

State Comparative Analysis

Mid Iowa Growth Partnership

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Mid Iowa Growth Partnership State Comparison

Overview

Wilson Tax and Business Consulting has been selected by Mid Iowa Group Partnership (MIGP) to provide a detailed tax and cost of business analysis as it relates to various selected states. The analysis attached is an estimate based on the data and assumptions provided by various resources as well as MIGP. If accurate information was not available, then an estimate was used. All data in the analysis can be updated if necessary. Any incentives listed or what are generally approved for new companies locating in that specific location.

The cities used in the analysis were provided by the MIGP marketing committee. The categories to be analyzed were approved by the MIGP marketing committee.

Potential Uses of Analysis

The documents and spreadsheets have potential multiple uses as instructed by the MIGP marketing committee. The analysis was structured to be customized to the requested uses for all of the communities and counties affiliated with MIGP. The potential uses are as follows:

- A marketing tool to post on the website.
- A potential recruiting tool to show the comparison between the selected cities/states.
- A customized tool for communities to adapt to specific target/client situations.

Business Criteria

The MIGP marketing committee and WTBC collaborated together to establish three business scenarios to apply to the study. These scenarios were based on the main target industries that were identified and included in the MIGP business plan. The identified scenarios are as follows:

Light Manufacturing: A potential scenario of a manufacturing company locating in one of the selected communities with 100 employees. The selected employee classification can be found on the wage detail spreadsheet that is attached. The company would build a 60,000 square foot building on eight acres of land with full infrastructure already established. The taxable income for this company would be \$1,000,000.

Renewable Energy: A potential scenario of a manufacturing company locating in one of the selected communities with 50 employees. The selected employee classification can be found on the wage detail

spreadsheet that is attached. The company would build a 40,000 square foot building on 6 acres of land with full infrastructure already established. The taxable income for this company would be \$300,000.

Agricultural Manufacturing: A potential scenario of a manufacturing company locating in one of the selected communities with 20 employees. The selected employee classification can be found on the wage detail spreadsheet that is attached. The company would build a 20,000 square foot building on four acres of land with full infrastructure already established. The taxable income for this company would be \$100,000.

Cities Selected

The cities selected by MIGP were strategically selected based on various factors. The primary factors selected included: location to major roadways, population and similar business climates.

Rochelle, IL- is located 75 miles from Chicago. It is considered the “hub city” of Illinois. Rochelle’s business lines consist of: Highways 29 & 88, Interstates 38 & 251 and two major rail lines (Union Pacific Railroad and BNSF Railway). Rochelle is located in Ogle County with a population of 9,823 people.

Iowa Falls, IA- the city consists of 4,965 people along US Routes 20 & 65. Iowa Falls is located in Hardin County.

Owatonna, MN-is settled around the Straight River. Its business lines consist of: Interstate 35 and US Routes 14 & 218. Owatonna is located in Steele County and has a population of 25,599.

Brandon, SD- is located along the Big Sioux River with Interstate 90 being the major east and west route. Brandon is located in Minnehaha County and is the largest suburb of Sioux Falls with a population of 8,785 people.

Factors Analyzed

The factors are broken into two groups: Taxes and Other Cost of Business. The selected factors were approved by the MIGP marketing group. It was decided that these are the most relevant factors from a company decision making process and factoring in materiality.

Taxes

Income Tax

Income tax can have many facets, especially when looking at multiple states. Since non-publically traded small businesses are being analyzed, the entity structure being used is an S corporation. There are some technical terms that may need further explanation. One of the main factors in determining taxable income is apportionment. Apportionment is determining the amount of income that tax will be

due in a specific state. There are three factors to apportionment: sales, property and payroll. Illinois and Iowa are sales only, with Minnesota being a three factor state. Point of delivery is the main determination of the amount of sales in that specific state. However, Illinois is considered a throwback state. Throwback mandates a company that is located in the state must apportion 100 percent of the sales to that state if the income is not apportioned to another state. The Research and Development Tax Credit is also a key factor in this analysis. This is a complex tax credit that rewards companies for developing or improving products or processes related to their expenditures on wages, supplies and contract research.

Rochelle, IL- This comparison was done with the tax rates just implemented by the Illinois legislature. The rate of 7.0% was used, plus a 2.5% replacement tax totaling 9.5% for the corporate income tax rate. A Research and Development Tax Credit of \$6,500 was applied on an annual basis. Illinois apportionment is a single factor state based on gross receipts. All sales would be taxable to Illinois since it is a throwback state.

Iowa Falls, IA - Iowa is a single factor apportionment state. However, a company is not required to file in other states to be allowed to apportion, and Iowa is not a throwback state. In addition, there would be a New Jobs Tax Credit of \$55,860, and a Research and Development Tax Credit of \$6,500.

Owatonna, MN- The tax rate in Minnesota does increase, but the effective rate for most of our examples would be 7.05%. Minnesota does use a three factor formula, which includes sales, payroll and property. This would equal approximately an 18% apportionment factor in Minnesota. As of 2010, the Research and Development Tax Credit was doubled from 5% to 10%, and it is a refundable credit.

Brandon, SD- South Dakota does not have an income tax, and there does not appear to be any plans to implement a state income tax.

COMPARISON: Iowa compares favorably to all three states, with Illinois clearly having the largest income tax liability. South Dakota does not have an income tax. However, the ability to obtain a refund from Research and Development Tax Credits for Minnesota and Iowa gives both states an advantage.

Sales Tax on Purchases

When analyzing sales tax expenses, it is important to clarify the costs being measured. The majority of items being produced in the selected scenarios would not be subject to sales tax. However, there can be significant costs related to the items purchased by the industries being analyzed. Seven common categories of purchases were selected for the analysis. We did not factor in any sales tax exemptions as it relates to incentive programs. It is assumed that all software is being transmitted electronically for this comparison.

Rochelle, IL- Many items are exempt from tax for manufacturers in Illinois. However, a few items of materiality are taxable such as gas/electricity, including computer hardware and software. In addition, the tax rate including local taxes is 7%.

Iowa Falls, IA- Iowa has a very broad manufacturing exemption capturing most items used in manufacturing, including computer hardware and software. The items that are taxable would be taxed at the rate of 7%.

Owatonna, MN- Owatonna has a sales tax of 6.875%. Owatonna phased out the local tax of .5% on July 1 of 2011. From discussions with city officials, there are no plans to reinstate it, so only the state rate was used for this analysis. Manufacturing exemptions are fairly similar to Iowa and Illinois. Also, all computer hardware and software are taxed.

Brandon, SD- Most items are taxable for sales tax purposes in South Dakota. This is primarily due to the lack of income or franchise tax in South Dakota. The tax rate in Brandon is 6%.

COMPARISON: Compared to the other states, Iowa clearly has more statutory exemptions for industrial companies and would have a lower tax liability on purchases. Having exemptions for software transmitted electronically and a computer hardware exemption contributes to Iowa having the lowest sales tax burden on purchases. South Dakota clearly has the highest potential sales tax liability on purchases. With the lack of an income tax, there are very few sales tax exemptions available in South Dakota.

Unemployment/Workers' Comp

The rates used were obtained from prior studies, and directly from the communities. If the rates varied based on experience rates or other variables, an average was used.

Rochelle, IL- Percentages and calculations were computed in accordance with the data provided by the Illinois Office of Workforce Development. The applicable percentage for this locality is 6.8%. However, only the first \$12,740 is taxed, which helps explain the very high percentage.

Iowa Falls, IA- Percentages and calculations were computed in accordance with the data provided by the Iowa Office of Workforce Development. The applicable percentage for this locality is 1.9%.

Owatonna, MN- Percentages and calculations were computed in accordance with the data provided by the Minnesota Office of Workforce Development. The applicable percentage for this locality is 2.91%.

Brandon, SD - Percentages and calculations were computed in accordance with the data provided by the Minnesota Office of Workforce Development. The applicable percentage for this locality is 1.75%.

COMPARISON: South Dakota appears to have an advantage over Iowa with unemployment and workers' compensation insurance. Iowa's rates are clearly lower than the rates applicable in Illinois and Minnesota.

Property Tax

The property tax rates by community were established by contacting the assessors in each community and using the main industrial park as the jurisdiction to establish the rate. If various rates existed, then averages of the two rates were used.

Rochelle, IL- The rate of approximately \$32.79 per thousand of assessed value was used to calculate the liability. However this can be misleading. The local government is funded by a replacement tax that was implemented in the late 1970's that is based on taxable income and is assessed for S corporations at the 1.5% rate. That amount is factored into the income tax calculation.

Iowa Falls, IA- The rate of approximately \$39.75322 per thousand of assessed value was used to calculate the liability.

Owatonna, MN- The rate of approximately \$38.52 per thousand of assessed value was used to calculate the liability.

Brandon, SD- The rate of approximately \$34.91125 per thousand of assessed value was used to calculate the liability.

COMPARISON: Iowa has the highest property tax rate in this analysis. The Iowa legislature is trying to pass legislation to reduce the commercial and industrial tax rate by up to 40%. It did not pass in the 2011 legislative session, but this study will be updated accordingly if there are future changes. Illinois clearly has on average the lowest property tax rate. Additionally, there is subsidiary funding from the replacement tax that is calculated on the income tax return, and varies directly related to taxable income. This funding goes directly to the local communities and is used to supplement the lower property tax rates.

Utilities

Utilities vary for many reasons, so the state averages were used for this study, with the same amount of usage of gas and electricity being used in each location. The only utilities selected for analysis were gas and electricity due to the materiality of these utilities for the selected industries.

Rochelle, IL- Per the data provided various sources the cost per KWH is .0722 and the cost per therm. is .731

Iowa Falls, IA- Per the data provided various sources the cost per KWH is .0522 and the cost per therm. is .623

Owatonna, MN- Per the data provided various sources the cost per KWH is .0616 and the cost per therm. is .566

Brandon, SD- Per the data provided various sources the cost per KWH is .0592 and the cost per therm. is .607

COMPARISON: The utility costs are fairly close in the selected communities and the differences between the communities appear to be immaterial compared to the other areas being analyzed. Iowa has slightly lower costs than South Dakota and Minnesota, with Illinois having the highest rate in comparison to the three states.

Other Cost of Business Factors

Building & Land Costs

The land costs were supplied by the local economic developers related to the costs in their business parks, with infra-structured included. Often the land costs would vary dramatically within each business park depending on location within the park. The average cost per acre for each business park was used in this analysis. Due to the lack of compatibility between existing buildings in the selected localities, the analysis will evaluate newly constructed buildings. It is being assumed that the costs for constructing the buildings in all three situations would be the same. The number of acres of land, square foot of the building and average costs for construction are listed on the appropriate worksheet in each scenario. The costs for the building construction were obtained from contractors that construct similar facilities in the Midwest.

Rochelle, IL-The average land costs in Rochelle was \$38,000 per acre.

Iowa Falls, IA-The average costs of land in Illinois was \$16,750 per acre.

Owatonna, MN-Owatonna's average land costs was \$32,500 per acre.

Brandon, SD-Brandon's costs of \$21,500 per acre.

COMPARISON: As stated previously, the acre costs could vary depending on location within the business park. Iowa Falls appears to have the lowest average cost per acre, followed by Brandon, Owatonna and Rochelle.

Tax Credits & Incentives

Often the states and communities analyze these on a case by case basis. However, the programs and amounts used were based off what recently and in the near future would be rewarded accordingly. Only tax credits, abatements and grants were factored into the amounts rewarded. In addition, direct financial assistance from the community was not included due to the lack of structure of these awards. The tax credits included in this section relate to property tax only, and are listed directly as abatements. The income tax credits that would be generated are included on the income tax section of the analysis.

Rochelle, IL- Illinois has various programs available for companies looking to expand or locate in the state. From discussions with companies and consultants in Illinois, it is very difficult to obtain direct funding or tax credits in Illinois currently. This primarily has to do with the well publicized budget problems and the increase of income taxes to Illinois resident and corporations. However, it appears that the Employee Training Investment Program (ETIP) may be available for the scenarios used in this analysis. Up to 50 percent of the employee training costs and \$1,500 per employee may be awarded for this training program. The maximum amount was used for this analysis, and the amount of training dollars calculated was 50% of the amount used for Iowa Falls.

Iowa Falls, IA- In the listed scenarios there are three programs that should be applicable. There is a forgivable loan program offered through the Iowa Department of Economic Development. There is a no- interest- loan of the same amount in this program; however, that was not used in this calculation. The forgivable loan would be approximately \$1,250 per employee. Iowa's New Jobs Training Program is one of the more aggressive programs in the country. This program reimburses employee training costs through state funding administered by the local community college. The amount of training dollars to be reimbursed is estimated at \$3,000 per employee. The property tax abatement is over 5 years on a sliding scale and allows 45% of the first 5 years of property tax to be abated.

Owatonna, MN- The majority of programs available in Minnesota are primarily loan programs, and many of the income and sales tax programs are being eliminated in the near future, with reinstatement by the Minnesota legislature being doubtful. However, Owatonna indicated that a tax abatement of the city portion of the property tax of approximately 33% would be available over a 9 year period.

Brandon, SD- South Dakota promotes the lack of an income tax as being the main incentive driver in South Dakota. There are some loan programs and very few direct financing programs. There is a property tax abatement that equates to approximately 3 years of property tax.

COMPARISON: Iowa's potential incentives are virtually double of the other three localities. The primary driver behind the separation is the Iowa New Jobs Training Program. The consideration of local grants in this analysis could potentially alter the comparison of potential incentives.

Wage Comparison

Comparing wages has multiple factors to consider. An average between the median and entry level is what seemed to be the most realistic for the appropriate job titles selected. The job titles and number of positions for each scenario are averages obtained from similar companies of approximately the same size. There may be additional positions for each scenario. Realistically, these seem to be the most common from companies within the industries. The summary of the analysis factors in an estimated 20% additional costs for total wages. These costs include FICA, unemployment and other ancillary costs associated with wage costs. This analysis focused strictly on cost of labor and did factor in labor availability in each location.

Rochelle, IL- The wages in Rochelle appear to be higher than the other three localities. The higher costs of specialty positions such as engineers and upper management appear to create the separation from the other localities.

Iowa Falls, IA- The costs of labor in Iowa Falls appears to be the lowest in all three scenarios analyzed. The cost of labor in Iowa Falls is driven by most positions being slightly lower than the other three locations. Additionally, having one of the lower costs for general labor is a key driver in Iowa's lower wage costs.

Owatonna, MN- Owatonna's wage costs are slightly behind Iowa Falls. The costs for general labor are the lowest of all three localities; however, the costs for management are near the higher end of the analysis.

Brandon, SD- The wage costs in Brandon are similar to Owatonna's. The costs of labor in Brandon are favorable; however, general labor costs are one of the higher costs of the four locations.

COMPARISON: Iowa appears to have the lowest wage costs of the four scenarios analyzed, with Brandon and Owatonna being almost the same in all three situations. In the situations analyzed, Rochelle had the highest wage costs. Yet, the wage costs were very similar between the locations being analyzed. If a large metropolitan city was compared to one of the selected cities, the variance would increase immensely.

Summary of Findings

Light Manufacturing

Iowa has the lowest annual costs of doing business for a light manufacturing company with 100 employees. The annual costs of doing business in Iowa is approximately \$150,000 less than Owatonna, \$250,000 less than Brandon and \$350,000 less than Rochelle.

The one-time net costs for Iowa Falls are clearly an advantage over the other three localities. The training dollars and having three programs that appear accessible are the primary reason for the separation. The one-time net costs are the building and land costs minus the credits and incentives. Since they are not recurring on an annual basis, they are looked at separately from the annual costs.

Renewable Energy

Iowa has the lowest annual costs of doing business for a renewable energy company with 50 employees. The annual costs of doing business in Iowa are approximately \$150,000 less than the other three localities used in this analysis.

The one-time net costs in Iowa clearly are better than the other three locations. The training dollars and having three programs that appear accessible are the primary reason for the separation.

Agricultural Manufacturing

As the companies get smaller, the amounts will narrow as far as the comparison. However, Iowa is still slightly better when comparing the cost of doing business between the three localities.

The cost savings for Iowa is almost double when comparing the other states in this analysis. The training dollars and having three programs that appear accessible are the primary reason for the separation, and is obvious in all three scenarios.

Overall Summary

This comprehensive analysis is designed to give a comparison between four selected communities, with the primary focus being to compare Iowa Falls to the other three communities. There were eight selected categories to use in the comparative analysis for a company to locate and conduct business operations. It appears that Iowa Falls has an advantage over the other three communities in seven of the eight categories. From an annual cost perspective, the three key areas that separate Iowa Falls from the other locations are Income Tax, Sales Tax and Cost of Wages.

The deciding factors determining income tax liability is how the income tax is apportioned, and what tax credits are available. When analyzing companies with few sales delivered to Iowa and having considerable Research and Development expenses, Iowa has a clear advantage. Having single factor apportionment and only taxing sales that are delivered in the state of Iowa lowers the income tax liability considerably. In addition, having a refundable Research and Development Tax Credit can often reduce the tax liability to zero, and can generate a refund. Overall, with the factors supplied in this analysis, Iowa appears more advantageous for income taxes than South Dakota, which does not have an income tax.

When analyzing sales taxes on purchases, often the main focus is on the specific tax rates in each jurisdiction. The tax rates in the selected jurisdictions are virtually the same. The key component to determine tax liabilities is what exemptions are available. Of the seven purchase categories available, Iowa only assessed tax in five of the seven areas, with only a small portion of the utilities being subject to tax.

The cost of wages can be difficult to determine when analyzing hypothetical company situations. Compared to the other three facilities, Iowa Falls was slightly lower in overall wage costs. However, due to the materiality of wages in an industrial setting, a slight advantage can generate significant annual savings. The lower costs of general production labor in Iowa were the primary reasons for Iowa Falls having a significant advantage over the other three locations.

One other area that gave Iowa Falls an advantage in this analysis was the credits and incentives area. All four communities offered very similar property tax abatement programs. What separated Iowa Falls was the Iowa New Jobs training program that is available in the area. The materiality of the training dollars caused Iowa Falls' incentive packages to be twice as lucrative, or more, than the other three communities.

There were assumptions made in this analysis, and the data will obviously vary for every situation. When comparing communities in the Midwest that are of similar size, often the communities will be fairly similar in costs of doing business. However, Iowa Falls did appear to have a clear advantage, followed by Owatonna, Minnesota; Brandon, South Dakota and Rochelle, Illinois. If Iowa Falls was compared to a larger metropolitan area in the selected states, I believe Iowa Falls' advantage in the selected categories would increase dramatically.