



# Business Incentives and Economic Development Expenditures: An Overview of Montana'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 Montana'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 Montana.

In Fiscal year (FY) 2014, the most recent year for spending data are available for all program types, the state spent \$18.3 million on economic development program expenditures and \$55.9 million on economic development tax expenditures.<sup>1</sup>

## Overview of Business Incentives

Montana has a moderate number of incentive programs, with a total of 34 active programs in 2014. 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. These incentives help businesses address one

[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.



**Figure 1: Montana State Business Incentives by Agency, 2014**

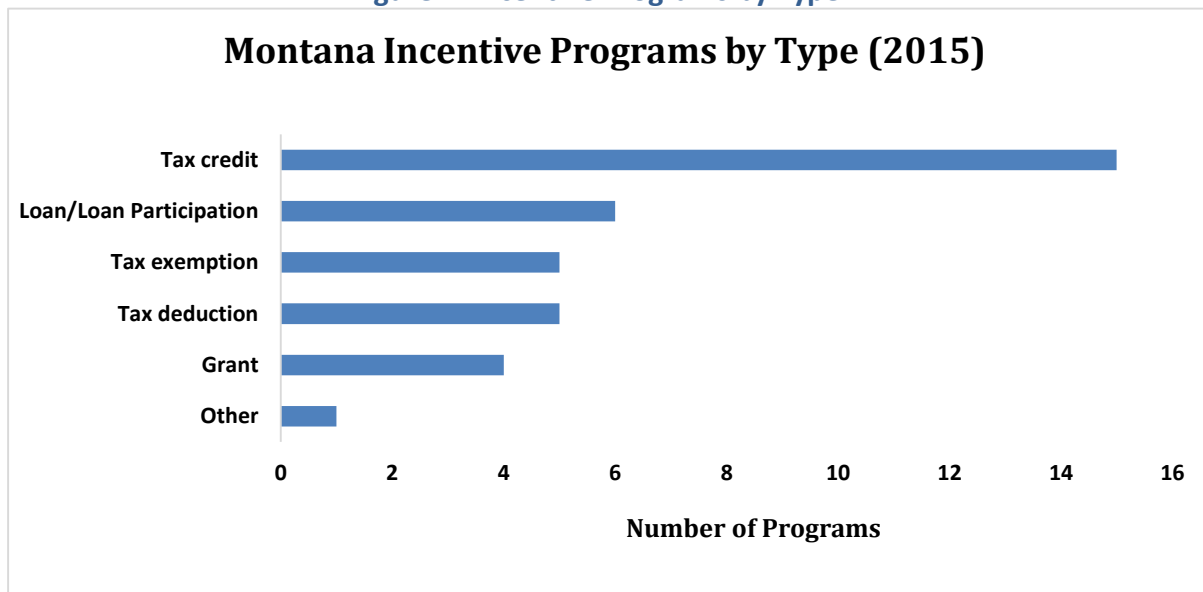
State Agency	Number of Programs
Montana Department of Revenue	26
Montana Department of Commerce	7
Montana Department of Agriculture	1

Source: C2ER State Business Incentives Database

or more needs, such as capital access, workforce preparation, technology transfer, site facility improvements, and so forth.<sup>2</sup>

In Montana, the responsibility for administering these incentive programs is spread across 3 different state agencies. The primary agencies responsible for administering incentive programs are the Department of Agriculture, Department of Revenue, and Department of Commerce (See Figure 1.) The Department of Revenue exclusively administers tax incentives (primarily tax credits), while the Department of Commerce and Agriculture administer loans, grants, and other non-tax programs.

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



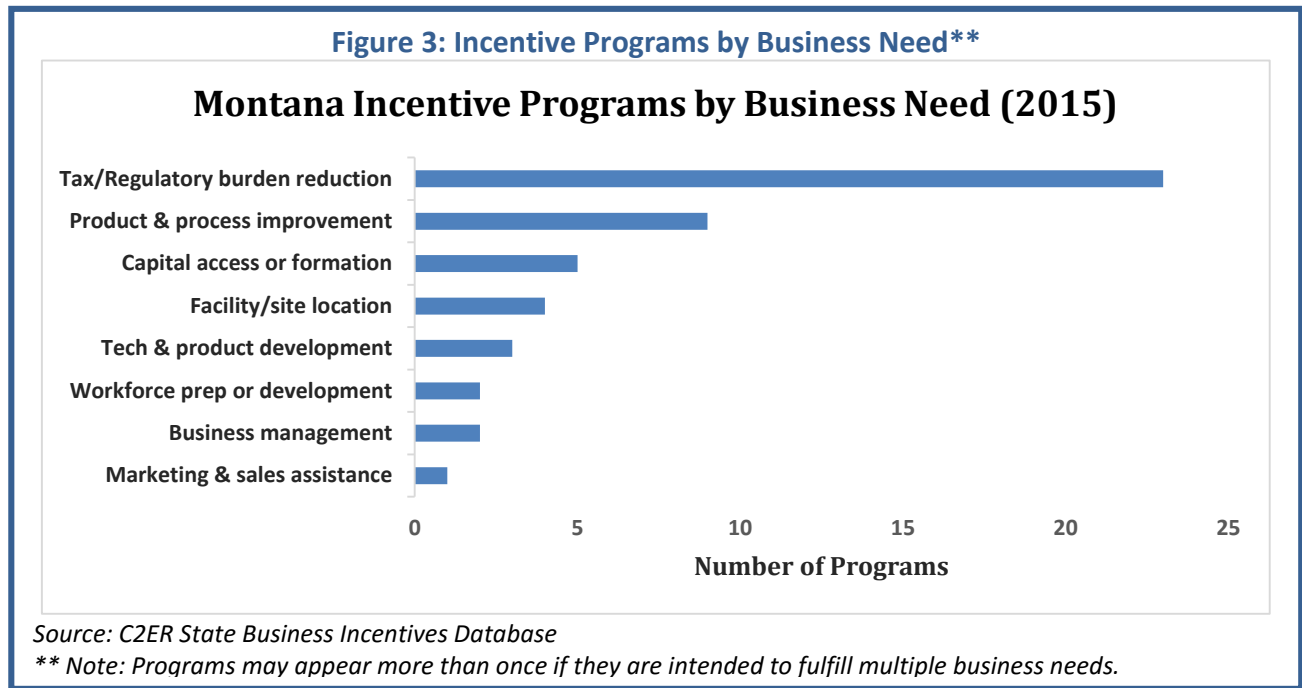
Source: C2ER State Business Incentives Database

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

<sup>2</sup> The C2ER State Business Incentives Database definition of business incentives may differ from the definition used by the state of Montana.



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



Around 70 percent of Montana’s active incentive programs offer some kind of tax-related benefit. By comparison, tax incentives represent 45 percent of all state business incentive programs across the nation. A little less than a third of Montana’s incentive programs provide direct or indirect financing for Montana businesses. Tax credits are the most commonly offered incentives by the state of Montana. Other incentives include grants, loans and tax exemptions and deductions. (See Figure 2.)

The emphasis of the state’s current portfolio of incentives is on tax burden reduction as well as product & process improvement, with a smaller number of programs addressing capital access and formation. Compared to other states, Montana’s program portfolio places a strong emphasis on addressing tax burden reduction. (See Figure 3.)

### Economic Development Program Expenditures

Examining Montana’s budget for economic development program expenditures reveals how various state agencies outlay money for economic development programs. Expenditures fall into 15 functional



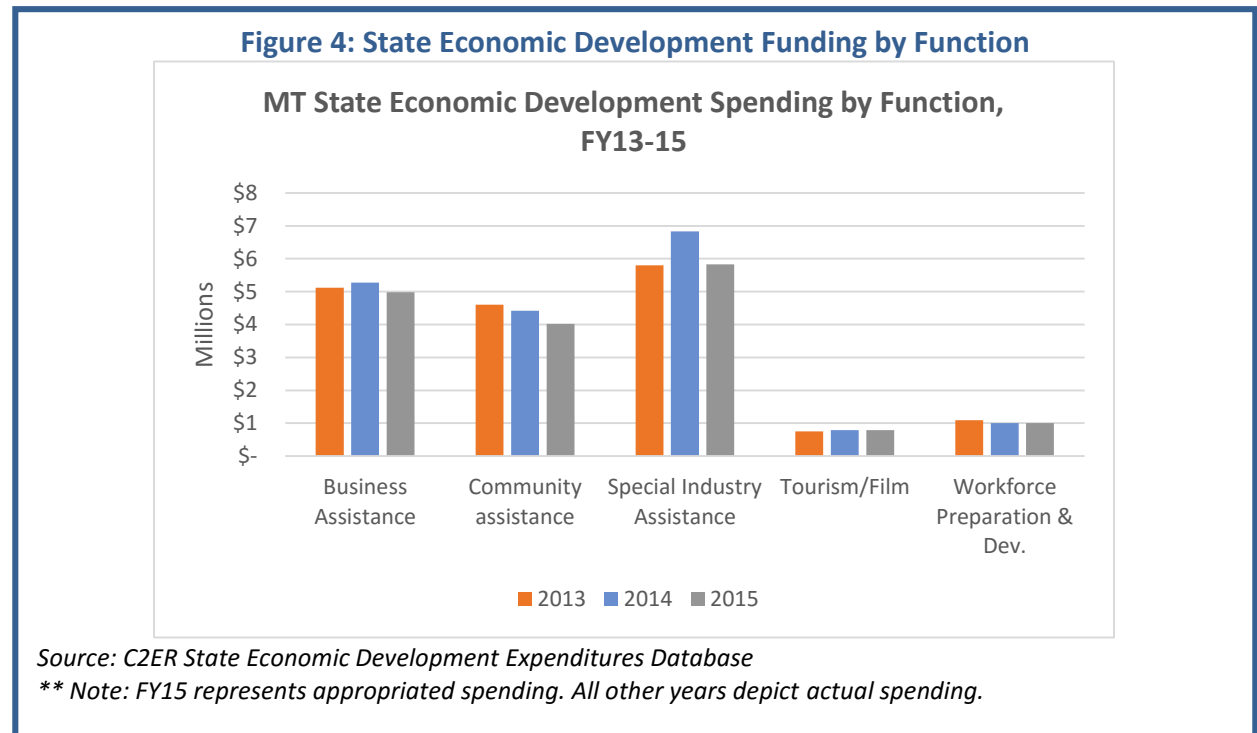
September 2015

areas for economic development defined by the C2ER State Economic Development Expenditures Database.<sup>3</sup>

According to Montana’s [2015 Biennium Executive Budget](#), which details proposed FY 2014 spending, the state spent \$18.3 million<sup>4</sup> on economic development in FY 2014. This level of spending represents an average of \$411 per business, which is considerably lower than the median average of \$877 per business spent in other states for that fiscal year. The majority of Montana’s economic development expenditures went to the Department of Commerce, Department of Agriculture, and Department of Transportation. The Department of Commerce received the bulk of funding, with around 70 percent of total state spending.

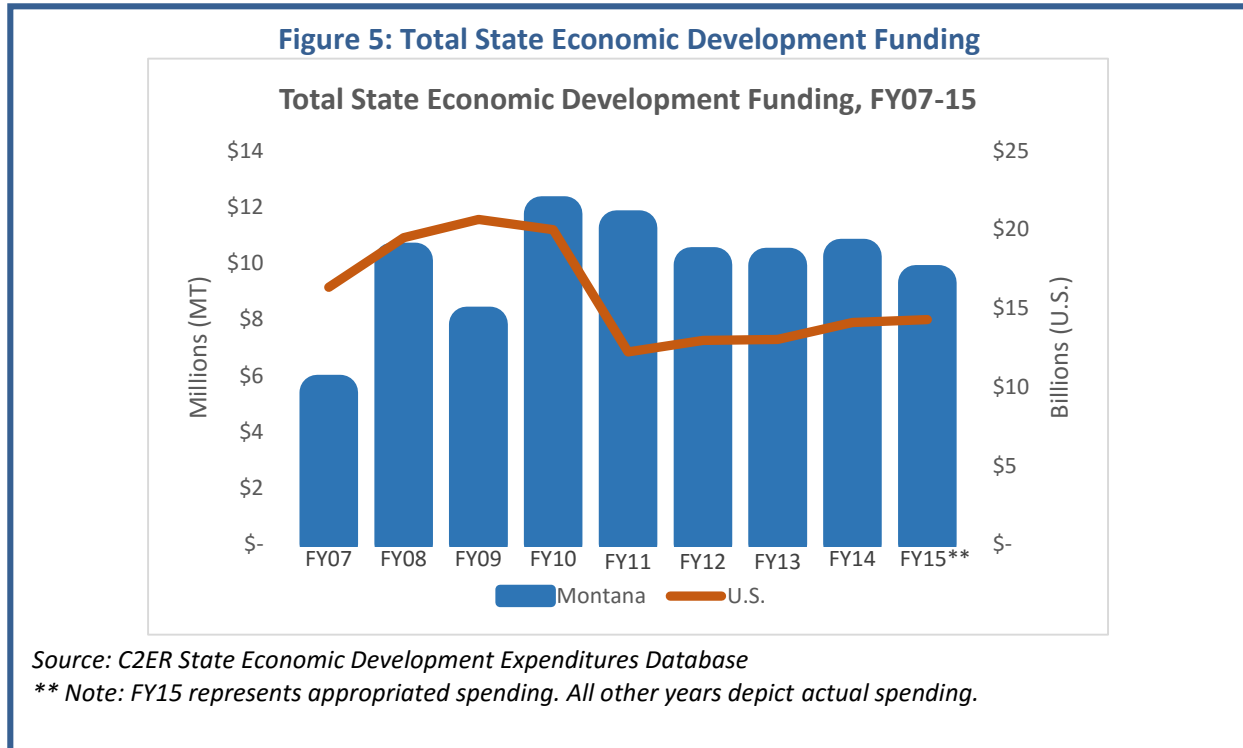
- State Economic Development Expenditures Function Areas**
- Business Finance
  - Strategic Business Attraction Fund
  - Business Assistance
  - International Trade and Investment
  - Domestic Recruitment/Out-of-State
  - Workforce Preparation & Development
  - Technology Transfer
  - Entrepreneurial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

Between FY 2007 and FY 2009, economic development was particularly volatile in Montana, increasing from \$9.7 million in FY 2007 to \$18 million in FY 2008, then back down to \$14 million in FY 2009.



<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.



Economic development program expenditures plateaued at \$21 million and \$20.1 million in FY 2010-11 FY 2012 before decreasing substantially to the \$16-18 million range, where spending has hovered between FY 2012 and FY 2015. Montana appropriated \$16.6 million to spend on economic development in FY 2015, representing a decrease from FY 2014 levels. This is fairly consistent with national trends in economic development spending, as most states decreased spending in FY 2011 following the Great Recession and have since made very gradual spending increases. It is unusual, however, to see a sharp decrease in spending during the middle of the recession, but spending quickly recovered to help with the recovery. (See Figure 5.)

### 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.”<sup>5</sup> *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.

The [Montana 2012-2014 Biennial Report](#), published by the Montana Department of Revenue in December 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. For a small number of tax credits, only FY2013 usage data was available, so that fiscal year was included as a proxy for FY2014 totals. In other cases, the tax incentive is listed as having no tax expenditures for that year because the data was not available.

<sup>5</sup> *Tax Expenditures: What are they and how are they structured?* Tax Policy Center. Accessed November 25, 2014 at: [www.taxpolicycenter.org/briefing-book/background/shelters/expenditures.cfm](http://www.taxpolicycenter.org/briefing-book/background/shelters/expenditures.cfm)



In FY 2014, the state of Montana's economic development tax expenditures totaled approximately \$55.9 million, which was significantly more than the \$18.3 million Montana invested in economic development program expenditures for that fiscal year. Montana administered its tax expenditures related to economic development primarily through the Department of Revenue.

For FY 2014, the majority of Montana's economic development tax expenditures were for corporate income taxes. The remainder fell under individual income, state property, and other tax types. The primary economic development functional goals of these tax expenditures were to encourage special industry assistance, community assistance, technology transfer, entrepreneurial development and workforce preparation and development.

The majority of Montana's economic development tax expenditures went towards special industry assistance (46 percent) and community assistance (25 percent). Montana used tax incentives to assist many different industries in the state, with almost two thirds of line items going toward specific industries. The primary industry that received tax assistance in FY 2014 was natural resource extraction (81 percent).

## Analysis of Available Outcome Data

Montana has developed three publications which have emphasized creating outcome data and evaluating business incentives and expenditures. The Montana Department of Revenue, required by 15-1-205, MCA, has been releasing biennial [Tax Expenditure Reports](#) since 1973. The first half of the report focuses on an overview of the Montana Department of Revenue and the general makeup of Montana's tax base. The second half of the report provides a list of all tax expenditures, the statutory authority for each tax expenditure, the number of credits claimed on each tax credit, an evaluation of the fiscal impact of each tax expenditure, and information about the beneficiaries of tax expenditures.

In addition, Montana utilizes a [transparency](#) website which offers information on financial reports, agencies, accountability, performance, tax revenue, expenditures, contracts/procurement, and the state workforce. Montana's Department of Revenue also features [tax reports](#) on various issues, including the employment impact of SB 407, which is "an act allocating a portion of the proceeds from the lodging facility use tax to the department of commerce for grants to local governments to develop and implement growth policies."

Lastly, under 17-2-110, MCA, the Montana Department of Administration releases a comprehensive financial report for the previous fiscal year. The [Comprehensive Annual Financial Report](#) provides data about the State of Montana's financial position, results of operations, and demographic and statistical information which can be used to assess Montana's financial situation.

## Conclusion

Montana currently administers a relatively high number of incentives, with an emphasis on tax over non-tax incentives. Conversely, the state's economic development program spending per business establishment in the state is relatively low, although spending has been increasing since FY2012. The bulk of the state's current economic development expenditures are through tax expenditures, especially those intended to grow the natural resource extraction industry. Finally, Montana has shown a



commitment to transparency, as shown through their transparency website and detailed tax expenditure reports.

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

Program Name	Program Provider	Business need	Type
<b>Alternative Energy Production Credit</b>	Montana Department of Revenue	Tax/Regulatory burden reduction	Tax credit
<b>Alternative Fuel Credit</b>	Montana Department of Revenue	Product & process improvement	Tax credit
<b>Big Sky Economic Development Trust Fund (BSTF)</b>	Montana Department of Commerce	Capital access or formation	Grant
<b>Biodiesel Blending and Storage Credit</b>	Montana Department of Revenue	Product & process improvement; Tax/Regulatory burden reduction	Tax credit
<b>Biodiesel/Biolubricant Production Facilities Credit</b>	Montana Department of Revenue	Facility/site location; Tax/Regulatory burden reduction	Tax credit
<b>Board of Investments Business Loan Participation Program</b>	Montana Department of Commerce	Capital access or formation	Loan/Loan Participation
<b>Board of Investments Value-Added Business Loan Program</b>	Montana Department of Commerce	Capital access or formation	Loan/Loan Participation
<b>Capital Gains and Dividends from Small Business Investment Company Tax Exemption</b>	Montana Department of Revenue	Product & process improvement	Tax exemption
<b>Contractor's Gross Receipts Tax Credit</b>	Montana Department of Revenue	Tax/Regulatory burden reduction	Tax credit
<b>Dependent Care Assistance Credit</b>	Montana Department of Revenue	Workforce prep or development; Tax/Regulatory burden reduction	Tax credit
<b>Disability Insurance for Uninsured Montanans Credit</b>	Montana Department of Revenue	Business management; Tax/Regulatory burden reduction	Tax credit
<b>Donation of Exploration Information Deduction</b>	Montana Department of Revenue	Tax/Regulatory burden reduction	Tax deduction
<b>Empowerment Zone Tax Credit</b>	Montana Department of Revenue	Tech & product development; Tax/Regulatory burden reduction	Tax credit
<b>Energy Conservation Investments Deduction</b>	Montana Department of Revenue	Facility/site location	Tax deduction
<b>Gasohol Producing Equipment</b>	Montana Department of Revenue	Tax/Regulatory burden reduction	Tax deduction
<b>Geothermal System Credit</b>	Montana Department of Revenue	Tax/Regulatory burden reduction	Tax credit





<b>Growth Through Agriculture (GTA) Program</b>	Montana Department of Agriculture	Business management; Marketing & sales assistance; Product & process improvement	Grant; Loan/Loan Participation
<b>Historic Buildings Preservation Credit</b>	Montana Department of Revenue	Facility/site location; Tax/Regulatory burden reduction	Tax credit
<b>Infrastructure User Fee Credit</b>	Montana Department of Revenue	Product & process improvement; Tax/Regulatory burden reduction	Tax credit
<b>Metal Mine License Tax Exemption</b>	Montana Department of Revenue	Tax/Regulatory burden reduction	Tax exemption
<b>Micro-Business Loans</b>	Montana Department of Commerce	Capital access or formation	Loan/Loan Participation
<b>Mineral Exploration Incentive Credit</b>	Montana Department of Revenue	Product & process improvement; Tax/Regulatory burden reduction	Tax credit
<b>Montana Board of Research and Commercialization Technology Trust Fund</b>	Montana Department of Commerce	Tech & product development	Grant
<b>Montana State Small Business Credit Initiative (MT SSBCI) Program</b>	Montana Department of Commerce	Capital access or formation	Loan/Loan Participation
<b>Montana Wood Products Revolving Loan Fund (WP RLF) Program</b>	Montana Department of Commerce	Product & process improvement	Loan/Loan Participation
<b>New Industrial Property Benefit</b>	Montana Department of Revenue	Tax/Regulatory burden reduction	
<b>New Underground Coal Severance Tax Exemption</b>	Montana Department of Revenue	Tax/Regulatory burden reduction	Tax exemption
<b>New/Expanded Industry Credit</b>	Montana Department of Revenue	Product & process improvement; Tax/Regulatory burden reduction	Tax credit
<b>Oilseed Crushing Facility Credit</b>	Montana Department of Revenue	Facility/site location; Tax/Regulatory burden reduction	Tax credit
<b>Pollution Control and Carbon Capture Equipment</b>	Montana Department of Revenue	Tax/Regulatory burden reduction	Tax exemption
<b>Primary Sector Workforce Training Grant Program</b>	Montana Department of Commerce	Workforce prep or development	Grant
<b>Recycle Credit</b>	Montana Department of Revenue	Tax/Regulatory burden reduction	Tax credit
<b>Recycle Deduction</b>	Montana Department of Revenue	Product & process improvement;	Tax deduction





		Tax/Regulatory burden reduction	
<b>Reduced Rate for Natural Resource Tax - New Oil Production</b>	Montana Department of Revenue	Tax/Regulatory burden reduction	Tax deduction
<b>Research and Development Firms Tax Exemption</b>	Montana Department of Revenue	Tech & product development; Tax/Regulatory burden reduction	Tax exemption



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

Function	Activity	Total State Funding
Business Assistance	Business retention/expansion	\$ 4,002,914
Business Assistance	Other Business Assistance	\$ 800,000
Business Assistance	Small business dev. (e.g., SBDCs)	\$ 467,248
Community assistance	Community center revitalization	\$ 4,264,531
Community assistance	Other Community assistance	\$ 150,000
Special Industry Assistance	Agriculture/agribusiness	\$ 5,338,903
Special Industry Assistance	Biotechnology/life sciences	\$ 1,000,000
Special Industry Assistance	Energy and environment	\$ 493,382
Tourism/Film	Tourism promotion (exc. Advertising)	\$ 786,229
Workforce Preparation & Dev.	Incumbent worker training	\$ 1,000,000
<b>TOTAL</b>		<b>\$ 18,303,207</b>



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

Description	Total Funds
Alternative Energy Production Credit	\$ 50
Alternative Fuel Credit	\$ -
Biodiesel Blending and Storage Credit	\$ -
Biodiesel/Biolubricant Production Facilities Credit	\$ -
Capital Gains and Dividends from Small Business Investment Company Tax Exemption	\$11,984
Contractor's Gross Receipts Tax Credit	\$763,534
Dependent Care Assistance Credit	\$ -
Disability Insurance for Uninsured Montanans Credit	\$15,220
Donation of Exploration Information Deduction	N/A
Empowerment Zone Tax Credit	\$ -
Energy Conservation Investments Deduction	N/A
Gasohol Producing Equipment	N/A
Geothermal System Credit	\$ -
Historic Buildings Preservation Credit	\$ -
Infrastructure User Fee Credit	\$305,304
Metal Mine License Tax Exemption	N/A
Mineral Exploration Incentive Credit	\$ 25
New Industrial Property Benefit	N/A
New Underground Coal Severance Tax Exemption	\$ -
New/Expanded Industry Credit	\$ -
Oilseed Crushing Facility Credit	\$ -
Pollution Control and Carbon Capture Equipment	N/A
Recycle Credit	\$79,815
Recycle Deduction	\$956,782
Reduced Rate for Natural Resource Tax - New Oil Production	\$55,864,789
Research and Development Firms Tax Exemption	N/A

\* Data not available in budget