
Minnesota Business Migration: Relocation, Expansion, and Formation in Border States

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Center of the American Experiment commissioned, in the summer of 1997, a study of Minnesota businesses that have either relocated or expanded in neighboring states. By way of background, we offer some figures here.

A 1996 Minnesota Taxpayers Association report regarding 1995 property taxes throughout the nation showed that taxes on a \$1 million commercial property in Minneapolis ranked number one among the nation's largest metropolitan areas, 127 percent above the U.S. average. Similarly, taxes on a \$1 million industrial property in Minnesota ranked first in the nation, 76 percent above the U.S. average.

The Minnesota chapter of the National Association of Industrial and Office Properties prepares an annual study of taxes paid by businesses in Minnesota and neighboring states. In its 1997 report, the association hypothesizes, for comparative purposes, a small manufacturing company with 99 employees and a \$2.8 million gross payroll; \$8.75 million in gross revenues; and a 70,000-square-foot light-industrial building. The taxes considered in the study are business property taxes (by far the largest of the taxes), unemployment taxes, corporate income taxes, and sales taxes. The results:

	Business property taxes	Total business taxes
Minnesota	\$139,468	\$179,244
Wisconsin	\$66,031	\$104,368
Iowa	\$53,175	\$81,042
South Dakota	\$68,624	\$77,899
North Dakota	\$27,153	\$54,166

Simply jumping the Red River—from Moorhead, Minnesota, to Fargo, North Dakota—would give this hypothetical company a \$125,000 bonus to invest in growth and jobs.

Comparative figures such as these led Center of the American Experiment to speculate whether high commercial and industrial property taxes were driving businesses out of Minnesota and into neighboring states and what effect they had on the state's ability to generate and retain good jobs for low-skilled workers at a time when those jobs are particularly important as people move off welfare and into work.

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The following is excerpted and adapted from the authors' report. See the full report (available from American Experiment) for all of the tables and appendixes and more information on methodology and sources of information. Note that, since all respondents did not provide complete or consistent responses to all questions, the sample size (N) varies in the tables.

Introduction

This business expansion/relocation study had three major purposes: (1) to identify the major reasons why Minnesota businesspeople relocate or expand their businesses outside Minnesota or start them up initially outside the state; (2) to estimate the economic impact of these business decisions on the state in terms of jobs; and (3) to identify the loss of entry-level employment opportunities.

Newspaper and magazine articles have reported on business migration largely from the perspective of individ-

ual companies that have announced plans to relocate or expand outside Minnesota. Such news reports have tended to focus upon anecdotal evidence regarding the underlying conditions behind the decision to relocate, expand, or start a business outside the state. The news reports have drawn public interest to Minnesota business outmigration with articles entitled "Welcome to Watertown: Some of Your Former Neighbors Are Already Here" (Novak, 1993) and "Minnesconsin" (Cassano, 1995). Few news articles or studies have considered the broader

and more comprehensive questions and issues surrounding business migration and expansion from Minnesota to bordering states.

A small-scale study was carried out by the Center for Business Research and Development and the Minnesota Real Estate Research Center of St. Cloud State University (SCSU, 1994) in conjunction with the Minnesota chapter of the National Association of Industrial and Office Properties. In this research, a single border city—Hudson, Wisconsin—was studied. Hudson was selected for study because it was known that a number of Minnesota businesses had relocated or started their businesses there. In this research project, the reasons for business migration decisions were identified, along with measures of the economic impact of the decisions. Relatively complete data were collected from sixteen of the twenty-two potential Hudson participants.

The major findings of the Hudson study were that the two most important reasons for locating a business in Hudson rather than Minnesota were high workers' compensation rates and commercial-industrial property taxes in Minnesota. The economic impact of these decisions was further indicated by the 160 percent increase in total jobs (hourly and salaried) and 65 percent increase in total sales for these businesses after relocation to Wisconsin.

Business Births and Deaths: The Dynamics of Business Churning in Minnesota (1997), a study conducted by the Minnesota Department of Economic Security (MDES), addressed the constant ebb and flow of business turnover

and cited the fact that business formation and failure data often report only the total number of active businesses. This type of reporting says very little about the development, movement, and dissolution of businesses, which contribute to the total aggregate count: "Veiled in these aggregate counts, these alternative scenarios have distinctly different economic and policy implications."

Previous research on state-imposed business costs in Minnesota (Isaacson and Peterson, 1995) found that workers' compensation premiums and commercial-industrial property taxes constitute the largest individual [tax] costs for businesses. Overall, workers' compensation costs were reported to be a larger percentage of all costs for small businesses, and commercial-industrial property taxes were found to comprise a higher percentage of all costs for large businesses. Additionally, a number of other factors identified seemed to be of moderate importance in the respondents' business location decisions. These include corporate income tax rates and sales taxes.

Since 1991, the Minnesota Department of Trade and Economic Development (DTED) has been tracking and identifying Minnesota manufacturing businesses that move from the state. DTED's survey of manufacturing businesses that move from the state has identified the significant reasons for their relocation.

In its December 1997 report, *Business Tracking System* (DTED, 1997), DTED contrasted results for two periods—third quarter 1991 to fourth quarter 1996, and first quarter 1996 to fourth

quarter 1996. For the former period, DTED determined that seventy-two manufacturers with a reported peak employment of more than 7,100 workers and a payroll of \$6.5 million had moved out of Minnesota. The two most significant reasons for the out-of-state business relocations were high workers' compensation and unemployment compensation costs and burdensome state-imposed taxes. These results replicate the results of the Hudson study.

For the latter and more recent period, DTED identified twelve manufacturers with reported peak employment exceeding 2,800 workers and a final quarter of operation payroll of \$827,000 (approximately \$3.5 million annual payroll) that had moved out of state. While high workers' compensation/unemployment compensation costs and burdensome state-imposed taxes were once again among the most significant reasons for the outstate relocations, high wage costs and incentives from other cities and states also assumed importance for these more recent business relocations. Table 1 summarizes DTED's 1997 report on the most signif-

icant reasons for Minnesota manufacturers' relocation to another state.

Method

Preparation for this study required identification of Minnesota businesses that had relocated, expanded, or started outside Minnesota in a neighboring or border state. Merrill Busch of Busch Partners, Inc., through his involvement with the National Association of Industrial and Office Properties, provided a significant list of such firms.

Additionally, economic development officials, chambers of commerce, and DTED Enterprise Zone Program managers were contacted to aid in identifying Minnesota businesses that had relocated, expanded, or started operations in a bordering state.

In total, 279 Minnesota-based businesses were identified as having relocated from, expanded, or started business outside Minnesota.

From a research perspective, it is important to note that every reasonable effort to contact the businesses was undertaken. The researchers, after

Table 1. Most Significant Reasons for Move to Another State

	Percent of movers	
	3rd quarter 1991 to 4th quarter 1996	1st quarter 1996 to 4th quarter 1996
High workers' compensation/ unemployment compensation costs	47%	42%
Burdensome state-imposed taxes	35%	25%
High wage costs	19%	33%
Burdensome state-imposed regulations	25%	25%
Good incentives from other cities/states	21%	25%
Insufficient local capital	13%	0%
Moved closer to markets and/or suppliers	6%	0%
Insufficient skilled labor	4%	0%

Source: Minnesota Department of Trade and Economic Development, Business Tracking System, 1997

trying various methods (telephone listings, Internet, business directories) to find business addresses, as a final step contacted state agencies responsible for business incorporation or certificates of authority to conduct business. If a business could not be located by these methods, it was excluded from any further investigation regarding this survey. The net result was identification of 183 firms as potential participants in the research study.

Between October 6 and November 4, 1997, a cover letter and survey were mailed to each of the 183 businesses. The cover letter stressed the goals of the survey and the value of the research and the importance of responses to the survey for strengthening Minnesota's business climate and contributing to a better understanding of the state's economic development practices. The cover letter also assured respondents complete confidentiality.

Businesses that did not respond to the first letter were sent a second and then a third letter. The businesses not responding after the third letter were subsequently contacted via telephone and asked to complete the surveys.

Results

Response Rate

All told, 183 surveys were mailed and 51 responses were obtained. Everything considered, the 28 percent response rate is satisfactory and understandable. Although the rate is lower than might be expected given the multiple mailings and the extensive efforts employed in this research, several fac-

tors need to be considered in interpreting the response level. The most important of them is that the research population is made up of Minnesota businesspeople who have in many instances reluctantly, and even angrily, taken all or part of their business to another state. When businesspeople leave their home state under adverse conditions, it is not difficult to understand why they may be disinclined to fill out an admittedly long and complex survey, particularly a survey that has as a major goal the improvement of the business climate in the state they feel has let them down.

Of the total of 183 firms identified that relocated, expanded, or started business outside Minnesota, eighty-two (44.8 percent) went to Wisconsin, forty-six (25.1 percent) went to South Dakota, thirty-four (18.6 percent) went to North Dakota, and twenty-one (11.5 percent) went to Iowa. These numbers are indicative of the relative benefit neighboring states receive from Minnesota's business outmigration.

Major Products or Services

The fifty-one respondents were engaged in a variety of businesses:

- Aerial equipment
- Aircraft
- Aircraft instruments
- Backhoe buckets and doorsticks
- Boxes
- Concrete
- Construction (2)
- Doors
- Electronic materials
- Equipment
- Firefighting equipment

Fixtures (2)
 Food (2)
 Glass
 Hardfacing
 Health care products
 Industrial lighting fixtures
 Lifts
 Machine (2)
 Material handling equipment
 Medical equipment services
 Metal casting
 Metals
 Molding, die casting
 Optoelectric sensors
 Play sets
 Recreational vehicles (golf carts,
 ATVs)
 Robotic feed systems
 Robotic systems
 Rolling mill equipment
 Rubber
 Service (6)
 Steel doors and frames
 Testing labs
 Tower construction and service
 Trucking/transportation (4)
 Windows (2)
 Wire and cable assemblies/medical

Relocation, Expansion, or Start-Up and Related Results

Respondents reported that their business relocation, expansion, or start-up occurred over a twenty-seven-year period beginning in 1966, with over 50 percent taking place since 1988. These businesses had been initially created in Minnesota between 1890 and 1994; half of the relocated business were started before 1972 and half were started after that year. Not surprisingly, many were located initially in the Twin Cities metropolitan area. Stillwater,

Moorhead, New Ulm, and Duluth also were identified more than once.

Of the fifty-one respondents, thirty-one (61 percent) were relocated businesses, sixteen (31 percent) were business expansions, while four (8 percent) were businesses started outside rather than within Minnesota. The year of relocation, expansion, or start-up is presented in Table 2.

Table 2. What Year Did You Relocate, Expand, or Start Business Outside Minnesota? (N = 51)

	Relocate	Expand	Start	Total
1966	-	1	-	1
1967	-	-	-	-
1968	-	-	-	-
1969	-	-	-	-
1970	1	-	-	1
1971	-	1	-	1
1972	-	-	-	-
1973	-	1	-	1
1974	-	1	-	1
1975	-	-	-	-
1976	-	1	-	1
1977	1	-	-	1
1978	-	-	-	-
1979	1	-	-	1
1980	1	-	-	1
1981	1	2	-	3
1982	2	-	-	2
1983	-	-	-	-
1984	-	-	-	-
1985	-	1	-	1
1986	3	-	-	3
1987	4	-	1	5
1988	1	1	-	2
1989	1	2	-	3
1990	1	-	-	1
1991	1	-	-	1
1992	3	2	1	6
1993	1	2	-	3
1994	2	-	-	2
1995	1	-	2	3
1996	5	-	-	5
1997	1	1	-	2
TOTAL	31	16	4	51

Table 3. Reasons for Relocating or Expanding Outside Minnesota

Rank	Reason	N	Mean response
1	Workers' Compensation Rates in Minnesota	50	2.52
2	Commercial-Industrial Real Estate Tax Rates in Minnesota	51	2.29
3	Local Gov. Incentives (New Location)	49	2.18
4	Absence of Minnesota State Gov. Incentives to Retain Business	48	2.17
5-6	Corporate Income Tax Rates in Minnesota	49	2.10
5-6	State Gov. Incentives (New Location)	48	2.10
7-8	Absence of Minnesota Local Gov. Incentives to Retain Business	48	2.02
7-8	Absence of Minnesota State Gov. Incentives to Expand Business	48	2.02
9	Labor Costs	49	1.98
10	Absence of Minnesota Local Gov. Incentives to Expand Business	48	1.96
11	Sales Tax Rates on Equipment Purchases in Minnesota	49	1.90
12	Availability of Qualified Labor	49	1.84
13	Location of Major Customers	48	1.49
14	Transportation Costs	48	1.46
15	Location of Major Suppliers	49	1.43

Reasons for Relocation, Expansion, or Start-Up Decisions

Survey participants were asked to indicate the importance of fifteen different reasons in their business location decisions. Each reason was rated on a three-point scale:

- 1 not at all important
- 2 moderately important
- 3 extremely important

Table 3 summarizes respondents' ratings by rank order of importance and the mean or average rating.

The results indicate that the two most important reasons for respondents' business location decisions are (1) workers' compensation rates in Minnesota and (2) commercial-industrial real estate tax rates in Minnesota. On the three-point scale, workers' compensation had a mean rating of 2.52, while commercial-industrial real estate taxes had a mean rating of 2.29. These results are consistent with reported results of the earlier studies.

As a reason for selecting a business location outside Minnesota, workers' compensation rates are significantly more important than any other reason. Similarly, location of customers, transportation costs, and location of major suppliers are all significantly less important than the other reasons evaluated by respondents.

For further analysis, the fifteen reasons for business location decisions have been combined into five distinct categories and presented in Table 4. When viewed from this perspective, the rank order of each category's importance is (1) business taxation, (2) incentives—new location issues, (3) absence of Minnesota incentives, (4) labor considerations, and (5) location concerns.

Based on the rank order of categories, and from a policy viewpoint, to reduce the migration of business from Minnesota to neighboring states, the first order of business would be to examine the issues that create a competitive tax environment. The greatest

Table 4. Relative Rank: Business Taxation, Incentives, Labor, and Location (Rank) - (N)

	Mean response	Category average
(1) Business Taxation		
(1) Workers' Compensation Rates (50)	2.52	
(2) Commercial-Industrial Property Taxes (51)	2.29	
(5-6) Corporate Income Taxes (49)	2.10	
(11) Sales Tax Rates (49)	1.90	2.20
(2) Incentives—New Location Issues		
(3) Local Gov. Incentives (New Location) (49)	2.18	
(5-6) State Gov. Incentives (New Location) (48)	2.10	2.14
(3) Absence of Minnesota Incentives		
(4) Absence of State Gov. Incentives (Retain) (49)	2.17	
(7-8) Absence of Local Gov. Incentives (Retain) (48)	2.02	
(7-8) Absence of State Gov. Incentives (Expand) (48)	2.02	
(10) Absence of Local Gov. Incentives (Expand) (48)	1.96	2.04
(4) Labor Considerations		
(9) Labor Costs (49)	1.98	
(12) Availability of Qualified Labor (49)	1.84	1.91
(5) Location Concerns		
(13) Location of Customers (48)	1.49	
(14) Transportation Costs (48)	1.46	
(15) Location of Suppliers (49)	1.43	1.46

need is for continued reduction of workers' compensation rates, and reduction in commercial-industrial property taxes and corporate income tax rates. Sales tax on equipment purchases was not deemed by respondents to be a significant factor in their business location decisions.

Incentives offered by local and state governments in neighboring states were viewed as important by respondents in their decision to migrate from Minnesota. The actions of other state or local governments, however, are beyond the power of Minnesota to control. What can be done is to develop local and state government incentives that are competitive with those offered by neighboring states.

After rating fifteen reasons for their business location decisions, respondents were given the opportunity to

add as many as three additional reasons for their decision to conduct business outside Minnesota. Respondents also rated their additional reasons on the same three-point scale previously employed.

Twenty-one respondents provided one or more of their own reasons for their location decisions:

- Minnesota workers' comp—high risk pool costs
- Location of key personnel
- Better labor pool at lesser hourly cost; more options for facilities
- Less regulated, [e.g.], hazardous waste permits; less burdensome employee regulations; more cooperative-collaborative state government
- As an "S" corporation, I want to eventually move totally away from Minnesota's personal income tax climate (8.5 percent

tax on all worldwide profits). The employees in Minnesota have an “entitlement” mentality—they are fast to sue, likely to complain, and generally less reliable than the out-of-state employees.

- Attitude toward business by general community; attitude toward business by state government; absence of personal and corporate income tax
- Fringe benefits for employees (workers’ comp); insurance for employees (workers’ comp); cost of property
- Total lack of up front dollar incentives by local and state government
- Cost of land; local wanting heavy industrial; support from local banking
- Employee work ethics
- Right-to-work laws; nonunion; energy costs
- Absence of assistance by Minnesota state government. Did not get a response from Minnesota state official. If you had any questions, Wisconsin state officials would respond immediately.
- Provider tax (professional); resale (professional)
- Minnesota bad attitude toward business
- Regulatory environment is oppressive in Minnesota; personal income tax rates are far too high.
- Lack of interest by Minnesota state government to keep our business
- State unemployment system was very unfriendly to employers; workers’ compensation was unworkable.
- Planning and zoning in Duluth vs. Wisconsin; permit process; general business climate
- Attitude in Minnesota, the small business is looked down on by government. In Wisconsin we are treated like a very important customer. Example—[Gover-

nor] Tommy Thompson called me himself to ask me to move.

- State business environment
- Future labor pool; significant strategic location to aerospace scientific profession

Not surprisingly, respondents generally considered their personal reasons for leaving Minnesota to be more important than the fifteen reasons previously rated. The mean response for the self-generated reasons was 2.7 on a 3.0 scale.

Review of respondents’ self-generated reasons for leaving Minnesota indicates that a significant number feel Minnesota has a poor attitude toward business, an adverse business climate, and little or no interest in retaining business. Other recurring themes include workers’ compensation rates, high taxes, excessive regulations, and lack of incentives and government cooperation.

Respondents also were asked to select and place in rank order the three most important reasons for their business location decisions. The frequency with which a reason was ranked among the three most important reasons for leaving Minnesota is reported in Table 5.

The relative importance of each category is measured by the frequency with which it was placed among respondents’ three most important reasons for leaving Minnesota. In rank order, the most important reasons are (1) workers’ compensation rates, (2) commercial-industrial property taxes, and (3) corporate income taxes. The rank order of the five general categories is (1) business taxation, (2) incentives—new location issues, (3) absence of Min-

Table 5. Relative Rank: Business Taxation, Incentives, Labor, and Location
(N = 37)

Rank	Category response frequency	Response frequency	Category percent
(1) Business Taxation			
(1) Workers' Compensation Rates	20		
(2) Commercial-Industrial Property Taxes	14		
(3) Corporate Income Taxes	11		
(9) Sales Tax Rates	5	50	50%
(2) Incentives—New Location Issues			
(4) Local Gov. Incentives (New Location)	10		
(7) State Gov. Incentive (New Location)	6	16	16%
(3) Absence of Minnesota Incentives			
(7) Absence of State Gov. Incentives (Retain)	6		
(10) Absence of Local Gov. Incentives (Retain)	4		
(11) Absence of State Gov. Incentives (Expand)	4		
(14) Absence of Local Gov. Incentive (Expand)	1	15	15%
(4) Labor Considerations			
(5) Availability of Qualified Labor	7		
(7) Labor Costs	6	13	13%
(5) Location Concerns			
(12) Location of Customers	3		
(13) Transportation Costs	2		
(15) Location of Suppliers	0	5	5%
TOTAL		99	99%

nesota incentives, (4) labor considerations, and (5) location concerns—the same as reported in Table 4.

As a category, the reasons included as part of business taxation were placed among the top three reasons for leaving Minnesota 50 percent of the time. This is more than three times the frequency of the next closest category: incentives—new location. The importance of business taxation as a reason for relocating, expanding, or starting a business outside Minnesota is equal to the sum of all other reasons evaluated by respondents. From a policy viewpoint, any effort to minimize business outmigration should include creation of a competitive tax environment.

Economic Data: Sales, Jobs, Payroll

Additional data were collected to provide an economic picture of the businesses and jobs that left Minnesota for a bordering state. The same information was requested for the firm at the time of relocation or start-up and currently.

The relocating companies (Table 6) report relocating 82 (67 percent) of 123 salaried workers. Comparatively, only 193 (22 percent) of 857 hourly workers were relocated. Clearly, when respondents' firms relocated, the greatest economic loss was incurred by hourly workers displaced by the move to another state.

Including growth since relocation,

Table 6. Economic Data for Relocated Businesses

	At time of relocation (N)		Currently (N)		Percent change
Annual Sales (Millions)	87.3	(21)	216.9	(21)	+148%
Hourly Workers	857	(24)	1916	(24)	+124%
Hourly Workers Relocated	193	(22)	-		-
Average Hourly Compensation	8.78	(15)	11.96	(16)	+36%
Total Compensation (Millions) (workers x hourly rate x 2000 hours)	15.0		45.8		+205%
Salaried Workers	123	(18)	197	(18)	+60%
Salaried Workers Relocated	82	(18)	-		-
Average Salary (Thousands)	35.0	(15)	48.3	(15)	+38%
Total Compensation (Millions) (workers x salary)	4.3		9.5		+121%

respondents' businesses report a loss to Minnesota of 1,916 hourly and 197 salaried jobs. The annual payroll for these 2,113 people is calculated at \$55.3 million. The problem for Minnesota, however, is economically much greater, since these numbers represent Minnesota's loss for only a small number of respondent firms.

Although the number of respondents who expanded or started new businesses (Table 7) outside Minnesota is small, the information content is significant. The number of hourly workers is currently reported to be 3,060 for twelve firms. This is an increase of over 700 percent in hourly employment—a sharp contrast to the original loss of 379 jobs.

Including growth since expansion or start-up, respondents' businesses report a loss to Minnesota of 3,060 hourly and 139 salaried jobs. The annual payroll for these 3,199 people is calculated to be \$76.9 million. The problem with a small sample of start-up and expanded businesses is that the magnitude of Minnesota's actual employment and payroll losses is dramatically understated.

Employment Qualifications for Jobs at \$10 an Hour

All survey participants were asked to indicate how many of their workers earned less than \$10 per hour or \$20,000 per year. Employers were asked about prior training, training hours, minimum education, and work experi-

Table 7. Economic Data for Business Expansions and Start-Ups

	At time of expansion or start-up (N)		Currently (N)		Percent change
Annual Sales (Millions)	-		1379.3	(17)	-
Hourly Workers	379	(12)	3060	(12)	+707%
Average Hourly Compensation	8.78	(8)	11.60	(14)	+32%
Total Compensation (Millions) (workers x hourly wage x 2000 hours)	6.7		71.0		+960%
Salaried Workers	29	(9)	139	(9)	+379%
Average Salary (Thousands)	33.9	(9)	42.6	(10)	+26%
Total Compensation (Millions) (workers x salary)	1.0		5.9		+492%

Table 8. Education and Training: Employees Outside Minnesota

Earn Less Than \$10/hour or \$20,000/year (N = 29) 1,597			
Job Requires Prior Training (N = 36)	Yes	13	36%
	No	23	64%
Training Hours (N = 9)	1 hour	100 hours	
	8 hours	120 hours	
	40 hours (2)	200 hours	
	50 hours	4,000 hours	
Minimum Education (N = 33)	None	2	
	Some High School	10	
	High School Diploma	16	
	Some Technical Training	5	
Work Experience (N = 34)	Yes	5	
	No	29	

ence necessary for employment at that level of compensation. A summary of responses is presented in Table 8.

Respondents from twenty-nine firms reported that they employed 1,597 people who earn less than \$10 per hour or \$20,000 per year. Jobs at this level of compensation were reported by 64 percent of respondents to require no prior training. The minimum education required for employment was reported by 85 percent of respondents to be a high school education or less. Similarly, 85 percent of respondents do not require previous work experience.

These results suggest that Minnesota has lost a significant number of jobs that pay less than \$10 per hour or \$20,000 per year. Further, these jobs required minimal prior training, education, and work experience for employment. As a result, this job loss is most acute for entry-level workers or individuals seeking to end their dependence on welfare.

Open-Ended Questions

At the conclusion of the survey, participants were given an opportunity to respond to a series of open-ended questions. A selection of their responses follows.

In your own words, what was the single most important reason you started up, relocated, or expanded your business outside of Minnesota?

- Work comp bills did not allow any profit at the end of several years in a row. At the end of our first year in North Dakota we had profit and our work comp costs were cut by 66%; automobile/truck insurance went down 40%. We were able to bid competitively—got more work at less cost—more profit—more customers! \$\$
- A chance to survive
- Location of residence of operation manager (Eau Claire, Wisconsin)
- Liberal government spending and the expensive real estate taxes, corporate taxes, and work comp rates
- Expensive strike by union

- It's less expensive to do business here—more expensive in Minnesota.
- Better business climate
- The political climate in Minnesota, in which, as a successful business, we feel overtaxed and underappreciated. E.g., your form doesn't even include issues such as the ever-pending "hostage shop law," or the high state income tax on "S" [and] "LLC" corporations, and partnerships.
- The unique combination of a healthy work ethic, progressive community, no income tax, and a strong pro-business state government—no single reason is enough.
- Close to interstate highway; low labor rate; low corporate tax; low housing costs
- Work comp
- No governmental agency within the state of Minnesota offers any "upfront" dollar savings or assistance for a small fast-growing company. When a small company is experiencing "rapid" growth, heavy financing restricts growth. I would have had to retard company growth to survive in Minnesota.
- Cost of land in industrial park and support of city fathers (land wasn't free)
- Cost of tax; cost of labor; unions and work ethics
- Lower total costs
- We had to relocate for two reasons. We ran out of space and were having trouble meeting customer requirements and there was no available labor force in the suburbs. Cambridge was our first choice. We would have retained a more experienced workforce. Taxes came into play. Same building: Cambridge, Minnesota—75,000/yr., Osceola [Iowa]—30,000/yr.
- Forced to move by county government—due to purchase of property
- Attorney general, anti-business climate of all governments

- Tap other labor markets, avoid Minnesota's property tax and regulatory mess
- Wisconsin was timely, interested, willing, and very helpful in land, loans, and all aspects of our move. [Governor] Tommy Thompson even came to our grand opening. Minnesota was extremely difficult to work with even to talk to someone. After our move we got a video from Lakeville on their industrial park (2 years late!).
- We are a custom manufacturer (job shop). Our most important consideration is getting close to our marketplace (customers).
- Dealing with the Minnesota Department of Economic Development was very difficult. I have never dealt with such arrogance and neglect for new businesses. The state we located in, North Dakota, came to us with a positive, supportive attitude. From the governor down they wanted us to locate there and supported us at a financial incentive many times greater than Minnesota. Inability of Minnesota officials to make decisions or move in a timely fashion was a discouragement.
- We could not compete with outstate carriers that we had calling on our customers and bidding against us on U.S. mail contracts. Their workers' comp, unemployment, corporate tax, etc. was cheaper and we had no choice but to move our operation out of Minnesota. We also were actively recruited by Iowa, South Dakota, and Missouri and were offered incentives to make the move.
- Expand business
- Planning and zoning; tax-free manufacturing equipment
- Minnesota's Department of Economic Development's total lack of interest when

we contacted them about our expansion plans. The governor of South Dakota came to visit seven days after we contacted their Department of Economic Development.

- Poor attitude of Minnesota toward business and the cost of doing business in Illinois
- Operating taxes and others mentioned
- After we relocated to Hudson we discovered the wonderful business attitude by Wisconsin governments.
- A Superior, Wisconsin-based contractor set up the company with a new building with a rent to buy option opportunity in Superior.
- Expanding our business to meet market demand will require workforce in excess of 1,000 people. Our potential labor pool must be expanded to accommodate the potential growth.
- Local government financial support
- Minnesota brutally didn't want us—it wasn't that important to Minnesota.
- Customers were outside Minnesota.
- Utilities, taxes, labor were all too high.
- Workers' comp, attitude toward business, Minnesota has become too much of a give-away state, welfare state, unemployment costs higher in Minnesota
- Couldn't get any support for business—when you can only get 40 percent loan on property and equipment and none on accounts receivable, inventory, and work in progress, it's hard.
- No properties in price range
- Workers' comp; new labor environment at efficient distance from current facility
- Inability to find productive labor; Teamsters union came in; left when lower labor wanted more money—bums; taxes and workers' comp also bad
- City hassled us all the time.

- Opportunity for growth, bigger market in Grand Forks [North Dakota]
- Clients weren't in Minnesota.

In your own words, what was the single most important reason for selecting your new location?

- A chance to survive
- Commercial hub of South Dakota
- Required (it was thought) to be 40 miles from current location to break free of union contract
- Available facility at an economical cost
- Welcomed by all politicians, who “walk the talk” about wanting to maintain a warm and friendly business climate. They view business as the engine that drives the economy, not goose laying the golden eggs, as in Minnesota.
- Wisconsin governor provided us with incentives to move in.
- City provided us with land at a very reduced cost.
- Local and state government “partnership” with company.
 - Received—land purchase at \$5,000 an acre (purchased 34 acres);
 - \$130,000 finished paved road, curb, and gutter to site (0 cost);
 - \$8,500—all utilities brought to new building (0 cost);
 - \$140,000—rail spur brought to new site (\$1 cost);
 - \$400,000—equipment loan at 3%;
 - \$50,000—employee training grant.
- Access to freeway
- The general cost of operation; tax rates; compensation laws; right-to-work state; development corporation incentives, state and local
- Cost competition

- Available workforce
- Cooperation between state and local governments and banks
- Very supportive community and state
- Close to Twin Cities, great government, town support
- The “make-it-happen” attitude of the state
- The economic assistance provided to us was invaluable, such as

equity	\$600,000
low-interest loan	\$700,000
grants and incentives	\$400,000
loan warranties	\$400,000
	<u>\$2,100,000</u>

- Location not too far from existing customers
- Taxes and cost of land
- Customers and overall business climate
- Try for better business working relations
- Low costs
- Tax breaks
- Combination of cost and proximity to Twin Cities
- Rental costs
- Convenience
- Customers
- Strictly property values. Taxed so much less in Somerset [Wisconsin] than Stillwater [Minnesota]. Also workers’ comp a little cheaper.

In your own words, what must Minnesota do to improve its business climate?

- Get rid of such excess welfare programs that are subsidized by businesses.
- Be competitive with other states as far as tax rates go.
- Make conducting our business more

simple and less costly.

- Lower cost of doing business in state. Reduce the disparity between small company costs and large companies.
- Elect a Republican state legislature.
- Lower taxes, provide incentives.
- Lower workers’ compensation rates and provide benefits to keep small businesses. For example, low-interest loans, lower taxes for the first few years.
- Reduce the tax burden and develop specific programs for income-producing small businesses that are experiencing growth and need to expand to the next level. This does not mean unproven start-ups or minority business for minority stats.
- Lower property taxes.
- Improve in tax rates, compensation laws, right-to-work state, development of corporate incentives—state and local.
- Lower costs of doing business.
- Become more business friendly, i.e., taxes, recognition.
- Tax—corporate and income
- Not be in the forefront in every issue of government control.
- Learn what South Dakota is doing.
- Reduce regulation generally. Reduce property taxes. Reduce maximum personal income tax rate.
- Pay attention to their business community. We were in Minnesota for over 50 years! Apparently that wasn’t long enough to be noticed.
- Deal with some of the negative issues (taxes, workers’ comp) that give Minnesota the reputation of poor business climate.
- Fire the Minnesota Department of Economic Development personnel dealing with small and mid-size businesses.

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- Put more funding in developing businesses that will provide long-term employment, not a new stadium.
 - Get workers' compensation under control. Stop the courts from legislating from the bench. Develop a positive and pro-small business attitude.
 - Improve its attitude and lower its cost.
 - Change its attitude that businesses are bad.
 - The state programs in effect today are too limited and do [not] go far enough in providing "unrestricted capital" (working capital) to help facilitate growth. The programs tend to be fixed-asset-based. Programmatically speaking, the exposure of public funds for "non-asset"-based loans would be mitigated if the body politic could [do] some mix of working capital with an equity-based return. There are more good ideas out in the market than capital available to fund them. Expanding jobs and tax base would be better served by expanding capital markets and providing "leverage" dollars for new projects/programs.
 - Be more adaptive and interested in business owners.
 - Reduce property tax rates, individual tax rates. Develop a partnership between business and state government.
 - Work on welfare system and unemployment. Minnesota is a state to come to if you don't want to work very hard.
 - Work with all companies small-large equally.
 - Reduce taxes.
 - More economic incentives for expanding companies
 - Do something about workers' comp.
 - Workers' comp rates and state corporate tax rates are still too high. Work with people more.

- Need to address workers' comp, taxes. Hasn't been extremely conducive to business. People are there because they have to be there.

Other comments and observations

- Minnesota needs to get a balance of its programs to be attractive to the national business climate.
- Wisconsin's entire attitude toward business is more appealing, straightforward, respectful, and approachable. Our legislators should watch and learn some lessons.
- The incentives offered by state and local governments are not important or needed if the overall cost of doing business is reasonable.
- Visit Brookings, South Dakota, and see the number of good Minnesota companies that have relocated here. The proactive business climate has been mutually beneficial and successful for all concerned.
- Our company was in trouble financially. The move gave us the opportunity to reorganize our operations and build our cash reserve to allow us to stay in business. Our hourly wage started low but the wage grew with the company to where we are today. This was a win, win for [the company] and the employee.
- South Dakota is a great place to raise a family: friendly people, low crime rate, good education system.
- I get the impression a business in Minnesota is a necessary evil to support the ultraliberal spending habits of state government.
- The state of Minnesota does not care for the small business owners.
- Small business owner doesn't make a difference in Minnesota.
- Wisconsin is a lot more receptive.

- South Dakota is more ready to help. Minnesota is a great place, especially if you're in a big city. The issue is that Minnesota is more restrictive than South Dakota for a business to be as profitable as it could be.

- If you blow smoke and play the PR game you get TIF and working capital, etc. But if you're a small, 10-15-20 employees, no one wants to bother with you and the guy who spends his time in [the] shop and not at chamber meetings and golf course gets nothing.

The authors' evaluation of respondents' comments reveal that they lend support to research findings previously stated in this report. In other words, the issues of greatest importance are workers' compensation, cost of doing business, taxes, regulations, and a poor political/business climate. Readers are invited to review respondents' comments and reach their own conclusions.

Summary and Conclusions

Several major conclusions can be drawn from this study. First, the major reasons for the business location decisions made by the respondents were high workers' compensation rates and high commercial-industrial real estate taxes. These findings replicate the results of the previous outmigration study done in Hudson, Wisconsin (SCSU, 1994), research on state-imposed business costs (Isaacson and Peterson, 1995), and the results of the DTED (1997) study of relocated manufacturers.

When the reasons for business loca-

tion decisions are grouped into the categories of business taxation, government incentives from the new location, absence of government incentives from Minnesota, labor, and location, a rather distinct pattern of results emerges for both the importance ratings and the rankings of the reasons for business location decisions. In the aggregate, business taxation (workers' compensation rates, commercial-industrial property taxes, corporate income taxes, and sales taxes) constituted the primary reason for business decisions to relocate outside Minnesota. Second, when examined for their combined effect, local and state government incentives from the new location of the business comprised the next most important reasons for business location decisions. Third, as a group, the absence of Minnesota state and local government incentives to compete in retaining or expanding businesses made up the next most important set of reasons for the respondents' decisions to leave Minnesota. Taken together, labor costs and the availability of qualified labor were the fourth most important category of reasons for business location decisions. Lastly, the category composed of the location of customers and suppliers along with transportation costs turned out to be the least important determinant of business location decisions in this study.

While these results accurately describe the decisions of the respondents within the usual limitations of survey research methodology, they serve as estimates of the views of the entire population. There are two rea-

sons to suspect that these survey results represent overall business management views. The first of these is the internal consistency of the results as reflected in the relatively similar results for both the importance ratings and rankings of the various reasons for business location decisions. The consistency of the results is also suggested by the clustering of items into conceptually related groupings. The second reason to interpret the results as an accurate estimate of business and management community values stems from their similarity to the findings of other research. Replicated research findings, especially research carried out by different individuals, greatly increase confidence in their collective validity.

The estimated economic consequences of these business location decisions for the state of Minnesota are substantial and disconcerting. For the relocated businesses, annual sales have increased by 148 percent from the time of relocation to the present. The number of hourly workers has increased by 124 percent and the number of salaried workers has increased by 60 percent for these businesses. The total compensation paid to these workers has increased from \$19.3 million to \$55.3 million, representing an increase of 187 percent.

Comparable results for the business expansions and start-ups are even larger and hence more disturbing. The percentage increase in hourly workers for these businesses is 707 percent, and for salaried workers the increase is 379 percent. The total compensation paid

to these workers increased from \$7.7 million to \$76.9 million, representing a staggering increase of over 900 percent.

The economic consequences of these business location decisions truly represent the proverbial "tip of the iceberg." The results are based upon a sample of the population. Extrapolating these results to the universe of relocated, expanded, or start-up firms would certainly produce extremely large numbers with a social and economic impact of concern to all.

The last major set of findings concerns the jobs Minnesota has lost that pay less than \$10 an hour. First, note that there are many such jobs lost, according to a sample of respondents—1,597, to be precise. Second, it is important to recognize that, in general, these jobs require very little in the way of prior training, education, or work experience. In other words, these jobs may well be very appropriate, as well as desirable, jobs for individuals needing entry-level employment such as those ending dependence on welfare programs. Thus, the loss of such jobs may represent yet another serious problem for Minnesota.

In summary, the survey results do not paint a very positive picture of the business climate in Minnesota. The business climate is perceived as better in neighboring states, and the perceptions seem reality-based. Businesses are leaving, and the state of Minnesota is suffering significant social and economic losses.

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