

TAX ABATEMENT AGREEMENT

This Tax Abatement Agreement, effective as of the date of attestation thereto by the City Clerk, is made by and between the City of Duluth ("City") and Cirrus Design Corp ("Cirrus").

RECITALS:

The Duluth Economic Development Authority ("DEDA") is the owner of the hereinafter described MRO located on the Duluth International Airport at 4600 Stebner Road, Duluth, St. Louis County, MN and legally described on Exhibit A hereto (hereinafter the "Property") which was designed and constructed as a heavy commercial aviation maintenance, repair and overhaul facility.

Cirrus will be leasing the MRO and the Property and is anticipating purchase of said MRO and acceptance of the assignment of the current ground lease for the Property for operation of commercial aviation design and manufacturing and related services.

The City has proposed to provide financial assistance to Cirrus through the abatement of the City's share of real estate taxes or personal property taxes in lieu of real property taxes generated by the Property pursuant to the Act.

The Tax Abatement constitutes a business subsidy pursuant to the Business Subsidy Act.

The City expects the benefits to the City of the proposed Business Subsidy to exceed the costs to the City of the proposed Business Subsidy. The annual cost of the City's Tax Abatement is estimated at not more than \$60,000 per year. The Project will include capital investments and related expenses of not less than \$3,500,000 in the MRO Facility alone, and across all the Cirrus production facilities is anticipated to total not less than \$7,000,000 across the Duluth Cirrus Campus. The associated annual payroll and benefits is estimated at not less than \$5,200,000. Additionally, DEDA will no longer need to expend approximately \$350,000 to \$700,000 per year depending on the tax liability burden in holding costs for the MRO Facility.

The City held, in accordance with the Tax Abatement Act and the Business Subsidy Act, a public hearing on the Tax Abatement following at least 10 but not more than 30 days' published notice.

NOW, THEREFORE, in consideration of mutual covenants of the parties hereto, the parties hereby agree as follows:

1. Recitals The above recitals are hereby adopted and shall be deemed to be a part of this Agreement.
2. Definitions. As used in this Agreement the following terms and phrases shall have the

meanings hereinafter ascribed to them:

- A. Act: shall mean the Tax Abatement Statute as set forth in Minnesota Statutes §§ 469.1812 through 469.1815
- B. Tax Abatement: shall mean the payment by City to Cirrus of a portion of the real estate taxes or payments in lieu of taxes received by the City resulting from the imposition of such taxes on the MRO Property and the buildings located thereon.
- C. Annual Abatement Amount: shall mean amount of Tax Abatement provided by City to Cirrus pertaining to any Tax Year as determined in accordance with the provisions of Exhibit B attached hereto and made a part hereof.
- D. Business Subsidy: shall mean a subsidy provided by City to a business entity under the provisions of the Business Subsidy Act.
- E. Business Subsidy Act: shall mean the provisions of Minnesota Statutes §§ 116J.993 through 116J.997
- F. Cirrus Campus: shall mean those properties and buildings owned, leased, controlled or used by Cirrus on or adjacent to the Duluth International Airport for the design, manufacture, maintenance and operation of its aircraft manufacturing operations as determined by the Director.
- G. Current Employment: shall mean the employment by Cirrus of 1206 FTEs on the Cirrus Campus.
- H. Current Net Tax Capacity: shall mean the Current Net Tax Capacity of the Property and the property that constitutes the Cirrus Campus as determined by the Director
- I. Director: shall mean the City's Director of Planning and Economic Development or such person designated by said Director.
- J. Full Time Equivalent or "FTE": shall mean shall mean permanent employment positions providing 2,080 hours of employment per year or the equivalent for combined part-time positions.
- K. MRO: shall mean the Maintenance, Repair and Overhaul Facility, approximately 189,000 square feet in size, and related buildings located on the Property.
- L. Property: shall mean that property in St. Louis County, Minnesota, legally described on Exhibit A attached hereto and made a part hereof.

- 3. Description of Business Subsidy. City hereby agrees to grant to Cirrus a Business Subsidy in the form of Tax Abatement in amounts as hereinafter described under the terms and conditions of this Agreement for as long as Cirrus owns or leases the MRO and the Property, continues to operate its aircraft manufacturing business on the Cirrus Campus and continues to maintain FTE on the Cirrus Campus as described in Exhibit B. The total amount of the Tax Abatement to be paid to Cirrus during the Term of this Agreement as set forth in Section 4 below shall not to exceed \$600,000. The annual Abatement Amount shall not exceed \$60,000. The Abatement Amount payable in any year in which Cirrus so owns or occupies the Property and the MRO for less than 365 days of said year shall be proportionally reduced to reflect only the period of such ownership or occupancy. From the effective date of this Agreement and through December 31, 2023, the Abatement Amount shall be calculated according to the calculations shown on Exhibit B for Years 1 & 2. Commencing on

January 1, 2024 and through the remaining term of this Agreement, the Annual Tax Abatement Amount shall be calculated according to the calculations shown on Exhibit B for years 3-10. Cirrus will provide documentation to the City on an annual basis to verify the number of FTE's working on the Cirrus Campus. The definition of "working on the Cirrus Campus" shall be determined at the sole discretion of the Director especially as remote working and COVID-19 protocols have made this determination more challenging and difficult. Determinations shall be done in consultation with Cirrus leadership.

4. Reduction in Tax Capacity. However, if the Net Tax Capacity for the Property, the MRO and the property constituting the Cirrus Campus is reduced from the Current Tax Capacity of such property, the Annual Tax Abatement Amount shall be reduced by an amount equal to difference between the amount of the property revenues which would have been payable to the City from the Property, the MRO and the property constituting the Cirrus Campus as of the date of this Agreement and the amount that was payable after said reduction in the Current Net Tax Capacity.
5. Limitation. Notwithstanding the above, the total annual Tax Abatement commitment under this Tax Abatement Agreement shall not exceed ten percent (10%) of the existing City levy or \$200,000, whichever is greater, or any limits imposed by applicable law.
6. Term. The Business Subsidy will begin upon the successful execution of a 16-month lease and shall continue as long Cirrus is in compliance with the terms and conditions of this Agreement. Cirrus shall have the option to purchase the MRO building structure from DEDA at any time during the lease term. The tax abatement term shall not exceed 10 years.
7. Payment of Abatement Amount. Upon receipt by City of the City's portion of property tax revenues paid by Cirrus on the Property and MRO, if Cirrus is in compliance with the terms and conditions of this Agreement, City will promptly pay to Cirrus the Abatement Amount due to Cirrus under this Agreement.
8. Public Purpose for the Business Subsidy. The public purposes for the Tax Abatement include:
 - A. Increase the number and diversity of jobs that offer stable employment and high-quality wages and benefits;
 - B. Contribute to the economic diversity of the City by growing the City's current aviation industry,
 - C. Enhance and diversify the City of Duluth's tax base,
 - D. Stimulate the redevelopment of underutilized facilities, and
 - E. Achieve development on sites which would not be developed without business subsidy assistance.
9. Why the Business Subsidy is Needed. The City has determined that it would not be economically feasible for Cirrus to locate its operations at the Duluth International Airport without the Business Subsidy as costs of required improvements to the MRO

and the anticipated operating costs in the facility would not otherwise allow Cirrus to make a reasonable rate of return on its investment.

10. Goals for the Business Subsidy. Job creation and job retention are the business subsidy goals under this Tax Abatement Agreement. The Business Subsidy goal includes the retention of one thousand two-hundred and six (1,206) FTEs beginning at the Tax Abatement Benefit Date and the creation of an additional eighty positions (80) within the next 24 months and continuing through the Termination Date of this Tax Abatement Agreement. The Tax Abatement Benefit Date is the date the City first provides Tax Abatement to Cirrus. Cirrus shall pay both current and new employees' compensation, including benefits not mandated by law, that on an annualized basis is, at minimum, equal to at least 110 percent of the federal poverty level for a family of four or the living wage as set forth in Section 2-137 of the Duluth City Code, 1959, as amended, whichever is greater. Financial Obligations of Cirrus if Goals Not Met. Cirrus agrees that if the Business Subsidy Goal of maintaining one-thousand two-hundred and six (1,206) FTEs is not met in whole or in part in any year for the first two years, the tax abatement business subsidy shall be adjusted as outlined in Exhibit B. Cirrus will focus on maintaining the current number of FTEs for the first 24 months following the beginning of the Tax Abatement Benefit and will have the obligation to actively recruit and employ the additional eighty (80) FTEs during the first 24 months. In Year 3 through Year 10, the tax abatement (business subsidy) will be primarily dependent upon creating and maintain the additional 80 FTEs. The abatement amount will be determined annually using the methodology as outlined in Exhibit B.
11. Continued Operations Commitment. Cirrus agrees to continue use of the Project at the Facility for at least five (5) years after the Tax Abatement Benefit Date or until the Termination Date of this Tax Abatement Agreement, whichever is later (the "Continued Operations Commitment").
12. Special Event of Default for Failure to Meet Continued Operations Commitment. In the event that Cirrus fails to meet the Continued Operations Commitment, then Cirrus shall no longer received any Tax Abatement under this Tax Abatement Agreement.
13. Reporting Requirements. Cirrus shall provide to the City the information regarding the Business Subsidy Goal as set forth in Minnesota Statute §116J.994 subdivision 7. All such reports shall be signed on behalf of Cirrus by an officer of Cirrus with authority to bind Cirrus.

Parent Corporation

Cirrus Design Corp.
4515 Taylor Circle
Duluth, MN 55811
14. Other Financial Assistance. Additional financial assistance for this Project includes St. Louis County (SLC) matching property tax abatement of up to \$600,000 over the next

10 years if approved by the SLC County Board.

15. Wages & Hours. Cirrus shall cause the laborers, mechanics or apprentice-trainees employed directly upon the work site to be paid the wage rates as set forth in Section 2-25 of the Duluth City Code, 1959, as amended.
16. Timely Payment of Taxes. No Tax Abatement installment shall be paid to Cirrus if Cirrus does not pay its property taxes on a timely basis (that is, before penalty attaches). Any Tax Abatement not payable under this section as a result of taxes not being timely paid shall never be paid to Cirrus, and the maximum amount of the Tax Abatement payable to Cirrus will be reduced by such amount.
17. Tax Increment Financing District: Tax Abatement under this Tax Abatement Agreement will not occur while the Development Property is in a tax increment financing district.
18. Notices: Notice to the City or Cirrus provided for herein shall be sufficient if sent by the regular United States mail, postage prepaid, addressed to the parties at the addresses hereinafter set forth or to such other respective persons or addresses as the parties may designate to each other in writing from time to time:

City City of Duluth
 City Hall Room 418
 411 W. 1st Street
 Duluth, MN 55802
 Attn: Director Planning & Economic Development

Cirrus Cirrus Design Corp,
 C/o Cirrus Corp
 4515 Taylor Circle
 Duluth, MN 55811
 Attn: General Counsel

19. City Council Findings. Incorporated as Exhibit C to this Tax Abatement Agreement is Resolution 22-0154R of the Duluth City Council adopted February 14, 2022.

CITY OF DULUTH, a Minnesota municipal corporation

By: _____

Its Mayor

Attest:

By: _____

Its City Clerk

Dated: _____

CIRRUS DESIGN CORP.

By: _____

Its: _____

EXHIBIT A

LEGAL DESCRIPTION

Leased Property Legal Description

The Leased Property is all within Section 1, Township 50 North, Range 14 West and is generally described as follows:

Commencing at the point of intersection of the north line of Section 1, Township 50 North, Range 15 West with the north-south centerline of said Section 1; then south along said north-south centerline on a bearing of South 0 degrees 15 minutes 25 seconds East a distance of 699.87 feet to the point of beginning of the parcel to be described; thence turning to the left and continuing on a bearing of North 70 degrees 0 minutes 44 seconds East a distance of 316.22 feet to a point; thence turning to the right and continuing on a bearing of South 19 degrees 59 minutes 16 seconds East a distance of 600.00 feet to a point; thence turning to the right and continuing on a bearing of South 70 degrees 0 minutes 44 seconds West a distance of 675.23 feet to a point; thence turning to the left and continuing on a bearing of South 19 degrees 59 minutes 16 seconds East a distance of 361.60 feet to a point; thence turning to the right and continuing on a bearing of South 70 degrees 0 minutes 44 seconds West a distance of 673.67 feet to a point; thence turning to the right and continuing on a bearing of North 19 degrees 59 minutes 16 seconds West a distance of 1140.47 feet to a point; thence turning to the right and continuing on a bearing of North 70 degrees 0 minutes 44 seconds East a distance of 100.56 feet to a point; thence turning to the left and continuing on a bearing of North 19 degrees 59 minutes 16 seconds West a distance of 12.00 feet to a point; thence turning to the right and continuing on a bearing of North 70 degrees 0 minutes 44 seconds East a distance of 573.11 feet to a point; thence turning to the right and continuing on a bearing of South 19 degrees 59 minutes 16 seconds East a distance of 190.88 feet to a point; thence turning to the left and continuing on a bearing of North 70 degrees 0 minutes 44 seconds East a distance of 359.01 feet to the point of beginning and there terminating.

EXHIBIT B

The methodology for calculating the earned tax abatement amount is provided below. It can be used to determine the amount of the tax abatement based on the minimum number of FTE's that Cirrus has maintained on the Duluth Cirrus Campus during the tax abatement period. The minimum number of FTE's will impact both the job retention as well as the new job creation results achieved by Cirrus in meeting and maintaining the job creation goals target during the term of the tax abatement agreement. The methodology is outlined and detailed in this the following.

Where:

NE = Number of Employees determined as a Full Time Equivalents (FTE's) physically working and located on Duluth Cirrus Campus. The number will reflect the minimum number of FTE's employed by Cirrus during anytime over the calendar year. Part-time positions maybe combined but must meet the benefits and salary minimum requirements.

ATAB = Annual Tax Abatement amount authorized (e.g. \$60,000 per year) unless reduced proportionally by potential permanent net tax capacity reductions (See Notes and equation below Table B-1).

CRR = Cost Retention Ratio calculated value based on minimum number of Employees (FTE's) denoted by NE (as defined previously) during the calendar year. The value will range between (0.0 - 1.0).

CRR (Pick the one that applies)

IF $NE \geq 1,206$, $CRR = 1.0$,

IF $NE < 1,206$, then $CRR = (NE / 1,206)$

CGR = Cost Growth Ratio calculated value based on minimum number of Employees (FTE's) NE as defined previously during the calendar year. The value will range between (0.0 - 1.0).

CGR (Pick the one that applies)

IF $NE \leq 1,206$, $CGR = 0$,

IF $NE \geq 1,286$, $CGR = 1.0$,

IF $NE > 1,206$ and $NE < 1,286$ then $CGR = [(NE - 1,206) / 80]$.

WTRET = Weighting of Job Retention subsidy per year (See Table B-1).

WTGRW = Weighting of Job Growth subsidy per year (See Table B-1).

TXABTAMT = Tax Abatement Amount calculated using the weighting factors and the cost ratios for each year listed below in Table B-1.

$TXABTAMT = ATAB \times ([WTRET \times CRR] + [WTGRW \times CGR])$

Years 1 & 2 (Job Retention Only)

$$\text{TXABTAMT} = \text{ATAB} \times [(\text{WTRET} \times \text{CRR})]$$

Years 3 - 10 (Job Retention and Growth)

$$\text{TXABTAMT} = \text{ATAB} ([\text{WTRET} \times \text{CRR}] + [\text{WTGRW} \times \text{CGR}])$$

Use the relevant values from the Table B-1 below.

Table B-1

Year	ATAB+	WTRET	CRR	WTGRW	CGR
1	\$60,000	100%	Calc.	0%	N/A
2	\$60,000	100%	Calc.	0%	N/A
3	\$60,000	10%	Calc.	90%	Calc.
4	\$60,000	10%	Calc.	90%	Calc.
5	\$60,000	10%	Calc.	90%	Calc.
6	\$60,000	10%	Calc.	90%	Calc.
7	\$60,000	10%	Calc.	90%	Calc.
8	\$60,000	10%	Calc.	90%	Calc.
9	\$60,000	10%	Calc.	90%	Calc.
10	\$60,000	10%	Calc.	90%	Calc.

+ Note: The ATAB amount may be modified if the permanent property tax capacity is reduced from the 100% presently reflected in Table B-1 (ATAB= \$60,000 per year). Partial years of tax abatement will be prorated as required.

Potential Future Tax Capacity Abatement Amount Equation (ATAB):

The following method can be used to determine the new tax abatement amount referred to as ATAB in Table B-1 if net tax capacity is authorized for property tax reduction (beyond the current tax abatement then the new ATAB will be determined as:

ATAB = \$60,000 – Cumulative savings realized by Cirrus in the City's portion of property tax reduction for all the Cirrus properties on the Duluth Campus. The DEDA Executive Director will provide the documentation and calculations to Cirrus on an annual basis to document any reduction to the \$60,000 per year amount noted in Table B-1