

ECONOMIC DEVELOPMENT INCENTIVES IN NORTH DAKOTA

A Study for the North Dakota Department of Commerce

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INTRODUCTION

The 2005 Legislature in SB 2018 directed the North Dakota Department of Commerce to conduct a study of the state's economic development (ED) incentives. The study was to include an inventory of the incentives offered, barriers to their use, gaps and overlaps, a review of their effectiveness and identification of best practices. The inventory and related data was done by the Department of Commerce, the remaining components are included in this report.

What is the core question for this study?

The core question of this study is whether North Dakota's array of incentives is sufficient for and efficient at leveraging the maximum possible investment in the State. In other words, can North Dakota hold its own in an increasingly competitive world market, with the incentive package it has currently?

Subsidiary questions would include:

- Are there barriers to the most effective and efficient use of ND incentives?
- Are there obvious gaps and overlaps in the current incentive array?
- Are there incentives offered by other states that should be explored by ND?
- Are performance measurement practices sufficient to allow for optimum allocation of resources?

How did this study address the core question?

This study addressed the adequacy of North Dakota incentives in several ways, aimed at internal exploration of key issues, strengths and barriers, and also aimed at an external review of other state programs to see what North Dakota might be missing from its incentive arsenal. The study also looked at internal performance measurement practices to see how well equipped the state was to assess its own incentive package.

Specific tasks included:

- Interviews with Department of Commerce leaders
- Focus group with local economic developers
- Interviews with program managers from each of the agencies that administers North Dakota's economic development incentives, including Job Service North Dakota; The Tax Commissioner and his staff; The Bank of North Dakota; North Dakota Department of Commerce program managers
- Interviews with North Dakota businesses who have utilized the various incentives
- Review of benchmark states
- Limited interviews with officials from other states
- Consultation and analysis developed by the consultants based upon a collective 60 years of experience in business, government and economic development

What central themes emerged?

First let us point out that the comments and evaluations from the users of the programs, particularly the most commonly used programs, were very favorable. They were complimentary of the agencies understanding and helpfulness. We heard many positive comments about the Seed Capital Investment Tax Credit, PACE, Flex PACE, the Development Fund, the tax credits and Renaissance programs.

What's more, it was clear that North Dakota's incentive programs had been thoughtfully developed, professionally administered and enthusiastically applied. The overall level of competence and passion for the programs was very much on display, and everyone involved was happy to cooperate. In fact, the general impression we formed, was that program managers were only too pleased to think that this study might yield ideas that would make North Dakota incentives more efficient, effective and competitive. Several of the current programs, particularly in the areas of workforce development, business finance and several tax credits, could well qualify as state "best practices."

The study quickly revealed several central themes. Clearly, North Dakota has an impressive array of business incentives and has made a sincere effort to address a wide array of business needs and to leverage investment in North Dakota by both existing businesses and new corporate citizens. Furthermore, a great deal of emphasis has been placed on not allowing for the frivolous or duplicative use of incentives, most especially by targeting "primary sector industries."

In fact, the sheer number of incentives on the books, sixty-one, would rank with most states in the country as one of the higher numbers of incentives. However, this number is greatly misleading, as many of those incentives are virtually unused, and this has been the case for several years. There is an important difference between having a lot of incentives on the books, and having an effective package of incentives to offer investors.

Moreover, while the focus on primary sector industries makes sense in a very traditional economic development atmosphere, as a means of insuring that only "meaningful deals" are incentivized, there is a tendency for this focus to exclude smaller businesses, which are a key component of local growth, particularly in rural communities. There are also issues involved in having many of the key incentives administered by multiple agencies. North Dakota makes extensive use of tax incentives, as do most states. Tax incentives in North Dakota call for the Department of Commerce to certify eligible firms, while the incentives themselves are managed by the Office of the Tax Commissioner. This dual responsibility model can lead to complications in administration of the programs.

On the other hand, a number of North Dakota incentive programs stood out as fine examples of what other states might want to emulate. As noted earlier, the workforce development programs are well targeted and have addressed workforce issues appropriately. Their only shortcoming is the fact that, while they can create a great workforce, they just cannot guarantee that the workforce will be large enough. The Seed

Capital Tax Credit and Agricultural Processing Credit are widely used in North Dakota and were very popular with those who used them.

The Bank of North Dakota is a one of a kind, one-stop-shop for business finance and got high marks from businesses for its resources and professionalism, and the North Dakota Development Fund offers equity financing that compares favorably with other state equity finance programs. Along with these programs, the Renaissance Zone program offers a case of a multi-tool, flexible form of assistance for targeted areas within the state. PACE likewise has enjoyed success, and Flex PACE, offering even more flexible assistance, has proven very popular.

However, the charge of this study is to help make the North Dakota incentives more effective. Thus, most of what follows will focus on the areas in which more could be done to enhance North Dakota's quality incentive programs and possibly, to add to those programs.

In this context, our study explored an issue that can either help or inhibit the ability of a state to conduct self-assessment and self-improvement: performance measurement. Such self-assessments can be important tools in comparing program results and thus in allowing the most efficient allocation of resources. In general, state funded incentive programs in North Dakota (as opposed to the federally funded programs like Community Development Block Grant) have had very little performance measurement to gauge their results. While the programs do publish annual reports that chronicle program outputs, there has been little or no comprehensive system for documenting the outcomes or impacts of state incentive programs, nor has there been consistent follow-up required to insure compliance with incentive award conditions. It should be noted that the client firms interviewed felt that the incentives did have a positive impact on their business. Furthermore, our review would suggest that most of the incentives that are used regularly do have appropriate targets and tend to leverage the desired outcomes. Nevertheless, it is difficult to back this up with aggregate data.

The State has made an effort to rectify this situation by passing a Business Incentive Law that is intended to insure accountability. The law, which requires that job and compensation goals be set and monitored annually, would have the effect of enforcing performance measurement on virtually every incentive given to businesses. This raises the question: Can a single state law institute responsible performance measurement, across the board? There is a foundation, based upon economic development best practices, for responding that a "one size fits all" performance measurement technique is not the ideal way to address this issue. More on this later.

INTERNAL ISSUES

Internal (as identified through interviews in ND with program managers and clients, and focus group with local economic developers)

- **Abrupt notice to investors that Tax Credits have been used up**
- Disconnects between Tax Commissioner's office and DOC
- **Too many un-utilized programs, especially tax incentives**
- Lack of overall strategy for tax incentives as applied to long form vs. short form
- Potential lack of more creative incentive approaches, including reimbursable/refundable tax credits
- **Lack of training funds for basic job skills**
- **Incumbent worker training needs more funds, transition funding**
- **Potential incentives to attract workers to ND**
- **Disadvantages for smaller and rural communities**
- **Bias against smaller projects, generally limitations of job numbers and cost per job**
- **Programs don't necessarily address needs/eligibility of smaller firms**
- **Too many limits on target firms, as primary sector only**
- **Potential lack of certain types of risk capital**
- Inconsistent measurement of performance/results
- Most reports focus on program outputs, rather than impacts; perhaps intermediate outcomes should be added; soft measures?
- Inconsistent follow-up to confirm impact projections
- **New Accountability law may be trying to impose a one-size fits all that does not work for all incentives**

EXTERNAL ISSUES

External (as defined by comparison with benchmark states; experience of consultants; some outside interviews about state best practices) States reviewed thus far, include OK, MN, NE, MT, KS, SD, SC, NC, GA, ID, MI

Note: this is a list of the types of incentive programs that the benchmark states feature, which are either not used in ND, or seem to be under-utilized, or which might be slated to expire in ND. This is a short list, mentioning only those that seem relevant. The incentives marked in bold are thought to be the most significant gaps.

- **Tax Refunds and Rebates**
- **Incentives for Tourism Facilities**
- **Incubator Facility Incentives**
- Alternative fuels incentives
- **Infrastructure Grants and Loans; Tax Credits**
- **R&D Credits (currently under-utilized in ND)**

- **Research Commercialization Credits and Loans**
- Machinery and Tools Breaks
- Quality Jobs programs
- Grants for smaller communities; micro loans for smaller firms
- Construction Credits
- Direct aid to site location consultants
- Capital formation incentives to investors and Venture Capital Companies
- High Performance Business Investment Tax Credit
- Business Expansion Loans
- Minority Business Loans
- Corporate License Tax Exemption on new products
- Export Finance
- Manufacturing Incentives
- **New Product Development Incentives**

ANALYSIS-INTERNALLY GENERATED

The Seed Capital and Agriculture Commodity Processing Tax Credits have been, and continue to be, amongst the most popular, and heavily used ED incentives in North Dakota. Until recently, there was some overlap and potential confusion over which credit should be used for certain projects. However, this issue was addressed by a recent legislative change that directed all agriculture-related projects to the Ag Commodity Processing Tax Credit.

However, a continuing problem with the Seed Capital Tax Credit is that of the program cap, which places an annual ceiling on the amount of tax that can be taken as credits under the program. Thus, any given company may qualify, but may fail to realize any or all of the credit, if the ceiling is reached before the investors proceeds are received by the company. The credits are allocated on a first come, first served basis, and the ceiling has been reached in each of the last two years. This meant that some eligible firms, who expected to utilize the credit, were not able to. This is the core problem: there is often no predictability as to when the ceiling will be reached, and thus no reliable way of knowing, in advance, whether all of the qualified firms will get to enjoy the benefits of the program.

Exacerbating the problem is the lack of clarity as to whether firms are given fair warning, from the outset, that they may not get the tax credit. There was concern expressed by both government officials, and company officials as to whether the eligible firms fully understood, from the beginning, that they might not get the credit if the “invisible ceiling” was reached for the year. Complicating this concern is the fact that Commerce certifies the firms as eligible, but the Tax Commissioner’s Office administers the credit. The Tax Commissioner’s Office and the Department of Commerce have taken steps to improve the situation and we recognize it may not be possible to totally eliminate the problem as long as the cap is in place. *The State needs a reliable means for notifying firms, in advance, about the possible constraints posed by the annual ceiling on the Seed Capital Tax Credit.*

Tax incentives raise another important issue for North Dakota. Tax incentives comprise a major proportion of the State's incentive array, as is the case in many states. However, far too many of the tax incentives are unused, or little used. One of the reasons for this situation appears to be the difference between what incentives can be used on either the short or long state tax form, vs. those that can only be used with the long form. Many of the tax incentive programs can only be used with the long form and the restriction against using these incentives with the short form appear to inhibit the use of such incentives. Apparently, the higher costs of utilizing the long form tend to cancel out the benefits of the tax incentives. *The State should select the most relevant tax incentives and make these eligible for use on both the short and long tax filing form. The remaining tax incentives should be allowed to expire.*

One theory as to why there is a long form is that it was a way to keep certain deductions and credits on the statutes even though most taxpayers did not use the form. It also was a means of keeping the short form, "short", since that is no longer the case; *the Legislature should reexamine the validity of even having the long form. It seems that if an incentive is worthy of being placed on the statutes, it should be allowed to be used by the taxpayers.*

Another major drawback of the tax incentive programs is that North Dakota tax incentives are not offered as refundable or reimbursable credits. In other words, the credits are only of value as long as the firm has enough profit, and therefore, enough tax liability to utilize the credit. Furthermore, the credits, even when they can be utilized, don't necessarily help with cash flow. This restriction prevents many young, growing firms, and even some mature, smaller firms, from taking advantage of the credits. A growing number of states are offering to refund or reimburse funds to the firms if their tax liability is not sufficient to make the credit meaningful. Others offer rebates or refunds to firms who do pay taxes, but this format allows for direct distribution of cash, to be placed in the hands of business owners, which is often more helpful, and attractive than a tax credit for smaller, growing firms. *North Dakota should consider utilizing such refundable credits that can put cash in the hands of smaller firms.*

Workforce development is an important component of any state incentive package. Firms are more and more concerned about their ability to attract and retain top workers, and the availability of a qualified workforce is a powerful incentive to attract, retain, and expand firms locally. Worker training is also a key element in raising the overall skills of the populace, and thus in lifting local citizens to a level where they can be upwardly mobile in the workplace.

By all accounts, North Dakota has a first rate workforce development program mix, with key elements at Job Service North Dakota and at the Department of Commerce. However, there may be two gaps in the workforce development program. First, there does not appear to be much, if any, funding for basic skills development, aka "soft skills" training. This is frequently mentioned by corporate employers around the country, as a key element in worker training. Second, there is no funding available for "transition

assistance”; in other words, money to help keep workers going during the period in which they train for more skilled, higher paying jobs. *North Dakota should consider funding soft skills training and transition assistance for workers trying to upgrade their job skills. Furthermore, North Dakota needs to consider programs aimed at recruiting workers from out of state and retention of existing workers, including internship programs that can address the needs of employers while exposing young people to opportunities in North Dakota.*

Earlier, we noted the fact that some of the North Dakota incentives seem to make it harder for smaller projects and smaller communities to qualify. Requirements for total jobs created, and cost per job, may unintentionally discriminate against smaller firms. Requirements that allow only primary sector industries to qualify, may erect barriers against smaller firms and smaller communities, which may depend on businesses that do not qualify as primary sector. *North Dakota should consider an adjustable scale for jobs and cost per job, and should consider allowing firms of local importance to qualify for assistance, regardless of whether they are primary sector.*

Clearly, there are sources of venture capital, including state programs, available in North Dakota. Nevertheless, lack of venture capital comes up over and over again in business climate studies and in the course of this study. What appears to be lacking is funding for bringing new products to market. This gap, then, is the one that takes an idea from the research stage to the commercial stage. *It is suggested that North Dakota consider initiating a fund for commercialization of new technologies. Other states, like Michigan, are pursuing this course rather aggressively.*

ANALYSIS-EXTERNALLY GENERATED

North Dakota does not have any incentives to encourage tourism facilities, or incubator facilities. Each of these has drawn considerable and growing interest from states around the country, including the benchmark states. The incentives could be in the form of grants, loans or tax credits and should be made available to both for profit and not for profit entities. *It is suggested that North Dakota explore options for offering incentives to attract tourism facilities and incubators.* This could also address concerns from some that tourism has largely been left out of the economic development incentives package.

North Dakota does have alternative fuels tax incentives, but these are fairly new and it may be too soon to assess their impact. Given the great potential for development of alternative fuels in the state, and the growing need for alternative fuels around the country, it would make sense for the state to continue to evaluate these incentives. Furthermore, many competitor states are offering machinery and tools tax breaks, yet North Dakota lags behind in this area. *It is suggested that North Dakota explore adding more inclusive incentives for the use of machinery and tools.*

A state's infrastructure is of critical importance. Traditional forms of infrastructure, including water and sewer, good roads, parking, and other physical support systems must be adequate and in good repair for development to take place. In addition, newer, high

tech support systems for wireless access are taking center stage as necessary support systems for business growth and development. Enough states are making investments in infrastructure that North Dakota needs to consider expanding its support for this vital resource. Competitor states are creating revolving loan funds, and offering grants, tax incentives and matching funds to municipalities and/or to the private sector for infrastructure. *North Dakota should explore a statewide program option for supporting the development of infrastructure for the 21st century.*

Another key underpinning of prosperity is research and development. Most states, including the benchmark states, offer some form of Research & Development (R&D) tax credits to encourage industry to invest in these pursuits. The North Dakota R&D tax credit is little used, and there is no consensus as to why not. Whether there are simply not many firms in the state who can take advantage of the credit, or whether the credit is virtually unusable due to the need to piggyback on the Federal credit is unclear. This credit should be looked at more closely to see whether it can be tweaked to support research and development more effectively. *If the R&D tax credit cannot be made more user-friendly, North Dakota should explore other means of encouraging research and development, including grants and loans.*

In this same vein, most states are now aggressively seeking ways to promote the commercialization of new technologies, especially those that are emerging from their own institutions. Revolving funds, matching grants, tax credits are all being used to encourage entrepreneurs and researchers to bring their ideas to market. There appears to be a gap in North Dakota in funding for the people who wish to bring a new idea to the stage where it can qualify for conventional venture capital sources. Early stage, high risk funding just does not seem to be available under existing programs. *North Dakota should consider adding a special fund that would take emerging research ideas from the lab or research facility to the product stage.*

PERFORMANCE MEASURES

Performance measures for the North Dakota incentive programs were discussed with program staff and by reviewing annual reports for each agency. Interviews confirmed that most of the state administered programs lacked consistent, verifiable data on jobs and investment generated. Furthermore, there were few provisions for follow-up or monitoring of incentive recipients to insure that initial projections had been met. This also made it difficult to enforce any cancellation or claw back of incentives for those firms who failed to live up to the commitments made at the time of the awards.

This is not to say that program managers had no idea of what impact their programs were having. Anecdotal evidence was being collected, and some program output numbers were being generated, but again, there was no consistent or systematic means for assessing the impact of incentive programs.

The legislature attempted to address this concern with its recent passage of the ND Accountability Act, which required that all recipients of state aid produce and track job

and investment numbers, and provided for claw backs to be enforced against firms that do not meet their targets.

Tax incentives offer a particular challenge, as there has never been a comprehensive study of the cost of such incentives nor the impact they have had. Tax “expenditures” can be attractive as they tend to be invisible. Yet, they are not without cost, and it would be prudent to conduct a follow-up to this study that begins a tracking system which accounts for the cost of tax breaks, and allows ND to track their return on investment.

However, North Dakota should take care to insure that its performance measures match the goals and objectives of each individual program. While the accountability act is well-intentioned, and attempts to fill an important policy gap, it is an answer that falls into the trap of “one-size fits all”. By this we mean that no one rule can truly account for the varying goals and objectives of a wide range of programs. Some programs are, for example, less focused on jobs and investment outcomes than others, and some do not even have jobs and investment as their primary mission.

Programs aimed at encouraging small, growing businesses, for example, might yield little or no jobs or revenues early in their implementation. Programs aimed at building local capacity or revitalizing local economies might not even have jobs and investment as results in the medium-term. While most of all economic development programs have as their long-term goals, the augmentation of jobs and investment, the short and medium-term impacts might have different, softer measures. Time and effort should be spent in developing performance measures that are sensitive to the central goals of each program and to the timing of the program’s implementation.

We applaud the effort to initiate a more scientific and robust performance measurement system, as this could do a better job of protecting public investments in economic development and provide policy makers with more complete information to guide their resource allocation decisions. Nevertheless, interviews in North Dakota, study of the benchmark states and review of state best practices, all point to the fact that a more tailored system, uniquely designed to address individual program goals and objectives would be better accepted by the business community and would yield more useful data.

How then, could this be accomplished? *It is suggested that North Dakota consider modifying the accountability act so that it requires every incentive program to develop, implement and report on an acceptable performance measurement system.* The measures would not all have to be the same. Each program could be required to establish benchmarks, or targets, geared to their individual performance measures. Then, programs could be assessed and even compared, based upon their relative success in meeting their unique benchmarks.

It is further suggested that North Dakota undertake a study that reviews the cost and benefits of its tax expenditures, incurred by the various incentives, credits and other tax breaks offered to businesses. In 1994, about ½ of the states did tax expenditure reports, such reports are effective tools to provide legislatures with ongoing fiscal impact

information on incentives that have been enacted over the years. In addition, tax expenditure reports provide a baseline for developing performance measurement standards for the incentive programs.

RECOMMENDATIONS

The following summary of the report's recommendations are for your consideration, taking into account the findings of this report, including barriers, gaps, overlaps, effectiveness and best practices.

- *The State needs a reliable means for notifying firms, in advance, about the possible constraints posed by the annual ceiling on the Seed Capital Tax Credit.*
- *The State should select the most relevant tax incentives and make these eligible for use on both the short and long tax filing form. The remaining tax incentives should be allowed to expire.*
- *The Legislature should reexamine the validity of even having the long form. It seems that if an incentive is worthy of being placed on the statutes, it should be allowed to be used by the taxpayers.*
- *North Dakota should consider utilizing such refundable credits that can put cash in the hands of smaller firms.*
- *North Dakota should consider funding soft skills training and transition assistance for workers trying to upgrade their job skills. Furthermore, North Dakota needs to consider programs aimed at recruiting workers from out of state and retention of existing workers, including internship programs that can address the needs of employers while exposing young people to opportunities in North Dakota.*
- *North Dakota should consider an adjustable scale for jobs and cost per job, and should consider allowing firms of local importance to qualify for assistance, regardless of whether they are primary sector.*
- *It is suggested that North Dakota consider initiating a fund for commercialization of new technologies. Other states, like Michigan, are pursuing this course rather aggressively.*
- *It is suggested that North Dakota explore options for offering incentives to attract tourism facilities and incubators.*
- *It is suggested that North Dakota explore adding more inclusive incentives for the use of machinery and tools.*

- *North Dakota should explore a statewide program option for supporting the development of infrastructure for the 21st century.*
- *If the R&D tax credit cannot be made more user-friendly, North Dakota should explore other means of encouraging research and development, including grants and loans.*
- *North Dakota should consider adding a special fund that would take emerging research ideas from the lab or research facility to the product stage.*
- *It is suggested that North Dakota consider modifying the accountability act so that it requires every incentive program to develop, implement and report on an acceptable performance measurement system.*
- *It is further suggested that North Dakota undertake a study that reviews the cost and benefits of its tax expenditures, incurred by the various incentives, credits and other tax breaks offered to businesses.*

CONCLUSION

The purpose of the study was an assessment of North Dakota's economic development incentives and their effectiveness. While we have listed a number of issues for your consideration, we are very impressed with the economic development package that has been built in North Dakota. It is well rounded, professionally administered and in many respects could well qualify as "best practices" for other states.

In addition, it is clear that the administration of the programs and public policy as developed by the Legislature have been well thought out, in order to make the system work well and yet be fiscally prudent with taxpayer dollars. It should be recognized that the art of using incentives is an ever changing landscape, and that our suggestions are intended as constructive criticisms, aimed at helping North Dakota to keep up with its aggressive competitors.

We take this opportunity to thank you, the agencies, staff, economic developers, business users and other states for their cooperation and assistance in preparing this report.

INCENTIVES INVENTORY

By Agency

Tax Commissioner's Office

1. Agricultural Commodity Processing Facility Investment Tax Credit (ED&F / Tax Commissioner)
2. Agricultural Processing Plant Construction Materials Sales and Use Tax Exemption (Tax Commissioner)
3. Beginning Entrepreneur Income Tax Deductions (Tax Commissioner)
4. Biodiesel Blending Fuel Tax Credit (Tax Commissioner)
5. Biodiesel Production Equipment Costs Tax Credit (Tax Commissioner)
6. Biodiesel Sales Equipment Costs Tax Credit (Tax Commissioner)
7. Certified Nonprofit Development Corporation Investment Tax Credit (Tax Commissioner)
8. Tax Credit for Charitable Contribution to Secondary or Higher Education (Tax Commissioner)
9. Coal Conversion Facilities Privilege Tax Exemption for New Plants (Tax Commissioner)
10. Coal Severance Tax Exemption for coal used in agricultural processing or sugar beet refining plants (Tax Commissioner)
11. Coal Severance Tax Exemption for coal used primarily for heating buildings in this state or used by the state or a political subdivision of the state (Tax Commissioner)
12. Coal Severance Tax Reduction for coal mined for out-of-state shipment (Tax Commissioner)
13. Coal Severance Tax Reduction for coal to be burned in a cogeneration facility (Tax Commissioner)
14. Commercial and Residential Building Improvement Property Tax Exemption (Tax Commissioner)
15. Computer and Telecommunications Equipment Sales Tax Exemption (Tax Commissioner)
16. Deduction for Investment in North Dakota Venture Capital Corporation (Tax Commissioner)
17. Disabled Employee Tax Credit (Tax Commissioner)
18. Financial Institutions Credit for Contributions to Rural Leadership Program (Tax Commissioner)
19. Geothermal, Solar, or Wind Energy Device Tax Credit (Tax Commissioner)
20. Geothermal, Solar, or Wind Energy Property Tax Exemption (Tax Commissioner)
21. Geothermal, Solar, or Wind Energy Sales and Use Tax Exemption (Tax Commissioner)
22. Hotel Tax Exemption (Tax Commissioner)
23. Income Tax Exemption for New and Expanding Businesses (Tax Commissioner)
24. Manufacturing Equipment Sales Tax Exemption (Tax Commissioner)
25. Oil and Gas Property Tax Incentives (Tax Commissioner)

26. Property Tax Exemption for New and Expanding Businesses (Tax Commissioner)
27. Research and Experimental Expenditures Credit (Tax Commissioner)
28. Salary and Wage Tax Credit For New Industries (Tax Commissioner)
29. Sales Tax Incentives (Tax Commissioner)
30. ND SBIC Investment Tax Credit (Tax Commissioner)
31. Venture Capital Corporation Investment Tax Credit (Tax Commissioner)
32. Wind Turbine Electric Generation Property Tax Reduction (Tax Commissioner / DOC- Renewable Energy & Energy Efficiency Office)
33. Wind-Powered Electrical Generating Facilities Sales and Use Tax Exemption (Tax Commissioner / DOC- Renewable Energy & Energy Efficiency Office)
34. Shallow Gas - Gross Production Tax Exemption (Tax Commissioner)
35. Stripper Well - Oil Extraction Tax Exemption (Tax Commissioner)
36. New Well - Oil Extraction Tax Exemption (Tax Commissioner)
37. Work-Over Well - Oil Extraction Tax Exemption (Tax Commissioner)
38. Secondary Recovery Incremental Production - Oil Extraction Tax Exemption (Tax Commissioner)
39. Tertiary Recovery Incremental Production - Oil Extraction Tax Exemption (Tax Commissioner)
40. Two-Year Inactive Well - Oil Extraction Tax Exemption (Tax Commissioner)
41. Horizontal Reentry Well - Oil Extraction Tax Exemption (Tax Commissioner)
42. Indian New Well - Oil Extraction Tax Exemption (Tax Commissioner)

Bank of North Dakota

43. Bank of North Dakota (BND) Beginning Entrepreneur Loan Guaranty Program (Bank of North Dakota)
44. Bank of North Dakota (BND) Match Program (Bank of North Dakota)
45. Partnership in Assisting Community Expansion (PACE) Fund (Bank of North Dakota)

Department of Commerce

46. Agricultural Products Utilization Commission (APUC) Grants (APUC)
47. Community Development Block Grants (Department of Commerce)
48. Regional Rural Development Revolving Loan Fund (ND Development Fund)
49. Renaissance Zone—Primary Residence Tax Credit (Division of Community Services / Tax Commissioner)
50. Renaissance Zone—Business or Investment Income Exemption (Division of Community Services / Tax Commissioner)
51. Renaissance Zone—Business Purchase or Expansion Tax Credit (Division of Community Services / Tax Commissioner)
52. Renaissance Zone—Historic Property Preservation or Renovation Tax Credit (Division of Community Services / Tax Commissioner)
53. Renaissance Zone—Property Tax Exemption (Division of Community Services / Tax Commissioner)
54. Renaissance Zone—Renaissance Fund Organization Investment Tax Credit (Division of Community Services / Tax Commissioner)
55. North Dakota Development Fund (ND Development Fund)

56. Seed Capital Investment Tax Credit (ED&F / Tax Commissioner)

Job Service North Dakota

57. New Jobs Training Program (Job Service)

58. North Dakota On-the-Job Training Program (OJT) – WIA (Job Service)

59. Workforce 20/20 Program (Job Service)

Other

60. Historic Property Tax Abatement (Historical Society)

61. Public Finance Authority Industrial Revenue Bond Program (Ind. Comm.)

INCENTIVES INVENTORY

With Descriptions & NDCC Reference

	Name	ND Century Code Section	Description
1.	Agricultural Commodity Processing Facility Investment Tax Credit	57-38.6	This program promotes the development of, and investment in, agricultural commodity processing facilities in North Dakota through an income tax credit.
2.	Agricultural Processing Plant Construction Materials Sales and Use Tax Exemption	57-39.2-04.4	Construction materials used to construct an agricultural processing facility are exempt from sales and use taxes.
3.	Beginning Entrepreneur Income Tax Deductions	57-38-01.2(1)(m) 57-38-71,57-38-72 57-38-73,57-38-74	This program promotes the passing on of existing businesses to other North Dakotans to maintain the business continuity and to create business opportunities for new business owners.
4.	Biodiesel Blending Fuel Tax Credit	57-38-01.22	A fuel supplier, licensed pursuant to NDCC 57-43.2-05, who blends biodiesel fuel of at least 5% blend (B5), is entitled to an income tax credit.
5.	Biodiesel Production Equipment Costs Tax Credit	57-38-30.6	A corporation is entitled to an income tax credit for direct costs incurred after 12-31-02, to adapt or add equipment to retrofit an existing facility or adapt a new facility in ND for the purpose of producing or blending diesel fuel containing at least 2% biodiesel fuel by volume.
6.	Biodiesel Sales Equipment Costs Tax Credit	57-38-01.23	A seller of biodiesel fuel is entitled to an income tax credit for direct costs incurred after 12-31-04, to adapt or add equipment to a facility, licensed pursuant to NDCC 57-43.2-05, to enable the facility to sell diesel fuel containing at least 2% biodiesel fuel by volume.
7.	Certified Nonprofit Development Corporation Investment Tax Credit	10-33-124 57-38-01.17	This program promotes the development of, and investment in, primary sector businesses in North Dakota through an income tax credit.
8.	Tax Credit for Charitable Contribution to Secondary or Higher Education	57-35.3-05(1) 57-38-01.8	This program promotes contributions to qualified nonprofit private institutions of secondary and higher education in North Dakota.
9.	Coal Conversion Facilities Privilege Tax Exemption for New Plants	57-60-02(3)(5)	County commissioners may grant partial or complete exemption from the county's portion of the tax.
10.	Coal Severance Tax Exemption for coal used in agricultural processing or sugar beet refining plants	57-61-01.5	
11.	Coal Severance Tax Exemption for coal used primarily for heating buildings in this state or used by the state or a political subdivision of the state	57-61-01.1	
12.	Coal Severance Tax Reduction for coal mined for out-of-state shipment	57-61-01.6	
13.	Coal Severance Tax Reduction for coal to be burned in a cogeneration facility	57-61-01.3	
14.	Commercial and Residential Building Improvement Property Tax Exemption	57-02.2-01	Improvements to commercial and residential buildings and structures may be exempt from assessment and taxation, if the exemption is approved by the governing body of the city, for property within city limits, or the governing body of the county, for property outside city limits.
15.	Computer and Telecommunications Equipment Sales Tax Exemption	57-39.2-04.3	A sales and use tax exemption is allowed for purchases of computer and telecommunications equipment for qualified primary sector business industries.
16.	Deduction for Investment in North Dakota Venture Capital Corporation	57-38-01.2(1)(q)	This deduction promotes the creation of, and investment in, North Dakota venture capital corporations.
17.	Disabled Employee Tax Credit	57-38-01.16	This tax credit promotes the hiring of developmentally disabled or chronically mentally ill individuals.
18.	Financial Institutions Credit for Contributions to Rural Leadership Program	57-35.3-05(3)	North Dakota allows an income tax credit for a percentage of the contributions made by the taxpayer during the taxable year for tuition scholarships for participation in the rural leadership North Dakota program conducted through the ND state university extension service.
19.	Geothermal, Solar, or Wind Energy Device Tax Credit	57-38-01.8	This program promotes the use of geothermal, solar, or wind energy devices for heating, cooling, or producing electrical or mechanical power.
20.	Geothermal, Solar, or Wind Energy Property Tax Exemption	57-02-08(27)	Any owner of locally assessed real property who installs a solar, wind, or geothermal energy device is eligible for a property tax exemption.
21.	Geothermal, Solar, or Wind Energy Sales and Use Tax Exemption	57-39.2-04.2 57-40.2-04.2	The owner of a qualifying wind-powered electrical generating facility is eligible for an exemption that applies to any sales or use tax that would be due in the construction of a wind-powered electrical generating facility.

INCENTIVES INVENTORY

With Descriptions & NDCC Reference

	Name	ND Century Code Section	Description
22.	Hotel Tax Exemption	57-39.2-04(22)	A sales tax exemption is provided for hotel rooms occupied for at least 30 consecutive days.
23.	Income Tax Exemption for New and Expanding Businesses	40-57.1-04	A primary sector business or tourism project may qualify for an income tax exemption for income from a new business or expansion of an existing business.
24.	Manufacturing Equipment Sales Tax Exemption	57-39.2-04.3	A new or expanding plant may exempt machinery or equipment from sales and use taxes if it is: used primarily for manufacturing or agricultural processing, or used solely for recycling.
25.	Oil and Gas Property Tax Incentives	57-51-03	Oil and gas property are exempt from ad valorem property tax if the property meets all of the conditions.
26.	Property Tax Exemption for New and Expanding Businesses	40-57.1-03 04.1	Property Tax Incentives for New or Expanding Businesses
27.	Research and Experimental Expenditures Credit	57-38-30.5	A corporation is allowed an income tax credit for expenses of conducting research in North Dakota. The credit is equal to a percentage of the excess of qualified research expenses in North Dakota over the base period research expenses in North Dakota.
28.	Salary and Wage Tax Credit For New Industries	57-38-30.1	A corporation doing business in North Dakota for the first time and qualifying as a "new industry" may take an income tax credit equal to a percentage of the annual gross salaries and wages expended in ND.
29.	Sales Tax Incentives	57-39.2-04	Manufacturing Equipment, Computer and Telecommunications Equipment, Wind-Powered Electrical Generating Facilities, Carbon Dioxide for Enhanced Oil and Gas Recovery, Biodiesel Equipment, and a Hydrogen Generation Facility is exempt from sales tax.
30.	ND SBIC Investment Tax Credit	10-30.2	This program promotes investment in the North Dakota Small Business Investment Company, L.P., (NDSBIC)* through a tax credit.
31.	Venture Capital Corporation Investment Tax Credit	10-30.1	This program promotes the creation of, and investment in, North Dakota venture capital corporations through an income tax credit.
32.	Wind Turbine Electric Generation Property Tax Reduction	57-02-27.3	The taxable value of a centrally assessed wind turbine electric generation unit with a nameplate generation capacity of 100 kilowatts or more at set rates.
33.	Wind-Powered Electrical Generating Facilities Sales and Use Tax Exemption	57-39.2-04.2 57-40.2-04.2	A sales and use tax exemption is allowed for purchasing building materials, production equipment, and other tangible personal property used in the construction of wind-powered electrical generating facilities.
34.	Shallow Gas - Gross Production Tax Exemption		
35.	Stripper Well - Oil Extraction Tax Exemption		
36.	New Well - Oil Extraction Tax Exemption		
37.	Work-Over Well - Oil Extraction Tax Exemption		
38.	Secondary Recovery Incremental Production - Oil Extraction Tax Exemption		
39.	Tertiary Recovery Incremental Production - Oil Extraction Tax Exemption		
40.	Two-Year Inactive Well - Oil Extraction Tax Exemption		
41.	Horizontal Reentry Well - Oil Extraction Tax Exemption		
42.	Indian New Well - Oil Extraction Tax Exemption		
43.	Bank of North Dakota (BND) Beginning Entrepreneur Loan Guaranty Program	6-09.15	The program is designed to assist in business start-up financing by providing a financial institution with loan guarantees.
44.	Bank of North Dakota (BND) Match Program	6-09	The program targets manufacturing, processing and value-added industries. Through this program, the Bank will participate in loans to financially strong companies and provide interest rates at some of the lowest in the nation.
45.	Partnership in Assisting Community Expansion (PACE) Fund	6-09	The Partnership in Assisting Community Expansion (PACE) program is an interest buy-down program of the Bank of North Dakota (BND) with state, local and community participation.

INCENTIVES INVENTORY

With Descriptions & NDCC Reference

	Name	ND Century Code Section	Description
46.	Agricultural Products Utilization Commission (APUC) Grants	4-14.1	Mission of APUC is to create new wealth and jobs through the development of new and expanded uses of ND agricultural products and resources.
47.	Community Development Block Grants		Community Development Block Grant funds are awarded to communities for real property, site improvements and infrastructure, and as a guarantee to fund working capital. They are designed to assist primary sector and retail sector businesses looking to establish or expand in communities and can be debt or equity financing.
48.	Regional Rural Development Revolving Loan Fund	10-30.5	The program provides flexible "gap financing" through loans, equity and partnerships. The fund is allocated equally among the state's eight economic regions for projects located more in communities of 8,000 or less or the project is located 5 miles outside the city limits.
49.	Renaissance Zone—Primary Residence Tax Credit	40-63-04(1)	This tax credit is part of the North Dakota Renaissance Zone Act Program, which promotes the revitalization and redevelopment of North Dakota cities through a variety of income, financial institution, and property tax incentives.
50.	Renaissance Zone—Business or Investment Income Exemption	40-63-04(2)	This income exemption is part of the North Dakota Renaissance Zone Act Program, which promotes the revitalization and redevelopment of North Dakota cities through a variety of income, financial institution, and property tax incentives.
51.	Renaissance Zone—Business Purchase or Expansion Tax Credit	40-63-04(3)	This tax credit is part of the North Dakota Renaissance Zone Act Program, which promotes the revitalization and redevelopment of North Dakota cities through a variety of income, financial institution, and property tax incentives.
52.	Renaissance Zone—Historic Property Preservation or Renovation Tax Credit	40-63-06	This tax credit is part of the North Dakota Renaissance Zone Act Program, which promotes the revitalization and redevelopment of North Dakota cities through a variety of income, financial institution, and property tax incentives.
53.	Renaissance Zone—Property Tax Exemption	40-63-05	This property tax exemption is part of the North Dakota Renaissance Zone Act Program, which promotes the revitalization and redevelopment of North Dakota cities through a variety of income, financial institution, and property tax incentives.
54.	Renaissance Zone—Renaissance Fund Organization Investment Tax Credit	40-63-05	This tax credit is part of the North Dakota Renaissance Zone Act Program, which promotes the revitalization and redevelopment of North Dakota cities through a variety of income, financial institution, and property tax incentives.
55.	North Dakota Development Fund	10-30.5	The North Dakota Development Fund is a statewide nonprofit development corporation that has the authority to take equity positions in, to provide loans to, or to use other innovative financing mechanisms to provide capital for new or expanding businesses in this state, or relocating businesses to this state.
56.	Seed Capital Investment Tax Credit	57-38.5	This program promotes the development of, and investment in, primary sector businesses in North Dakota through an income tax credit.
57.	New Jobs Training Program	52-02.1	A program is available that assists a new or expanding primary sector business with training new employees. This is a state-funded work force training program which provides for a state income tax withholding credit.
58.	North Dakota On-the-Job Training Program		On-the-Job Training (OJT) is training conducted in a work environment designed to provide an eligible individual with knowledge or skills essential to the job and/or qualify for a particular occupation through demonstration and practice.
59.	Workforce 20/20 Program	52-08.1	Workforce 20/20 is a program to assist North Dakota businesses and industries in retraining and upgrading worker's skills to meet demands of new technologies and work methods.
60.	Historic Property Tax Abatement		A property tax abatement for certain historic properties that are 25 years old is provided.
61.	Public Finance Authority Industrial Revenue Bond Program	6-09.4 40-57	The legislation allows the Public Finance Authority to purchase qualified small issue bonds as described within the Internal Revenue Code.

APPENDIX C

BENCHMARK STATE PROGRAMS OF INTEREST

STATE	PROGRAM	INCENTIVE	PURPOSE
Oklahoma	Tax Increment Financing	City or county creates TIF district	Capital access or formation
South Carolina	Tax Refund	Quarterly cash refund of employee payroll tax	Workforce prep or development
Idaho	Telecom Credit	3% credit on state income tax	Tech & product dev.; process improvement
South Carolina	Motion Picture Industry	Sales Tax Exemption	Exemption from sales & use taxes for supplies sold to filmmakers
South Dakota	Value added tourism fund	Direct loans for tourism feasibility studies	Attract more tourists for longer stays
Nebraska	Microenterprise Fund	Subsidized Financing	Grow smaller businesses
Minnesota	Pathways Program	Grants matched by businesses	Promote business/education partnerships
Kansas	Attraction Development Grants	Grants to new or expanding tourist attractions	Expand tourism infrastructure
Kansas	Certified Venture Capital Companies	Tax Credits	Income tax credit for investment in venture capital companies
Georgia	Regional Assistance Program	Grants, Loans	Develop infrastructure
North Carolina	Technology R&D tax credit	Credit against either the income or franchise tax	Encourage research and development of new technologies
Montana	Research Commercialization Trust Fund	Grants to research institutions that conduct commercializable research	Encourage development of new technologies
Oklahoma	Tax credits for tourism facilities	Sales and income tax credits	Increase tourism infrastructure
Oklahoma	New product development incentive	Income tax exemption for royalties on Oklahoma-invented products	Stimulate new product development and keep inventors in Oklahoma
Oklahoma	Incubator site tax exemption	Income tax exemption for sponsors of incubators on income earned from incubator tenants	Encourage private incubators to grow businesses in Oklahoma
South Carolina	Material handling systems and equipment	Exemption from sales and use tax for equipment and machinery used in handling material	Encourage investment in manufacturing and distribution centers
Michigan	21 st Century Jobs Fund	Financing for research & product commercialization	Encourage new product development by local researchers

FURTHER OBSERVATIONS & COMMENTS RECEIVED

FURTHER OBSERVATIONS

Here are some additional issues for consideration:

- There may be some minor overlap of Renaissance Zone credits with the income tax credit for new and expanding businesses
- There has been some discussion in North Dakota about allowing firms to “sell” tax credits that they cannot use. This might help address the gap left by the absence of refundable or reimbursable tax credits for less profitable firms
- The Venture Capital Tax Credit may be too restrictive on eligible uses and investments to be appealing; it should be modified, or allowed to expire
- The SBIC credit is limited, but slated for expiration as well
- The Regular PACE program at the BND has been used a bit more slowly than the more versatile Flex PACE, which has been running out of money early; ND might consider either more funding for Flex PACE, or more flexibility for PACE
- BND programs play a vital role, but some feel that there is still a need for some loan programs that are a bit less “risk averse”
- The limitations placed on programs that may serve only Primary Sector businesses should be re-examined; the definition of primary sector can be hazy and should be refined (see earlier comments on the limitation this places on smaller firms and communities). Specifically, is the 70% outside sales too restrictive a requirement?
- There may be some confusion over what is an eligible investment under the seed capital tax credit again because of the definition of primary sector.
- Are there too many agencies administering ND incentives? Does this make it tricky for any one agency to put together a complete incentive package for a prospect?
- Definition of value added (to certify a business as primary sector) may be too vague
- There is a general perception that ND has some limitations when it comes to the ability to put together incentive packages; it is unclear whether this is caused by the disparate nature of how programs are administered (too many agencies, too many trigger points, too many different requirements), or a lack of information on the part of the packagers
- Some economic developers felt that ND programs are too oriented toward traditional bricks and mortar, and not sensitive enough to the needs of a high tech business environment

