

**DEPARTMENT OF COMMERCE ANNUAL REPORT ON BUSINESS INCENTIVES  
TAXATION COMMITTEE  
SEPTEMBER 10, 2020  
REPRESENTATIVE JASON DOCKTER, CHAIRMAN**

**CARLA VALENTINE – NORTH DAKOTA DEPARTMENT OF COMMERCE**

Chairman Dockter and members of the Taxation Committee, my name is Carla Valentine and I serve as a Program Manager for the North Dakota Department of Commerce. I'm here today to provide the annual report for calendar year 2019 on the business incentive accountability law as directed to by NDCC Section 54-60.1-07. The information is as of December 31, 2019.

The Business Incentive Accountability law (NDCC Chapter 54-60.1) was approved during the 2005 legislative session and the law took effect on January 1, 2006. This law applies to businesses that receive incentives totaling \$25,000 or more in a given year from state or local grantors.

The law requires grantors and recipient businesses enter a business incentive agreement (BIA Agreement) before the recipient business receives an incentive. This BIA Agreement contains a description of the incentive to be granted as well as job goals for the business to achieve within 2 years. Recipient businesses must report on progress towards their goals for at least two years and until they meet their goals. Another requirement of the BIA Agreement is that the incentive must meet one of the following public purposes: assisting community development, increasing the tax base, directly creating employment opportunities or indirectly creating employment opportunities through increased economic activity.

**Business Incentive Programs**

The following business incentive programs are subject to the Business Incentive Accountability law.

**Agricultural Products Utilization Commission (APUC)** – a grant program where the purpose is to create new wealth through the development of new and expanded uses of North Dakota agricultural products. It does this through the administration of seven grant categories, basic and applied grants, marketing and utilization grants, farm diversification grants, nature based agri-tourism grants, prototype grants, technology grants, and technical assistance grants. All grant requests are evaluated on the probability for job and wealth creation, the scientific and technical merit of any research, probability of rapid commercialization, a shared commitment for funds from other sources, and overall merit and geographical considerations. The public purposes for APUC grants include indirectly creating employment opportunities through increased economic activity or assisting community development.

**Community Development Block Grant (CDBG) Program** – provides financial assistance to eligible units of local Governments in the form of grants and loans for Public Facilities, Housing Rehabilitation, and Economic Development projects. The primary beneficiaries of these projects must be very low and low income individuals. Examples of projects funded by CDBG in the respective emphasis areas are:

- Housing – housing rehabilitation of very low and low income homeowner units and rental units within a particular area.
- Public Facilities – water and sewer projects, removal of architectural barriers, fire halls, ambulances, etc.
- Economic Development – cities and counties receive funds to loan/grant to businesses which create jobs for low income persons.

The economic development portion of CDBG is the only portion subject to the Business Incentive Accountability Law and the public purpose is assisting community development.

**Entrepreneurship Grants** – Provides access to venture tools, online entrepreneur education, and extensive resources. Grant funds can be used to create a business plan, prototype development, coaching, and consulting and marketing assistance. The public purpose for the entrepreneurship grants is assisting community development.

**Income Tax Exemption for New or Expanding Businesses** – upon application from a project operator that qualifies as a new or expanding primary sector business or tourism destination attraction, the State Board of Equalization may grant an exemption from state income tax for a period not exceeding five years from commencement of project operations. For an expanding business, the income tax exemption applies only to income generated by the expansion of the business. The State Board of Equalization has determined the public purpose of this incentive is assisting community development.

**Partnership in Assisting Community Expansion (PACE)** – The PACE family of programs at the Bank of North Dakota (BND) is designed to encourage specific types of economic activity within the State of North Dakota. In general terms, PACE provides an interest buydown that can reduce the borrower’s rate of interest by as much as 5 percent.

The traditional PACE Program assists North Dakota communities expand their economic base by providing an interest buydown to encourage new job development. In May of 2017, the Industrial Commission approved changes to the parameters of the PACE program enabling program participants to choose job creation or project investment for buydown eligibility. This change creates a connection between the community buydown and investment or job creation as proposed to a loan amount. If the goals are not met, the interest buydown is prorated to reflect any partial fulfillment or discontinued if no creation has occurred.

As part of the change, companies applying for PACE are required to secure certification as a primary sector company through the Department of Commerce per NDCC 1-01-49. The public purpose for PACE includes directly creating employment opportunities, indirectly creating employment opportunities, or assisting community development.

**The North Dakota Development Fund, Inc.** – provides financing for “primary sector” businesses, including agricultural processing, manufacturing, tourism and export service companies. The Fund provides “gap” financing not available from other, more conventional sources. Innovative financing options are available to provide both short and long term capital to new, expanding or relocating businesses in the state of North Dakota. The public purpose for the Development Fund financing includes directly creating employment opportunities, job retention, assisting community development, or indirectly creating employment opportunities through increased economic activity.

**The Renaissance Zone program** – offers a tool to help cities revitalize their communities. By offering both state and local tax incentives for 5 years, the program is unique in that cities develop handcrafted development plans that address each city's specific goals. The public purpose of the Renaissance Zone is assisting community development.

**Tourism Grants** – Provides grants to private businesses or non-profit organizations to fund infrastructure and building needs at new or expanding tourist and recreational facilities. The public purpose for the tourism grants is assisting community development.

## **Summary of Results**

The Department of Commerce has the responsibility under NDCC §54-60.1-07 to report annually on the business incentive accountability law including a summary of the results and a compilation of the data reported by the state grantors. In fulfillment of this responsibility, this report includes a summary of the results and a full compilation is being provided to Legislative Council staff. A full copy of this report, including the 222-page compilation of the results by business, is also available at [www.NDCommerce.com/Accountability](http://www.NDCommerce.com/Accountability). Commerce also offers a public search feature on its website that provides real time results of the business incentive reporting.

For the period 2015 through 2019 there were 872 BIA agreements entered into the database with a total incentive value of \$129,412,768. Tables 1-3 provide the distribution of business incentives by incentive type, public purpose, and type of business, respectively. We utilized the North American Industrial Classification System (NAICS) in order to breakdown the type of business. Table 4 provides the number of agreements entered into the database by year and goal type (create jobs, retain jobs, or neither create nor retain jobs).

Tables 5a, 5b, and 5c show there were 3,730 jobs created and retained over the last five years compared to a goal of 2,034 jobs. Of these 3,730 jobs, 1,991 jobs are considered bonus jobs. The definition of a bonus job is when the public purpose does not require job creation, such as assisting community development. Projects with no job creation goals are still required to report on the number of jobs created annually.

Tables 5a, 5b, and 5c also show the wages and benefits compared to their goals and as you can see, the wages and benefits generally exceeded the goals over the last five-year period.

Table 6 provides the number of agreements and job results for each program over the five-year period.

Chart 1 shows the percentage of business incentives that reached goals within two, three, and four years from the benefit date.

Chairman Dockter and members of the Taxation Committee, that concludes my report and I'd be happy to answer any questions you may have.

**Table 1. Incentive Value by Incentive Type**

Incentive Type	Total BIA Value	2015	2016	2017	2018	2019
Contribution of Property or Infrastructure	\$748,827	\$0	\$0	\$0	\$748,827	\$0
Direct Cash Transfer, Loan or Equity Investment	\$49,829,763	\$12,778,325	\$7,939,032	\$9,436,985	\$10,154,918	\$9,520,503
Guarantee of Payment Under Loan Lease	\$0	\$0	\$0	\$0	\$0	\$0
Interest Buydown	\$64,197,241	\$10,467,837	\$11,463,591	\$10,416,926	\$21,096,492	\$10,752,394
Preferential Use of Government Facilities	\$0	\$0	\$0	\$0	\$0	\$0
Reduction or Deferral of Tax or Fee	\$14,636,937	\$1,712,756	\$3,339,151	\$2,612,204	\$3,608,896	\$3,363,930
<b>TOTAL</b>	<b>\$129,412,768</b>	<b>\$24,958,918</b>	<b>\$22,741,774</b>	<b>\$22,466,114</b>	<b>\$35,609,134</b>	<b>\$23,636,828</b>

**Table 2. Incentive Value by Public Purpose**

Public Purpose	Total BIA Value	2015	2016	2017	2018	2019
Assisting Community Development	\$82,672,831	\$14,228,718	\$16,424,693	\$13,604,110	\$23,044,404	\$15,370,907
Directly Creating Employment Opportunities	\$30,658,820	\$9,578,353	\$4,710,765	\$6,075,628	\$5,915,860	\$4,378,214
Increasing Tax Base	\$7,831,843	\$0	\$0	\$1,356,377	\$3,887,761	\$2,587,706
Indirectly Creating Employment Opportunities Through Increased Economic Activity	\$350,000	\$0	\$0	\$350,000	\$0	\$0
Job Retention (only in cases in which job loss is specific and demonstrable)	\$7,899,273	\$1,151,847	\$1,606,316	\$1,080,000	\$2,761,110	\$1,300,000
<b>TOTAL</b>	<b>\$129,412,768</b>	<b>\$24,958,918</b>	<b>\$22,741,774</b>	<b>\$22,466,114</b>	<b>\$35,609,134</b>	<b>\$23,636,828</b>

**Table 3. Incentive Value by Type of Business (Sorted by Total BIA Value)**

Business Type	Total BIA Value	2015	2016	2017	2018	2019
531 - Real Estate	\$40,042,398	\$4,517,914	\$7,565,901	\$6,682,832	\$13,939,093	\$7,336,658
541 - Professional, Scientific, and Technical Services	\$8,395,230	\$431,136	\$1,608,750	\$2,580,435	\$1,845,802	\$1,929,108
624 - Social Assistance	\$7,747,451	\$1,802,835	\$1,818,355	\$1,512,337	\$1,523,067	\$1,090,857
311 - Food Manufacturing	\$6,127,846	\$796,465	\$570,300	\$509,300	\$3,835,706	\$416,075
339 - Miscellaneous Manufacturing	\$5,622,181	\$2,855,587	\$452,275	\$600,500	\$1,523,310	\$190,510
334 - Computer and Electronic Product Manufacturing	\$4,186,409	\$2,842,000	\$326,990	\$867,298	\$66,586	\$83,535
112 - Animal Production	\$4,175,456	\$979,813	\$799,209	\$1,251,660	\$821,635	\$323,139
333 - Machinery Manufacturing	\$3,544,907	\$622,000	\$25,500	\$372,875	\$689,562	\$1,834,970
523 - Securities, Commodity Contracts, and Other Financial Investments and Related Activities	\$3,049,953	\$0	\$475,000	\$0	\$2,574,953	\$0
332 - Fabricated Metal Product Manufacturing	\$3,043,822	\$358,946	\$600,000	\$227,338	\$915,579	\$941,958
722 - Food Services and Drinking Places	\$2,957,447	\$391,057	\$129,390	\$383,940	\$891,217	\$1,161,843
721 - Accommodation	\$2,263,419	\$737,000	\$534,217	\$165,690	\$0	\$826,512

424 - Merchant Wholesalers, Nondurable Goods	\$2,242,931	\$515,475	\$712,941	\$62,727	\$852,286	\$99,502
621 - Ambulatory Health Care Services	\$1,956,175	\$600,000	\$0	\$225,928	\$223,314	\$906,933
511 - Publishing Industries (except Internet)	\$1,907,196	\$350,000	\$82,196	\$1,200,000	\$125,000	\$150,000
532 - Rental and Leasing Services	\$1,865,385	\$462,093	\$500,000	\$832,280	\$31,097	\$39,915
713 - Amusement, Gambling, and Recreation Industries	\$1,853,938	\$338,070	\$39,192	\$819,548	\$49,300	\$607,827
325 - Chemical Manufacturing	\$1,695,981	\$472,600	\$84,000	\$374,675	\$764,706	\$0
447 - Gasoline Stations	\$1,654,827	\$651,145	\$501,000	\$242,682	\$60,000	\$200,000
115 - Support Activities for Agriculture and Forestry	\$1,563,287	\$702,000	\$261,263	\$203,107	\$137,201	\$259,715
238 - Specialty Trade Contractors	\$1,473,098	\$183,470	\$745,171	\$38,967	\$56,703	\$448,786
811 - Repair and Maintenance	\$1,190,520	\$246,209	\$349,723	\$0	\$188,922	\$405,666
312 - Beverage and Tobacco Product Manufacturing	\$996,053	\$125,000	\$0	\$31,457	\$802,200	\$37,397
213 - Support Activities for Mining	\$944,231	\$0	\$0	\$171,445	\$152,286	\$620,499
331 - Primary Metal Manufacturing	\$910,743	\$343,059	\$240,000	\$327,685	\$0	\$0
321 - Wood Product Manufacturing	\$857,762	\$0	\$0	\$21,745	\$236,017	\$600,000
445 - Food and Beverage Stores	\$780,211	\$55,915	\$157,392	\$312,266	\$75,746	\$178,892
444 - Building Material and Garden Equipment and Supplies Dealers	\$768,953	\$70,231	\$268,443	\$263,462	\$110,445	\$56,372
484 - Truck Transportation	\$764,396	\$144,505	\$142,857	\$0	\$226,430	\$250,604
518 - Data Processing, Hosting, and Related Services	\$760,625	\$32,500	\$228,125	\$500,000	\$0	\$0
326 - Plastics and Rubber Products Manufacturing	\$758,195	\$80,583	\$0	\$249,799	\$350,000	\$77,813
812 - Personal and Laundry Services	\$738,766	\$282,970	\$173,736	\$0	\$150,183	\$131,878
336 - Transportation Equipment Manufacturing	\$708,946	\$58,946	\$0	\$0	\$250,000	\$400,000
441 - Motor Vehicle and Parts Dealers	\$706,363	\$135,084	\$326,812	\$107,475	\$136,992	\$0
236 - Construction of Buildings	\$597,628	\$100,000	\$100,000	\$87,695	\$0	\$309,933
521 - Monetary Authorities-Central Bank	\$496,310	\$496,310	\$0	\$0	\$0	\$0
111 - Crop Production	\$475,777	\$274,527	\$126,250	\$75,000	\$0	\$0
522 - Credit Intermediation and Related Activities	\$443,202	\$25,995	\$170,660	\$26,547	\$0	\$220,000
485 - Transit and Ground Passenger Transportation	\$427,100	\$0	\$427,100	\$0	\$0	\$0
519 - Other Information Services	\$424,000	\$424,000	\$0	\$0	\$0	\$0
337 - Furniture and Related Product Manufacturing	\$417,290	\$0	\$109,674	\$42,695	\$264,920	\$0
423 - Merchant Wholesalers, Durable Goods	\$377,248	\$67,608	\$0	\$100,000	\$135,546	\$74,094
448 - Clothing and Clothing Accessories Stores	\$377,157	\$32,309	\$312,103	\$32,745	\$0	\$0
454 - Nonstore Retailers	\$368,519	\$0	\$197,115	\$0	\$171,404	\$0

442 - Furniture and Home Furnishings Stores	\$355,663	\$0	\$312,500	\$43,163	\$0	\$0
335 - Electrical Equipment, Appliance, and Component Manufacturing	\$355,000	\$25,000	\$0	\$65,000	\$0	\$265,000
562 - Waste Management and Remediation Services	\$349,038	\$27,148	\$38,248	\$0	\$283,643	\$0
524 - Insurance Carriers and Related Activities	\$337,504	\$84,880	\$0	\$0	\$137,482	\$115,142
211 - Oil and Gas Extraction	\$333,714	\$0	\$0	\$0	\$133,714	\$200,000
446 - Health and Personal Care Stores	\$332,858	\$0	\$0	\$100,000	\$53,926	\$178,932
516 - Internet Publishing and Broadcasting	\$310,000	\$150,000	\$160,000	\$0	\$0	\$0
926 - Administration of Economic Programs	\$260,000	\$60,000	\$0	\$0	\$200,000	\$0
551 - Management of Companies and Enterprises	\$257,852	\$82,571	\$82,463	\$92,818	\$0	\$0
622 - Hospitals	\$253,353	\$42,585	\$127,687	\$0	\$83,081	\$0
212 - Mining (except Oil and Gas)	\$250,000	\$250,000	\$0	\$0	\$0	\$0
314 - Textile Product Mills	\$250,000	\$0	\$250,000	\$0	\$0	\$0
711 - Performing Arts, Spectator Sports, and Related Industries	\$228,979	\$28,979	\$0	\$0	\$0	\$200,000
525 - Funds, Trusts, and Other Financial Vehicles	\$224,782	\$0	\$0	\$224,782	\$0	\$0
425 - Wholesale Electronic Markets and Agents and Brokers	\$216,324	\$39,282	\$0	\$0	\$177,042	\$0
814 - Private Households	\$200,000	\$0	\$0	\$0	\$200,000	\$0
113 - Forestry and Logging	\$197,890	\$0	\$0	\$0	\$0	\$197,890
322 - Paper Manufacturing	\$151,000	\$0	\$151,000	\$0	\$0	\$0
517 - Telecommunications	\$150,841	\$0	\$150,841	\$0	\$0	\$0
452 - General Merchandise Stores	\$150,478	\$0	\$0	\$0	\$0	\$150,478
611 - Educational Services	\$150,298	\$50,000	\$0	\$100,298	\$0	\$0
315 - Apparel Manufacturing	\$150,000	\$150,000	\$0	\$0	\$0	\$0
451 - Sporting Goods, Hobby, Musical Instrument, and Book Stores	\$145,000	\$0	\$0	\$145,000	\$0	\$0
813 - Religious, Grantmaking, Civic, Professional, and Similar Organizations	\$134,550	\$0	\$0	\$100,000	\$34,550	\$0
999 - Unknown	\$116,250	\$0	\$65,000	\$25,000	\$0	\$26,250
453 - Miscellaneous Store Retailers	\$102,397	\$0	\$62,397	\$0	\$40,000	\$0
488 - Support Activities for Transportation	\$100,000	\$100,000	\$0	\$0	\$0	\$0
533 - Lessors of Nonfinancial Intangible Assets (except Copyrighted Works)	\$100,000	\$100,000	\$0	\$0	\$0	\$0
923 - Administration of Human Resource Programs	\$100,000	\$100,000	\$0	\$0	\$0	\$0
561 - Administrative and Support Services	\$98,426	\$63,117	\$0	\$35,308	\$0	\$0
237 - Heavy and Civil Engineering Construction	\$96,923	\$0	\$66,314	\$30,609	\$0	\$0
443 - Electronics and Appliance Stores	\$88,491	\$0	\$0	\$0	\$88,491	\$0

623 - Nursing and Residential Care Facilities	\$83,637	\$0	\$83,637	\$0	\$0	\$0
114 - Fishing, Hunting and Trapping	\$62,500	\$0	\$0	\$0	\$0	\$62,500
327 - Nonmetallic Mineral Product Manufacturing	\$30,048	\$0	\$30,048	\$0	\$0	\$0

**Table 4. Total Business Incentive Agreements by Job Creation, Job Retention, or Neither**

Year	Total	Create Jobs	Neither Create or Retain Jobs	Retain Jobs
2015	191	52	132	7
2016	181	38	134	9
2017	161	39	118	4
2018	167	35	124	8
2019	172	29	135	8
Total	872	193	643	36
Percentage	100%	22%	74%	4%

**Table 5a. Create Jobs**

Year	No. of Agreements	Incentive Value	Job Goals	Jobs Actual	Average Comp Goal	Average Comp Actual	Percentage Compliant	Percentage Open
2015	52	\$12,217,277	398.0	371.0	\$21.12	\$30.31	94%	14%
2016	38	\$7,319,607	389.5	495.5	\$21.61	\$31.29	77%	27%
2017	39	\$7,146,924	425.0	209.5	\$26.41	\$28.05	54%	62%
2018	35	\$6,557,835	149.5	321.5	\$23.19	\$21.80	83%	87%
2019	29	\$5,246,937	238.0	20.0	\$29.67	\$21.06	100%	100%
Total	193	\$38,488,581	1,600.0	1,417.5				

**Table 5b. Retain Jobs**

Year	No. of Agreements	Incentive Value	Job Goals	Jobs Retained	Bonus Jobs	Total Jobs	Average Comp Goal	Average Comp Actual	Percentage Compliant	Percentage Open
2015	7	\$1,142,347	88.5	70.5	1.0	71.5	\$19.51	\$26.45	100%	0%
2016	9	\$1,634,004	93.5	92.5	12.0	104.5	\$17.82	\$18.00	100%	0%
2017	4	\$980,000	85.0	75.0	8.5	83.5	\$32.83	\$37.90	100%	67%
2018	8	\$1,861,110	94.0	83.0	3.5	86.5	\$21.19	\$21.73	100%	100%
2019	8	\$1,024,305	73.0	0.0	0.0	0.0	\$35.18		100%	100%
Total	36	\$6,641,765	434.0	321.0	25.0	346.0				

**Table 5c. Neither Create or Retain Jobs**

Year	No. of Agreements	Incentive Value	Bonus Jobs	Percentage Compliant	Percentage Open
2015	132	\$11,599,294	261.5	99%	0%
2016	134	\$13,788,164	250.0	95%	0%
2017	118	\$14,339,190	583.0	90%	7%
2018	124	\$27,190,189	844.0	91%	77%
2019	135	\$17,365,585	28.0	99%	99%
Total	643	\$84,282,422	1,966.5		

**Table 6. Results by Program**

Grantor	Incentive Value	Number of Agreements				Number of Jobs				% Compliant
		Create	Retain	Neither	Total	Created	Retained	Bonus	Total	
APUC	\$3,815,141	0	0	56	56	0.0	0.0	61.0	61.0	74%
Bank of North Dakota	\$68,549,668	18	0	464	482	685.0	0.0	1,562.0	2,247.0	99%
BND NVCP	\$7,538,522	35	4	4	43	65.0	71.0	16.5	152.5	79%
Child Care Grants	\$1,830,500	13	0	0	13	117.0	0.0	0.0	117.0	77%
Entrepreneurship	\$475,500	0	0	14	14	0.0	0.0	19.0	19.0	100%
Renaissance Zone	\$15,658,251	35	7	53	95	283.5	24.5	150.0	458.0	74%
Tourism Grants	\$631,979	1	1	6	8	1.0	8.0	0.0	9.0	100%
ND Development Fund	\$28,278,261	79	21	45	145	153.0	211.5	182.0	546.5	90%
CDBG	\$795,728	4	3	0	7	3.0	6.0	1.0	10.0	86%
St Board of Equalization	\$1,839,219	8	0	1	9	110.0	0.0	0.0	110.0	100%
Total	\$129,412,768	193	36	643	872	1,417.5	321.0	1,991.5	3,730.0	

**Chart 1. Timeframe Job Creation and Job Retention Goals were Achieved**





## Definitions of the Business Incentive Agreement Results

**Recipient:** The Business or individual that was granted the business incentive.

**Project Purpose:** Assisting community development, increasing tax base, directly creating employment opportunities, or indirectly creating employment opportunities through economic development.

**Incentive Type:** Direct cash transfer, loan, or equity investment; contribution of property or infrastructure; reduction or deferral of any tax or any fee; guarantee of any payment under any loan, lease, or other obligation; or preferential use of government facilities given to a business.

**Goal Type:** Job creation, job retention or neither job creation or retention.

**Compliance:** The compliance status of the business incentive agreement. If the agreement is non-compliant, the reason(s) for non-compliance will be listed.

**Grantor:** The state agency that provided the business incentive.

**Jobs:** The number of jobs created or retained.

**Wages:** The average wages associated with the jobs created or retained.

**Benefits:** The average benefits associated with the jobs created or retained.

**Total Compensation:** The combined average wages and average benefits associated with the jobs.

**Agreement Number:** The unique number assigned to each agreement in the database.

**Goal Value:** The number of jobs to be created or retained. The average wages and benefits associated with these jobs.

**Benefit Date:** The date the business incentive was provided (benefit date).

**Value at Benefit Date:** The number of FTEs, average wages and benefits reported at the time the business incentive agreement was signed.

**Value of Incentive:** The dollar value of the business incentive.

**Most Recently Reported:** The number of FTEs and average wages and benefits reported on the latest recipient report.

**Number of Reports Received:** The number of completed recipient reports received.

**Net Change:** The Most Recently Reported minus the Value at Benefit Date.

**Status:** Whether the business incentive agreement is open or closed in the database. A closed agreement is no longer required to report annually.

**Bonus Jobs:** Projects where the project goal is neither create nor retain jobs, any jobs reported are categorized as bonus jobs. Projects where the project goal is to retain jobs and the job count reported exceeds the number of jobs at the time the business incentive agreement was signed, the jobs are categorized as bonus jobs.