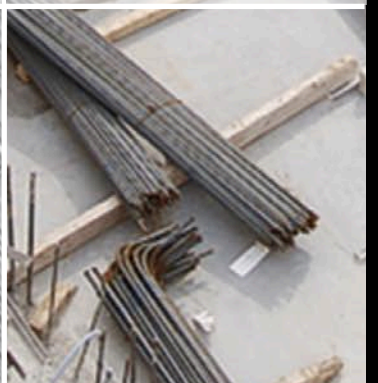
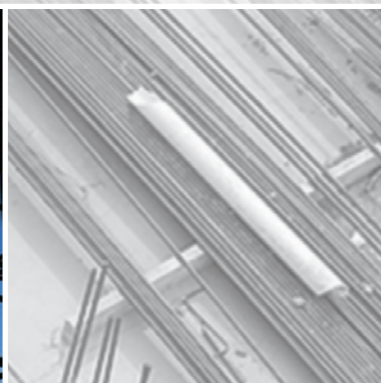
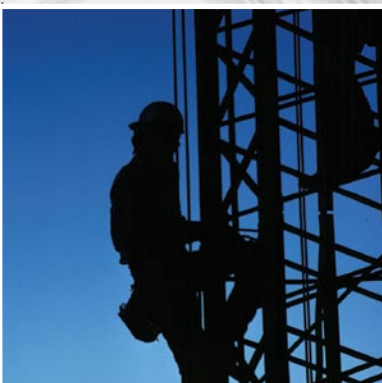
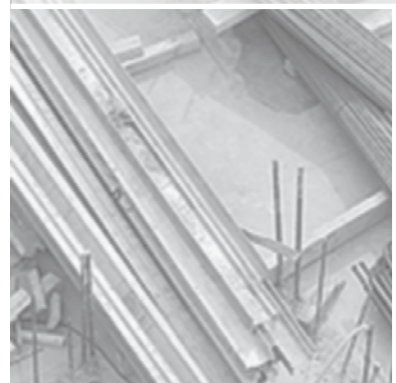


Minnesota's Job Opportunity Building Zone Initiative



A Report on Year Two of Minnesota's Job Opportunity Building Zone Initiative

Minnesota's Job Opportunity Building Zone (JOBZ) program continued on the fast track in 2005, passing the 200-deal mark late in the year. At the beginning of 2006, two years into the 12-year life of the program, the total number of completed JOBZ deals surpassed 200, confirming that communities are using JOBZ incentives to attract new business investment in virtually every region outside the seven Twin Cities metropolitan counties.

Offering tax-free development opportunities to companies that start up or expand in targeted areas of Greater Minnesota, JOBZ continues to be a key reason for business investment. JOBZ businesses have agreed to create more than 3,100 jobs and make \$276 million in capital investments. Once the goals are achieved, we can reasonably expect the program to support an additional 4,700 jobs in other industries due to business and employee spending. Overall, JOBZ-related activity will

generate \$180 million in personal income to the state, including in the Twin Cities. And that's just the beginning. JOBZ businesses hope to top their goals by 1,200 more jobs in the coming years. These new jobs, along with the thousands of retained jobs, speak volumes to the success of the program and the confidence businesses have in Greater Minnesota.

Although the program has maintained its momentum, the pace did slow a bit in 2005. The slight drop-off – from 138 deals in 2004 to about 90 deals in 2005 – is likely due to the application of the prevailing wage statute to JOBZ and the pending lawsuit regarding the constitutionality of the program. In a recent analysis by the Center for Rural Policy and Development, nearly two-thirds of JOBZ subzone administrators reported that the prevailing wage statute was problematic in their promotional activities, and about one-third of the administrators reported that prospective businesses have commented about the lawsuit.

JOBZ by the Numbers

A survey of 2004-2005 JOBZ businesses produced some revealing numbers. The survey, conducted by the Minnesota Department of Employment and Economic Development (DEED), confirmed that the tax-free benefits of the program were "very important" to nearly all of the JOBZ businesses as they made decisions about where to locate. Ninety-two percent said that they would not have made the same investment in the same location without the tax-free development incentive.

The survey also confirmed that Minnesota continues to battle other locations for business investment and jobs: 26 percent of the respondents said that, but for the JOBZ incentives, they likely would have invested in a non-Minnesota location. States along Minnesota's borders were most frequently mentioned as competing locations.

JOBZ businesses also cited Minnesota's quality of life, labor issues and transportation infrastructure as important factors in their investment decisions. The importance of these factors has remained relatively consistent during the first two years of the JOBZ initiative.

Local government officials have proven to be the most effective marketers of the JOBZ program. Nearly two-thirds of JOBZ businesses heard about the initiative from local city and economic development officials. No other single source was even close. And once businesses learned of JOBZ, local folks established a good working relationship with them. Businesses reported a 98 percent satisfaction level with the JOBZ process, with 43 percent noting that they were "very satisfied." Moreover, 58 percent of participating businesses said the process had exceeded their expectations – a very good sign of excellent local economic development service.

Reasons to Invest in JOBZ Zones 2004-2005 Survey Participants

Reasons	Very Important	Somewhat Important	Not Important at All	Not Applicable
JOBZ tax-free zone benefits	89%	10%	1%	0%
Quality of Life	56%	38%	3%	3%
Other local or state assistance	45%	27%	15%	13%
Availability of skilled labor	41%	49%	7%	3%
Transportation infrastructure	38%	42%	14%	6%
Proximity to markets	37%	34%	23%	6%
Labor cost	35%	54%	9%	3%
Other	35%	3%	3%	58%
Telecommunications Infrastructure	26%	47%	21%	6%
Proximity to headquarters/ parent	24%	20%	16%	40%
Access to training opportunities	12%	51%	32%	5%
Proximity to suppliers	12%	48%	32%	9%
Access to postsecondary education	4%	27%	56%	14%

Job Creation

JOBZ is proving to be a strong job creation tonic in Greater Minnesota. Businesses receiving benefits in 2004 reported creating more than 1,001 full-time jobs, with nearly 38 percent paying \$15 per hour or more – a powerful statistic when compared to the goal of 14 percent of the jobs at that wage level. These results are even more impressive when compared to the 2003 statewide business subsidy activity reported to DEED (the year before JOBZ), when just 19.9 percent of new full-time jobs created by businesses paid at least \$15 per hour. JOBZ performance will further improve as businesses add jobs to meet targets and timelines specified in business subsidy agreements.

Full-time Job Creation by JOBZ Businesses in 2004

Hourly Wages (excluding benefits)	Job Creation Goals	Percentage of Jobs	Actual Job Creation	Percentage of Jobs
\$15.00 and higher	153	13.5%	377	37.7%
\$13.00 to \$14.99	29	2.6%	117	11.7%
\$11.00 to \$12.99	335	29.5%	187	18.7%
\$9.00 to \$10.99	537	47.4%	272	27.2%
\$7.00 to \$8.99	16	1.4%	43	4.3%
less than \$7.00	0	0.0%	5	0.5%
no hourly wage goal specified	64	5.6%	-	-
Total	1,134	100.0%	1,001	100.0%

Note: Business subsidy agreements specify timeline for businesses to meet job creation and wage goals. Most businesses have at least two years to achieve targets.

Impacts

JOBZ is fueling economic gains throughout Minnesota. Participating businesses created 1,195 new full-time equivalent (includes part-time) jobs in 2004, and associated business operations and employee spending are expected to support an additional 2,100 jobs. Although the majority of these jobs will be in Greater Minnesota, the Twin Cities likely will be home to upwards of 25 percent of the “spin-off” jobs.

The impacts of this performance more than offset investment costs in 2004. According to the Department of Revenue, JOBZ businesses received \$6.4 million in tax benefits during the year. Contrast this to the nearly 3,300 jobs and \$80 million in annual wages.

Regional Impacts and Investments in 2004

JOBZ Region	Projects	FTE Jobs	Expected “Spin-Off” Jobs	Total Jobs	Annual Wages (millions)	Tax Benefits
Northeast Minnesota	12	66	56	122	\$3.1	\$219,000
Northwest Land of the Dancing Sky	6	70	43	113	\$2.7	\$136,000
Positively Southern Minnesota JOBZone Growth Corridor	27	327	268	595	\$13.1	\$1,242,000
Region 5	22	309	396	705	\$15.2	\$612,000
Southern Minnesota JOBZone Alliance	16	143	132	275	\$5.7	\$741,000
Southwest Regional	19	91	340	431	\$7.9	\$1,350,000
West Central Minnesota	25	172	193	365	\$8.0	\$704,000
Other*	11	17	8	25	0.6	\$1,420,000
Statewide (includes inter-regional and Twin Cities impacts)	138	1,195	2,080	3,275	\$80.3	\$6,424,000

Note: The tax benefits information is based on data reported to the Minnesota Department of Revenue by 115 businesses on Schedule JOBZ and Form M500. Benefits were estimated for an additional 23 JOBZ businesses. The tax benefits include exemptions from the individual income tax, corporate franchise tax, general sales and use tax, and motor vehicle sales tax, and the jobs credit. Local tax benefits include an exemption from any local option sales tax. There were no property tax exemptions in the first year of the program.

* Tax benefit information has been combined for three zones – Headwaters Economic, Region 7E (East Central) and Upper Minnesota Valley – where there are fewer than four tax returns or where a single taxpayer accounts for a majority of tax benefits.

Looking Ahead

JOBZ is now well into the third year of its 12-year lifespan. It's likely that the brisk pace of new JOBZ deals will slow somewhat with each passing year, as will the value of the program's tax-free development incentives to new businesses. Nevertheless, the success of JOBZ in its early years continues to exceed expectations. JOBZ has proven to be an effective tool to attract new business investment and restore confidence in Greater Minnesota communities. As the program evolves and matures, it certainly ranks among the state's most successful economic development programs – and will continue to be an important and useful tool in Minnesota economic development toolbox.

Minnesota JOBZones

209 Deals Completed in 2004-2005

