

**Subject** Duluth regional exchange district created, financed

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## Overview

Establishes a “regional exchange district” around the hospitals in Duluth to stimulate development with both city and state money, in a fashion similar to the Destination Medical Center (DMC) plan in Rochester that was enacted in 2013. The city would be advised by a board established in the bill.

The state would provide up to \$164 million from the state general fund or state appropriation bond proceeds to finance public infrastructure in the district. State funding is available after at least \$75 million in private development has been committed to the district. No state payments may be made for this development project after fiscal year 2055.

The city would pay for at least \$20 million in utility projects in the district, increase and collect local sales taxes to finance at least \$20 million of public infrastructure in the district, pay to the state 50 percent of net parking revenues from facilities constructed in the district, pay the state \$250,000 per year for debt service on state appropriation bonds if they are issued, and would have special tax increment financing and abatement authority for the district.

Unless stated otherwise, the sections of this bill are effective the day after local approval by the city of Duluth is filed with the secretary of state.

## Summary

Section	Description
1	<p><b>Duluth regional exchange district appropriation bonds.</b></p> <p>Authorizes the commissioner of management and budget to sell 25-year appropriation bonds under the terms in this section when the city of Duluth requests they be sold. Provides for up to \$164 million to finance public infrastructure in the city of Duluth according to the development plan.</p> <p>Appropriates from the general fund up to \$13.47 million per year from 2022 through 2055 to pay debt service on the bonds.</p>

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	<p>Debt service on these bonds is paid for from a statutory general fund appropriation that may be repealed, canceled, or unallotted. They are <u>not</u> backed by the full faith and credit of the state.</p>
	<p>Under section 10, the city would pay \$250,000 per year towards debt service.</p>
2	<p><b>Construction materials and public infrastructure in regional exchange district.</b> Provides a refundable sales tax exemption for public construction in the Duluth regional exchange district for a seven-year period. The tax must be paid at the time the materials are purchased and refunded as provided in sections 3-5. Effective for sales and purchases after June 30, 2019, and before July 1, 2026.</p>
3-5	<p><b>Tax collected (sales tax refund).</b> Sections 3 to 5 provide that the entity applying for the refund of taxes paid in section 2 must be the governmental entity that contracts for the project. Requires the contractor, subcontractor, or builder to provide the governmental entity with the information needed to make the refund application. Effective for sales and purchases after June 30, 2019, and before July 1, 2026.</p>
6	<p><b>Definitions.</b> Defines terms used in the Duluth regional exchange district enabling statute proposed in this bill.</p> <p>The medical business entity east is St. Luke’s Hospital and the medical business entity west is Essentia.</p> <p>“Public infrastructure project” is defined broadly to mean a project financed with public money (in part or in whole) to support development in the district. It includes demolition and site improvements, buildings, transportation infrastructure, sewer and water infrastructure, and public amenities. It excludes inpatient or outpatient hospital facilities, and requires ten percent of the amount financed by the state for public infrastructure to support construction of new affordable housing, which must be matched by an equal nonstate contribution.</p> <p>Provides that a public infrastructure project is not a business subsidy. Effective after Duluth files local approval with the secretary of state.</p>
7	<p><b>Regional exchange district.</b> Creates the district and defines the boundaries. States the public purpose in creating the district.</p> <p>Effective after Duluth files local approval with the secretary of state.</p>

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8	<p data-bbox="354 275 984 302"><b>Regional Exchange District Advisory Board (REDAB).</b></p> <p data-bbox="453 317 1414 489"><b>Subd. 1. Advisory board membership.</b> Establishes REDAB with nine appointed members—the mayor or the mayor’s designee, a city council member, two members appointed by Essentia, one member appointed by St. Luke’s, one member appointed by the Duluth Greater Downtown Council, and two members appointed by the governor.</p> <p data-bbox="453 527 1365 625"><b>Subd. 2. Conflict of interest.</b> Prohibits members of REDAB, other than those appointed by Essentia and St. Luke’s, from being an employee of or affiliated with Essentia or St. Luke’s.</p> <p data-bbox="453 663 1406 800"><b>Subd. 3. Terms; vacancies.</b> Requires appointing authorities to make the appointments by June 30, 2019. Provides for four-year, staggered terms, except that the elected officials on REDAB serve for terms coterminous with their elected terms of office.</p> <p data-bbox="453 837 1419 1079"><b>Subd. 4. Duties.</b> Provides in general for REDAB to prepare a proposed development plan for the district and advise the city council on how public infrastructure projects fit into the overall plan. Specifies certain review and certification of activities and expenditures by Essentia and St. Luke’s. Requires an annual report to the commissioner of employment and economic development and the chairs and ranking minority members of legislative committees with jurisdiction over economic development.</p> <p data-bbox="453 1117 1414 1215"><b>Subd. 5. Open meeting law.</b> Provides that REDAB and any committee or subcommittee of REDAB is subject to the open meeting law and is a government entity for purposes of data practices.</p> <p data-bbox="453 1253 1386 1320"><b>Subd. 6. Chair.</b> Directs REDAB to elect a chair every two years from among the governor’s appointees.</p> <p data-bbox="453 1358 1386 1495"><b>Subd. 7. Compensation; expense reimbursement.</b> Permits the city to compensate members at \$55 per day (unless compensated by employer) and reimburse members for expenses. Expense reimbursement includes child care expenses that would not otherwise have been incurred.</p> <p data-bbox="453 1533 1403 1631"><b>Subd. 8. Removal.</b> Allows a member to be removed by the appointing authority at any time (1) for cause, after notice and hearing, or (2) after missing three consecutive meetings.</p> <p data-bbox="453 1669 1362 1696"><b>Subd. 9. Staff.</b> Permits REDAB to hire staff. Requires the city to pay the staff.</p> <p data-bbox="453 1734 1349 1801"><b>Subd. 10. Contract for services.</b> Permits REDAB to contract for professional services.</p> <p data-bbox="453 1839 1162 1866"><b>Subd. 11. Costs.</b> Requires the city to pay all costs of REDAB.</p>

Section	Description
	<p><b>Subd. 12. Expiration.</b> Terminates REDAB when all appropriated payments have been made to the city for approved public infrastructure projects.</p> <p>Effective after Duluth files local approval with the secretary of state.</p>
9	<p><b>Comprehensive development plan for the regional exchange district.</b></p> <p>Requires REDAB to prepare a proposed comprehensive development plan by March 31, 2021, and specifies content. Provides that the 60-day rule (deadline for government action) does not apply to the review and approval of the development plan. (An initial plan is required by March 31, 2020, under section 14.)</p> <p>Effective after Duluth files local approval with the secretary of state.</p>
10	<p><b>City powers; duties.</b></p> <p><b>Subd. 1. Port authority powers.</b> Allows Duluth to exercise port authority powers to implement the development in the district.</p> <p><b>Subd. 2. Steel products.</b> Requires a public infrastructure project to use steel made from iron ore mined from the taconite assistance area if practicable and cites federal law for determining if practicable.</p> <p><b>Subd. 3. City contracts; construction requirements.</b> Requires the city to use reasonable efforts to insure women and members of minority communities are hired.</p> <p><b>Subd. 4. Public bidding exemption.</b> Exempts the city from competitive bidding for parking or other public improvements directly related to a private development in the district.</p> <p><b>Subd. 5. Parking structures revenue.</b> Requires imposing market rate fees with an exception for a church.</p> <p><b>Subd. 6. City utility fund contribution.</b> Requires the city to use the city utility fund for utility improvements. Requires at least \$20 million spent on utility improvements. (See also section 13 of the bill.)</p> <p><b>Subd. 7. City general contribution; debt service.</b> Requires the city to pay to the state for debt service on the state appropriation bonds sold \$250,000 each year for 25 years after the bonds have been sold.</p> <p><b>Subd. 8. Project approval; notice; hearing.</b> Allows public infrastructure projects included in the approved development plan to proceed with funding under the exchange district financing after public notice and hearing.</p>

Section	Description
11	<p data-bbox="453 268 1386 338"><b>Subd. 9. City support.</b> Requires the city to provide financial and administrative support and space to REDAB.</p> <p data-bbox="355 373 1162 401">Effective after Duluth files local approval with the secretary of state.</p> <p data-bbox="355 457 716 485"><b>Local value capture authority.</b></p> <p data-bbox="355 499 1386 569">Exempts a county or city from certain limitations on the use of economic development abatements and tax increment financing.</p> <p data-bbox="453 604 1406 705"><b>Subd. 1. Special abatement rules.</b> Exempts economic development abatements used by the city or county for public infrastructure projects from the 15- or 20-year duration limit and the limit on the total amount abated.</p> <p data-bbox="453 741 1406 842"><b>Subd. 2. Special tax increment financing rules.</b> Exempts TIF districts established in the regional exchange district to fund public infrastructure projects from a number of provisions regulating TIF districts, including:</p> <ul data-bbox="509 877 1406 1262" style="list-style-type: none"><li>▪ definitional requirements for redevelopment districts;</li><li>▪ definitional requirements for increment (sale proceeds from property purchased with increment are excluded);</li><li>▪ requirements for expenditures to correct conditions giving rise to a redevelopment district;</li><li>▪ the prohibition on the use of increment to fund public facilities;</li><li>▪ percentage ownership requirements for property purchased with bond proceeds;</li><li>▪ the pooling and five-year rules; and</li><li>▪ decertification requirements.</li></ul> <p data-bbox="355 1297 1162 1325">Effective after Duluth files local approval with the secretary of state.</p>
12	<p data-bbox="355 1381 597 1409"><b>State value capture.</b></p> <p data-bbox="453 1423 1149 1451"><b>Subd. 1. Definitions.</b> Defines terms specific to this section.</p> <p data-bbox="453 1486 1422 1598">“Construction projects” means expenditures to construct, commission, furnish, and equip buildings, ancillary facilities, utilities, parking and other improvements, public or private, in the district.</p> <p data-bbox="453 1633 1344 1703">“Qualified expenditures” means total private expenditures on construction projects since January 1, 2019, and certified under subdivision 2.</p> <p data-bbox="453 1738 1365 1871"><b>Subd. 2. Certification of expenditures.</b> Requires the city to certify to the commissioner of employment and economic development the qualified expenditures by March 1 annually. Requires the commissioner to approve or revise the amount by July 1.</p>

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	<p><b>Subd. 3. Appropriation support payments.</b> Provides that the state will finance up to \$164 million of public infrastructure projects in the regional exchange district after at least \$75 million of qualified expenditures have been made.</p> <p>At the city's option, the city may receive direct annual appropriations from the general fund following the formula or it may require the state to pay for public infrastructure with state appropriation bond proceeds.</p> <p>For direct general fund appropriations, the annual payments may start after September 1, 2021, once at least \$75 million in qualified expenditures have been made. The maximum payment in the first year is \$2 million and the maximum in any year is \$13.47 million.</p> <p><b>Subd. 4. Credit for parking revenue.</b> Each year for 25 years after a parking facility is constructed in the district, 50 percent of the net revenue after operation and maintenance costs are deducted must be paid to the state and deposited in the general fund.</p> <p><b>Subd. 5. Prevailing wage requirement.</b> Requires laborers and mechanics to be paid prevailing wage while working on district public infrastructure projects.</p> <p><b>Subd. 6. Termination.</b> Ends aid payments in 2055.</p> <p><b>Subd. 7. Appropriation.</b> Appropriates from the general fund to the commissioner of employment and economic development the amount needed to pay the appropriation support payments in this section.</p>

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**Duluth local sales tax.**

Paragraph (a) corrects an obsolete cross reference in the city's existing law.

Paragraph (b), based on approval by the voters at the city's 2017 general election, allows the city to increase its existing local sales tax from one percent to 1.5 percent. Revenues from the additional half cent must be used for the projects listed in paragraphs (c) and (d).

Paragraphs (c) and (d) require the city to spend revenues from the extra one-half cent sales tax on streets, bridges, and associated projects included in the Duluth Street Improvement Plan 2017 as of August 8, 2017, and any later amendments approved by the city. At least \$20 million of the tax revenue in the first ten years must be spent in the regional exchange district.

Paragraph (e) allows the city to issue bonds to fund the projects in subdivision 2 without another referendum until the extra tax terminates. No limit is placed on the amount of bonds to be issued. Excludes the bonds from the city's debt limits.

Section	Description
14	<p>Paragraph (f) requires the extra one-half cent to terminate at the earlier of 25 years or when the city council determines that it has received sufficient revenues to cover the projects plus associated bond costs. Any extra revenues not needed to pay for the projects or associated bonds go to the city general fund. The city council may terminate the tax early if desired.</p> <p>Effective after Duluth files local approval with the secretary of state.</p> <p><b>Initial development plan for the regional exchange district.</b></p> <p>Requires REDAB to prepare a proposed initial development plan by March 31, 2020, and lists required elements. Provides that the 60-day rule (deadline for government action) does not apply to the review and approval of the development plan.</p> <p>Effective after Duluth files local approval with the secretary of state.</p>



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