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EXECUTIVE SUMMARY

PREMISE:

Eide Bailly was contacted by the North Dakota Department of Commerce in the fall of 2002 for an independent review of their state's competitive ranking relative to the tax costs of an agricultural processing project. The Department of Commerce believed that North Dakota had strategically created a competitive edge in tax incentives, but had no objective evidence to support their theory.

FINDINGS:

Our analysis has found North Dakota to be the most advantageous location for an agricultural processing facility in the eleven-state tax comparison. Even more impressive is the \$4.4 million gap between Bismarck, ND, and the next location.

SCOPE:

Eide Bailly was asked to complete a tax analysis for a hypothetical project to evaluate the ten-year tax costs for eleven communities selected by the Department of Commerce. Taxes are limited to a review of property taxes, workers' compensation insurance, state and local sales tax, unemployment insurance and corporate income tax. Where appropriate and determinable, applicable tax incentives were included in the analysis. Information was gathered through primary and secondary research to include phone interviews with appropriate officials.

Ten-Year Tax Analysis: Ag Processing Facility

Rank	Location	Present Value Total (6%)
1	Bismarck, North Dakota	\$ 2,922,344
2	Sioux Falls, South Dakota	\$ 7,341,778
3	Richmond, Virginia	\$ 7,489,083
4	Great Falls, Montana	\$ 7,680,200
5	Eau Claire, Wisconsin	\$ 8,873,919
6	Des Moines, Iowa	\$ 9,259,978
7	Chicago, Illinois	\$ 9,985,669
8	Edina, Minnesota	\$ 11,358,333
9	San Jose, California	\$ 11,808,558
10	Omaha, Nebraska	\$ 11,817,483
11	Greeley, Colorado	\$ 11,825,853

TIME & RESEARCH OF STUDY:

The research for this report was conducted during the month of December 2002, and all information is effective as of December 31, 2002. The raw data was obtained from a variety of sources, including private information bureaus, various Internet web sites, and materials and information provided by various state agencies. The Department of Commerce provided the working parameters for the subject business.

Summary of Totals

Rank	Location	Real Estate Tax	Rank	Unemployment Insurance	Rank	Sales and Use Tax	Rank	Corporate Income Tax	Rank	Workers' Compensation Insurance	Rank
1	Bismarck, ND	--	1	\$ 369,391	7	\$ 60,000	2	\$ 2,784,011	3	\$ 1,204,785	1
2	Sioux Falls, SD	\$ 3,310,124	4	\$ 155,733	1	\$ 2,400,000	11	--	1	\$ 4,010,467	7
3	Richmond, VA	\$ 3,125,551	3	\$ 237,714	2	\$ 337,500	4	\$ 3,745,145	7	\$ 2,871,744	2
4	Great Falls, MT	\$ 2,336,937	2	\$ 498,587	11	--	1	\$ 4,607,443	8	\$ 3,497,728	6
5	Eau Claire, WI	\$ 3,580,049	5	\$ 363,174	6	\$ 412,500	5	\$ 5,029,857	10	\$ 2,980,204	3
6	Des Moines, IA	\$ 3,911,701	6	\$ 422,123	9	\$ 510,000	7	\$ 4,868,204	9	\$ 3,230,782	4
7	Chicago, IL	\$ 4,815,744	9	\$ 416,058	8	\$ 765,000	10	\$ 3,407,166	5	\$ 4,481,053	8
8	Edina, MN	\$ 5,964,760	11	\$ 447,474	10	\$ 552,500	8	\$ 5,564,939	11	\$ 3,297,926	5
9	San Jose, CA	\$ 5,530,341	10	\$ 362,061	5	\$ 701,250	9	\$ 3,678,347	6	\$ 6,462,725	9
10	Omaha, NE	\$ 4,409,321	7	\$ 282,852	4	\$ 70,000	3	\$ 731,455	2	\$ 11,407,838	11
11	Greeley, CO	\$ 4,441,878	8	\$ 249,414	3	\$ 501,500	6	\$ 3,160,364	4	\$ 8,224,036	10

North Dakota Highlights

Real Estate Tax: North Dakota's ten-year 100% abatement for a new or expanding agricultural processing facility had a huge impact on the state's overall standing. Several of the communities offer abatement programs, but none to the extent of North Dakota.

Unemployment Insurance: The overall impact of unemployment insurance to the cost of doing business in any state is rather limited, and the overall cost difference among the eleven states is relatively small when measured in actual dollars.

Sales and Use Tax: All of the states, except South Dakota, abate sales and use taxes for machinery and equipment. Three of the states, including North Dakota, abate the cost of construction supplies for an agricultural processing facility.

Corporate Income Tax: North Dakota's five-year income tax abatement for value-added agricultural processing expansions has a significant impact in lowering its ranking in this area.

Workers' Compensation Insurance: North Dakota was ranked #1 in this category, with only 36% of the cost of the next closest community and only 11% of the highest cost community.

EIDE BAILLY LLP

Tim Moore, CPA

AGRICULTURAL PROCESSING BUSINESS PARAMETERS

- An agricultural processing company manufacturing products from milk.
- The company will open its facility with approximately \$25 million of processing equipment and \$1 million of non-processing equipment.
- In year three, the company will expand its operations with an additional \$6.5 million of processing equipment.
- The company's gross sales will be \$35 million, \$80 million and \$115 million for the first three years respectively. Thereafter, sales will grow at an annual rate of 3%.
- Net profits are projected to be \$1.05 million, \$2.8 million and \$6.325 million for the first three years respectively. Thereafter, the income will grow at an annual rate of 3%.
- Employment for the business in the first year is projected to be 15 salaried positions with an average of \$45,000 per year and 50 non-salaried positions with an average of \$15.00 per hour. The second year's employment is projected to be 12 salaried positions with an average of \$50,000 per year and 100 non-salaried positions with an average of \$15.00 per hour. The third year's employment is projected to be 12 salaried positions with an average of \$50,000 per year and 135 non-salaried positions with an average of \$17.00 per hour. Thereafter, the number of employees and their respective salaries will increase at a rate of 3% per year.