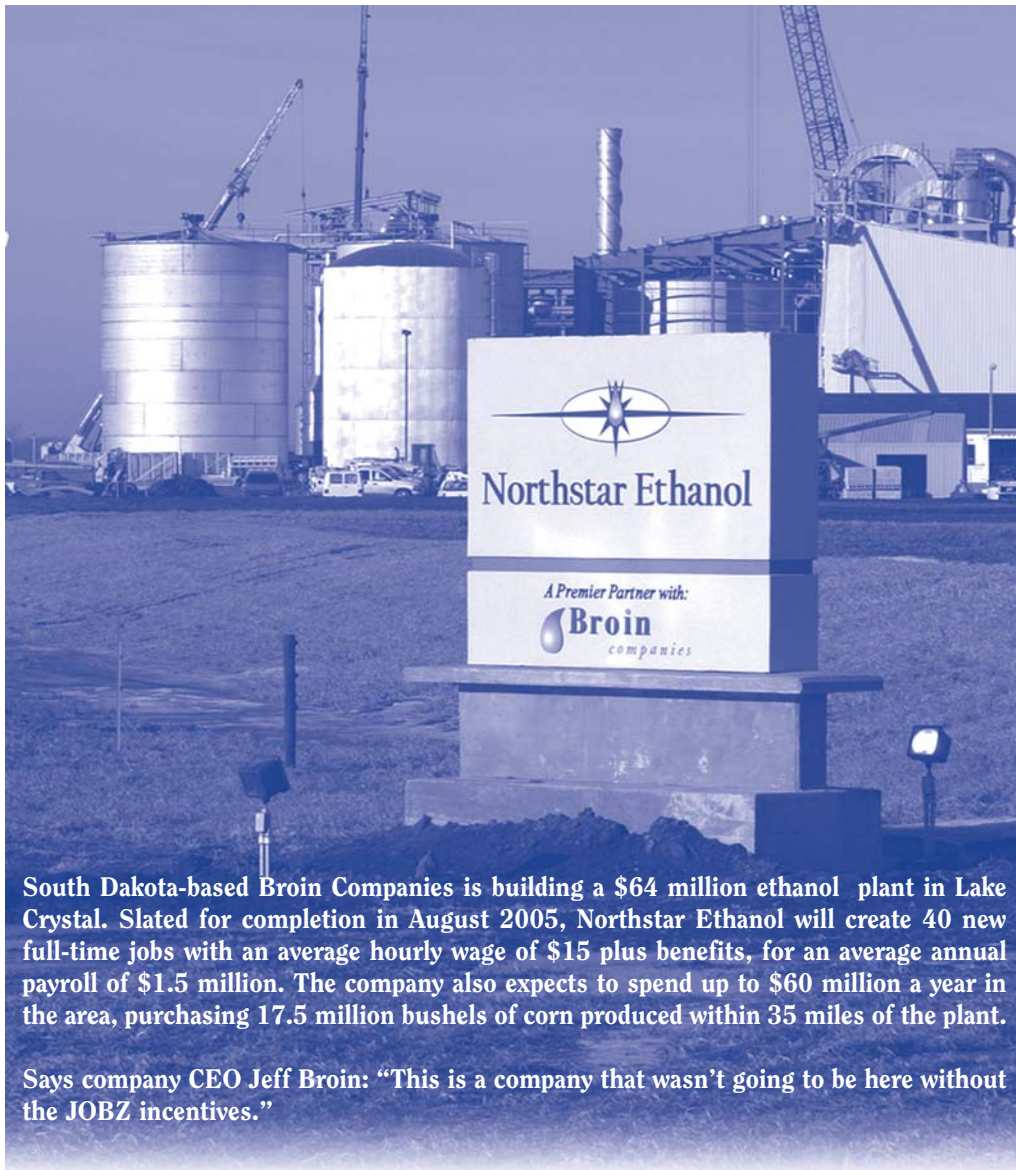




Minnesota's Job Opportunity Building Zone Initiative

A REPORT ON YEAR ONE





South Dakota-based Broin Companies is building a \$64 million ethanol plant in Lake Crystal. Slated for completion in August 2005, Northstar Ethanol will create 40 new full-time jobs with an average hourly wage of \$15 plus benefits, for an average annual payroll of \$1.5 million. The company also expects to spend up to \$60 million a year in the area, purchasing 17.5 million bushels of corn produced within 35 miles of the plant.

Says company CEO Jeff Broin: "This is a company that wasn't going to be here without the JOBZ incentives."

Minnesota's Job Opportunity Building Zones

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Minnesota's Job Opportunity Building Zone Initiative

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Introduction

Immediately after taking office in January 2003, Governor Tim Pawlenty urged the Legislature to pass a tax-free business incentive program to help revitalize some of Minnesota's most economically distressed rural areas. The administration believed that this initiative would not only attract new business investment, but also restore confidence in rural communities and reverse the fortunes of those that had suffered the biggest economic losses. Passed into law by the 2003 Legislature, the Job Opportunity Building Zone initiative—or simply JOBZ—swiftly emerged as Minnesota's marquee rural economic development stimulus program.

JOBZ generated an immediate buzz around the state even before the Legislature acted. By April, Scott Marquardt, director of economic development for the city of Montevideo, was already deep into the planning process.

"It's going to take a while for this bill to go through, but when it does it's going to be crunch-time and we'd better have a plan in place," Marquardt said.

His eagerness was understandable. Montevideo is in Chippewa County, one of five western counties that compete in the shadow of South Dakota's formidable tax incentives. The JOBZ program, with its tax-free development incentives, would help level the playing field and offer hope to Minnesota's border communities.

When the JOBZ legislation passed, regions throughout Greater Minnesota were ready.

"It's obvious that community leaders see this initiative as an extremely important part of their economic development strategies," DEED Commissioner Matt Kramer observed at the time. "The applications were extensive and comprehensive, with the biggest one encompassing a 13-county region and weighing in at nearly 1,300 pages."

One year later, it is clear that JOBZ has exceeded all expectations. With business projects signing on at the rate of about two a week, the program has proven to be a more successful economic stimulus than anyone had dared to predict. Last July, Governor Pawlenty announced the tally from the program's first six months—56 completed deals and nearly three times that number in the pipeline. By the end of 2004, that total had climbed to 118 and the pace continues to accelerate as the program enters its second year.



Launched on January 1, 2004, JOBZ provides substantial tax relief to companies that start up or expand in targeted areas of Greater Minnesota—from the date they sign a business subsidy agreement until the program expires on December 31, 2015. The program identifies 10 zones encompassing approximately 335 communities in virtually every region of the state outside the seven Twin Cities metropolitan counties. Besides targeting areas hit by economic distress, the program also aims to promote development in places that are already poised for business growth and have adequate infrastructure in place. It also seeks out places where favorable conditions exist for restoring productivity to under-used and unproductive properties through development, redevelopment, reclamation or recycling.

In 2004, 118 businesses signed JOBZ agreements promising to create at least 1,938 jobs and make \$152 million in capital investments. The spin-off effects are even more noteworthy. The anticipated long-term direct and indirect result of these first 118 projects will be nearly 3,500 Minnesota jobs and \$160 million in new personal income. And that's a conservative estimate, based on what businesses are actually promising to do in their business subsidy agreements. A more optimistic business projection—gleaned from local discussions with JOBZ businesses—suggests that we're likely to see closer to 3,000 new jobs and \$400 million in capital investments. Adding the spin-off effects results in a total of 5,500 long-term jobs and more than \$250 million in new personal income.

A Far-Reaching Impact

No single project illustrates the far-reaching impact of the JOBZ initiative better than Quick Attach Attachments, Inc. in Alexandria.

A start-up in 2003, the company sells its own line of attachments for skid steer loaders and compact tractors. The JOBZ incentives helped Todd and Amber Olson build a product showroom, distribution center and corporate office in Alexandria. Today their company has 25 different implements in its product line, and four more in development. They expect to add nine new full-time permanent sales positions and one full-time permanent office support position in the first two years. But that's just the beginning.

"I was originally going to take my designs to China and have them manufactured over there," says company president Todd Olson. "They would have even built a plant for us."

But instead of traveling thousands of miles to the Far East for workers, Olson looked 150 miles to the northwest and found them in Erskine. In April 2004, he bought controlling interest in the Erskine Manufacturing Co., a former Bobcat manufacturing plant that was shuttered in 2002. When that plant closed, 50 people lost their jobs—a huge employment loss in the city. Today, 25 people are back at work manufacturing 11 of the 25 implements in the Quick Attach line. Workers for a contract manufacturer in Eden Valley build other Quick Attach implements.

"Erskine Manufacturing will have sales just short of \$4 million," Olson said.

He anticipates steady growth for both Erskine Manufacturing and Quick Attach. And he wholeheartedly supports the JOBZ initiative: "Are taxpayers well served? I would say the answer is an emphatic yes. Do they want a community that is growth-oriented—one that is thriving? Or one that is dying?"

With its direct impact in Alexandria and indirect effect in Erskine and Eden Valley, Quick Attach provides one of the best and clearest examples of how businesses and communities are using JOBZ to create economic growth through longer-term and spin-off activity elsewhere in the state.



Todd and Amber Olson

While the main goal of the JOBZ initiative is to promote economic growth and create jobs for Minnesotans, another critically important objective is to help ensure that businesses and the jobs they provide stay here in Minnesota. Many of the businesses that took advantage of the JOBZ benefits in 2004 said the program persuaded them to stay in Minnesota and preserve existing jobs. These businesses said the program is directly responsible for the retention of 2,654 jobs in Minnesota and they estimated that another 2,900 jobs would be saved through spin-off activities. By these calculations, JOBZ is helping to save more than 5,600 jobs and as much as \$270 million in personal income.

Job Retention: Keeping Good Jobs in Rural Minnesota

In Greenbush, just 20 miles this side of the Canadian border, JOBZ keeps the fire burning under northwest Minnesota's economy by helping Central Boiler expand its operations. The largest manufacturer of outdoor wood furnaces in North America, Central Boiler is also the biggest private-sector employer in this city of 800, providing paychecks to 125 employees—with at least 40 new positions over the next three years under the JOBZ provisions.

These jobs make it possible for young people and families to stay or return when many small rural towns are losing population to cities, regional hubs or other states—families like Andy Hedlund's. From the Twin Cities suburb of Maplewood, Hedlund packed up his pregnant wife and 17-month-old daughter and headed northwest for a job opportunity and a better quality of life. After just a few months at Central Boiler, Hedlund and his family own property in Roseau with plans to build a new home there soon.

"It is a no brainer to take a job with a company like this because of their growth," he says, adding that his job offers ample opportunity for advancement.

Steve Muzzy, controller at Central Boiler, says the JOBZ incentives help the company draw workers like Hedlund. "Our growth as a company is a direct result of being able to attract and keep the talented individuals we have here," says Muzzy. "And participating in the JOBZ initiative allows us to reduce our expenses, increase our competitiveness and help us sustain further growth and expansion."

Under the JOBZ agreement, Central Boiler will add at least 40 new jobs by the end of 2007, a goal the company feels it can reach—and exceed—due to the recent completion of a 40,000 square-foot expansion. "Because of the new addition," Muzzy says, "we've already reached new shipping and production records."



Andy Hedlund

Regional Cooperation and Collaboration

Another important characteristic of the JOBZ program is the encouragement it gives to cities, counties, townships and other local and regional entities to work together. Regional marketing is the hallmark of the program and one of its strongest assets in attracting business investment in rural corners of the state. JOBZ is fundamentally a local initiative with a regional approach.

Today, for example, 40 people are working new jobs and collecting decent paychecks in Winona, thanks to the forward thinking and civic mindedness of city leaders in Montgomery, a town 100 miles away.

It's a story that would not have happened without JOBZ.

Wenonah Canoe had long been one of Winona's best employers. So city officials scrambled into action when founder Mike Cichanowski told them that he was closing a kayak manufacturing plant in British Columbia, and would consider moving it to Winona if he could get financial help. JOBZ would be an ideal tool—but Winona had no land enrolled in the program—and without powerful incentives the relocation was likely doomed.



Wenonah Canoe



Mike Cichanowski

Enter: Judith Bodway, the city's longtime economic development director.

Judith contacted every community with approved JOBZ acres in the nine-county Southern Minnesota JOBZ Alliance to ask if anyone would be willing to give up five acres. Officials in Montgomery, 100 miles to the northwest, said they would happily give up five of their 100 JOBZ acres—but they wanted something in return. Bodway held her breath. How much was this going to cost?

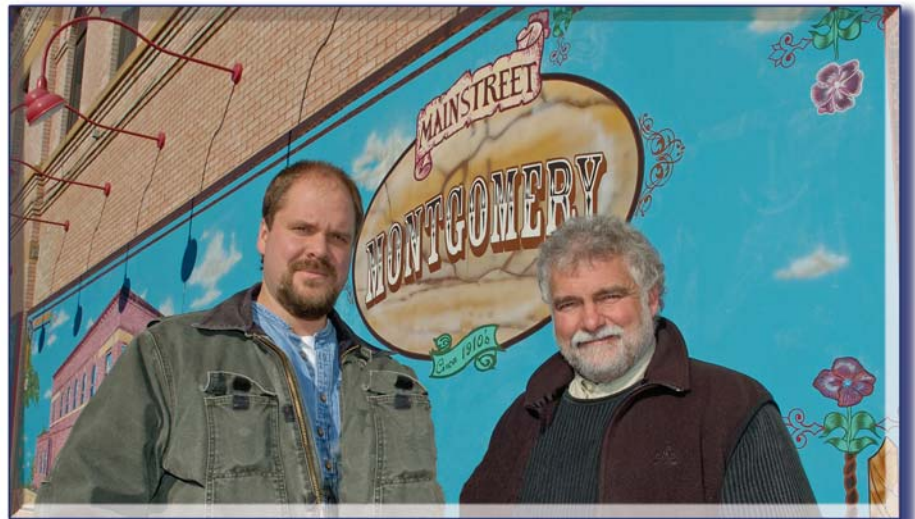
Montgomery residents wanted more telephone, cable and Internet services but couldn't find a provider. They needed Winona officials to help arrange a meeting between Montgomery officials and a Winona-area telecommunications company. Bodway was happy to help.

DEED officials approved the land transfer and in October 2004, Wenonah Canoe opened a new kayak manufacturing facility on its Winona campus.

"I can't say enough about Montgomery stepping up to the plate like they did. Without the generosity of a fellow Minnesota community, I don't know where we would have been," says Bodway. "I think it shows we can work together. We're not all out there trying to grab someone else's business."



Judith Bodway, Winona Economic Development Director



Troy Domine, JOBZ Sub-Zone Administrator, and Montgomery Mayor Michael (Mick) McGuire

Quality of Jobs, Quality of Life

In April 2004 Governor Pawlenty and others stood smiling under a big-top tent on Main Street in Luverne. They were there to announce that Total Card, Inc. (TCI), a credit card servicing company in Sioux Falls, S.D., would expand in Luverne and spend \$1.5 million to purchase and update an idle facility.

It was an event that never would have happened without the JOBZ initiative. Company officials had already chosen a new expansion site in South Dakota and were about to close the deal when city officials in Luverne made an 11th-hour proposal that included JOBZ incentives. And it worked.

“We were just kind of overwhelmed by the benefits,” said Total Card’s president Greg Ticknor. Prior to the presentation, Ticknor said there was “about a 1 percent chance” that the company would reverse its course and expand in Luverne.

Company officials promised a minimum of 150 full-time jobs in customer service, collections and marketing, and suggested that number would more than likely exceed 200 over two years.

Such good jobs are scarce in and around Luverne. About one-third of the city’s workforce travels outside the county to work. Judy Shelman was driving 70 miles round trip each day to find living wages in Sioux Falls. She dreaded the daily commute, especially in winter when Interstate 90 turned into a treacherous slide.

Today, Judy’s travel time to her job with Total Card is notably less. “It takes me three minutes from home to work,” she says. “I have great wages, great benefits and a great company to work for.”

“Without the JOBZ zones, we don’t have a lot of competitive edge, but this has been a real shot in the arm,” says Luverne Mayor Glen Gust. “We’re seeing results. And we’re going to use this to make things happen.”



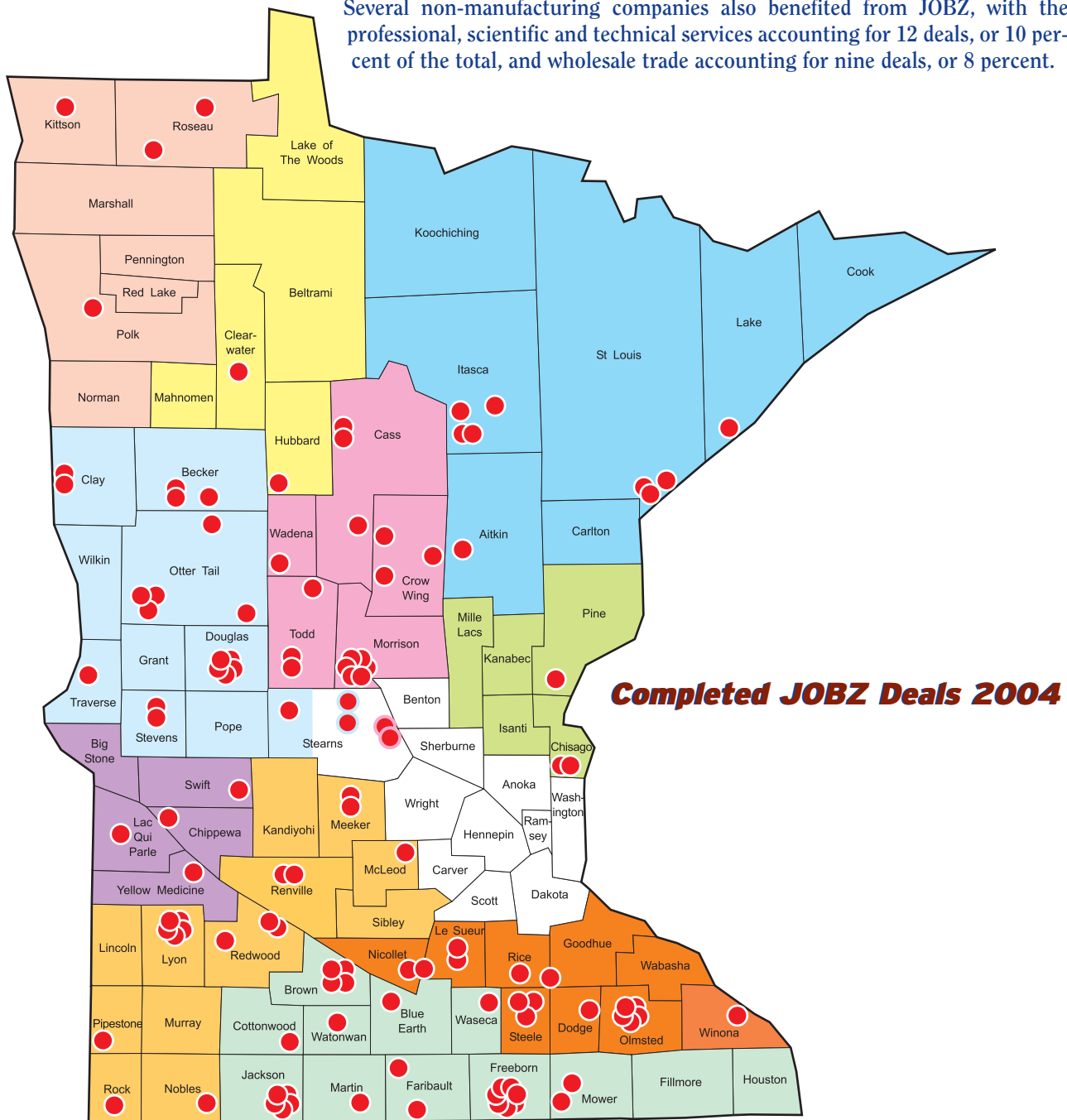
Judy Shelman

JOBZ by the Numbers

A DIVERSE ARRAY OF BUSINESSES

The JOBZ deals completed in 2004 reflected the breadth and depth of Minnesota's business environment. Manufacturing companies dominated the scene, accounting for 67 of the 118 projects, or 57 percent of all JOBZ deals. More importantly, within that broad category a diverse array of manufacturing businesses participated in the JOBZ program. These included resource-based industries (food processing, wood and paper products) and durable goods (transportation equipment, computer/electronic products and industrial machinery).

Several non-manufacturing companies also benefited from JOBZ, with the professional, scientific and technical services accounting for 12 deals, or 10 percent of the total, and wholesale trade accounting for nine deals, or 8 percent.

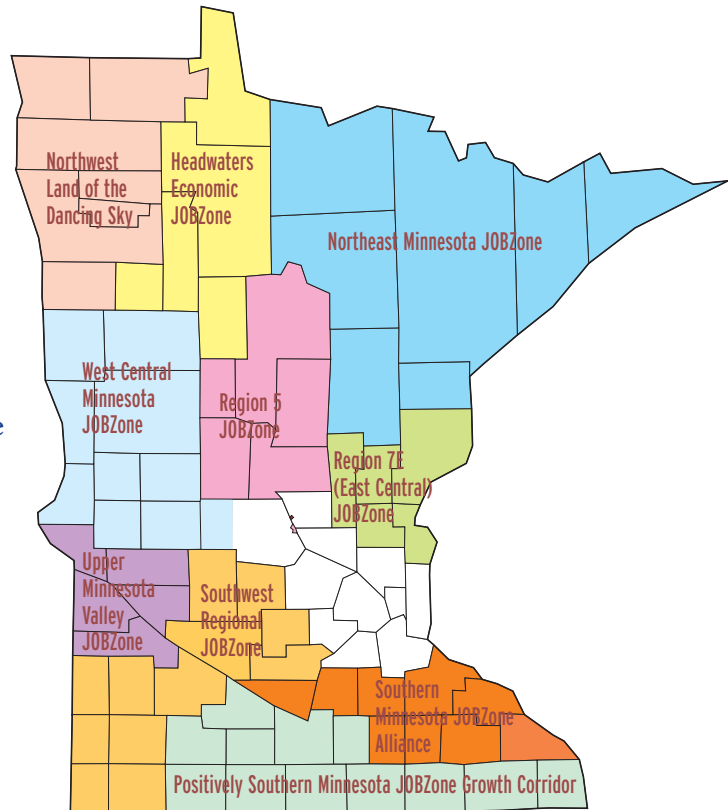


JOBZ by the Numbers

REASONS TO INVEST IN JOBZ ZONES

Although activity occurred throughout the state, 52 percent of the projects (62 deals) occurred in the south. The northern regions were the least active, accounting for 13 percent, or 15 of the JOBZ projects. Job creation activity generally follows the location of the JOBZ projects, with the southern regions accounting for 61 percent of new jobs and the northern regions home to 6 percent of the expected new jobs.

Projects and job creation by JOBZ zone don't vary significantly from the analysis by economic region. The three southern regions accounted for nearly half of the JOBZ projects and about 59 percent of new jobs. Likewise, about 13 percent of the projects and 7 percent of the new jobs were located in the three northern regions. The central regions were home to the remaining projects and new jobs.



JOB CREATION AND INVESTMENTS IN JOBZONES			
ZONE	NEW JOB CREATION	COMPENSATION	CAPITAL INVESTMENT
Headwaters Economic JOBZone	25	\$ 9.87	\$ 837,000
Northeast Minnesota JOBZone	53	\$ 9.93	\$ 17,337,000
Northwest Land of the Dancing Sky	52	\$ 10.01	\$ 1,250,000
Positively Southern Minnesota JOBZone Growth Corridor	429	\$13.07	\$83,556,000
Region 5 JOBZone	173	\$ 11.95	\$ 5,830,000
Region 7E (East Central) JOBZone	280	\$20.68	\$ 100,000
Southern Minnesota JOBZone Alliance	256	\$10.77	\$ 9,828,550
Southwest Regional JOBZone	433	\$10.47	\$ 9,233,608
Upper Minnesota Valley JOBZone	38	\$ 9.99	\$ 425,000
West Central Minnesota JOBZone	199	\$10.30	\$24,040,595
TOTAL	1,938	\$ 12.61 (average)	\$152,437,753

BUSINESS SURVEY RESULTS

Frenetic activity and impressive numbers were the defining characteristics of the first year of JOBZ—and the pace hasn’t slowed in the early months of its second year. The balance of this report breaks down that activity and evaluates some of the numbers that define the program. At the end of the day, when all the numbers are crunched, at least one conclusion is unavoidable. JOBZ made a big difference in the ways business executives and community leaders approached rural development in 2004.

As noted by the *Star Tribune* in an editorial published on December 12, 2004: “For all its defects in the eyes of economic purists, the JOBZ program is working as advertised. In less than a year’s time, 104 job-creating businesses started, moved or expanded into JOBZ districts in outstate communities.”

There were 118 JOBZ agreements signed in 2004—an average of more than two per week—and 102 of the businesses completed a DEED survey designed to determine what factors guided or influenced their decisions. The results are telling. Nearly all of the respondents, about 92 percent, said that receiving the tax-free benefits was a *very* important reason for their location decision, nearly twice as many as any other factor. Respondents also identified the quality of life and availability of skilled labor as important factors. Other highly rated reasons were state and local assistance and transportation infrastructure.

REASONS TO INVEST IN JOBZONES

	Very Important	Somewhat Important	Not Important at All	Not Applicable
JOBZ tax-free zone benefits	92%	7%	1%	0%
Quality of life	49%	45%	4%	3%
Availability of skilled labor	47%	47%	4%	3%
Other local or state assistance	45%	27%	14%	14%
Transportation infrastructure	40%	41%	14%	6%
Proximity to markets	39%	31%	23%	8%
Other	37%	5%	5%	53%
Labor cost	34%	60%	3%	3%
Telecommunications Infrastructure	28%	45%	21%	7%
Proximity to headquarters/parent	25%	24%	13%	39%
Access to training opportunities	14%	51%	31%	5%
Proximity to suppliers	13%	52%	25%	10%
Access to postsecondary education	3%	28%	55%	14%

Sums may not add to 100 percent due to rounding.

REDUCED BUSINESS INVESTMENT WITHOUT JOBZ

Business respondents also confirmed that JOBZ made a significant difference in their willingness to invest in Greater Minnesota. About 92 percent of the businesses said they would not have made the same investment in the same location without JOBZ benefits, and nearly 30 percent said that if JOBZ benefits had not been available in Minnesota, they would have invested in other states. Within that group, most said they would have gone to South Dakota (20 percent), Wisconsin (16 percent) or Iowa (13 percent), and about one-fourth of them mentioned other states including California, Missouri, Ohio, Illinois, Michigan and Kansas.

OTHER FINDINGS

- About three-fourths of the businesses reported that they learned about JOBZ through local government sources. Other sources included colleagues, peers, site selection consultants and the media.
- Businesses reported widespread satisfaction with the JOBZ process. Only one business was not satisfied while nearly half of respondents (45 percent) were very satisfied.
- About 62 percent said the process exceeded their expectations while nearly 35 percent had their expectations met. Just 3 percent said their expectations were not met.
- Business respondents made several recommendations for improvement, including: more education, less paperwork, addressing existing property taxes and providing estimates of property taxes for the following year.



Partnership and collaboration are the hallmarks of JOBZ success. DEED has worked closely with zone and subzone administrators on marketing the program, providing project guidance and advice, and developing electronic tools and information for the JOBZ website.

The Center for Rural Policy and Development (CRPD) has been both an independent observer of the JOBZ program and an important partner with DEED in monitoring and evaluating the program's first year. CRPD co-hosted "Working the Deal: JOBZ in 2004," an informational workshop in Hibbing last August. The center also completed an important report based on a survey of JOBZ sub-zone administrators.

The survey was administered in May and June of 2004 and was an important step in learning more about sub-zone activities and preliminary business interest. Administrators were asked several questions about the profile of their sub-zone, sub-zone activity, business interest and assessment of program administration.

The findings were particularly interesting in that high JOBZ activity is undoubtedly linked to the active marketing by the sub-zones. According to the survey, most sub-zones (73 percent) reported that they had already initiated strategies that included joint marketing with DEED (42 percent) and a web presence (40 percent).

CRPD continues to provide valuable perspective on JOBZ. From important analysis on program activity to joint training sessions, CRPD will play an important role in program administration and evaluation.

MARKETING STRATEGIES EMPLOYED BY SUB-ZONES

Strategy	Percent Used
Joint marketing with DEED	42%
Having a web site or "web presence"	40%
Joint marketing with other sub-zones	33%
Contacting local businesses about JOBZ	32%
Advertising in trade/business publications	31%
Contacting non-local businesses about JOBZ	20%
Contacting non-Minnesota businesses about JOBZ	20%
Exhibiting in trade/business shows	17%

Source: *Job Opportunity Building Zones: Constructing the Framework for Program Evaluation*, Center for Rural Policy and Development, 2004.

A WINNING STRATEGY WITH A BRIGHT FUTURE

This report charts the progress of the JOBZ program in its first year. State and local officials and administrators continue to evaluate the program, posing questions about what's working, what's not, and where the program is headed. As a result, JOBZ is very much a work in progress—a continually evolving program that's largely driven by community and business needs and demands.

Early last year, Governor Pawlenty toured the state to discuss and promote the JOBZ program. Speaking to an audience in Worthington, the governor acknowledged: "These zones are not perfect, they are not ideal. But they are a big step forward in terms of attracting job growth to the state of Minnesota. And they will work."

The constant tweaking of a good program has been the state's guiding principle in administering JOBZ. For example, the number of JOBZ-related business relocations within Minnesota clearly exceeded early expectations, which could lead to possible modifications of existing relocation policies. And although preliminary tax and benefit comparisons have been very promising, a complete evaluation will rely on official tax information which will be available this fall.

Today the JOBZ program is just one year into an ambitious experiment that will continue for another decade and more. Stay tuned. What's certain is that JOBZ so far has proved to be a winning strategy for Minnesota's rural communities. The experience in this first year has been nothing short of amazing, and the future of JOBZ is looking bright.





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