

**ANNUAL REPORT ON BUSINESS INCENTIVES****August 1, 2008, 9:00 A.M.****WORKFORCE COMMITTEE****Roughrider Room****SENATOR TONY GRINDBERG, CHAIRMAN**

Mr. Chairman, members of the committee. My name is Paul Govig, I am the Director of the Division of Community Services.

One of our responsibilities is to report to the Workforce Committee on the Business Incentive Accountability Law that was approved in 2005.

**Background**

The Business Incentive Accountability law (N.D.C.C. 54-60.1) was approved during the 2005 legislative session through the passage of House Bill 1203. This law took effect on January 1, 2006 and applies to incentives granted since that date. The law applies to incentives granted to businesses that receive \$25,000 or more of incentives in a given year. The law contains exemptions to certain types of assistance given to businesses, including assistance that is generally available to all businesses or to a general class of similar businesses or assistance to provide job readiness and training services.

The law requires grantors and recipients to enter into Business Incentive Agreements (BIA) before the recipient business receives an incentive. This BIA contains a description of the incentive to be granted as well as job goals for the business to achieve within 2 years. As a condition to receiving incentives, the business is to report annually to the grantor on progress towards the goals contained in the BIA. The grantor reports the information to the Department of Commerce and we compile the information and provide it to the legislative council.

**Compilation and Summary**

The Department of Commerce has the responsibility under N.D.C.C. §54-60.1-07 to file the reports of the state grantors and the compilation and summary with the legislative council. In fulfillment of this responsibility, we provided a copy of the reports of the state grantors to the Legislative Council staff. The information includes:

- Number of jobs targeted to be created or retained by each recipient
- Number of jobs achieved in comparison to the jobs targeted by each recipient
- Average compensation of jobs targeted, including identification of the average benefits and average earnings by each recipient
- Average compensation of jobs created or retained by each recipient

We also provide a distribution of business incentives by type of business and by public purpose. We utilize the North American Industrial Classification System (NAICS) in order to breakdown the type of business. The breakdown of incentives by business type is as follows.

NAICS Description	NAICS	2006 – 2007 Value
Accommodation	721	\$100,000.00
Administration of Economic Programs	926	\$1,087,590.00
Administrative and Support Services	561	\$74,800.00
Ambulatory Health Care Services	621	\$344,980.23
Amusement, Gambling, and Recreation Industries	713	\$76,500.00
Animal Production	112	\$420,000.00
Building Material and Garden Equipment and Supplies Dealers	444	\$85,000.00
Chemical Manufacturing (includes ethanol)	325	\$17,174,532.00
Clothing and Clothing Accessories Stores	448	\$34,765.00
Computer and Electronic Product Manufacturing	334	\$969,942.06
Construction of Buildings	236	\$411,423.75
Couriers and Messengers	492	\$63,920.00
Crop Production	111	\$91,380.75
Educational Services	611	\$15,000.00
Electrical Equipment, Appliance, and Component Manufacturing	335	\$500,000.00
Electronics and Appliance Stores	443	\$85,000.00
Fabricated Metal Product Manufacturing	332	\$1,243,254.28
Food and Beverage Stores	445	\$121,631.63
Food Manufacturing	311	\$2,261,025.89
Food Services and Drinking Places	722	\$291,278.36
Furniture and Related Product Manufacturing	337	\$88,153.83
Gasoline Stations	447	\$146,965.98
General Merchandise Stores	452	\$72,310.35
Health and Personal Care Stores	446	\$377,926.00
Heavy and Civil Engineering Construction	237	\$67,575.00
Hospitals	622	\$279,962.03
Internet Service Providers, Web Search Portals, and Data Processing Services	518	\$1,000,000.00
Machinery Manufacturing	333	\$942,221.31
Merchant Wholesalers, Nondurable Goods	424	\$10,000.00
Miscellaneous Manufacturing	339	\$1,241,219.73
Miscellaneous Store Retailers	453	\$51,000.00
Motor Vehicle and Parts Dealers	441	\$41,225.00
Nonmetallic Mineral Product Manufacturing	327	\$174,732.34
Personal and Laundry Services	812	\$153,000.00
Petroleum and Coal Products Manufacturing	324	\$107,191.71
Plastics and Rubber Products Manufacturing	326	\$250,000.00
Primary Metal Manufacturing	331	\$15,257.39



Professional, Scientific, and Technical Services	541	\$851,087.71
Real Estate	531	\$499,615.13
Rental and Leasing Services	532	\$370,058.71
Repair and Maintenance	811	\$270,450.00
Specialty Trade Contractors	238	\$404,875.00
Sporting Goods, Hobby, Book, and Music Stores	451	\$28,089.73
Support Activities for Agriculture and Forestry	115	\$130,396.00
Textile Product Mills	314	\$374,048.00
Transportation Equipment Manufacturing	336	\$1,676,494.00
Wood Product Manufacturing	321	\$454,248.47
<b>Totals</b>		<b>\$44,012,863.03</b>

Five public purposes are outlined in N.D.C.C. § 54-60.1-01(7). There is some duplication in the following numbers because some of businesses cited more than one public purpose.

BIA Purpose*	2006	2007	Total
Assisting community development	\$3,802,234.03	19,640,158.4	\$23,442,392.43
Directly creating employment opportunities	\$18,373,199.21	3,495,902.8	\$21,869,101.97
Increasing tax base	\$15,606,960.00	\$756,408.67	\$16,363,368.67
Indirectly creating employment opportunities through increased economic activity	\$334,855.00	1,034,694.3	\$1,369,549.26
Job retention (only in cases in which job loss is specific and demonstrable)	\$2,424,201.00	16,761,178.8	\$19,185,379.84
<b>Totals</b>	<b>\$40,541,449.24</b>	<b>\$41,688,342.97</b>	<b>\$82,229,792.21</b>

The Table below indicates the number of jobs created or retained by businesses involved in the Business Incentive Agreements but does not include jobs in the Renaissance Zones.

Jobs Created by Businesses with Business Incentive Agreements				
Year of Enrollment in BIA Program	Full time		Part time	
	Goal	Actual	Goal	Actual
<b>2006</b>	652	173	14	10
<b>2007</b>	736	1048	163	25

In the table below a comparison was made for all companies that had created job opportunities or retained workers for the past two years.

Average Wage Per Hour for all Companies with Business Incentive Agreements			
Year	Goal	Actual	Difference
2006	\$16.37	\$17.81	\$1.44
2007	\$16.81	\$19.03	\$2.22

The primary purpose of a city's renaissance zone is to assist in community development and is not job creation or retention. Therefore, the only public purpose used was assisting community development. One thing to keep in mind in the table below is that the value depicted is only a rough estimate because it is unknown how much the renovation of the building may affect a business currently in the Renaissance Zone or for a startup business, they may not know what there tax liability will be each year.

Incentives by Business Type	NAICS	Value 2006	Value 2007	Total Value
Accommodation and Food Services	722	\$65,000	0	\$65,000
Construction	236	\$150,000	\$48,270	\$198,270
Information	519	\$40,000	\$25,000	\$65,000
Finance and Insurance	522	0	\$893,500	\$893,500
Manufacturing	310-330	0	\$967,775	\$967,775
Other Services (except Public Administration)	810	\$26,294	\$50,000	\$76,294
Real Estate and Rental and Leasing	530	\$333,792	\$460,000	\$793,792
Retail Trade	440-450	\$381,500	\$617,130	\$998,630
Transportation and Warehousing	480-490	0	\$650,000	\$650,000
Total		\$996,586	\$3,711,675	\$4,708,261