



Legislation Text

File #: 20-0588R, **Version:** 1

RESOLUTION GRANTING A TAX ABATEMENT FOR THE COSTCO DEVELOPMENT PROJECT, AUTHORIZING A TAX ABATEMENT AGREEMENT WITH ST. LOUIS COUNTY AND FURTHER AUTHORIZING A TAX ABATEMENT DEVELOPMENT AGREEMENT WITH COSTCO WHOLESALE CORPORATION.

CITY PROPOSAL:

BE IT RESOLVED, by the City Council (the "City Council") of the city of Duluth, St. Louis County, Minnesota (the "City"), as follows:

Section 1. Purpose and Authorization.

1.01 The city, pursuant to the provisions of Minnesota Statutes, Sections 469.1812 to 469.1815, as amended (the "Act"), is authorized to grant an abatement of the property taxes imposed by the City on a parcel of property, if certain conditions are met, through the adoption of a resolution specifying the terms of the abatement.

1.02 COSTCO WHOLESALE CORPORATION ("Developer") proposes to develop an approximately 160,000 square foot retail development with an associated approximately 725 car parking lot and associated road and utility improvements, including public road and utility improvements (the hereinafter-described "Costco Development") on property owned by it and described on Exhibit A hereto (the "Costco Warehouse Property"). In connection with the Costco Development, Costco will be making Public Eligible roadway and other public improvements (the "Project") on the Costco Warehouse Property and public rights-of-way located adjacent to the Costco Warehouse Property.

1.03 Pursuant to the Act, on the date hereof, the City Council conducted a public hearing on the desirability of granting an abatement of property taxes on the Costco Warehouse Property. Notice of the public hearing was duly published as required by law in the Duluth News Tribune, the official newspaper of the City, on July 9, 2020, which date is no fewer than 10 and no more than 30 days prior to the date hereof.

Section 2. Findings. On the basis of the information compiled by the City and elicited at the public hearing referred to in Section 1.03, it is hereby found, determined and declared:

2.01 The Costco Development is in the public interest because it will increase and

preserve tax base in the City, provide jobs, and will develop unused or underutilized real property.

2.02 The City expects that the benefits of the proposed abatement are not less than the costs of the proposed abatement. The public benefits that the City expects to result from the abatement are the increase in property taxes created by the Costco Development, the creation of jobs, and the redevelopment of unused or underutilized real property.

2.03 The Costco Warehouse Property is not located in a tax increment financing district.

2.04 The granting of the proposed abatement will not cause the aggregate amount of abatements granted by the City under the Act in any year to exceed the greater of (i) 10% of the City's net tax capacity for the taxes payable in the years to which the abatement applies or (ii) \$200,000.

2.05 It is in the best interests of the City to grant the tax abatement authorized in this resolution.

2.06 Under Section 469.1813, subdivision 9 of the Act, it is not necessary for the City to obtain the consent of any owner of any of the properties to grant an abatement.

Section 3. Granting of Tax Abatement.

3.01 A property tax abatement (the "Abatement") is hereby granted in respect of property taxes levied by the City on the Costco Warehouse Property for 20 years, commencing with taxes payable in 2021 and concluding with taxes payable in 2041 unless the maximum amount of the Abatement is provided prior to that date in which case the Abatement shall thereafter cease. The Abatement will reduce all of the City's portion of the taxes for the Costco Warehouse Property, and the Abatement will not exceed a total aggregate amount of \$1,350,000. Abatement payments will be made only from property tax proceeds received by the City from the Costco Warehouse Property.

3.02 The City shall remit the Abatement amounts to the Developer only when, if and as property tax payments are received by City from the Costco Warehouse Property and only to reimburse for the costs of constructing the Project. City shall remit said semiannual Abatement amounts no later than July 31 and December 31 in each year until both the (1) City's abatement payment total of \$1,350,000 is satisfied, and (2) St. Louis County's total abatement payment of \$650,000 (pursuant to Section 4) is satisfied.

Section 4. Authorizing Agreements with St. Louis County and Developer

4.01. The proper city officials are hereby authorized to enter into a Tax Abatement Agreement with St. Louis County, substantially in the form of that attached as Exhibit 1, pursuant to which the County agrees to abate taxes in an amount not to exceed \$650,000 and provide the same to the City for reimbursement of Developer's eligible costs associated with the construction of the Project, payable into Fund 310-030-4654-02

(Debt Service, Finance, Other Reimbursement and Refunds).

4.02. The proper City officials are hereby authorized to enter into a Tax Abatement Development Agreement with Developer, substantially in the form of that attached as Exhibit 2, pursuant to which the City agrees to assist the Project with abatement of City and County real estate taxes in an amount not to exceed \$1,350,000 for the City and \$650,000 for the County for a total of \$2,000,000, payable from Fund 310-030-5479 (Debt Service, Finance, Tax Abatement).

Section 5. Approvals Contingent on County Board Approval.

5.01 The grant of the city tax abatement and the authorizations approving the tax abatement agreement and development agreement are contingent upon the county granting the county tax abatement and authorizing the tax abatement agreement with the city.

STATEMENT OF PURPOSE: This resolution authorizes the abatement of taxes for the purpose of assisting with a portion of the costs of public infrastructure planned in support of site development at the northeast quadrant of the intersection of Haines and Arrowhead Roads (the "Project"). The Project will support development of an approximately 160,000 square foot Costco Wholesale store on the development site. The Costco store is anticipated to draw customers from a market area encompassing much of northeastern Minnesota, from approximately the Canadian border to southern Carlton County. Consistent with Costco stores in other markets, Costco members will likely include the general public as well as business members that may purchase products for resale. Additionally, local access to a Costco store will allow regional shoppers to purchase in-person products unique to Costco stores that are not currently available for sale over-the-counter in the region.

In addition to the City's tax abatement assistance in an amount not to exceed \$1,350,000, St. Louis County ("County") is anticipated to provide abatement assistance to the Project in an amount not to exceed \$650,000. The City will enter into a Tax Abatement Agreement with the County pursuant to which the County agrees to provide the tax abatement to the City. This resolution also approves the Tax Abatement Development Agreement with Developer, pursuant to which the County and City tax abatements will be provided to Developer in a total amount not to exceed \$2,000,000. The proposed agreements provide for a Project Labor Agreement and a Community Benefits Agreement for the Project for the project scope made possible through the City and County tax abatement financing.

Tax Base Impact Statement: The current market value of the subject property is \$1,151,200 and the property is generating \$23,724 in property tax capacity between all property tax jurisdictions. After the development is completed, the taxable market value is anticipated to increase to \$11,200,000 and the property is anticipated to generate approximately \$434,339 in property tax capacity between all property tax jurisdictions. The proposed Costco Wholesale store is also anticipated to generate sales tax, which would be expected to result in a unique net increase in sales tax collections for the City and the County due to Costco's market area and product mix. For taxable sales in the City, the City collects 1% sales tax for general fund and 0.5% for the voter-approved streets sales tax.