

# Sales Tax Exemption Request: Rochester Water Reclamation Plant (WRP) Upgrade Project

## Issue

Current State Statute provides an exemption to local governments for construction materials (297A.70). The City of Rochester is undergoing a very large upgrade of \$92M to update, modernize, and improve safety at our water reclamation plant (wastewater processing facility). The construction project is utilizing a construction manager at risk (CMAR) format to carry out this unique construction project.

## Problem

Even though cities are exempt from sales tax on construction materials generally, the sales tax exemption statute specifically does not apply to public construction projects if the project uses a recently allowed 'guaranteed maximum price' (GMP) contracting process, commonly referred to as Construction Manager At Risk (CMAR) (Minn. Stat. 297A.70, Subd B, 1). Current law does allow for separate bidding of materials and labor, but with a single GMP for both. This presents a challenge, as it requires municipalities to enter into two separate contracts under the same GMP.

The only alternative allowed under current law of separate material contracts under GMP could inflate project costs by several million dollars. This could potentially limit the funding available through PFA or result in unnecessary expenses for municipalities if they opt to directly purchase materials and subsequently encounter issues such as theft, damage, or increased city labor requirements.



## Solution

Exempting this specific construction project upgrade will allow for savings to the project—a cost that would otherwise fall to residents and businesses in Rochester to pay via wastewater fees and charges. The savings will help reduce the need to use additional local funding or financing for the project.

## Impact

This overall project is expected to result in annual power consumption savings of \$230,000 and \$170,000 in annual chemical cost savings. This project is critical to providing clean water and meeting state requirements.

The upgrade will include converting the existing high-purity oxygen plant and activated sludge plant into a single anaerobic/oxic treatment plant configuration. This conversion will enable the facility to biologically remove phosphorus and meet the more stringent permit limit without depending on increasingly expensive chemicals. Construction on the project began last fall and is expected to be complete December 2026.

