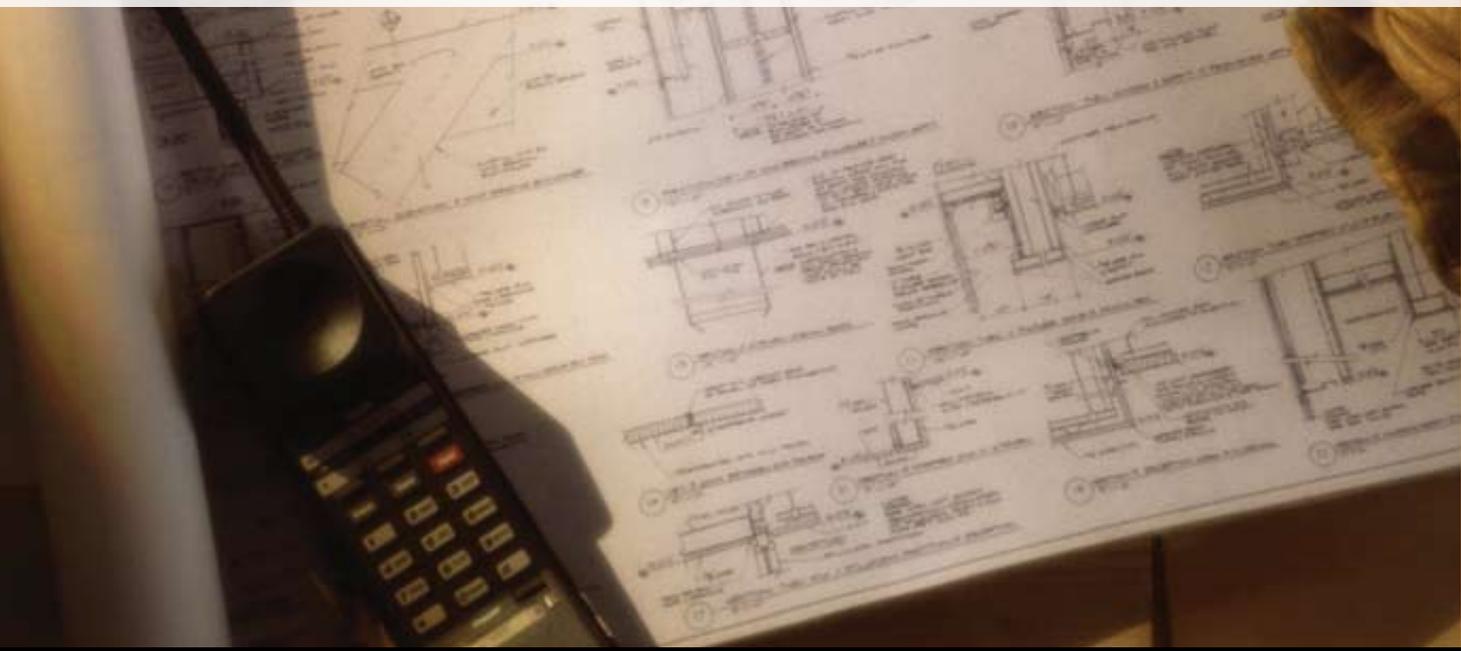


Minnesota's Job Opportunity Building Zone Initiative



2006 Annual Report

A SUCCESSFUL START AND A COURSE FOR FUTURE PROGRESS

Now in its fourth year, Minnesota's Job Opportunity Building Zone program, popularly known as JOBZ, has fulfilled or exceeded all of the performance measures that were stipulated at its inception. This publication offers a report on the program's successes after three full years, and it proposes a course for continued progress into the future.

In terms of its own legislatively mandated metrics, JOBZ has been hugely successful in promoting economic development in economically distressed rural areas of our state. We've seen almost 300 business development projects in virtually every part of Minnesota. These include companies expanding and relocating within our state and moving here from other states. They've created as few as five jobs and as many as 296 new opportunities for employment. In all, the program has added more than 4,800 (projected) jobs to Minnesota's economy; it has resulted in private investments estimated at about \$600 million.

One of the best parts of the story is that the wages paid, on average, have been considerably higher than expected. For jobs created in 2004 and 2005, the average wage was \$14.99 per hour. When 2006 information is available, we expect similar good news on wages.

Communities statewide have used JOBZ to promote expansive business development and create jobs. But in addition to the statistics that we employ to tell the JOBZ story, we've heard hundreds of stories about how the program achieves powerful payoffs and rewards that will never be accounted for on a balance sheet. Things like a renewed sense of enthusiasm and hope, a more close-knit community, and a shared sense of responsibility for making good things happen.

JOBZ BY THE NUMBERS

At the end of 2006, JOBZ had produced:

- Nearly 300 completed deals
- Commitments to create 4,306 new jobs
- More than 2,000 jobs retained
- Hourly average wage of \$14.99 for new jobs
- Confirmed capital investment of about \$600 million
- Estimated payroll of more than \$200 million
- The vast majority (68 percent) of new jobs are in the manufacturing industries.
- A survey of 2004-2006 JOBZ participants found that 88 percent of the participants said the tax-free benefits were "very important" in their decision.
- About 90 percent of respondents said they would not have made the same investment in the same locations without the tax-free incentives.
- More than 25 percent of respondents said that without the incentives they likely would have invested in locations outside Minnesota. States bordering Minnesota were most frequently mentioned as competing locations.

A MID-COURSE ADJUSTMENT

The evidence we cite in this report demonstrates that JOBZ is a winning strategy for Greater Minnesota. Nevertheless, it remains very much a work in progress. It's an evolving program, driven by local community and business needs and demands. For all its remarkable success, the JOBZ program has reached the point in its statutory life when a minor mid-course adjustment is needed.

JOBZ was among Governor Tim Pawlenty's first major initiatives after taking office in January 2003. That year the Legislature passed the enabling legislation and JOBZ took effect on January 1, 2004. We now have three full years of useful experience by which to gauge its success and plot its future.

The original JOBZ legislation created tax-free zones for 12 years, with the law "sunsetting" or expiring on December 31, 2015. The number of years that companies may receive tax benefits depends upon when they are approved to enter the program.

A company that signed a business subsidy agreement in January 2004 would receive tax incentives for the full 12 years. But a company entering the program in January 2007 receives tax breaks for just nine years before the program expires

at the end of 2015. Companies that sign up for the program later will have even fewer years, greatly diminishing the incentive value of the program as the years go on.

To keep the value constant, the governor has requested that JOBZ benefits be made available for 10 full years to any qualifying business that signs on for the incentives anytime prior to the program's sunset. This is a small but important change to a program that has worked exactly the way it was intended to work by bringing private investment and new employment opportunities to rural Minnesota.

Today's economic realities are not exactly what they were in 2003. Four years ago Minnesota was dividing into two separate and unequal economies: a robust 21st-century high-tech version that ran in a narrow metropolitan swath, and a declining 20th-century version in the rest of the state. Wisely, the Legislature recognized that we could not afford to let that happen, that all of us have a vital interest, based on both economics and equity, in bringing about a broadly integrated statewide economy.

JOBZ has proved to be an extremely useful tool for achieving our economic development goals. Minnesota's distressed rural communities are employing this important program to attract new and expanding businesses, create thousands of good jobs, contribute to robust economic health, and restore a sense of hope for the future.

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IRACORE INTERNATIONAL:

'JOBZ is absolutely why we're here'

When Daniel Burkes went looking for a site to expand his specialized pipe-coating company, Iracore International, he wanted to stay in Hibbing. Iracore's parent company, Industrial Rubber Products Inc., was started there a half-century ago by a local family.

But Burkes discovered that local loyalties only take you so far. Iracore's top industrial customer operates in the oil sands of northern Alberta, Canada, so Edmonton made geographic sense. Montana also offered a tempting site. Great Falls was situated nicely relative to those northern oil sands, and there was an ample supply of suitable labor available for about half what Iracore paid in wages to its Hibbing workforce. And besides, Montana's governor was aggressively courting Burkes to expand in Great Falls.

"We were heading there," Burkes says. "We were about to sign the lease. And then I got a call from Governor Pawlenty."

That call from Minnesota's governor turned the tables. Spurred by the call, Hibbing economic development officials – together with a large coalition of other partners, including Iron Range Resources, local banks and several others – put together a development package that included JOBZ benefits.

And that, says Burkes, was the "deal turner." He told the Hibbing officials it made Minnesota competitive: "You just beat Montana."

So instead of expanding Iracore's pipe-coating plant in Great Falls or Edmonton, Burkes elected to stay in Hibbing to supply specially coated steel pipe to meet the Canadian oil sands industry's growing tailings and hydro-transportation pipe requirements. Burkes says the oil sands business is expected to require \$2.6 billion worth of specially coated steel pipe over the next decade; and he believes his company is now positioned to do it all.

"Two point six billion," he says. "Not bad for a little company in Hibbing."



And it's especially impressive when you consider that, if not for Iracore's specialized fabrication process, none of those miles of coated pipe would have been produced in North America. "All of that would have come from the Pacific rim, from Asia," Burkes says.

Iracore is ramping up fast. Already the company has exceeded its hiring and wage goals, with 29 employees earning an average wage/benefit package of \$28 per hour. Burkes anticipates that the Hibbing facility will soon employ 45 workers. He also hopes to persuade at least one Iron Range school to start a new welding program to provide the specialized training his workers will need to fabricate the miles of pipe the oil sands industry will require.

Duane Northagen of the Hibbing Economic Development Authority says there's no doubt in his mind that JOBZ benefits helped to keep Iracore in Hibbing. And he says it was an easy call for local officials because of the long-term impact a company like Iracore will have on the community.

"This was presented as a pilot project," Northagen says. "We expect that this is just the first round. We anticipate longevity and expansion."

"JOBZ is absolutely why we're here," Burkes agrees. "And," he says, "I have four more plants to build."

DAKTRONICS:

A community comes together

In the summer of 2006 Redwood Falls, a southwestern Minnesota city of 5,500, was reeling. Artesyn Technologies, a subsidiary of Emerson Electric, the city's largest employer, announced that it was closing, leaving 240 people jobless with few prospects for re-employment. Many households would have lost two jobs to the layoffs.

"It was a very emotional time in the community," Mayor Sara Triplett said. "We all know these people. They're our friends. Our neighbors. Our relatives. I walked up and down the streets of Redwood Falls that day. There were tears."

Within days after the plant closing was announced, state and community leaders made a presentation to a South Dakota-based company called Daktronics, one of the world's largest suppliers of electronic scoreboards, computer-programmable displays, large screen video displays, sports venue sound systems, and control systems. It turned out that Daktronics was having difficulty finding enough workers with the technical skills they needed at their Brookings, S.D. facility.

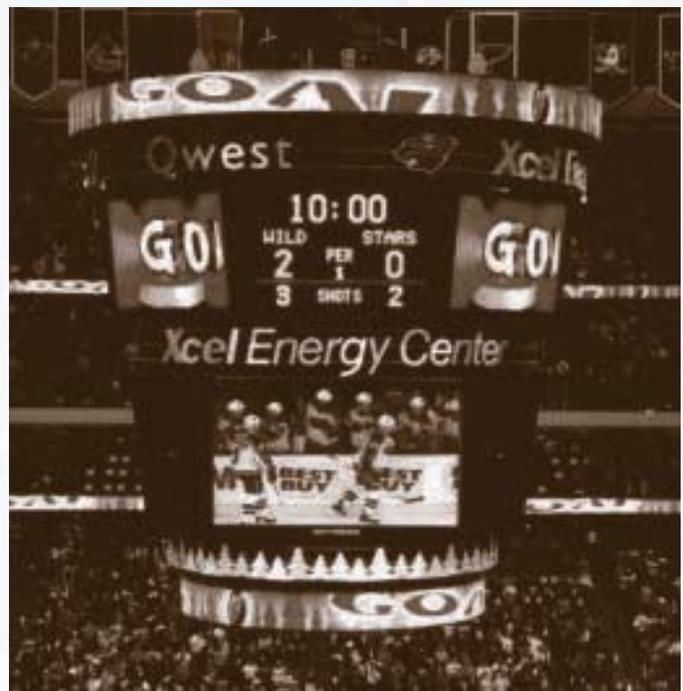
Redwood Falls and Daktronics proved to be a great match. Today Daktronics is manufacturing its line of Galaxy electronic message centers in Redwood Falls. The company hired about 100 people right away, and expects to see annual employment growth of 20 percent or more.

Meanwhile, a division of Emerson Electric known as Astec-Artesyn was also slated to close. Employee Robin Stegner convinced Emerson officials to consider spinning off the division and selling it. The company agreed and Stegner found a buyer in Montevideo businessman Kevin Wald.

Renamed RVI, Inc., the former Astec-Artesyn is a new subsidiary of Wald's Montevideo-based Ritalka, Inc. RVI (which stands for Rural Values and Integrity) provides power supply repair and upgrades for a wide variety of communications, computing and networking companies. CEO Wald says he will hire 40 people initially, but he anticipates gradual increases in workforce as the company takes off.

Wald, who used JOBZ incentives to open a welding company in Redwood Falls two years ago, said the program was pivotal to his decisions to open businesses in the community. "It kind of helps glue the package together," he says. "It gives us that little extra edge. It's been a very important factor in everything we've done."

All told, more than 140 people slated to lose their jobs in the plant closure have new employers thanks to a major company expansion and another company spin-off made possible in part by the JOBZ program.





SUZLON ENERGY:

A convergence of policy and opportunity

Sometimes there's a neat convergence, where public policy, economic development opportunity and the breezy whims of nature all come together in a tidy and powerful package.

In November 2006, a company called Suzlon Rotor Corp. produced its first giant windmill blade –destined, perhaps, for use on a wind energy farm not far from the brand new blade and turbine nose cone plant in Pipestone.

Just a few months later, in February 2007, the Minnesota Legislature passed a landmark energy bill that puts this state at the national forefront in the pursuit of alternative energy sources – including the generation of electricity using wind power.

Suzlon Rotor Corp, whose parent company is Suzlon Energy, a global energy company based in India,

finds itself in Pipestone in large part because of the benefits offered by the JOBZ program. The company also opened its first U.S. facility in Minnesota because of that handy convergence of public policy, development opportunity – and those strong westerly breezes that rush across the Southwest Minnesota ridges and plains.

The company was no stranger to Minnesota when it broke ground at the edge of Pipestone for its new \$14 million plant the size of two-and-a-half football fields. For more than two years, the company had supplied wind turbines to a consortium of privately owned wind farms in the area.

“This location is giving us an excellent opportunity to act regionally and help strengthen our relationship with key customers, as well as the local community,” said J.R. Tanti, a Suzlon director.

Federal and state tax credits for wind production, coupled with dozens of other wind turbine operations in the area, high fuel prices and a new state incentive for small wind farm producers could make Suzlon one of the region's largest employers, with anticipated employment of 275 people. And in a rural community of some 4,600 people, that's a significant number of good new jobs.

Suzlon's investment in the state offers clear evidence that renewable energy from wind will be a cornerstone of Minnesota's energy portfolio. Minnesota's current wind capacity of 812 megawatts exceeds all but three other states, and there are strong indications that the state could generate more than 75 times that much wind power.

Jim Streiff, a vice president for Suzlon Rotor, summed things up this way: “With green energy the way it is, and the huge U.S. market, we can see 100 years of life for our plant.”

Full-time Jobs Created by Region, 2004 and 2005

Region	Jobs Goal	Actual Jobs	Percent of Jobs	Average Wage
Headwaters Economic Opportunity Zone	55	42	1.1%	\$11.07
Northeast Minnesota JOBZ (Arrowhead)	115	134	3.6%	\$14.45
Northwest Land of the Dancing Sky JOBZ	122	127	3.5%	\$12.74
Positively Southern MN JOBZ Growth Corridor	588	896	24.4%	\$14.35
Region 5 JobZone	307	360	9.8%	\$15.32
Region 7E JOBZ	324	248	6.8%	\$25.12
Southern Minnesota JOBZ	517	826	22.5%	\$15.29
Southwest Regional JOBZ	876	590	16.1%	\$12.50
Upper Minnesota Valley JOBZ	38	43	1.2%	\$14.21
West Central MN JOBZ	386	403	11.0%	\$14.33
Total	3328	3669	100.0%	\$14.99

Full-time Job Creation by JOBZ Businesses that signed JOBZ agreements in 2004 and 2005

Hourly Wages (excluding benefits)	Job Creation Goals	Percentage of Jobs	Actual Job Creation	Percentage of Jobs
\$15.00 and higher	631	19.0%	1517	41.3%
\$14.00 - \$14.99	175	5.3%	228	6.2%
\$13.00 - \$13.99	115	3.5%	207	5.6%
\$12.00 - \$12.99	293	8.8%	449	12.2%
\$11.00 - \$11.99	507	15.2%	316	8.6%
\$10.00 - \$10.99	1307	39.3%	527	14.4%
\$9.00 - \$9.99	227	6.8%	354	9.6%
\$8.00 - \$8.99	28	0.8%	64	1.7%
\$7.00 - \$7.99	45	1.4%	7	0.2%
Total	3328	100%	3669	100%

JOBZ Wage Impacts and Tax Benefits, 2004 and 2005 JOBZ Businesses

JOBZ Region	Tax Year 2005		
	Estimated Annual Wages (millions) Includes spin-off jobs	Estimated Non-Property Tax Benefits	Estimated Property Tax Benefits ¹
Northeast Minnesota JOBZ (Arrowhead)	\$5.7	\$391,000	\$6,000
Positively Southern MN JOBZ Growth Corridor	\$56.2	\$2,718,000	\$106,000
Region 5 JobZone	\$19.8	\$850,000	\$16,000
Southern Minnesota JOBZ	\$41.4	\$1,195,000	\$277,000
West Central MN JOBZ	\$21.4	\$985,000	\$41,000
Northwest Land of the Dancing Sky JOBZ	\$4.5	\$554,000	\$0
Region 7E JOBZ	\$15.0	\$1,146,000	\$48,000
Southwest Regional JOBZ	\$37.9	\$2,814,000	\$574,000
Combined Regions ²	\$4.4	\$1,447,000	\$0
Statewide (includes inter-regional and Twin Cities impacts)	\$284.1	\$12,100,000	\$1,068,000

Note: The tax benefits information is based on data reported to the Minnesota Department of Revenue by 233 businesses on Schedule JOBZ and Form M500. Benefits were estimated for those businesses not submitting a Form M500. The tax benefits include exemptions from the individual income tax, corporate franchise tax, general sales and use tax, and the motor vehicle sales tax, and the job creation credit.

¹ State and local property tax exemptions are not actual revenue decreases, rather levy amounts are shifted onto all other property.

² Tax benefit information has been combined for two zones - Headwaters 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

In 2003 the Legislature wisely recognized that all of us have a vital interest, based on both economics and equity, in bringing about a single, integrated statewide economy. JOBZ has proved to be an extremely useful tool for achieving these economic development goals. Minnesota's distressed rural communities are employing this important program to attract new and expanding businesses and to create thousands of good jobs.

Since the program began we've also heard many stories, like the three included in this report, about how the program achieves powerful payoffs and rewards that will never be accounted for on a balance sheet. Things like a renewed sense of enthusiasm and hope, a more close-knit community, and a shared sense of responsibility for making good things happen. When seen from the parts of Minnesota where JOBZ has been put to such effective use, it's obvious that we've built momentum. We must not lose it.

