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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

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; amending Minnesota Statutes 2016, section 297A.71,  
1.5 by adding a subdivision; proposing coding for new law in Minnesota Statutes,  
1.6 chapter 469.

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

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

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

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

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

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

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

1.21 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. **Public infrastructure project.** (a) "Public infrastructure project" means a  
2.4 project financed in part or in whole with public money in order to support development in  
2.5 the district. A public infrastructure project may:

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

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

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

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

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

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

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

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

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

2.30 (10) construct and equip all or a portion of one or more suitable structures on land owned  
2.31 by the city or the state for sale or lease to private development; provided, however, that the

3.1 portion of any structure directly financed by the city or the state as a public infrastructure  
 3.2 project may not finance inpatient hospital facilities within a medical district.

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

3.4 **EFFECTIVE DATE.** This section is effective the day after the governing body of the  
 3.5 city of Duluth and its chief clerical officer timely comply with Minnesota Statutes, section  
 3.6 645.021, subdivisions 2 and 3.

3.7 **Sec. 3. [469.51] REGIONAL EXCHANGE DISTRICT.**

3.8 Subdivision 1. **Creation; boundaries.** There is established in the city a regional exchange  
 3.9 district, largely within the area of the city commonly referred to as the medical district. The  
 3.10 regional exchange district is bounded by: East 6th Street from North 3rd Avenue East to  
 3.11 North 7th Avenue East; North 7th Avenue East from East 6th Street to East 3rd Street; East  
 3.12 3rd Street from North 7th Avenue East to North 12th Avenue East; North 12th Avenue East  
 3.13 from East 3rd Street straight through the Duluth Rose Garden to the Lake Superior waterfront;  
 3.14 the Lake Superior waterfront from the Duluth Rose Garden at North 12th Avenue East to  
 3.15 Lake Place Park at North 3rd Avenue East; North 3rd Avenue East from Lake Place Park  
 3.16 at the Lake Superior waterfront to East 6th Street, excluding any property operated as a  
 3.17 hotel on the corner of Superior Street and North 3rd Avenue East.

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

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

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

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

3.27 Subd. 3. **Project approval; notice; hearing.** Public infrastructure projects, including a  
 3.28 structural freeway cap, parking structure, street improvements, transit improvements, and  
 3.29 civic, cultural, and educational facilities, may be undertaken within the district after findings  
 3.30 by the governing body of the city, for each such project, that the public infrastructure project  
 3.31 facilitates one or more of the public purposes set forth in subdivision 2. The city must hold  
 3.32 a public hearing before approving a public infrastructure project for local or state funding

4.1 provided pursuant to section 469.53 or 469.54. At least ten days before the hearing, the city  
 4.2 must publish notice of the hearing in the official newspaper of the city.

4.3 **EFFECTIVE DATE.** This section is effective the day after the governing body of the  
 4.4 city of Duluth and its chief clerical officer timely comply with Minnesota Statutes, section  
 4.5 645.021, subdivisions 2 and 3.

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

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

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

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

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

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

4.31 **EFFECTIVE DATE.** This section is effective the day after the governing body of the  
 4.32 city of Duluth and its chief clerical officer timely comply with Minnesota Statutes, section  
 4.33 645.021, subdivisions 2 and 3.

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

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

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

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

5.11 Subd. 2. **Special tax increment financing rules.** If the city elects to establish one or  
5.12 more redevelopment tax increment financing districts within a regional exchange district  
5.13 to fund public infrastructure projects, the requirements, definitions, limitations, or restrictions  
5.14 in the following statutes do not apply: sections 469.174, subdivisions 10 and 25, clause (2);  
5.15 469.176, subdivisions 4j, 4l, and 5; and 469.1763, subdivisions 2, 3, and 4. The provisions  
5.16 of this subdivision expire effective for tax increments expended after December 31, 2054.  
5.17 After that date, the provisions of section 469.1763, subdivision 4, apply to any remaining  
5.18 unspent or unobligated increments.

5.19 **EFFECTIVE DATE.** This section is effective the day after the governing body of the  
5.20 city of Duluth and its chief clerical officer timely comply with Minnesota Statutes, section  
5.21 645.021, subdivisions 2 and 3.

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

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

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

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

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

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

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

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

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

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

6.7 (5) equipment, furnishings, and fixtures.

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

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

6.13 (g) "Qualified expenditures" means the total certified expenditures since June 30, 2018,  
6.14 for construction projects that have applied for and received building permits from the city,  
6.15 or that have actually been constructed, based upon actual costs or, if construction is not  
6.16 complete, budgeted costs.

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

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

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

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

6.29 (2) for qualified expenditures, as certified by the commissioner, if any, between  
6.30 \$360,000,000 and \$540,000,000, the amount of such certified qualified expenditures  
6.31 multiplied by 0.015; plus

7.1 (3) for qualified expenditures, as certified by the commissioner, if any, between  
7.2 \$540,000,000 and \$720,000,000, the amount of such certified qualified expenditures  
7.3 multiplied by 0.0125; plus

7.4 (4) for qualified expenditures, as certified by the commissioner, if any, between  
7.5 \$720,000,000 and \$1,000,000,000, the amount of such certified qualified expenditures  
7.6 multiplied by 0.01.

7.7 (c) The maximum amount of appropriation support payments in any year is limited to  
7.8 no more than \$15,000,000. The total amount of appropriation support payments made under  
7.9 this subdivision is limited to \$184,000,000.

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

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

7.15 Subd. 4. **Prevailing wage requirement.** During the construction, installation, remodeling,  
7.16 and repairs of any public infrastructure project funded by appropriation support payments,  
7.17 laborers and mechanics at the site must be paid the prevailing wage rate as defined in section  
7.18 177.42, subdivision 6, and the public infrastructure project is subject to the requirements  
7.19 of sections 177.30 and 177.41 to 177.44.

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

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

7.24 **EFFECTIVE DATE.** This section is effective the day after the governing body of the  
7.25 city of Duluth and its chief clerical officer timely comply with Minnesota Statutes, section  
7.26 645.021, subdivisions 2 and 3.