

SOUTH DAKOTA

GOVERNOR'S OFFICE OF ECONOMIC DEVELOPMENT

GOED Budget Request

FY16 Request - \$35.4 million (unchanged from FY15)

- \$2.4 million in appropriated General funds
- \$11.7 million in Federal funds authority (Community Development Block Grant, SD Works, State Energy Program)
- \$21.3 million in Other funds authority (Future Fund, REDI admin., State Energy Program/Petroleum Violation funds)

Personal Services - \$2.8 million (unchanged from FY15)

- Covers GOED's Administration, Business Development, Finance, Marketing & Research divisions
- Exclusively employee salaries (78%) and benefits (22%)
- Funded by General funds (59%), Federal grant funds (19%), and Other, such as REDI (22%)

Operating Expenses - \$32.6 million (unchanged from FY15)

- \$31.0 million (95%) in grants and subsidies - i.e., economic development support to government entities, communities, and businesses
- Only 5% allocated for other operating expenses/overhead
- Funded primarily by Federal and Other money – less than 3% comes from General funds

GOED Goals

Primary Job Creation

Support projects that create new opportunities for our citizens

Property Tax Base Enhancement

Support projects that create new or enhance existing buildings, thereby increasing revenue available to local communities

Support Investment for Long-term Development

Partner with government, schools, and communities to provide investment necessary for future success (workforce, research)

GOED Performance Measures

Business Development Pipeline

68 companies assisted in 2014 – 13% increase over 2013

435 new business prospects added to our pipeline in 2014 – 34% increase over 2013

97 proposals delivered to companies in 2014 – 22% increase over 2013

46 company hostings in 2014 – 16% decrease from 2013

Economic Development Incentive Impact

13 approved REDI loans in 2014; 628.5 new jobs projected, 100 retained

9 Reinvestment Payment awards approved; 238 new jobs projected, 96 retained

18 approved Workforce Development grants; training for 637 individuals

48 awards totaling over \$51 million in future funds

Long-term Investment

\$18.5 million in CTE funding to 12 school districts; \$3.7 million for technical schools, \$1.5 million for critical needs scholarships

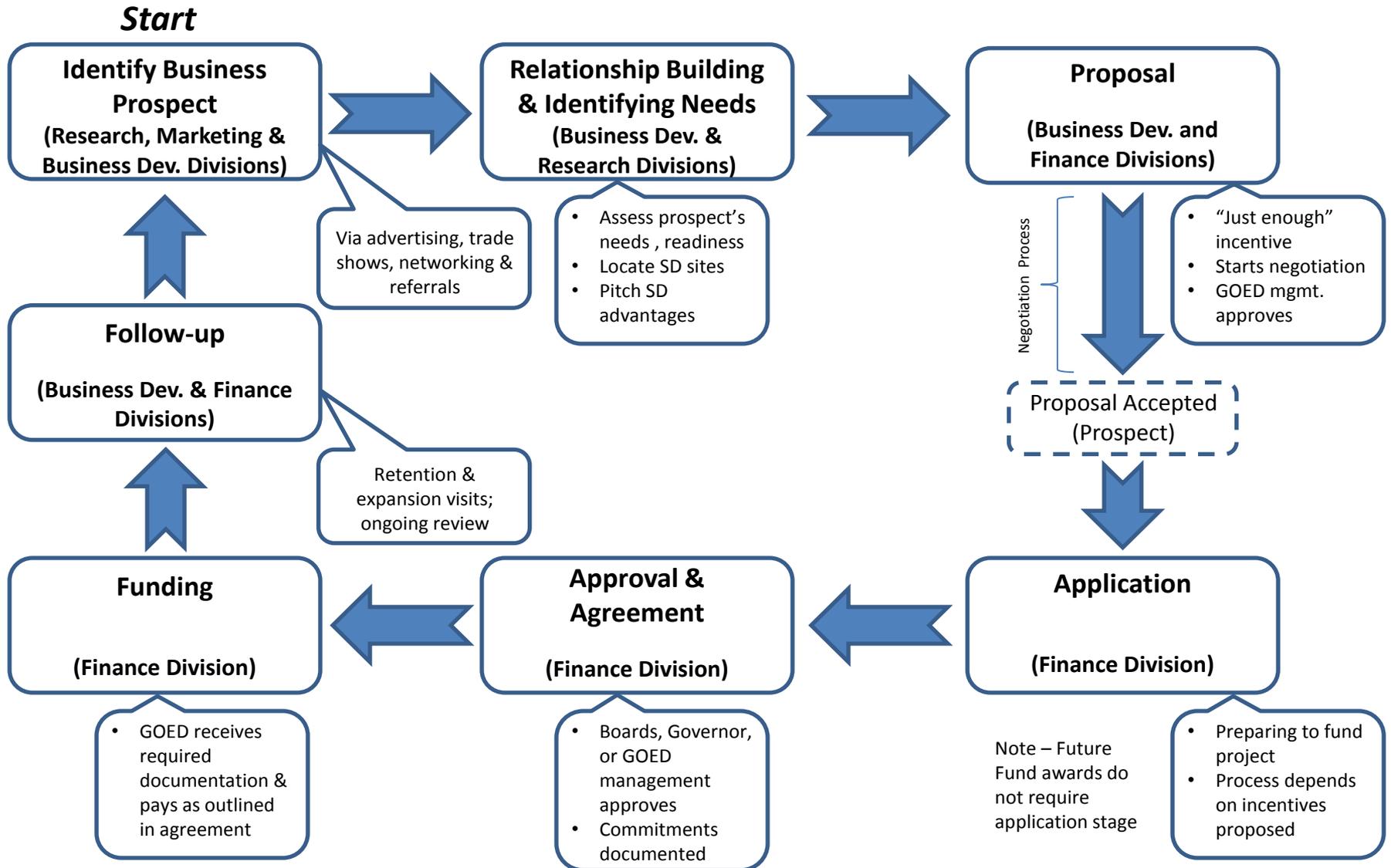
\$3.9 million to support research

\$3.5 million to support emerging industries (e.g., biotech, start-ups) with great potential

A look back at 2014

- ✓ South Dakota manufacturers made \$475.7 million in capital investments – *the third largest amount in South Dakota's history*
- ✓ Forbes Magazine named South Dakota as the Best State for Business – Business costs
- ✓ 55% of all GOED proposals resulted in company expansions in South Dakota
- ✓ Bel Brands USA cut ribbon on its new \$144 million, 170,000 square-foot state-of-the-art facility, which was the largest capital expenditure in the Bel Group's history
- ✓ Established quarterly site selector outreach to more than 2,000 site selectors; met face-to-face with 46 site selectors
- ✓ Partnered with 22 communities/entities to attend trade shows in the biotech; medical; shooting, hunting, and outdoors; financial services; and oil and gas industries
- ✓ GOED designated 12 new Certified Ready Sites, bringing the total to 23 sites in 14 communities
- ✓ GOED representatives visited 422 companies through our Retention and Expansion efforts
- ✓ National BIO Association presented Governor Daugaard its first Food and Agriculture Governor of the Year award at the International Livestock Biotechnology Conference in Sioux Falls, September 2014

From Pipeline to Project: Life-Cycle of a GOED Prospect



REDI - Revolving Economic Development and Initiative Fund

Overview

- Below-market financing for buildings and equipment in new or expanding businesses
- Permanent financing
- Currently 2% interest; 5-year balloon payment

State Budget Impact

- Revolving loan fund – no General or Federal funds are required
- Interest earned is used for Finance Division employee salaries, benefits, and operating expenses (i.e., in the “Other” funds category)

CY 2014 Performance

- \$50.3 million available to lend; \$108.2 million in total assets (as of December 31, 2014)
- 13 new loans approved in 2014, projected job growth of 628.5 new jobs, 100 retained jobs in SD; estimated total project costs of \$44 million
- Further details on approved loans available [here](#)

Administration

- Overseen by Board of Economic Development – approval authority for all applications
- GOED Finance Division administers, underwrites, and monitors all REDI loans

Application Requirements and Follow-up

- Application requires business to document specifics of project and commit to job creation targets
- Credit underwriting based on business and personal financials, ability to repay; job creation
- Partnership with other financial institution (e.g., local bank) as lender
- “Take-out” financing – funded at loan closing following appraisal and execution of loan documents, including an employment agreement
- GOED conducts yearly loan reviews, which require Board of Economic Development approval, and receives employment reports every six months

Building South Dakota Programs (GOED Portion)

Overview

- Four individual grant programs started in FY14
 - Reinvestment Payment Program (RPP) – refunds sales and use tax for projects in excess of \$20 million or \$2 million in equipment
 - South Dakota Jobs Grant Program (SD Jobs) – refunds sales and use tax for projects below the RPP thresholds
 - Local Infrastructure Improvement Program (LIIP) – supports construction of infrastructure for economic development projects
 - Economic Development Partnership Program (EDPP) – supports local economic development staff & capitalizes revolving loan funds
- LIIP and EDPP applications are accepted quarterly; others accepted on an ongoing basis

State Budget Impact

- \$10 million in FY14 (\$4.5 million for GOED portion), plus an amount equal to Contractor's Excise Tax for projects in excess of \$20 million approved for RPP (\$5.5 million of the FY14 total went specifically to other programs for housing & workforce)
- Minimum state budget support: EDPP - \$1.5 million (15% of total); LIIP - \$2.5 million (25% of total); SD Jobs - \$500,000 (5% of total)

CY 2014 Performance

- EDPP (17 awards supporting 1,041.5 jobs); LIIP (6 awards; 227 jobs); RPP (9 awards; 238 jobs); SD Jobs (2 awards; 52 jobs)
- RPP: \$13.7 million awarded; SD Jobs: \$28,280 awarded; LIIP: \$1.0 million awarded; EDPP: \$1.7 million awarded
- Further details on RPP awards available [here](#); SD Jobs [here](#); LIIP [here](#); EDPP [here](#)

Administration

- Overseen by Board of Economic Development – approval authority for all applications
- Planning districts work with communities to prepare applications
- GOED Finance Division review, administers, and monitors all EDPP, LIIP, RPP, and SD Jobs grants

Application Requirements and Follow-up

- Application varies by program but requires documentation of project specifics, job creation, and other criteria
- RPP and SD Jobs applications are not approved unless staff is satisfied the project will not occur in South Dakota unless the grant is awarded
- GOED makes payments to grantees either on a reimbursement basis or in accordance with a budget and matching funds approved by Board
- Actual job creation totals are collected annually from award recipients

Future Fund

Overview

- Provides grant funds to support research or economic development in South Dakota
- Funds made available in amounts and for purposes at the Governor's discretion
- Funds may be provided to businesses as a pure incentive to relocate, expand, or start operations
- Funds may also be provided to other entities (e.g., technical schools) for investments to support future economic development

State Budget Impact

- Future Fund allocation is estimated at \$15.5 million per year; sourced from investment fee included in employers' unemployment insurance payments; no General fund dollars

CY 2014 Performance

- Approved 48 grants worth \$51 million; primarily for workforce development and infrastructure investments
- \$5.5 million unobligated balance as of December 31, 2014
- Further details on approved grants available [here](#)

Administration

- GOED Finance Division administers all Future Fund awards

Application Requirements and Follow-up

- No specific Future Fund application – businesses or other entities seeking Future Fund grants may not apply directly for funding (i.e., the State must initiate the Future Fund award)
- For businesses, GOED includes Future Funds in a proposal only as a final step if staff believes it necessary to capture the opportunity
- For other entities, Future Funds are awarded only after policy coordination among state government agencies
- All Future Fund awards are documented with an Agreement, which contains commitments specific to the individual project
- The Agreement spells out the conditions required for disbursement of funds, along with reporting or other follow-up requirements
 - For example, in the case of Future Fund grants for educational equipment, Department of Education must confirm the purchases before GOED reimburses schools directly. This prevents both DOE and GOED from duplicative monitoring of schools.

CDBG – Community Development Block Grant

Overview

- Grant program under the U.S. Department of Housing and Urban Development (HUD) targeted at areas of low to moderate income (LMI)
 - Community projects account – typically water/wastewater projects, community centers, or workforce training
 - Special projects account – provides industrial infrastructure for businesses promising to create new jobs for LMI persons
 - Imminent threat account – provides help to communities to address an urgent need affecting health or safety of residents
- CDBG awards require matching funds
- CDBG applications are accepted semi-annually

State Budget Impact

- \$5.3 million annual allocation from HUD; of this, GOED allowed 3.9% to cover administrative costs

CY 2014 Performance

- Awarded 13 awards totaling \$5,039,332; estimated total project costs of \$28.1 million
- Awards included storm & water systems, Boys and Girls clubs, ambulance service center, clinic, and fire hall
- Further details on approved grants available [here](#)

Administration

- Planning districts work with communities to prepare applications; once awarded, GOED administers the awards with planning districts
- GOED Finance Division reviews and monitors all CDBG applications and awards
- Recommendations for funding are developed within GOED and presented to the Governor for final approval

Application Requirements and Follow-up

- Application requirements are specified by HUD; applicants must demonstrate at least 51% LMI benefit
- Payments under CDBG program are made on a reimbursement basis after receiving paid invoices
- Planning districts conduct site monitoring visits prior to grant closeout
- HUD periodically audits CDBG award files; most recent audit in 2014 identified no deficiencies

South Dakota Works Program

Overview

- Below-market financing for interim/construction and working capital needs in new or expanding businesses
- Up to \$1 million loan amount
- Currently interest rate is set at 1% lower than lead bank; 1 to 5-year term, typically term meets the bank term

State Budget Impact

- Funded by one-time grant from U.S. Department of Treasury – no General funds are required
- 5% of grant may be used for administration

CY 2014 Performance

- \$1.8 million in total loans (as of December 31, 2014)
- Total of six loans approved in 2014, projected job growth of 203; estimated total project costs of \$19 million
- Further details on approved loans available [here](#)

Administration

- Overseen by South Dakota Works Loan Committee – reviews and approves all applications
- GOED Finance Division administers, underwrites, and monitors all South Dakota Works loans
- Report quarterly to U.S. Department of Treasury; provide annual report to Treasury as well

Application Requirements and Follow-up

- Application requires business to document specifics of project and provide job creation targets
- Credit underwriting based on business and personal financials, ability to repay
- Partnership with other financial institution (e.g., local bank) as lender
- Loan funded at loan closing following execution of loan documents, including (as necessary) security agreements
- GOED conducts yearly loan reviews, which require South Dakota Works Loan Committee approval, and receives employment reports annually

EDFA – Economic Development Finance Authority Bonds

Overview

- Loan financing for buildings and equipment in new or expanding businesses
- A+ rated by Standard and Poor's
- Loan term is dependent on assets financed; up to 20 years on buildings, 10 years on equipment

State Budget Impact

- Pooled bond program – bonds are sold for each loan originated
- Bonds are backed by a Capital Reserve Account – no General, Federal, or Other funds are required

CY 2014 Performance

- \$21.2 million in outstanding bonds (as of December 31, 2014)
- Further details available [here](#)

Administration

- Overseen by the Economic Development Finance Authority Board – approval authority for all applications
- GOED Finance Division administers, underwrites, and monitors all EDFA loans

Application Requirements and Follow-up

- Application requires business to document specifics of project and commit to job creation targets
- Credit underwriting based on business and personal financials, ability to repay
- Loan funded at closing following execution of loan documents
- GOED conducts yearly loan reviews, which require Economic Development Finance Authority Board approval, and receives employment reports annually

SBA 504 & Microloan – South Dakota Development Corporation

Overview

- Public-private partnership with non-profit South Dakota Development Corporation (SDDC)
- Below-market financing for buildings and equipment in new or expanding businesses
- SBA 504 Loan – guaranteed by U.S. Small Business Administration
 - Fixed interest rate set at closing; 10 to 20-year term
- Microloan – small projects (less than \$500,000) including Main Street and retail operations (for fixed assets, working capital, inventory)
 - Currently 3% interest; up to 10-year term

State Budget Impact

- Public-private partnership – SDDC or SBA funds all loans; no General funds used
- GOED Finance Division supports SDDC operations (Finance Division funded through “Other” revenue)

CY 2014 Performance

- SBA 504 – Total of 4 loans, projected job growth of 73
- Microloan – Total of 14 loans, projected job growth of 39.5

Administration

- Partnership with SDDC – SDDC board has approval authority for all applications
- GOED Finance Division administers, underwrites, and monitors all SBA 504 and Microloan loans under contract with SDDC

Application Requirements and Follow-up

- Application requires business to document specifics of project and, for SBA 504, commit to job creation targets
- Credit underwriting based on business and personal financials; SBA 504 underwriting process must use SBA guidelines
- Partnership with other financial institution (e.g., local bank) as lender
- Loans funded at loan closing following appraisal and execution of loan documents specific to each program
- GOED conducts yearly loan reviews, which require SDDC board approval, and receives annual employment reports for SBA 504 loans

Workforce Development Program

Overview

- Provides matching grant funds to a business for use in training/upskilling one or more employees with starting wages of \$11/hour or more with health benefits
- \$500-\$1,000 per employee; amount provided depends on application scoring

State Budget Impact

- State's portion funded from the Future Fund

CY 2014 Performance

- Approved 18 grants worth \$380,104; proposed training for 637 employees
- Further details on approved grants available [here](#)

Administration

- GOED Finance Division administers, reviews, and recommends approval on Workforce Development grant applications

Application Requirements and Follow-up

- Application requires business to document specifics of employee's position, as well as pre- and post-training wages
- All applications are scored using a matrix that awards additional points for targeted industries, transferrable skills, and increase in wage level
- Payment made to employers on a reimbursement basis following receipt of evidence of completed training and required reports
- Employers establish a baseline employment figure – funds are only available to train additional employees; will not reimburse for turnover

Research and Commerce Division Activity

Overview

- Promoting the development of the state's research infrastructure and knowledge-based economic development through commercialization of innovations by business start-ups, business expansion and attraction of new knowledge-based businesses to South Dakota
- Funds provide grants to university-based research centers and match federal EPSCoR research funding
- Proof of Concept program - loans to businesses, entrepreneurs and universities to support “proof of concept” projects to assist with transitioning inventions and innovations into commercial products

State Budget Impact

- \$3.9 million in General funds for grants; Proof of Concept program previously funded (Other funds)

Performance Highlights

- Secured \$20 million National Science Foundation 5 year EPSCoR award and \$18 million National Institutes of Health 5 year BRIIN award
- Supported Prairie Aquatech and VRC spin off businesses; supports manufacturing and biochemical technology centers at SDSM&T and SDSU
- 18 Proof of Concept projects funded; seven University patents filed
- Proof of Concept grantee success: Calxaqua won the Governor’s Giant Vision Business Plan in 2013, raised \$500,000 in equity capital; and Nanofiber Separations has more than \$1 million in federal R&D funding and several research collaborations with large corporate partners

Administration

- GOED Research and Commerce Division reports to GOED Commissioner, works closely with Board of Regents and universities
- Research and Commerce Division, in coordination with Finance Division, administers Proof of Concept grant program

Application Requirements and Follow-up

- Governor-appointed Research and Commercialization Council (RCC) issues a request for proposal defining eligible applicants, eligible activities and evaluation metrics. External panel of experts review proposals and provide the RCC recommendations; RCC selects grantees
- Each research Center submits a written annual report, presents to the RCC, which makes decisions on continued funding
- Entrepreneurs, universities, existing South Dakota companies and other entities committed to commercializing the product in South Dakota can apply for up to \$25,000 Proof of Concept grant. Research Affairs Council and private sector investors review applications and make a recommendation to Commissioner of GOED for approval; grantees provide progress reports to GOED

State Energy Program (Administered by BOA)

Overview

- Federal grant program under the U.S. Department of Energy (DOE)
- Petroleum Violation Escrow (PVE) Account is the result of oil overcharge lawsuit settlements
- Grant awards require 20% match
- Funds can be used to make loans, leases, or grants for energy conservation

State Budget Impact

- \$277,620 annual Federal grant allocation from DOE
- PVE funds are continuously appropriated

Performance Highlights

- Seven awards granted or loaned to public facilities such as state buildings and schools

Administration

- State Energy Program is administered by the Bureau of Administration's State Energy Director
- GOED provides fiscal accounting support through its Administrative division

Application Requirements and Follow-up

- Requirements are specified by DOE
- Payments are made on a reimbursement basis after receiving paid invoices