

Information for the
Higher Education Funding Committee

Background on University Incubators



July 30, 2014

1.

A National Business Incubation Association (NBIA) article reported that *about three-fourths (3/4) of incubator properties do not pay property tax* because they are located on tax-exempt government property or are owned by 501(c)3 nonprofits. The vast majority of incubators do not pay property tax because of their nonprofit activity (economic development, education, research, etc.) and the communities receive an economic payback from new employers and employees who pay property tax, income tax, sales tax, etc. (NBIA's *A Comprehensive Guide to Business Incubation*, Completely Revised 2nd Edition, <http://catalog.nbia.org/publication/?i=146142&cp=2>)

2.

By current North Dakota law, a business incubator facility owned by a university is exempt from property tax as it is used in part for academic, training and research by students, faculty and startups. The UND campus incubator is deeply embedded in the Department of Entrepreneurship activities as an entrepreneur laboratory. Additionally, if the incubator is owned by a 501(c)3 nonprofit, such as the UND Center for Innovation Foundation, it is exempt from property tax because of its educational and charitable mission which includes economic development, venture development, job creation, student engagement, etc. This is similar to many of other 501(c)3 properties, from churches to charities, that operate coffee shops, day care centers, etc. One of UND's tech incubators is owned by the University (Skalicky) and the other by the Center for Innovation Foundation (Ina Mae Rude), and both are on state property. The NDSU tech incubator is foundation owned and is on state property.

3.

Montana, South Dakota and Minnesota all exempt campus incubators. This is a best practice, and common practice in the four-state region.

4.

The City of Grand Forks reviewed the property tax exemptions on incubators in 2002, 2010 and 2012. After each review, the incubator properties were determined to be tax exempt under state law, and the City of Grand Forks did not wish to suggest any changes, as the current law was workable. There were no suggested changes to state law.

5.

Business incubators that receive a property tax exemption do not compete unfairly with local landlords. Most startups are not in a position to make long-term space commitments. Startups need the entrepreneur coaching, venture development support and space flexibility of an incubator, and they generally become a good risk for private landlords only after a few years of stabilization.

6.

UND's Center for Innovation and its Foundation have hosted more than 140 companies in their tech incubators since 1996, graduating more than 100 of them into the region. Less than 10 percent of the companies failed, slightly higher than the success rate of national incubators, and much higher than the success rate of startups not utilizing incubators. Incubators are also used for flexible space when companies expand in the community and await the months of time involved for remodeling or construction of new facilities. Currently, the incubator hosts 27 entities employing 124 people. Most are one- to three-person ventures.

7.

NBIA Research has shown that for every \$1 of estimated public operating subsidy provided to an incubator, clients and graduates of incubators generate approximately \$30 in local tax revenue alone. Additionally, business incubators substantially *reduce the risk of startup failures*. Incubator research reports that 87 percent of all incubator firms remain in business, and 84 percent stay in the incubator community when they graduate. (Source: *Business Incubation Works*, http://www.nbia.org/resource_library/faq/)

8.

Out of the 1,250 incubators in the United States (7,000 worldwide), 32 percent are financially sponsored by academic institutions, 25 percent by economic development organizations and 16 percent by government entities, and 4 percent are sponsored by a combination of these. (http://www.nbia.org/resource_library/faq/)

9.

The National Business Incubator Association (NBIA) has quick facts on incubators, which can be found at: http://www.nbia.org/resource_library/faq/

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