



## Business Incentives and Economic Development Expenditures: An Overview of Minnesota's Program Investments and Outcomes

### Summary

Across the country, state economic development incentives have evolved into a complex mixture of programs with diverse structures and goals. The Council for Community and Economic Research (C2ER) and the Center for Regional Economic Competitiveness (CREC) have been working to catalog and document the range of available state programs through the [C2ER State Business Incentives Database](#), which includes detailed information about almost 2,000 state-administered incentive programs from every state; and the [C2ER State Economic Development Expenditures Database](#), a compilation of economic development expenditure budget data from every state. This report builds on that work by taking a deeper look at Minnesota's full array of incentive programs and includes an analysis of the available outcome data that is used by state policymakers and program administrators to gauge program effectiveness.

In order to create a comprehensive picture of the economic development landscape, we reviewed and culled data from a range of state statutes, reports, and websites. The numbers contained in this report are CREC and C2ER's best estimate of the dollars spent on economic development incentives at the state level in Minnesota. Data in this report pulls information from states and C2ER resources to complete estimates of three distinct indicators:

1. An overview of business incentives using the C2ER Incentives Database as a source.
2. An overview of state economic development expenditures, which includes a variety of administration and programs, whether or not they are incentive related.
3. An overview of economic development tax expenditures, using state tax expenditure studies as the source. These tax expenditures in some cases may be automatic, meaning that no state agency was involved in reviewing an application for a tax benefit.

In Fiscal year (FY) 2014, the most recent year for spending data are available for all program types, the state spent \$161 million on economic development program expenditures and \$647 million on economic development tax expenditures.<sup>1</sup> These tax expenditures can be both automatic and discretionary, including tax policy from the legislature and economic development incentive programs.

[The Center for Regional Economic Competitiveness \(CREC\)](#) is working with The Pew Charitable Trusts (Pew) on the Business Incentives Initiative. This initiative engages forward-thinking teams of economic development policymakers and practitioners from six states. These leaders are working together to identify effective ways to manage and assess economic development incentive policies and practices, improve data collection and reporting on incentive investments, and develop national standards. The initiative is supported by a grant from the Laura and John Arnold Foundation.

<sup>1</sup> Please see Appendices for detailed lists of all items included in this report as incentives, economic development program expenditures, and economic development tax expenditures.



## Overview of Business Incentives

Minnesota has a moderate number of incentive programs, with a total of 35 active programs in 2015. The C2ER State Business Incentives Database defines state business incentives as state-administered programs designed to influence business investment behaviors. States design their programs to influence these behaviors through tax incentives, as well as through non-tax programs, such as grants, loans, business assistance, and other investment vehicles.<sup>2</sup> These incentives help businesses address one or more needs, such as capital access, workforce preparation, technology transfer, site facility improvements, and so forth.

**Figure 1: Minnesota State Business Incentives by Agency, 2015**

State Agency	Number of Programs
<b>Minnesota Department of Employment and Economic Development</b>	23
<b>Minnesota Department of Revenue</b>	8
<b>Minnesota Department of Agriculture</b>	1
<b>Minnesota Film and TV</b>	1
<b>Minnesota Historical Society</b>	1
<b>Enterprise Minnesota</b>	1

Source: C2ER State Business Incentives Database

In Minnesota, the responsibility for administering these incentive programs is spread across six different state agencies. The primary agencies responsible for administering incentive programs are the Department of Employment and Economic Development and the Department of Revenue. (See Figure 1)

Minnesota's emphasis remains on direct financing loan and grant programs. Direct business financing and community-directed financing account for approximately 63 percent of Minnesota's active incentive programs. Approximately 43 percent of Minnesota's state business incentives offer some kind of tax-related benefit. By comparison, tax incentives represent 45 percent of all state business incentive programs across the nation. (See Figure 2)

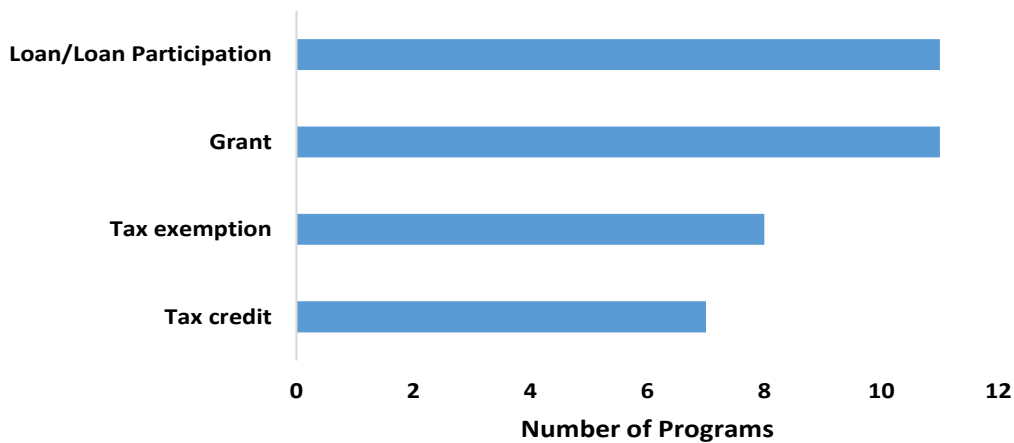
The emphasis of the state's current portfolio of incentives is on capital access or formation and tax/regulatory burden reduction. Compared to other states, Minnesota's program portfolio also places a strong emphasis on workforce preparation and development and facility/site location improvements. (See Figure 3)

<sup>2</sup> The C2ER State Business Incentives Database definition of business incentives may differ from the definition used by the state of Minnesota. For a current list of incentive programs as defined by the state, please see the [Minnesota Department of Employment and Economic Development](#) website.



**Figure 2: Incentive Programs by Type\*\***

**Minnesota Incentive Programs by Type (2015)**

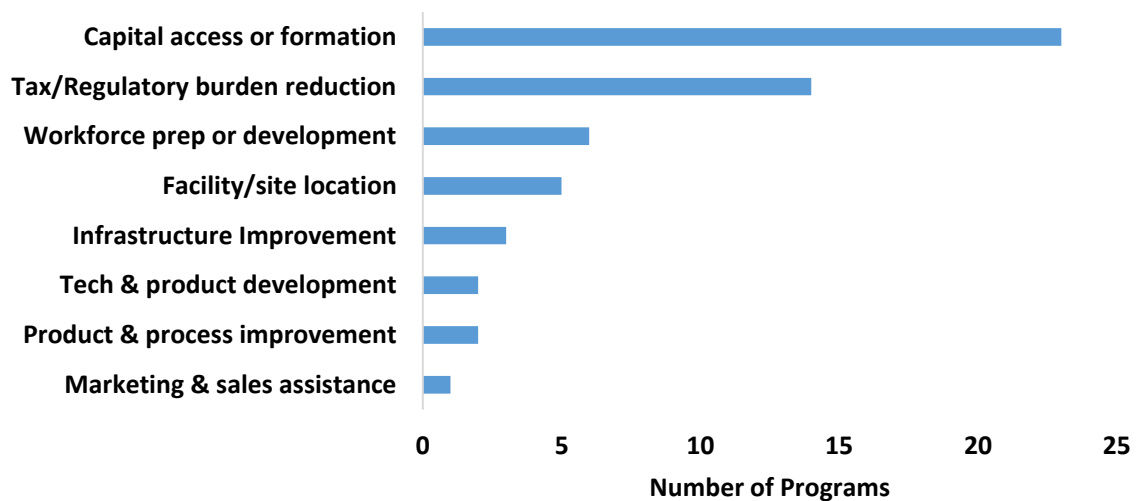


Source: C2ER State Business Incentives Database

\*\* Note: Programs may appear more than once if they provide multiple incentive types.

**Figure 3: Incentive Programs by Business Need\*\***

**Minnesota Incentive Programs by Business Need (2015)**



Source: C2ER State Business Incentives Database

\*\* Note: Programs may appear more than once if they are intended to fulfill multiple business needs.



## Economic Development Program Expenditures

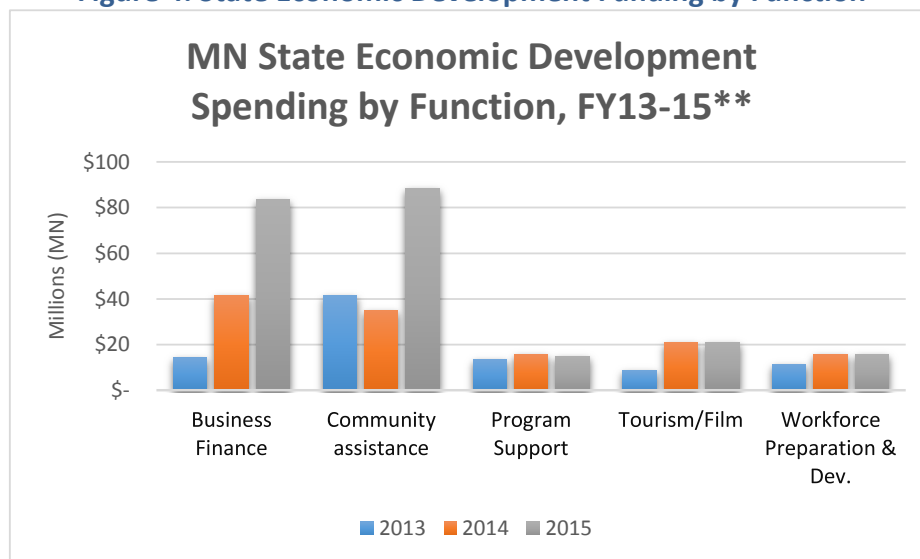
Examining Minnesota’s budget for economic development program expenditures (beyond incentive programs) reveals how various state agencies outlay money for economic development programs. Expenditures fall into 15 functional areas for economic development defined by the C2ER State Economic Development Expenditures Database.<sup>3</sup>

According to Minnesota’s [FY 2016-17 Operating Budget](#), which details actual FY 2014 spending, the state spent \$161 million<sup>4</sup> on economic development in FY 2014. This level of spending represents an average of \$965 per business, which is higher than the median average of \$877 per business spent in other states for that fiscal year. The majority of Minnesota’s economic development expenditures went to the Department of Employment and Economic Development and Agriculture Department, save for one program in the Minnesota Tourism Office. The Department of Employment and Economic Development received the bulk of funding, with nearly 69 percent of total state spending.

### State Economic Development Expenditures Function Areas

- Business Finance
- Strategic Business Attraction Fund
- Business Assistance
- International Trade and Investment
- Domestic Recruitment/Out-of-State
- Workforce Preparation & Development
- Technology Transfer
- Entrepreneurial Development
- Minority business development
- Community Assistance
- Tourism/Film
- Special Industry Assistance
- Program Support
- Administration
- Other Program Areas

**Figure 4: State Economic Development Funding by Function**

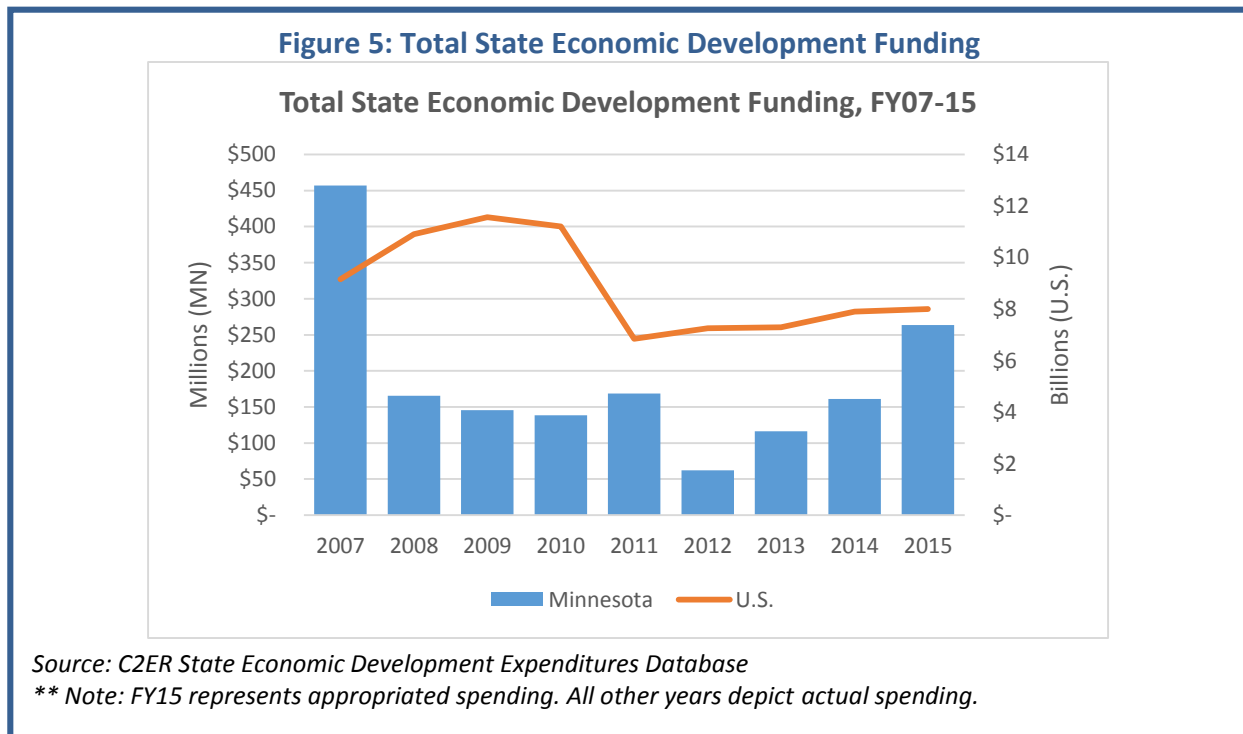


Source: C2ER State Economic Development Expenditures Database

\*\* Note: FY15 represents appropriated spending. All other years depict actual spending.



Minnesota’s economic development spending has followed a path distinct from that of the United States as a whole since FY 2007 (See Figure 5). In 2007, Minnesota spent \$457 million on economic development, a vastly higher amount than at any time since. A steep drop preceded the onset of the Great Recession, which officially began in 2007 but was unlikely to have influenced economic development spending decisions for FY 2008, though there was a small budget deficit in Minnesota in FY 2008 that may account for some of this decrease in spending. More significantly, spending on the Clean Water Revolving Fund (within Business and Community Finance in 2007 and subsequently spread among several other agencies) and the Drinking Water Revolving Fund (discontinued in 2008, also within Business and Community Finance) dropped by over \$200 million and over \$66 million, respectively. Spending levels then hovered around \$150 million from FY 2008 to FY 2011 and then dropped significantly to \$62 million in 2012. Spending on economic development rapidly increased through FY 2015, when spending levels rose \$263 million, the highest levels since FY 2007.



## Economic Development Tax Expenditures

Tax expenditures can be defined as “revenue losses attributable to tax provisions that often result from the use of the tax system to promote social goals without incurring direct expenditures.” Economic development tax expenditures in this context represent those tax provisions that use the state tax system to promote business investments that promote state economic priorities.

<sup>3</sup> See Glossary definitions here - [http://www.stateexpenditures.org/about/Definition\\_of\\_ED\\_Functions.pdf](http://www.stateexpenditures.org/about/Definition_of_ED_Functions.pdf)

<sup>4</sup> This total excludes all federal and local economic development expenditures.



The Minnesota Tax Expenditure Budget for FY14, published by the Minnesota Department of Revenue in February 2014 was used for the analysis in this section. Data was collected by reviewing and recording all line items in the report related to economic development, including all tax credits, abatements, refunds/rebates and exemptions that are designed to influence business investment behaviors. In some cases, the tax incentive is listed as having no tax expenditures for the year because the data was not available, or available but not reported to maintain confidentiality.

In FY 2014, the state of Minnesota's economic development tax expenditures totaled approximately \$647 million, which was much greater than the \$161 million Minnesota invested in economic development program expenditures for that fiscal year. Minnesota administered its tax expenditures related to economic development primarily through the Department of Revenue and the Minnesota Department of Employment and Economic Development.

For FY 2014, approximately 32 percent of Minnesota's economic development tax expenditures were for sales and use taxes. Another 32 percent of the economic development tax expenditures were for corporate franchise taxes. Most of the remaining tax expenditures fell under individual income at 25 percent, while the last 10 percent fell under other tax types. The primary economic development functional goals of these tax expenditures is to encourage business assistance, special industry assistance, technology transfer, and workforce preparation and development.

## Analysis of Available Outcome Data

Minnesota has developed a collection of publications which have emphasized using outcome data to evaluate business incentives and expenditures. The State has created a wide-ranging transparency website, [TransparencyMN](#). This website's purpose is to hold the state government accountable and provide transparency to taxpayers, not only regarding tax expenditure information, but on agency budgets and payments, employee salary information, agency audits and State financial reports as well.

In addition, in accordance with Minnesota Statutes Section 16A.50, Minnesota Management and Budget releases a [Comprehensive Annual Financial Report](#). The report includes financial statements and trend data for the state, as well as the disclosures necessary to accurately present the financial condition and results of operations for the previous financial year.

As required by Minnesota Statutes, Section 270C.11, the Department of Revenue releases a biennial [Tax Expenditure Budget Report](#). The purpose of this budget report is to create a comprehensive legislative review of state and local tax provisions that provide preferential tax treatment for specific people, businesses, income ranges, transactions and properties. Furthermore, the tax expenditure report can be used to evaluate Minnesota's tax system and as a foundation for creating future tax policy resolutions.



## Conclusion

Through its incentive programs and other program expenditures, Minnesota shows a clear focus on assisting businesses acquire the financing they need. Minnesota also has more incentive programs, program expenditures and tax expenditures that target agriculture and tourism than the national average. Tax expenditures make up the bulk of spending, with per-business average spending through program expenditures higher than the national average. The state's evaluation of its business incentive programs lacks does an accounting of tax expenditures and makes them transparent to the public through TransparencyMN.



## Appendix A: Full List of Minnesota State Business Incentives (2015)

Program Name	Program Provider	Business need	Type
<b>Advertising Materials Tax Exemption</b>	Minnesota Department of Revenue	Tax/Regulatory burden reduction	Tax exemption
<b>Agricultural Improvement Loan Program</b>	Minnesota Department of Agriculture	Capital access or formation; Product & process improvement	Loan/Loan Participation
<b>Angel Loan Fund</b>	Minnesota Department of Employment and Economic Development	Capital access or formation	Loan/Loan Participation
<b>Angel Tax Credit</b>	Minnesota Department of Employment and Economic Development	Capital access or formation; Tax/Regulatory burden reduction	Tax credit
<b>Border Cities Enterprise Zone Program</b>	Minnesota Department of Employment and Economic Development	Capital access or formation; Workforce prep or development; Facility/site location; Tax/Regulatory burden reduction	Tax credit
<b>Capital Access Program</b>	Minnesota Department of Employment and Economic Development	Capital access or formation	Loan/Loan Participation
<b>Capital Equipment Sales and Use Tax Exemptions</b>	Minnesota Department of Revenue	Capital access or formation; Tax/Regulatory burden reduction	Tax exemption
<b>Data Center Incentive</b>	Minnesota Department of Revenue	Tax/Regulatory burden reduction	Tax credit
<b>Emerging Entrepreneurs Fund</b>	Minnesota Department of Employment and Economic Development	Capital access or formation	Loan/Loan Participation
<b>Export Financing Programs</b>	Minnesota Department of Employment and Economic Development	Marketing & sales assistance; Capital access or formation	Grant; Loan/Loan Participation
<b>Farm Machinery Sales and Use Tax Exemptions</b>	Minnesota Department of Revenue	Tax/Regulatory burden reduction	Tax exemption
<b>FastTRAC</b>	Minnesota Department of Employment and Economic Development	Workforce prep or development	Grant
<b>Greater Minnesota Job Expansion Program</b>	Minnesota Department of Employment and Economic Development	Tax/Regulatory burden reduction	Tax credit; Tax exemption
<b>Greater Minnesota Public Infrastructure Program</b>	Minnesota Department of Employment and Economic Development	Infrastructure Improvement; Facility/site location; Capital access or formation	Grant





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<b>Growth Acceleration Program</b>	Enterprise Minnesota	Product & process improvement; Tech & product development; Capital access or formation	Grant
<b>Health Care and Human Services Training Program</b>	Minnesota Department of Employment and Economic Development	Workforce prep or development; Capital access or formation	Grant
<b>Indian Business Loan Program</b>	Minnesota Department of Employment and Economic Development	Capital access or formation	Loan/Loan Participation
<b>Industrial Production Sales and Use Tax Exemptions</b>	Minnesota Department of Revenue	Tax/Regulatory burden reduction	Tax exemption
<b>Innovation Voucher Program</b>	Minnesota Department of Employment and Economic Development	Capital access or formation	Grant
<b>Innovative Business Development Program</b>	Minnesota Department of Employment and Economic Development	Infrastructure Improvement; Facility/site location; Capital access or formation	Grant
<b>Job Opportunity Building Zones (JOBZ)*</b>	Minnesota Department of Employment and Economic Development	Tax/Regulatory burden reduction; Facility/site location	Tax exemption
<b>Job Skills Partnership Program</b>	Minnesota Department of Employment and Economic Development	Workforce prep or development; Capital access or formation	Grant
<b>Military Reservist Economic Injury Loan Program</b>	Minnesota Department of Employment and Economic Development	Capital access or formation	Loan/Loan Participation
<b>Mining Production Materials Sales and Use Tax Exemptions</b>	Minnesota Department of Revenue	Tax/Regulatory burden reduction	Tax exemption
<b>Minnesota Investment Fund</b>	Minnesota Department of Employment and Economic Development	Capital access or formation	Grant
<b>Minnesota Job Creation Fund</b>	Minnesota Department of Employment and Economic Development	Capital access or formation	Grant
<b>MN Historic Structure Rehabilitation State Tax Credit</b>	Minnesota Historical Society	Facility/site location; Tax/Regulatory burden reduction; Infrastructure Improvement	Tax credit
<b>Pollution Control Tax Exemption</b>	Minnesota Department of Revenue	Tax/Regulatory burden reduction	Tax exemption
<b>Research and Development Tax Credit</b>	Minnesota Department of Revenue	Tax/Regulatory burden reduction; Tech & product development	Tax credit



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<b>SEED Capital Investment Credit Program</b>	Minnesota Department of Employment and Economic Development	Tax/Regulatory burden reduction	Tax credit
<b>Small Business Development Loan Program</b>	Minnesota Department of Employment and Economic Development	Capital access or formation;	Loan/Loan Participation
<b>Small Business Loan Guarantees</b>	Minnesota Department of Employment and Economic Development	Capital access or formation	Loan/Loan Participation
<b>Snowbate, Minnesota's Production Incentive</b>	Minnesota Film and TV	Special industry assistance	Grant
<b>Tourism Business Septic Tank Replacement</b>	Minnesota Department of Employment and Economic Development	Capital access or formation	Loan/Loan Participation
<b>Urban Initiative Program</b>	Minnesota Department of Employment and Economic Development	Capital access or formation; Workforce prep or development	Loan/Loan Participation

\*This incentive sunsets in 2015



## Appendix B: MN Economic Development Program Expenditures (2014)

Function	Activity	Total State Funding
<b>Administration</b>	Info systems, accounting, human resources, etc.	\$1,887,000.00
<b>Business Assistance</b>	Business retention/expansion	\$1,518,000.00
<b>Business Assistance</b>	Industry association support	\$1,418,500.00
<b>Business Finance</b>	Fund Management	\$14,054,000.00
<b>Business Finance</b>	Loans available to Business	\$15,510,000.00
<b>Business Finance</b>	Other Business Finance	\$12,000,000.00
<b>Community assistance</b>	Community center revitalization	\$34,056,000.00
<b>Community assistance</b>	Other Community assistance	\$1,000,000.00
<b>Domestic Recruitment/Out-of-State</b>	Marketing/Prospect Dev. (Domestic)	\$3,739,000.00
<b>Entrepreneurial Development</b>	Assistance to start-ups	\$5,574,000.00
<b>International Trade and Investment</b>	Export promotion (excl. overseas representation)	\$2,301,000.00
<b>Program Support</b>	Data dissemination/web site	\$500,000.00
<b>Program Support</b>	Policy and planning	\$15,302,000.00
<b>Special Industry Assistance</b>	Agriculture/agribusiness	\$11,698,000.00
<b>Technology Transfer</b>	Research & development	\$3,643,000.00
<b>Tourism/Film</b>	Film Promotion	\$5,337,000.00
<b>Tourism/Film</b>	Tourism promotion (exc. Advertising)	\$15,795,500.00
<b>Workforce Preparation &amp; Dev.</b>	Apprenticeships	\$7,347,000.00
<b>Workforce Preparation &amp; Dev.</b>	Incumbent worker training	\$8,410,500.00
<b>TOTAL</b>		<b>\$161,090,500.00</b>



## Appendix C: MN Economic Development Tax Expenditures (2014)

Description	Total Funds
Angel Investment Credit	\$12,000,000
Capital Equipment	\$243,400,000
Border Cities Enterprise Zone Program	\$500,000
Historic Structure Rehabilitation Credit	\$17,100,000
Advertising Materials	\$5,400,000
Data Center Equipment	\$0
Farm Machinery Sales and Use Tax Exemptions	\$72,000,000
Mining Production Materials	\$1,400,000
Resource Recovery Equipment	\$300,000
Job Opportunity Building Zones (JOBZ)	\$41,200,000
Research and Development Credit	\$57,100,000
Credit Union Tax Exemption	\$3,500,000
Insurance Companies Tax Exemption	\$93,600,000
Greater Minnesota Internship Credit	\$0
Credit for Small Brewers	\$900,000
Employer Transit Pass Credit	\$800,000
Dividend Received Deduction	\$97,400,000