

Testimony Presented on SB 2391 to the

House Finance and Taxation Committee
Representative Craig Headland, Chairman

Nicole Crutchfield, Director of Planning and Development
City of Fargo

March 6, 2023

Mr. Chairman and Members of the Committee,

My name is Nicole Crutchfield and I submit this testimony in my capacity as the Director of Planning and Development for the City of Fargo which is the department of the city that administers the City's renaissance zone program. The City of Fargo is fully supportive of North Dakota's renaissance zone program. It has been a huge success for many cities in the state, not the least of which has been our City, and for the state as a whole.

The City of Fargo is in support of Senate Bill 2391; however, we do have concerns on one portion of the bill. Section 1 of the bill would increase the threshold level of rehabilitation needed for a project to qualify for the RZ program from 50% of existing building value to 75%. This increase would unfairly disqualify some rehabilitation projects—particularly larger projects. A \$2 million remodeling of a large \$3.9 million building may be a great project that should be worthy of consideration—perhaps more worthy than a \$300,000 remodel of a \$400,000 building. Let local governments decide if a remodeling of 50% is sufficient to qualify. The City opposes Section 1 of the bill and recommends its deletion in an amendment, or recommends the amendment as attached and drafted by our City Attorney.

In summary, the City of Fargo is an enthusiastic supporter of the renaissance zone program and our City supports SB 2391 with a hearty recommendation that certain provisions be amended as stated.

PROPOSED AMENDMENT TO

FIRST ENGROSSMENT

ENGROSSED SENATE BILL NO. 2391

Introduced by

Senators Sickler, Rummel, Vedaa

1 A BILL for an Act to amend and reenact subsection 7 of section 40-63-01, sections 40-63-03,
2 40-63-04, and 40-63-05, and subsection 5 of section 40-63-07 of the North Dakota Century
3 Code, relating to renaissance zones and income and property tax incentives related to
4 renaissance zones.

5 BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF NORTH DAKOTA:

6 **SECTION 1. AMENDMENT.** Subsection 7 of section 40-63-01 of the North Dakota Century
7 Code is amended and reenacted as follows:

8 7. "Rehabilitation", as used in sections 40-63-04 and 40-63-05, means the repair or
9 remodeling of a building or public utility infrastructure at a cost that is equal to or
10 exceeds seventy-five percent of the current true and full value for ~~commercial~~

1 ~~buildings-residential, public utility infrastructure, or commercial property for any~~
~~business or investment purpose with respect to income tax or ad valorem~~
~~property tax exemptions exceeding five taxable years, fifty percent for residential,~~
~~or commercial property with respect to income tax or ad valorem property tax~~
~~exemptions extending not beyond five taxable years, of the current true and full-~~
~~value for commercial buildings or fifty percent for~~

2 public utility infrastructure, and twenty percent for single-family homes.

11
12 **SECTION 2. AMENDMENT.** Section 40-63-03 of the North Dakota Century Code is
13 amended and reenacted as follows:

14 40-63-03. Renaissance zones.

15 1. A city may apply to the department of commerce division of community services to
16 designate a portion of that city as a renaissance zone if the following criteria are met:

17 a. The geographic area proposed for the renaissance zone is located wholly within
18 the boundaries of the city submitting the application.

19 b. The application includes a development plan.

- 20 c. The proposed renaissance zone is not more than thirty-four square blocks,
21 except in a city with a population of greater than five thousand the renaissance
22 zone may exceed thirty-four square blocks at the rate of one additional block for
23 each additional five thousand population to a maximum size of forty-nine blocks.

1 Population is based upon the most recent federal decennial census or federal
2 census estimate.

3 If a city finds that renaissance zone projects have satisfactorily completed
4 one or more blocks within the renaissance zone, the city may apply for and the
5 department of commerce division of community services may approve withdrawal
6 of those blocks from the renaissance zone and replacement of those blocks with
7 other blocks that otherwise meet the requirements of this chapter.

8 d. Except as provided under subdivision g, the proposed renaissance zone has a
9 continuous boundary and all blocks are contiguous.

10 e. The proposed land usage includes both commercial and residential property.

11 f. The application includes the proposed duration of renaissance zone status, not to
12 exceed fifteen years. Upon application by the city, the department of commerce
13 division of community services may extend the duration of renaissance zone
14 status in increments of up to ~~five~~ten years.

15 g. The proposed renaissance zone may have ~~a single exception~~up to two
16 exceptions to the continuous boundary and contiguous block requirements under
17 subdivision d if the ~~area~~areas of the excepted noncontiguous blocks ~~does~~do not
18 exceed three square blocks each.

19 2. The department of commerce division of community services shall:

20 a. Review all applications for renaissance zone designation against the criteria
21 established in this section and designate zones.

22 b. Approve or reject the duration of renaissance zone status as submitted in an
23 application.

24 c. Approve or reject the geographic boundaries and total area of the renaissance
25 zone as submitted in an application.

26 d. Promote the renaissance zone program.

27 e. Monitor the progress of the designated renaissance zones against submitted
28 plans in an annual plan review.

29 f. Report on renaissance zone progress to the governor and the legislative
30 management on an annual basis until all designated zones expire.

- 1 3. The department of commerce division of community services shall consider the
2 following criteria in designating a renaissance zone:
- 3 a. The viability of the development plan.
- 4 b. The incorporation and enhancement of unique natural and historic features into
5 the development plan.
- 6 c. Whether the development plan is creative and innovative in comparison to other
7 applications.
- 8 d. Public and private commitment to and other resources available for the proposed
9 renaissance zone, including the provisions for a renaissance fund organization.
- 10 e. How renaissance zone designation would relate to a broader plan for the
11 community as a whole.
- 12 f. How the local regulatory burden, in particular that burden associated with the
13 renovation of historic properties and that burden associated with mixed use
14 development, will be eased for developers and investors in the renaissance zone.
- 15 g. The strategies for the promotion, development, and management of the zone,
16 including the use of a local zone authority if designated.
- 17 h. Any other information required by the office.
- 18 4. The department of commerce division of community services may not designate a
19 portion of a city as a renaissance zone unless, as a part of the application, the city
20 provides a resolution from the governing body of the city that states if the renaissance
21 zone designation is granted, persons and property within the renaissance zone are
22 exempt from taxes as provided in sections 40-63-04 through 40-63-07.
- 23 5. A city may not propose or be part of more than one renaissance zone.
- 24 6. a. A parcel of property may be exempted from property taxes under section
25 40-63-05 ~~only more than once, but during.~~ During the five taxable years of
26 eligibility for that an exemption from property taxes under section 40-63-05, the
27 property tax exemption transfers with the transfer of the property to a qualifying
28 user. A parcel of property which previously received a property tax exemption
29 under section 40-63-05 may not be eligible for a subsequent property tax
30 exemption under section 40-63-05 until thirty years have lapsed from the
31 completion date of the most recent project on the property.

1 **b.** The ownership or lease of, or investment in, a parcel of property may qualify for
2 exemption or credit under section 40-63-04 ~~only more than once, but during,~~
3 During the five taxable years of eligibility for ~~that an~~ exemption or credit under
4 section 40-63-04, the exemption or credit ~~under section 40-63-04~~ transfers with
5 the transfer of the property to a qualified user and with respect to the year in
6 which the transfer is made must be prorated for use of the property during that
7 year.

8 7. A city may apply to the department of commerce division of community services at any
9 time during the duration of a zone to expand a previously approved renaissance zone
10 that is less than the maximum size allowed under subdivision c of subsection 1. If the
11 expansion is approved by the department of commerce division of community
12 services, the blocks in the expansion are eligible for up to fifteen years of renaissance
13 zone status.

14 8. The use of grant funds as the sole source of investment in the purchase of a building
15 or space in a building does not qualify a taxpayer for any tax exemption or credit
16 available under the chapter, and grant funds may not be counted in determining if the
17 cost of rehabilitation meets or exceeds the current true and full value of the building.

18 9. If a portion of an approved renaissance zone is not progressing, the city may request
19 the department of commerce division of community services to permit deleting that
20 portion and to make an adjustment of the boundaries to add another equal, contiguous
21 area to the original zone.

22 10. If within a renaissance zone there is property that is included in a tax increment
23 financing district, the city in which the property is located shall provide the department
24 of commerce an annual report regarding any such property at the time requested by
25 the department of commerce. The report required under this subsection must identify
26 the property, provide the expected duration of inclusion of the property in the tax
27 increment financing district and the renaissance zone, and identify any property and
28 income tax benefits of the property and the expected duration of those benefits. The
29 department of commerce shall deliver an annual report compiling the information
30 required under this subsection to the legislative management interim committee on

3 taxation issues or upon request of any other interim committee of the legislative
4 management.

5 **SECTION 3. AMENDMENT.** Section 40-63-04 of the North Dakota Century Code is
6 amended and reenacted as follows:

7 **40-63-04. Income tax exemptions.**

8 1. An individual taxpayer who purchases or rehabilitates single-family residential property
9 for the individual's primary place of residence as a zone project is exempt from up to
10 ten thousand dollars of personal income tax liability as determined under section
11 57-38-30.3 for five up to eight taxable years beginning with the date of occupancy or
12 completion of rehabilitation.

13 2. A taxpayer that purchases, leases, rehabilitates, or makes leasehold improvements to
14 residential, public utility infrastructure, or commercial property for any business or
15 investment purpose as a zone project is exempt from tax on income derived from the
16 business or investment locations within the zone for five up to eight taxable years,
17 beginning with the date of purchase, lease, or completion of rehabilitation.

18 a. The maximum amount of income that a taxpayer may exempt from tax under this
19 subsection for any taxable year is five hundred thousand dollars. The limitation in
20 this subdivision applies to the sum of the exempt income derived from the
21 taxpayer's business and investment interests in all zone projects.

22 b. If a zone project consists of a physical expansion of an existing building owned
23 and used by the taxpayer for business or investment purposes, the amount of
24 income exempt from tax under this subsection is limited to an amount equal to
25 the income derived from the business, or from the investment use of the building,
26 during the taxable year multiplied by a ratio equal to the square footage added by
27 the expansion divided by the total square footage of the building after expansion.

28 3. If the cost of a new business purchase, leasehold improvement, or expansion of an
29 existing business, approved as a zone project, exceeds seventy-five thousand dollars,
30 and the business is located in a city with a population of not more than two thousand
31 five hundred, an individual taxpayer may, in lieu of the exemption provided in
32 subsection 2, elect to take an income tax exemption of up to two thousand dollars of
33 individual income tax liability as determined under section 57-38-30.3. The election

1 must be made on the taxpayer's return as originally and timely filed. The election is
2 irrevocable and binding for the duration of the exemptions provided in subsection 2 or
3 this subsection. If an election is not made on the original return, the taxpayer is only
4 eligible for the exemption provided in subsection 2.

5 4. If a property owner not participating in a renaissance zone project is required to make
6 changes in utility services or in a building structure because of changes made to
7 property that is part of a zone project, the owner of the nonparticipating property is
8 entitled to state income tax credits equal to the total amount of the investment
9 necessary to complete the required changes. The credit must be approved by the local
10 renaissance zone authority. The credit must be claimed in the taxable year in which
11 the related project was completed. The credit may not exceed the taxpayer's tax
12 liability, and an unused credit may be carried forward up to five taxable years.

13 5. The exemptions provided by this section do not eliminate any duty to file a return or to
14 report income as required under chapter 57-38.

15 **SECTION 4. AMENDMENT.** Section 40-63-05 of the North Dakota Century Code is
16 amended and reenacted as follows:

17 **40-63-05. Property tax exemptions.**

18 1. A municipality may grant a partial or complete exemption from ad valorem taxation on
19 single-family residential property, exclusive of the land on which it is situated, if the
20 property was purchased or rehabilitated by an individual for the individual's primary
21 place of residence as a zone project. An exemption granted under this subsection may
22 not extend beyond ~~five~~eight taxable years following the date of acquisition or
23 completion of rehabilitation.

24 2. A municipality may grant a partial or complete exemption from ad valorem taxation on
25 buildings, structures, fixtures, and improvements purchased or rehabilitated as a zone
26 project for any business or investment purpose. The state board of equalization may
27 grant a partial or complete exemption from ad valorem taxation on public utility
28 infrastructure rehabilitated as a zone project. An exemption under this subsection may
29 not extend beyond ~~five~~eight taxable years following the date of purchase or completion
30 of rehabilitation.

1 **SECTION 5. AMENDMENT.** Subsection 5 of section 40-63-07 of the North Dakota Century
2 Code is amended and reenacted as follows:

3 5. The total amount of credits allowed under this section may not exceed, in the
4 aggregate, ten million five hundred thousand dollars for investments in renaissance
5 fund organizations. A renaissance fund organization that has received investments
6 that qualify for the credits under this subsection shall use those investments to finance
7 projects within a renaissance zone. If the total amount of credits allowed under this
8 section have been claimed, the renaissance fund organization allowance must
9 terminate and additional credits may not be made available for investments in a
10 renaissance fund organization.