CENTER *for*
RURAL POLICY
and DEVELOPMENT

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Job Opportunity Building Zones:

A Year One Progress Report

Introduction

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

The purpose of this policy brief is to review the program's structure and activities in its first full year of operation. In doing so, we examine the characteristics of the JOBZ "deals" that have occurred in Year 1, as well as the characteristics of the businesses and communities that are involved. Lastly, in January 2005 we interviewed all of the subzone administrators who successfully brokered at least one JOBZ deal. The purpose of these interviews was multifold: first, it was important for us to confirm the information we had received from the Department of Employment and Economic Development regarding the number of jobs, capital investment, and wages of the 120 JOBZ deals in their Year 1 database; second, we asked these subzone administrators to provide some additional detail regarding the businesses that have signed subsidy agreements; and lastly, we asked them to give us their thoughts on the program, as well as any advice they may have for the Minnesota State Legislature.

During our interviews with the subzone administrators we asked them if there were any additional business subsidy agreements signed that we were unaware of. Through this probing, we learned of 10 additional deals, bringing the total that we analyzed for this report to 130.

A view from 30,000 feet

As we found in our mid-year assessment (see August 18, 2004, report), there is little doubt that rural Minnesota communities and their economic development practitioners like the JOBZ program. Within the first few months of the program's initiation, subzone communities went to work establishing their subzone criteria and

A PDF of this report can be downloaded from the Center's web site at www.ruralmn.org.

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.

developing their marketing plans. The results were rather impressive, with more than 100 JOBZ deals transacted within the first 12 months. In fact, with the exception of the first few months to organize their strategies, business subsidy agreements for the JOBZ program were being transacted at a fairly quick pace — on average one new JOBZ deal every 2 1/2 days. Further, when interviewing the subzone administrators for this report, many informed us that they had additional deals in process, although few reported that they had additional subsidy agreements approved or signed.

While the pace of activity is clearly quite robust, it is also important to recognize that not all of the JOBZ deals are equally distributed across all the subzones. In fact, in Year 1, only one in approximately four subzones (23%) signed a business subsidy agreement through the JOBZ program. Further, it is quite evident that the size of the community was a factor, as those communities that executed a business subsidy agreement had a median population size of 3,481 (mean = 8,790), while the median population size among those communities that did not execute a subsidy agreement was 768 (mean = 1,807). Clearly, those rural communities that have a more complete and sophisticated commercial and industrial infrastructure saw greater opportunity to capitalize on this program.

Distance to metro	Deals	Average number of jobs per deal	Average capital investment per deal	Median hourly wage
Less than 75 miles	23	31.3	$1.16 million	$12.96
75 - 150 miles	61	15.9	$540,000	$11.25
150 miles or more	46	16.7	$600,000	$9.96

Table 1: *Deals, average number of jobs, capital investment and median hourly wage.*

We also examined how the proximity to the Twin Cities metropolitan area may have influenced the number and structure of JOBZ deals. As one can see from Table 1, only 18 percent of the business subsidy agreements were transacted with communities that were within a 75-mile radius of the Twin Cities. However, while only a small percentage of the deals were proximate to the metro, it appears that the size of the deals become larger as one gets closer to the Twin Cities.

Overall, when one looks at the "big picture," it is hard not to recognize and be impressed with the amount of activity and development that has occurred in the program's first year. Rural communities are clearly engaged, and many communities, such as Albert Lea (with seven JOBZ deals), appear to be energized by their early success. However, as one can often see when their view is from 30,000 feet up, the distribution of that early success is not necessarily spread equally across all of rural Minnesota. This is certainly no fault of the program, but rather an observation that may change as the program matures.

The structure of the deal

In this section we provide some detailed information regarding the types of deals, types of businesses and types of communities or regions that were engaged in the JOBZ program in Year 1. But before doing so, it is important that we insert a few simple caveats:

1. While the number of jobs the program has created is certainly impressive, for many of the larger deals it would be more accurate to think of these jobs as "pledged jobs." Some of the deals require the construction of new plants or significant physical plant expansions, and clearly the jobs, while pledged and written into the subsidy agreement, are not being immediately filled.
2. The same caveat can be made in terms of capital investment figures. In some cases the investment has been made, while in other cases the investment has been pledged but not yet made. This is especially true for the larger deals.
3. Lastly, some of the subsidy agreements state that the creation of new jobs will occur over a period of time. In some cases this

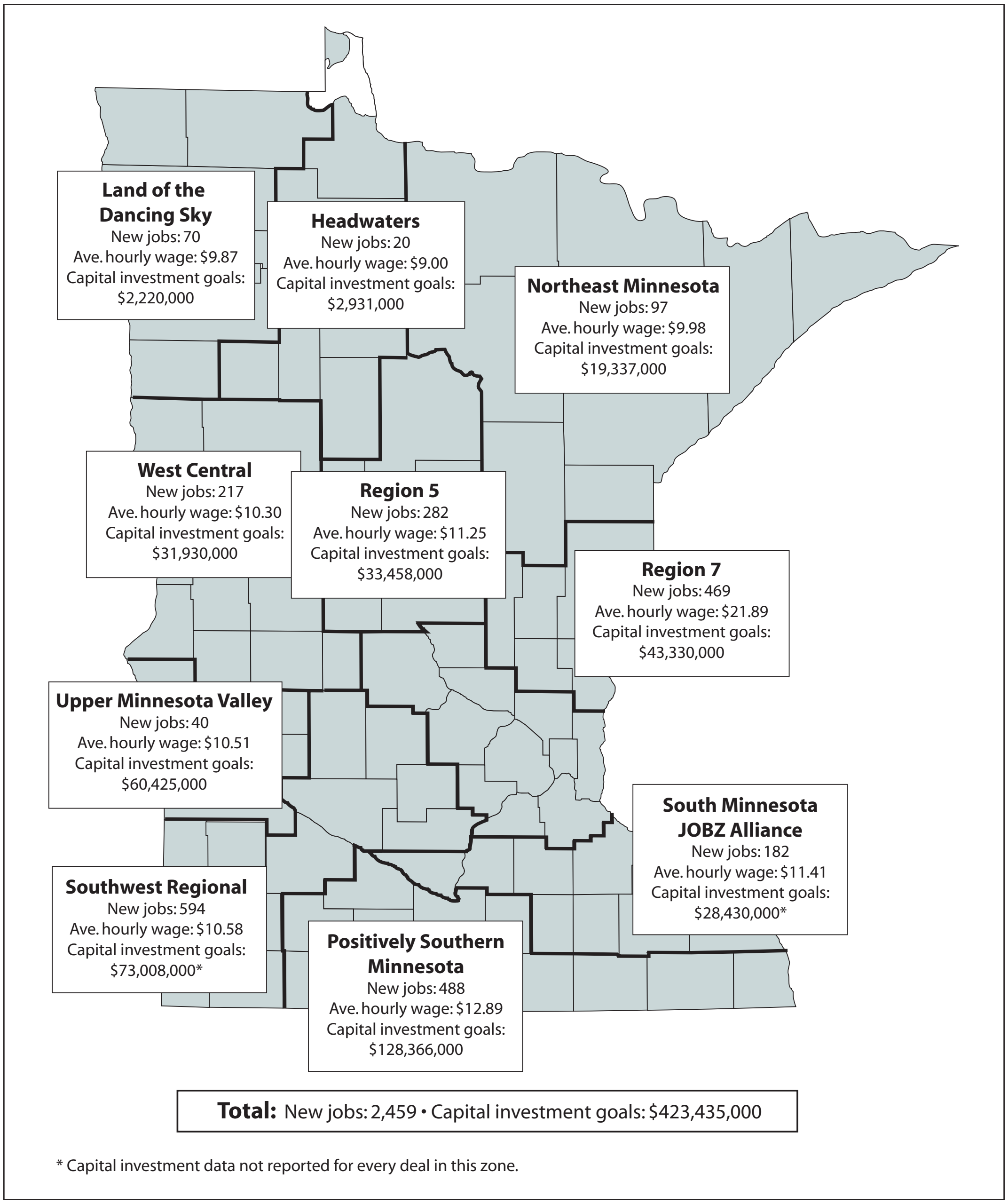

Figure 1: *JOBZ zones, new jobs, average hourly wage, and capital investment.*

term appears to be more than a few years. Consequently, a deal that will create 50 new jobs doesn't necessarily mean that there are 50 additional employees immediately on the payroll paying income taxes.

With those caveats in place we can examine the structure of the deal.

Subsidy agreements by zone

Figure 1 shows the 10 rural JOBZ zones along with the number of new jobs created through the business subsidy agreements, the total amount of capital investment, and the average hourly wage calculated across all the deals for each zone.

As noted earlier, in Year 1, data on completed business subsidy agreements indicate that close to 2,500 new jobs were created through the program, along with more than $400 million in capital investment. Note that for two of the zones in southern Minnesota the capital investment figures are incomplete, suggesting that the actual numbers will be larger once the data is complete. Also note that, as suggested in Table 1, the average hourly wage and amount of investment is clearly lower as one gets further from the competitive labor market in the Twin Cities. This is particularly visible in Northern Minnesota.

Job creation

An examination of the JOBZ deals in Year 1 documents an interesting pattern of job creation, wherein a very small number of deals created a very large number of new jobs and a very large number of deals created a very small number of new jobs. As Table 2 shows, half of all the business subsidy agreements signed in Year 1 commit the business to creating five or fewer new jobs. At the other end of the spectrum, five of the business subsidy agreements will create a collective total of 965 news jobs (approximately 40% of the Year 1 total).

Deals with:	Percentage of total deals
0 - 5 new jobs	50%
6 - 25 new jobs	33%
26 - 99 new jobs	13%
100 or more new jobs	4%

Table 2: *Deals by the number of new jobs.*

Time allowed to create jobs	Percentage of total deals
Within first years	37%
Within two years	38%
Within five years	18%
More than five years	7%

Table 3: *Time allowed to create required number of jobs.*

It was earlier mentioned that not all of the JOBZ deals are structured to have all of the jobs created in the first year. Accordingly, we asked the subzone administrators how many years the businesses have to create the number of jobs indicated in the business subsidy agreement. Their response to this question is documented in Table 3. As one can see, slightly over one-third (37%) of the JOBZ deals require the business to create all the required jobs in the first year of the agreement. Thirty eight percent of the JOBZ deals require the business to create the required jobs within two years; and 15 percent provide the business up to five years to create all the required number of jobs in the agreement. The remaining 7 percent allow the business more than five years to create the number of jobs required.

Overall, it is fair to say that the number of jobs created in the majority of JOBZ deals is modest. Before one raises too many concerns, however, it is important to note that more than 70 percent of the businesses in Greater Minnesota currently have 10 or fewer employees. Therefore, with the exception of a few large JOBZ deals, one should expect that the number of jobs created would be somewhat proportional to the overall characteristics of businesses located in Greater Minnesota.

Capital investment

Not surprisingly, the distribution of capital invested through the JOBZ program in Year 1 looks remarkably similar to the distribution of jobs created: a large number of businesses are making modest capital investments of $1 million or less; and a small number of businesses are making very large capital investments of $25 million or more. This distribution is documented in Figure 3, which shows that 60 percent of all the businesses are making capital investments of $1 million or less.

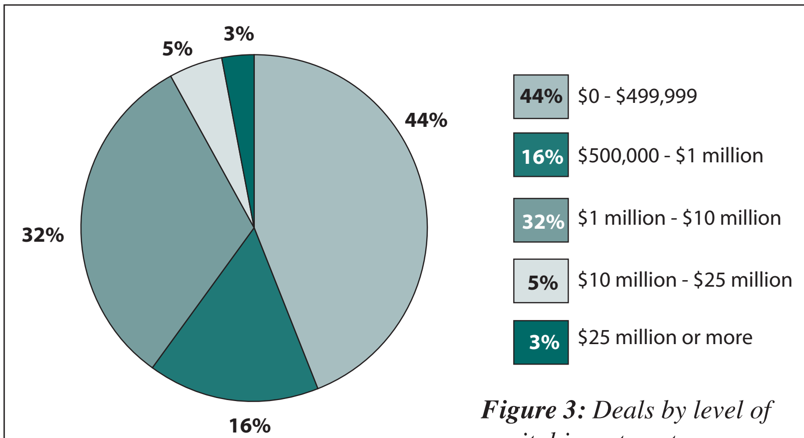

Figure 3: *Deals by level of capital investment.*

Again, it should be noted that in many ways the capital investment figures follow the same distribution as the number of jobs created. In that distribution just five large deals created almost 1,000 new jobs. In this distribution, four large business deals

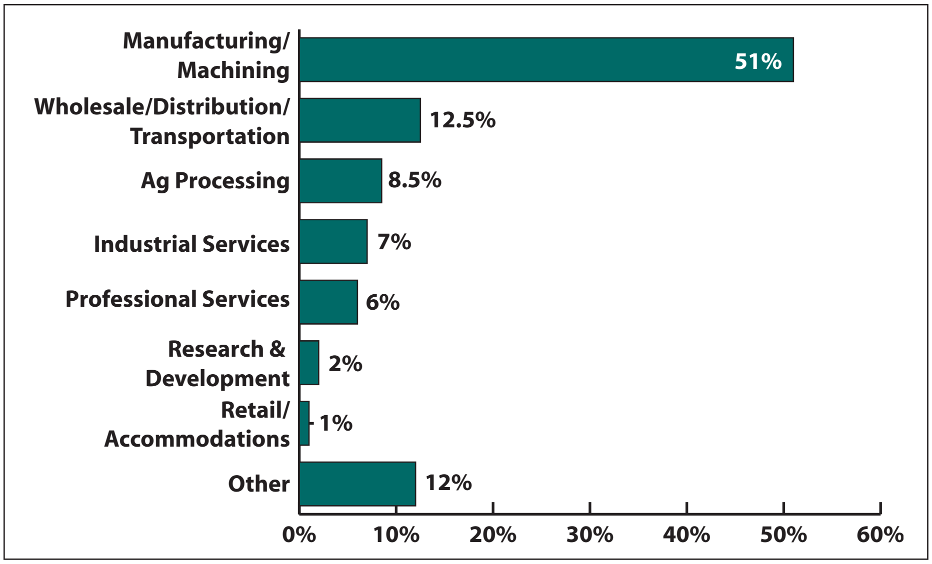

Figure 4: *Types of businesses.*

As Figure 4 shows, slightly more than half of the businesses that entered the program came from the manufacturing/machining industry. Equally important, while many legislators and public officials expressed concern regarding the inclusion of businesses whose primary customers are already in the local market (i.e. retail shops, hotels, etc.), these businesses barely represented 1 percent of the Year 1 deals.

We also examined the type of business deals that characterized these JOBZ deals. To do this we grouped the agreements into seven categories:

- ***New start-ups*** represents the inclusion of a new business. All jobs in this category are new jobs.
- ***Local expansion*** represents an enlargement of a business that is currently in operation and is located within 25 miles of the JOBZ subzone to which it is expanding.
- ***Non-local expansion*** represents an enlargement of a business that is currently in operation in a location more than 25 miles from the JOBZ subzone to which it is expanding.
- ***Out-of-state expansion*** represents an enlargement of a business that is currently in operation in a location outside of the state of Minnesota.
- ***Local relocation*** represents a business that is preparing to relocate to a JOBZ subzone that is less than 25 miles from its present location.
- ***Non-local relocation*** represents a business that is preparing to relocate to a JOBZ subzone that is more than 25 miles from its present location.
- ***Out-of-state relocation*** represents a business that is currently located outside of the state of Minnesota and is preparing to relocate inside a JOBZ subzone.

Type of deal	Percentage of total
New startup	24.6%
Local expansion	37.3%
Non-local expansion	4.0%
Out-of-state expansion	2.4%
Local relocation	23.8%
Non-local relocation	3.2%
Out-of-state relocation	4.8%

Table 4: *Types of deals.*

are investing a collective $213 million, virtually half of the total amount of investment in Year 1. On the other end, dozens of small rural businesses are making more modest investments, with a median capital investment of approximately $600,000 per deal.

Rural businesses and deal types

As we did in our mid-year report, we again examine the types of businesses being approved for inclusion into the JOBZ program. And again we find that, while some deals get highlighted for the scrutiny they come under by legislators and other public officials, it is clear that the overwhelming number of businesses included in the program are congruent with the legislative intent. Figure 4 displays the types of businesses that entered into business subsidy agreements in Year 1.

Table 4 shows that in Year 1, local expansions represent the largest category of deal types, followed by new start-ups and local relocations. These three categories represent approximately 85 percent of the Year 1 deals.

It is also important to elaborate somewhat on the category of local relocations. This category was the most difficult to operationally define, as all of the businesses that were categorized as such are required by statute to also expand, via either employment growth or capital investment. In fact, many relocated from their old location into a much larger facility and added employment as well. Accordingly, it would have been equally fair to label this category "Local Relocation and Expansion." What makes this category different is that unlike a simple business expansion, these businesses plan to cease operations at their old facility to conduct business in the JOBZ subzone. It was because of this factor that we categorized them separately as relocations. This is not to imply that employment growth and capital investment were not part of the subsidy agreement.

Voices from the field

Lastly, during our interviews with those subzone administrators who had executed at least one business subsidy agreement, we mentioned to them that the Minnesota State Legislature may discuss changing some of the parameters of the JOBZ program. If that occurs, we asked them, what advice would they give legislators to consider during their deliberations? In examining their responses, their comments fell into four discrete categories:

1. Leave things alone: This clearly was the most common remark. Many of the administrators simply felt that the program is still too new to start making changes. It was not unusual to hear that legislators should wait two or three years before making any changes.

2. Keep local control: The second most common remark made was their concern that the state would eventually control which businesses can be included in the program and which are excluded. Many strongly believe that the local economic development agencies have made good decisions to date, and they should be trusted to make smart decisions for their communities in the future.

3. Provide maximum flexibility: The third most common remark addresses the reality that not all rural communities have the same needs at the same time, and a deal that might make sense for one community might not make sense for a neighboring community. This was often placed in the context of excluding certain types of businesses by statute (e.g., retail establishments). Again, this remark seems to be congruent with the overall theme of keeping local control.

4. The prevailing wage clause is problematic: The final common theme expressed by subzone administrators was directed at the prevailing wage clause in the statute, suggesting that in some communities the official prevailing wage is significantly higher than actual local wage rates. Consequently, some of the subzone administrators argue that the prevailing wage clause is creating problems for them.

Summary and conclusion

There is little question that the JOBZ program is being viewed by local rural economic developers as a new and important tool in their economic development tool belt. With more than 100 deals, over $400 million in capital investment, and close to 2,500 new jobs in its first year, it's clear that the program has had a very active Year 1. Further, in our conversations with subzone administrators, a large majority of them reported that they were currently progressing with other opportunities, suggesting that Year 2 may in fact be equally active.

In many ways the data affirms much that we already know about economic development. First, as many economic developers learn early in their careers, the probability of successfully assisting local firms to expand is much greater than trying to recruit new businesses. And in fact, the data shows that the majority of deals in Year 1 were local in nature. Second, the simple reality is that the majority of existing businesses in rural Minnesota are small, with 10 or fewer employees. Consequently, it is not at all surprising that while there are several large expansion and start-up projects in Year 1, the majority of JOBZ deals are small, reflecting the composition of the business sector in Greater Minnesota.

With that being said, one of the primary findings suggests that the apparent benefits of the JOBZ program are not distributed evenly across all of rural Minnesota. Clearly those rural communities that are larger are yielding greater benefits than smaller communities. This only makes sense, as larger communities already have more businesses and commercial infrastructure to build upon. We also found that while the majority of the deals are located in communities more than 75 miles from the Twin Cities metro, those deals that fall within that 75-mile radius seem to be larger and provide higher wages. Again, this makes sense as those workers who are more proximate to the metro have employment opportunities that other rural Minnesotans don't have. Consequently, rural businesses that are proximate to the metro must pay higher wages to attract quality employees.

Also noteworthy was the reality that because a business commits to creating 50 jobs, it does not necessarily mean that 50 new jobs will be immediately created. In fact, the subzone administrators report that approximately 25 percent of the subsidy agreements allow businesses more than 24 months to create the required number of jobs. In many cases, however, this might be quite congruent with the timetable for facility construction. Accordingly, annual monitoring of these deals will be needed to assure compliance with the subsidy agreement.

An additional note that we often heard from subzone administrators was that the job creation figures noted in business subsidy agreements were often lower than the actual number of jobs created or will be created. They suggest that businesses are generally reluctant to commit to any higher job creation figures than are required to make the deal work. For example, we heard from one subzone administrator in West Central Minnesota who noted that while the business subsidy agreement required the employer to create five new jobs, they had, in fact, already created 12. Such comments were not uncommon and are both encouraging and distressing, as it suggests that information in the subsidy agreements may not be the most accurate indicators of job creation. Again, the annual monitoring of these JOBZ deals will be essential to truly understand the performance of this program over time.

In conclusion, it is quite clear that this new economic development program has become an exciting and valuable tool for many rural economic developers. But many questions remain and will not be adequately answered for years to come. Two such questions easily come to mind: "Will businesses follow the commitments they made in the subsidy agreements over time?" and "What are the true costs of the program to both local and statewide taxpayers?" While these are two very valid public policy questions, the simple reality is that policy makers will have to show some patience, as these questions can only be objectively answered with time.

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