

OVERVIEW OF NORTH DAKOTA'S ECONOMIC DEVELOPMENT GOALS & STRATEGIES**JANUARY 30, 2014, 2:10 P.M.****TAXATION COMMITTEE****ROUGH RIDER ROOM, STATE CAPITOL****SENATOR DWIGHT COOK, CHAIRMAN****JUSTIN DEVER – MANAGER OF OFFICE OF INNOVATION AND ENTREPRENEURSHIP, ND DEPARTMENT OF COMMERCE**

Good afternoon, Mr. Chairman and members of the committee, my name is Justin Dever, and I serve as the Manager of the Office of Innovation & Entrepreneurship for the Department of Commerce. I'm here today to provide some context on how tax incentives fit within the state's economic development goals and strategies. I will also provide information on statutes that reflect the purposes of business incentives.

North Dakota Economic Development Foundation (NDCC § 54-60-04)

The North Dakota Economic Development Foundation was established by the legislature at the same time as the creation of the Department of Commerce in 2001. Its purpose is to provide private-sector guidance and oversight of the state's economic development efforts. It is comprised of 15-30 members (currently 22) from the private sector representing various industries from across the state.

In statute, it is responsible to:

- a. Provide the governor advice and counsel in selecting the commissioner.
- b. Serve in an advisory role to the commissioner.
- c. Develop a strategic plan for economic development in the state and set accountability standards, measurements, and benchmarks to evaluate the effectiveness of the department in implementing the strategic plan.
- d. Monitor economic development activities and initiatives of the department.
- e. Recommend state and federal legislation relating to strengthening the state's economy and increasing the state's population.
- f. Monitor state and federal legislation and initiatives that may impact the state's economy and population.
- g. Serve as a source of expertise for developing public and private initiatives to strengthen the state's economy and increase the state's population.

More information about the Foundation, including its members can be found on their website at <http://www.commerce.nd.gov/foundation/>.

Economic Development Strategic Plan

In 2002, the ND Economic Development Foundation established its first strategic plan for economic development in the state. This plan was updated in 2010. The strategic plan has six goals and utilizes five target industries and five key strategies to accomplish these goals. The Foundation has established 21 performance measures to gauge progress on these goals, a copy of which is attached.

Goals

1. Create, attract, and retain quality jobs and workforce in targeted industries and high-demand occupations.
2. Strengthen North Dakota's business climate and image to increase national and global competitiveness.
3. Accelerate innovation and entrepreneurship in targeted industries and emerging technologies.
4. Enhance the state education and training system's ability to meet business and workforce needs of the future.
5. Continue to enhance a unified front for North Dakota that supports community, economic and workforce development.
6. Enhance North Dakota's image.

North Dakota Target Industries

- Advanced Manufacturing
- Technology-Based Business
- Value-Added Agriculture
- Tourism
- Energy

5 Essential Strategies for Continued Growth

1. Maintain a positive business climate that supports private sector investment, growth and job creation.
2. Continue investing in university-based research and development conducted with the private sector that engages North Dakota in emerging industries such as life sciences and advanced technology.
3. Embrace entrepreneurship and foster a culture of entrepreneurship where innovative, tech-savvy companies can thrive.
4. Continue investing in statewide talent strategies that address education, training recruitment and retention to provide a steady supply of skilled workers needed to fuel long-term business growth.
5. Promote export trade by linking North Dakota businesses with foreign buyers and markets.

Other Statute's Guiding Incentives

Primary Sector Definitions

Many incentives are focused on developing "Primary Sector Businesses." For a business to be considered primary sector, it needs to "add value" to a product, process, or service and needs to result in the creation of "new wealth" for the state. For example, NDCC § 26.1-50-01(4):

4. "Primary sector business" means an individual, corporation, limited liability company, partnership, or association that through the employment of knowledge or labor adds value to a product, process, or service which results in the creation of new wealth. Qualification as a primary sector business under this subsection must be determined by the department of commerce division of economic development and finance.

Public Purpose Definition for Business Incentives (NDCC § 54-60.1-01(7))

According to NDCC § 54-60.1-02, “A grantor may not grant a business incentive to a recipient unless that business incentive meets a public purpose.” “Public purpose” is defined in NDCC § 54-60.1-01(7) as including:

- Assisting community development;
- Increasing the tax base;
- Directly creating employment opportunities;
- Indirectly creating employment opportunities through increased economic activity; and
- Job retention in cases which job loss is specific and demonstrable.

State Initiatives to Promote Target Industry Growth

The following is a listing of example tax incentives and other state initiatives to support development within the state’s target industries. This information is not intended to be comprehensive.

| Target Industry | Tax Incentives | Other Initiatives |
|---------------------------|---|--|
| Advanced Manufacturing | Manufacturing equipment sales tax exemption (NDCC § 57-39.2-04.3) New or Expanding Business income tax and property tax exemptions (NDCC ch. 40-57.1) Automation Credit (NDCC § 57-38-01.33) | Dakota MEP |
| Technology-Based Business | Angel Fund Investment Credit (NDCC § 57-38-01.26) Telecommunications Infrastructure sales tax exemption (NDCC § 57-39.2-04.9) | Technology-Based Entrepreneurship Grants |
| Value-Added Agriculture | Agricultural Commodity Processing Plant sales tax exemption (NDCC § 57-39.2-04.4) Agricultural Commodity Processing Facility investment credit (NDCC ch. 57-38.6) | Agricultural Products Utilization Commission (APUC) grants |
| Tourism | New or Expanding Business income tax and property tax exemptions (NDCC ch. 40-57.1) | Tourism Marketing Tourism Infrastructure Grants |
| Energy | Sales tax exemptions for: <ul style="list-style-type: none"> - Coal Mine Machinery or Equipment (NDCC § 57-39.2-04) - Coal-Powered Electrical Generating Facilities (NDCC § 57-39.2-04.2) - Wind-Powered Electrical Generating Facilities (NDCC § 57-39.2-04.2) - Gas Processing Facilities (NDCC § 57-39.2-04.2) - Oil Refineries (NDCC § 57-39.2-04.2) Wind Turbine Electric Generation property tax reduction (NDCC § 57-06-14.1) Oil tax incentives, when prices are low (NDCC ch. 57-51.1) | Oil & Gas Research Program Lignite Research Program Renewable Energy Program |

State Initiatives to Promote Growth through “Essential Strategies”

The following is a listing of example tax incentives and other state initiatives to support development within the state, by utilizing the essential strategies outlined in the North Dakota Economic Development Strategic Plan. This information is not intended to be comprehensive.

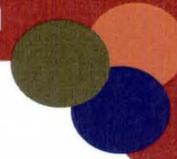
| Strategy | Tax Incentives | Other Initiatives |
|---|--|--|
| Positive Business Climate | Over \$1.1 billion of Tax Relief: <ul style="list-style-type: none"> - \$856 million in property tax relief - \$200 million in individual income tax relief - \$50 million in corporate income tax relief | |
| University-based Research & Development | Research Expense Credit (NDCC § 57-38-30.5) | Research North Dakota Centers of Research Excellence |
| Embrace Entrepreneurship | Seed Capital Investment Credit (NDCC ch. 57-38.5) | Innovate North Dakota |
| Talent Strategies | Workforce Recruitment Credit (NDCC § 57-38-01.25) Internship Employment Credit (NDCC § 57-38-01.24) Jobs Training Assistance (NDCC ch. 52-02.1) | Succeed 2020 Workforce Enhancement Grants Foundation’s Image Campaign |
| Promote Export Trade | | ND Trade Office |

Mr. Chairman and members of the committee, thank you for allowing me the time to visit with you today. That concludes my testimony and I would be happy to entertain any questions.

ND Economic Development Strategic Plan

Performance Measures

Updated on January 29, 2014



GOAL 1 Create, attract, and retain quality jobs and workforce in targeted industries and high-demand occupations.

- 1-1. Net Job Growth (2020 Target: 476,100; goal of 426,100 jobs was revised on 11.1.2013)
2010: 376,100 2012: 429,800 Increase: 53,700 jobs
2013 figures will be available in February 2014.
- 1-2. Average Annual Wage (2020 Target: \$50,000)
2010: \$38,127 2012: \$45,909 Increase: \$7,782 in ave. annual wage
2013 figures will be available in June 2014.
- 1-3. Per Capita Personal Income (2020 Target: \$60,000)
2010: \$42,462 2012: \$51,893 Increase: \$9,431 (122% of nat'l. ave.)
Initial estimates for 2013 will be available in April 2014.
- 1-4. Population (2020 Target: Population of 800,000; goal of 700,000 was revised on 12.6.12)
2010: 674,344 2013: 723,393 Increase: 49,049
Population estimates for July 1, 2014 will be available in December 2014.

GOAL 2 Strengthen North Dakota's business climate and image to increase national and global competitiveness.

- 2-1. Gross Domestic Product (2020 Target: \$50 billion)
2010: \$35.654 billion 2012: \$46.016 billion Increase: \$10.362 billion
Advanced estimates for 2013 will be available in June 2014.
- 2-2. Merchandise Export Value (2020 Target: \$6.5 billion; goal of \$4 billion was revised on 11.1.2013)
2010: \$2.54 billion 2012: \$4.29 billion Increase: \$1.75 billion
2013 figures will be available in February 2014.
- 2-3. Small Business & Entrepreneurship Council's U.S. Business Policy Index
(2020 Target: Ranked among the top 10 states; goal of top 15 was revised on 12.6.12)
2010: #18 2013: #12
The next release of the index is anticipated in December 2014.

GOAL 3 Accelerate innovation and entrepreneurship in targeted industries and emerging technologies.

- 3-1. Number of Private Sector Businesses (2020 Target: 32,000; goal 29,000 was revised 11.1.2013)
2010: 25,741 2012: 29,669 Increase: 3,928
2013 figures will be available in June 2014.
- 3-2. Number of business activities as a result of Innovate ND. (2020 Target: 200)
2010: 100 2012: 135 Increase: 35
- 3-3. Aggregate use of Seed Capital Tax Credits and Angel Fund Tax Credits.
(2020 Target: \$5 million)
2010: \$4,081,909 2012: \$7,129,339 Increase: \$3,047,430
2013 figures will be available in October 2014.

Reportable data:

Academic research and development expenditures – In 2010, North Dakota had an estimated \$204 million in academic R&D expenditures. In 2011, this increased to \$211 million.

Industry research and development expenditures – In 2010, North Dakota had an estimated \$236 million in industry R&D. In 2011, this increased to \$261 million.



GOAL 4 Enhance the state education and training system's ability to meet business and workforce needs of the future.

- 4-1. Number of students taking skilled trade and technical education programs.
(2020 Target: 33,600 students)
2009-10: 30,753 2011-12: 30,784 Increase: 31
- 4-2. Retention of post-secondary program completers. (2020 Target: 65 percent)
2009: 64.2 percent 2010: 67.7 percent Increase: 3.5 percent



GOAL 5 Continue to enhance a unified front for North Dakota that supports community, economic and workforce development.

- 5-1. Number of local development and tourism stakeholders participating in Commerce-sponsored marketing, tourism, workforce, business development and community development activities.
(2020 Target: 3,100 - maintain high participation)
2011: 3,082
Next survey will be conducted in first quarter 2014. 2013 figures will be available then.
- 5-2. Stakeholder perceptions of a unified front for economic development in the state.
(2020 Target: 85 percent)
2011: 83.6 percent
Next survey will be conducted in first quarter 2014. 2013 figures will be available then.



GOAL 6 Enhance North Dakota's image.

- 6-1. Ratio of positive to negative tone in earned media placements.
(2020 Target: Ratio of 13 positive earned media stories for every 1 negative)
2010: 18:1 2011: 11:1
- 6-2. Number of visits as a result of paid advertising. (2020 Target: 2.4 million trips)
2010: 1.0 million visits 2012: 1.4 million visits
- 6-3. Expenditures by out-of-state visitors. (2020 Target: \$5.4 billion)
2010: \$4.6 billion 2011: \$4.8 billion Increase: \$.2 billion
- 6-4. Number of workforce relocators as a result of image enhancement efforts.
(2020 Target: 1,000 workforce relocators)
2010: 346 households 2012: 593 households Increase: 247 households
2014 numbers will be available in August 2014.
- 6-5. Tourism advertising impact on image. (2020 Target: 50 percent of respondents who say they strongly agree that "North Dakota is a place I would really enjoy visiting.")
2010: 32 percent 2012: 50 percent Increase: 18 percent
- 6-6. Number of active social media influencers who contribute to depicting a fun, friendly North Dakota.
(2020 Target: 1,000 social media influencers)
2010: 42 2012: 170 Increase: 128 influencers
- 6-7. International advertising equivalency for positive North Dakota stories.
(2020 Target: \$5 million in international advertising equivalency since 2010)
2011: \$1.23 million