Prepared by the North Dakota Legislative Council
staff for the Workforce Committee
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CERTIFIED TECHNOLOGY PARKS STUDY - BACKGROUND MEMORANDUM

INTRODUCTION

Section 1 of 2009 Senate Bill No. 2390 (attached as Appendix A) provides for a Legislative Council study of the establishment and development of certified technology parks.

The Legislative Council has charged the interim Workforce Committee with performing the certified technology study. Additionally, under:

- Section 34 of 2009 Senate Bill No. 2003, the committee is charged with studying the establishment of a higher education student trust fund, including available funding sources;
- Section 18 of 2009 Senate Bill No. 2018, the committee is charged with studying technology-based entrepreneurship and economic development best practices, including a review of best practices implemented by the Department of Commerce and the effectiveness of the Department of Commerce Foundation;
- Section 19 of 2009 Senate Bill No. 2018, the committee is charged with studying the state's system for addressing workforce needs through a workforce system initiative, including a review of the alignment of taxpayer investment with programs, coordination of programs, and the North Dakota workforce strategic plan;
- Section 6 of 2009 Senate Bill No. 2038, the committee is charged with studying the means by which the North Dakota University System can further contribute to developing and attracting the human capital to meet North Dakota's economic and workforce needs; and
- Senate Concurrent Resolution No. 4002 (2009), the committee is charged with studying the state's workforce system, the feasibility and desirability of enacting legislation to address the issues identified in the 2007-08 interim Workforce Committee's consultant's report, and the implementation of workforce initiatives enacted by the 61st Legislative Assembly.

The details of these five studies are addressed in separate background memorandums.

LEGISLATIVE BACKGROUND

As introduced, Senate Bill No. 2390 would have created a new chapter to North Dakota Century Code (NDCC) Title 40 providing for the establishment and development of certified technology parks. The bill was reported out of the Senate Standing Finance and Taxation Committee amended and with a do not pass recommendation. The Senate adopted the committee's amendment and then through a floor amendment adopted a hoghouse amendment replacing the bill with the Legislative Council study.

Senate Finance and Taxation Committee

When the Senate Finance and Taxation Committee conducted a hearing on Senate Bill No. 2390, the bill's sponsor, Senator Mac Schneider, and Senate cosponsor, Senator Tony S. Grindberg, testified in support of the bill. Additionally, the committee received testimony from a representative of the Chamber of Commerce of Fargo-Moorhead, the mayor of Fargo, a representative of the Bismarck-Mandan Chamber of Commerce, and a representative of the North Dakota University System.

Senator Schneider provided the committee with written testimony (attached as Appendix B). In addition to reviewing how the legislation would work, his testimony addressed the benefits of enacting such a program. He stated the creation of certified technology parks would allow the state to build upon the successes experienced in the creation of technology jobs, complementing the research corridor and the centers of excellence program. Senate Bill No. 2390 was based on existing Indiana law, and Senator Schneider referenced some of the successes Indiana has experienced through the certified technology park program.

Senator Grindberg provided the committee with written material from the Association of University Research Parks, which recently recognized the value of establishing innovation zones, and his written testimony included a portion of a document (attached as Appendix C) that includes policy recommendations such as the establishment of American innovation zones.

Additional testimony in support of the bill was received from a representative of the Chamber of Commerce of Fargo-Moorhead, the mayors of Fargo and Grand Forks, a representative of the Bismarck-Mandan Chamber of Commerce, and a representative of the University of North Dakota Center for Innovation. Written testimony from these individuals is attached as Appendix D.

A representative of the North Dakota University System testified in a neutral capacity. Her testimony (attached as Appendix E) raised a variety of questions regarding the bill.

The Senate Finance and Taxation Committee reopened the hearing on Senate Bill No. 2390 a second, third, and fourth time. At these meetings, the committee considered the questions raised by the North Dakota University System and considered written testimony submitted by Senator Schneider (attached as Appendix F) which addressed these questions and proposed amendments to address these questions.

Although the committee ultimately adopted the amendments proposed by Senator Schneider, the bill came out of committee with a 6 to 1 do not pass recommendation due to a feeling there were too many unanswered questions regarding implementing the certified technology park program.

Senate Floor

The Senate adopted the Senate Finance and Taxation Committee's amendments to Senate Bill No. 2390. A copy of Engrossed Senate Bill No. 2390 is attached as Appendix G. However, following floor debate on the bill, Senator Schneider proposed a floor amendment to Engrossed Senate Bill No. 2390, hoghousing the bill with a Legislative Council study. As amended on the Senate floor, Reengrossed Senate Bill No. 2390 passed with a vote of 42 to 3.

House of Representatives

Reengrossed Senate Bill No. 2390 was referred to the House Industry, Business and Labor Committee. Senators Schneider and Grindberg testified in support of the bill. Senator Schneider's written testimony is attached as Appendix H. The bill came out of committee with a 12 to 0 do pass recommendation. The House of Representatives passed the bill by a vote of 90 to 2.

STATE LAW

North Dakota Century Code Sections 40-58-20 and 40-58-20.1 provide for tax increment financing (TIF) as part of urban renewal or development. The purpose of the state's TIF laws is to provide funds for the payment of costs of development or renewal of a development or renewal area and for retirement of all bonds, notes, or other obligations issued by the local governing body to pay those costs.

The Tax Commissioner sets out the following procedures under the state's TIF laws:

1. At the request of a municipal governing body, the county auditor certifies the original taxable value as last assessed and equalized before the date of the request for each lot or parcel in a development or renewal area with an approved plan.
   a. Property in the area acquired by the city or its urban renewal agency prior to July 1, 1973, is deemed to have an original taxable value of zero.
   b. Property in the area acquired by the city or its urban renewal agency more than five years prior to the approval of the development or renewal plan is deemed to have an original taxable value of zero.
   c. Property in the area acquired by the city or its urban renewal agency which is not included in (a) or (b) above has an original taxable value as last assessed and equalized before it was acquired.
2. The county auditor compares each subsequent year's taxable value of all the parcels in the area to the original taxable value and certifies the net amount of increase or decrease for that year. The net increase is the incremental value and the net decrease is the lost value.
3. In a year when there is lost value, the county auditor applies the appropriate mill levies for each of the taxing districts to the lost value. The amount computed is called the tax losses for that year, to be repaid by future incremental taxes.
4. In a year when there is incremental value, the incremental value is not included in the taxable value used to compute the mill rate of taxes levied in the development or renewal area. However, the county auditor extends the aggregate mill rate against the incremental value as well as the original taxable value.
5. The amount of taxes generated by the incremental value is referred to as the tax increment for that year and is credited to a special fund.
6. The county treasurer remits the tax increments in the fund to the state and each political subdivision that had a tax loss until all the tax losses have been reimbursed.
7. After the tax losses of the taxing districts are fully paid, the tax increments in the special fund are remitted to the municipality to reimburse it for the development or renewal costs as defined in NDCC Section 40-58-20(8) and (9).
8. After the municipality reports that the development or renewal costs have been paid or sufficient funds to retire the costs and obligations have been received, the county treasurer distributes any balance remaining in the tax increment fund to the state and political subdivisions in proportion to the tax losses previously reimbursed to them.
9. When the development or renewal costs have been paid, the county auditor shall thereafter compute the mill rate of all taxes upon the total taxable value of the development or renewal area.
10. As an alternative to the sale of bonds to be amortized with tax increments, the governing body of a municipality may grant a total or partial tax exemption for the project.
    a. The amount of annual tax exemption is limited to the increment as it applies to the project and may extend for no more than 15 years. The municipality must give due consideration to the same elements as are involved in the sale of bonds to be amortized by tax increments.
    b. The amount to be reimbursed to the project developer by tax exemption is all or a portion of eligible public costs which have been paid by the developer plus interest on that amount at no more than 10 percent per annum.

c. The amount of tax exemption is to be an amount sufficient to reimburse the project operator for eligible costs amortized according to the agreement between the developer and the city.
d. Any developer receiving an exemption as an alternative to tax increment financing is not eligible for a new business exemption under NDCC Chapter 40-57.1.

INDIANA LAW

As introduced, Senate Bill No. 2390 was based on Indiana law. During the 2002 special session, the Indiana General Assembly enacted House Bill No. 1001, which addressed a broad range of subjects, including creation of the certified technology park program. The Indiana certified technology park program is a tool available to local governments to help attract and retain high-technology businesses.

The basic framework of the Indiana program is that a certified technology park is similar to a TIF district. Like a TIF district, a certified technology park is able to capture incremental tax revenue on property tax; however, unlike a TIF district, a certified technology park has the added ability to capture incremental sales and income taxes for specified uses within the park. Under the Indiana program, each certified technology park has a lifetime limit of $5 million in retail and use taxes and income tax deposits into the park's incremental tax financing fund.

Since the creation of the program in Indiana, approximately 18 technology parks have been certified in that state. In 2006 a Certified Technology Park Summit was held and data was requested through a survey in an attempt to evaluate the economic impact of the program. In 2007, recognizing the need for more data, the Indiana General Assembly enacted House Bill No. 1424, which provided certified technology parks are subject to the review of the Indiana Economic Development Corporation and must be recertified every four years. As this law is implemented, the Indiana Economic Development Corporation will have data available to better determine whether the certified technology park program is having the desired impact on the state's economy.

STUDY APPROACH

Although the study of certified technology parks is rather narrow in scope, the state and local impact of creating such a program could have far-reaching impacts. In conducting the study, the committee may wish to consult with the following entities to gather information regarding issues relating to the study of certified technology parks:

1. The Department of Commerce;
2. Local economic developers;
3. The Tax Commissioner;
4. Local taxing entities, including counties, townships, cities, school districts, and park districts;
5. The North Dakota University System, including the state's two research universities; and
6. The Indiana Economic Development Corporation.

ATTACH:8