Job Creation and TIF

Abstract. Communities often look to tax increment financing (TIF) as a tool to promote economic development and job growth. However, the types of jobs being created and what those jobs are paying within TIF districts is unknown. This paper looks at the types of jobs and wage levels created by TIF assisted businesses using data collected by the Department of Trade and Economic Development.

Introduction

As federal funds for urban renewal projects became more restrictive in the 1970s, tax increment financing (TIF) became a popular redevelopment financing tool nationally. Minnesota enacted TIF enabling legislation in 1969 and was one of the first states to do so. Since then, the scope of TIF has gone beyond redevelopment and encompasses general development activities — from affordable housing development to contaminated soil remediation.

Frequently, TIF is looked to to create jobs. However, until 1996, no data had been collected in Minnesota to determine the types of jobs created within TIF districts. Since the enactment of the Public Assistance to Business statute (Minn. Stat. 116J.991) in 1995, the Department of Trade and Economic Development (DTED) has collected job creation and wage data from all businesses that receive state or local assistance or are created within TIF districts.

While DTED publishes an annual report on all businesses receiving state, local or TIF assistance, DTED has not examined the types of jobs and wages created in TIF districts alone. The DTED data does not tell us about all jobs created in TIF districts, just those businesses that receive assistance from TIF for job growth or economic development purposes.

This paper will look at the jobs created by businesses receiving assistance from TIF. As a point of comparison, the average wages of jobs created by TIF assisted businesses will be contrasted to average wages in the state as a whole. Lastly, this paper will discuss issues raised by the DTED data.
Background

Minn. Stat. 116J.991

In 1995, the Legislature passed the Public Assistance to Business statute, which requires businesses receiving state or local government assistance for economic or job growth purposes to create jobs in Minnesota within two years of receiving assistance. One type of government assistance included under this requirement is directed at businesses receiving assistance from increments generated by a TIF district. This legislation requires state or local jurisdictions providing the assistance to establish wage level and job creation goals to be met by assisted businesses. Furthermore, the government agency providing assistance must report the wage level and job creation to DTED annually.

Since the enactment of the Public Assistance to Business statute, DTED has published two reports using data returned on the Minnesota Business Assistance Form (MBAF). The MBAF was distributed to more than thirteen hundred organizations in 1996 and 1997. DTED received 236 MBAF from 133 agencies in 1996 and 402 MBAF from 137 agencies in 1997; 64 of these forms in 1996 and 161 of these forms in 1997 were for TIF districts.

Minnesota Business Assistance Form (MBAF)

Government agencies providing assistance to businesses are required to complete an MBAF annually for each business assisted. The following data are requested on the MBAF:

- the name of TIF district (if applicable);
- the name of the business receiving assistance;
- the date of the business assistance agreement;
- the job creation goal for the business receiving assistance;
- the average hourly wage goal for the business receiving assistance;
- the actual jobs created since the business received assistance;
- the actual average hourly wage paid to employees hired since the business received assistance; and
- the last date actual wage and job creation levels were documented.

DTED publishes an annual report detailing the data collected from the MBAF. TIF district data are not separated from businesses receiving other forms of assistance. There are several limitations to the MBAF data, which are discussed later. Nevertheless, this is the one source of job creation and wage data for TIF districts.

Tax Increment Financing

Tax increment financing is a tool used by local development authorities — usually cities — to fund certain types of development. A city can use or “capture” additional property taxes generated by a new development to pay for certain development costs. As a result, the captured property taxes are not distributed to other taxing jurisdictions, such as the county, city or school district, as would be the case in absence of TIF. The captured property taxes are based upon the difference between the tax capacity following development and the original tax capacity of the property. If the original tax capacity of the property was $10,000, for example, and the tax capacity following improvements to the property was $50,000, the captured net tax capacity would be $40,000. In this example, the property taxes paid on $40,000 could be used to finance improvements to the properties within a TIF district.

The TIF statutes impose limits on activities for which tax increments can be spent. Permissible costs covered by TIF include: acquisition or demolition of blighted property; street and public parking lot or ramp construction; relocation
benefits for occupants of acquired properties; construction or rehabilitation of housing for low- and moderate-income households; planning, engineering and legal services; and construction of agricultural processing projects.

**TIF Districts**

In February 1997, the Office of the State Auditor (OSA) TIF Division provided a “census” of Minnesota TIF districts to the Legislature. In this presentation, the OSA reported on the number of active TIF districts, which is summarized in Chart One. The Chart categorizes the number of districts by TIF district type, of which there are seven district types. One-hundred and eleven TIF districts returned the MBAF; a number of districts returned more than one MBAF since several businesses within the same TIF district received assistance.

One of the purposes of economic development TIF districts is to increase employment in the state. Specifically, an economic development TIF district is in the public interest because it will: result in increased employment in the state; discourage businesses from moving their operations to another state or municipality; or result in preservation or enhancement of the state’s tax base. It could be expected that many newer economic development districts would have responded to the MBAF because the purpose of this district falls within the purview of the Public Assistance to Business statute. Since the purpose of the other types of districts are not to increase the state’s employment, fewer of these districts could be expected to respond to the MBAF.

Data

Of the 64 returned TIF MBAF in 1996, 32 are used in this analysis; the excluded MBAFs duplicate other submitted MBAF in 1997 or present other problems. Similarly, 140 of the 161 returned 1997 TIF MBAF are used in this analysis. Many MBAF used for this analysis are not used for the entire analysis because: (1) the community had not

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1 The seven types of TIF districts are: economic development, housing, mined underground spaces, pre-1979, redevelopment, renewal and renovation, and soils conditions.

2 Minn. Stat. 469.174, Subd. 12.
The ES-202 is a comprehensive source of employment and wage data, by industry, at the state and county levels. The ES-202 provides a virtual census of nonagricultural employees and their wages, representing approximately 97 percent of Minnesota’s non-farm employment. Railroad workers, elected officials and student workers are examples of types of employees not included in the ES-202 report. The ES-202 provides the following data by industry: number of firms in the given industry, average monthly employment, total wages and average weekly wage.

Assisted Industries

In Chart Two, the number of businesses receiving assistance from TIF have been categorized into the industry types used by the ES-202. Those businesses falling into the manufacturing and trade industries have been placed in subcategories — durable and nondurable goods manufacturing and wholesale and retail trade.

Chart Two

Businesses Receiving TIF Assistance by Industry (1996 - 1997)

<table>
<thead>
<tr>
<th>Industry Type</th>
<th>Number of Businesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fin., Insur. &amp; Real Estate</td>
<td>25</td>
</tr>
<tr>
<td>Durable Manuf.</td>
<td>63</td>
</tr>
<tr>
<td>Nondurable Manuf.</td>
<td>22</td>
</tr>
<tr>
<td>Services</td>
<td>25</td>
</tr>
<tr>
<td>Transp. &amp; Publ. Util.</td>
<td>9</td>
</tr>
<tr>
<td>Wholesale Trade</td>
<td>15</td>
</tr>
<tr>
<td>Retail Trade</td>
<td>21</td>
</tr>
</tbody>
</table>

Total businesses receiving assistance: 180.

Eighty-five manufacturing businesses received assistance, which was the largest number of businesses receiving assistance within an industry. Of the manufacturing businesses, 63 were durable goods manufacturing. Examples of durable manufacturing businesses included in this analysis are makers of computer parts, kitchen cabinets and machine parts. Twenty-two of the assisted businesses were nondurable goods manufacturing businesses, which include food, corrugated box and pet food production.

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Thirty-six trade businesses received assistance. Twenty-one of these businesses are engaged in retail trade; examples of businesses receiving assistance include a department store, restaurants and small specialty retail stores. The remaining 15 trade businesses are wholesale trade businesses. Some wholesale trade businesses include beverage and other distribution businesses.

Twenty-five finance, insurance and real estate companies received assistance. Additionally, 25 service industry businesses received assistance. Businesses assisted include hotels, engineering consultants and copying firms. Finally, nine transportation and public utilities businesses received support from TIF. A cellular phone company, an airline and a warehousing facility are examples of transportation and public utilities businesses that received assistance.

**Job Creation**

The MBAF requests information about the job creation goal — which is established by the community — and the actual number of jobs created for a business receiving TIF assistance. Of the 180 assisted businesses, 177 businesses responded to the job creation goal question on the MBAF, while 123 businesses provided information on the actual number of jobs created. Chart Three summarizes the job creation data.

![Chart Three](chart.png)

**Job Creation Goal vs. Actual Jobs Created by Industry (1996 - 1997)**

While individual businesses varied in their ability to meet their job creation goals, most industries — in the aggregate — surpassed their job creation goals. Jobs created in the finance, insurance and real estate, durable goods manufacturing, and transportation and public utilities industries surpassed their job creation goals by at least four full-time equivalent (FTE) jobs per industry. In all, 420 more jobs were created than anticipated for all industries.

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Fifty-one jobs were created in the wholesale trade industry, which is nearly half of what was planned. The retail trade industry also fell short of what was planned; 290 jobs were planned while only 159 jobs were created. Similarly, only
183 jobs were created in the service industry whereas 215 jobs had been planned. Also, the nondurable goods manufacturing industry fell ten jobs short of meeting its goal of 825 jobs.

However, transportation and public utilities, durable manufacturing, and finance, insurance and real estate industries exceeded their job creation goals. The finance, insurance and real estate industry created 704 jobs, whereas it had planned for 435 jobs. The transportation and public utilities industry exceeded its goal of 1,014 by 22 FTEs. Finally, the durable goods manufacturing industry created the most jobs at 1,723, which is 350 FTEs more than planned.

Individually, most businesses met or exceeded their job creation goal, as depicted in Chart Four. Within each industry, there was at least one business that did not meet its job creation with the exception of the businesses assisted within the wholesale trade industry.

Most districts failed to provide information on the actual number of jobs created because the business was under construction at the time the MBAF was submitted. It is expected that as these businesses are constructed that more jobs will be created.

**Wages**

The MBAF requests information on both the average wage goal — which is set by the community — and actual average wage paid to employees of the assisted businesses. The average of the MBAF wages is summarized in Chart Five. This Chart is categorized by industry and and wages are compared to the average wage by industry for the entire state for 1996. Of the 180 returned MBAFs, 162 provided information about wage goals and 110 provided information about actual wages.

All but three of the industries met its average hourly wage goal. The nondurable goods manufacturing industry fell thirty cents short of its average goal of $9.53 per hour. Both wholesale and retail trade industries fell short of their hourly wage goal. The wholesale industry goal was $11.86 per hour and the actual wage was $10.57 per hour. The retail trade industry had the lowest hourly wage average at $7.47 per hour, which is nearly ninety cents lower than the industry goal. (See Chart Five on page 7.)

On the average, businesses in the service industry paid $2.50 per hour more than its goal of $8.07 per hour. The finance, insurance and real estate, durable manufacturing, and transportation and public utilities industries exceeded...
Their average wage goals by over $1.20 per hour. The average wages for all industries combined exceeded the average wage goal by 86 cents per hour.

Most individual businesses met or exceeded their wage goals. Chart Six summarizes the success of individual businesses in meeting their wage goals. Only ten businesses failed to meet their wage goals.

While most businesses met their wage goals, the most striking contrast, however, is the difference between the industry average wages and the goal and actual average wages of businesses assisted by TIF. Except for the retail trade industry, the TIF average wages fall far below the Minnesota industry averages. For all industries, the difference between the actual average wage of businesses receiving TIF assistance and the industry average wage is nearly $4 per hour, which would be more than $8,300 per year for each employee.
Implications and Conclusions

The data show that most industries in the aggregate and most individual businesses receiving TIF assistance met the job creation goals set by their communities. Four of the eight industries met the job creation goals, and in all, 420 more FTEs were created than planned. Only 28 individual businesses — less than 16 percent of all businesses receiving assistance from TIF — failed to meet their job creation goals. Similarly, the average wage goals were surpassed in five industries. In aggregate, all industries exceeded the average wage goal by over eighty cents per hour. Moreover, the three industries that had the most businesses assisted — durable goods manufacturing, transportation and public utilities, and nondurable goods manufacturing — had average wages above $9.20 per hour.

One important caveat, however, is that these figures might change if all businesses had reported the job creation goal, actual jobs created, wage goal and actual average wage. One-third of all businesses failed to report job creation data, while nearly 42 percent of all businesses failed to report wage data. On the MBAF, many communities stated that the business was under construction or had not opened yet, therefore no new jobs or wages had been created. However, a number of communities failed to make any response whatsoever to actual jobs created or actual wages. Perhaps businesses that failed to respond fell short of the goals and postured not responding was better than advertising their failure. Reporting that a business failed to meet the goals set by the community could result in the business being required to reimburse the community for the assistance. This penalty — combined with lack of enforcement of the statute — is a significant incentive for businesses and communities not to respond to some or all of the MBAF questions.

The most notable difference is between the 1996 average industry wages in Minnesota and the wage goals and actual average wages of businesses assisted by TIF. The difference between the Minnesota's average industry wages and average wages of businesses assisted by TIF range from $1.59 to more than $9.10 per hour less by TIF assisted businesses. The disparity between Minnesota's average industry wages and the wage goals set by communities was even greater, the difference ranging from $4.08 per hour to $10.45 per hour.

Several considerations could explain this difference. The jobs reported on the MBAF are those created since 1996. As such, many of those hired might tend to be on the low end of the pay scale. Given several years to “move up” the pay scale, the average wages for TIF assisted businesses could reflect the average wages for the state as a whole. Another explanation lies in how the industry average wages are calculated. Average industry wages include all employees who are employed by a company — from an entry-level employee to the top executive. For example, in the retail trade industry, the average wage is calculated using the wages of the retail clerks, janitorial staff, accounting staff and the chief executive officer. Many businesses receiving assistance from TIF may not be creating the top paying jobs, but the lower paying jobs, by that lowering the average industry wage. Returning to the example, a retail trade business receiving assistance may hire ten retail clerks, three janitorial staff, one accountant and no chief executive officer since the headquarters are elsewhere.

The MBAF Data

In analyzing the TIF MBAF data, several issues regarding the quality of the MBAF data arose:

- Communities may lack understanding of what is meant by an “assisted business.” Under Minn. Stat. 116J.991, businesses receiving assistance for “economic development or job growth purposes” must report jobs and wage growth to DTED. Although DTED plainly states this on the MBAF, many communities reported, for example, assistance to real estate management companies for on-site management and maintenance of an office building. When communities use TIF to create economic and job growth, many communities use assistance to real estate and development companies to develop a site for new businesses. Although
assistance to the real estate development company may have created new jobs in building management and maintenance, it is unlikely that the intent of the community was to create real estate management and maintenance jobs, but rather to provide office space for new businesses. In this example, however, the community did not report on jobs created by businesses residing in the facility.

- Just as there was over-reporting (i.e., communities reporting jobs created when the original purpose was not job creation or economic development), there is probably under-reporting by other communities. Only seven of the twenty most populous communities in Minnesota returned MBAF for TIF districts. Also, whereas 585 of all TIF districts are economic development districts, of which a primary purpose is job creation, only 111 districts responded to the MBAF. It is not expected that all TIF districts would respond to the MBAF, since their primary purpose was not to increase employment or encourage economic development. However, 112 districts represent less than 7 percent of all TIF districts.

- DTED admits that there is some confusion about the intent and interpretation of Minn. Stat. 116J.991 in the 1997 MBAF Report. DTED states that some communities assume assistance provided for “community development” is subject to the requirements of the statute, while other communities do not see these activities as “economic development or job growth” activities.

- Because limited information is required about the TIF district itself on the MBAF (e.g., type of TIF district), a more in-depth analysis on TIF and job creation is not possible. The OSA is responsible for monitoring TIF and collects data regarding TIF districts. This data is separate from the MBAF data collected by DTED. Better data coordination between these two agencies could result in a richer and more detailed analysis of TIF and job creation.

- The definition of “job creation” is ambiguous. It is unclear if the data collected by the MBAF constitutes real net job growth for Minnesota as a whole, or if this data includes job shifting from other parts of the state. Although it appears that because of TIF 4,251 “new” jobs were created, some of these “new” jobs many in fact have relocated from another part of the state.

- One-fourth of the assisted businesses—those in the services and retail trade industries—are location-bound industries, where location near its consumer market is essential for its economic survival. It is unlikely that these businesses— which include business such as grocery stores, restaurants, hotels and movie theaters—would have located outside the state if TIF had not been present, which further questions whether 4,251 “new” jobs were created by TIF.

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