RENAISSANCE ZONE AUTHORITY
MEETING MINUTES
March 20, 2012

The Bismarck Renaissance Zone Authority met on March 20, 2012 in the 2nd Floor Conference Room in the City-County Office Building at 221 North 5th Street.

Authority members present were Dave Blackstead, Jim Christianson, Chuck Huber, George Keiser, Kevin Magstadt, Brenda Smith and Curt Walth.

Technical advisor Bruce Whittey was present.

Technical advisor Jeff Ubl was absent.

Staff members present were Jason Tomanek, Kimberley Gaffrey, Carl Hokenstad, Charlie Whitman and Brenda Johnson.

Guests present were Steve & Carla Pine – 4916 Harbor Trail SE, Mandan, Curly Schoch – 2414 Winchester Drive, John Schell – 2340 Fresno Drive, Joe Becker (North Dakota State Tax Department) and Kate Herzog & Dawn Kopp (Downtowners).

CALL TO ORDER

Chairman Blackstead called the meeting to order at 4:00 p.m.

MINUTES

The minutes of the February 21, 2012 meeting was distributed with the agenda packet.

MOTION: A motion was made by Mr. Keiser and seconded by Mr. Christianson to approve the minutes of the February 21, 2012 meetings as received. The motion passed unanimously with members Blackstead, Christianson, Huber, Keiser, Magstadt, Smith and Walth voting in favor.

NORTH DAKOTA RENAISSANCE ZONE PROGRAM

Joe Becker with the North Dakota State Tax Department provided an illustration/handout of the Business Income Exemption Calculation, attached as Exhibit A. He said the basis for approving a Renaissance Zone Lease Application should be based on the City of Bismarck's Development Plan and if the project meets the intent of the Development Plan, there should be no need to deny the applicant's request. Mr. Becker stated that the State Tax Department reviews Renaissance Zone exemptions based on the information provided by the business during the five-year exemption period.

RENAISSANCE ZONE PROJECT APPLICATIONS

A. 100 West Broadway – Various Pine Companies – Lease (continued)

Mr. Tomanek gave an overview of the lease project by various Pine companies. He said the applicant is proposing to lease office space in the Renaissance Zone. The owner of the building, Pine Properties, LLC, is currently constructing the building as a Renaissance Zone project that was approved in July 2011. Completion of the building is scheduled for April 2013. Mr. Tomanek concluded by saying the building floor area is 150,000 square feet +/- and the applicant's lease area would be approximately 1,250 square feet square feet, with an estimated income tax benefit of $509,880 - Pine Petroleum, Inc.-; $351,020 - Pine Investment Co., LLC; $16,485 - Pine Oil Company; $0 - Pine Enterprises, LLC and $0 - Pine Properties, for a combined total of $877,385 over five years.

Mr. Tomanek listed the following findings for the proposed Renaissance Zone project:

1. The proposed use is consistent with the City's Renaissance Zone Development Plan.

2. The lease will be for expanding businesses locating in the Renaissance Zone.

3. The applicant is not required to make a financial investment in the property because the building has previously been approved as a Renaissance Zone project (new construction).

4. The building is currently under construction as a separate Renaissance Zone project.

5. The project completion date is projected for April 2013.

Mr. Tomanek said based on the above findings, staff recommends approval of the designation of the lease of space in the building at 100 West Broadway Avenue by the various Pine companies, as Renaissance Zone projects, and an exemption from state tax on income derived from the business/investment location for five years beginning with the date of occupancy

MOTION: Based on the findings included in the staff report, a motion was made by Mr. Christianson and seconded by Ms. Smith to approve the designation of the lease of space in the building at 100 West Broadway Avenue by the various Pine companies, as Renaissance Zone projects, and an exemption from state tax on income derived from the business/investment location for five years beginning with the date of occupancy. The motion passed unanimously with members Blackstead, Christianson, Huber, Keiser, Magstadt, Smith and Walth voting in favor.

DOWNTOWNERS ASSOCATION PRESENTATION

Kate Herzog provided an update on the current activities in the downtown area; including efforts to establish a public plaza, future considerations for additional parking structures and opportunities and some of the significant changes in downtown's future.

STATUS OF APPROVED RENAISSANCE ZONE PROJECTS

Mr. Tomanek said that no Renaissance Zone projects have been closed out since the last Renaissance Zone Authority meeting.

OTHER BUSINESS

There was no other business

ADJOURNMENT

There being no further business, Chair Blackstead adjourned the meeting of the Bismarck Renaissance Zone Authority at 5:00 p.m.

Respectfully Submitted,

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Kimberley Gaffrey
Recording Secretary

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David Blackstead
Chair

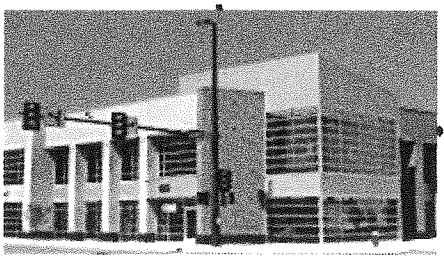
North Dakota Renaissance Zone Program

Illustration of Business Income Exemption Calculation

Not-so-hypothetical multiple zone project structure

Taxpayer 1
(Individual)
Owns part or all of Taxpayers 2-5

Taxpayer 2
(Limited liability company)
(files as a partnership)
Owns building



Taxpayer 3
("S" corporation)
Lessee

Taxpayer 4
(Partnership)
Lessee

Taxpayer 5
("C" corporation)
Lessee

Part or all of the income and related exemption amount attributable to Taxpayers 2-4 is passed through to Taxpayer 1 based on ownership interests.

Calculation of business income exemption (deduction from income)

Note: This calculation would be performed by each taxpayer with a zone project that qualifies for the business income exemption.

1. **General formula—** Business net income x Renaissance Zone Apportionment = Amount of Income Exemption

2. **Renaissance zone apportionment factor—**

   a. If 100% of real property owned or leased for use in business is located at the zone project location, the factor is 100%.

   b. If less than 100% of real property owned or leased for use in business is located at the zone project location, the factor will be less than 100%, calculated as follows:

   Property* at Zone Project Location ÷ Total Property* Everywhere = RZ Apportionment Factor

   ** Property includes tangible personal property and real property used in the business. Owned property is valued at its average cost. Leased property is valued at eight times its annual rent.*

3. **Example:** A business leases space in a building, qualifying it as a zone project. The annual rent is $12,000. The business owns other real property that is not part of the zone project, the average cost (before depreciation) of which is $384,000. The business's net income for the year is $100,000. The amount of the income exemption equals $20,000, calculated as follows:

   Step 1— $96,000 ($12,000 x 8) ÷ $480,000 ($96,000 + $384,000) = .20 (or 20%)

   Step 2— $100,000 x 20% = $20,000

   Assuming the business net income will be taxed at the individual income tax rates, this exemption amount translates to a $798 tax reduction at the highest marginal tax rate of 3.99%.

EXHIBIT A