

## Introduction

### Downtown Business Trends

From the day the first railroad crossed the Red River in 1871, the downtown has defined the community of Fargo and served as the commercial center of a growing city. Historically, the downtown area, centered on Broadway, served as the primary regional hub of distribution, manufacturing, retail, and professional trade for the city and for the entire state of North Dakota. Property values rose, citizens prospered, and the entire community took pride in its bustling core. But in 1973, with the opening of the West Acres Regional Shopping Center, the downtown's role as a regional retail center was transferred to the southwestern edge of the city. This began the pattern of suburban sprawl familiar to urbanists all across America after World War II.

Despite numerous efforts to stem the tide, the removal of the district's retail focus proved debilitating to downtown Fargo. Early efforts centered on sustaining downtown's long held status as a retail mecca. Later efforts at renewal found some success in niche markets. However, even these efforts have lacked the comprehensive vision and sustained drive that are critical to successfully establishing a healthy downtown.

Working to keep a neighborhood, a business district, or a community vital is an ongoing effort. The issue of downtown renewal has been on the city of Fargo's public agenda since the 1950s. Repeatedly, business people, public officials, and concerned citizens have come together to re-define the city as its boundaries continue to progress even further outward.

The Renaissance Zone legislation passed by the North Dakota legislature in the spring of 1999, and signed by the Governor on April 8, 1999, creates another tool that can be used to spur private sector reinvestment in downtown and increase overall investor confidence in the central business district.

This document will outline the development plan for the proposed Fargo Renaissance Zone, as well as the organizational structure that will be necessary to implement the development plan. It presents the vision and goals for the Renaissance Zone and for downtown revitalization and also outlines the ways the Renaissance Zone initiative will be integrated with other community efforts currently under way.

### Renaissance Zone Legislation

A Renaissance Zone is a new and innovative way to spur development and increase investor confidence in downtown Fargo. Development and investment activity that takes place in a designated geographic area (the Renaissance Zone) may become eligible for a variety of tax exemptions and/or credits. To create a Renaissance Zone, the City must develop a plan to describe the overall redevelopment strategy for the proposed Renaissance Zone and submit it to the Division of Community Services (DCS - formerly Office of Intergovernmental Assistance) for review.

The City may designate a Zone Authority to promote, develop and manage the zone. Each project must be approved by a majority of the Zone Authority in order to be eligible

for the incentives outlined in this Act. The maximum duration of the Renaissance Zone is 15 years. This Act is effective as of January 1, 1999 and consequently does not apply to investments or activities that occurred prior to that date.

#### Definition of Zone Boundary

- Boundary of zone must be adopted by City Commission and DCA
- Cannot encompass more than 20 square blocks
- All blocks in zone must be contiguous
- Zone boundary must be continuous
- Land usage must include both commercial and residential property

#### Incentives: Tax Exemptions and Credits

- The city's Renaissance Zone Plan will establish standards that each project must meet in order to be eligible to receive incentives.
- Exemptions transfer to new owner if a property is sold during the 5-year exemption period (pro-rate exemption based on use of property)
- If a pass-through entity (partnership, S-corporation, limited partnership, LLC, etc.) is eligible for an exemption or credit, the amount must be determined at the pass-through entity level and distributed to partners, shareholders or members in proportion to their respective interests in the pass-through entity
- The secrecy provisions of the income tax code do not apply when a local zone authority inquires about exemptions or credits claimed in its renaissance zone

#### **Income Tax Exemption**

- Qualification for this exemption is determined by the municipality
- Individual that purchases a single-family residence as primary residence = exemption of up to \$10,000 in income tax liability for 5 taxable years, starting with date of occupancy. Single family residence includes detached single family homes, condominiums and any other owner-occupied residence.
- Business that purchases or leases property as part of a zone project = exempt from income tax on income derived from business location(s) within zone, for 5 taxable years beginning in year of investment or lease
- Individual or entity that purchases income-generating residential or commercial property (as an investment) that is part of a zone project = exempt from income tax on income earned from that investment for 5 taxable years
- All affected taxpayers must still file an income tax return

#### **Property Tax**

- All exemptions are determined by the municipality and may be partial or complete
- Maximum length of the exemption is 5 years from the date of investment

- Exemption may be given to an individual who purchases a single family residence (exemption only on structure, not on land)
- Exemption may be given to a business on the purchase of buildings, structures, fixtures, and/or improvements in conjunction with a zone project
- Exemption may be given to any owner of income-generating residential or commercial property on all buildings, structures, fixtures, and improvements

#### **Historic Preservation and Renovation Tax Credit**

- Credit against state tax liability for investment in the historic preservation or renovation of a zone property that is listed on the National Register of Historic Places (either individually or as a contributing building in an historic district) or is eligible to be listed on the Register, if the investment is made between January 1, 2000 and December 31, 2004
- Credit is worth 50% of the amount invested during the taxable year and can be applied to the property owner's entire income tax liability (not limited to liability generated from income earned at the Renaissance Zone property)
- Excess credit may be carried forward for a period of up to 5 taxable years from date of investment

#### Renaissance Fund Corporation

- Renaissance Fund Corporation can be a for-profit subsidiary of the Zone Authority, if one is designated
- Purpose of the Corporation is to:
  - ✓ Raise funds to be used to make investments in zone projects
  - ✓ Provide financing to projects in a manner that will encourage capital investment and residency in downtown's and central portions of cities
- The "original principal amount" is the total amount of funds invested in the Corporation while the zone is in existence

#### **Qualified Fund investments**

- Corporation may invest in any residential, commercial or infrastructure project in the zone
- Financing of zone projects may include any combination of equity investments, loans, guarantees and commitments for financing
- Amount of financing is not limited by the legislation
- Each petition for investment of Corporation funds must include a plan for sale or refinancing that results in proceeds equal to or in excess of the proportional investment made by the corporation

### **Income generated by the Fund**

- The Corporation is exempt from income tax but must continue to file returns as if the exemption did not exist
- Interest and investment income may be used for administration of the Corporation
- If the corporation derives income from sale or refinancing of property that was financed wholly or in part by corporation funds, 90 percent of the income can be re-distributed as a dividend to the fund's investors, proportional to their investment in the fund. If the Corporation incurs losses that drop the fund's resources below the original principle amount, no dividends can be distributed until the Fund is restored.

### **Tax Credit to Fund Investors**

- Credit against state tax liability is allowed for investments in the Corporation
- Value of tax credit is 50 percent of investment made in taxable year; excess credit may be carried forward for up to 5 taxable years
- Total credits allows in North Dakota may not exceed \$2.5 million
- If an investor in the corporation wishes to redeem his or her investment (take the money out of the fund) within 10 years of initially investing, that investor will not be eligible for the tax credit that is allowed in this section and will be responsible for repaying any past credits received.