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**DEPARTMENT OF COMMERCE TESTIMONY ON SB2391**
**SENATE FINANCE AND TAXATION COMMITTEE**
**FEBRUARY 1, 2023, 10 AM**
**SENATOR JORDAN KANNIANEN, CHAIRMAN**

**RIKKI ROEHRICH – DEPUTY DIRECTOR, DIVISION OF COMMUNITY SERVICES, ND DEPARTMENT OF COMMERCE**

Chairman Kannianen, members of the Committee, my name is Rikki Roehrich, and I am the Deputy Director of the ND Department of Commerce Division of Community Services. I have managed the Renaissance Zone Program for Commerce since 2014. I am here today to testify in support of SB 2391, which makes several changes to the way the Renaissance Zone currently operates.

The Renaissance Zone program is a tool to help cities revitalize their communities. By offering both state and local tax incentives for five years, both residents and business owners are provided an incentive to reinvest in their community's existing infrastructure and promote rehabilitation and in-fill in the core districts of communities. As many communities with a Renaissance Zone will attest, there are financial and intangible benefits to having a Renaissance Zone. This program allows communities to create their own development plan with unique goals, then structure the program in a way that helps them meet those goals. Commonly, we see communities using the program for goals such as increasing their tax base, attracting or retaining residents and businesses, and addressing slum and blight in the community, among others.

While this program has been highly successful since its inception, the proposed changes in SB 2391 have the potential to help this program be even more successful than it has been in the past. Throughout 2022, Commerce held several focus group meetings to discuss what changes communities would like to see to make the program more functional and impactful. The changes proposed in SB 2391 are the result of these discussions.

While the program is complex and includes many different components, I would like to review the proposed changes and the rationale for them. Currently, the program requires that commercial projects invest at least 50% of the current true and full value of the property to be eligible for a five-year benefit period. SB 2391 allows communities to increase the term of the benefit period from five years to seven and a half years for applicants that meet a 75% investment threshold. This change provides additional incentive for investors to make more substantial investments into older buildings and older infrastructure. More importantly, it provides communities with greater flexibility in determining the right benefit period for different investment levels. Ideally, we would like this decision to be made by the communities themselves and for the Century Code to allow this option to be effective only if the community adopts it in their Renaissance Zone Development Plan. This flexibility protects the choices of those communities that would like to keep the term at five years for a 50% investment threshold.

SB 2391 also allows previous projects to become eligible for benefits again after 30 years have elapsed from the completion of the original Renaissance Zone project. Currently, a property is eligible for Renaissance Zone benefits once and only once. I believe this provision made sense when the program was first created and all Renaissance Zones were to be terminated after 15 years. However, subsequent changes to the Century Code now allow communities to renew their zones as they approach expiration. Given this change, it also makes sense that the program would allow the benefits of the Renaissance Zone to be granted a second time, as we know heavily-used and older buildings may need more investment to continue to extend the life of these structures. However, we also recognize that communities and the state must get a return on investment for the tax benefits provided. Data provided to us indicates a community return on their original investment is provided within 5-10 years of a project, which is why we feel comfortable suggesting a 30-year interval would be more than appropriate. The first project to participate in the Renaissance Zone program was completed in 2000, which means we would not see any properties receiving a second benefit until at least 2030 with this change.

A third change to the program in SB 2391 is to allow the option of a second “island”, or an area that is separate from the primary, contiguous Renaissance Zone. Once again, this change is proposed in order to give communities more freedom with how the program operates. It allows the communities to identify additional areas that have already been developed and could benefit from attracting reinvestment. With this change, the communities would still be required to adhere to the maximum block limits, which are capped at 34 blocks for communities with less than 5,000 residents. Larger communities are allowed to add an additional block for each additional 5,000 residents, up to a maximum of 49 blocks. The use of islands remains an option for those communities that believe their development plan goals can be reached by implementing them.

SB 2391 also increases the extension period for zones from five to ten years. This change means that any community that receives approval for an extension request would be eligible to receive up to 10 additional years of program participation before needing to complete an additional extension request. The intent of this change is to reduce the administrative burden on the communities, as well as on the state. An extension request requires a revision or review of the Renaissance Development Plan, an update to the property inventory in the community, new letters of support from the school district and county, a public hearing, and city council approval. When we are talking about community and economic development, there are often not a lot of changes at the local level in five years. In many instances, all of this work is completed with very minor changes or no changes to the program. It is very time-intensive for the city to complete these documents and requirements and for the state to review these documents, and the Division of Community Services feels that a required update every 10 years would be sufficient. It should be noted, though, that any community can submit a revision to its Renaissance Zone Development Plan at any time, provided it is approved locally. Therefore, this change wouldn’t limit the communities in any way and would simply lengthen the term of the required updates.

Finally, the last change proposed in SB 2391 is the termination of the Renaissance Fund Organization (RFO) allowance. Current law provides for the establishment of an RFO, which is a pass-through entity that provides additional exemptions for those who invest in the RFO, which can then make investments into any projects located in a community’s Renaissance Zone. Throughout the life of the program, $10.5 million in credits have been provided to the RFO program. However, the only active RFOs in the state currently are in the cities of Mayville and Hope. In recent years, interest in establishing RFOs has decreased as the process of establishing an RFO is complex. The last RFO to form did so in 2011, and we have had no new requests to establish an RFO since that time. Additionally, while this program was intended to benefit communities of all sizes, it has disproportionately benefitted large communities, with approximately 94% of the credits claimed in three of our most populated communities in the state. A summary of the claimed credits is included below. The remaining

$494,134 in credits is reserved for use by the Hope RFO for a project that is currently ongoing. Without an additional allocation of credits, this program will not be able to provide benefits for any future RFO activity.

**Table 1: Credits Claimed by City**

| Category | City | Status | Total Credits Claimed |
|---|---|---|---|
| 1 | Casselton | Closed | $37,500 |
| 1 | Hazen | Closed | $15,500 |
| 1 | Mayville | Active | $252,650 |
| 1 | Hope | Active | $322,716 |
| 2 | Jamestown | Closed | $150,000 |
| 2 | West Fargo | Closed | $100,000 |
| 3 | Fargo | 2 Closed | $9,127,500 |
| | **Total** | | **$10,005,866** |

The Renaissance Zone program has benefitted many communities and has a strong history of success. One of the key reasons that the program has been successful is that it doesn't adopt a one-size-fits-all approach. While all communities with a Renaissance Zone are required to follow the state's program guidelines, there is still a lot of latitude to tailor the program to meet the unique goals and needs of a community. The community determines its priorities and offers benefits that are linked to its long-term development goals. The changes in SB 2391 support the local control of the program and offer communities greater flexibility.

Chairman Kannianen, members of the Committee, this concludes the testimony I have prepared in support of SB 2391. I am happy to answer any follow-up questions you may have about the Renaissance Zone program.