

Evaluation Report Summary / February 2008

JOBZ Program

While JOBZ has been a useful economic development tool in some cases, it has not been adequately focused or administered.

Major Findings:

- The JOBZ program has some value as an economic development tool. It has helped attract some out-of-state businesses to Greater Minnesota and kept some Minnesota businesses from leaving the state.
- However, the program has not been focused on those goals and has been used to provide tax breaks to some businesses that would have expanded in Greater Minnesota without JOBZ.
- In addition, the program has subsidized some businesses that compete with existing Minnesota businesses for the same Minnesota customers.
- The program is unfocused because it lacks a budget constraint and meaningful policies for local governments to follow in deciding which businesses may participate in the program.
- The JOBZ program also has not been targeted to those parts of Greater Minnesota that are economically distressed and most in need of assistance.
- There are significant problems with program administration, particularly business subsidy agreements, which too frequently lack adequate job and wage requirements.
- The process used by the Department of Employment and Economic

Development (DEED) to check business compliance with job and wage requirements is slow and may not identify some businesses that are not meeting their JOBZ obligations.

- Some businesses removed from the JOBZ program have not had to repay any property tax breaks and have continued to receive those subsidies for a time following their removal from the program.

Recommendations:

- The Legislature should require DEED to review and approve all business subsidy agreements before they can become effective. DEED should also be required to implement meaningful criteria for determining whether a business should receive JOBZ assistance.
- The Legislature should either limit the number of businesses allowed to enter the JOBZ program each year or limit the estimated cost of future subsidies for new entrants each year.
- DEED should revamp the reporting forms used to monitor compliance and measure the overall effectiveness of the program.
- DEED should streamline its compliance process to more rapidly identify and remove from the program businesses that do not meet their obligations.

Report Summary

The JOBZ (Job Opportunity Building Zones) program attempts to spur economic growth in Greater Minnesota by providing state and local tax breaks to selected businesses. To qualify for the program, a business must locate in one of the designated zones throughout Greater Minnesota and sign a business subsidy agreement with its local jurisdiction.

After the program's introduction in 2004, it quickly became one of Minnesota's most utilized economic development programs. More than 150 local communities and 350 businesses have participated in the program.

The JOBZ program has not been targeted to economically distressed areas within Greater Minnesota.

Typically, enterprise zone programs have been used across the nation to provide tax breaks to businesses locating in economically distressed parts of a state or city. Similarly, state law required the Department of Employment and Economic Development (DEED) to use various need and success criteria in establishing ten JOBZ zones across the state.

But these criteria became unimportant because DEED worked with local governments to ensure that there were only ten applications. Each of these applications included dozens of cities and townships and hundreds of noncontiguous subzones.

As a result, there has been no targeting of JOBZ incentives to areas with greater distress except to limit the program to Greater Minnesota. DEED has established over 1,150 separate subzones on a total of about 29,300 acres in more than 350 cities and townships. DEED has also frequently

moved the subzones to accommodate the location preferences of interested businesses.

The JOBZ program provides a useful economic development tool, but it has been used at times to provide unnecessary subsidies.

JOBZ has some value as an economic development tool. It has been successful in attracting some businesses to Minnesota from other states and in keeping some business expansions from leaving the state. However, the program has not maintained a focus on these goals.

Surveys of JOBZ businesses indicate that about 19 percent of the participants would have expanded to the same extent in Greater Minnesota without JOBZ assistance. In addition, another 50 percent would have expanded to some extent without tax breaks.

Furthermore, local governments have approved JOBZ subsidies for businesses that compete with other Greater Minnesota companies for the same Minnesota customers. The increase in employment at subsidized businesses could be offset by job cuts at their competitors.

Finally, the program sometimes provides subsidies to businesses that do not need the full array of JOBZ subsidies in order to expand. The program lacks any procedures to determine whether less generous subsidies than those offered by JOBZ would be sufficient to induce a business to expand in Greater Minnesota.

The JOBZ program has not provided much help to certain economically distressed areas in Greater Minnesota.

Local governments make decisions about business participation with little state input and no significant budget constraints.

The program's effectiveness is reduced by the lack of a statewide perspective in the approval of JOBZ deals and the absence of any budgetary constraints.

Local governments, not state agencies, determine what job growth and capital investment obligations companies must meet to participate in the program. The JOBZ law sets some minimum requirements but only for companies that relocate part or all of their operations into a zone from another Minnesota location.

Local officials evaluate potential JOBZ companies primarily on their likely effect on the local economy and not on the broader impact on Greater Minnesota. Furthermore, local officials do not consider the full cost of providing JOBZ subsidies, since most of the tax breaks are funded by state government. Some cities find it hard to turn down requests from local businesses for JOBZ assistance and sometimes feel obligated to offer it in order to compete with other Minnesota communities.

The number of businesses in the program is limited only by the amount of land that can be designated as JOBZ locations. The JOBZ legislation authorizes DEED to designate up to 50,000 acres statewide as JOBZ sites. This has not proved to be a meaningful limit on program participation. Essentially, any business that meets the minimal statutory requirements may participate if approved by a local government.

As a result, JOBZ is not focused on those businesses likely to contribute to substantial economic growth in Greater Minnesota. In addition, nearly half of the businesses participating in JOBZ are obligated to hire 5 or fewer new full-time equivalent employees.

The estimates published by the Department of Employment and Economic Development overstate the impact of the JOBZ program.

In statistics posted on its web site, DEED has credited the JOBZ program with the creation of 5,459 new full-time jobs as of the end of 2006. However, our review of unemployment insurance records suggests that the increase in employment at JOBZ businesses is at least 20 percent lower. The difference is due to the lack of adequate reporting forms and a tendency of businesses to overstate their employment.

Additionally, DEED's figures assume that none of the businesses in the JOBZ program would have created any new jobs in Greater Minnesota without the tax breaks provided by the program. However, as indicated above, surveys of JOBZ businesses indicate that a substantial number of them would have expanded to some extent even without JOBZ. In addition, economic studies of enterprise zone and tax incentive programs elsewhere in the country also suggest that DEED's estimates of economic impact are inflated.

There are significant problems with the business subsidy agreements signed by local governments.

To enter the JOBZ program, companies must sign business subsidy agreements with local governments in which they agree to meet employment and capital investment targets as a condition of receiving the subsidy. Nearly all of these agreements have contained ambiguous language, requiring businesses to create or retain full-time employees without providing a clear definition of "full-time" or "employee."

Many agreements have been poorly worded and are dotted with grammatical inconsistencies that obscure the obligations of the

The administration of JOBZ needs significant improvement.

participating companies. A few agreements set no deadlines for companies to meet their hiring commitments. Over 60 agreements do not require businesses to maintain the jobs they promise to create for as long as they are receiving tax breaks.

DEED's process for reviewing JOBZ compliance is slow, inefficient, and may fail to identify some businesses that are not meeting their obligations.

Businesses and local governments that have entered JOBZ agreements must file reports with DEED every spring. However, DEED's review of these reports has been slow. It took until February 2007 for the agency to determine that some businesses had not met their obligations during 2005. At the writing of this report, DEED had not completed reviewing and following up on reports filed for calendar year 2006.

DEED's slowness in monitoring compliance has enabled a few businesses to receive property tax exemptions beyond the date that they became noncompliant with their business subsidy agreements. A speedier compliance process and a change in state law would address this problem.

In addition, the compliance process may fail to identify some businesses that are noncompliant. The process used by DEED to collect information on employment and wages is based on a flawed form. In addition, DEED does not require business officials to certify the accuracy of the information provided in annual progress reports. Although the information frequently conflicts with data that JOBZ businesses have submitted in their unemployment insurance filings, DEED staff have not used the unemployment insurance data to assist in monitoring compliance.

Summary of Agency Responses

In a letter dated February 4, 2008, DEED Commissioner Dan McElroy wrote, ". . . we agree with the findings that significant changes need to be made to increase state oversight and accountability for program performance." In addition, he agreed with the report's recommendations to strengthen business subsidy agreements and improve DEED's monitoring and compliance process. However, he wrote "we do not think it feasible or reasonable . . . to place a cap on the level of subsidies or number of new businesses entering the program" and suggested instead that the Legislature monitor the overall program cost over time.

In a letter dated February 4, 2008, Revenue Commissioner Ward Einess agreed with the findings and recommendations directed specifically at the Department of Revenue. He stated that the Department will address many of the report's recommendations in the departmental tax bill to be proposed during the 2008 legislative session.

The full evaluation report, *JOBZ Program*,
is available at 651-296-4708 or:
www.auditor.leg.state.mn.us/ped/2008/jobz.htm