

CITY OF BISMARCK
RENAISSANCE ZONE PROGRAM

RETURN ON INVESTMENT EVALUATION

December 10, 2020

City of Bismarck – Community Development Department – Planning Division

Purpose of Report

During their June 11, 2020 regular meeting, the Renaissance Zone Authority established a subcommittee to study the effectiveness of the Renaissance Zone program in terms of meeting its stated goals, in particular providing a long-term return on investment in tax revenue to justify tax exemptions. The committee consisted of Authority members Todd Van Orman and Dustin Gawrylow, representatives from downtown business/development Kate Herzog and David Witham, Nathan Schneider from the Bismarck-Mandan Chamber-EDC and City staff Daniel Nairn (Planning) and Brenda Johnson (Assessing). This report outlines the findings of the subcommittee.

Overview of Findings

Significant investment to properties within the Renaissance Zone has been made since the City of Bismarck Renaissance Zone program began in 2001. The overall value of property in this district has risen from approximately \$91 Million to \$241 Million during this period.

A notable share of this revitalization can be attributed to Renaissance Zone projects. Completed projects, in total, increased from an initial building value of approximately \$17 Million to \$70 Million after completion. An additional \$38 Million in estimated investment is currently underway in approved projects.

The Renaissance Zone Program has entirely paid for itself in terms of fiscal impact to the City, County, Schools, and Parks. By 2020, the total amount of tax revenue generated from completed projects exceeded the total amount of exemption granted for the history of the program. And the increased tax base will continue to generate revenue into the future.

Several indicators suggest that the Renaissance Zone program was a significant factor in incentivizing this investment. The area grew by an average of 6.7% per year, which outperformed other areas of the city. Anecdotal survey evidence is presented to suggest applicants were influenced by the program in their decisions to invest. It is estimated that a positive return on investment has been achieved if at least 66% of project investment is caused by this incentive.

Additionally, The City has collected approximately \$435 Thousand in building permit revenue from Renaissance Zone projects. The total housing stock of the downtown will increase by 36% as a result of approved projects underway. All of this growth has been achieved with minimal need for additional infrastructure and city services.

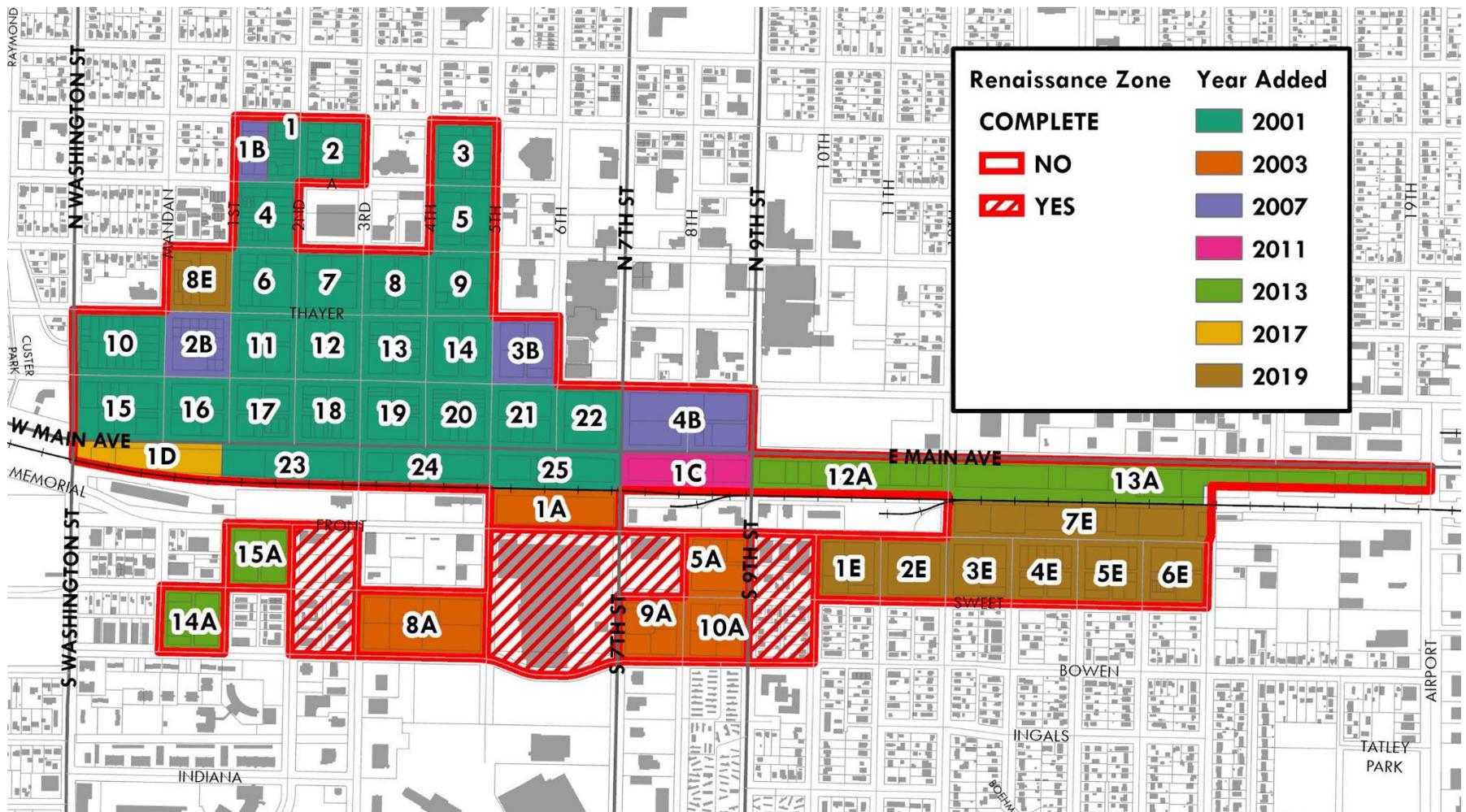
Metrics Used to Evaluate Success

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

- Renaissance Zone administrative data collected by the Bismarck Planning Division showing self-reported performance measures as well as documented investment in improvements.
- Tax assessment records collected by the Bismarck Assessing Division showing the annual taxable value of all parcels in the City between 2003 and 2020.
- Data collected by Bismarck Planning Division and the U.S. Census Bureau, showing housing units and population within the Renaissance Zone.
- Information collected from a survey of previous Renaissance Zone project developers.

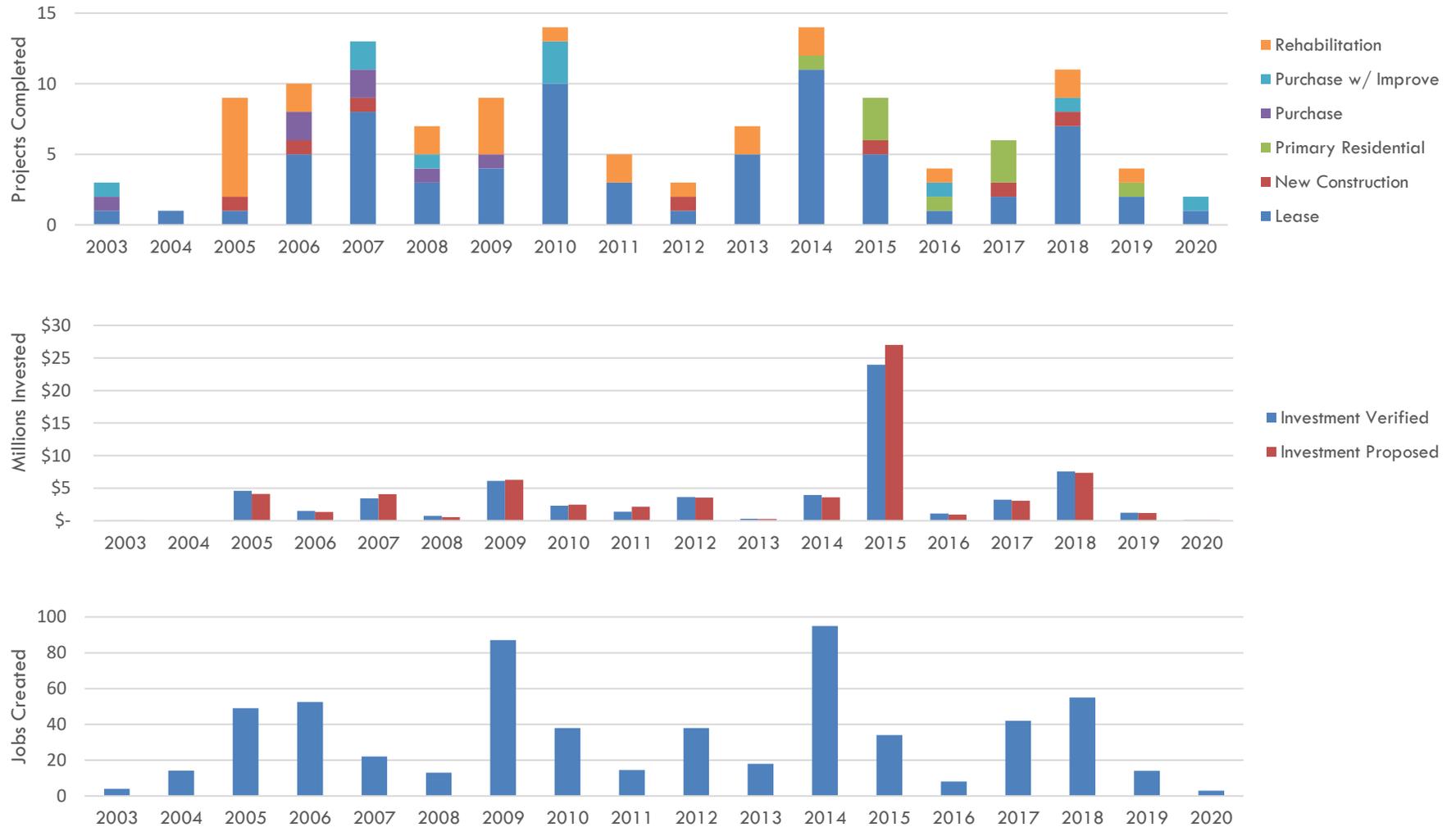
Changes in Renaissance Zone Boundaries

The boundaries of the Renaissance Zone have been modified on several occasions since the program began in 2001. The 25 original blocks of the Renaissance Zone have been expanded to the current 42.5 blocks (under state rules certain blocks qualify as a half), while 6 blocks have been deemed completed and removed. 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 boundaries, including completed areas.



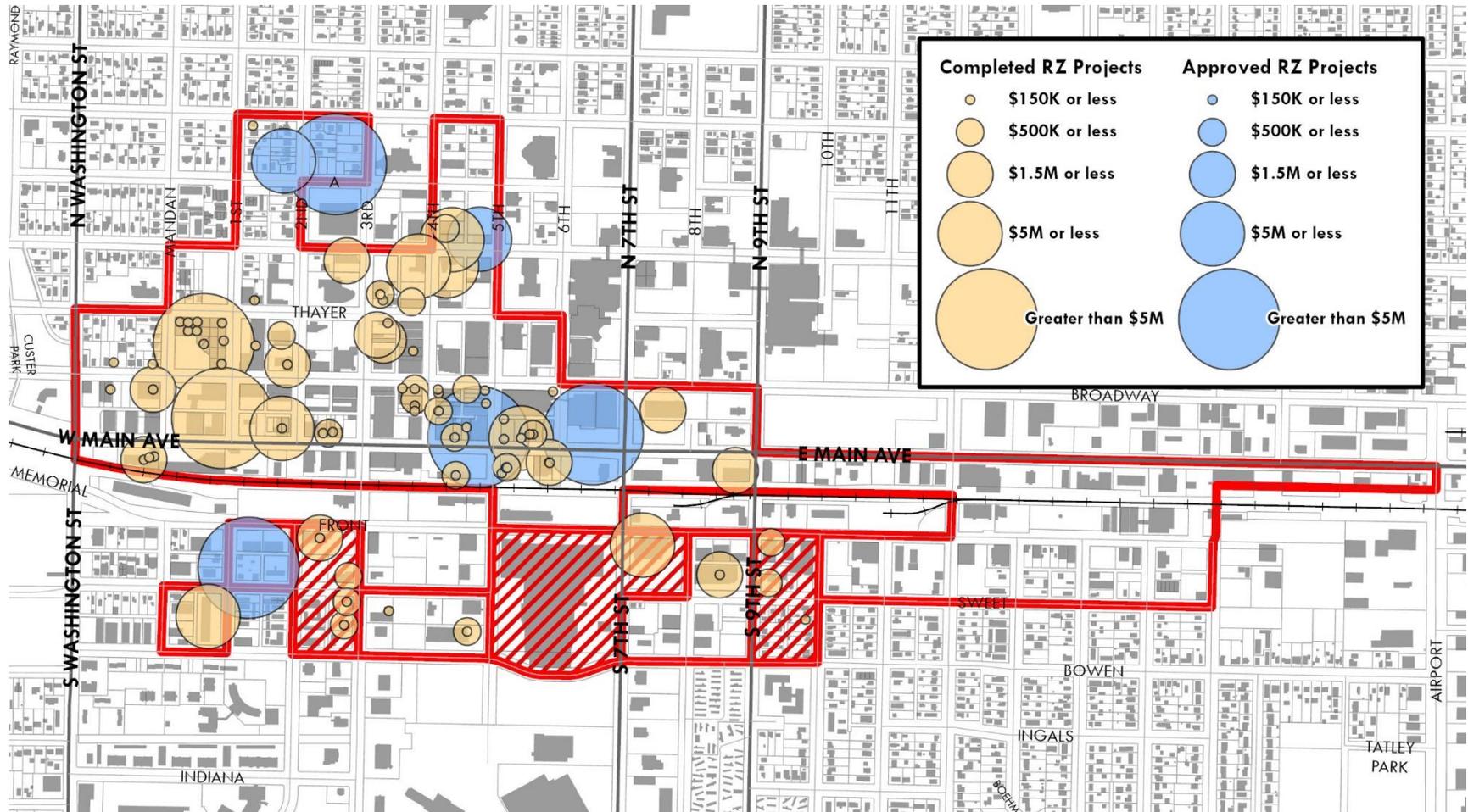
Utilization of Renaissance Zone Program

Over \$65 million dollars of investment into buildings from 58 rehabilitation or new construction projects has been documented. Furthermore, 602 jobs have been created from approved Renaissance Zone projects since the inception of the program. In addition to the completed projects shown in the following charts, another \$37 million dollars of investment has been proposed in approved projects that are currently under construction.



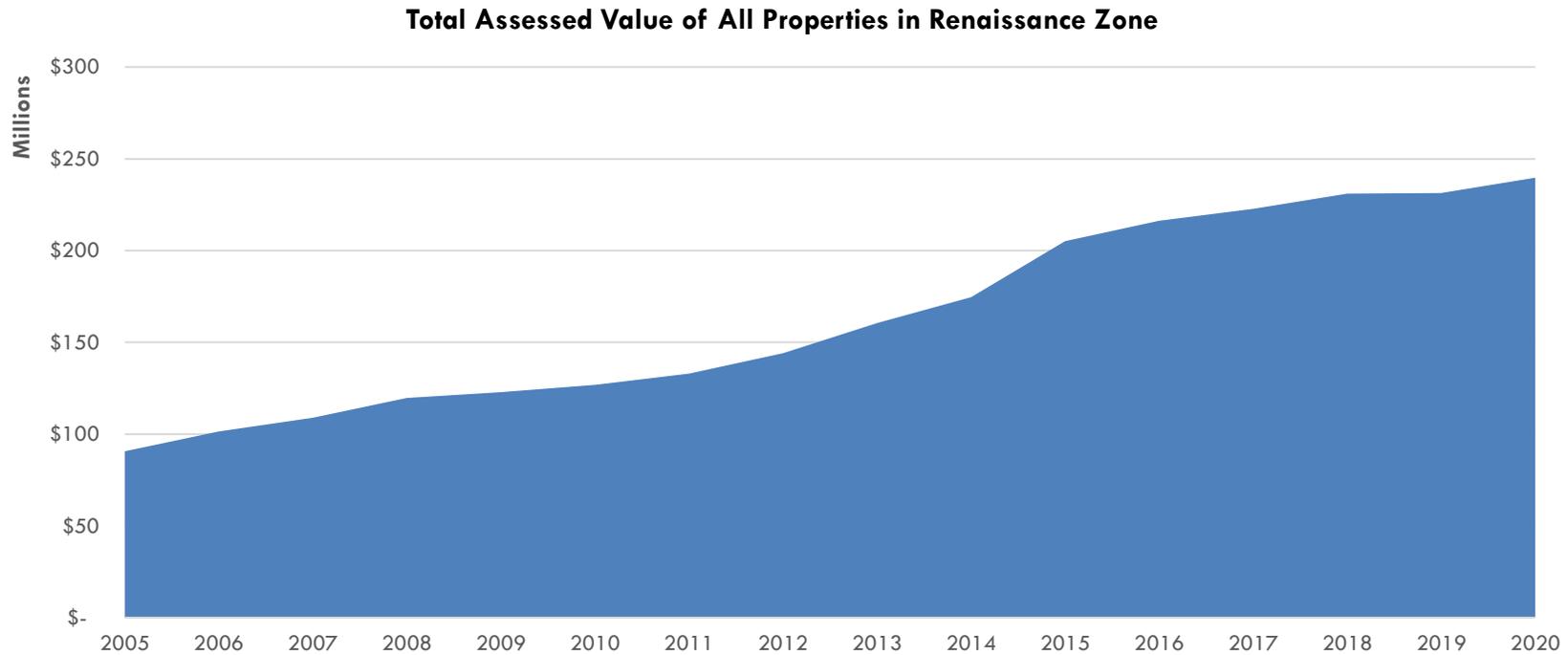
Spatial Distribution of Renaissance Zone Projects

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 properties. Most portions of the Renaissance Zone have had some completed project activity, except for the blocks added in 2013 and 2019 to the east.



Overall Property Value Trends

The total assessed value of all properties within the Renaissance Zone (2020 boundaries), whether a recipient of the tax incentive or not, has grown from \$90,633,500 in 2005 to \$239,700,800 in 2020, which amounts to an average annual rate of growth of 6.7%.



It is noteworthy that the total value of properties in the Renaissance Zone actually *decreased* between 2003 and 2004 by a little less than a million dollars. 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 2005. Data prior to 2003 is unavailable, but downtown property values appeared to remain flat during this period. The true beginning of the Renaissance Zone program marks an inflection point in the value of all properties in downtown Bismarck.

To provide a fair comparison over time, it is necessary to use a fixed set of parcels for all years. This data shows parcels within the current 2020 Renaissance Zone boundaries for all years, although many of these parcels have not always been eligible.

The property value growth rate of the Renaissance Zone parcels can be viewed in a broader context to determine whether this growth is caused by the Renaissance Zone program or by some broader economic effect. Ideally, the Renaissance Zone area could be compared to another area in Bismarck that is similar in every way except without the Renaissance Zone program, but the downtown area is unique in many respects which makes it impossible to perfectly isolated this variable.

The following table compares the property value growth rates over time with various types of parcels in Bismarck:

Parcel Set	Parcel Count	Total Assessed Value Per Parcel				Average Annual Growth Per Parcel			
		2005	2010	2015	2020	2005-2010	2010-2015	2015-2020	2005-2020
Total City	26,141*	\$167,057	\$217,948	\$320,242	\$349,666	5.46%	8.00%	1.77%	5.05%
Annexed by 2003	17,688	\$162,786	\$218,357	\$301,930	\$330,087	6.05%	6.70%	1.80%	4.83%
... and commercial	2,508	\$412,535	\$565,219	\$801,284	\$905,540	6.50%	7.23%	2.48%	5.38%
..... and built prior to 1970	659	\$444,599	\$593,115	\$810,556	\$913,241	5.93%	6.45%	2.41%	4.92%
Annexed by 1980	13,018	\$159,346	\$211,129	\$292,510	\$318,629	5.79%	6.74%	1.73%	4.73%
... and commercial	1,734	\$498,269	\$659,138	\$942,293	\$1,049,230	5.76%	7.41%	2.17%	5.09%
Renaissance Zone	399	\$227,152	\$317,835	\$513,965	\$600,754	6.95%	10.09%	3.17%	6.70%
... and completed project	72	\$289,722	\$518,106	\$1,085,374	\$1,339,499	12.33%	15.94%	4.30%	10.75%
... and no completed project	327	\$213,375	\$273,739	\$388,150	\$438,094	5.11%	7.23%	2.45%	4.91%

* Parcel count in 2020. Certain parcels did not exist in prior years. All other sets are fixed through all time periods

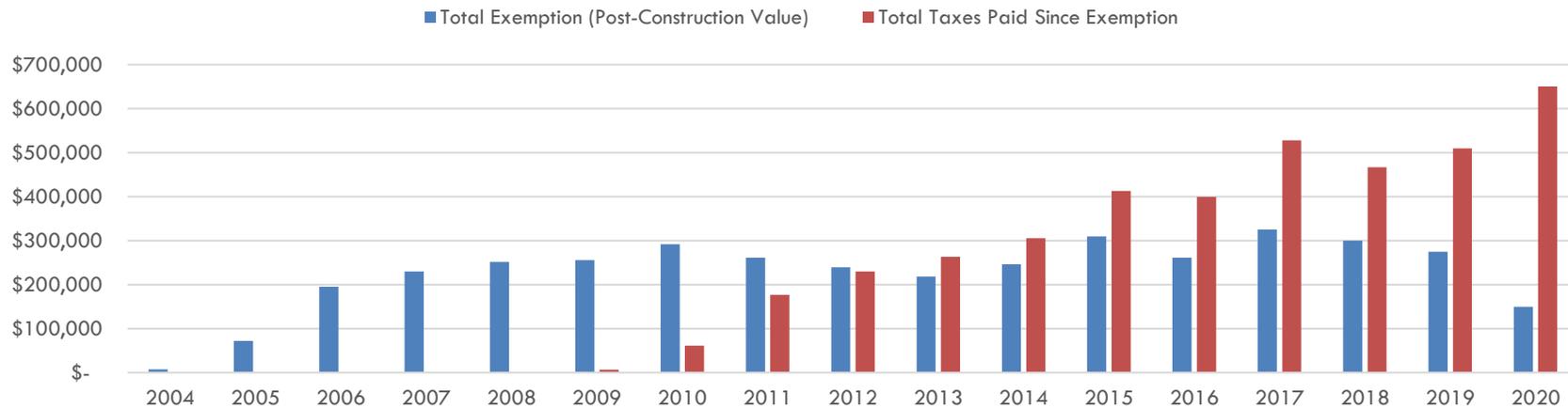
Growth of Renaissance Zone parcels outperforms all other parcel sets, whether considering time of annexation, commercial/residential character, or age of building. In fact, there appears to be a negative correlation between older lots and property value, which highlights the relative strength of the Renaissance Zone parcels, which are some of the oldest in the city. Commercial parcels tend to have higher growth rates than residential, but the Renaissance Zone outperformed commercial parcels in general, despite being partially (24%) residential.

When the Renaissance Zone parcels are divided into those that have completed Renaissance Zone projects or not, it becomes clear that the growth in this area is largely driven by project parcels. The non-project parcels roughly match the growth of similar areas outside of the Renaissance Zone. Since virtually all of the major improvements in this area have been Renaissance Zone projects, this value growth appears to be driven by the overall improvement of the whole area rather than physical improvements made to these structures.

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. In 2020, the total taxes collected on project parcels exceeded the total exempted over the duration of the program history.

Fiscal Impact of All Renaissance Zone Projects



Assuming post-construction value, \$3,886,222 in taxes have been exempted in total. This is the amount of taxes that would have been paid if the projects were completed anyway (this assumption is discussed further on the following page). \$4,008,167 in revenue has now been collected from these parcels after they re-entered the tax rolls. For each dollar exempted, the City has collected \$1.03 from Renaissance Zone properties by 2020, a number that will continue to grow over time.

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, then 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).

Another method for evaluating the fiscal impact to the City of the Renaissance Zone program is to estimate the property tax revenue that would have been generated in various counterfactual scenarios and compare this to the revenue actually generated on project parcels. This helps to isolate the important unknown variable – to what degree the owner would have invested in the property if the program did not exist – and identify how much influence the program should exert to result in a net positive return on investment to the City.

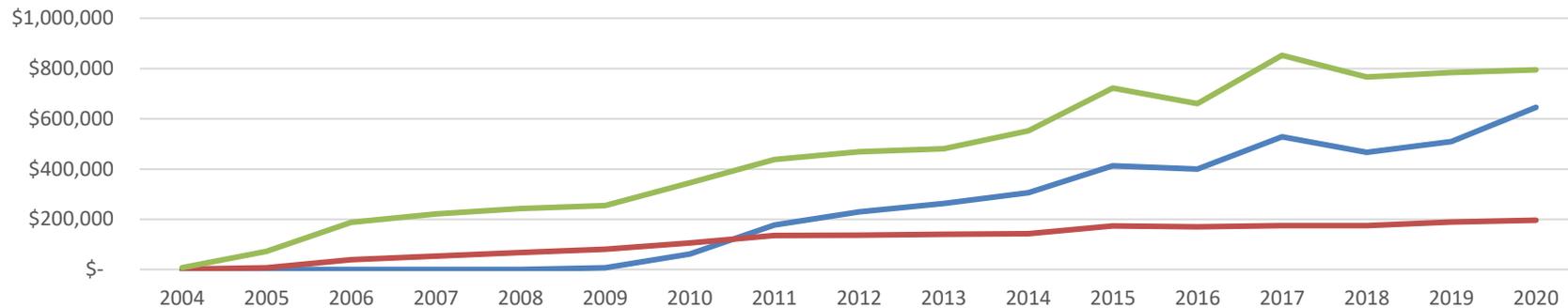
The following three scenarios were evaluated for all Renaissance Zone project parcels starting on the year of each approval:

Scenario A:
Improvement occurs, a Renaissance Zone tax exemption is granted for five years, and taxes are collected thereafter. This scenario is the actual reality.

Scenario B:
No Renaissance Zone is available, and improvement does not occur. Taxes are collected on the initial building value in all years. The program is 100% effective.

Scenario C:
No Renaissance Zone is available, and improvement occurs anyway. Taxes are collected on post-improvement value in all years. The program is 0% effective.

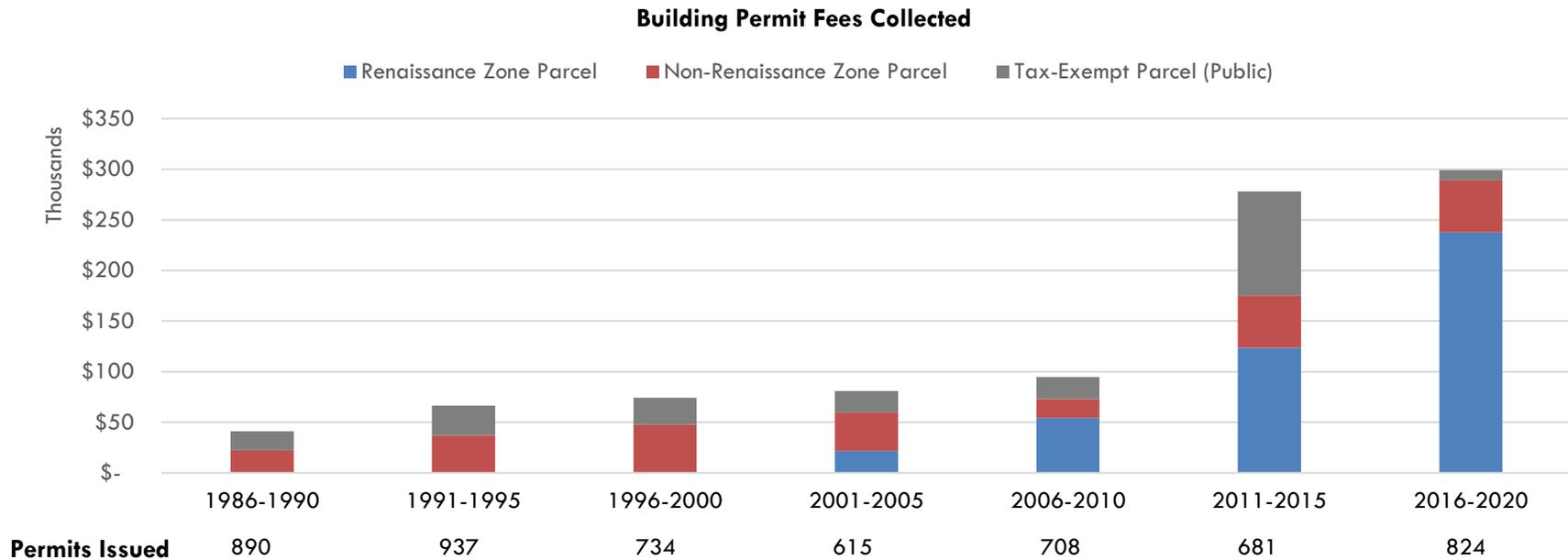
Annual Property Tax Revenue Collected on Building Value of Renaissance Zone Project Parcels After Approval



Based on this analysis, the Renaissance Zone program should be **66% effective** to achieve a net positive cumulative return in property tax revenue from project parcels by 2020. In other words, if 66% of the investment made on these parcels since the Renaissance Zone approval is attributed to this incentive, then the City would have collected more total property tax revenue from these parcels between 2004 and 2020 with the Renaissance Zone program than without. It should be noted that this only includes internal capture of property tax revenue from the building value, and does not account for land value effects, effects in value on nearby parcels, sales tax, building permits, and other potential sources of revenue. Second, the effectiveness necessary to achieve net positive return will continue to drop over time, as more projects re-enter the tax rolls. For example, if all conditions remain the same, the Renaissance Zone program would only need to be 35% effective to reach this parity by 2030.

Building Permits Issued within Renaissance Zone

Building permits are required for all physical improvements to property, and over two thousand permits have been issued in the Renaissance Zone area since the inception of the program. The building permit fees collected are another way to approximate the amount of value created with the Renaissance Zone, both as a result of approved projects and improvements that have not utilized the program. The changes in permits collected over time may illustrate the impact of the Renaissance Zone program.

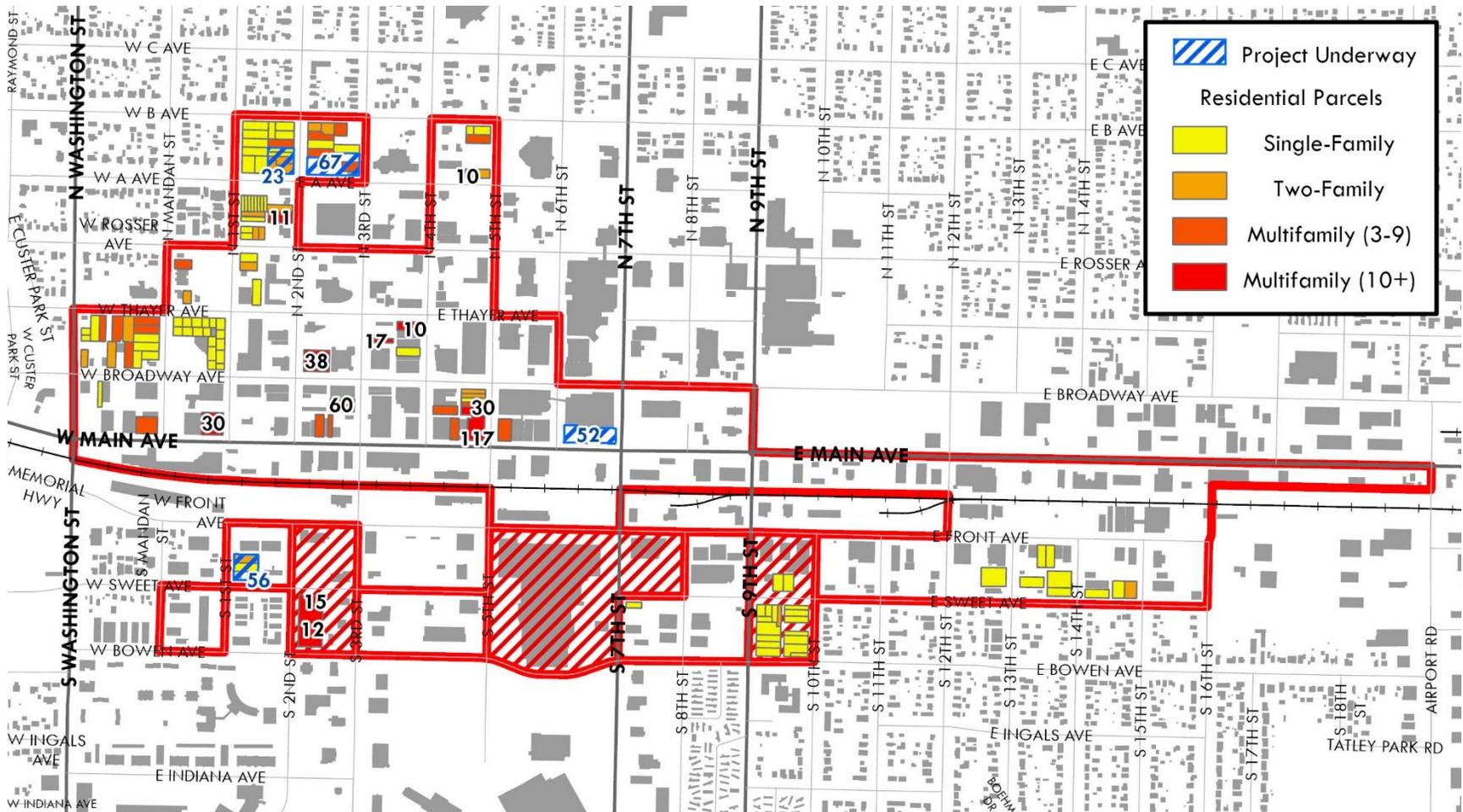


The above chart shows a dramatic increase in the amount of building permit value created over the previous decade, a majority of which is associated with an approved Renaissance Zone project. Two noteworthy exceptions were major projects undertaken in 2013, the 6th Street Parking Ramp and the Event Center expansion, both of which are shown in grey as public-sector projects. It should be noted that these values are not adjusted for inflation or any changes in building permit rates, which have increased incrementally within the last two years. The total number of permits issued has remained relatively steady over time.

Building permits show the effect of the Renaissance Zone in a few ways. First, they represent a direct fiscal benefit to the City. Approximately \$435 Thousand in revenue has been generated by Renaissance Zone projects through collection of building permit fees (no exemptions apply). More importantly, this metric reveals investment made to properties that creates long-term value for the downtown and surrounding area.

Changes in Housing Opportunities within the Renaissance Zone

Housing growth is a stated goal of the Renaissance Zone program that has been less successful than commercial growth. According to the US Census Bureau, the population within the Renaissance Zone decreased from 740 to 549 between 2000 and 2010. The number of housing units dropped from 509 to 457 during this period. Since 2010, 47 housing units were constructed in two separate Renaissance Zone projects, bringing the total up to 555 housing units. More recently, an additional 198 housing units are underway as a part of four Renaissance Zone projects, all available without restrictions. These approved projects represent a 36% increase in housing opportunities within the Renaissance Zone.



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 new construction project in downtown Bismarck.

In the summer of 2020, the project subcommittee reached out to all previous participants in Bismarck's Renaissance Zone to inquire about the impact of the program on their decision to invest. Of six responses received, three stated they would not have completed their project without the program. Two other participants stated that the program was influential in their decision, and that it affected the budget for their project. One participant stated that the program had no effect. This sample is not large enough to allow an inference for all participants, but it does provide anecdotal evidence for effectiveness at least in several cases. Especially projects that are on the margin of providing enough return on investment to attract capital may surpass a tipping point with even a relatively small tax exemption.

According to research on tax incentive effectiveness in other states², an incentive is more likely to spur action in smaller 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. 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 businesses and landowners within the Renaissance 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."

The reinvestment within downtown Bismarck demonstrated in this study is likely to be a contributing factor to the overall health of the regional economy. Increased investment in downtown Bismarck benefits the broader community through the cost-effective utilization of existing infrastructure. Growth in the core of the community, where public services are already available, can offset the additional public costs that are incurred by development on the edges of the community.

While this study focuses on measuring the benefits that are more easily quantifiable, it should be recognized that there are intangible benefits of a sustainable downtown as well. Enhancement of downtown as a cultural and historic symbol of the community, the attraction and retention of employees who desire the amenities of a healthy downtown, the impact on tourism and large events, and the provision for gathering places for the public are all relevant considerations.

The results of this study suggest that the Renaissance Zone program has made a significant, if not exclusive, contribution to the property value increases in downtown Bismarck over the previous fifteen years, and that the costs to the City and other political subdivisions of the program have been outweighed by the increased tax revenue.