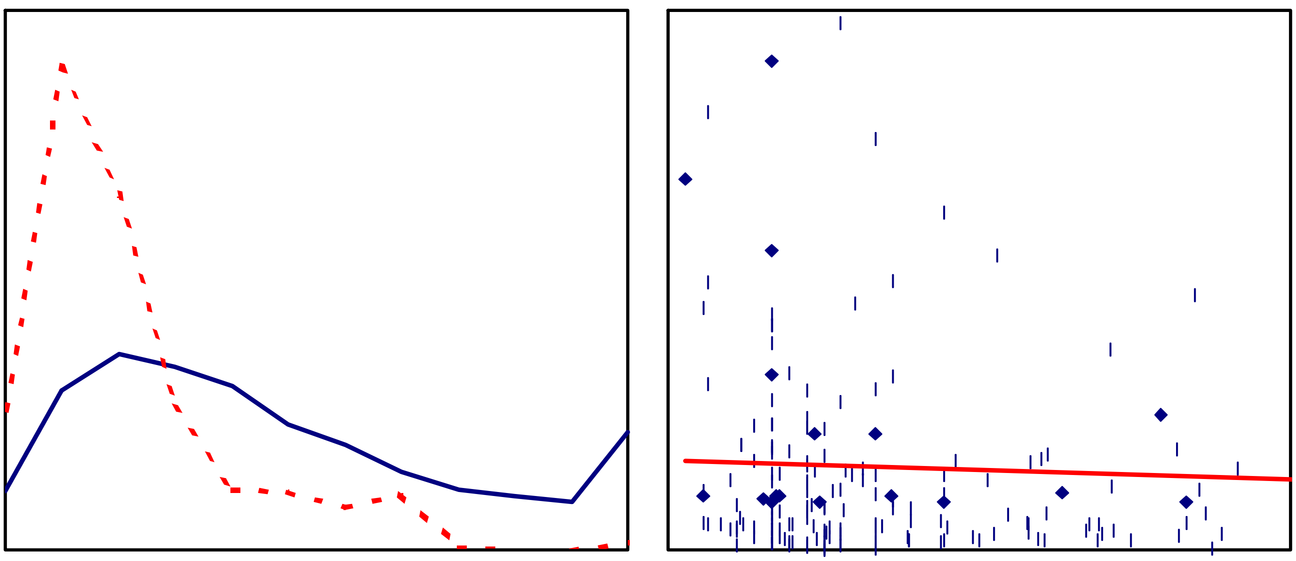
Economic Development in Minnesota:

High Subsidies, Low Wages, Absent Standards



Good Jobs First

A Project of the Institute on Taxation and Economic Policy

February 1999

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Executive Summary

An analysis of more than 550 Minnesota economic development disclosure reports—tracking more than $176 million in loans, grants, and tax increment financing (TIF) by cities, regional bodies and state agencies—reveals high costs, low wages, and an absence of standards to ensure that job subsidies produce an effective return on taxpayers' investment. Lacking standards, the subsidies show no positive relationship to wages, and some are simply subsidizing corporate relocations within the state.

- Many deals involve very high dollar assistance to corporations. One hundred and twenty-three deals were approved at a cost of more than $35,000 per job, exceeding a federal economic development cost-per-job standard. *Thirty-eight deals were approved at $100,000 or more per job*.

- Wages promised and paid by the subsidized corporations are surprisingly low, compared both to the state's existing wage distribution and to wages paid by other companies in the same industries in the same local markets.

- About two-thirds of the deals were approved despite very low projected wages —20% or more below local market levels for their industries. Roughly half the deals report actual wages that low. On the positive side, about a sixth of the deals project—and a fourth actually pay—wages above existing averages.

- Wage disparities are far worse in the Metro Twin Cities area than in rural areas. More than three-fourths of Metro deals were approved despite projected wages 20% or more below their respective industries. More than two-thirds report similarly low wages on actual jobs. By contrast, about half of rural deals projected very low wages, and only about a third reported such low actual pay.

- This overall pattern of low wages is especially surprising because the subsidized companies represent a very high-wage mix of jobs. Almost two-thirds of the projected subsidized jobs are in the high-wage manufacturing sector, even though factories employ only about a fifth of the state's private-sector workers.

- More than three-fourths of the deals were approved despite wages that would qualify a family of three for Medicaid, and almost two-thirds report actual wages below that level. Despite lower unemployment, the numbers of Minnesotans claiming food stamps or Medicaid failed to decline between 1990 and 1997. This job-quality gap indicates the additional, hidden taxpayer costs associated with low-wage jobs. It also underscores the need for more attention to job quality in economic development.

A cost-benefit analysis finds no relationship between subsidies and wages:

- # Subsidies are so high and wages so low that the deals as projected and as reported show no discernible relationship between assistance per job and wages level. That is, government agencies granting subsidies to corporations did not, as a group, require higher wages for higher subsidies, so that many deals involve high assistance but low wages .
- # Projected tax increment financing (TIF) deals show the most random cost-benefit pattern. Most of the deals that are very discrepant are TIFs, especially on cost.

- # Loans as approved show a slightly less random pattern. Only one program has a wage floor and a subsidy cap—the Minnesota Investment Fund, a loan program. Its projected deals are less costly and show a slightly less random cost-benefit relationship .
- # Deal *outcomes* show only slightly less random cost-benefit patterns.

In the absence of standards, many other discrepancies are evident:

- # Some agencies bargain for good wages, but more apparently "low-ball" job and wage goals. Others refuse to play the "candy store" game altogether, or authorize subsidies only rarely .
- # Despite 1995 legislation that requires companies to refund assistance if they fail to meet their job-creation and wage targets within two years (the "clawback" or "recapture" requirement), in a number of cases where a recapture was apparently in order, we could find no evidence that any Minnesota corporation has yet been required to pay back for non-performance under the 1995 law.

- # The data suggest and interviews confirm that some development officials routinely "low-ball" job-creation and wage goals. This effectively moots the recapture provision, and makes it difficult to weigh the opportunity costs of such deals.

- # There are major compliance discrepancies on subsidy disclosure. Forty-five percent of those deals in the state's 1996 database which should have re-appeared in the 1997 database do not.

- # Confusion persists as to when the two-year timeline starts on the state's recapture provision.

TIFs stand out negatively in many respects:

- # TIFs constitute half the dollar value of business assistance, but 31 of the 38 deals projected at $100,000 or more of assistance per job include TIFs .
- # TIFs figure in almost every episode of taxpayer-subsidized corporate migration we identified. The availability of incentives, especially TIFs, is encouraging Minnesota corporations to play cities against one another or to threaten to move for higher subsidies. This is common both in the Twin Cities Metro area and rural areas .
- **#** *Intra*state bidding wars are a much bigger dilemma for Minnesota cities than *inter*state competition, and TIFs are the subsidy of choice for Minnesota businesses on the move.

Conclusion: Standards Could Lower Costs and Improve Benefits

To reduce costs, improve benefits and deter costly intrastate bidding, this report provides policy options, including ways other states and cities have chosen to rationalize the subsidy-granting process and give development officials more ability to compete on business climate basics instead of costly company-specific incentives, including:

- # wage floors pegged to local market levels;

- # a subsidy cap per new job, modeled on federal limits (including deals that receive multiple subsidies);

- # an anti-piracy prohibition, making intrastate corporate relocations ineligible for public assistance;

- # a calibrated recapture, instead of the current “cliff” or all-or-none rule;

- # clarification as to when the two-year performance timeline starts; and

- # technical improvements to enhance the usefulness of Minnesota’s best-in-the-nation disclosure law, including ways to improve compliance.

These conclusions are based on our analysis of the state database, to which we added numerous enhancements and market benchmarks. They also derive from more than 100 interviews with more than 75 local, regional and state officials at more than 60 cities and agencies.

Introduction and Acknowledgments

The Good Jobs First project of the Institute on Taxation and Economic Policy was founded in the summer of 1998 as a national best-practice clearinghouse on economic development incentives. General support to launch the project came from the Stern Family Fund's 1998 Public Interest Pioneer Award to project director Greg LeRoy.

The project is based upon LeRoy's 1994 book, *No More Candy Store: States and Cities Making Job Subsidies Accountable*, which documented a sharp 1989-1994 increase in the number of states and cities with rules—such as disclosure, clawbacks, and anti-piracy safeguards—to ensure that incentives are accountable. The passage of Minnesota Statutes 116J.991 is one of the most significant developments in the continuing trend towards greater subsidy accountability since *No More Candy Store* was published.

This study was made possible by project support from the Joyce Foundation, which also supported ITEP's January, 1998 study, *Tax Strategies for a Strong Minnesota*. Most ITEP publications are available from our website: *http://www.ctj.org/itep/* .

We wish to thank the Minnesota Department of Trade and Economic Development (DTED) for its prompt responses to our many requests for data and clarifications, especially Robert Isaacson, Director of DTED's Office of Analysis & Evaluation, and Paul Moe, Director of DTED's Office of Business Finance. While the Minnesota Business Assistance Form (MBAF) database, which is the core data enabling this study, comes from DTED, the various comparative wage data we use are from other cited sources, and the comparisons and conclusions we draw are our own. We would also refer interested readers to DTED's summary of the 1997 data .

We also wish to thank the Economic Policy Institute of Washington, DC, for providing income incidence data, and the U.S. Bureau of Labor Statistics for its unpublished data on job tenure. Numerous staffers at the Minnesota Department of Revenue, Minnesota Department of Employment Security, Minnesota Office of the State Auditor, and Minnesota Office of the Legislative Auditor answered our many queries.

Critical comments came from: Dr. Robert Lynch, Associate Professor of Economics at Washington College; Michael P. Ettlinger, ITEP Tax Policy Director; and Robert S. McIntyre, ITEP Director. Thanks also to Bruce Steuernagel, consultant to JOBS NOW, for his insights on safety-net programs. Cori Parrish and T.D. Coo Nguyen assisted on data analysis. Again, any oversights made and all conclusions drawn are our own.

Finally, we thank the many dozens of economic development officials who responded to our 60 Freedom of Information requests and granted us more than 100 interviews.

Minnesota's Subsidy Accountability Law, Development Subsidies Defined, and This Study's Sources and Terminology

The Law

On July 1, 1995, a new law took effect in Minnesota. Chapter 24, Section 58, 116J.99 has four basic components:

It requires that any "business that receives state or local government assistance for economic development or job growth purposes must create a net increase in jobs in Minnesota within two years of receiving the assistance." The law sets no specific requirements for numbers of jobs or wage levels. It places responsibility for setting "wage level and job creation goals" upon the "government agency providing the assistance."

The law defines "assistance" as loans or grants of more than $25,000, and tax increment financing (TIF) with no dollar value threshold.

It provides for a money-back guarantee, technically known as a "clawback" or "recapture," saying that "[a] business that fails to meet the job creation and wage level goals [within two years] must repay the assistance to the government agency." However, it does not clearly define when the two-year timeline starts .

The law also mandates an annual reporting procedure for tracking the deals, directing each local, regional or state agency that grants subsidies to report both the goals and the results to the Department of Trade & Economic Development (DTED) and it directs DTED in turn to compile each year's reports and publish them by the following June 1st .

Minnesota's subsidy accountability law has been the subject of much debate and many conflicting interpretations. For example, the issue of when the two-year "clock" starts ticking has been disputed. In 1997, the Minnesota Legislature appointed a Corporate Subsidy Reform Commission and assigned it numerous tasks, including making recommendations on improving the subsidy disclosure law. Based on the Commission's findings, DTED made several improvements to the Minnesota Business Assistance Form (MBAF). Those improvements made the MBAF database a demonstrably better evaluation tool and enhanced our ability to perform this study.

The Three Kinds of Subsidies Covered by the Law

The disclosure law covers grants, loans and tax increment financing (TIF) .

Grants, most commonly for infrastructure or for training, comprise only about 7% of the dollar value of assistance in the MBAF database. The Minnesota Job Skills Partnership Program, which provides training grants to educational institutions that are matched by businesses, has wage *goals* (but not requirements) of 140% of minimum wage (currently $7.21 an hour).[1] The same wage goal is also employed by the Minnesota Pathways Program, a match-grant training program for workers making the transition from welfare to work.[2]

Loans comprise about 43% of the assistance. There are numerous kinds of loans offered by cities, regional development agencies and state agencies in Minnesota. Some are defined as “gap” financing to bridge credit needs unmet by private lenders, such as the Rural Challenge Grant Program.[3] Some are targeted to small businesses, such as the Small Business Development Loan Program, or Microenterprise Assistance Grants, or to specific industries, such as the Tourism Loan Program. Some provide extra collateral to lenders to small and medium-sized companies, such as the Capital Access Program.

Only one state loan program, the Minnesota Investment Fund (MIF), has wage requirements: $10 an hour in the Metro area and $8 an hour rural. Likewise, only MIF has limits on dollars of assistance per job. The cap is generally $5,000 per job, and can be exceeded (up to $7,500 per job) only for deals that pay top wages, such as $16 an hour. When companies seek incentives for *intrastate* relocations, DTED seeks to avoid using the MIF in such cases, and will only consider such a deal if the community losing the jobs consents to it.[4] There are 44 MIF deals in the MBAF database, and we break them out separately for cost-benefit analysis.

Tax Increment Financing (TIF) accounts for half of the dollar value of business assistance tracked in the MBAF database. It is the most complex and controversial development subsidy in Minnesota.[5] As of 1996, there were 392 TIF authorities in Minnesota administering 1,830 TIF districts. They captured $231.4 million of property tax capacity in 1997, or 6.2% of the state’s total tax base.[6] TIFs in Minnesota are not subject to any wage requirements or dollars-per-job assistance caps.

In creating a TIF district, a city defines a “project area” for development or redevelopment. Usually this is a small area, but some cities and counties have designated their entire jurisdictions. It also designates a subset of the project area as the “TIF district.” The city then splits future property tax revenues from the TIF district into two separate streams. The first stream is set at the level of taxes due on the current valuation; those taxes continue to flow to the school district, the city, and the county. The second stream is the tax increment; it consists of the increase in taxes resulting from rising property values associated with the new development. In younger TIFs, TIF proceeds may only be spent within the project area; older, less-regulated TIFs have ways to spend funds outside the project area as well.[7]

The Minnesota Legislature has altered TIF rules several times in the last decade, so that cities' latitude has narrowed for more recently-formed TIFs. But TIFs remain the most versatile tool Minnesota cities have for subsidizing development. Their single most common use has been to write down the price of land for developers. The next most common use of TIF dollars is for public improvements such as roads, sewers and utilities to newly-developing areas, improvements to streets or construction of new roads, and downtown improvements. TIF proceeds may be used to float bonds to generate large sums up front for activities such as site preparation or infrastructure. However, TIFs are increasingly used to reimburse developers on a "pay as you go" basis, enabling developers to obtain private loans but also shielding government agencies from the risk of up-front expenditures if the development fails to materialize.[8]

State law requires that a developer benefitting from a TIF provide a "but for" certification that the development would not occur "but for" the TIF assistance. This has proven to be a problematic issue, with cities interpreting the requirement in at least six different ways.[9]

The State reimburses school districts for some of the revenues lost due to TIF. State sources estimate TIFs' school-district cost to the State at $112 million in 1997.[10]

Subsidy Not Covered: One subsidy which is not included in the MBAF database is relevant to this study. The Minnesota Enterprise Zone Program calibrates the size of tax credits for new job creation to wage levels, with higher credits granted for full-time jobs paying more than $7.20 an hour. It also distinguishes between manufacturing and all other jobs, providing higher credits for factory employment. The credits range from $2,500 for manufacturing jobs paying over $7.20 an hour, to $1,000 for non-manufacturing jobs paying $7.20 an hour or less.[11] The state's enterprise zone law has anti-piracy rules, which we discuss below. Enterprise zone credits do not appear in the MBAF database since they are not specified by the disclosure law. Therefore, they are not analyzed in this report.

In summary, only one state loan program has both wage requirements and subsidy caps. Two state grant programs have non-binding wage goals. One program that is not tracked in the MBAF database has a modest wage incentive and anti-piracy safeguards.

Our Sources

The primary basis of this report is 553 Minnesota Business Assistance Forms (MBAFs) filed by local, regional and state agencies with the Minnesota Department of Trade and Economic Development (DTED). We augmented that database with more than 100 interviews and 60 Freedom of Information requests on specific deals.

We compare wage data from these forms to several benchmarks, including statewide incomes, the respective Minnesota industries, and wages for respective industries in counties and the Twin Cities Metro area. We employed a conservative basis for calling some deals highly discrepant, by comparing 1997 reports to 1996 wage data, and then focusing on deals in which wages were more than a fifth below existing averages.

We checked for compliance by interviewing larger cities that filed no reports and other cities that apparently should have, based on the previous year's reports.

This Report's Terminology

To distinguish various matters, we use the following words:

"Projected" or **"approved"** or **"goal"** jobs, wages and assistance are those levels to which corporations are bound in their business assistance agreements with public agencies. These figures appear in boxes 16, 17 and 18 of the MBAF.

"Actual" or **"created"** or **"reported"** jobs and wages are those levels which the public agency reports to DTED in boxes 19 and 20 of the MBAF. The agency provides the date upon which it last obtained this data from the company in box 25; the survey dates vary widely.

"Existing" or **"market"** or **"local market"** or **"industry"** wages are those officially reported for the State of Minnesota. We use data on the state's entire working population, on individual industries on a statewide basis, and on individual industries at the county-specific or Metro Twin Cities level.

"Metro" refers to deals, jobs and wages in the Twin Cities Metropolitan Statistical Area (MSA), which includes the cities of Minneapolis and St. Paul, and Anoka, Carver, Dakota, Hennepin, Ramsey, Scott and Washington counties.

"Rural" or **"Greater Minnesota"** refers to Minnesota deals, jobs and wages outside the Metro area.

Low Wages

By four different benchmarks, we find that the new-job wages at subsidized Minnesota corporations—both as projected when they were approved for assistance, and actually paid after receiving the assistance—are low.

Wages are low compared to the state's existing income distribution. They are low compared to other Minnesota companies in their respective industries. And they are low compared to local market levels for their respective industries.

Most of the workers filling the new, subsidized jobs are not entry-level employees fresh from high school or college. A recent survey indicates that more than half of recent job-takers are age 30 or older, and almost three-fourths are age 25 or older.

<u>Benchmark Series #1: Statewide Income Comparisons</u>

Comparing the subsidized wages to the state's income profile shows that the subsidized jobs are disproportionately bunched at the low end of the scale, below $10 an hour .

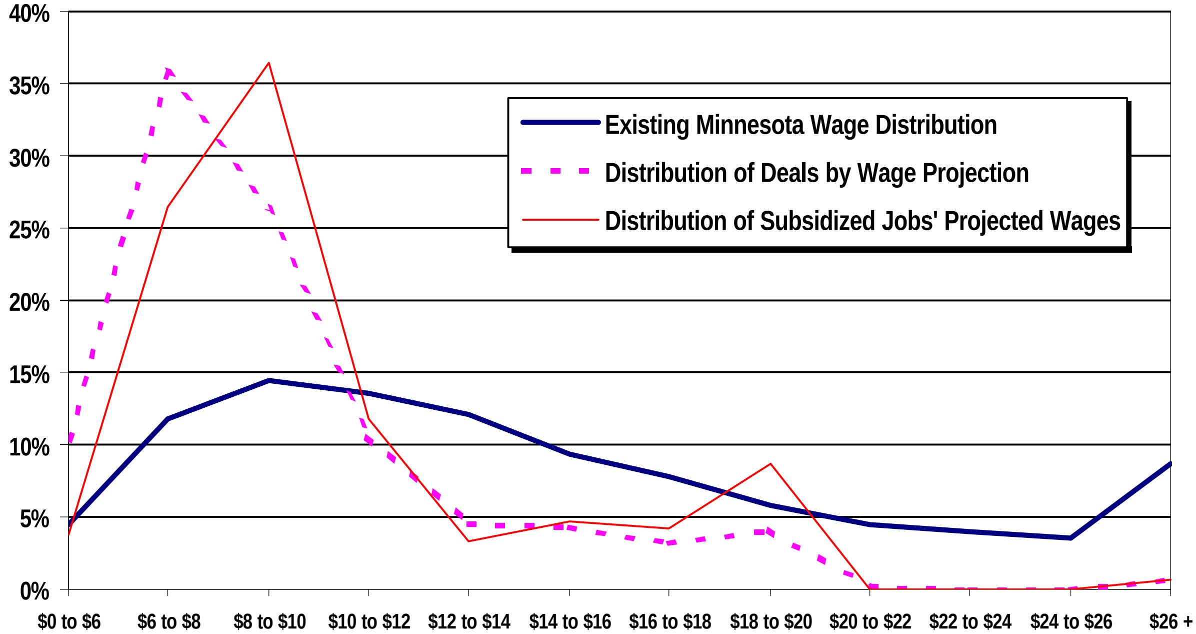
The charts below show the percentage of workers earning wages within various wage brackets. The first chart shows projected deals and wages; the second chart shows actual deals and wages.

Each charts show three lines. The thick solid lines represent the State's existing 1996-1997 wage curve, that is, Minnesota's income distribution. The dotted lines represent deals (not jobs), and the thin solid lines represent jobs, projected and then actual[12] .

Considering projected deals first, the subsidized-job curve crests early, far above the existing wage distribution in the $6 to $10 range, and then tapers off and ends far below the existing-wage curve. Although less than a third (30.7%) of Minnesotans earn $10 an hour or less, exactly two thirds (66.7%) of the jobs projected in the deals called for wages in that range .

There is not much difference in the $10 to $12 range. But above $12 an hour, 55.7% of the state's workers actually earn that much, while only 21.5% of the subsidized jobs promised such wages.[13]

Benchmarking Subsidized Wage Projections and Deals vs. Existing State Wages



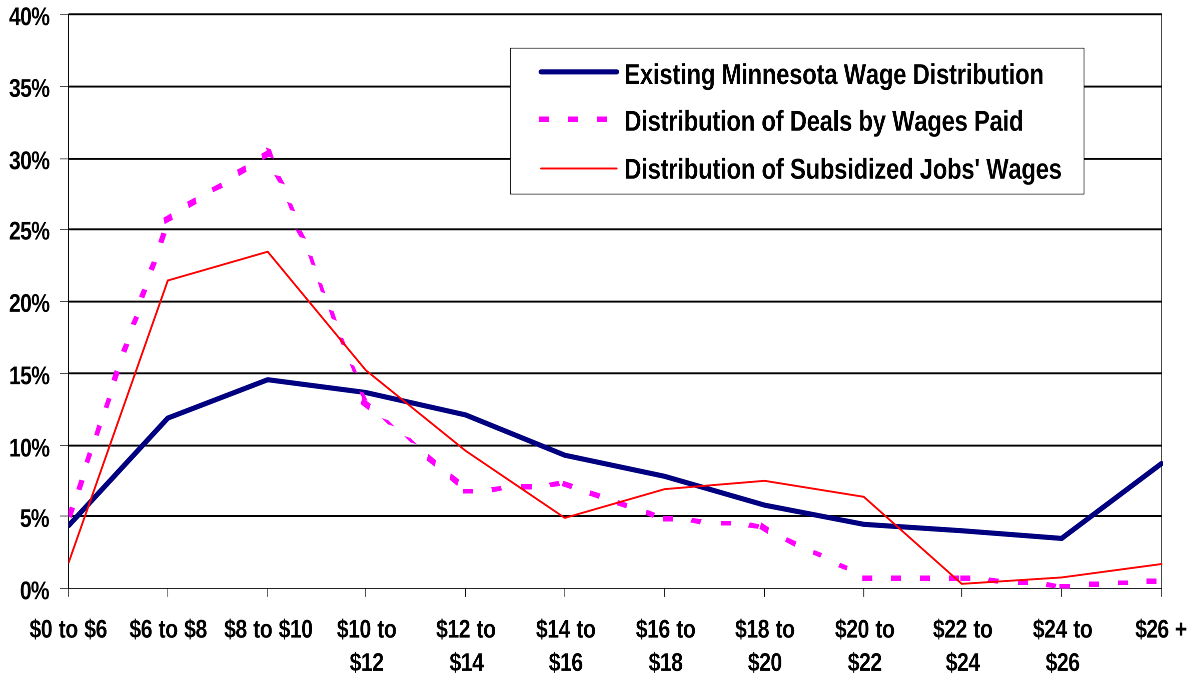
		$0-$6	$6-$8	$8-$10	$10-$12	$12-$14	$14-$16	$16-$18	$18-$20	$20-$22	$22-$24	$24-$26	$26+
% Ascending	State Avg. Jobs	4%	16%	**31%**	44%	56%	66%	74%	79%	84%	88%	91%	100%
	Subsidized Jobs	4%	30%	**67%**	78%	82%	86%	91%	99%	99%	99%	99%	100%
% Descending	State Avg. Jobs	100%	96%	84%	69%	**56%**	44%	34%	27%	21%	16%	12%	9%
	Subsidized Jobs	100%	96%	70%	33%	**22%**	18%	14%	9%	1%	1%	1%	1%

The second chart shows the distribution of actual jobs and wages. The disparities are somewhat smaller, because some deals exceed their projections, but the overall pattern of discrepancy is the same. The share of workers earning wages on subsidized jobs peaks between $6 and $10, well above the state average. There is not much difference between $10 and $12 an hour. And a far smaller share of subsidized jobs pay more than $12 an hour .

Almost half (46.7%) of the actual subsidized jobs pay between $6 and $10 an hour, while less than a third (30.7%) of the state's workers earn that much. Above $12, the disparity is 38.1% of actual subsidized jobs versus 55.7% of state incomes. The differences from either the bottom or the top can be read in the ascending and descending scales.

There is one notable exception within this overall picture. In one wage bracket, $18.01 to $20 an hour, the percent of workers in both projected jobs and actual jobs *exceeds*

Benchmarking Subsidized Wages and Deals vs. Existing State Wages



		$0-$6	$6-$8	$8-$10	$10-$12	$12-$14	$14-$16	$16-$18	$18-$20	$20-$22	$22-$24	$24-$26	$26+
% Ascending	State Avg. Jobs	4%	16%	**31%**	44%	56%	66%	74%	79%	84%	88%	91%	100%
	Actual Jobs	2%	23%	**47%**	62%	71%	76%	83%	91%	97%	98%	98%	100%
% Descending	State Avg. Jobs	100%	96%	84%	69%	**56%**	44%	34%	27%	21%	16%	12%	9%
	Actual Jobs	100%	98%	77%	53%	**38%**	29%	24%	17%	9%	3%	2%	2%

existing state averages. In the case of projected jobs, this is largely due to five deals which projected high numbers of jobs created in that wage range, four by DTED and one in Burnsville. The DTED deals include: Diversified Pharmaceutical Services (316 jobs projected at $19.37 an hour); Ecolab (250 at $18.16); ADC Telecommunication (75 at $19.46); and Western Digital (67 at $20). The Burnsville deal is with SAI Investment Company (60 at $19.73).

In the case of actual jobs, this primarily reflects three DTED deals and one deal by the City of Oakdale. The DTED deals include: Seagate Technology (301 jobs at $19.11); Ecolab (135 at $18.16); and Western Digital (160 at $20). The Oakdale deal is with Crossroads of Oakdale LLC (77 at $18.70).[14]

These deals, as well as many others that have been negotiated by Burnsville (see section on “The Low-Balling Problem”) make it clear that corporations receiving subsidies are often capable of paying solid wages, and raise serious questions about the much larger number of subsidized jobs that pay below $10 an hour.

We also benchmarked all of the deals against the state's average 1996 wage of $13.88. We found that 86.5% of the deals projected wages below the state average. And of deals with reported jobs and wages, 80% paid below that average.[15]

Some development officials whom we interviewed about individual deals stated the belief that wage discrepancies could be attributed to the new jobs being taken by young, entry-level workers. (None cited the hiring of hard-to-employ persons.) "How could such workers command wages closer to market levels?" they asked. "That would be apples and oranges."

We sought to test that thesis. Data from the U.S. Bureau of Labor Statistics, however, indicates that most recent job takers in the U.S. region including Minnesota are age 30 and over. Specifically, the BLS found in February, 1998 that among workers age 20 and over who had been on their current job 12 months or less, 41.8% were 35 years of age or older, and another 30.8% were age 25 to 34. In other words, the survey found that almost three-fourths (72.8%) are age 25 and over. Cautiously assuming not even a third of those 25-to-34-year olds are 30 to 34 years old, we conclude that more than half of such new job-takers are age 30 or older. We further conclude, especially given the nature of the companies getting Minnesota subsidies (see the next section) that these findings apply to the workers covered by this study.

In other words, most Minnesota workers taking subsidized jobs are not new to the labor market; they have work experience and are of the age at which people customarily have families. Furthermore, the trend is toward a greater share of recent job takers being older. The same survey performed in 1991 found that 37.3% of recent job takers were age 35 and older; the 1998 share was 4.5% higher.[16]

Benchmark Series #2: Sectoral Comparison

The low wages paid by subsidized companies are even more disturbing because the subsidized jobs represent a very rich mix. Almost two-thirds of the projected subsidized jobs are in the high-wage manufacturing sector, while factory employment accounts for only about a fifth of the state's jobs.

Specifically, for the three largest job categories:

- Manufacturing accounts for 64.7% of the projected jobs, more than three times the factory share of private employment in the state (21%). In 1996, Minnesota's manufacturing workers averaged pay of $717 per week, 29.1% higher than the state's overall average.

- The low-wage retail sector is under-represented in the MBAF database by more than two thirds; only 6.2% of the projected jobs are retail, though that sector employs 21.8% of the state's private-sector workforce. Retail weekly earnings lagged the state average by 49.8% (reflecting both low wages and fewer average hours per week).

Services, which are also lower-wage, with weekly earnings 12.5% behind state averages, are also very under-represented. They are only 13.3% of the projected jobs but 31.5% of the private-sector labor force .

In other words, the deals in the database represent a much higher-income cross-section of jobs than already exists in the state. Cumulatively, that would suggest that the subsidized jobs in the MBAF database ought to pay *higher* as a group than state averages. The fact that the opposite is true—that subsidized jobs pay less than state norms—is further cause to scrutinize the deals in more detail.

Benchmark Series #3: Individual Deals vs. Respective Statewide Industries

Comparing all of the individual deals with dozens of specific industry wage rates shows

Industry Classifications: Characteristics of 1998 Business Assistance Projected Jobs vs. State Averages

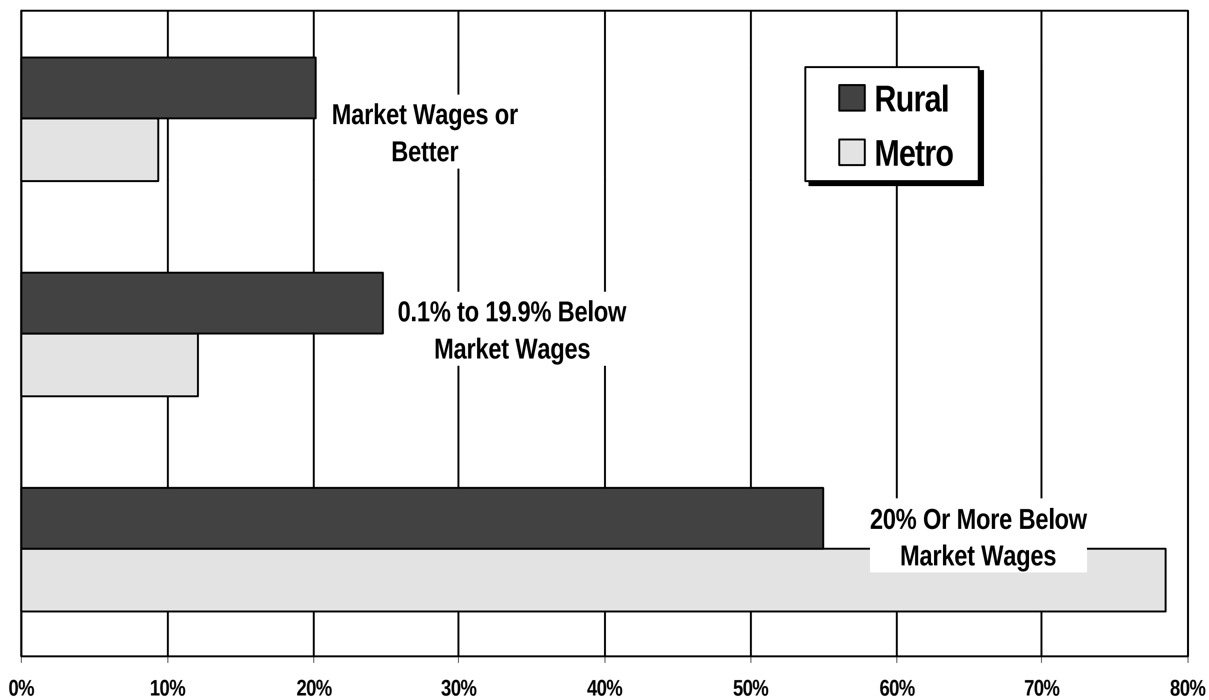
Projected Subsidized Jobs	Industry Classification	1996 State Average
13.3%	Services	31.5%
6.2%	Retail Trade	21.8%
64.7%	Manufacturing	21.0%
6.3%	Wholesale Trade	7.3%
3.7%	Finance, Insurance & Real Estate	6.9%
2.8%	Transportation & Public Utilities	5.6%
2.6%	Construction	4.4%
0.2%	Agriculture, Forestry & Fishing	1.1%
0.3%	Mining	0.4%
100%	All Non-Government Industries	100%

SOURCE: 1998 Business Assistance Forms; ITEP; MN Dept. of Economic Security.

that most of the deals are paying far below state market rates. We benchmarked each deal to existing wages paid to production-level workers in Minnesota within their respective two-digit Standard Industrial Code (SIC, U.S. Department of Commerce categories such as Fabricated Metals, Building Contractors or Health Services).

By this benchmark, we find that 82% of the deals were approved despite projected wages below industry averages, with 64.2% projecting wages 20% or more below their industry average. On the other hand, in 18% of the deals, companies agreed to pay more than the average production wage in their industry.[17]

Metro vs Rural: Projected Wage Discrepancies



Performing the same analysis for actual jobs and wages, we found 72.1% of the deals pay below average, and fully half the deals (50.6%) still show a wage shortfall of 20% or more below state-industry wages. On the up side, 27.9% of the deals reported paying above-average wages.[18] This last finding reflects the fact that some deals exceeded their projections.

Benchmark Series #4: Individual Deals vs. Local Markets

Comparing subsidized wages in the most detailed way possible, by local county markets, reveals that wage discrepancies are far worse in the Metro area. About two thirds of Metro deals report very low wages compared to about a third of the rural deals.

Some rural development officials reacted to our state-wage questions by stating that their local wage levels are lower than state averages because the state averages include the jobs in the Twin Cities area where wages are highest. As well, our statewide comparisons showed what appeared to be a disproportionate number of large discrepancies in Greater Minnesota.

To acknowledge that point and further refine our wage comparisons, we benchmarked wages at a fourth level of detail. We compared each individual deal's projected and actual wages to existing 1996 wages, again by two-digit SIC level, this time at the rural county-specific or Metro-specific level.[19]

As the rural development officials argued, benchmarking the deals this way does show fewer discrepancies in Greater Minnesota. Conversely, it reveals a very high rate of wage discrepancies in the Metro Twin Cities.

For projected Metro deals, the discrepancies are worse. Fully 90.6% of the deals were approved at below-market wages, with more than three-fourths (78.5%) at 20% or more below market. Only 9.4% projected wages above Metro market rates .

Specifically, for projected rural deals, we found that 79.8% were approved at below-market wage rates, with 55% of the deals 20% or more below market. About a fifth (20.2%) projected above-market wage rates.

Actual wages showed the same Metro/Greater Minnesota difference, with almost twice as many Metro deals paying discrepantly low wages. Seven out of eight Metro deals (87.5%) report below-market wages, and more than two-thirds (67.5%) are far below, 20% or more. Only an eighth of the Metro deals (12.5%) report wages above-market.

By contrast, two-thirds of the rural deals (67.1%) report below-market wages, but only 37.7% are very low, 20% or more below market. Almost a third of the rural deals (32.9%) report above-market wage rates.

Summing up all the deals statewide, about two-thirds of the deals (64.6%) were approved despite very low projected wages, and almost half (47.9%) report actual

Subsidized Jobs vs. Local Markets: Summary

	Statewide Deals %	**Metro Deals %**	**Rural Deals %**
Projected Wages			
20% or More Below	64.6	78.5	55
0.1% to 19.9% Below	19.6	12.1	24.8
Above	15.8	9.4	20.2
Actual Wages			
20% or More Below	47.9	67.5	37.7
0.1% to 19.9% Below	26.2	20	29.4
Above	25.9	12.5	32.9

wages that low. On the positive side, about a sixth of the deals (15.8%) project—and a fourth (25.9%) actually pay—wages above existing averages.

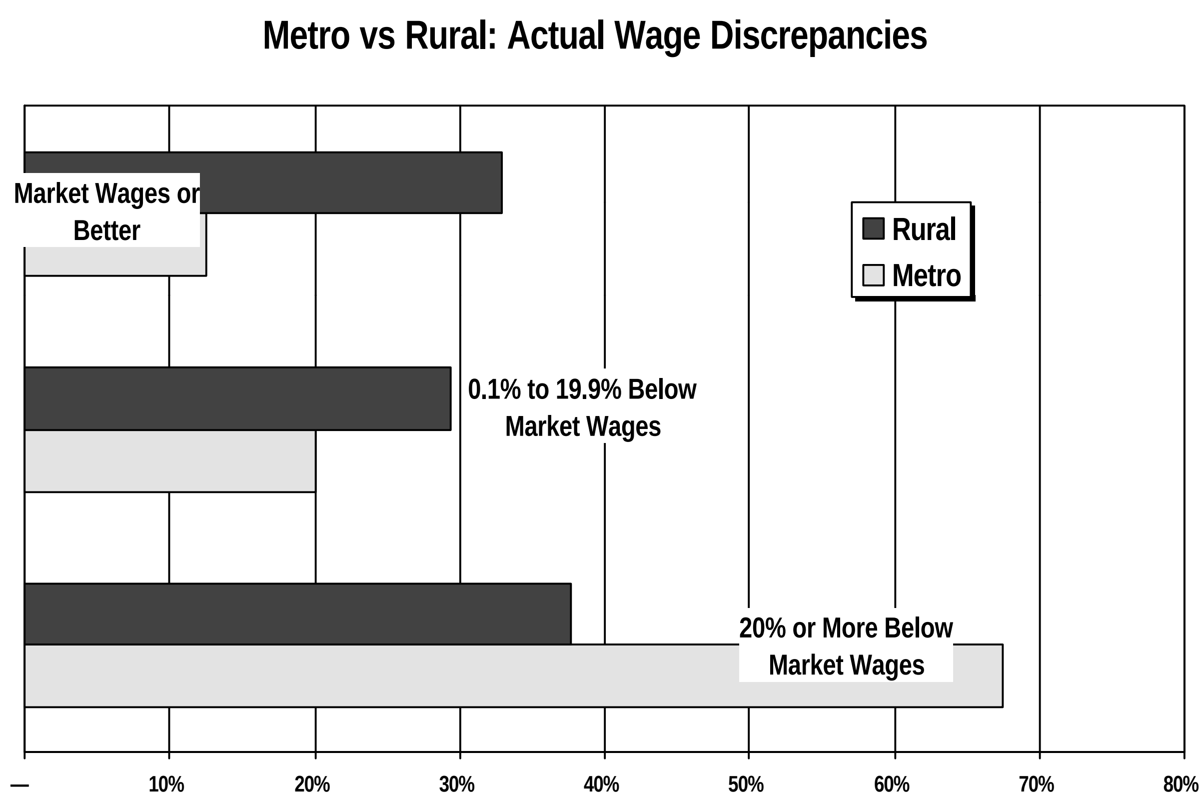
As the chart demonstrates, major wage discrepancies on actual jobs are nearly twice as common in the Metro Twin Cities area as in rural Minnesota.

Summary: Wage Data Beg the Issue of Standards

By every reasonable benchmark—statewide income incidence, sectoral-mix, statewide-industrial, and county/Metro-industrial, the wages projected and paid by subsidized Minnesota corporations are low. The age profile of recent job takers can't explain the discrepancies. And the rich mix of subsidized manufacturing jobs would suggest that subsidized companies ought to pay *more* than state averages.

These findings beg the question of standards. Our interviews also beg the issue; while some local officials were quite knowledgeable about area wage rates, others were indifferent or poorly-informed.

- # One Metro-area official packaging many deals declined to estimate average wages, saying "[w]age levels are not a big deal for us." Asked if companies would have walked away if the city had mandated wages of $9 an hour, the official said: "Wage levels are not a high criterion on our list."



An official in a city in Martin County, referring to a manufacturing deal, stated that "average wage" is $7.15 an hour. However the County's average factory worker earned more than $11 an hour in 1996, as did the average worker in the County overall.

An official in a city in Jackson County said a subsidized corporation had recently hired a compensation consultant with an eye to raising wages because it was having employee-retention problems.

These findings go to the heart of Minnesota's economic development strategy and beg some fundamental policy issues:

Do taxpayers want to subsidize jobs that pay below-market wages?

Aren't there already too many jobs with low wages?

Should public resources be preserved and targeted to help create jobs with wages that can sustain families?

If some subsidized companies pay average-level wages, should there be standards mandating that all do?

Wage standards as a condition for receiving development subsidies could substantially raise the wage levels paid thousands of workers employed by subsidized Minnesota corporations. Furthermore, wage standards tied to local market levels would, by definition, not place subsidized employers at a competitive disadvantage .

The Minnesota Legislative Auditor's Office, in its March 1996 report on TIF, recommended that cities be required to report on wages paid as part of their annual TIF disclosure statement. That would extend wage disclosure on TIFs back to deals done before July 1, 1995, and it would extend wage disclosure beyond the two-year recapture period. Our findings about the wage-subsidy relationship on TIF deals provide strong justification for this recommendation.[20]

In our later local interviews, in which we used two-digit SIC wages by county, we found some officials eager to learn about the Minnesota Department of Employment Services website so that they could study local labor market conditions.

Local officials may obtain wage data for their county at the 2-digit SIC level by online at the MDES website address: www.des.state.mn.us/lmi/ES/202fct1.htm

High Costs

Many of Minnesota's subsidy deals provide corporations with very high dollar values of assistance. The subsidies are high compared to federal limits and compared to other state subsidy caps. They are also high compared to the annual wages of the subsidized jobs.

In 123 of deals, corporations received assistance of more than $35,000 per projected new job.[21] By contrast, loan limits under Section 108 of Community Development Block Program of the U.S. Department of Housing and Urban Development are limited to $35,000 per new or retained job. Similarly, loan limits from the Small Business Administration 504 Program are also capped at $35,000 per new or retained job. And as we detail in our conclusion, some states cap their subsidies at $10,000 and $25,000 per job.[22]

Additionally, 38 deals were projected at $100,000 or more per job. We were surprised by such costs, especially given that interviews indicate that most of the deals involve *expansion* rather than *attraction*. It is axiomatic in the development profession that assisting existing companies is cheaper and therefore more cost-effective .

The remaining 402 deals fell below the $35,000-per-job threshold. Indeed, 168 of the deals projected assistance of less than $10,000 per job.[23]

The total amount of assistance reported—$176 million—was projected to create 9,408 jobs, at a cost of $18,715 per job. The actual overall subsidy per job may turn out to be lower as some projections are exceeded. But a substantial segment of deals deviate far from this norm .

Another way to compare assistance and wages is to annualize the wages and compare them to the subsidy. By this measure, for projected deals, 199 of the deals granted assistance to the company worth more than one year's wage; 48 deals were worth more than five years' pay, and *18 called for assistance of more than 10 years' wages*.

The accompanying table lists the 38 deals projected at more than $100,000 per job.

TIFs are disproportionately represented in this list. While they represent two-fifths of all statewide MBAFs and half the dollar value of assistance, TIFs are involved in 31 out of the 38 deals approved at more than $100,000 per job.

Funding Agency	Business Receiving Assistance	Type of Assistance	Dollar Value of Assistance	Projected Jobs	Projected Wage	Assistance per projected job
Blue Earth EDA	Seneca Foods	TIF	$4,690,000	6	$9.62	$781,667
Richfield HRA	Meridian Real Estate (TOLD Dev.)	TIF	$6,478,303	15	$15.69	$431,887
New Ulm, City of	Kraft Foods, Inc.	TIF	$390,000	1	$8.99	$390,000
Saint Paul, Port Authority of	Harris Contracting Company	land sale, loan	$1,848,480	5	$10.00	$369,696
Owatonna Economic Devt Authority & City of Owatonna	Owatonna Incubator, Inc	TIF, building, infrastructure	$1,808,450	5	$7.00	$361,690
Lino Lakes, City of	F & G Inc.	TIF	$325,000	1	$5.15	$325,000
Anoka, City of	Pioneer Packaging & Printing	TIF	$304,469	1	$10.00	$304,469
Caledonia EDA	Alco Discount Stores - Dairy Queen	TIF	$275,515	1	$4.50	$275,515
Roseville, City of	Ryan Twin Lakes	TIF	$5,000,000	20	$12.00	$250,000
Anoka, City of	International Building Concepts	TIF	$222,377	1	$7.00	$222,377
Rosemount Port Authority	Cannon Equipment Company	TIF	$217,800	1	$13.50	$217,800
Saint Paul, Port Authority of	National Checking Company	land sale, loan	$2,918,176	14	$9.00	$208,441
Prior Lake, City of	Award Printing, Inc.	TIF	$200,000	1	$10.50	$200,000
Cloquet, City of	Cloquet Community Hospital	loan	$200,000	1	$14.50	$200,000
Lino Lakes, City of	Northern Development, LLC	TIF	$197,737	1	$5.15	$197,737
Burnsville EDA	Quality Ingredients Corp	TIF	$376,684	2	$19.23	$188,342
Pipestone, City of	Pipestone Beverage Property	TIF	$365,000	2	$9.38	$182,500
Caledonia, City of	Macal Developers	TIF	$179,525	1	$5.00	$179,525
Inver Grove Heights, City of	Kerasotes Theatres, Inc.	TIF	$1,749,060	10	$7.00	$174,906
Anoka, City of	Arrowhead Tool & Design, Inc.	TIF	$166,298	1	$7.00	$166,298
Anoka, City of	Mentor Urology	TIF	$166,239	1	$7.00	$166,239
Anoka, City of	E Street Makers, Inc.	TIF	$153,208	1	$7.00	$153,208
Burnsville EDA	Skyservice Investments	TIF	$297,859	2	$16.80	$148,930
Saint Paul, City of	Bethesda Family Clinic	loan	$442,000	3	$8.00	$147,333
Mpls. Comm. Devlp. Agency	Malcolm Properties LLC	TIF	$1,000,000	7	$8.25	$142,857
Murdock, City of	United Farmers Elevator	TIF	$131,527	1	$7.50	$131,527
MN DTED	Sparta Foods	Small Bus. Develop. Loan	$1,950,000	15	$10.00	$130,000
Anoka, City of	S&S Tool, Inc.	TIF	$129,308	1	$7.00	$129,308
Rochester, City of	Western Digital Corporation	TIF	$3,200,000	25	$30.00	$128,000
Lino Lakes, City of	Rice Industries Inc.	TIF	$122,830	1	$5.15	$122,830
Montgomery, City of	Seneca Foods Corp.	TIF	$1,188,198	10	$10.00	$118,820
Fridley, City of HRA	American Excelsior	TIF	$117,623	1	$8.00	$117,623
Anoka, City of	Wiltec Industries, Inc.	TIF	$110,826	1	$7.00	$110,826
Anoka, City of	Wisconsin Magneto	TIF	$218,943	2	$9.00	$109,472
Waseca HRA	Colony Court East	TIF, loan	$107,314	1	not provided	$107,314
Warroad Port Authority	Helgeson Chapels, LLC	TIF	$100,000	1	$18.27	$100,000
South St. Paul HRA	Historic Hospitality, Inc.	loan	$400,000	4	$7.00	$100,000
Saint Paul, Port Authority of	Versa Iron & Machine	loan	$2,000,000	20	$9.00	$100,000

The numbers for all deals' actual jobs are somewhat lower, with 79 of the deals at more than $35,000 per job and 18 deals at more than $100,000 per job.

Using the comparison of subsidy to annual wages, for actual jobs, 129 deals had assistance per job in excess of a year's income, 13 were for more than five years' pay, and 2 exceed 10 years' wages.[24]

There are also substantial cost distinctions between Metro and Greater Minnesota. Although fewer than 38% of the deals are in the Metro area, they account for 61.5% of the dollar value of assistance. On a projected-job basis, Metro deals cost $21,919 per job, rural jobs $15,178.[25]

In deals involving small cities negotiating with big employers, we might expect the corporation to wield disproportionate power to demand and win subsidies. While none of the local development officials we interviewed actually admitted that this happened, the following cases would appear to fit this pattern:

- Seneca Foods in Blue Earth received the largest amount of assistance per projected job of any deal in the database: a $4.69 million TIF for six new jobs, or $781,667 per job. The project is to build a warehouse adjacent to a pea and corn-packing plant, replacing a warehouse two miles away. The plant's employment peaks seasonally at around 300. The company is to lease the warehouse from the city, with the lease payment covering the 15-year bond debt, after which the company will buy the facility and the property will enter the regular tax rolls. The city says it hopes for more than six jobs and has structured aspects of the deal to generate other development funds .
- Kraft Foods in New Ulm received a $390,000 TIF for one projected job at its Velveeta plant, a major employer with 600-800 jobs. The TIF was used to aid a building expansion. The city hopes for more than one job and possible future growth .

Large corporations with multiple facilities in a region have the ability to relocate or consolidate production or distribution. This gives them extra bargaining power when they seek business assistance. They don't need to make explicit threats about moving jobs away; public officials are aware of that possibility.

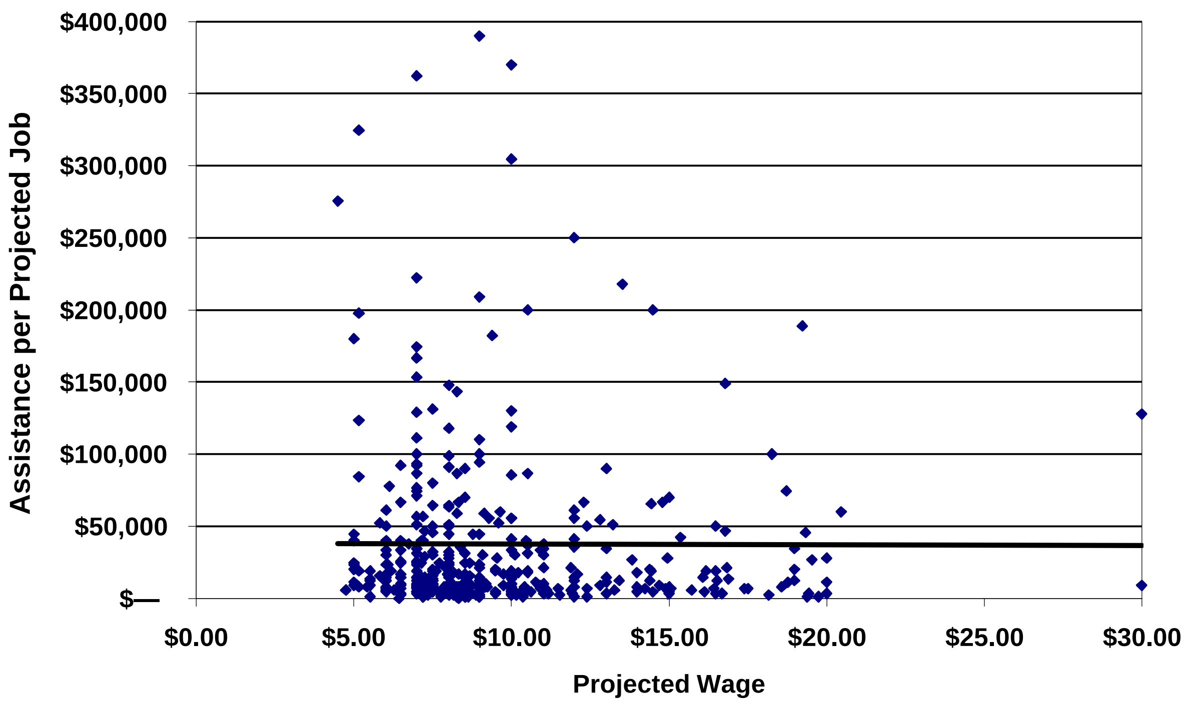
The lack of standards, such as subsidy caps on TIFs, makes it very difficult for local officials to decline requests for large sums of assistance from some corporations. Without rules that apply across the state, some local officials are placed in weak bargaining positions.

High Subsidies
+ Low Wages
= Poor Cost-Benefit Relationship

Weighing costs against benefits is a traditional evaluation device. Wages should go up when the level of public assistance rises, i.e., a subsidy of $100,000 per job should produce a substantially better job than a subsidy of $50,000 per job. When we chart Minnesota subsidies, however, we find no relationship.

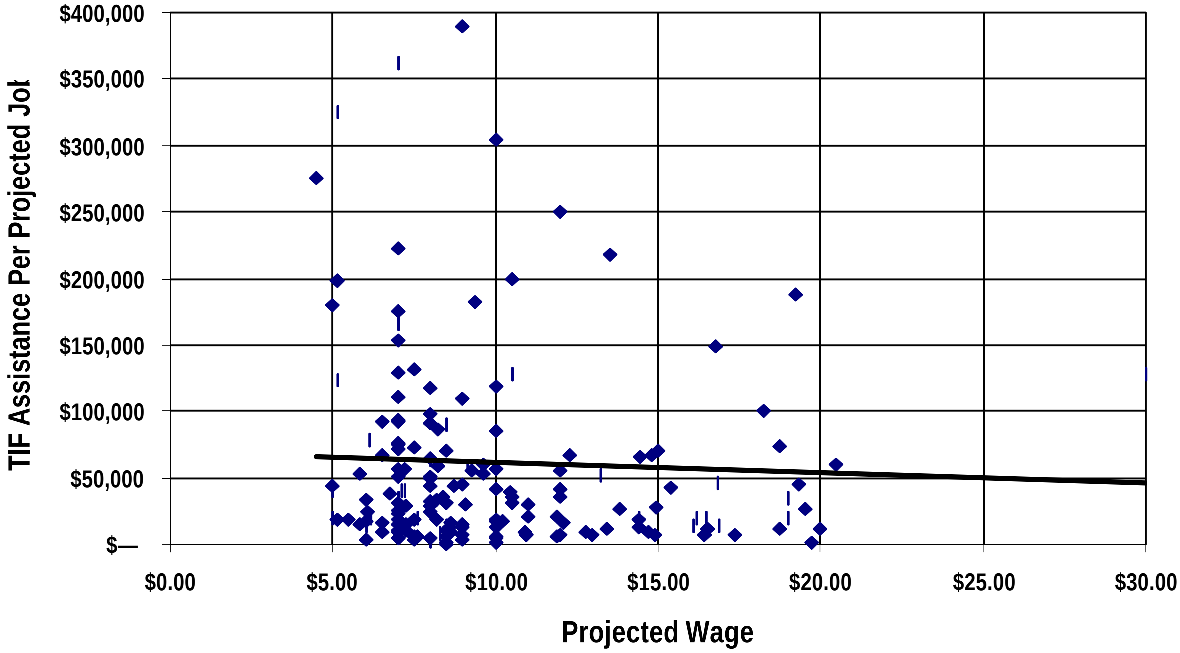
All of the deals, as projected and approved, actually show a *slightly negative relationship between assistance per job and wages* (but not a significant relationship). As the dollar value of assistance goes up, wages go slightly down (Hence the solid bar, which represents the aggregate trend, slopes slightly down from left to right). The chart below shows projected deals involving all three kinds of subsidies.[26]

Value of Business Assistance per Projected Job & Wage

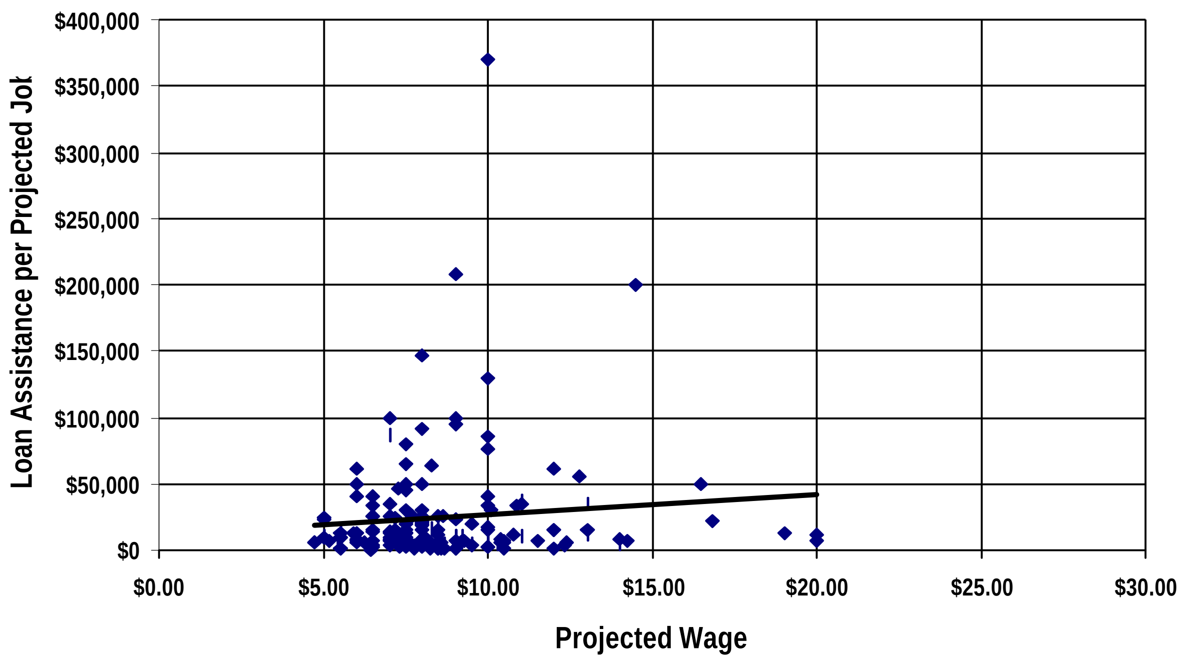


TIFs, which constitute half the dollar value of assistance, are the cause of this overall negative relationship. Broken out separately, they show a more negative relationship than the entire universe of deals.

Value of TIF Assistance per Projected Job and Wage

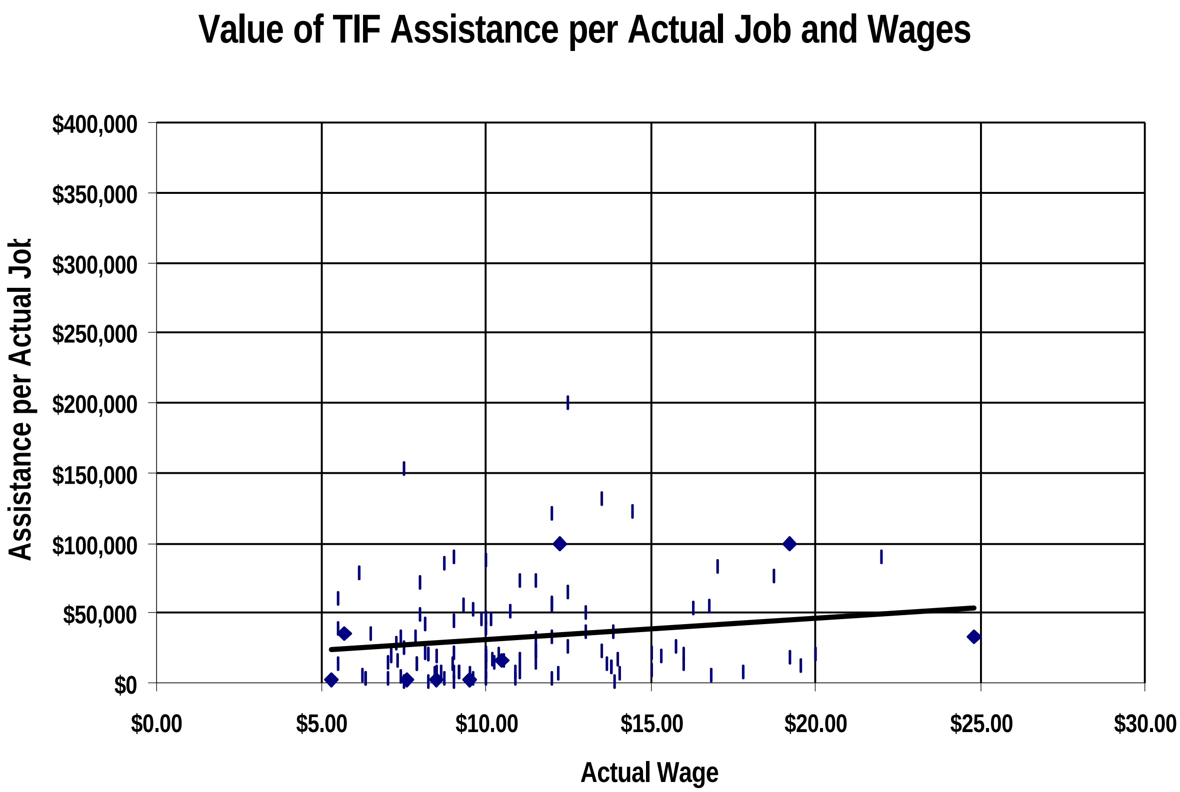


Value of Loan Assistance Per Projected Job And Wage



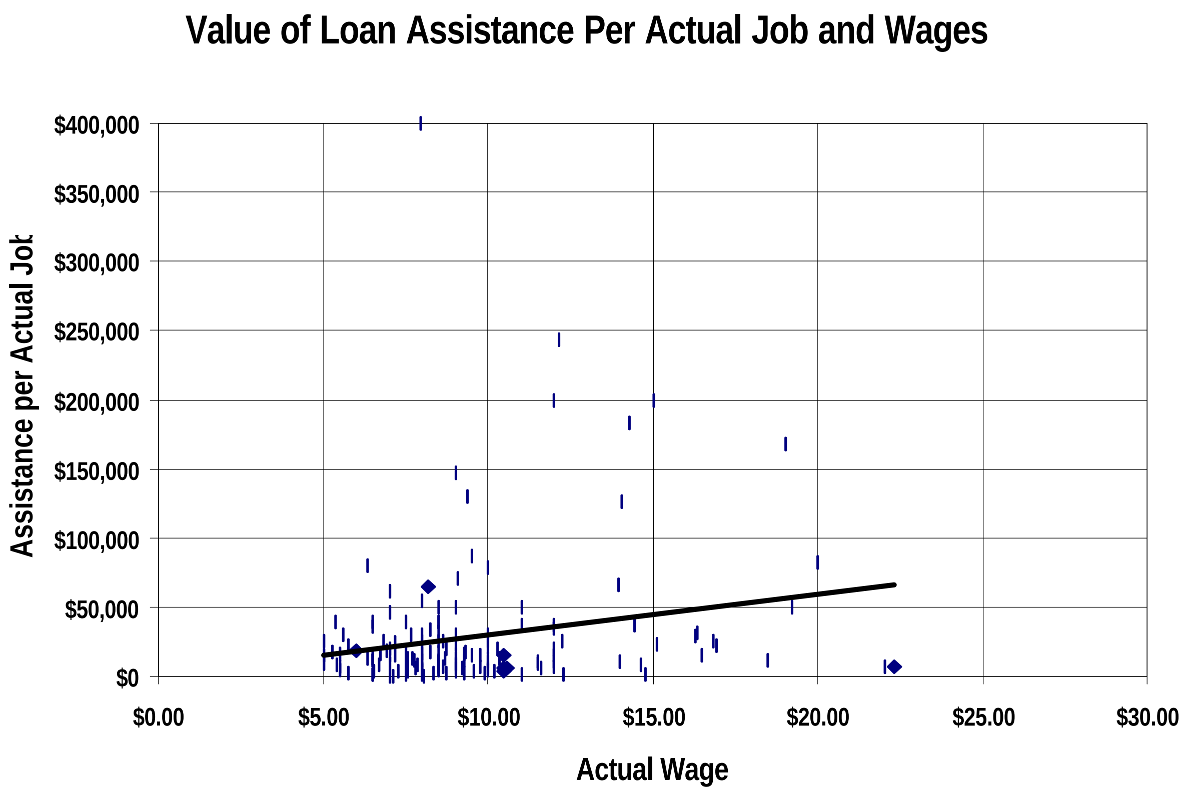
Loans as approved show a more positive cost-benefit relationship, though not significantly .

On actual jobs and wages, TIFs and loans both show slightly positive cost-benefit trends, but in neither case is the relationship significant. Loans show a more positive relationship than TIFs.



In part, these negative findings about TIFs derive from at least 20 TIF deals that were approved even though they were projected to cost $100,000 or more per job *yet pay $10 an hour or less* (represented in the upper left section of the TIF chart above). Fewer loan deals exceed $100,000 per job in assistance. DTED's Minnesota Investment Fund (MIF) provides a unique cost-benefit test case within the database. Not only does it have wage requirements of $8 an hour in Greater Minnesota and $10 an hour in the Metro area, it also has dollars-per-job caps on assistance: $5,000 per job in all cases except those with very high wages such as $16 an hour, in which case the cap is raised to $7,500 per job. Hence it is the only Minnesota program with both a wage floor and a subsidy cap, making it an invaluable cost-benefit test case.

The results are evident. While three of the deals exceed the $7,500 per-job cap, overall,the costs are lower than the overall distribution, and wages are somewhat higher. Furthermore, subsidies and wages show a marginally better cost-benefit



relationship than loans overall. Most important, costs per job are much lower, so that the resources are available to more companies, and less is at risk if benefits fail to materialize.[27]

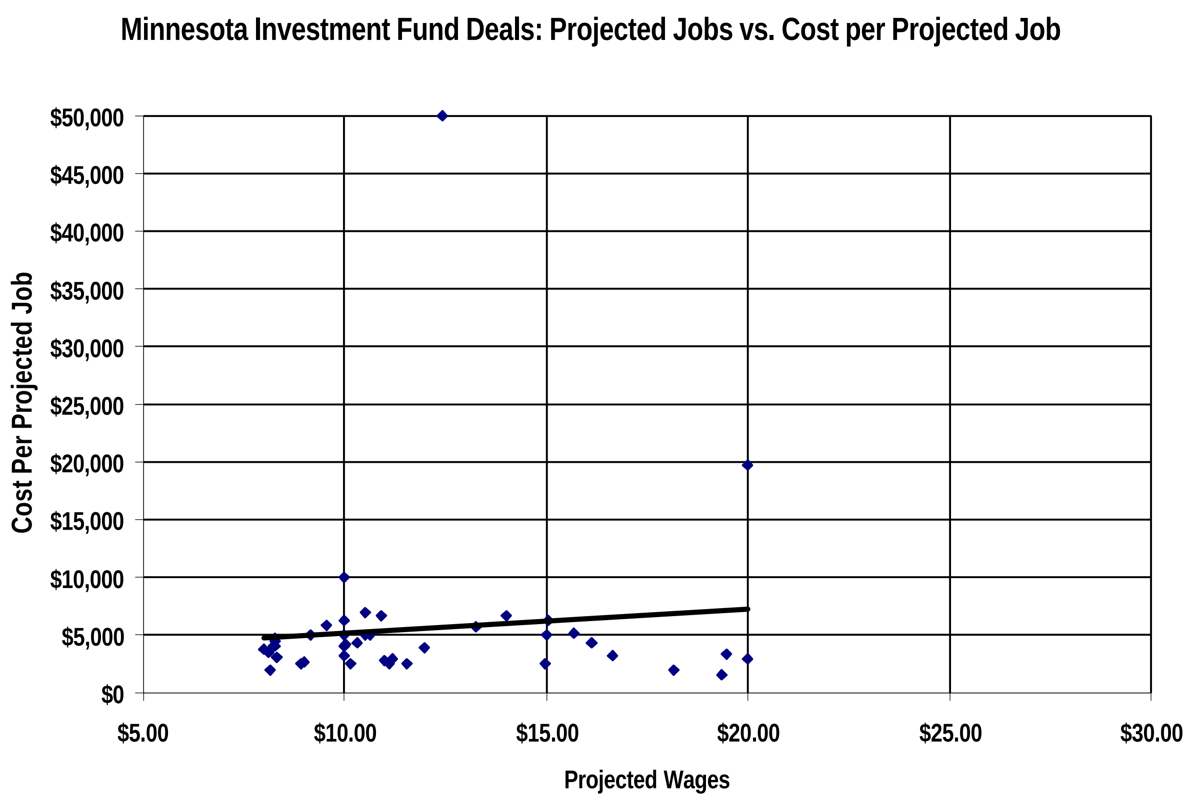
As we discuss in our final section on policy issues, wage standards and subsidy caps could reduce costs and improve benefits for all Minnesota development programs .

The absence of any relationship between assistance per job and wages in all the deals, especially TIF deals, is our most unexpected finding. It is the most compelling evidence that without standards, chaos ensues, and the data clearly show a mostly random relationship between costs and benefits.

If there were a positive relationship, if the deals in the low-wage “hump” in our wage incidence curve were also the low-subsidy deals, it might be easier to justify the most costly deals, because they would also pay the best wages. But that is quite often not the case.

TIF deals in Minnesota often serve valid purposes besides job creation (e.g., aiding downtown redevelopment or reclaiming underutilized land). TIFs have been the subject of numerous past studies and legislative reforms. It is not the purpose of this study to revisit those debates .

However, it is worth observing that because TIFs are so flexible and popular with local development officials[28] and because they create such large transfers of revenue between the state and the cities, they represent a costly intersection between city and state policy-making. Local officials may place greater emphasis on redeveloping property or landing a strategic new employer, even if the costs are high or the rate of new job creation is low, or both. State interests bring a different cost-benefit viewpoint, because the state pays to offset some school revenues lost to TIF. And if a TIF helps relocate a business within the state, it could have adverse effects on Minnesotans, such as worker dislocation and the associated social costs, and vacant property in the "losing" city.



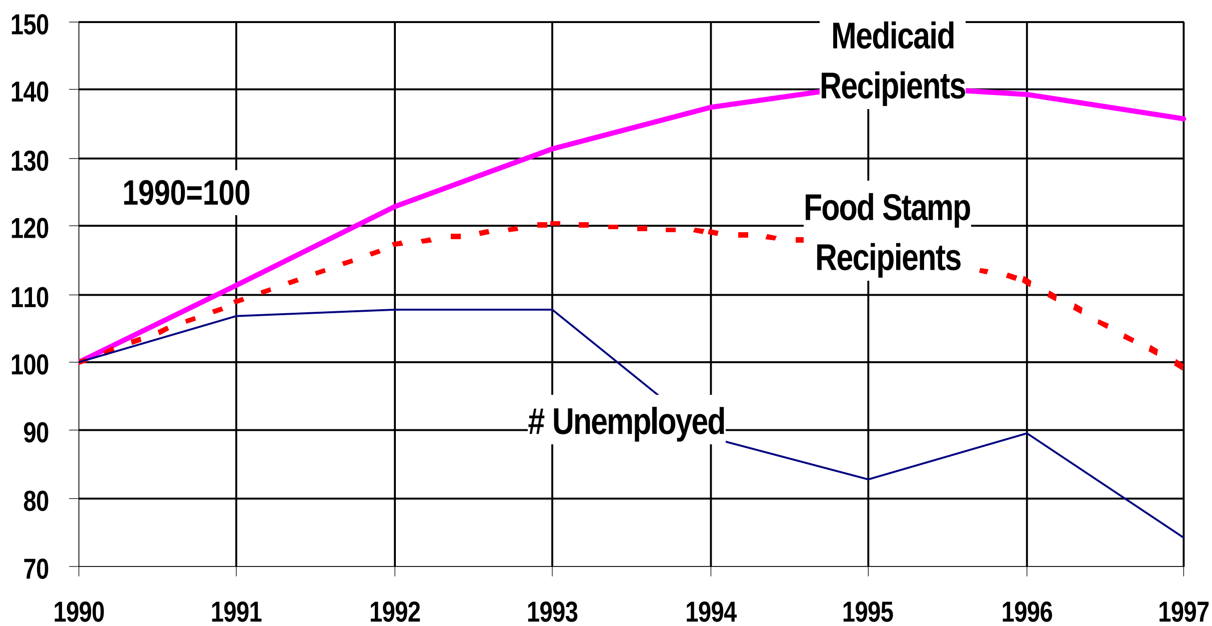
Low Wages and Hidden Taxpayer Costs

Between 1977 and 1996, the wages of non-supervisory workers in the United States declined in real terms. Studies have noted that even though the overall rate of unemployment has declined in recent years, the number of "working poor" has increased.[29] Variously employed in low-wage or part-time or contingent jobs, many such workers can only achieve incomes that leave them near or below the poverty line, and they therefore often remain eligible for social safety net assistance such as the Earned Income Tax Credit (EITC), food stamps, and/or Medicaid.

Minnesota has not been immune to this national trend. From 1990 to 1997, the number of unemployed workers in the state declined by a fourth, but the number of Minnesotans receiving food stamps has only recently returned to pre-recession levels, and the number of Medicaid recipients has risen by more than a third. The accompanying chart shows these comparative trends.[30]

The "job quality" gap represented here speaks to fundamental economic development issues. If development is intended to reduce or eliminate worker dependence on government assistance, it should not take the form of job creation without attention to

The Gap Between Job Creation and Saftey-Net Claims: Trends in Minnesota 1990-97



SOURCES: Food Stamps - USDA, Food and Nutrition Service. Medicaid - MN Dept. of Human Services, Reports and Forecasts Div. Unemployment - US Bureau of Labor Statistics.

job quality. It should involve the creation of full-time, non-contingent jobs that are good enough to enable workers to support their families with no hidden taxpayer subsidies such as food stamps or Medicaid.

Put another way, if taxpayers are giving economic development assistance to a corporation that is paying poverty-level wages, the MBAF database may not reveal the complete story of all taxpayer costs associated with those deals.

Because many wages projected and paid by subsidized corporations in the DTED database are quite low, we compared them to eligibility thresholds for two major safety net programs. Again using a conservative 1996 base and eligibility rates for a family of three, the wage cutoffs for programs were:

MinnesotaCare (Medicaid)[31]	$10.53 an hour
Food Stamps[32]	$ 7.87 an hour

By these measures, 76% of the deals were approved even though they were projected to pay at a rate at which the family would still quality for Medicaid, and in 37.2% of the deals the family would still qualify for food stamps .

For actual wages, results are only a little better: 64.5% of the deals still qualify the family for Medicaid, and 25.1% still qualify for food stamps .

These findings are also conservative when compared to the Minnesota minimum family budget released in October, 1998 by the JOBS Now Coalition. The budget costs out an extremely Spartan family budget, including no family savings for retirement or college education, no vacations, no entertainment, no meals out, below-average rent, the family paying 30% of healthcare expenses, all income earned by work except some EITC and child care credits, with no other forms of government assistance. The Coalition's budget for a single parent and two children is $28,733 which, to be attained, would require a job paying $13.81 an hour[33] .

In other words, our highest safety-net threshold for a family of three, $10.53 an hour, itself calls for a standard of living with about a fourth less income than the very impoverished lifestyle quantified by JOBS NOW.

Finally, we note that 10.5% of the projected deals would leave a family of three below the official 1996 federal poverty line ($6.02 an hour),[34] and 5.4% of the deals report actual wages that would leave such a family below the poverty line.

The rates of safety-net dependence among low-wage workers at subsidized Minnesota corporations cannot be estimated. However, the issue of hidden taxpayer subsidies associated with poverty-level wages is evident from the trends on Medicaid and food stamps compared to unemployment.

The issue again is one of standards:

If taxpayers want companies to pay subsidy-free wages, when does the public have more leverage to make that request than when government provides a job subsidy to a corporation?

Shouldn't taxpayers have confidence that they know the whole picture of the subsidy when public officials grant development assistance?

Should some kinds of jobs, such as retail, be declared ineligible for development subsidies because they are overwhelmingly part-time, low-wage and low-benefit?[35]

TIFs and *Intra*state Corporate Movements

Although a great deal of media attention has been paid to the so-called "Economic War Among the States,"[36] when we asked development officials in Minnesota open-ended questions about their use of development incentives, their answers seldom involved competition with other states.

Far more often, their answers involved Minnesota companies either seeking subsidies from the city where they are currently located, or seeking competing subsidy bids from two or more Minnesota cities after deciding to leave (or expand away from) their current Minnesota hometowns.

In nearly all such conversations, the issue of TIFs arose. The interviews clearly indicate that TIFs have become the subsidy of choice for Minnesota corporations on the move.

Some officials volunteered reasons why *their areas* need TIFs but other areas don't. For example, some development officials in Greater Minnesota asserted that they need incentives such as TIFs to compete with the Metro area. But several Metro area officials made the same argument about competing with each other. And one core-city development official extolled the city's TIFs but found suburban TIFs indefensible.

Here are some comments, directly quoted or closely paraphrased, we heard from local development officials:

> *TIFs are just assumed; it's no incentive anymore. All it does is create work for us economic development people. If we don't TIF, it goes somewhere else. If we TIF, we have to calculate the delay in revenues. It's just a shift from one place to another. If we said no TIFs, we'd suffer five years from now when we would otherwise have the base in five to nine years. TIFs cost taxpayers in delayed tax base, and they cost us in staff time. We can't even get companies on the phone unless we say up front we'll TIF. That's not right. We need a fair mechanism.*
>
> *TIFs are a useful tool for rural areas; they are good for diversifying the economy and stemming rural population flight. But I'm not sure TIFs make sense in large urban areas. They have so many other economic advantages in education, infrastructure and labor supply.*
>
> *As a taxpayer I don't like seeing $200,000 per job, but as a developer [in a core city], I see other offsets like reclaimed land. But I live in the suburbs, so I have a completely different opinion there. Why they need TIFs in the suburbs is beyond me.*

[About an office building deal designed to attract companies from other cities:] We didn't do this deal on the basis of creating X jobs. We are a first-ring suburb literally in a battle for our life. If we don't do the right thing in the next few years, we'll go on the scrap heap because that's what the culture does with cities like ours. We wanted a signature office building . . . a greater intensity of use. It's about redefining the area.

States and cities use federal monies to compete, but there is no net new job creation. Companies hop around five years here, five years there. The taxpayers are paying for the corporation. The solution? They ought to say: "No dollars for relocation, only for job creation, and it can't be transfers from one place to another."

We don't go around luring companies from [nearby cities]. People tell me so and so is going to give me such and such, and I say: "If that's good for your company, take it."

[Regarding the "but for" TIF requirement:] The truth is, almost anybody is going to meet the test. If a guy comes in here and says I want to build on X site but I need your help, we look at the costs. He says Burnsville will give it to me for a quarter an acre, and so on. "But for" is actually getting driven by what they can get elsewhere. Burnsville is in effect giving the store away. Lakeville is doing the same thing. It's dog-eat-dog. If you're a connoisseur of dog, you've got it made .

We came upon numerous instances in which incentives, usually TIFs, were provided to companies that were relocating within Minnesota. For example:

An Anoka official stated that about 25 of the tenants attracted to the Anoka Enterprise Park were not indigenous Anoka companies. However, he added that most were already located in the Metro North area, and that the city screens, rather than solicits, such corporations.

Cannon Equipment relocated an apparent total of 85 jobs from Cannon Falls to Rosemount, a distance of about 30 miles, with the aid of TIF for a $217,800 land write-down. The jobs moved were well-paying headquarters jobs; most of the company's production jobs remained in Cannon Falls .

Press reports cite other TIF-relocation deals:

Lund Enterprises reportedly was offered $500,000 in TIF to stay in Coon Rapids, but received $1.1 million in incentives from Anoka, including $800,000 in TIF. Coon Rapids' mayor told a newspaper "I didn't like it. The company . . . [was] very successful the whole time they were here in Coon Rapids."[37]

Saint Paul authorized $31 million in TIF and general obligation bonds to help lure Lawson Software from Minneapolis.[38]

Mendota Heights approved TIF of $336,510 for Career Education Corporation, the corporate parent of Brown Institute, to relocate from Minneapolis.[39]

The State's Legislative Auditor's report named four more TIF job-movement deals:[40]

Whirltronics moved from Brooklyn Park to Buffalo.

D.L. Printing moved from Hawley to Detroit Lakes.

Minnesota Pipe moved from Lakeville to Farmington.

Advertising Unlimited moved from Maplewood to Red Wing.

We also note that at least one Minnesota company, Seneca Corporation, a food company, may have employed the threat of moving to obtain subsidies. The same Legislative Auditor's report states that in Glencoe, where Seneca has a large, old Green Giant facility, it threatened to build a cold storage facility in another city, prompting Glencoe to create an economic development district to subsidize Seneca.[41]

In its 1996 analysis of TIF in Minnesota, the State's Legislative Auditor found that cities use six different interpretations of the "but for" test requiring the developer to certify that the project would not occur "but for" the TIF assistance. One was:

> *A city recognizes that the proposed development would occur without assistance, but it uses TIF to make sure the development occurs in this city and not another, and at a location consistent with the city's development goals.*[42]

Companies sometimes have bona fide business reasons to consider moving. They may outgrow a facility, or want closer proximity to new markets or suppliers. They may want better access to a river or an airport or a university. In other instances, some companies relocate based on the geographic preferences of their executives regarding quality of life factors such as schools or congestion.

But when a corporation seeks incentives to relocate an existing business, whether *inter*state or *intra*state, it raises one of the most serious criticisms made of incentives: that they simply amount to a zero-sum game in which no net new economic activity occurs. The criticism is most commonly made against manufacturing deals because, for example, a TIF to a food processor cannot result in more people feeling hungry and thereby create more food-processing jobs.

At the federal level, most of the major economic development programs now have anti-piracy regulations prohibiting their use in interstate job-movement deals. Just last fall, the last major federal program lacking such safeguards gained them: Community Development Block Grants from the U.S. Department of Housing and Urban Development Act. Congressional proposals for that reform originated in a 1994 episode involving the Milwaukee-area company Briggs & Stratton and its movement of jobs to Missouri and Kentucky, and in a 1995 episode concerning a Knoxville corporation, Schutt Sports Group, and its relocation to southern Illinois.[43]

Anti-piracy safeguards were already in place for training grants from the Jobs Training Partnership Act (now the Workforce Investment Act), for loan guarantees from the U.S. Small Business Administration, and for industrial park infrastructure projects from the U.S. Department of Commerce's Economic Development Administration.[44]

One federal program that is now defunct, HUD's Urban Development Action Grant (UDAG) program, also had anti-piracy safeguards. Minnesota won a "UDAG clawback" in 1987 when a major employer, Amhoist, was found by the U.S. Department of Justice to have violated the terms of a $4 million UDAG by using the subsidy in connection with relocating crane production from St. Paul to Wilmington, North Carolina. The move dislocated hundreds of Minnesota workers. The company was required to repay the $2.8 million it had already received after a lengthy and vociferous series of protests by U.S. Representative Bruce Vento.[45]

Several states have laws either prohibiting or deterring the use of certain subsidies for intrastate job piracy, including Wisconsin, Colorado, New Mexico, New York, Alabama, and Iowa. The Commonwealth of Puerto Rico and the City of Gary, Indiana also have rules denying certain incentives to movements from outside their jurisdictions.[46]

Minnesota's Enterprise Zone program is the only Minnesota program we identified with formal anti-piracy restrictions. Rules for both the border cities and hardship zones state that a company's application for zone benefits shall not be approved unless "it is not likely to have the effect of transferring existing employment from one or more other municipalities within the state."[47] Not written in law, as previously outlined, is DTED's procedure on Minnesota Investment Fund deals. In those cases, DTED does not authorize assistance for a moving corporation unless the city losing the jobs consents to the deal. Although TIFs are regulated by the State in numerous ways, they have no anti-piracy safeguards and the decisions to grant them are locally controlled.

When one Minnesota city is willing to pay to lure another Minnesota city's jobs, many fairness and policy questions arise:

- From the State's point of view, isn't this a zero-sum game?

Did the company "whipsaw" two or more jurisdictions against each other to see which would "open the candy store" the widest?

Will the incumbent workers get transfer rights or be close enough to the new site to be able to retain their jobs?

If dislocation occurs, and the company has to hire new employees to re-fill existing positions, will taxpayers incur additional expenses for safety-net spending for laid off workers or training new ones?

Did one city's TIF offer become the basis of a "but for" decision in another?

Again, the broader issue is the absence of statewide standards. Without any meaningful anti-piracy safeguards, local officials are in the classic "prisoner's dilemma." Here, closely paraphrased, is what one Minnesota development official said after being on the losing end of a TIF deal that cost his community jobs:

> *Usually you find out so late you can't do anything. We had some preliminary discussions about retention, but those dropped off, Then came the [relocation] news. They had hired a site location consultant. We felt it was a stacked deck. We didn't really get a chance to compete. Companies move around for a variety of reasons. It's a sad story if the public is paying for companies to move around. [After hearing the details of what the company got in the other city:] We could have done better than that. We've done bigger deals than that for other local companies and they knew it. They probably would have gone to [the other city] for zero dollars, but [the other city] couldn't know that.*

The "Low-Balling" Problem

The 1995 Minnesota law places the responsibility for setting the job-creation and wage goals upon "the government agency providing the assistance." However, among the hundreds of cities, regional agencies and state agencies covered by the MBAF database, practices vary widely.

Analysis of the MBAFs suggests, and our interviews confirm, that at least some development officials routinely set artificially low targets for job creation and wages so as to avoid the possibility that a company would fail to meet the goals within two years and be subject to recapture of the development assistance. This practice is sometimes referred to as "low-balling."

As a rural official put it: "The parties want the bar pretty low, so to speak, so there's no chance the clawback will come into effect." Or as a Metro-area official put it: "People get all sweaty. You don't want to overstate things." Another Metro-area official said the City advises companies to project what they are "totally comfortable with."

The low-balling pattern is most readily apparent in some places with a large number of deals, however by naming a few names here, we by no means intend to suggest that

City of Anoka Business Assistance

Name of Business Receiving Assistance	Type of Assistance	Value of Assistance	Projected Full-Time Jobs	Actual Full-time Jobs	Projected Wage	Actual Wage
Able Management	TIF	$321,043	none	22	not provided	not provided
Internat'l Building Concepts	TIF	$222,377	1	10	$7.00	$15.00
Arrowhead Tool&Design	TIF	$166,298	1	2	$7.00	$17.00
Mentor Urology	TIF	$166,239	1	8	$7.00	$20.00
E Street Makers	TIF	$153,208	1	1	$7.00	$7.50
S&S Tool, Inc.	TIF	$129,308	1	2	$7.00	$12.50
Wiltec Industries, Inc.	TIF	$110,826	1	3	$7.00	$13.00
Power Generation Service	TIF	$93,399	1	0	$7.00	—
ProLabel, Inc.	TIF	$71,654	1	1	$7.00	$8.00
Rise, Inc.	TIF	$56,525	1	8	$7.00	$9.50
James Automotive	TIF	$98,453	1	2	$8.00	$8.00
Artom, Inc.	TIF	$64,550	1	2	$8.00	$11.50
Pioneer Packaging&Printing	TIF	$304,469	1	4	$10.00	$18.75
Ballantine	TIF	$179,550	2	2	$8.50	$9.00
Wisconsin Magneto	TIF	$218,943	2	3	$9.00	$11.00
Machine Process&Design	TIF	$171,303	2	3	$10.00	$12.00
Hakanson Anderson	TIF	$70,326	2	5	$12.00	$16.00
Rainbow Signs, Inc.	TIF	$2,063,134	70	91	$8.25-$10	$13.51

SOURCE: Anoka 1998 Business Assistance Forms the practice is restricted to these agencies. We raise the matter because it seems fairly common, and it speaks again to the issue of missing standards.

For example, the City of Anoka, with 18 deals in the database, projected wages of $7 an hour in nine of the deals and another seven were between $8 and $10 an hour. However, in nine of the 18 deals, the MBAFs report that companies are already paying between $3 and $13 an hour more than projected .

An Anoka development official said, “Maybe the city was cautious.” He continued: Although “[state] law mandates [job goals] . . . quite frankly, job creation is not at the top of our list.” Citing other priorities, such as diversifying Anoka’s economic base, he said the city “didn’t want to put [companies] at risk if they didn’t meet” a particular job or wage goal.

Likewise, Lino Lakes filed five MBAFs; four of them called for only one new job, and each at minimum wage. But all four companies subsequently reported wages of between $12.25 and $15 an hour, and one company alone reported 28 new jobs. Lino Lakes Economic Development Assistant Mary Alice Divine voluntarily raised the issue in responding to our Freedom of Information request by writing:

> *You will note that the city’s policy has been to put in a minimum job and wage goal, since the State of Minnesota does not specify what the goals should be. In reality, these companies have created significantly many more jobs.*
>
> *The city is concerned that circumstances such as an economic downturn could delay job creation in these small companies beyond the two-year reporting period. To make matters worse by taking away the subsidy is not the city’s goal. Economic development is more than job creation.*[48]

City of Lino Lakes Business Assistance

Name of Business Receiving Assistance	Type of Assistance	Dollar Value of Assistance	Projected Full-Time Jobs	Actual Full-time Jobs	Projected Wage	Actual Wage
F & G Inc.	TIF	$325,000	1	28	min. wage	$13.80
Fairview Hospital	TIF	not on form	1	4	min. wage	$15.00
Northern Devlpmt., LLC	TIF	$197,737	1	2	min. wage	$12.25
Rice Industries Inc.	TIF	$122,830	1	1	min. wage	$14.42
Mag Con, Inc.	TIF	$172,481	2	2	$8.25	$8.75

SOURCE: Lino Lakes 1998 Business Assistance Forms

Duluth projected wages in four deals as “>$7.21" an hour, and it reported wages paid in identical fashion. The figure, a city official explained, derives from the enterprise zone tax credit threshold which grants companies a larger credit if newly-hired workers are paid more than $7.21. But by failing to obtain more specific data, the City does not know whether the companies are paying $7.22 an hour or $20 an hour.

Our interviews also found some instances where officials made conservative projections because of specific aspects of the deal, such as an office-building project that had no signed leases up front .

However, not all Minnesota development officials low-ball. The database suggests that some strive to negotiate good wages that more nearly resemble market levels. The two most notable examples are the City of Burnsville and the Minnesota Department of Trade and Economic Development (DTED).

Burnsville, with 37 deals in the database (more than any other city and second in volume only to DTED), negotiated for some excellent wages. Indeed, of the 47 deals statewide with the highest projected wages, 21 were in Burnsville. Seventeen of Burnsville's deals project wages above $15 an hour; 28 above $12.

A Burnsville development official explained the city's wage-negotiation method and provided a copy of the city's application paperwork. Overall, the city seeks to restrict incentives to manufacturing, office or warehouse/distribution because such corporations can afford "household-supporting jobs." For that reason, the city discourages retail deals.

The city's Economic Advisory Committee developed a questionnaire that rates each prospective deal by eight measures. Two of the benchmarks are relevant to this study. The first is "Public Investment Per Current Employee," in which lower dollar amounts get higher points. The second is "Pay Level of Positions," in which the company specifies the number of jobs in five broad pay brackets (which, for rating purposes, are weighted and averaged, with those paying more getting higher weights). To compute the company's wage goal, the city computes the average rate of pay derived from the company's answers on this form. Hence the idiosyncratic—but comparatively high—rates of pay pledged by Burnsville's subsidized employers.

The other standout agency for high-wage deals is DTED. Ten of DTED's 53 deals in the database project wages of more than $15 an hour, 15 deals project more than $12 an hour. There is no specific procedure used by DTED to account for these higher-wage deals.[49]

Collectively, the data, interviews and correspondence on "low-balling" raise important development policy questions:

City of Burnsville: 28 Deals Paying Over $12 an Hour

Business Receiving Assistance	Type of Assistance	Assistance	Projected Jobs	Projected Wage
Darrel & Chris Gonyea	TIF	$120,672	2	$20.46
SAI Investment Co.	TIF	$58,035	60	$19.73
Paul F. Gonyea	TIF	$267,328	10	$19.54
MHC Associates, LLC	TIF	$180,514	4	$19.35
Quality Ingredients Corp.	TIF	$376,684	2	$19.23
Astleford Equipment Co.	TIF	$77,520	7	$18.75
Rigid Hitch	TIF	$740,850	10	$18.74
Alan Ellingson (Al's Cabinets)	TIF, infrastructure	$141,160	20	$17.39
Tires Plus Groupe	TIF	$272,796	20	$16.88
Fort Dodge Properties	TIF, infrastructure	$280,000	6	$16.81
Skyservice Investments, LLP	TIF	$297,859	2	$16.80
Clayton & Beverly Larson (NW Bituminous)	TIF	$60,000	5	$16.55
Nicollet Cliff Co., LLC	TIF	$193,808	10	$16.46
Lac Lavon Partners, LLP	TIF	$56,400	8	$16.43
Bohn Properties Limited Partnership, II	TIF	$1,097,200	57	$16.19
RDO Equipment Co. (Vermeer Division)	TIF	$56,406	4	$16.09
R.D.A., LLC	TIF	$421,130	10	$15.38
Asset Marketing Development Associates	TIF	$1,376,838	50	$14.95
JRL & Associates, LLP	TIF, infrastructure	$33,265	5	$14.90
John & Rebecca Allen (Industrial Equities)	TIF	$335,200	5	$14.78
RDO Equipment Co. (Vermeer Division)	TIF	$52,000	6	$14.69
Southern Lights	TIF	$325,735	5	$14.46
Aquila Corp. (BELCORP)	TIF	$317,120	12	$13.81
Burnsville Showcase, LLP	TIF	$240,690	20	$13.40
Waymar Properties, LLP	TIF	$722,638	14	$13.22
Hi-Tech Floors, Inc.	TIF	$137,876	15	$10.46-$15.13
Caire, Inc.	TIF	$1,664,586	25	$12.31
F. R. Acquisitions, Inc.	TIF	$241,700	15	$12.09

SOURCE: Burnsville 1998 Business Assistance Reports

How can taxpayers compare two deals against each other, or weigh the benefits of a deal against its costs, if job-creation and wage projections are not reliable?

How can taxpayers compare the opportunity costs of spending public resources for economic development deals versus other ways of helping raise living standards if the anticipated costs or benefits for one option are misstated?

If some public officials are intentionally low-balling job and wage projections, are taxpayers—who are already assisting the business materially—also bearing an unfair share of marketplace risk? That is, if the public is already favoring a company with a subsidy, should it also give the company such low goals that no public benefit can be assured?

- # Is the current system fair to those companies and cities that strive to project accurate job and wage goals closer to market levels?

If the state had standards for job creation and wages, the problem of low-balling could be reduced or eliminated, and deals could be compared more reliably .

If low-balling were no longer possible, then the practice would no longer be available to any city that might be tempted to offer artificially low goals as a competitive enticement against other locations. Therefore, standards would serve to deter subsidized corporate migration or subsidized job piracy.

Finally, as we discuss in our section “Recapture: A Dead Letter?,” the issue of goals is critical to determine possible clawback liabilities .

Recapture: A Dead Letter?

Minnesota Statue, Chapter 224, Section 58, 116J.991 says in part:

> *A business that receives state or local government assistance for economic development or job growth purposes must create a net increase in jobs in Minnesota within two years of receiving the assistance . . . A business that fails to meet the goals must repay the assistance to the government agency.*

While not the most carefully-crafted “clawback” on the books, the intent of the Minnesota law is clear: it is a “money-back guarantee” provision to make sure that Minnesota taxpayers receive a return on their economic development investments, or else they get their money back.

Minnesota has an unfortunate history of development subsidies going awry, which may explain why this clawback was enacted. For example, the City of Duluth became the subject of national media coverage in 1988 when it won a precedential lawsuit against the Triangle Corporation. The lawsuit, based on an Industrial Development Bond (IDB) contract, prevented Triangle from further dismantling the city’s largest factory, Diamond Tool & Horseshoe Company. The city’s victory, which preserved approximately 275 jobs for six years (until the bonds expired) remains to this date the only instance in U.S. history of an IDB lawsuit preserving jobs.[50]

In 1987, as cited before, the U.S. government clawed back a subsidy from Amhoist in connection with that company’s relocation of work from St. Paul to North Carolina.

In 1997, Fingerhut Cos. agreed to repay $1 million in state loan funds it had received through the St. Cloud Housing and Redevelopment Authority in 1994. The company conceded that it had not created as many full-time jobs as it had agreed to.[51]

Most recently, the City of Albert Lea was featured in a November 1998 *Time* magazine series after its subsidies to a pork processor, Seaboard Corporation, went awry. The assistance to Seaboard included $2.9 million in low-cost financing and $1 million for construction aid. The city also had invested $34 million from local, state and federal sources in a waste-water treatment facility made necessary by the plant. Nevertheless, Seaboard paid its employees an average of $4,500 a year less in 1990 than a previous owner at the plant had paid in 1983, *Time* reported. Seaboard duplicated the Minnesota hog-kill capacity, which accounted for most of the jobs, in Guymon, Oklahoma in 1992, where it received $21 million in incentives and again paid lower wages. It closed the Albert Lea hog-kill facility in 1994, dislocating more than 600 workers. News accounts do not cite any recapture from the company.[52]

Instances like these and others have prompted at least eight other states and a greater number of cities to enact clawbacks. At least three cities—New York, Indianapolis and Fort Worth—have considerable experience actually enforcing their clawbacks and are not known to be suffering harm to their "business climates" as a result.[53]

In this analysis of Minnesota subsidies, we found a number of deals in which the MBAF data or information gleaned during interviews would suggest the recapture provision should have been triggered. However, according to development officials we queried, no clawback has occurred in any of these instances.[54] For example:

- One regional agency essentially confirmed that three of its deals had fallen short of their job-creation goals as of mid-1998. Cumulatively, to the official's knowledge, the three companies had created less than a fourth of the jobs they had projected, and in all three cases, more than two years had passed since the assistance had been provided. However, none of the assistance has been clawed back. When asked about the recapture requirement, an official at the agency said "yes and no," and "it's sort of a goofy deal," and that he has never exercised the recapture provision and doesn't "get nervous about it." Referring to a specific deal, he said: "We don't pay attention to it [recapture]". He also read the text of the law to us ("A business that receives state or local government assistance . . .") and stated his belief that the Initiative funds are neither state agencies nor local government but instead regional, and therefore the recapture requirement does not apply to their deals.

- On a loan made to a wood products company by one of the state's regional agencies, the MBAF reports that the company had created a fourth of the projected jobs, more than two years after the assistance was provided. In our interview, an agency official reported the company had created zero jobs as of September 1998, was paying $6.50 an hour, and was having trouble retaining employees. Regarding recapture: "We haven't pushed it at all. They've been trying to grow." The official said that when companies repay their loans reliably, the commission doesn't push too much on jobs, nor has it suggested wage raises to address the worker retention problem.

- For a loan to a company, a city on the Iron Range reported "0" jobs created. The deal had a low goal, but two years had passed since the assistance was provided. Officials said that the company's employment levels have fluctuated a lot, leaving the agency uncertain as to when to perform the clawback "snapshot." Because of our query, the city is looking into the matter.

- Another rural city showed a company lagging in job creation and the MBAF lacked any wage data. Additionally, the date upon which the job data had last been checked was a year before the MBAF was filed. When asked for details, the official was unable to state if future MBAFs would answer the job-creation or wage questions, and that "we'll cross that bridge when we get there."

In a very small number of cases, local officials reported catastrophic circumstances, such as a fire or bankruptcy, when we inquired about possible recapture situations.

Another city filled out a number of its MBAFs in a way that apparently extends the clawback deadline far beyond the state-mandated two years. Among Burnsville's MBAFs were nine in which the city, contrary to the format used by virtually all other reporting agencies, inserted its own deadline date into the box reserved for the job creation number. These dates ranged from three years to more than five years after other project-start dates provided in the MBAFs.

Burnsville's reports included three MBAFs with another timeline oddity. In each of the three cases, the date provided for Box #14 "Date Assistance First Provided," is *later than* the date in box #15 "Date Project . . . Was Placed Into Service." That is, according to the MBAF, each company placed its subsidized project into service *before it received the subsidy.*

We faxed a written query on these 12 MBAFs to Burnsville and received a written reply, which we followed up with another interview. The city's response makes it clear that there remains some widely-different opinions about when the two-year timeline is supposed to begin. The Burnsville letter describes a hypothetical "pay-as-you-go" TIF and says in part:

> *A contract [development agreement] is approved by the EDA . . . Construction then begins which can take anywhere from six to eighteen months (or longer)...If construction is 100% completed by December 31, 1998, full taxes for the new building come on line effective January 1, 1999 for taxes payable in the year 2000. Therefore, there is no increment (or assistance) available from this project to provide to the applicant until after the first half taxes have been paid in 2000, with the first assistance being paid to the applicant on August 1, 2000. Therefore, the wage and job creation criteria are not required to be met until August 1, 2002 (two years after the first assistance is paid).*[55]

This analysis of when the "clock starts ticking" contradicts other sources we found during this study, including DTED's April, 1998 MBAF report, which includes a summary of the findings of the Corporate Subsidy Reform Commission:

> *The Corporate Subsidy Reform Commission concluded that the two-year period that a business assistance recipient must create at least one job begins when the business first receives the benefit of the subsidy. This analysis uses that definition and assumes that business assistance recipients begin to benefit when a project is completed or "placed into service."*[56]

DTED's definition sharply contradicts Burnsville's hypothetical case; DTED's standard would start the timeline eighteen months sooner, when the building was completed.

However, DTED's definition also appears to be internally contradictory. In a "pay-as-you-go" TIF such as Burnsville's example, numerous local officials explained that upon signing the development agreement, a developer receives the immediate benefit of being able to actually finance the deal, with the TIF often becoming an "equity-like" asset or projected cash flow that helps leverage the loan. Certainly, the ability to obtain financing is a tangible and crucial benefit. Hence, by DTED's "first receives the benefit" definition, a developer in this example would first receive the benefit of the TIF the day he or she used it to obtain financing, typically soon after signing the development agreement. In the hypothetical example here, that would start the timeline 18 months earlier.

The idea that developers receive a benefit from TIF very early in the process is further supported by the "but for" certification required in TIF agreements. That is, the developer must certify that the project would not occur "but for" the TIF assistance. Therefore, the TIF assistance is not merely a "benefit" to the company, it is a lynchpin up-front element of the deal.

As this summary of possible recapture situations suggests, there is little unanimity about when the two-year timeline begins, and therefore when it ends for purposes of measurement and, as a result, this aspect of Minnesota's subsidy reform law appears to be a dead letter. It is not the purpose of this study to opine about whether a particular business is in compliance with the clawback law; hence our decision to not name names. But our survey indicates there remain some widely different understandings among development officials in Minnesota about how the recapture provision applies.

Again, as with subsidies per job, wages, cost-benefit, and low-balling, the broader issue is a lack of clear standards.

Reporting Compliance Rate Is Unclear

A comparison of the 1996 and 1997 MBAF databases suggests there are major discrepancies in reporting compliance.

Although the bulk of this report is based on 1997 data filed with DTED in early 1998, we did perform some analysis of DTED's 1996 database as well. Among the issues we examined was whether or not there were any deals in the 1996 database that did not reappear in the 1997 database, but should have because the corporation had not yet achieved its job-creation and/or wage goals. As DTED has interpreted the law, the public agency granting the subsidy must file the MBAF annually for a given deal until the company meets its job-creation and wage goals.

We identified 77 such "disappearing deals," representing a surprising 45% of the 171 reports in the 1996 database which stated that the company had not yet met its goals (and therefore another year's MBAF was due to be filed)[57] .

The 77 deals involve 41 government agencies. Six agencies had three or more: Northfield (3), Ramsey (6), St Paul (8), Central Minnesota Initiative Fund (5), Southwest Minnesota Foundation (7), and the Southwest Regional Development Commission (3).

We sought to survey those six agencies:

- At the Southwest Regional Development Commission, one company had paid off its loan because it had relocated outside SRDC's jurisdiction. Another subsidy turned out to be smaller than the MBAF $25,000 reporting threshold. The third, staff told us, has met its job-creation goal at "no set wage" (those facts had not been reported on an MBAF) and the company had paid off the loan.

- The Southwest Minnesota Foundation (formerly the Southwest Minnesota Initiative Fund, now a private foundation) took the most restrictive posture regarding disclosure of any entity we reached. An official there agreed to receive our faxed letter confirming our query, to which we attached the seven MBAFs in question. The Foundation's written response did not, in our opinion, explain the absence of the reports.

- Regarding Northfield's three deals, the City had written DTED letters of contrition in March, 1997 acknowledging that it had executed the deals without incorporating job creation or wage goals, and stating the city "will be more vigilant and include these in future agreements." Since the deals had no goals, an official said, the city reasoned there was nothing to report; DTED did not seek to set goals after the fact, the official said.

Regarding Ramsey's six deals, a city official reported that in the spring of 1998 when the MBAFs were due to be filed, three positions turned over: development director, finance director, and city administrator. The reporting accidentally fell through the cracks as a result of the multiple transitions, he believed.[58]

St. Paul's eight deals included one bankruptcy, one deal that properly belonged to another agency, one company that closed and paid off its loan, another that was sold and re-appeared under the new owner's name, and two that apparently fell through the cracks during a staff transition.

This analysis omits an unknown number of deals designated by some cities as "community development" rather than "economic development" and therefore not reported. For example, a report from the Minneapolis Community Development Agency (MCDA) stated that 32 "job creation" and community development initiatives from January 1997 through June 1998 were not subject to the City's "living wage" ordinance.[59] MCDA filed zero MBAFs with DTED for the calendar year 1996 and seven for 1997.

DTED's limited resources for administering the disclosure law have precluded it from making an estimate of compliance.[60] Following up on previously-reported deals that have not yet met their job and wage goals would appear to be the least-burdensome and highest-return place to start in enhancing the completeness of the database.

About 130 of Minnesota's approximately 800 cities filed MBAFs for 1997. Given our survey findings among the state's 50 most populous cities (see next section), we conclude that the DTED database covers a majority of business assistance deals, and therefore represents a sample of the state's development subsidies for this analysis. But we cannot provide an estimate as to the rate of reporting compliance.

Some Minnesota Cities Are Just Saying "No"

Of the State's 50 most-populous cities, we determined that 23 did not show up in the DTED MBAF database. We sought to interview all 23 to ask why .

In three cases, cities told us that they believed they had filed MBAFs; we forwarded those messages to DTED for its use. Numerous others indicated that they did not have any reportable deals in the covered years, but that they had earlier deals or current deals that will show up in the 1998 database. A few cities, such as New Brighton, argued that although they use TIFs to assemble land for reuse, they believe that does not constitute reportable assistance because they seek market prices on resale.

Our most noteworthy finding, however, is that several cities—including some high-growth Twin Cities suburbs—have a conscious policy to provide few subsidies or none at all, despite the knowledge that their policy is occasionally causing them to lose deals to neighboring communities that offer subsidies. Such policies apparently reflect either a shrewd market judgment about a city's inherent desirability, local political currents, or both.

An official in Apple Valley (an outer-ring southern suburb), for example, said that a vocal constituency often shows up at city council meetings and speaks against incentives. The city made sparing use of incentives prior to 1995, the official reported. Currently, the city's demographics are driving growth in retail and services. According to the official, TIFs might be useful for redevelopment, but that is not Apple Valley's situation.

An official in the city of Austin (a rural county seat in southeastern Minnesota) said an incentive might be appropriate to help reclaim an old part of downtown, but incentives have been controversial locally, especially if one goes to a company that has local competitors.

An official of Bloomington (a mid-ring suburb south of Minneapolis) said the city is very selective with TIFs and other incentives, even though it has many aggressive neighbors that use them. While the city council has approved past incentives for a few "home run" projects like Mall of America and Seagate, the city knows that it has what many companies want—two interstate highways and proximity to the airport—and record levels of new jobs and construction permits to show for it. Those advantages have enabled the city to sometimes land projects without TIF even though neighboring cities offered it.

An official of Eden Prairie (an outer-ring southwestern suburb) said city council leadership feels the city has attracted development without incentives, so it hasn't offered any—although it may use TIF for a redevelopment project. The city has proximity to the airport, two corporate headquarters, high incomes, high home values and only a little undeveloped land .

An official with Plymouth (a mid-ring western suburb) said the city's leadership has a consensus philosophy that using incentives to compete has no net gain for the community. Noting that the city enjoys locational advantages, the Plymouth official pointed out that the city has a large amount of commercial-industrial property and high home values in its tax base, enabling it to levy low property tax rates.

These cities' stories indicate that some local officials, both professional and elected, are skeptical of incentives and believe that investing taxpayer dollars in company-specific assistance is not a good investment.

Conclusion: Standards Could Reduce Costs and Improve Benefits

In the absence of standards, economic development practices in Minnesota exhibit many problems: high costs, low wages, no relationship between costs of assistance and benefits of wages, government-subsidized corporate relocations, low-balling, no recapture, and major discrepancies in compliance on the disclosure requirement.

These problems are hardly unique to Minnesota. But by having the nation's best subsidy disclosure law, Minnesota taxpayers now have more detailed information about these issues than do citizens of any other state. While other states may emulate this disclosure precedent, Minnesota can learn from other states about how to address these problems. State standards on wages and subsidies could reduce costs, improve benefits, and deter costly intrastate bidding episodes. They could rationalize the subsidy-granting process, and provide development officials the freedom to compete on business climate basics instead of costly company-specific incentives .

Summarized below are policy options for subsidy standards:

Wages

For Metro deals, a wage floor set at 85% of the Metro-industry average, computed by dividing MDES's ES-202 Average Weekly Earnings for the company's two-digit SIC by the average numbers of hours worked in that SIC, as reported by the U.S. Bureau of Labor Statistics.[61]

For rural deals, a wage floor set at the higher of (a) 85% of the county average wage or (b) 85% of the county-industry wage, derived as above, using county ES-202 data. If there is insufficient data for the two-digit SIC, 85% of the next broader wage subset (e.g., manufacturing or services).[62]

Minnesota has more history than any state except California with "living wage" laws. Most such laws apply to contractors providing public services. But some, including all three of Minnesota's living wage laws in St. Paul, Minneapolis and Duluth, also apply to companies receiving development subsidies.[63] Additionally, the state legislature twice passed a state living wage law tied to subsidies, but the legislation was twice vetoed by the governor. Even before the living wage trend began in 1994 in Baltimore, many states and cities had quietly started to enact job quality standards spanning both wages and benefits. Cumulatively, the precedents indicate a national trend: more governments are holding subsidized corporations to wage standards.

State and Local Job Quality Standards[64]

Jurisdiction	Subsidy Type(s)	Job Quality Standard
Gary, Indiana	Tax abatements	Prevailing wage of job classification, per the BLS Area Wage Survey. Healthcare for all employees working 25 hours or more per week
3 Indianapolis Townships	Tax abatements	Average wage $14 an hour; all new jobs must pay at least 90% of that
Iowa	Any grant or forgivable loan for job creation or retention, except to certain small businesses	Non-supervisory employees must be paid at least twice the federal minimum wage
Iowa	New Jobs and Income Program	Median wage highest of $11.42 an hour or 130% of average county wage
Kansas	For firms with ≤ 500 employees. Sales tax exemption on construction, machinery and eqpt. Business facility investment tax credit. 50% match on consulting services from High Performance Incentive Fund	Wages above county average for firms under 500 employees in the same two-digit SIC code, unless the company is the only such firm. Worker training commitment, by either: 1) participating in state-administered training or lifelong leaning program; 2) a cash investment of more than 2% of total payroll in training and education
Maine	Jobs and Investment Tax Credit program, ETIF, and BIW programs	Annual wages exceeding per capita income for labor market. Company must provide group health insurance, and a pension plan subject to ERISA
Rhode Island	Capital Equipment Credit for High Performance Firms	Firm's median wage must exceed the state's 2-digit SIC average or exceed 125% of state's all-industry average.
Santa Clara County, California	County portion of tax abatements on factory equipment	Company must pay at least $10 an hour, plus health care or a suitable alternative to permanent employees.

Subsidy Caps

A $35,000 limit per created job, with all subsidies counted in the event a project involves two or more subsidies to the same company. Jobs created defined as full-time, permanent and new in the state of Minnesota.

As previously discussed, the Small Business Administration (SBA) and the U.S. Department of Housing and Urban Development have subsidy limits of $35,000 per job. Although both of those caps include jobs created or retained (Minnesota only tracks jobs created), their guidelines about counting retained jobs are stringent.[65] State caps are generally lower than HUD and SBA caps. Below are some “on-budget” forms of state assistance. When “off-budget” development subsidies, such as tax credits, are capped, it is generally at far lower amounts—typically $5,000 or less per job.

State Development Subsidy Cap Examples[66]

State/Agency	Program	Subsidy Cap
Illinois Dept. of Commerce and Community Affairs	Community Development Assistance Program	$10,000 per job created or retained
Pennsylvania Dept. of Community and Economic Development	Infrastructure Development Program	$25,000 per job to be created within five years
New Jersey Economic Development Authority	Statewide Loan Pool for Small Business	$35,000 per job created or maintained, for combined loan and loan guarantee
West Virginia Economic Development Authority	Direct Loan Program	Guideline of $15,000 lent per job created

Clawback

One reason some officials may be low-balling job and wage projections is the fact that Minnesota’s recapture rule is a “cliff.” That is, it says that either a company makes the goal or not; if the company fails to meet its goals, it loses the entire subsidy. That’s a substantial risk, and it may prompt companies to argue for artificially low goals.

A calibrated clawback, in which the amount of clawback would be determined by how far off job creation was from projections, could address this issue. For example, if a company fell 10% short of its job-creation goals, it would repay 10% of the value of assistance. Calibrated recapture rules can be structured in several ways. The recapture penalty can be twice the shortfall, or it may grant forbearance for small discrepancies. It can also be made more punitive for occasions when a company fails to deliver. For example, if a company relocates jobs that had been subsidized, the clawback may demand a 100% payback with an interest penalty.[67]

The logic here is that "one size does not fit all." Most companies make a good faith effort to deliver on the public investment they receive. But if a company falls far short or acts in a way that is contrary to the intent of the incentive, some public entities mandate that taxpayers should be properly compensated.

Anti-Piracy

In our section on TIFs and intrastate corporate movements, we have listed states with laws restricting subsidies for intrastate corporate migration or job piracy. Anti-piracy safeguards usually make relocation projects ineligible altogether for the subsidy. Others operate like DTED's procedure on the Minnesota Investment Fund, where the "losing" community is consulted. The most common:

- a ban making intrastate corporate relocation projects ineligible for business assistance.

Disclosure Enhancement and Compliance

The following enhancements in Minnesota's subsidy disclosure law would make the Minnesota Business Assistance Forms more useful as evaluation tools:

- extend the dollar brackets for reported wages. The current scale tops out at "$12 and higher" even though the average wage in 1997 was $14.53;

- include the name and address of the parent corporation of the business receiving the assistance (to more clearly identify multiple subsidy recipients);

- report the parent corporation's overall employment level in the State at the time of the business assistance agreement and in each subsequent MBAF;

include the street address of the subsidized-company project site;

list other agencies' assistance being provided in the same project;

report wages on TIFs for their duration, as suggested by the Legislative Auditor[68];

disclose whether or not the new jobs include employer-paid healthcare[69];

provide additional funding for DTED to collect and analyze the MBAFs; and

require cities that have no reportable deals to so certify to DTED on the MBAF timeline. In cases where cities file nothing or file incomplete forms, DTED could adopt a policy of notifying them of the discrepancy and giving them a period to correct the discrepancy, at the risk of losing DTED assistance on deals in that jurisdiction until reporting is completed.

Clarifying Two-Year Timeline

To address the confusion over the recapture timeline, a possible solution would be a policy requiring that each business assistance agreement define the start date as whichever comes first: the date when a business first occupies a structure or when it installs equipment or when it hires a new employee to execute the subsidized project .

Standards for Greater Fairness and Effectiveness

By embracing subsidy standards, states create a more level playing field among cities and counties. They give local development officials clearer signals about program intent. They strengthen public officials' bargaining position with corporations, even large ones. They make the programs more equitable among competing applicants.

Adopting such standards could produce many positive effects.

One city would not be able to lure jobs from another by offering a costly TIF or by offering to low-ball on job and wage goals;

Dominant local employers would not be able to command subsidies far more valuable per job than other local companies;

Subsidized corporations would pay wages in a range closer to existing local rates for their industry, by definition not a competitive disadvantage;

The wages paid by subsidized corporations would more nearly resemble the state's overall wage profile;

Cities would have greater strength to negotiate higher job and wage goals, supported by the standards and by the calibrated clawback;

DTED would have a far more complete database on development activity around the state;

Taxpayers would have much more information upon which to compare the opportunity costs of incentives versus other options for raising living standards; and

Cities would be free to compete on healthier business basics, such as the quality of their labor force, their entrepreneurial capacity, and their industrial linkages. That would encourage cities to re-direct development resources away from costly company-specific deals and into uses that root employers closer to the community, and spread the benefits of public investments more equitably.

Methodology

This report looks at Minnesota development deals in two ways. First, it considers the deals as they were approved—what did the company get and what did it promise? This goes to decision-making process of public officials who negotiate and authorize the assistance. Second, it analyzes the deals' outcomes as of calendar 1997 reports. This analysis is less extensive because the law mandating the disclosure only took effect July 1, 1995, and this database is for the calendar year 1997. Therefore, many deals had not yet started creating jobs, and few had reached their two-year performance deadline .

We write extensively about the deals as they were projected because we wanted to assess the transactions as they were negotiated and authorized. Indeed, such an analysis provides a glimpse into the deal-making process, and measures the policy intent and negotiating strength of public officials—professional staff and elected leaders—as they allocated $176 million in public resources.

We examined a small number of deals that were more than two years old in which the companies apparently failed to meet their goals (see section on "Recapture: A Dead Letter?"). More outcome analysis will become possible in subsequent years' databases.

Our wage benchmarks are derived from three sources. Statewide income incidence data, aggregated for 1996 and 1997 in two-dollar-per-hour brackets (for statistical significance) was provided by the Economic Policy Institute based on data from the U.S. Census Current Population Survey. Statewide wage data for industries, at the two and in some cases three-digit Standard Industrial Code (SIC) level of specificity, came from the U.S. Department of Labor, Bureau of Labor Statistics (BLS). Metro Twin Cities and county-specific wage data, usually at the two-digit SIC level, came from the Minnesota Department of Employment Security's ES-202 database, which provides average weekly earnings derived from the unemployment insurance premiums paid by employers. To derive hourly wage averages from the weekly wage data, a denominator was derived from statewide BLS data on average hours of work per week by SIC, with an allowance for 150% of hours above 40 to account for overtime pay.[70]

Assistance per job is the result of dividing the value of business assistance reported on the MBAF by the number of projected jobs and by the number of actual jobs. In the case of 38 corporations in the database, DTED has suggested two or more MBAF-reported subsidies were given to the same deal. Our analysis of the data and phone interviews on more than half such instances prompted us to conclude that 10 were not multiply-subsidized single projects. In most of our analysis, we treat each MBAF separately, since each represents a distinct subsidy and decision negotiated and authorized by a separate public agency. However, in our discussion of assistance per job, we aggregate the value of assistance numbers in multiple-subsidy projects because the denominator in those equations—the jobs—are one and the same.

We requested under the Minnesota Freedom of Information Act the development agreements for 60 deals. We chose these deals because (a) they were most discrepant either by value of assistance per job or by projected wage compared to existing wage, or (b) because it appeared the company may have failed to meet its job creation and wage goals within two years, or (c) because of other irregularities in the MBAF itself.

We conducted more than 100 interviews with at least 75 officials in 60 cities, regional agencies or state agencies concerning discrepant deals, with special attention to those places with multiple discrepant deals. We explained why the deals in question attracted our attention and asked for details about the deals that could explain the discrepancies. We asked many of these officials questions about their deal flow, their local development priorities, and their opinions about the programs they administer.

The interviews were not intended and should not be construed as an opinion survey, but they do constitute a large and diverse sample of insights and perspectives from the state's development front lines.

In addition to the 523 MBAFs in DTED's published compilation, which were also provided to us in computer spreadsheet form, we augmented the database by entering 30 additional deals whose MBAFs were received by DTED after April 29, 1998 and therefore were not included in DTED's summary, but were appended in its report.

In order to perform the comparative wage analysis, it was necessary to fill in more than 100 Standard Industrial Code (SIC) numbers that were missing from the MBAFs. We used numerous sources to obtain that data, including the Minnesota Manufacturers' Directory, on-line business directory services, and telephone queries to development officials and companies.

We determined that 23 of the state's 50 most populous cities were not present in the MBAF database. We sought to interview development officials in each such city to determine why they reported no deals, and we summarize our interview findings .

We compared the 1996 database to the 1997 reports. We found that 45% of those deals reported for 1996 which had not yet met their job and wage goals, and therefore should have re-appeared in the 1997 data, did not show up in the 1997 data. We sought to interview officials at those six agencies with the greatest number of "disappearing deals" and we report their explanations. It was not within the scope of this study, however, to formally estimate the statewide rate of reporting compliance.

Because some of the MBAFs are partially incomplete or are filled out in ways that preclude quantification, we necessarily employ different base numbers for various computations. The most important numbers are:

Number of MBAFs:	553
Number of deals after accounting for multiple-MBAF projects:	525
Number of Metro deals:	199
Number of Rural deals:	326
Number of MBAFs with projected job-creation goals:	474
Number of MBAFs with actual jobs, including zero:	524
Number of those 524 MBAFs reporting zero jobs	152
Number of MBAFs with projected wage goals:	446
Number of MBAFs with actual wages:	355
Number of MBAFs with stated dollar value of business assistance:	498
Number of deals in which projected wages can be compared to county/Metro industry averages:	443
Number of those deals that are Metro:	181
Number of those deals that are rural:	262
Total number of deals in which actual wages can be compared to county/Metro industry averages	351
Number of those deals that are Metro	120
Number of those deals that are rural	231

The total value-of-assistance figure of $176 million we cite is derived from the MBAFs. However, 55 of the MBAFs lack clearly-stated assistance figures. Thus, including unreported deals and incomplete MBAFs, the total amount of assistance monitored by the reporting system certainly exceeds $176 million. Given the fact that we accounted for the state's 50 largest cities, and that approximately 115 other entities (out of about 800) filed, we conclude that the MBAF database represents a large share of the relevant deals for our analyses .

The next round of MBAF analysis will become possible after June 1, 1999, when DTED publishes the 1998 data.[71]

Endnotes

1. Interview 1/15/99 with Roger Hughes, Executive Director of the Partnership.

2. Interview 1/15/99 with Eric Betterman, Executive Director of the Program.

3. Interview 1/15/99 with Bart Bevins, DTED staff.

4. Interview 1/20/99 with Paul Moe, Director of DTED's Office of Business Finance.

5. See, for example: "Reforming TIF, Some unfinished work to do," Minneapolis *Star Tribune*, 3/18/96, p. 10A; Dave Beal column, *Saint Paul Pioneer Press*, 2/16/97; "TIF or nothing? A needed redevelopment alternative," Minneapolis *Star Tribune*, 4/29/96, p. 10A; "Minnesota Cities' Use of Tax-Increment Financing Rising," *Saint Paul Pioneer Press*, 5/5/98;

6. "Tax Increment Financing Report," March 10, 1998, Minnesota Office of the State Auditor, p. 5. "Tax-increment use grows at faster rate," *Minnesota Journal*, 5/19/98 (publication of the Citizens League).

7. For a good introductory primer on TIF in Minnesota, see "Tax Increment Financing," March, 1996 report of the Program Evaluation Division, Minnesota Legislative Auditor, pp. 3-13.

8. "Tax Increment Financing," Legislative Auditor, March, 1996 report, op cit, pp. 59-60.

9. "Tax Increment Financing," Legislative Auditor, March, 1996 report, op cit, p. 72.

10. Interview 12/17/98 with Jerry Silkey, Minnesota Department of Revenue. "Tax Increment Financing," Legislative Auditor, March, 1996 report, op cit, p. 26. Joel Michael, Minnesota House Research Department, cited in the 5/19/98 issue of *Minnesota Journal*, op cit. The State's school aid formula pegs a school district's obligation at (a) property values times the uniform rate of taxation minus (b) the number of students times the operating cost per student. However, when a school district's tax base includes TIF, that part of the property value is excluded from the computation, raising the difference between the two products and creating a gap that is then largely offset by the State. The state offset only covers lost operating revenues, not capital expenses. Therefore, some fast-growing suburbs that are aggressive users of TIF are squeezed for school construction revenues, prompting the need for additional school bond referenda.

11. Interview 1/15/99 with Heidi Timm-Bijold, Duluth Economic Development Authority.

12. The number of MBAFs with sufficient projected-wage data for these analyses is 327. The number of MBAFs with sufficient data on actual wages is 265. The Minnesota existing-income data was provided to ITEP by the Economic Policy Institute, derived from an unpublished EPI tabulation from 1996 and 1997 wage data from the U.S. Census Current Population Survey. Because of sample sizes, it was necessary to use two years and to bracket wages at $2 (and to bracket the $20.01 to $25.99 range) in order to have statistically significant numbers. ITEP disaggregated data in EPI's $20.01 to $25.99 bracket to eliminate the resulting artificial hump. These income incidence data were more current and disaggregated than those available from either the Minnesota Department of Revenue or the Minnesota Department of Employment Security.

13. When a company projected a wage *range*, we used the middle value of the range.

14. Other DTED deals notable for high wages include Cardiac Pacemakers (156 jobs @ $26.38 an hour); Liberty Paper (80 @ $15.31); and Value Rx (632 @ $21).

15. The average wage in Minnesota rose 4.7% to $14.53 in 1997, according to MDES data, making this benchmark conservative. We note that in its summary of the 1997 MBAF data, DTED uses an income incidence scale that ends at "[m]ore than $11.99." That is, the scale upon which DTED reports 1997 wages makes its last cut at a wage level *more than $2 below the state's average 1997 wage.*

16. U.S. Department of Labor, Bureau of Labor Statistics, unpublished tabulation from the Current Population Survey, 1991 and 1998. The West North Central Region includes Minnesota, South Dakota, North Dakota, Iowa, Kansas, Missouri and Nebraska. State-specific data is not available due to insufficient sampling size. We excluded workers ages 16 to 19 because most such workers would not typically be full-time job takers entering jobs with corporations such as those receiving subsidies.

17. The number of MBAFs for this analysis is 327. This is conservative because it compares existing wages as of 1996 to deals approved in the latter half of 1995, and all of 1996 and 1997, although more deals date to the later period.

18. The number of MBAFs for this analysis is 265. This is conservative because it compares 1996 existing wages to wages paid by subsidized corporations in 1997.

19. This was our most labor-intensive quantitative analysis. We were conservative, benchmarking deals from the second half of 1995 through 1997 against 1996 wages, even though more deals occurred in the latter period. To perform this analysis, we used the 1996 ES-202 Employment Security Average Weekly Pay database from the Minnesota Department of Employment Security (DES). For more than 90% of the deals, this database provided valid average weekly pay at the two-digit SIC level, which we then divided by the numbers of hours worked per week by two-digit SIC, as reported by the U.S. Bureau of Labor Statistics for Minnesota in 1996, allowing in the denominator for 150% of those hours above 40. In the few remaining cases, because there was no data or insufficient data at the two-digit industry level, we used the next-available level of data, e.g., the county's average weekly service wage to benchmark service-sector deals. In a very small number of these computations, we found it necessary to use the overall average county wage because neither an industry nor a broader sectoral benchmark was available.

20. *Tax Increment Financing*, Legislative Auditor, March, 1996 report, op cit, pp. xviii, 71, 88.

21. The number of MBAFs with sufficient data for this analysis was 450. This discussion reflects the fact that in at least 28 instances, we determined that a single development project received two or three subsidies. In such instances, we have combined the value of all subsidies for the numerator and counted jobs only once for the denominator in our assistance-per-job calculations. In a small number of cases, different job creation numbers were reported for the same project; in such cases, we employed the higher number. In its summary of the MBAFs, DTED stated that 38 corporations received more than one subsidy; DTED provided us with its compilation of such duplicates. We scrutinized the multiple-subsidy company list and the associated MBAFs and interviewed local or regional development officials in most of the cases in order to determine if the subsidies were tied to the same project (and hence the same jobs) or were in fact separate projects and different jobs.

22. HUD Block Grant Section 108 regulations on Public Benefit Standards, Part 570.209, subpart B. The 108 rules apply to a city's cumulative loan projects; individual projects may not exceed $50,000 per job. SBA 504 Program Code at 13 CFR Sec. 120.829 and Sec. 120.802. The 5904 rules apply to a

Certified Development Corporation's overall portfolio, with a waiver up to $45,000 for designated rural or urban enterprise zones. Both the HUD and SBA benchmarks are for full-time or full-time equivalent permanent jobs created and retained; the 504 rules specify "retained in the community because of a 504 loan." In this respect, they differ from the Minnesota database, which tracks only jobs created.

23. The number of deals with clearly-stated dollars of assistance and job-creation goals is 451.

24. The number of MBAFs with data for both assistance per projected job and projected wages is 433; for actual jobs, the number of MBAFS is 340. Wages were annualized by multiplying the hourly rate times 2,080.

25. Because Metro job creation is comparatively behind rural, the Metro cost per actual job is more than twice the rural cost, $25,534 vs. $12,538.

26. Blue Earth's and Richfield's deals are not included in the dot chart due to their very high assistance per job. They are, however, included in the trend line analysis.

27. A chart with actual MIF jobs was of little meaning because a large number of the deals were in only the early stages of job creation.

28. TIFs have become more common nationally in the last decade (they are permitted by at least 44 states), and they have encountered serious criticisms in other states such as California, Michigan, Missouri, Florida and Ohio. At least nine states provide school districts some protection against TIF-related revenue losses; Minnesota provides a state-paid offset by formula. See "Tough Times for TIF," in *Governing* magazine, February, 1994, pp. 18-19. See also the Springfield, Missouri *News-Leader* November 3, 1994, p. A1, "TIF: Businesses drawn by the pull of the financial magnet." TIFs have also been criticized for their alleged role in fueling urban sprawl. See, for example, *The Kansas City Star*, "Giveaways set the stage for a loss," December 20, 1995, p. A1. Minnesota began "TIFing" earlier than most other states.

29. See, for example, *The State of Working America, 1998-1999*, by Lawrence Mishel, Jared Bernstein, and John Schmitt, pp. 135-142 (Cornell University Press, 1998).

30. The trend in Medicaid assistance is especially significant in light of the state's declining AFDC/TANF rolls. We did not include EITC claim information because federal eligibility rules for EITC were changed in 1993 to assist more families. EITC claimants in Minnesota increased from 205,940 in 1990 to 273,568 in 1993 before those changes. There were 393,881 in 1995 and 379,152 in 1996. Source: Internal Revenue Service. Minnesota's state Earned Income Tax Credit mirrors federal eligibility rules.

31. MinnesotaCare. The eligibility cutoff for MinnesotaCare is 175% of the federal poverty line ($12,516 for a family of three in 1996), or $21,903 annually, or $10.53 an hour.

32. U.S. Dept. of Agriculture. Gross monthly income eligibility standards are 130% of the federal poverty rate. For a family of 3 in 1996, that was $1,364 per month, equal to $16,368 a year and $7.87 an hour.

33. The Job Gap Economic Literacy Project, Executive Summary of a report by the JOBS Now Coalition on the minimum cost of basic needs for Minnesota families in 1997, released October, 1998. The JOBS NOW minimum family budget was developed by labor economist Bruce Steuernagel, who worked as a labor market analyst for the Minnesota Department of Employment Security for 21 years.

34. U.S. Census Bureau, Current Population Survey, Poverty Thresholds: 1996, Weighted average thresholds for three persons.

35. Many federal and state development programs do exclude low-wage sectors such as retail, including federally tax-exempt Industrial Development Bonds.

36. Among the many dozens of articles, newscasts and events that have been devoted to the subject was a two-day national conference in 1996 in Washington, DC, organized by the Civic Journalism Initiative of Minnesota Public Radio, entitled "The Economic War Among the States." Also prominent in this debate has been an essay by two officers of the Minneapolis Federal Reserve Bank, "Congress Should End the Economic War Among the States," by Melvin Burstein and Arthur Rolnick, which appeared in the Minneapolis Fed's 1994 annual report.

37. "Critics assail use of tax aid to lure health companies, " Minneapolis *Star-Tribune*, 11/20/94, p. 1B.

38. "St. Paul finances top projects," *Minneapolis-St. Paul CityBusiness*, 4/17/98, p. 26.

39. "Minneapolis fears school will move to suburbs," Minneapolis *Star Tribune* 2/20/97, p. 7B.

40. "Tax Increment Financing," Legislative Auditor, March, 1996 report, op cit, p. 52.

41. "Tax Increment Financing," Legislative Auditor, March, 1996 report, op cit, p. 51.

42. "Tax Increment Financing," Legislative Auditor, March, 1996 report, op cit, p. 72.

43. On Briggs & Stratton, see "House OKs bill against job 'piracy'," *Milwaukee Journal*, July 22, 1994. On Schutt Sports Group, see "Union official claims federal funding used to take away plant in Knox," *Knoxville News-Sentinel*, January 13, 1995.

44. See Greg LeRoy, et al, *No More Candy Store: States and Cities Making Job Subsidies Accountable*, pp. 137-140 and 142-143.

45. "The Incredible Shrinking Company," *Corporate Report Minnesota*, January, 1988, p. 40. "Amhoist spokesman: Settlement doesn't mean a misuse of grant," United Press International dispatch, 7/26/87.

46. See *No More Candy Store*, op cit, pp. 72-80.

47. Minnesota Statutes 1998, 469.170, Subd. 4 and Subd 5.

48. Mary Alice Divine, City of Lino Lakes Economic Development Assistant, 12/14/98 letter to Greg LeRoy, ITEP project director.

49. Interview with Paul Moe, DTED Director of Business Finance, 1/20/99.

50. See, e.g., New York Times, 6/28/88, "Duluth Wins Court Ruling on Plant"; Chicago Tribune, 6/28/88, "Duluth Wins Plant-Closing Case," New York Times, 6/24/88, "When a City's Deal to Save Jobs Sours"; The Bond Buyer 6/29/88, "Decision Barring Move of Equipment Financed by IDBs May Stir other Cities."

51. St. Cloud Times, 5/14/97, p. 1A.

52. Time, 11/20/98, pages 52-55. “Minnesota: Agribusiness ‘Milks’ Town for Millions,” Arizona Republic 11/24/98, p. B3. “Time reports Albert Lea was milked for corporate welfare,” Associated Press 11/22/98

53. See, for example, *The Wall Street Journal*, 6/6/96, “Localities Force Firms to Keep Promises,” and *No More Candy Store*, *op cit*, pp. 43-71. Clawbacks and their outcomes are the subject of Good Jobs First/ITEP national survey research now underway.

54. The following narrative section does not include the names of specific corporations or granting agencies. We have chosen instead to privately communicate the particulars as we found them to the granting agencies for their disposition. In some cases, our interviews have prompted development agencies to review current employment levels or begin recapture inquiries.

55. Judy Tschumper, City of Burnsville Director of Development/Redevelopment, 1/8/99 letter to Greg LeRoy, ITEP Project Director.

56. *1998 Business Assistance Report*, *Volume 1 of 3*, by DTED, June, 1998.

57. *1997 Business Assistance Report*, by DTED, p. 3, states that 158 of the 329 business assistance agreements reported having met their goals.

58. At the City’s request, we provided Ramsey officials with a copy of a blank 1998 MBAF and directed them to the proper DTED office for filing.

59. “Council debates proposed expansion of ‘living wage’ program,” Minneapolis *Star-Tribune*, 9/23/98, p. 5B. See also the 3/21/97 letter from MCDA executive director Rebecca Yanisch to State Representative Joe Mullery on MCDA’s position, which is reproduced in DTED’s *1997 Business Assistance Report*.

60. 12/17/98 interview with Robert Isaacson, Director, DTED Office of Analysis & Evaluation.

61. As defined by the ES-202 Metro Weekly Wage for the subsidized company’s SIC, divided by the BLS average hours of work per week, with overtime offset in the denominator.

62. Defined in the same way as the previous note, with fallbacks to average manufacturing, service or county-wide average wages as necessary.

63. Other cities with living wage ordinances that apply to development subsidies include San Antonio, Los Angeles, Oakland, and West Hollywood.

64. Good Jobs First/ITEP ongoing survey work.

65. SBA, for example, requires that a job can only be counted as retained if there is reasonable indication that a company needs the loan to maintain operations. Otherwise, jobs counted are only those created in the specific SBA-assisted project, such as an expansion. 1/28/99 interview with Gail Hepler, SBA chief 504 policy staff. SBA Standard Operating Procedures 50-10, Subpart H, section 8. A recent performance evaluation of the U.S. Economic Development Administration found that job creation/retention costs for its Public Works program were only $3,058 per job.

66. Sources: National Association of State Development Agencies, 1998 Incentives Directory. Ongoing Good Jobs First/ITEP surveying.

67. *No More Candy Store*, pp 43-71.

68. *Tax Increment Financing*, March 1996, page 88.

69. The share of Minnesota workers without health care coverage has been growing faster than the national rate, so that Minnesota fell from #7 in 1990-1992 to #9 in 1996 in its comparative rate of health care coverage. *Tax Strategies for A Strong Minnesota*, publication of ITEP, January, 1998, p. 11.

70. In a small number of cases, for county wage benchmarks, because data for a specific two-digit SIC did not exist or because the number of firms or employees was judged to be so small as to not constitute a valid market benchmark, we employed the next-broadest data subset, such as the average manufacturing wage or the average service-sector wage.

71. DTED estimates that more than 300 hours of staff time was used to comply with the Department's mandate under Minnesota Statute 116J.991 to compile and publish the 1997 MBAFs by June 1, 1998. Given the quality of the MBAF system as an evaluation tool for improving the state's analysis of economic development spending, and given what a small sum such staff time represents (perhaps $12,000) against the large sum of development assistance ($176,000,000+) it enables taxpayers to evaluate, additional MBAF evaluation funding would appear to be an exceptionally high-return public investment.