



**Testimony of Keith Lund, President
Economic Development Association of North Dakota
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I'm Keith Lund, Vice President of the Grand Forks Region Economic Development and President of the Economic Development Association of North Dakota (EDND). On behalf of EDND, I would like to thank the committee for the opportunity to participate in the panel on Nov. 6 regarding economic development tax incentives and to address you again today.

EDND represents more than 80 state economic development organizations on the front line of economic development efforts throughout North Dakota. The primary purpose of the organization is to support the creation of new wealth and the diversification of North Dakota's economy.

Our organization is supportive of the committee's efforts to demonstrate the value of the state's investment in business support programs to grow and diversify North Dakota's economy. In addition, I would like to reiterate EDND's willingness to be a resource to the committee and assist in identifying information that will work best to evaluate North Dakota's programs, in order to assure North Dakota taxpayers these investments are having a return on their investment.

Since the Nov. 6 meeting, EDND has met with representatives from the North Dakota Department of Commerce, the North Dakota Tax Department, PEW Charitable Trusts, the Center for Regional Competiveness, Chairman Cook and Senator Grindberg, and other key stakeholders. This is where we are at:

- Learned that PEW is willing to be a resource and to organize and facilitate a working group discussion with EDND and others and provide recommendations to the Interim Tax Committee based on those meetings.
- Learned about a six-state economic development incentive review process in which PEW is partnering with the Center for Regional Economic Competiveness. Applications for the 18-month initiative are due in early February. We understand the Governor is supportive. If North Dakota isn't selected, PEW would still work with us individually.
- Started developing a list of economic development related incentives.
- Helped developed a list of potential working group members that could assist the Tax Committee.
- Discussed the components of a goal statement for new wealth creation that could be used as an evaluation guide, which would include means for communities to attract new wealth, create jobs, and improve quality of life.

For this meeting, EDND has been asked to:

1. Review existing economic development incentives, recommending any that could be altered or eliminated.
2. Provide recommendation on existing economic development incentives that should be "targeted" to certain areas or cities based on population, existing economic development activity, or other factors.
3. Provide recommendation on the issue of ongoing evaluation of existing economic development incentives going forward.

Existing Economic Development Incentives Review

The economic development community views incentives as investments. They are targeted at the state and local level to encourage capital investment, property tax base expansion, job creation and retention, and economic diversification. We believe current business incentives are provided in a fiscally responsible manner. We also believe a thorough analysis will demonstrate the effectiveness of the overall program.

EDND also recognizes the importance of incentives that support innovation, entrepreneurship, and start-up ventures that bring new wealth to the state. Programs such as the angel fund investment tax credit, seed capital investment tax credit, and agricultural processing facility investment credit support long-term sustainable business growth in North Dakota. These and other programs position North Dakota to develop new businesses that will be our primary employers and wealth creators for the future.

In reviewing existing incentives, we would want to determine if they are truly economic development incentives. If so, are they are meeting the goals as written in Century Code, as well as those of the North Dakota Economic Development Foundation (which the legislative committee requested).

The next step would be to look at the incentives that are not being used or have limited use. It may make sense to modernize, revise, or eliminate.

For example, the micro business investment and employment credit haven't been used very much and feedback from the North Dakota Department of Commerce indicates the eligibility requirement is quite narrow.

EDND and agency staff have not had sufficient time to complete a comprehensive review of all tax programs to be able to make definitive recommendations. This should be done by incorporating stakeholder outreach and providing time for comment and testimony.

Targeting Existing Economic Development Incentives

North Dakota has developed targeted investments for state and local priorities.

First, the state has targeted primary sector investment strategies aimed at growing and diversifying our economy. These target areas are prospering, and we can all be proud of the state's responsible targeted investment strategy. Examples of these solutions include PACE, property tax exemptions, and corporate income and sales tax exemptions. These programs typically require a primary sector certification from the North Dakota Department of Commerce to insure that the recipients are creating new wealth within the state.

Second, the state has also invested in priority needs beyond the targeted industries that support the ability of communities to attract primary sector growth. Examples of these solutions include the Housing Incentive Fund, Flex PACE, and daycare support.

Finally, local entities develop investment strategies aimed at addressing local needs and achieving their vision for themselves. Examples of these solutions include land for building, Flex PACE, property tax exemption flexibility for smaller communities, property tax exemptions for Renaissance Zones, TIF, and affordable housing programs.

Other states have employed strategies that incent economic activity in target areas. An Enterprise Zone in which tax incentive benefits increase within a zone is a good example of this approach. This is typically done to overcome outmigration, economic disadvantage, or another impediment to sustained growth and investment.

I think it's fair to say that EDND membership would support tax policy for new wealth creation being available statewide. Targeted investments such as enhanced infrastructure support for oil-impacted regions are well-placed.

Ongoing Evaluation of Economic Development Incentives

EDND supports a periodic review of these investments and agrees that it is important for a number of reasons. It demonstrates to the public that these investment decisions are not taken lightly, and it confirms that the investments have a net gain to the state.

Although much of the information important to this task is already collected, it may not be compiled and comprehensively analyzed. In other cases, the information may not be available due to confidentiality issues. Any analysis of the effectiveness of tax incentives needs to consider what information is required and address any impediments in attaining the information. Requiring companies to provide important information in exchange for tax incentives doesn't seem like an unreasonable request.

Closing

EDND recommends creating and appropriately resourcing a system whereby tax incentives are placed on a regular schedule for review against pre-established goals, rather than offering specific programs for elimination or alteration at this time. In addition, based on its meeting with PEW, EDND is willing to work with PEW, alongside state agencies, to develop an evaluation strategy. We also support North Dakota applying to be a participant in the PEW and Center for Regional Competitiveness' Business Incentives Policy and Practice Initiative. If North Dakota isn't selected for the six-state process, EDND still supports working with PEW on the process and timeline they recommended specifically for North Dakota.