



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

In Fiscal Year (FY) 2013, the most recent year actual spending amounts are available for state revenue data, the state spent \$29.0 million on economic development program expenditures. As of 2015, North Dakota administers 66 active business incentive programs.<sup>1</sup>

### Overview of Business Incentives

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

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

<sup>2</sup> The C2ER State Business Incentives Database definition of business incentives may differ from the definition used by the state of North Dakota. For a current list of incentive programs as defined by the state, please see the North Dakota Department of Commerce [website](#). The C2ER business incentive definitions are available [here](#).

[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.



**Figure 2: North Dakota State Business Incentives by Agency, 2015**

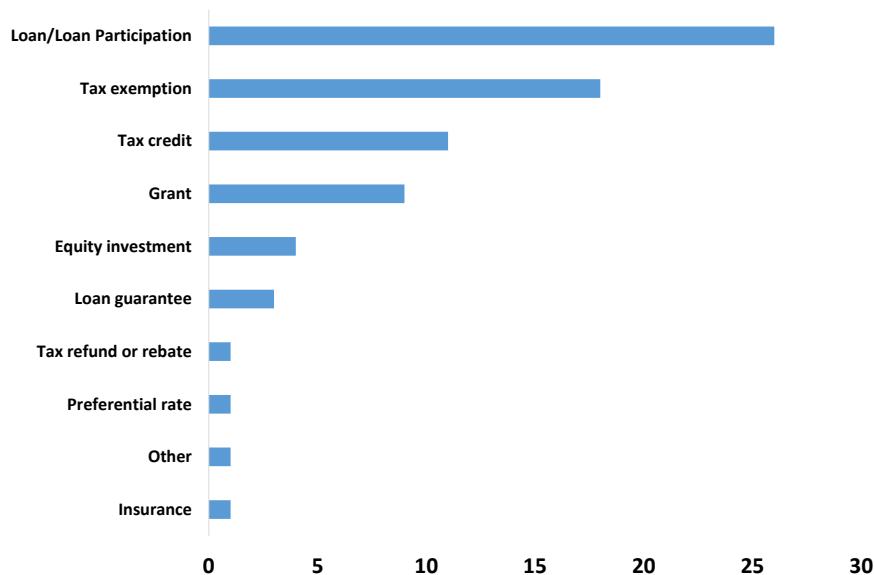
State Agency	Number of Programs
Office of State Tax Commissioner	28
Bank of North Dakota	21
North Dakota Department of Commerce	13
Job Service North Dakota	2
North Dakota Industrial Commission	1
North Dakota Public Finance Authority	1
<b>TOTAL</b>	<b>66</b>

Source: C2ER State Business Incentives Database

In North Dakota, the responsibility for administering these incentive programs is spread across six different state agencies. The primary agencies responsible for administering incentive programs are the Office of the State Tax Commissioner, Department of Commerce, and Bank of North Dakota. (See Figure 1.) The Office of the State Tax Commissioner exclusively administers tax incentives (primarily exemptions and tax credits), while the Department of Commerce administers grant and loan programs. The Bank of North Dakota is a state-owned bank that acts as a funding resource for economic development projects in partnership with other financial institutions, economic development groups, and guaranty agencies. The Bank administers a number of loan and loan guarantee programs, many of them targeting agriculture and agribusiness.

**Figure 1: Incentive Programs by Type\*\***

**North Dakota Incentives by Type (2015)**



Source: C2ER State Business Incentives Database

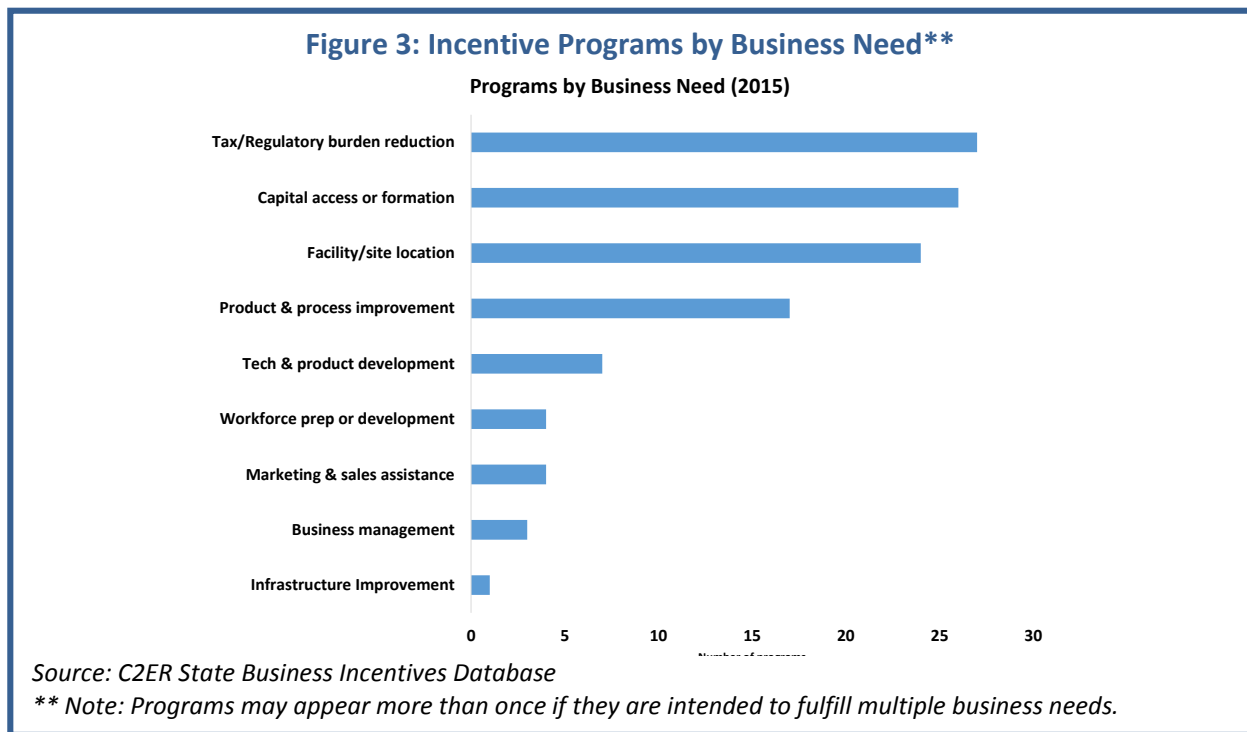
\*\* Note: Programs may appear more than once if they provide multiple incentive types.



Most of North Dakota’s incentives are loan programs or tax incentives. Around 40% of North Dakota’s active incentive programs include a loan component. About 45% of the programs include a tax credit or tax exemption, which is in line with the national average of tax incentives representing 45% of all state business incentive programs. Of these tax exemptions, nine are sales tax exemptions facilitating targeted industries, including oil and gas, manufacturing, and hydrogen generation. Around 15% of North Dakota’s programs include grants. (See Figure 2.)

Each incentive program can address a variety of business needs. About 40% of North Dakota’s programs are intended to reduce the tax burden on businesses as a strategy for making any company more competitive, while another 40% are intended to assist companies in accessing capital, and just under 40% include a component related to facility or site location. A smaller number of programs focus on technology and product development, workforce preparation or development, or market and sales assistance. (See Figure 3.)

Six of North Dakota’s programs are managed through the Development Fund administered by the North Dakota Department of Commerce. The Fund provides financing through loans and equity investments not available from most conventional lenders, and is meant to be a secondary source of funding after private sources. In addition to loans administered from the North Dakota Development Fund, the Fund also administered the Revolving Rural Loan Fund, Rural Incentive Growth Program, New Venture Capital Program, Entrepreneur Loan Program, Entrepreneur Center Loan Program, and the ND Small Business Technology Investment Program.



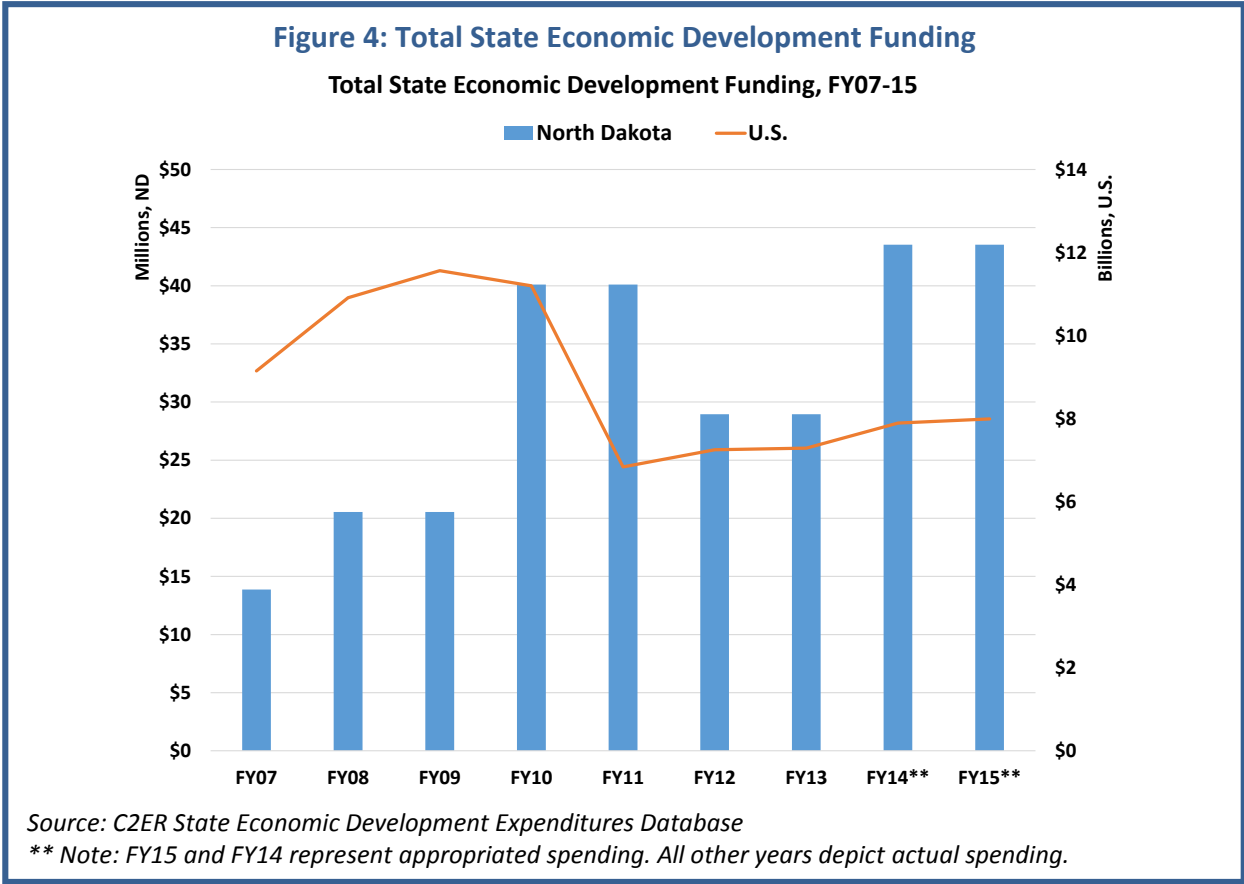


## Economic Development Program Expenditures

Examining North Dakota’s budget for economic development program expenditures 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>

North Dakota has a biennial state budgeting process. The spending and revenues reflected in this report are for each fiscal year, meaning the total for each biennium was divided in half to achieve comparably annual amounts.

- ### 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



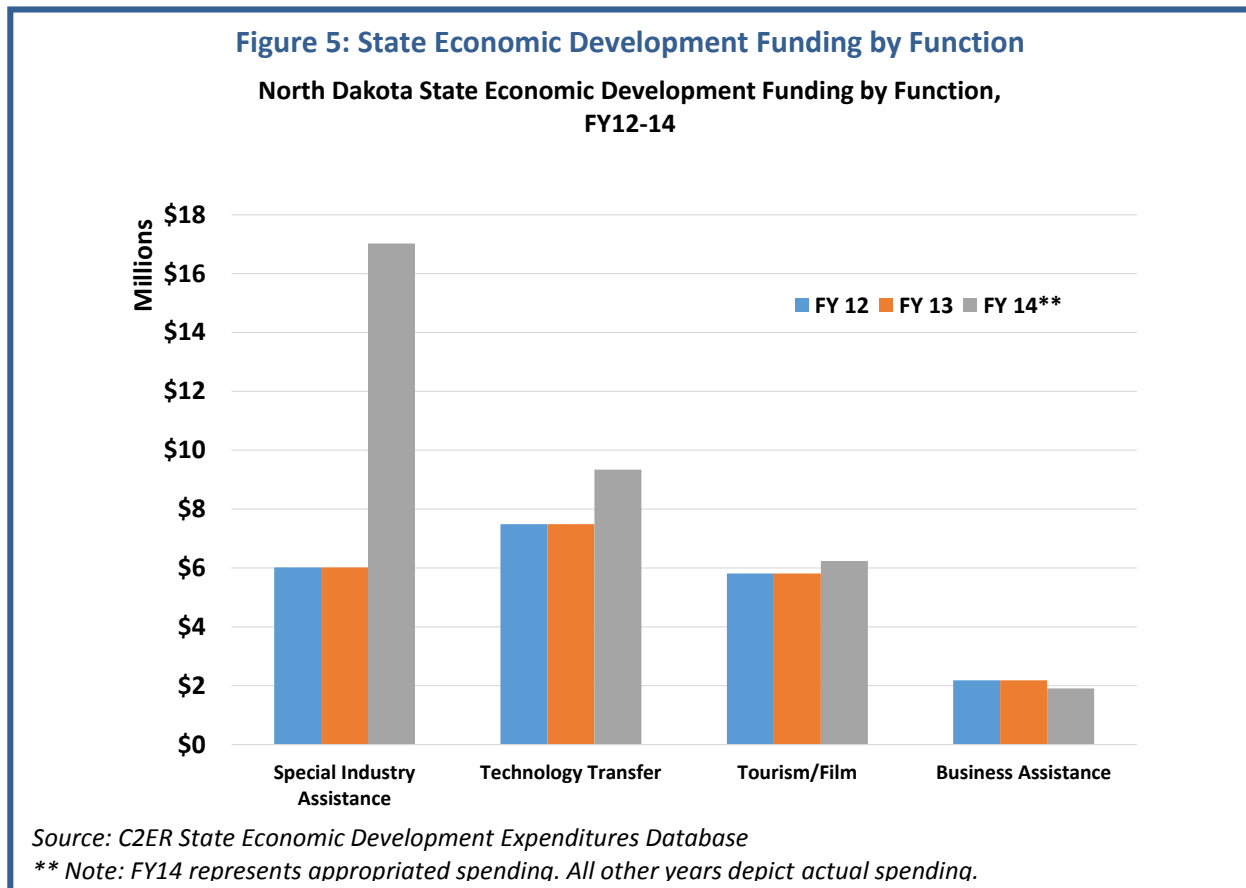
<sup>3</sup> See Glossary definitions here - [http://www.stateexpenditures.org/about/Definition\\_of\\_ED\\_Functions.pdf](http://www.stateexpenditures.org/about/Definition_of_ED_Functions.pdf)



According to North Dakota’s [FY 2015-2017 proposed operating budget document](#), which details actual FY 2013 spending, the state spent \$29.0 million on economic development in FY 2013. (See Figure 4). This level of spending represents an average of \$942 per business, which is higher than the median average of \$791 per business spent in other states for that fiscal year. Around 75% of expenditures were for programs through the Department of Commerce. The remaining expenditures were used to fund economic development programs through the Aeronautics Commission, Department of Career and Technical Education, Department of Agriculture, Industrial Commission, Job Service North Dakota, North Dakota State University, and the Northern Crops Institute.

Two state sources of economic development funds are not represented in the state expenditures through the appropriations process: the North Dakota Development Fund and the North Dakota State Bank. The North Dakota Development Fund was created in 1991 and is a program of the Department of Economic Development and Finance under the North Dakota Department of Commerce. It can take equity positions, provide loans, and use other financing mechanisms to provide capital for new or expanding businesses. The Fund has received state appropriations in the past. At this point, the Fund operates on self-sustaining basis, investing \$4.1 million in 22 primary sector and child care businesses in FY 2014<sup>4</sup>.

The North Dakota State Bank is a state-owned bank that was founded in 1919. Its mission is to provide financial services that promote agriculture, commerce, and industry in North Dakota. Most of the bank



<sup>4</sup> North Dakota Development Fund: Annual Report 2014. Accessed at: [www.business.nd.gov/uploads/10/nddocdevelopmentfundreportweb.pdf](http://www.business.nd.gov/uploads/10/nddocdevelopmentfundreportweb.pdf)



deposits come from tax collections and state fees. The Legislature can appropriate the transfer of funds from the bank to the State's General Fund. The Bank provides a range of loans and other financing options for agriculture and other business.

Economic development spending has followed an upward trend since 2007, with some spending increases and decreases. Between FY 2007 and FY 2011, economic development spending increased from \$13.9 million in FY 2007 to \$40.1 million in FY 2011. Following a dip in FY 2012 and FY 2013, funding continued to increase through the FY 2014-2015 biennium appropriations. In FY 2016, the state has proposed to spend \$42.5 million on economic development, a slight decrease from the previous fiscal year. This funding trend differs from national trends of decreasing funding for economic development in FY 2011 following the Great Recession.

Special Industry Assistance spending saw large increases over the past few fiscal years, with more funding for the Aeronautics Commission's grants for airports and the Department of Commerce's Innovation and Entrepreneurship division grants to encourage commercialization of Unmanned Aerial Vehicle research (See Figure 5). There were also large increases in appropriations in FY 2014 and FY 2015 to fund the Agricultural Products Utilization Commission (APUC), which provides grants for research and technology transfer, marketing, and technical assistance. In comparison to expenditures nationally, in FY 2013 North Dakota spent a greater proportion of its economic development budget on programs related to special industry assistance, tourism and film, international trade, and technology transfer, and a lower share on programs related to business assistance, community assistance, and workforce development.

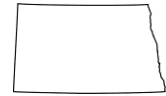
## Economic Development Revenues

Unlike most other states, North Dakota does not currently produce a report detailing its tax expenditures. These reports are important sources of information about how tax incentives targeted to businesses are utilized. In other states, the reports have helped to identify which of the identified tax incentive programs are particularly important to businesses and which are less widely used. This lack of information makes a true comparison of North Dakota's investments in economic development impossible to complete.

However, to provide some context, North Dakota's state revenues for FY 2013 totaled \$2.58 billion, and the 2014 revenues are projected to be \$2.8 billion. General fund expenditures totaled \$2.2 billion in FY 2013, and are projected to total \$3.4 billion for FY 2014. Almost half of North Dakota's revenues come from the sales, use, and motor vehicle taxes. In the 2011-2013 biennium, individual income taxes made up 20% of revenues, and they are projected to make up 16.4% of revenues for 2013-2015. Corporate income taxes account for about 7.5% of state revenues, and oil taxes make up about 5.5% of state revenues for both biennium.

## Analysis of Available Outcome Data

North Dakota's Business Incentive Accountability Law (North Dakota Century Code chapter 54-60.1) requires transparency, accountability, and evaluation measures. Grantors of incentives are required to enter into an agreement with recipient businesses detailing the incentives and responsibilities of the business prior to granting the incentives. This agreement is subject to open records rules and is included in the North Dakota Department of Commerce's annual reports on incentives. Businesses are also



required to report annually on how many jobs were created, and must pay back the incentives if they do not reach their job creation goals. Lastly, as part of the law, reports are provided on an annual basis to the legislature detailing the successes of the incentives.

The Business Incentive Accountability law does not apply to tax incentive programs. The law allows for public purposes beyond job creation, but only outlines reporting requirements specific to job creation, making it difficult to measure and evaluate incentives in which job creation is not the sole purpose. Furthermore, while legislators receive the incentives reports, there is no formal process for using the information in the reports to determine which incentives should be reviewed or repealed.

The legislative Taxation Committee, chaired by Senator Dwight Cook, studied the state economic development tax incentives and considered a regular review process. The Committee then introduced and the Governor signed a bill to evaluate all tax incentives and connect the reviews to policymaking. S.B. 2057, enacted April 1, 2015, requires an evaluation of each tax incentive every six years to determine whether programs are meeting the desired goals. A legislative committee plans to conduct the evaluations and make recommendations to legislative leadership to compare the effectiveness of incentives with alternative policy options. Specifically, the committee plans to review unintended consequences of the incentives, whether their design and application can be improved, the extent of complementary or duplicative efforts, the burden created for local government, employment opportunities generated, and other key points. If the analysis is constrained by lack of data, the committee will consider if any changes should be made to improve the collection and availability of data.

The Taxation Committee also introduced H.B. 1060, which was signed by the Governor on April 8, 2015. This bill allows Job Service North Dakota, the Department of Commerce, and the State Tax Commissioner to enter into data-sharing agreements to evaluate economic development programs. Data shared through these agreements could include wage and employment information on unemployment insurance wage records and income tax and sales tax information.

## Conclusion

Many of North Dakota's economic development efforts are specifically targeted to industries related to oil and gas industry and to agriculture. While many other states decreased funding for economic development after FY 2011, North Dakota has continued to invest in the agriculture, oil, and aviation industries. The state has benefitted from increases in revenues due to the oil and gas industry, which has provided the state additional funding for investments in research and development and technology transfer activities. In 2015, North Dakota passed new laws to require regular legislative review of tax incentives and promote data sharing between economic development agencies.



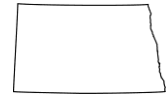
## Appendix A: Full List of North Dakota State Business Incentives (2015)

Program Name	Program Provider	Business Need	Type
Ag Commodity Export Enhancement Program	Bank of North Dakota	Capital access or formation	Insurance
Agricultural Commodity Processing Facility Investment Tax Credit	Tax Commissioner	Tax/Regulatory burden reduction	Tax credit
Agricultural Commodity Processing Plant Construction Materials Sales Tax Exemption	Tax Commissioner	Product & process improvement	Tax exemption
Agricultural Products Utilization Commission (APUC)	Commerce	Tech & product development; Tax/Regulatory burden reduction	Grant
Agriculture Partnership in Assisting Community Expansion (Ag PACE)	Bank of North Dakota	Capital access or formation; Product & process improvement; Facility/site location; Tech & product development	Loan/Loan Participation
Angel Fund Investment Credit	Tax Commissioner	Tax/Regulatory burden reduction	Tax credit
Automation Credit	Tax Commissioner	Product & process improvement; Tax/Regulatory burden reduction	Tax credit
Beginning Entrepreneur Loan Guarantee Program	Bank of North Dakota	Capital access or formation; Product & process improvement	Loan guarantee
Beginning Farmer Loan Programs (Revolving Loan Fund)	Bank of North Dakota	Product & process improvement; Facility/site location	Loan/Loan Participation
Biodiesel Equipment Sales Tax Exemption	Tax Commissioner	Tax/Regulatory burden reduction	Tax exemption
Biodiesel Tax Credits	Tax Commissioner	Capital access or formation; Product & process improvement	Tax credit
Biofuels PACE Program	Bank of North Dakota	Product & process improvement; Facility/site location	Loan/Loan Participation
Business Development Loan Program	Bank of North Dakota	Capital access or formation	Loan/Loan Participation





Carbon Dioxide for Enhanced Oil and Gas Recovery Sales Tax Exemption	Tax Commissioner	Tax/Regulatory burden reduction	Tax exemption
Coal Conversion Facility Privilege Tax Exemptions	Tax Commissioner	Facility/site location; Tax/Regulatory burden reduction	Tax exemption
Coal Gasification Byproducts Sales Tax Exemption	Tax Commissioner	Facility/site location; Tax/Regulatory burden reduction	Tax exemption
Coal Mine Machinery or Equipment Sales Tax Exemption	Tax Commissioner	Tax/Regulatory burden reduction	Tax exemption
Coal Severance Tax	Tax Commissioner	Tax/Regulatory burden reduction	Tax exemption
Commercial Bank Participation Program	Bank of North Dakota	Capital access or formation; Facility/site location	Loan/Loan Participation
Computer and Telecommunications Equipment Sales Tax Exemption	Tax Commissioner	Tax/Regulatory burden reduction; Product & process improvement	Tax exemption
Electrical Generating Facilities Sales Tax Exemption	Tax Commissioner	Tax/Regulatory burden reduction; Facility/site location	Tax exemption
Entrepreneur Center Loan Program	Commerce	Capital access or formation	Loan/Loan Participation
Entrepreneur Loan Program	Commerce	Capital access or formation	Loan/Loan Participation
ENVEST Program (Value-Added Agriculture Equity Loan Program)	Bank of North Dakota	Capital access or formation; Facility/site location	Equity investment
Equipment Export Enhancement Program	Bank of North Dakota	Capital access or formation	Loan/Loan Participation
Established Farmer Real Estate Loan Program	Bank of North Dakota	Capital access or formation; Product & process improvement; Facility/site location	Loan/Loan Participation



Events Grant Program	Commerce	Marketing & sales assistance	Grant
Family Farm Loan Program	Bank of North Dakota	Capital access or formation; Product & process improvement; Facility/site location	Loan/Loan Participation
Farm and Ranch Participation Program	Bank of North Dakota	Capital access or formation; Product & process improvement; Facility/site location	Loan/Loan Participation
Farm Operating Loan Program	Bank of North Dakota	Capital access or formation; Product & process improvement	Loan/Loan Participation
Farm Real Estate Loan Guarantee Program	Bank of North Dakota	Capital access or formation; Facility/site location	Loan guarantee
First Time Farmer Finance program	Bank of North Dakota	Capital access or formation; Facility/site location	Loan/Loan Participation
Flex PACE Program	Bank of North Dakota	Capital access or formation; Tech & product development	Loan/Loan Participation
Fuel Production Facility Loan Guarantee Program	Bank of North Dakota	Capital access or formation; Facility/site location	Loan guarantee
Gas Processing Facilities Sales Tax Exemption	Tax Commissioner	Tax/Regulatory burden reduction	Tax exemption
Government Guaranteed Loan Purchase Program	Bank of North Dakota	Business management; Capital access or formation	Preferential rate
Hydrogen Generation Facility Sales Tax Exemption	Tax Commissioner	Tax/Regulatory burden reduction	Tax exemption
Income Tax Exemption	Tax Commissioner	Tax/Regulatory burden reduction	Tax exemption
Industrial Development Bond Program	North Dakota Public Finance Authority	Capital access or formation; Facility/site location	Loan/Loan Participation
Internship Employment Credit	Tax Commissioner	Tax/Regulatory burden reduction; Workforce prep or development	Tax credit
Liquefied Gas Processing Sales Tax Exemption	Tax Commissioner	Facility/site location; Tax/Regulatory burden reduction	Tax exemption



Livestock Waste Management System Loan Program	Bank of North Dakota	Facility/site location	Loan/Loan Participation
Manufacturing, Agriculture, or Recycling Equipment Sales Tax Exemption	Tax Commissioner	Tax/Regulatory burden reduction	Tax exemption
Marketing Grant Program	Commerce	Marketing & sales assistance	Grant
MATCH program	Bank of North Dakota	Product & process improvement; Facility/site location	Loan/Loan Participation
Microbusiness Investment and Employment Credit	Tax Commissioner	Tax/Regulatory burden reduction	Tax credit
ND Small Business Technology Investment Program	Commerce	Business management; Capital access or formation	Loan/Loan Participation
New or Expanding Business Tax Exemption	Tax Commissioner	Facility/site location; Tax/Regulatory burden reduction	Tax exemption
North Dakota Development Fund	Commerce	Capital access or formation; Product & process improvement; Facility/site location; Tech & product development	Equity investment
North Dakota Ethanol Incentive Program Summary	Commerce	Marketing & sales assistance; Product & process improvement	Grant
North Dakota New Jobs Training Program	Job Service North Dakota	Workforce prep or development	Grant
Oil Refineries Sales Tax Exemption	Tax Commissioner	Facility/site location; Tax/Regulatory burden reduction	Tax exemption
Partnership in Assisting Community Expansion (PACE)	Bank of North Dakota	Capital access or formation	Loan/Loan Participation
Renaissance Zones	Tax Commissioner	Facility/site location; Tax/Regulatory burden reduction	Tax credit



Renewable Energy Program	North Dakota Industrial Commission	Marketing & sales assistance; Tech & product development; Product & process improvement; Business management	Grant
Research Expense Credit	Tax Commissioner	Tech & product development; Tax/Regulatory burden reduction	Tax credit
Research ND	Commerce	Product & process improvement; Tech & product development	Grant
Revolving Rural Loan Fund	Commerce	Capital access or formation; Facility/site location	Loan/Loan Participation
Rural Incentive Growth Program	Commerce	Capital access or formation; Facility/site location	Loan/Loan Participation
Seed Capital Investment Credit	Tax Commissioner	Tax/Regulatory burden reduction	Tax credit
Telecommunications Infrastructure Sales Tax Exemption	Tax Commissioner	Tax/Regulatory burden reduction	Tax exemption
Tourism Expansion Grants	Commerce	Infrastructure Improvement	Grant
Venture Capital Loan Program	Commerce	Capital access or formation	Equity investment
Wage and Salary Credit	Tax Commissioner	Tax/Regulatory burden reduction	Tax credit
Workforce 20/20	Job Service North Dakota	Workforce prep or development	Grant
Workforce Recruitment Credit	Tax Commissioner	Workforce prep or development; Tax/Regulatory burden reduction	Tax credit



## Appendix B: ND Economic Development Program Expenditures (2013)

Function	Activity	State Spending
Administration	Info systems, accounting, human resources, etc.	\$5,403,522
Business Assistance	Business retention/expansion	\$671,146
Business Assistance	Other Business Assistance	\$1,513,898
Business Finance	Grants to businesses	\$50,000
International Trade and Investment	Export promotion (excl. overseas representation)	\$1,302,972
Special Industry Assistance	Agriculture/agribusiness	\$2,720,488
Special Industry Assistance	Energy & energy-related	\$750,000
Special Industry Assistance	Other Special Industry Assistance	\$2,546,119
Technology Transfer	Research & development	\$7,488,655
Tourism/Film	Major events/festivals	\$567,366
Tourism/Film	Tourism development	\$5,243,596
Workforce Preparation & Dev.	Customized training	\$701,102
<b>TOTAL</b>		<b>\$28,958,861</b>