



## DEPARTMENT OF COMMERCE'S REPORT ON RENAISSANCE CONFERENCE

August 1, 2008, 9:00 A.M.

WORKFORCE COMMITTEE

Roughrider Room

SENATOR TONY GRINDBERG, CHAIRMAN

Mr. Chairman, members of the committee, I am Paul Govig, Director of the Division of Community Services. As required by House Bill 1018, Commerce hosted and facilitated the Renaissance Conference on February 6, 2008 in the Pioneer Room at the Capitol. Invitations were sent to each incorporated city in North Dakota and to legislators of the IBL Committee. Over 60 individuals from 42 communities attended the conference.

The fifty-sixth Legislative Assembly created the Renaissance Zone Act under N.D.C.C. 40-63. Since its inception, the program has grown steadily. Currently, there are 42 Renaissance Zone cities across North Dakota with another 30 cities that have contacted Commerce and are interested in developing a zone. Close to 700 projects have been approved at both the local and state level and over 500 projects have been completed assisting cities with community redevelopment and economic investment through tax incentives.

The purpose of the conference was to discuss the program and start a dialogue of possible enhancements to the program.

### **Suggested enhancements included:**

- Extend the time period for the Renaissance Zone – with some cities having been in the program for eight years they are starting to ask whether the state will allow another Renaissance Zone when the first zone expires.
- Include the cost of demolition in the project – if a developer needs to demolish a building to expand/build a new building, allow demolition costs to be part of the project.
  - Or in specific instances, allow demolition to be a stand alone project. Some communities have older homes that have created both health and safety issues and the taxpayers are allowing the building to go back to the county for taxes. This is creating a financial burden for some counties.
- Delete the half mile requirement for the three block island and allow the island to be anywhere in the city.
- Treat the historical tax credits like the other tax incentives and allow the credits to be transferred to the new owner.

In closing, the communities involved in the Renaissance Zone program consider the program successful. No significant issues were identified that needed to be fixed. Since the conference, a number of smaller communities have contacted Commerce for more information on the program.

**Renaissance Zone Conference**  
**February 6, 2008**  
**Pioneer Room- State Capitol**

Individual introductions by Paul Govig, Deputy Director of Commerce included: Representative Rick Berg, Chairman of the Industry, Business and Labor Committee and Gordon La France, Renaissance Zone Manager.

Representative Berg welcomed the group and provided an overview of the Renaissance Zone legislation.

**Gordon La France**

The goal of the meeting was for interested parties, councils and committees to interact with and talk to representatives of the Division of Community Services and legislators.

The Renaissance Zone program is designed to work for communities of all sizes. Success of the program is dependent upon community involvement. The program is developed, implemented and supervised at the local level. The Division of Community Services oversees the program at the state level.

Gordon reviewed the agenda and provided the following overview of the program:

**Agenda**

- 10:00 B 12:00 Overview of Renaissance Zone Program
- 1:00 B 2:00 Round table Discussion
- 2:00 B 3:00 Project Discussion
- 3:00 B 4:00 Suggested changes to the program
- 4:00 B 5:00 Open discussion

**Overview of the Renaissance Zone Program**

Since 1999, when the Fifty-sixth Legislative Assembly created the Renaissance Zone Act, 42 cities have gone through the process of receiving a Renaissance Zone designation. There are another 12 to 20 cities that have expressed interest in developing a zone. To date, 600 plus projects have been approved at the local and state level with over 400 projects completed; 150 of the projects have been single family housing units.

To apply for a Renaissance Zone, a current strategic or comprehensive plan must be in place prior to creating the development plan. The development plan must describe the city's vision, goals and objectives for the zone and discuss how the plan relates to the future of the city. For the Renaissance Zone to be successful, the community must be involved and support the program.

In addition to providing tax exemptions and credits, the program exists to improve the city through long term planning and financial assistance.

## **Guidelines**

The city must have a strategic plan or a comprehensive plan in place prior to working on the development plan. The strategic plan/comprehensive plan must outline a vision for the city and should also include the strengths, weaknesses, opportunities and threats for the city. Most cities already have this in place and may only need to update or review the information to make sure it's current. Once this is in place, the city can move on to the next step which is the development plan.

Cities in the process of creating a development plan are encouraged to contact cities of similar size with a Renaissance Zone to see if some of the same information can be applied to their city. It is not necessary to reinvent the wheel. It is ok to borrow information from other cities, but communities must make sure that the information is relevant. Do not cross out another city's name and add your city's name and expect the development plan to work!

When determining which blocks to include in the zone, a city needs to include both commercial and residential buildings, and it should be in an area that is in need of revitalization. It is strongly encouraged to hold a number of community meetings to enable citizens to voice their opinions on which blocks to include in the zone. The city leadership must also address the following in the development plan:

- How will it be marketed to ensure citizens are aware of the benefits of a Renaissance Zone?
- Who will manage the Renaissance Zone at the local level?
- How will projects be approved? By the Renaissance Zone Board and then by the city?
- Property tax exemptions need to be stated so that there is no question what the applicant will receive. (i.e., each applicant shall receive a 100% exemption on improvements.)
- The city must state in their development plan that they will not recruit business from other North Dakota cities. If a business decides to relocate to your city, that is ok.

The city must hold a final public hearing on the purposed Renaissance Zone and allow citizens to voice support or disagreement with the zone. It is not important that everyone is in agreement, but it is extremely important that everyone is heard! When submitting the application to the Division of Community Services, the city must also include letters of support from the school district and the county commissioners.

The city application must also include the following:

- A map of the Renaissance Zone.
- Current inventory of all buildings in the zone by address block and condition.
- Resolution by the city approving the Renaissance Zone.



Currently, the size of a Renaissance Zone is as follows:

- The basic size for any city is twenty-three blocks.
  - For populations over five thousand, cities are able to expand their Renaissance Zone by one block for each five thousand in population, up to a maximum of thirty-eight blocks.
  - Within the twenty-three blocks, the city is able to have up to a three-block island within one-half mile of the original zone. The island can be one block, two blocks or three blocks but the blocks have to be contiguous and continuous within the island.
- For the other twenty blocks of the Renaissance Zone, the blocks have to be both contiguous and continuous.
  - If a city elects not to have an island, they can have a twenty-three block Renaissance Zone.
- Blocks are determined based on a number of factors:
  - Normally a block is surrounded by four roads.
  - A natural barrier such as railroad tracks, rivers, ravines, etc.
- For each block that contains a government building (owned by the government), a city is able to claim an additional 2 block for their Renaissance Zone.

There are basically four types of projects:

- Purchase (to include) construction.
- Commercial lease.
- Building rehabilitation
- Purchase with major improvements (this applies to a commercial building where a business must make renovations prior to opening for business).

### **Questions and Answers**

#### **What is the length of the Renaissance Zone?**

Maximum duration may not exceed 15 years.

#### **How many public meetings must be held?**

Public input is very important because not everyone can be in the RZ. Hard feelings and emotions may run high so the planning group must take this into account and plan accordingly. No set number of public meetings must be held; rather it depends on whether or not the concerns of the citizens have been addressed and so this may be done in two meetings or it may take three or more meetings. Only the city can decide!

#### **What are some factors to consider when considering which blocks to include in the Renaissance Zone?**

Will growth occur without a block being included in a RZ? If so, you may not want to include that block. For most communities, Main Street is the first impression people have of a city and you may want to ensure Main Street is in the RZ.

#### **How do communities market their Renaissance Zone?**

Realtors are a good place to start because they can inform potential buyers of the benefits of purchasing a building in a RZ. Newspaper articles and public forums/meetings are some other ideas to get the word out to the public.

**Who manages the RZ?**

That depends on the city and so there is no right or wrong answer. In some cities it is the city auditor and in others it may be the local developer.

**How are cities addressing property tax exemptions?**

Cities vary across the state depending on their financial situation but the following are the most common:

- Cities will grant a 100% exemption on the improvements only.
- Cities develop a sliding scale.
  - 100% the first year.
  - 75% the second year on down to 25% the fifth year.
- Most cities grant a five-year property exemption on new construction.
- On commercial properties, if a business brings in jobs or expands a business, cities grant a 100% exemption.

**Is there a formula that is used to determine the mix of commercial and residential properties in an RZ?**

No formula. It is up to the city to determine the mix.

**How are projects approved?**

Prior to the start of any purchase, construction, rehabilitation, or lease, the applicant must receive both city and state approval. The city must ensure that they follow their development plan guidelines and that the applicant is not delinquent on taxes. A Certificate of Good Standing is required from the Tax Department and the city needs to verify that the applicant is current on property taxes. When the application arrives at the state level, the Division of Community Services (DCS) will ensure that it meets the city's guidelines and also that the required information has been submitted. If acceptable, DCS will send out a letter stating that the project has been approved. In the case of new construction or rehabilitation, once the project has been completed, the DCS needs to receive a completion date from the city. At that time, the DCS will send out a final letter stating the time period for the tax exemption.

**What is the requirement for rehabilitation projects?**

For commercial projects it is 50% of the true and full value and for residential projects it is 20% of the true and full value.

**Question- Helen Carlson (Devils Lake) - On structure itself?**

Answer - Gordon: Yes, structure only, since property taxes for land are not exempt.

**Question- If there is a purchase with major improvements, does the owner need to comply with the 50% improvement?**

Answer B No, a purchase with major improvements means that the business owner needs to make improvements prior to opening the business. If there are any requirements, it would be at the local level.

Comment - Kim Lee (City of Bismarck) - Bismarck has a requirement in their plan that commercial property in the RZ need to invest at least \$10.00 per sq ft.

## **Tax Incentives**

### **Residential property**

The owner is eligible for a tax credit of \$10,000 per year for five years (total \$50,000). A tax credit not used in a particular year is lost. If the home owner sells the property in year three, the new owner is eligible for the last two years of the property tax and income tax benefit.

### **Lease or purchase on commercial property**

Up to 100% of the amount of the business income derived from the zone project location may be exempted.

### **Historical Tax Credits**

A building may qualify for historical tax credits. The property owner is eligible for a tax credit equal to the lesser of 25% of the amount invested or \$250,000. This credit is against state tax liability as determined under North Dakota Century Code. The credit may be claimed in the year in which the preservation or renovation is completed. The portion of the tax credit not used in the first year may be carried forward and used in the following 5 tax years.

### **How do you qualify for historic tax credits?**

Answer: The building needs to be listed on the historic register. It is important to work closely with the Historical Society to ensure that the construction/remodeling that is done meets with their approval.

Contact Tom Linn at State Historical Society for details. Contact information: Ph 328-2672 email [tlinn@nd.gov](mailto:tlinn@nd.gov).

### **Representative Steve Zaiser (Fargo). Fargo is raising taxes and the school board is concerned. Is there any measurement tool for some of the impacts of a RZ?**

Answer-Gordon- It's hard to measure. It can be estimated, but city officials in a RZ city are looking at a two-year payback once the property has completed the five-year property tax exemption. This is a local issue. We can provide estimates but they are based on what the applicant provides.

### **Is there a measurement tool for assessing the project?**

Answer B No, but we can look at that and we can discuss further.

### **Kathy Stremick (Walhalla) - Can financial institutions get Community Reinvestment Credit for investing in a Renaissance Fund Organization?**

We will talk to the Department of Financial Institutions and get back in touch with you.

## **North Dakota State Tax Department**

Mr. Joe Becker is a resource, and a place to go concerning tax questions. His office handles the Certificates of Good Standing for each taxpayer requesting approval for a zone project. Forms are available through his office or online. Turnaround time to get these forms completed is quick. The

certificate is always mailed. Certificates can be faxed to the taxpayer or to the city if the taxpayer provides written permission to do so.

A building can have more than one project.

- Project 1C Investor purchases a building on Main Street ND.
  - Investor is eligible for five-year property tax exemption.
  - Investor is eligible for the five-year business or investment income exemption.
  - If the building qualifies as a historical building, the investor is eligible for the 25% historical tax credit up to \$250,000.
- Project 2C A separate business leases the bottom floor.
  - The business is eligible for the five-year business income exemption.
- Projects 3 & 4C The investor converts the top floor into two condo units.
  - Each condo buyer is eligible for the five-year single-family residence income tax credit.
  - Each condo buyer is eligible for the five-year property tax exemption.

This hypothetical building includes four projects, four different taxpayers, and multiple tax incentives for taxpayers.

### Questions

**If I'm the buyer of a home in a RZ that has some tax incentives left on the property, do I qualify?**

Yes, the incentives that are left transfer with the property to the buyer, provided the buyer is eligible. To be eligible, the home must be the buyer's primary residence and the buyer must be current on state and local tax obligations.

**Shawn Kessel (Wahpeton) - I'm a taxpayer in good standing, with property in several cities. The owner is in good standing in Wahpeton. Can we assume the taxpayer is in good standing across the board?**

Joe (Tax Department): The certificate of good standing issued by the Office of State Tax Commissioner covers the taxes administered by the Office of State Tax Commissioner. (It does not apply to local property tax purposes. Good standing for local property tax purposes must be obtained from the city.) A certificate of good standing issued by the Office of State Tax Commissioner is good in each city with a Renaissance Zone.

**Shawn (Wahpeton) - No issues when project is started but after 2 years the taxpayer becomes delinquent. What happens then? Have you ever come across this?**

Joe (Tax Department): I haven't had any projects like that. We look for good standing at the beginning of the process. We haven't had a problem where someone became delinquent at a later date. The law provides that a taxpayer may not be delinquent with respect to any state or local tax liability to be eligible for a tax benefit under the Renaissance Zone program. Therefore, if the problem developed, the tax department would investigate.

**If a business is set up as an S Corporation and the owner pays himself a salary, is the salary exempt?**



No. If the S corporation is the zone project applicant, only the net income of the S corporation is eligible for the business income exemption. The salary is a business expense to the S corporation in determining its net income from operations. The owner (shareholder/employee) who draws the salary is a separate taxpayer who is not the zone project applicant, and the salary constitutes income to the individual, not the S corporation, for purposes of the exemption.

**What is an example of a financial institution tax exemption?**

A bank, trust company, or other entity that is required to file a North Dakota financial institution tax return is an eligible taxpayer under the Renaissance Zone program and may qualify for any of the tax incentives under the program (except the single-family residence tax credit).

**Shian Wessels (New Salem) - Any tax benefits for flipping houses?**

That depends on frequency. For federal tax purposes, if it is sporadic it is treated as an investment. But let's go back to the basic premise. Is it going to be accepted by the city? Is it part of the plan for the RZ?

**Business in RZ, sold to completely different type of business; new lessee continues to lease the space and the city considers it to be a good business. Does the new lessee qualify?**

Yes, the new lessee qualifies provided they are approved by the city and DCS.

**Is there a maximum deduction for income in the RZ?**

There is no specified ceiling in the statute. Net income derived from the zone project location is the potential ceiling.

**Duke-Hazen: Do you have to go by actual renovation costs or can elbow grease/ sweat equity be included?**

Joe: Cash only.

Gordon - Renovation applies to building improvements, not landscaping, sidewalks and driveways.

**Let's say a condo project is rehabbed and the owner moves out. Can new buyers start their own five-year RZ tax credit?**

Joe (Tax Department): A property can qualify for the single-family residence income tax only once during its lifetime. Therefore, once an individual qualifies for the single-family residence income tax credit with respect to a condo unit, the five-year time period can only apply once to that unit, and it runs uninterrupted till the end of the five-year period. If the first taxpayer sells the unit within the five-year credit period, the new owner, if eligible, can claim the credit for the remaining portion of the five-year credit period.

**Question: Any other way for the new owner to take advantage of the RZ to further renovate?**

Joe (Tax Department): Yes, if he meets the qualifications from the city in terms of what is a project. It will always refer back to the city/community.

Gordon- If it has been defined as a project in the past, then the answer is no.

**Question: Should communities/cities go with a money manager if they want to start a Renaissance Fund Organization (RFO)?**

That is up to each individual city. Two cities in the state currently have their own RFO. A RFO can



always be added later. A city's first concern should be to develop a Renaissance Zone.

**Kathy: As far as the RZ Fund Organization, does the investor receive tax credits?**

GordonB Yes, 50% of the investment but don't worry about the RFO, let the investors drive the process.

### **Comments from Tax Department**

All scenarios go back to the city because the city must approve the project. The city oversees all projects in their RZ and follows the guidelines that have been approved by the DCS.

Once the 60-month period clock starts, it continues whether the property is vacant or occupied.

**Historical Value:** Goes before Historical Society. They inspect and require an owner to keep the general façade and integrity of the original architecture.

**Bobby Koepplin (Valley City) - Can RZ benefits and the tax increment financing (TIF) be used together?**

Cities can TIF in a Renaissance Zone and the taxpayer will still qualify for both income and property exemption. If you treat property tax exemptions different under TIF you will need to spell that out in the development plan. Additionally, the five-year tax period for the RZ must start on the completion of the project.

### **Afternoon Session:**

Roundtable Discussion involving communities that currently have a Renaissance Zone.

Paul Govig welcomed the conference attendees back from lunch.

Gordon facilitated the roundtable discussion that included representatives from Minot, Valley City, Bottineau and Hazen.

### **Open floor discussion**

**Representative Elwood Thorpe (Minot) - After you get rolling and you have 2 dozen projects, does the increase in valuation offset the new starts?**

Yes, typically cities are looking at a payback of about two years. In some cases where a building is rehabilitated to a much higher standard, the payback is even quicker.

**Why assign a Renaissance Zone in continuous blocks?**

Bob Stein (Fargo) - In order to get results, the program needs to be focused on one area and not sporadically spaced.

Paul Govig- To have the greatest impact, the RZ is generally focused in one area.

Bobby Koepplin (Valley City) - Continuous block concept isn't a benefit.

He feels that the legislature should leave that interpretation to the communities.

**What about irregular blocks?**

Gordon- Basically a block has a street on each side or is separated by railroad tracks or even a natural barrier such as a river or ravine. I am working with Washburn on that very issue because of the ravines that interfere with their RZ. The state is always willing to work with communities to help define the blocks.

**Can the half mile between the (3) block island and the rest of the Renaissance Zone be changed in the future?**

Paul Govig - Yes, by the legislature. In the last Legislative session, it started out as 1 mile and was compromised at 2 mile.

Senator O=Connell (Lansford) - RZ was sold as part of a pilot program. A similar program came from Michigan. Legislators didn't know at the time that the RZ was implemented that it would become so popular.

**How are property tax exemptions handled across the state?**

Larry Weil-West Fargo - For RZ exempting 100%, larger communities are using it because they can absorb the initial costs but it is a lot harder for smaller communities.

Gordon- Some use a sliding scales (i.e., property tax exemption is only given on the improvements or 100% the first year, 75% the second year and 50% the third year etc).

**Question: Is your school included in the zone.**

No, government buildings do not qualify. Schools are public.

Avis Richter- When smaller towns request commissioners to approve a project, they must make sure they are telling others that it=s just the property involved. When the general population hears about the project, misconceptions can occur.

Gaylon Baker (Dickinson) B The program is successful, don=t fix it too much!

Larry Weil (West Fargo) B People with low and fixed incomes can=t afford the repairs and so the housing continues to deteriorate.

Bobby Koepplin (Valley City) B They (City of Valley City) require that physical improvements and renovations must be made. In addition, citizens need to know that private and personal information will be confidential. You need to use local vendors when you can. One community was not able to use all local vendors because of a package price break and some discontent occurred because of the price break.

**How did you handle it?**

Koepplin - Council/committee had to have tough skin and cope with the situation.

**Question: Do Communities include residential projects in Renaissance Zone?**

Gordon - Most are commercial projects but there are some residential. Buffalo, for example has 17

residential properties. Hankinson has 5 residential projects.

Guidelines for Properties B Some cites are attaching a dollar amount such as: 20% and/or \$10,000 of improvements, whichever is greater. The development plan should lead the city and that is why the development plan is so crucial.

Gordon - All conditions need to be updated to bring the property back to code.

Bobby Koepplin (Valley City) - Get your plans together first. Apply now, get in the RZ now.

**Gaylon Baker-(Dickinson) - What about design review standards? Are those included in approval standards? Are purple houses acceptable? Some council=s have reviewed standards; including approving color choices, especially with historic homes. Should these be included in the development plan?**

Answer: Local issue.

### **Potential changes to the Renaissance Zone program**

- Help low income individuals access the program.
- Streamline the process.
- Extend the time period.
- Graduate blocks out of the zone.
- Increase the island spacing.
- Don=t change the program too much.
- Include demolition costs.

### **Open Discussion**

Ellen Huber (Mandan) - Legislators could help with residential areas that are mixed in with commercial areas that currently have nonconforming lots (under 7,000 sq. ft). They could be cleared for parking lots to aid lack of parking in the downtown area.

Bobby Koepplin (Valley City) B Include commercial demolition costs; push down two building and put up one new one.

Phil Mueller: \$75,000 property tax exemption on a new home is too low. Since it affects only the local community, let them decide. The state isn=t giving up anything, the community is.

Bobby Koepplin (Valley City) - Exemption for new houses needs to be raised.

Bobby Koepplin (Valley City) - 3 block island, leave it up to the jurisdictions. Keep local control.

**Kathy Stremick (Walhalla) - In Walhalla, 60% of homes built prior to 1960 are in severe disrepair and need to come down. Owners are letting homes go back to the county for taxes. It becomes the county=s problem for demolition which puts a financial burden on the county. It=s not only an eyesore; it creates health and safety issues. Would the legislature ever consider making funding available in the RZ program to fund this type of demolition?**

Gordon: That=s why we=re having this dialogue. We need to keep communicating with each other and with our legislators.

Representative Mark Dosch- Legislators get hit hard from NDEA who strongly oppose property tax breaks. School district needs to understand more about the Renaissance Zone. They need to be on board with the RZ.

Bobby Koepplin (Valley City) - Historical tax credits should go with the new owner when a transfer is completed.

Larry Weil (West Fargo) - Home owners on fixed incomes need help. Some structures could be saved. Financing is a big key when dealing with the elderly on fixed incomes. Legislators should find a way to assist with these situations.

Ellen Huber (Mandan) - Community Works of ND has low interest for housing renovations.