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State of Minnesota
HOUSE OF REPRESENTATIVES

NINETIETH SESSION

H. F. No. **3710**

03/12/2018 Authored by Davids

The bill was read for the first time and referred to the Committee on Government Operations and Elections Policy

03/26/2018 Adoption of Report: Amended and re-referred to the Committee on Taxes

1.1 A bill for an act
1.2 relating to taxation; sales tax; tax increment financing; abatements; local
1.3 government aid; authorizing the city of Duluth to create a regional exchange district
1.4 for development purposes; authorizing the extension of certain taxes in the city of
1.5 Duluth; amending Minnesota Statutes 2016, section 297A.71, by adding a
1.6 subdivision; Laws 1980, chapter 511, sections 1, subdivision 2, as amended; 2, as
1.7 amended; proposing coding for new law in Minnesota Statutes, chapter 469.

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

1.9 Section 1. Minnesota Statutes 2016, section 297A.71, is amended by adding a subdivision
1.10 to read:

1.11 Subd. 51. **Construction materials, public infrastructure, and improvements in**
1.12 **regional exchange district.** Materials and supplies used in, and equipment incorporated
1.13 into, the construction and improvement of buildings and infrastructure, whether publicly
1.14 or privately owned, which are located within a regional exchange district established under
1.15 section 469.51, are exempt.

1.16 **EFFECTIVE DATE.** This section is effective for sales and purchases made after June
1.17 30, 2018, and before July 1, 2035.

1.18 Sec. 2. **[469.50] DEFINITIONS.**

1.19 Subdivision 1. **Application.** For the purposes of sections 469.50 to 469.54, the terms
1.20 defined in this section have the meanings given them.

1.21 Subd. 2. **City.** "City" means the city of Duluth.

1.22 Subd. 3. **County.** "County" means St. Louis County.

2.1 Subd. 4. **District.** "District" means the regional exchange district established under
2.2 section 469.51.

2.3 Subd. 5. **Medical business entity.** "Medical business entity" means a medical business
2.4 entity with its principal place of business in the regional exchange district that, effective
2.5 January 1, 2015, is the largest private employer with the city.

2.6 Subd. 6. **Public infrastructure project.** (a) "Public infrastructure project" means a
2.7 project financed in part or in whole with public money in order to support development in
2.8 the district. A public infrastructure project may:

2.9 (1) acquire real property and other assets associated with the real property;

2.10 (2) demolish, repair, or rehabilitate buildings;

2.11 (3) remediate land and buildings as required to prepare the property for acquisition or
2.12 development;

2.13 (4) install, construct, or reconstruct elements of public infrastructure required to support
2.14 the overall development of the district, including but not limited to: streets, roadways,
2.15 highways, utilities systems and related facilities, including relocations and realignments;
2.16 structural caps or streetscape improvements; bridges or other buildable pads above streets,
2.17 roadways, highways, and other rights-of-way; network and communication systems; drainage
2.18 systems; sewer and water systems; subgrade structures and associated improvements;
2.19 landscaping; façade construction and restoration; wayfinding and signage, and other
2.20 components of community infrastructure;

2.21 (5) acquire, construct or reconstruct, and equip parking facilities, transit stations, and
2.22 other facilities to encourage intermodal transportation and transit;

2.23 (6) install, construct or reconstruct, furnish, and equip parks and trails; cultural,
2.24 community, educational, and recreational facilities; facilities to promote tourism and
2.25 hospitality, conferencing, and conventions; and broadcast and related multimedia
2.26 infrastructure;

2.27 (7) make related site improvements, including, without limitation, excavation, earth
2.28 retention, soil stabilization and correction, foundation and substructure, vertical circulation
2.29 systems, and other site improvements to support a district;

2.30 (8) prepare land for private development and to sell or lease land;

2.31 (9) pay the costs of providing relocation benefits to occupants of acquired properties;
2.32 and

(10) construct and equip all or a portion of one or more suitable structures on land owned by the city or the state for sale or lease to private development; provided, however, that the portion of any structure directly financed by the city or the state as a public infrastructure project may not finance inpatient hospital facilities within a medical district.

(b) A public infrastructure project is not a business subsidy under section 116J.993.

Subd. 7. Regional Exchange District Advisory Board; advisory board; REDAB.
"Regional Exchange District Advisory Board," "advisory board," or "REDAB" means the advisory board established under section 469.51, subdivision 3.

EFFECTIVE DATE. This section is effective the day after the governing body of the city of Duluth and its chief clerical officer timely comply with Minnesota Statutes, section 645.021, subdivisions 2 and 3.

Sec. 3. [469.51] REGIONAL EXCHANGE DISTRICT; REGIONAL EXCHANGE DISTRICT ADVISORY BOARD.

Subdivision 1. Creation; boundaries. There is established in the city a regional exchange district, largely within the area of the city commonly referred to as the medical district. The regional exchange district is bounded by: East 6th Street from North 3rd Avenue East to North 7th Avenue East; North 7th Avenue East from East 6th Street to East 3rd Street; East 3rd Street from North 7th Avenue East to North 12th Avenue East; North 12th Avenue East from East 3rd Street straight through the Duluth Rose Garden to the Lake Superior waterfront; the Lake Superior waterfront from the Duluth Rose Garden at North 12th Avenue East to Lake Place Park at North 3rd Avenue East; North 3rd Avenue East from Lake Place Park at the Lake Superior waterfront to East 6th Street, excluding any property operated as a hotel on the corner of Superior Street and North 3rd Avenue East.

Subd. 2. Purpose; findings. The public purposes of the district are to facilitate:

(1) repurposing vacant or underutilized public land, or unutilized property interests such as air rights, for development or redevelopment and to incent significant private investment;

(2) redeveloping vacant or underutilized private land to increase its tax-generating and job-creating potential or to provide housing or meet other community needs; and

(3) encouraging development by the anchoring institutions in the community, such as health care organizations and institutions of higher education, to create opportunities to improve the economy of the city and greater Minnesota regions and attract and retain a workforce.

4.1 Subd. 3. **Advisory board.** (a) The Regional Exchange District Advisory Board is created
4.2 to provide the city with advice and guidance in developing an overall development plan for
4.3 the regional exchange district. The advisory council terminates when funds from all
4.4 appropriation support payments made to the city under section 469.54 are committed to
4.5 approved public infrastructure projects.

4.6 (b) REDAB will consist of eight members appointed as follows:

4.7 (1) the mayor of the city or the mayor's designee, subject to approval of the city council;

4.8 (2) a city council member selected by the mayor;

4.9 (3) one member of the county board, appointed by the county board;

4.10 (4) a member of the Duluth Seaway Port Authority, appointed by the Port Authority
4.11 Board;

4.12 (5) three representatives of the medical business entity, appointed by and serving at the
4.13 pleasure of the medical business entity; and

4.14 (6) one member selected by a two-thirds vote by the members appointed under clauses
4.15 (1) to (5).

4.16 (c) The appointing authorities must make their respective appointments as soon as
4.17 practicable after May 31, 2018, but no later than June 30, 2018. A member first appointed
4.18 after June 22, 2013, under paragraph (b), clauses (1) to (4), serves for a term coterminous
4.19 with the term of the elected office, but may be reappointed. A vacancy occurs as provided
4.20 in section 351.02 and must be filled by the appointing authority for the balance of a term
4.21 in the same manner as a regular appointment. The member selected under paragraph (b),
4.22 clause (6), serves a term coterminous with the member appointed under paragraph (b),
4.23 clause (2), but may be reselected.

4.24 (d) The duties of the advisory board are to prepare a proposed development for the
4.25 district for approval by the city council; propose modifications to the development plan for
4.26 city council approval; and recommend to the city council proposed public infrastructure
4.27 projects not specifically listed in the plan that the board designates as consistent with the
4.28 development plan adopted by the city.

4.29 (e) The advisory board and committee or subcommittee of the advisory board is subject
4.30 to the Open Meeting Law in chapter 13D and is a government entity for purposes of chapter
4.31 13.

5.1 Subd. 4. **Development plan.** (a) REDAB, in consultation with the city and the medical
5.2 business entity, must prepare a proposed development plan for the district. The plan must
5.3 provide the following:

5.4 (1) an outline for the development of the district to meet the purpose and findings in
5.5 subdivision 2;

5.6 (2) discussion of how the development plans will increase economic activity in the city
5.7 and fit into the city's long-term comprehensive development plans;

5.8 (3) a specific list of public infrastructure projects that meet the purposes and findings
5.9 listed in subdivision 2; and

5.10 (4) the criteria to be used by the advisory board in evaluating whether a public
5.11 infrastructure project, not specifically listed in the plan under clause (3), is consistent with
5.12 the proposed development plan.

5.13 (b) A development plan for the district is not adopted until approved by the city council.
5.14 If the city council rejects the initial development plan proposed by the advisory board, the
5.15 board may revise the development plan and resubmit the plan. Section 15.99 does not apply
5.16 to review and approval of the development plan. The city must not spend any appropriation
5.17 support payments from the state until it has approved a development plan proposed by the
5.18 advisory board.

5.19 (c) REDAB may propose modifications to the development plan at any time, however
5.20 all changes are subject to approval by the city council.

5.21 Subd. 5. **Project approval; notice; hearing.** Public infrastructure projects may be
5.22 undertaken within the district by the city if the project is listed in the development plan or
5.23 is recommended to the city by REDAB. The city must hold a public hearing before approving
5.24 a public infrastructure project for local or state funding provided pursuant to section 469.53
5.25 or 469.54. At least ten days before the hearing, the city must publish notice of the hearing
5.26 in the official newspaper of the city.

5.27 **EFFECTIVE DATE.** This section is effective the day after the governing body of the
5.28 city of Duluth and its chief clerical officer timely comply with Minnesota Statutes, section
5.29 645.021, subdivisions 2 and 3.

6.1 Sec. 4. **[469.52] CITY POWERS; DUTIES; AUTHORITY TO ISSUE BONDS.**

6.2 Subdivision 1. **Port authority powers.** The city may exercise the powers of a port
6.3 authority under sections 469.048 to 469.068 for purposes of implementing sections 469.50
6.4 to 469.54.

6.5 Subd. 2. **City may issue debt.** The city may issue general obligation bonds, revenue
6.6 bonds, or other obligations, as it determines appropriate, to finance public infrastructure
6.7 projects, as provided by chapter 475. Notwithstanding section 475.53, obligations issued
6.8 under this section are not subject to the limits on net debt, regardless of their source of
6.9 security or payment. Notwithstanding section 475.58 or any other law or charter provision
6.10 to the contrary, issuance of obligations under the provisions of this section are not subject
6.11 to approval of the electors. The city may pledge local revenues under section 469.53, the
6.12 appropriation support payments under section 469.54, and any of the city's unrestricted
6.13 revenues as security for and to pay the obligations.

6.14 Subd. 3. **American-made steel.** The city must require that a public infrastructure project
6.15 use American steel products to the extent practicable. In determining whether it is practicable,
6.16 the city may consider the exceptions to the requirement by Public Law 111-5, section 1605.

6.17 Subd. 4. **City contracts; construction requirements.** For all public infrastructure
6.18 projects, the city must make reasonable efforts to hire and cause the construction manager
6.19 and any subcontractors to employ women and members of minority communities. Goals
6.20 for construction contracts must be established in the manner required under the city's
6.21 disadvantaged business enterprises plan.

6.22 Subd. 5. **Public bidding exemption.** Notwithstanding section 469.068 or any other law
6.23 to the contrary, the city need not require competitive bidding with respect to a parking
6.24 facility or other public improvements constructed in conjunction with, and directly above
6.25 or below, or adjacent and integrally related to, a private development within a district.

6.26 Subd. 6. **Support to advisory board.** The city may provide financial, administrative,
6.27 and research support, and office and other space, to the board. The city may appropriate
6.28 city funds to the board for its work.

6.29 **EFFECTIVE DATE.** This section is effective the day after the governing body of the
6.30 city of Duluth and its chief clerical officer timely comply with Minnesota Statutes, section
6.31 645.021, subdivisions 2 and 3.

7.1 Sec. 5. **[469.53] LOCAL VALUE CAPTURE AUTHORITY.**

7.2 Subdivision 1. **Special abatement rules.** (a) If the city or county elects to use tax
7.3 abatement under sections 469.1812 to 469.1815 to finance costs of public infrastructure
7.4 projects, or to finance the costs of a joint project between the city and county, including all
7.5 financing costs, the special rules under this subdivision apply.

7.6 (b) The limitations under section 469.1813, subdivision 6, do not apply.

7.7 (c) The limitations under section 469.1813, subdivision 8, do not apply, and property
7.8 taxes abated by the city or county to finance costs of public infrastructure projects are not
7.9 included for purposes of applying section 469.1813, subdivision 8, to the use of tax abatement
7.10 for other purposes.

7.11 Subd. 2. **Special tax increment financing rules.** If the city elects to establish one or
7.12 more redevelopment tax increment financing districts within a regional exchange district
7.13 to fund public infrastructure projects, the requirements, definitions, limitations, or restrictions
7.14 in the following statutes do not apply: sections 469.174, subdivisions 10 and 25, clause (2);
7.15 469.176, subdivisions 4j, 4l, and 5; and 469.1763, subdivisions 2, 3, and 4. The provisions
7.16 of this subdivision expire effective for tax increments expended after December 31, 2054.
7.17 After that date, the provisions of section 469.1763, subdivision 4, apply to any remaining
7.18 unspent or unobligated increments.

7.19 **EFFECTIVE DATE.** This section is effective the day after the governing body of the
7.20 city of Duluth and its chief clerical officer timely comply with Minnesota Statutes, section
7.21 645.021, subdivisions 2 and 3.

7.22 Sec. 6. **[469.54] STATE VALUE CAPTURE.**

7.23 Subdivision 1. **Definitions.** (a) For purposes of this section, the following terms have
7.24 the meanings given them.

7.25 (b) "Appropriation support payments" means payment from the state to the city pursuant
7.26 to subdivision 3.

7.27 (c) "Commissioner" means the commissioner of employment and economic development.

7.28 (d) "Construction projects" means expenditures for the constructing, furnishing,
7.29 commissioning, and equipping of buildings, ancillary facilities, utilities, parking, and other
7.30 improvements, whether private or public, that are located within a district.

7.31 (e) "Expenditures" means expenditures made, or to be made, by any entity on construction
7.32 projects for the capital cost of the construction project, including but not limited to:

(1) planning, predesign, design, including architectural, engineering, project management, and similar services;

(2) legal, regulatory, and other compliance costs of the project;

(3) land acquisition, demolition of existing improvements, and other site preparation costs;

(4) construction costs, including all materials and supplies of the project; and

(5) equipment, furnishings, and fixtures.

Expenditures excludes supplies and other items with a useful life of less than a year that are not used or consumed in constructing improvements to real property or are otherwise chargeable to capital costs.

(f) "Finance" means to pay all costs, including the costs of debt financing, which includes principal, interest, and premium.

(g) "Qualified expenditures" means the total minimum contract value of all executed contracts for construction projects.

Subd. 2. **Certification of expenditures.** By March 1 of each year, the city must certify to the commissioner the amount of qualified expenditures made through the end of the preceding year. The certification must be made in the form that the commissioner prescribes and include any documentation of and supporting information regarding the qualified expenditures that the commissioner requires. By July 1 of each year, the commissioner must confirm or revise the amount of the qualified expenditures.

Subd. 3. **Appropriation support payments.** (a) No appropriation support payments from the state to the city may be made under this section until total qualified expenditures equal at least \$360,000,000.

(b) The amount of the appropriation support payments for a year equals:

(1) for qualified expenditures, as certified by the commissioner, of \$360,000,000, the amount of \$360,000,000 multiplied by 0.02; plus

(2) for qualified expenditures, as certified by the commissioner, if any, between \$360,000,000 and \$540,000,000, the amount of such certified qualified expenditures multiplied by 0.015; plus

(3) for qualified expenditures, as certified by the commissioner, if any, between \$540,000,000 and \$720,000,000, the amount of such certified qualified expenditures multiplied by 0.0125; plus

(4) for qualified expenditures, as certified by the commissioner, if any, between \$720,000,000 and \$1,000,000,000, the amount of such certified qualified expenditures multiplied by 0.01.

(c) The maximum amount of appropriation support payments in any year is limited to no more than \$15,000,000, minus the amount of city contributions under sections 7 and 8 in the previous calendar year. The total amount of appropriation support payments made under this subdivision is limited to an amount sufficient to finance \$184,000,000 of public infrastructure projects.

(d) The city must use the appropriation support payments it receives under this subdivision for public infrastructure projects, including the cost to finance such projects. The city must maintain appropriate records to document the use of the funds under this requirement.

(e) The commissioner must pay to the city the amount of appropriation support payments determined under this section for the year by September 1.

Subd. 4. **Prevailing wage requirement.** During the construction, installation, remodeling, and repairs of any public infrastructure project funded by appropriation support payments, laborers and mechanics at the site must be paid the prevailing wage rate as defined in section 177.42, subdivision 6, and the public infrastructure project is subject to the requirements of sections 177.30 and 177.41 to 177.44.

Subd. 5. **Termination.** No aid may be paid under this section after fiscal year 2054.

Subd. 6. **Appropriation.** An amount sufficient to pay the appropriation support payments authorized under this section to the city is appropriated to the commissioner from the general fund.

EFFECTIVE DATE. This section is effective the day after the governing body of the city of Duluth and its chief clerical officer timely comply with Minnesota Statutes, section 645.021, subdivisions 2 and 3.

Sec. 7. Laws 1980, chapter 511, section 1, subdivision 2, as amended by Laws 1991, chapter 291, article 8, section 22, Laws 1998, chapter 389, article 8, section 25, Laws 2003, First Special Session chapter 21, article 8, section 11, Laws 2008, chapter 154, article 5, section 2, Laws 2014, chapter 308, article 3, section 21, and Laws 2017, First Special Session chapter 1, article 5, section 1, is amended to read:

Subd. 2. (a) Notwithstanding Minnesota Statutes, section 477A.016, or any other law, ordinance, or city charter provision to the contrary, the city of Duluth may, by ordinance, impose an additional sales tax of up to one and three-quarter percent on sales transactions

10.1 which are described in Minnesota Statutes 2000, section 297A.01, subdivision 3, clause (c).
10.2 The imposition of this tax shall not be subject to voter referendum under either state law or
10.3 city charter provisions. When the city council determines that the taxes imposed under this
10.4 paragraph at a rate of three-quarters of one percent and other sources of revenue produce
10.5 revenue sufficient to pay debt service on bonds in the principal amount of \$40,285,000 plus
10.6 issuance and discount costs, issued for capital improvements at the Duluth Entertainment
10.7 and Convention Center, which include a new arena, the rate of tax under this subdivision
10.8 must be reduced by three-quarters of one percent.

10.9 (b) In addition to the tax in paragraph (a) and notwithstanding Minnesota Statutes, section
10.10 477A.016, or any other law, ordinance, or city charter provision to the contrary, the city of
10.11 Duluth may, by ordinance, impose an additional sales tax of up to one-half of one percent
10.12 on sales transactions which are described in Minnesota Statutes 2000, section 297A.01,
10.13 subdivision 3, clause (c). This tax expires when the city council determines that the tax
10.14 imposed under this paragraph, along with the tax imposed under section 22, paragraph (b),
10.15 has produced revenues sufficient to pay the debt service on bonds in a principal amount of
10.16 no more than \$18,000,000, plus issuance and discount costs, to finance capital improvements
10.17 to public facilities to support tourism and recreational activities in that portion of the city
10.18 west of 14th Avenue West and the area south of and including Skyline Parkway.

10.19 (c) The city of Duluth may sell and issue up to \$18,000,000 in general obligation bonds
10.20 under Minnesota Statutes, chapter 475, plus an additional amount to pay for the costs of
10.21 issuance and any premiums. The proceeds may be used to finance capital improvements to
10.22 public facilities that support tourism and recreational activities in the portion of the city
10.23 west of 14th Avenue West and the area south of and including Skyline Parkway, as described
10.24 in paragraph (b). The issuance of the bonds is subject to the provisions of Minnesota Statutes,
10.25 chapter 475, except no election shall be required unless required by the city charter. The
10.26 bonds shall not be included in computing net debt. The revenues from the taxes that the city
10.27 of Duluth may impose under paragraph (b) and under section 22, paragraph (b), may be
10.28 pledged to pay principal of and interest on such bonds.

10.29 (d) If the city of Duluth adopts a development plan for a regional exchange district under
10.30 Minnesota Statutes, section 469.51, the tax under paragraph (b) shall be extended for ten
10.31 years after it would otherwise expire under that paragraph and all revenues from the extension
10.32 of the tax under this paragraph must be used to fund public infrastructure projects, including
10.33 related bonds costs, in the regional exchange district. Use of this revenue is limited to the
10.34 same allowed uses for state appropriation support payments under Minnesota Statutes,
10.35 section 469.54.

EFFECTIVE DATE. This section is effective the day after the governing body of the city of Duluth and its chief clerical officer timely comply with Minnesota Statutes, section 645.021, subdivisions 2 and 3.

Sec. 8. Laws 1980, chapter 511, section 2, as amended by Laws 1998, chapter 389, article 8, section 26, Laws 2003, First Special Session chapter 21, article 8, section 12, Laws 2014, chapter 308, article 3, section 22, and Laws 2017, First Special Session chapter 1, article 5, section 2, is amended to read:

Sec. 22. CITY OF DULUTH; TAX ON RECEIPTS BY HOTELS AND MOTELS.

(a) Notwithstanding Minnesota Statutes, section 477A.016, or any other law, or ordinance, or city charter provision to the contrary, the city of Duluth may, by ordinance, impose an additional tax of one percent upon the gross receipts from the sale of lodging for periods of less than 30 days in hotels and motels located in the city. The tax shall be collected in the same manner as the tax set forth in the Duluth city charter, section 54(d), paragraph one. The imposition of this tax shall not be subject to voter referendum under either state law or city charter provisions.

(b) In addition to the tax in paragraph (a) and notwithstanding Minnesota Statutes, section 477A.016, or any other law, ordinance, or city charter provision to the contrary, the city of Duluth may, by ordinance, impose an additional sales tax of up to one-half of one percent on the gross receipts from the sale of lodging for periods of less than 30 days in hotels and motels located in the city. This tax expires when the city council first determines that the tax imposed under this paragraph, along with the tax imposed under section 21, paragraph (b), has produced revenues sufficient to pay the debt service on bonds in a principal amount of no more than \$18,000,000, plus issuance and discount costs, to finance capital improvements to public facilities to support tourism and recreational activities in that portion of the city west of 14th Avenue West and the area south of and including Skyline Parkway.

(c) If the city of Duluth adopts a development plan for a regional exchange district under Minnesota Statutes, section 469.51, the tax under paragraph (b) shall be extended for ten years after it would otherwise expire under that paragraph and all revenues from the extension of the tax under this paragraph must be used to fund public infrastructure projects, including related bonds costs, in the regional exchange district. Use of this revenue is limited to the same allowed uses for state appropriation support payments under Minnesota Statutes, section 469.54.

- 12.1
- EFFECTIVE DATE.**

This section is effective the day after the governing body of the
- 12.2
- city of Duluth and its chief clerical officer timely comply with Minnesota Statutes, section
- 12.3
- 645.021, subdivisions 2 and 3.