

DEPARTMENT OF COMMERCE ANNUAL REPORT ON BUSINESS INCENTIVES
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TAXATION COMMITTEE
ROUGH RIDER ROOM, STATE CAPITOL
SENATOR DWIGHT COOK, CHAIRMAN

JUSTIN DEVER – MANAGER, OFFICE OF INNOVATION & ENTREPRENEURSHIP, ND
DEPARTMENT OF COMMERCE

Good morning, Mr. Chairman and members of the Taxation Committee, my name is Justin Dever and I manage the Office of Innovation and Entrepreneurship for the North Dakota Department of Commerce. I'm here today to provide you with the annual report for business incentive accountability as directed to by NDCC Section 54-60.1-07.

The Business Incentive Accountability law (NDCC Chapter 54-60.1) was approved during the 2005 legislative session and the law took effect on January 1, 2006. This law applies to businesses that receive incentives totaling \$25,000 or more in a given year from state or local grantors.

The law requires grantors and recipients to enter into business incentive agreements (BIA) before the recipient business receives an incentive. This BIA contains a description of the incentive to be granted as well as job goals for the business to achieve within 2 years. Recipient businesses must report on progress towards their goals for at least two years and until they meet their goals. Another requirement of the BIA is that the incentive must meet one of the following public purposes: assisting community development, increasing the tax base, directly creating employment opportunities or indirectly creating employment opportunities through increased economic activity.

State Business Incentive Programs

The following state business incentive programs are subject to the Business Incentive Accountability law.

Income Tax Exemption for New or Expanding Businesses – upon application from a project operator that qualifies as a new or expanding primary sector business or tourism destination attraction, the State Board of Equalization may grant an exemption from state income tax for a period not exceeding five years from commencement of project operations. For an expanding business, the income tax exemption applies only to income generated by the expansion of the business. The State Board of Equalization has determined the public purpose of this incentive is assisting community development.

Agricultural Products Utilization Commission (APUC) – is a grant program whose purpose is to create new wealth through the development of new and expanded uses of North Dakota agricultural products. It does this through the administration of seven grant categories, basic and applied grants, marketing and utilization grants, farm diversification grants, nature based agri-tourism grants, prototype grants, technology grants, and technical assistance grants. All grant requests are evaluated on the probability for job and wealth creation, the scientific and technical merit of any research, probability of rapid commercialization, a shared commitment for funds from other sources, overall merit and geographical considerations. The public purposes for APUC grants include indirectly creating employment opportunities through increased economic activity or assisting community development.

Partnership in Assisting Community Expansion (PACE) – The PACE family of programs at BND is designed to encourage specific types of economic activity within the State of North Dakota. In general terms, PACE provides an interest buy down that can reduce the borrower's rate of interest by as much as 5%.

The traditional PACE Program assists North Dakota communities to expand their economic base by providing for an interest buydown to encourage ND borrowers to pursue new job development. The borrower is required to demonstrate that within one year there will be a minimum of one job created and retained for every \$100,000 of total loan proceeds. Otherwise, the interest buydown will be prorated to reflect any partial fulfillment or discontinued if no creation has occurred.

The public purposes for PACE include directly creating employment opportunities, indirectly creating employment opportunities through increased economic activity, or assisting community development.

The North Dakota Development Fund, Inc. – provides financing for “primary sector” businesses, which includes agricultural processing, manufacturing, tourism and export service companies. The Fund provides “gap” financing not available from other, more conventional sources. Innovative financing options are available to provide both short and long term capital to new, expanding or relocating businesses in the state of North Dakota. The public purposes for ND Development Fund financing includes directly creating employment opportunities, job retention, assisting community development, or indirectly creating employment opportunities through increased economic activity.

The Renaissance Zone program is a tool to help cities revitalize their communities. By offering both state and local tax incentives for 5 years, the program is unique in that cities develop handcrafted development plans that address each city's specific goals. The public purpose of Renaissance Zones is assisting community development.

Community Development Block Grant (CDBG) Program – The CDBG Program provides financial assistance to eligible units of local Governments in the form of grants and loans for Public Facilities, Housing Rehabilitation, and Economic Development projects. The primary beneficiaries of these projects must be very low and low income individuals. Examples of projects funded by CDBG in the respective emphasis areas are:

- Housing – housing rehabilitation of very low and low income homeowner units and rental units within a particular area.
- Public Facilities – water and sewer projects, removal of architectural barriers, fire halls, ambulances, etc.
- Economic Development – cities and counties receive funds to loan/grant to businesses which create jobs for low income persons.

The economic development portion of CDBG is the only portion subject to the Business Incentive Accountability Law and the public purpose is assisting community development.

Summary and Compilation of Results

The Department of Commerce has the responsibility under NDCC §54-60.1-07 to report annually on the business incentive accountability law including a summary of the results and a compilation of the data reported by the state grantors. In fulfillment of this responsibility, this report includes a summary of the results and a full compilation is being provided to Legislative Council staff. A full copy of this report, including the 165 page compilation of the results by business, can also be downloaded at www.ndcommerce.com/accountability. The information in the compilation spreadsheet includes:

- Number of jobs targeted to be created or retained by each recipient business
- Number of jobs achieved in comparison to the jobs targeted by each recipient business
- Average compensation of jobs targeted, including identification of the average benefits and average earnings by each recipient business
- Average compensation of jobs created or retained by each recipient business

We are also to provide a distribution of business incentives by type of business and by public purpose. We utilized the North American Industrial Classification System (NAICS) in order to breakdown the type of business. The breakdown of incentives by type of incentive is included as Table 1, by public purpose as Table 2 and by business type as Table 3.

Since Commerce started collecting data for business incentive agreements (BIA's) in 2006, there have been 629 BIA's, which are for 567 unique projects. 198 of these projects included job creation or retention goals and were provided the incentives at least two years ago. Chart 1 shows the results of these projects. As you can see, fifty-seven percent of the projects have achieved their job creation or retention goals (42.4%), have repaid their incentives (8.6%), or have refunded their incentives (5.6%). Thirty percent have not yet achieved their goals and six percent have closed or their incentive written off. Chart 2 shows the time it took for businesses to achieve their job creation or retention goals. Forty-six percent achieved their goals in 2 years or less, forty-six percent took 2 to 3 years, and the remaining seven percent took 3 to 4 years.

The Business Incentive Programs had 104 projects for 2012 with an incentive value of \$15.7 million. Other information that I would like to point out for 2012 is as follows:

- Job creation by year (Table 5)
 - Actual job created were 112 compared to the job creation goal of 351.
 - Bonus jobs. The definition for bonus jobs is when the public purpose doesn't require job creation as in assisting community development. The recipient still reports on the number of jobs created, and 153 bonus jobs were created in 2012.
- Wages and benefits (Tables 6 & 7)
 - For 2012, the actual average wages and benefits have exceeded the goals.

Finally, I would like to summarize the BIA information from 2006- 2012. Since 2006, there have been 629 BIA's with an incentive value of \$133.1 million. Other information I would like to point out for 2006-2012 is as follows:

- Job creation for 2006- 2012 (Table 5)
 - Actual job created were 2,403 compared to job creation goals of 2,384.
 - An additional 328 jobs were created over and above the jobs retention goal of 863.
 - Bonus jobs. The definition for bonus jobs is when the public purpose doesn't require job creation (such as assisting community development). The recipient still reports on the number of jobs created, 1,764 bonus jobs were created from 2006-2012.
- Wages and benefits for 2006 – 2012 (Tables 6 & 7)
 - By looking at the tables, you can see that the average wages and benefits have exceeded the goals.

Mr. Chairman and members of the Taxation committee, that concludes my report and I'd be happy to answer any questions you might have.

Table 1. Incentive Value by Incentive Type

Incentive Type	Total Of BIA Value	2006	2007	2008	2009	2010	2011	2012
Direct Cash Transfer, Loan, or Equity Investment	\$42,791,757	\$3,704,800	\$7,098,502	\$4,950,738	\$6,529,431	\$4,426,284	\$10,184,761	\$5,897,242
Guarantee of payment under loan, lease, or other obligation	\$1,936,911	\$979,476	\$957,435	\$0	\$0	\$0	\$0	\$0
Interest buydown	\$36,460,556	\$2,210,512	\$3,292,138	\$5,141,572	\$6,484,651	\$5,174,375	\$5,784,490	\$8,372,818
Reduction or Deferral of Tax or Fee	\$51,915,942	\$1,942,811	\$3,246,999	\$29,144,847	\$12,509,179	\$1,790,032	\$1,819,062	\$1,463,012
TOTALS	\$133,105,167	\$8,837,599	\$14,595,075	\$39,237,157	\$25,523,261	\$11,390,691	\$17,788,313	\$15,733,073

Table 2. Incentive Value by Public Purpose

BIA Purpose	Total Of BIA Value	2006	2007	2008	2009	2010	2011	2012
Assisting community development	\$83,630,346	\$4,595,712	\$6,602,844	\$31,980,316	\$15,553,449	\$7,257,996	\$8,436,751	\$9,203,279
Directly creating employment opportunities	\$41,717,824	\$3,216,887	\$6,033,779	\$6,282,541	\$9,849,379	\$4,132,695	\$8,814,311	\$3,388,231
Increasing Tax Base	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Indirectly creating employment opportunities through increased economic activity	\$1,556,575	\$350,000	\$664,354	\$44,299	\$60,398	\$0	\$157,250	\$280,274
Job retention (only in cases in which job loss is specific and demonstrable)	\$6,200,421	\$675,000	\$1,294,098	\$930,000	\$60,035	\$0	\$380,000	\$2,861,288
TOTALS	\$133,105,167	\$8,837,599	\$14,595,075	\$39,237,157	\$25,523,261	\$11,390,691	\$17,788,313	\$15,733,073

Table 3. Incentive Value by Type of Business (Sorted by Total Value)

Description		Total Value	2006	2007	2008	2009	2010	2011	2012
Chemical Manufacturing	325	\$42,827,446	\$126,000	\$3,107,225	\$28,344,920	\$11,178,301		\$26,000	\$45,000
Food Manufacturing	311	\$11,673,143	\$1,705,002	\$913,201	\$934,778	\$3,881,840	\$93,994	\$1,744,045	\$2,400,282
Professional, Scientific, and Technical Services	541	\$7,816,096	\$450,000	\$775,256	\$1,854,293	\$1,461,540	\$1,300,668	\$1,743,127	\$231,211
Machinery Manufacturing	333	\$7,141,347	\$105,233	\$1,189,096	\$442,000	\$482,405	\$1,638,448	\$1,716,187	\$1,567,979
Real Estate	531	\$6,586,205	\$499,615	\$433,976	\$438,262	\$908,837	\$404,388	\$963,342	\$2,937,785
Miscellaneous Manufacturing	339	\$5,390,565	\$102,500	\$1,228,977	\$401,000	\$299,999	\$300,000	\$1,408,649	\$1,649,440
Computer and Electronic	334	\$4,921,297	\$1,463,797	\$343,752	\$832,698	\$401,000	\$88,454	\$756,055	\$1,035,541

Product Manufacturing									
Animal Production	112	\$4,616,092	\$120,000	\$371,000	\$1,054,719	\$1,474,518	\$648,263	\$370,340	\$577,251
Electrical Equipment, Appliance, and Component Manufacturing	335	\$3,272,145		\$500,000	\$593,639	\$500,006	\$500,000	\$1,125,000	\$53,500
Fabricated Metal Product Manufacturing	332	\$3,002,951	\$172,549	\$790,348	\$438,119	\$158,223		\$717,758	\$725,955
Internet Service Providers, Web Search Portals, and Data Processing Services	518	\$2,417,490	\$1,000,000			\$267,490	\$50,000	\$600,000	\$500,000
Merchant Wholesalers, Durable Goods	423	\$1,942,489			\$604,209		\$811,499	\$374,193	\$152,588
Plastics and Rubber Products Manufacturing	326	\$1,888,145	\$250,000		\$250,000	\$374,127	\$29,994	\$910,211	\$73,814
Administration of Economic Programs	926	\$1,782,500		\$1,080,000		\$160,000		\$542,500	
Construction of Buildings	236	\$1,773,769	\$250,000	\$143,000		\$380,769			\$1,000,000
Merchant Wholesalers, Nondurable Goods	424	\$1,730,710		\$79,018	\$92,702	\$942,449	\$282,894	\$40,000	\$293,647
Food Services and Drinking Places	722	\$1,685,034	\$199,491	\$200,600			\$199,357	\$822,157	\$263,429
Transportation Equipment Manufacturing	336	\$1,617,309	\$150,000	\$500,000	\$668,332	\$75,000	\$159,393		\$64,584
Support Activities for Agriculture and Forestry	115	\$1,397,256	\$29,750	\$822,356		\$186,309	\$182,841		\$176,000
Administrative and Support Services	561	\$1,331,301	\$74,800		\$439,739		\$652,635	\$164,127	
Wood Product Manufacturing	321	\$1,227,653	\$250,000	\$40,686	\$577,971	\$358,995			
Petroleum and Coal Products Manufacturing	324	\$1,220,451		\$338,306	\$57,192	\$474,953	\$100,000	\$250,000	
Other Information Services	519	\$1,162,643				\$36,062	\$100,000	\$400,000	\$626,581
Accommodation	721	\$1,143,206	\$100,000				\$574,552	\$218,409	\$250,245
Ambulatory Health Care Services	621	\$1,073,072		\$252,093	\$30,829	\$333,507	\$456,642		

Social Assistance	624	\$977,312				\$85,341	\$625,893	\$266,078	
Specialty Trade Contractors	238	\$953,955	\$328,375	\$76,500			\$100,000	\$328,211	\$120,870
Crop Production	111	\$791,152	\$26,881	\$101,000	\$289,503	\$139,119	\$55,000	\$111,400	\$68,250
Repair and Maintenance	811	\$716,474	\$190,700	\$242,950		\$102,000	\$48,087	\$75,062	\$57,675
Hospitals	622	\$694,275		\$279,962		\$39,992	\$81,674	\$292,647	
Gasoline Stations	447	\$528,961		\$85,000	\$61,966		\$381,995		
Food and Beverage Stores	445	\$518,269	\$63,750	\$38,250		\$57,806	\$227,941	\$56,960	\$73,562
Textile Product Mills	314	\$503,084	\$374,048	\$53,500		\$75,536			
Securities, Commodity Contracts, and Other Financial Investments and Related Activities	523	\$500,000					\$500,000		
Nursing and Residential Care Facilities	623	\$492,291				\$187,361		\$179,929	\$125,000
Building Material and Garden Equipment and Supplies Dealers	444	\$442,801	\$85,000				\$85,818	\$234,845	\$37,138
Rental and Leasing Services	532	\$370,059	\$155,773		\$214,286				
Administration of Housing Programs, Urban Planning, and Community Development	925	\$313,543				\$143,753	\$169,790		
Personal and Laundry Services	812	\$292,187	\$193,725				\$26,702		\$71,761
Amusement, Gambling, and Recreation Industries	713	\$251,214	\$76,500			\$137,150	\$30,840		\$6,725
Clothing and Clothing Accessories Stores	448	\$250,454	\$34,765					\$147,432	\$68,256
Management of Companies and Enterprises	551	\$234,885						\$234,885	
Furniture and Related Product Manufacturing	337	\$231,024		\$88,154		\$142,871			
Mining (except Oil and Gas)	212	\$212,078					\$161,583	\$50,495	
Support Activities for Transportation	488	\$211,862						\$135,433	\$76,428

Executive, Legislative, and Other General Government Support	921	\$200,000						\$200,000	
Motor Vehicle and Parts Dealers	441	\$176,678	\$41,225						\$135,453
Nonmetallic Mineral Product Manufacturing	327	\$174,732		\$174,732					
Unknown	999	\$174,500						\$174,500	
Heavy and Civil Engineering Construction	237	\$174,368		\$67,575	\$50,561		\$28,047		\$28,184
Primary Metal Manufacturing	331	\$166,468			\$166,468				
Justice, Public Order, and Safety Activities	922	\$166,348							\$166,348
Electronics and Appliance Stores	443	\$161,447	\$85,000				\$47,425	\$29,023	
Telecommunications	517	\$150,000						\$150,000	
Museums, Historical Sites, and Similar Institutions	712	\$150,000			\$150,000				
Educational Services	611	\$121,603			\$121,603				
Miscellaneous Store Retailers	453	\$114,750	\$51,000	\$63,750					
National Security and International Affairs	928	\$107,306						\$107,306	
Air Transportation	481	\$100,000		\$100,000					
Warehousing and Storage	493	\$97,592	\$25,000						\$72,592
Textile Mills	313	\$92,500		\$42,500		\$50,000			
Support Activities for Mining	213	\$91,630					\$46,308	\$45,322	
Health and Personal Care Stores	446	\$87,374					\$87,374		
Religious, Grantmaking, Civic, Professional, and Similar Organizations	813	\$76,685							\$76,685
General Merchandise Stores	452	\$72,310		\$72,310					
Printing and Related Support Activities	323	\$59,510					\$59,510		

Couriers and Messengers	492	\$57,120	\$57,120						
Paper Manufacturing	322	\$54,978			\$54,978				
Truck Transportation	484	\$52,681					\$52,681		
Furniture and Home Furnishings Stores	442	\$44,299			\$44,299				
Sporting Goods, Hobby, Book, and Music Stores	451	\$28,090			\$28,090				
Beverage and Tobacco Product Manufacturing	312	\$26,000				\$26,000			
TOTALS		\$133,105,167	\$8,837,599	\$14,595,075	\$39,237,157	\$25,523,261	\$11,390,691	\$17,788,313	\$15,733,073

Table 4. Total Business Incentive Agreements by Job Creation, Job Retention, or Neither

Year	Total	Create	Neither	Retain
2006	60	25	29	6
2007	87	42	38	7
2008	72	39	33	0
2009	93	45	46	2
2010	89	24	65	0
2011	124	42	78	4
2012	104	23	79	2
TOTALS	629	240	368	21
Percentages	100.0%	38.2%	58.5%	3.3%

Table 5. Job Creation & Retention Goals by Year and Achievement Status

	2006	2007	2008	2009	2010	2011	2012	Total Jobs
Goal Create	431	461	340	285	104	412	351	2,384
Goal Retain	54	218	0	119	0	67	112	570
Goal Totals	485	679	340	404	104	479	463	2,954
Jobs Created	266	961	284	523	107	150	112	2,403
Retained	-2	53	0	9	0	268	0	328
Bonus Jobs	208	301	203	104	552	243	153	1,764
Total	472	1,315	487	636	659	661	265	4,495

Table 6. Wages for Job Creation

	2006		2007		2008		2009	
	Wages	Benefits	Wages	Benefits	Wages	Benefits	Wages	Benefits
Goal	\$13.00	\$2.36	\$16.10	\$2.70	\$14.58	\$1.53	\$15.76	\$2.72
Year1	\$14.78	\$2.11	\$18.16	\$2.84	\$18.58	\$3.19	\$17.74	\$2.71
Year2	\$14.12	\$2.53	\$17.76	\$3.03	\$16.41	\$2.93	\$17.32	\$3.10
Year3	\$15.62	\$1.77	\$20.33	\$2.48	\$16.68	\$3.11	\$17.40	\$2.90
Year 4	\$ -	\$ -	\$12.00	\$1.00	\$18.17	\$2.92	\$12.33	\$2.50
Year 5			\$ -	\$ -	\$23.33	\$2.67	\$ -	\$ -

	2010		2011		2012	
	Wages	Benefits	Wages	Benefits	Wages	Benefits
Goal	\$20.07	\$3.87	\$18.37	\$3.32	\$17.00	\$3.00
Year1	\$18.20	\$2.75	\$16.72	\$3.63	\$21.00	\$4.00
Year2	\$25.06	\$4.22	\$18.79	\$4.63	\$ -	\$ -
Year3	\$26.50	\$2.00	\$ -	\$ -	\$ -	\$ -
Year4	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

Table 7. Wages for Job Retention

	2006		2007		2008		2009	
	Wages	Benefits	Wages	Benefits	Wages	Benefits	Wages	Benefits
Goal	\$12.00	\$1.67	\$15.33	\$3.00	\$ -	\$ -	\$5.50	\$ -
Year1	\$10.00	\$7.00	\$14.50	\$2.50	\$ -	\$ -	\$5.50	\$ -
Year2	\$15.33	\$5.00	\$15.00	\$2.50	\$ -	\$ -	\$ -	\$ -
Year3	\$17.00	\$7.67	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Year 4	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

	2010		2011		2012	
	Wages	Benefits	Wages	Benefits	Wages	Benefits
Goal	\$ -	\$ -	\$18.00	\$2.75	\$30.00	\$6.00
Year1	\$ -	\$ -	\$17.00	\$3.00	\$34.00	\$6.00
Year2	\$ -	\$ -	\$18.25	\$3.75	\$ -	\$ -
Year3	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Year 4	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

Chart 1. Status of Job Creation & Job Retention Goals for Business Incentives Granted at least 2 years ago

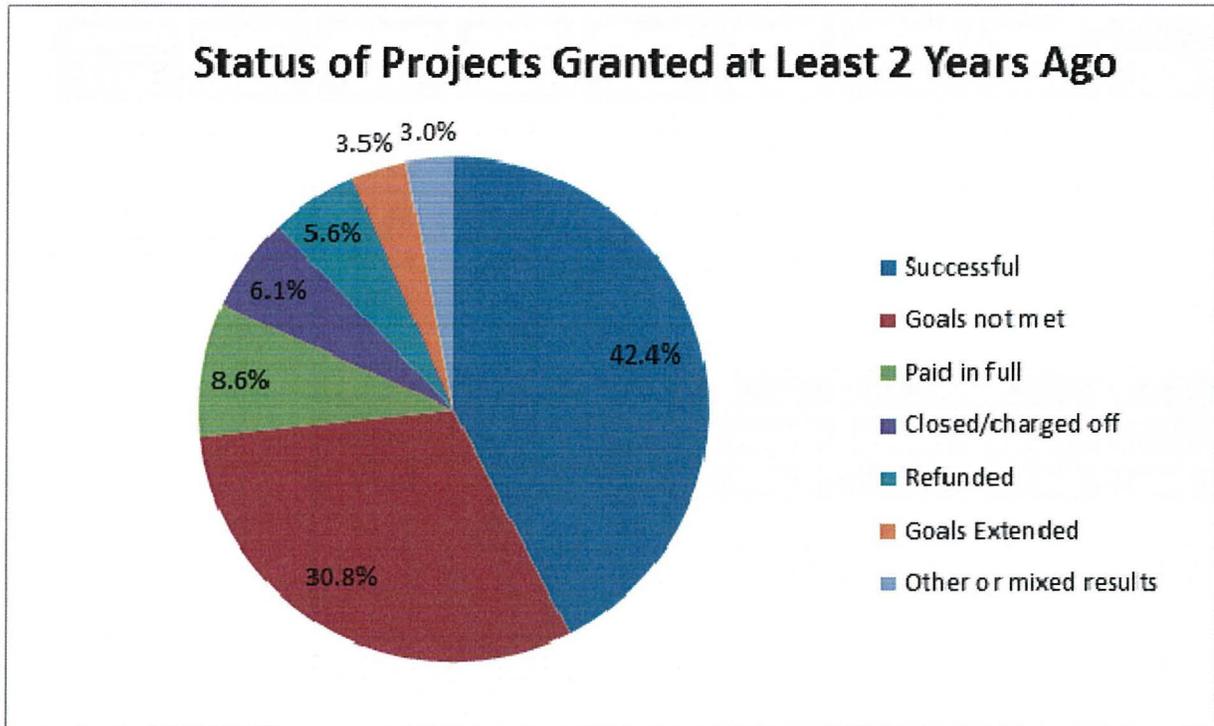


Chart 2. Timeframe That Job Creation & Job Retention Goals Were Achieved.

