

PLANNING AND ECONOMIC DEVELOPMENT COMMITTEE

12-0309R

(REPLACEMENT)

RESOLUTION APPROVING PROPERTY TAX ABATEMENT FOR CERTAIN  
PROPERTY IN THE CITY AND APPROVING A TAX ABATEMENT  
AGREEMENT WITH AAR AIRCRAFT SERVICES, INC.

CITY PROPOSAL:

BE IT RESOLVED, by the city council (the "Council") of the city of Duluth, Minnesota (the "City"), as follows:

Section 1. Authorization and Recitals.

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

1.02 AAR Aircraft Services, Inc. ("AAR") will be leasing approximately 152,300 square feet of a building (the "Facility") owned by the Duluth economic development authority ("DEDA") located at 4600 Stebner Road, Duluth, St. Louis County, MN for operation of commercial aviation services including maintenance, repair and overhaul ("MRO") services (the "Project").

1.03 The City has determined a need to grant a property tax abatement to property upon which the Project is located (the "Property") in order to assist the Project, pursuant to the Act.

1.04 On June 25, 2012, the Council conducted a public hearing on the tax abatement at which time the views of all interested persons were heard.

Section 2. Findings. On the basis of the information compiled by the City and elicited at the public hearing referred to in Section 1.04, it is hereby found, determined and declared:

2.01 That the benefits to the City from the tax abatement will exceed the costs to the City of the tax abatement since the Project will infuse private investment of approximately \$4 million which will result in an annual payroll estimated at \$8 million. Additionally, DEDA will no longer need to expend approximately \$150,000 per year in holding costs for the Facility.

2.02 The Project is in the public interest because it will provide employment opportunities in the City, expand the tax base of the City, and reestablish an MRO presence in the City.

2.03 The Project would not occur solely through private investment within the reasonably foreseeable future and, therefore, granting of a tax abatement is deemed necessary to encourage the Project.

2.04 Tax abatement will not occur while the Property is located in a tax increment financing district.

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

2.06 It is in the best interest of the City to grant the tax abatement authorized in this resolution.

Section 3. RESOLVED, that

3.01 The tax abatement is hereby approved and the tax abatement will be paid in accordance with the terms set forth in Section 3.02 hereof and in the tax abatement agreement between the City and AAR described in Section 3.05 hereof.

3.02 The tax abatement will be for the City's share of real estate taxes or personal property taxes in lieu of real property taxes generated by the Project. The tax abatement will begin after the statutory sunset of the JOBZ Program pursuant to Minnesota Statutes Sections 469.310 through 469.3201 which sunset is anticipated to occur in 2015. The tax abatement will continue for a period not to exceed ten years from the date that AAR first receives tax benefits under the JOBZ Program. Therefore, unless the JOBZ Program is extended and AAR is eligible for extended JOBZ benefits under that program, it is anticipated that the tax abatement shall be for a period of seven years applying to taxes beginning in 2016 and payable in years 2017 through 2023.

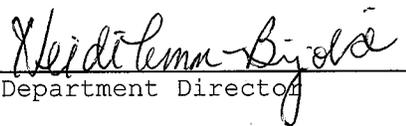
3.03 The tax abatement shall be subject to all terms and limitations of the Act.

3.04 The proper City officials are hereby authorized to enter into a tax abatement agreement, substantially in the form of that on file in the office of the city clerk as Public Document No. \_\_\_\_\_, with AAR Aircraft Services, Inc., all such tax abatements payable from Debt Service 310.

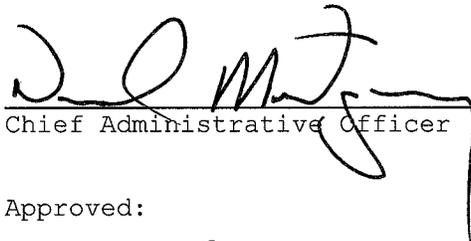
3.05 In accordance with Section 469.1813, subdivision 8 of the Act, in no case shall the abatement, together with all other abatements approved by the City under the Act and paid in any one year, exceed the greater of ten percent of the City's net tax capacity for taxes payable in the year to which the abatement applies or \$200,000, whichever is greater.

3.06 In accordance with Section 469.1815 of the Act, the City will add to its levy in each year during the term of the tax abatement the total estimated amount of current year abatements granted.

Approved:

  
Department Director

Approved for presentation to council:

  
Chief Administrative Officer

Approved as to form:

  
Attorney

Approved:

  
Auditor

DEDA/ATTY JMC:dma 06/19/2012

STATEMENT OF PURPOSE: The purpose of this resolution is to approve the granting of approximately \$161,000 in tax abatement benefits to AAR for its operation at the MRO facility and to authorize the City to enter into a tax abatement agreement with AAR. By the time the tax abatement kicks in, anticipated to be for taxes payable in 2017, AAR is anticipated to have created 192 jobs. Pursuant to the agreement, AAR agrees to maintain those jobs through the end of the tax

abatement period. If less than all the required jobs are maintained during the tax abatement period, the tax abatement assistance is prorated for any year in which the total amount of jobs falls under 192.

Tax base impact statement: The planned refurbishments to the MRO facility are required to ensure an operable, safe building for AAR operations and will not add any measurable value to the taxable basis of the building.

## TAX ABATEMENT AGREEMENT

This Tax Abatement Agreement is made by and between the City of Duluth ("City") and AAR Aircraft Services, Inc. ("AAR").

### RECITALS:

AAR will be leasing approximately 152,300 square feet of a building (the "Facility") owned by the Duluth Economic Development Authority ("DEDA") located at 4600 Stebner Road, Duluth, St. Louis County, MN and legally described on Exhibit A hereto (the "Development Property") for operation of commercial aviation services including maintenance, repair and overhaul ("MRO") services (the "Project").

AAR will be entering into a Jobs Opportunity Building Zone Agreement (City Contract No. \_\_\_\_\_) (the "JOBZ Agreement") pursuant to Minnesota Statutes, Sections 469.310 through 469.3201 (the "JOBZ Program") pursuant to which it will qualify for certain statutorily created tax benefits until the JOBZ Program sunsets at the end of 2015. The JOBZ Agreement is hereby incorporated by reference.

Following the sunset of the JOBZ Program, the City has proposed to provide assistance to AAR 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 Project (the "Tax Abatement") pursuant to Minnesota Statutes, Sections 469.1812 through 469.1815 (the "Tax Abatement Act").

The Tax Abatement constitutes a business subsidy (the "Business Subsidy") pursuant to Minnesota Statutes, Sections 116J.993 through 116J.995 (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 \$23,000. The Project will infuse private investment of \$4 million which will result in an annual payroll estimated at \$8 million. Additionally, DEDA will no longer need to expend approximately \$150,000 per year in holding costs for the 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.

The Recitals are an integral part of this Tax Abatement Agreement.

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

1. Description of Business Subsidy. The Business Subsidy consists of Tax Abatement for a period not to exceed seven (7) years. The total amount of the Tax Abatement is estimated at \$161,000. 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.

2. Term. The Business Subsidy will begin upon the statutory sunset of the JOBZ Program at the end of 2015, at which time AAR shall have no less than 192 FTE employees at the Facility. FTE means permanent employment positions providing 2,080 hours of employment per year unless, prior to job creation, AAR provides documentation showing industry standards vary from 2,080 per year. In the event the JOBZ Program is extended beyond 2015 and AAR is eligible for extended JOBZ Program benefits, then the Tax Abatement shall commence following the extended JOBZ Program period; provided, however, that the total combined length of JOBZ Program benefits and Tax Abatement benefits shall not exceed ten (10) years from the JOBZ Benefit Date as that term is defined in the JOBZ Agreement, which shall also be the termination date of this Tax Abatement Agreement (the "Termination Date").
3. 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.
4. Why the Business Subsidy is Needed. The City has determined that it would not be economically feasible for AAR to locate its operations at the Facility without the Business Subsidy as alternative sites outside the state of Minnesota are a viable option. This Business Subsidy will increase both AAR's cash flow and return on investment.
5. Goals for the Business Subsidy. Job creation is not a business subsidy goal under this Tax Abatement Agreement. The Business Subsidy goal is the maintenance of one-hundred ninety-two (192) FTEs beginning at the Tax Abatement Benefit Date through the Termination Date of this Tax Abatement Agreement. The Tax Abatement Benefit Date is the date the City first provides Tax Abatement to AAR. AAR 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.
6. Financial Obligations of AAR if Goals Not Met. AAR agrees that if the Business Subsidy Goal of maintaining one-hundred ninety-two (192) FTEs is not met in whole or in part in any year as determined in the sole discretion of the City's Chief Financial Officer, AAR shall receive only a portion of the annual Tax Abatement amount, which amount shall be determined by multiplying the annual Tax Abatement by a fraction, the numerator of which is the number of FTE's maintained in said year, and the denominator of which is 192.
7. Continued Operations Commitment. AAR agrees to continue 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").



**CITY OF DULUTH**

**AAR AIRCRAFT SERVICES, INC.**

By: \_\_\_\_\_  
Mayor

By: \_\_\_\_\_  
Its \_\_\_\_\_

ATTEST:

Date: \_\_\_\_\_

\_\_\_\_\_  
City Clerk  
Date: \_\_\_\_\_

Approved as to form:

\_\_\_\_\_  
City Attorney

Countersigned:

\_\_\_\_\_  
City Auditor  
Date: \_\_\_\_\_

## 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

### FINANCIAL ASSISTANCE / GRANTORS DESCRIPTION

All of the following forms of assistance have been proposed for this project:

1. Duluth Economic Development Authority (DEDA) Lease Subsidy, maximum - \$443,700
2. DEDA Conditional Grant for Substantial Rehabilitation of the Facility - \$350,000
3. State of Minnesota JOBZ tax abatement benefit, estimated - \$2,167,850
4. City of Duluth Tax Abatement, estimated - \$161,000
5. St. Louis County Tax abatement, estimated - \$320,000
6. State of Minnesota, Minnesota Investment Fund Forgivable Loan - \$500,000 (\$250,000 of the Forgivable Loan will be supported by short-term loan guarantees of \$50,000 each to be provided by DEDA, the Duluth Airport Authority, the Northland Foundation, Minnesota Power, and St. Louis County)
7. State of Minnesota, Minnesota Investment Fund Loan - \$500,000
8. Duluth 1200 Fund Loan - \$500,000
9. Arrowhead Regional Development Commission Loan - \$250,000
10. Northland Foundation Loan - \$450,000
11. Minnesota Community Capital Fund Loan - \$1,500,000
12. State of Minnesota, Minnesota Job Skills Partnership - \$400,000

EXHIBIT C

Resolution 12-\_\_\_\_\_ approving Property Tax Abatement Financing