This bill directs the commissioner of Trade and Economic Development to divide the state (by county) into four economic development zones. Zone 1 consists of the Minneapolis-St. Paul 11 county metropolitan statistical area; zone 2 of the other metropolitan statistical areas in the state; zone 3 of the other counties whose areas are closest to these metropolitan areas; and zone 4 is the rest of the counties.

The bill provides an expanded research credit under the corporate franchise tax and an expanded capital equipment sales tax exemption in zones 3 and 4. In addition, economic development TIF districts are allowed expanded duration limits in these zones (12 and 16 years in zones 3 and 4 respectively), while the duration limits for these TIF districts are shortened in the metropolitan zones (to 4 years in zone 1 and 8 years in zone 2). Under present law, a 9 year duration limit applies to these districts.

Section 1

Designation of zones. Directs the commissioner of trade and economic development (DTED) to divide the state into four economic development zones.

Zone 1 is the Minneapolis-St. Paul metropolitan statistical area. This consists of 11 counties. The counties are Anoka, Carver, Chisago, Hennepin, Isanti, Ramsey, Scott, Sherburne, Washington, and Wright.

Zone 2 consists of the other metropolitan statistical areas in the state. The counties in this zone are Benton, Clay, Houston, Olmsted, Polk, Stearns, and St. Louis.

Zone 3 consists of counties not in zones 1 or 2, if one-half of the county's area is either:

- Within 25 miles of the boundaries of the largest city in a metropolitan statistical area (other than Minneapolis); or
- In the one-half of the area of the state, excluding zones 1 and 2, that is closest to the center of the cities of Minneapolis and St. Paul.

Zone 4 consists of the remaining counties of the state.
DTED's designation of zones is not subject to the requirements for making administrative rules and a metropolitan statistical area has the meaning used by the U.S. Bureau of the Census.

2 **Research credit.** Increases the research credit under the corporate franchise tax to 5 percent of qualifying expenditures for research done in zones 3 and 4. Under present law, the research credit is 5 percent of the increase in research expenditures in Minnesota on the first $2 million and 2.5 percent for the increase over $2 million. Thus, this allowance doubles the research credit for research done in zones 3 and 4 for companies that have reached the $2 million threshold for the taxable year.

3 **Definitions; research credit.** Provides that DTED's designation of economic development zones under section 1 apply to the research credit.

4 **Sales tax exemption.** Provides a sales tax exemption for machinery and equipment purchased for use in zones 3 and 4 for the following facilities:

- manufacturing
- telecommunications
- telemarketing
- information services (e.g., data processing, data retrieval, and similar services)
- research and development related to these activities.

This exemption applies regardless of whether the owner or a contractor purchases the equipment. Present law provides an exemption for capital equipment purchases for manufacturing and some related facilities. This special exemption differs from the capital equipment exemption in several ways:

- It is an "up-front" exemption. The capital equipment exemption requires the purchaser to pay tax and apply for a refund. This exemption would apply at the time of sale.
- It applies to purchases by contractors and sub-contractors. The capital equipment exemption applies only to purchases by the owner or user of the equipment.
- The exemption applies to more types of facilities. The capital equipment exemption applies only to manufacturing and limited information services. This exemption includes telemarketing and a broad definition of information and data processing services.

**Construction materials and supplies.** If the facility is located in zone 4, it also qualifies for an exemption for purchases of construction supplies and materials. These materials are fully taxable under present law.

5 **TIF definitions.** Provides that DTED's zone designations under section 1 apply to the tax increment financing act.

6 **TIF; duration of economic development districts.** Changes the duration limits for economic development TIF districts. Under present law, these districts are limited to durations of 9 years after receipt of the first increment or 11 years after approval of the plan, whichever is less. The bill varies the duration limit based on the economic development zone in which the district is located. All durations are based on the number of years of increment; the duration limit based on the number of years after approval of the plan is eliminated.

<table>
<thead>
<tr>
<th>Zone</th>
<th>Duration Limit</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>4 years</td>
</tr>
<tr>
<td>2</td>
<td>8 years</td>
</tr>
<tr>
<td>3</td>
<td>12 years</td>
</tr>
</tbody>
</table>

**After receipt of first increment**
Permitted economic development district expenditures. Expands the permitted uses of economic development districts increments in economic development zones 3 and 4 to include telecommunications and information services.

Effective date. Provides the research credit changes are effective for tax year 1999. The sales tax changes are effective June 30, 1999. The tax increment financing changes are effective for requests for certification made after August 1, 1999.