

**DEPARTMENT OF COMMERCE ANNUAL REPORT ON BUSINESS INCENTIVES  
OCTOBER 12, 2016, 11:30 A.M.  
TAXATION COMMITTEE  
SENATOR JESSICA UNRUH, CHAIRMAN**

**CARLA HAHN – ACCOUNTABILITY MANAGER, NORTH DAKOTA DEPARTMENT OF COMMERCE**

Chairman Unruh and members of the Taxation Committee, my name is Carla Hahn and I serve as the Accountability Manager for the North Dakota Department of Commerce. I'm here today to provide the annual report for calendar year 2015 on the business incentive accountability law as directed to by NDCC Section 54-60.1-07. The information is as of December 31, 2015.

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 recipient businesses 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.

**Business Incentive Programs**

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

**Agricultural Products Utilization Commission (APUC)** – a grant program where the 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, and overall merit and geographical considerations. The public purposes for APUC grants include indirectly creating employment opportunities through increased economic activity or assisting community development.

**Community Development Block Grant (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.

**Entrepreneurship Grants** – Provides access to venture tools, online entrepreneur education, and extensive resources. Grant funds can be used to create a business plan, prototype development, coaching, and consulting and marketing assistance. The public purpose for the entrepreneurship grants is assisting community development.

**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.

**Partnership in Assisting Community Expansion (PACE)** – The PACE family of programs at the Band of North Dakota (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 percent.

The traditional PACE Program assists North Dakota communities expand their economic base by providing an interest buydown to encourage new job development. The borrower is required to demonstrate that within one year there will be a minimum of one job created or 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 purpose for PACE includes directly creating employment opportunities, indirectly creating employment opportunities through increase economic activity, or assisting community development.

**The North Dakota Development Fund, Inc.** – provides financing for “primary sector” businesses, including 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 purpose for the 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** – offers 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 the Renaissance Zone is assisting community development.

**Tourism Grants** – Provides grants to private businesses or non-profit organizations to fund infrastructure and building needs at new or expanding tourist and recreational facilities. The public purpose for the tourism grants is assisting community development.

## **Summary 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 192 page compilation of the results by business, is also available at [www.NDCommerce.com/Accountability](http://www.NDCommerce.com/Accountability). Commerce also offers a public search feature on its website that provides real time results of the business incentive reporting.

For the period 2011 through 2015 there were 748 BIA agreements entered into the database with a total incentive value of \$107,229,806. Tables 1-3 provide the distribution of business incentives by incentive type, public purpose, and type of business, respectively. We utilized the North American Industrial Classification System (NAICS) in order to breakdown the type of business. Table 4 provides the number of agreements entered into the database by year and goal type (create jobs, retain jobs, or neither create nor retain jobs).

Tables 5a, 5b, and 5c show there were 2,650 jobs created and retained over the last five years compared to a goal of 2,583 jobs. Of these 2,650 jobs, 1,293 jobs are considered bonus jobs. The definition of a bonus job is when the public purpose does not require job creation, such as assisting community development. Projects with no job creation goals are still required to report on the number of jobs created annually.

Tables 5a, 5b, and 5c also show the wages and benefits compared to their goals and as you can see, the wages and benefits generally exceeded the goals over the last five year period.

Chart 1 shows the percentage of business incentives that reached goals within two, three, four, and five years from the benefit date.

Approximately 8 percent of the closed agreements between 2011 through 2015 did not meet the job and/or compensation goals with no repayment of funds.

Chairman Unruh and members of the Taxation Committee, that concludes my report and I'd be happy to answer any questions you may have.

**Table 1. Incentive Value by Incentive Type**

	Total BIA Value	2011	2012	2013	2014	2015
Contribution of Property or Infrastructure	\$800,000.00	\$0.00	\$0.00	\$0.00	\$800,000.00	\$0.00
Direct Cash Transfer, Loan or Equity Investment	\$45,267,921.79	\$9,973,261.00	\$6,307,292.14	\$5,175,243.52	\$11,286,300.38	\$12,525,824.75
Guarantee of Payment Under Loan Lease or Other Obligation	\$302,500.00	\$302,500.00	\$0.00	\$0.00	\$0.00	\$0.00
Interest Buydown	\$44,389,090.17	\$5,784,489.74	\$8,330,051.83	\$10,214,928.81	\$9,841,782.34	\$10,217,837.45
Preferential Use of Government Facilities	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Reduction or Deferral of Tax or Fee	\$16,470,294.45	\$3,888,256.00	\$5,144,152.60	\$3,096,848.90	\$2,628,281.10	\$1,712,755.85
<b>TOTAL</b>	<b>\$107,229,806.41</b>	<b>\$19,948,506.74</b>	<b>\$19,781,496.57</b>	<b>\$18,487,021.23</b>	<b>\$24,556,363.82</b>	<b>\$24,456,418.05</b>

**Table 2. Incentive Value by Public Purpose**

	Total BIA Value	2011	2012	2013	2014	2015
Assisting Community Development	\$65,885,866.78	\$10,337,945.38	\$12,745,902.68	\$14,351,081.15	\$14,732,063.31	\$13,718,874.26
Directly Creating Employment Opportunities	\$30,007,367.12	\$8,931,311.45	\$3,798,281.46	\$3,287,546.33	\$5,287,237.88	\$8,702,990.00
Increasing Tax Base	\$137,147.65	\$0.00	\$0.00	\$0.00	\$110,000.00	\$27,147.65
Indirectly Creating Employment Opportunities Through Increased Economic Activity	\$2,854,888.25	\$299,249.91	\$376,024.32	\$198,393.75	\$1,027,064.13	\$954,156.14
Job Retention (only in cases in which job loss is specific and demonstrable)	\$8,344,536.61	\$380,000.00	\$2,861,288.11	\$650,000.00	\$3,399,998.50	\$1,053,250.00
<b>TOTAL</b>	<b>\$107,229,806.41</b>	<b>\$19,948,506.74</b>	<b>\$19,781,496.57</b>	<b>\$18,487,021.23</b>	<b>\$24,556,363.82</b>	<b>\$24,456,418.05</b>

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

Business Type	Total BIA Value	2011	2012	2013	2014	2015
531 - Real Estate	\$17,511,261.50	\$963,342.26	\$2,979,216.29	\$3,376,706.71	\$5,962,418.65	\$4,229,577.59
311 - Food Manufacturing	\$7,351,771.38	\$1,393,582.98	\$2,848,244.00	\$372,479.28	\$1,941,000.12	\$796,465.00
541 - Professional, Scientific, and Technical Services	\$7,123,467.46	\$1,862,627.33	\$1,081,211.02	\$627,994.99	\$3,152,998.50	\$398,635.62
339 - Miscellaneous Manufacturing	\$7,045,180.40	\$1,408,648.51	\$1,649,440.00	\$176,465.58	\$987,539.21	\$2,823,087.10
333 - Machinery Manufacturing	\$6,916,214.85	\$1,716,186.80	\$1,567,978.64	\$1,087,727.47	\$1,922,321.94	\$622,000.00
334 - Computer and Electronic Product Manufacturing	\$5,946,459.73	\$756,055.07	\$285,541.14	\$1,062,863.52	\$1,000,000.00	\$2,842,000.00
112 - Animal Production	\$3,391,893.88	\$370,340.12	\$577,250.94	\$446,356.97	\$1,018,132.63	\$979,813.22
332 - Fabricated Metal Product Manufacturing	\$3,025,551.87	\$717,757.51	\$775,954.79	\$1,046,643.42	\$126,250.00	\$358,946.15
999 - Unknown	\$2,745,940.17	\$206,000.00	\$381,207.60	\$282,924.40	\$417,350.67	\$1,458,457.50
722 - Food Services and Drinking Places	\$2,514,251.74	\$953,156.78	\$359,179.08	\$630,556.89	\$180,302.08	\$391,056.91
445 - Food and Beverage Stores	\$2,439,460.82	\$56,960.43	\$91,605.55	\$2,135,615.03	\$99,364.44	\$55,915.37
115 - Support Activities for Agriculture and Forestry	\$2,239,233.92	\$1,327,352.00	\$76,000.00	\$35,962.00	\$97,919.92	\$702,000.00
532 - Rental and Leasing Services	\$2,157,902.88	\$571,000.00	\$388,205.00	\$134,355.00	\$602,250.00	\$462,092.88
561 - Administrative and Support Services	\$2,116,089.19	\$164,127.09	\$1,888,845.00	\$0.00	\$0.00	\$63,117.10
424 - Merchant Wholesalers, Nondurable Goods	\$1,977,384.52	\$40,000.00	\$293,646.59	\$516,000.00	\$612,262.49	\$515,475.44
721 - Accommodation	\$1,932,313.53	\$218,409.27	\$398,244.92	\$552,409.34	\$26,250.00	\$737,000.00
624 - Social Assistance	\$1,920,041.03	\$266,078.00	\$0.00	\$408,000.00	\$713,249.46	\$532,713.57
611 - Educational Services	\$1,584,823.90	\$0.00	\$0.00	\$1,216,111.15	\$318,712.75	\$50,000.00
236 - Construction of Buildings	\$1,425,189.85	\$0.00	\$1,060,049.93	\$100,000.00	\$165,139.92	\$100,000.00
519 - Other Information Services	\$1,328,486.00	\$277,905.00	\$626,581.00	\$0.00	\$0.00	\$424,000.00
335 - Electrical Equipment, Appliance, and Component Manufacturing	\$1,323,011.59	\$1,125,000.00	\$53,500.00	\$0.00	\$119,511.59	\$25,000.00

518 - Data Processing, Hosting, and Related Services	\$1,164,000.00	\$600,000.00	\$500,000.00	\$0.00	\$31,500.00	\$32,500.00
621 - Ambulatory Health Care Services	\$1,160,504.42	\$25,000.00	\$0.00	\$287,377.00	\$248,127.42	\$600,000.00
325 - Chemical Manufacturing	\$1,156,350.00	\$26,000.00	\$45,000.00	\$91,000.00	\$859,250.00	\$135,100.00
237 - Heavy and Civil Engineering Construction	\$1,108,431.93	\$300,000.00	\$28,184.21	\$280,247.72	\$500,000.00	\$0.00
326 - Plastics and Rubber Products Manufacturing	\$1,089,607.27	\$910,210.50	\$73,813.56	\$25,000.00	\$0.00	\$80,583.21
423 - Merchant Wholesalers, Durable Goods	\$941,691.44	\$374,192.89	\$206,296.09	\$58,094.74	\$235,500.00	\$67,607.72
211 - Oil and Gas Extraction	\$860,900.00	\$0.00	\$0.00	\$0.00	\$860,900.00	\$0.00
322 - Paper Manufacturing	\$824,880.00	\$0.00	\$0.00	\$74,880.00	\$750,000.00	\$0.00
811 - Repair and Maintenance	\$795,500.15	\$75,062.46	\$57,674.74	\$316,553.54	\$100,000.00	\$246,209.41
521 - Monetary Authorities-Central Bank	\$740,396.00	\$0.00	\$154,086.00	\$0.00	\$90,000.00	\$496,310.00
812 - Personal and Laundry Services	\$735,585.59	\$0.00	\$71,760.54	\$263,030.67	\$117,824.61	\$282,969.77
111 - Crop Production	\$715,501.60	\$46,400.00	\$68,250.00	\$214,625.00	\$111,700.00	\$274,526.60
238 - Specialty Trade Contractors	\$690,356.27	\$28,210.76	\$120,869.69	\$316,972.42	\$40,833.11	\$183,470.29
447 - Gasoline Stations	\$682,780.65	\$0.00	\$0.00	\$0.00	\$31,635.82	\$651,144.83
926 - Administration of Economic Programs	\$602,500.00	\$542,500.00	\$0.00	\$0.00	\$0.00	\$60,000.00
522 - Credit Intermediation and Related Activities	\$601,332.83	\$210,399.00	\$153,375.00	\$85,638.00	\$125,926.00	\$25,994.83
622 - Hospitals	\$580,202.96	\$292,647.39	\$0.00	\$0.00	\$244,970.78	\$42,584.79
713 - Amusement, Gambling, and Recreation Industries	\$558,724.16	\$0.00	\$0.00	\$0.00	\$220,653.85	\$338,070.31
323 - Printing and Related Support Activities	\$505,042.39	\$0.00	\$0.00	\$505,042.39	\$0.00	\$0.00
324 - Petroleum and Coal Products Manufacturing	\$500,000.00	\$250,000.00	\$0.00	\$0.00	\$0.00	\$250,000.00
484 - Truck Transportation	\$491,364.91	\$0.00	\$0.00	\$291,327.41	\$55,532.56	\$144,504.94

444 - Building Material and Garden Equipment and Supplies Dealers	\$485,734.12	\$234,844.74	\$37,137.98	\$143,520.12	\$0.00	\$70,231.28
441 - Motor Vehicle and Parts Dealers	\$463,485.47	\$0.00	\$135,453.48	\$100,000.00	\$92,947.99	\$135,084.00
336 - Transportation Equipment Manufacturing	\$446,546.85	\$0.00	\$64,583.90	\$323,016.86	\$0.00	\$58,946.09
623 - Nursing and Residential Care Facilities	\$404,929.34	\$179,929.36	\$124,999.98	\$100,000.00	\$0.00	\$0.00
524 - Insurance Carriers and Related Activities	\$363,769.66	\$142,000.00	\$0.00	\$136,890.00	\$0.00	\$84,879.66
511 - Publishing Industries (except Internet)	\$350,000.00	\$0.00	\$0.00	\$0.00	\$0.00	\$350,000.00
331 - Primary Metal Manufacturing	\$343,058.84	\$0.00	\$0.00	\$0.00	\$0.00	\$343,058.84
551 - Management of Companies and Enterprises	\$317,455.86	\$234,885.20	\$0.00	\$0.00	\$0.00	\$82,570.66
488 - Support Activities for Transportation	\$311,861.53	\$135,433.08	\$76,428.45	\$0.00	\$0.00	\$100,000.00
813 - Religious, Grantmaking, Civic, Professional, and Similar Organizations	\$288,669.79	\$76,684.79	\$36,985.00	\$75,000.00	\$100,000.00	\$0.00
448 - Clothing and Clothing Accessories Stores	\$287,997.19	\$147,432.17	\$68,256.46	\$40,000.00	\$0.00	\$32,308.56
921 - Executive, Legislative, and Other General Government Support	\$274,826.02	\$200,000.00	\$0.00	\$0.00	\$74,826.02	\$0.00
525 - Funds, Trusts, and Other Financial Vehicles	\$255,000.00	\$0.00	\$0.00	\$155,000.00	\$100,000.00	\$0.00
922 - Justice, Public Order, and Safety Activities	\$166,347.80	\$0.00	\$166,347.80	\$0.00	\$0.00	\$0.00
517 - Telecommunications	\$150,000.00	\$150,000.00	\$0.00	\$0.00	\$0.00	\$0.00
315 - Apparel Manufacturing	\$150,000.00	\$0.00	\$0.00	\$0.00	\$0.00	\$150,000.00
516 - Internet Publishing and Broadcasting	\$150,000.00	\$0.00	\$0.00	\$0.00	\$0.00	\$150,000.00
337 - Furniture and Related Product Manufacturing	\$140,000.00	\$140,000.00	\$0.00	\$0.00	\$0.00	\$0.00

523 - Securities, Commodity Contracts, and Other Financial Investments and Related Activities	\$135,610.00	\$0.00	\$0.00	\$135,610.00	\$0.00	\$0.00
312 - Beverage and Tobacco Product Manufacturing	\$125,000.00	\$0.00	\$0.00	\$0.00	\$0.00	\$125,000.00
928 - National Security and International Affairs	\$107,305.98	\$107,305.98	\$0.00	\$0.00	\$0.00	\$0.00
923 - Administration of Human Resource Programs	\$100,000.00	\$0.00	\$0.00	\$0.00	\$0.00	\$100,000.00
533 - Lessors of Nonfinancial Intangible Assets (except Copyrighted Works)	\$100,000.00	\$0.00	\$0.00	\$0.00	\$0.00	\$100,000.00
327 - Nonmetallic Mineral Product Manufacturing	\$100,000.00	\$0.00	\$0.00	\$100,000.00	\$0.00	\$0.00
446 - Health and Personal Care Stores	\$87,000.00	\$0.00	\$87,000.00	\$0.00	\$0.00	\$0.00
213 - Support Activities for Mining	\$74,237.45	\$45,321.98	\$0.00	\$28,915.47	\$0.00	\$0.00
493 - Warehousing and Storage	\$72,592.20	\$0.00	\$72,592.20	\$0.00	\$0.00	\$0.00
221 - Utilities	\$72,184.83	\$0.00	\$0.00	\$72,184.83	\$0.00	\$0.00
711 - Performing Arts, Spectator Sports, and Related Industries	\$71,596.80	\$0.00	\$0.00	\$0.00	\$42,617.80	\$28,979.00
562 - Waste Management and Remediation Services	\$57,430.14	\$0.00	\$0.00	\$0.00	\$30,282.49	\$27,147.65
452 - General Merchandise Stores	\$50,500.00	\$0.00	\$50,500.00	\$0.00	\$0.00	\$0.00
212 - Mining (except Oil and Gas)	\$50,494.66	\$50,494.66	\$0.00	\$0.00	\$0.00	\$0.00
425 - Wholesale Electronic Markets and Agents and Brokers	\$39,282.16	\$0.00	\$0.00	\$0.00	\$0.00	\$39,282.16
313 - Textile Mills	\$29,679.80	\$0.00	\$0.00	\$29,679.80	\$0.00	\$0.00
443 - Electronics and Appliance Stores	\$29,022.63	\$29,022.63	\$0.00	\$0.00	\$0.00	\$0.00
925 - Administration of Housing Programs, Urban Planning, and	\$28,361.00	\$0.00	\$0.00	\$0.00	\$28,361.00	\$0.00

Community Development						
512 - Motion Picture and Sound Recording Industries	\$28,243.51	\$0.00	\$0.00	\$28,243.51	\$0.00	\$0.00
<b>Total</b>	<b>\$107,229,806.41</b>	<b>\$19,948,506.74</b>	<b>\$19,781,496.57</b>	<b>\$18,487,021.23</b>	<b>\$24,556,363.82</b>	<b>\$24,456,418.05</b>

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

Year	Total	Create Jobs	Neither Create or Retain Jobs	Retain Jobs
2011	133	43	85	5
2012	122	27	92	3
2013	142	30	112	0
2014	164	38	118	8
2015	187	49	127	11
<b>Total</b>	<b>748</b>	<b>187</b>	<b>534</b>	<b>27</b>
Percentage	100%	25%	71%	4%

**Table 5a. Create Jobs**

Year	Number of Agreements	Jobs Goal	Jobs Actual	Average Compensation Goal	Average Compensation Actual
2011	43	371.5	294.0	\$23.27	\$27.00
2012	27	486.0	220.0	\$25.12	\$30.32
2013	30	498.0	303.0	\$18.59	\$29.75
2014	38	519.0	144.5	\$25.52	\$29.64
2015	49	210.0	129.0	\$27.30	\$34.22
<b>Total</b>	<b>187</b>	<b>2084.5</b>	<b>1090.5</b>		

**Table 5b. Retain Jobs**

Year	Number of Agreements	Jobs Goal	Jobs Retained	Bonus Jobs	Total Jobs	Average Compensation Goal	Average Compensation Actual
2011	5	176.0	176.0	99.5	275.5	\$19.97	\$20.59
2012	3	114.0	0.5	0.0	0.5	\$39.33	\$39.97
2013	0	0.0	0.0	0.0	0.0	\$0.00	\$0.00
2014	8	115.0	-3.5	0.0	-3.5	\$25.06	\$25.74
2015	11	93.5	93.5	158.0	251.5	\$24.62	\$34.99
Total	27	498.5	266.5	257.5	524.0		

**Table 5c. Neither Create or Retain Jobs**

Year	Number of Agreements	Bonus Jobs	Average Compensation
2011	85	202.0	\$31.06
2012	92	276.0	\$28.89
2013	112	318.5	\$27.12
2014	118	126.0	\$24.16
2015	127	112.5	\$21.96
Total	534	1035.0	

**Chart 1. Timeframe Job Creation and Job Retention Goals were Achieved**

