

IDAHO TAX REIMBURSEMENT INCENTIVE FY2015 ANNUAL REPORT





**Dear Governor C.L. “Butch” Otter and Members
of the Idaho State Legislature,**

Beginning July 1, 2014, you entrusted the Idaho Department of Commerce and Idaho Economic Advisory Council with an exciting new tool – the Tax Reimbursement Incentive (TRI) – designed to help Idaho be nationally competitive, generate new economic growth, and create new high-paying jobs. The TRI is specifically designed as a post-performance incentive that rewards businesses who make a significant, qualifying investment in Idaho’s economy. Most importantly, the incentive comes only after the new jobs have been created and after the company pays the new taxes from its investment.

We are pleased to report the TRI has exceeded even our early and optimistic expectations.

During the first year of this new incentive, the Idaho Economic Advisory Council approved 16 projects, for new and existing companies in both urban and rural Idaho communities, that are projected to add over 3,200 jobs and over \$1.3 billion in new payroll to the state. Even better, the estimated average annual wage from the new jobs is \$44,800 – well above the statewide average of \$36,152.

Behind the success of the TRI is a thorough process our staff has developed to ensure the program is fair, equitable, and transparent. The controls and steps of this process are the focus of the independent audit included in this annual report. Each step and control has been thoughtfully designed to facilitate a user-friendly process, but also ensures each project is evaluated in a consistent manner. The TRI review process includes careful scrutiny of the project details, a rigorous scoring evaluation of both quantitative and qualitative measures, an in-depth economic impact analysis, and final review and approval by the Economic Advisory Council.

After reviewing this report and independent audit, you will see why we view the first year of the TRI as a significant success. If the first year is any indication of future success, we are confident this incentive will continue to accelerate Idaho’s economic growth for years to come. On behalf of the entire Idaho Department of Commerce, we truly appreciate the trust and confidence you have extended to us in managing the TRI and we commit to remaining vigilant in our stewardship of this valuable economic development tool.

Sincerely,

**Jeff Sayer
Director**

WHAT IS THE TAX REIMBURSEMENT INCENTIVE?

The Idaho Tax Reimbursement Incentive (TRI) - which went into effect on July 1, 2014 - is a performance-based tool that enables qualifying companies to receive a refundable tax credit of up to 30% on all income, payroll, and sales taxes for up to 15 years. The incentive is available to any company in any industry. Most importantly, it is available to both existing Idaho businesses looking to expand and businesses new to Idaho.

TO QUALIFY:

A company must complete an in-depth application and meet the following requirements to qualify for the Tax Reimbursement Incentive:

- Create 20 new jobs in rural communities (city population of 25,000 or less), or 50 in urban centers.
- New jobs must be full time (30 hours or more) and pay an average wage of equal to or greater than the average county wage.
- Demonstrate a meaningful community match.
- Confirm the company's stability and the project's potential to be a significant economic impact in the community and Idaho.
- Prove that the incentive is a critical factor in the company's decision to expand in Idaho.

SCORING & EVALUATION:

The Idaho Department of Commerce is responsible for the evaluation of TRI applications and has carefully designed controls to ensure the process is fair and applied consistently across all projects.

Once a project is determined to meet the minimum qualifications of the TRI program, a rigorous economic impact analysis and scoring process begins based on a fixed mathematical formula to ensure each project is treated equitably. The initial project evaluation focuses on the following five criteria:

- Quality of jobs
- Quantity of jobs
- Impact on industry sector
- Impact on the local economy
- Impact on the state economy

The project's initial score is then presented to an internal multi-disciplinary panel consisting of Idaho Commerce personnel who are not involved in the project. The panel reviews discretionary attributes that are unique to each project, which lends alternate perspectives that may positively or negatively impact the project score.

Scenarios that may result in positive discretionary points include: a new company expanding in a community following the loss of a major employer, a strategic addition in a key industry sector, or a significant capital investment that would create new infrastructure that could benefit other employers in the community.

Examples that may result in negative discretionary points include: detriments to regions or industries, strain on an already competitive workforce, or potential environmental concerns.

The project's overall score is used to guide the term and percentage that the director of the Idaho Department of Commerce recommends to the Idaho Economic Advisory Council (EAC). EAC may approve or reject the director's recommendation, or may request more information to make an informed decision. The council consists of eight (8), politically and regionally balanced, Governor-appointed individuals from around the state who have diverse backgrounds in business and local government.

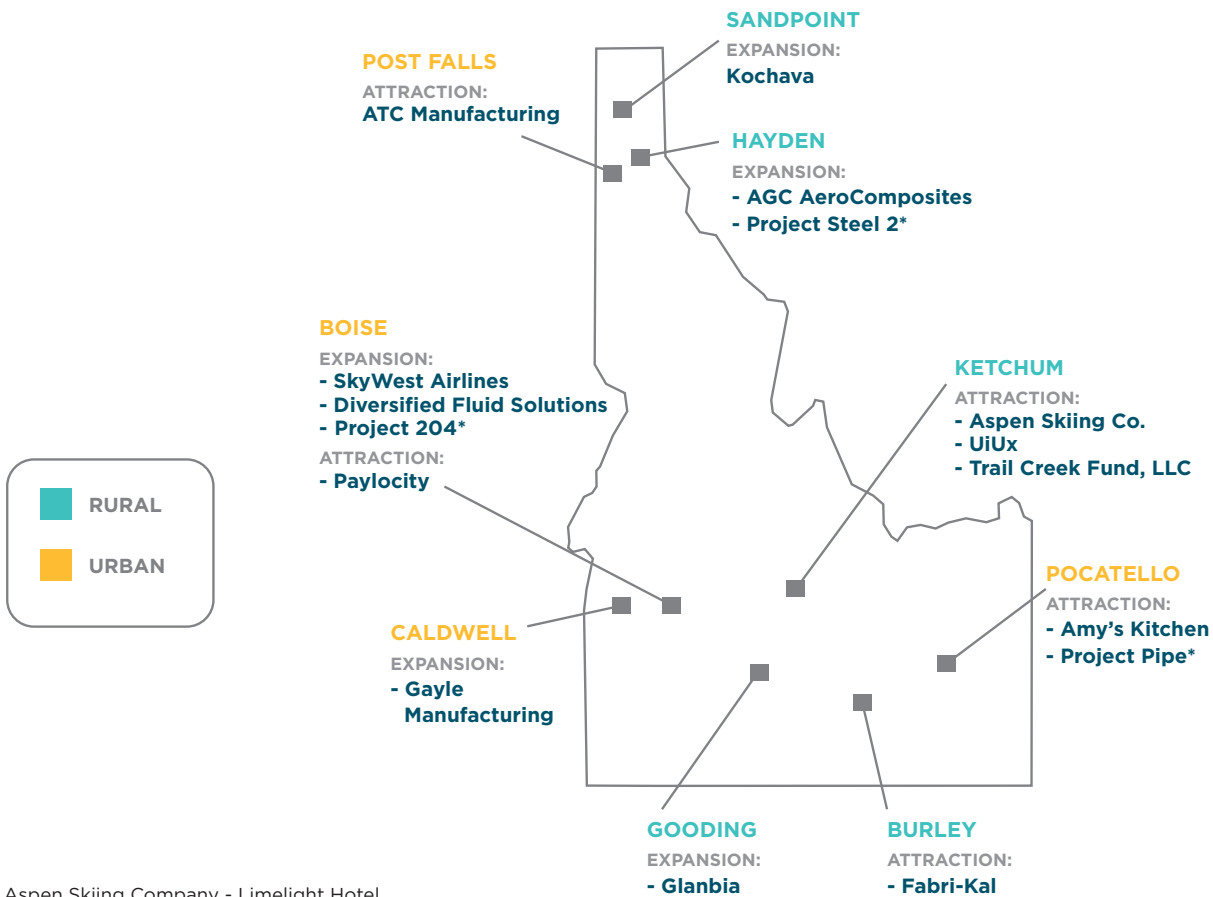
Each year, Idaho Statute requires that an independent audit is conducted of the TRI review and approval process, including the corresponding internal controls.

Additionally, Idaho Commerce is required to issue an annual report to the Governor and Idaho State Legislature on the overall activity of the program to reinforce public visibility and transparency of the TRI program.

COMPANY REPORTING:

Once approved for a TRI award, companies are required to report to the Idaho Department of Commerce annually and demonstrate that they have lived up to their committed job creation numbers and wage levels. If at any point those commitments are not honored, the company would not receive a tax credit in that particular year.

FY15 ANNOUNCED TRI PROJECTS



[1] Aspen Skiing Company - Limelight Hotel

[2] Trail Creek Fund, LLC

[3] User Interface User Experience (UiUx)

* Project not announced

SUCCESSSES

The Tax Reimbursement Incentive has been a significant addition to Idaho's portfolio of tax credits, infrastructure grants, and workforce development training funds designed to encourage business growth and expansion. During Fiscal Year 2015 (FY15), 16 new or expanding Idaho businesses were approved for a TRI award. At full term, these 16 projects are estimated to result in over 3,000 new jobs and are estimated to generate \$131 million in new tax revenue to the state, with an overall projected return on investment of \$4.22 in new direct tax revenue to the General Fund for every \$1 in taxes reimbursed to the company.

RETURN ON INVESTMENT = 422%



Aspen Skiing Company's Limelight Hotel, Ketchum

KOCHAVA★

An existing Idaho technology company located in Sandpoint, Kochava is a worldwide leader in mobile analytic and optimization and provides mobile advertisers – including high-profile companies like Microsoft, Netflix, Pandora, Yahoo and Priceline.com – with precise data analytics of their app promotion campaigns. In addition to high-wage technology jobs that pay an average of \$60,000 per year, the company expansion came at a critical time in the community following the bankruptcy and closure of a major employer, Coldwater Creek. With a commitment to create 208 new jobs, Kochava was approved for a TRI award of 28% for ten years.

“Kochava’s partnership with Idaho Commerce has been an important differentiator for our company. The ability to scale our business, attract the required talent and resources, while remaining relevant against global competition is critical to our success. The TRI program has been an important component in executing on this vision and continuing to provide high paying tech jobs in Northern Idaho.”

- Doug Lieuallen, Kochava, CFO



Diversified Fluid Solutions (DFS), a subsidiary of Critical Process Systems Group, announced expansion of their Boise operation to meet growing market demands. The new expansion moved the company from their existing 11,000 square foot facility to a space of over 40,000 square feet with a capital investment of nearly \$1.2 million. The company is projected to hire a total of 50-60 full-time, benefited employees to service the expansion. Positions include fabricators, technicians, engineers and professionals in human resources, IT and finance. DFS was approved for a TRI award of 20% for eight years.



Amy's Kitchen, Pocatello



A provider of cloud-based payroll and human capital management software solutions for medium-sized organizations, Paylocity selected Boise for a new expansion facility in November 2015 with plans to create more than 550 jobs. This was a major addition to the Treasure Valley's thriving technology industry, and will add high-paying jobs in the areas of client services, implementation, technical services, software development and other related functions. Paylocity was approved for a TRI award of 28% for 15 years.



Fabri-Kal announced the development of a new advanced manufacturing plastics thermoforming manufacturing facility in Burley. The company broke ground on its 100,000 square foot, \$50 million facility in March 2015, and was fully operational in September 2015. Fabri-Kal expects to create 150 new jobs over five years. In addition to producing containers for the food industry, the company is also producing a new plant-based ag-fiber material at its Burley plant. The Fabri-Kal Greenware packaging line will provide sustainable packaging solutions in the foodservice, consumer product and retail markets. Fabri-Kal was approved for a TRI award of 22% percent for 9 years.



Amy's Kitchen, the nation's leading maker of organic convenience food, launched its Pocatello facility in December 2014, adding to Idaho's growing list of world-class food processing companies. The company purchased the 500,000 square foot facility formerly operated by Heinz that had closed earlier in the year, leaving hundreds of local families in a difficult situation without employment.

With the Tax Reimbursement Incentive as a key factor in the decision to locate in Idaho, Amy's Kitchen plans to hire over 1,000 employees that will have access to on-site health clinics and scholarship opportunities for their children. The company will also provide opportunities to local growers. Amy's Kitchen was approved for a TRI award of 26% for 15 years.

ECONOMIC IMPACT TO THE STATE

When fully implemented, the 16 TRI projects approved in FY15 would create a projected 3,228 new jobs in Idaho. These projects will generate approximately \$429 million in new capital investment, \$131 million in new tax revenue to the state General Fund and more importantly, will bring over \$1.3 billion in new payroll to the state.

Company/Project Name	Estimated Jobs	Estimated Wage	Total Project Payroll	Estimated State Tax Revenue[1]	Estimated Capital Investment[2]
AGC AeroComposites	134	\$33,500	\$24,000,000	\$2,500,000	\$2,000,000
Amy's Kitchen	1,000	\$33,000	\$342,000,000	\$30,000,000	\$76,000,000
Aspen Skiing Company	57	\$41,000	\$6,800,000	\$1,500,000	\$60,000,000
ATC Manufacturing, Inc.	225	\$44,000	\$76,000,000	\$6,100,000	\$25,000,000
Diversified Fluid Solutions, LLC	50	\$46,000	\$15,600,000	\$2,400,000	\$750,000
Fabri-Kal Corporation	150	\$37,900	\$27,000,000	\$3,300,000	\$50,000,000
Gayle Manufacturing Company	105	\$67,000	\$35,400,000	\$2,300,000	\$24,000,000
Glanbia, Plc	43	\$42,000	\$20,600,000	\$4,000,000	\$82,000,000
Kochava	208	\$59,000	\$102,000,000	\$14,200,000	\$1,500,000
Paylocity Holding Corporation	551	\$46,200	\$320,500,000	\$22,700,000	\$5,000,000
Project 204*	300	\$71,100	\$236,400,000	\$16,500,000	\$0
Project Pipe*	80	\$38,500	\$19,100,000	\$3,800,000	\$18,000,000
Project Steel 2*	28	\$41,100	\$7,700,000	\$1,600,000	\$6,000,000
SkyWest Airlines, Inc.	100	\$52,000	\$53,300,000	\$3,200,000	\$20,000,000
Trail Creek Fund, LLC	109	\$38,800	\$12,000,000	\$575,000	\$43,300,000
User Interface User Experience (UIUx)	88	\$60,600	\$19,400,000	\$16,400,000	\$15,000,000
Total	3,228	\$44,796	\$1,317,800,000	\$131,200,000	\$428,550,000

[1] Based on estimated corporate, payroll and sales and use tax information from company TRI applications

[2] Based on information provided by company in its TRI application

*Project not announced

ESTIMATED TAX CREDIT COMMITMENTS

The average TRI award was 22% over a term of 9 years, significantly less than the maximum available award of 30% for 15 years.

If fully implemented, the aggregate value of tax reimbursements awarded in FY15 are just over \$3 million annually, or a total of \$32 million across all project terms.

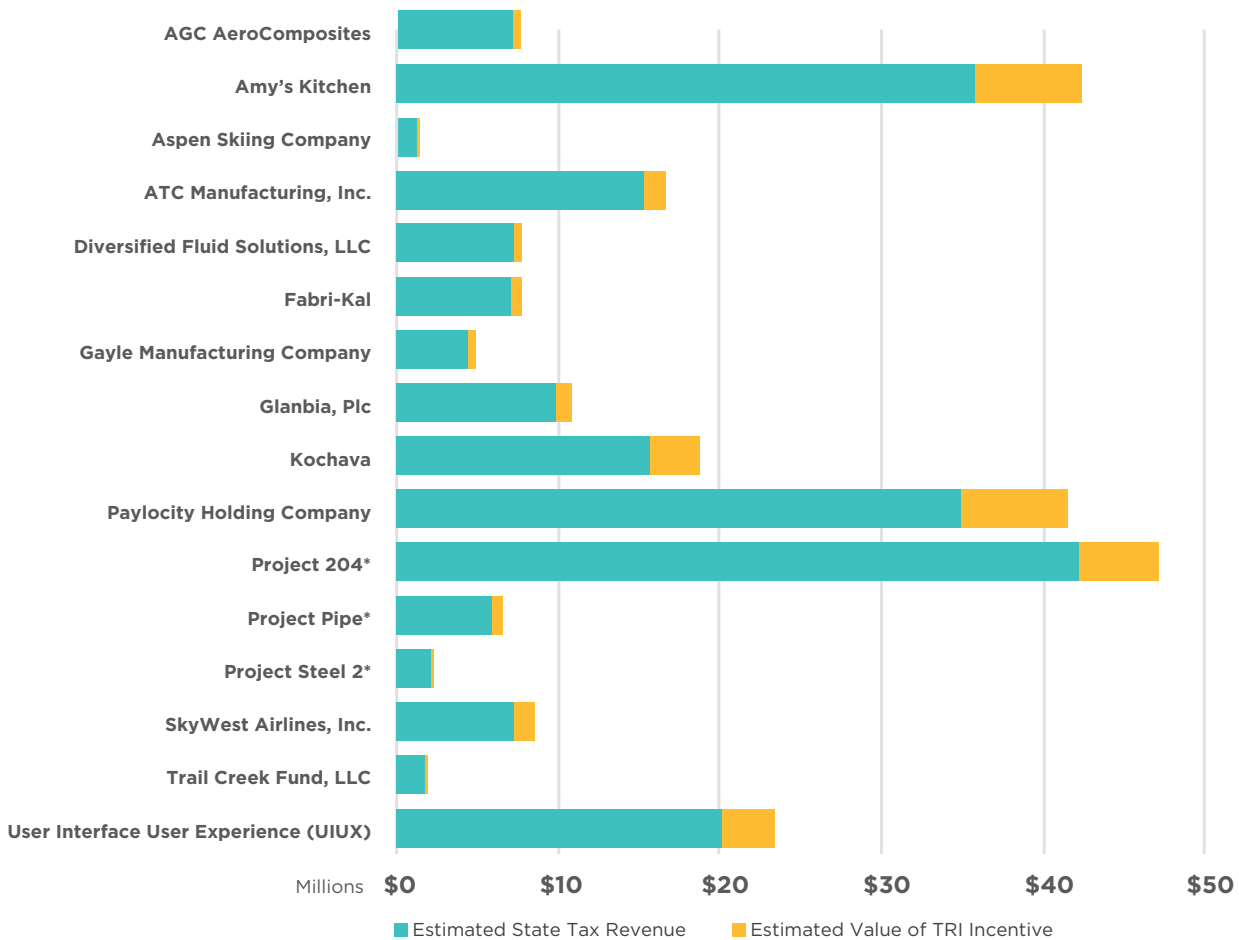
Company / Project Name	City	County	%	Term (years)	Estimated Value of TRI Incentive[1]
AGC AeroComposites	Hayden	Kootenai	20	8	\$618,000
Amy's Kitchen	Pocatello	Bannock	26	15	\$6,700,000
Aspen Skiing Company	Ketchum	Blaine	16	3	\$132,000
ATC Manufacturing, Inc.	Post Falls	Kootenai	20	8	\$1,400,000
Diversified Fluid Solutions, LLC	Boise	Ada	20	8	\$357,000
Fabri-Kal Corporation	Burley	Cassia	22	9	\$775,000
Gayle Manufacturing Company	Caldwell	Canyon	20	6	\$496,000
Glanbia, Plc	Gooding	Gooding	23	10	\$877,000
Kochava	Sandpoint	Bonner	28	10	\$3,100,000
Paylocity Holding Corporation	Boise	Ada	28	15	\$6,500,000
Project 204*	Boise	Ada	30	15	\$5,000,000
Project Pipe*	Pocatello	Power	18	9	\$684,000
Project Steel 2*	Hayden	Kootenai	15	7	\$234,000
SkyWest Airlines, Inc.	Boise	Ada	25	12	\$1,300,000
Trail Creek Fund, LLC	Ketchum	Blaine	16	3	\$183,000
User Interface User Experience (UiUx)	Ketchum	Blaine	18	5	\$3,200,000
Total					\$31,556,000

[1] Based on estimated corporate, payroll and sales and use tax information from company TRI applications

* Project not announced

ESTIMATED COSTS AND BENEFITS

Calendar Year 2017 will be the first year that actual tax credits associated with the Tax Reimbursement Incentive will be issued due to the post-performance nature of this tax credit. When fully implemented, the 16 projects approved in FY15 are projected to generate an estimated \$131 million in new tax revenue for the State of Idaho at a cost of approximately \$32 million in estimated tax credits to these approved companies. The overall return on investment is estimated to be \$4.22 for every \$1 in TRI value awarded.



* Project not announced



Fabri-Kal, Burley

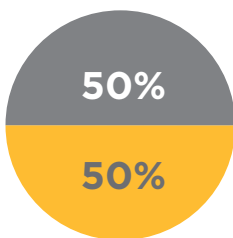
ACTUAL COSTS AND BENEFITS

In FY15 there were no actual costs associated with the TRI as incentivized companies were in the process of either relocating or commencing their operations in Idaho. Calendar Year 2015 will be the first year that actual costs are incurred when FY15 incentivized companies, having completed their annual reporting and qualification for the incentive, claim the FY15 earned TRI on 2017 income tax returns. The Idaho Department of Commerce has managed the TRI program within its existing appropriation, meaning that no new staff or operational dollars were appropriated to support this program in FY15.

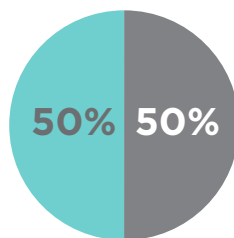
In terms of benefits, TRI has proven to be an effective tool in not only recruiting new companies to the state, but also in encouraging existing Idaho companies to expand. In its inaugural year, TRI supported the growth of eight existing Idaho companies and was a key factor in recruiting eight new companies to the state. The lower

job requirement in cities with less than 25,000 in population also made the TRI an important economic development tool in rural areas. Half of the approved TRI projects are located in rural communities. The incentive has been utilized to support companies in a wide range of industries including: advanced manufacturing; aerospace; food production; back office and shared services; software and technology; and travel and tourism.

Arguably, the best measure of the actual benefit of the TRI is the new jobs created. Of the projected 3,228 jobs, 694 new jobs were actually created by November 2015 when this report was finalized. As per the requirement of the TRI, the average wage of these jobs will meet or exceed the average county wage of the county in which the jobs are located and will benefit those communities for years to come.



Urban Rural



New Existing



- Advanced Manufacturing
- Aerospace
- Food Production
- Corporate Office & Shared Services
- Software & Technology
- Travel & Tourism

APPENDIX

IDAHO REIMBURSEMENT INCENTIVE ACT
INDEPENDENT ACCOUNTANT'S REPORT
FOR THE FISCAL YEAR ENDING
JUNE 30, 2015



Harris & Co. PLLC

CERTIFIED PUBLIC ACCOUNTANTS

Helping our clients make sense of a changing and complex world

INDEPENDENT ACCOUNTANT'S REPORT

To the Director of the Idaho Department of Commerce
700 W. State Street
Boise, ID 83702

We have examined the effectiveness of the Idaho Department of Commerce's internal controls related to the application and approval process associated with the Idaho Reimbursement Incentive Act, per Idaho Code sections 67-4737 through 67-4744, and the tax credits granted for the year ended June 30, 2015. The Idaho Department of Commerce's management is responsible for the effectiveness of the internal controls and granting of the tax credits. Our responsibility is to express an opinion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence supporting the effectiveness of the Idaho Department of Commerce's internal controls related to the application and approval process related to the Idaho Reimbursement Incentive Act and tax credits granted and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

In our opinion, the effectiveness of the internal controls and processes related to the application and approval process associated with the Idaho Reimbursement Incentive Act are operating at a level sufficient to adhere to the requirements of the Idaho Reimbursement Incentive Act for the year ended June 30, 2015.

Harris & Co. PLLC

Meridian, Idaho
November 2, 2015

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**FINDINGS REPORT
FOR THE YEAR ENDING JUNE 30, 2015**

EXECUTIVE SUMMARY

BACKGROUND

During the 2014 legislative session, the Legislature of the State of Idaho adopted House Bill 546. The bill created Idaho Code Chapter 47, Title 67 sections 4737 through 4744 and shall be known and may be cited as the “Idaho Reimbursement Incentive Act.” For the purpose of this report, the Idaho Reimbursement Incentive Act will be referred to as the Tax Reimbursement Incentive (TRI). The TRI was created by the Legislature to be a performance-based tax reimbursement mechanism available to existing Idaho businesses and new businesses creating high-paying jobs in Idaho. The program will remain in effect until terminated or suspended by the Governor.

The Idaho Department of Commerce has been tasked with administrating the TRI and is required to report to the Legislature on an annual basis. As part of the reporting requirement, the Department is required to have a third-party evaluation of the tax credits granted and the effectiveness of the Department’s internal controls.

SCOPE

As specified in Idaho Code 67-4737 through 67-4744, the scope of this program audit engagement includes:

1. Evaluate the effectiveness of the Department’s internal controls related to the Tax Reimbursement Incentive program.
2. Evaluate the tax credits that were granted during the state of Idaho’s fiscal year 2015 from July 1, 2014 through June 30, 2015 (FY2015).

For the fiscal year ended June 30, 2015, the Department has received approval from the Economic Advisory Council (EAC) to enter into 16 Tax Reimbursement Incentive Agreements. This report covers all approved TRI awards for FY2015. The Department continues to accept applications for the TRI program and may have entered into agreements subsequent to June 30, 2015; however, those agreements are beyond the scope of this report.

METHODOLOGY

We evaluated the policies and procedures for the Department's internal control system related the Tax Reimbursement Incentive and provided suggestions based on our professional knowledge and any applicable best practices. Our evaluations of the internal control system included inquires, observations, inspection and walk-throughs as deemed necessary to gain an understanding of the process.

Based on our understanding of the TRI processes and related internal controls our testing consisted of the following sections:

1. Testing the completeness of the information gathered in the application process
2. The controls related to the Department's evaluation of the TRI applications
3. The controls related to the Economic Advisory Council (EAC) evaluation of potential TRI applications
4. Completeness and accuracy of the Tax Reimbursement Incentive Agreements
5. Review the applicant's annual reporting procedures and issuance of the Tax Credit Authorization Certificate

Executive Summary Conclusion

Based on the procedures performed, the Department appears to have adequate controls in place related to the Idaho Reimbursement Incentive Act. As of June 30, 2015, no Tax Credit Authorization Certificates have been issued and therefore were not tested in this report.

IDAHO DEPARTMENT OF COMMERCE PROCESS NARRATIVE

The following information was provided by the Idaho Department of Commerce to provide the reader of this report with an understanding of the TRI process.

The TRI application process has been carefully designed to thoroughly process and review the TRI applications to ensure applications comply with the legal requirements set forth in Idaho Code. The process includes the following steps and controls:

To initiate an application, an Applicant enters the information in a secure, online application system. The system is designed to be user-friendly to ensure an application cannot be submitted without all required information, and includes templates to ensure consistent information is received so that all Applicants are evaluated based on the same standard.

The Department's Grants & Contracts Officer receives all TRI applications and reviews them for completeness and works closely with the Department's Business Attraction team if more information is required.

The Grants & Contracts Officer performs a search for the Applicant on the Idaho Secretary of State's website to identify any existing Idaho business presence in the state. Results are then saved in the application file.

The Department's Research Analyst plots the business location on a GIS map to identify and determine whether the Applicant's facility or planned facility is located in a rural or urban location. Results are saved in the application file.

Once an application is complete, the Grants & Contracts Officer provides a complete application packet to the Director and other key department personnel for scoring, economic impact analysis, and further review.

Completed applications undergo a thorough economic impact analysis, led by the Department's Research Analyst. The first of a two-part economic impact analysis requires each application be evaluated and scored on five criteria that encompass the potential benefits created by the application. The five required scoring criteria are:

1. The number of new Idaho jobs created.
2. The quality of the new Idaho jobs created.
3. The economic impact to the local community and region.
4. The economic impact to the industry sector in Idaho.
5. The economic impact to the state.

The scoring for these criteria are governed by fixed mathematical algorithms to ensure that each project is evaluated equitably.

The second part of the economic impact analysis acknowledges each project has unique attributes that must be addressed to fully evaluate the impact of the application. Often these attributes are

discretionary in nature and include the impact on regional workforce, wages and employment, level of capital investment, and potential detriments to existing Idaho industry and environment.

To ensure the discretionary criteria are evaluated in a balanced forum, the Research Analyst convenes a TRI Discretionary Advisory Committee (TRIDAC). A TRIDAC is made up of rotating, cross-divisional Department staff that are subject matter experts for the applicable region, county and/or city but who are not directly associated with the proposed project. The TRIDAC is comprised of economic development specialists, international trade specialists, tourism development specialists, and community development specialists. The TRIDAC reviews and establishes the scoring applied to the discretionary criteria in the analysis.

Once the TRIDAC review is complete, a score is generated that establishes an acceptable range for a proposed incentive offer. The range is calculated using a standard matrix that is used for all application scoring. In addition, the proposed incentive range is evaluated and calibrated against past projects that are similar in industry, job creation, and average wage to maintain consistency and equality among the Applicants.

Once the scoring and economic impact analysis is complete, the Business Attraction team presents the project at a TRI staff meeting and proposes a TRI term and percentage to the Director. The team meeting is attended by the Director, Chief Operating Officer, Business Attraction Manager, Business Attraction Specialists, Research Analyst, and Grants & Contracts Officer. The team discusses the proposal and the Director settles on a recommended TRI term and percentage within the established incentive range. The Grants & Contracts Officer then issues a letter summarizing the proposed TRI term and percentage and the necessary steps remaining for the application to be presented before the Economic Advisory Council (EAC).

Once the TRI term and percentage is established and negotiations with the Applicant are finalized, the Research Analyst, using industry established modeling software, completes an economic impact analysis to establish the estimated annual tax revenue and other impacts to the state economy over the full term of the proposed project. This analysis is then included in the executive summary packet that is presented to the Economic Advisory Council for review.

To receive final approval, an application and the recommended TRI term and percentage must be approved by the Economic Advisory Council who typically meet on a monthly basis to review TRI projects. The Director, with the assistance of the Business Attraction team, is responsible for making the presentation to EAC. After hearing the recommendation, EAC can then take one of three actions: accept or reject the Director's recommendation, or request additional information in order to make a decision. If approved, the Director is then authorized to proceed and enter into a final agreement with the Applicant.

After EAC approval, the Grants & Contracts Officer enters into agreement negotiations with the company. A standard agreement, approved by the Department's Deputy Attorney General, is provided to the Applicant and any requested changes by the Applicant are evaluated by the Grants & Contracts Officer in consultation with the Department's Deputy Attorney General. Once a final agreement is negotiated, it is executed by the Company and the Director.

Annual reporting requirements are sent to all Applicant's with executed TRI agreements in the fourth quarter each calendar year. The Applicant must file a report with the Department by April 30 of each calendar year unless they have requested an income tax filing extension, in which case the report must be filed by September 15 of the calendar year. This process and associated controls will be effective and tested in the next audit cycle as the process has not occurred as of the time of this report.

SUMMARY OF PROCEDURES, DEPARTMENTS POLICIES, EVALUATIONS AND RECOMMENDATIONS

Procedure 1: Completeness of the application process

Control: *The Department's staff reviews all TRI applications to ensure all required information is included.*

Procedure

We evaluated the completeness of the 16 applications that have been approved by EAC as of June 30, 2015. Our evaluations included inquiries, observations, inspections and walk-throughs as deemed necessary. We reviewed Idaho Code 67-4737 through 67-4744, to determine the minimum required information to be obtained in the application process as outlined in section 67-4739, Idaho Code. As noted below:

1. A complete description of the proposed project and the economic benefit that will accrue to the state as a result of the project
2. A description of explanation of whether the project will occur or how it will be altered if the tax credit application is denied by the council
3. Proof of a community match
4. An affidavit from the tax commission confirming that the applicant is in good standing in the state of Idaho and is not in unresolved arrears in the payment of any state tax or fee administered by the tax commission
5. A detailed statement with an estimate of Idaho goods and services to be consumed or purchased by the applicant during the term
6. Known or expected detriments to the state or existing industries in the state
7. An anticipated project inception date and proposed schedule of progress
8. Proposed performance requirements and measurements that must be met prior to issuance of the tax credit
9. A detailed description of the proposed capital investment
10. A detailed description of jobs to be created, an approximation of the number of such jobs to be created and the projected wages to be paid for such jobs, and
11. A detailed description of the estimated new state tax revenues to be generated by the project.

The following documentation was reviewed to assess the completeness in our testing:

1. Idaho Code 67-4737 through 67-4744.
2. Executive summary packet as presented to the EAC by the Department.
3. Letter of intent to recommend to the applicant
4. Letter of community match commitment
5. Full TRI application
6. Schedule of new jobs, inclusive of salary schedule
7. Schedule of estimated new State taxes
8. Certification of good standing by Idaho Tax Commission, if applicable

Evaluation and Recommendations:

Based on the procedures performed, it appears that the applications are being completed, with one exception noted. It was noted during the testing that 1 of the 16 approved applications did not contain a letter of good standing from the Idaho State Tax Commission. Upon inquiry with the Department, it was noted that this application was the first application completed and occurred during the initial implementation of the incentive and the Department did fail to collect the letter of good standing.

We recommend that the Department modify the application wording to include phrases such as “does the company currently do business in the State of Idaho or is the company registered to do business in the State of Idaho,” to help identify all operations currently ongoing in the state.

Additionally, the Department should independently conduct an online search of the Idaho Secretary of State’s website to help determine if the applicant has any other operations in the State not called out on the application. The Department should also require all applicants to provide an updated certificate of good standing during the annual reporting process, prior to the issuance of the actual tax reimbursement certificate, to ensure that the good standing status has not changed since the time of the application.

Department Response:

The Department is aware of the one missing document from the first application. The Department has updated its policies and procedures to implement the above suggestions. It is noted that the process narrative provided by the Department reflects the additional step of reviewing the Idaho Secretary of State’s website. The Department already has in its processes to collect a letter of good standing as part of the annual reporting package. The other additional steps will be embedded in the application.

Procedure 2: Controls related to the Department of Commerce TRI evaluations

1. ***The Director of the Idaho Department of Commerce provides the EAC with his recommendation for approval of a TRI application.***

The Director's recommendation includes the proposed credit percentage and term length of the credit. The Director's executive summary package is provided to the EAC to assist in their evaluation of the project. The package includes all the information tested in Procedure 1, as well as financial and credit information on the Applicant, an executive summary and the Department's internal evaluation of the impacts of the project on the economy of the State of Idaho.

2. **The TRI staff at the Department of Commerce hold weekly meeting to evaluate the current/ongoing applications.**

The staff meetings are attended by key members of the TRI team including, the Director, Chief Operating Officer, Business Attraction Manager, Business Attraction Specialists, Grants & Contracts Officer, and Business Attraction Analyst. Items such as project scoring, economic impact models, company financial information and projected return on reimbursement are reviewed. For approximately the first six months of the program, the meetings were also attended by the Department's assigned Deputy Attorney General.

Procedures

1. We reviewed each of the 16 TRI recommendations by the Director and corresponding informational package provided to the Economic Advisory Council.
2. Inquired of key members of the TRI team and attended one TRI weekly update meeting.

Evaluation and Recommendations:

Based on the procedures performed all 16 TRI's were appropriately recommended by the Director. The Director's approval was completed.

Based on our inquiry and observation, the TRI update meetings appear to be conducted as designed.

Procedure 3: Controls and procedures related to the Economic Advisory Council (EAC)

Tested the follow key controls:

- 1. The Economic Advisory Council reviews and approves all TRI's prior issuance by the Department.**

The EAC must approve all applications prior to the Department entering into an agreement with the applicant. Following the presentation of the applicant's information and recommendation by the Director. The EAC can vote to approve the TRI as it was recommended, reject the application or request additional information prior to issuing a final decision.

- 2. If an EAC member has a conflict of interest, the conflict is disclosed and the EAC member(s) do not vote.**
- 3. The EAC members are appropriately appointed.**

67-4704, Idaho Code. Economic advisory council -- Appointment of members -- Qualifications. There shall be an economic advisory council to advise the Department in the preparation and execution of plans, projects and programs in the furtherance of the power and duties conferred by section 67-4703, Idaho Code. The director shall consult, confer and advise with the advisory council in connection with all decisions concerning the administration and development of such plans, projects and programs. The approval of the advisory council shall be a condition precedent to the undertaking of action in the implementation of such plans, projects and programs by the Department. The advisory council shall consist of eight (8) persons, who shall be appointed by and serve at the pleasure of the governor, and who shall serve for three (3) year terms. They shall serve and shall be compensated as provided by section 59-509(n), Idaho Code. One (1) person shall be appointed to represent each of the seven (7) planning regions of the state, of which the appointee shall be a resident, and one (1) member shall serve in a statewide capacity. No more than five (5) members of the economic advisory council shall be from any one (1) political party.

Procedure:

1. Reviewed the EAC minutes to ensure that the TRI's were properly approved by the EAC.
2. Attended one EAC meeting, observing the meeting included detail discussion and interaction between the Director, EAC members and staff prior to the vote.
3. Reviewed the EAC minutes for declaration of conflict of interest by EAC members. Inquired of key members of the TRI staff to identify any known conflict of interest with EAC members.
4. Reviewed the EAC membership roster to ensure that the provisions section 67-4704, Idaho Code were being appropriately followed concerning the political and geographic makeup of the EAC membership.

Evaluation and Recommendations:

Based on the testing performed, there were no exceptions identified in the controls related to the EAC. Considerable discussion appears to occur on each application and the EAC appears to function as an effective oversight body.

It was noted that no conflict of interest was declared by a Council member or known by Department staff; however, no written acknowledgement of the policy by council members is maintained.

We recommend that all EAC members sign an annual acknowledgement of a conflict of interest policy to ensure that they are aware of and following the policy.

As of June 30, 2015, the EAC had one open seat for the eight member council. The Department was aware of the vacancy and noted that the Department was working with the Governor's Office to fill the seat as of June 30, 2015. Based on our review of the EAC roster, the requirements to have no more than five (5) members of anyone political party and representation from the seven (7) planning regions, plus one at-large seat was being followed, with the Region 7 seat being filled on September 9, 2015.

Department Response:

Department agrees that best practice is to maintain a signed acknowledgement of the conflict of interest policy and will implement the control in FY 2016.

Procedure 4: Completeness and accuracy of Tax Reimbursement Incentive Agreement

Control: TRI agreements are reviewed by Department staff to ensure the minimum information required is included and complete and accurate.

Procedure:

We reviewed Idaho Code 67-4737 through 67-4744, to determine the minimum required information to be included in the agreement. We evaluated the completeness and accuracy of the finalized applicant agreements for the TRI's that have been approved by EAC, as of June 30, 2015. Our evaluations included inquiries, observations and inspection as deemed necessary.

We reviewed the agreement letters for the following minimum terms:

1. The term of the agreement which in no case shall exceed fifteen (15) years
2. The projected new state revenues to be generated during the term of the project
3. The method and recordkeeping requirements to be used by the applicant to determine the new state revenue paid by the applicant. The approved tax credit percentage applied to new state revenue each year the applicant is entitled to receive the reimbursements during the term of the project
4. The projected new jobs
5. The terms and conditions of any and all requirements and measurements that must be met prior to the issuance of a tax credit authorization
6. The agreed upon and necessary proof of compliance required prior to tax credit issuance. Proof of compliance provided by the applicant must be adequate to demonstrate to the director that all requirements and measurements have been met for the applicant to receive the tax credit
7. The consequences of default by the applicant
8. The period to be used to determine the taxes paid at the date of application
9. Identification of any individual or entity included within the application that is entitled to a rebate pursuant to section 63-3641 or 63-4408, Idaho Code, or is required to obtain a separate seller's permit pursuant to chapter 36, title 63, Idaho Code.
10. The federal employer identification and social security number for each individual or entity included within the definition of business entity and that is included within the filing of the application; and
11. Identification of the individual or entity that is or will be claiming the refundable credit.

Evaluation and Recommendations:

It was noted during our testing that six of the 16 approved TRI's applications have final signed agreements. The remaining approved TRI's as of June 30, 2015, have not been signed by both the applicant and the Department as of date of this report. Per inquiry of the Department, all approved applications are still considered valid and the final agreement has not been signed due to ongoing negotiations or are pending Applicant choice of Idaho as a location. The open agreements appear reasonable based on timing of the awards.

Based on the testing procedures performed, the six signed TRI agreements contain the required information as outlined by Idaho Code 67-4737 through 67-4744.

Procedure 5: Review and evaluation of the applicant's annual reporting procedures and issuance of the Tax Credit Authorization Certificate

Controls:

- 1. The Director and staff review the required annual reporting by the applicant and determine compliance with the terms of the TRI agreement**
- 2. The Director approves or denies issuance of the tax credit**

Background: Annually as outlined in the terms of the TRI agreement and as outlined in Idaho Code 67-4737 through 67-4744 applicants are required to provide certain key information to the Department to allow the Director to fully evaluate compliance with the agreement and either issue or deny the tax credit for that year.

Based on the fact that the TRI is in first year of existence, no applicants have reached the annual reporting requirement as of the date of this report. The first applicants are expected to reach this milestone at the end of calendar year 2015 and will start reporting to the Department in calendar year 2016, following the completion of their 2015 tax filing requirements.



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