

## MN Government JOBZ Program

Audit Critical Of JOBZ Program

ST. PAUL (AP

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Gov. Tim Pawlenty's signature JOBZ program for rural economic development was painted as ineffective, unfocused and lacking in accountability in a new audit released Friday -- just as his administration prepares to ask lawmakers to extend the program.

Legislative Auditor James Nobles faulted the state Department of Employment and Economic Development for overstating the benefits of the Job Opportunity Building Zones program -- including double-counting some jobs -- and failing to focus on Minnesota's neediest areas. He urged lawmakers to limit the program.

"Public money is being spent here," Nobles told a legislative panel. "It should be spent effectively, and we should bring to bear on this program -- just like we do on every other program that spends public money -- the tools of accountability and prioritizing."

He added: "What is lacking here is any sense of prioritizing or strategy."

More than two-thirds of the businesses would have expanded to some extent in greater Minnesota without tax breaks, according to the report.

Another finding: Businesses including architects, farm implement dealers, a garbage hauler, a motorcycle dealer and a community animal hospital all got tax breaks, even though their gains may have been their local competitors' losses. The report did not identify any of the companies by name.

At stake are millions in tax dollars. About 350 JOBZ businesses were relieved of \$46 million in taxes from 2004 through 2006, from property taxes to sales taxes on construction materials, vehicles and capital gains. Tax breaks averaged \$75,000 a year per company. JOBZ companies are expected to create new jobs, keep positions that otherwise would have left the state or invest a certain amount of money.

Commissioner Dan McElroy of the Department of Employment and Economic Development promised to step up oversight of deals between companies and local governments, require more rigorous reporting and act faster to remove companies that fall short of their job promises.

But McElroy disagreed with Nobles' recommendation for a cap on tax breaks or the number of JOBZ participants, saying it would be "unwieldy" and could block aid to critical projects. He said JOBZ has strong support outside of the metro area.

"It looks a little different from St. Paul than it might from Wyoming or Milaca or Redwood Falls," he said.

The governor is proposing a small business development program -- Strategic Entrepreneurial Economic Development -- that would extend JOBZ tax breaks in distressed areas through 2027, for companies that joined the program by 2015. If lawmakers don't go along, the JOBZ program would end in 2015.

Pawlenty spokesman Brian McClung said the governor wants to work with the Legislature to strengthen JOBZ by extending the program, as one of several measures to increase employment.

But the auditor's findings are likely to sway more legislators against the program, said Rep. Rick Hansen, who sits on the Legislative Audit Commission and said he is still deciding whether JOBZ can be saved.

"Some will say mend it and some will say end it," said Hansen, DFL-South St. Paul. "I think with the publication of the report, more will say end it."

Senate Taxes Committee Chairman Tom Bakk, who sponsored the JOBZ law in 2003, said it's clear to him that the program hasn't lived up to expectations. He said too many companies receiving the breaks haven't followed through with new jobs and he's disturbed that other companies would have expanded without the help they got.

"If we can't find any meaningful reforms to address the legislative auditor's concerns, I'm going to propose we get rid of it," Bakk said, stressing that he would rather fix JOBZ than nix it.

The state Department of Employment and Economic Development had credited JOBZ companies with creating almost 5,500 new full-time jobs and keeping 4,500 positions in the state, and investing nearly \$1.3 billion, including wages. But the auditor's report said those numbers should be at least 20 percent lower, because some jobs were counted in both the full-time and retained categories.

Pawlenty pushed JOBZ into law in 2003, with the aim of fostering development in economically distressed areas. McElroy said the program's successes include Daktronics Inc., which makes lighted displays in Redwood Falls, and

Suzlon Inc., which produces blades for wind turbines in Pipestone.