



Minnesota Senator Susan Kent

Doug Stang, 3M Public Affairs Executive

Financial incentives critical to keeping 3M expansion in Minnesota

A Civic Caucus Focus on Competitiveness Interview

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Present

Dave Broden (vice chair), Pat Davies, Gwenia Fiskevold Gould, Sallie Kemper, Sen. Susan Kent, Dan Loritz (chair), Dana Schroeder, Clarence Shallbetter, Doug Stang.

Summary

Two financial incentives offered by the city of Maplewood and the state of Minnesota were "critical" to 3M's deciding to build its new \$150 million research and development (R&D) facility in Maplewood, rather than locating it elsewhere, according to Minnesota Sen. Susan Kent and 3M's Doug Stang.

Maplewood created a tax-increment finance (TIF) district to help fund parts of the 3M project and the 2013 Legislature approved a time-limit extension for the district from the normal eight years to 25 years. The Legislature also granted 3M a sales tax exemption on construction materials used for the project. In exchange, 3M committed to house at least 700 employees in the new facility, with average salaries over \$50 an hour, and to make future investments in its Maplewood headquarters. 3M also agreed to donate land to the city of Maplewood to build a new fire station.

Kent says it's important that 3M is recommitting to Minnesota. Stang points out that few companies have made the level of investments in Minnesota recently that 3M has made at its various facilities around the state. He says Minnesota's workforce has always been a significant draw, but that 3M sees that foundational strength in the state and in the U.S. declining. He says 3M is very concerned about the lack of highly trained people for R&D and calls the ability to attract those people the "greatest threat" to its R&D staying in Minnesota.

Stang recommends that the state consider better ways for businesses to partner with the Department of Employment and Economic Development (DEED), which had few tools in place for an expansion

as large as 3M's. Kent says economic incentives to businesses can become "an arms race" and that the real challenge is to maintain what has made Minnesota a good place to do business for a long time.

Background

Susan Kent (DFL-Woodbury) is Minnesota state senator for District 53, representing Woodbury, Landfall, and portions of Maplewood and Oakdale. She was elected in 2012 and serves on the committees for Early Childhood to Grade 12 (E-12) Education Finance, E-12 Education Policy, Higher Education and Workforce Development, and as Vice Chair of the Transportation and Public Safety Committee.

Senator Kent has a strong combination of private, public and community experience, including many years of advocacy for students in South Washington County Schools, owning a small business, and more than 20 years of professional experience in strategic marketing and media. Her work has ranged from major corporations and government to tourism, hospitality, and local arts and nonprofit organizations.

Kent was founder of the Twin Cities East Chapter of Mothers & More, a nonprofit organization dedicated to improving the lives of mothers through support, education and advocacy. She has served several roles in school district working groups and PTA, and has done volunteer work in prenatal counseling for high-risk women and child abuse prevention.

Kent has a B.S. degree from the University of Texas, Austin.

Doug Stang has worked in public affairs for the 3M Company since 2007. He oversees all state and local public affairs in the U.S. for the company. Stang came to 3M with a broad background in public affairs.

From 1997 to 2004, Stang served four terms in the Minnesota legislature as a Republican State Representative from District 14B, in the central part of the state. During that time, he served as assistant majority leader and as chair of the Higher Education Finance Committee. From 2004 to 2005, he was deputy commissioner of the Minnesota Department of Health. From 2005 to 2007, he worked in government affairs for the Minneapolis law firm Lockridge, Grindal, Nauen, PLLP.

Stang currently serves on the boards of a number of organizations: the Minnesota Chamber of Commerce, the St. Paul Area Chamber of Commerce, the Minnesota Zoo, the Citizens League and the Minnesota Government Relations Council.

Stang has a B.A. degree in government from St. John's University in Collegeville, Minnesota.

Discussion

The 2013 Legislature approved two financial incentives for the 3M Company to help finance the building of a new \$150 million research and development (R&D) facility on its Maplewood campus. The first legislative action was to extend the time limit on the economic development tax-increment finance (TIF) district set up by the city of Maplewood from the normal eight years specified

in state law to 25 years. 3M's Doug Stang said the time extension was needed in order for the TIF district to capture enough revenue to reimburse 3M for its eligible expenses outlined in state statute. Those eligible expenses include improvements such as sewer and water, road construction, parking lots and demolition of buildings. The second legislative action was to grant an exemption to 3M on the sales taxes that would normally be applied to the construction materials used in the project. State Senator Susan Kent was the Senate author of this 3M-related legislation.

Tax-increment financing (TIF) is an economic development tool available to Minnesota cities under state law. Cities may create TIF districts for economic development (unblighted areas being developed for manufacturing, research and development, and warehousing) or for housing, redevelopment or pollution cleanup. Under state law, economic development districts have eight-year time limits, while the other districts have 25-year time limits. The TIF district created by the city of Maplewood for the 3M project is an economic development district and is located on undeveloped 3M property.

TIF districts, which take in the area slated for development, redevelopment or cleanup, generate revenues to help pay the costs of those activities. The revenues, known as the *increment*, are the property taxes generated each year on the *increase in taxable value* within the district. Thus, TIF revenues depend on the taxable value increasing over the life of the TIF district to generate the increment. The TIF increment revenues are *captured* to help pay for various improvements in the TIF district and are not available during the life of the district as general revenue for the city, the county, the school district or any special taxing districts in which the TIF district is located.

An interviewer commented that the Legislature has been looking at TIF and has earlier narrowed its use, especially in Minneapolis. But, he said, the 2013 legislative session opened up the use of TIF in various places. He asked what the role is of the city, the state and special purpose districts in economic development. What can be done to assure that economic development incentives and investments don't heavily impact the overall tax base of the state?

Kent responded that it's "an important philosophical debate that's been going on for some time. We're coming out of a recession with real opportunities to leverage things. The broader conversation was what will make a difference in the shorter term for jobs and what investments in education will help in the longer term."

The TIF district created by Maplewood for the \$150 million 3M project is expected to raise \$19 million over the 25-year life of the district and the sales tax exemption on construction materials for the project should save 3M about \$3.5 million. According to Kent and Stang, 3M can use the money generated from the increased property taxes in the TIF district over the next 25 years for various project expenses specified in state law, such as sewer and water improvements, road construction, parking lots and demolition of buildings. The TIF district has been in place since the summer of 2013. Stang said the state sales tax exemption requires that 3M pay the sales tax on construction materials and then seek a refund.

The TIF district incentive places the risk on 3M, not on Maplewood. Stang said Maplewood is not selling bonds to pay for demolition and improvements up front, so "the burden is not on the city." 3M doesn't get reimbursed for its costs unless the money is in the TIF fund. And if, for some reason, the TIF district does not generate any revenue over the 25 years, the city does not have to make up that

difference. He said most of the project's expenses would be incurred in the next 24 months or less, when the new R&D building will be completed.

"The risk is on 3M," Stang said. "We incur the expenses and hope money is generated to reimburse 3M" for the eligible expenses. He pointed out that Maplewood will only pay out money to 3M as it is generated by the TIF district. If the district generates more than \$19 million over the 25 years, which is not anticipated, 3M could get additional reimbursement, if its allowable expenses are greater than \$19 million.

Establishing the TIF district dedicated to the 3M project was tied into job creation and future investment commitments made by the company to the city of Maplewood. Stang said 3M has made commitments that the new R&D facility will house, at a minimum, 700 employees, with average salaries over \$50 an hour. 3M also committed to making additional investments in its Maplewood campus over time. In addition, while not part of the TIF agreement, 3M recently agreed to donate property for the city to build a new fire station. "The city wanted assurances," Stang said. "We've made long-term commitments to the site."

The incentives offered by Maplewood and by the state were "critical" to 3M. Stang said that 3M was considering various options for the location of the new R&D facility and cited the Austin, Texas, 3M facility as a potential location. "It's a beautiful facility and it's less than half full," he said. Building the new facility in Minnesota "may not have happened without the incentives. This was very significant to 3M." He did say, however, "because 3M is such a diverse company, having the R&D done at one location is an advantage."

Stang believes creating the TIF district was "appropriate" and "not anything unique offered to 3M." He said every city has this economic development tool and most cities have at least one district in place. Kent called the 3M incentives a "highly integrated local, state and regional package. Everybody was committed to making it work. We looked at it as a public/private partnership, public at two levels (local & state), and everybody committing over the longer term," Kent said. "This is a historic relationship and we need to keep it here."

"Arguably," said Kent, "3M is one of the preeminent of the state's Fortune 500 companies, embodying Minnesota's heritage, talent and tradition of innovation. 3M has a huge impact in the eastern metro area. It's deeply connected in the fabric here."

"It's important that 3M is recommitting to Minnesota," she continued. "Minnesota is a huge part of 3M and 3M is a huge part of what Minnesota is now. That's the framework for all of this."

A lot of 3M's investment in the last 20 years has been outside the U.S., where the company's real growth is occurring. Stang said much of the company's growth is in Asia, Brazil and Eastern Europe and that is expected to continue. With international growth, he said, there's pressure to invest where your growth is and where your customers are. Investors may question why we invest so much in the U.S. and Minnesota, when the growth is overseas, he said. "3M has made it a priority to shorten the supply chain and be closer to our customers," he said. "Often we can't be competitive if we make a product here and have to ship it to our customers in Asia or other parts of the world." And the company invests a lot of money in adapting its products to fit the customers in each of those markets.

He said as manufacturing has shifted overseas, 3M has dispersed its R&D work to 30 countries around the world. "With these research opportunities, people can now stay in their countries, in India or in China," Stang said. "We used to attract them to work in our R&D facilities here."

3M's new CEO, Inge Thulin, is interested in investing in Minnesota. Stang said Thulin is "a lifetime 3Mer and understands the importance of Minnesota." 3M has 90,000 employees worldwide, with 30,000 in the U.S. and 15,000 in Minnesota.

Stang pointed to a \$50 to \$70 million investment 3M made in its Cottage Grove "gateway facility," where the company often establishes pilot production lines to determine how to manufacture products that have been developed at the headquarters R&D facility. The company also made significant investments recently in its facility in Alexandria. "Not a lot of businesses have made these levels of investments in Minnesota in recent years," he said.

The greatest threat to 3M's R&D staying in Minnesota is not high taxes, but the ability to attract highly trained people here. Stang said high taxes and the regulatory system make it difficult for 3M to do business in Minnesota, but the workforce has always been a significant draw. "But we see the foundation here in the U.S. and in Minnesota declining," he said. "We're very concerned about the lack of highly trained folks for R&D. It's harder to attract people from Minnesota. As folks graduate from the University of Minnesota (U of M), even folks from Minnesota, they're leaving. They're not staying in Minnesota as they historically did." He said the retention rate has historically been very high at 3M, but that could change, as well, as the workforce continues to change and be more mobile.

"The challenge in Minnesota," Stang continued, "is keeping our highly trained people here and attracting them here. In order to meet our long-term need for filling jobs with highly trained folks, we must do more to get women and minority workers in science-related fields." He said 3M helps fund Science, Technology, Engineering and Math (STEM) programs in local school districts and some of those programs target women and minorities to convince them to go into science-related fields.

Stang said 3M has a "great relationship" with the U of M. "We invest a lot in their school of engineering and their dental school," he said. "We invest in programs training people who are going to be working in our areas. We also invest in several other universities in the U.S., but the U of M is very important to us."

3M has partnerships with several Minnesota community colleges. Stang gave the example of 3M's partnership with Staples Community College to train students for specific jobs in the company's 100-employee facility in Staples. The facility makes the equipment used in manufacturing the company's products. He said there is a similar partnership in Alexandria. "Around the country, we work very closely with higher education," he said.

Minnesota needs a stronger and wider industrial base. Kent said a number of initiatives from the 2013 legislative session were aimed at that goal. She noted, for example, that the Legislature made a commitment to the University of Minnesota this year for work it is doing in four specific industries: robotics, medical devices (moving out of cardiac and into neural devices), agriculture and water-related initiatives.

"It's all about being very strategic," she said. "We need to look at where our growth is going to be and how we get our share and build the infrastructure to get there."

The state should consider better ways for businesses to partner with its Department of Employment and Economic Development (DEED). An interviewer asked whether the Legislature thought about whether TIF was the way to go, as opposed to a direct grant from DEED or other methods. Kent responded that 3M and Maplewood came to her with the TIF proposal already developed.

"We initially met with the state DEED officials," Stang added. "But we found the state had few tools in place for an expansion of this size. We appreciate DEED's support of the proposal, but it was clear from the beginning that we would have to work with the city and the state legislature on an incentive package. DEED did initially propose the building supplies sales tax exemption, which the Legislature approved."

Federal immigration reform could help in staffing the new R&D facility. An interviewer commented that one way to staff the R&D facility would be to bring in people from other countries. He asked what the role of the state should be in immigration of high-tech personnel.

Stang replied that 3M is supportive of federal immigration reform. "The lack of H1 and N1 visas has really made it difficult to recruit people from around the world," he said. Even though the issue is a federal one, Kent said she is supportive of immigration reform.

Incentives can become "an arms race." An interviewer asked whether, if Minnesota's foundational competitiveness declines (that is, its competitiveness on basic things like infrastructure, education, health care, etc.), as some people believe it already is, use of economic incentives to keep businesses here will increase, which could raise taxes.

Kent replied, "Incentives can become an arms race and that's not good for anybody. We must look at what our position in the marketplace is as a state. I won't give up on foundational competitiveness. Our challenge is to maintain what has made Minnesota so good for so long. But we must remind people about the value equation: it's not only what you pay, but also what you get for that investment. We don't want to 'out-Texas' Texas. It has no income tax, but its education system is inconsistent in preparing its future workforce."