

RENAISSANCE ZONE PROGRAM SELF-EVALUATION 2016

Submitted to Renaissance Zone Authority on September 20, 2016

City of Bismarck – Community Development Department – Planning Division

Purpose of Report

During their July 19, 2016 regular meeting, the Renaissance Zone Authority requested additional information to assess the effect of the Renaissance Zone program on property conditions and values in downtown Bismarck since the inception of the program in 2001. The Renaissance Zone program offers five-year exemptions on property tax and state income tax for property owners that make a significant investment in their property and meet other program guidelines.

This report is a companion document to the Renaissance Zone Needs Assessment, completed in July of 2016. While the Needs Assessment measured unmet needs within the Renaissance Zone boundaries, the Renaissance Zone Program Self-Evaluation measures previous activity of the program to determine how well it has achieved its stated goals over the period of 2001 - 2016.

Goals of the Renaissance Zone Program

The North Dakota Department of Commerce – Division of Community Services requires any city that wishes to implement Renaissance Zone tax incentives to incorporate this program into a broader plan, specifically a comprehensive plan for the whole city and a narrower development plan for the Renaissance Zone itself. These plans set the goals for the program, and provide the standard by which its success is measured.

The following goals are included in the 2016 Development Plan:

- A. Establish the Renaissance Zone as the Center of Business Life, Government and Cultural Opportunity for the Bismarck Region.
- B. Promote the Renaissance Zone as the Preferred Location for Hotel, Class A Office Buildings, Specialty Retail, Government and Institutional Uses.
- C. Maximize Accessibility of the Renaissance Zone from Throughout the Region and Provide Safe, Convenient, and Attractive Circulation Within the Zone.
- D. Arrange Compatible Land Uses in Compact and Orderly Ways to Enhance the Functions of the Renaissance Zone.
- E. Encourage a Zone That Upholds Bismarck's Heritage as Well as Recognizes and Takes Advantage of its Pattern of Development.
- F. Achieve High Quality in the Design and Visual Appearance of the Renaissance Zone.
- G. Promote the Renaissance Zone as a Location for Increased Housing Opportunities.

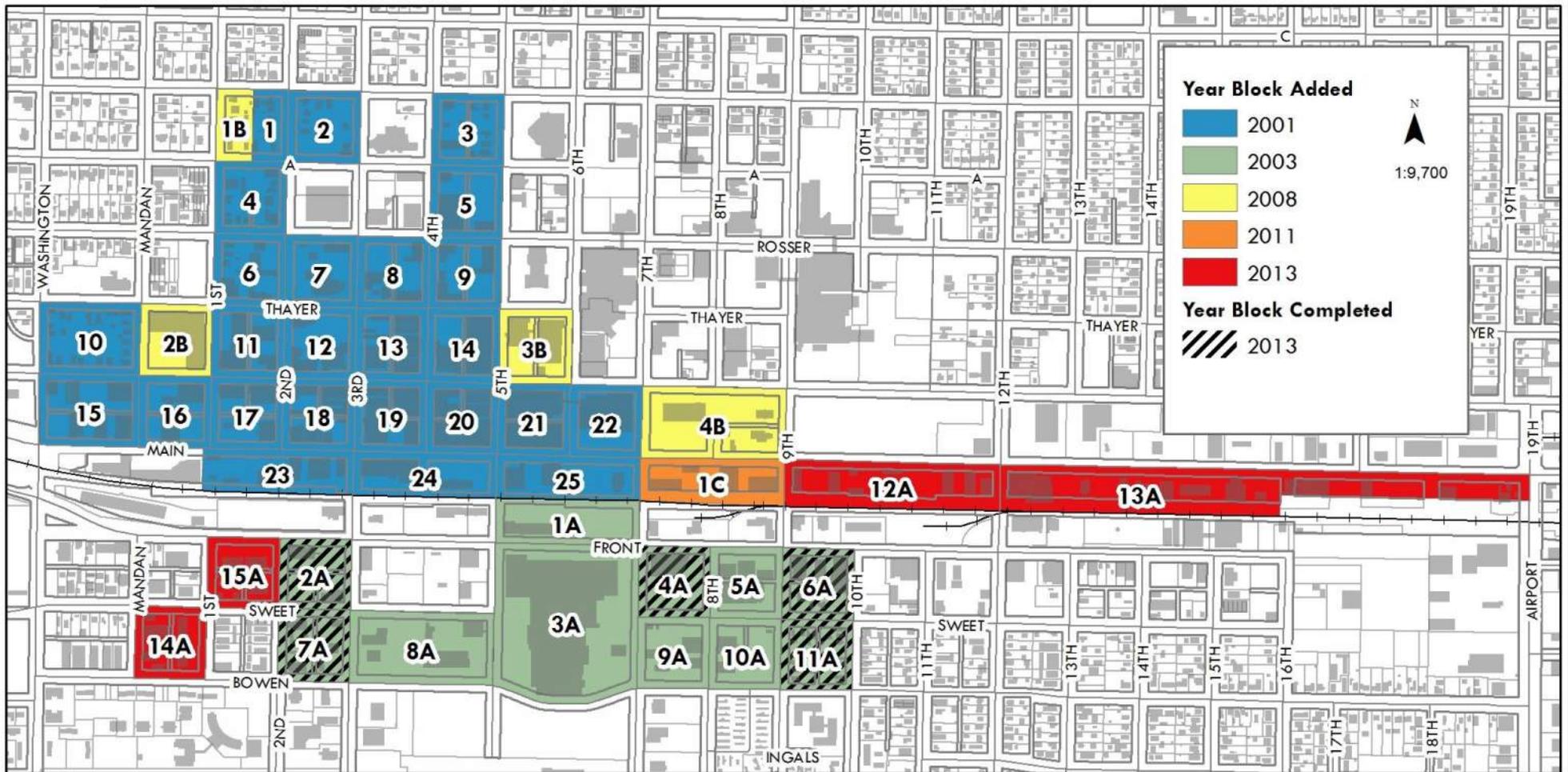
Metrics Used to Evaluate Success

This report uses the following data to measure the achievement of program goals:

- Renaissance Zone administrative data collected by the Bismarck Community Development Department - Planning Division showing self-reported performance measures, such as job creation, as well as documented investment in improvements.
- Tax Assessment Records collected by City of Bismarck Finance Department – Assessing Division showing the annual taxable value of all parcels in the zone between 2003 and 2016.
- Data from the U.S. Census Bureau, showing residential population within the Renaissance Zone.

Changes in Renaissance Zone Boundaries

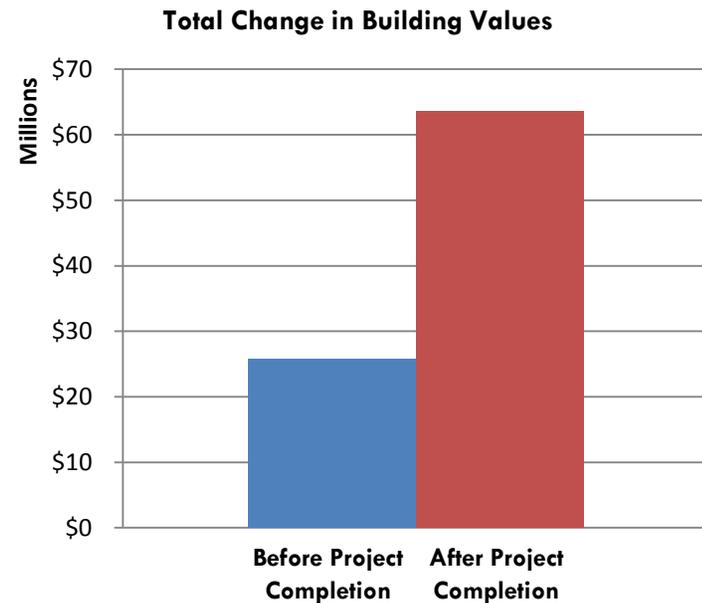
The boundaries of the Renaissance Zone have been modified on several occasions since the program began in 2001. The initial area included 25 blocks and 86.1 acres. In 2003, the program was expanded by an additional 11 blocks and 51.3 acres. Additional expansions were approved in 2008, 2011, and 2013. A total of 5 blocks have been deemed completed, and no additional projects will be approved within these blocks. The total area of the Renaissance Zone is currently 182.0 acres. The sequence of expansion is relevant to evaluating revitalization success, because property owners within some portions of the Renaissance Zone have had a longer opportunity to participate than owners in the more recently added blocks. All references to the Renaissance Zone in this report refer to the current 2016 boundaries.



Utilization of Renaissance Zone Program

Over \$50 million dollars in investment into buildings has been documented from approved Renaissance Zone projects since the inception of the program. Program activity started slowly as the administrative structure of the program was developed and the community gained awareness of the incentives. The first major projects were completed in 2005, and the annual level of investment remained relatively stable for the next ten years. This investment has been fairly evenly split between rehabilitation of existing buildings and construction of new buildings, with a slightly higher proportion (57%) invested in new construction.

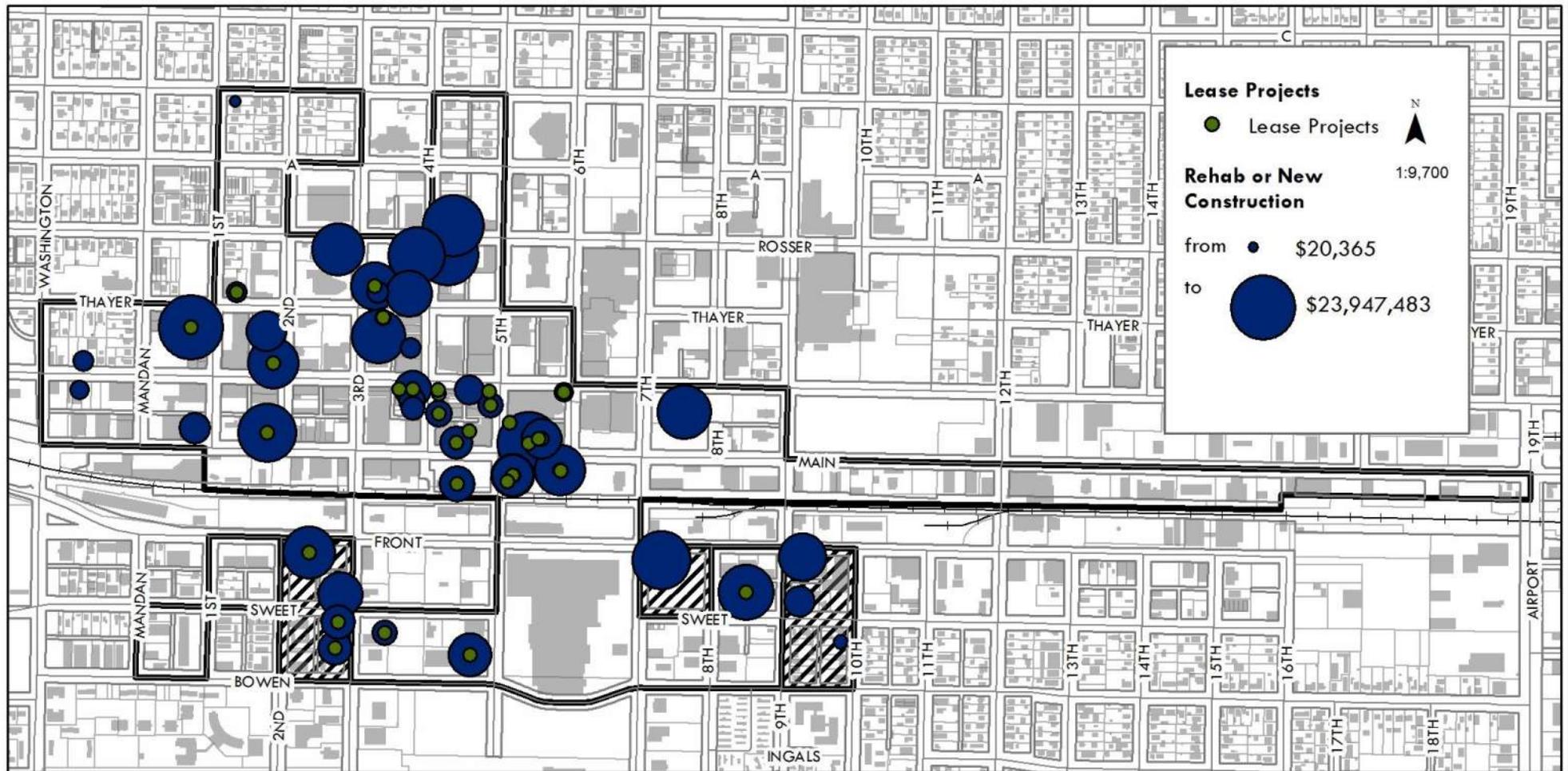
Year	Applications Approved	Projects Completed	Value of Investment	Full-Time Jobs Created
2002	1	0	0	0
2003	9	3	\$ 66,397	4.00
2004	4	2	0	17.25
2005	6	9	\$ 4,611,501	49.00
2006	10	10	\$ 1,508,210	52.50
2007	15	13	\$ 3,434,132	22.00
2008	7	7	\$ 749,383	13.00
2009	15	9	\$ 6,105,596	87.00
2010	8	14	\$ 2,302,137	38.00
2011	7	5	\$ 1,381,103	14.50
2012	13	3	\$ 3,046,296	38.00
2013	8	7	\$ 298,337	18.00
2014	6	15	\$ 5,065,452	92.00
2015	10	8	\$ 23,967,848	13.00
Totals	119	105	\$ 52,536,392	458.25



Another measurement of economic revitalization is job growth. Renaissance Zone applicants have reported the creation of the equivalent of 458.25 full-time jobs as a direct result of their proposed development. Most of this employment is generated by businesses that are new to downtown Bismarck. Approximately two-thirds of all project applicants were new to the Renaissance Zone, and the other third were existing businesses that expanded or reinvested in their property or lease space.

Spatial Distribution of Renaissance Zone Projects

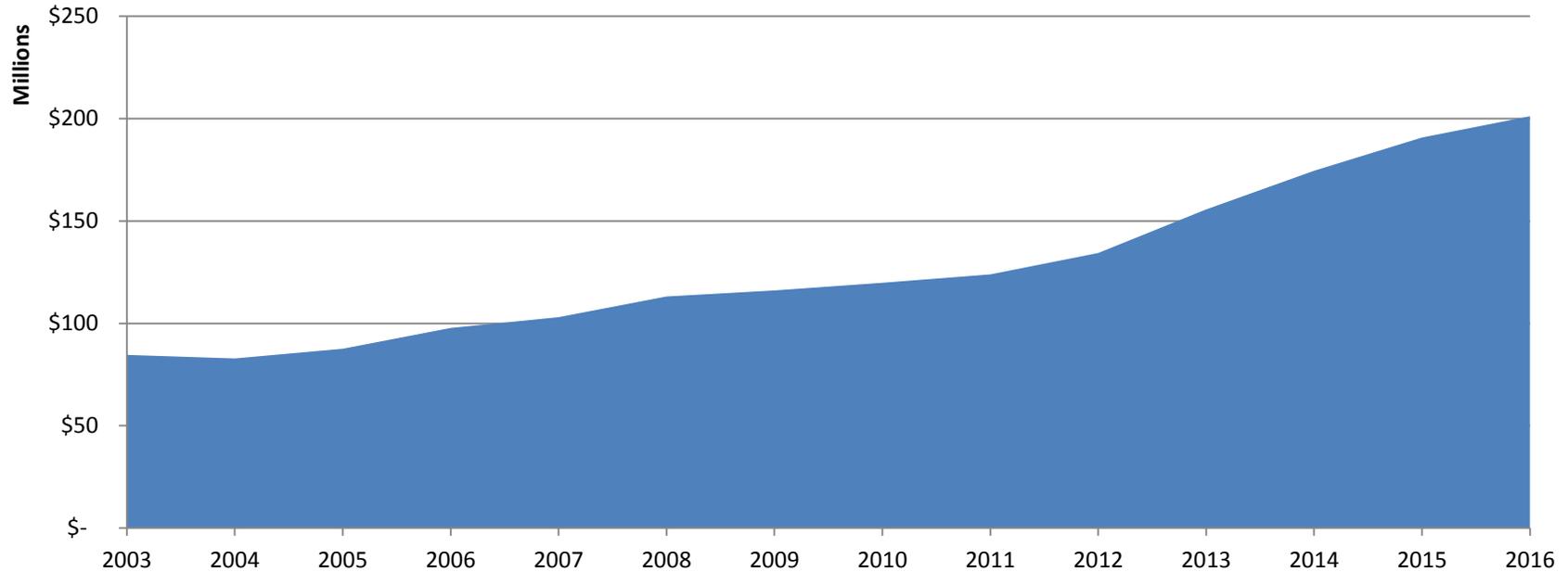
Many of the projects have clustered around particular areas within the Renaissance Zone, which could be an indication that investments in certain properties have spurred further investment in neighboring property. Most portions of the Renaissance Zone have had some completed project activity, except for the blocks added in 2013 and much of the north and southwest portions of the Renaissance Zone. The projects range very widely in scope and size from around \$20,000 to nearly \$24,000,000 in investment. A total of 57 lease projects have been approved. These leases have proposed over \$2,000,000 in investment to their leased spaces, although leases within buildings that were previous Renaissance Zone projects are not required to make any property improvements.



Overall Property Value Trends

The total assessed value of all properties within the Renaissance Zone (2016 boundaries), whether a recipient of the tax incentive or not, has grown from \$84,578,100 in 2003 to \$201,152,500 in 2016, which amounts to an average annual rate of growth of 10.6%.

Total Assessed Value of All Properties in Renaissance Zone



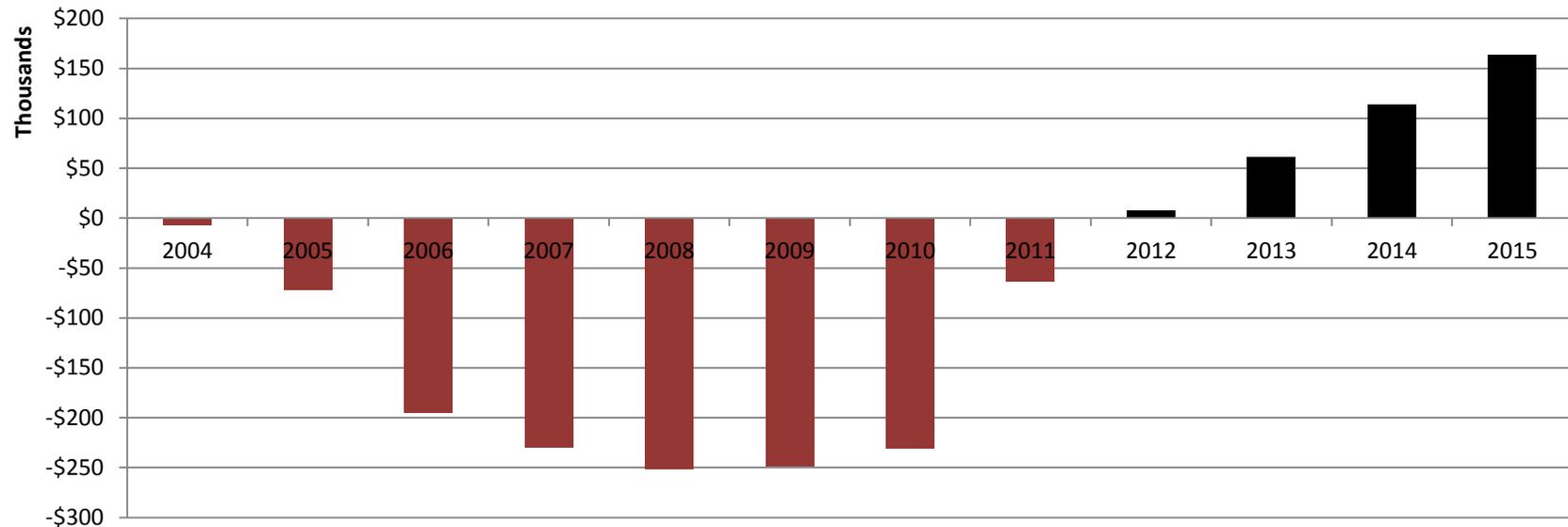
The rate of growth in assessed value of the Renaissance Zone has been comparable to the rate of the growth for the city as a whole, on a per parcel basis (which was 10.4% per year during the same period). However, the fringes of the city include many newly developed parcels that might be expected to have a higher rate of growth in value than parcels in the older parts of the city that have already been developed.

It is noteworthy that the total value of properties in the Renaissance Zone actually *decreased* between 2003 and 2004 by approximately \$2,000,000. Although Bismarck’s Renaissance Zone was established in 2001, there was lag time before the program was utilized by property owners. Project applications were first approved at the beginning of 2003, and the first few projects were completed and reflected in the assessed values in 2004. The true beginning of the Renaissance Zone programs marks an inflection point in the value of all properties in downtown Bismarck, transitioning from a decrease to an increase in assessed value.

Fiscal Impact of Renaissance Zone Incentives

By nature, the Renaissance Zone program reduces the overall amount of tax generated from project parcels during the five-year exemption period. Taxes are collected on land, but not on improvements. This is the primary incentive that is intended to encourage reinvestment. However, over the long term, the net effect of the investments made by Renaissance Zone projects increases overall tax revenues – which has been the case in Bismarck for each year since 2012. Once the five-year exemption period is complete, the properties re-enter the tax rolls at a higher taxable value for each year into the future. If current trends continue, by 2018 or 2019 the total taxes generated from project parcels will completely offset the total taxes exempted from project parcels since the program began.

Net Building Taxes Exempted/Paid on Renaissance Zone Project Parcels



Perhaps even more importantly, the City of Bismarck continues to generate tax revenue from the parcels within the Renaissance Zone and surrounding area that have not participated in the program. Improvements to properties, in particular renovation of blighted or outdated buildings, are known to exert a positive spillover effect on neighboring properties¹. If any of the overall value increase of downtown over the last fifteen years can be attributed to the investments made by Renaissance Zone projects, than the building and land taxes generated from these more valuable properties further serves to offset any impact on revenue of the program.

¹ Schilling, J. M. "The Revitalization of Vacant Properties." International City/County Management Association (2002).

Changes in Housing Opportunities within the Renaissance Zone

Housing growth has been less successful than commercial growth. The number of housing units has likely recovered to its level at the beginning of the Renaissance Zone program, after an initial decrease. Between 2000 and 2010, the population within the Renaissance Zone decreased from 740 to 549. The number of housing units dropped from 509 to 457 during this period, and the vacancy rate of this housing increased from 6.8% to 10.9%. This suggests an unmet need for housing rehabilitation to attract new occupants to the existing units. The owner-occupancy rate of the housing remained the same at 10.2%. It should be noted that the goal to “increase housing opportunities” was added to the Development Plan in 2012, which is when housing began to increase slightly. Renaissance Zone projects completed since 2010 or pending completion add 47 new housing units.



Considering Cause and Effect

As with any incentive program, it can be difficult to discern whether the incentive *caused* the development to occur or whether the development would have occurred anyway without the incentive. The availability of the Renaissance Zone program is one factor among many that applicants consider when deciding whether to initiate a rehabilitation or construction project in downtown Bismarck. In some cases, it may have been the deciding factor. In others it may not have been, but the tax exemption allows a higher degree of investment in the property than would otherwise be possible.

According to research on tax incentive effectiveness in other states², an incentive is more likely to spur action in small projects than it is in larger-scale projects. If the amount of the incentive is a greater proportion of the total project costs, it's more likely to tip the balance sheet in favor of financial viability. Larger projects are often carried out by firms that have the cash reserves necessary to complete a project without incentives.

On average, projects in the Bismarck Renaissance Zone have been able to recoup approximately 25% of the actual investment (not including land and soft costs) through the Renaissance Zone tax incentives over the five year exemption period. Most of the projects have been smaller-scale. Only seven completed projects, or 15% of all completed projects, exceeded \$1,000,000 in total improvements to the property.

The range of Renaissance Zone program beneficiaries is broad and diverse, and not primarily made up of major firms with high levels of capacity. These are the class of investors most likely to be influenced by incentives.

² Pew Charitable Trusts, *"Tax Incentive Programs: Evaluate Today, Improve Tomorrow"* (2015).

Considering Broader Community Benefit

Ultimately, the intent of the Renaissance Zone program is to provide benefit to the whole community, not just business and land owners within the zone. The Department of Commerce Renaissance Zone program guidelines state:

"The community as a whole needs to be involved in creating the zone and the projects that are approved for the zone need to clearly relate to the long term broader development plans for the city."

In theory, increased investment in downtown Bismarck benefits the broader community though the cost-effective utilization of existing infrastructure, enhancement of downtown as a cultural and historic symbol of the community, and the attraction and retention of employees who desire the amenities of a healthy downtown.

Measuring these impacts is more challenging, because there is no simple way to isolate the impact of downtown revitalization from other factors that influence the health of the regional economy. That being said, the typical major economic indicators suggest a sizable increase in the regional economy since the Renaissance Zone program began.

Between 2002 and 2012, regional employment increased by 2.9% per year, the number of businesses in the region increased by 3.0% per year, and regional salaries increased by 5.2% per year. The Renaissance Zone program clearly did not directly cause these impacts, but the reinvestment within downtown Bismarck may have been a contributing factor to the overall health of the economy

Furthermore, by encouraging development downtown, the Renaissance Zone program can offset the additional public costs that are incurred by development on the edges of the community.