (8) to ~~(15)~~ (14), and ~~(17)~~ (16); and

20.3 (5) the amount of the net operating loss allowed under section 290.095, subdivision
20.4 11, paragraph (c).

20.5 In the case of an estate or trust, alternative minimum taxable income must be
20.6 computed as provided in section 59(c) of the Internal Revenue Code.

20.7 (b) "Investment interest" means investment interest as defined in section 163(d)(3)
20.8 of the Internal Revenue Code.

20.9 (c) "Net minimum tax" means the minimum tax imposed by this section.

20.10 (d) "Regular tax" means the tax that would be imposed under this chapter (without
20.11 regard to this section and section 290.032), reduced by the sum of the nonrefundable
20.12 credits allowed under this chapter.

20.13 (e) "Tentative minimum tax" equals 6.4 percent of alternative minimum taxable
20.14 income after subtracting the exemption amount determined under subdivision 3.

20.15 Sec. 15. Minnesota Statutes 2010, section 290.0921, subdivision 3, is amended to read:

20.16 Subd. 3. **Alternative minimum taxable income.** "Alternative minimum taxable
20.17 income" is Minnesota net income as defined in section 290.01, subdivision 19, and
20.18 includes the adjustments and tax preference items in sections 56, 57, 58, and 59(d), (e),
20.19 (f), and (h) of the Internal Revenue Code. If a corporation files a separate company
20.20 Minnesota tax return, the minimum tax must be computed on a separate company basis.
20.21 If a corporation is part of a tax group filing a unitary return, the minimum tax must be
20.22 computed on a unitary basis. The following adjustments must be made.

20.23 (1) For purposes of the depreciation adjustments under section 56(a)(1) and
20.24 56(g)(4)(A) of the Internal Revenue Code, the basis for depreciable property placed in
20.25 service in a taxable year beginning before January 1, 1990, is the adjusted basis for federal
20.26 income tax purposes, including any modification made in a taxable year under section
20.27 290.01, subdivision 19e, or Minnesota Statutes 1986, section 290.09, subdivision 7,
20.28 paragraph (c).

20.29 For taxable years beginning after December 31, 2000, the amount of any remaining
20.30 modification made under section 290.01, subdivision 19e, or Minnesota Statutes 1986,
20.31 section 290.09, subdivision 7, paragraph (c), not previously deducted is a depreciation
20.32 allowance in the first taxable year after December 31, 2000.

20.33 (2) The portion of the depreciation deduction allowed for federal income tax
20.34 purposes under section 168(k) of the Internal Revenue Code that is required as an

21.1 addition under section 290.01, subdivision 19c, clause (15), is disallowed in determining
21.2 alternative minimum taxable income.

21.3 (3) The subtraction for depreciation allowed under section 290.01, subdivision 19d,
21.4 clause (17), is allowed as a depreciation deduction in determining alternative minimum
21.5 taxable income.

21.6 (4) The alternative tax net operating loss deduction under sections 56(a)(4) and 56(d)
21.7 of the Internal Revenue Code does not apply.

21.8 (5) The special rule for certain dividends under section 56(g)(4)(C)(ii) of the Internal
21.9 Revenue Code does not apply.

21.10 (6) The special rule for dividends from section 936 companies under section
21.11 56(g)(4)(C)(iii) does not apply.

21.12 (7) The tax preference for depletion under section 57(a)(1) of the Internal Revenue
21.13 Code does not apply.

21.14 (8) The tax preference for intangible drilling costs under section 57(a)(2) of the
21.15 Internal Revenue Code must be calculated without regard to subparagraph (E) and the
21.16 subtraction under section 290.01, subdivision 19d, clause (4).

21.17 (9) The tax preference for tax exempt interest under section 57(a)(5) of the Internal
21.18 Revenue Code does not apply.

21.19 (10) The tax preference for charitable contributions of appreciated property under
21.20 section 57(a)(6) of the Internal Revenue Code does not apply.

21.21 (11) For purposes of calculating the tax preference for accelerated depreciation or
21.22 amortization on certain property placed in service before January 1, 1987, under section
21.23 57(a)(7) of the Internal Revenue Code, the deduction allowable for the taxable year is the
21.24 deduction allowed under section 290.01, subdivision 19e.

21.25 For taxable years beginning after December 31, 2000, the amount of any remaining
21.26 modification made under section 290.01, subdivision 19e, not previously deducted is a
21.27 depreciation or amortization allowance in the first taxable year after December 31, 2004.

21.28 (12) For purposes of calculating the adjustment for adjusted current earnings in
21.29 section 56(g) of the Internal Revenue Code, the term "alternative minimum taxable
21.30 income" as it is used in section 56(g) of the Internal Revenue Code, means alternative
21.31 minimum taxable income as defined in this subdivision, determined without regard to the
21.32 adjustment for adjusted current earnings in section 56(g) of the Internal Revenue Code.

21.33 (13) For purposes of determining the amount of adjusted current earnings under
21.34 section 56(g)(3) of the Internal Revenue Code, no adjustment shall be made under section
21.35 56(g)(4) of the Internal Revenue Code with respect to (i) the amount of foreign dividend
21.36 gross-up subtracted as provided in section 290.01, subdivision 19d, clause (1), (ii) the

22.1 amount of refunds of income, excise, or franchise taxes subtracted as provided in section
22.2 290.01, subdivision 19d, clause (9), or (iii) the amount of royalties, fees or other like
22.3 income subtracted as provided in section 290.01, subdivision 19d, clause (10).

22.4 (14) Alternative minimum taxable income excludes the income from operating in a
22.5 job opportunity building zone as provided under section 469.317.

22.6 (15) Alternative minimum taxable income excludes the income from operating in a
22.7 biotechnology and health sciences industry zone as provided under section 469.337.

22.8 ~~(16) Alternative minimum taxable income excludes the income from operating in an~~
22.9 ~~international economic development zone as provided under section 469.326.~~

22.10 Items of tax preference must not be reduced below zero as a result of the
22.11 modifications in this subdivision.

22.12 Sec. 16. Minnesota Statutes 2011 Supplement, section 290.0922, subdivision 2,
22.13 is amended to read:

22.14 Subd. 2. **Exemptions.** The following entities are exempt from the tax imposed
22.15 by this section:

22.16 (1) corporations exempt from tax under section 290.05;

22.17 (2) real estate investment trusts;

22.18 (3) regulated investment companies or a fund thereof; and

22.19 (4) entities having a valid election in effect under section 860D(b) of the Internal
22.20 Revenue Code;

22.21 (5) town and farmers' mutual insurance companies;

22.22 (6) cooperatives organized under chapter 308A or 308B that provide housing
22.23 exclusively to persons age 55 and over and are classified as homesteads under section
22.24 273.124, subdivision 3; and

22.25 (7) a qualified business as defined under section 469.310, subdivision 11, if for the
22.26 taxable year all of its property is located in a job opportunity building zone designated
22.27 under section 469.314 and all of its payroll is a job opportunity building zone payroll
22.28 under section 469.310; and

22.29 ~~(8) an entity, if for the taxable year all of its property is located in an international~~
22.30 ~~economic development zone designated under section 469.322, and all of its payroll is~~
22.31 ~~international economic development zone payroll under section 469.321. The exemption~~
22.32 ~~under this clause applies to taxable years beginning during the duration of the international~~
22.33 ~~economic development zone.~~

22.34 Entities not specifically exempted by this subdivision are subject to tax under this
22.35 section, notwithstanding section 290.05.

23.1 Sec. 17. Minnesota Statutes 2011 Supplement, section 290.0922, subdivision 3,
23.2 is amended to read:

23.3 Subd. 3. **Definitions.** (a) "Minnesota sales or receipts" means the total sales
23.4 apportioned to Minnesota pursuant to section 290.191, subdivision 5, the total receipts
23.5 attributed to Minnesota pursuant to section 290.191, subdivisions 6 to 8, and/or the
23.6 total sales or receipts apportioned or attributed to Minnesota pursuant to any other
23.7 apportionment formula applicable to the taxpayer.

23.8 (b) "Minnesota property" means total Minnesota tangible property as provided in
23.9 section 290.191, subdivisions 9 to 11, any other tangible property located in Minnesota,
23.10 but does not include: (1) the property of a qualified business as defined under section
23.11 469.310, subdivision 11, that is located in a job opportunity building zone designated under
23.12 section 469.314; and (2) property of a qualified business located in a biotechnology and
23.13 health sciences industry zone designated under section 469.334; ~~or (3) for taxable years~~
23.14 ~~beginning during the duration of the zone, property of a qualified business located in the~~
23.15 ~~international economic development zone designated under section 469.322.~~ Intangible
23.16 property shall not be included in Minnesota property for purposes of this section.
23.17 Taxpayers who do not utilize tangible property to apportion income shall nevertheless
23.18 include Minnesota property for purposes of this section. On a return for a short taxable
23.19 year, the amount of Minnesota property owned, as determined under section 290.191,
23.20 shall be included in Minnesota property based on a fraction in which the numerator is the
23.21 number of days in the short taxable year and the denominator is 365.

23.22 (c) "Minnesota payrolls" means total Minnesota payrolls as provided in section
23.23 290.191, subdivision 12, but does not include: (1) the job opportunity building zone
23.24 payroll under section 469.310, subdivision 8, of a qualified business as defined under
23.25 section 469.310, subdivision 11, and (2) biotechnology and health sciences industry zone
23.26 payrolls under section 469.330, subdivision 8; ~~or (3) for taxable years beginning during~~
23.27 ~~the duration of the zone, international economic development zone payrolls under section~~
23.28 ~~469.321, subdivision 9.~~ Taxpayers who do not utilize payrolls to apportion income shall
23.29 nevertheless include Minnesota payrolls for purposes of this section.

23.30 Sec. 18. Minnesota Statutes 2011 Supplement, section 297A.75, subdivision 1, is
23.31 amended to read:

23.32 Subdivision 1. **Tax collected.** The tax on the gross receipts from the sale of the
23.33 following exempt items must be imposed and collected as if the sale were taxable and the
23.34 rate under section 297A.62, subdivision 1, applied. The exempt items include:

23.35 (1) capital equipment exempt under section 297A.68, subdivision 5;

- 24.1 (2) building materials for an agricultural processing facility exempt under section
 24.2 297A.71, subdivision 13;
- 24.3 (3) building materials for mineral production facilities exempt under section
 24.4 297A.71, subdivision 14;
- 24.5 (4) building materials for correctional facilities under section 297A.71, subdivision
 24.6 3;
- 24.7 (5) building materials used in a residence for disabled veterans exempt under section
 24.8 297A.71, subdivision 11;
- 24.9 (6) elevators and building materials exempt under section 297A.71, subdivision 12;
- 24.10 (7) building materials for the Long Lake Conservation Center exempt under section
 24.11 297A.71, subdivision 17;
- 24.12 (8) materials and supplies for qualified low-income housing under section 297A.71,
 24.13 subdivision 23;
- 24.14 (9) materials, supplies, and equipment for municipal electric utility facilities under
 24.15 section 297A.71, subdivision 35;
- 24.16 (10) equipment and materials used for the generation, transmission, and distribution
 24.17 of electrical energy and an aerial camera package exempt under section 297A.68,
 24.18 subdivision 37;
- 24.19 ~~(11) tangible personal property and taxable services and construction materials,~~
 24.20 ~~supplies, and equipment exempt under section 297A.68, subdivision 41;~~
- 24.21 ~~(12)~~ commuter rail vehicle and repair parts under section 297A.70, subdivision
 24.22 3, clause (11);
- 24.23 ~~(13)~~ (12) materials, supplies, and equipment for construction or improvement of
 24.24 projects and facilities under section 297A.71, subdivision 40;
- 24.25 ~~(14)~~ (13) materials, supplies, and equipment for construction or improvement of a
 24.26 meat processing facility exempt under section 297A.71, subdivision 41;
- 24.27 ~~(15)~~ (14) materials, supplies, and equipment for construction, improvement, or
 24.28 expansion of an aerospace defense manufacturing facility exempt under section 297A.71,
 24.29 subdivision 42; and
- 24.30 ~~(16)~~ (15) enterprise information technology equipment and computer software for
 24.31 use in a qualified data center exempt under section 297A.68, subdivision 42.

24.32 Sec. 19. Minnesota Statutes 2010, section 469.015, subdivision 4, is amended to read:

24.33 Subd. 4. **Exceptions.** (a) An authority need not require competitive bidding in the
 24.34 following circumstances:

24.35 (1) in the case of a contract for the acquisition of a low-rent housing project:

- 25.1 (i) for which financial assistance is provided by the federal government;
- 25.2 (ii) which does not require any direct loan or grant of money from the municipality
- 25.3 as a condition of the federal financial assistance; and
- 25.4 (iii) for which the contract provides for the construction of the project upon land that
- 25.5 is either owned by the authority for redevelopment purposes or not owned by the authority
- 25.6 at the time of the contract but the contract provides for the conveyance or lease to the
- 25.7 authority of the project or improvements upon completion of construction;
- 25.8 (2) with respect to a structured parking facility:
- 25.9 (i) constructed in conjunction with, and directly above or below, a development; and
- 25.10 (ii) financed with the proceeds of tax increment or parking ramp general obligation
- 25.11 or revenue bonds; and
- 25.12 ~~(3) until August 1, 2009, with respect to a facility built for the purpose of facilitating~~
- 25.13 ~~the operation of public transit or encouraging its use:~~
- 25.14 ~~(i) constructed in conjunction with, and directly above or below, a development; and~~
- 25.15 ~~(ii) financed with the proceeds of parking ramp general obligation or revenue bonds~~
- 25.16 ~~or with at least 60 percent of the construction cost being financed with funding provided~~
- 25.17 ~~by the federal government; and~~
- 25.18 ~~(4)~~ in the case of any building in which at least 75 percent of the usable square
- 25.19 footage constitutes a housing development project if:
- 25.20 (i) the project is financed with the proceeds of bonds issued under section 469.034 or
- 25.21 from nongovernmental sources;
- 25.22 (ii) the project is either located on land that is owned or is being acquired by the
- 25.23 authority only for development purposes, or is not owned by the authority at the time the
- 25.24 contract is entered into but the contract provides for conveyance or lease to the authority
- 25.25 of the project or improvements upon completion of construction; and
- 25.26 (iii) the authority finds and determines that elimination of the public bidding
- 25.27 requirements is necessary in order for the housing development project to be economical
- 25.28 and feasible.
- 25.29 (b) An authority need not require a performance bond for the following projects:
- 25.30 (1) a contract described in paragraph (a), clause (1);
- 25.31 (2) a construction change order for a housing project in which 30 percent of the
- 25.32 construction has been completed;
- 25.33 (3) a construction contract for a single-family housing project in which the authority
- 25.34 acts as the general construction contractor; or
- 25.35 (4) a services or materials contract for a housing project.

26.1 For purposes of this paragraph, "services or materials contract" does not include
26.2 construction contracts.

26.3 Sec. 20. Minnesota Statutes 2010, section 469.033, subdivision 7, is amended to read:

26.4 Subd. 7. **Inactive authorities; transfer of funds; dissolution.** The authority may
26.5 transfer to the city in and for which it was created all property, assets, cash or other
26.6 funds held or used by the authority ~~which were derived from the special benefit tax~~
26.7 ~~for redevelopment levied pursuant to subdivision 6 prior to March 6, 1953, whenever~~
26.8 ~~collected.~~ Upon any such transfer, an authority shall not thereafter levy the tax or exercise
26.9 the redevelopment powers of sections 469.001 to 469.047. All cash or other funds
26.10 transferred to the city shall be used exclusively for permanent improvements in the city
26.11 or the retirement of debts or bonds incurred for permanent improvements in the city.
26.12 An authority which transfers its property, assets, cash, or other funds ~~derived from the~~
26.13 ~~special benefit tax for redevelopment and which has not entered into a contract with~~
26.14 ~~the federal government with respect to any low-rent public housing project prior to~~
26.15 ~~March 6, 1953,~~ shall be dissolved as ~~herein~~ provided in this subdivision. After a public
26.16 hearing after ten days' published notice thereof in a newspaper of general circulation in
26.17 the city, the governing body of a city in and for which an authority has been created
26.18 may dissolve the authority if the authority has not entered into any contract with the
26.19 federal government or any agency or instrumentality thereof for a loan or a grant with
26.20 respect to any urban redevelopment or low-rent public housing project that remains in
26.21 effect. The resolution or ordinance dissolving the authority shall be published in the
26.22 same manner in which ordinances are published in the city and the authority shall be
26.23 dissolved when the resolution or ordinance becomes finally effective. The clerk of the
26.24 governing body of the municipality shall furnish to the commissioner of employment and
26.25 economic development a certified copy of the resolution or ordinance of the governing
26.26 body dissolving the authority. All property, records, assets, cash, or other funds held or
26.27 used by an authority shall be transferred to and become the property of the municipality
26.28 and cash or other funds shall be used as herein provided. Upon dissolution of an authority,
26.29 all rights of an authority against any person, firm, or corporation shall accrue to and
26.30 be enforced by the municipality.

26.31 Sec. 21. Minnesota Statutes 2010, section 469.166, subdivision 3, is amended to read:

26.32 Subd. 3. **Border city enterprise zone.** "Border city enterprise zone" means an area
26.33 in the state designated as ~~such~~ an enterprise zone by the commissioner in the cities of
26.34 Breckenridge, Dilworth, East Grand Forks, Moorhead, or Ortonville.

27.1 Sec. 22. Minnesota Statutes 2010, section 469.166, subdivision 5, is amended to read:

27.2 Subd. 5. **Municipality.** "Municipality" means a city, ~~or a county for an area located~~
27.3 ~~outside the boundaries of a city. If an area lies in two or more cities or in both incorporated~~
27.4 ~~and unincorporated areas, "municipality" shall include an entity formed pursuant to~~
27.5 ~~section 471.59 by the governing bodies of the cities with jurisdiction over the incorporated~~
27.6 ~~area and the counties with jurisdiction over the unincorporated area.~~

27.7 Sec. 23. Minnesota Statutes 2010, section 469.166, subdivision 6, is amended to read:

27.8 Subd. 6. **Governing body.** "Governing body" means ~~the county board in the case~~
27.9 ~~of a county, the city council or other body designated by its the charter in the case of a~~
27.10 ~~of the city, or the tribal or federal agency recognized as the governing body of an Indian~~
27.11 ~~reservation by the United States Secretary of the Interior.~~

27.12 Sec. 24. Minnesota Statutes 2010, section 469.167, subdivision 2, is amended to read:

27.13 Subd. 2. **Duration.** The designation of ~~an area as an a border city~~ enterprise zone
27.14 ~~shall be effective for seven years after the date of designation, except that enterprise zones~~
27.15 ~~in border cities eligible to receive allocations for tax reductions under section 469.169,~~
27.16 ~~subdivisions 7 and 8, and under section 469.171, subdivision 6a or 6b, shall be is effective~~
27.17 until terminated by resolution adopted by the city in which the border city enterprise
27.18 zone is located.

27.19 Sec. 25. Minnesota Statutes 2010, section 469.171, subdivision 1, is amended to read:

27.20 Subdivision 1. **Authorized types.** (a) The following types of tax reductions may
27.21 be approved by the commissioner for businesses located in an a border city enterprise
27.22 zone, after the governing body of the border city has designated an area or areas, each
27.23 consisting of at least 100 acres, of the city not in excess of a total of 400 acres in which the
27.24 tax reductions may be provided:

27.25 (1) an exemption from the general sales tax imposed by chapter 297A for purchases
27.26 of construction materials or equipment for use in the zone if the purchase was made
27.27 after the date of application for the zone;

27.28 (2) a credit against the income tax of an employer for additional workers employed
27.29 in the zone, other than workers employed in construction, up to a maximum of \$3,000
27.30 per employee per year;

27.31 (3) an income tax credit for a percentage of the cost of debt financing to construct
27.32 new or expanded facilities in the zone; and

28.1 (4) a state paid property tax credit for a portion of the property taxes paid by a new
28.2 commercial or industrial facility or the additional property taxes paid by an expansion of
28.3 an existing commercial or industrial facility in the zone.

28.4 (b) An application for a tax reduction under this subdivision may not be approved
28.5 unless the governing body finds that the construction or improvement of the facility is
28.6 not likely to have the effect of transferring existing employment from a location outside
28.7 of the municipality but within the state.

28.8 Sec. 26. Minnesota Statutes 2010, section 469.171, subdivision 4, is amended to read:

28.9 Subd. 4. **Restriction.** The tax reductions provided by this section shall not
28.10 apply to (1) a facility the primary purpose of which is one of the following: retail food
28.11 and beverage services, automobile sales or service, or the provision of recreation or
28.12 entertainment, or a private or commercial golf course, country club, massage parlor, tennis
28.13 club, skating facility including roller skating, skateboard, and ice skating, racquet sports
28.14 facility, including any handball or racquetball court, hot tub facility, suntan facility, or
28.15 racetrack; (2) property of a public utility; (3) property used in the operation of a financial
28.16 institution; (4) property owned by a fraternal or veterans' organization; or (5) property of a
28.17 business operating under a franchise agreement that requires the business to be located in
28.18 the state; ~~except that, in an enterprise zone designated under section 469.168, subdivision~~
28.19 ~~4, paragraph (c), that is not in a city of the first class,~~ tax reductions may be provided to
28.20 a retail food or beverage facility or an automobile sales or service facility, or a business
28.21 operating under a franchise agreement that requires the business to be located in this state
28.22 except for such a franchised retail food or beverage facility.

28.23 Sec. 27. Minnesota Statutes 2010, section 469.171, subdivision 7, is amended to read:

28.24 Subd. 7. **Duration.** ~~Each tax reduction provided to a business pursuant to this~~
28.25 ~~subdivision shall terminate not longer than five years after the effective date of the tax~~
28.26 ~~reduction for the business unless the business is located in a border city enterprise zone~~
28.27 ~~designated under section 469.168, subdivision 4, paragraph (c), that is not a city of the~~
28.28 ~~first class.~~ Each tax reduction provided to a business that is located in a border city
28.29 enterprise zone ~~designated under section 469.168, subdivision 4, paragraph (c), that is not~~
28.30 ~~located in a city of the first class,~~ may be provided until the allocations provided under
28.31 subdivision 6a, and under section 469.169, ~~subdivisions 7 and 8,~~ have been expended.
28.32 Subject to the limitation in this subdivision, the tax reductions may be provided after
28.33 expiration of the zone's designation.

29.1 Sec. 28. Minnesota Statutes 2010, section 469.171, subdivision 9, is amended to read:

29.2 Subd. 9. **Recapture.** Any business that (1) receives tax reductions authorized by
29.3 subdivisions 1 to 8, ~~classification as employment property pursuant to section 469.170, or~~
29.4 ~~an alternative local contribution under section 469.169, subdivision 5;~~ and (2) ceases to
29.5 operate its facility located within the border city enterprise zone shall repay the amount of
29.6 the tax reduction or local contribution received during the two years immediately before
29.7 it ceased to operate in the zone.

29.8 The repayment must be paid to the state to the extent it represents a tax reduction
29.9 under subdivisions 1 to 8 and to the municipality to the extent it represents a property tax
29.10 reduction or other local contribution. Any amount repaid to the state must be credited
29.11 to the amount certified as available for tax reductions in the zone pursuant to ~~section~~
29.12 ~~469.169, subdivision 7~~ the city's allocation. Any amount repaid to the municipality must
29.13 be used by the municipality for economic development purposes. The commissioner of
29.14 revenue may seek repayment of tax credits from a business ceasing to operate within an
29.15 enterprise zone by utilizing any remedies available for the collection of tax.

29.16 Sec. 29. Minnesota Statutes 2010, section 469.171, subdivision 11, is amended to read:

29.17 Subd. 11. **Limitations; last eight months of duration.** This subdivision applies
29.18 only to state tax reductions first authorized by the municipality to be provided to a business
29.19 within eight months of the expiration of the border city enterprise zone's designation.

29.20 Before agreeing with a business to provide tax reductions, the municipality must
29.21 submit the proposed tax reductions to the commissioner for approval. The commissioner
29.22 shall review and analyze the proposal in light of, at least: (1) the proposed investment that
29.23 the business will make in the zone, (2) the number and quality of new jobs that will be
29.24 created in the zone, (3) the overall positive impact on economic activity in the zone, and
29.25 (4) the extent to which the impacts in clauses (1) to (3) are dependent upon providing the
29.26 state tax reductions to the business. The commissioner shall disapprove the proposal if the
29.27 commissioner determines the public benefits of increased investment and employment
29.28 resulting from the tax reductions is disproportionately small relative to the cost of the
29.29 state tax reductions. If the commissioner disapproves of the proposal, the tax reductions
29.30 are not allowed to the business.

29.31 If the municipality submits the proposal to the commissioner before expiration
29.32 of the zone designation, the authority to grant the tax reductions continues until the
29.33 commissioner acts on the proposal.

30.1 Sec. 30. Minnesota Statutes 2010, section 469.172, is amended to read:

30.2 **469.172 DEVELOPMENT AND REDEVELOPMENT POWERS.**

30.3 Notwithstanding any contrary provision of law or charter, any city ~~of the first or~~
 30.4 ~~second class~~ that contains an border city enterprise zone ~~or that has been designated as~~
 30.5 ~~an enterprise zone~~ may, in addition to its other powers, exercise the powers granted to
 30.6 a governmental subdivision by sections 469.001 to 469.047, 469.048 to 469.068, and
 30.7 469.109 to 469.113. Section 469.059, subdivision 15, ~~shall apply~~ applies to the city in
 30.8 the exercise of the powers granted pursuant to this section. It may exercise the powers
 30.9 assigned to redevelopment agencies pursuant to sections 469.152 to 469.165, without
 30.10 limitation to further the purposes of sections 469.001 to 469.047, 469.048 to 469.068, and
 30.11 469.109 to 469.134. It may exercise the powers set forth in sections 469.001 to 469.047,
 30.12 469.048 to 469.068, and 469.109 to 469.164 without limitation to further the purposes
 30.13 and policies set forth in sections 469.152 to 469.165. It may exercise the powers granted
 30.14 by this subdivision and any other development or redevelopment powers authorized by
 30.15 other laws, including sections 469.124 to 469.134 and 469.152 to 469.165, independently
 30.16 or in conjunction with each other as though all the powers had been granted to a single
 30.17 entity. Any project undertaken to accomplish the purposes of sections 469.001 to 469.047
 30.18 that qualifies as single-family housing under section 462C.02, subdivision 4, ~~shall be~~ is
 30.19 subject to the provisions of chapter 462C.

30.20 Upon expiration of the designation of the enterprise zone, the powers granted by
 30.21 this subdivision may be exercised only with respect to any project, program, or activity
 30.22 commenced or established prior to that date. The powers granted by this subdivision may
 30.23 only be exercised within the zone.

30.24 Sec. 31. Minnesota Statutes 2010, section 469.173, subdivision 5, is amended to read:

30.25 Subd. 5. **Information sharing.** Pursuant to section 270B.14, subdivision 3,
 30.26 the commissioner of revenue may share information with the commissioner or with a
 30.27 municipality receiving an enterprise zone designation, insofar as necessary to administer
 30.28 the funding limitations provided by section 469.169, ~~subdivision 7.~~

30.29 Sec. 32. Minnesota Statutes 2010, section 469.173, subdivision 6, is amended to read:

30.30 Subd. 6. **Zone boundary realignment.** The commissioner may approve specific
 30.31 applications by a municipality to amend the boundaries of a border city enterprise zone
 30.32 ~~or of an area or areas designated pursuant to section 469.171, subdivision 5,~~ at any time.
 30.33 Boundaries of a zone may not be amended to create noncontiguous subdivisions. If the
 30.34 commissioner approves the amended boundaries, the change is effective on the date of

31.1 approval. ~~Notwithstanding the area limitation under section 469.168, subdivision 3, the~~
 31.2 ~~commissioner may approve a specific application to amend the boundaries of an enterprise~~
 31.3 ~~zone which is located within five municipalities and was designated in 1984, to increase~~
 31.4 ~~its area to not more than 800 acres, and may approve an additional specific application to~~
 31.5 ~~amend the boundaries of that enterprise zone to include a sixth municipality or to further~~
 31.6 ~~increase its area to include all or part of the territory of a town that surrounds one of~~
 31.7 ~~the five municipalities, or both.~~

31.8 ~~Notwithstanding the area limitation under section 469.168, subdivision 3, the~~
 31.9 ~~commissioner may approve a specific application to amend the boundaries of an enterprise~~
 31.10 ~~zone that is located within four municipalities to include a fifth municipality. The addition~~
 31.11 ~~of the fifth municipality may only be approved after the existing municipalities, by~~
 31.12 ~~adoption of a resolution by each municipality's governing board, agree to the addition~~
 31.13 ~~of the fifth municipality.~~

31.14 Sec. 33. Minnesota Statutes 2010, section 469.174, subdivision 20, is amended to read:

31.15 Subd. 20. **Internal Revenue Code.** "Internal Revenue Code" means the Internal
 31.16 Revenue Code of 1986, as amended ~~through December 31, 1993.~~

31.17 Sec. 34. Minnesota Statutes 2010, section 469.174, subdivision 25, is amended to read:

31.18 Subd. 25. **Increment.** "Increment," "tax increment," "tax increment revenues,"
 31.19 "revenues derived from tax increment," and other similar terms for a district include:

31.20 (1) taxes paid by the captured net tax capacity, but excluding any excess taxes, as
 31.21 computed under section 469.177;

31.22 (2) the proceeds from the sale or lease of property, tangible or intangible, to the
 31.23 extent the property was purchased by the authority with tax increments;

31.24 (3) principal and interest received on loans or other advances made by the authority
 31.25 with tax increments;

31.26 (4) interest or other investment earnings on or from tax increments; and

31.27 (5) repayments or return of tax increments made to the authority under agreements
 31.28 for districts for which the request for certification was made after August 1, 1993; ~~and~~

31.29 ~~(6) the market value homestead credit paid to the authority under section 273.1384.~~

31.30 Sec. 35. Minnesota Statutes 2010, section 469.176, subdivision 7, is amended to read:

31.31 Subd. 7. **Parcels not includable in districts.** (a) The authority may request
 31.32 inclusion in a tax increment financing district and the county auditor may certify the
 31.33 original tax capacity of a parcel or a part of a parcel that qualified under the provisions of

32.1 section 273.111 ~~or~~, 273.112, 273.114, or chapter 473H for taxes payable in any of the five
32.2 calendar years before the filing of the request for certification only for:

32.3 (1) a district in which 85 percent or more of the planned buildings and facilities
32.4 (determined on the basis of square footage) are a qualified manufacturing facility or a
32.5 qualified distribution facility or a combination of both; or

32.6 (2) a housing district.

32.7 (b)(1) A distribution facility means buildings and other improvements to real
32.8 property that are used to conduct activities in at least each of the following categories:

32.9 (i) to store or warehouse tangible personal property;

32.10 (ii) to take orders for shipment, mailing, or delivery;

32.11 (iii) to prepare personal property for shipment, mailing, or delivery; and

32.12 (iv) to ship, mail, or deliver property.

32.13 (2) A manufacturing facility includes space used for manufacturing or producing
32.14 tangible personal property, including processing resulting in the change in condition of the
32.15 property, and space necessary for and related to the manufacturing activities.

32.16 (3) To be a qualified facility, the owner or operator of a manufacturing or distribution
32.17 facility must agree to pay and pay 90 percent or more of the employees of the facility at
32.18 a rate equal to or greater than 160 percent of the federal minimum wage for individuals
32.19 over the age of 20.

32.20 Sec. 36. Minnesota Statutes 2010, section 469.1763, subdivision 6, is amended to read:

32.21 Subd. 6. **Pooling permitted for deficits.** (a) This subdivision applies only to
32.22 districts for which the request for certification was made before August 1, 2001, and
32.23 without regard to whether the request for certification was made prior to August 1, 1979.

32.24 (b) The municipality for the district may transfer available increments from another
32.25 tax increment financing district located in the municipality, if the transfer is necessary to
32.26 eliminate a deficit in the district to which the increments are transferred. The municipality
32.27 may transfer increments as provided by this subdivision without regard to whether the
32.28 transfer or expenditure is authorized by the tax increment financing plan for the district
32.29 from which the transfer is made. A deficit in the district for purposes of this subdivision
32.30 means the lesser of the following two amounts:

32.31 (1)(i) the amount due during the calendar year to pay preexisting obligations of
32.32 the district; minus

32.33 (ii) the total increments collected or to be collected from properties located within
32.34 the district that are available for the calendar year including amounts collected in prior
32.35 years that are currently available; plus

33.1 (iii) total increments from properties located in other districts in the municipality
33.2 including amounts collected in prior years that are available to be used to meet the district's
33.3 obligations under this section, excluding this subdivision, or other provisions of law ~~(but~~
33.4 ~~excluding a special tax under section 469.1791 and the grant program under Laws 1997,~~
33.5 ~~chapter 231, article 1, section 19, or Laws 2001, First Special Session chapter 5); or~~

33.6 (2) the reduction in increments collected from properties located in the district for
33.7 the calendar year as a result of the changes in class rates in Laws 1997, chapter 231, article
33.8 1; Laws 1998, chapter 389, article 2; and Laws 1999, chapter 243, and Laws 2001, First
33.9 Special Session chapter 5, or the elimination of the general education tax levy under
33.10 Laws 2001, First Special Session chapter 5.

33.11 The authority may compute the deficit amount under clause (1) only (without regard
33.12 to the limit under clause (2)) if the authority makes an irrevocable commitment, by
33.13 resolution, to use increments from the district to which increments are to be transferred and
33.14 any transferred increments are only used to pay preexisting obligations and administrative
33.15 expenses for the district that are required to be paid under section 469.176, subdivision
33.16 4h, paragraph (a).

33.17 (c) A preexisting obligation means:

33.18 (1) bonds issued and sold before August 1, 2001, or bonds issued pursuant to a
33.19 binding contract requiring the issuance of bonds entered into before July 1, 2001, and
33.20 bonds issued to refund such bonds or to reimburse expenditures made in conjunction with
33.21 a signed contractual agreement entered into before August 1, 2001, to the extent that the
33.22 bonds are secured by a pledge of increments from the tax increment financing district; and

33.23 (2) binding contracts entered into before August 1, 2001, to the extent that the
33.24 contracts require payments secured by a pledge of increments from the tax increment
33.25 financing district.

33.26 (d) The municipality may require a development authority, other than a seaway port
33.27 authority, to transfer available increments including amounts collected in prior years that
33.28 are currently available for any of its tax increment financing districts in the municipality to
33.29 make up an insufficiency in another district in the municipality, regardless of whether the
33.30 district was established by the development authority or another development authority.
33.31 This authority applies notwithstanding any law to the contrary, but applies only to a
33.32 development authority that:

33.33 (1) was established by the municipality; or

33.34 (2) the governing body of which is appointed, in whole or part, by the municipality
33.35 or an officer of the municipality or which consists, in whole or part, of members of
33.36 the governing body of the municipality. The municipality may use this authority only

34.1 after it has first used all available increments of the receiving development authority to
34.2 eliminate the insufficiency and exercised any permitted action under section 469.1792,
34.3 subdivision 3, for preexisting districts of the receiving development authority to eliminate
34.4 the insufficiency.

34.5 (e) The authority under this subdivision to spend tax increments outside of the area
34.6 of the district from which the tax increments were collected:

34.7 (1) is an exception to the restrictions under section 469.176, subdivisions 4b, 4c,
34.8 4d, 4e, 4i, and 4j; the expenditure limits under section 469.176, subdivision 1c; and the
34.9 other provisions of this section; and the percentage restrictions under subdivision 2 must
34.10 be calculated after deducting increments spent under this subdivision from the total
34.11 increments for the district; and

34.12 (2) applies notwithstanding the provisions of the Tax Increment Financing Act in
34.13 effect for districts for which the request for certification was made before June 30, 1982,
34.14 or any other law to the contrary.

34.15 (f) If a preexisting obligation requires the development authority to pay an amount
34.16 that is limited to the increment from the district or a specific development within the
34.17 district and if the obligation requires paying a higher amount to the extent that increments
34.18 are available, the municipality may determine that the amount due under the preexisting
34.19 obligation equals the higher amount and may authorize the transfer of increments
34.20 under this subdivision to pay up to the higher amount. The existence of a guarantee of
34.21 obligations by the individual or entity that would receive the payment under this paragraph
34.22 is disregarded in the determination of eligibility to pool under this subdivision. The
34.23 authority to transfer increments under this paragraph may only be used to the extent
34.24 that the payment of all other preexisting obligations in the municipality due during the
34.25 calendar year have been satisfied.

34.26 (g) For transfers of increments made in calendar year 2005 and later, the reduction in
34.27 increments as a result of the elimination of the general education tax levy for purposes of
34.28 paragraph (b), clause (2), for a taxes payable year equals the general education tax rate
34.29 for the school district under Minnesota Statutes 2000, section 273.1382, subdivision 1,
34.30 for taxes payable in 2001, multiplied by the captured tax capacity of the district for the
34.31 current taxes payable year.

34.32 Sec. 37. Minnesota Statutes 2010, section 469.1764, subdivision 1, is amended to read:

34.33 Subdivision 1. **Scope; application.** (a) This section applies to a tax increment
34.34 financing district or area added to a district, if the request for certification of the district or
34.35 the area added to the district was made after July 31, 1979, and before July 1, 1982.

35.1 (b) This section, section 469.1763, subdivision 6, and any special law applying to
35.2 the district are the exclusive authority to spend tax increments on activities located outside
35.3 of the geographic area of a tax increment financing district that is subject to this section.

35.4 (c) This section does not apply to increments from a district that is subject to the
35.5 provisions of this section, if:

35.6 (1) the district was decertified before the enactment of this section and all increments
35.7 spent on activities located outside of the geographic area of the district were repaid and
35.8 distributed as excess increments under section 469.176, subdivision 2; or

35.9 (2) the use of increments on activities located outside of the geographic area of
35.10 the district consists solely of payment of debt service on bonds under section 469.129,
35.11 subdivision 2, before its repeal, and any bonds issued to refund bonds issued under that
35.12 subdivision.

35.13 Sec. 38. Minnesota Statutes 2010, section 469.177, subdivision 1, is amended to read:

35.14 Subdivision 1. **Original net tax capacity.** (a) Upon or after adoption of a tax
35.15 increment financing plan, the auditor of any county in which the district is situated shall,
35.16 upon request of the authority, certify the original net tax capacity of the tax increment
35.17 financing district and that portion of the district overlying any subdistrict as described in
35.18 the tax increment financing plan and shall certify in each year thereafter the amount by
35.19 which the original net tax capacity has increased or decreased as a result of a change in tax
35.20 exempt status of property within the district and any subdistrict, reduction or enlargement
35.21 of the district or changes pursuant to subdivision 4. The auditor shall certify the amount
35.22 within 30 days after receipt of the request and sufficient information to identify the parcels
35.23 included in the district. The certification relates to the taxes payable year as provided in
35.24 subdivision 6.

35.25 (b) If the classification under section 273.13 of property located in a district changes
35.26 to a classification that has a different assessment ratio, the original net tax capacity of that
35.27 property must be redetermined at the time when its use is changed as if the property had
35.28 originally been classified in the same class in which it is classified after its use is changed.

35.29 (c) The amount to be added to the original net tax capacity of the district as a result
35.30 of previously tax exempt real property within the district becoming taxable equals the net
35.31 tax capacity of the real property as most recently assessed pursuant to section 273.18 or, if
35.32 that assessment was made more than one year prior to the date of title transfer rendering
35.33 the property taxable, the net tax capacity assessed by the assessor at the time of the
35.34 transfer. If improvements are made to tax exempt property after the municipality approves
35.35 the district and before the parcel becomes taxable, the assessor shall, at the request of

36.1 the authority, separately assess the estimated market value of the improvements. If the
36.2 property becomes taxable, the county auditor shall add to original net tax capacity, the net
36.3 tax capacity of the parcel, excluding the separately assessed improvements. If substantial
36.4 taxable improvements were made to a parcel after certification of the district and if the
36.5 property later becomes tax exempt, in whole or part, as a result of the authority acquiring
36.6 the property through foreclosure or exercise of remedies under a lease or other revenue
36.7 agreement or as a result of tax forfeiture, the amount to be added to the original net tax
36.8 capacity of the district as a result of the property again becoming taxable is the amount
36.9 of the parcel's value that was included in original net tax capacity when the parcel was
36.10 first certified. The amount to be added to the original net tax capacity of the district as a
36.11 result of enlargements equals the net tax capacity of the added real property as most
36.12 recently certified by the commissioner of revenue as of the date of modification of the tax
36.13 increment financing plan pursuant to section 469.175, subdivision 4.

36.14 (d) If the net tax capacity of a property increases because the property no longer
36.15 qualifies under the Minnesota Agricultural Property Tax Law, section 273.111; the
36.16 Minnesota Open Space Property Tax Law, section 273.112; or the Metropolitan
36.17 Agricultural Preserves Act, chapter 473H, the Rural Preserve Property Tax Program under
36.18 section 273.114, or because platted, unimproved property is improved or market value is
36.19 increased after approval of the plat under section 273.11, subdivision ~~14~~, 14a, or 14b, the
36.20 increase in net tax capacity must be added to the original net tax capacity.

36.21 (e) The amount to be subtracted from the original net tax capacity of the district
36.22 as a result of previously taxable real property within the district becoming tax exempt,
36.23 or a reduction in the geographic area of the district, shall be the amount of original net
36.24 tax capacity initially attributed to the property becoming tax exempt or being removed
36.25 from the district. If the net tax capacity of property located within the tax increment
36.26 financing district is reduced by reason of a court-ordered abatement, stipulation agreement,
36.27 voluntary abatement made by the assessor or auditor or by order of the commissioner of
36.28 revenue, the reduction shall be applied to the original net tax capacity of the district when
36.29 the property upon which the abatement is made has not been improved since the date of
36.30 certification of the district and to the captured net tax capacity of the district in each year
36.31 thereafter when the abatement relates to improvements made after the date of certification.
36.32 The county auditor may specify reasonable form and content of the request for certification
36.33 of the authority and any modification thereof pursuant to section 469.175, subdivision 4.

36.34 (f) If a parcel of property contained a substandard building or improvements
36.35 described in section 469.174, subdivision 10, paragraph (e), that were demolished or
36.36 removed and if the authority elects to treat the parcel as occupied by a substandard

37.1 building under section 469.174, subdivision 10, paragraph (b), or by improvements under
 37.2 section 469.174, subdivision 10, paragraph (e), the auditor shall certify the original net tax
 37.3 capacity of the parcel using the greater of (1) the current net tax capacity of the parcel, or
 37.4 (2) the estimated market value of the parcel for the year in which the building or other
 37.5 improvements were demolished or removed, but applying the class rates for the current
 37.6 year.

37.7 (g) For a redevelopment district qualifying under section 469.174, subdivision 10,
 37.8 paragraph (a), clause (4), as a qualified disaster area, the auditor shall certify the value of
 37.9 the land as the original tax capacity for any parcel in the district that contains a building
 37.10 that suffered substantial damage as a result of the disaster or emergency.

37.11 Sec. 39. Minnesota Statutes 2010, section 469.1793, is amended to read:

37.12 **469.1793 DEVELOPER OBLIGATIONS CONTINUED.**

37.13 If a developer or other private entity agreed to make payments to the authority or
 37.14 municipality to reimburse the municipality for the state aid offset under Minnesota Statutes
 37.15 2000, section 273.1399, the obligation continues in effect, notwithstanding the repeal of
 37.16 section 273.1399. ~~Payments received by the development authority are increments for~~
 37.17 ~~purposes of the state grant program under section 469.1799.~~

37.18 Sec. 40. Minnesota Statutes 2010, section 469.1813, subdivision 6b, is amended to
 37.19 read:

37.20 Subd. 6b. **Extended duration limit.** ~~(a)~~ Notwithstanding the provisions of
 37.21 subdivision 6, a political subdivision may grant an abatement for a period of up to 20
 37.22 years, if the abatement is for ~~a qualified business.~~

37.23 ~~(b) To be a qualified business for purposes of this subdivision, at least 50 percent of~~
 37.24 ~~the payroll of the operations of the business that qualify for the abatement must be for~~
 37.25 ~~employees engaged in one of the following lines of business or any combination of them:~~

- 37.26 ~~(1) manufacturing;~~
- 37.27 ~~(2) agricultural processing;~~
- 37.28 ~~(3) mining;~~
- 37.29 ~~(4) research and development;~~
- 37.30 ~~(5) warehousing; or~~
- 37.31 ~~(6) qualified high technology.~~

37.32 ~~Alternatively, a qualified business also includes~~ a taxpayer whose real and personal
 37.33 property is subject to valuation under Minnesota Rules, chapter 8100.

38.1 ~~(c)(1) "Manufacturing" means the material staging and production of tangible~~
38.2 ~~personal property by procedures commonly regarded as manufacturing, processing,~~
38.3 ~~fabrication, or assembling which changes some existing material into new shapes, new~~
38.4 ~~qualities, or new combinations.~~

38.5 ~~(2) "Mining" has the meaning given in section 613(c) of the Internal Revenue Code~~
38.6 ~~of 1986.~~

38.7 ~~(3) "Agricultural processing" means transforming, packaging, sorting, or grading~~
38.8 ~~livestock or livestock products, agricultural commodities, or plants or plant products into~~
38.9 ~~goods that are used for intermediate or final consumption including goods for nonfood use.~~

38.10 ~~(4) "Research and development" means qualified research as defined in section~~
38.11 ~~41(d) of the Internal Revenue Code of 1986.~~

38.12 ~~(5) "Qualified high technology" means one or more of the following activities:~~

38.13 ~~(i) advanced computing, which is any technology used in the design and development~~
38.14 ~~of any of the following:~~

38.15 ~~(A) computer hardware and software;~~

38.16 ~~(B) data communications; and~~

38.17 ~~(C) information technologies;~~

38.18 ~~(ii) advanced materials, which are materials with engineered properties created~~
38.19 ~~through the development of specialized process and synthesis technology;~~

38.20 ~~(iii) biotechnology, which is any technology that uses living organisms, cells,~~
38.21 ~~macromolecules, microorganisms, or substances from living organisms to make or modify~~
38.22 ~~a product, improve plants or animals, or develop microorganisms for useful purposes;~~

38.23 ~~(iv) electronic device technology, which is any technology that involves~~
38.24 ~~microelectronics, semiconductors, electronic equipment, and instrumentation, radio~~
38.25 ~~frequency, microwave, and millimeter electronics, and optical and optic-electrical devices,~~
38.26 ~~or data and digital communications and imaging devices;~~

38.27 ~~(v) engineering or laboratory testing related to the development of a product;~~

38.28 ~~(vi) technology that assists in the assessment or prevention of threats or damage to~~
38.29 ~~human health or the environment, including, but not limited to, environmental cleanup~~
38.30 ~~technology, pollution prevention technology, or development of alternative energy sources;~~

38.31 ~~(vii) medical device technology, which is any technology that involves medical~~
38.32 ~~equipment or products other than a pharmaceutical product that has therapeutic or~~
38.33 ~~diagnostic value and is regulated; or~~

38.34 ~~(viii) advanced vehicles technology which is any technology that involves electric~~
38.35 ~~vehicles, hybrid vehicles, or alternative fuel vehicles, or components used in the~~
38.36 ~~construction of electric vehicles, hybrid vehicles, or alternative fuel vehicles. An electric~~

39.1 ~~vehicle is a road vehicle that draws propulsion energy only from an onboard source of~~
 39.2 ~~electrical energy. A hybrid vehicle is a road vehicle that can draw propulsion energy from~~
 39.3 ~~both a consumable fuel and a rechargeable energy storage system.~~

39.4 ~~(d) The authority to grant new abatements under this subdivision expires on July 1,~~
 39.5 ~~2004, except that the authority to grant new abatements for real and personal property~~
 39.6 ~~subject to valuation under Minnesota Rules, chapter 8100, does not expire.~~

39.7 Sec. 41. Minnesota Statutes 2010, section 473F.02, subdivision 3, is amended to read:

39.8 Subd. 3. **Commercial-industrial property.** "Commercial-industrial property"
 39.9 means the following categories of property, as defined in section 273.13, excluding that
 39.10 portion of such property ~~(1) which may, by law, constitute the tax base for a tax increment~~
 39.11 ~~pledged under section 469.042 or 469.162, certification of which was requested prior to~~
 39.12 ~~August 1, 1979, to the extent and while such tax increment is so pledged; or (2) which is~~
 39.13 exempt from taxation under section 272.02:

39.14 (a) That portion of class 3 property defined in Minnesota Statutes 1971, section
 39.15 273.13, consisting of stocks of merchandise and furniture and fixtures used therewith;
 39.16 manufacturers' materials and manufactured articles; and tools, implements and machinery,
 39.17 whether fixtures or otherwise.

39.18 (b) That portion of class 4 property defined in Minnesota Statutes 1971, section
 39.19 273.13, which is either used or zoned for use for any commercial or industrial purpose,
 39.20 except for such property which is, or, in the case of property under construction, will when
 39.21 completed be used exclusively for residential occupancy and the provision of services
 39.22 to residential occupants thereof. Property shall be considered as used exclusively for
 39.23 residential occupancy only if each of not less than 80 percent of its occupied residential
 39.24 units is, or, in the case of property under construction, will when completed be occupied
 39.25 under an oral or written agreement for occupancy over a continuous period of not less
 39.26 than 30 days.

39.27 If the classification of property prescribed by section 273.13 is modified by
 39.28 legislative amendment, the references in this subdivision shall be to such successor class
 39.29 or classes of property, or portions thereof, as embrace the kinds of property designated
 39.30 in this subdivision.

39.31 Sec. 42. **REPEALER.**

39.32 Minnesota Statutes 2010, sections 272.02, subdivision 83; 290.06, subdivisions
 39.33 24 and 32; 297A.68, subdivision 41; 469.042, subdivisions 2, 3, and 4; 469.043;
 39.34 469.059, subdivision 13; 469.129; 469.134; 469.162, subdivision 2; 469.1651; 469.166,

40.1 subdivisions 7, 8, 9, 10, 11, and 12; 469.167, subdivisions 1 and 3; 469.168; 469.169,
40.2 subdivisions 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, and 13; 469.170, subdivisions 1, 2, 3, 4, 5, 5a,
40.3 5b, 5c, 5d, 5e, 6, 7, and 8; 469.171, subdivisions 2, 5, 6a, and 6b; 469.173, subdivisions 1
40.4 and 3; 469.1765; 469.1791; 469.1799, subdivision 2; 469.301, subdivisions 1, 2, 3, 4, and
40.5 5; 469.302; 469.303; 469.304; 469.321; 469.3215; 469.322; 469.323; 469.324; 469.325;
40.6 469.326; 469.327; 469.328; 469.329; and 473.680, are repealed.

40.7 Sec. 43. **EFFECTIVE DATE.**

40.8 This act is effective August 1, 2012, and the tax increment financing provisions
40.9 apply to all districts, regardless of when the request for certification was made.

40.10 **ARTICLE 3**

40.11 **PUBLIC FINANCE**

40.12 Section 1. Minnesota Statutes 2010, section 216C.436, subdivision 7, is amended to
40.13 read:

40.14 Subd. 7. **Repayment.** An implementing entity that finances an energy improvement
40.15 under this section must:

40.16 (1) secure payment with a lien against the ~~benefited~~ qualifying real property; and

40.17 (2) collect repayments as a special assessment as provided for in section 429.101
40.18 or by charter, provided that special assessments may be made payable in up to 20 equal
40.19 annual installments.

40.20 If the implementing entity is an authority, the local government that authorized
40.21 the authority to act as implementing entity shall impose and collect special assessments
40.22 necessary to pay debt service on bonds issued by the implementing entity under
40.23 subdivision 8, and shall transfer all collections of the assessments upon receipt to the
40.24 authority.

40.25 Sec. 2. Minnesota Statutes 2010, section 216C.436, subdivision 8, is amended to read:

40.26 Subd. 8. **Bond issuance; repayment.** (a) An implementing entity may issue
40.27 revenue bonds as provided in chapter 475 for the purposes of this section, provided that
40.28 the revenue bonds must not be payable more than 20 years from the date of issuance.

40.29 (b) The bonds must be payable as to both principal and interest solely from the
40.30 revenues from the assessments established in subdivision 7.

40.31 (c) No holder of bonds issued under this subdivision may compel any exercise of the
40.32 taxing power of the implementing entity that issued the bonds to pay principal or interest
40.33 on the bonds, and if the implementing entity is an authority, no holder of the bonds may

41.1 compel any exercise of the taxing power of the local government. Bonds issued under
41.2 this subdivision are not a debt or obligation of the issuer or any local government that
41.3 issued them, nor is the payment of the bonds enforceable out of any money other than the
41.4 revenue pledged to the payment of the bonds.

41.5 Sec. 3. Minnesota Statutes 2010, section 373.40, subdivision 1, is amended to read:

41.6 Subdivision 1. **Definitions.** For purposes of this section, the following terms have
41.7 the meanings given.

41.8 (a) "Bonds" means an obligation as defined under section 475.51.

41.9 (b) "Capital improvement" means acquisition or betterment of public lands,
41.10 buildings, or other improvements within the county for the purpose of a county courthouse,
41.11 administrative building, health or social service facility, correctional facility, jail, law
41.12 enforcement center, hospital, morgue, library, park, qualified indoor ice arena, roads
41.13 and bridges, public works facilities, fairgrounds buildings, and records and data storage
41.14 facilities and the acquisition of development rights in the form of conservation easements
41.15 under chapter 84C. An improvement must have an expected useful life of five years or
41.16 more to qualify. "Capital improvement" does not include a recreation or sports facility
41.17 building (such as, but not limited to, a gymnasium, ice arena, racquet sports facility,
41.18 swimming pool, exercise room or health spa), unless the building is part of an outdoor
41.19 park facility and is incidental to the primary purpose of outdoor recreation.

41.20 (c) "Metropolitan county" means a county located in the seven-county metropolitan
41.21 area as defined in section 473.121 or a county with a population of 90,000 or more.

41.22 (d) "Population" means the population established by the most recent of the
41.23 following (determined as of the date the resolution authorizing the bonds was adopted):

41.24 (1) the federal decennial census,

41.25 (2) a special census conducted under contract by the United States Bureau of the
41.26 Census, or

41.27 (3) a population estimate made either by the Metropolitan Council or by the state
41.28 demographer under section 4A.02.

41.29 (e) "Qualified indoor ice arena" means a facility that meets the requirements of
41.30 section 373.43.

41.31 (f) "Tax capacity" means total taxable market value, but does not include captured
41.32 market value.

41.33 Sec. 4. Minnesota Statutes 2010, section 373.40, subdivision 2, is amended to read:

42.1 Subd. 2. **Application of election requirement.** (a) Bonds issued by a county
 42.2 to finance capital improvements under an approved capital improvement plan are not
 42.3 subject to the election requirements of section 375.18 or 475.58. The bonds must be
 42.4 approved by vote of at least three-fifths of the members of the county board. In the case
 42.5 of a metropolitan county, the bonds must be approved by vote of at least two-thirds of
 42.6 the members of the county board.

42.7 (b) Before issuance of bonds qualifying under this section, the county must publish
 42.8 a notice of its intention to issue the bonds and the date and time of a hearing to obtain
 42.9 public comment on the matter. The notice must be published in the official newspaper
 42.10 of the county or in a newspaper of general circulation in the county. The notice must be
 42.11 published at least ~~14~~ ten, but not more than 28, days before the date of the hearing.

42.12 (c) A county may issue the bonds only upon obtaining the approval of a majority of
 42.13 the voters voting on the question of issuing the obligations, if a petition requesting a vote
 42.14 on the issuance is signed by voters equal to five percent of the votes cast in the county in
 42.15 the last county general election and is filed with the county auditor within 30 days after
 42.16 the public hearing. ~~The commissioner of revenue shall prepare a suggested form of the~~
 42.17 ~~question to be presented at the election.~~ If the county elects not to submit the question to
 42.18 the voters, the county shall not propose the issuance of bonds under this section for the
 42.19 same purpose and in the same amount for a period of 365 days from the date of receipt
 42.20 of the petition. If the question of issuing the bonds is submitted and not approved by the
 42.21 voters, the provisions of section 475.58, subdivision 1a, apply.

42.22 Sec. 5. Minnesota Statutes 2010, section 373.40, subdivision 4, is amended to read:

42.23 Subd. 4. **Limitations on amount.** A county may not issue bonds under this section
 42.24 if the maximum amount of principal and interest to become due in any year on all the
 42.25 outstanding bonds issued pursuant to this section (including the bonds to be issued) will
 42.26 equal or exceed 0.12 percent of taxable market value of property in the county. Calculation
 42.27 of the limit must be made using the taxable market value for the taxes payable year in
 42.28 which the obligations are issued and sold, provided that, for purposes of determining
 42.29 the principal and interest due in any year, the county may deduct the amount of interest
 42.30 expected to be paid or reimbursed to the county by the federal government in that year on
 42.31 any outstanding bonds or the bonds to be issued. This section does not limit the authority
 42.32 to issue bonds under any other special or general law.

42.33 Sec. 6. Minnesota Statutes 2010, section 474A.02, subdivision 23a, is amended to read:

43.1 Subd. 23a. **Qualified bonds.** "Qualified bonds" means the specific type or types
 43.2 of obligations that are subject to the annual volume cap. Qualified bonds include the
 43.3 following types of obligations as defined in federal tax law:

43.4 (a) "public facility bonds" means "exempt facility bonds" as defined in federal
 43.5 tax law, except for residential rental project bonds, ~~which are those obligations issued~~
 43.6 ~~to finance airports, docks and wharves, mass commuting facilities, facilities for the~~
 43.7 ~~furnishing of water, sewage facilities, solid waste disposal facilities, facilities for the~~
 43.8 ~~local furnishing of electric energy or gas, local district heating or cooling facilities, and~~
 43.9 ~~qualified hazardous waste facilities.~~ New bonds and other obligations are ineligible to
 43.10 receive state allocations or entitlement authority for public facility projects under this
 43.11 section if they have been issued:

43.12 (1) for the purpose of refinancing, refunding, or otherwise defeasing existing debt;
 43.13 and

43.14 (2) more than one calendar year prior to the date of application;

43.15 (b) "residential rental project bonds" which are those obligations issued to finance
 43.16 qualified residential rental projects;

43.17 (c) "mortgage bonds";

43.18 (d) "small issue bonds" issued to finance manufacturing projects and the acquisition
 43.19 or improvement of agricultural real or personal property under sections 41C.01 to 41C.13;

43.20 (e) "student loan bonds" issued by or on behalf of the Minnesota Office of Higher
 43.21 Education;

43.22 (f) "redevelopment bonds";

43.23 (g) "governmental bonds" with a nonqualified amount in excess of \$15,000,000 as
 43.24 set forth in section 141(b)5 of federal tax law; and

43.25 (h) "enterprise zone facility bonds" issued to finance facilities located within
 43.26 empowerment zones or enterprise communities, as authorized under ~~Public Law 103-66,~~
 43.27 ~~section 13301~~ section 1394 of the Internal Revenue Code.

43.28 Sec. 7. Minnesota Statutes 2010, section 475.521, subdivision 2, is amended to read:

43.29 Subd. 2. **Election requirement.** (a) Bonds issued by a municipality to finance
 43.30 capital improvements under an approved capital improvements plan are not subject to the
 43.31 election requirements of section 475.58. The bonds must be approved by an affirmative
 43.32 vote of three-fifths of the members of a five-member governing body. In the case of a
 43.33 governing body having more or less than five members, the bonds must be approved by a
 43.34 vote of at least two-thirds of the members of the governing body.

44.1 (b) Before the issuance of bonds qualifying under this section, the municipality must
44.2 publish a notice of its intention to issue the bonds and the date and time of the hearing
44.3 to obtain public comment on the matter. The notice must be published in the official
44.4 newspaper of the municipality or in a newspaper of general circulation in the municipality.
44.5 Additionally, the notice may be posted on the official Web site, if any, of the municipality.
44.6 The notice must be published at least ~~14~~ ten but not more than 28 days before the date
44.7 of the hearing.

44.8 (c) A municipality may issue the bonds only after obtaining the approval of a
44.9 majority of the voters voting on the question of issuing the obligations, if a petition
44.10 requesting a vote on the issuance is signed by voters equal to five percent of the votes cast
44.11 in the municipality in the last municipal general election and is filed with the clerk within
44.12 30 days after the public hearing. ~~The commissioner of revenue shall prepare a suggested~~
44.13 ~~form of the question to be presented at the election.~~ If the municipality elects not to submit
44.14 the question to the voters, the municipality shall not propose the issuance of bonds under
44.15 this section for the same purpose and in the same amount for a period of 365 days from the
44.16 date of receipt of the petition. If the question of issuing the bonds is submitted and not
44.17 approved by the voters, the provisions of section 475.58, subdivision 1a, apply.

44.18 Sec. 8. Minnesota Statutes 2010, section 475.521, subdivision 4, is amended to read:

44.19 Subd. 4. **Limitations on amount.** A municipality may not issue bonds under
44.20 this section if the maximum amount of principal and interest to become due in any
44.21 year on all the outstanding bonds issued under this section, including the bonds to be
44.22 issued, will equal or exceed 0.16 percent of the taxable market value of property in the
44.23 municipality. Calculation of the limit must be made using the taxable market value for
44.24 the taxes payable year in which the obligations are issued and sold, provided that, for
44.25 purposes of determining the principle and interest due in any year, the municipality may
44.26 deduct the amount of interest expected to be paid or reimbursed to the municipality by the
44.27 federal government in that year on any outstanding bonds or the bonds to be issued. In
44.28 the case of a municipality with a population of 2,500 or more, the bonds are subject to
44.29 the net debt limits under section 475.53. In the case of a shared facility in which more
44.30 than one municipality participates, upon compliance by each participating municipality
44.31 with the requirements of subdivision 2, the limitations in this subdivision and the net debt
44.32 represented by the bonds shall be allocated to each participating municipality in proportion
44.33 to its required financial contribution to the financing of the shared facility, as set forth in
44.34 the joint powers agreement relating to the shared facility. This section does not limit the
44.35 authority to issue bonds under any other special or general law.

45.1 Sec. 9. Minnesota Statutes 2010, section 475.58, subdivision 3b, is amended to read:

45.2 Subd. 3b. **Street reconstruction.** (a) A municipality may, without regard to
45.3 the election requirement under subdivision 1, issue and sell obligations for street
45.4 reconstruction, if the following conditions are met:

45.5 (1) the streets are reconstructed under a street reconstruction plan that describes the
45.6 street reconstruction to be financed, the estimated costs, and any planned reconstruction
45.7 of other streets in the municipality over the next five years, and the plan and issuance of
45.8 the obligations has been approved by a vote of all of the members of the governing body
45.9 present at the meeting following a public hearing for which notice has been published in
45.10 the official newspaper at least ten days but not more than 28 days prior to the hearing; and

45.11 (2) if a petition requesting a vote on the issuance is signed by voters equal to
45.12 five percent of the votes cast in the last municipal general election and is filed with the
45.13 municipal clerk within 30 days of the public hearing, the municipality may issue the bonds
45.14 only after obtaining the approval of a majority of the voters voting on the question of the
45.15 issuance of the obligations. If the municipality elects not to submit the question to the
45.16 voters, the municipality shall not propose the issuance of bonds under this section for the
45.17 same purpose and in the same amount for a period of 365 days from the date of receipt
45.18 of the petition. If the question of issuing the bonds is submitted and not approved by the
45.19 voters, the provisions of subdivision 1a, apply.

45.20 (b) Obligations issued under this subdivision are subject to the debt limit of the
45.21 municipality and are not excluded from net debt under section 475.51, subdivision 4.

45.22 (c) For purposes of this subdivision, street reconstruction includes utility
45.23 replacement and relocation and other activities incidental to the street reconstruction, turn
45.24 lanes and other improvements having a substantial public safety function, realignments,
45.25 other modifications to intersect with state and county roads, and the local share of state
45.26 and county road projects.

45.27 (d) Except in the case of turn lanes, safety improvements, realignments, intersection
45.28 modifications, and the local share of state and county road projects, street reconstruction
45.29 does not include the portion of project cost allocable to widening a street or adding curbs
45.30 and gutters where none previously existed.

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272.02 EXEMPT PROPERTY.

Subd. 83. **International economic development zone property.** (a) Improvements to real property, and personal property, classified under section 273.13, subdivision 24, and located within the international economic development zone designated under section 469.322, are exempt from ad valorem taxes levied under chapter 275, if the improvements are:

(1) part of a regional distribution center as defined in section 469.321; or
(2) occupied by a qualified business as defined in section 469.321, that uses the improvements primarily in freight forwarding operations.

(b) The exemption applies to each assessment year that begins during the duration of the international economic development zone. To be exempt under paragraph (a), clause (2), the property must be occupied by July 1 of the assessment year by a qualified business that has signed the business subsidy agreement by July 1 of the assessment year.

290.06 RATES OF TAX; CREDITS.

Subd. 24. **Credit for job creation.** (a) A corporation that leases and operates a heavy maintenance base for aircraft that is owned by the state of Minnesota or one of its political subdivisions may take a credit against the tax due under this chapter.

(b) For the first taxable year when the facility has been in operation for at least three consecutive months, the credit is equal to \$5,000 multiplied by the number of persons employed by the corporation on a full-time basis at the facility on the last day of the taxable year, not to exceed the number of persons employed by the corporation on a full-time basis at the facility on the date 90 days before the last day of the taxable year. For each of the succeeding four taxable years, the credit is equal to \$5,000 multiplied by the number of persons employed by the corporation on a full-time basis at the facility on the last day of the taxable year, not to exceed the number of persons employed by the corporation on a full-time basis at the facility on the date 90 days before the last day of the taxable year.

(c) For the first taxable year in which the credit is allowed for the facility, the credit must not exceed 80 percent of the wages paid to or incurred for persons employed by the taxpayer at the facility during the taxable year. For the succeeding four taxable years, the credit must not exceed 20 percent of the wages paid to or incurred for persons employed by the taxpayer at the facility during the taxable year. For purposes of this section, "wages" has the meaning given under section 3121(b) of the Internal Revenue Code, except the limitation to the contribution and benefit base does not apply.

(d) If the credit provided under this subdivision exceeds the tax liability of the corporation for the taxable year, the excess amount of the credit may be carried over to each of the 20 taxable years succeeding the taxable year. The entire amount of the credit must be carried to the earliest taxable year to which the amount may be carried. The unused portion of the credit must be carried to the following taxable year. No credit may be carried to a taxable year more than 20 years after the taxable year in which the credit was earned.

(e) If an unused portion of the credit remains at the end of the carryover period under paragraph (d), the commissioner shall refund the unused portion to the taxpayer. The provisions of this paragraph do not apply if the corporation that earned the credit under this subdivision or a successor in interest to the corporation filed for bankruptcy protection.

Subd. 32. **International economic development zone job credit.** A taxpayer that is a qualified business, as defined in section 469.321, subdivision 6, is allowed a credit as determined under section 469.327 against the tax imposed by this chapter.

297A.68 BUSINESS EXEMPTIONS.

Subd. 41. **International economic development zones.** (a) Purchases of tangible personal property or taxable services by a qualified business, as defined in section 469.321, are exempt if the property or services are primarily used or consumed in the international economic development zone designated under section 469.322. This exemption applies only if the purchase is made and delivery received after the business signed the business subsidy agreement required under chapter 469.

(b) Purchase and use of construction materials, supplies, and equipment incorporated into the construction of improvements to real property in the international economic development zone are exempt if the improvements after completion of construction are to be used as a regional distribution center as defined in section 469.321 or otherwise used in the conduct of freight

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forwarding activities of a qualified business as defined in section 469.321. This exemption applies regardless of whether the purchases are made by the business or a contractor.

(c) The exemptions under this subdivision apply to a local sales and use tax, regardless of whether the local tax is imposed on sales taxable under this chapter or in another law, ordinance, or charter provision.

(d) The exemptions in this section apply to sales and purchases made after the date of final zone designation under section 469.322, paragraph (c), and before the expiration of the zone under section 469.322, paragraph (d).

(e) For purchases made for improvements to real property to be occupied by a business that has not signed a business subsidy agreement at the time of the purchase, the tax must be imposed and collected as if the rate under section 297A.62, subdivision 1, applied, and then refunded in the manner provided in section 297A.75. The taxpayer must attach to the claim for refund information sufficient for the commissioner to be able to determine that the improvements are being occupied by a business that has signed a business subsidy agreement.

469.042 AGREEMENT ON TAX INCREMENTS, EQUIVALENTS; BOND PLEDGE.

Subd. 2. **Original net tax capacity.** Upon or after approval of a redevelopment project of any housing and redevelopment authority under section 469.028, the auditor of the county in which it is situated shall upon request of the authority certify the net tax capacity of all taxable real property within the project area as then most recently determined, which is referred to in this section as the "original net tax capacity." The auditor shall certify to the authority each year thereafter the amount by which the original net tax capacity has increased or decreased, and the proportion which any such increase bears to the total net tax capacity of the real property for that year or the proportion which any such decrease bears to the original net tax capacity. This subdivision and subdivision 3 shall not apply to any redevelopment project, certification of which is requested subsequent to August 1, 1979.

Subd. 3. **Tax increments.** In each subsequent year the county auditor shall include no more than the original net tax capacity of the real property in the net tax capacity upon which the auditor computes the local tax rates of all taxes levied by the state, the county, the city or town, the school district and every other taxing district in which the project area is situated. The auditor shall extend all local tax rates so determined against the entire net tax capacity of the real property for that year. In each year for which the net tax capacity exceeds the original net tax capacity, the county treasurer shall remit to the authority, instead of the taxing districts, that proportion of all taxes paid that year on the real property in the project area which the excess net tax capacity bears to the total net tax capacity. The amount so remitted each year is referred to in this section as the "tax increment" for that year. Tax increments received with respect to any redevelopment project shall be segregated by the authority receiving them in a special account on its official books and records until the public redevelopment cost of the project, including interest on all money borrowed therefor, has been fully paid, and the city or other public body in which the project is situated has been fully reimbursed from the tax increments or revenues of the project for any principal and interest on general obligation bonds which it has issued for the project and has paid from taxes levied on other property within its corporate limits. The payment shall be reported to the county auditor, who shall thereafter include the entire net tax capacity of the project area in the net tax capacities upon which local tax rates are computed and extended and taxes are remitted to all taxing districts.

Subd. 4. **Tax increment financing.** The authority may pledge and appropriate any part or all of the tax increments received for any redevelopment project, and any part or all of the revenues received from lands in the project area while owned by the authority, for the payment of the principal of and interest on bonds issued in aid of the project pursuant to sections 469.034, 469.041, or 469.152 to 469.165, by the authority or by the governing body of the municipality or other state public body within whose corporate limits the project area is situated. Any such pledge for the payment of bonds issued by the governing body shall be made by written agreement executed on behalf of the authority and the governing body and filed with the county auditor. The estimated collections of the tax increments and any other revenues so pledged may be deducted from the taxes otherwise required to be levied before the issuance of the bonds under section 475.61, subdivision 1, or the collections thereof may be certified annually to reduce or cancel the initial tax levies in accordance with section 475.61, subdivision 3. When such an agreement is made and filed, the bonds may be issued by the governing body in the same manner and subject only to the same conditions as those provided in chapter 475 for bonds financing improvement

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costs reimbursable from special assessments. Bonds shall not be issued nor tax increments or other revenues pledged pursuant to this subdivision subsequent to August 1, 1979.

469.043 PROPERTY TAX EXEMPTION.

Subdivision 1. **Application.** A developer proposing to construct a building on land located within a redevelopment project as defined in section 469.002, subdivision 14, may apply to the governing body of the city in which the land is located to obtain a partial tax exemption as provided in subdivision 2 for the approved property. The land and the building to be constructed thereon are referred to in this section as the "development." The development shall be designed and used primarily for housing purposes but portions of it may be planned and used for related business, commercial, cultural, or recreational purposes, consistent with the project plan. In applying for the tax exemption, the developer must submit a plan of the development that shall contain a general description of the area to be redeveloped and a statement of the plan for redevelopment that includes:

(1) height and bulk of structures, density of population, and percentage of land covered by structures as to their conformity with the purposes of sections 469.001 to 469.047 and with the project plan, if any; and the relationship of the density of population contemplated by the development plan, or project plan, to the distribution of the population of the city in other areas or parts thereof;

(2) provision, if any, for business or commercial facilities related to the development, relationship to existing and planned public facilities, adequacy and planned rearrangement of street facilities and provisions for light, air, cultural, and recreational facilities as to their conformity with the purposes of sections 469.001 to 469.047 and their adequacy for accommodation of the density of population contemplated by the development plan or project plan; and

(3) a development contract with the authority covering the acquisition, construction, financing, operation, and maintenance of the development. The contract shall provide that:

(i) after deducting all operating expenses, debt service payments, taxes or payments in lieu of taxes, and assessments, the developer may be paid annually out of the earnings of the project an amount equal to a specified percentage of the equity invested in the project; the percentage shall be fixed for the term of the tax exemption and shall be determined at the time of the approval of the development contract, provided that no percentage greater than eight percent shall be approved; the contract shall set out the terms of the developer's return on equity and shall define "developer's invested equity," "project earnings," "debt service," and "operating expenses"; and that any cash surplus derived from earnings from that project remaining in the treasury of the developer in excess of the amount necessary to provide such cumulative annual sums shall, upon a conveyance of the project or upon a dissolution of the company, be paid into the general fund of the city or town in which that project is located; and

(ii) a provision that, so long as this section remains applicable to a project, the real property of the project shall not be sold, transferred, or assigned except as permitted by the terms of the contract or as subsequently approved by the governing body.

Subd. 2. **Partial tax exemption.** The governing body of a city in which the proposed development is to be located, after the approval required by subdivision 3, may exempt from all local taxes up to 50 percent of the net tax capacity of the development which represents an increase over the net tax capacity of the property, including both land and improvements, acquired for the development at the time of its original acquisition for redevelopment purposes. If the governing body grants an exemption, the development shall be exempt from any or all county and school district ad valorem property taxes to the extent of and for the duration of the municipal exemption. The tax exemption shall not operate for a period of more than ten years, commencing from the date on which the exemption first becomes effective. No exemption may be granted from payment of special assessments or from the payment of inspection, supervision, and auditing fees of the authority.

The governing body may not approve a tax exemption or a development contract for a development unless it finds by resolution that (1) the land which is part of the proposed development would not, in the foreseeable future, be made available for redevelopment in the manner proposed without the partial exemption; (2) the development plan submitted by the developer will meet a specific housing shortage identified by the city or the authority and will afford maximum opportunity, consistent with the project plan, for redevelopment of the land by private enterprise; and (3) the development plan conforms to the project plan as a whole.

Subd. 3. **Comment by county board.** Before approving a tax exemption pursuant to this section, the governing body of the city must provide an opportunity to members of the board of commissioners of the county in which the proposed development is to be located and the

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members of the school board of the school district which the proposed development is to be located to meet with the governing body. The governing body must present to the members of those boards its estimate of the fiscal impact of the proposed property tax exemption. The tax exemption may not be approved by the governing body until the county board of commissioners has presented its written comment on the proposal to the governing body, or 30 days have passed since the date of the transmittal by the governing body to the board of the information on fiscal impact, whichever occurs first.

Subd. 4. **Change in project prohibited.** During the period of any tax exemption granted pursuant to this section, no developer or any approved successor in interest to its title to a project or any part thereof may transfer any ownership interest in the developer entity or in the project or change any feature of a project for which approval of the city is required, without the approval of the authority and the approval by the local governing body by a majority of the number of the votes authorized to be cast by all of the members of the local governing body.

Subd. 5. **Continuation of redevelopment company provisions.** The provisions of Minnesota Statutes 1986, sections 462.591 to 462.705, shall continue in effect with respect to any project to which a tax exemption had been granted under Minnesota Statutes 1986, section 462.651, prior to August 1, 1987, whether or not the project continues to be owned by a redevelopment company, provided that if the project is not owned by a redevelopment company or governmental unit, the exemption shall not be available during any period when the earnings of the owner from the project annually paid to the owner or its shareholders for interest, amortization, and dividends exceeds eight percent of invested capital or equity in the project.

469.059 DEVELOPMENT DISTRICT POWERS.

Subd. 13. **Tax increment.** The port authority may request that the county auditor of the county of its industrial development district certify the latest net tax capacity of the legally described taxable real property in the request or of all the taxable real property in the district. The auditor shall make the certification. Valuation that is contributed to an areawide tax base under chapter 473F must be excluded from the certification. Each year the auditor shall certify to the authority the amounts and percentages of increase or decrease in the certified net tax capacity. The part of the change that is contributed to an areawide tax base under chapter 473F must be excluded.

The auditor shall compute the local tax rates of taxes against the original certified net tax capacity. The auditor shall also extend the rates against any increased net tax capacity. The auditor shall then send the resulting tax increment to the port authority. The procedure to be used for computing and sending the increments is provided in section 469.042, subdivisions 2 and 3.

The port authority shall keep tax increments received for a district in a special account on its official books and records.

The auditor shall send the tax increments to the port authority until the cost, including interest, of redevelopment of the marginal property within the district has been fully reimbursed. The port authority shall report to the auditor when the cost is fully reimbursed. After that the auditor shall compute and extend the local tax rates against the entire net tax capacity of the property and send the taxes to all taxing districts. The city council may direct that part or all of the tax collected from the property be pledged and appropriated to pay general obligation bonds of the authority. After the auditor has certified the base net tax capacity used to compute tax increments and while the tax increment is kept in a separate account, the auditor must not include increases in the net tax capacity of the property in the net tax capacity of a taxing district to compute its debt or levy limit or to compute the amount of its state or federal aid. This subdivision applies to projects for which the port authority requested a certification on the project before August 2, 1979.

469.129 ISSUANCE OF BONDS.

Subdivision 1. **General obligation bonds.** The governing body may authorize, issue, and sell general obligation bonds to finance the acquisition and betterment of real and personal property needed to carry out the development program within the development district together with all relocation costs incidental thereto. The bonds shall mature within 30 years from the date of issue and shall be issued in accordance with sections 475.51, 475.53, 475.54, 475.55, 475.56, 475.60, 475.61, 475.62, 475.63, 475.65, 475.69, and 475.70. All tax increments received by the city pursuant to Minnesota Statutes 1978, section 472A.08, shall be pledged for the payment of these bonds and used to reduce or cancel the taxes otherwise required to be extended for that purpose. The bonds shall not be included when computing the city's net debt. Bonds shall not be issued under this paragraph subsequent to August 1, 1979.

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Subd. 2. **Revenue bonds.** A city may authorize, issue, and sell revenue bonds under section 469.178, subdivision 4, to refund the principal of and interest on general obligation bonds originally issued to finance a development district, or one or more series of bonds one of which series was originally issued to finance a development district, for the purpose of relieving the city of restrictions on the application of tax increments or for other purposes authorized by law. The refunding bonds shall not be subject to the conditions set out in section 475.67, subdivisions 11 and 12. Tax increments received by the city with respect to the district may be used to pay the principal of and interest on the refunding bonds and to pay premiums for insurance or other security guaranteeing the payment of their principal and interest when due. Tax increments may be applied in any manner permitted by section 469.176, subdivisions 2 and 4. Bonds may not be issued under this subdivision after April 30, 1990.

469.134 EXISTING PROJECTS.

Sections 469.124 to 469.134 do not affect any project or program using tax increment financing which was approved by a city council under Laws 1971, chapter 548 or 677, or Laws 1973, chapter 196, 761, or 764, prior to July 1, 1974, and such projects or programs may be completed and financed in accordance with the provisions of the laws under which they were initiated notwithstanding any provision of this law. Provided, however, that Laws 1971, chapters 548 and 677, and Laws 1973, chapters 196, 761, and 764, are hereby specifically superseded, except as to those projects or programs which have been approved prior to July 1, 1974.

469.162 SOURCE OF PAYMENT FOR BONDS.

Subd. 2. **Tax increments; pre-1979 projects.** (a) Any municipality or redevelopment agency may request the county auditor of the county in which a project is situated to certify the original net tax capacity of the real property included therein and the tax increments realized each year after the commencement of the project, as defined in section 469.042, and shall be entitled to receive, use, and pledge the tax increments for the further security of the revenue bonds issued to finance the project, in either of the following ways:

(1) to pay premiums for insurance guaranteeing the payment of net rentals when due under the project lease; or

(2) to accumulate and maintain a reserve securing the payment when due of the principal of and interest on the bonds.

(b) Tax increments with respect to any industrial development project shall be segregated and specially accounted for by the county treasurer until all bonds issued to finance the project have been fully paid; but the county treasurer shall remit the same to the municipality or redevelopment agency only in the amount certified to the treasurer to be required for any of the purposes stated in paragraph (a). The amount so needed shall be certified annually to the county auditor and treasurer by the municipality or redevelopment agency on or before October 1. Any tax increment remaining in any year after the remittance shall, when collected, be distributed among all of the taxing districts levying taxes on the project area, in proportion to the amounts levied by them. This subdivision shall not apply to a project, certification of which is requested subsequent to August 1, 1979.

469.1651 REVENUE ANTICIPATION NOTES FOR HOSPITALS.

Subdivision 1. **Authorization.** Prior to August 1, 1990, a municipality may issue and sell, at public or private sale, negotiable notes or certificates of indebtedness, as provided in this section and lend the proceeds to nonprofit hospitals in anticipation of revenues or state and federal aids payable to the hospitals within one year after the date of issue of the notes or certificates of indebtedness. The principal amount of the notes or certificates shall not exceed 75 percent of the accounts receivable and third-party reimbursement payments payable to the hospital as of a date within 45 days of the date of issuance. While notes or certificates issued under this section on behalf of a hospital are outstanding, additional notes or certificates shall not be issued unless, for the period of 30 consecutive days immediately preceding the date of issuance, the amount of outstanding notes and certificates was less than six percent of the hospital's gross revenues for the preceding fiscal year.

The municipality need not comply with the procedures set forth in sections 469.152 to 469.165 in the issuance of notes or certificates of indebtedness pursuant to this section, but the municipality shall comply with sections 469.152 to 469.165 at the time of issuance of the refunding obligations if long-term obligations are issued to refund notes or certificates of indebtedness issued pursuant to this section.

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Subd. 2. **Revenue agreement.** No notes or certificates of indebtedness shall be issued pursuant to this section unless the municipality has entered into a revenue agreement with a qualifying hospital providing for payment by the hospital of all principal of and interest on the notes or certificates of indebtedness when they become due and payable, together with any expenses and fees of the municipality incurred in connection with the notes or their issuance. Notes and certificates of indebtedness issued under authority of this section do not, and shall state that they do not, represent or constitute a debt or pledge of the faith and credit of the municipality or the state of Minnesota, or grant to their owners or holders any right to have the municipality or state levy any taxes or appropriate any funds for the payment of their principal or interest on them. The notes or certificates are payable and shall state that they are payable solely from the revenues and other property, income, accounts, charges, and money that are pledged for their payment in accordance with the proceedings authorizing their issuance.

Subd. 3. **Enabling resolution; form of certificates.** The municipality may authorize and effect the borrowing and issue the notes or certificates of indebtedness authorized by this section upon passage of a resolution specifying the amount and purposes of the borrowing. The municipality shall fix the amount, date, maturity, form, denomination, and other details of the notes or certificates of indebtedness, consistent with this section, and shall fix the date and place for the receipt of bids for their purchase, if the notes or certificates of indebtedness are to be sold by public sale.

Subd. 4. **Repayment; maturity date; interest.** The proceeds of revenues and future state and federal aid and other funds of the hospital which may become available shall be applied to the extent necessary to repay the notes or certificates of indebtedness. The full faith and credit of the hospital, or any other lawfully pledged security of the hospital, as deemed necessary by the municipality, shall be pledged to their payment. Notes or certificates of indebtedness issued pursuant to this section shall mature not later than 13 months after the date of issue. The notes or certificates shall be sold at such price as the municipality may agree. The notes or certificates shall bear interest after maturity until paid at the rate they bore before maturity. Any interest accruing before or after maturity shall be paid from any available funds of the hospital.

Any note or certificate of indebtedness issued pursuant to this section may be issued giving its owner the right to tender, or the municipality or the hospital to demand tender of, the obligation to the municipality or the hospital or another person designated by either of them, for purchase at a specified time or times. The note or certificate of indebtedness shall not be deemed to mature on any tender date, and the purchase of a tendered note or certificate shall not be deemed a payment or discharge of the note or certificate. Notes or certificates of indebtedness tendered for purchase may be remarketed by or on behalf of the municipality or any other purchaser. The municipality or the hospital may enter into agreements deemed appropriate to provide for the purchase and remarketing of tendered notes or certificates of indebtedness, including provisions under which undelivered obligations may be deemed tendered for purchase and new obligations may be substituted for them, provisions for the payment of charges of tender agents, remarketing agents, and financial institutions extending lines of credit or letters of credit assuring repurchase, and for reimbursement of advances under letters of credit, which charges and reimbursements shall be paid by the hospital.

Any notes or certificates of indebtedness issued pursuant to this section may bear interest at a rate varying periodically at the time or times and on the terms, including convertibility to a fixed rate of interest, determined by the governing body of the municipality.

Subd. 5. **Trust agreement.** Any notes or certificates of indebtedness issued under this section may be secured by a trust agreement between the municipality and a corporate trustee, which may be any trust company or bank having the powers of a trust company within the state. The trust agreement or the resolution providing for the issuance of the notes or certificates may pledge or assign the revenues to be received, the proceeds of any contracts pledged, and any other property pledged by the hospital or proceeds from it. The trust agreement or resolution providing for the issuance of the notes or certificates may contain reasonable provisions to protect and enforce the rights and remedies of the holders of the notes or certificates. Any bank or trust company incorporated under the laws of the state that may act as depository of the proceeds of notes or certificates or of revenues or other money may furnish the indemnifying bonds or pledge the securities that may be required by the municipality. The trust agreement may set forth the rights and remedies of the holders of the notes or certificates and of the trustee and may restrict the individual right of action by holders of the notes or certificates. The trust agreement or resolution may contain any other provisions that the municipality deems reasonable for the security of the holders of the notes or certificates. All expenses incurred in carrying out the provisions of the trust agreement or resolution shall be paid by the hospital.

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Subd. 6. **Report.** Within 30 days after issuance of notes or certificates under this section, a municipality must report to the commissioner of health on the issuance. The report must include the name and location of the institution, the principal amount of the note or certificate, and its maturity date.

469.166 DEFINITIONS.

Subd. 7. **HUD.** "HUD" means the United States Secretary of Housing and Urban Development or the secretary's delegate or successor.

Subd. 8. **Indian reservation.** "Indian reservation" means an area determined to be such by the United States Secretary of the Interior.

Subd. 9. **SMSA.** "SMSA" means the area in and around a city of 50,000 inhabitants or more, or an equivalent area, as defined by the United States Secretary of Commerce.

Subd. 10. **Employment property.** (a) "Employment property" means taxable property, excluding land but including buildings, structures, fixtures, and improvements that satisfy each of the following conditions:

(1) the property is located within an enterprise zone designated according to section 469.167;

(2) the property is commercial or industrial property except (i) a facility the primary purpose of which is one of the following: retail food and beverage services, automobile sales or service, or the provision of recreation or entertainment, or a private or commercial golf course, country club, massage parlor, tennis club, skating facility including roller skating, skateboard, and ice skating, racquet sports facility, including any handball or racquetball court, hot tub facility, suntan facility, or racetrack; (ii) property of a public utility; (iii) property used in the operation of a financial institution; (iv) property owned by a fraternal or veterans' organization; or (v) property of a business operating under a franchise agreement that requires the business to be located in the state; except that, in an enterprise zone designated under section 469.168, subdivision 4, paragraph (a), clause (4), that is not in a city of the first class, employment property includes property used as a retail food or beverage facility or an automobile sales or service facility, and property described in (v) except for property of a retail food or beverage facility.

(b) In the case of property located in a border city zone, "employment property" includes land except in the case of employment property that is assessed pursuant to the first clause of the first sentence of section 273.13, subdivision 24, paragraph (b).

Subd. 11. **Market value.** "Market value" of a parcel of employment property means the value of the taxable property as annually determined pursuant to section 273.12, less (i) the market value of all property existing at the time of application for classification, as last assessed prior to the time of application, and (ii) any increase in the market value of the property referred to in clause (i) as assessed in each year after the employment property is first placed in service. In each year, any change in the values of the employment property and the other property on the land shall be deemed to be proportionate unless caused by a capital improvement or loss.

Subd. 12. **Legislative Advisory Commission.** "Legislative Advisory Commission" means the Legislative Advisory Commission established under section 3.30.

469.167 DESIGNATION OF ENTERPRISE ZONES.

Subdivision 1. **Process.** The commissioner shall designate an area as an enterprise zone if (1) an application is made in the form and manner and containing the information as prescribed by the commissioner; (2) the application is made by the governing body of the area; (3) the area is determined by the commissioner to be eligible for designation under section 469.168; and (4) the zone is selected pursuant to the process provided by section 469.169.

Subd. 3. **Limitation.** No area may be designated as an enterprise zone after December 31, 1986. No area may be designated as a border city zone after December 31, 1983.

469.168 ELIGIBILITY REQUIREMENTS.

Subdivision 1. **Generally.** An area is eligible for designation if each of the requirements set forth in subdivisions 2 to 4 are met.

Subd. 2. **Boundaries; vacant land.** The boundary of the zone or each subdivision of the zone must be continuous and the area must include vacant or underutilized lands or buildings.

Subd. 3. **Acres; market value.** The area of the zone must be less than 400 acres. The total market value of the taxable property contained in the zone at the time of application must be less than \$100,000 per acre or \$300,000 per acre for an area located wholly within a first class city. A zone which is located in a city of the third or fourth class may be divided into two to four

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separate subdivisions which need not be contiguous with each other. Each subdivision must contain not less than 100 acres. The restrictions provided by this paragraph shall not apply to areas designated pursuant to subdivision 4, paragraph (b) or (c).

Subd. 4. **Area characteristics.** The area must meet the requirements of paragraph (a), (b), or (c).

(a) The proposed zone is located within an economic hardship area, as established by meeting two or more of the following criteria:

(1) the percentage of residential housing units within the area which are substandard is 15 percent or greater under criteria prescribed by the commissioner using data collected by the Bureau of the Census or data submitted by the municipality and approved by the commissioner;

(2) the percentage of households within the area that fall below the poverty level, as determined by the United States Census Bureau, is 20 percent or greater;

(3) (i) the total market value of commercial and industrial property in the area has declined over three of the preceding five years, or (ii) the total market value of all property in the area has declined or has increased less than 10.5 percent over the preceding three-year period;

(4) for the last full year for which data is available, the per capita income in the area was 90 percent or less of the per capita income for the state, excluding standard metropolitan statistical areas, or for the standard metropolitan statistical area if the area is located in a standard metropolitan statistical area;

(5)(i) the current rate of unemployment in the area is at least 120 percent of the statewide average unemployment for the last 12-month period for which verifiable figures are available, or (ii) the total number of employment positions has declined by at least ten percent during the last 18 months.

For purposes of this paragraph, an economic hardship area must have a population under the most recent federal decennial census of at least (1) 4,000 if any of the area is located wholly or partly within a standard metropolitan statistical area, or (2) 2,500 for an area located outside of a standard metropolitan statistical area; except that (1) no minimum population is required in the case of an area located in an Indian reservation, and (2) in the case of two or more cities seeking designation of an enterprise zone under a joint exercise of power pursuant to section 471.59, the minimum population required by this provision shall not exceed the sum of the populations of those cities. A zone qualifying under this paragraph is referred to in sections 469.166 to 469.173 as a "hardship area zone."

(b) The area is so designated under federal legislation providing for federal tax benefits to investors, employers, or employees in enterprise zones. A zone qualifying under this paragraph is referred to in sections 469.166 to 469.173 as a "federally designated zone."

(c) The area consists of a statutory or home rule charter city with a contiguous border with a city in another state or with a contiguous border with a city in Minnesota which has a contiguous border with a city in another state and the area is determined by the commissioner to be economically or fiscally distressed. An area designated under this paragraph is referred to in sections 469.166 to 469.173 as a "border city zone."

469.169 SELECTION OF ENTERPRISE ZONES.

Subdivision 1. **Submission of applications.** By August 31 of each year, a municipality seeking designation of an area as an enterprise zone shall submit an application to the commissioner. The commissioner shall establish procedures and forms for the submission of applications for enterprise zone designation.

Subd. 2. **Applications; contents.** The applications for designation as an enterprise zone shall contain, at a minimum:

(1) verification that the area is eligible for designation pursuant to section 469.168;

(2) a development plan, outlining the types of investment and development within the zone that the municipality expects to take place if the incentives and tax reductions specified under clauses (4) and (5) are provided, the specific investment or development reasonably expected to take place, any commitments obtained from businesses, the projected number of jobs that will be created, the anticipated wage level of those jobs, and any proposed targeting of the jobs created, including affirmative action plans if any. This clause does not apply to an application for designation as a border city zone;

(3) the municipality's proposed means of assessing the effectiveness of the development plan or other programs to be implemented within the zone once they have been implemented;

(4) the specific form of tax reductions, authorized by section 469.171, subdivision 1, proposed to be granted to businesses, the duration of the tax reductions, an estimate of the total state taxes likely to be forgone as a result, and a statement of the relationship between the

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proposed tax reductions and the type of investment or development sought or expected to be attracted to or maintained in the area if it is designated as a zone;

(5) the municipality's contribution to the zone as required by subdivision 5;

(6) any additional information required by the commissioner; and

(7) any additional information that the municipality considers relevant to the designation of the area as an enterprise zone.

Subd. 3. **Evaluation of applications.** (a) The commissioner shall review and evaluate the applications submitted pursuant to subdivision 2 and shall determine whether each area is eligible for designation as an enterprise zone. In determining whether an area is eligible under section 469.168, subdivision 4, paragraph (a), if unemployment, employment, income, or other necessary data are not available for the area from the federal departments of labor or commerce or the state demographer, the commissioner may rely upon other data submitted by the municipality if the commissioner determines it is statistically reliable or accurate. The commissioner, together with the commissioner of revenue, shall prepare an estimate of the amount of state tax revenue which will be foregone for each application if the area is designated as a zone.

(b) By October 1 of each year, the commissioner shall submit to the Legislative Advisory Commission a list of the areas eligible for designation as enterprise zones, along with recommendations for designation and supporting documentation. In making recommendations for designation, the commissioner shall consider and evaluate the applications pursuant to the following criteria:

(1) the pervasiveness of poverty, unemployment, and general distress in the area;

(2) the extent of chronic abandonment, deterioration, or reduction in value of commercial, industrial, or residential structures in the area and the extent of property tax arrearages in the area;

(3) the prospects for new investment and economic development in the area with the tax reductions proposed in the application relative to the state and local tax revenue which would be foregone;

(4) the competing needs of other areas of the state;

(5) the municipality's proposed use of other state and federal development funds or programs to increase the probability of new investment and development occurring;

(6) the extent to which the projected development in the zone will provide employment to residents of the economic hardship area, and particularly individuals who are unemployed or who are economically disadvantaged as defined in the federal Workforce Investment Act of 1998, Public Law 105-220;

(7) the funds available pursuant to subdivision 7; and

(8) other relevant factors that the commissioner specifies in the commissioner's recommendations.

(c) The commissioner shall submit a separate list of the areas entitled to designation as federally designated zones and border city zones along with recommendations for the amount of funds to be allocated to each area.

Subd. 4. **LAC recommendations.** By October 15, the Legislative Advisory Commission shall submit to the commissioner its advisory recommendations regarding the designation of enterprise zones. By October 30 of each year the commissioner shall make the final designation of the areas as enterprise zones, pursuant to section 469.167, subdivision 1. In making the designation, the commissioner may make modifications in the design of or limitations on the tax reductions contained in the application necessary because of the funding limitations under subdivision 7.

Subd. 5. **Local contribution.** No area may be designated as an enterprise zone unless the municipality agrees to make a qualifying local contribution in the form of a property tax reduction for employment property as provided by section 469.170 for any business qualifying for a state tax reduction pursuant to this section. A qualifying local contribution may in the alternative be a local contribution or investment out of other municipal funds, but excluding any special federal grants or loans, equivalent to the property tax reduction. In concluding the agreement with the municipality the commissioner may require that the local contribution will be made in a specified ratio to the amount of the state credits authorized. If the local contribution is to be used to fund additional reductions in state taxes, the commissioner and the governing body of the municipality shall enter an agreement for timely payment to the state to reimburse the state for the amount of tax revenue foregone as a result. The qualifying local contribution for development within the portion of an enterprise zone that is located in a town that has been added by boundary amendment to an enterprise zone that is located within five municipalities and was designated in 1984 shall be provided by the town.

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Subd. 6. **Limitations; number of designations.** (a) In each of the years 1983 and 1984, the commissioner shall designate at least two but not more than five areas as enterprise zones. No designations shall be made after December 31, 1984.

(b) No more than one area may be designated as an enterprise zone in any county, except that two areas may be designated in a county containing a city of the first class.

(c) No more than two areas in a congressional district may be designated as an enterprise zone in 1984.

This subdivision shall not apply to federally designated zones or border city zones.

Subd. 7. **Funding limitations.** The maximum amount of the tax reductions which may be authorized pursuant to designations of enterprise zones is \$36,400,000. The maximum amount of this total that may be authorized by the commissioner for tax reductions pursuant to section 469.171, subdivision 1, that will reduce tax revenues which otherwise would have been received during fiscal years 1984 and 1985 is \$9,000,000. Of the total limitation and the 1984-1985 biennial limitation the commissioner shall allocate to border city zones an amount equal to \$16,610,940 and \$5,000,000 respectively. These funds shall be allocated among such zones on a per capita basis except that the maximum allocation to any one city is \$6,610,940 and no city's allocation shall exceed \$210 on a per capita basis. An amount sufficient to fund the state-funded property tax credits, the refundable income tax credits, and the sales tax exemption, as authorized pursuant to this section is appropriated to the commissioner of revenue. Upon designation of an enterprise zone the commissioner shall certify the total amount available for tax reductions in the zone for its duration. The amount certified shall reduce the amount available for tax reductions in other enterprise zones. If subsequent estimates indicate or actual experience shows that the approved tax reductions will result in amounts of tax reductions in excess of the amount certified for the zone, the commissioner shall implement a plan to reduce the available tax reductions in the zone to an amount within the sum certified for the zone. If subsequent estimates indicate or actual experience shows that the approved tax reductions will result in amounts of tax reductions below the amount certified, the difference shall be available for certification in other zones or used in connection with an amended plan of tax reductions for the zone as the commissioner determines appropriate. If the tax reductions authorized result in reduced revenues for a dedicated fund, the commissioner of management and budget shall transfer equivalent amounts to the dedicated fund from the general fund as necessary. Of the \$36,400,000 in tax reductions authorized under this subdivision, an additional \$800,000 in tax reductions may be authorized within an enterprise zone located within five municipalities that was designated by the commissioner in 1984.

Subd. 8. **Additional enterprise zone allocations.** (a) In addition to tax reductions authorized in subdivision 7, the commissioner may allocate \$600,000 for tax reductions pursuant to section 469.171, subdivisions 1 to 8, to hardship area zones or border city zones. Of this amount, a minimum of \$200,000 must be allocated to an area added to an enterprise zone pursuant to Laws 1986, chapter 465, article 2, section 3. Allocations made pursuant to this subdivision may not be used to reduce a tax liability, or increase a tax refund, prior to July 1, 1987. Limits on the maximum allocation to a zone imposed by subdivision 7 do not apply to allocations made under this subdivision.

(b) A city encompassing an enterprise zone, or portion of an enterprise zone, qualifies for an additional allocation under this subdivision if the following requirements are met:

(1) the city encompassing an enterprise zone, or portion of an enterprise zone, has signed contracts with qualifying businesses that commit the city's total initial allocation received pursuant to subdivision 7; and

(2) the city encompassing an enterprise zone, or portion of an enterprise zone, submits an application to the commissioner requesting an additional allocation for tax reductions authorized by section 469.171, subdivisions 1 to 8. The application must identify a specific business expansion project which would not take place but for the availability of enterprise zone tax incentives.

(c) The commissioner shall use the following criteria when determining which qualifying cities shall receive an additional allocation under this subdivision and the amount of the additional allocation the city is to receive:

(1) additional allocations to qualifying cities under this subdivision shall be made within 60 days of receipt of an application;

(2) applications from cities with the highest level of economic distress, as determined using criteria listed in section 469.168, subdivision 4, paragraph (a), clauses (1) to (5), shall receive priority for an additional allocation under this subdivision;

(3) if the commissioner determines that two cities submitting applications within one week of each other have equal levels of economic distress, the application from the city with the business prospect which will have the greatest positive economic impact shall receive priority for

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an additional allocation. Criteria used by the commissioner to determine the potential economic impact a business would have shall include the number of jobs created and retained, the amount of private investment which will be made by the business, and the extent to which the business would help alleviate the economic distress in the immediate community; and

(4) the commissioner shall determine the amount of any additional allocation a city may receive. The commissioner shall base the amount of additional allocations on the commissioner's determination of the amount of tax incentives which are necessary to ensure the business prospect will expand in the city. No single allocation under this subdivision may exceed \$100,000. No city may receive more than \$250,000 under this subdivision.

Subd. 9. **Additional border city allocations.** In addition to tax reductions authorized in subdivisions 7 and 8, the commissioner may allocate \$1,100,000 for tax reductions to border city enterprise zones in cities located on the western border of the state, and \$300,000 to the border city enterprise zone in the city of Duluth. The commissioner shall make allocations to zones in cities on the western border by evaluating which cities' applications for allocations relate to business prospects that have the greatest positive economic impact. Allocations made under this subdivision may be used for tax reductions as provided in section 469.171, or other offsets of taxes imposed on or remitted by businesses located in the enterprise zone, but only if the municipality determines that the granting of the tax reduction or offset is necessary in order to retain a business within or attract a business to the zone. Limitations on allocations under section 469.169, subdivision 7, do not apply to this allocation.

Subd. 10. **Additional border city allocations.** In addition to tax reductions authorized in subdivisions 7, 8, and 9, the commissioner may allocate \$1,500,000 for tax reductions to border city enterprise zones in cities located on the western border of the state. The commissioner shall make allocations to zones in cities on the western border on a per capita basis. Allocations made under this subdivision may be used for tax reductions as provided in section 469.171, or other offsets of taxes imposed on or remitted by businesses located in the enterprise zone, but only if the municipality determines that the granting of the tax reduction or offset is necessary in order to retain a business within or attract a business to the zone. Limitations on allocations under section 469.169, subdivision 7, do not apply to this allocation.

Subd. 11. **Additional border city allocations.** In addition to tax reductions authorized in subdivisions 7 to 10, the commissioner may allocate \$1,500,000 for tax reductions to border city enterprise zones in cities located on the western border of the state. The commissioner shall make allocations to zones in cities on the western border on a per capita basis. Allocations made under this subdivision may be used for tax reductions as provided in section 469.171, or other offsets of taxes imposed on or remitted by businesses located in the enterprise zone, but only if the municipality determines that the granting of the tax reduction or offset is necessary in order to retain a business within or attract a business to the zone. Limitations on allocations under section 469.169, subdivision 7, do not apply to this allocation.

Subd. 13. **Additional enterprise zone allocations.** In addition to tax reductions authorized in subdivisions 7 to 11, the commissioner may allocate \$500,000 for tax reductions pursuant to enterprise zone designations, as designated in Laws 1997, chapter 231, article 16, section 26. Allocations made under this subdivision may be used for tax reductions as provided in section 469.171, or other offsets of taxes imposed on or remitted by businesses located in the enterprise zone, but only if the municipality determines that the granting of the tax reduction or offset is necessary in order to retain a business within or attract a business to the enterprise zone. Limitations on allocations under subdivision 7 do not apply to this allocation.

469.170 TAX CLASSIFICATION OF EMPLOYMENT PROPERTY.

Subdivision 1. **Municipal applications.** The governing body of any municipality that contains an enterprise zone designated under section 469.167 shall by resolution establish a program for classification of new property or improvements to existing property as employment property pursuant to the provisions of this section. Applications for classification under the program shall be filed with the municipal clerk or auditor in a form prescribed by the commissioner of revenue, with additions as prescribed by the governing body. The application shall contain, where appropriate, a legal description of the parcel of land on which the facility is to be situated or improved; a general description of the facility or improvement and its proposed use; the probable time schedule for undertaking any construction or improvement; and information regarding the findings required in subdivision 4; the market value and the net tax capacity of the land and of all other taxable property then situated on it, according to the most recent assessment; and, if the property is to be improved or expanded, an estimate of the probable cost of the new

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construction or improvement and the market value of the new or improved facility (excluding land) when completed.

Subd. 2. **Hearing.** Upon receipt of an application the municipal clerk or auditor, subject to any prior approval required by the resolution establishing the program, shall furnish a copy to the assessor for the property and to the governing body of each school district and other public body authorized to levy taxes on the property. The municipal clerk or auditor shall publish a notice in the official newspaper of the time and place of a hearing to be held by the governing body on the application, not less than 30 days after the notice is published. The notice shall state that the applicant, the assessor, representatives of the affected taxing authorities, and any taxpayer of the municipality may be heard or may present their views in writing at or before the hearing. The hearing may be adjourned from time to time, but the governing body shall take action on the application by resolution within 30 days after the hearing ends. If disapproved, the reasons shall be set forth in the resolution. The applicant may appeal to the commissioner of revenue within 30 days thereafter, but only on the ground that the determination is arbitrary, in relation to prior determinations as to classification under the program, or based upon a mistake of law. If approved, the resolution shall include determinations as to the findings required in subdivision 4, and the clerk or auditor shall transmit it to the commissioner.

Subd. 3. **Commissioner's action.** Within 60 days after receipt of an approved application or an appeal from the disapproval of an application, the commissioner of revenue shall take action on it. The commissioner of revenue shall approve each application approved by the governing body on finding that it complies with the provisions of this section. On disapproving the application, or finding that grounds exist for appeal of a disapproved application, the commissioner shall transmit the finding to the governing body and the applicant. When grounds for appeal have been determined to exist, the governing body shall reconsider and take further action on the application within 30 days after receipt of the commissioner's notice and serve written notice of the action upon the applicant. The applicant, within 30 days after receipt of notice of final disapproval by the commissioner of revenue or the governing body, may appeal from the disapproval to a court of competent jurisdiction.

Subd. 4. **Hardship area zone criteria.** In the case of hardship area zones, an application shall not be approved unless the governing body finds that the construction or improvement of the facility:

(1) is reasonably likely to create new employment or prevent a loss of employment in the municipality;

(2) is not likely to have the effect of transferring existing employment from one or more other municipalities within the state;

(3) is not likely to cause the total market value of employment property within the municipality to exceed five percent of the total market value of all taxable property within the municipality; or, if it will, considering the amount of additional municipal services likely to be required for the employment property, is not likely to substantially impede the operation or the financial integrity of the municipality or any other public body levying taxes on property in the municipality; and

(4) will not result in the reduction of the net tax capacity of existing property within the municipality owned by the applicant, through abandonment, demolition, or otherwise, without provision for the restoration of the existing property within a reasonable time in a manner sufficient to restore the net tax capacity.

Subd. 5. **Border city zone criteria.** In the case of border city zones, an application for assessment as employment property under section 273.13, subdivision 24, paragraph (b), or for a tax reduction pursuant to section 469.171, subdivision 1, may not be approved unless the governing body finds that the construction or improvement of the facility is not likely to have the effect of transferring existing employment from one or more other municipalities within the state.

Subd. 5a. **Plans: businesses with no previous credits.** All participating enterprise zone municipalities must submit, with each application from businesses that previously have not received enterprise zone credits, a written multiyear enterprise zone tax credit distribution plan. The plan must set forth: (1) the maximum amount of credits to be drawn over the five-year allowable period; and (2) the maximum amount of state tax credits to be drawn each of those five years, and whether the form will be in tax credits or refunds.

Subd. 5b. **Plans: previously approved businesses.** Within 90 days of final enactment of this act, all participating enterprise zone municipalities, except those containing an enterprise zone designated under section 469.168, subdivision 4, paragraph (c), other than a zone in the city of the first class, must submit a written multiyear enterprise zone tax credit distribution plan. The plan must specify the maximum amounts of state tax credits previously approved business applicants are eligible to receive in each of the remaining years for which credits have been

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authorized. The commissioner may only approve requests for state tax credits from a business that meets the requirements established in sections 469.166 to 469.173. The commissioner shall not approve any request for state tax credits from a business that exceeds the amount set forth in an enterprise zone municipality's multiyear enterprise zone tax credit distribution plan for that business entity for that year.

Subd. 5c. **Border city credit plans.** Border city enterprise zones designated under section 469.168, subdivision 4, paragraph (c), that are not located in cities of the first class shall, within 90 days of final enactment of this act, submit a written multiyear enterprise zone tax distribution plan. The plan must specify the maximum aggregate amount of tax credits all previously approved business applicants are eligible to receive in each of the remaining years for which credits have been authorized. The commissioner may only approve requests for state tax credits for a business that meets the requirements established in sections 469.166 to 469.173.

Subd. 5d. **Amendment of plans.** A written multiyear enterprise zone tax credit distribution plan submitted under subdivision 5a, 5b, or 5c, may be amended, provided that an initial amendment may be made no sooner than two years from the date of submission of the original plan, and subsequent amendments may be made no sooner than two years after the most recent prior amendment.

Subd. 5e. **Limits on multiyear plans.** The requirements for a multiyear enterprise zone tax credit distribution plan under subdivisions 5a to 5d apply only for:

- (1) each business that will receive more than \$25,000 in credits in a year; or
- (2) tax reductions under section 469.171, subdivision 1, for businesses in areas designated under section 469.171, subdivision 5.

Subd. 6. **Classification.** Property shall be classified as employment property and assessed as provided for class 3b property in section 273.13, subdivision 24, paragraph (b), for taxes levied in the year in which the classification is approved and for the four succeeding years after the approval. If the classification is revoked, the revocation is effective for taxes levied in the next year after revocation.

Subd. 7. **Revocation.** The governing body may request the commissioner of revenue to approve the revocation of a classification pursuant to this section if it finds by resolution that:

(1) the construction or improvement of the facility has not been completed within two years after the approval of the classification, or any longer period that may have been allowed in the approving resolution or may be necessary due to circumstances not reasonably within the control of the applicant; or

(2) the applicant has not proceeded in good faith with the construction or improvement of the facility, or with its operation, in a manner which is consistent with the purpose of this section and is possible under circumstances reasonably within the control of the applicant.

The findings may be made only after a hearing held upon notice mailed to the applicant by certified mail at least 60 days before the hearing.

Subd. 8. **Hearing.** Upon receipt of the request for revocation, the commissioner of revenue shall notify the applicant and the governing body of a time and place at which the applicant may be heard. The hearing must be held within 30 days after receipt of the request. Within 30 days after the hearing, the commissioner of revenue shall determine whether the facts and circumstances are grounds for revocation as recommended by the governing body. If the commissioner of revenue revokes the classification, the applicant may appeal from the order to a court of competent jurisdiction at any time within 30 days after revocation.

469.171 STATE TAX REDUCTIONS.

Subd. 2. **Municipality to specify.** The municipality shall specify in its application for designation the types of tax reductions it seeks to be made available in the zone and the percentage rates and other appropriate limitations on the reductions.

Subd. 5. **Border city areas.** The commissioner shall approve tax reductions authorized by subdivision 1 within a border city zone only after the governing body of a city designated as an enterprise zone has designated an area or areas, each consisting of at least 100 acres, of the city not in excess of 400 acres in which the tax reductions may be provided.

Subd. 6a. **Additional border city allocations.** In addition to tax reductions authorized in section 469.169, subdivisions 7 and 8, the commissioner may allocate \$2,000,000 for tax reductions pursuant to subdivision 9 to enterprise zones designated under section 469.168, subdivision 4, paragraph (c), except for zones located in cities of the first class. This money shall be allocated among the zones on a per capita basis. Limits on the maximum allocation to a zone imposed by section 469.169, subdivision 7, do not apply to allocations made under this

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subdivision. Tax reductions authorized by this subdivision may not be allocated to any property which is:

- (1) a facility the primary purpose of which is one of the following: the provision of recreation or entertainment, or a private or commercial golf course, country club, massage parlor, tennis club, skating facility including roller skating, skateboard, and ice skating, racquet sports facility, including any handball or racquetball court, hot tub facility, suntan facility, or racetrack;
- (2) property of a public utility;
- (3) property used in the operation of a financial institution;
- (4) property owned by a fraternal or veterans' organization;
- (5) property of a retail food or beverage service business operating under a franchise agreement that requires the business to be located in the state.

Subd. 6b. **Additional border city allocations.** In addition to tax reduction authorized under section 469.169, subdivisions 7 and 8, and under subdivision 6a, the commissioner may allocate \$1,000,000 for tax reductions as provided in this section to enterprise zones designated under section 469.168, subdivision 4, paragraph (c), except for zones located in cities of the first class. The money shall be allocated among the zones on a per capita basis. Limits on the maximum allocation to a zone imposed by section 469.169, subdivision 7, do not apply to allocations made under this subdivision.

469.173 ADMINISTRATION.

Subdivision 1. **Technical assistance.** The commissioner shall provide technical assistance to small municipalities seeking designation of an area as an enterprise zone. For purposes of this subdivision, a small municipality means a municipality with a population of 20,000 or less.

Subd. 3. **Federal designations.** The commissioner may accept applications for and may at any time grant a contingent designation of area as an enterprise zone for purposes of seeking a designation of the area as a federally designated zone. For purposes of the designations, the commissioner may waive any of the requirements or limitations on designations contained in this section. If the contingent designation would require funding in excess of the amount available pursuant to section 469.169, subdivision 7, the commissioner shall inform the members of the legislative advisory commission and shall submit a request for the necessary funding to the tax and appropriations committees of the legislature.

469.1765 GUARANTY FUND.

Subdivision 1. **Authority to establish.** An authority may establish and maintain a guaranty fund or funds. Money in the guaranty fund is available, under the terms and conditions that the development authority establishes, to indemnify or hold harmless a person from liability for remediation costs under a state or federal environmental law, regulation, ruling, order, or decision.

Subd. 2. **Eligible person.** The authority may agree to pledge money in the guaranty fund to indemnify a person whose liability arises out of use, ownership, occupancy, or financing of a property in the subdistrict or district.

Subd. 3. **Terms of indemnity.** The authority shall determine by resolution or by agreement with the person the terms and conditions under which money in the guaranty fund will be used to indemnify or hold harmless the person. The authority may not agree to indemnify a person from liability for contamination caused by the person. The maximum amount that may be paid from the guaranty fund with respect to properties within a subdistrict or district is one-half of the remediation and removal costs. The maximum duration of an indemnification agreement is 25 years. An indemnification agreement is subject to any other restrictions provided by this section or other law.

Subd. 4. **Funding.** (a) Revenues derived from tax increments and any other money available to the authority may be deposited in the guaranty fund. The municipality may appropriate money to the authority to be deposited in the guaranty fund.

(b) If a guaranty fund is established that applies to property located in more than one tax increment financing district or subdistrict, the authority shall establish separate accounts for each subdistrict and district. The authority shall deposit all revenues derived from tax increments from a subdistrict or district in the account for that subdistrict or district, except the following amounts may be deposited in a general or other account: (1) the portion of revenue derived increments from a district, subject to section 469.1763, that may be spent on activities outside of the district, or (2) up to 25 percent of the revenues derived from increments from districts that are not subject to section 469.1763 and which may be deposited in the guaranty fund under the

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applicable tax increment financing plans. Investment earnings of money in an account must be credited to that account.

(c) The only money which may be pledged to indemnify or hold harmless a person from liability are amounts either in the account for the subdistrict or district in which the property out of which the liability arose is located or in an account not dedicated to a specific subdistrict or district.

Subd. 5. **Liability limited.** The authority and municipality is liable under a guaranty fund agreement only to the extent funds are available in the guaranty fund account or accounts available for the property.

Subd. 6. **Depository.** The authority shall provide for the guaranty fund to be held by or maintained with a financial institution or corporate fiduciary eligible for the deposit of public money or eligible to act as a trustee or fiduciary for obligations issued under chapter 475.

Subd. 7. **Final disposition of funds.** At the end of the period of the indemnification, all unencumbered money in the guaranty fund for the subdistrict or district must be treated as an excess increment and distributed under the provisions of section 469.176, subdivision 2, paragraph (a), clause (4). If the municipality contributed money to the account, other than revenues derived from increments, the authority may deduct and pay to the municipality a proportionate share of the unencumbered money in the account before the money is distributed as an excess increment. The proportionate share is determined based on the amount of contributions of nonincrements to the account relative to total contributions, including increments, to the account.

469.1791 TAX INCREMENT FINANCING SPECIAL TAXING DISTRICT.

Subdivision 1. **Definitions.** (a) As used in this section, the terms defined in this subdivision have the meanings given them.

(b) "City" means a city containing a tax increment financing district, the request for certification of which was made before June 2, 1997.

(c) "Enabling ordinance" means an ordinance adopted by a city council establishing a special taxing district.

(d) "Special taxing district" means all or any portion of the property located within a tax increment financing district, the request for certification of which was made before June 2, 1997.

(e) "Development or redevelopment services" has the meaning given in the city's enabling ordinance, and may include any services or expenditures the city or its economic development authority or housing and redevelopment authority or port authority may provide or incur under sections 469.001 to 469.1081 and 469.124 to 469.134, including, without limitation, amounts necessary to pay the principal of or interest on bonds issued by the city or its economic development authority or housing and redevelopment authority or port authority under section 469.178, for the tax increment financing districts contained within the special taxing district or projects to be funded with increments from tax increment financing districts contained within the special taxing district.

(f) "Preexisting obligations" means bonds issued and sold before June 2, 1997, and binding contracts entered into before June 2, 1997, to the extent that the bonds and contracts are secured by a pledge of increments from the tax increment financing district contained within the special taxing district.

Subd. 2. **Establishment of special taxing district.** The governing body of a city may adopt an ordinance establishing a special taxing district, if the conditions under subdivision 3 are satisfied. The ordinance must describe with particularity the property to be included in the district and the development or redevelopment services to be provided in the district. Only property that is subject to an assessment agreement or development agreement with the city or its economic development authority, housing and redevelopment authority, or port authority, as of the date of adoption of the ordinance, may be included within the special taxing district and be subject to the tax imposed by the city on the district. The ordinance may not be adopted until after a public hearing has been held on the question. Notice of the hearing must include the time and place of the hearing, a map showing the boundaries of the proposed district, and a statement that all persons owning property in the proposed district that would be subject to a special tax will be given the opportunity to be heard at the hearing. Within 30 days after adoption of the ordinance under this subdivision, the governing body shall send a copy of the ordinance to the commissioner of revenue.

Subd. 3. **Preconditions to establish district.** (a) A city may establish a special taxing district within a tax increment financing district under this section only if the conditions under paragraphs (b) and (c) are met or if the city elects to exercise the authority under paragraph (d).

(b) The city has determined that:

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(1) total tax increments from the district, including unspent increments from previous years and increments transferred under paragraph (c), will be insufficient to pay the amounts due in a year on preexisting obligations; and

(2) this insufficiency of increments resulted from the reduction in property tax class rates enacted in the 1997 and 1998 legislative sessions.

(c) The city has agreed to transfer any available increments from other tax increment financing districts in the city to pay the preexisting obligations of the district under section 469.1763, subdivision 6. This requirement does not apply to any available increments of a housing district.

(d) If a tax increment financing district does not qualify under paragraphs (b) and (c), the governing body may elect to establish a special taxing district under this section. If the city elects to exercise this authority, increments from the tax increment financing district and the proceeds of the tax imposed under this section may only be used to pay preexisting obligations and reasonable administrative expenses of the authority for the tax increment financing district. The tax increment financing district must be decertified when all preexisting obligations have been paid.

Subd. 4. **Notice; hearing.** Notice of the hearing must be given by publication in the official newspaper of the city at least ten but not more than 30 days prior to the hearing. Not less than ten days before the hearing, notice must also be mailed to the owner of each parcel within the area proposed to be included within the district. For the purpose of giving mailed notice, owners are those shown on the records of the county auditor. At the public hearing a person affected by the proposed district may testify on any issues relevant to the proposed district. The hearing may be adjourned from time to time and the ordinance establishing the district may be adopted at any time within six months after the date of the conclusion of the hearing by a vote of the majority of the governing body of the city.

Subd. 5. **Benefit; objection.** Before the ordinance is adopted or at the hearing at which it is to be adopted, any affected landowner may file a written objection with the city clerk asserting that the landowner's property should not be included in the district or should not be subject to a special tax and objecting to:

(1) the fact that the landowner's property is not subject to an assessment agreement or development agreement; or

(2) the fact that neither the landowner's property nor its use is benefited by the development or redevelopment services provided.

The governing body shall make a determination on the objection within 30 days of its filing. Pending its determination, the governing body may delay adoption of the ordinance or it may adopt the ordinance with a reservation that the landowner's property may be excluded from the district or district special taxes when a determination is made.

Subd. 6. **Appeal to district court.** Within 30 days after the determination of the objection, any person aggrieved may appeal to the district court by serving a notice upon the mayor or city clerk. No appeal may be filed if the aggrieved person failed to timely file a written objection with the city clerk under subdivision 5, and the failure was not due to reasonable cause. The notice must be filed with the court administrator of the district court within ten days after its service. The city clerk shall furnish the appellant a certified copy of the findings and determination of the governing body. The court may affirm the action objected to or, if the appellant's objections have merit, modify or cancel it. If the appellant does not prevail upon the appeal, the costs incurred are taxed to the appellant by the court and judgment entered for them. All objections are deemed waived unless presented on appeal.

Subd. 7. **Modification of special taxing district.** The boundaries of the special taxing district may be enlarged or reduced under the procedures for establishment of the district under subdivision 2. Property added to the district is subject to the special tax imposed within the district after the property becomes a part of the district.

Subd. 8. **Special tax authority.** A city may impose a special tax within a special taxing district that is reasonably related to the development or redevelopment services provided. The tax may be imposed at a rate or amount sufficient to produce the revenues required to provide the development or redevelopment services within the project area subject to limits under subdivision 9. The special tax is payable only in a year in which the assessment or development agreement for the property subject to the tax remains in effect for that taxes payable year.

Subd. 9. **Limits on tax.** (a) The maximum levy for any year may not exceed the least of:

(1) the amount specified in the assessment agreement or development agreement;

(2) the amount needed to pay preexisting obligations, less available increments including increments transferred from other districts; and

(3) the amount of the general ad valorem tax that would have been paid by the captured net tax capacity of the tax increment financing district, if the property tax class rates for taxes

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payable in 1997 were in effect, less the amount of the general ad valorem tax imposed for the payable year on the captured net tax capacity.

(b) If the city uses the proceeds of a tax imposed under this section to pay preexisting obligations secured by increments from more than one tax increment financing district, the city must establish a special taxing district in each of the districts and impose a uniform rate upon all the districts. The maximum limits under paragraph (a) must be calculated in aggregate for all of the affected districts.

(c) If neither the assessment agreement nor the development agreement specify a tax amount but state an agreed market value for the property, the amount specified for purposes of paragraph (a), clause (1), is the market value of the property under the agreement multiplied by the class rate for taxes payable in 1997 and multiplied by the sum of the ad valorem tax rates for all the taxing jurisdictions.

Subd. 10. Limits under other law. The tax imposed under this section is not included in the calculation of levies or limits imposed under law or charter. Section 275.065 does not apply to any tax imposed under this section. The tax proceeds are subject to the restrictions imposed by law on revenues derived from tax increments and may only be spent for the purposes for which increments may be spent.

Subd. 11. Collection and administration. The special tax must be imposed on the net tax capacity of the taxable property located in the geographic area described in the ordinance. Taxable net tax capacity must be determined without regard to captured or original net tax capacity under section 469.177 or to the distribution or contribution value under section 473F.08. The city shall compute the amount of the tax for each parcel subject to tax and certify the amount to the county auditor by the date provided in section 429.061, subdivision 3, for the annual certification of special assessment installments. The special tax is payable and must be collected at the same time and in the same manner as provided for payment and collection of ad valorem taxes. Special taxes not paid on or before the applicable due date are subject to the same penalty and interest as ad valorem tax amounts not paid by the respective due date. The due date for the special tax is the due date for the real property tax for the property on which the special tax is imposed.

469.1799 TIF GRANTS; APPROPRIATIONS.

Subd. 2. School district abatement levy authority. A school district that adopted an abatement resolution under sections 469.1812 to 469.1815, prior to August 1, 2001, pursuant to which all or a portion of its general education levy on a parcel was to be abated for taxes payable in 2002 or later years and pledged to the payment of bonds issued, or binding contracts entered into, prior to August 1, 2001, may annually levy an amount equal to the lesser of: (1) the amount specified for these purposes in the resolution for the taxes payable year; or (2) the amount of the general education tax levied on the property for which the abatements were granted for taxes payable in 2001. The levy authority in this subdivision is in addition to any other levy of the district, but this authority expires and may not be used for taxes payable in the year following the termination or expiration of the abatements under the resolution, without giving any effect to an extension or modification of the resolution made after August 1, 2001.

469.301 DEFINITIONS.

Subdivision 1. Generally. In sections 469.301 to 469.304, the terms defined in this section have the meanings given them, unless the context indicates a different meaning.

Subd. 2. Commissioner. "Commissioner" means the commissioner of employment and economic development.

Subd. 3. Enterprise zone. "Enterprise zone" means an area in the state designated as such by the commissioner.

Subd. 4. City. "City" means any city that contains an area that meets the criteria for designation as a federal empowerment zone or enterprise community and meets the eligibility criteria in section 469.303, or a city of the second class that is designated as an economically depressed area by the United States Department of Commerce.

Subd. 5. Governing body. "Governing body" means the city council or other body designated by its charter.

469.302 DESIGNATIONS OF ENTERPRISE ZONES.

Subdivision 1. Process. The commissioner shall designate an area as an enterprise zone if:

(1) the application is made by the governing body of the city as prescribed by section 469.304;

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(2) the area is determined by the commissioner to be eligible for designation under section 469.303.

Subd. 2. **Duration.** The designation of an area as an enterprise zone is effective for ten years after the date of designation.

Subd. 3. **Date of designation.** Designation is effective immediately following approval of the enterprise zone application by the commissioner.

469.303 ELIGIBILITY REQUIREMENTS.

An area within the city is eligible for designation as an enterprise zone if the area (1) includes census tracts eligible for a federal empowerment zone or enterprise community as defined by the United States Department of Housing and Urban Development under Public Law 103-66, notwithstanding the maximum zone population standard under the federal empowerment zone program for cities with a population under 500,000, (2) is an area within a city of the second class that is designated as an economically depressed area by the United States Department of Commerce, or (3) includes property located in St. Paul in a transit zone as defined in Minnesota Statutes 2000, section 473.3915, subdivision 3.

469.304 APPLICATION FOR ENTERPRISE ZONE DESIGNATION.

Subdivision 1. **Submission of applications.** An applicant may seek enterprise zone designation by submitting an application to the commissioner. The commissioner shall establish procedures and forms for the submission of applications for enterprise zone designation. The commissioner may promulgate rules for the administration of the program.

Subd. 2. **Applications; contents.** The application for designation as an enterprise zone must contain, at a minimum:

- (1) verification that the area is eligible for designation pursuant to section 469.303;
- (2) identification of the agency or unit of government that will implement the program;
- (3) any additional information required by the commissioner; and
- (4) any additional information that the municipality considers relevant to the designation of the area as an enterprise zone.

Subd. 3. **Certification.** The governing body must certify to the commissioner that activity within the municipality's enterprise zone will not transfer existing employment from other municipalities within the state.

469.321 DEFINITIONS.

Subdivision 1. **Scope.** For purposes of sections 469.321 to 469.329, the following terms have the meanings given.

Subd. 2. **Foreign trade zone.** "Foreign trade zone" means a foreign trade zone designated pursuant to United States Code, title 19, section 81a, for the right to use the powers provided in United States Code, title 19, sections 81a to 81u, or a subzone authorized by the foreign trade zone.

Subd. 3. **Foreign trade zone authority.** "Foreign trade zone authority" means the Greater Metropolitan Foreign Trade Zone Commission number 119, a joint powers authority created by the county of Hennepin, the cities of Minneapolis and Bloomington, and the Metropolitan Airports Commission, under the authority of section 469.059, 469.101, or 471.59, and includes any other political subdivisions that enter into the authority after its creation, as well as the county in which the zone is located. Notwithstanding section 471.59, the members of the authority are not required to have separate authority to establish or operate a foreign trade zone.

Subd. 4. **International economic development zone or zone.** An "international economic development zone" or "zone" is a zone so designated under section 469.322.

Subd. 5. **Person.** "Person" includes an individual, corporation, partnership, limited liability company, association, or any other entity.

Subd. 6. **Qualified business.** "Qualified business" means a person who has signed a business subsidy agreement as required under sections 116J.993 to 116J.995 and 469.323, subdivision 4, carrying on a trade or business at a place of business located within the international economic development zone that is:

- (1)(i) engaged in the furtherance of international export or import of goods as a freight forwarder; and (ii) certified by the foreign trade zone authority as a trade or business that furthers the purpose of developing international distribution capacity and capability; or
- (2) the owner or operator of a regional distribution center.

Subd. 7. **Regional distribution center.** A "regional distribution center" is a distribution center developed within a foreign trade zone. The regional distribution center must have as its

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primary purpose, the facilitation of the gathering of freight for the purpose of centralizing the functions necessary for the shipment of freight in international commerce, including, but not limited to, security and customs functions.

Subd. 8. International economic development zone percentage or zone percentage.

"International economic development zone percentage" or "zone percentage" means the following fraction reduced to a percentage:

(1) the numerator of the fraction is:

(i) the ratio of the taxpayer's property factor under section 290.191 located in the zone for the taxable year which is land, buildings, machinery and equipment, inventories, and other tangible personal property that is a regional distribution center or is used in the furtherance of the taxpayer's freight forwarding operations over the property factor numerator determined under section 290.191, plus

(ii) the ratio of the taxpayer's international economic development zone payroll factor under subdivision 9 over the payroll factor numerator determined under section 290.191; and

(2) the denominator of the fraction is two.

When calculating the zone percentage for a business that is part of a unitary business as defined under section 290.17, subdivision 4, the denominator of the payroll and property factors is the Minnesota payroll and property of the unitary business as reported on the combined report under section 290.17, subdivision 4, paragraph (j).

Subd. 9. International economic development zone payroll factor or international economic development zone payroll. "International economic development zone payroll factor" or "international economic development zone payroll" is that portion of the payroll factor under section 290.191 used to operate a regional distribution center, or used in the furtherance of the taxpayer's freight forwarding operations that represents:

(1) wages or salaries paid to an individual for services performed in the international economic development zone; or

(2) wages or salaries paid to individuals working from offices within the international economic development zone, if their employment requires them to work outside the zone and the work is incidental to the work performed by the individual within the zone. However, in no case does zone payroll include wages paid for work performed outside the zone of an employee who performs more than ten percent of total services for the employer outside the zone.

Subd. 10. Freight forwarder. "Freight forwarder" is a business that, for compensation, ensures that goods produced or sold by another business move from point of origin to point of destination.

469.3215 APPLICATION FOR DESIGNATION.

Subdivision 1. Who may apply. One or more local government units, or a joint powers board under section 471.59, acting on behalf of two or more units, may apply for designation of an area as an international economic development zone. All or part of the area proposed for designation as a zone must be located within the boundaries of each of the governmental units. A local government unit may not submit or have submitted on its behalf more than one application for designation of an international economic development zone.

Subd. 2. Application content. (a) The application must include:

(1) a resolution or ordinance adopted by each of the cities or towns and the counties in which the zone is located, agreeing to provide all of the local tax exemptions provided under section 469.315;

(2) an agreement by the applicant to treat incentives provided under the zone designation as business subsidies under sections 116J.993 to 116J.995 and to comply with the requirements of that law; and

(3) supporting evidence to allow the authority to evaluate the application.

(b) Applications must be submitted to the authority no later than December 31, 2005.

469.322 DESIGNATION OF INTERNATIONAL ECONOMIC DEVELOPMENT ZONE.

(a) An area designated as a foreign trade zone may be designated by the foreign trade zone authority as an international economic development zone if within the zone a regional distribution center is being developed pursuant to section 469.323. The zone must consist of contiguous area of not less than 500 acres and not more than 1,000 acres. The designation authority under this section is limited to one zone.

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(b) In making the designation, the foreign trade zone authority, in consultation with the Minnesota Department of Transportation and the Metropolitan Council, shall consider access to major transportation routes, consistency with current state transportation and air cargo planning, adequacy of the size of the site, access to airport facilities, present and future capacity at the designated airport, the capability to meet integrated present and future air cargo, security, and inspection services, and access to other infrastructure and financial incentives. The border of the international economic development zone must be no more than 60 miles distant or 90 minutes drive time from the border of the Minneapolis-St. Paul International Airport.

(c) Before final designation of the zone, the foreign trade zone authority, in consultation with the applicant, must conduct a transportation impact study based on the regional model and utilizing traffic forecasting and assignments. The results must be used to evaluate the effects of the proposed use on the transportation system and identify any needed improvements. If the site is in the metropolitan area the study must also evaluate the effect of the transportation impacts on the Metropolitan Transportation System plan as well as the comprehensive plans of the municipalities that would be affected. The authority shall provide copies of the study to the legislature under section 3.195 and to the chairs of the committees with jurisdiction over transportation and economic development. The applicant must pay the cost of the study.

(d) Final zone designation must be made by June 30, 2008.

(e) Duration of the zone is a 12-year period beginning on January 1, 2010.

469.323 FOREIGN TRADE ZONE AUTHORITY POWERS.

Subdivision 1. **Development of regional distribution center.** The foreign trade zone authority is responsible for creating and implementing a development plan for the regional distribution center. The regional distribution center must be developed with the purpose of expanding, on a regional basis, international distribution capacity and capability. The foreign trade zone authority shall consult only with municipalities that have indicated to the authority an interest in locating the international economic development zone within their boundaries, as well as interested businesses, potential financiers, and appropriate state and federal agencies.

Subd. 2. **Business plan.** Before designation of an international economic development zone under section 469.322, the governing body of the foreign trade zone authority shall prepare a business plan. The findings of the business plan shall be presented to the legislature pursuant to section 3.195. Copies of the business plan shall be provided to the chairs of committees with jurisdiction over transportation and economic development. The plan must include an analysis of the economic feasibility of the regional distribution center once it becomes operational and of the operations of freight forwarders and other businesses that choose to locate within the boundaries of the zone. The analysis must provide profitability models that:

(1) include the benefits of the incentives;

(2) estimate the amount of time needed to achieve profitability; and

(3) analyze the length of time incentives will be necessary to the economic viability of the regional distribution center.

If the governing body of the foreign trade authority determines that the models do not establish the economic feasibility of the project, the regional distribution center does not meet the development requirements of this section and section 469.322.

Subd. 3. **Port authority powers.** The governing body of the foreign trade zone authority may establish a port authority that has the same powers as a port authority established under section 469.049. If the foreign trade zone authority establishes a port authority, the governing body of the foreign trade zone authority may exercise all powers granted to a city by sections 469.048 to 469.068 within the area of the international economic development zone, except it may not impose or request imposition of a property tax levy under section 469.053 by any city.

Subd. 4. **Business subsidy law.** Tax exemptions and job credits provided under this section are business subsidies and the foreign trade zone authority is the local government agency for the purpose of sections 116J.871 and 116J.993 to 116J.995.

469.324 TAX INCENTIVES IN INTERNATIONAL ECONOMIC DEVELOPMENT ZONE.

Qualified businesses that operate in an international economic development zone, individuals who invest in a regional distribution center or qualified businesses that operate in an international economic development zone, and property located in an international economic development zone qualify for:

(1) exemption from individual income taxes as provided under section 469.325;

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- (2) exemption from corporate franchise taxes as provided under section 469.326;
- (3) exemption from the state sales and use tax and any local sales and use taxes on qualifying purchases as provided in section 297A.68, subdivision 41;
- (4) exemption from the property tax as provided in section 272.02, subdivision 68; and
- (5) the jobs credit allowed under section 469.327.

469.325 INDIVIDUAL INCOME TAX EXEMPTION.

Subdivision 1. **Application.** An individual, estate, or trust operating a trade or business in the international economic development zone, and an individual making a qualifying investment in a qualified business operating in the international economic development zone, qualifies for the exemptions from taxes imposed under chapter 290, as provided in this section. The exemptions provided under this section apply only to the extent that the income otherwise would be taxable under chapter 290. Subtractions under this section from federal taxable income, alternative minimum taxable income, or any other base subject to tax are limited to the amount that otherwise would be included in the tax base absent the exemption under this section. This section applies only to tax years beginning during the duration of the zone.

Subd. 2. **Business income.** An individual, estate, or trust is exempt from the taxes imposed under chapter 290 on net income from the operation of a qualified business in the international economic development zone. If the trade or business is carried on within and outside of the zone and the individual is not a resident of Minnesota, the exemption must be apportioned based on the zone percentage for the taxable year. If the trade or business is carried on within or outside of the zone and the individual is a resident of Minnesota, the exemption must be apportioned based on the zone percentage for the taxable year, except the ratios under section 469.321, subdivision 8, clause (1), items (i) and (ii), must use the denominators of the property and payroll factors determined under section 290.191. No subtraction is allowed under this section in excess of 20 percent of the sum of the international economic development zone payroll and the adjusted basis of the property at the time that the property is first used in the international economic development zone by the business.

469.326 CORPORATE FRANCHISE TAX EXEMPTION.

(a) A qualified business is exempt from taxation under section 290.02, the alternative minimum tax under section 290.0921, and the minimum fee under section 290.0922, on the portion of its income attributable to operations within the international economic development zone. This exemption is determined as follows:

- (1) for purposes of the tax imposed under section 290.02, by multiplying its taxable net income by its zone percentage and subtracting the result in determining taxable income;
- (2) for purposes of the alternative minimum tax under section 290.0921, by multiplying its alternative minimum taxable income by its zone percentage and reducing alternative minimum taxable income by this amount; and
- (3) for purposes of the minimum fee under section 290.0922, by excluding property and payroll in the zone from the computations of the fee or by exempting the entity under section 290.0922, subdivision 2, clause (8).

(b) No subtraction is allowed under this section in excess of 20 percent of the sum of the corporation's international economic development zone payroll and the adjusted basis of the zone property at the time that the property is first used in the international economic development zone by the corporation.

(c) This section applies only to tax years beginning during the duration of the international economic development zone.

469.327 JOBS CREDIT.

Subdivision 1. **Credit allowed.** (a) A qualified business is allowed a credit against the taxes imposed under chapter 290. The credit equals seven percent of the:

- (1) lesser of:
 - (i) zone payroll for the taxable year, less the zone payroll for the base year; or
 - (ii) total Minnesota payroll for the taxable year, less total Minnesota payroll for the base year; minus
- (2) \$30,000 multiplied by the number of full-time equivalent employees that the qualified business employs in the international economic development zone for the taxable year, minus the number of full-time equivalent employees the business employed in the zone in the base year, but not less than zero.

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(b) This section applies only to tax years beginning during the duration of the international economic development zone.

Subd. 2. **Definitions.** (a) For purposes of this section, the following terms have the meanings given.

(b) "Base year" means the taxable year beginning during the calendar year immediately preceding the calendar year in which the duration of the zone begins under section 469.322, paragraph (d).

(c) "Full-time equivalent employees" means the equivalent of annualized expected hours of work equal to 2,080 hours.

(d) "Minnesota payroll" means the wages or salaries attributed to Minnesota under section 290.191, subdivision 12, for the qualified business or the unitary business of which the qualified business is a part, whichever is greater.

(e) "Zone payroll" means wages or salaries used to determine the zone payroll factor for the qualified business, less the amount of compensation attributable to any employee that exceeds \$70,000.

Subd. 3. **Inflation adjustment.** For taxable years beginning after December 31, 2010, the dollar amounts in subdivisions 1, paragraph (a), clause (2); and 2, paragraph (e), are annually adjusted for inflation. The commissioner of revenue shall adjust the amounts by the percentage determined under section 290.06, subdivision 2d, for the taxable year.

Subd. 4. **Refundable.** If the amount of the credit exceeds the liability for tax under chapter 290, the commissioner of revenue shall refund the excess to the qualified business.

Subd. 5. **Appropriation.** An amount sufficient to pay the refunds authorized by this section is appropriated to the commissioner of revenue from the general fund.

469.328 REPAYMENT OF TAX BENEFITS.

Subdivision 1. **Repayment obligation.** A person must repay the amount of the tax reduction received under section 469.324, subdivision 1, clauses (1) to (5), or credit received under section 469.327, during the two years immediately before it ceased to operate in the zone as a qualified business, if the person ceased to operate its facility located within the zone, ceased to be in compliance with the terms of the business subsidy agreement, or otherwise ceases to be or is not a qualified business.

Subd. 2. **Disposition of repayment.** The repayment must be paid to the state to the extent it represents a state tax reduction and to the county to the extent it represents a property tax reduction. Any amount repaid to the state must be deposited in the general fund. Any amount repaid to the county for the property tax exemption must be distributed to the local governments with authority to levy taxes in the zone in the same manner provided for distribution of payment of delinquent property taxes. Any repayment of local sales or use taxes must be repaid to the jurisdiction imposing the local sales or use tax.

Subd. 3. **Repayment procedures.** (a) For the repayment of taxes imposed under chapter 290 or 297A or local taxes collected pursuant to section 297A.99, a person must file an amended return with the commissioner of revenue and pay any taxes required to be repaid within 30 days after ceasing to be a qualified business. The amount required to be repaid is determined by calculating the tax for the period for which repayment is required without regard to the tax reductions and credits allowed under section 469.324.

(b) For the repayment of property taxes, the county auditor shall prepare a tax statement for the person, applying the applicable tax extension rates for each payable year and provide a copy to the business. The person must pay the taxes to the county treasurer within 30 days after receipt of the tax statement. The taxpayer may appeal the valuation and determination of the property tax to the tax court within 30 days after receipt of the tax statement.

(c) The provisions of chapters 270C and 289A relating to the commissioner of revenue's authority to audit, assess, and collect the tax and to hear appeals are applicable to the repayment required under paragraphs (a) and (b). The commissioner may impose civil penalties as provided in chapter 289A, and the additional tax and penalties are subject to interest at the rate provided in section 270C.40, from 30 days after ceasing to do business in the zone until the date the tax is paid.

(d) If a property tax is not repaid under paragraph (c), the county treasurer shall add the amount required to be repaid to the property taxes assessed against the property for payment in the year following the year in which the treasurer discovers that the person ceased to operate in the international economic development zone.

(e) For determining the tax required to be repaid, a tax reduction is deemed to have been received on the date that the tax would have been due if the person had not been entitled to the tax reduction.

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(f) The commissioner of revenue may assess the repayment of taxes under paragraph (d) at any time within two years after the person ceases to be a qualified business, or within any period of limitations for the assessment of tax under section 289A.38, whichever is later.

Subd. 4. **Waiver authority.** The commissioner of revenue may waive all or part of a repayment, if, in consultation with the foreign trade zone authority and appropriate officials from the state and local government units, including the commissioner of employment and economic development, determines that requiring repayment of the tax is not in the best interest of the state or local government and the business ceased operating as a result of circumstances beyond its control, including, but not limited to:

- (1) a natural disaster;
- (2) unforeseen industry trends; or
- (3) loss of a major supplier or customer.

469.329 REPORTING REQUIREMENTS.

(a) An applicant receiving designation of an international economic development zone under section 469.322 must annually report to the commissioner of employment and economic development on its progress in meeting the zone performance goals under the business plan for the zone and the applicant's compliance with the business subsidy law under sections 116J.993 to 116J.995.

(b) The commissioner must report on its Web site information on (1) the estimated amount of the tax expenditures for the zone, (2) the business subsidy agreements with qualified businesses in the zone, (3) the estimated number of new jobs created in the zone and investment made, and (4) other information similar to the information that the commissioner reports on the job opportunity building zone program on the department's Web site.

473.680 TIF DISTRICT FOR HEAVY MAINTENANCE FACILITY.

Subdivision 1. **Authorization.** The commission may create a tax increment financing district as provided in this subdivision on property located at the Minneapolis-St. Paul International Airport. Except as otherwise provided in this section, the provisions of sections 469.174 to 469.179 apply to the district. The district shall consist of parcels on which the heavy maintenance facility described in section 473.667, subdivision 12, is proposed to be located. The commission is the "authority" for purposes of sections 469.174 to 469.179.

Subd. 2. **Characteristics of the district.** (a) The district shall be an economic development district as defined in section 469.174, subdivision 12.

(b) Notwithstanding section 469.176, subdivision 4c, the revenue derived from tax increment from the district must be used only to pay debt service on general obligation revenue bonds issued by the commission under section 473.667, subdivision 12.