CENTER *for* RURAL POLICY *and* DEVELOPMENT

December 2006

The Job Opportunity Building Zone Program: Assessing Employment and Wage Outcomes

I. Introduction

In January 2004 the State of Minnesota initiated its new Job Opportunity Building Zone Program, now commonly known as JOBZ. The program, an adaptation of similar programs in both Michigan and Pennsylvania, provides a broad range of state and local tax exemptions to qualified businesses that agree to create jobs and make capital investments in selected areas of rural Minnesota. The Minnesota program offers these tax exemptions for up to 12 years for qualified businesses.

Since its introduction in the 2003 Minnesota State Legislative session as House File 3, the Center for Rural Policy and Development began monitoring activity around this piece of legislation. And when Governor Pawlenty deemed this program his administration's "marquee rural economic development strategy," it became clear that if it became law, we would be following this program closely for years to come. In fact, since March 2003 the Center has issued four policy reports and updates on the JOBZ program. Accordingly this report represents the fifth installment in our efforts to inform policy makers, local officials and economic development professionals on the activities and outcomes of the program.

What differentiates this report from previous ones is that the end of 2006 marks an important milestone for businesses that signed JOBZ business subsidy agreements in 2004, the program's first year of operation. That's because the signed agreements provide qualified businesses with a 24-month window to fulfill their job creation obligation, as outlined in the agreements. Simply put, those businesses that signed JOBZ agreements in 2004 would be expected to have fulfilled their job creation obligation by the end of 2006. Accordingly, the analysis in this report allows us for the first time to review the number as well as

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The Center for Rural Policy and Development, based in St. Peter, Minn., is a private, not-for-profit policy research organization dedicated to benefiting Minnesota by providing its policy makers with an unbiased evaluation of issues from a rural perspective.

the average wages of jobs that businesses pledged to create in 2004 through the JOBZ program and compare that with the number and wages of jobs that were actually created within that 24-month window.

II. Methodology

To conduct this analysis we first examined data from all 131 JOBZ business subsidy agreements that were signed by businesses and community leaders in 2004. By reviewing data from these agreements, we were able to discern the number of new jobs that these businesses pledged to create, as well as the average wages they anticipated paying these workers. We then examined the annual progress reports that rural economic developers must complete for each JOBZ agreement secured in their community. These reports provide information on all new jobs created by these businesses as well as the wages paid for each of these new positions. Accordingly, there were 129 of these reports on file (98.5%) for businesses that signed agreements in 2004.

III. The Communities and Businesses in the JOBZ Program

Charts 1 through 4 examine the types of businesses and local jurisdictions that signed agreements through the JOBZ program in 2004, while charts 5 through 8 document the programmatic outcomes. As one can see from Chart 1, the overwhelming number of governmental entities that have participated in the JOBZ program in 2004 were rural cities. In fact, 86% of the JOBZ agreements signed were between local municipalities and businesses. A small but equal number of agreements were signed between businesses and county governments, as well as other governmental jurisdictions (e.g. townships).

Chart 2 examines whether the businesses that are participating in the program are a subsidiary or branch of a larger "parent" corporation, or if they are a wholly owned business in themselves. As one can see from the chart, only 15% of the businesses that signed JOBZ agreements in 2004 were connected to a parent company. Rather, the overwhelming majority of businesses involved in the program were autonomous businesses, many being locally owned and operated.

One concern often expressed regarding the program is that in addition to the generous tax benefits inherent to the JOBZ programs, businesses might receive additional local subsidies in return for relocating and/or expanding into a JOBZ zone. These additional benefits may include access to low-interest loans from local revolving loan funds or other financial incentives. However, as documented in Chart 3, such additional incentives are seldom provided. In fact, only 14% of all the businesses that signed

Chart 1: *Jurisdiction of subsidy agreements.*

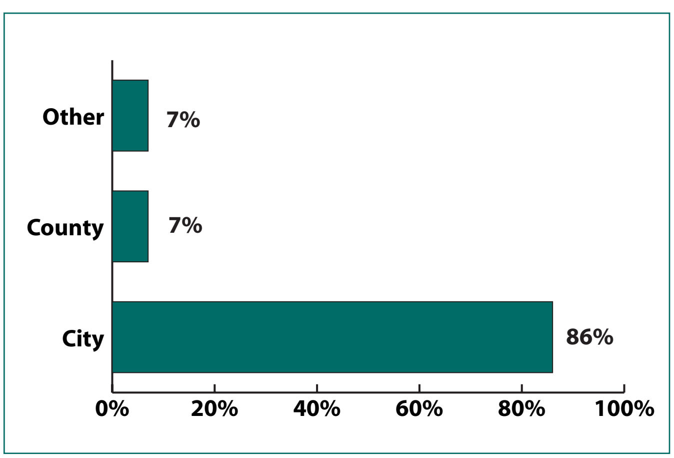
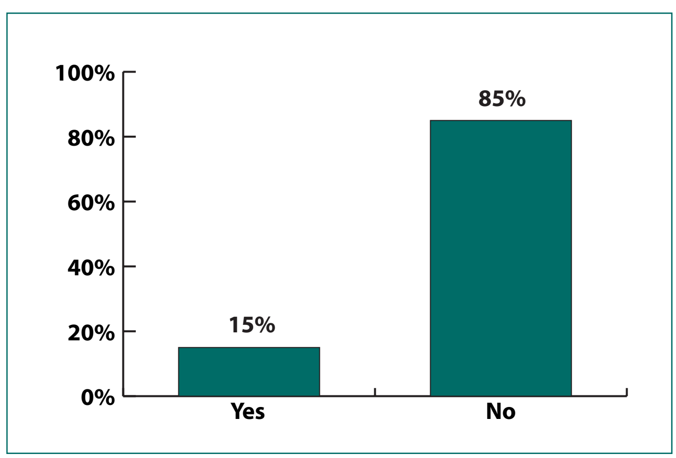


Chart 2: *Does recipient have a parent corporation?*



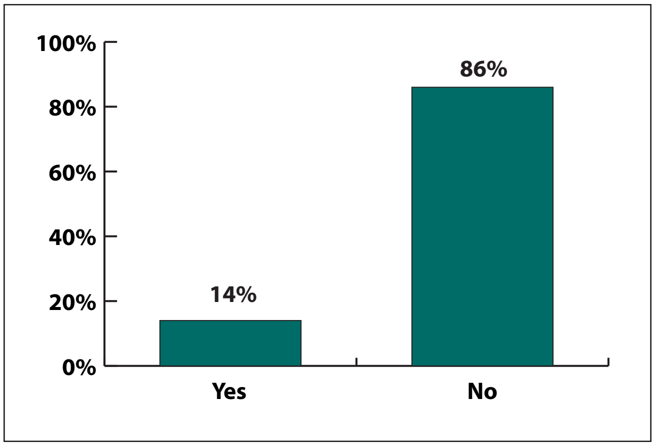


Chart 3: *Did business receive other incentives in addition to JOBZ?*

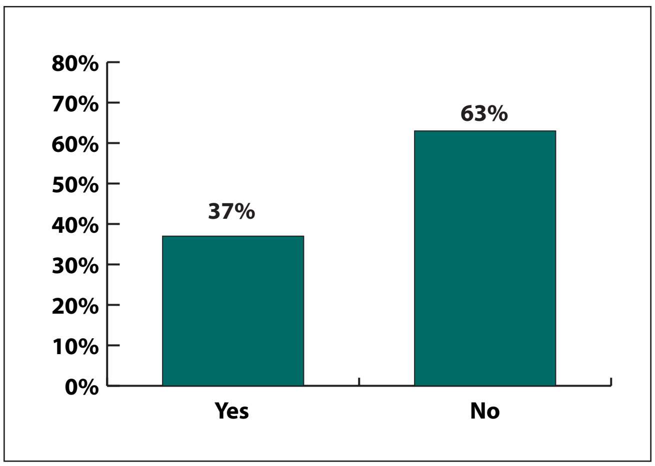


Chart 4: *Did recipient business relocate as a result of JOBZ?*

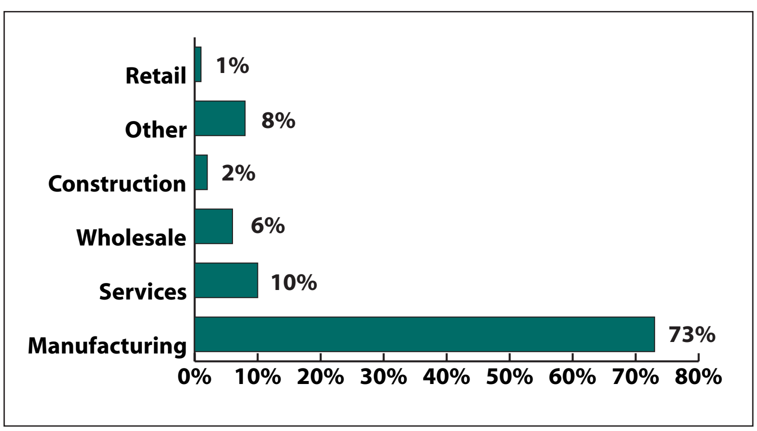


Chart 5: *Type of business receiving JOBZ funding.*

JOBZ agreements in 2004 were provided such additional incentives, while the remaining 86% received no additional incentives.

Another significant concern expressed regarding the JOBZ program is that businesses seeking to gain the tax advantages of the JOBZ program will simply relocate, pitting one rural community against another and ultimately creating no "net gain" for the state of Minnesota. To ensure against such events, the program was modified in 2005 to enact new programmatic requirements, including enhanced job creation requirements in the first year for businesses wishing to relocate to a JOBZ zone. However, it is important to note that these requirements were not in place for agreements signed in 2004. Chart 4 documents the relocation pattern of businesses in the program and reveals that some of this relocation activity has in fact occurred. However, a large majority of the businesses in the JOBZ program (63%) did not relocate as a result of the program and instead constitute businesses that are expanding locally or are simply starting up as a new company.

A final concern often expressed regarding the JOBZ program is that some rural communities might offer these tax benefits to inappropriate business sectors. By this we mean businesses that do not fall into the categories of businesses the program was designed to attract, namely businesses in the primary industrial sectors of manufacturing, construction, wholesale and transportation. The concern was that JOBZ might be inappropriately utilized for commercial retail-type businesses. Such concerns were significant enough in the 2004 legislative session that the legislature chose to modify the program to ensure that retail businesses would be statutorily excluded from being eligible to participate in the program.

However, the data in Chart 5 clearly documents that such concerns were unwarranted. As one can see approximately three quarters of all the signed agreements in 2004 were with businesses in the manufacturing sector and only 1% (in fact only one business) was in the retail sector.

IV. Programmatic Outcomes

As was noted earlier, businesses that signed JOBZ agreements in 2004 were given a 24-month window to meet their job creation obligations. While some might question why businesses were given such a lengthy timeframe to meet their obligations, it in fact made sense. This is especially true for businesses that required a physical expansion of their facility or in some cases the construction of a new facility.

Chart 6 documents that 71% of all the businesses that signed agreements in 2004 successfully met their target of creating new full-time jobs within the 24-month timeframe provided. Further, Chart 7 clearly documents that many of the businesses in the program not only met but exceeded their job creation goals within the required time frame. Here we see that collectively these businesses pledged to create 1,985 new, full-time jobs, and by the end of 2006 they actually created 2,601 new full-time jobs, 131% of the job creation obligation.

Figure 1 is a map of Minnesota that documents the distribution of new, full-time jobs created by businesses that signed JOBZ agreements in 2004. The numbers on the map reflect the actual number of new, full-time jobs created in that county through the JOBZ program, as reported in DEED's business subsidy reporting system. As one can see, while the distribution of new jobs was relatively widespread, there was a heavy concentration of new job creation throughout southern Minnesota. Other areas of significant job creation were in Chisago, Ottertail and St. Louis Counties.

Since the initial passage of the JOBZ legislation in 2003, the Minnesota State Legislature placed minimum job creation requirements, as well as wage requirements on all future JOBZ agreements. As related to wages, the statute requires businesses to pay a minimum wage that would surpass 110% of the federal poverty rate for a family of four. In dollars and cents, that equates to a minimum wage of $10.23 per hour. Further, this new minimum wage requirement is enacted for all new jobs created as a result of the program and is annually adjusted for inflation. However, it is important to note that these requirements were enacted after the first year of the JOBZ program. Accordingly, businesses that signed JOBZ agreements in 2004 were not bound by this requirement.

Chart 6: *Did business achieve its new, full-time job creation target?*

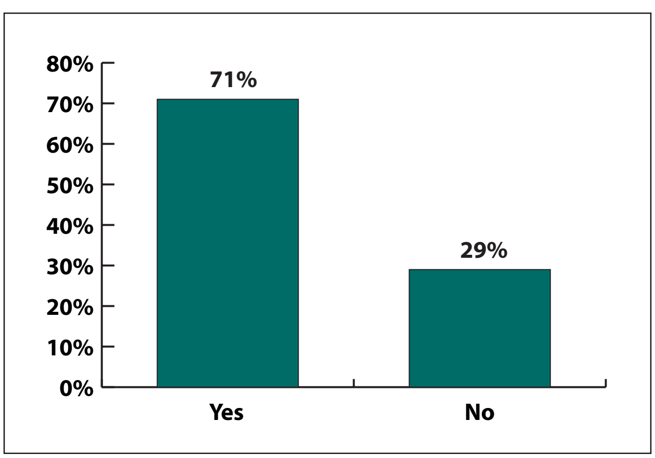
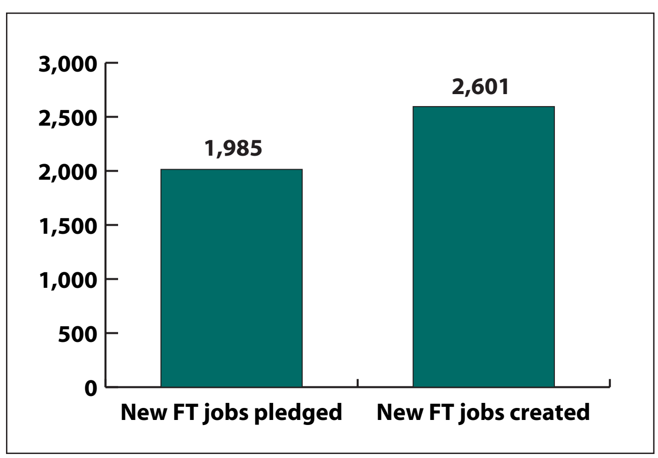


Chart 7: *New full-time jobs pledged vs. created.*



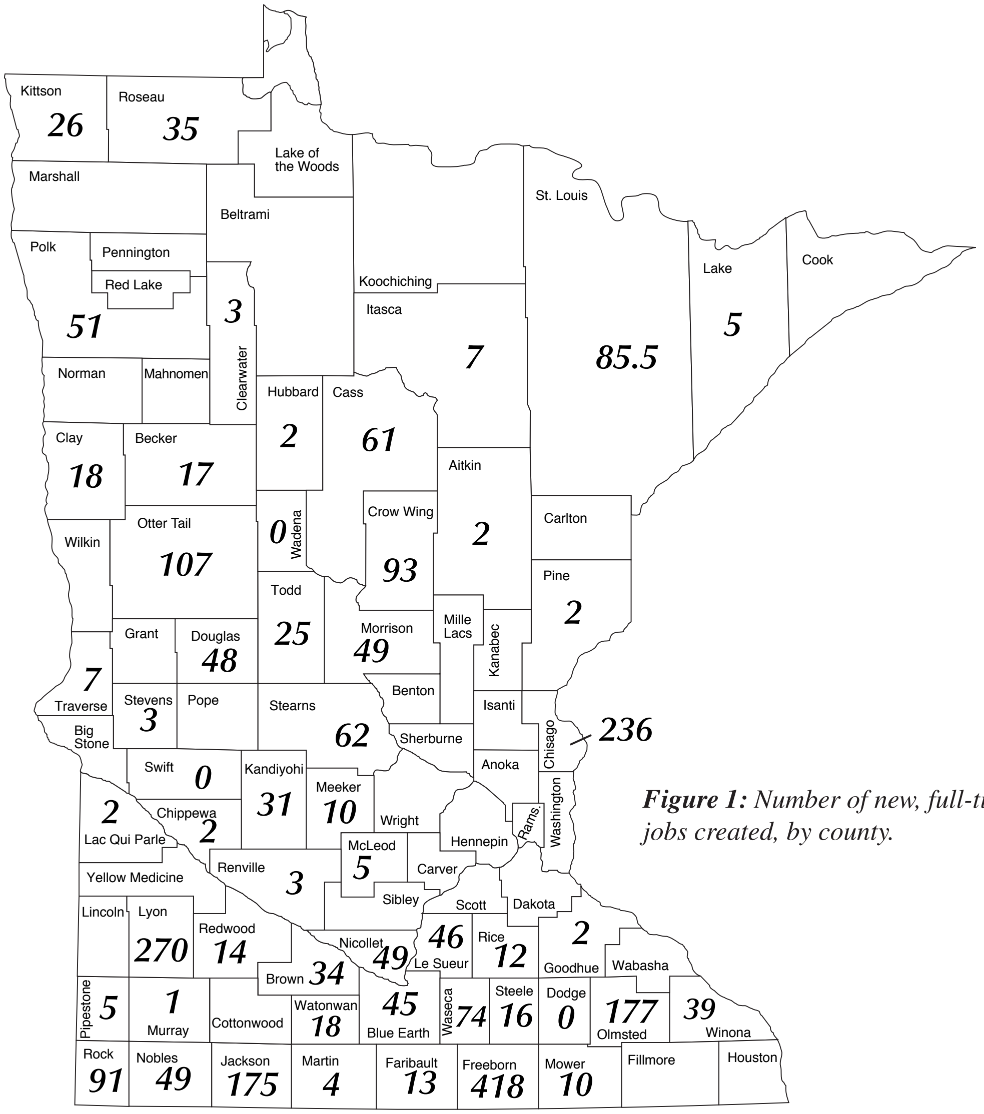


***Figure 1:** Number of new, full-time jobs created, by county.*

***Chart 8:** Did business achieve minimum wage of $10.23 per hour for all new full-time jobs?*

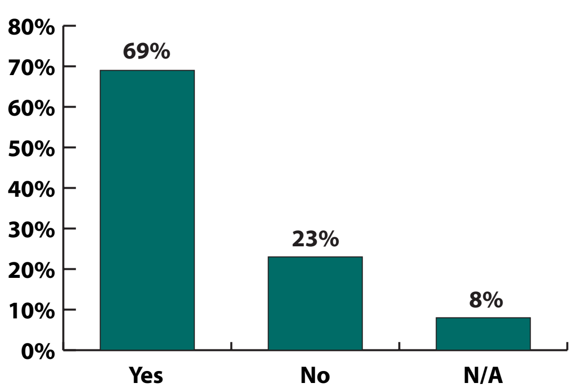
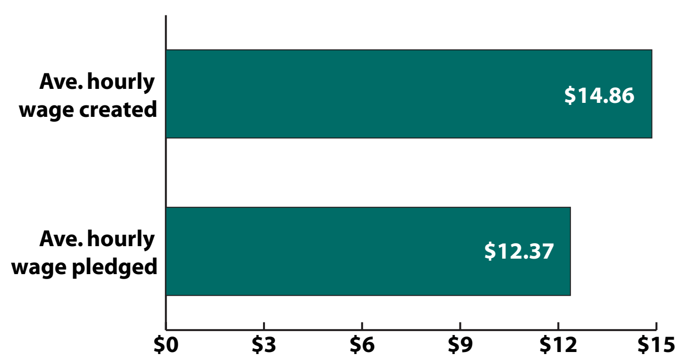


***Chart 9:** Overall average hourly wage pledged vs. created (does not include fringe benefits).*



Charts 8 and 9 examine the wages associated with the new full-time jobs created through the JOBZ program in 2004. While not under the new minimum wage requirement, Chart 8 documents that 69% of all businesses that created new jobs from these 2004 agreements met or exceeded the $10.23 wage rate, while 23% did not. Chart 8 also documents that 8% of the business agreements were deemed "not applicable" as they did not create any new full-time jobs.

Finally, Chart 9 compares the average hourly wage across all of the new jobs pledged through the JOBZ program in 2004 with the actual wages paid in those positions by the end of 2006. As one can see, while the average hourly wage pledged by those businesses was $12.37, the actual wage paid, as reported through DEED's Business Subsidy Reporting system, was $14.86.

V. Summary and Conclusions

Since it's inception in 2004 there have been many and varied concerns about the JOBZ program. Some of these concerns surround the fairness or appropriateness of the program's basic strategy of offering businesses significant tax exemptions in return for capital investment and job creation in rural Minnesota. Those concerned argue that the program unfairly shifts the added costs of government from rural businesses in the JOBZ program to other rural businesses, rural landowners and rural residents. Others questioned whether the program would even work; i.e. would businesses actually expand, create new jobs and make capital investments in rural Minnesota regardless of the incentive. And still others simply noted that businesses that would take advantage of such a program would likely have expanded or made such investments anyway. Obviously, the data presented in this report do not address all of these concerns.

The findings however do suggest that the program was quite active in its initial year (2004); in fact, some might argue that it was much more active than most would have anticipated. Further, it appears that local jurisdictions were not simply doling out tax benefits to any business willing to promise a handful of new jobs. Rather, as the data documents, virtually three out of every four business agreements were with a manufacturing firm and only one agreement statewide involved a business in the retail sector.

Most importantly, as one looks at outcomes, it is clear that the program performed as it was designed to perform. By that we mean that businesses utilizing the program pledged to create new jobs and make capital investments, and by and large, those obligations were met. An examination of DEED's business subsidy reports document that while businesses in 2004 pledged to create 1,985 new full-time jobs by the end of 2006, they in actuality created 2,601 new full-time jobs; approximately 30% more than pledged. Further, these same businesses pledged that these new jobs would pay an associated hourly wage rate averaging $12.37, but in actuality pay an average hourly rate of $14.87. It is for these reasons that we conclude that the program performed as it was designed.

It is interesting to note that there are many speculative reasons as to why the number of new jobs created and the average hourly wage were significantly higher than anticipated. Some suggest that many of the businesses that signed JOBZ agreements simply "low-balled" the numbers. Essentially such an argument states that it makes no rational sense for a business to promise 15 new jobs when they can achieve the tax advantages by promising 10. Some suggest that a similar "low-balling" strategy explains the differences between average hourly wages pledged and average hourly wages paid. Others, however, suggest that average hourly wages were significantly higher than those pledged due to local labor market realities. In other words, you can come up with your best estimate of the wages you plan to pay, but ultimately businesses have to pay whatever the local labor market demands (or risk not getting the quality of labor you want).

While all of these arguments are plausible, the data is simply unable to confirm any of these hypotheses. Similarly, those that suggest that the businesses participating in the JOBZ were likely to expand and hire new employees anyway (i.e. with or without the program benefits) may be right. But in the end, it would be inappropriate to try to interpret beyond what the data actually can tell us.

Finally, while it is clear that new jobs are being created through the JOBZ program, an important question that is left unaddressed is at what cost? In other words, how much is it costing taxpayers to create a new job through the program, and how do we figure that into some type of cost/benefit analysis? While it is clear that such an important question is not addressed in this report, over time, as more data is made available from the Department of Revenue, such an analysis should be possible.

In conclusion, the findings simply tell us that the majority of businesses in the program that pledged to create new jobs as articulated in their business subsidy agreements, by and large appear to have fulfilled that obligation. Further, the average hourly wage associated with these new full-time jobs was higher than anticipated, based upon the signed business subsidy agreement.

So how does this new data help us understand the value of the Job Opportunity Building Zone Program? Well, for those who supported the program from the beginning, these findings will likely further affirm their support. For those who philosophically do not support the strategy of providing tax exemptions to businesses in exchange for new job creation or enhanced capital investment, there is little in the findings to change their minds. However, for those who had concerns as to whether the program would actually work, i.e. whether businesses would in fact make capital investments and create new jobs in exchange for favorable tax treatment, such individuals may take some comfort in the findings that document that such activity is actually occurring.

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