

MICROFILM DIVIDER

OMB/RECORDS MANAGEMENT DIVISION
SFN 2053 (2/85) 5M



ROLL NUMBER

DESCRIPTION

1403

2001 HOUSE FINANCE AND TAXATION

HB 1403

2001 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HB 1403

House Finance and Taxation Committee

☐ Conference Committee

Hearing Date January 31, 2001

Tape Number	Side A	Side B	Meter #
1		x	5,890
Committee Clerk Signature <i>Janice Stein</i>			

Minutes:

REP. AL CARLSON, CHAIRMAN Opened the hearing and read the fiscal note.

REP. LONNY WINRICH, DIST. 18, GRAND FORKS Introduced the bill as the prime sponsor. See attached written testimony. Also presented amendments to the bill. The amendments take responsibility for collecting information and reporting information under this bill out of the hands of the Department of Economic Development and Finance and places it all with the Tax Commissioner. There are two reasons for doing this, one is philosophical, that ED and F's responsibility is really sort of promotional and not data gathering and analysis, etc as is the Tax Commissioner's responsibility. However, if the responsibility of reporting the information remains in the office of the State Tax Commissioner, then the Tax Commissioner can report that information in aggregate form for all of the companies, so we would get a better report. These amendments would also affect the fiscal note, because it was prepared by E D and F and they say they would need another FTE person in order to implement this particular bill. I

visited with the Tax Commissioner on Monday afternoon, and he assured me at that time, that his department would not need a new staff person to implement the bill. He did have some concerns about administrative costs and he may be able to give some information about that this morning.

My impression from my conversation with the Tax Commissioner was that the fiscal implications would be far less than what is contained in this particular fiscal note.

REP. CARLSON What prompted this idea on your part?

REP. WINRICH My association with an organization with Midwestern elected officials that has been meeting for a little over a year now. In that group, I became acquainted with several legislators from Minnesota. We talked about various issues including economic development, and I learned about the Minnesota law.

REP. CARLSON Do they presently have something like this implemented?

REP. WINRICH Yes, in fact, the last page of the testimony here, is a portion of the report under the Minnesota statute which shows what sort of information is generated.

REP. CARLSON One of the questions would be who is the watchdog. They have a revenue department or something in Minnesota, is that who they use?

REP. WINRICH There's actually a combination of the revenue department and the department of economic development, similar to our E D and F. I think their department structure is a little bit different. In conversations with the tax commissioner and others, it is my feeling that we would be better off in our state with having this responsibility in the tax department.

REP. CLARK Does this fall under the North Dakota open records law?

REP. WINRICH I believe most of the information would be available under the open records law. There is the privacy concern that I mentioned for small companies, and the tax information

that is available. The point of this bill is not to open more records, the point of this bill is to generate a consistent report in one place.

APRIL FAIRFIELD, DIST. 29 Testified in support of the bill. Creating economic development and enhancing private sector activity is now the buzz word nearly every political discussion in North Dakota. Our strong desire for growth and our willingness to try different economic development strategies has involved into a rather piecemeal system of initiatives. We all understand that our future hinges on successful development efforts. However, we seem to have no comprehensive, coherent strategy for economic development in this state. I believe this bill would be a good place to start by collecting economic development data. This does not create a mandate. It will simply provide information for policy makers, which could be extremely useful.

DON MORRISON, EXECUTIVE DIRECTOR OF THE NORTH DAKOTA

PROGRESSIVE COALITION, Testified in support of the bill. See written testimony. He also submitted a report of Employers and Salaries from the North Dakota Income and Property Tax Exemptions Report of November, 1996. See attached copy.

JOHN RISCH, UNITED TRANSPORTATION UNION RAILROAD WORKER'S

ASSOCIATION, Testified in support of the bill. Support the bill because of the increased accountability of where our tax dollars are being spent. In recent years, we have seen an explosion of economic development efforts, not just the state levels, but the county and city level. I think this bill would provide an opportunity to at least, get an overview of what is happening out there. Are all of these efforts going in the same direction or some of them running into each other. This would be a means of better accountability and watching our tax dollars.

STEVE EGELAND, ECONOMIC DEVELOPER'S ASSOCIATION OF NORTH

DAKOTA, Testified in opposition of the bill. They had grave concerns with this bill. There are vast economic differences with Minnesota and North Dakota. One of the things we have on our legislative agenda for this year, is to create twenty five thousand new jobs between year 2000 and 2005. Also, this goal is to lift North Dakota's per capita income to at least ninety three percent of the national average. We are not even par with the national average. We are trying to get to ninety three percent of the national average. Bills like this, quite honestly, makes our job much tougher. Whether you agree or disagree, incentives are important or not important, they are a fact of life. The Bismarck/Mandan Development Association has, for about the last three years, worked very hard, nationally and also internationally, attracting companies, or trying to work with companies who are interested in coming to our city. When we go to Denver, one of the biggest competitions I have, is the country of Mexico. Bills like this, have good intent, but I don't think they recognize the competitive nature of this industry. My personal concern is, if they are comparing what they are doing in Minnesota to what we should be doing in North Dakota, there are some vast differences.

REP. WINRICH You said you considered this bill to be intrusive, but you also implied that much of the information is available, I believe all of this information is available under the Freedom of Information Act, is there information that is confidential now, that would be exposed by this bill in some way?

STEVE EGELAND I believe, when I spoke of intrusive, I was referring to how the company will give it. There are a lot of things which enter into a companies decision of whether or not they want to relocate to an area or not. Incentives are an important part of that. The other thing

is business law. It is not uncommon for companies to ask us, about how the legislature viewed primary sector businesses and the growths they have, and they want to know about those types of laws.

REP. CARLSON Asked Rep. Winrich to check on rules regarding confidentiality.

RON RAUSHENBERGER, DIVISION OF COMMUNITY SERVICES, Testified in opposition of the bill. Within the division of community services, we have several programs which would be affected. One of the programs is the community development block grant program, another one is the renaissance zone program as well as the possibility of the wind energy program. The renaissance program is available to every community in North Dakota which involves twenty contiguous blocks of businesses that can receive tax credit from the state for certain rehab and enhancement programs. We see a lot of problems with that, the numbers could grow and grow, if this program grows. With the community development block grant program, part of that economic development money could be for infrastructure, and when that is put in, it could end up touching other businesses besides, therefore, they would possibly all have to apply under this, even though they didn't directly receive that money. It would be a tremendous burden on our department, with the work that would be involved.

RANDY SCHWARTZ, DEPARTMENT OF ECONOMIC DEVELOPMENT & FINANCE

Testified in opposition of the bill. Stated he sees some positives in this bill, but also sees a lot of negatives. There are some possibilities but also some dangers. He stated concerns about the additional manpower which would be needed in the different programs to accomplish what was set out in the bill. He also stated, when services are withdrawn from a jurisdiction, because it

didn't comply with this bill, you will need to do a lot more than add E D & F to the legislation, because a lot of the development services and programs out there, are not provided by E D & F. A commerce department proposed by the state, would make a lot of sense, if you want to put some teeth into this. In Minnesota, they do have a commerce department. Public costs involved in development, aren't just involved with incentives. The public costs involved with development, are communities' overall commitment to development with growth. You can't measure that with just this bill. There are a lot of benefits on the private side, but what is the private sector doing to diversify the economy, to grow the economy. What is it doing to diversify the tax state, to build the demographics of the community, to help build the infrastructure, and to build business gaps within the community and the state. There is a lot of positives that have to do with private sector investments, that are beyond jobs. The reason why I put together the fiscal note the way I did, is because, I think if you consider this issue and want to take this issue to the next step, you should be taking a look at measuring these projects at a local level, and look at the positives and the negatives. We have seen the good and bad of projects, and we do take a concern whether or not those public dollars are spent wisely. He stated, the other part of the fiscal note he took issue with is the clawback provision, and what that might do to some of the regions and communities.

REP. WINRICH Many of your objections to the bill, are essentially in the form that it doesn't include enough. What would be the additional expense of including all of these things you talked about?

RANDY SCHWARTZ The kinds of tools available to assist development at a local level, we would be very willing to demonstrate what those look like and what they cost. I included what that might cost in the fiscal note.

REP. WINRICH You mentioned, computing a return on investments for projects, does your agency do that now?

RANDY SCHWARTZ We have not done that historically in the past, we are at a point now, where we can begin to do that, but not at a county or community level yet. What we could do in the future, is to build models. The answer is yes, but at a state level.

JIM DAHLEN, DIRECTOR OF ECONOMIC DEVELOPMENT FOR DEVILS LAKE

AND RAMSEY COUNTY, Testified in opposition of the bill. Related to the concerns with the clawback issues. Related to a manufacturer of agricultural products who wanted to expand, because of the downturn in agriculture, they weren't able to expand to the degree that they wanted to. The clawback provision outlined here, would substantially harm a company in that situation. That is my primary concern. I kind of like the idea of the information on the incentives and return on investments, in fact, in our community, we do that on a regular basis. We report back to our community exactly what our local investment is, and what the state, federal and local dollars are, we know the problem with that. I would like to suggest, that rather than pass this bill, it could maybe be addressed by an interim commerce and labor committee, where we could talk about how do we bring together all of those different entities, which would fit all of us. I think we can come together and figure out a better way.

REP. CARLSON Asked Rick Clayburgh, State Tax Commissioner the question regarding, the Tax Department was named as the department to monitor all of this information, what is your perspective regarding the workload to do this.

RICK CLAYBURGH, STATE TAX COMMISSIONER, Stated he was speaking in a neutral position. He also stated he had visited with Rep. Winrich regarding the changes in the proposal of having the tax department be the collection source instead of a provider of information. He felt they could handle the issues without adding an additional FTE, however, they have to weigh out some of those things. There is a substantial amount of change, as far as reporting, that they have to figure out how to do. There are some issues which focus on reprogramming, some forms will have to be designed, etc. He stated they still have concerns with the bill regarding confidentiality. It is a Class B felony for them to divulge confidential tax information. Information which is provided to E D & F, doesn't have that confidentiality issue, unless there are specific exclusions.

With no further testimony, the hearing was closed.

COMMITTEE ACTION 2-14-01, TAPE #1, SIDE B, METER #1735

REP. WINRICH Presented a draft of a study resolution which is dealing with the bill. He made a motion to adopt amendments 10336.0101 - the amendments put the entire responsibility for collecting data and reporting to the tax commissioner's office.

REP. KROEBER Second the motion. **MOTION CARRIED BY VOICE VOTE.**

REP. GROSZ Made a motion for a **DO NOT PASS AS AMENDED.**

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House Finance and Taxation Committee
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REP. RENNERFELDT Second the motion. **MOTION CARRIED.**

10 YES 5 NO 0 ABSENT

REP. CLARK Was given the floor assignment.

FISCAL NOTE

Requested by Legislative Council
02/16/2001

Bill/Resolution No.:

Amendment to: HB 1403

1A. State fiscal effect: *Identify the state fiscal effect and the fiscal effect on agency appropriations compared to funding levels and appropriations anticipated under current law.*

	1999-2001 Biennium		2001-2003 Biennium		2003-2005 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues						
Expenditures			\$200,000			
Appropriations						

1B. County, city, and school district fiscal effect: *Identify the fiscal effect on the appropriate political subdivision.*

1999-2001 Biennium			2001-2003 Biennium			2003-2005 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts

2. Narrative: *Identify the aspects of the measure which cause fiscal impact and include any comments relevant to your analysis.*

If enacted, HB 1403 First Engrossment would increase the expenditures of the Tax Commissioner's Office by at least \$200,000 for the 01-03 biennium. The increase in expenditures is related primarily to one FTE and data processing costs.

3. State fiscal effect detail: *For information shown under state fiscal effect in 1A, please:*

A. Revenues: *Explain the revenue amounts. Provide detail, when appropriate, for each revenue type and fund affected and any amounts included in the executive budget.*

B. Expenditures: *Explain the expenditure amounts. Provide detail, when appropriate, for each agency, line item, and fund affected and the number of FTE positions affected.*

C. Appropriations: *Explain the appropriation amounts. Provide detail, when appropriate, of the effect on the biennial appropriation for each agency and fund affected and any amounts included in the executive budget. Indicate the relationship between the amounts shown for expenditures and appropriations.*

Name:	Kathryn L. Strombeck	Agency:	Tax Department
Phone Number:	328-3402	Date Prepared:	02/19/2001

FISCAL NOTE
Requested by Legislative Council
01/23/2001

Bill/Resolution No.: HB 1403

Amendment to:

1A. State fiscal effect: *Identify the state fiscal effect and the fiscal effect on agency appropriations compared to funding levels and appropriations anticipated under current law.*

	1999-2001 Biennium		2001-2003 Biennium		2003-2005 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues	\$0	\$0	\$0	\$0	\$0	\$0
Expenditures	\$0	\$0	\$445,000	\$0	\$287,000	\$0
Appropriations	\$0	\$0	\$0	\$0	\$0	\$0

1B. County, city, and school district fiscal effect: *Identify the fiscal effect on the appropriate political subdivision.*

1999-2001 Biennium			2001-2003 Biennium			2003-2005 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts
\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0

2. Narrative: *Identify the aspects of the measure which cause fiscal impact and include any comments relevant to your analysis.*

This bill requires the acquisition, management, compilation and reporting of state and local economic development assistance (see Section 1.3) by the North Dakota Tax Department and Department of Economic Development and Finance (ED&F). It also provides for recapture of incentives (i.e. clawbacks) when recipients do not achieve their stated job, wage and benefit targets.

Currently development assistance is not tracked by the state nor is there measurement of that development assistance. Specific state and local programs performance is sometimes measured (by that specific program) but there certainly is no aggregate as to the total development assistance provided to specific businesses and what economic benefits are produced as a result of that assistance. There is no standard means utilized to recapture development assistance from companies who have not met their planned employment and/or investment goals. This proposed bill seeks to address these issues.

Requiring the aggregation of public sector incentives by the state and information about the recipients may lead to better decisions about the best use of incentives to further economic growth and diversification. Providing for a statewide method to recapture (clawbacks)

public sector incentives may serve to better protect public sector resources. As the potential results are unknown, the fiscal impact to state, county, city and school districts has not been determined (zero has been entered in those fields).

There are several issues that could be clarified:

1. Is the bill only tracking state and local (publicly provided) development assistance? In many cases, federal development assistance may be part of the overall development assistance. Should this bill address federal development assistance? If so, how?
2. What about programs that provide early stage project development and/or financing? In many cases (APUC is an example) these resources may not result directly in new and/or additional job creation. In some cases, this assistance may prove why additional development assistance is not warranted.
3. In Section 1.3, lines 3 and 4, state 'for the purpose of stimulating economic development of a given business entity, industry, geographic jurisdiction',...What is meant by a geographic jurisdiction?
4. In Section 1.5, are there any state or local organizations involved in providing development assistance that are not governed by a state agency or political subdivision? If so, are they excluded from the provisions of this bill?
5. Section 3 provides for disclosure of property tax development assistance. Example: Burleigh and Morton counties provided property tax exemptions for residential construction. Are these to be classified as development assistance and those included in the registry?
6. Section 3.4 states that failure to comply with the reporting requirements of Section 3 can lead to suspension of current development assistance (to that jurisdiction) under the control of the department of economic development and finance. (Similar suspensions are described elsewhere in the bill.)

There are many other state players involved in economic development (i.e. Bank of North Dakota, Division of Community Services, Tourism, Job Service, Vocational/Technical Education, University System). Unless the state coordinates these resources, the suspension of services by the department of economic development and finance have far less consequence. There are many programs that provide development assistance directly to recipients (i.e. Development Fund, APUC). Are programs which directly serve business to

be suspended if the potential recipient operates in a jurisdiction not in compliance?

7. The bill (Section 4 and 5) focuses on jobs, wages, benefits but does not measure the types of jobs. This is important because it's an indicator as to what kinds of job skills we're building in economic development.

8. Are there recommendations as to how to best verify recipient's progress report data? (as per Section 5.4). For the purposes of responding to this fiscal impact, we've estimated that 10% of the total recipients will be subject to a 'spot check' (i.e. audit) by ED&F (may be contracted for).

9. Section 6.6 and 6.7 Are there legal remedies that are suggested to granting bodies? If a Recapture (Clawbacks) provision is standardized throughout the state, legal agreements providing development assistance will also likely need to be standardized (at least to include the provisions of this bill). Legal assistance in implementing this bill throughout the state (with granting bodies) has been estimated.

If we might add the following:

(1) Economic development incentives should be looked at as investment (by the public sector) in order to capture/encourage/nurture investment by the private sector. The benefits of that private sector investment should go beyond just jobs, wages and benefits. What are our public sector incentives doing to:

Grow and diversify the state product? Insulate the economy from cyclical trends?

Raise per capita income? Increase productivity?

Export more products and services to markets outside the state? outside the country?

Improve worker skills? Stimulate entrepreneurship? Stimulate innovation?

Improve our demographics? Strengthen the tax base? Decrease business closures?.

(2) Likewise development assistance (such as described in this bill) may not be the only public costs in an economic development project. Will a project's impact require additional public sector services? Need improved roads and highways? Required additional water? Water/waste treatment? What will a project's impact be on the school system? Will we

need additional housing?

To assist state and local decision makers in making the best use of public sector resources, North Dakota Department of Economic Development & Finance would advocate not just gathering information about public incentives (as provided in this bill) but to measure the return on investment of public incentives and other public costs.

This goes beyond counting jobs, wages and benefits to assessing all the direct and indirect benefits from the public and private investment. This information is vital in order to assist economic development decision makers (at a state and local level).

Many state economic development agencies and tax departments already use impact assessment and modeling 'tools' to help them understand the return on public sector investments when tax/financial incentives are provided. They also use these tools to assist in developing tax and public policy changes to stimulate the general economy and/or nurture specific economic sectors. (In fact, these tools are be used to simulate many of the impacts of public policy on the state, it's regions and/or counties in order to assist the executive and legislative branches.)

ED&F has acquired some of these tools (from Regional Economic Models, Inc.). ED&F has also demonstrated this system (last year) to the interim Commerce & Labor Committee. We have elected to add the resources necessary to continue utilization of tools, like REMI, to the expenditures above. Perhaps some of those expenditures should be shared by the political subdivisions (i.e. local development organizations) on a fee basis.

We would suggest that projects of a certain size (public or private sector investment), type be assessed, in order to help decision makers better assess the advantages/disadvantages of each specific project and the overall return on public sector investment.

This initiative would go far beyond the accounting for public development assistance costs (provided in this legislation) to the consideration of all public sector costs. Likewise, it would go far beyond the private sector's provision of jobs, wages and benefits to all direct and in-direct benefits provided by that private sector investment. Such an additional tool would allow economic development to better protect and insure appropriate returns on the public sector's investment. This information may also serve to strengthen the public sectors negotiation on a project and further how recaptures (clawbacks) are structured.

3. State fiscal effect detail: *For information shown under state fiscal effect in 1A, please:*

A. Revenues: *Explain the revenue amounts. Provide detail, when appropriate, for each revenue type*

and fund affected and any amounts included in the executive budget.

No revenues (as per narrative above) have been estimated.

B. Expenditures: *Explain the expenditure amounts. Provide detail, when appropriate, for each agency, line item, and fund affected and the number of FTE positions affected.*

North Dakota Department of Economic Development & Finance

Staff: 1 FTE is required, estimated cost with benefits is \$130,000/biennium.

Expenses (information systems, occupancy, printing, travel, supplies): estimated at \$25,000/biennium.

Impact Assessment Tools (software, data, customization, maintenance): \$240,000 (2001-2003 biennium) and \$82,000 (2003-2005 biennium). These tools would allow the impacts of projects and/or policy decisions to be assessed down to the county level.

External Services (i.e. accounting/audit, legal): \$50,000/biennium.

North Dakota Tax Department

No estimates have been provided.

C. Appropriations: *Explain the appropriation amounts. Provide detail, when appropriate, of the effect on the biennial appropriation for each agency and fund affected and any amounts included in the executive budget. Indicate the relationship between the amounts shown for expenditures and appropriations.*

No appropriation has been provided in this bill.

Name:	Randy Schwartz	Agency:	ND Dept Finance	Economic Development &
Phone Number:	701 328-5314	Date Prepared:	01/30/2001	

Date: 2-14-01
Roll Call Vote #: 1

2001 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. HB 1403

House FINANCE & TAXATION Committee

☐ Subcommittee on _____
or
☐ Conference Committee

Legislative Council Amendment Number _____

Action Taken Do Not Pass as amended

Motion Made By Rep. Grosz Seconded By Rep. Rennerfeldt

Representatives	Yes	No	Representatives	Yes	No
CARLSON, AL, CHAIRMAN	✓		NICHOLAS, EUGENE	✓	
DROVDAL, DAVID, V-CHAIR	✓		RENNER, DENNIS	✓	
BRANDENBURG, MICHAEL	✓		RENNERFELDT, EARL	✓	
CLARK, BYRON	✓		SCHMIDT, ARLO		✓
GROSZ, MICHAEL	✓		WIKENHEISER, RAY	✓	
HERBEL, GIL	✓		WINRICH, LONNY		✓
KELSH, SCOT		✓			
KROEBER, JOE		✓			
LLOYD, EDWARD		✓			

Total (Yes) 10 No 5

Absent 0

Floor Assignment Rep. Clark

If the vote is on an amendment, briefly indicate intent:

REPORT OF STANDING COMMITTEE

HB 1403: Finance and Taxation Committee (Rep. Carlson, Chairman) recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO NOT PASS** (10 YEAS, 5 NAYS, 0 ABSENT AND NOT VOTING). HB 1403 was placed on the Sixth order on the calendar.

Page 4, line 19, replace "department of economic development and finance" with "tax commissioner"

Page 6, line 17, replace "department of economic development and finance" with "tax commissioner"

Page 6, line 26, replace "department of" with "tax commissioner"

Page 6, line 27, remove "economic development and finance"

Page 6, line 30, replace "department of economic development and finance" with "tax commissioner"

Page 8, line 8, replace "department of economic development and finance" with "tax commissioner"

Page 8, line 11, replace "department of economic" with "tax commissioner"

Page 8, line 12, remove "development and finance"

Page 8, line 15, replace "department of economic development and finance" with "tax commissioner"

Page 9, line 5, replace "department of economic development and finance" with "tax commissioner"

Page 9, line 19, replace "department of economic" with "tax commissioner"

Page 9, line 20, remove "development and finance"

Page 9, line 31, replace "department of economic development and" with "tax commissioner"

Page 10, line 1, remove "finance"

Renumber accordingly

2001. TESTIMONY

HB 1403

TESTIMONY OF REPRESENTATIVE LONNY WINRICH
in support of
House Bill 1403

Chairman Carlson, fellow members of the House Finance and Tax Committee, for the record I am Representative Lonny Winrich from District 18 in Grand Forks. I appear before you this morning as the prime sponsor of HB 1403 and I hope to convince you to give this bill favorable consideration.

The one phrase that seems to dominate contemporary political discourse at all levels is "economic development." Nationally, at the state level, and locally, governing bodies have worked hard to encourage existing businesses to relocate and to encourage the growth of new business. These efforts usually involve the subsidizing of private businesses with public funds. The subsidies take various forms and include outright grants to new and developing companies, loans, loan guarantees, reduced interest rates, tax increment financing, and tax exemptions from sales, income, or property taxes. There seems to be a general consensus that, although we are not sure how effective these incentives may be, we can't afford to discontinue them because that would leave us unilaterally disarmed in the battle for "economic development." If we, as a state or a community, don't offer these incentives and everyone else does, then obviously businesses will go elsewhere and we will lose out.

I confess that I am not prepared to challenge that assumption. But I do think that we should try to gather information on just how effective the many forms of business subsidies are. HB 1403 is an attempt to collect that information. It is based on existing law in Minnesota and on model legislation from the Center for Policy Alternatives. HB 1403 would direct the Tax Commissioner to develop a standard data gathering and reporting system that would collect information on the various forms of public assistance for economic development and provide the legislature with the information it needs to evaluate the efficiency these programs.

Section 1 of the bill provides the necessary definitions that apply to development incentives. Section 2 deals with the reporting of state tax expenditures for economic development; Section 3 with subsidies related to property tax development assistance by all entities that levy property taxes. Section 4 calls for the creation of a standard application form for on-budget development assistance by all granting agencies, Section 5 prescribes the method and format for reporting of this information, and Section 6 addresses the question of recapture of public funds when commitments are not met. I have attached a sample of the information collected and reported under the Minnesota law to illustrate what this law will produce.

It is important to note that HB 1403 does not impose mandates on businesses receiving public assistance. It simply provides for collecting information that will allow the legislature to evaluate the efficacy of various economic development strategies. I urge you to give HB 1403 a DO PASS recommendation and I will try to answer any questions.

Funding Agency	Business Receiving Assistance	Type of Assistance	Dollar Value of Assistance	Projected Jobs	Projected Wage	Assistance per projected job
Blue Earth EDA	Seneca Foods	TIF	\$4,690,000	6	\$9.62	\$781.667
Richfield HRA	Meridian Real Estate (TOLD Dev.)	TIF	\$6,478,303	15	\$15.69	\$431.887
New Ulm, City of	Kraft Foods, Inc.	TIF	\$390,000	1	\$8.99	\$390,000
Saint Paul, Port Authority of	Harris Contracting Company	land sale, loan	\$1,848,480	5	\$10.00	\$369.696
Owatonna Economic Devt Authority & City of Owatonna	Owatonna Incubator, Inc	TIF, building, infrastructure	\$1,808,450	5	\$7.00	\$361.690
Lino Lakes, City of	F & G Inc.	TIF	\$325,000	1	\$5.15	\$325,000
Anoka, City of	Pioneer Packaging & Printing	TIF	\$304,469	1	\$10.00	\$304,469
Caledonia EDA	Alco Discount Stores - Dairy Queen	TIF	\$275,515	1	\$4.50	\$275,515
Roseville, City of	Ryan Twin Lakes	TIF	\$5,000,000	20	\$12.00	\$250,000
Anoka, City of	International Building Concepts	TIF	\$222,377	1	\$7.00	\$222,377
Rosemount Port Authority	Cannon Equipment Company	TIF	\$217,800	1	\$13.50	\$217,800
Saint Paul, Port Authority of	National Checking Company	land sale, loan	\$2,918,176	14	\$9.00	\$208.441
Prior Lake, City of	Award Printing, Inc.	TIF	\$200,000	1	\$10.50	\$200,000
Cloquet, City of	Cloquet Community Hospital	loan	\$200,000	1	\$14.50	\$200,000
Lino Lakes, City of	Northern Development, LLC	TIF	\$197,737	1	\$5.15	\$197,737
Burnsville EDA	Quality Ingredients Corp	TIF	\$376,684	2	\$19.23	\$188,342
Pipestone, City of	Pipestone Beverage Property	TIF	\$365,000	2	\$9.38	\$182,500
Caledonia, City of	Macal Developers	TIF	\$179,525	1	\$5.00	\$179,525
Inver Grove Heights, City of	Kerasotes Theatres, Inc.	TIF	\$1,749,060	10	\$7.00	\$174,906
Anoka, City of	Arrowhead Tool & Design, Inc.	TIF	\$166,298	1	\$7.00	\$166,298
Anoka, City of	Mentor Urology	TIF	\$166,239	1	\$7.00	\$166,239
Anoka, City of	E Street Makers, Inc.	TIF	\$153,208	1	\$7.00	\$153,208
Burnsville EDA	Skyservice Investments	TIF	\$297,859	2	\$16.80	\$148,930
Saint Paul, City of	Bethesda Family Clinic	loan	\$442,000	3	\$8.00	\$147,333
Mpls. Comm. Devlp. Agency	Malcolm Properties LLC	TIF	\$1,000,000	7	\$8.25	\$142,857
Murdock, City of	United Farmers Elevator	TIF	\$131,527	1	\$7.50	\$131,527
MN DTED	Sparta Foods	Small Bus. Develop. Loan	\$1,950,000	15	\$10.00	\$130,000
Anoka, City of	S&S Tool, Inc.	TIF	\$129,308	1	\$7.00	\$129,308
Rochester, City of	Western Digital Corporation	TIF	\$3,200,000	25	\$30.00	\$128,000
Lino Lakes, City of	Rice Industries Inc.	TIF	\$122,830	1	\$5.15	\$122,830
Montgomery, City of	Seneca Foods Corp.	TIF	\$1,188,198	10	\$10.00	\$118,820
Fridley, City of HRA	American Excelsior	TIF	\$117,823	1	\$8.00	\$117,823
Anoka, City of	Witac Industries, Inc.	TIF	\$110,826	1	\$7.00	\$110,826
Anoka, City of	Wisconsin Magneto	TIF	\$218,943	2	\$9.00	\$109,472
Waseca HRA	Colony Court East	TIF, loan	\$107,314	1	not provided	\$107,314
Warroad Port Authority	Helgeson Chapels, LLC	TIF	\$100,000	1	\$18.27	\$100,000
South St. Paul HRA	Historic Hospitality, Inc.	loan	\$400,000	4	\$7.00	\$100,000
Saint Paul, Port Authority of	Versa Iron & Machine	loan	\$2,000,000	20	\$9.00	\$100,000

Study Resolution from Representative Lonny Winrich

A concurrent resolution directing the Legislative Council to study the use and the results of various economic development incentives.

WHEREAS, the State of North Dakota and many of its political subdivisions offer various incentive programs to promote economic development; and

WHEREAS, these incentives include outright grants to private businesses, subsidized loans, and preferential tax treatment such as tax increment financing programs and tax exemptions or abatements; and

WHEREAS, these programs account for significant expenditures of public funds at both the state and local level but such expenditures are not subject to a uniform and comprehensive reporting procedure that would support careful evaluation of the efficacy of the various economic development incentives; and

WHEREAS, there is anecdotal evidence of both success and failure of economic development incentives;

NOW, THEREFORE, BE IT RESOLVED BY THE HOUSE OF REPRESENTATIVES OF NORTH DAKOTA, THE SENATE CONCURRING THEREIN:

That the Legislative Council study economic development incentive programs with the goals of compiling a complete inventory of such programs and determining the best structure for a reporting system that would allow evaluation and comparison of the results and benefits of the programs; and

BE IT FURTHER RESOLVED, that the Legislative Council report its findings and recommendations, together with any legislation required to implement the recommendations, to the Fifty-eighth Legislative Assembly.

Testimony HB 1403
House Finance and Taxation Committee
Don Morrison, North Dakota Progressive Coalition

Mr. Chairman and members of the committee, my name is Don Morrison and I am Executive Director of the North Dakota Progressive Coalition.

How many of you know how much North Dakota taxpayers spend on economic development programs? How much do businesses receive in tax credits, tax deductions, tax expenditures, grants, or loans to help them? What has been the result of that help?

We don't really know.

I would like to show you the study that the North Dakota Tax Department did in 1996 on just the property and income tax exemptions that the State Board of Equalization had responsibility for at that time. The return on taxpayer investment in businesses from these exemptions was not very good.

There aren't very many other reports that have been done about other programs and efforts to encourage economic development in our state. Of those that have been done, some may substantiate the results of the Tax Department report. Other reports may show a variety of results, depending on the program or programs included and the questions asked. The point is: we really don't know, because we don't have the necessary information.

HB 1403 offers you the opportunity, as legislators, to ask the questions you want and to have the information to know what works and what doesn't.

Thank you for this opportunity to talk with you this bill.

Figure 3.1

Employees and Salaries

Tax Exempt Business Projects Operating in 1995

Number of Projects With Employees

Full-and Part-Time Employees	131
Full-Time Employees Only	80
Part-Time Employees Only	16
No Employees*	43

Number of Employees, Median Salaries

Full-or Part-Time Employees	Number of Employees	Median Number of Employees Per Project	Median of Projects' Average Annual Salary**
Full-Time Employees	6,420	8	\$ 17,658
Part-Time Employees	1,715	4	\$ 2,933
Total	8,135	14	\$ 14,015

* Also includes those projects that did not fully complete the survey.

** See Figure 3.4 for a chart showing the range of average annual salaries.

Response: 270 of 294 business projects operating in 1995.

Other Income Measurements

Measurements	Annual Income
US Poverty Level, Family of 4 (1995)	\$ 15,570
ND Per Capita Personal Income (1994)	18,738
ND Average Wage (1995)	20,493

Sources:

US Poverty Level

U.S. Department of Commerce, Bureau of the Census, Internet Site revised May 23, 1996, from the North Dakota State Data Center.

ND Per Capita Personal Income

U.S. Department of Commerce, Population Bulletin Vol. 12, Num. 7, July 1996, "Total Personal Income and Per Capita Personal Income in North Dakota, 1990-1994" from the North Dakota State Data Center.

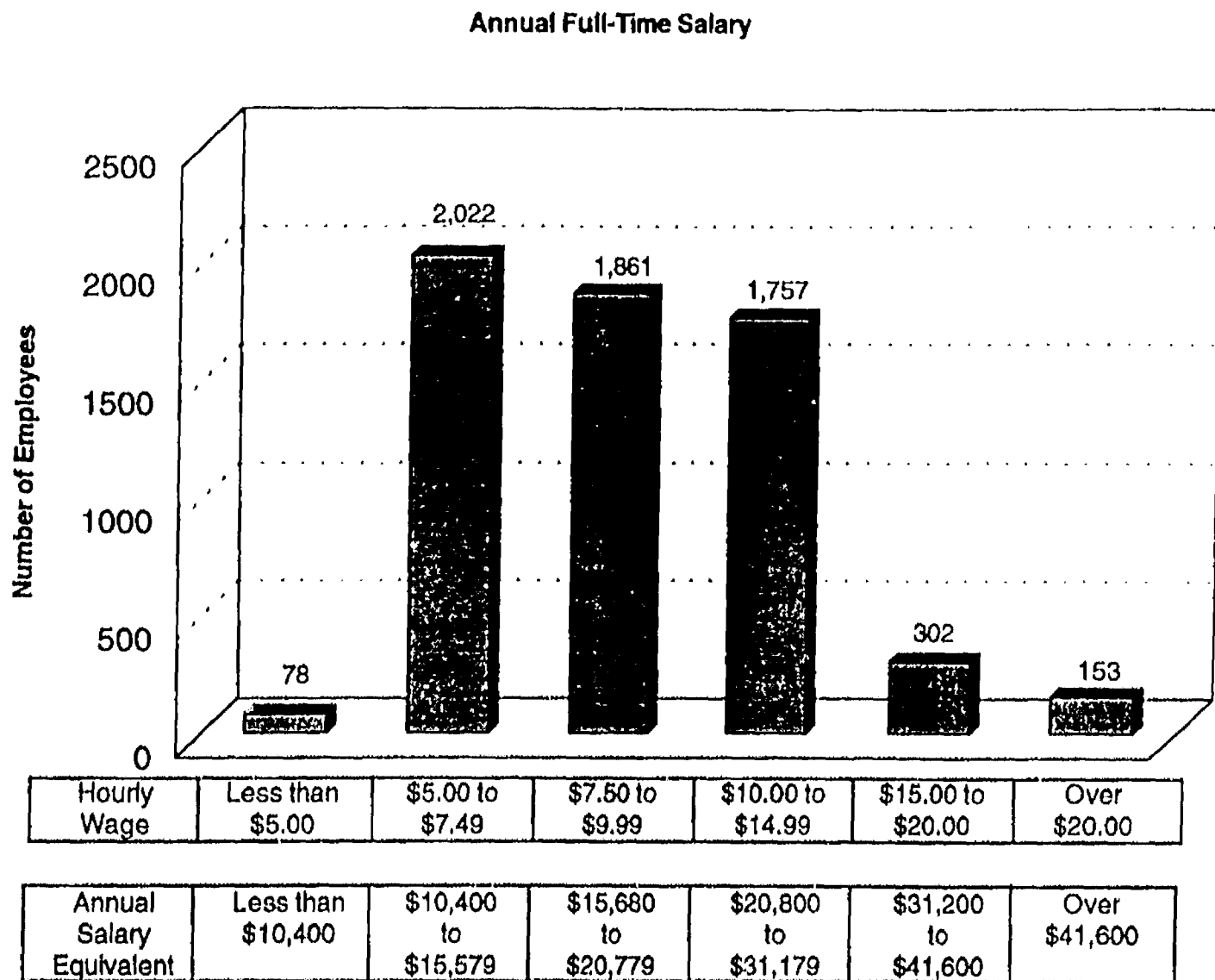
ND Average Wage

Job Service of North Dakota, "North Dakota Employment and Wages 1995," 1996.

Figure 3.2

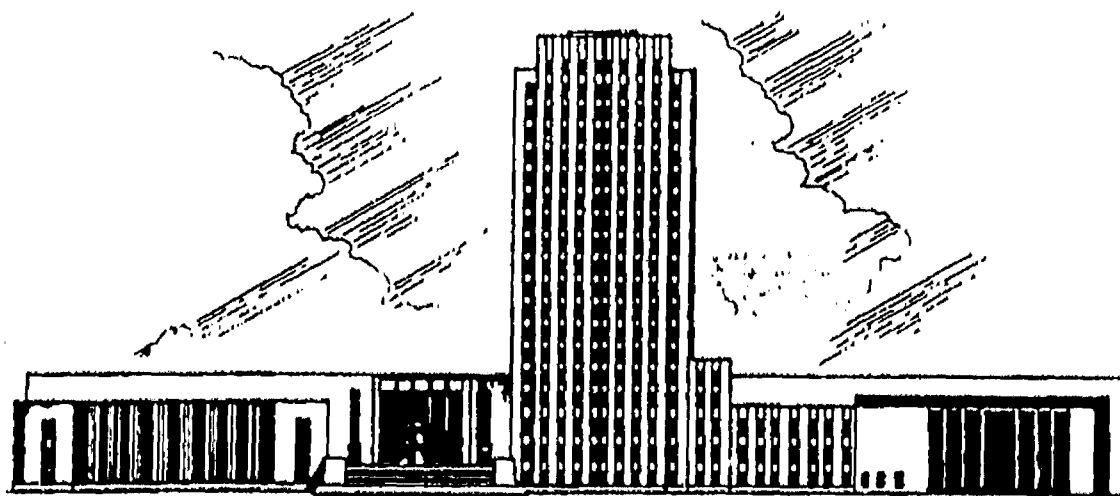
Wages of Full-Time Jobs

Employees of Projects with Property or Income Tax Exemptions in 1995



Response: 169 of 294 business projects operating in 1995. Does **not** include projects which reported zero full-time jobs.

1995 North Dakota Income and Property Tax Exemptions Report



**Bob Hanson
State Tax Commissioner
November 1996**



Bob Hanson
State Tax Commissioner

FOR MORE INFORMATION

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Bob Hanson
COMMISSIONER

STATE OF NORTH DAKOTA

OFFICE OF STATE TAX COMMISSIONER

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701-328-2770

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TDD 701-328-2778

November 1996

Greetings:

We all want good economic development to occur in all the communities throughout the State of North Dakota. In addition, we all want to have good paying jobs created in North Dakota which will help our current work force live a decent life while providing a bright future for our young people to keep them in North Dakota.

The following pages provide a profile of businesses which had an income and/or property tax exemption in 1995. This detailed a report regarding recipients of tax exemptions in North Dakota was last completed for tax year 1992. I felt it was important at this time to compile the information contained in this report so decision makers at all levels as well as interested parties could have something tangible at their disposal when looking for ways to increase economic development in their communities.

This report clearly indicates economic development is a complex issue. For example, the reason why a company locates or expands in North Dakota varies from one firm to another.

The findings are presented in five sections:

1. Introduction
2. Profile of Business Projects
3. Jobs and Salaries of Tax Exempt Projects
4. Amount of Tax Exemptions
5. Reasons for Locating in North Dakota

The information is provided in as simple a format as possible to enable policy makers and citizens to use it to make their own decisions about the relevant public policy issues. Hopefully, this presentation will help North Dakotans successfully encourage high quality businesses to locate in their communities.

If you have any questions, would like further information or have suggestions on how to improve this report, please contact the North Dakota Office of State Tax Commissioner.

Sincerely,

Bob Hanson
State Tax Commissioner

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Introduction

The purpose of this report is to provide information about businesses who receive property tax or income tax exemptions. It includes the businesses' answers to the question of why they chose to locate or expand in North Dakota.

The data is presented at a simple aggregate level in table and chart formats. The information is presented to help policy makers and citizens in the decision-making process. It is hoped that with this format, interested persons can use the information to make their own decisions about relevant public policies.

Procedures and Data

Most of the data was obtained from the 1995 Project Operator's Reports filed by businesses with a property or income tax exemption. The North Dakota Tax Department mailed a 1995 Project Operator's Report form to each project operator with a tax exemption. Efforts were made to contact project operators if reports were not returned. See the Appendix for a copy of the Project Operator's Report form.

Other information was obtained from project operator applications for the exemptions and from state income tax returns. To protect the confidentiality of income tax return information, statistical reports do not include data which would reveal the identity of a taxpayer.

The data base consists of 458 business projects with a property and/or income tax exemption approved for 1995 or approved in 1995 for future years. Income tax exemptions are approved by the State Board of Equalization. The North Dakota Tax Commissioner, as secretary of the State Board, maintains the records of applications and annual reports filed by project operators. This information provided the list of project operators with income tax exemptions to include in this study. The State Board's authority to approve property tax exemptions was given, in 1989, to city or county governing bodies. These local governing bodies are required to notify the State Board of projects approved for property tax exemptions. For the purposes of this study, each county director of tax equalization was asked to verify the State Board's information about project operators with property tax exemptions. The local authorities were asked to make any necessary corrections to make sure the list was accurate and up to date.

According to the information compiled by the Tax Department, 41 of the 458 project operators had relocated, failed, never started or sold their businesses. Project Operator's Reports were then mailed to the remaining 417 project operators. Between surveys returned and follow-up contacts made, information was collected from 383 of the 417 project operators.

Data was available for all 458 project operators when answers to questions came from project operator applications. For some questions, such as the amount of tax exemption, only project operators who were in operation and had an exemption in effect in 1995 were included. Each table or chart in this report shows the number of responses out of the number of possible responses.

Number Of Tax Exemptions

Background

North Dakota has offered property tax and state income tax exceptions for business development purposes since 1969. Figure 1.1 on the next page shows the number of state income tax exemptions approved and denied by the State Board of Equalization from 1986 through 1995. In 1991, qualifications for the income tax exemption were narrowed to primary sector and tourism businesses. The unusually large number of denials for income tax exemptions from 1992 through 1994 was most likely due to these changes in qualifications.

Use of property tax exemptions began increasing in 1987 when the North Dakota Legislative Assembly expanded the definition of qualifying business projects to include any revenue producing enterprise. In effect, qualifications were expanded to include service and retail industries. In 1989 the legislature removed the requirement that the State Board of Equalization (SBOE) approve the property tax exemption and instead gave final authority to local governing bodies. In 1991 qualifications for the property tax exemption were broadened again to include expanding businesses. A special legislative session in 1994 revised the law so that payments in lieu of taxes may be used in place of, or in combination with, property tax exemptions for qualifying projects that begin construction after June 30, 1994. Figure 1.2 on the next page shows the number of property tax exemptions approved by the State Board of Equalization or the local governing bodies from 1986 through 1995.

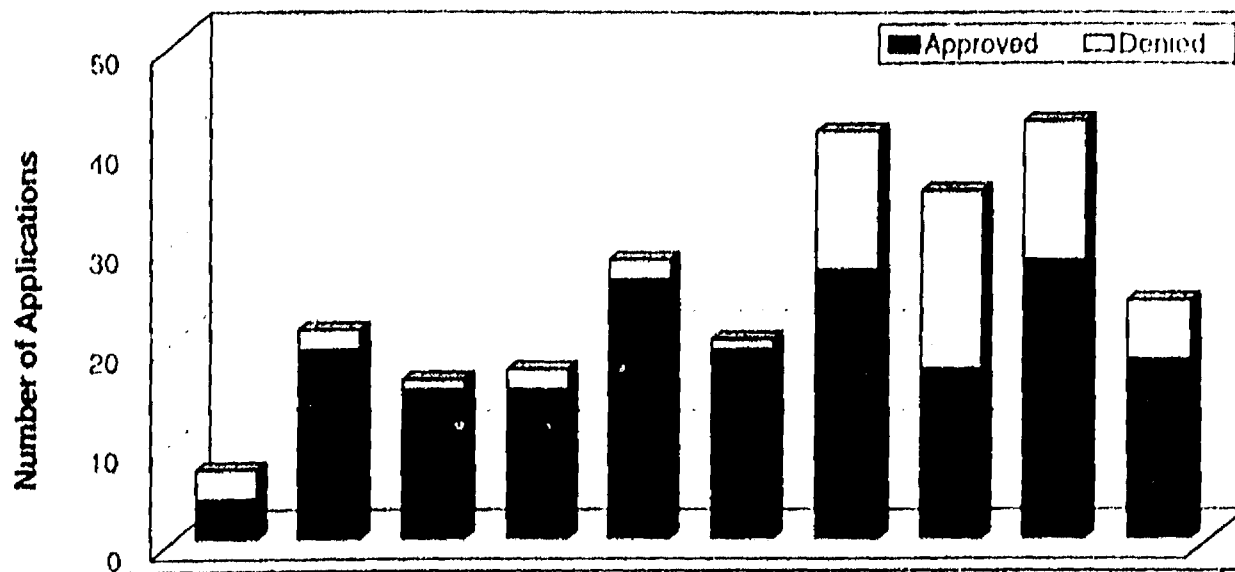
Business Projects Included in This Study

The 458 business projects in this study had a property and/or income tax exemption approved for 1995 or approved in 1995 for future years. Of these projects, 98 had both income tax and property tax exemptions; 333 had only a property tax exemption and 27 had only an income tax exemption (see Figure 1.3). The total number of projects with a property tax exemption was 431, and of these, 365 or 85% were operating in 1995. The total number of project operators with an income tax exemption was 125, and of these 95 or 76% were operating in 1995.

Figure 1.1

Income Tax Exemptions 1986-1995

Number of Applications Approved and Denied by State Board of Equalization

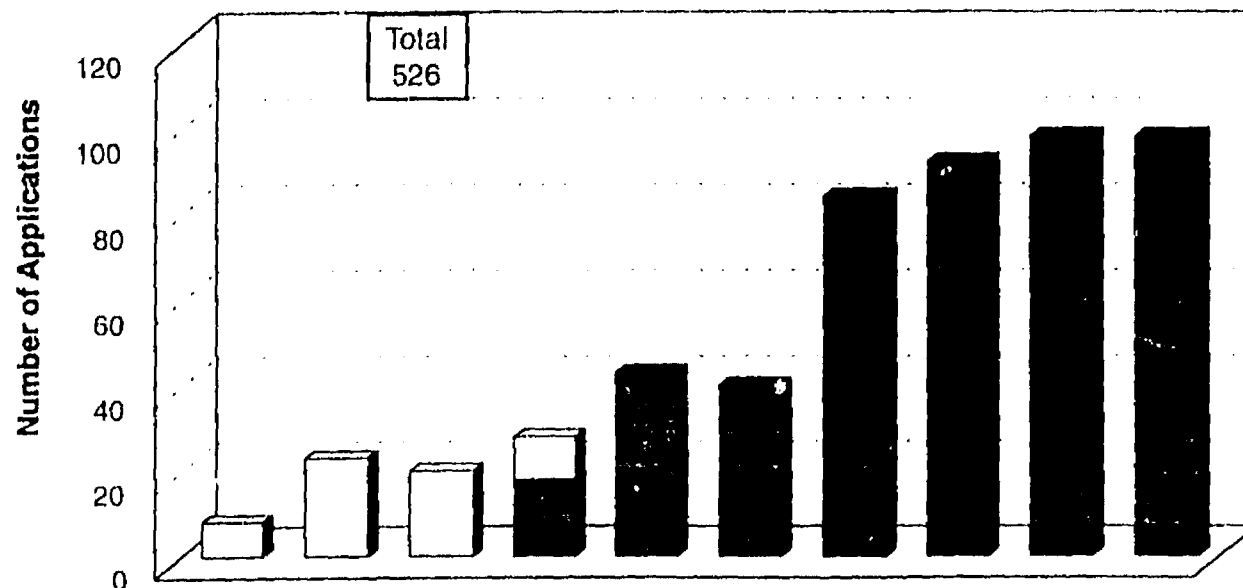


	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	Total	Percent
Denied	3	2	1	2	2	1	14	18	14	6	63	25%
Approved	4	19	15	15	26	19	27	17	28	18	188	75%
Total	7	21	16	17	28	20	41	35	42	24	251	100%

Figure 1.2

Property Tax Exemptions 1986-1995 *

Number of Applications Approved by State Board or Local Governing Bodies



	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
SBOE	8	23	20	10						
Local				18	43	40	84	92	98	98

* Also includes payment in lieu of tax agreements. Prior to July 1, 1989 the State Board of Equalization (SBOE) had final authority to grant property tax exemptions. Since then, local governing bodies have had the sole authority to grant these exemptions.

Figure 1.3

Number of Projects

Property and Income Tax Exemptions Approved for or in 1995

	Number of Business Projects		
	Property Tax Exemptions	Income Tax Exemptions	Total Exemptions
Property Tax Only	333	-	333
Income Tax Only	-	27	27
Both Property & Income Tax	98	98	98
Total Projects	431	125	458

Profile of Business Projects

Many different types and sizes of business projects have been granted income or property tax exemptions in North Dakota. However, certain characteristics stand out and provide insight into what kinds of businesses are taking advantage of the tax exemptions. Highlights of the 458 business projects are described below, while more detailed information is presented in tables and charts on the following pages.

Is the Business Operating?

Projects in this study either had an exemption approved for 1995 or approved in 1995 for future years. Of the 353 projects with exemptions approved for 1995, 83% or 294 projects were operating in 1995. Start-up was pending for 1% or 3 projects, while 16% or 56 projects had gone out of business, been sold, relocated or never started. (See Figure 2.1.)

There were 105 business projects which had exemptions that would go into effect in 1996 or later. As of August 31, 1996, 85% or 89 projects were operating, 13% or 14 projects reported that start up was pending, and 2% or 2 project operators reported they will not be starting the project. (See Figure 2.2.)

State of Ownership?

Eighty-six percent (86%) or 392 projects were owned by North Dakotans or North Dakota firms at the time of application for the exemption, while 14% or 66 projects were owned by out-of-state businesses (see Figure 2.3). Minnesota was the home of 21 firms, followed by Pennsylvania with 8, Arizona and Canada with 6 each, Washington with 4, Montana, New York, Oregon, Florida, Wisconsin, South Dakota, Illinois, and Texas with 2 apiece, and 1 each from Nebraska, New Jersey, California, Maryland, and there was an overseas corporation.

Urban or Rural?

There were 249 projects, accounting for 54% of all projects, located in rural communities, while 209 projects or 46% were in urban areas (see Figure 2.4). The percentage of urban projects still in operation was 85%, only slightly higher than the 83% still in operation in rural areas.

Of the total number of full-time and part-time jobs, 21% or 1,671 jobs were with rural projects, while 79% or 6,464 jobs were with urban projects. A comparison of full-time jobs shows 18% or 1,183 with rural firms and 82% or 5,237 with urban firms. Rural firms created 28% or 488 of the part-time jobs, while 72% or 1,227 of the part-time jobs were at urban businesses.

Exemptions by County?

Cass County provided by far the greatest number of tax exemptions for business. The total number of property and income tax exemptions for Cass County businesses was 93. Other counties with a high number of exemptions were Richland with 42 and Morton with 34. Twelve of the state's 53 counties had between 10 to 20 exemptions, 11 counties had between 5 to 9 exceptions, and 20 counties had between 1 to 4 exemptions. In seven counties, no businesses received exemptions. (See Figure 2.5.)

Type of Industry?

In this report, projects are classified according to the Standard Industrial Classification Manual. Durable manufacturing includes businesses that produce such items as machinery, equipment, wood products and furniture. Nondurable manufacturing includes, but is not limited to, firms producing food, paper, printed, textile, chemical, and plastic products. Examples of agricultural sector businesses are seed producers, turkey farms, fish farms, and firms that primarily provide services such as grain or bean cleaning. The wholesale trade sector includes grain elevators, recycling projects and salvage firms, as well as wholesale distributing businesses.

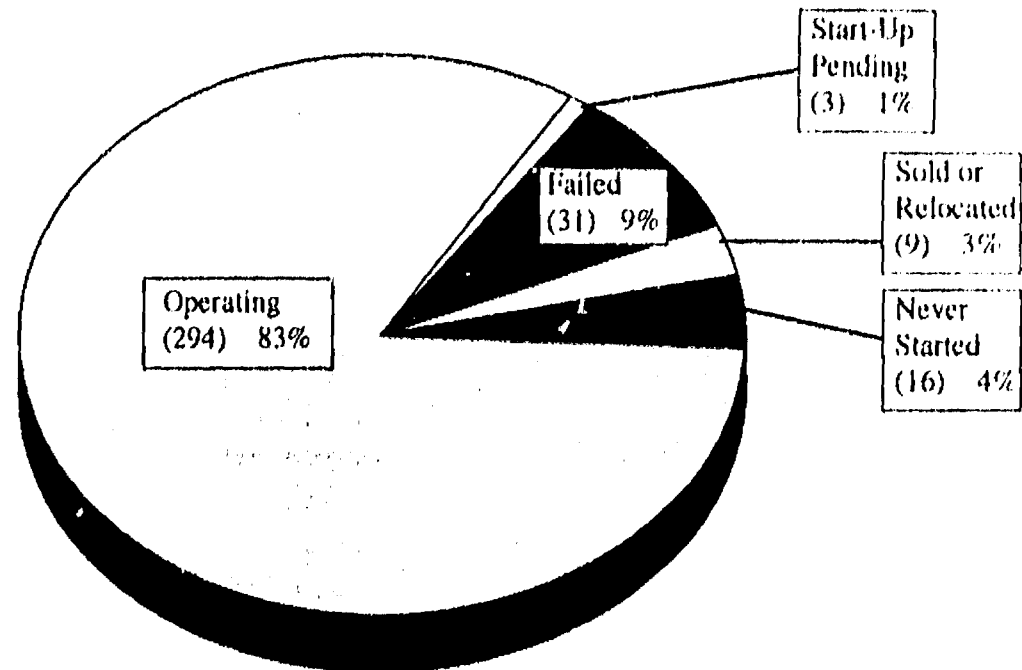
In 1995, 33% or 153 projects were involved in durable or nondurable manufacturing (see Figure 2.6). The service sector accounted for 21% or 97 projects, while retail trade accounted for 15% or 69 projects. Until 1987, qualifying projects for both property and income tax exemptions were limited to those associated with manufacturing or agricultural processing. The 1987 law change expanded the exemptions to include service and retail trade projects. In 1991, the qualifications for the income tax exemption were limited to tourism and primary sector businesses. Primary sector means an enterprise which creates wealth by using knowledge or labor to add value to a product, process or service.

Other business projects were classified as: Finance, Insurance and Real Estate 13% (58 projects), Agriculture 8% (38), Wholesale Trade 7% (31), Construction 2% (8), and Transportation 1% (4).

Figure 2.1

Is the Business Operating?

Business Projects with Tax Exemptions Approved for 1995

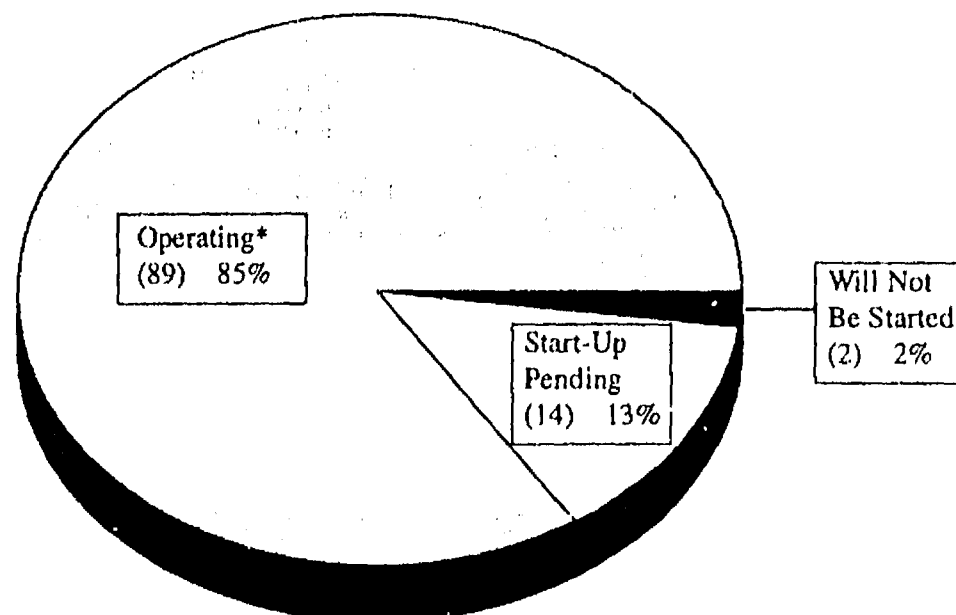


Response: 353 of 353 business projects.

Figure 2.2

Is the Business Operating?

Business Projects with Tax Exemptions
Which Go Into Effect in 1996 or Later



*Operating as of August 31, 1996

Response: 105 of 105 business projects.

Figure 2.3

In-State or Out-of-State Ownership

Number of Project Operators

<u>State of Ownership</u>	<u>Number of Business Projects</u>	<u>Percent of Total</u>
North Dakota	392	86%
Out-of-State	66	14%
Total	458	100%

Response: 458 of 458 projects with tax exemptions approved for 1995 or projects with tax exemptions approved in 1995 for future years.

Figure 2.4

Urban or Rural Locations

Number of Business Projects

<u>Location</u>	<u>Number of Business Projects</u>	<u>Percent of Total</u>
Urban	209	45.6%
Rural	249	54.4%
Total	458	100%

* Urban communities defined as cities with over 5,000 people in 1990.

Response: 458 of 458 projects with tax exemptions approved for 1995 or projects with tax exemptions approved in 1995 for future years.

Property and Income Tax Exemptions By County

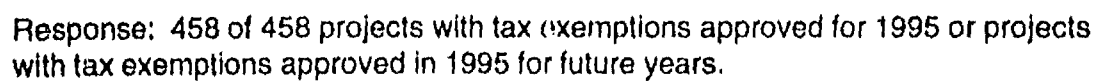
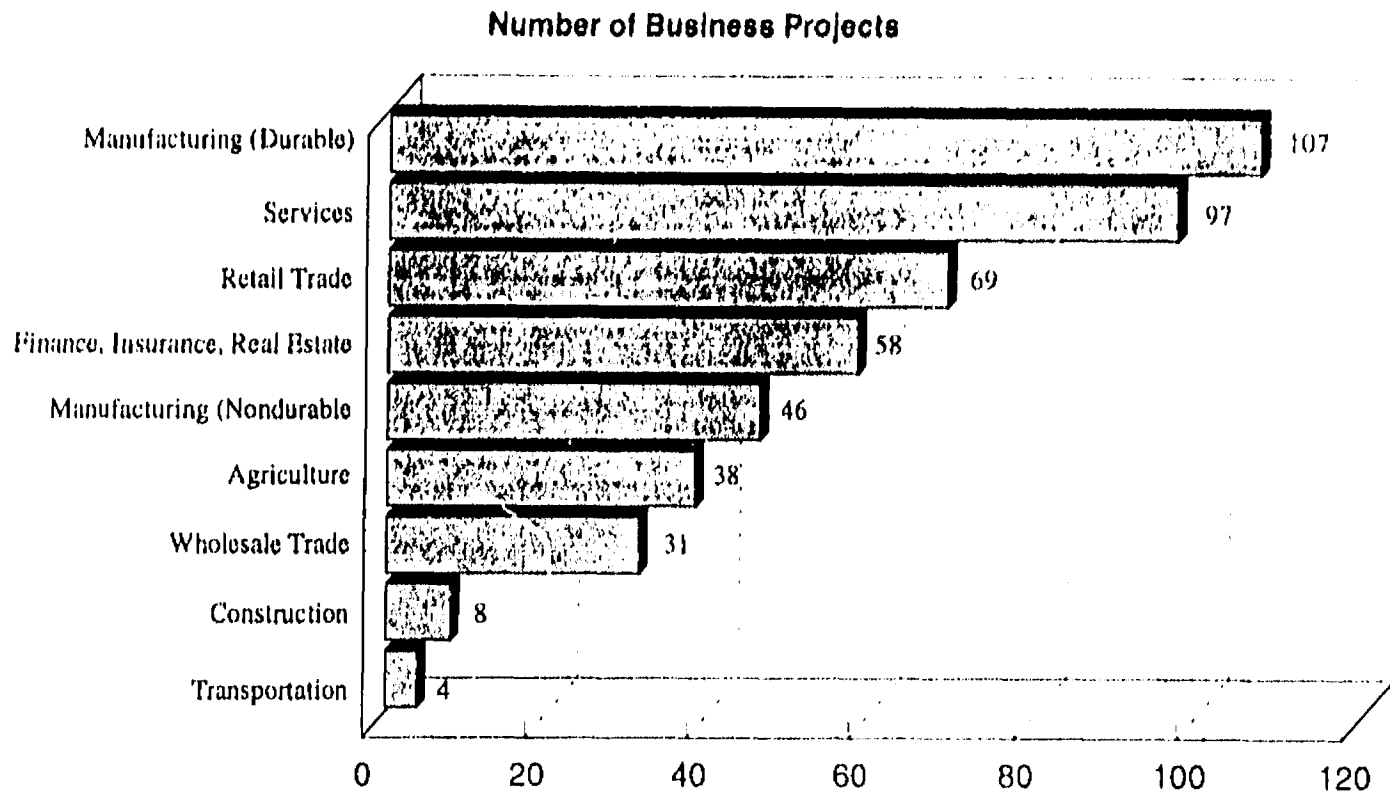


Figure 2.6

What Type of Industry?

Business Projects with Property or Income Tax Exemptions in 1995



<u>Industry*</u>	<u>Number of Business Projects</u>	<u>Percent of Total</u>
Manufacturing (Durable)	107	23%
Services	97	21%
Retail Trade	69	15%
Finance, Insurance, Real Estate	58	13%
Manufacturing (Nondurable)	46	10%
Agriculture	38	8%
Wholesale Trade	31	7%
Construction	8	2%
Transportation	4	1%
Total	458	100%

* Sectors based on Standard Industrial Classification (S.I.C.).

Response: 458 of 458 projects with tax exemptions approved for 1995 or projects with tax exemptions approved in 1995 for future years.

Jobs and Salaries of Tax-Exempt Projects

This section looks at the jobs created by tax-exempt operators. Information is provided concerning the number of jobs, the level of income from the jobs and whether or not health insurance or retirement benefits are provided. Also, the level of salaries and wages in different industrial sectors are compared.

Employees

In 1995, there were 131 operating tax-exempt business projects who reported employment of both full-and part-time workers. An additional 80 projects had only full-time employees and 16 projects had only part-time employees. There were 43 projects which reported having no employees. (See Figure 3.1.)

Tax-exempt business projects which were operating in 1995 reported 6,420 full time jobs in North Dakota. These projects identified an additional 1,715 part-time jobs. The median numbers of jobs per project were 8 full-time and 4 part-time jobs.

Wages

Wage levels for full-and part-time jobs are shown in Figures 3.2 and 3.3, respectively. These figures show that over 34% (2,100) of full-time employees and 86% (1,222) of the part-time employees of tax-exempt business projects were paid \$7.49 or less per hour. The 1995 poverty-level wage for a family of four was \$7.49, according to the North Dakota State Data Center.

Overall, more than 46% of employees of the tax-exempt business projects were paid less than \$7.50 per hour.

Average Salaries

The median annual salary paid by tax-exempt business projects was \$17,658 for a full-time job, \$2,933 for a part-time job, and \$14,015 for all jobs. See Figure 3.4 for a picture of the level of full-time salaries paid by the projects.

To help put these salary levels into perspective, comparisons to other income measurements are shown in Figure 3.1. Although the average full-time salary paid by projects is higher than the poverty level, it is lower than North Dakota's per capita personal income and is below the state-wide average wage as reported by Job Service North Dakota.

Highest and Lowest Wages

Another view of employee income parameters is seen from the perspective of the highest and lowest wage paid by projects with tax exemptions. Overall, the median lowest wage is \$5.42 per hour, while the median highest wage is \$11.54 per hour. Figures 3.5 and 3.6 show how these wages ranged when they were listed from lowest to highest and then grouped together in equal 20% segments. The median lowest wage for the bottom 20% of projects was \$4.25 per hour. The median lowest wage paid by the top 20% of projects was \$7.50 per hour. The median highest wage ranged from \$6.30 per hour for the bottom 20% to \$30.00 per hour for the top 20%.

The lowest project wage was below the poverty level in 90% or 237 projects. The highest wage paid by a project was below the poverty level in 32% or 83 projects.

Wages By Type of Industry

Annual salaries in manufacturing projects were in the middle range compared to salaries paid by projects in other sectors. The median annual full time salary in durable manufacturing was \$18,000, compared to \$14,734 in nondurable manufacturing. The highest median salary was \$20,005 in the agriculture sector; the lowest was \$14,500 in the retail trade sector. See Figure 3.7 for full-time and part-time median salaries by industry and the highest and lowest wages by industry. Sectors in which the number of responses were too few to provide significant information were omitted from these calculations.

Employer-Paid Benefits

Health insurance and retirement benefits reported by business projects in this study are comparable to other employers in the state. See Figure 3.8 for the number of projects which provided health care and retirement benefits.

Figure 3.1

Employees and Salaries

Tax Exempt Business Projects Operating in 1995

Number of Projects With Employees

Full-and Part-Time Employees	131
Full-Time Employees Only	80
Part-Time Employees Only	16
No Employees*	43

Number of Employees, Median Salaries

Full-or Part-Time Employees	Number of Employees	Median Number of Employees Per Project	Median of Projects' Average Annual Salary**
Full-Time Employees	6,420	8	\$ 17,658
Part-Time Employees	1,715	4	\$ 2,933
Total	8,135	14	\$ 14,015

* Also includes those projects that did not fully complete the survey.

** See Figure 3.4 for a chart showing the range of average annual salaries.

Response: 270 of 294 business projects operating in 1995.

Other Income Measurements

Measurements	Annual Income
US Poverty Level, Family of 4 (1995)	\$ 15,570
ND Per Capita Personal Income (1994)	18,738
ND Average Wage (1995)	20,493

Sources:

US Poverty Level

U.S. Department of Commerce, Bureau of the Census, Internet Site revised May 23, 1996, from the North Dakota State Data Center.

ND Per Capita Personal Income

U.S. Department of Commerce, Population Bulletin Vol. 12, Num. 7, July 1996, "Total Personal Income and Per Capita Personal Income in North Dakota, 1990-1994" from the North Dakota State Data Center.

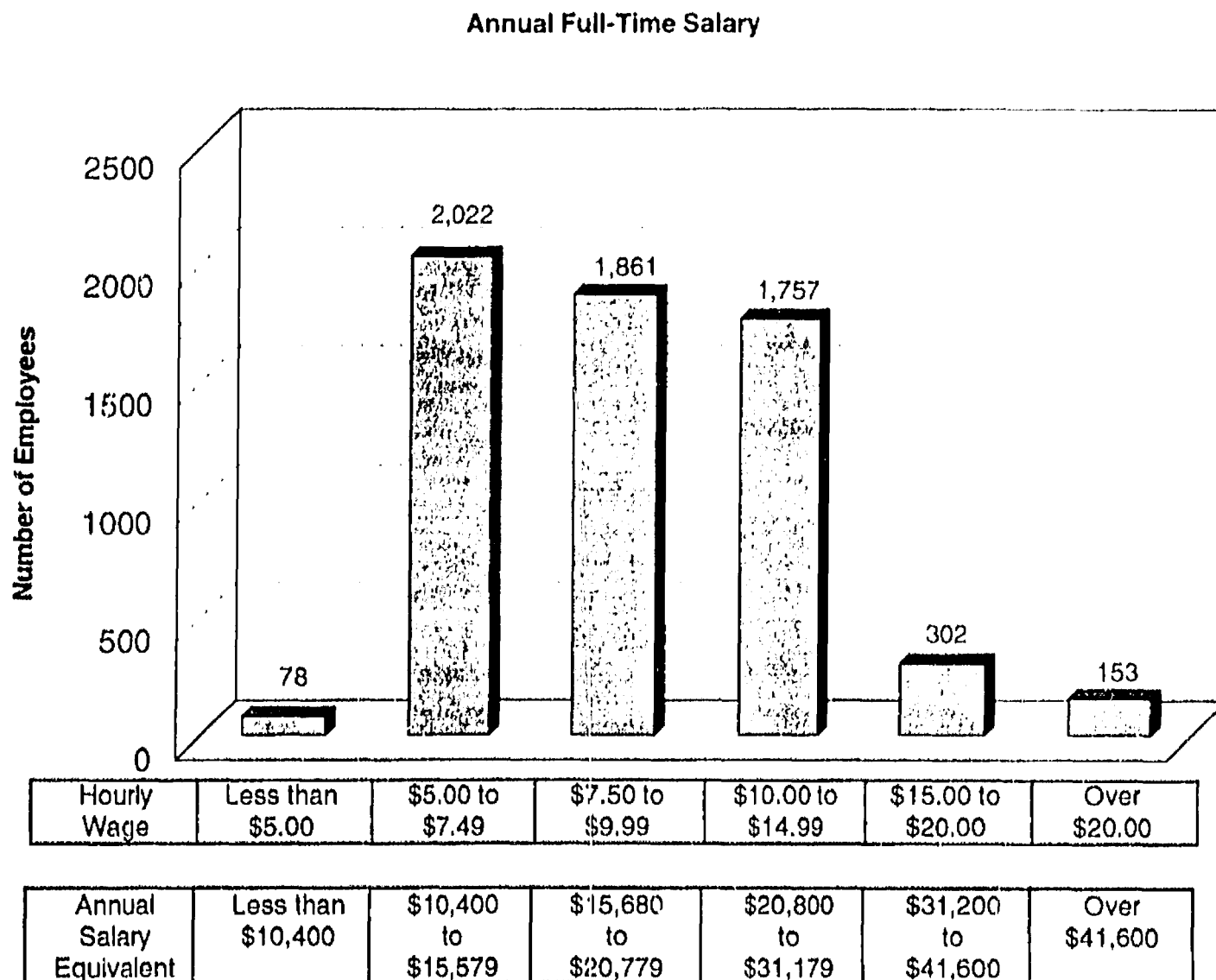
ND Average Wage

Job Service of North Dakota, "North Dakota Employment and Wages 1995," 1996.

Figure 3.2

Wages of Full-Time Jobs

Employees of Projects with Property or Income Tax Exemptions in 1995

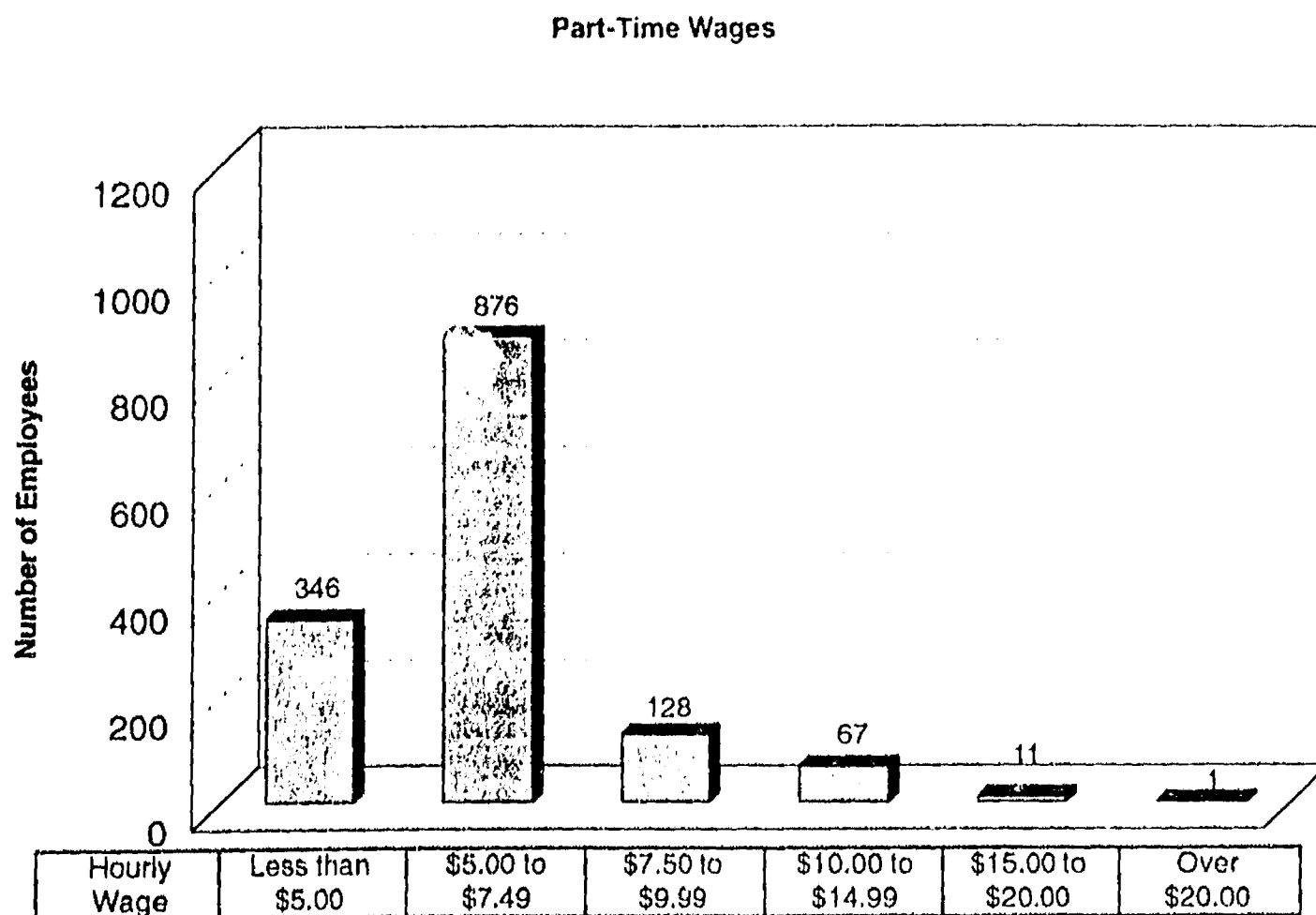


Response: 169 of 294 business projects operating in 1995. Does **not** include projects which reported zero full-time jobs.

Figure 3.3

Wages of Part-Time Jobs

Employees of Projects with Property or Income Tax Exemptions in 1995

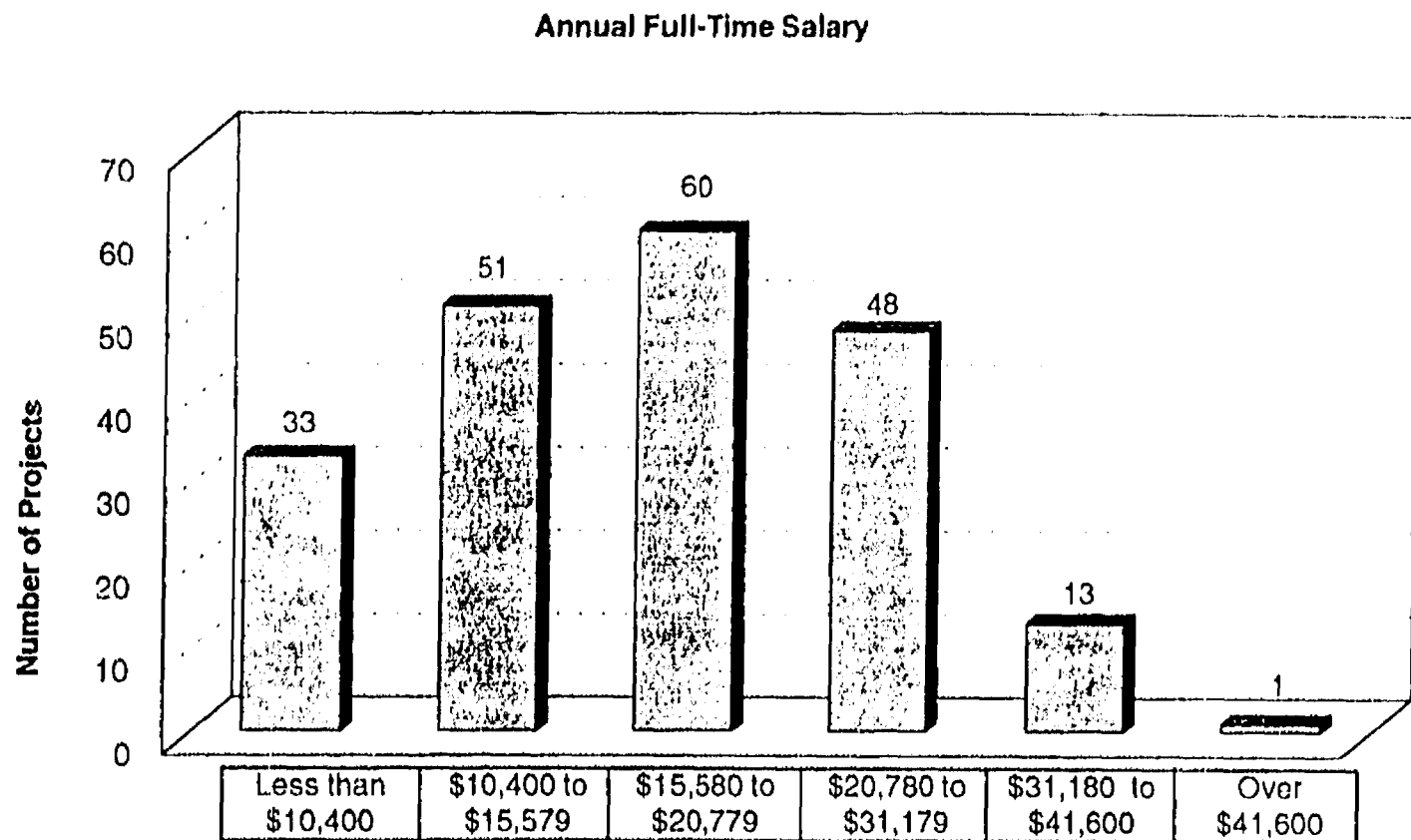


Response: 151 of 294 business projects operating in 1995. Does not include projects which reported zero part-time jobs.

Figure 3.4

Average Salaries of Full-Time Jobs

Number of Projects with Property or Income Tax Exemptions in 1995



Response: 106 of 294 business projects operating in 1995. Does not include projects which reported zero full-time jobs.

Figure 3.5

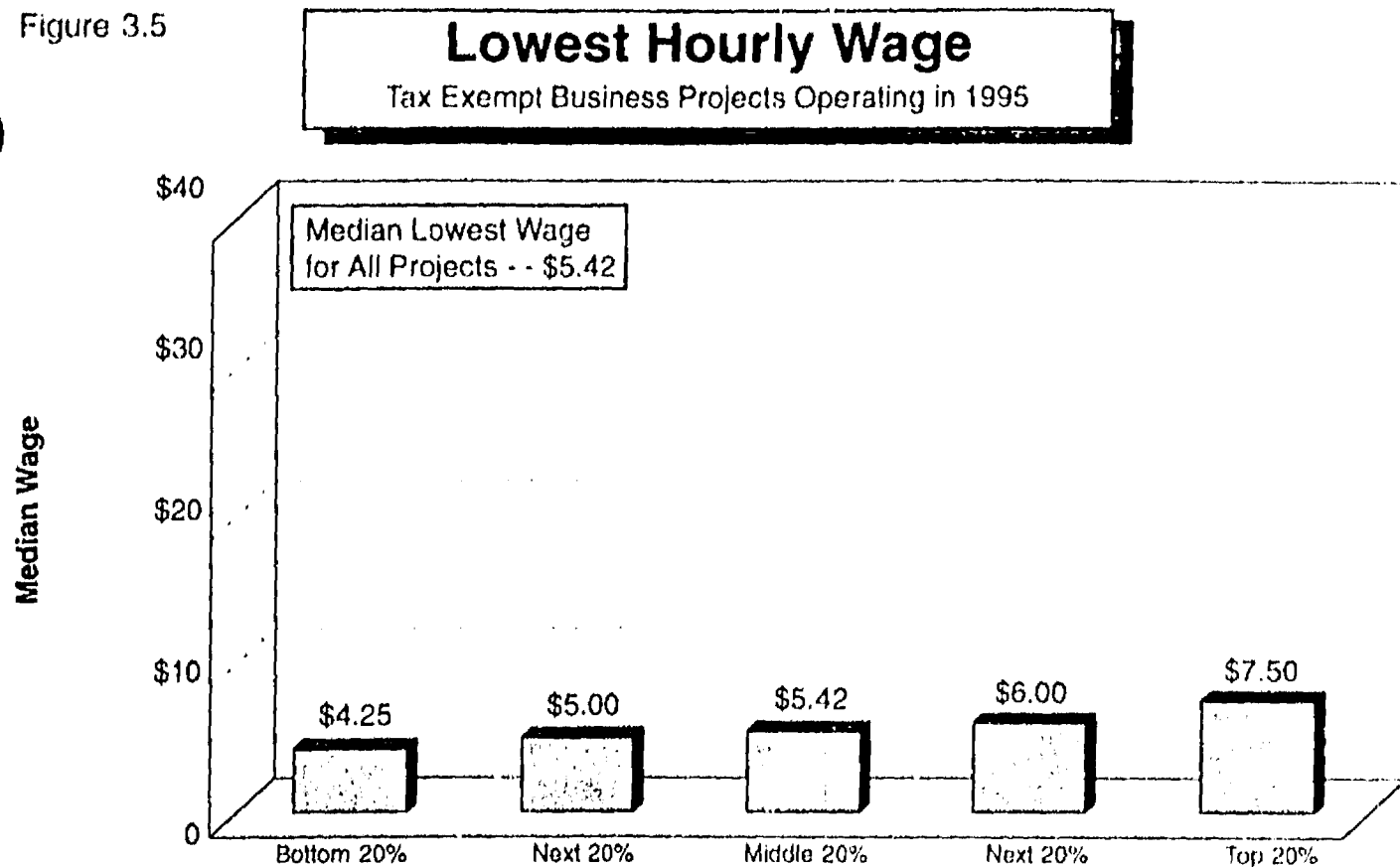
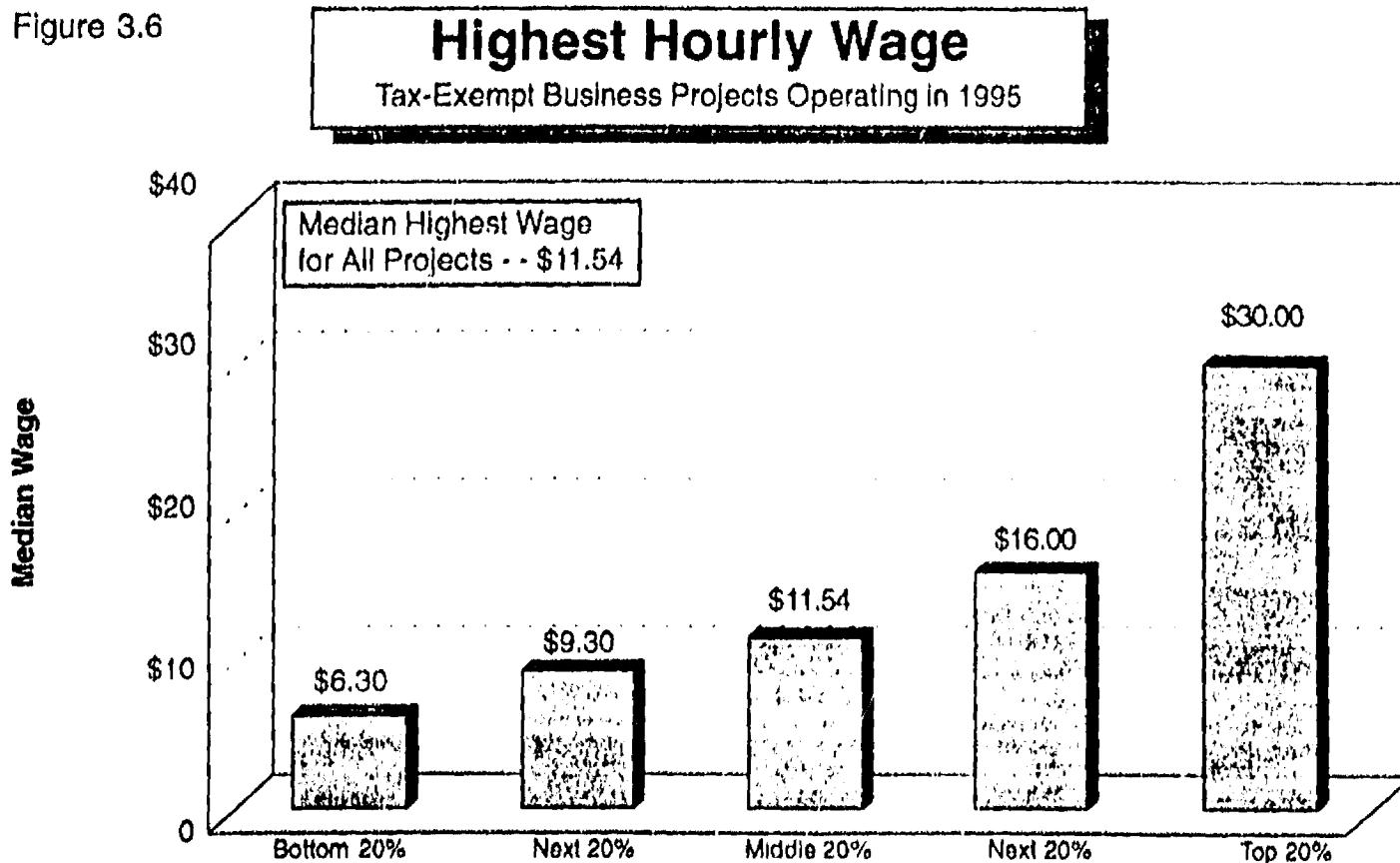


Figure 3.6



Note: Wage amounts are the median or midpoint, meaning an equal number of projects reported the same or higher wage as reported the same or lower wage. Number of responses was 263 of 294 projects operating in 1995.

Figure 3.7

Salaries and Wages By Industry

Tax-Exempt Business Projects Operating in 1995

Median Highest and Lowest Wages Paid by Type of Industry

<u>Type of Industry¹</u>	<u>Median Lowest Wage</u>	<u>Median Highest Wage</u>	<u>Response/ Number Operating²</u>
Manufacturing (Durable)	\$ 6.00	\$ 14.00	62/69
Agriculture	5.63	10.05	20/24
Finance, Insurance, Real Estate	5.50	13.00	13/40
Manufacturing (Nondurable)	5.50	17.49	26/29
Retail Trade	5.00	9.00	36/44
Services	5.00	9.99	38/58
Wholesale Trade	5.00	14.64	22/22
Overall	\$ 5.42	\$ 11.54	217/294

Median Salary Paid by Type of Industry

<u>Type of Industry¹</u>	<u>Median Full-Time Salary</u>	<u>Median Part-Time Salary</u>	<u>Response² Full Time</u>	<u>Response² Part Time</u>
Agriculture	\$ 20,005	\$ 5,092	20/24	14/24
Wholesale Trade	19,956	3,626	22/22	12/22
Manufacturing (Durable)	18,000	3,258	61/69	31/69
Services	15,267	3,459	34/58	29/58
Finance, Insurance, Real Estate	15,139	1,650	8/40	11/40
Manufacturing (Nondurable)	14,734	2,914	25/29	14/29
Retail Trade	14,500	2,525	34/44	32/44
Overall	\$ 17,215	\$ 5,275	204/294	143/294

¹ The number of business projects reporting wages and salaries in other industrial sectors were too few to be significant.

² The first figure is the number who responded. The second figure is the number in the industry who were operating in 1995. The response number does not include business projects who reported "zero" full-time and/or part-time jobs or reported a "zero" payroll amount for 1995.

Figure 3.8

Employer-Paid Benefits

Tax Exempt Business Projects Operating in 1995

Number of Projects

	<u>Yes</u>	<u>No</u>	Percentage of employees <u>covered</u>
Health Insurance (employer paid in full or part)	165 (73%)	60 (27%)	88%
Retirement (employer paid in full or part)	111 (49%)	114 (51%)	96%

Response: 225 of 294 projects operating in 1995.

North Dakota Comparison Measures (Full-Time Employees)

	<u>Yes</u>	<u>No</u>	Median % employees <u>covered</u>
Health Plan (employer provided)	71%	29%	76% - 100%
Retirement Plan (employer provided)	50%	50%	26% - 50%

Source: Job Service of North Dakota, "Wage and Benefit Survey 1994-1995," 1996.

Amount of Tax Exemptions

The study identified tax exemptions totaling \$3,456,219 in 1995. Of this amount, \$2,221,790 was exempt property tax and \$1,234,429 was exempt income tax. (See Figures 4.1 and 4.2.)

Property Tax Exemptions

Most projects received a property tax exemption worth less than \$10,000. The median property tax exemption was \$2,998, while the average property tax exemption was \$8,109.

The smallest property tax exemption was \$94, while the largest property tax exemption was \$157,406.

Income Tax Exemptions

Most projects with income tax exemptions did not have enough taxable income in tax year 1995 to take advantage of their income tax exemption. Of the 80 projects operating in 1995 with income tax exemptions in which data was available, 63% or 50 projects did not take advantage of their exemption.

There were 30 projects owned by 25 firms which had enough taxable income to take advantage of the income tax exemption. The smallest income tax exemption claimed by a firm was \$6, while the largest income tax exemption was \$608,742. The largest income tax exemption accounted for 49% of the total income tax exempted in 1995.

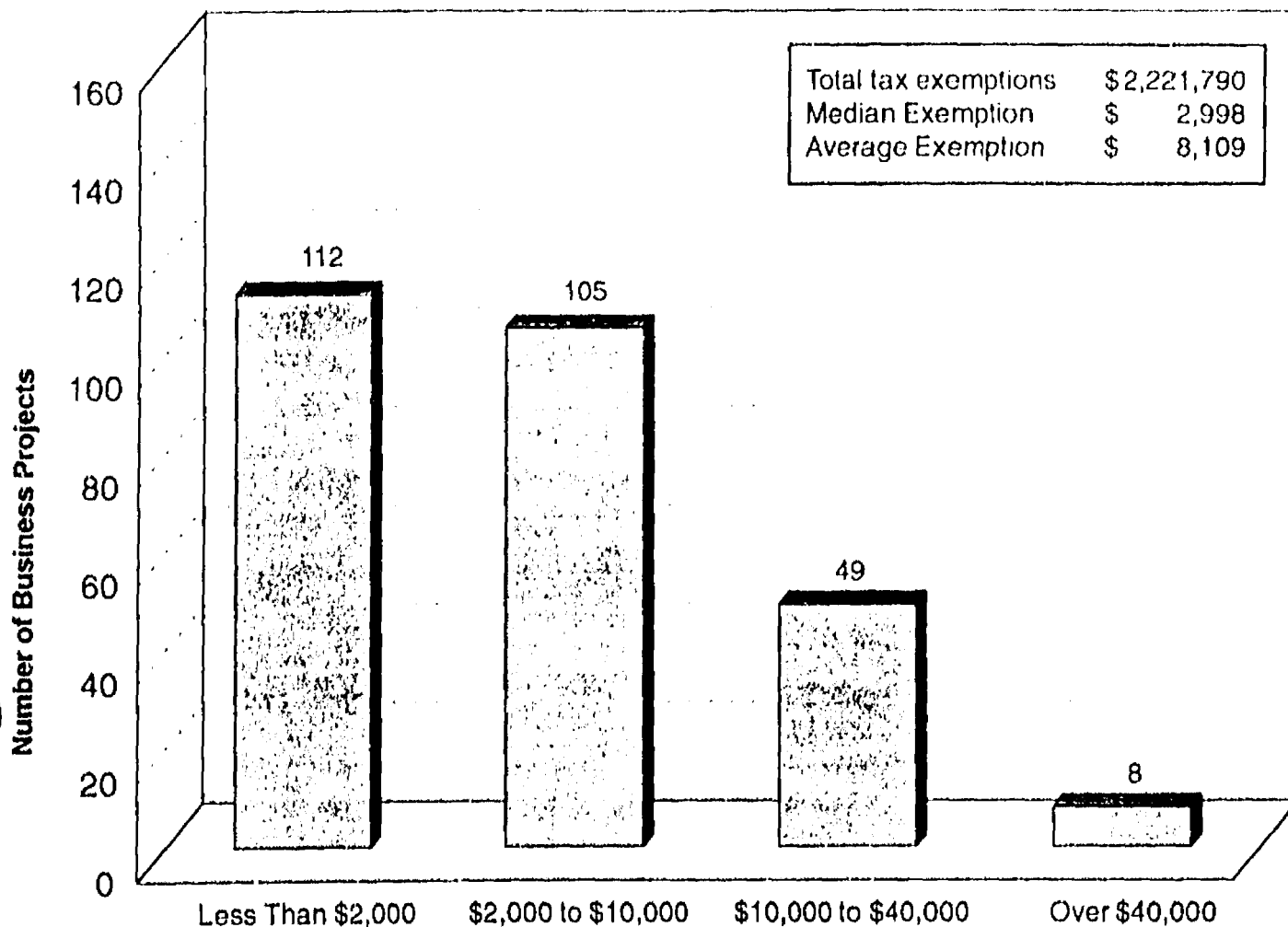
Total income tax exemptions accounted for about three-hundredths of one percent (.03%) of the gross revenues of the 25 firms who took advantage of their income tax exemption. The 25 firms who used their income tax exemption had total gross revenues of over \$3.9 billion.

Figure 4.1

Size of Property Tax Exemptions

For Taxes Levied in 1995

Amount of Property Tax Exemption



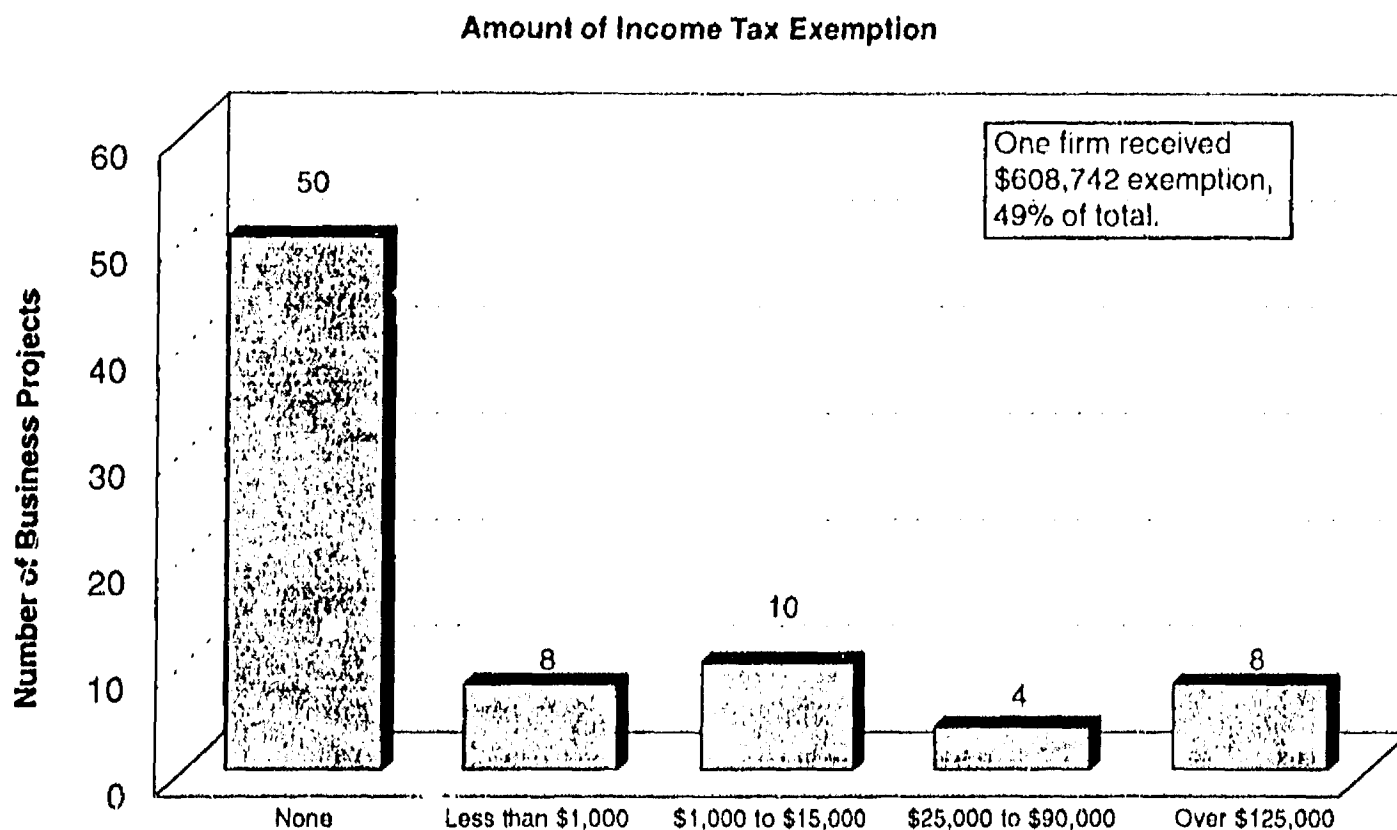
Amount of Tax Exemption	Number of Business Projects	Percent of Total	Total Amount of Property Tax Exemptions	Percent of Total
Less Than \$2,000	112	40.9%	\$ 118,745	6.1%
\$2,000 to \$10,000	105	38.3%	532,624	25.7%
\$10,000 to \$40,000	49	17.9%	907,944	43.2%
Over \$40,000	8	2.9%	662,477	25.1%
Total	274	100.0%	\$ 2,221,790	100.0%

Response: 274 of 274 business projects operating in 1995 with a property tax exemption.

Figure 4.2

Size of Income Tax Exemptions

1995 Tax Year



Amount of Tax Exemption	Number of Business Projects	Percent of Total	Total Amount of Income Tax Exemptions	Percent of Total
None	50	63%	\$ 0	0%
Less than \$1,000	8	10%	1,344	0%
\$1,000 to \$15,000	10	13%	43,388	4%
\$25,000 to \$90,000	4	5%	154,297	12%
Over \$125,000	8	10%	1,035,400	84%
Totals	80	100.0%	\$ 1,234,429	100.0%

* In the \$25,000 to \$90,000 exemption category, the 4 business projects were from 3 firms. In the over \$125,000 category, the 8 projects were from 4 firms. There were 30 projects from 25 firms which actually used the income tax exemption in 1995.

Response: 80 of 95 business projects operating in 1995 with an income tax exemption.

Reasons for Locating in North Dakota

Project operators were asked to identify the major reason their projects located in North Dakota. The literature on surveys of businesses about their location decision factors highly recommends caution in how businesses are asked this question. To avoid bias, this question was purposefully left open ended.

The answers provided by the project operators were grouped together to produce 14 general categories. (See Figure 5.1.) The description below provides more specific information about each category.

Categories

The reason offered most often by businesses as to why they located or expanded in North Dakota was a sense of community, including the high value placed on North Dakota's quality of life. Thirty percent or 111 projects said this was a major reason. This category included those who said North Dakota is "our home" or "we want to live here." Others specifically mentioned that the owners had ties to the state or wanted to move back to North Dakota, usually because of the quality of life. Many of the project operators who offered this reason for doing business in North Dakota said they wanted to do something for their community. References to good schools, low crime rate, and other quality of life factors are included in this category.

The other most prevalent incentives to locate in North Dakota were bottom-line business criteria. Closeness to the firm's market or customers was the second most typical motivation and was offered by 20% or 75 projects.

Expansion of current operations was given as a reason by 17% or 63 projects. This includes those who specifically said they wanted to add a product line or make a better product.

The 12% or 43 projects who mentioned work force criteria include those who cited the low cost of labor in North Dakota as well as those who identified the ethics, quality, skills, educational level or availability of North Dakota workers.

Proximity to necessary raw materials was an important location criterion for 8% or 29 projects. Most cited agricultural inputs or by-products of other businesses.

Business climate and tax structure were referred to by 7% or 27 projects. Some of these projects said they relocated to leave a bad business climate or that North Dakota's business climate was good. Several located where they did because it was a "thriving" community. The state's tax structure and lower workers compensation rates were also identified as a positive part of the state's business climate and a reason to locate in the state.

Geographic location was a primary reason identified by 7% or 27 projects. This includes wanting a site in the central U. S. or in the center of a multi-state region or local trade area. Others said the location was important because it was close to something else such as a university or another business.

Tax incentives were identified by 7% or 25 projects as a significant motive. Of these projects, only three firms listed incentives as their sole reason for locating in North Dakota.

Six percent or 23 projects said they located the project in North Dakota because the owner already had offices, property or other businesses in the state. Consolidating multi-state operations in a firm's North Dakota location was frequently mentioned.

Another 6% or 22 projects said they located where they did because of the availability of land or suitable buildings. This includes those who occupy a community-owned building or purchased a vacant building of a former business operation.

Of the 5% or 17 project operators who mentioned other important attractions of North Dakota, five specified transportation, four said they wanted to own their own business, three said the project was an investment opportunity, two specified the climate, and the remaining gave various personal reasons for locating in the state.

Two percent or six projects cited the attitudes or efforts of public officials as a major reason they located in North Dakota. Two projects specifically said local officials were an important factor in their decision to locate in the state, two others said state officials were an important factor, and two project operators said both state and local officials were important in their location decision.

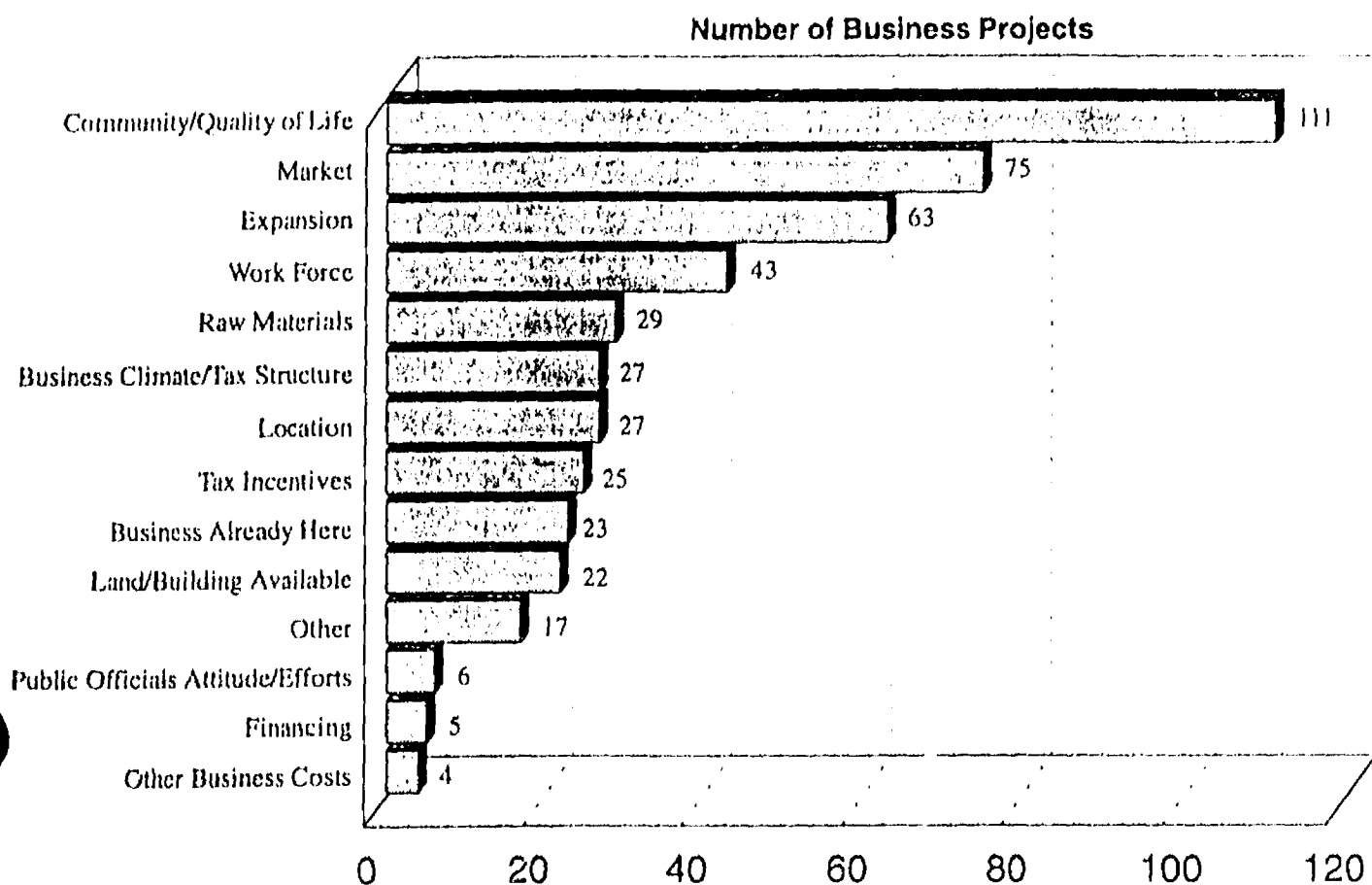
One percent or five projects said availability of financing was a leading reason they located where they did.

Other business costs were a major factor for another 1% or four projects. All these projects cited low utility rates as a significant reason for locating in North Dakota.

Figure 5.1

Why Did the Business Locate in North Dakota?

Business Projects with Property or Income Tax Exemptions
in 1995



<u>Response</u>	<u>Number of Business Projects</u>	<u>Percent of Business Projects</u>
Community/Quality of Life	111	30%
Market	75	20%
Expansion	63	17%
Work Force	43	12%
Raw Materials	29	8%
Business Climate/Tax Structure	27	7%
Location	27	7%
Tax Incentives	25	7%
Business Already Here	23	6%
Land/Building Available	22	6%
Other	17	5%
Public Officials Attitude/Efforts	6	2%
Financing	5	1%
Other Business Costs	4	1%

Response: 369 of 417 business projects responded to this question. Some businesses provided more than one reason.

Appendix

North Dakota State Board of Equalization
Project Operator's Report
for year ending December 31, 1995

Instructions: Please Make any corrections to the preprinted information and answer the remaining items.

1. Project Operator:

(Make corrections, if necessary)

2. Federal Identification Number:

(Make corrections, if necessary)

3. Address of project location:

4. Date when construction actually started:

5. Date when project operations actually started: _____ (Make corrections, if necessary)

6. Exemptions granted:

- Income tax for _____ years (An income tax return must be filed with the State Tax Commissioner even if an income tax exemption was granted.)
- Property tax for _____ years
- Payments in lieu of property tax (Number of years _____ and amount of payment each year _____)

7. Is this business operating?

_____ Yes _____ No, operations haven't begun (skip to question 14) _____ No, operations ceased on _____ (date)

8. Is this business still owned by the project operator identified in question 1? _____ Yes _____ No

a. If no, provide the name and address of the new project operator:

 (Name of new project operator)

 (Date transferred to new operator)

 (Street address)

 (City)

 (Zip)

9. Number of employees of the project in North Dakota (in 1995):

If an expansion project, include only employees of the expansion.

Full time (30 or more hrs/wk) _____

Part time (Under 30 hrs/wk) _____

10. Total 1995 annual payroll (amount of wages and salaries paid to employees included in the answer to question 9):

Full time (30 or more hrs/wk) _____

Part time (Under 30 hrs/wk) _____

11. Complete the following table. Convert weekly or monthly earnings to an hourly rate and provide the number of employees of the project in each hourly rate category. Provide the amount of wages and salaries paid to employees included in each category. If project operated less than a full year, please annualize the payroll.

	<u>Less than \$5.00</u>	<u>\$5 to \$7.49</u>	<u>\$7.50 to \$9.99</u>	<u>\$10 to \$14.99</u>	<u>\$15 to \$20</u>	<u>Over \$20.00</u>
Part-time (less than 30 hrs/wk)						
Number	_____	_____	_____	_____	_____	_____
Annual Payroll	_____	_____	_____	_____	_____	_____
Full-time (30 or more hrs/wk)						
Number	_____	_____	_____	_____	_____	_____
Annual Payroll	_____	_____	_____	_____	_____	_____

During 1995, what was: the *lowest* hourly wage paid \$_____ The *highest* hourly wage paid \$_____

12. Are the employees of the project provided:

a) Health Insurance paid in full or part by the company ____ Yes ____ No

If yes, what percent of employees are covered by the insurance plan ____%

b) A retirement plan paid in full or part by the company ____ Yes ____ No

If yes, what percent of employees are included in the retirement plan ____%

Estimated current market value of the project's property: \$_____
(Buildings and improvements that have been exempted from property tax)

14. Describe in detail the enterprise engaged in by the project operator, including description of products manufactured, produced, assembled or stored, or other business activities.

15. What was the major reason the project located in North Dakota? (Please be as specific as you can).

(Date)

(Signature)

(Title)

Return by July 15, 1996 to:
State Board of Equalization
Office of State Tax Commissioner
600 E. Boulevard Avenue
Bismarck, ND 58505-0599