



Business Subsidy Agreement Pre-Approval Report
Tax Abatement – Public Infrastructure at Haines and Arrowhead

Business Subsidy Recipient Information

1. Name of Business or Organization: Costco Wholesale Corporation
2. Address: 999 Lake Drive, Issaquah, WA, 98027
3. Does the recipient have a parent corporation?
No.
4. Did the recipient relocate as a result of signing this agreement?
No.

Summary Agreement Information

1. Brief description of the proposed project (the “Project”)

Proposed is a public infrastructure improvement to support development on a site in Duluth. The proposed infrastructure includes upgrades to adjacent roadways, including traffic control, widening for turn lanes, striping, utility relocation, sidewalks, and signals. It also includes installation of water and sewer mains, subsurface stormwater management infrastructure, and other related public infrastructure improvements. Without these improvements, the development site is anticipated to remain vacant.

2. Total value of proposed project

Total Cost – Project: \$2.0 million

Total projected estimated market value
Costco Wholesale Store: \$11.2 million

3. Summary of type(s) of subsidy and total dollar value for each
 - a. Type of assistance:
 - i. Tax abatement - \$2,000,000
 - b. Grantor of assistance
 - i. City of Duluth - \$1,350,000

- ii. St. Louis County - \$650,000
 - c. Total dollar value of assistance
 - i. \$2,000,000
- 4. What other financing avenues were pursued?
 - a. Project financing by developer
 - b. St. Louis County support – roadway funding

Applicability of Current Duluth and State Laws

- 1. Is this Project covered under Duluth's Prevailing Wage law as defined in Article 2, Section 2-25?
 - a. Yes.
- 2. Is this Project covered under Duluth's Project Labor Agreement law as defined in Article 2, Section 2-29? If not, state the specific applicable exclusion.
 - a. Yes.
- 3. Is this Project is covered by Duluth's Living Wage law as defined in Article 26, Chapter 2 of the Duluth City Code?
 - a. Yes.
- 4. Is this Project is covered by the business subsidy statute as defined in Minnesota Statutes 116J.993-.995 and subject to reporting?
 - a. It is covered under the City's Business Subsidy criteria and will be subject to reporting.

Public Purpose and Public Benefit Criteria

- 1. Public Purpose Criteria. State which two (minimally) of the five public purposes this Project meets with a brief explanation of why it the proposed Project meets this criteria.
 - a. High quality jobs.
 - i. The public infrastructure project will allow for the creation of new positions at the Costco Wholesale store. Job creation is not a specific criteria of the proposed project, but will be an ancillary benefit. The proposed project will also include construction jobs during the construction of the public infrastructure. Costco stated in the application for business subsidy that the store will create 75 full time positions, and 75 part time positions.
 - b. Job retention
 - i. NA
 - c. Diversify Duluth's economy
 - i. The development of this site will allow for the repurposing of a site that is currently vacant and has long been intended for economic development in plans dating to the 1970s (see the 1979 Miller Hill Corridor Plan and the 1990s Northwest Area Plan). The intent for development found in those plans has been continued in the 2006 and 2018 updates to the comprehensive plans of the city. The proposal will expand the property tax base in this area of the city

through development of a site with strong access to the Duluth International Airport and US Trunk Highway 53.

- d. Quality of life
 - i. The proposed Costco Wholesale store that will be developed on the site following completion of the public infrastructure project includes Costco Wholesale options not currently available in the region, expanding access to products for residents, and, because this is a wholesale store, for businesses who will engage in local resale of products purchased at that location.
 - e. Tax Base
 - i. The tax base is estimated to increase from the current net tax capacity of \$23,724 (current valuation of approx. \$1.1m) to a net tax capacity of approximately \$434,339 (estimated valuation of approx.. \$11.2m).
2. Preferential Public Benefit Criteria. Which other preferential public benefit criteria does this project meet, if any? Provide a brief explanation of how it meets the criteria.
- a. Locally owned businesses
 - i. Locally owned subcontractors will be hired for construction. The wholesale store is anticipated to be utilized by locally owned retail businesses which may purchase products for resale at that location.
 - b. Workforce development and hiring low-income, unemployed and hard-to-employ residents
 - i. The construction of the Project will be accompanied by hiring goals via a Community Benefit Agreement, including providing building trades-opportunities for women and those experiencing real barriers to employment.
 - c. Protected class business owners
 - i. See above.
 - d. Other community benefits
 - i. **Water/Sewer.** The extension of water and sewer infrastructure in this area of the city has been long planned and will allow for safety improvements through better water service and modernized access to sanitary sewer associated with the extensions.
 - ii. **Access to new products – sales taxes.** The Project will enable development on a site where construction of a Costco Wholesale store is feasible within the region and located in the City of Duluth. In addition to the anticipated property tax, the proposed Costco Wholesale will generate sales tax as the result of a new sales opportunity from a broad market area beyond the City and County. As such, the Costco Wholesale is anticipated to generate an overall net increase in sales tax revenues for the community and is not anticipated to draw business solely from existing businesses in Duluth or the region selling comparable products. Those sales will be to both retail and business customers, creating access to new products currently unavailable as wholesale in-person in Duluth.
 - iii. **Employee wages.** Though it is not intended to be tracked as part of the Project, wages and benefits at Costco Wholesale stores for on-site employees are

regularly cited on a national industry-wide basis, and will be a benefit to employees in this employment sector in Duluth and the region.

3. Duluth Comprehensive Plan and other City Plans, Zoning
 - a. What current City plans, if any, cover this project? How does the project relate to the applicable plans?
 - i. The future land-use designation of the redevelopment site is Business Park (BP). According to the Imagine Duluth 2035 Comprehensive Plan, the BP category includes: “Primarily office and light industrial areas developed in a unified manner, with standards for site design and circulation patterns, signage, landscaping, and building design.” The proposed development of the site for a Costco Wholesale will meet the intent for this district through high landscaping and site development standards, and through its extensive focus on business-to-business sales.
 - ii. The project is consistent with the last small area evaluation of this area of the city, the Northwest Area Study.
 - b. The proposed development of a Costco Wholesale store on this site following completion of the Project adheres to the following Governing Principles identified in the Comprehensive Plan:
 1. Principle #3 – Support existing economic base
 2. Principle #4 – Support economic growth sectors
 3. Principle #7 – Create and maintain connectivity
 4. Principle #10 – Take actions that enhance the environment, economic, and social well-being of the community
 - c. Are there any special zoning or permitting exemptions that need to be made for this project? If yes, provide a brief explanation.
 - i. No. The site must be platted and wetland issues evaluated.

Specific project goals

1. For each public purpose state the specific, measurable and tangible goals that were set for the project:
 - a. Public Purpose - Type of goal
 - i. All public purposes will be achieved by completion of the public infrastructure projects and the subsequent development of the site for a Costco Wholesale store.
 - b. Specific Goals established
 - i. Achievement of the Business Subsidy Goal in accordance with City Council Resolution 18-0515 shall be measured as follows: Developer agrees that on or before December 31, 2022, it shall have constructed the Project on the Property in accordance with the Development Agreement.
 - c. Target Attainment Dates
 - i. See above.

2. Progress toward these goals will be reported by the recipient of a business subsidy on an annual basis by March 1 for the preceding year (see Section 8 (d) - Business Subsidy Criteria), and provided to the Council by April 1.