

Business Incentives and Economic Development Expenditures: An Overview of South Dakota's Program Investments and Outcomes

Summary

Across the country, state economic development incentives have evolved into a complex mixture of programs with diverse structures and goals. The Council for Community and Economic Research (C2ER) and the Center for Regional Economic Competitiveness (CREC) have been working to catalog and document the range of available state programs through the [C2ER State Business Incentives Database](#), which includes detailed information about almost 2,000 state-administered incentive programs from every state; and the [C2ER State Economic Development Expenditures Database](#), a compilation of economic development expenditure budget data from every state. This report builds on that work by taking a deeper look at South Dakota's full array of incentive programs and includes an analysis of the available outcome data that is used by state policymakers and program administrators to gauge program effectiveness.

In order to create a comprehensive picture of the economic development landscape, we reviewed and culled data from a range of state statutes, reports, and websites. The numbers contained in this report are CREC and C2ER's best estimate of the dollars spent on economic development incentives at the state level in South Dakota.

In fiscal year (FY) 2014, the most recent year in which spending data are available for all program types, the state is expected to spend \$101 million on economic development program expenditures and \$474 million on economic development tax expenditures.¹

[The Center for Regional Economic Competitiveness \(CREC\)](#) is working with The Pew Charitable Trusts (Pew) on the Business Incentives Initiative. This initiative engages forward-thinking teams of economic development policymakers and practitioners from six states. These leaders are working together to identify effective ways to manage and assess economic development incentive policies and practices, improve data collection and reporting on incentive investments, and develop national standards. The initiative is supported by a grant from the Laura and John Arnold Foundation.

¹ Please see Appendices for detailed lists of all items included in this report as incentives, economic development program expenditures, and economic development tax expenditures.

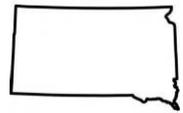


Figure 1: South Dakota State Business Incentives by Agency, 2015

State Agency	Number of Programs
South Dakota Governor's Office of Economic Development	12
South Dakota Department of Agriculture	3
South Dakota Department of Transportation	1

Source: C2ER State Business Incentives Database

Overview of Business Incentives

South Dakota has a small number of incentive programs, with a total of 16 active programs in 2015. The C2ER State Business Incentives Database defines state business incentives as state-administered programs designed to influence business investment behaviors. States design their programs to influence these behaviors through tax incentives, as well as through non-tax programs, such as grants, loans, business assistance, and other investment vehicles. These incentives help businesses address one or more needs, such as capital access, workforce preparation, technology transfer, site facility improvements, and so forth.²

In South Dakota, the responsibility for administering these incentive programs is spread across three different state agencies. The primary agencies responsible for administering incentive programs are the South Dakota Governor's Office of Economic Development, the Department of Agriculture, and the Department of Transportation. (See Figure 1.)

South Dakota's emphasis remains on direct financing loan and grant programs. Direct business financing and community-directed financing account for approximately 88 percent of South Dakota's active incentive programs. Approximately 6 percent of South Dakota's state business incentives offer some kind of tax-related benefit. By comparison, tax incentives represent 45 percent of all state business incentive programs across the nation. (See Figure 2.)

The emphasis of the state's current portfolio of incentives is on capital access or formation, workforce prep or development, product and process improvement, and facility/site location. (See Figure 3.)

² The C2ER State Business Incentives Database definition of business incentives may differ from the definition used by the state of South Dakota. For a list of definitions used by C2ER, please see the [glossary](#) on the C2ER State Business Incentives Database. For a current list of incentive programs as defined by the state, please see the [Governor's Office of Economic Development](#) website.

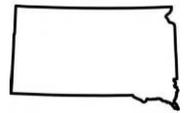
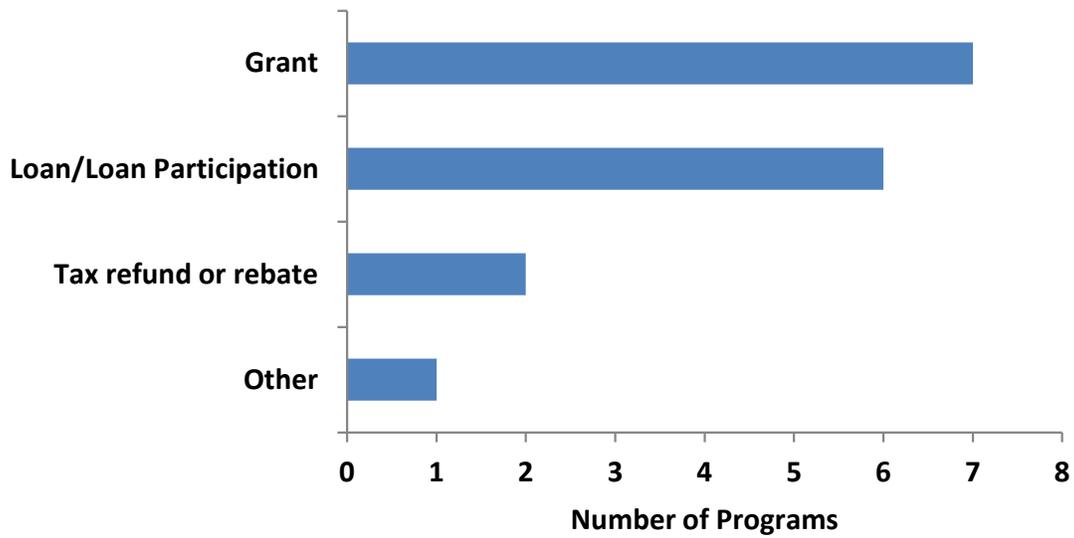


Figure 2: Incentive Programs by Type**

Incentive Programs by Type (2015)

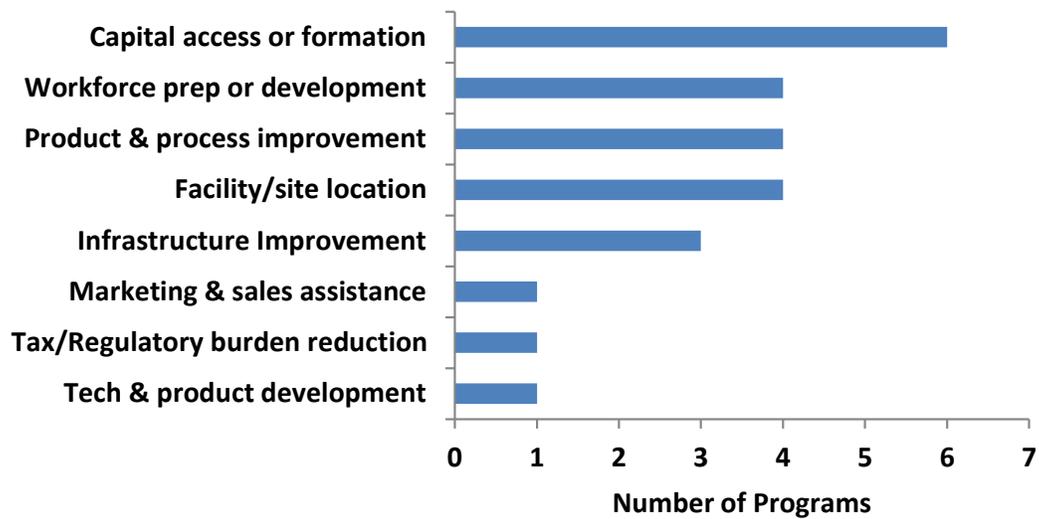


Source: C2ER State Business Incentives Database

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

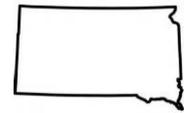
Figure 3: Incentive Programs by Business Need**

South Dakota Incentive Programs by Business Need (2015)



Source: C2ER State Business Incentives Database

** Note: Programs may appear more than once if they are intended to fulfill multiple business needs.



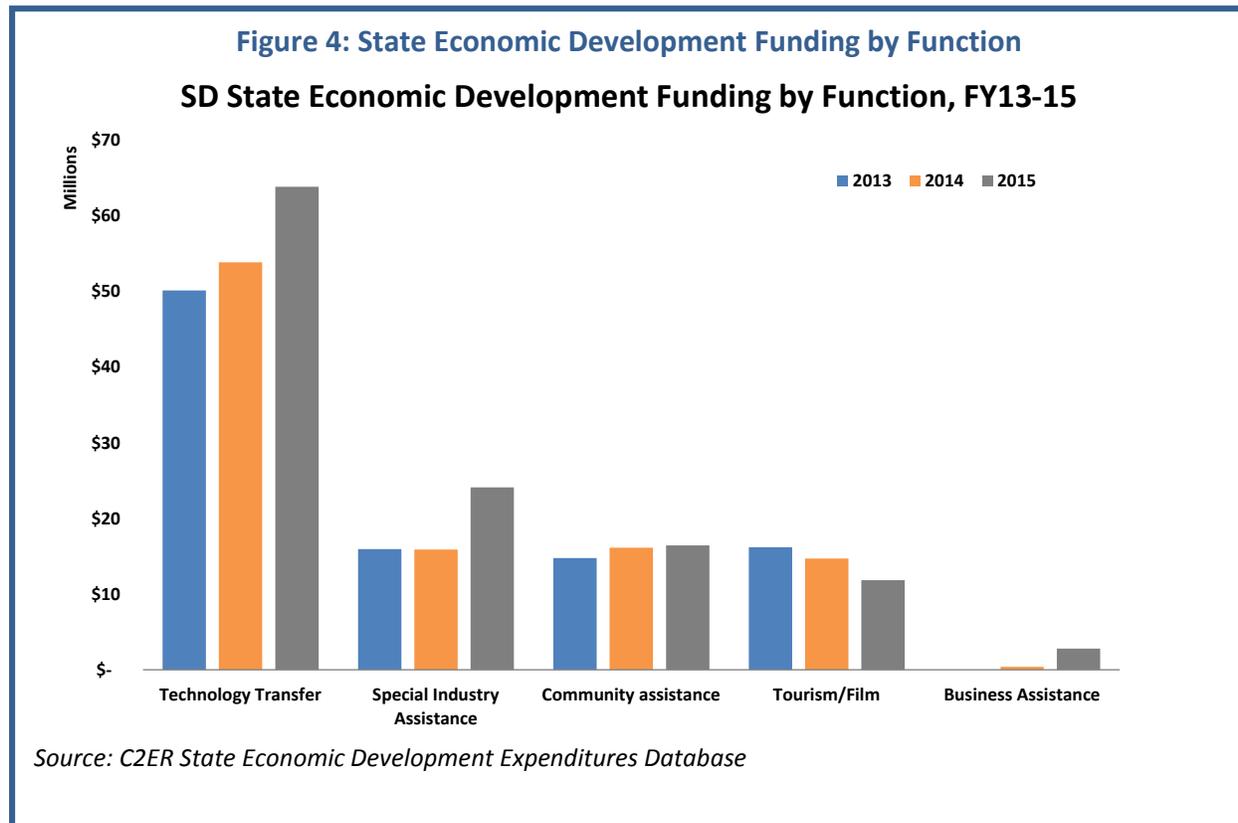
Economic Development Program Expenditures

Examining South Dakota’s budget for economic development program expenditures reveals how various state agencies outlay money for economic development programs. Expenditures fall into 15 functional areas for economic development defined by the C2ER State Economic Development Expenditures Database.³

According to South Dakota’s FY2016 Governor’s Recommended Budget, which details actual spending for FY2014, the state spent approximately \$101 million in FY2014.

This level of spending represents an average of \$3134 per business, which is significantly higher than the median average of \$875 per business spent in other states for that fiscal year. In FY2014, South Dakota ranked 3rd in the nation for expenditures per business establishment, behind only Hawaii and

- ### State Economic Development Expenditures Function Areas
- Business Finance
 - Strategic Business Attraction Fund
 - Business Assistance
 - International Trade and Investment
 - Domestic Recruitment/Out-of-State
 - Workforce Preparation & Development
 - Technology Transfer
 - Entrepreneurial Development
 - Minority business development
 - Community Assistance
 - Tourism/Film
 - Special Industry Assistance
 - Program Support
 - Administration
 - Other Program Areas



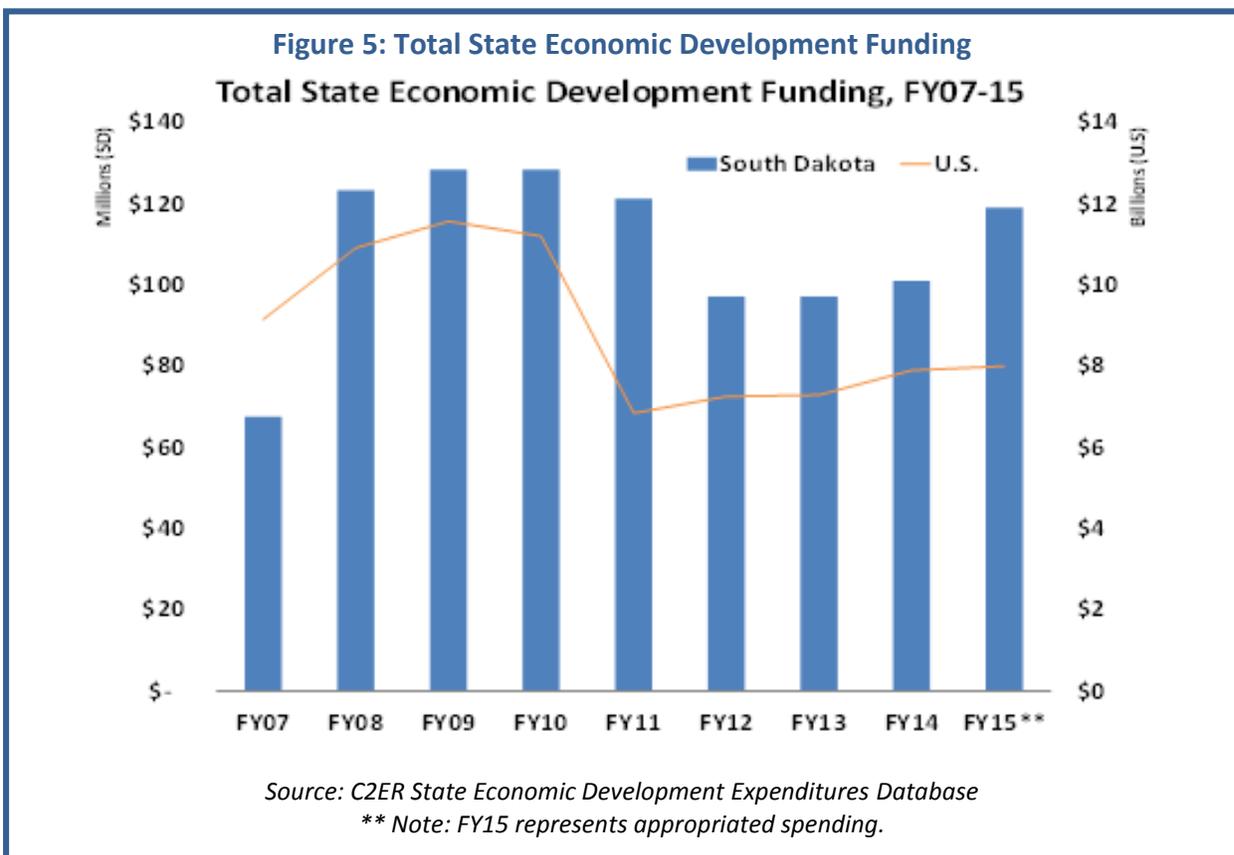
³ See Glossary definitions here - http://www.stateexpenditures.org/about/Definition_of_ED_Functions.pdf



Alaska. Most of South Dakota’s economic development expenditures were to the Board of Regents, Department of Executive Management, and Department of Agriculture. The Board of Regents received approximately 33% of overall state economic development funding in FY2014. Within the Board of Regents expenditure, 97% of the funding was apportioned to production agriculture assistance, the agricultural experiment station, and the South Dakota State University extension. This is consistent with previous budgets.

In comparison to economic development expenditures nationally, between FY 2007 and FY 2016, South Dakota spent a greater proportion of its budget (relative to other states) on programs related to business assistance, special industry assistance, and technology transfer, and a lower share on programs related to community assistance, tourism and film, administration, business finance, domestic recruitment, entrepreneurial development, international trade and investment, other program areas, program support, strategic business attraction, and workforce development.

Between FY 2007 and FY 2015, economic development spending in South Dakota mirrored spending in the rest of the nation. Spending increased from \$68 million in FY 2007 to \$128 million in FY 2010. Spending dropped by 25% between FY 2011 and FY 2012 and has been gradually increasing, reaching \$119 million in FY 2015 (See Figure 5.)





Economic Development Tax Expenditures

Tax expenditures can be defined as “revenue losses attributable to tax provisions that often result from the use of the tax system to promote social goals without incurring direct expenditures.”⁴ *Economic development tax expenditures* in this context represent those tax provisions that use the state tax system to promote business investments that promote state economic priorities.

South Dakota does not publish an independent tax expenditures report but rather includes an estimate of yearly tax expenditures in its annual recommended budget. Tax expenditures are also listed by year (dating back to 2011) on the [South Dakota transparency website](#). This budget section was used for the analysis in this section. Data was collected by reviewing and recording all line items in the section related to economic development, including tax credits, abatements, refunds/rebates and exemptions that are designed to influence business investment behaviors. Tax expenditure totals for FY2016 are estimated.

In FY2016, the state of South Dakota’s economic development tax expenditures are expected to total approximately \$474 million, which is significantly greater than the \$119 million South Dakota invested in economic development program expenditures for that fiscal year. Approximately 75 percent of the total spent was for agricultural purposes.

In FY2016, all but one of South Dakota’s economic development tax expenditures are for sales and use. The primary economic development functional goals of these tax expenditures are to encourage special industry assistance, technology transfer, and business assistance.⁵

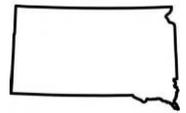
Analysis of Available Outcome Data

South Dakota has created a comprehensive transparency website, [Open SD](#). The site includes financial information at the state, county, and city level. Annual financial reports and audit reports are available at the county and city level. The state level includes a list of revenue balances by agency, expenditures by agency, payroll information, financial publications (including financial metrics, financial reports, and recommended budgets), top line budget/revenue/staffing information, tax expenditures by year, a register of proposals, payments made by the state, economic development information, contracts, and budget transfers.

South Dakota requires all state officers to submit an annual report to the Governor. The South Dakota Department of Revenue makes available its annual reports dating back to 1998. The most recent report (FY 2014) provides an overview of the department, staffing information, and performance data.

⁴ *Tax Expenditures: What are they and how are they structured?* Tax Policy Center. Accessed November 25, 2014 at: www.taxpolicycenter.org/briefing-book/background/shelters/expenditures.cfm

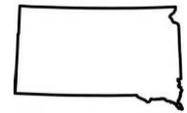
⁵ Production agriculture greatly influences the results produced in this report. The definitions and methodology used by CREC in the creation of this report does not necessarily reflect the definitions used by the South Dakota Governor’s Office of Economic Development.



Conclusion

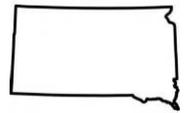
Compared to other states, South Dakota has an average number of incentive programs, primarily administered by the South Dakota Governor's Office of Economic Development. Despite this, South Dakota spends significantly more per business establishment than the rest of the nation. The state's incentive portfolio favors grants and loans for increasing business' access to capital, workforce development, and facility location.

South Dakota provides expenditures data in two ways. The first is through the Bureau of Finance and Management and the Department of Revenue websites. The state also makes a wealth of information available on its transparency website. This increased transparency will better allow South Dakota to focus on analyzing the impacts of its economic development incentives and expenditures, giving policymakers the tools necessary to encourage greater economic development.

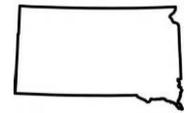


Appendix A: Full List of South Dakota State Business Incentives (2015)

Program Name	Program Provider	Business Need	Type
Agri Business Bonding Program	South Dakota Department of Agriculture	Capital access or formation	Other
Bond Financing	South Dakota Governor's Office of Economic Development	Capital access or formation; Product & process improvement; Facility/site location	Loan/Loan Participation
Economic Development Partnership Program	South Dakota Governor's Office of Economic Development	Workforce prep or development; Tech & product development	Grant
Ethanol Infrastructure Incentive Program	South Dakota Governor's Office of Economic Development	Product & process improvement; Infrastructure Improvement	Grant
Internship Program (Dakota Seeds)	South Dakota Governor's Office of Economic Development	Workforce prep or development	Grant
Local Infrastructure Improvement Program	South Dakota Governor's Office of Economic Development	Infrastructure Improvement	Grant
Proof of Concept Fund	South Dakota Governor's Office of Economic Development	Capital access or formation; Product & process improvement	Loan/Loan Participation
Reinvestment Payment Program	South Dakota Governor's Office of Economic Development	Facility/site location	Tax refund or rebate
Revolving Economic Development and Initiative (REDI) Fund	South Dakota Governor's Office of Economic Development	Capital access or formation; Product & process improvement; Facility/site location	Loan/Loan Participation



South Dakota Jobs Grant Program	South Dakota Governor's Office of Economic Development	Facility/site location; Workforce prep or development	Grant
South Dakota WORKS	South Dakota Governor's Office of Economic Development	Capital access or formation	Loan/Loan Participation
Tax Incentives	South Dakota Governor's Office of Economic Development	Tax/Regulatory burden reduction	Tax refund or rebate
Transportation Economic Development Grants	South Dakota Department of Transportation	Infrastructure Improvement	Grant
Value Added Agribusiness Relending Program	South Dakota Department of Agriculture	Capital access or formation	Loan/Loan Participation
Value-Added Agriculture Subfund	South Dakota Department of Agriculture	Marketing & sales assistance	Loan/Loan Participation
Workforce Development Training Program	South Dakota Governor's Office of Economic Development	Workforce prep or development	Grant

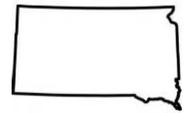


Appendix B: SD Economic Development Program Expenditures (2014)

Function	Activity	Agency	Program	Total State Funding
Business Assistance	Business retention/expansion	Governor's Office of Economic Development	REDI Grants	\$23,502
Business Assistance	Other Business Assistance	Governor's Office of Economic Development	Governor's Office of Economic Development	\$15,861,708
Community assistance	Grants to local/regional dev. orgs.	Governor's Office of Economic Development	Economic Development Partnership	\$173,450
Community assistance	Infrastructure (e.g., road/sewer/telecommunications)	Governor's Office of Economic Development	Local Infrastructure Improvement	\$227,527
Special Industry Assistance	Agriculture/agribusiness	Board of Regents	Agricultural Experiment Station	\$22,981,845
Special Industry Assistance	Agriculture/agribusiness	Board of Regents	SDSU Extension	\$9,827,696
Special Industry Assistance	Agriculture/agribusiness	Department of Agriculture	Agricultural Development Promotion	\$1,860,529
Special Industry Assistance	Agriculture/agribusiness	Department of Agriculture	American Dairy Association	\$1,743,823
Special Industry Assistance	Agriculture/agribusiness	Department of Agriculture	Corn Utilization Council	\$5,024,165
Special Industry Assistance	Agriculture/agribusiness	Department of Agriculture	Oilseeds Council	\$288,857
Special Industry Assistance	Agriculture/agribusiness	Department of Agriculture	Pulse Crops Council	\$24,998
Special Industry Assistance	Agriculture/agribusiness	Department of Agriculture	Soybean Research and Promotion Council	\$10,635,341
Special Industry Assistance	Agriculture/agribusiness	Department of Agriculture	Wheat Commission	\$1,160,916
Technology Transfer	Other Technology Transfer	Governor's Office of Economic Development	SD Science and Technology Authority	\$9,790,015
Technology Transfer	Research & development	Board of Regents	Research Pool	\$1,000,000



Technology Transfer	Research & development	Governor's Office of Economic Development	Office of Research Commerce	\$3,930,023
Tourism/Film	Major events/festivals	Department of Agriculture	State Fair	\$2,885,647
Tourism/Film	Tourism development	Department of Tourism	Tourism	\$13,239,642
TOTAL				\$100,679,684



Appendix C: SD Economic Development Tax Expenditures (2016)

Description	Total Funds
Advertising services for retailers	\$7,000,000
Agricultural Services*	\$7,365,000
Auctioneering expenses	\$100,000
Chemicals purchased for use by lawn and garden services	\$150,000
Commercial fertilizer for agricultural purposes*	\$39,600,000
Commissions earned or service fees paid by an insurance company to an agent or representative for the sale of a policy	\$7,700,000
Commodity Contracts Brokers and Dealers	\$1,000,000
Consumer Credit Reporting Agencies and Mercantile Reporting Agencies	\$5,000
Credit for principal office or regional home office for insurance companies	\$12,332,231
Deductions allowed for wages, salaries, payroll taxes, payroll deductions, workers' compensation costs, insurance premiums, welfare benefits, retirement benefits, and other employee benefits	\$250,000
Deductions from gross receipts charges to clients for tangible personal property or services purchased by the attorney or accountant on behalf of a client	\$750,000
Electricity used to power irrigation pumps for agricultural purposes*	\$21,000
Fabrication costs for contractors or subcontractors	\$1,000,000
Farm Product Warehousing and Storage*	\$8,200,000
Feed for nondomestic animals already exempted*	\$6,500
Feed used in agricultural businesses*	\$51,200,000
Fees or commissions received for rendering a service which provides for the sale of tangible personal property or services	\$500,000
Forestry Services*	\$250,000
Fuel used for agricultural purposes*	\$17,919,000
Goods and services furnished to meet warranty obligation	\$8,000,000
Gross receipts received by a retailer from a manufacturer, wholesaler, or distributor pursuant to a written contract that requires the retailer to display product signage in a specified manner or location	\$200,000
Ink and newsprint used to produce shoppers' guides	\$100,000
International sale of agricultural production equipment*	\$325,000
Leases of tangible personal property between one telephone company and another telephone company	\$250,000
Life gamebirds sold to commercial hunting operators	\$5,000
Live nondomestic animal used for purposes of breeding or raising such animals*	\$26,000
Livestock intended for retail sale*	\$160,075,000
Lodging provided to any person for 28 or more consecutive days	\$48,000,000
Membership fees paid to a hotel membership organization	\$250,000
Membership fees to membership organizations and services provided by membership organizations	\$2,000,000



Motion picture rentals to a commercially operated theater	\$500,000
Packing material used or consumed by manufacturers, processors, or fabricators	\$100,000
Parts or repairs for agricultural machinery or equipment*	\$19,877,000
Payments made which represent an allocation, reimbursement, or charge for services provided or rendered	\$1,000,000
Personal property sold for lease	\$2,000,000
Pesticides used for agricultural purposes*	\$19,405,000
Property used in state but not bought in state	\$500,000
Radio and television broadcasting	\$250,000
Railroad Transportation and Rental of Railroad Cars	\$7,500,000
Rental of devices used to apply fertilizer, pesticides, herbicides, and insecticides for agricultural purposes*	\$26,000
Replacement parts for retailers*	\$7,500,000
Research, development, and testing services	\$500,000
Rodeo services performed by promoters, stock contractors, stock handlers, announcers, judges, and clowns	\$25,000
Sale of credit card processing services to retailers	\$3,000,000
Sale of swine or cattle semen for agricultural purposes*	\$195,000
Sanitary services except for the collection and disposal of solid waste which is specifically listed as subject to sales tax	\$2,000,000
Seed legumes, seed, grasses, and seed grains for agricultural purposes*	\$31,602,000
Services by a related corporation to a financial institution or services by a financial institution to a related corporation if they are part of a controlled group of corporations	\$1,000,000
Water supply	\$2,600,000

*Tax expenditure for farming businesses only