

Chapter 14

Community Development and Redevelopment

TABLE OF CONTENTS

Community Development and Redevelopment.....	1
Chapter 14	3
Community Development and Redevelopment.....	3
I. Business subsidies or financial assistance.....	3
A. Business subsidies	3
B. Financial assistance	4
II. City development tools.....	4
A. General city development powers	4
B. Housing and redevelopment authorities	5
1. Elements of an HRA.....	5
2. Area of operation for an HRA	6
3. HRA membership.....	6
4. HRA powers	6
5. HRA special assessment and levy authority.....	7
6. HRA contracting.....	8
7. HRA financing.....	8
8. HRA certifications to state	9
9. HRA federal certification	9
C. Economic development authorities	9
1. EDA levies.....	10
2. EDA loans	10
3. Other EDA powers	11
D. Port authorities	11
E. Local or area redevelopment agencies	12
F. City development districts.....	13
G. Municipal industrial development.....	14
III. Other development strategies	14
A. Housing bonds.....	14
B. Industrial parks.....	15

This material is provided as general information and is not a substitute for legal advice. Consult your attorney for advice concerning specific situations.

C.	Industrial revenue bonds.....	15
D.	Commercial rehabilitation loan program.....	16
E.	Tax increment financing (TIF).....	16
F.	Property tax abatement.....	18
G.	Housing trust funds	19
IV.	State-sponsored development tools	20
A.	Minnesota Housing Finance Agency.....	20
B.	Department of Employment and Economic Development (DEED).....	21
C.	Enterprise Minnesota.....	22
D.	Corporations	23
V.	Federal development tools.....	23
A.	Community Development Block Grants	23
B.	Rural development grants.....	23
VI.	How this chapter applies to home rule charter cities.....	23

Chapter 14

Community Development and Redevelopment

Learn about the requirements for a city to establish criteria for awarding business subsidies and various development agencies cities may create. Find an overview of state and federally sponsored programs for encouraging development and redevelopment. Most economic development tools can be applied to any size city. These tools are interrelated, and a city may use several for one project.

RELEVANT LINKS:

[Minn. Stat. § 116J.993, subd. 3.](#)

[Minn. Stat. § 116J.994, subd. 5.](#)

[Minn. Stat. § 116J.994, subd. 2.](#)

[Minnesota Department of
Employment and Economic
Development \(DEED\).](#)

[Minn. Stat. § 116J.994, subd. 3.](#)

I. Business subsidies or financial assistance

A. Business subsidies

State law defines “business subsidy” or “subsidy.” It is a state or local government agency grant, contribution of personal property, real property, infrastructure, or the principal amount of a loan at rates below those commercially available to the recipient. In addition, a business subsidy is any reduction or deferral of any tax or any fee, any guarantee of any payment under any loan, lease, or other obligation, or any preferential use of government facilities given to a business in an amount greater than \$150,000.

Prior to awarding a business subsidy that exceeds \$150,000 to any business, a city and any housing and redevelopment authority (HRA), economic development authority (EDA), port authority, or nonprofit created by a local government, must hold a public hearing, and adopt criteria for awarding business subsidies.

Criteria for awarding business subsidies must not be adopted on a case-by-case basis and must set the minimum requirements that recipients must meet to be eligible. It must include a policy setting a specific wage floor to be paid for any jobs created. Copies of the criteria adopted by cities are found on the Minnesota Department of Employment and Economic Development (DEED) website. Once the criteria are established, the grantor and the recipient must enter into a subsidy agreement. The agreement must include:

- A description of the subsidy, including the amount and type.
- A statement of the public purposes for the subsidy.
- Measurable and specific goals for the subsidy.
- A description of the financial obligation of the recipient if the goals are not met.
- A statement of why the subsidy is needed.

This material is provided as general information and is not a substitute for legal advice. Consult your attorney for advice concerning specific situations.

RELEVANT LINKS:

[Minn. Stat. § 116J.994, subd. 11.](#)

[Minn. Stat. § 116J.993, subd. 3.](#)
[Minn. Stat. § 116J.994, subd. 3.](#)

[Minn. Stat. § 116J.994, subds. 4, 7, 8.](#)

[2024 Minnesota Business Assistance Form.](#)

[Minn. Stat. § 116J.994, subd. 2.](#)
[Minn. Stat. § 116J.994, subd. 8.](#)

[Minn. Stat. § 469.041.](#)

Residents or owners of taxable property within the city may bring a civil action against the city for failure to comply with business subsidy laws. To do so, citizens must file a written complaint with the grantor within 180 days after the approval of the subsidy. Cities should therefore consult closely with the city attorney before awarding a business subsidy.

Defining a business subsidy is more complicated than it may first appear, as there are several exceptions to the definition, including instances where a subsidy of less than \$150,000 may still be a business subsidy. Additionally, assistance for redevelopment, pollution control and land cleanup, housing, industrial revenue bonds, utility property tax abatements, and other similar programs may not be defined as a subsidy.

Recipients must provide grantors with information on their progress toward the goals outlined in the agreement. The goals for increasing jobs or retaining jobs must result in local job creation and job retention. Grantors must submit the annual Minnesota Business Assistance Form (MBAF) to the Department of Employment and Economic Development (DEED) by April 1 each year for each business subsidy agreement. Local government agencies in cities with a population of 2,500 or more must submit an MBAF regardless of whether they have awarded business subsidies. Local government agencies in cities with a population of 2,500 or less are exempt from filing the MBAF if they have not awarded a subsidy in the past five years.

B. Financial assistance

Cities may offer financial assistance in the form of a business loan of more than \$25,000 or a guarantee of \$75,000 or more, but less than the \$150,000 required to constitute a business subsidy. If a city offers such financial assistance, it must develop criteria and set minimum wage floor levels as prescribed in business subsidy law. Cities granting such financial assistance must submit MBAF forms to DEED within one year of granting the assistance.

II. City development tools

A. General city development powers

Cities have authority to aid and cooperate in the planning, construction, or operation of economic development, and housing and redevelopment projects. The following is a partial list of actions cities may take, with or without compensation:

RELEVANT LINKS:

[Minn. Stat. § 469.192.](#)

[Minn. Stat. ch. 469.](#)

[Judd Supply Co. v. Merchants & Mfgs. Ins. Co., 448 N.W.2d 895 \(Minn. Ct. App. 1989\).](#)

[Minn. Stat. § 469.003.](#)

[Minn. Stat. § 469.003, subd. 1.](#)

[Minn. Stat. § 469.003, subds. 2, 4.](#)

- Dedicate, sell, convey, or lease any of its interests in any property or grant easements, licenses, or any other rights or privileges to an HRA.
- Furnish parks, playgrounds, recreational, community education, water, sewer, and drainage facilities or other works adjacent to or in connection with housing and redevelopment projects.

A statutory city, home rule charter city, economic development authority, housing and redevelopment authority, or port authority may make a loan to a business, a for-profit or nonprofit organization, or an individual for any purpose the entity is otherwise authorized to carry out under Minnesota's economic development and planning and local economic development statutes.

Private development projects that receive public financial or other assistance will not necessarily become public projects that trigger competitive bidding or other state laws applicable to public works.

B. Housing and redevelopment authorities

The predominant method of delivering and administering housing and redevelopment programs in Minnesota is through an HRA, which is a legal public agency, accountable to city government.

1. Elements of an HRA

An HRA is a public corporation with power to undertake certain types of housing and redevelopment or renewal activities. While state statute creates a housing and redevelopment authority in each city, it is up to the city council to formally establish an HRA before it can do business and use its powers. Once a council legally establishes an HRA, it may undertake certain types of planning and community development activities on its own without council approval.

To create a housing and redevelopment authority, the city council must, by resolution, make one of the following findings:

- There are substandard, slum, or blighted areas that cannot be redeveloped without governmental assistance.
- There is a shortage of affordable, decent, safe, and sanitary dwelling accommodations available to low-income individuals and families.

The council must pass this resolution after a public hearing. A certified copy of this resolution must be filed with the DEED commissioner.

RELEVANT LINKS:

[Minn. Stat. § 469.002, subd. 8.](#)
[Minn. Stat. § 469.004, subd. 5.](#)

[Minn. Stat. § 469.003, subds. 5, 6.](#)

[24 C.F.R. 964.400 - 964.430.](#)

[Minn. Stat. § 469.003, subd. 7.](#)

[Minn. Stat. § 469.011, subd. 2.](#)
[Minn. Stat. § 469.011, subd. 4.](#)

[Minn. Stat. § 469.012, subd. 1.](#)

2. Area of operation for an HRA

The area of operation of a city HRA is the territorial boundaries of that city. Establishment of an active county or multi-county HRA precludes the formation of city HRAs. City housing and redevelopment authorities must petition the county or multi-county) HRA for authorization to establish a local housing authority, and this petition must be approved by the DEED commissioner.

3. HRA membership

An HRA consists of up to seven commissioners who are residents of the city. The mayor appoints and the council approves the members who serve five-year, staggered terms. City councilmembers often serve on the HRA. The entire membership of an HRA may consist of councilmembers.

Any public housing agency that holds a public housing annual contribution contract with the federal Department of Housing and Urban Development (HUD) or that administers Section 8 tenant-based rental assistance must comply with federal regulations, which require that at least one commissioner must be either 1) a resident of the HRA's public housing program or 2) a recipient of Section 8 tenant-based assistance. The rule does not apply to state-financed public housing projects or Section 8 project-based assistance. A small public housing agency exception also exists.

The city clerk must file a certificate of appointment for each commissioner of a city HRA and send a certified copy to the commissioner of DEED.

The HRA shall select a chair and a secretary and shall adopt bylaws and rules of conduct. Each commissioner may receive necessary expenses, including traveling expenses, incurred in the performance of duties. Each commissioner may be paid up to \$75 for attending each regular and special meeting of the authority. Commissioners who are elected officials may receive daily payment for a particular day only if they do not receive any other daily payment for public service on that day. Commissioners who are full-time public employees may receive the expenses described in the statute unless the expenses are reimbursed from another source.

4. HRA powers

An HRA is primarily responsible for the planning and implementation of redevelopment and low-rent housing assistance programs within its area of operation. An HRA has all the powers necessary to carry out the state HRA Act, including, but not limited to, the following powers:

RELEVANT LINKS:

[Minn. Stat. § 469.033, subd. 6.](#)
[Minn. Stat. § 275.70 -275.74.](#)

[Minn. Stat. § 275.066.](#)

- To sue and be sued.
- To employ staff and an executive director.
- To undertake projects within its area of operation and to provide for the construction, reconstruction, improvement, extension, alteration, or repair of any project or part of a project.
- To sell, buy, own, and lease property by any means necessary, including the power of eminent domain.
- To cooperate with and use state and federal financial assistance programs.
- To develop rehabilitation and code enforcement techniques.
- To issue bonds for any of its corporate purposes backed by the pledge of revenues, grants, or other contributions.
- To implement renewal or redevelopment programs using tax increment financing.
- To own, hold, improve, lease, sell, or dispose of real or personal property.
- To designate substandard, slum, or deteriorating areas needing redevelopment, and unsafe, unsanitary, and overcrowded housing.
- To make necessary expenditures to carry out the purposes of the HRA law.
- To develop and administer an interest reduction program to assist the financing of the construction, rehabilitation, or purchase of low- or moderate-income housing.

5. HRA special assessment and levy authority

HRA power to levy and collect taxes or special assessments is limited to the power provided in state law. If the city council consents by resolution, an HRA may levy a tax upon all taxable property within the city. The council may give a consent that covers a series of years or pass a resolution authorizing an HRA levy for a set amount of time. For example, a resolution could cover the entire term of the bonds secured in part by an HRA levy and in part by a city levy. State law recognizes the distinct nature of HRAs and designates them as “special taxing districts.” The maximum general allowable operational levy of HRAs is 0.0185% of the previous year’s estimated market value of all property in the city.

The city’s estimated market value is available from the county assessor. An HRA raises its own levy because it is a separate political subdivision and not a local governmental unit. Therefore, an HRA levy is not subject to levy limits, but is subject to the 0.0185% estimated market value limit. Levies collected by an HRA must be used only for purposes listed in the HRA Act.

RELEVANT LINKS:

[Minn. Stat. § 469.107.](#)
[Minn. Stat. § 275.066.](#)

Minnesota Department of
Employment and Economic
Development: [The Economic
Development Authority
Handbook.](#)

[Minn. Stat. § 469.012, subd.
4.](#)
[Minn. Stat. § 469.028.](#)

[Minn. Stat. § 469.015, subds.
1a, 4.](#)

[Minn. Stat. § 469.033.](#)
[Minn. Stat. § 469.034.](#)

[Minn. Stat. § 469.034, subd.
1.](#)

There is crossover between HRA and Economic Development Authority (EDA) levies that can be confusing. While a city may, at the request of an EDA, levy a tax not more than 0.01813% of the estimated market value, many city resolutions that enable the creation of an EDA adopt all the powers of an HRA. The EDA/HRA then functions as a special taxing district under state law.

If the enabling resolution allows, the EDA will then function as an HRA and, with consent of the city council, levy the HRA levy, which is not subject to levy limits or city debt limits, but is subject to the 0.0185% of the city's estimated market value limit in state law. The city attorney may verify the structure and levy authority of each city's HRA and/or EDA.

While HRAs have "all the powers necessary or convenient" to implement redevelopment, they are subject to the ordinances and laws of the city. The city council must approve HRA plans before the HRA may begin implementation.

6. HRA contracting

All HRA construction work and purchases of equipment, supplies, or materials that involve expenditure of more than \$175,000 must be competitively bid. An HRA and a city may also use the "best value alternative." There are limited exceptions to these requirements for emergencies and certain circumstances.

7. HRA financing

Operating funds, capital improvements, and debt retirement expenses for HRA projects may be financed by any one or any combination of the following methods:

- Federal grants.
- Revenue bonds the HRA or local governing body sells.
- General obligation bonds the local governing body sells.
- Tax increments from redevelopment projects.
- A limited levy for redevelopment projects and planning activities.

When an HRA issues bonds, the revenue generated must be used for the projects financed, or bond costs must be paid from income generated by designated projects.

The principal and interest on bonds are payable exclusively from the income and revenues of the project financed with the proceeds of the bonds, or exclusively from the income and revenues of certain designated projects, whether they are financed in whole or in part with the proceeds of the bonds.

RELEVANT LINKS:

[Minn. Stat. § 469.003, subds. 4, 6, 7.](#)
[Minn. Stat. § 469.013 subd. 2.](#)

[Minn. Stat. § 469.013 subd. 2.](#)

[Minn. Stat. § 469.013.](#)

[24 C.F.R 982.51.](#)

Minnesota Department of
Employment and Economic
Development: [The Economic
Development Authority
Handbook.](#)

[Minn. Stat. § 469.091.](#)
[Minn. Stat. § 469.093.](#)

[Minn. Stat. § 469.095.](#)

8. HRA certifications to state

The following documents relating to the establishment and activities of local HRAs must be filed with the DEED commissioner:

- Resolution of need.
- Certificates of appointment or reappointment of HRA commissioners.
- Low-rent public housing project and management plans.

Additional documents relating to local HRA activities may also be requested by the DEED commissioner:

- Project reports.
- Applications for federal assistance.
- Contracts with federal agencies.
- Redevelopment plans.

In addition, annual financial reports must go to the state auditor, DEED commissioner, and the city council.

9. HRA federal certification

In order for a local HRA to use HUD assistance programs, it must submit a transcript of organizational documents to the HUD area office.

C. Economic development authorities

An economic development authority (EDA) is a legal entity created by a city to facilitate a well-rounded program for business assistance and development projects.

All cities and townships have authority from the Minnesota Legislature to create an EDA. The city may consolidate an EDA with an existing HRA or the city may grant HRA powers to the EDA. The city council may create an EDA by passing an enabling resolution. Before adopting the enabling resolution, the city must first conduct a public hearing.

The enabling resolution establishes a board of commissioners for the EDA. The city council can choose to serve as the EDA board of commissioners or create a board composed of community members. The mayor, with approval of the council, appoints the commissioners. The board may consist of three, five or seven members who serve six-year terms. The board is subject to the Open Meeting Law.

RELEVANT LINKS:

[Minn. Stat. § 469.107.](#)

[Minn. Stat. § 469.107.](#)

Minnesota Department of Employment and Economic Development: [The Economic Development Authority Handbook](#).

Minnesota Department of Employment and Economic Development, [The Economic Development Authority Handbook](#).

[Minn. Stat. § 469.091.](#)

[Minn. Stat. § 469.192.](#)

[Minn. Stat. § 469.192.](#)
[Minn. Stat. § 469.102.](#)

[Minn. Stat. § 469.033, subd. 4.](#)
Metropolitan Council, [City Development Powers](#).

[Minn. Stat. § 469.098.](#)

1. EDA levies

An EDA levy differs from an HRA levy. It is not a levy raised by the EDA, but rather a levy set by a city at the request of the EDA.

A city may, at the request of the EDA, levy a tax for the benefit of the EDA in an amount not more than 0.01813% of the taxable market value. The amount levied must be paid by the city treasurer to the treasury of the EDA to be spent by the EDA. Because the EDA levy is part of the city levy, it is not a “special levy” under state law and is therefore part of the city’s overall levy limit.

As a result of being part of the city’s overall levy limit, the most common practice to fund an EDA is a direct general fund appropriation out of the city’s general fund. There is no limit to the amount of funding that can be provided to an EDA through this mechanism.

Alternatively, if the city council’s enabling resolution adopts all of the powers of the HRA for the EDA, the EDA may levy the separate HRA tax levy, which is not calculated in the city’s levy limit. It is still subject to all of the statutory limitation of an HRA, including the levy limit of 0.0185% of the estimated market value.

2. EDA loans

EDAs are authorized to make loans to businesses, for-profit organizations, nonprofit organizations, or individuals to effectuate the purpose of the EDA.

Loans must be for a purpose the EDA is authorized to carry out under the law. An authorized purpose must deal with or contribute to economic or industrial development.

One benefit of establishing an EDA is that the EDA can create a pool where each project’s revenue goes into a common fund, improving the security on the pooled bonds, leading to a more favorable interest rate and ultimately a reduced cost of borrowing.

Before taking an action or making a decision which could substantially affect an EDA commissioner or employee’s financial interests or those of an organization with which the commissioner or an employee is associated, a commissioner or employee of an EDA must disclose the conflict and obtain prior approval. Failure to do so may result in criminal charges.

RELEVANT LINKS:

[Minn. Stat. § 469.101, subds. 1, 2.](#)
[A.G Opinion., 469a-16, July 19, 1966.](#)
[Minn. Stat. § 475.58.](#)
[Minn. Stat. § 469.102.](#)

[Minn. Stat. § 469.101, subd. 1.](#)
[Minnesota House Research Department, \[Economic Development TIF Districts\]\(#\).](#)

[Minnesota House Research Department, \[Economic Development TIF Districts\]\(#\).](#)

[Minn. Stat. § 469.049.](#)
[Minn. Stat. § 469.055.](#)

[Minn. Stat. § 469.053.](#)
[Minn. Stat. § 469.060, subd. 1.](#)

[Minn. Stat. § 469.050.](#)
[Minn. Stat. § 469.051.](#)

[Minn. Stat. § 469.051, subd. 2.](#)

3. Other EDA powers

EDAs can acquire property and facilities, but in most circumstances cannot issue or authorize the issuance of debt without the approval of the electors. Some obligations are exempt from this requirement, including payment of any unpaid judgment against the municipality and certain pension or retirement fund liabilities. Otherwise, the city must authorize the issuance of debt in the resolution creating the EDA.

EDAs can create economic development districts within the city, but the districts must be contiguous. Economic development districts do not need to meet the blight test and may use tax increment financing.

When an EDA's enabling resolution includes HRA power, an EDA may undertake a redevelopment project, housing development, or housing project under which a restrictive blight test does not apply. These projects can be used for similar purposes to those of an economic development district under the EDA law.

D. Port authorities

The purpose of a port authority is to promote the general welfare of a port district, increase the commercial efficiency of the district, and actively improve business opportunities.

The Minnesota Legislature authorizes cities to create port authorities. A port authority is a governmental subdivision with the right to sue and be sued in its own name. A port authority may issue general obligation bonds in the amount authorized by the city council.

Cities establish a port authority by passing an enabling resolution. The port authority may have three commissioners appointed by the city council, or seven commissioners, two of whom must be city council members, with the remaining members appointed by the mayor and approved by the city council. Cities may adopt a different procedure and a different number of commissioners in the enabling law for the port authority. State law governs commissioner pay, vacancies, duties, and port authority bylaws.

A port authority shall annually elect a president or chair, vice president or vice chair, treasurer, secretary, and assistant treasurer. A commissioner may not serve as president or chair and vice president or vice chair at the same time. The other offices may be held by one commissioner. The offices of secretary and assistant treasurer need not be held by a commissioner.

RELEVANT LINKS:

Minn. Stat. § 469.051, subds. 4 to 6.

For more information on bonding, see [LMCIT Property, Crime, Bond and Petrofund Coverage Guide](#).

Minn. Stat. § 469.051, subd. 9.

Minn. Stat. § 469.054, subd. 1.
Minn. Stat. § 469.056, subds. 1, 2.
Minn. Stat. § 469.054, subd. 3.

Minn. Stat. § 469.109.

Minn. Stat. § 469.111.

Minn. Stat. § 469.109.

The treasurer of a port authority must be bonded to faithfully perform these duties:

- Receive and be responsible for port authority money.
- Be responsible for the acts of the assistant treasurer, if appointed.
- Disburse port authority money by check or electronic procedures.
- Keep an account of the source of all receipts, and the nature, purpose, and authority of all disbursements.
- File the authority's detailed financial statement with its secretary at least once a year at times set by the authority.

The port authority's annual detailed financial statement must show:

- All receipts and disbursements
- The money on hand
- The purposes for which the money on hand is to be applied.
- All credits and assets.
- Outstanding liabilities.

The authority must examine the statement together with the treasurer's vouchers. If the authority finds the statement and vouchers correct, it shall approve them by resolution and record the resolution.

State law governs many other aspects of port authorities, including but not limited to the use of city property by a port authority, employment, and contracts. The city attorney also acts as the port authority's attorney.

E. Local or area redevelopment agencies

The purpose of area redevelopment agencies is to create new employment opportunities and promote economic redevelopment of rural areas and of depressed or underdeveloped areas of the state.

Any municipality or group of municipalities may establish a redevelopment agency for the area the municipality or group of municipalities it covers, only if:

- The area is rural or there is substantial and persistent unemployment in the area for an extended period of time.
- The rate of unemployment, excluding unemployment due to seasonal or temporary factors, is 6% or more and the conditions are not likely to be alleviated without public financial or planning assistance.

RELEVANT LINKS:

[Minn. Stat. § 469.110, subd. 11.](#)

[Minn. Stat. § 469.110, subd. 4.](#)

[Minn. Stat. § 469.111.](#)

[Minn. Stat. § 469.111, subd. 5.](#)

[Minn. Stat. § 469.115.](#)

[Minn. Stat. § 469.124.](#)

[Minn. Stat. § 469.126, subd. 2.](#)

[Minn. Stat. § 469.127.](#)

Rural areas are those not within the boundary of any city having a population of 50,000 or more, and not immediately adjacent to urbanized and urbanizing areas with a population density of more than 100 people per square mile or areas with an unemployment rate of 6% or more.

This law defines municipalities as home rule charter or statutory cities, counties, towns, or school districts.

To establish an area development agency, the governing body of the municipality must first hold a public hearing, and then find by resolution that the area is rural, depressed, or underdeveloped as defined in statute. The resolution must be filed with the commissioner of employment and economic development.

The board of commissioners shall be appointed by the mayor and all five commissioners must be residents of the area of operation of the local agency.

An area redevelopment agency has similar powers to an EDA/HRA.

F. City development districts

Any home rule charter or statutory city may designate development districts for areas within the boundaries of the city that are already built up. Development districts are established to provide employment opportunities, improve the tax base, and strengthen the general economy of the state. Within these districts, cities may:

- Adopt a development program to improve physical facilities, quality of life, and quality of transportation.
- Acquire land or easements through negotiation or eminent domain.
- Promote pedestrian skyway systems.
- Require private developers to construct buildings to accommodate and pedestrian systems.
- Install special lighting systems, street signs and street furniture, landscaping of streets and public property, and snow removal systems.

The law encourages pedestrian skyway systems, underground pedestrian concourses, people mover systems, and publicly owned parking structures. It exempts these structures from taxation even when they are attached to privately owned buildings.

RELEVANT LINKS:

[Minn. Stat. § 469.152.](#)

[Minn. Stat. § 469.155.](#)

[Minn. Stat. § 469.153.](#)

[Minn. Stat. § 469.155, subd. 14.](#)

[Minn. Stat. § 462C.01.](#)
[Minn. Stat. § 462C.04.](#)
[Minn. Stat. § 462C.07.](#)

G. Municipal industrial development

To attract industrial and commercial development and to prevent economic deterioration, any home rule charter or statutory city or its redevelopment agency has the power to promote industrial development by:

- Acquiring, constructing, and holding lands, buildings, easements, improvements to lands and buildings, capital equipment, and inventory for industrial projects.
- Issuing revenue bonds and entering into revenue agreements to finance these activities to promote industrial projects.
- Refinancing health care and other facilities.

Under the law, cities assist industries in starting operations and use generated revenues to repay the costs. This law is the basis for issuing most industrial revenue bonds.

Projects eligible for assistance include, but are not limited to:

- Any revenue-producing enterprises engaged in assembling, fabricating, manufacturing, mixing, processing, storing, warehousing, or distributing any products of agriculture, forestry, mining, or manufacturing.
- Any research and development activity in these fields or in the manufacturing, creation, or production of intangible property, including patents, copyrights, formulas, processes, or designs.
- Properties designated as a qualified green building and sustainable design project under state law.
- Costs related to dewatering activities.

The law prohibits a city from operating any of these projects as a business or in any manner other than the manner outlined by law.

III. Other development strategies

A. Housing bonds

Cities may develop and administer programs to finance the acquisition or rehabilitation of single and multifamily homes for housing low- and moderate-income persons and families anywhere within its boundaries. Upon approval of the program, the city may issue and sell revenue bonds, which shall be payable exclusively from the revenues of the programs. Bonding authority is allocated by state formula.

RELEVANT LINKS:

[Minn. Stat. § 272.02, subd. 39.](#)

[Minn. Stat. § 469.185.](#)

A.G. Op. 476-B-2 (Mar. 2, 1961).
[City of Pipestone v. Madsen](#), 287 Minn. 357, 178 N.W.2d 594 (1970).

[Minn. Stat. §§ 469.152 - 469.1655.](#)

B. Industrial parks

An industrial park is a tract of land suitable for industrial use because of location, topography, proper zoning, available utilities, and accessibility to transportation. A single governing body has administrative control of the tract. In some cities, an industrial park may be little more than a tract of unimproved land, while in other cities it may be totally served by city services and have restrictive building requirements.

An industrial park's purpose is to attract industrial development.

Property a city holds for later sale for economic development purposes remains tax-exempt for a period not to exceed nine years, or until buildings or other improvements constructed after acquisition reach one-half occupancy. For cities located outside of the metropolitan area with populations less than 20,000, the period must not exceed 15 years.

Currently, private enterprise creates most new industrial park development by establishing a for-profit community development corporation. A city can cooperate with that corporation through its land use controls and methods of financing public improvements. Many cities have also established industrial parks complete with streets, water, and sewer, despite the possible tax ramifications. The city then sells or leases a portion of the park to a business needing a location for its building.

Any city that owns property that is not restricted by deed may convey the lands for nominal consideration, to encourage and promote industry, and to provide employment for citizens.

This statute has been read narrowly by the Office of the Attorney General. For example, a conveyance of land for an indoor arena was not within the statute. A more direct promotion of industry was necessary beyond the fact that more potential customers might be in town because of athletic contests. However, the courts have upheld the municipal industrial development revenue bond law, discussed below, against the same objection. The city's attorney can best advise the city concerning the legality of a purchase of land for resale.

C. Industrial revenue bonds

Municipal industrial development helps cities attract new commercial and industrial developments and keep existing businesses in the city. The law authorizes the council to issue revenue bonds and use the proceeds to acquire and construct industrial sites and facilities. The city then leases these facilities to private industry and uses the rental fee proceeds to retire the bonds.

RELEVANT LINKS:

[Minn. Stat. § 469.156.](#)
[Minn. Stat. § 469.162.](#)

For more information,
contact [DEED](#) 651.259.7114,
800.657.3858. Main Office:
1st National Bank Building
332 Minnesota Street, Suite
E200 Saint Paul, MN 55101-
1351.

[Minn. Stat. § 469.184.](#)

[Minn. Stat. § 469.174, subd.
9.](#)
Minnesota House Research
Department, [How TIF](#)
[Works: Basic Mechanics.](#)

[Minn. Stat. § 469.175, subd.
1.](#)

Minnesota House Research
Department, [How TIF](#)
[Works: Basic Mechanics.](#)

A city may issue industrial revenue bonds, also known as municipal revenue bonds, without public referendum. It cannot pledge the full faith and credit of a community as security for these bonds. Thus, the city may not tax property owners to pay principal and interest on the bonds.

If a city decides to investigate the use of industrial bond financing, it should contact the Department of Employment and Economic Development. The department provides the city with information, advice, and technical assistance. This assistance is important, due to the adoption of federal and state laws allocating issuance authority among the states and their political subdivisions.

D. Commercial rehabilitation loan program

Cities have authority to carry out programs for the rehabilitation of small and medium-sized commercial buildings. The city must adopt an ordinance that provides for the adoption of program regulations, including a definition of small and medium-sized commercial buildings. Loans under the program may be for amounts up to \$200,000. The city may finance the program through the sale of revenue bonds.

E. Tax increment financing (TIF)

Tax increment financing is a method of stimulating economic development in a targeted geographic area. TIF uses the additional property taxes that are paid due to the new development to pay for the development costs. Tax increment financing authority is available to most cities.

For a city to make use of TIF, the city must find that the development would not happen through solely private investment and that the new development will result in a net increase in market value for the site, compared to the likely development that would occur without TIF.

When a TIF district is created, the county auditor certifies the current tax capacity of the properties in the district as the district's "original tax capacity." As the property in the district increases because of the new development, the increases above the original tax capacity are captured, referred to as "captured value." The taxes paid on the captured value are called "increments." Unlike property taxes, increments are not used to pay for general costs. Instead, the money is used to repay costs the city incurred in acquiring the property, removing existing structures, or creating infrastructure.

RELEVANT LINKS:

Minnesota House Research Department, [How TIF Works: Basic Mechanics](#).

Minnesota House Research Department, [How TIF Works: Basic Mechanics](#).

Minnesota House Research Department, [Housing TIF Districts](#).

[Minn. Stat. § 469.175, subds. 5, 6.](#)

[Minn. Stat. § 469.171, subds. 1, 2b.](#)

[Minn. Stat. § 469.177, subd. 8.](#)
[Lake Superior Paper Indus. v. State](#), 624 N.W.2d 254 (Minn. 2001).
[Brookfield Trade Center, Inc. v. County of Ramsey](#), 609 N.W.2d 868 (Minn. 1998).

The property owner in a TIF district continues to pay the full amount of property taxes. TIF involves only the increased property taxes generated within the district. It does not change the amount of property taxes currently derived from the redevelopment area, nor does it directly affect the amount or rate of general ad valorem taxes the city levies.

The result of a TIF project is an increased tax base that will benefit all local taxing jurisdictions. Additionally, TIF districts usually spur economic development and redevelopment through creating jobs, removing blight, and providing more affordable housing.

In Minnesota, TIF is generally used to:

- Redevelop areas occupied with substandard buildings.
- Build housing for low-income and moderate-income families.
- Clean up pollution.
- Provide general economic development incentives.
- Finance public infrastructure, such as streets, sewer, water, sidewalks, and similar improvements. (This is not an explicit purpose of TIF, but Minnesota cities frequently use it for this purpose).

Special rules apply to TIF districts designed to provide low-income housing.

A city using TIF must report annually to the state auditor and publish the report in a newspaper of general circulation in the municipality. The state auditor has established a uniform system of accounting and financial reporting for TIF districts. The city must annually submit to the state auditor a financial report in compliance with these standards.

The state auditor may audit TIF districts. If the state auditor notifies a TIF authority of an alleged violation, a copy of the notice is also forwarded to the county attorney. If no corrective action is brought within one year, the county attorney must notify the state auditor, who then notifies the attorney general.

If the attorney general finds a substantial violation, the attorney general will petition the state tax court to suspend the authority's power to use TIF for a period of up to five years.

The TIF agreement with the developer is a complex document. Assistance from a financial advisor and the city attorney is necessary to anticipate and address many potential problems. An agreement can establish a minimum market value for tax increment assessment purposes, as well as provide that the developer pays a certain level of taxes regardless of any classification rate changes or levy decreases.

RELEVANT LINKS:

[Minn. Stat. § 469.1771, subd. 7.](#)
Minnesota House Research Department, [The But-For Test](#).

[Minn. Stat. §§ 469.174-469.1799.](#)

[Minn. Stat. § 469.175.](#)

[State v. Wicklund](#), 589 N.W.2d 793 (Minn. 1999).

[Walser Auto Sales, Inc. v. City of Richfield](#), 635 N.W.2d 391 (Minn. Ct. App. 2001) *aff'd*, 644 N.W.2d 425 (Minn. 2002).

[Minn. Stat. § 469.1813.](#)

Minnesota House Research Department, [Property Tax Abatements for Economic Development](#).

The agreement should be entered into before the assembly and acquisition of the land on which the completed improvements are to be located.

The law imposes a 180-day statute of limitations on actions to challenge the creation or modification of a TIF district. Before a city can create a TIF district, it must find that the subsidized development would not have happened but for the use of TIF. This prevents the excessive use of TIF districts in situations whether the development would have happened regardless.

Cities must follow statutory requirements, including but not limited to administrative expenses, plan modifications, reporting requirements, use of increment in pre-1979 districts, excess increments, pooling, decertification, and use of funds outside the district.

Before a district can be created, the law requires a detailed estimate of the impact of a proposed district on city-provided services, such as police and fire protection, public infrastructure, and borrowing costs attributable to the district, in addition to other complex estimations that must be prepared.

Public financing using TIF funding for a privately owned facility does not make public space in the facility a public forum for free speech purposes.

Cities should use extreme care in establishing a TIF district and should follow all procedural requirements. Otherwise, a court may find the district was not properly established. In one case, the Minnesota Court of Appeals found that a TIF district was not properly established where minimal effort was made to ensure the thorough inspection of the properties, inaccurate methodology was used to establish the condition of the buildings, and the buildings found structurally substandard were not reasonably distributed throughout the district.

Given the complexity of the laws governing the use of TIF, cities or HRAs should not undertake this method of financing community development projects without the advice of an attorney and professional consultants.

F. Property tax abatement

A city may use this development tool to capture some or all the taxes it imposes on a parcel of property.

It can apply those captured proceeds to specific, designated uses, so long as the benefits at least equal the costs to the city. The abatement must also serve the public good in one of a number of ways, like increasing the tax base, redeveloping blighted areas, increasing employment opportunities, or providing access to services

RELEVANT LINKS:

Christopher Virta, [Growing Trend: Use of Tax Abatement for Economic Development and Public Facilities](#).

Minnesota House Research Department, [Property Tax Abatements for Economic Development](#).

Minn. Stat. § 469.1813, subds. 2, 5.

Minn. Stat. § 469.1814.
Minn. Stat. § 469.1813, subds. 6, 8.

Minn. Stat. § 462C.16, subd. 2.

Minn. Stat. § 462C.16, subd. 4.

The term “abatement” is somewhat misleading, as the phrase is often used to refer to a method of adjusting an individual property owner’s tax burden by adjusting the market value of the property. Instead, in this instance, property tax abatement is an incentive for economic development. When used as a development driver, property tax abatement does not reduce the amount of taxes paid on the property. Instead, the full amount is paid by the taxpayer, and the county auditor refunds the abated portion back to the local government entity that granted the abatement to achieve a specific goal.

Goals include paying infrastructure costs associated with a development project, or paying debt service on bonds if tax abatement bonds were issued. If the money is to be refunded to the taxpayer, there must be a contract in place that outlines the conditions that must be satisfied to receive the money – often job creation or wage goals.

A city may grant an abatement only by adopting an abatement resolution specifying the terms of the abatement. The terms should include a specific statement as to the nature and extent of the public benefits the governing body expects to result from the agreement. The resolution may only be adopted after the council holds a public hearing.

A city may issue bonds or other obligations to provide an amount equal to the sum of the abatements granted for a specific property. The maximum principal amount of these bonds may not exceed the estimated sum of the abatements for the property for the years authorized. The bonds may be general obligations of the city if the city council chooses to pledge the full faith and credit of the city in the resolution issuing the bonds. The law limits property tax abatements to 15 years. School districts and counties have similar abatement powers. A city, county, and school district can agree to abate their taxes on the same property.

G. Housing trust funds

Cities have authority to establish a local housing trust fund by ordinance or to participate in a joint powers agreement to establish a regional housing trust fund. These trust funds may also be administered through a nonprofit organization. If the fund is administered through a nonprofit organization, that organization shall encourage private charitable donations to the fund.

A city may finance its local or regional housing trust fund with any money available to local government, unless expressly prohibited by state law. Sources of funding may include, but are not limited to:

RELEVANT LINKS:

[Minn. Stat. § 462C.16, subd. 3.](#)

[Minn. Stat. § 462C.16, subd. 5.](#)

[Minn. Stat. § 462C.16, subd. 6.](#)

[Minn. Stat. ch. 462A.](#) For more information about [MHFA](#) programs, contact MHFA at 400 Wabasha Street North, Suite 400, St. Paul, MN 55102 (651) 296-7608 or (800) 657-3769.

- Donations.
- Bond proceeds.
- Grants and loans from a state, federal, or private source.
- Appropriations by a local government to the fund.
- Investment earnings of the fund.
- Housing and redevelopment authority levies.

Once the fund is established, the source of funding may be altered, but only if sufficient funds will still exist to cover the projected debts or expenditures authorized by the fund in its budget.

Money in a local or regional housing trust fund may only be used to:

- Pay for administrative expenses, but not more than 10% of the balance of the fund may be spent on administration.
- Make grants, loans, and loan guarantees for the development, rehabilitation, or financing of housing.
- Match other funds from federal, state, or private resources for housing projects.
- Provide down payment assistance, rental assistance, and homebuyer counseling services.

The local or regional housing trust fund must report annually to the local government that created the fund, and the local government (or governments) must post this report on its public website.

A local or regional housing trust fund existing on July 1, 2017, is not required to alter the existing terms of its governing documents or take any additional authorizing actions required by the statute.

IV. State-sponsored development tools

A. Minnesota Housing Finance Agency

The goals of the Minnesota Housing Finance Agency (MHFA) are to provide decent, affordable housing to low- and moderate-income people, preserve the existing housing stock in Minnesota, preserve existing neighborhoods and prevent them from deteriorating, and prevent mortgage foreclosures while promoting energy conservation in residential housing.

The Minnesota Legislature created the MHFA in response to a shortage of affordable housing for low- and moderate-income people.

Private enterprise and private investment were unable, without public assistance, to provide an adequate supply of safe, sanitary, and decent housing at affordable prices and rents.

RELEVANT LINKS:

[Minn. Stat. § 462A.073.](#)
MHFA: Minnesota City
Participation Program.Greg
Krenz, Minnesota Housing,
651-297-3623,
greg.krenz@state.mn.us.

[Minn. Stat. ch. 116J.](#)
Minnesota Department of
Employment and Economic
Development.

[Minn. Stat. §§ 116J.411-
116J.424.](#)
[Minn. Stat. § 116J.575.](#)
See Minnesota Department of
Employment and Economic
Development for Local
Government.

[Minn. Stat. § 116J.431.](#)

[Greater Minnesota Business
Development Infrastructure
Grant Program.](#)

The sale of state tax-exempt bonds is the primary financing for MHFA programs. Through the Minnesota City Participation Program, Minnesota Housing sells mortgage revenue bonds on behalf of cities to meet locally identified housing needs. The proceeds of these bonds provide below-market interest rate home mortgage loans for low- and moderate-income first-time homebuyers or for the construction or rehabilitation of single- and multi-family housing. Appropriations from the Legislature provide additional funding for programs, including the promotion of energy conservation, an increase in home ownership opportunities for first-time homebuyers, home improvement grants to very low-income homeowners, and programs to improve the housing available to Native Americans, large families, and people with disabilities.

B. Department of Employment and Economic Development (DEED)

The Minnesota Department of Employment and Economic Development is the primary economic development agency for Minnesota. DEED staff is responsible for a wide range of grant and loan programs, as well as for providing technical assistance to businesses and communities.

DEED also provides grants for contamination cleanup and redevelopment. A redevelopment account allows DEED to make grants to local units of government up to 50% of the cost of developing and redeveloping industrial, residential, or commercial property. DEED administers the rural development program, makes challenge grants to regional organizations to encourage private investment in rural areas, and administers a revolving loan fund to provide loans to new and expanding business in rural Minnesota. Local government units, including cities, may receive these loans if the community has established a local revolving loan fund and can provide at least an equal match to the loan received.

Cities outside the seven-county metropolitan area may receive grants from DEED for up to 50% of the capital costs of public infrastructure necessary for certain specified economic development projects. Retail and office space development are ineligible for a grant For this program, “public infrastructure” means publicly owned physical infrastructure necessary to support economic development projects, including but not limited to sewers, water supply systems, utility extensions, streets, wastewater treatment systems, stormwater management systems, and facilities for pretreatment of wastewater to remove phosphorus.

RELEVANT LINKS:

[Minn. Stat. § 116J.431, subd. 2.](#)

[Minn. Stat. § 116J.435.](#)
Department of Employment
and Economic Development:
[Innovative Business
Development Program.](#)

[Minn. Stat. § 116J.435, subd. 2.](#)

[Minn. Stat. ch. 116O.](#)

Under this law, an “economic development project” for which a county or city may be eligible to receive a grant includes manufacturing, technology, warehousing and distribution, research and development, agricultural processing, or industrial park development that would be used by any one of these businesses.

Up to 15 percent of the development of a project may be used for a purpose that is not included under this law as an eligible project. A city or county would have to provide notice to the DEED commissioner for approval.

DEED also runs the Innovative Business Development Public Infrastructure (BDPI) program, which provides grants to local governmental units on a competitive basis statewide for up to 50% of the capital cost of the public infrastructure necessary to expand or retain jobs.

“Innovative business” means a business that is engaged in, or is committed to engage in, innovation in Minnesota in one of the following:

- Using proprietary technology to add value to a product, process, or service in a high technology field.
- Researching or developing a proprietary product, process, or service in a high technology field.
- Researching, developing, or producing a new proprietary technology for use in the fields of tourism, forestry, mining, transportation, or green manufacturing.

“Proprietary technology” means the technical innovations that are unique and legally owned or licensed by a business and includes, without limitation, those innovations that are patented, patent pending, a subject of trade secrets, or copyrighted.

“Eligible project” means an innovative business development capital improvement project in this state, including:

- Manufacturing, technology, warehousing and distribution, and research and development.
- Innovative business incubator.
- Agricultural processing, or industrial, office, or research park development that would be used by an innovative business.

C. Enterprise Minnesota

Enterprise Minnesota is a nonprofit business consulting organization set up by the Legislature that helps small and medium-sized manufacturing companies, education services, and government entities in Minnesota. Enterprise Minnesota operates as a fee-for-services 501(c)(3) nonprofit.

RELEVANT LINKS:

[Enterprise Minnesota](#) 612-373-2900 or 800-325-3073.
[Minn. Stat. § 116O.061](#).

[Minn. Stat. § 465.717](#).
[Minn. Stat. § 471.59](#).
LMC information memo,
[LMCIT Liability Coverage Guide, Section II-I, Joint powers entities](#).

More information is available on the [HUD](#) web site.

For more information, contact [Rural Development State Office](#) 410 Farm Credit Service Building 375 Jackson Street St. Paul, MN 55101-1853, (651) 602-7800; See also, Handbook, [Financing Public Improvements](#).

Enterprise Minnesota focuses on applied research and technology transfer and early-stage funding.

It may provide financial assistance, including loan guarantees, direct loans, interest subsidies, or equity investments, to sole proprietorships, corporations, other entities, nonprofit organizations, or joint ventures. Financial assistance includes but is not limited to assisting a qualified company or organization with business services and products that will enhance the operations of the entity.

D. Corporations

Cities cannot create nonprofit corporations unless authorized to do so by special legislation. The law allows incorporation of a joint powers entity, but these must comply with all applicable public-sector laws (open meeting, gift law, conflicts of interest, competitive bidding, etc.) and must be separately insured.

V. Federal development tools

A. Community Development Block Grants

The Community Development Block Grant (CDBG) program, under the U.S. Department of Housing and Urban Development (HUD), provides cities with federal funding to initiate and continue housing and community development projects.

B. Rural development grants

A variety of grants and loans to encourage economic development are available to cities from the U. S. Department of Agriculture's Rural Development program. Sewer, water, rural enterprise, housing, and other types of grants and loans are available.

VI. How this chapter applies to home rule charter cities

All the tools this chapter lists are available to charter cities. The general discussions also apply to all cities.